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 50-269 Oconee Nuclear Station, Unit 1, Duke Power Co. 05000269  
 50-270 Oconee Nuclear Station, Unit 2, Duke Power Co. 05000270  
 50-287 Oconee Nuclear Station, Unit 3, Duke Power Co. 05000287  
 50-369 William B. McGuire Nuclear Station, Unit 1, Duke Powe 05000369  
 50-370 William B. McGuire Nuclear Station, Unit 2, Duke Powe 05000370  
 50-413 Catawba Nuclear Station, Unit 1, Duke Power Co. 05000413  
 50-414 Catawba Nuclear Station, Unit 2, Duke Power Co. 05000414

AUTH. NAME TUCKER, H. B. AUTHOR AFFILIATION Duke Power Co.  
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SUBJECT: Forwards 1986 annual rept including util financial forecast  
 1986 -1988, annual certified financial statements & 870331  
 interim financial statements.

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TITLE: 50.71(b) Annual Financial Report

*See Annual Financial RPTs*

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**DUKE POWER COMPANY**

P.O. BOX 33189  
CHARLOTTE, N.C. 28242

HAL B. TUCKER  
VICE PRESIDENT  
NUCLEAR PRODUCTION

TELEPHONE  
(704) 373-4531

June 26, 1987

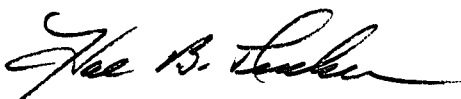
U.S. Nuclear Regulatory Commission  
Document Control Desk  
Washington, D.C. 20555

Subject: Oconee Nuclear Station  
McGuire Nuclear Station  
Catawba Nuclear Station  
Docket Nos. 50-269, -270, -287;  
50-369 and 50-370;  
50-413 and 50-414

Dear Sir:

Pursuant to Section 140.21 of 10 CFR Part 140, Duke Power submits the required information demonstrating that the company has and maintains financial protection for each licensed operating nuclear reactor as evidence of its guarantee of payment of deferred premiums. Attached are: 1) a statement of Duke Power Company as to available sources of funds to satisfy liability pursuant to 10 CFR 140.21; 2) the Duke Power Financial Forecast 1986 - 1988; 3) the 1986 Annual Report; 4) the Annual Certified Financial Statements (which are included in the Annual Report); and 5) the March 31, 1987 Interim Financial Statements.

Very truly yours,



Hal B. Tucker

PJN/191/jgm

Attachments

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*11*

Statement of Duke Power Company  
As to Available Sources of Funds to Satisfy  
A Possible Liability Not Exceeding \$70 Million  
Pursuant to the Provisions of 10 CFR 140.21

Pursuant to the requirements of Section 140.21 of the Nuclear Regulatory Commission regulations in 10 CFR Part 140, Duke Power Company (the Company) herein submits the 1986 Annual Report to Stockholders, annual certified financial statements, the 1987 Financial Forecast, and the March 31, 1987 Interim Financial Statements as evidence of financial ability of guarantee of payment of deferred premiums in the amount of \$10 million for each reactor it is licensed to operate. I certify that the Financial Forecasts, which include information relating to cash flow, were prepared in conformity with generally accepted accounting practices applied on a basis consistent with the accompanying financial statements.

As of December 31, 1986, the Company had bank lines of credit of \$306 million with 56 commercial banks. During 1986 it was not necessary to use established lines of credit; therefore, the Company had a zero average short-term debt balance. In addition, the Company held short-term investments of \$113.1 million as of December 31, 1986. Either of these sources would, in my opinion, be available as a source of funds to satisfy the assessment of retrospective premiums not exceeding \$70 million.

Using one or a combination of the preceding sources of funds, the Company can meet its guarantee of payments of deferred premiums currently amounting to \$70 million as required by Nuclear Regulatory Commission regulations, Section 140.21. Duke Power Company is one of multiple owners of Catawba Units 1 and 2. This Cash Flow Statement is intended to cover all owners of these units.

DUKE POWER COMPANY (COMPANY)

By David L. Hauser  
David L. Hauser  
Assistant Controller

Subscribed and sworn to before me  
this 17th day of June, 1987.

Gail J. Christenbury  
Notary Public

My commission expires: 7-28-91

Duke Power Company  
Internal Cash Flow Projection  
for Oconee, McGuire and Catawba  
(Dollars in Thousands)

	<u>1986 Year Actual Total</u>	<u>March 1987 Year-To-Date Actual Total</u>	<u>1987 Year Projected Total</u>
Net Income After Taxes	\$467,834	\$139,682	(C)
Less Dividends Paid	325,991	82,043	(C)
	<hr/>	<hr/>	<hr/>
Retained Earnings	141,843	57,639	(C)
	<hr/>	<hr/>	<hr/>
Adjustments:			
Depreciation and Amortization (A)	502,151	154,745	548,000
Deferred Income Taxes and Investment Tax Credits (Net)	161,596	12,307	173,000
Allowance for Funds Used During Construction (B)	(52,444)	(9,831)	(47,000)
	<hr/>	<hr/>	<hr/>
Total Adjustments	611,303	157,221	674,000
	<hr/>	<hr/>	<hr/>
Internal Cash Flow	\$753,146 =====	\$214,860 =====	(C) =====
	<hr/>	<hr/>	<hr/>
Average Quarterly Cash Flow	\$188,287 =====	\$214,860 =====	

Percentage Ownership in All Operating Nuclear Units:

Oconee 1	100%
Oconee 2	100%
Oconee 3	100%
McGuire 1	100%
McGuire 2	100%
Catawba 1	12.5%
Catawba 2	12.5%

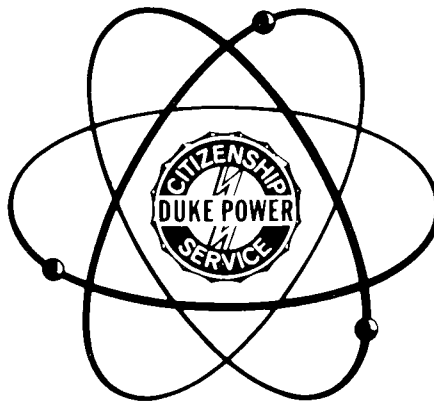
Maximum Total Contingent Liability: \$70 million

- (A) Includes nuclear fuel amortization.  
(B) Equity component only.  
(C) Not available.

# DUKE POWER COMPANY

## Financial Forecast

1986 - 1988



Projections listed herein  
are subject to change.

Inquiries concerning this forecast should be directed to:

Richard J. Osborne — Treasurer  
Telephone (704) 373-5159

Sue A. Becht — Assistant Treasurer  
Telephone (704) 373-8695

March 1986

# Financial Data

(Note 1)

		Projected				
		Dollars in Millions				
		Actual 1985	1986	1987	1988	1986-88 Totals
<b>Capital Requirements</b>						
1	Construction Costs .....	\$ 500	\$ 616	\$ 721	\$ 683	\$2,020
2	Nuclear Fuel Costs.....	157	153	167	201	521
3	Equity Component of ADC .....	(63)	(53)	(47)	(61)	(161)
4	Long-Term Debt Retired, Capital Stock Reacquired (Note 2) .....	235	216	48	76	340
5	Change in Working Capital.....	309	45	(64)	13	(6)
6	Other, Including Dividends .....	330	326	332	355	1,013
7	Total Capital Requirements.....	<u>\$1,468</u>	<u>\$1,303</u>	<u>\$1,157</u>	<u>\$1,267</u>	<u>\$3,727</u>
8	Provided by Internal Cash.....	62%	80%	93%	88%	87%
<b>Sources of Capital</b>						
Internal Cash						
9	Depreciation and Amortization .....	\$ 463	\$ 517	\$ 548	\$ 563	\$1,628
10	Other (Note 3) .....	447	530	525	554	\$1,609
11	Total Internal Cash .....	910	1,047	1,073	1,117	3,237
12	Outside Financing (Note 2) .....	264	118	45	63	226
13	Change in Short-Term Position, and Other Marketable Securities .....	294	138	39	87	264
14	Total Sources of Capital .....	<u>\$1,468</u>	<u>\$1,303</u>	<u>\$1,157</u>	<u>\$1,267</u>	<u>\$3,727</u>
Tentative Financing Program						
15	Long-Term Debt (Note 2).....	\$ 264	\$ 118	\$ 45	\$ 63	\$ 226
<b>Capital Structure</b>						
16	Capitalization (Note 2).....	\$6,400	\$6,500	\$6,700	\$6,800	
Ratios (Note 2):						
17	Long-Term Debt.....	43%	42%	41%	40%	
18	Preferred Stock .....	11	10	10	10	
19	Common Stock.....	46	48	49	50	
<b>Other Significant Items</b>						
20	Deferred Income Taxes, Net.....	\$ 122	\$ 150	\$ 144	\$ 139	\$ 433
Investment Tax Credit						
21	Deferred .....	\$ 41	\$ 50	\$ 53	\$ 52	\$ 155
22	Amortization.....	(21)	(22)	(24)	(21)	(67)
23	Net .....	<u>\$ 20</u>	<u>\$ 28</u>	<u>\$ 29</u>	<u>\$ 31</u>	<u>\$ 88</u>
24	Allowance for All Funds Used During Construction (ADC).....	\$ 80	\$ 67	\$ 58	\$ 76	\$ 201
25	Effective Composite Income Tax Rate (Note 4) .....	52%	51%	51%	50%	51%

## Sales and Load Data

(Note 1)

		Projected				
	Actual 1985	1986	1987	1988	3-year Compound Growth Rate	
<b>Kilowatt-Hour Sales</b> (Note 5)						
		(Billions of KWH)				
26 Residential.....	14.2	15.4	15.7	14.7	1.2%	
27 General Service.....	11.4	11.7	12.2	13.0	4.5	
28 Industrial.....	21.8	22.3	23.3	23.9	3.1	
29 Other Energy & Wholesale.....	8.7	8.8	9.9	9.2	1.9	
30 Total Energy Sales.....	56.1	58.2	61.1	60.8	2.7	
<b>Sources of Energy</b> (Note 5)						
31 Coal.....	27.6	23.3	22.2	21.1		
32 Nuclear.....	33.7	39.8	43.2	45.0		
33 Hydro & Other.....	1.2	1.7	1.7	1.7		
34 Total Production.....	62.5	64.8	67.1	67.8		
35 Purchased Power, Net and Energy Retained by Joint Owners.....	(1.8)	(2.0)	(1.3)	(2.2)		
36 Net Sources of Energy.....	60.7	62.8	65.8	65.6		
<b>Electric Peak Load</b> (Note 5)						
		(MW)				
37 Summer (April-Sept.).....	11,204	12,227	12,574	12,715		
38 Winter (Oct.-March).....	12,586	12,350	12,507	12,664		
<b>Interruptible Load</b>						
39 Summer (April-Sept.).....	328	500	563	625		
40 Winter (Oct.-March).....	132	318	343	366		
<b>Total Capacity</b> (Includes Firm Purchases) (Note 5)						
41 Summer (April-Sept.).....	13,782	14,843	15,988	15,988		
42 Winter (Oct.-March).....	14,843	14,843	15,988	15,988		

## Major Generating Units Currently Under Construction

Unit	Net KW Capability	Energy Source	Date of Planned Operation	Estimated Construction Cost	
				Per KW	Total (Millions)
Catawba No. 2	1,145,000	Nuclear	1986	\$1,632*	\$ 467*
Bad Creek No. 1	250,000	Hydro- Electric	1991	\$1,008	\$1,008
Bad Creek No. 2	250,000		1991		
Bad Creek No. 3	250,000		1992		
Bad Creek No. 4	250,000		1992		

\*Cost estimates for the Catawba Nuclear Station do not include initial fuel cores or the costs related to the interests that have been sold. The total cost estimate represents the Company's 12.5 percent interest in the plant.

## Notes

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**1** The Company, the North Carolina Municipal Power Agency Number 1 (NCMPA No. 1), the North Carolina Electric Membership Corporation (NCEMC), the Saluda River Electric Cooperative Inc. and the Piedmont Municipal Power Agency (PMPA) are Joint Owners of the 2,290,000-kilowatt Catawba Nuclear Station. They own 87.5 percent of the capacity. The Company owns 12.5 percent of the plant. Unit 1 began commercial operation in 1985. Unit 2 is scheduled for commercial operation in fall 1986.

In connection with this facility, the Company has entered into agreements with the Joint Owners to purchase declining percentages of the capacity and energy from the plant. The agreements are effective beginning with the commercial operation of each unit - 15 years for NCMPA No. 1 and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments will be based on the variable operating costs, a function of the generation of the plant. Capacity payments will be based on the fixed costs of the plant. The estimated purchased capacity payments for the next three years are \$431 million, \$613 million and \$572 million. The increase in capacity payments in 1987 reflects the annualized effects of buybacks resulting from commercial operation of Catawba Unit 2.

**2** "Long-Term Debt Retired, Capital Stock Reacquired" includes maturities and sinking funds related to long-term debt and preferred stock, and the principal portions of payments on capitalized leases.

Maturities and "Long-Term Debt" financings include \$39 million in 1986, \$30 million in 1987 and \$31 million in 1988 related to projected consumption and refinancing of nuclear fuel through existing nuclear fuel trusts.

"Capitalization" and "Ratios" exclude current maturities of long-term debt and preferred stock. Current maturities at year end are \$48 million in 1986, \$76 million in 1987 and \$54 million in 1988.

**3** For 1986 through 1988, "Internal Cash-Other" assumes that rate increases become effective as necessary to enable the Company to earn a rate of return on common equity approximating the average of the returns authorized in the Company's regulatory jurisdictions. The Company cannot predict whether such levels of return will be achieved during the period covered by this forecast.

**4** The "Effective Composite Income Tax Rate" is calculated by dividing total income tax provisions (current federal and state income taxes, net deferred income taxes and net investment tax credit) by pre-tax income excluding allowance for all funds used during construction and earnings of subsidiaries.

**5** The Company's long-range forecast for sales and sources of energy begins in 1988 and employs a different forecasting methodology than the short-range forecast, which covers 1986 and 1987. Peak load projections for 1986 and the summer of 1987 are based on the short-range forecast, while the remaining peak load figures are based on recently revised projections.

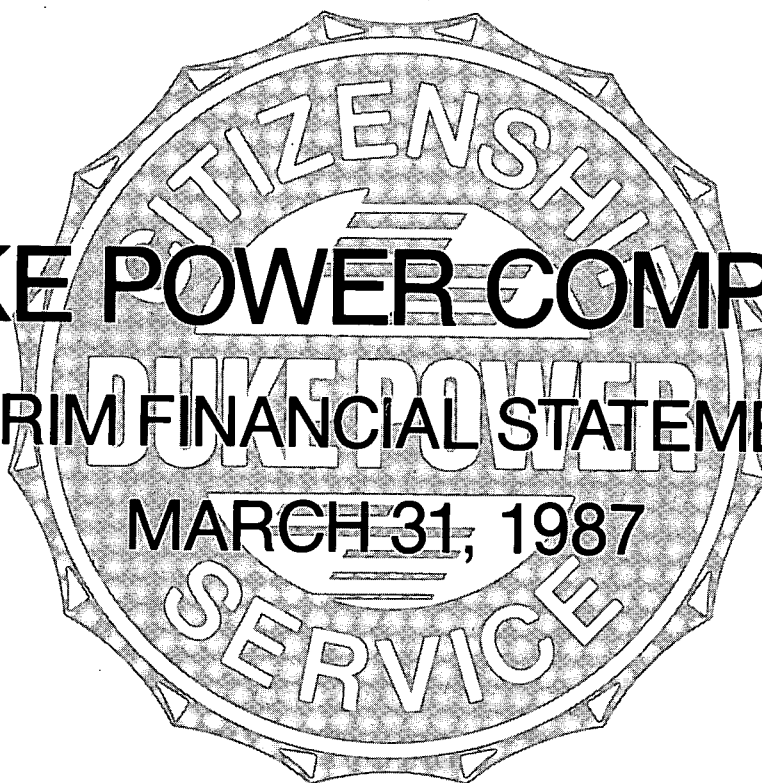
"Electric Peak Load" and "Total Capacity" do not reflect the sale of portions of the Catawba Nuclear Station.



# DUKE POWER COMPANY

INTERIM FINANCIAL STATEMENTS

MARCH 31, 1987



# DUKE POWER COMPANY

## INTERIM FINANCIAL STATEMENTS

### MARCH 31, 1987

#### HIGHLIGHTS

	Three Months Ended		Twelve Months Ended	
	March 31		March 31	
	1987	1986	1987	1986
Kilowatt-hour Sales (millions)*	16,189	14,777	61,925	56,553
Electric Revenues (thousands) (Note 1)	\$ 912,580	\$ 833,407	\$3,480,106	\$2,980,869
Earnings for Common Stock (thousands)	\$ 125,473	\$ 118,264	\$ 416,276	\$ 375,520
Common Stock Data				
Earnings per share	\$ 1.24	\$ 1.17	\$ 4.11	\$ 3.71
Dividends per share	\$ 0.67	\$ 0.65	\$ 2.66	\$ 2.57
Plant Construction Costs (thousands)	\$ 163,460	\$ 173,637	\$ 680,175	\$ 690,455
Customers—End of Period	1,491,905	1,449,975	—	—
Peak Load (thousands of KW)				
Summer	—	—	12,471	11,204
Winter	11,451	12,586	11,451	12,586

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

These financial statements are intended to provide information to present shareholders about the Company and its operations. They are not a representation with respect to any securities of the Company, nor are they to be used in connection with any sale or purchase of any securities.

Inquires concerning these statements should be directed to:

Richard J. Osborne  
Treasurer  
Telephone 704-373-5159

Sue A. Becht  
Assistant Treasurer  
Telephone 704-373-8695

DUKE POWER COMPANY  
422 South Church Street  
Post Office Box 33189  
Charlotte, North Carolina 28242

# DUKE POWER COMPANY STATEMENTS OF INCOME

(unaudited)  
(dollars in thousands)

	Three Months Ended		% Increase (Decrease)	Twelve Months Ended		% Increase (Decrease)
	March 31			March 31		
	1987	1986		1987	1986	
ELECTRIC REVENUES (Note 1)	\$912,580	\$833,407	9	\$3,480,106	\$2,980,869	17
ELECTRIC EXPENSES						
Operation						
Fuel used in electric generation	142,290	174,611	(19)	693,830	688,866	1
Net interchange and purchased power (Note 3)	142,824	75,135	90	446,066	189,216	136
Wages, benefits and materials	116,320	113,106	3	491,845	446,933	10
Maintenance of plant facilities	76,976	62,923	22	305,217	267,587	14
Depreciation and amortization	103,275	83,168	24	347,951	322,360	8
General taxes	45,012	41,686	8	169,711	142,315	19
Income taxes (Note 5)	107,868	123,214	(12)	422,259	393,768	7
Total electric expenses	734,565	673,843	9	2,876,879	2,451,045	17
Electric operating income	178,015	159,564	12	603,227	529,824	14
OTHER INCOME						
Allowance for equity funds used during construction	9,831	16,654	(41)	45,621	62,007	(26)
Earnings of subsidiaries, net	1,699	3,564	(52)	9,316	11,389	(18)
Other, net (Note 4)	6,360	7,595	(16)	33,968	58,078	(42)
Income taxes—other, net (Notes 4 and 5)	(1,740)	(472)	∞	(4,379)	(10,612)	59
Income taxes—credit (Note 5)	6,203	9,495	(35)	28,871	40,183	(28)
Total other income	22,353	36,836	(39)	113,397	161,045	(30)
Income before interest deductions	200,368	196,400	2	716,624	690,869	4
INTEREST DEDUCTIONS						
Interest on long-term debt	61,386	66,073	(7)	247,816	266,389	(7)
Other interest	1,251	1,294	(3)	5,721	4,848	18
Allowance for borrowed funds used during construction (credit)	(1,951)	(4,374)	55	(11,022)	(16,629)	34
Total interest deductions	60,686	62,993	(4)	242,515	254,608	(5)
NET INCOME	139,682	133,407	5	474,109	436,261	9
Dividends on preferred and preference stocks	14,209	15,143	(6)	57,833	60,741	(5)
EARNINGS FOR COMMON STOCK	\$125,473	\$118,264	6	\$ 416,276	\$ 375,520	11
COMMON STOCK DATA						
Average shares outstanding (thousands)	101,245	101,202	—	101,231	101,187	—
Earnings per share	\$1.24	\$1.17	6	\$4.11	\$3.71	11
Dividends per share	\$0.67	\$0.65	3	\$2.66	\$2.57	4

*See notes to financial statements.*

**DUKE POWER COMPANY**  
**STATEMENTS OF CHANGES IN**  
**FINANCIAL POSITION**

(unaudited)  
(dollars in thousands)

	Three Months Ended		Twelve Months Ended	
	March 31		March 31	
	1987	1986	1987	1986
<b>SOURCES OF FUNDS</b>				
Operations				
Net Income	\$139,682	\$133,407	\$ 474,109	\$ 436,261
Non-fund items:				
Depreciation and amortization	154,745	133,512	523,384	500,848
Deferred income taxes and investment tax credit, net of amortization (Note 5)	12,307	30,077	143,826	109,011
Allowance for equity funds used during construction	(9,831)	(16,654)	(45,621)	(62,007)
Purchased capacity levelization (Note 3)	(25,859)	(15,923)	(87,194)	(38,363)
Other, net	(854)	(530)	(72,981)	(65,740)
Total funds from operations	<u>270,190</u>	<u>263,889</u>	<u>935,523</u>	<u>880,010</u>
Funds from financing and sale of assets				
Issuance of first and refunding mortgage bonds	245,866	—	639,872	172,404
Issuance of preferred stock	49,563	—	148,175	—
Issuance of pollution-control bonds	28,910	2,910	33,251	30,401
Nuclear fuel trusts	14,671	17,164	55,104	52,592
Total funds from financing and sale of assets	<u>339,010</u>	<u>20,074</u>	<u>876,402</u>	<u>255,397</u>
Change in short-term position and other marketable securities	<u>10,718</u>	<u>39,918</u>	<u>120,666</u>	<u>200,932</u>
Total sources of funds	<u>\$619,918</u>	<u>\$323,881</u>	<u>\$1,932,591</u>	<u>\$1,336,339</u>
<b>APPLICATIONS OF FUNDS</b>				
Construction expenditures	\$153,629	\$156,983	\$ 634,554	\$ 628,448
Long-term debt, capital stocks retired or reacquired	353,346	78,046	947,539	242,536
Dividends paid	82,043	80,925	327,109	320,793
Change in working capital*	30,682	17,376	62,662	156,089
Other applications, net	218	(9,449)	(39,273)	(11,527)
Total applications of funds	<u>\$619,918</u>	<u>\$323,881</u>	<u>\$1,932,591</u>	<u>\$1,336,339</u>
<b>CHANGE IN WORKING CAPITAL:</b>				
Increase/(Decrease) in current assets				
Cash	\$ 1,736	\$ 72	\$ 2,535	\$ 904
Receivables	(18,308)	37,602	25,347	14,579
Materials and supplies	14,760	14,550	(43,156)	96,916
Prepayments	5,245	5,472	144	5,579
Decrease/(Increase) in current liabilities				
Accounts payable	45,067	11,998	49,155	(16,916)
Nuclear fuel disposal costs payable	—	—	—	122,003
Taxes accrued	(31,461)	(62,876)	(19,944)	(44,875)
Interest accrued and other liabilities	13,643	10,558	48,581	(22,101)
Change in working capital*	<u>\$ 30,682</u>	<u>\$ 17,376</u>	<u>\$ 62,662</u>	<u>\$ 156,089</u>

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

**STATEMENTS OF RETAINED EARNINGS**  
**TWELVE MONTHS ENDED MARCH 31, 1987-1986**

(unaudited)  
(dollars in thousands)

	1987	1986
BALANCE—Beginning of period	\$1,124,330	\$1,009,049
ADD—Net income	474,109	436,261
Total	<u>1,598,439</u>	<u>1,445,310</u>
DEDUCT		
Dividends		
Common stock	269,276	260,052
Preferred and preference stocks	57,833	60,741
Capital stock transactions, net	8,017	187
Total deductions	<u>335,126</u>	<u>320,980</u>
BALANCE—End of period	<u>\$1,263,313</u>	<u>\$1,124,330</u>

See notes to financial statements.

## DUKE POWER COMPANY

## BALANCE SHEETS

(unaudited)  
(dollars in thousands)

ASSETS	March 31 1987	March 31 1986
<b>ELECTRIC PLANT (at original cost)</b>		
Electric plant in service . . . . .	\$9,637,159	\$8,678,775
Less accumulated depreciation and amortization . . . . .	3,525,195	3,142,009
Electric plant in service, net . . . . .	6,111,964	5,536,766
Construction work in progress . . . . .	569,772	910,504
Total electric plant, net . . . . .	6,681,736	6,447,270
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Other property—at cost (less accumulated depreciation: 1987—\$8,406; 1986—\$7,900) . . . . .	36,566	41,010
Investments in and advances to subsidiaries . . . . .	92,025	92,448
Other investments, primarily marketable securities—at cost or less . . . . .	274,529	269,625
Total other property and investments . . . . .	403,120	403,083
<b>CURRENT ASSETS</b>		
Cash (Note 2) . . . . .	5,350	2,815
Short-term investments . . . . .	118,419	240,286
Receivables (less allowance for losses: 1987—\$3,954; 1986—\$4,079) . . . . .	307,607	282,260
Materials and supplies—at average cost		
Coal . . . . .	96,505	157,984
Other . . . . .	151,242	132,919
Prepayments . . . . .	20,322	20,178
Total current assets . . . . .	699,445	836,442
<b>DEFERRED DEBITS</b>		
Canceled construction projects . . . . .	284,716	329,915
Purchased capacity costs (Note 3) . . . . .	110,744	46,422
Debt expense, primarily refinancing costs, being amortized over terms of related debt . . . . .	78,724	22,643
Other . . . . .	26,098	18,237
Total deferred debits . . . . .	500,282	417,217
<b>TOTAL ASSETS</b> . . . . .	<u>\$8,284,583</u>	<u>\$8,104,012</u>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION (See Statements of Capitalization)</b> . . . . .	<u>\$6,570,364</u>	<u>\$6,404,403</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable . . . . .	97,972	147,127
Taxes accrued . . . . .	135,743	115,799
Interest accrued . . . . .	63,561	75,311
Other . . . . .	41,056	77,887
Total . . . . .	338,332	416,124
Current maturities of long-term debt and preferred stocks . . . . .	42,886	79,541
Total current liabilities . . . . .	381,218	495,665
<b>ACCUMULATED DEFERRED INCOME TAXES (Note 5)</b> . . . . .	<u>928,456</u>	<u>806,137</u>
<b>DEFERRED CREDITS AND OTHER LIABILITIES</b>		
Investment tax credit (Note 5) . . . . .	337,292	355,236
Other . . . . .	67,253	42,571
Total deferred credits and other liabilities . . . . .	404,545	397,807
<b>TOTAL CAPITALIZATION AND LIABILITIES</b> . . . . .	<u>\$8,284,583</u>	<u>\$8,104,012</u>

See notes to financial statements.

**DUKE POWER COMPANY**  
**STATEMENTS OF CAPITALIZATION**

(unaudited)  
(dollars in thousands)

			March 31 1987	Percent of Total	March 31 1986	Percent of Total
<b>COMMON STOCK EQUITY</b>						
Common stock, no par, 150,000,000 shares authorized; 101,246,490 shares outstanding for 1987 and 101,208,160 shares outstanding for 1986			\$1,861,884		\$1,860,967	
Retained earnings			1,263,313		1,124,330	
Total common stock equity			3,125,197	47.6	2,985,297	46.6
Book value per share of common stock			30.87		29.50	
<b>PREFERRED AND PREFERENCE STOCKS WITHOUT SINKING FUND REQUIREMENTS (Note 6)</b>						
			428,294		419,209	
<b>PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS (Note 7)</b>						
			269,591	10.6	271,612	10.8
<b>LONG-TERM DEBT</b>						
	Rate	Year Due				
First and refunding mortgage bonds						
Series	3 5/8%	1986	—		30,000	
	12%	1990	—		75,000	
	15 1/8%	1991	—		100,000	
	4 1/2%	1992	50,000		50,000	
	4 1/4% B	1992	50,000		50,000	
	11%	1994	—		64,250	
	4 1/2%	1995	40,000		40,000	
	8 1/2% B	1995	125,000		—	
	7 7/8%	1996	100,000		—	
	7 1/2%	1997	100,000		—	
	5 3/8%	1997	72,600		72,600	
	6 3/8%	1998	68,500		68,500	
	7%	1999	56,075		56,075	
	8% B	1999	64,739		64,739	
	8 1/2%	2000	69,244		69,244	
	8 5/8% B	2000	95,635		95,635	
	7 1/2%	2001	97,900		97,900	
	7 3/8% B	2001	38,050		38,050	
	7 3/4%	2002	78,100		78,100	
	7 3/8% B	2002	67,900		67,900	
	7 3/4%	2003	94,872		94,872	
	8 1/8% B	2003	98,050		98,050	
	9 3/4%	2004	95,623		95,623	
	9 1/2%	2005	92,800		92,800	
	8 3/8%	2006	96,850		96,850	
	8 1/8%	2007	119,500		119,500	
	9 3/8%	2008	120,610		120,610	
	10 1/8%	2009	145,050		145,050	
	10 7/8% B	2009	—		148,000	
	14 1/2%	2012	16,282		125,000	
	12 5/8%	2015	62,916		125,000	
	10 1/8% B	2015	50,000		50,000	
	9%	2016	175,000		—	
	8 1/2%	2017	150,000		—	
Pollution-control series, 1983	6 3/8%	1988	—		25,000	
Pollution-control series, 1984	9 1/8%	2013	77,000		77,000	
	4 3/4% (1987)	2014	40,000		40,000	
	5 1/4% (1986)					
Pollution-control series, 1987	4.10%	2017	10,000		—	
	3.95%	2017	25,000		—	
Less: Funds held in trust			(6,080)		(4,419)	
Total first and refunding mortgage bonds			2,637,216		2,566,929	
Term notes	Floating rate	1987	—		21,000	
Promissory note due subsidiary	16 1/2%	1989	—		58,725	
Capitalized leases			83,722		87,385	
Nuclear fuel trusts			85,000		85,000	
Unamortized debt discount and premium, net			(22,415)		(17,613)	
Current maturities of long-term debt			(36,241)		(73,141)	
Total long-term debt			2,747,282	41.8	2,728,285	42.6
<b>TOTAL CAPITALIZATION</b>			<b>\$6,570,364</b>	<b>100.0</b>	<b>\$6,404,403</b>	<b>100.0</b>

See notes to financial statements.

**DUKE POWER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(unaudited)

1. **RATE MATTERS.** The North Carolina Utilities Commission and The Public Service Commission of South Carolina must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales to wholesale customers. The revenues shown below (in millions of dollars) are annualized on the basis of the filing test year. A summary of all general rate increases requested or implemented by the Company since April 1, 1985, is as follows:

<u>Jurisdiction and Date Filed</u>	<u>Requested Revenues</u>	<u>Revenues</u>	<u>% of Request</u>	<u>Approved % of Increase Over Previous Revenues</u>	<u>Rate Order Effective</u>	<u>End of 12-Month Test Period</u>
N.C. Retail						
February 1985(a) .....	340.0	157.7	46.4	9.10	September 1985	June 30, 1984
March 1986(a) .....	289.3	133.1	46.0	6.73	October 1986	December 31, 1985
S.C. Retail						
April 1985 .....	143.0	78.4	54.8	10.75	October 1985	June 30, 1984
May 1986 .....	137.8	79.1	57.4	9.55	November 1986	December 31, 1985
FERC Wholesale						
July 1985 .....	9.2	5.2	56.5	10.50	March 1986	December 31, 1986
August 1986(b) .....	6.4	4.5	71.0	8.30	Pending	December 31, 1987

(a) Under appeal. (See Note 9.)

(b) Subject to refund and approval.

Effective January 1, 1987, the Company implemented a 2.3 percent rate reduction in both the North Carolina and South Carolina retail jurisdictions. The rate decrease reflects the impact of the lower corporate tax rate.

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 base rates. The North Carolina Utilities Commission ordered the Company to follow these deferred accounting procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The North Carolina procedures were reversed in an appeal involving another utility. The implications of this ruling on the Company are not known at this time.

2. **SHORT-TERM BORROWINGS.** The Company had short-term credit facilities of \$340,700,000 with 54 commercial banks as of March 31, 1987. Included in these credit facilities is \$75,000,000 allocated to the 1984 and 1987 issues of annual tender, pollution-control revenue bonds. The facilities are on a fee basis and/or a compensating-balance basis, with total average balance requirements of \$1,305,500 for 1987 and \$1,361,500 for 1986. There were no short-term borrowings during these periods.
3. **JOINT OWNERSHIP OF GENERATING FACILITIES.** The Company has sold interests in the Catawba Nuclear Station to the North Carolina Municipal Power Agency Number 1, the North Carolina Electric Membership Corporation, the Piedmont Municipal Power Agency, and the Saluda River Electric Cooperative, Inc. The Company retains a 12.5 percent ownership interest in the station. In connection with the joint ownership, the Company has entered into contractual agreements with the joint owners to purchase annually-declining percentages of the generating capacity and energy from the plant. The agreements are effective beginning with the commercial operation of each unit. Unit 1 and Unit 2 began commercial operation in June 1985 and August 1986, respectively.

For the three months ended March 31, 1987 and 1986, a total of \$168,000,000 and \$100,000,000, respectively, was recorded for the purchases of capacity and energy from the joint owners. These amounts, net of the cost of capacity purchased not reflected in current rates, is included in "Net interchange and purchased power" in the Statements of Income. As of March 31, 1987 and 1986, \$110,744,000 and \$46,422,000 net of income taxes, respectively, associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Balance Sheets as "Purchased capacity costs."

4. OTHER INCOME. For the three months ended March 31, 1987 and 1986, the Company recorded investment income of \$8,200,000 and \$9,200,000, respectively (\$6,500,000 and \$8,100,000 net of income taxes, respectively) as a component of "Other, net" in the Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes — other, net" in the Company's Statements of Income.

5. INCOME TAX EXPENSE. Income tax expense consisted of the following (dollars in thousands):

	Three Months Ended		Twelve Months Ended	
	March 31		March 31	
	1987	1986	1987	1986
Income taxes related to electric expenses				
Current income taxes				
Federal	\$ 83,242	\$ 79,446	\$244,946	\$235,821
State	13,759	12,421	39,200	37,040
	<u>97,001</u>	<u>91,867</u>	<u>284,146</u>	<u>272,861</u>
Deferred taxes, net				
Excess tax over book depreciation	19,898	22,876	86,347	86,703
Capitalized taxes, employee benefits, etc.	734	3,803	13,954	14,854
Tax rate change deferral	(3,931)	—	(3,931)	—
Catawba purchased capacity costs	3,751	3,802	52,891	42,460
Other	(5,761)	(1,150)	2,080	(608)
	<u>14,691</u>	<u>29,331</u>	<u>151,341</u>	<u>143,409</u>
Investment tax credit				
Deferred	2,101	8,074	10,828	(754)
Amortization of deferments (credit)	(5,925)	(6,058)	(24,056)	(21,748)
	<u>(3,824)</u>	<u>2,016</u>	<u>(13,228)</u>	<u>(22,502)</u>
Total income taxes related to electric expenses	<u>107,868</u>	<u>123,214</u>	<u>422,259</u>	<u>393,768</u>
Income taxes related to other income				
Income taxes—other, net	1,740	472	4,379	10,612
Income taxes—(credit)	(6,203)	(9,495)	(28,871)	(40,183)
Total income taxes related to other income	<u>(4,463)</u>	<u>(9,023)</u>	<u>(24,492)</u>	<u>(29,571)</u>
Total income tax expense	<u>\$103,405</u>	<u>\$114,191</u>	<u>\$397,767</u>	<u>\$364,197</u>

Total current income taxes were \$253,942,000 and \$255,156,000 of which state income taxes were \$35,245,000 and \$34,528,000 for the twelve months ended March 31, 1987 and 1986, respectively.

Total deferred income taxes were \$157,053,000 and \$131,543,000 of which deferred state income taxes were \$18,980,000 and \$14,328,000 for the twelve months ended March 31, 1987 and 1986, respectively.

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

	Three Months Ended		Twelve Months Ended	
	March 31		March 31	
	1987	1986	1987	1986
Income taxes on pretax income at the statutory federal rate of 39.95%-1987, 46%-1986	\$ 97,113	\$114,152	\$386,748	\$368,815
Increase (reduction) in tax resulting from:				
Allowance for all funds used during construction (AFUDC)	(4,707)	(9,672)	(25,344)	(36,172)
Amortization of electric investment tax credit deferrals	(5,925)	(6,058)	(24,056)	(21,748)
AFUDC in book depreciation/amortization	10,095	10,892	42,882	43,606
State income taxes, net of federal income tax benefits	9,335	7,959	30,127	26,391
Other items, net	(2,506)	(3,082)	(12,590)	(16,695)
Total income tax expense (see above)	<u>\$103,405</u>	<u>\$114,191</u>	<u>\$397,767</u>	<u>\$364,197</u>



6. **PREFERRED AND PREFERENCE STOCKS WITHOUT SINKING FUND REQUIREMENTS.** At March 31, 1987 and 1986, 10,000,000 shares of preferred stock (\$100 par value), 10,000,000 shares of preferred stock A (\$25 par value) and 1,500,000 shares of preference stock (\$100 par value) were authorized with or without sinking fund requirements.

Rate/Series	Shares Outstanding	March 31 1987	March 31 1986
		(dollars in thousands)	
4.50% C	350,000	\$ 35,000	\$ 35,000
5.72% D	350,000	35,000	35,000
6.72% E	350,000	35,000	35,000
8.70% F	600,000	60,000	60,000
8.20% G	600,000	60,000	60,000
7.80% H	600,000	60,000	60,000
8.28% K	500,000	50,000	50,000
8.84% M	400,000	40,000	40,000
15.40% A, 1982	1,600,000	—	40,000
Adjustable Rate A	500,000	50,000	—
6¾%, AA			
Convertible	32,933	3,294	—
	42,095	—	4,209
Total		<u>\$428,294</u>	<u>\$419,209</u>

7. **PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS.** At March 31, 1987 and 1986, 10,000,000 shares of preferred stock (\$100 par value), 10,000,000 shares of preferred stock A (\$25 par value) and 1,500,000 shares of preference stock (\$100 par value) were authorized with or without sinking fund requirements.

Rate/Series	Shares Outstanding	March 31 1987	March 31 1986
		(dollars in thousands)	
7.35% I	504,000	\$ 50,400	\$ —
	528,000	—	52,800
8.20% J	400,000	40,000	—
	420,000	—	42,000
8.375% L	420,000	42,000	—
	440,000	—	44,000
8.84% N	451,250	45,125	—
	467,500	—	46,750
11.00% O	500,000	—	50,000
10.76% A, 1975	1,920,000	—	48,000
7.875% P	500,000	50,000	—
7.12% Q	500,000	50,000	—
Less: Preferred shares reacquired for current and future sinking fund requirements (at cost)			
	Shares Reacquired		
10.76% A, 1975	72,500	—	(1,702)
8.84% N	13,800	(1,289)	—
	30,050	—	(2,607)
11.00% O	13,750	—	(1,229)
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		(245)	—
Total		<u>\$269,591</u>	<u>\$271,612</u>

8. **RECLASSIFICATION.** In the Statements of Income, Statements of Changes in Financial Position, and Balance Sheets, certain prior year information has been reclassified to conform with 1987 classifications.

9. OTHER. Certain parties have appealed the 1985 and 1986 rate orders of the North Carolina Utilities Commission to the North Carolina Supreme Court. The appellants have raised numerous issues in these appeals, including the Commission's findings and conclusions related to the treatment of nuclear plant abandonments. An adverse ruling in these cases could have a significant impact on the Company's results of operations and financial position. While the Company is of the opinion that there is an adequate legal and factual basis for each aspect of the North Carolina Utilities Commission's decisions in the two cases, the Company cannot presently determine the ultimate resolution of the appeals.

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

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#### OFFICER'S CERTIFICATE

I hereby certify that the accompanying financial statements were prepared under my control and direction and that, in my opinion, such financial statements present fairly the financial position of Duke Power Company as of the respective dates shown and the results of its operations for the respective periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

April 24, 1987

Norman P. Morrow  
Controller

# DUKE POWER COMPANY OPERATING STATISTICS

	Three Months Ended		% Increase (Decrease)	Twelve Months Ended		% Increase (Decrease)	Calendar Year 1986
	March 31			March 31			
	1987	1986		1987	1986		
PRODUCTION STATISTICS							
Source of Energy (millions of KWH)							
Generated – Coal . . . . .	5,116	5,479	(7)	29,886	24,718	21	30,249
– Nuclear (A) . . . . .	11,525	10,661	8	35,908	37,014	(3)	35,044
– Hydro . . . . .	626	321	95	1,076	1,099	(2)	771
– Oil and gas . . . . .	(1)	(1)	—	14	4	∞	14
Total generation . . . . .	17,266	16,460	5	66,884	62,835	6	66,078
Purchased power and net interchange . . . . .	(97)	(973)	90	54	(2,122)	103	(822)
Total output . . . . .	17,169	15,487	11	66,938	60,713	10	65,256
Less: Catawba joint owners' share . . . .	3,321	1,832	81	7,750	5,384	44	6,261
Plus: Purchases from Catawba . . . . .	3,012	1,719	75	7,246	5,213	39	5,953
Total sources of energy . . . . .	16,860	15,374	10	66,434	60,542	10	64,948
Line loss and company usage . . . . .	671	597	12	4,509	3,989	13	4,435
Total kilowatt-hour sales (B) . . . . .	16,189	14,777	10	61,925	56,553	9	60,513
Peak Load (thousands of KW) (C)							
Summer (April—September) . . . . .	—	—	—	12,471	11,204	11	12,471
Winter (October—March) . . . . .	11,451	12,586	(9)	11,451	12,586	(9)	12,586
SALES STATISTICS							
Kilowatt-hour Sales (millions)							
Residential . . . . .	4,910	4,690	5	15,856	14,547	9	15,636
General service . . . . .	3,134	3,027	4	12,419	11,549	8	12,312
Industrial							
Textile . . . . .	2,495	2,300	8	10,790	10,074	7	10,595
Other . . . . .	3,198	2,865	12	12,950	11,962	8	12,617
Other energy and wholesale . . . . .	2,452	1,895	29	9,910	8,421	18	9,353
Total kilowatt-hour sales (B) . . . . .	16,189	14,777	10	61,925	56,553	9	60,513
REVENUE STATISTICS							
Electric Revenues (dollars in thousands)							
Residential . . . . .	\$355,323	\$317,494	12	\$1,126,715	\$ 960,922	17	\$1,088,886
General service . . . . .	199,240	181,965	9	765,997	667,493	15	748,722
Industrial							
Textile . . . . .	108,822	99,722	9	480,818	428,779	12	471,718
Other . . . . .	151,450	132,951	14	611,906	533,113	15	593,407
Other energy and wholesale . . . . .	115,854	96,992	19	445,744	359,798	24	426,882
Other electric revenues . . . . .	(18,109)	4,283	∞	48,926	30,764	59	71,318
Total electric revenues . . . . .	\$912,580	\$833,407	9	\$3,480,106	\$2,980,869	17	\$3,400,933
Average Revenue Billed Per KWH							
Residential . . . . .	7.24¢	6.77¢	7	7.11¢	6.61¢	8	6.96¢
General service . . . . .	6.36¢	6.01¢	6	6.17¢	5.78¢	7	6.08¢
Industrial . . . . .	4.57¢	4.50¢	2	4.60¢	4.37¢	5	4.59¢
Other energy and wholesale . . . . .	4.72¢	5.12¢	(8)	4.50¢	4.27¢	5	4.56¢
CUSTOMERS—END OF PERIOD . . . . .	1,491,905	1,449,975	3	—	—	—	1,483,090

(A) Includes 100% of Catawba generation.

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

(C) Includes the load of the joint owners of the Catawba Nuclear Station.



***DUKE POWER***