SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1989 **Commission File Number: 1-4928**

Duke Power Company
(Exact name of registrant as specified in its charter)

North Carolina **(State or other jurisdiction of incorporation or organization)**	**56-0205520** **(IRS Employer Identification No.)**
422 South Church Street **Charlotte, North Carolina** **(Address of principal executive offices)**	**28242** **(Zip Code)**

704-373-4011
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange
Preferred Stock, par value $100	
8.70% Series F	New York Stock Exchange
8.20% Series G	New York Stock Exchange
7.80% Series H	New York Stock Exchange
8.28% Series K	New York Stock Exchange
8.84% Series M	New York Stock Exchange
8.84% Series N	New York Stock Exchange
Preference Stock, par value $100	
6¾% Convertible Series AA	New York Stock Exchange
First and Refunding Mortgage Bonds	
7⅜% Series B Due 2001	New York Stock Exchange
7¾% Series Due 2002	New York Stock Exchange
7⅜% Series B Due 2002	New York Stock Exchange
7¾% Series Due 2003	New York Stock Exchange
8⅛% Series B Due 2003	New York Stock Exchange
9¾% Series Due 2004	New York Stock Exchange
9½% Series Due 2005	New York Stock Exchange
8⅜% Series Due 2006	New York Stock Exchange
8⅛% Series Due 2007	New York Stock Exchange
9⅜% Series Due 2008	New York Stock Exchange
10⅛% Series Due 2009	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

Preferred Stock, par value $100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at March 2, 1990 .... $5,441,324,915

Number of shares of Common Stock, without par value, outstanding at March 2, 1990 101,281,445

Documents incorporated by reference:

The registrant has incorporated herein by reference certain sections of its proxy statement relating to the 1990 annual meeting of shareholders to provide information required by the following parts of this annual report:

Part III — Item 10., Directors and Executive Officers of the Registrant
— Item 11., Executive Compensation
— Item 12., Security Ownership of Certain Beneficial Owners and Management
— Item 13., Certain Relationships and Related Transactions

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1989

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DUKE POWER COMPANY

PART I.

Item 1. *Business.*

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,500,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1989, the Company's electric revenues amounted to approximately $3.6 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011). *The Company purchased Nantahala Power and Light Company in November 1988. However, the statistics presented herein do not include this subsidiary unless otherwise indicated. (See "Energy Requirements and Capability.")*

Service Area

The Company supplies electric service directly to approximately 1,595,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Other Catawba Joint Owners). All constituent entities of the Other Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately $494 million of the Company's revenues for 1989, representing 14% of electric revenues and 43% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1989, its sources of electric energy for 1989, and certain information presently projected for 1990:

Source	Generating Capability — KW(a) Actual December 31, 1989	Generating Capability — KW(a) Projected December 31, 1990	Generation — KWH (millions) Actual 1989
Coal	6,735,000	6,979,000	26,175
Nuclear (b)	7,054,000	7,054,000	47,773
Hydro and other	2,051,000	2,246,000(c)	1,547
Total (b)	15,840,000	16,279,000	75,495
Less: Other Catawba Joint Owners' share			12,566
Plus: Purchases from Other Catawba Joint Owners			9,809
Purchased power and net interchange			(1,218)
Total			71,520

(footnotes on next page)

(a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.

(b) Nuclear capability and related generation for 1989 and projected for 1990 give no effect to the joint ownership of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")

(c) Reflects the rerating of the Company's hydro system.

In 1987 the Company entered into a bulk power sale agreement to provide Carolina Power & Light Company with 400 megawatts of capacity for a six-year period beginning in 1992. This agreement is subject to regulatory approval.

The Company's purchase of Nantahala Power and Light Company (NP&L) from the Aluminum Company of America was closed in November 1988, following approval by both the North Carolina Utilities Commission (NCUC) and the Federal Energy Regulatory Commission (FERC). The purchase price, determined by the net book value of NP&L stock at the time of closing, was $30 million. NP&L, which operates 11 hydroelectric stations and buys supplemental power to provide service to its 47,000 mostly residential customers located in five counties in western North Carolina, 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 FERC. Construction has begun and is expected to be completed by mid-to-late 1990.

According to industry statistics through 1988, the Company ranked first in the nation for the last 15 consecutive years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that individual units at Belews Creek Steam Station and Marshall Steam Station ranked as second, fourth, fifth and ninth most efficient in the nation in 1988. Statistics compiled by the Nuclear Regulatory Commission (NRC) on multi-unit nuclear plants indicate that the McGuire, Catawba and Oconee Nuclear Stations were ranked first, second and sixth, respectively, in efficiency in the nation among pressurized water reactor nuclear facilities.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On August 18, 1988, the Company experienced its all-time peak load of 13,618,000 KW during unusually hot weather. The 1989–1990 winter peak load of 13,126,000 KW occurred on December 22, 1989. The 1989 summer peak load of 13,611,000 KW occurred on August 23, 1989. The 1988–1989 winter peak load of 12,560,000 KW occurred on February 10, 1989. The Company currently forecasts a 2.4% compound annual growth in peak load through 2004.

Rate Matters

The NCUC and PSC must approve the Company's rates for retail sales within the respective States. FERC must approve the Company's rates for sales to wholesale customers. Constituent entities of NCMPA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company.

Rate requests filed by the Company in 1986 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 2 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all costs related to Catawba, although certain non-fuel purchased power costs with associated carrying charges will be recovered on a levelized basis. (See Note 3, "Notes to Consolidated Financial Statements.")

In the Company's most recent general rate case, the NCUC allowed a jurisdictional rate of return on common equity of 13.20% and the PSC allowed a jurisdictional rate of return on common equity of 13.00%.

The Company reduced retail rates by 2.3% on January 1, 1987, and by an additional 3% on January 1, 1988. These reductions recognize the lower corporate income tax rate included in the Tax Reform Act of 1986. These decreases have been approved by the NCUC and PSC.

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

The Company canceled certain nuclear projects in prior years, including the Cherokee Nuclear Station, citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation.The NCUC and the PSC have authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station in recent rate proceedings. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. (See Note 10, "Notes to Consolidated Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the NCUC to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the NCUC's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue was again contested in the appeal of the 1986 rate case. The parties also challenged the NCUC's decision on the rate of return allowed on the Company's common equity, the adoption of the Company's actual capital structure for ratemaking purposes, and inclusion of subsidiary investments in the Company's capital structure for ratemaking purposes. The Court affirmed the NCUC's decision on all questions raised with the exception of the allowed rate of return. The Court held that the NCUC's conclusion regarding the appropriate rate of return on common equity was not supported by adequate factual findings and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40% to 13.20%, required refunds plus interest, and reduced rates to reflect the lower rate of return on common equity. The refund, approximately $24 million, has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order.

On July 28, 1987, FERC granted a petition made by the Other Catawba Joint Owners to exclude costs of abandoned plants from their supplemental power rates affirming their contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts which upheld the FERC order in January 1989. The order had a one-time impact on 1988 earnings of $.46 per share.

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The NCUC ordered the Company to follow these 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. In 1987 North Carolina adopted legislation assuring the legality of such adjustments, which currently contains a sunset provision effective July 1, 1991.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Energy Management

The Company currently is engaged in a comprehensive energy management program designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area and increase off-peak sales. Peak reduction programs include, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers'

consent) of residential electric water heaters and air conditioners during peak demand periods and time-of-day pricing to a limited number of customers. The current and planned aspects of such programs are designed to reduce the growth in peak demand by approximately 5,468,000 KW in the summer of 2000. Of this amount, 975,500 KW will be available to satisfy a portion of reserve margin requirements through the ability to interrupt end-use loads on an emergency basis.

To make maximum use of existing production capacity while minimizing the need to add new capacity, the Company is promoting off-peak sales programs. These programs include promotion of all-electric homes using high efficiency electric heat pumps and outdoor lighting as well as commercial and industrial heating and heat recovery systems, all designed to contribute high load factor sales and /or increase seasonal and daily off-peak sales.

Through 1992, the Company estimates a minimum reserve margin of approximately 16% to 19% of its anticipated peak load requirements during this three-year period. However, the Company believes that additional capacity may be purchased if needed. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rates), changing regulatory and environmental standards (see "Regulation — *Environmental Matters*") and other factors.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station owned by the Other Catawba Joint Owners, for each of 1990, 1991 and 1992 and for the three-year period 1990-1992, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1990	1991	1992	Total
Generation	$448	$321	$242	$1,011
Transmission	53	55	84	192
Distribution	301	300	323	924
Other	109	113	119	341
Total	$911	$789	$768	$2,468
Nuclear Fuel	$163	$205	$198	$ 566

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

The Company has experienced higher costs of construction of new facilities as a result of recurring increases in the costs of materials and labor, and increasing capital commitments attributable to more stringent regulatory requirements. However, the Company believes that in recent years it has been able to construct generating units at a lower cost per KW than generally experienced by other utilities for units of comparable type and vintage. The construction cost per installed KW for the Catawba Nuclear Station, Unit 2 of which began commercial operation in August 1986, was $1,560 at the date of commercial operation.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, 1,065 MW pumped-storage facility in Oconee County, South Carolina. Units 1 and 2 are scheduled for operation in 1992 and Units 3 and 4 are to be completed in 1993. However, construction is currently ahead of schedule. As of December 31, 1989, the Company had incurred $694 million of the

total estimated cost of $1.1 billion, with construction costs of $1,045 per installed KW anticipated for this facility.

A site in Lincoln County, North Carolina, has been selected for a new combustion turbine (CT) facility to meet customer demand in the mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200 MW of electricity. Current plans are for the first CT to be operational as early as 1994. The Company has notified the appropriate state regulatory agencies of its intent to begin procedures to obtain required permits for construction and operation of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power needs in the 1990s and beyond.

The Company has undertaken a Plant Modernization Program to improve the efficiency and reliability of 15 older coal-fired generating units. These units represent 1,370,000 KW of generation, and once modernized, will help the Company meet anticipated future demand. The cost of this program is estimated to be approximately $200–$300 per installed KW, a fraction of the cost of building new plants. As of December 31, 1989, four coal-fired units with a generating capability of 428,400 KW had been returned to the system and during 1990, it is anticipated that two additional coal-fired generating units with generating capability of 244,000 KW will be returned to the system.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87½% undivided interest in the Catawba Nuclear Station to the Other Catawba Joint Owners.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then contractually required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange of 50% of each Other Catawba Joint Owner's retained capacity from its ownership interest in the Catawba units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next three years of the costs of purchased power from the Catawba Nuclear Station under contracts with the Other Catawba Joint Owners permitted by regulatory authorities will result in payments by the Company exceeding the amounts collected in rates for such power by approximately $231 million.

The Other Catawba Joint Owners and the Company are involved in various arbitration proceedings involving disputes under the interconnection agreements between such joint owners and the Company. (See Note 12 of "Notes to Consolidated Financial Statements.")

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

	Generation by Source			Average Cost per Million BTU on a Burned Basis		
	Year Ended December 31			Year Ended December 31		
	1989	1988	1987	1989	1988	1987
Coal	34.7%	33.1%	33.8%	180.24¢	175.79¢	181.18¢
Nuclear	63.3	66.3	64.1	59.56	63.55	68.40
Oil and Gas	—	—	—	—	—	—
All Fuels (cost based on weighted average)	98.0	99.4	97.9	100.11	98.75	105.10
Hydroelectric*	2.0	.6	2.1			
	100.0%	100.0%	100.0%			

* Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains a large amount of its coal under long-term supply contracts with mining operators utilizing both underground and surface mining. The Company has on hand an adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment and price renegotiation provisions, have expiration dates ranging from 1993 to 2003. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities.

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

Nuclear Station	Uranium Material	Conversion Service	Enrichment Service	Fabrication Service
Oconee	1994	1994	1995	1997
McGuire	1994	1994	1995	1998
Catawba	1994	1994	1995	1998

Approximately two-thirds of the Company's requirements for uranium material is obtained from Rio Algom, Ltd., a Canadian supplier. The remainder of the requirements will be obtained from various supplier contracts, with uranium material produced in the U.S., Canada and Australia. Short-term requirements have been and will be fulfilled with uranium spot market purchases.

The Company purchased uranium material during 1989 at an average price of approximately $23 per pound. The Company's material nuclear supply contracts generally contain *force majeure* provisions which provide protection from supply disruptions.

The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required contracts with DOE for the disposal of nuclear fuel and began making payments in July 1983 for disposal costs of fuel currently being utilized. These payments combined with a one-time payment for disposal costs of fuel consumed prior to April 7, 1983 have totaled about $380 million through 1989. In November 1989, DOE released a report which indicated that it now expects that a facility for spent fuel disposal will not be available until the year 2010. DOE stated further that it planned an initiative

to establish a monitored retrievable storage (MRS) facility, with a target operation date of 1998, for earlier acceptance of spent fuel from utilities. The Company believes that it will be able to provide adequate on-system storage capacity until such time as DOE begins receiving spent fuel.

Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities. The Company is exempt from regulation as a holding company under the Public Utility Holding Company Act of 1935, except with respect to the acquisition of the securities of other public utilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1990–1991 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately $19.6 million, including $11.5 million in 1990 and $8.1 million in 1991. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

AIR QUALITY. The Company operates its coal-fired generating stations in North Carolina under a revised regulation which prescribes mass emission limits for particulates for each boiler unit. Such regulation was issued by the North Carolina Environmental Management Commission (EMC) and was submitted to EPA for approval as a revision to the state implementation plan which approval was granted.

Presently, legislation relating to acid rain and air quality is being considered by Congress. If a bill is introduced and enacted, a substantial reduction in sulfur dioxide and nitrogen oxide emission limits for electric utility boilers might be required, resulting in substantial capital costs.

The U.S. Seventh Circuit Court of Appeals recently issued a decision involving Wisconsin Electric Power Company (Wisconsin) regarding the applicability of New Source Performance Standards (NSPS) and Prevention of Significant Deterioration (PSD) requirements to utility boilers undergoing major maintenance. The decision affirmed EPA's position with regard to NSPS, requiring strict emission control upgrades due to increased emissions resulting from the maintenance work. However, the Court of Appeals reversed EPA's decision on PSD. The Company is performing maintenance work on 15 units to which this decision may apply, but the differences between the Company's project and the Wisconsin project as well as the favorable ruling on PSD lead the Company to believe that its program will not result in substantial capital costs for installation of additional equipment for air quality control.

WATER QUALITY. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

OTHER ENVIRONMENTAL REGULATIONS. North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have

adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act. The Company is a Potentially Responsible Party (PRP) at a Superfund site. The Company believes that it is a *de minimis* contributor and that its involvement will not be material.

Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA) establishes the Emergency Planning and Community Right-To-Know Act. Title III imposes requirements on a wide range of facilities to report information regarding the presence and release of specific chemicals to state and local emergency planning authorities. The Company has implemented procedures to comply with SARA.

GENERAL. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Nuclear Facilities. The Company's nuclear facilities are subject to continuing regulation by the NRC.

In March 1989, Unit 1 of the McGuire Nuclear Station developed a leak inside one of its four steam generators caused by a rupture in a tube located near the bottom of the steam generator. Laboratory examination of the ruptured tube revealed that the split was caused by a phenomenon known as stress corrosion cracking. Primary water stress corrosion cracking (PWSCC), which typically occurs in tight U-bends and where tubes are attached to the tube sheets, has been identified as a problem in steam generators of a certain design including those at the McGuire and Catawba Nuclear Stations. Because the March 1989 rupture occurred near the bottom of the steam generator and not in a U-bend or where a tube was attached to a tube sheet, that occurrence was considered to be a unique event. All other tubes in Unit 1 of the McGuire Nuclear Station were examined and no other abnormalities of that type were detected. The Company's analysis of the cause of this tube rupture was accepted by the NRC which gave its permission to return Unit 1 of the McGuire Nuclear Station to service in May 1989. However, the steam generators at the McGuire and Catawba Nuclear Stations have also experienced PWSCC similar to that experienced by other steam generators of similar design.

The Company examines the steam generator tubes at the McGuire and Catawba Nuclear Stations at each refueling outage. In addition to the inspections of the steam generator tubes, the Company has taken other steps to mitigate the effects of PWSCC that have occurred in the more typical locations of the McGuire and Catawba steam generator tubes, including tube plugging/tube sleeving, more stringent water chemistry control, shot peening and tight U-bend heat treatment. Despite these efforts, the inherent potential for future PWSCC in the McGuire and Catawba steam generators still exists. Future cracking could result in more tube plugging/tube sleeving, additional water chemistry control, reductions in plant output and eventual replacement of the steam generators at the McGuire and Catawba Nuclear Stations before the end of their 40-year design life.

The Company, on its own behalf and, in connection with its Catawba Nuclear Station, on behalf of NCEMC, NCMPA, PMPA and Saluda, commenced an action on March 22, 1990, in the United States District Court for the District of South Carolina (Charleston Division) seeking damages from Westinghouse Electric Corporation (Westinghouse) for supplying to the McGuire Nuclear Station and Catawba Nuclear Station steam generators that are alleged to be defective in design, workmanship and materials, and that will require replacement well short of their stated design life. The complaint alleges that at the time the contracts for the nuclear steam supply systems for the McGuire and

Catawba Nuclear Stations were negotiated and executed in the early and mid 1970s, and continuing thereafter, Westinghouse knew, or recklessly disregarded information in its possession, that the steam generators would be susceptible to corrosion and cracking that would cause deterioration and require premature replacement. The complaint further alleges that Westinghouse deliberately concealed such information from the Company and defrauded the Company by falsely representing that the steam generators were designed to last for 40 years.

The complaint further alleges that Westinghouse engaged in deceptive acts that were intended to prevent the Company from exercising its rights against Westinghouse, and also engaged in a pattern of deceptive acts throughout the domestic and worldwide electric generating industry to the detriment of the Company and others. The complaint contains counts for fraud, negligence, violations of the South Carolina and North Carolina Unfair Trade Practices Acts, promissory estoppel and patterns of racketeering activities prohibited by the Racketeer Influenced and Corrupt Organizations Act (civil RICO). In the action, the Company is seeking a judgment that Westinghouse is obligated to correct the defects in the steam generators at no cost to the Company, for money damages, plus interest, in an amount to be determined, for treble damages, for punitive damages and for attorneys' fees.

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 $7.8 billion. The maximum required private primary insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently $7.6 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 $65 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 $975 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 for its Oconee and McGuire plants and $560 million for its Catawba plant 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 $25 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 $975 million in coverage through NEIL's excess property program and the $560 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 $1.8 million, $2.8 million and $2.8 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, 67 percent for a second 52 weeks, and 33 percent for a third 52 weeks. If NEIL's losses for this program ever exceeded its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to $25 million. This amount represents five times the Company's annual premium to NEIL. 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.

The NRC promulgated a regulation 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 dollars to be funded by the end of the licensed life of the plant. The other joint owners of the Catawba Nuclear Station are liable for funding decommissioning activities related to their ownership interest in the station. The Company is required to submit a funding plan to the NRC by July 1990.

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power Act. Eleven developments on the Catawba-Wateree River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for the Keowee-Toxaway Project for a term expiring in 2016, covering the Keowee Hydro Station and the Jocassee Pumped Storage Station for a combined total of 769,500 KW, on the upper tributaries of the Savannah River in northwestern South Carolina. Additionally, the Company is the licensee for the Bad Creek Pumped Storage Project which is under construction. Bad Creek will use Lake Jocassee as its lower reservoir. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

Competition

The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems, rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

Non-Utility Activities

The Company is engaged in a wide variety of non-utility activities, most of which are organized in separate subsidiaries, including real estate development and forestry operations, marketing of electrical appliances, management of passive financial investments, developing and investing in electric generation facilities outside the Company's service area, providing engineering and technical services and the marketing of computer software.

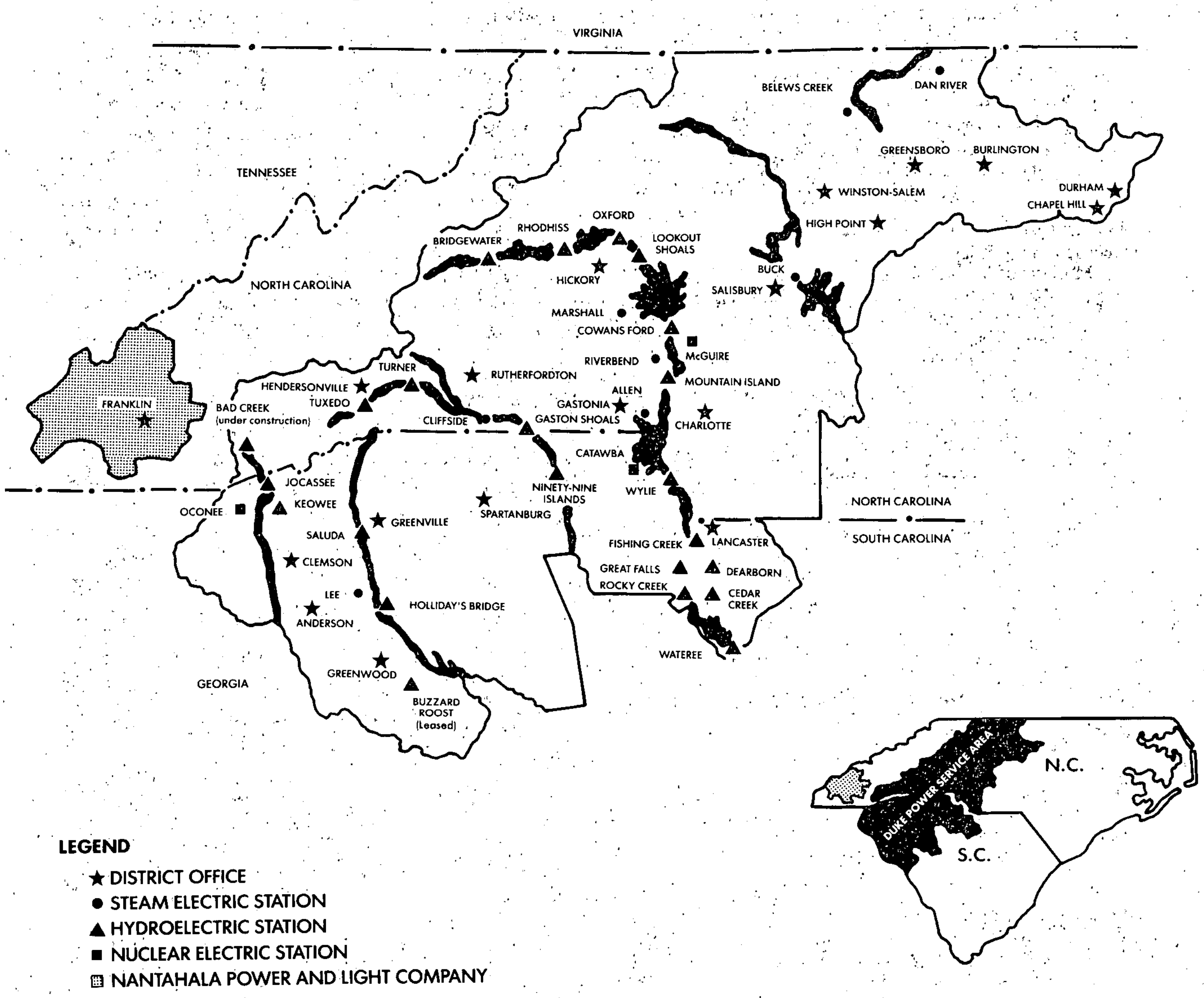
In June 1989, the Company and four other corporations created Louisiana Energy Services which plans to establish the nation's first privately owned uranium enrichment facility. In September 1989, the Company and Fluor Corporation of Irvine, California entered into a partnership to create Duke/Fluor Daniel. The partnership will offer total design, engineering, construction and operation services for new coal-fired power plants as well as for repowering, upgrading or modifying existing coal-fired plants. In October 1989, the Company offered for sale Mill-Power Supply Company, its electrical equipment and high-tech electronics controls supply subsidiary. Also in 1989, the Company entered into an agreement with the city of Anderson, South Carolina, which relieved the Company of its obligation to operate the transit system. The Company has also entered into a similar agreement with the city of Durham, North Carolina, subject to certain contingencies. The operating results of Mill-Power and the transit systems are not material to consolidated earnings.

Employees

At December 31, 1989, the Company employed approximately 19,400 persons, excluding approximately 600 employees of subsidiaries. About 2,250 electrical operating employees are represented by the International Brotherhood of Electrical Workers with which the Company has a labor agreement expiring on October 1, 1990.

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 1988, the findings of the review were implemented and, as a result, the work force was reduced by approximately 6 percent.

Duke Power Service Area



DUKE POWER COMPANY

OPERATING STATISTICS

	Year Ended December 31				
	1989	1988	1987	1986	1985
Sources of Electric Energy					
Millions of kilowatt-hours:					
Generated — net output:					
Coal	26,175	23,930	23,617	30,249	27,619
Nuclear (A)	47,773	47,934	44,810	35,044	33,700
Hydro	1,520	402	1,454	771	1,162
Oil and gas	27	32	(1)	14	13
Total generation	75,495	72,298	69,880	66,078	62,494
Purchased power and net interchange	(1,218)	437	5	(822)	(1,742)
Total output	74,277	72,735	69,885	65,256	60,752
Less: Other Catawba Joint Owners' share	12,566	12,166	11,961	6,261	3,827
Plus: Purchases from Other Catawba Joint Owners	9,809	10,244	10,872	5,953	3,769
Total sources of energy	71,520	70,813	68,796	64,948	60,694
Line loss and company usage	(4,892)	(4,614)	(4,045)	(4,435)	(4,636)
Total energy sales (B)	66,628	66,199	64,751	60,513	56,058
Average Cost Per Ton of Coal Burned	$45.13	$44.27	$45.42	$47.59	$48.66
Electric Energy Sales					
Millions of kilowatt-hours:					
Residential	16,895	16,744	16,580	15,636	14,241
General service	14,206	13,634	13,026	12,312	11,338
Industrial					
Textile	11,443	11,134	11,236	10,595	9,961
Other	14,491	14,020	13,738	12,617	11,876
Wholesale and other energy sales	9,593	10,667	10,171	9,353	8,642
Total energy sales billed	66,628	66,199	64,751	60,513	56,058
Unbilled energy sales	370	165	—	—	—
Total energy sales (B)(C)	66,998	66,364	64,751	60,513	56,058
Electric Revenue					
Thousands of dollars:					
Residential	$1,198,705	$1,205,471	$1,226,529	$1,088,886	$ 914,513
General service	851,422	833,709	829,466	748,722	642,006
Industrial					
Textile	493,933	495,100	511,026	471,718	420,817
Other	653,830	651,420	661,736	593,407	523,041
Wholesale and other energy sales	395,929	446,368	459,182	426,882	358,385
Other electric revenues	45,520	(5,083)	17,845	71,318	40,149
Total electric revenues (C)	$3,639,339	$3,626,985	$3,705,784	$3,400,933	$2,898,911
Number of Customers — End of Year					
Residential	1,362,118	1,339,206	1,302,819	1,272,888	1,236,156
General service	216,960	210,122	202,482	195,248	188,542
Industrial					
Textile	1,408	1,424	1,408	1,355	1,349
Other	7,310	7,232	7,119	6,964	6,894
Wholesale and other energy sales	7,241	7,126	6,881	6,635	6,516
Total customers	1,595,037	1,565,110	1,520,709	1,483,090	1,439,457
Residential Customer Statistics					
Average number for year	1,356,088	1,327,452	1,292,293	1,259,655	1,221,419
Average annual use — KWH	12,459	12,614	12,830	12,413	11,659
Average annual billing	$883.94	$908.11	$949.11	$864.43	$748.73
Average Annual Billed Revenue Per KWH					
Residential	7.09¢	7.20¢	7.40¢	6.96¢	6.42¢
General service	5.99¢	6.11¢	6.37¢	6.08¢	5.66¢
Industrial	4.43¢	4.56¢	4.70¢	4.59¢	4.32¢
Wholesale and other energy sales	4.13¢	4.18¢	4.51¢	4.56¢	4.15¢

(A) Includes 100% of Catawba generation.

(B) Excludes a portion of the energy sold to the Other Catawba Joint Owners (see "Business — Joint Ownership of Facilities").

(C) Does not reflect Nantahala Power and Light Company.

EXECUTIVE OFFICERS OF THE COMPANY

Name	Position	Service In Such Capacity Since	Age*
W. S. Lee**	Chairman of the Board and President	1982	60
W. H. Grigg**	Executive Vice President, Customer Group and Director	1988	57
W. H. Owen**	Executive Vice President, Power Group and Director	1988	63
Steve C. Griffith, Jr.**	Senior Vice President and General Counsel and Director	1982	56
W. A. Coley	Senior Vice President, Power Delivery	1988	46
Henry L. Cranford	Senior Vice President, Customer Services	1988	62
Donald H. Denton, Jr.	Senior Vice President, Marketing and Rates	1982	52
R. B. Priory	Senior Vice President, Generation and Information Services	1988	43
James R. Bavis	Vice President, Human Resources	1984	50
Paul F. Briggs, Jr.	Vice President, Winston-Salem Division	1989	46
J. Kenneth Clark	Vice President, Corporate Communications	1981	57
Robert L. Dick	Vice President, Corporate Excellence	1989	62
E. O. Ferrell, III	Vice President, Operation	1988	45
George W. Grier, III	Vice President, Quality Assurance	1989	47
James E. Grogan	Vice President, Construction and Maintenance	1989	57
Donald E. Hatley	Vice President, Public Affairs	1988	45
Jim R. Hicks	Vice President, Transmission and Distribution	1989	44
John P. Holland	Vice President, Central Division	1988	52
F. Alfred Jenkins	Vice President, Western Division	1988	45
John P. Kincaid	Vice President, Greenville Division	1989	44
James C. Leathers	Vice President, Production Support	1988	55
John F. Lomax	Vice President, Southern Division	1989	50
Paul G. Martin	Vice President, Eastern Division	1982	57
Maurice D. McIntosh	Vice President, Fossil Production	1989	49
Ted C. McMeekin	Vice President, Design Engineering	1988	46
John P. O'Keefe	Vice President, Taxes	1986	58
Richard J. Osborne	Vice President, Finance	1988	38
William T. Robertson	Vice President, Procurement, Services and Materials	1988	58
William R. Stimart	Vice President, Regulatory Affairs	1979	58
George E. Stubbins	Vice President, Information Systems	1982	49
Hal B. Tucker	Vice President, Nuclear Production	1982	61
Joseph H. Welch, Jr.	Vice President, Greensboro Division	1989	64
Fred E. West, Jr.	Vice President, Charlotte Division	1981	53
Sue A. Becht	Treasurer	1988	47
Lewis F. Camp, Jr.	Secretary and Associate General Counsel	1980	61
David L. Hauser	Controller	1987	38

*As of February 1, 1990.

**Member of the Management Committee.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for John P. O'Keefe. Mr. O'Keefe was a partner of Deloitte Haskins & Sells serving as its National Director, Public Utility Tax Practice, for approximately ten years immediately prior to joining the Company as Vice President, Taxes, on July 1, 1986.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Item 2. ***Properties.***

The map on page 12 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V — Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. — "Construction Program — *Facilities Under Construction*".

Item 3. ***Legal Proceedings.***

Reference is made to "Business — Regulation — *Nuclear Facilities*" and Note 12 of "Notes to Consolidated Financial Statements".

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of the Company's security holders during the last quarter of 1989.

PART II

Item 5. ***Market for the Registrant's Common Equity and Related Stockholder Matters.***

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1989, there were approximately 115,734 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by the New York Stock Exchange Composite Transactions:

Common Stock	Dividends Per Share	Price Range High	Price Range Low
1989 by Quarter			
Fourth	$0.78	$56½	$50½
Third	0.78	53¼	49½
Second	0.74	50½	44¼
First	0.74	46¾	42¾
1988 by Quarter			
Fourth	$0.74	$47⅝	$44⅝
Third	0.74	46¼	42⅝
Second	0.70	47⅞	42¼
First	0.70	49	43

Item 6. *Selected Financial Data.*

DUKE POWER COMPANY

SELECTED FINANCIAL DATA

	Year Ended December 31				
	1989	1988	1987	1986	1985
	(Dollars in thousands, except per share figures)				
CONDENSED CONSOLIDATED STATEMENTS OF INCOME					
Electric revenues	$3,639,339	$3,626,985	$3,705,784	$3,400,933	$2,898,911
Electric expenses	2,934,739	2,997,434	3,047,827	2,816,157	2,370,876
Electric operating income	704,600	629,551	657,957	584,776	528,035
Other income	101,826	46,211	72,902	127,880	163,821
Income before interest deductions	806,426	675,762	730,859	712,656	691,856
Interest deductions	234,815	227,631	230,661	244,822	254,263
Cumulative effect of accrual of unbilled revenues	—	102,255	—	—	—
Net income	571,611	550,386	500,198	467,834	437,593
Dividends on preferred and preference stocks	52,477	53,329	54,264	58,767	60,912
Earnings for Common Stock	$ 519,134	$ 497,057	$ 445,934	$ 409,067	$ 376,681
RATIO OF EARNINGS TO FIXED CHARGES (SEC method) (a)	4.26	4.25	4.49	4.26	3.87
COMMON STOCK DATA					
Shares of common stock					
— End of year (thousands)	101,281	101,272	101,259	101,236	101,194
— Average (thousands)	101,277	101,266	101,250	101,220	101,178
Per share of common stock					
Earnings (a)	$ 5.13	$ 4.91	$ 4.40	$ 4.04	$ 3.72
Dividends	$ 3.04	$ 2.88	$ 2.74	$ 2.64	$ 2.54
Book value — end of year	$ 36.10	$ 34.01	$ 31.96	$ 30.34	$ 28.98
Market price — high-low	$ 56½-42¾	$ 49-42¼	$ 51¾-39⅜	$ 52-34⅞	$ 36⅞-28½
— end of year	$ 56⅛	$ 46¼	$ 42⅞	$ 45¼	$ 35⅜
TOTAL ASSETS	$9,542,398	$8,890,605	$8,511,794	$8,226,729	$8,024,163
LONG-TERM DEBT	$2,822,442	$2,728,794	$2,723,382	$2,752,302	$2,721,041
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS	$ 247,825	$ 255,850	$ 263,875	$ 221,991	$ 277,012

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

Item 7. ***Management's Discussion and Analysis of Results of Operations and Financial Condition.***

Results of Operations

Earnings and Dividends

Earnings per share increased to $5.13 in 1989 compared to $4.91 in 1988. The increase in the current year was primarily due to higher sales and lower maintenance expenses at fossil and nuclear plants. These increases were partially offset by a decrease of $.11 per share due to the refund resulting from the North Carolina Utilities Commission (NCUC) order which lowered the Company's rate of return on common equity in response to a decision of the North Carolina Supreme Court. Earnings per share for 1988 included an increase of $1.01 per share for the effect of accruing unbilled revenues, a provision for the loss of $.46 per share because of a court order excluding costs of abandoned plants from the other Catawba joint owners' supplemental power rates and $.15 per share related to benefits for employees laid off after a work activity review completed late in 1988.

Earnings per share increased over the past five years at an annual rate of 8 percent, to $5.13 in 1989 from $3.72 in 1985. The total Company's earned return on average common equity increased from 13.4 percent in 1988 to 14.7 percent in 1989. The return on average common equity in 1988 excludes the effect of accruing for unbilled revenues and the provision for the abandonment loss.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from $2.54 in 1985 to $3.04 in 1989, rising at an annual rate of 5 percent. Consistent with the five-year trend, indicated annual dividends per share increased to $3.12.

Revenues and Sales

Revenues billed to customers decreased slightly from 1987 to 1989. Higher kilowatt-hour sales were offset by decreases in prices. Growth in economic activity in the Piedmont Carolinas has caused kilowatt-hour sales billed to increase at a 1 percent annual rate from 1987 to 1989.

Kilowatt-hour sales billed for 1989 were essentially flat when compared to 1988. An increase in sales to the retail sector was partially offset by a decrease in special sales to other utilities. Sales to general service customers increased 4 percent reflecting an overall increase in the customer base. Industrial sales (both textile and other industries) increased 3 percent reflecting economic growth in the service area.

Operating Expenses

Non-fuel operating and maintenance expense rose at an annual rate of 5 percent from 1985 to 1989. Factors contributing to this rise include increased maintenance at the nuclear stations, additional Nuclear Regulatory Commission requirements and inflation.

"Net interchange and purchased power" decreased 12 percent from $587 million in 1988 to $514 million in 1989. The decrease is primarily due to an increase in sales of interchange power.

Fuel expense increased slightly from $625 million in 1987 to $660 million in 1989. Higher production required to meet a higher level of demand was partially offset by declining fuel prices. Fuel expense for 1989 increased 5 percent over 1988. This increase reflected the need for additional fossil generation in response to the growth in sales.

Damage from Hurricane Hugo will cost approximately $64 million. The capital portion of these costs, about $44 million, will be capitalized and depreciated over approximately 30 years. The Company has received approval from the appropriate regulatory commissions to defer and amortize the remaining $20 million over a five-year period. Regulatory approval has also been received to defer and amortize over a five-year period another $3.5 million, of a total $9.7 million, in damages from tornadoes that struck the Piedmont in May.

Other Income

Allowance for funds used during construction (AFUDC) represented 15 percent of earnings for common stock in 1989, increasing from 14 percent in 1988 and 11 percent in 1987. The moderate

increase in AFUDC over the past three years is a result of construction of the Bad Creek Hydroelectric Station. AFUDC is expected to continue to rise moderately as the Bad Creek Hydroelectric Station nears completion.

Included in "Other, net," the carrying charge on purchased capacity levelization represented 7 percent of total earnings compared to 5 percent in 1988. 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, of which major components are investing income, Crescent Resources, Inc. and merchandising, were 7 percent of total Company earnings in 1989, compared to 6 percent in 1988. The slight increase in these earnings from 1988 is due to an increase in earnings from subsidiary operations which was partially offset by a decrease in investment income as a result of the reduction in the overall investment base of certain subsidiaries.

Liquidity and Resources

Rate Matters

From 1985 through 1989, the Company was involved in various retail rate activities. In 1985 and 1986, rate increases provided for the recovery of the Company's investment in both units of the Catawba Nuclear Station and recovery of increased purchased power and operating expenses. These increases were partially offset when the Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988, to recognize the lower corporate income tax rates included in the Tax Reform Act of 1986. The Company does not anticipate the need for any general rate activity until it is necessary to recover the investment in the Bad Creek Hydroelectric Station. (For additional information on rate matters, see Note 2, "Notes to Consolidated Financial Statements.")

In July 1987 the Federal Energy Regulatory Commission (FERC) 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 a reduction in the corporate income tax rate.

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.

Certain parties appealed the Company's 1986 rate order of the NCUC 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, and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During the first quarter of 1989, the Company accrued approximately $24 million for the refund. The refund has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that the Commission acted properly and the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related 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 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 material adverse effect on its results of operations or financial position.

On July 28, 1987, the 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, reflected in the fourth quarter of 1988.

Capital Structure

The Company's capital structure at year-end was 51 percent common equity, 40 percent long-term debt, and 9 percent preferred and preference stocks. This capital 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. However, the Company issued new long-term debt in early 1990 and intends to issue additional long-term debt during the year.

Cash From Operations

In 1989 net cash provided by operating activities accounted for 73 percent of total cash from operating, financing and investing activities. Approximately 13 percent of total cash from operating, financing and investing activities is being used for construction of the Bad Creek Hydroelectric Station.

Cash From Financing and Investing Activities

During the years 1985–1987, the Company obtained additional funds of $892 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. In 1989 the Company received approval from the NCUC and The South Carolina Public Service Commission to enter into a financing arrangement involving the issuance and sale of a maximum of $130 million principal amount of its commercial paper backed by long-term bank credit agreements. In accordance with this arrangement, the Company then issued and sold $130 million principal amount of its commercial paper included in the Consolidated Statements of Capitalization as "Other long-term debt." The proceeds from the issuance of this commercial paper were used primarily to terminate the Nuclear Fuel Trust financings of $86 million.

The Company also plans to file a registration statement with the Securities and Exchange Commission (SEC) to issue up to $250 million in First and Refunding Mortgage bonds to be designated as "Medium Term Notes." Approval for the issuance of these Medium Term Notes has been received by the Company from the appropriate state regulatory agencies. The Company amended a registration statement previously filed with the SEC to issue up to a maximum of $300 million First and Refunding Mortgage bonds. The amendment will permit the Company to obtain necessary funds for construction purposes. Also in early 1990, the Company issued $200 million in new long-term debt and intends to utilize a portion of the proceeds to redeem the 12⅝% First and Refunding Mortgage bonds. The Company intends to issue additional long-term debt during the year. 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.

Because of refinancings, the Company's embedded cost of long-term debt was lowered from 9.47 percent at year-end 1985 to 8.71 percent at year-end 1989. The embedded cost of preferred stock declined from 8.75 percent at the end of 1985 to 7.86 percent at the end of 1989. (For additional

information on the Company's capitalization, see Notes 6, 7, 8 and 9, "Notes to Consolidated Financial Statements.")

Church Street Capital Corp., a wholly owned subsidiary of Duke Power Company, was formed in 1985. During 1989 the Company reorganized its subsidiary structure by contributing the stock of its non-utility subsidiaries to Church Street Capital. In addition, the non-utility subsidiaries transferred their investment funds to their new parent. Church Street Capital will provide for central management of funds intended for future non-utility operations. Mint Street Capital Associates, a general partnership of certain subsidiaries of the Company, was dissolved and its assets were ultimately passed to Church Street Capital as a result of the reorganization. As of December 31, 1989, Duke Power Company and consolidated subsidiaries had approximately $56 million in intermediate-term investments and $58 million in short-term investments.

Fixed Charges Coverage

Fixed charges coverage increased slightly to 4.26 times for 1989 compared to 4.25 times in 1988 using the SEC method. Fixed charges coverage, excluding AFUDC and the return on purchased capacity levelization, was 3.83 times in 1989 compared to 3.88 times in 1988 and the Company's goal of 3.5 times.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of $1.1 billion and retirements of $.1 billion resulted in a net increase in gross plant of $1.0 billion in 1989.

Since January 1, 1985, additions to property and nuclear fuel of $4.2 billion and retirements of $282 million have resulted in a net increase in gross plant of $3.9 billion.

Construction Expenditures

Plant construction costs for generating facilities, including AFUDC, increased from $204 million in 1985 to $388 million in 1989. This increase is primarily the result of construction expenditures at the Bad Creek Hydroelectric Station. Construction costs for distribution plant, including AFUDC, increased from $178 million in 1985 to $310 million in 1989, primarily reflecting customer growth in the service area.

Purchased Capacity Levelizaton

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 the 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 Carolina 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.

The 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 $231 million. (For additional information on purchased capacity levelization, see Note 3, "Notes to Consolidated Financial Statements.")

Future Construction Program

Construction costs for major generating facilities for 1990 through 1992 will reflect continued progress at the Bad Creek Hydroelectric Station and the new Lincoln Combustion Turbine Station as discussed below. Projected construction costs and nuclear fuel costs cumulatively for the next three years are $2.47 billion and $566 million, respectively.

Construction continued at the Bad Creek Hydroelectric Station in 1989. Units 1 and 2 of the 1,065-megawatt pumped-storage facility are officially scheduled for completion in 1992, with Units 3 and 4 in 1993. However, construction is currently ahead of schedule. By year-end, $694 million of an estimated $1.1 billion had been spent.

In 1989 the Company announced that a site in Lincoln County, North Carolina, had been selected for a new combustion turbine (CT) facility to meet customer demand in the mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200 MW of electricity. Current plans are for the first CT to be operational as early as 1994. Duke has notified the appropriate state regulatory agencies of its intent to begin procedures to obtain required permits for construction and operation of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power needs in the 1990s and beyond.

Significant Trends

While the Company maintained solid financial performance in 1989, 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.

During 1989 the Company offered for sale Mill-Power Supply Company, one of Duke's subsidiaries. The Company entered into an agreement with the city of Anderson, South Carolina, which relieved Duke of its obligation to operate the transit system. The Company also has entered into a similar agreement with the city of Durham, North Carolina, subject to certain contingencies. Management is of the opinion that these transactions will not have a material impact on the results of operations or the financial position of the Company.

In 1989 the Company along with the Fluor Corporation of Irvine, California, announced the formation of a new entity named Duke/Fluor Daniel. Duke/Fluor Daniel, specializing in coal-fired projects, will offer total design, engineering, construction and operating services of new power plants or repowering, upgrading or modifying existing plants.

The Company is currently monitoring proposed legislation to amend the Clean Air Act. Duke supports the national objective of clean air and has reduced emissions through the use of low-sulfur coal in its fossil plants, through efficient operations and by utilizing nuclear generation. While the Company supports action on this issue, it is concerned that the currently proposed legislation disregards the efforts of utilities, such as Duke, that have already established low emission standards. Without amendments that credit Duke with clean-air actions already taken, the proposed legislation would be very costly to implement.

Item 8. ***Financial Statements and Supplementary Data.***

DUKE POWER COMPANY

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DUKE POWER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	1989	1988	1987
	(Dollars in Thousands)		
ELECTRIC REVENUES (Notes 1 and 2)	$3,639,339	$3,626,985	$3,705,784
ELECTRIC EXPENSES			
Operation			
Fuel used in electric generation (Note 1)	660,212	626,191	624,814
Net interchange and purchased power (Note 3)	514,189	587,145	581,175
Wages, benefits and materials	508,743	529,129	485,192
Maintenance of plant facilities	348,944	383,307	375,085
Depreciation and amortization (Notes 1 and 10)	410,938	417,503	411,182
General taxes	184,134	182,000	173,897
Income taxes (Notes 1 and 4)	307,579	272,159	396,482
Total electric expenses	2,934,739	2,997,434	3,047,827
Electric operating income	704,600	629,551	657,957
OTHER INCOME (Notes 1, 4 and 13)			
Allowance for equity funds used during construction	61,347	52,616	36,742
Other, net	28,930	16,978	18,002
Provision for abandonment loss (Note 12)	—	(81,999)	—
Income taxes — abandonment loss (Note 4)	—	34,967	—
Income taxes — other, net	(9,053)	3,547	(4,397)
Income taxes — credit	20,602	20,102	22,555
Total other income	101,826	46,211	72,902
Income before interest deductions	806,426	675,762	730,859
INTEREST DEDUCTIONS			
Interest on long-term debt	237,187	235,061	237,367
Other interest	16,505	7,979	3,853
Allowance for borrowed funds used during construction (credit) (Note 1)	(18,877)	(15,409)	(10,559)
Total interest deductions	234,815	227,631	230,661
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING METHOD	571,611	448,131	500,198
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)	—	102,255	—
NET INCOME	571,611	550,386	500,198
Dividends on preferred and preference stocks	52,477	53,329	54,264
EARNINGS FOR COMMON STOCK	$ 519,134	$ 497,057	$ 445,934
COMMON STOCK DATA			
Average shares outstanding (thousands)	101,277	101,266	101,250
Earnings per share before cumulative effect of change in accounting method	$5.13	$3.90	$4.40
Cumulative effect of a change in method of accounting for unbilled revenues	—	1.01	—
Total earnings per share	$5.13	$4.91	$4.40
Dividends per share	$3.04	$2.88	$2.74

See Notes to Consolidated Financial Statements.

DUKE POWER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	1989	1988	1987
		(Dollars in Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 571,611	$ 550,386	$ 500,198
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash items			
Depreciation and amortization (Notes 1 and 10)	605,105	632,866	616,956
Deferred income taxes and investment tax credit, net of amortization (Note 4)	61,063	(16,699)	82,623
Allowance for equity funds used during construction	(61,347)	(52,616)	(36,742)
Purchased capacity levelization (Note 3)	(95,216)	(95,738)	(134,452)
Provision for abandonment loss (Note 12)	—	81,999	—
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)	—	(102,255)	—
Other, net	21,154	62,970	46,367
(Increase) Decrease in			
Accounts receivable	(63,285)	(5,464)	(6,360)
Materials and supplies	(13,960)	(4,203)	(15,837)
Prepayments	915	1,630	1,323
Increase (Decrease) in			
Accounts payable	29,249	41,935	42,396
Taxes accrued (Note 4)	49,961	(19,010)	(54,692)
Interest accrued and other liabilities (Note 9)	3,628	7,061	(43)
Total adjustments	537,267	532,476	541,539
Net cash provided by operating activities	1,108,878	1,082,862	1,041,737
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction expenditures	(819,799)	(754,076)	(611,374)
Investment in nuclear fuel	(179,093)	(142,575)	(129,510)
Purchase of Nantahala Power and Light	—	(29,576)	—
Proceeds from sale of assets	—	—	23,496
Net change in investment securities (Note 1)	26,515	198,586	55,656
Net cash used in investing activities	(972,377)	(727,641)	(661,732)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of			
First and refunding mortgage bonds	—	—	245,866
Pollution-control bonds	15,906	1,283	38,734
Nuclear fuel trusts	50,945	85,612	77,388
Preferred stock	—	—	49,563
Short-term notes payable (Note 5)	170,000	—	—
Other long-term debt	130,000	—	—
Payments for the redemption of			
First and refunding mortgage bonds	—	—	(285,752)
Pollution-control bonds	—	—	(25,000)
Nuclear fuel trusts	(136,945)	(85,612)	(76,388)
Preferred stock	(8,025)	(8,025)	(50,848)
Payments under capital lease obligation	(4,748)	(4,348)	(3,982)
Dividends paid	(360,352)	(344,964)	(331,691)
Net cash used in financing activities	(143,219)	(356,054)	(362,110)
NET INCREASE (DECREASE) IN CASH	(6,718)	(833)	17,895
CASH AT BEGINNING OF YEAR	20,676	21,509	3,614
CASH AT END OF YEAR	$ 13,958	$ 20,676	$ 21,509

See Notes to Consolidated Financial Statements.

DUKE POWER COMPANY
CONSOLIDATED BALANCE SHEETS

	December 31 1989	December 31 1988
	(Dollars in Thousands)	
ASSETS		
ELECTRIC PLANT		
(At original cost — Notes 1, 3, 9 and 12)		
Electric plant in service	$9,738,983	$9,121,987
Less accumulated depreciation and amortization	3,374,412	3,104,088
Electric plant in service, net	6,364,571	6,017,899
Nuclear fuel	1,694,967	1,537,534
Less accumulated amortization	1,397,475	1,219,828
Nuclear fuel, net	297,492	317,706
Construction work in progress (including nuclear fuel in process: 1989 — $159,034; 1988 — $125,194)	1,255,232	1,038,091
Total electric plant, net	7,917,295	7,373,696
OTHER PROPERTY AND INVESTMENTS		
Other property — at cost (less accumulated depreciation: 1989 — $68,391; 1988 — $64,677)	144,513	106,843
Other investments, at cost or less	121,103	115,957
Total other property and investments	265,616	222,800
CURRENT ASSETS		
Cash (Note 5)	13,958	20,676
Short-term investments	58,050	89,711
Receivables (less allowance for losses: 1989 — $3,837; 1988 — $3,690) (Note 1)	519,839	456,554
Materials and supplies — at average cost		
Coal	84,036	83,405
Other	182,951	169,622
Prepayments	11,209	12,124
Total current assets	870,043	832,092
DEFERRED DEBITS		
Purchased capacity costs (Note 3)	239,671	192,084
Canceled construction projects (Notes 10 and 12)	144,128	182,542
Debt expense (Note 1)	73,191	75,835
Other	32,454	11,556
Total deferred debits	489,444	462,017
TOTAL ASSETS	$9,542,398	$8,890,605
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Consolidated Statements of Capitalization)	$7,154,274	$6,856,723
CURRENT LIABILITIES		
Accounts payable	306,232	264,988
Taxes accrued (Note 1)	76,613	26,652
Interest accrued	67,992	67,945
Other	60,915	57,334
Total	511,752	416,919
Notes payable (Note 5)	170,000	—
Current maturities of long-term debt and preferred stocks	13,210	51,343
Total current liabilities	694,962	468,262
ACCUMULATED DEFERRED INCOME TAXES (Notes 1 and 4)	1,206,730	1,117,383
DEFERRED CREDITS AND OTHER LIABILITIES		
Investment tax credit (Notes 1 and 4)	324,466	331,644
Other	161,966	116,593
Total deferred credits and other liabilities	486,432	448,237
COMMITMENTS AND CONTINGENCIES (Note 12)		
TOTAL CAPITALIZATION AND LIABILITIES	$9,542,398	$8,890,605

See Notes to Consolidated Financial Statements.

DUKE POWER COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31	
	1989	1988
	(Dollars in Thousands)	
COMMON STOCK EQUITY (Notes 6 and 7)		
Common stock, no par, 150,000,000 shares authorized; 101,281,445 shares outstanding for 1989 and 101,272,023 shares outstanding for 1988	$1,862,721	$1,862,495
Retained earnings	1,793,829	1,581,901
Total common stock equity	3,656,550	3,444,396
PREFERRED AND PREFERENCE STOCKS WITHOUT SINKING FUND REQUIREMENTS (Note 7)	427,457	427,683
PREFERRED STOCK WITH SINKING FUND REQUIREMENTS (Note 8)	247,825	255,850
LONG-TERM DEBT (Note 9)		
First and refunding mortgage bonds	2,645,838	2,630,803
Capitalized leases	70,812	75,560
Other long-term debt	130,000	—
Nuclear fuel trusts	—	86,000
Unamortized debt discount and premium, net (Note 1)	(19,023)	(20,251)
Current maturities of long-term debt	(5,185)	(43,318)
Total long-term debt	2,822,442	2,728,794
TOTAL CAPITALIZATION	$7,154,274	$6,856,723

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31		
	1989	1988	1987
	(Dollars in Thousands)		
BALANCE — Beginning of year	$1,581,901	$1,374,093	$1,210,229
ADD — Net income	571,611	550,386	500,198
Total	2,153,512	1,924,479	1,710,427
DEDUCT			
Dividends			
Common stock	307,875	291,635	277,427
Preferred and preference stocks	52,477	53,329	54,264
Capital stock transactions, net	(669)	(2,386)	4,643
Total deductions	359,683	342,578	336,334
BALANCE — End of year	$1,793,829	$1,581,901	$1,374,093

See Notes to Consolidated Financial Statements.

DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, net income would not have been materially different from that shown in the accompanying financial statements. Unbilled revenues of $195,867,000 and $166,767,000 are recorded as a component of "Receivables" on the Consolidated Balance Sheets as of December 31, 1989 and 1988, respectively.

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

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.35 percent for 1989, 9.34 percent for 1988 and 9.11 percent for 1987.

D. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.58 percent for 1989, 3.61 percent for 1988 and 3.60 percent for 1987. 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 dollars to be funded by the end of the licensed life of the plant. The other joint owners of the Catawba Nuclear Station are liable for funding decommissioning activities related to their ownership interest in the station. 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 (FASB). All significant intercompany transactions have been eliminated in consolidation. Information for 1987 has been restated to conform to the new presentation.

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 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.

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 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.

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 legislature ratified a bill in July 1987 assuring the legality of such adjustments in rates. The bill has a sunset provision which has been extended to July 1, 1991.

I. *Consolidated Statements of Cash Flows.* The FASB 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 has been restated 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 thus are not considered cash equivalents.

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. Sales to the other joint owners of the Catawba Nuclear Station, which represent 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, 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. As a result of an appeal by certain parties of the

Company's 1986 rate order of the NCUC, the Company's authorized return on common equity was reduced in 1989 from 13.40 percent to 13.20 percent (see Note 12).

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.

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 Coöperative, 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, 1989, $492,900,000 of "Electric plant in service" represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of $114,000,000 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 1994 are $477,000,000 for 1990, $413,000,000 for 1991, $400,000,000 for 1992 and $387,000,000 for 1993 and $376,000,000 for 1994.

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 net of tax 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, 1989, 1988 and 1987, the Company recorded purchased capacity and energy costs from the other joint owners of $598,100,000, $632,200,000 and $693,500,000, 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, 1989 and 1988, $239,671,000 and $192,084,000 net of income taxes, respectively, ($425,103,000 and $348,282,000, pretax, 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."

4. Income Tax Expense

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

	1989	1988	1987
Income taxes related to electric expenses			
Current income taxes			
Federal	$203,899	$207,354	$264,276
State	44,784	45,606	50,001
	248,683	252,960	314,277
Deferred taxes, net			
Excess tax over book depreciation	76,950	71,102	78,017
Catawba purchased capacity cost, net of amounts reflected in current rates	13,620	6,808	29,209
Amortization of canceled construction costs	(23,959)	(26,116)	(26,503)
Unbilled revenues	(15,716)	(13,965)	(6,133)
Storm damage	24,397	—	—
Other	(9,481)	(11,731)	21,120
	65,811	26,098	95,710
Investment tax credit			
Deferred	11,394	11,812	10,604
Amortization of deferments (credit)	(18,309)	(18,711)	(24,109)
	(6,915)	(6,899)	(13,505)
Total income taxes related to electric expenses	307,579	272,159	396,482
Income taxes related to other income			
Income taxes — abandonment loss	—	(34,967)	—
Income taxes — other, net	9,053	(3,547)	4,397
Income taxes — credit	(20,602)	(20,102)	(22,555)
Total income taxes related to other income	(11,549)	(58,616)	(18,158)
Total income tax expense	$296,030	$213,543*	$378,324

Total current income taxes were $234,967,000 for 1989, $230,242,000 for 1988 and $295,701,000 for 1987. Of these amounts, state income taxes were $40,877,000 for 1989, $42,262,000 for 1988 and $46,073,000 for 1987. Total income taxes paid were $188,125,000 in 1989, $226,400,000 in 1988 and $294,365,000 in 1987.

Total deferred income taxes were $67,978,000 for 1989, $(9,800,000) for 1988 and $96,128,000 for 1987. Of these amounts, deferred state income taxes were $13,960,000 for 1989, $4,070,000 for 1988 and $17,311,000 for 1987.

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

	1989	1988	1987
Income taxes on pretax income at the statutory federal rate of 34% — 1989 and 1988, 39.95% — 1987	$294,998	$224,967	$350,970
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(27,276)	(23,128)	(18,897)
Amortization of electric investment tax credit deferrals	(18,309)	(18,711)	(24,109)
AFUDC in book depreciation/amortization	29,372	31,883	36,520
Deferred income tax flowback at rates higher than statutory	(22,761)	(27,989)	(7,268)
State income taxes, net of federal income tax benefits	36,852	30,928	38,110
Other items, net	3,154	(4,407)	2,998
Total income tax expense	$296,030	$213,543*	$378,324

* 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 1992.

5. Short-Term Borrowings and Compensating-Balance Arrangements

The Company had unused short-term credit facilities of $380,285,000 as of December 31, 1989, and $360,700,000 as of December 31, 1988, and December 31, 1987, with 52 and 54 commercial banks, respectively. Included in these credit facilities are $40,000,000 and $95,000,000, respectively, allocated to annual tender, pollution-control revenue bonds. These facilities are on a fee basis and/or compensating-balance basis. There were no short-term borrowings during 1988 or 1987.

Cash balances maintained at the banks on deposit were $8,649,000 as of December 31, 1989 and $16,938,000 as of December 31, 1988. 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 certain banks for credit facilities, the Company has average balance requirements. Amounts maintained were $498,500 as of December 31, 1989 and $1,303,500 as of December 31, 1988 and 1987. The Company retains the right of withdrawal with respect to the funds used for compensating-balance arrangements.

A summary of short-term borrowings is as follows (dollars in thousands):

	December 31, 1989
Amount outstanding at end of period — average rate of 8.68%	$170,000
Maximum amount outstanding during the period	$180,000
Average amount outstanding during the period	$ 34,538
Weighted average interest rate for the period — computed on a daily basis	8.93%

6. 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. The Company currently issues new shares of common stock only for the conversion of preference stock. (See Note 7.)

As of December 31, 1989, a total of 4,667,370 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1989, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

7. 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, 1989 and 1988:

	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 1989, 1988 and 1987, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1989	2,256	9,422
1988	3,176	13,292
1987	5,489	22,959

In 1986 the Company issued 500,000 shares of Adjustable Rate Preferred Stock, Series A, with a par value of $100 per share. The dividend rate is adjusted quarterly based on a percentage of the highest rate among certain U.S. Treasury rates. However, in no event will the dividend rate for any dividend period be less than 5.50 percent per annum or greater than 10.50 percent per annum. This rate was 6.35 percent per annum at December 31, 1989.

Preferred and preference stocks without sinking fund requirements as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1989	1988
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	24,574	2,457	—
		26,830	—	2,683
Total			$427,457	$427,683

8. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1989 and 1988:

	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, 1989 and 1988, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1989	1988
7.35% I	1973	456,000	$ 45,600	$ —
		480,000	—	48,000
8.20% J	1977	340,000	34,000	—
		360,000	—	36,000
8.375% L	1978	360,000	36,000	—
		380,000	—	38,000
8.84% N	1979	402,500	40,250	—
		418,750	—	41,875
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			$247,825	$255,850

The annual sinking fund requirements through 1994 are $8,025,000 in 1990 and 1991; $9,525,000 in 1992; and $11,025,000 in 1993 and 1994. 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.

9. Long-Term Debt

First and refunding mortgage bonds outstanding as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Series	Year Due	1989	1988
4½%	1992	$ 50,000	$ 50,000
4¼% B	1992	50,000	50,000
4½%	1995	40,000	40,000
8½% B	1995	125,000	125,000
7⅞%	1996	100,000	100,000
7½% B	1997	100,000	100,000
5⅜%	1997	72,600	72,600
6⅜%	1998	68,500	68,500
7%	1999	56,075	56,075
8% B	1999	64,739	64,739
8½%	2000	69,244	69,244
8⅝% B	2000	95,635	95,635
7½%	2001	97,900	97,900
7⅜% B	2001	38,050	38,050
7¾%	2002	78,100	78,100
7⅜% B	2002	67,900	67,900
7¾%	2003	94,872	94,872
8⅛% B	2003	98,050	98,050
9¾%	2004	95,623	95,623
(continued)			
9½%	2005	$ 92,800	$ 92,800
8⅜%	2006	96,850	96,850
8⅛%	2007	119,500	119,500
9⅜%	2008	120,610	120,610
10⅛%	2009	145,050	145,050
12⅝%	2015	62,916	62,916
10⅛% B	2015	50,000	50,000
9%	2016	175,000	175,000
8½%	2017	150,000	150,000
Pollution-Control			
9⅛%	2013	77,000	77,000
6.10% (1989) / 6.125% (1988)	2014	40,000	40,000
7.70% (1989) / 6.25% (1988)	2012	20,000	20,000
7.75% (1989) / 5.85% (1988)	2017	10,000	10,000
7.50% (1989) / 5.45% (1988)	2017	25,000	25,000
Less: Funds held in trust		(1,176)	(16,211)
Total		$2,645,838	$2,630,803

Substantially all electric plant was mortgaged as of December 31, 1989.

Interest paid, net of amount capitalized, was $230,091,000, $222,102,000 and $227,557,000 for the years ended December 31, 1989, 1988 and 1987, respectively.

As of December 31, 1989, the Company had $130,000,000 in commercial paper backed by an unused long-term credit facility of $130,000,000. The $130,000,000 principal amount of commercial paper is included in other long-term debt.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1994 are $5,185,000 in 1990; $5,702,000 in 1991; $106,226,000 in 1992; $6,804,000 in 1993 and $21,049,000 in 1994.

10. 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 12.)

As of December 31, 1989 and 1988, the balances for these canceled projects, net of amortization, were $233,896,000 and $296,269,000, respectively ($144,128,000 and $182,542,000 net of income tax benefits, respectively).

11. Retirement Benefits

A. 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, 1989 and 1988 is as follows (dollars in thousands):

	1989	1988
Accumulated benefit obligation:		
Vested benefits	$(582,142)	$(528,776)
Nonvested benefits	(22,623)	(30,852)
Accumulated benefit obligation	$(604,765)	$(559,628)
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	785,435	703,269
Projected benefit obligation	(755,353)	(658,829)
Unrecognized net experience gain	(20,352)	(50,677)
Unrecognized prior service cost	(14,232)	—
Remaining unrecognized SFAS 87 transitional obligation	1,602	1,736
Accrued pension cost	$ (2,900)	$ (4,501)

Net periodic pension cost for the years ended December 31, 1989, 1988 and 1987, included the following components (dollars in thousands):

	1989		1988		1987	
Service cost benefits earned during the year		$ 24,809		$ 25,442		$ 26,707
Interest cost on projected benefit obligation		64,735		55,993		52,212
Actual return on plan assets	(104,226)		(72,465)		(43,000)	
Amount deferred for recognition	34,532		6,815		(9,042)	
Expected return on plan assets		(69,694)		(65,650)		(52,042)
Net amortization		(1,161)		(199)		134
Net periodic pension cost		$ 18,689		$ 15,586		$ 27,011

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 9.5 percent in 1989, 1988 and 1987, while the assumed increase in future compensation levels was 6.5 percent in 1989, 1988 and 1987. The expected long-term rate of return on plan assets used in determining pension cost was 10.0 percent for 1989 and 1988 and 8.5 percent for 1987.

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.

B. Postretirement Benefits

The Company currently provides certain health care benefits for retired employees. Substantially all of the Company's employees become eligible for these benefits if they elect early retirement at age fifty-five with ten years of service or if they retire at sixty-five while working for the Company. The cost of retiree health care benefits is recognized as expense as the benefits are paid. The cost to the Company for 1989, 1988 and 1987 amounted to $6,700,000, $6,600,000 and $4,800,000, respectively. The Company reserves the right to terminate, suspend, withdraw, amend or modify the Plans in whole or in part at any time.

12. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs are $2.47 billion and $566 million, respectively, for 1990 through 1992. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

B. Nuclear Insurance

The Company 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 $7.8 billion. The maximum required private primary insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently $7.6 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 exceeded its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to $65 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 $975 million of insurance through NEIL's excess property and decontamination libility insurance program. The Company has also purchased an additional $400 million of excess property damage insurance for its Oconee and McGuire plants and $560 million for its Catawba plant 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 $25 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 $975 million in coverage through NEIL's excess property program and the $560 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 $1.8 million, $2.8 million and $2.8 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, 67 percent for a second 52 weeks, and 33 percent for a third 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 $25 million. This amount represents 5 times the Company's annual premium to NEIL. 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.

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 effects on the results of operations or the financial position of the Company.

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission (NCUC) 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, and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During the first quarter of 1989, the Company accrued approximately $24 million for the refund. The refund has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that the Commission acted properly and the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related 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 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 material adverse effect on its results of operations or financial position.

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, reflected in the fourth quarter of 1988.

13. Other Income

For the years ended December 31, 1989, 1988 and 1987, the Company recorded investment income of $15,167,000, $19,397,000, and $6,850,000, respectively ($13,532,000, $20,098,000, and $9,020,000, 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.

14. Reclassification

In the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows, certain prior-year information has been reclassified to conform with 1989 classifications.

INDEPENDENT AUDITORS' REPORT

Duke Power Company:

We have audited the consolidated financial statements of Duke Power Company and subsidiaries listed in the accompanying index on page 22. Our audit also comprehended the supplemental schedules of Duke Power Company and subsidiaries listed in the accompanying index on page 22. These financial statements and supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles. Also, in our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

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.

Charlotte, North Carolina
February 9, 1990

DELOITTE & TOUCHE
Certified Public Accountants

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 & Touche. 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
Controller

DUKE POWER COMPANY

SUPPLEMENTAL FINANCIAL DATA — (Unaudited)

Quarterly Financial Data

A summary of quarterly financial data for 1989 and 1988 is as follows (dollars in thousands, except per-share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (b)	Total
1989 by quarter					
Electric Revenues	$863,235	$877,304	$1,011,294	$887,506	$3,639,339
Electric Operating Income	152,365	153,850	230,420	167,965	704,600
Net Income	127,280	127,270	194,812	122,249	571,611
Earnings Per Share	$ 1.13	$ 1.12	$ 1.80	$ 1.08	$ 5.13
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	$237,445	$ 95,777	$ 192,914	$ 24,250	$ 550,386
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	$ 2.21	$ 0.82	$ 1.77	$ 0.11	$ 4.91

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 11 and 12, "Notes to Consolidated Financial Statements.")

DUKE POWER COMPANY

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements	Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1989					
Electric Plant in Service — At Original Cost					
Production	$ 4,722,544	$ 145,377	$19,287	$ 31,650	$ 4,880,284
Transmission	1,114,761	46,564	3,032	(5,705)	1,152,588
Distribution	2,477,568	323,858	22,198	(6,210)	2,773,018
General	622,814	168,358	8,020	5,008	788,160
Miscellaneous	184,301	2,764	—	(42,132)	144,933
Nuclear Fuel	1,537,533	157,434	—	—	1,694,967
Total electric plant in service	10,659,521	844,355	52,537	(17,389)	11,433,950
Construction Work in Progress	1,038,091	217,141	—	—	1,255,232
Other Property — At Cost					
Water plant	31,486	1,624	68	(36)	33,006
Transit plant	3,039	—	215	—	2,824
Total other property	34,525	1,624	283	(36)	35,830
Total plant	$11,732,137	$1,063,120	$52,820	$(17,425)	$12,725,012
For the Year Ended December 31, 1988					
Electric Plant in Service — At Original Cost					
Production	$ 4,631,961	$ 93,996	$ 307	$ (3,106)	$ 4,722,544
Transmission	1,092,584	27,882	2,536	(3,169)	1,114,761
Distribution	2,223,589	278,664	25,868	1,183	2,477,568
General	531,167	109,003	16,900	(456)	622,814
Miscellaneous	182,936	480	—	885	184,301
Nuclear Fuel	1,410,315	127,218	—	—	1,537,533
Total electric plant in service	10,072,552	637,243	45,611	(4,663)	10,659,521
Construction Work in Progress	704,610	333,481	—	—	1,038,091
Other Property — At Cost					
Water plant	30,580	1,153	240	(7)	31,486
Transit plant	3,160	(15)	106	—	3,039
Total other property	33,740	1,138	346	(7)	34,525
Total plant	$10,810,902	$ 971,862	$45,957	$ (4,670)	$11,732,137
For the Year Ended December 31, 1987					
Electric Plant in Service — At Original Cost					
Production	$ 4,563,815	$ 80,827	$ 1,593	$(11,088)	$ 4,631,961
Transmission	1,075,343	22,561	2,013	(3,307)	1,092,584
Distribution	2,043,595	194,991	17,314	2,317	2,223,589
General	411,281	130,265	12,145	1,766	531,167
Miscellaneous	175,600	3,056	—	4,280	182,936
Nuclear Fuel	1,175,398	234,917	—	—	1,410,315
Total electric plant in service	9,445,032	666,617	33,065	(6,032)	10,072,552
Construction Work in Progress	601,064	127,042	—	(23,496)(1)	704,610
Other Property — At Cost					
Water plant	30,113	690	225	2	30,580
Transit plant	2,548	674	62	—	3,160
Total other property	32,661	1,364	287	2	33,740
Total plant	$10,078,757	$ 795,023	$33,352	$(29,526)	$10,810,902

(1) Sale of assets.

DUKE POWER COMPANY

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Depreciation	Clearing and Other Accounts	Retirements	Other Changes Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1989						
Accumulated Depreciation of Electric Plant						
Production	$1,563,245	$178,034	$ —	$29,239	$ 41,666	$1,753,706
Transmission	443,828	32,721	—	3,685	(1,110)	471,754
Distribution	769,601	89,192	—	33,661	1,056	826,188
General	156,912	26,033	13,280	2,861	23	193,387
Miscellaneous	166,353	—	372	—	(41,933)	124,792
	3,099,939	325,980	13,652	69,446	(298)	3,369,827
Accumulated Amortization of Limited Term Plant	4,149	—	447	—	(11)	4,585
Accumulated Amortization of Nuclear Fuel	1,219,828	—	177,647	—	—	1,397,475
	4,323,916	325,980	191,746	69,446	(309)	4,771,887
Accumulated Depreciation of Water Plant	6,406	636	—	75	—	6,967
Accumulated Depreciation of Transit Plant	2,692	125	—	215	—	2,602
Total Accumulated Depreciation	$4,333,014	$326,741	$191,746	$69,736	$ (309)	$4,781,456
For the Year Ended December 31, 1988						
Accumulated Depreciation of Electric Plant						
Production	$1,390,577	$177,037	$ —	$ 6,875	$ 2,506	$1,563,245
Transmission	415,437	31,022	—	1,528	(1,103)	443,828
Distribution	716,923	79,603	—	27,954	1,029	769,601
General	143,145	18,078	12,229	14,385	(2,155)	156,912
Miscellaneous	165,976	—	377	—	—	166,353
	2,832,058	305,740	12,606	50,742	277	3,099,939
Accumulated Amortization of Limited Term Plant	3,760	—	389	—	—	4,149
Accumulated Amortization of Nuclear Fuel	1,024,099	—	195,729	—	—	1,219,828
	3,859,917	305,740	208,724	50,742	277	4,323,916
Accumulated Depreciation of Water Plant	6,043	610	—	247	—	6,406
Accumulated Depreciation of Transit Plant	2,608	189	—	105	—	2,692
Total Accumulated Depreciation	$3,868,568	$306,539	$208,724	$51,094	$ 277	$4,333,014
For the Year Ended December 31, 1987						
Accumulated Depreciation of Electric Plant						
Production	$1,229,392	$173,801	$ —	$ 7,787	$ (4,829)	$1,390,577
Transmission	388,401	30,720	—	2,918	(766)	415,437
Distribution	660,996	72,379	—	17,332	880	716,923
General	129,043	13,299	11,327	10,200	(324)	143,145
Miscellaneous	161,268	—	415	—	4,293	165,976
	2,569,100	290,199	11,742	38,237	(746)	2,832,058
Accumulated Amortization of Limited Term Plant	2,860	—	900	—	—	3,760
Accumulated Amortization of Nuclear Fuel	835,385	—	188,714	—	—	1,024,099
	3,407,345	290,199	201,356	38,237	(746)	3,859,917
Accumulated Depreciation of Water Plant	5,690	576	—	223	—	6,043
Accumulated Depreciation of Transit Plant	2,539	131	—	62	—	2,608
Total Accumulated Depreciation	$3,415,574	$290,906	$201,356	$38,522	$ (746)	$3,868,568

DUKE POWER COMPANY

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(Dollars in thousands)

Description	Balance Beginning of Year	Balance End of Year
For the Year Ended December 31, 1989		
Reserves Related to Assets on Balance Sheet	$27,335	$24,352
Other Reserves		
Operating Reserves (1)	$51,890	$85,703
For the Year Ended December 31, 1988		
Reserves Related to Assets on Balance Sheet	$ 3,710	$27,335
Other Reserves		
Operating Reserves (1)	$37,560	$51,890
For the Year Ended December 31, 1987		
Reserves Related to Assets on Balance Sheet	$ 3,867	$ 3,710
Other Reserves		
Operating Reserves (1)	$31,688	$37,560

(1) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits and Other Liabilities," in the Balance Sheets.

SCHEDULE X — SUPPLEMENTARY CONSOLIDATED INCOME STATEMENT INFORMATION

	Year Ended December 31		
	1989	1988	1987
	(Dollars in thousands)		
Taxes, other than payroll and income taxes:			
Real and personal property	$ 60,000	$ 52,382	$ 50,269
State and city franchise	$ 84,913	85,355	85,137
Other	6,244	6,566	6,589
Total	$151,157	$144,303	$141,995

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE — (Unaudited)

This calculation is submitted in accordance with Regulation S-K under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

	Year Ended December 31		
	1989	1988	1987
	(Dollars in thousands except per share figures)		
Fully Diluted:			
Earnings applicable to common stock(1)	$519,134	$497,057	$445,934
Add: Dividends on Preference Stock, 6¾% Convertible Series AA	172	191	216
Earnings as adjusted for computation	$519,306	$497,248	$446,150
Average common shares outstanding — twelve months (thousands)	101,277	101,266	101,250
Add: Common shares required for conversion of Preference Stock, 6¾% Convertible Series AA, $100 par, 500,000 shares authorized (24,574 shares outstanding as of December 31, 1989)(2)	103	112	126
Common shares as adjusted for computation	101,380	101,378	101,376
Fully diluted earnings per share	$ 5.12	$ 4.90	$ 4.40

(1) These figures agree with the related amounts in the Consolidated Statements of Income.

(2) The conversion price used to convert the Preference Stock, 6¾% Convertible Series AA, into shares of common stock was $23.89.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

Item 10. ***Directors and Executive Officers of the Registrant.***

Information for this item concerning directors of the Company is set forth in the sections entitled "Election of Directors" and "Information Regarding the Board of Directors" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth under the section entitled "Executive Officers of the Company" in this annual report.

Item 11. ***Executive Compensation.***

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions.***

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

Item 14. ***Exhibits, Consolidated Financial Statement Schedules, and Reports on Form 8-K.***

Consolidated Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

- Financial Statements
  - Consolidated Statements of Income for the Three Years Ended December 31, 1989
  - Consolidated Statements of Cash Flows for the Three Years Ended December 31, 1989
  - Consolidated Balance Sheets — December 31, 1989 and 1988
  - Consolidated Statements of Capitalization — December 31, 1989 and 1988
  - Consolidated Statements of Retained Earnings for the Three Years Ended December 31, 1989
  - Notes to Consolidated Financial Statements
- Supplemental Financial Data (Unaudited)
- Supplemental Schedules
  - Schedule V — Property, Plant and Equipment for the Years Ended December 31, 1989, 1988 and 1987
  - Schedule VI — Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1989, 1988 and 1987
  - Schedule VIII — Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1989, 1988 and 1987
  - Schedule X — Supplementary Consolidated Income Statement Information for the Years Ended December 31, 1989, 1988 and 1987
- Exhibit I — Computation of Fully Diluted Earnings Per Share (Unaudited)

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Exhibits

(a) — See Exhibit Index on page 48.

(b) — Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1989 and the Employees' Stock Ownership Plan for the year ended December 31, 1989.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1989.

EXHIBIT 24

CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statement Nos. 33-15183, 33-15184 and 33-19274 on Form S-3 and in Post-Effective Amendment No. 8 to Registration Statement No. 2-72172 on Form S-8 of our report, dated February 9, 1990, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1989.

DELOITTE & TOUCHE

Charlotte, North Carolina
March 28, 1990

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte and State of North Carolina on the 28th day of March, 1990.

DUKE POWER COMPANY
(Registrant)

By: W. S. LEE
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
W. S. LEE	Chairman of the Board and President (Principal Executive Officer)	March 28, 1990
R. J. OSBORNE	Vice President, Finance (Principal Financial Officer)	March 28, 1990
DAVID L. HAUSER	Controller (Principal Accounting Officer)	March 28, 1990
ROBERT L. ALBRIGHT CRANDALL C. BOWLES THOMAS H. DAVIS JOHN L. FRALEY ALESTER G. FURMAN III STEVE C. GRIFFITH, JR. W. H. GRIGG PAUL H. HENSON GEORGE R. HERBERT GEORGE DEAN JOHNSON, JR. JAMES V. JOHNSON W. W. JOHNSON W. S. LEE MAX LENNON BUCK MICKEL REECE A. OVERCASH, JR. WARREN H. OWEN JAMES C. SELF	All of the Directors	March 28, 1990

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

/s/ LEWIS F. CAMP, JR.
Lewis F. Camp, Jr., Attorney-in-fact

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

Exhibit Number	
3-A	— Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
3-B	— Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
3-C	— Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
3-D	— Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-4).
3-E	— Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
3-F	— Statement of Classification of Shares relating to the 7.875% Cumulative Preferred Stock, Series P (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-F).
3-G	— Statement of Classification of Shares relating to the Adjustable Rate Cumulative Preferred Stock, Series A (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-G).
3-H	— Statement of Classification of Shares relating to the 7.12% Cumulative Preferred Stock, Series Q (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-H).
3-I	— By-Laws of registrant, as amended to date (filed with Form 10-K for the year ended December 31, 1986, as File No. 1-4928, as Exhibit 3-I).
4-B-1	— First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).
4-B-2	— Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
4-B-3	— Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
4-B-4	— Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
4-B-5	— Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
4-B-6	— Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
4-B-7	— Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
4-B-8	— Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).
4-B-9	— Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).

Exhibit Number	
4-B-10	— Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).
4-B-11	— Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
4-B-12	— Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
4-B-13	— Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
4-B-14	— Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
4-B-15	— Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
4-B-16	— Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
4-B-17	— Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
4-B-18	— Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
4-B-19	— Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
4-B-20	— Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
4-B-21	— Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-20).
4-B-22	— Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
4-B-23	— Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
4-B-24	— Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No. 2-31304, effective January 21, 1969, as Exhibit 2-B-26).
4-B-25	— Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).
4-B-26	— Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).
4-B-27	— Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42).
4-B-28	— Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).
4-B-29	— Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).

Exhibit Number	
4-B-30	— Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).
4-B-31	— Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
4-B-32	— Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).
4-B-33	— Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
4-B-34	— Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
4-B-35	— Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
4-B-36	— Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
4-B-37	— Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
4-B-38	— Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
4-B-39	— Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
4-B-40	— Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
4-B-41	— Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).
4-B-42	— Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).
4-B-43	— Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).
4-B-44	— Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
4-B-45	— Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).
4-B-46	— Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).
4-B-47	— Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-47).
4-B-48	— Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-48).

Exhibit Number	
4-B-49	— Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-49).
4-B-50	— Supplemental Indenture, dated as of March 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-50).
4-B-51	— Supplemental Indenture, dated as of December 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-51).
4-B-52	— Supplemental Indenture, dated as of April 1, 1986, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-52).
4-B-53	— Supplemental Indenture, dated as of May 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-53).
4-B-54	— Supplemental Indenture, dated as of June 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-54).
4-B-55	— Supplemental Indenture, dated as of February 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-55).
4-B-56	— Supplemental Indenture, dated as of February 15, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-56).
4-B-57	— Supplemental Indenture, dated as of March 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-57).
4-B-58	— Supplemental Indenture, dated as of October 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1987, File No. 1-4928, as Exhibit 4-B-58).
*4-B-59	— Supplemental Indenture, dated as of February 1, 1990, supplementing said Mortgage.
10-A	— Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
10-B	— Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
10-C	— Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
10-D	— Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
*12	— Computation of Ratio of Earnings to Fixed Charges.
*24	— Consent of Independent Auditors.

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EXHIBIT 12

DUKE POWER COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Dollars in Thousands)

	Year Ended December 31				
	1985	1986	1987	1988	1989
Earnings Before Income Taxes (1)	$ 807,397	$ 880,692	$ 878,522	$ 827,732	$ 867,641
Fixed Charges	281,195	269,991	251,812	254,622	266,497
Total	$1,088,592	$1,150,683	$1,130,334	$1,082,354	$1,134,138
Fixed Charges					
Interest on long-term debt	$ 265,720	$ 249,313	$ 232,795	$ 230,403	$ 232,510
Other interest	3,926	5,764	3,853	7,979	18,203
Amortization of debt discount, premium, and expense	1,625	3,190	4,572	4,658	4,677
Interest component of rentals	9,924	11,724	10,592	11,582	11,107
Fixed Charges	$ 281,195	$ 269,991	$ 251,812	$ 254,622	$ 266,497
Ratio of Earnings to Fixed Charges	3.87	4.26	4.49	4.25	4.26

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

Docket # 50-269
Accession # 9008230066
Date 8/14/90 of Ltr
Regulatory Docket File

-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-