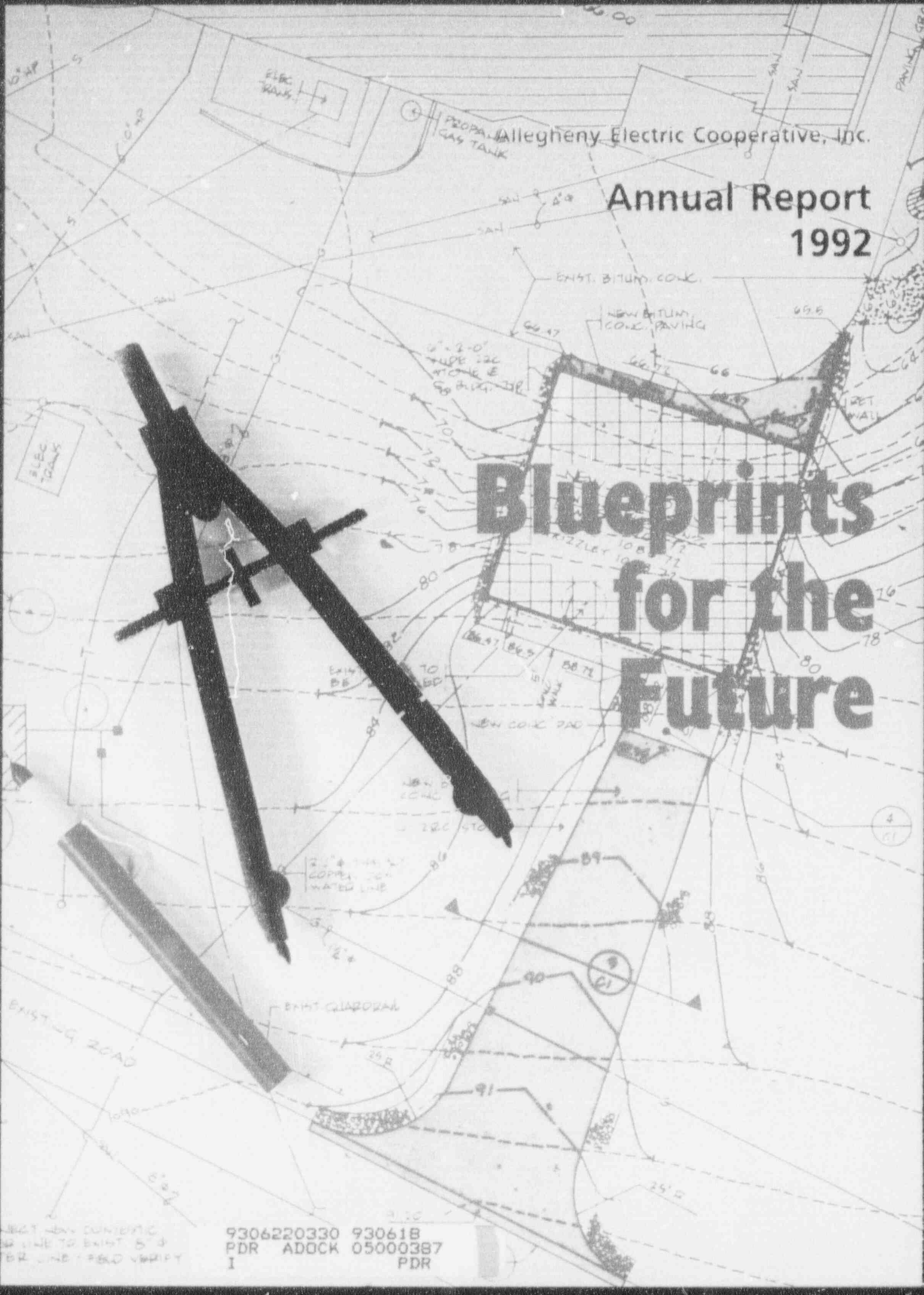
Allegheny Electric Cooperative, Inc.

Annual Report 1992

Blueprints for the Future



Allegheny Electric Cooperative, Inc. [illegible] power supplier for the 14 rural electric cooperatives in Pennsylvania and New Jersey. Through them, Allegheny serves more than 600,000 rural residents.

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Allegheny member cooperatives own and maintain about 12.5 percent of the electric distribution lines in Pennsylvania, covering nearly one-third of the state's land area in 41 counties. These lines represent one of the largest non-government investments in rural infrastructure and are an essential component of commerce and industry.

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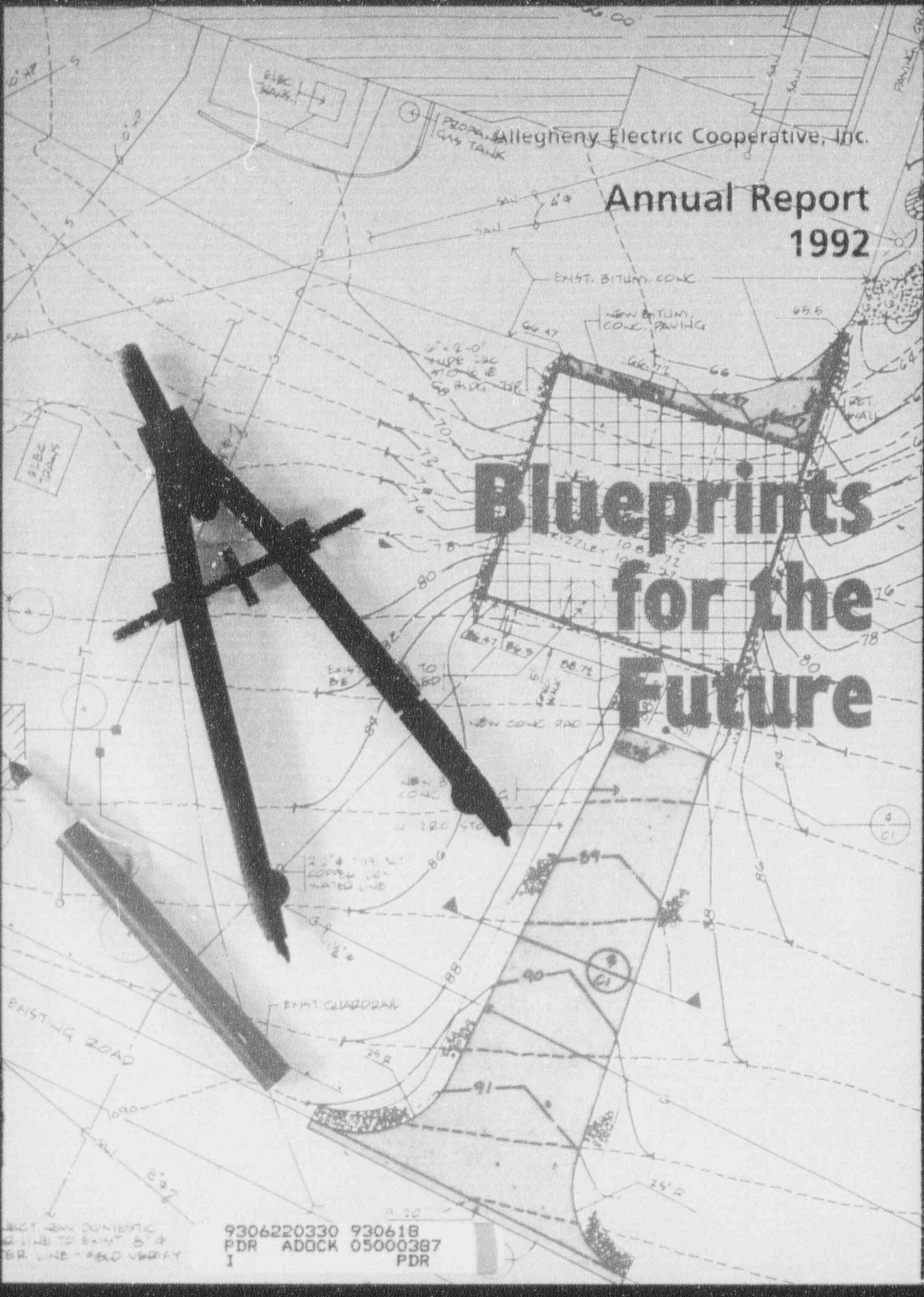

Allegheny Electric Cooperative, Inc. is the wholesale power supplier for the 14 rural electric cooperatives in Pennsylvania and New Jersey. Through them, Allegheny serves more than 600,000 rural residents.

Allegheny is owned and controlled by the 14 distribution cooperatives and its activities are governed by a 14-member board of directors — one director elected from each of its member co-ops. That control, which originates in the rural areas served by the cooperatives, ensures Allegheny's actions will best serve the consumer-members who depend on the co-ops for electricity.

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The history of rural electric cooperatives is one of improving conditions and aiding the expansion of economic possibilities in rural America.

Allegheny Electric Cooperative is proud to continue that tradition by providing a reliable source of electricity at reasonable rates and by using its resources to power the development activities of its rural members.

Table of Contents

Allegheny Electric Cooperative, Inc., located in Harrisburg, Pa., supplies wholesale power to its 14 member distribution cooperatives in Pennsylvania and New Jersey. Those cooperatives, in turn, furnish the electricity to light rural homes and power rural development.

A Message From The Chairman And President

During 1992, Allegheny continued and expanded its efforts to assist its members in augmenting existing businesses and attracting new industries. Aggressive efforts by Allegheny and its member cooperatives over the past few years have resulted in the creation of seven economic development projects in five different cooperative territories. Eight others are in various stages of development.

Fostering economic development is a natural extension of our commitment to the communities and residents we serve. These development activities not only help provide job opportunities, they also stabilize the economic base of rural Pennsylvania and New Jersey and benefit all rural residents.

Our primary task in maintaining and improving the climate for business and industry in our region's rural areas is the delivery of reliable electric power at reasonable rates. Energy — particularly electricity — is the lifeblood of modern economic activity.

We have devised and implemented a strategy aimed specifically at holding the line on rates and I am pleased to report Allegheny Electric Cooperative, Inc. is entering its sixth straight year of rate stability. The rate stability period of 1987–1992 followed nine years when rates climbed at an average of 11.3 percent per year. This rate stability was hard-earned, coming amid significant pressures which could have driven rates much higher.

The challenge Allegheny faced in 1987 and in the following years was how to control rates amid expense burdens. These burdens included construction risk from commitments to our load management and Raystown Hydroelectric projects, Susquehanna Steam Electric Station (SSES) capacity entering our rate base and continuing litigation over declining power allocations from the Power Authority of the State of New York (PASNY). In addition, Allegheny expected substantial increases in purchased power costs from private power companies.

In 1987, Allegheny had only two-thirds of its SSES capacity — 140 out of 210 megawatts — rolled into its rate base. The rest of the capacity was added in increments each year through 1991.

Also, during these years, the Raystown Hydroelectric Project was under construction and Allegheny faced both construction cost overrun and operating risks once the project came on line. Also, litigation over low-cost PASNY power allocations continued and the possibility that we might lose additional capacity from that very affordable source of power remained.

Allegheny absorbed some significant private power company wholesale rate increases during the period. For example, Met-Ed's wholesale rate increased 42 percent during the period and West Penn's increased 33 percent.

Despite those and other rate-driving forces, Allegheny has held rates steady. During the six-year period from 1987 through Allegheny's budgeted rate for 1993, the average net billed power cost for member cooperatives has increased only 1.1 percent per year as compared to the 11.3 percent per year increase for the period from 1978 through 1987.

This is a dramatic improvement — all six years' increases combined are only one-half as much as that experienced in just one of the previous nine years.

In 1993, Allegheny's net billed rate will be 61.24 mills

per kilowatt-hour, a 2 percent decrease from 1992 actual rates. Allegheny achieved the decrease — the fourth in the last five years — by taking a number of financial, accounting, litigation and power supply initiatives.

Aggressive marketing of SSES power saved our member cooperatives $4.6 million. Allegheny also repriced approximately $123 million in high-interest Federal Financing Bank loans, providing a net savings of $1.42 million in 1993 and an additional $18 million over the term of the loans. Success in opposing various private power company rate increases for purchased power have also contributed to Allegheny's rate-control efforts.

Allegheny held the line on rates even though its 1993 budgeted tax and government fee burden increased substantially. As budgeted, the Pennsylvania General Assembly raised the state's Public Utility Realty Tax, which increased our tax load by $826,134. An increase in the state's Gross Recipts Tax is expected in 1993, which will force the co-op to pay at least $170,000 more annually for purchased power. Under new federal legislation, nuclear power plants, such as SSES, will be assessed fees to help the U.S. government clean up nuclear enrichment facilities. Allegheny's 1993 assessment for that amounts to approximately $410,000. Without these new and projected levies, the net billed average power cost — or what member cooperatives would pay in 1993 — would have fallen 3.6 percent.

Jesse C. Tilton III, president (right)
and Dave E. Turner, chairman

We also scored several legislative victories in 1992. The U.S. Congr ss approved a national energy bill that fundamentally restructures the electric industry. Among the major energy bill provisions important to rural electric cooperatives is a transmission access provision that brings us closer to the wheeling rights Allegheny has long advocated.

Under the bill, the Federal Energy Regulatory Commission will have clear authority to order utilities that own transmission lines to allow other utilities access to those lines for a just and reasonable fee. The measure was a priority for consumer-owned rural electric co-ops facing problems in moving wholesale power they generate or purchase at reasonable rates. The provision will put Allegheny and the nation's other co-ops on a more equal footing with large private power companies.

Another success involved payments consumers receive from utilities (including co-ops) for buying energy-efficient equipment. These now will be made tax free. Previous Internal Revenue Service rulings had found such conservation rebates to constitute taxable income.

We are proud of our achievements and anticipate a bright future that includes using our expertise, influence and standing to do what the cooperatives have always done: help rural residents acquire and retain the benefits, services and opportunities offered by changing technologies and times.

We believe our continued progress toward the organization's goal — providing rural electric cooperative consumer-members with adequate and reliable supplies of reasonably-priced electricity — is a vital component in ensuring rural residents will keep pace in a changing world.

1992 Allegheny Electric Cooperative, Inc. Annual Report

Economic development. Everyone from President Bill Clinton to local township supervisors and Chambers of Commerce say new jobs, plus growing business and industry, are vital to our future. While everyone agrees on the importance of an expanding job base, few organizations are positioned to assist in making those goals a reality. But the nation's rural electric cooperatives are.

The reasons are simple. Electric cooperatives are an integral part of the communities they serve. They are, in fact, owned by the members of those communities, not by absentee stockholders unaware of local needs. In addition, electric co-ops build and maintain one of the more complex and important components of local infrastructures: the electric lines which provide electricity to power rural business, industries and residential development.

In Pennsylvania, rural electric cooperatives own and maintain about 12.5 percent of the electric utility lines in the Commonwealth, covering nearly one-third of the state's land area in 41 counties.

In rural Pennsylvania and New Jersey, the expertise used to overcome the economic, political and engineering hurdles of supplying reliable, reasonably-priced electricity to the states' rural areas also provides a strong foundation to support rural development efforts.

Allegheny Electric Cooperative, Inc., the wholesale supplier of electricity to the 14 electric cooperatives in Pennsylvania and New Jersey, works hard to maintain a climate conducive to development within its members' service territories.

TRANSMISSION PROJECTS

Allegheny marked another transmission milestone October 16 with the energization of the Bedford North-South transmission project. A new 11.6-mile, 115 kV transmission line connects a Pennsylvania Electric Company (Penelec) substation about three miles north of Bedford, Pa. to a new Allegheny substation about 1.6 miles south of Bedford, adjacent to Route 220.

Allegheny built the line, its third transmission project, to enable one of its member systems, Bedford Rural Electric Cooperative, Inc., to serve a Texas Eastern gas compressor station and improve reliability for co-op members in the south-central portion of the co-op's service area. The Allegheny Board of Directors approved the project at its April 1991 meeting.

The complete proje[illegible]ing planning, permitting, right-of-way acquisition, surveying, design, procurement and construction [illegible] only 19 months. While a project of this magnitude would typically take at least two years, Alleghany successfully expedited many aspects of the line's construction due to the importance of the industrial load.

The completed line joins two other transmission projects built by Allegheny. The first, the 5.5-mile, 69 kV Fairfield-Mill Creek project in Lycoming County, entered service in July 1990. The second, the 7.5-mile, 138 kV Donegal-Seven Springs project, was completed in November 1991.

Allegheny also pushed forward with several other projects during the year. The nine-mile, 46 kV transmission line with 12 kV underbuild is planned to connect the West Penn Austin delivery point to the site of a new

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IMAGE EVALUATION TEST TARGET (MT-3)

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IMAGE EVALUATION TEST TARGET (MT-3)

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IMAGE EVALUATION TEST TARGET (MT-3)

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IMAGE EVALUATION TEST TARGET (MT-3)

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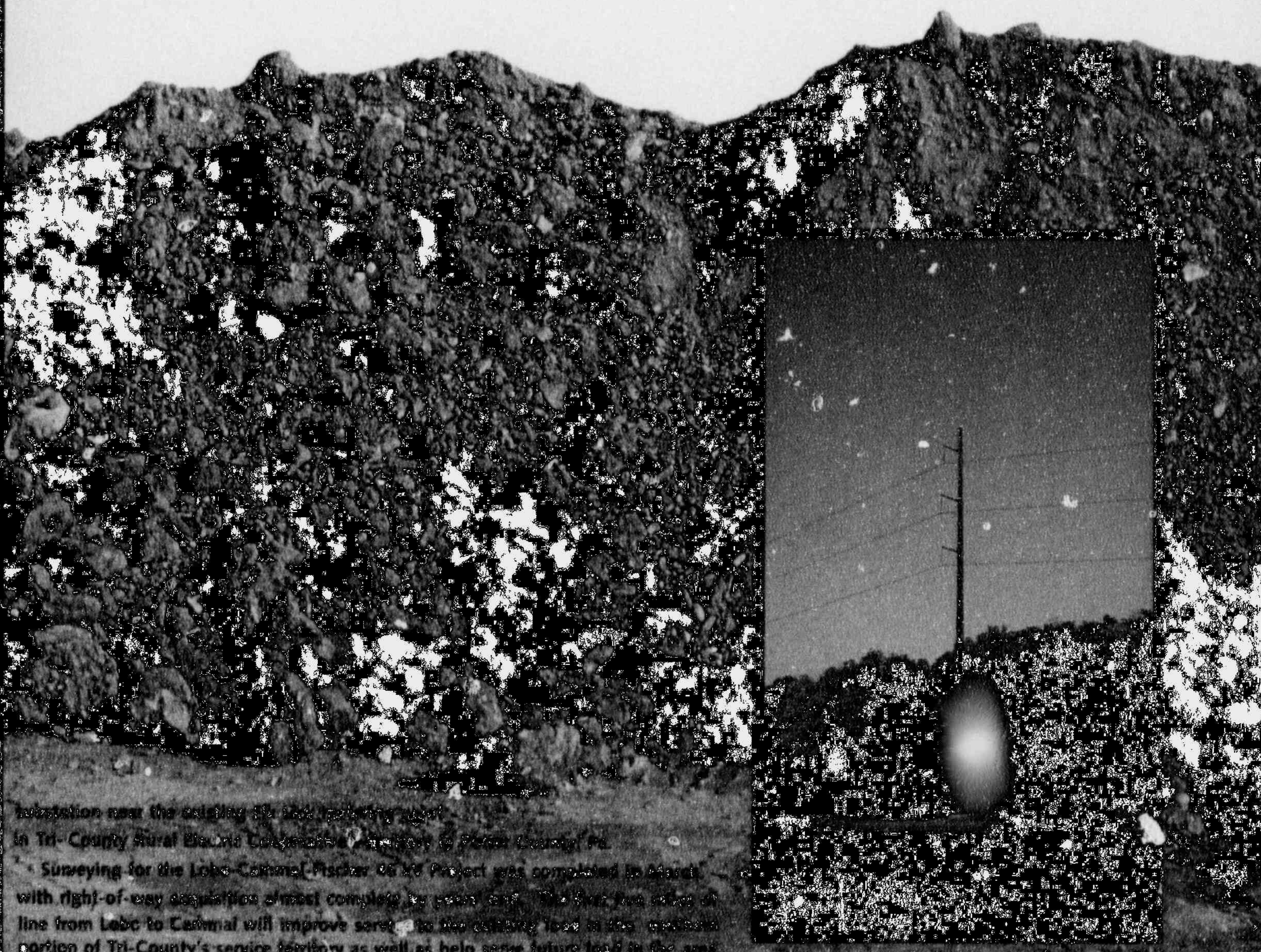
As a generation and transmission cooperative, its first obligation is the reliable delivery of power at competitive rates. And it's meeting that obligation.

In the six years between 1987 and 1993, Allegheny has achieved a record of rate stability



substation near the existing [illegible] in Tri-County Rural Electric Cooperative's territory [illegible] County, Pa.

Surveying for the Lobo-Cammal-Fischer 46 kV Project was completed in March with right-of-way acquisition almost complete by year's end. The first [illegible] miles of line from Lobo to Cammal will improve service to the existing load in the [illegible] portion of Tri-County's service territory as well as help serve future load in the area. An additional eight miles of 46 kV line from Cammal to the Fisher Mining Company will serve both Fisher's needs and future load requirements in the south-central section of Tri-County's system.

At its June meeting, the Allegheny Board of Directors paved the way for construction of two new transmission projects that will serve increasing load requirements in the Sussex Rural Electric Cooperative area and improve reliability in one section of United Electric Cooperative, Inc.'s service territory. The Sussex project includes construction of about a mile of 34.5 kV transmission line. Allegheny will acquire the necessary mile of line starting at an existing transmission facility to provide service to a distribution substation after completion of construction by Sussex. The United project includes the construction of a nine-mile, 34.5 kV line from private power company facilities to United's new Cooksburg substation. The project will provide an improvement in service and reliability for co-op members who live in the area.

with annual increases of only 1.1 percent per year, a rate far below that of inflation. In contrast, the region's private power companies have increased their retail rates by an average of 25.17 percent between 1988 and 1992. Those increases ranged from a low of 2.4 percent to a high of 54.2 percent.

Allegheny's flat rate, however, has not been accompanied by a corresponding lack of system improvements. The cooperative has provided transmission facilities to improve service for existing co-op members and ensure that the infrastructure is sufficient to meet new growth and development in areas served by its member cooperatives.

Allegheny marked its most recent milestone October 15 with the completion of the Bedford North-South transmission project. Allegheny built the 11.6-mile, 115 kilovolt (kV) transmission line, its third transmission project, to enable Bedford Rural Electric Cooperative, Inc. to serve a Texas Eastern gas compressor station. Only 19 months passed between the project's approval by the Allegheny Board of Directors and its successful completion. While a project of this magnitude would typically take at least two years, Allegheny successfully expedited many aspects of the project due to the importance of the new industrial load it serves. When the second unit is added in the summer of 1993 to bring the facility up to a 12 MW demand, this load will be larger by itself than that of two Allegheny member cooperatives.

The completed line joins two other dedicated transmission projects built by Allegheny. The first, the 5.5-mile, 69 kV Fairfield-Mill Creek project in Lycoming County, entered service in July 1990. The second, the 7.5-mile, 138 kV Donegal-Seven Springs project, was completed in November 1991.

BULK POWER SALES

During 1992, Allegheny expanded its presence in the wholesale power market with beneficial sales to Niagara Mohawk Power Corporation in New York State, Public Service Electric & Gas Company of New Jersey, Pennsylvania Electric Company and Pennsylvania Power and Light Company. Savings from these transactions amounted to $4.6 million.

Bulk power sales allow Allegheny to market its projected excess summer energy from the Susquehanna Steam Electric Station, a nuclear power station, and provide net benefits to its member co-ops. Bulk sales helped Allegheny keep the lid on rates for the sixth consecutive year.

Allegheny is continuing its discussions with other companies interested in purchasing additional capacity and energy.

Allegheny developed the Donegal-Seven Springs project to provide a more economical and reliable source of electricity to the rapidly growing Seven Springs area which [illegible] portions of Somerset, Fayette and Westmoreland counties.

The Allegheny Board of Directors has also paved the way for two new transmission projects, one that will serve increasing load requirements in the Sussex Rural Electric Cooperative area and one that will improve reliability in one section of United Electric Cooperative's service territory.

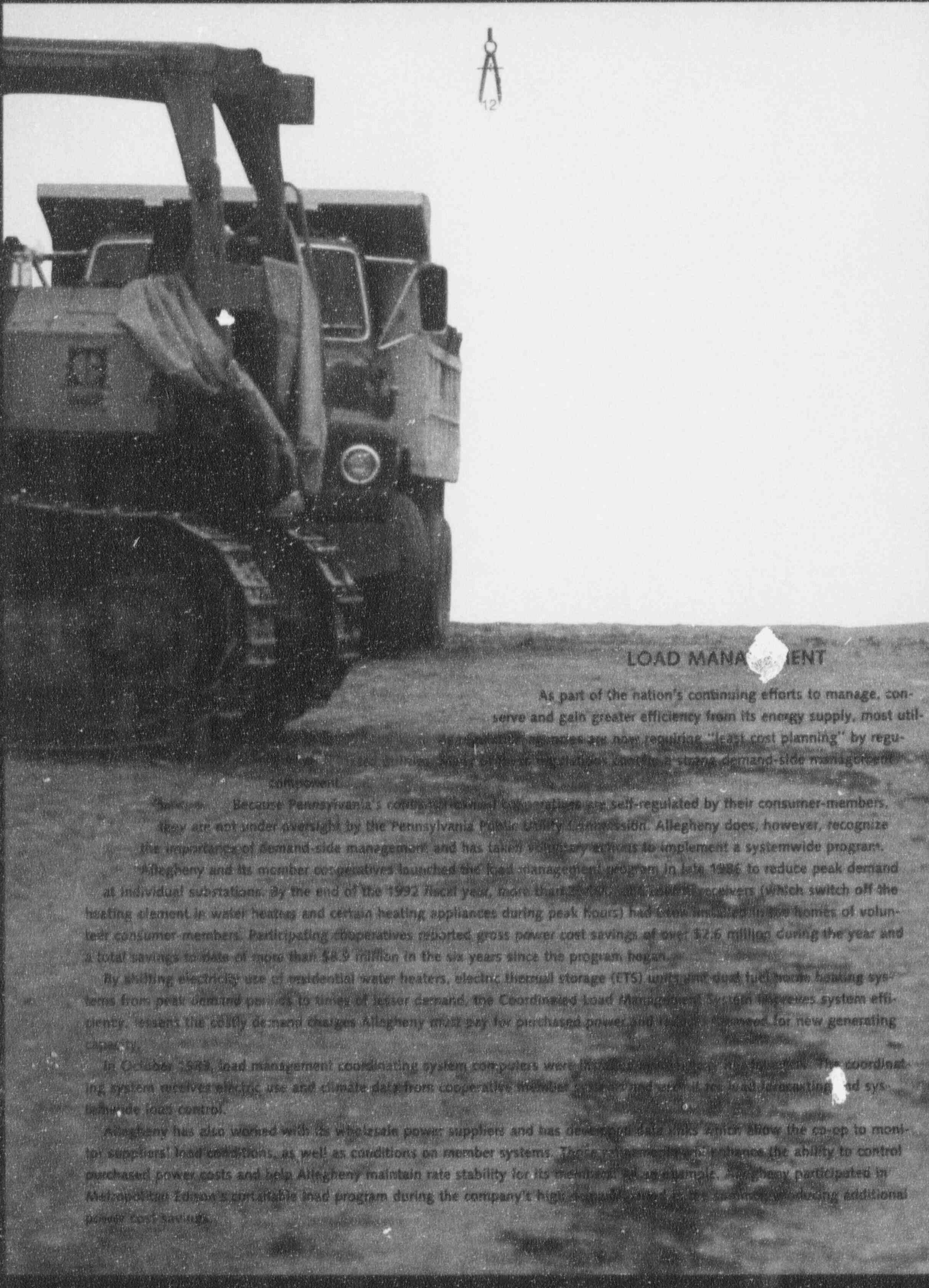
The Sussex project includes construction of about a mile of 34.5 kV transmission line. Allegheny will acquire the necessary mile of line starting at an existing transmission facility to provide service to a distribution substation after completion of construction by Sussex Rural Electric Cooperative.

The United Electric Cooperative project includes the construction of a nine-mile, 34.5 kV line from private power company facilities to United's new Cooksburg substation. The project will provide improvement in service and reliability for co-op members who live in the area.

These projects continue Allegheny's commitment to its members and the communities they serve without sacrificing Allegheny's six-year trend of rate stability.

While the transmission and delivery system is vital to the economic health of rural areas, so is a reliable source of power. As rural areas grow, so does the need for an adequate power supply not dependent on purchases from private power companies or any single source.

Economic development projects reflect the diversity of a co-op's service area, but are targeted to meet the needs of specific sectors and businesses. Some, like this restaurant at the Dubois-Jefferson County Airport, do double duty. While they create an immediate impact by offering jobs to local residents, they also foster long-term benefits by improving facilities — such as airports — required for business expansion. This restaurant "got off the ground" with the help of a $100,000 zero-interest REA loan provided with help from United Electric Cooperative, Inc.



LOAD MANA[illegible]ENT

As part of the nation's continuing efforts to manage, conserve and gain greater efficiency from its energy supply, most util[illegible] [illegible] agencies are now requiring "least cost planning" by regu[illegible] [illegible] Many of these regulations contain a strong demand-side management component.

Because Pennsylvania's [illegible] corporations are self-regulated by their consumer-members, they are not under oversight by the Pennsylvania Public Utility Commission. Allegheny does, however, recognize the importance of demand-side management and has taken voluntary actions to implement a systemwide program.

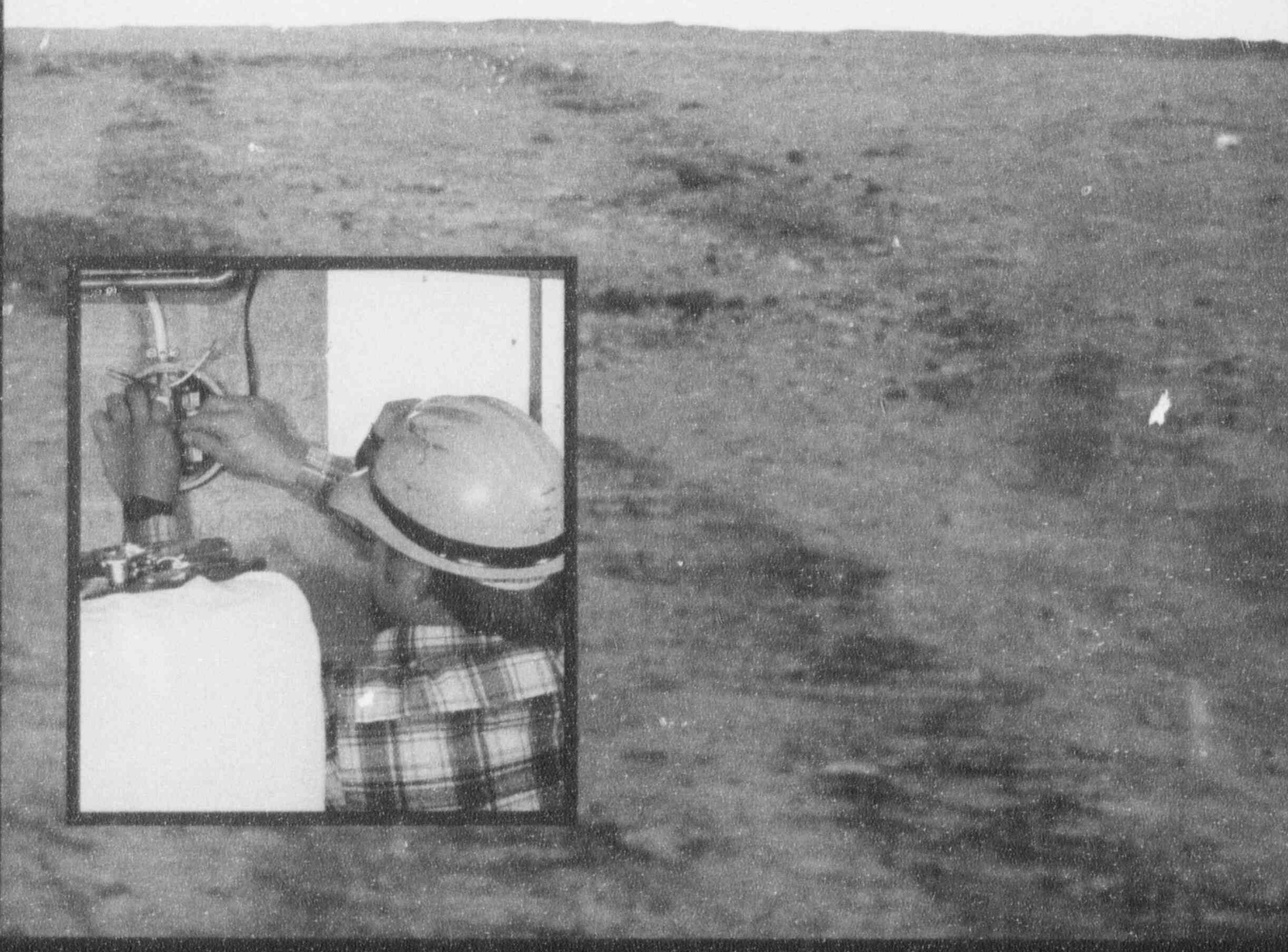
Allegheny and its member cooperatives launched the load management program in late 1986 to reduce peak demand at individual substations. By the end of the 1992 fiscal year, more than [illegible] receivers (which switch off the heating element in water heaters and certain heating appliances during peak hours) had been installed in the homes of volunteer consumer-members. Participating cooperatives reported gross power cost savings of over $2.6 million during the year and a total savings to date of more than $8.9 million in the six years since the program began.

By shifting electricity use of residential water heaters, electric thermal storage (ETS) units and dual fuel home heating systems from peak demand periods to times of lesser demand, the Coordinated Load Management System improves system efficiency, lessens the costly demand charges Allegheny must pay for purchased power and [illegible] for new generating capacity.

In October [illegible], load management coordinating system computers were [illegible]. The coordinating system receives electric use and climate data from cooperative member [illegible] for load forecasting and systemwide load control.

Allegheny has also worked with its wholesale power suppliers and has developed data links which allow the co-op to monitor suppliers' load conditions, as well as conditions on member systems. These [illegible] enhance the ability to control purchased power costs and help Allegheny maintain rate stability for its members. [illegible] example, Allegheny participated in Metropolitan Edison's curtailable load program during the company's high [illegible] producing additional power cost savings.

Back in 1966, Allegheny anticipated future needs and began building a framework of diversified power sources. As a preference customer, it began purchasing hydropower generated at the publicly-owned Niagara Power Project from the Power Authority of the State of New York (PASNY). This extremely low-cost hydropower has saved Allegheny more than $219 million compared to the cost of power it would have needed to buy from private utilities.



One of rural Pennsylvania's most abundant resources is its forests and the timber they provide. Direct assistance to logging companies combined with support of manufacturers of finished wood products ensures economic and employment growth. This Clarion County logging firm, Beary Logging, received a $100,000 zero-interest REA loan with help from Central Electric Cooperative, Inc. The influx of needed funds helped expand the company's work force and kept log loaders — like this one — moving.

In 1977, Allegheny continued developing reliable energy sources when it contracted for 10 percent ownership in the Susquehanna Steam Electric Station (SSES). SSES is a 2,100-megawatt, two-unit nuclear power plant located near Berwick, Pa. The facility supplies 53 percent of Allegheny's energy needs.

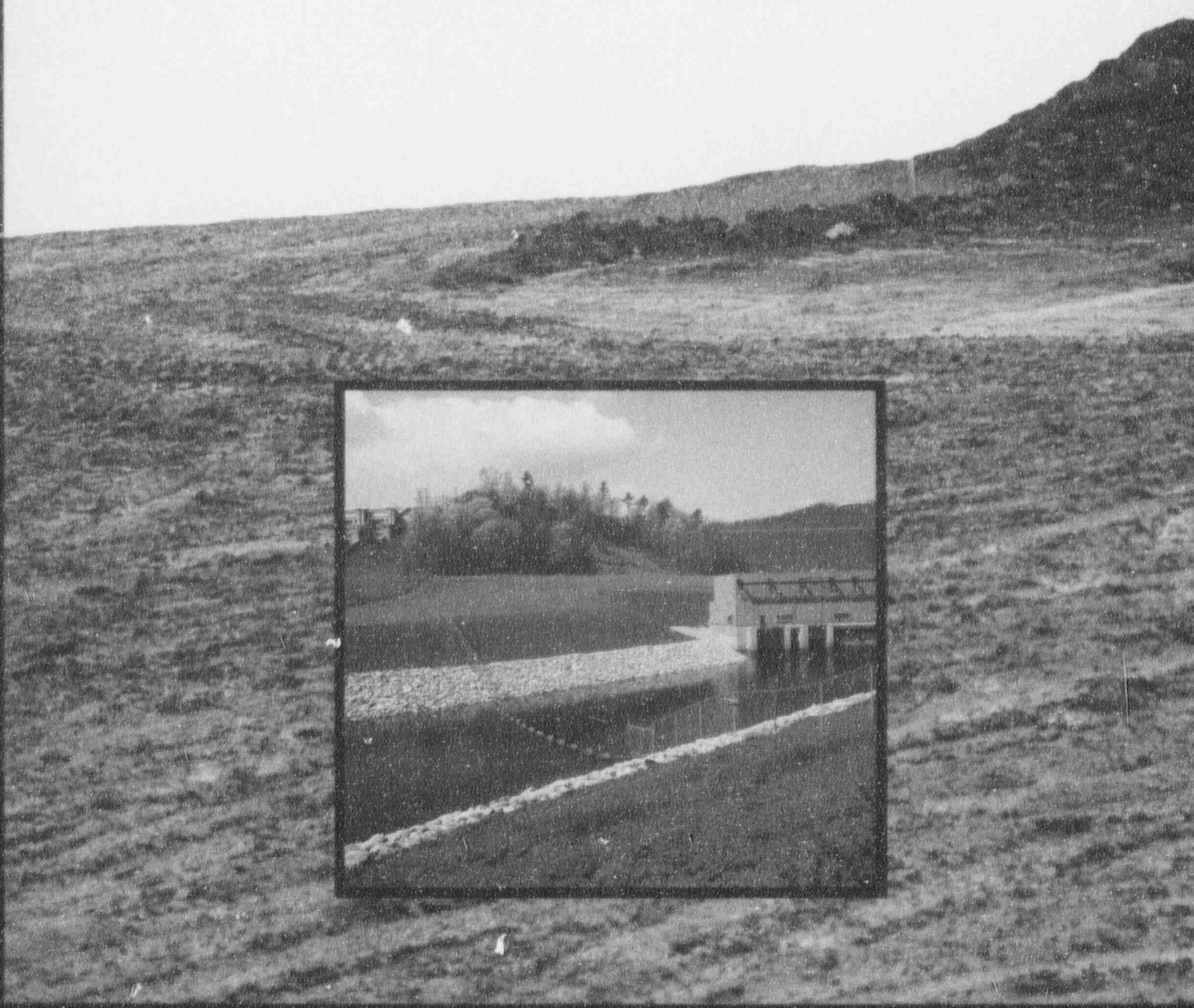
Allegheny continued its commitment to low-cost generation with the Raystown Hydroelectric Project, William F. Matson Generating Station which began commercial operation in 1988. Named for the first president of Allegheny, Matson Station is the cooperative's first wholly developed and operated generating plant. It supplies 4.5 percent of the energy delivered by Allegheny to its member cooperatives.

Stable rates and reliable power supplies are only part of the cooperative's efforts to attract business and expand opportunities for those living in rural Pennsylvania and New Jersey. In recognition of the unique role played by rural electric cooperatives, the federal government designated them as point agencies in rural development programs contained in the 1990 Farm Bill. The Rural Investment Partnership Program, for example, provides capital for economic development in rural areas.

Allegheny and its sister organization, the Pennsylvania Rural Electric Association (PREA), also support state legislation and initiatives designed to foster growth in rural areas.

Some of the initiatives endorsed by Allegheny and contained in the Pennsylvania state budget include a grant program which provides money to improve rural water supplies, fund-

ing for a distance learning program, funding for a medical link program to improve rural health care, and expansion of the rural and urban teacher forgiveness program.



RAYSTOWN HYDROELECTRIC PROJECT

The Raystown Hydroelectric Project, William F. Matson Generating Station, is a 21-megawatt, run-of-the-river hydroelectric plant licensed by the Federal Energy Regulatory Commission. The facility is located at the Raystown Lake and Dam in Huntingdon County, Pa. and generates about [illegible] percent of the energy Allegheny supplies to its member cooperatives.

Allegheny operates the plant in close cooperation with the U.S. Army Corps of Engineers, which controls water releases from Raystown Lake, the largest man-made lake in Pennsylvania.

Despite high plant availability through the year, unusually low-flow conditions during fiscal 1992 — November 1991 through October 1992 — reduced generation at the Raystown Hydroelectric Project to approximately [illegible] percent of normal expected generation. The plant produced 53.2 million kilowatt-hours of electricity through the period.

High plant availability of [illegible] percent was recorded, 1.4 percent greater than the 97 percent goal and well above the small hydro industry average of 88 percent. Outages were reduced from 51 in fiscal year 1991 to 45 this year. In terms of cost effectiveness, the plant's operating expenses over the past four years average 3.6 cents per kilowatt-hour.

The Baltimore District of the U.S. Army Corps of Engineers, the Susquehanna River Basin Commission and the State of Maryland last year discontinued a study investigating the reallocation of water from Raystown Lake during extreme drought conditions. The study was examining the feasibility of reallocating existing flood control/conservation water storage at the lake to water supply for purchase by users downstream.

Study sponsors, however, agreed that existing and foreseeable water needs in the Juniata River and the lower Susquehanna River do not warrant storage reallocation at Raystown Lake. During the course of the proceedings, Allegheny worked with the Corps to detail the alternatives and assess [illegible] on the facility's electricity generation.

Rural development loans and grants obtained with the help of rural electric cooperatives provide an economic base for rural communities. They also provide jobs for skilled workers like these mechanics and truck assemblers who are putting the finishing touches on an emergency vehicle at the New Lexington Fire Equipment Company in Somerset County, Pa. The facility opened in 1991 thanks to a $100,000 zero-interest REA loan obtained with help from Somerset Rural Electric Cooperative, Inc.

The teacher forgiveness program, for example, encourages newly-graduated teachers to work in targeted districts — including rural areas — by forgiving all or a portion of the student loans of those who agree to participate.

The need for many of these programs was determined through the activities of the Center for Rural Pennsylvania, a legislative policy and research agency of the state General Assembly. The Center, which PREA helped create through its lobbying efforts and now participates in, determines needs within rural communities and charts the effects policies have on rural state residents.

Allegheny is also sponsoring a study in a four-county area in central Pennsylvania to determine specific business needs within the region. The results of the study will enable its member co-ops to apply resources precisely to gain the maximum possible benefit for the area's industries and residents.

The cooperative also supports use of state development programs like PENNVEST, which provides loans and grants to upgrade small community water and sewer facilities. Programs like this are designed to benefit all rural residents, not just those who belong to rural electric co-ops.

Rural developments efforts also take place on the federal level, too. REA's distance learning and medical link grant program, authorized in the Rural Development Act of 1990, is designed to provide rural schools, hospitals and medical centers with rapid access to more spe-

[illegible] OF THE STATE OF NEW YORK

[illegible] rural electric cooperatives and legitimate municipal elec[illegible] systems — within economical transmission distance — have [illegible] right, or preference, to 50 percent of the electric power produced [illegible] Project by the Power Authority of the State of New York (PASNY).

A [illegible] act extended Allegheny's rights to this low-cost hydro power through June 20[illegible] includes a clause permitting an extension of service through October 31, 2005.

[illegible] successful conclusion in 1991 of a long-standing dispute between Allegheny and [illegible] guarantees the continued availability of an additional 7.7 megawatts of Niagara power for the cooperative. Allegheny's total share of PASNY power now stands at 44 megawatts.

The Niagara project produces electricity at a low cost. It is among the least expensive in the U.S. Since Allegheny began purchasing it in 1966, PASNY power has saved the cooperative more than $219 million compared to the cost of purchasing the same amount of electricity from private power companies.

In 1992, Allegheny's PASNY savings amounted to $5.1 million. The extra 7.7 megawatt allocation alone shaves $893,000 annually from Allegheny's purchased power costs, based on current rates which are subject to change by the Federal Energy Regulatory Commission.

cialized training and information through the use of telecommunications, computer networks and other advanced technologies.

To directly assist in rural economic development, Pennsylvania and New Jersey rural electric cooperatives help secure zero-interest loans and grants from REA to finance projects in rural areas. These projects are designed to benefit the entire rural community, not just those persons served by an electric cooperative. The goal is job creation and stimulation of local economies.

The efforts are paying off. Seven projects in five different rural co-op territories are up and running. Eight others are in various stages of development.

For example, in Jefferson County, Pa., a $100,000 zero-interest REA loan helped finance a $2 million airport terminal restoration. That project does double duty by providing construction and staffing jobs now as well as enhancing the local facilities—in this case, an airport—which will help attract future business and corporate development.

In Clearfield County, Pa. two separate $100,000 zero-interest REA loans helped fund a portion of the start-up costs for the Sawmill Center for the Arts and a custom hardwood furniture manufacturer.

The Sawmill Center strengthens a major rural industry—tourism—while providing an outlet for local artists and crafts people. And, by helping local wood products industries, both the logging and rural manufacturing base is supported.

Harvesting timber is only part of the economic potential offered by Pennsylvania forests. The Timber Line, pictured here, typifies a host of small firms across the state whose activities add value to an already important natural resource. The lumber firm, located in Clearfield County, buys locally grown hardwood lumber and fashions it into fine custom furniture and cabinetry. With the assistance of a $150,000 [illegible] REA loan provided through United Electric Cooperative, Inc., the firm has grown from a garage-based hobby started by two couples into an important business employing 11 full-time and six part-time workers.

In Clarion County, Pa. a $100,000 zero-interest REA loan assisted a logging business in its expansion.

Another $100,000 zero-interest REA loan helped develop an incubator in Somerset County, Pa. to foster business development — in effect "hatch" new economic growth from fertile ideas. Once those fledgling businesses are sound, they move on to make room in the facility for another new enterprise.

A Somerset County fire truck and equipment manufacturing plant is also successfully operating with the help provided by a $100,000 zero-interest loan. In fact, Blaine Stockton, REA assistant administrator of economic development and technical services, has praised the New Lexington Fire Equipment Company as one of the shining successes of the zero-interest rural development loan program. The firm, which opened in the summer of 1991, was projected to have 20 employees on board after five years. After just 18 months, the company has 41 employees and is still expanding.

In Warren County, Pa. a $1.6 million waste recycling plant recently began operation.

Allegheny and PREA are also helping to obtain a $100,000 zero-interest REA loan to partially fund a $3 million municipal airport expansion project in Bradford County, Pa. In Clarion County, a $77,000 REA grant will help convert an unused bridge into a commercial development. In Sussex County, New Jersey, plans for a tourism expansion project are being discussed.

SUSQUEHANNA STEAM ELEC[illegible] STATION

Allegheny [illegible] of the Susquehanna Steam Electric Station (SSES), a 2,[illegible] megawatt, two-unit, nuclear power plant in [illegible] County, Pa. Pennsylvania Power & Light Company (PP&L), a private power company based in Allentown, Pa., owns the remaining 90 percent and operates the boiling water facility.

SSES [illegible] highest generation ever for a year in which both SSES units underwent [illegible] outages. The annual capacity factor for Unit 1 was 68.[illegible] percent. Unit 2 [illegible] capacity factor of [illegible] percent. When combined, this [illegible] capacity factor of [illegible] percent. This figure was well above PP&L's [illegible]. In comparison, the [illegible] average capacity factor for boiling water nuclear power plants in the United States was approximately [illegible] percent, according to the [illegible].

In fiscal year [illegible], SSES provided [illegible] billion kilowatt-hours of electricity to Allegheny's member distribution cooperatives, which equates to [illegible] percent of Allegheny's total system energy requirements [illegible].

SSES continues to collect accolades from both industry and regulatory bodies. At a June meeting, Nuclear Regulatory Commission (NRC) senior managers cited SSES for its high level of safety performance.

In remarks at the meeting, James M. Taylor, NRC executive director for operations, noted that the plant's exemplary record was the result of total involvement by plant management in all phases of operation, dedicated and knowledgeable staff and the overall commitment to safety by those operating the facility. SSES is one of only five nuclear power plants in the nation so recognized.

In addition, the full NRC has again ranked SSES among the best operated plants in the nation. In its Systematic Assessment of Licensee Performance (SALP), the NRC gave SSES the highest possible rating in six of seven evaluation categories — operations, security and safeguards, maintenance/surveillance, emergency preparedness, safety assessment and engineering support.

The evaluation, covering the period from December 1, 1990 through April 18, 1992, ranked SSES ninth among 75 plants nationally and first among 26 boiling water reactors. The plant has never received a rating below Category 2 — the second highest possible — in any SALP evaluation.

SSES also scored the second-highest possible rank in an Institute of Nuclear Power Operations (INPO) evaluation completed in October. INPO is an industry group which promotes safety and efficiency at nuclear power plants.

INPO gave the plant high marks for the performance of its personnel, the stable experienced plant staff, the excellent morale, and the cooperation between work groups. On a scale of 1 to 5, with 1 being the best, SSES was awarded a 2.

With the help of Allegheny, PREA and their member cooperatives, these projects will potentially create an estimated 120 direct jobs and stimulate existing businesses in their local economies.

Allegheny's rural development efforts continue a 50-year tradition of commitment to the needs of rural citizens and businesses. That tradition began with the goal of enabling everyone to have the advantages and comfort electric power provides. It continues today in efforts to provide equal opportunities in jobs, education and health care to all residents regardless of where they choose to live.

Allegheny Board Of Directors

Dave Turner
Chairman
Warren EC

Alston Teeter
Vice Chairman
Tri-County REC

Lowell Friedline
Secretary
Somerset REC

John Looser
Treasurer
Adams EC

Ralph Fischer
Bedford REC

Winston Donaldson
Central EC

John B. Drake
Claverack REC

John Ritchey
New Enterprise REC

Harold Hines
Northwestern REC

Sam Eckenrod
Southwest Central EC

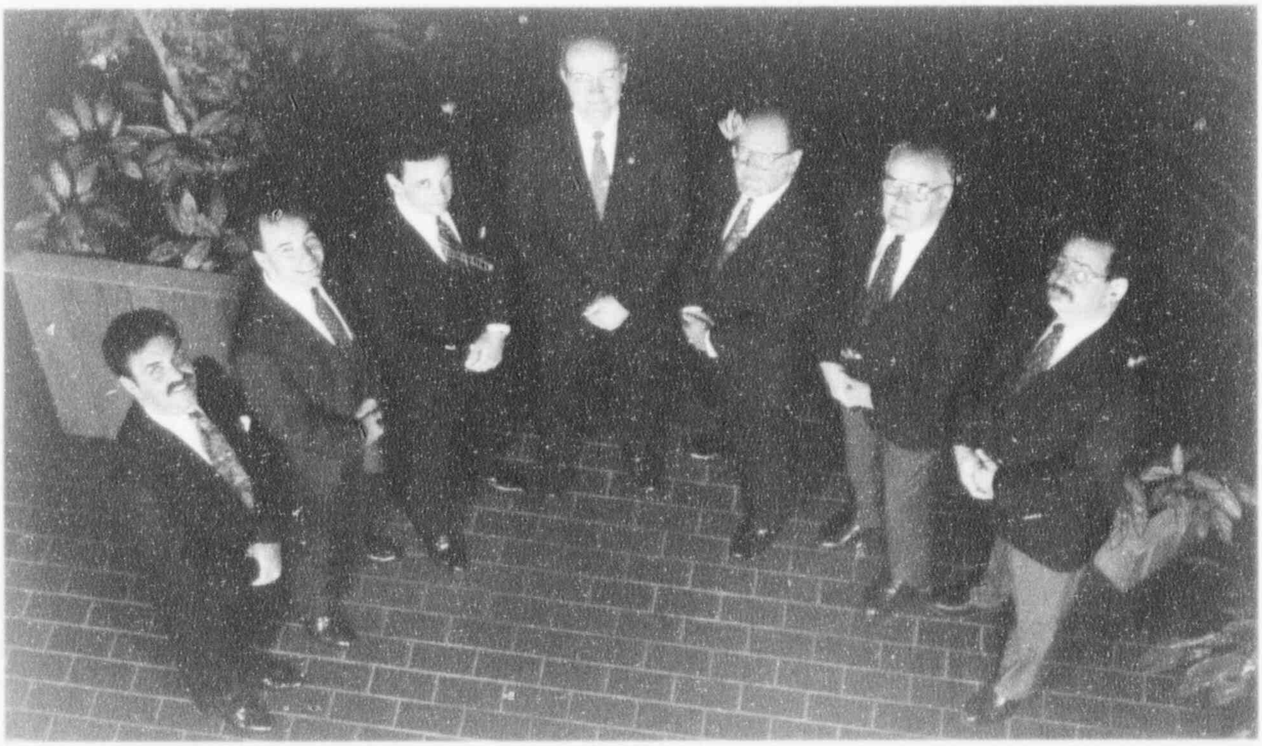
John Anstadt
Sullivan County REC

James Henderson
Sussex REC

Anson Brosius
United EC

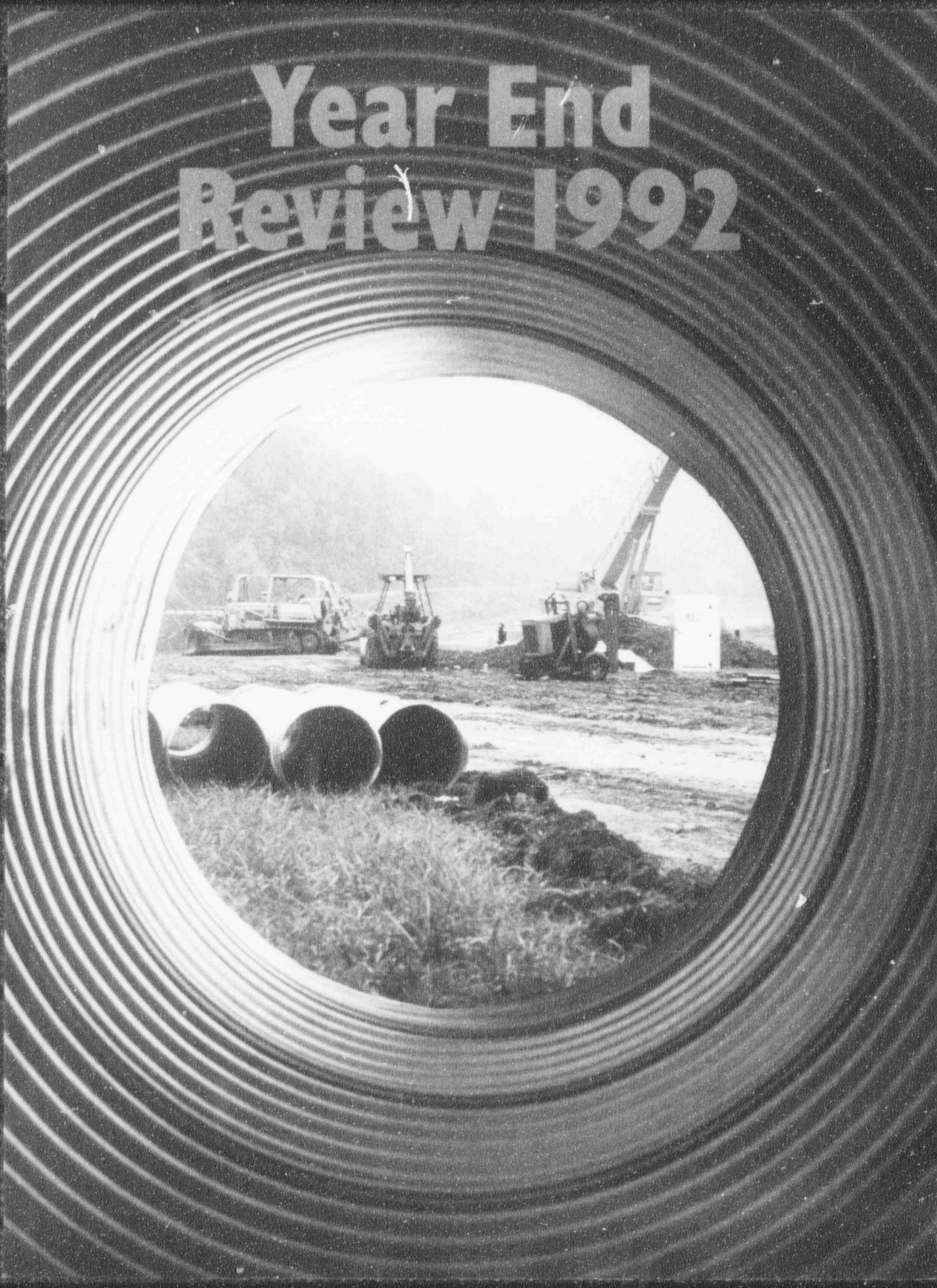
Harold Ritchey
Valley REC

Allegheny Management Team



Allegheny's management team: From left, Rob A. Seide, director of communications; Frank M. Betley, director of power supply & engineering; Anthony C. Adonizio, general counsel & assistant secretary; Jesse C. Tilton III, president; William E. Mowatt, vice president; Robert S. Horn, risk manager; Laurence V. Bladen, director, financial & administrative services.

Year End Review 1992



Summary of Operations—

	Adams	Bedford	Central	Claverack	New Enterprise	Northwestern	Somerset	Southwest
SUMMARY OF OPERATIONS								
Operating revenue	$29,002,766	$8,562,670	$19,629,986	$16,811,766	$3,233,643	$17,637,228	$12,373,773	$23,432,769
OPERATING EXPENSES								
Purchased power	$19,632,198	$5,611,676	$12,083,367	$9,742,768	$2,461,208	$11,447,471	$9,126,670	$17,363,115
Operations & maintenance	$4,904,020	$1,507,502	$4,282,609	$3,905,498	$887,054	$3,531,337	$2,033,520	$3,438,600
Depreciation	$1,513,294	$377,232	$1,041,911	$1,099,321	$162,000	$945,801	$594,854	$923,378
Taxes	$255,926	$75,546	$143,803	$236,217	$30,931	$730,624	$152,331	$164,824
Interest	$1,784,382	$314,776	$1,074,496	$914,563	$0	$923,924	$718,156	$1,063,556
Cost of Electric Service	$28,089,821	$7,886,732	$18,596,186	$15,898,367	$3,541,193	$17,079,158	$12,625,531	$22,953,473
Operating Margins	$912,945	$675,938	$1,033,800	$913,399	($307,551)	$558,070	($251,758)	$479,296
Non-operating margins & capital credits	$128,638	$62,774	$190,202	$122,783	$40,011	$222,540	$144,826	$131,738
Net margins	$1,041,583	$738,712	$1,224,002	$1,036,182	($267,539)	$780,610	($106,932)	$611,034
ASSETS								
Total Utility plant	$53,270,353	$14,602,543	$38,029,910	$36,070,546	$3,426,169	$35,027,933	$23,301,300	$35,357,815
Less accumulated depreciation	$12,258,082	$4,481,017	$9,718,011	$8,927,730	$2,080,492	$9,664,817	$5,267,118	$6,059,076
Net utility plant	$41,012,272	$10,121,527	$28,311,899	$27,142,816	$1,345,677	$25,363,116	$18,034,182	$29,298,739
Other property & investments	$7,674,515	$2,256,269	$5,310,457	$4,122,543	$829,353	$5,673,166	$4,243,238	$6,192,671
Current & accrued assets	$4,814,210	$2,037,176	$5,512,828	$2,562,467	$308,278	$2,510,550	$3,336,831	$2,156,281
Deferred debits	$96,936	$71,761	$103,011	$298,131	$0	$509,934	$30,103	$71,458
Total assets	$53,597,933	$14,486,732	$39,238,195	$34,125,957	$2,483,309	$34,056,766	$25,644,354	$37,719,149
LIABILITIES								
Margins & equities	$19,904,882	$7,177,290	$15,651,252	$12,117,006	$2,285,066	$14,473,939	$10,858,404	$17,956,624
Long-term debt	$31,255,867	$6,268,719	$21,272,306	$18,985,838	$0	$17,653,970	$13,652,986	$17,829,146
Current & accrued liabilities	$2,425,016	$722,578	$2,049,319	$2,978,371	$198,244	$1,874,512	$996,982	$1,877,619
Other credits & reserves	$12,168	$318,145	$264,818	$44,742	$0	$54,345	$135,982	$55,760
Total Liabilities	$53,597,933	$14,486,732	$39,238,195	$34,125,957	$2,483,309	$34,056,766	$25,644,354	$37,719,149
OTHER STATISTICS								
Miles of Line	2,491	1,154	2,949	2,432	375	2,361	1,852	2,431
Consumers served	23,003	7,841	22,067	15,479	2,986	16,610	11,240	19,698
Consumers per mile	9.2	6.8	7.5	6.4	8	7	6.1	8.1
Kwh sold per consumer	12,861	10,764	8,141	9,958	11,650	10,445	12,794	12,545
Mwh sales	295,853	84,401	179,653	154,142	34,788	173,492	143,808	247,107
Annual revenue per consumer	$1,261	$1,092	$890	$1,086	$1,083	$1,062	$1,101	$1,190
Plant investment per consumer	$1,783	..291	$1,283	$1,754	$451	$1,527	$1,604	$1,487
Revenue per mile of line	$11,643	$7,421	$6,656	$6,913	$8,623	$7,469	$6,681	$9,639

Allegheny Member System

Sullivan	Sussex	Tri-County	United	Valley	Warren	TOTAL
$4,161,509	$12,534,093	$14,124,954	$14,061,325	$17,668,423	$5,134,178	$198,369,082
$2,679,357	$6,871,464	$8,111,419	$8,387,488	$11,837,427	$3,199,045	$128,554,673
$789,512	$2,439,989	$3,244,323	$3,056,836	$3,287,248	$1,080,098	$38,388,146
$273,796	$743,421	$894,568	$912,858	$1,035,616	$321,665	$10,809,715
$40,038	$1,291,304	$184,471	$97,792	$159,653	$57,266	$3,120,726
$225,783	$722,335	$1,042,402	$1,250,028	$754,162	$132,270	$10,920,835
$4,008,488	$12,068,513	$13,477,183	$13,705,002	$17,074,106	$4,790,343	$191,794,096
$153,021	$465,580	$647,771	$356,323	$594,317	$343,834	$6,574,986
$36,586	$122,637	$115,091	$177,479	$167,221	$60,738	$1,723,264
$189,607	$588,217	$762,862	$533,802	$761,538	$404,572	$8,298,250
$9,420,447	$24,259,490	$35,030,024	$35,830,083	$36,924,440	$11,612,972	$392,164,025
$3,097,594	$5,893,301	$8,497,345	$9,567,611	$10,369,967	$3,813,911	$99,696,071
$6,322,852	$18,366,189	$26,532,679	$26,262,472	$26,554,473	$7,799,061	$292,467,954
$1,256,775	$2,704,128	[illegible]	$4,843,255	$4,639,041	$1,705,574	$55,131,361
$593,535	$2,696,016	$2,085,828	$3,036,849	$4,698,650	$1,145,480	$37,494,979
$33,032	$306,718	($26,878)	$237,009	$21,281	$480,021	$2,232,517
$8,206,194	$24,073,051	$32,272,006	$34,379,585	$35,913,445	$11,130,136	$387,326,812
$3,083,809	$8,441,882	$12,285,223	$11,282,666	$18,536,355	$7,559,954	$161,614,853
$4,770,120	$13,451,229	$18,112,358	$21,523,773	$15,105,129	$3,130,422	$203,011,863
$352,076	$2,134,570	$1,836,353	$1,164,740	$1,907,615	$188,475	$20,706,470
$189	$45,370	$38,072	$408,406	$364,345	$251,285	$1,993,627
$8,206,194	$24,073,051	$32,272,006	$34,379,585	$35,913,445	$11,130,136	$387,326,813
803	612	2,916	2,631	2,409	1,016	26,432
5,015	9,975	16,140	16,134	17,903	8,574	192,665
6.2	16.3	5.5	6.1	7.4	8.4	7.3
7,658	10,356	6,898	7,226	9,671	5,162	9,863
38,407	103,303	111,329	116,577	173,143	44,258	1,900,260
$830	$1,257	$875	$872	$987	$599	$1,030
$1,261	$1,841	$1,644	$1,628	$1,483	$910	$1,518
$5,186	$20,467	$4,844	$5,344	$7,334	$5,055	$7,505

Allegheny Electric Cooperative, Inc.

ASSETS:	1992	1991	1990	1989	1988
General Plant	648,947,342	640,405,919	633,120,217	616,987,394	609,034,277
Construction Work in Progress	14,214,117	11,495,759	5,903,441	9,240,232	6,938,574
TOTAL PLANT	663,161,459	651,901,679	639,023,658	626,227,626	615,972,851
Accumulated provision for depreciation & amortization	167,818,423	154,581,169	137,581,537	88,725,714	70,828,954
NET PLANT	495,343,036	497,320,510	501,442,121	537,501,912	545,143,897
Non-Utility property - net	4,910,988	5,010,441	4,970,628	5,055,971	5,083,843
Capital Credits - NRUCFC	141,530	125,292	296,167	322,609	344,133
Investments in associated organizations	3,878,851	3,879,055	3,879,261	3,879,452	3,811,153
Other Investments	5,197,077	4,628,698	4,012,303		
Cash - general funds	-99,816	640,291	-887	-457,634	1,296,372
Cash - construction fund	48,695	1,889	12,103	1,483	251,664
Temporary investments	23,226,222	36,895,537	47,019,705	35,078,414	39,577,723
Special funds	1,874,311	1,889,548	1,901,112	1,903,823	2,071,952
Notes receivable	3,367,637	3,695,755	4,148,632		
Accounts receivable	10,350,153	13,766,227	11,549,690	13,734,646	14,411,035
Materials and Supplies-Other	4,947,032	4,694,020	1,113,921	1,052,028	1,030,083
Prepayments	5,250,031	1,133,323	1,113,921	1,052,028	1,030,083
Other current & accrued assets	2,266,810	1,047,743	574,342	342,028	333,278
Deferred debits	3,706,835	2,643,004	499,200	1,350,929	848,811
TOTAL ASSETS	574,072,928	577,371,333	582,532,219	600,817,689	615,234,027
LIABILITIES					
Depreciation	804,908	804,907	804,907	804,768	804,477
Memberships	2,800	2,800	2,800	2,800	2,800
Patronage capital	14,390,760	12,012,827	3,504,255	38,941,810	36,387,453
Donated capital	50,730	50,730	50,730	50,730	50,730
Long-term debt - REA	7,395,044	7,413,005	5,715,056	4,010,892	501,601,153
Long-term debt - other	508,080,384	508,537,784	526,410,577	522,511,395	30,318,791
Notes payable	0	0	15,245,462	4,893,235	5,180,000
Accounts payable	6,183,734	16,830,638	15,245,462	4,287,707	8,801,704
Cost of service adjustment	4,290,266	2,541,259	6,416,815	4,893,235	5,330,430
Accrued taxes	3,815,257	1,815,246	545,874	551,844	346,221
Accrued interest	3,052,458	3,509,277	3,502,011	3,348,615	3,577,179
Other current & accrued liabilities	1,720,611	507,177	683,332	664,308	12,751
Deferred credits	17,926,267	18,130,598	19,341,385	20,502,325	22,594,732
Operating Reserves	7,164,617	6,019,991	577,322,375	584,156,571	591,609,212
TOTAL LIABILITIES	574,072,929	577,371,332	596,663,760	604,658,896	614,203,944
MEMBERS REVENUES					
Adams	19,370,045	18,201,477	16,920,011	16,459,643	15,450,524
Bedford	5,533,837	5,180,139	4,948,332	4,934,084	4,717,574
Central	11,978,857	11,410,378	11,170,252	11,123,585	10,795,933
Claverack	9,611,069	8,901,042	8,739,960	8,678,763	8,348,586
New Enterprise	2,429,876	2,301,401	2,214,818	2,183,582	2,066,695
Northwestern	11,186,990	10,484,591	10,323,184	10,375,739	9,994,179
Somerset	9,793,753	9,106,826	8,737,337	8,772,896	8,351,506
Southwest Central	17,142,056	16,166,475	14,825,514	14,548,709	14,005,635
Sullivan	2,619,316	2,390,777	2,345,952	2,344,198	2,193,827
Sussex	6,778,523	6,534,524	6,312,906	6,333,850	6,004,249
Tri-County	7,906,010	7,450,527	7,199,562	7,194,547	6,887,205
United	8,279,835	7,948,551	7,664,418	7,814,898	7,709,440
Valley	11,694,928	11,122,999	10,650,759	10,555,639	9,955,957
Warren	3,159,357	3,180,782	3,084,646	3,114,060	3,051,498
TOTAL MEMBER REVENUES	127,484,459	120,380,490	115,137,651	114,434,194	109,532,808

Five-Year Financial Statement

ELECTRIC ENERGY SALES:	1992	1991	1990	1989	1988
Members	127,484,460	120,380,490	115,108,723	114,434,195	109,532,808
Non-members	5,935,149	24,966,421	14,138,882	16,057,630	24,347,984
TOTAL RECEIPTS	133,419,609	145,346,911	129,247,605	130,491,825	133,880,792
Cost of power	34,447,974	43,054,251	32,085,914	33,358,887	40,119,659
Wheeling	10,168,786	8,880,653	9,249,841	8,345,773	7,441,025
RAYSTOWN:					
Operation & Maintenance	2,231,109	2,320,600	2,560,147	2,346,261	736,696
Interest	128,693	0	0	0	116,970
Transmission	23,918	206,809	183,550	200,521	0
Taxes	23,293	19,385	16,884 0		
OTHER PROJECTS:					
Operation & Maintenance	290,689	300,322	123,663		
Transmission	62,549	15,401	24,052		
Depreciation	588,886	509,847	466,190		
Taxes	18,912	3,352			
SSES:					
Generation					
Operation & Maintenance	19,697,503	20,958,143	18,024,408	18,518,905	19,490,190
Fuel	7,263,452	8,452,974	9,512,667	9,413,177	8,634,341
Unamort. Debt & Extraordinary Loss	9,663,536				
Depreciation	10,931,235	9,967,034	9,034,865	9,376,144	8,694,096
Taxes	4,282,906	4,243,498	3,437,242	3,429,845	3,608,751
Transmission					
Maintenance	272,597	293,213	216,007	317,266	207,431
Interest	39,608,659	42,319,156	43,018,285	42,724,066	44,147,039
Interest charged to					
Construction - Credit	-1,143,974	-1,041,514	-909,146	-1,233,918	-2,318,873
General & administrative	5,716,858	5,559,603	5,315,694	5,153,748	3,980,637
TOTAL OPERATION EXPENSE	135,395,660	146,871,542	133,167,671	132,772,327	135,662,439
Depreciation	186,884	159,064	131,397	134,988	120,533
Taxes	169,063	141,581	136,143	109,750	102,094
Other deductions	-410,374	-662,593	30,417,247	-701,433	-672,383
TOTAL EXPENSES	135,341,233	146,509,594	163,852,458	132,315,632	135,212,683
Operating margins	-1,921,624	-1,162,683	-34,604,853	-1,823,807	-1,331,891
Interest income	2,845,352	3,691,751	4,636,182	4,328,040	2,924,868
Other - profit/(loss) net	1,397,724	10,081	1,462,261	28,940	596,398
Other capital credits	55,068 0	29,912	21,184	23,825	
NET MARGINS	2,376,520	2,539,148	-28,476,498	2,554,357	2,213,200

PROMPT ACTION RESULTS IN SIGNIFICANT SAVINGS

On February 28, 1992 Allegheny learned through a trade press report that the federal Rural Electrification Administration (REA) would for the first time permit generation and transmission cooperatives, such as Allegheny, to reprice certain outstanding high-cost Federal Financing Bank (FFB) loans. By agreeing to pay the government a prepayment premium equal to one year's interest on the loans being repriced, REA-financed electric systems could reduce the interest rate for the remaining life of the loans to the then-current FFB interest rate.

At its March 5, 1992 meeting, the Allegheny Board of Directors authorized submission of a repricing application. Thanks to this speedy action, Allegheny was one of only 14 borrowers to receive REA approval to reprice a portion of its long-term FFB debt during 1992. Nearly $123 million of FFB loans carrying interest rates ranging from 8.28 to 13.8 percent were repriced by Allegheny on August 31, 1992 to new interest rates averaging 6.78 percent.

The repricing is expected to provide a net savings in rates of $1.42 million during the first year and $19.07 million over the remaining term of the loans. By timing the repricing to take advantage of falling interest rates, Allegheny maximized the savings available. Any delay in submitting the repricing request would have harmed Allegheny since REA limited the number of repricings permitted during 1992.

The interest cost savings achieved by the repricing were incorporated into the 1993 Purchased Power Cost Projections and Member Cooperative Rate Study. Thus the expected net savings were passed on to Allegheny's member cooperatives.

ALLEGHENY ELECTRIC COOPERATIVE, INC.

1992 Annual Report "Blueprints to the Future" Errata Sheet

These pages replace pages 32 & 33 of the Allegheny Electric Cooperative, Inc. 1992 Annual Report which contained a printing error.

Allegheny Electric Cooperative, Inc.

	1992	1991	1990	1989	1988
ASSETS					
General Plant	$648,947,342	$640,405,919	$633,120,217	$616,987,394	$609,034,277
Construction Work in Progress	$14,214,117	$11,495,759	$5,903,441	$9,240,232	$6,938,574
TOTAL PLANT	$663,161,459	$651,901,679	$639,023,658	$626,227,626	$615,972,851
Accumulated provision for depreciation & amortization	$167,818,423	$154,581,169	$137,581,537	$88,725,714	$70,828,954
NET PLANT	$495,343,036	$497,320,510	$501,442,121	$537,501,912	$545,143,897
Non-utility property - net	$4,910,988	$5,010,441	$4,970,628	$5,055,971	$5,083,843
Capital credits - NRUCFC	$141,530	$125,292	$296,167	$322,609	$344,133
Investments in associated organizations	$3,878,851	$3,879,055	$3,879,261	$3,879,452	$3,811,153
Other investments	$5,197,077	$4,628,698	$4,012,303	$0	$0
Cash - general funds	($99,816)	$640,291	($887)	($457,634)	$1,296,372
Cash - construction fund	$48,695	$1,889	$12,103	$1,483	$251,664
Temporary investments	$23,226,222	$36,895,537	$47,019,705	$35,078,414	$39,577,723
Special funds	$1,874,[illegible]1	$1,889,548	$1,901,112	$1,903,823	$2,071,952
Notes receivable	$3,367,637	$3,695,755	$4,148,632	$0	$0
Accounts receivable	$10,350,153	$13,766,227	$11,549,690	$13,734,646	$14,411,035
Materials and supplies - other	$4,947,032	$4,694,020	$0	$0	$0
Prepayments	$5,250,031	$1,133,323	$1,113,921	$1,052,028	$1,630,083
Other current & accrued assets	$2,266,810	$1,047,743	$574,342	$342,028	$333,278
Unamort. debt disc. & EO losses	$9,663,536	$0	$0	$0	$0
Deferred debits	$3,706,835	$2,643,004	$499,200	$1,350,929	$848,811
TOTAL ASSETS	$574,07[illegible],929	$577,371,333	$581,418,298	$599,765,661	$614,203,944
LIABILITIES					
Memberships	$2,800	$2,800	$2,800	$2,800	$2,800
Patronage capital	$14,390,760	$12,012,827	$9,921,071	$38,941,810	$36,387,453
Donated capital	$50,730	$50,730	$50,730	$50,730	$50,730
Long-term debt - REA	$7,395,044	$7,413,005	$5,623,571	$4,010,892	$501,601,153
Long-term debt - other	$508,080,384	$508,537,784	$[illegible]7,133	$522,511,395	$30,318,791
Notes payable	$0	$0	$0	$0	$5,180,000
Accounts payable	$6,183,734	$16,830,638	[illegible]76	$4,287,707	$8,801,704
Cost of service adjustment	$4,290,266	$2,541,259	[illegible]5	$4,893,235	$5,330,430
Accrued taxes	$3,815,257	$1,815,246	[illegible]4	$551,844	$346,221
Accrued interest	$3,052,458	$3,509,277	$3,50[illegible]1	$3,348,615	$3,577,179
Other current & accrued liabilities	$1,720,611	$507,177	$683[illegible]2	$664,308	$12,751
Deferred credits	$17,926,267	$18,130,598	$15,187,[illegible]8	$20,502,325	$22,594,732
Operating reserves	$7,164,617	$6,019,991	$4,153,917	$0	$0
TOTAL LIABILITIES	$574,072,929	$577,371,333	$581,418,298	$599,765,661	$614,203,944
MEMBER REVENUES					
Adams	$19,370,045	$18,201,477	$16,920,011	$16,459,644	$15,450,524
Bedford	$5,533,837	$5,180,138	$4,948,332	$4,934,084	$4,717,574
Central	$11,978,858	$11,410,378	$11,170,252	$11,123,586	$10,795,933
Claverack	$9,611,069	$8,901,042	$8,739,960	$8,678,763	$8,348,586
New Enterprise	$2,429,877	$2,301,401	$2,214,818	$2,183,582	$2,066,695
Northwestern	$11,186,991	$10,484,591	$10,323,184	$10,375,739	$9,994,179
Somerset	$9,793,753	$9,106,826	$8,737,337	$8,772,896	$8,351,506
Southwest Central	$17,142,057	$16,166,475	$14,825,514	$14,548,709	$14,005,63[illegible]
Sullivan	$2,619,317	$2,390,777	$2,345,952	$2,344,198	$2,193,827
Sussex	$6,778,523	$6,534,524	$6,312,906	$6,333,850	$6,004,249
Tri-County	$7,906,011	$7,450,527	$7,199,562	$7,194,547	$6,887,205
United	$8,279,836	$7,948,551	$7,664,418	$7,814,898	$7,709,440
Valley	$11,694,928	$11,123,000	$10,650,759	$10,555,639	$9,955,957
Warren	$3,159,358	$3,180,783	$3,084,646	$3,114,060	$3,051,498
TOTAL MEMBER REVENUES	$127,484,460	$120,380,490	$115,137,651	$114,434,195	$109,532,808

Five-year Financial Statement

	1992	1991	1990	1989	1988
ELECTRIC ENERGY SALES:					
Members	$127,484,460	$120,380,490	$115,137,651	$114,434,195	$109,532,808
Non-Member	$5,935,149	$24,966,421	$14,109,954	$16,057,630	$24,347,984
TOTAL RECEIPTS	$133,419,609	$145,346,911	$129,247,605	$130,491,825	$133,880,792
Cost of Power	$34,447,974	$43,054,251	$32,085,914	$33,358,887	$40,119,659
Wheeling	$10,168,786	$8,880,653	$9,249,841	$8,345,773	$7,441,025
RAYSTOWN:					
Generation					
Operation & Maintenance	$2,231,109	$2,320,600	2,560,147	$2,346,261	$736,696
Interest	$0	$0	$0	$0	$116,970
Transmission	$128,693	$206,809	$183,550	$200,521	$0
Taxes	$23,918	$23,293	$19,385	$16,884	$0
OTHER PROJECTS:					
Operation & Maintenance	$290,689	$300,322	$123,663	$0	$0
Transmission	$62,549	$15,401	$24,052	$0	$0
Depreciation	$588,886	$509,847	$466,190	$0	$0
Taxes	$18,912	$3,352	$0	$0	$0
SSES:					
Generation					
Operation & Maintenance	$19,697,503	$20,958,143	$18,024,408	$18,518,905	$19,490,190
Fuel	$7,263,452	$8,452,974	$9,512,667	$9,413,177	$8,634,341
Depreciation	$10,931,235	$9,967,034	$9,034,865	$9,376,144	$8,694,096
Taxes	$4,282,906	$4,243,498	$3,437,242	$3,429,845	$3,608,751
Transmission					
Maintenance	$272,597	$293,213	$216,007	$317,266	$207,431
Depreciation	$804,908	$804,907	$804,907	$804,768	$804,477
Interest	$39,608,659	$42,319,156	$43,018,285	$42,724,066	$44,147,039
Interest charged to Construction - Credit	($1,143,974)	($1,041,514)	($909,146)	($1,233,918)	($2,318,873)
General & Administrative	$5,716,858	$5,559,603	$5,315,694	$5,153,748	$3,980,637
TOTAL OPERATION EXPENSE	$135,395,660	$146,871,542	$133,167,671	$132,772,327	$135,662,439
Depreciation	$186,884	$159,063	$131,397	$134,988	$120,533
Taxes	$169,063	$141,582	$136,143	$109,750	$102,094
Other Deductions	($410,374)	($662,593)	$30,417,247	($701,433)	($672,383)
TOTAL EXPENSES	$135,341,233	$146,509,594	$163,852,458	$132,315,632	$135,212,683
Operating Margins	($1,921,624)	($1,162,683)	($34,604,853)	($1,823,807)	($1,331,891)
Interest Income	$2,845,352	$3,691,751	$4,636,182	$4,328,040	$2,924,868
Other - profit/(loss) net	$1,397,724	$10,081	$1,462,261	$28,940	$596,398
Other capital credits	$55,068	$0	$29,912	$21,184	$23,825
NET MARGINS	$2,376,520	$2,539,149	($28,476,498)	$2,554,357	$2,213,200

Allegheny
ELECTRIC COOPERATIVE, INC.

212 Locust Street • P.O. Box 1266 • Harrisburg, Pa. 17108-1266

MARGINS

The 1992 margins of $2,376,520 met Allegheny's Times Interest Earned Ratio (TIER) goal of 1.06. Additional margins of $4,290,266 in excess of this TIER requirement earned during 1992 will flow back to member cooperatives in 1993 through Allegheny's Annual Operating Adjustment.

FINANCING

The largest expense item for Allegheny is interest on long-term debt. In 1992, it accounted for more than 28 percent of total expenses.

To help control interest costs, every effort is made to obtain the lowest-cost financing vehicles available. These have included pollution control bonds, commercial paper, lines of credit, REA insured and guaranteed loans, and leveraged leasing. As of October 31, 1992, Allegheny's dollar weighted average interest rate on outstanding debt (excluding leveraged lease debt) was 7.68 percent.

POLLUTION CONTROL BONDS: Allegheny has been able to achieve very attractive interest rates by using variable rate tax-exempt pollution control revenue bonds to finance a portion of the pollution control facilities at the Susquehanna Steam Electric Station (SSES). In 1992, the average yield on the bonds, which bear interest at weekly and monthly variable rates, was 3.4 percent. These bonds—issued though the Lehigh County Industrial Development Authority—are backed by irrevocable letters of credit from Rabobank Nederland.

COMMERCIAL PAPER: Allegheny maintains a commercial paper program to supplement short-term project financing. Moody's Investors Services has assigned its Prime-2 rating to this program. No commercial paper was issued or outstanding during 1992.

LINE OF CREDIT: In fiscal year 1992, Allegheny had a $21.4 million line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC). When needed, this line of credit is used to supplement project financing. The cooperative did not draw on these funds in 1992.

REA INSURED AND GUARANTEED LOANS: A traditional blend of REA insured and REA guaranteed loans, which makes up the majority of Allegheny's debt portfolio, continues to be Allegheny's primary source of financing. REA guaranteed loans made by the Federal Financing Bank (FFB) are used to finance certain additions to SSES. Approximately 17 percent of the $476.5 million of the outstanding FFB loans bear short term interest rates of two years. The remaining FFB loans have 35 year maturities and bear a weighted average interest rate of 7.67 percent. Allegheny utilizes REA insured loans to finance transmission and load management projects. Bearing interest at 5 percent, these loans are an attractive low-cost source of financing.

LEVERAGED LEASE: The leveraged leasing of the Raystown Hydroelectric Project has ensured the cost of power produced by the project is lower than the cost of the purchased power it replaced.

Under the lease agreement, Allegheny controls the placement of the $20.5 million debt portion of the lease. To take advantage of the continuing decline in interest rates, Allegheny has placed 60 percent of the lease debt in various maturities ranging from 30 days to 4 years. This resulted in a blended interest rate of 7.09 percent in 1992. Compared to placing the total lease debt in a two-year maturity, an interest savings of $197,000 was realized for fiscal year 1992.

CFC: In addition to providing Allegheny with a line of credit, CFC has provided financing for the Locust Court Building (Allegheny headquarters) plus loans of $4.4 million for load management and transmission facilities.

TAXABILITY: Allegheny has a private letter ruling from the Internal Revenue Service providing for the cooperative to remain taxable until an application is made to become a tax-exempt organization again. Allegheny expects to have tax losses to carry forward to offset regular tax liability for the foreseeable future. Allegheny continues to be subject to the Alternative Minimum Tax (AMT) provisions of the Internal Revenue Code. Allegheny believes that the tax liabilities arising from the AMT will remain negligible.

REGULATION: Unlike for-profit, investor-owned utilities, Allegheny and its member cooperatives are consumer-owned and non-profit. They are self-regulated by their consumer-members acting through a democratically-elected board of directors and thus are not under the jurisdiction of the Pennsylvania Public Utility Commission or the New Jersey Board of Public Utilities. However, REA does review the cooperative's rate making and operating practices.

Allegheny's board of directors are democratically elected. One director is selected from each of Allegheny's member cooperatives. The board governs all policies, including the establishment of rates. Board review of the rate-making process and approval of each rate change assures the member cooperatives that the price they pay for electricity is fair and reasonable.

ALL-REQUIREMENTS CONTRACT: Each of the 14 cooperatives served by Allegheny has entered into a Wholesale Power and Power Cost Pooling Contract, commonly referred to as an All-Requirements Contract. As a condition for approval of loans to Allegheny, REA required Allegheny's member co-ops to execute these contracts. All generation and transmission cooperatives borrowing money from REA are required to have substantially similar contracts signed by their member distribution systems.

By signing this contract, Allegheny's member distribution cooperatives agree to purchase all their power supply needs from Allegheny. They also agree to adjust their retail rates to meet all costs and TIER requirements.

In January 1977, each of Allegheny's member cooperatives executed an amendment to the original 1965 contract to cover Allegheny's purchase of 10 percent of SSES. The amendment extended the contract through December 31, 2025 to cover the life of the plant.

TERRITORIAL INTEGRITY: The Unincorporated Area Certified Territory Law of 1990, originally signed into law in July 1975 and codified in 1990, assigns exclusive territories for all of Pennsylvania's rural electric cooperatives and private power companies in areas outside the corporate limits of cities and boroughs. The law states that each electric supplier has the exclusive right and duty to provide service within its own territory.

This law helps avoid costly duplication of electric lines and facilities, waste of materials and natural resources, plus improves electric system efficiency by allowing electric utilities to make long-term contracts for power and plan necessary capital improvements. It also allows cooperatives to retain large loads such as businesses, factories and retail centers that move into co-op territory. These additional loads help the cooperatives, which primarily serve sparsely-populated areas, to moderate rates by spreading their costs over greater sales.

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Coopers
&Lybrand

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Allegheny Electric Cooperative, Inc.

We have audited the accompanying balance sheets of Allegheny Electric Cooperative, Inc. (Allegheny) as of October 31, 1992 and 1991 and the related statements of operations, equities, and cash flows for the years then ended. These financial statements are the responsibility of Allegheny's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allegheny Electric Cooperative, Inc. as of October 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

5 North Fifth Street
Harrisburg, Pennsylvania
January 15, 1993

BALANCE SHEETS

as of October 31, 1992 and 1991
(in thousands)

	1992	1991
ASSETS		
Electric utility plant:		
In service	$644,425	$632,559
Construction work in process	14,214	11,496
Nuclear fuel in process	4,511	7,847
	663,154	651,902
Less accumulated depreciation and amortization	167,818	154,581
	495,336	497,321
OTHER ASSETS AND INVESTMENTS:		
Nonutility property, at cost (net of accumulated depreciation of $1,847 in 1992 and $1,656 in 1991)	4,916	5,010
Investments in associated organizations	4,069	4,068
Notes receivable from members, less current portion	3,368	3,695
Other investments	6,994	6,427
Other noncurrent assets	522	554
	19,869	19,754
CURRENT ASSETS:		
Cash and cash equivalents	23,391	37,117
Accounts receivable, including accounts receivable from members of $9,729 in 1992 and $10,081 in 1991	9,920	13,374
Inventories	4,947	4,694
Other current assets	3,339	2,470
	41,597	57,655
Deferred charges	13,370	2,643
	$570,172	**$577,373**
EQUITIES:		
Memberships	$ 3	$ 3
Donated capital	51	51
Patronage capital	37,952	37,952
Other margins and equities	(23,561)	(25,937)
	14,445	12,069
LONG-TERM DEBT, LESS CURRENT PORTION	504,127	513,218
CURRENT LIABILITIES:		
Current portion of long-term debt	11,348	13,645
Accounts payable and accrued expenses	10,686	11,550
Accounts payable to members	4,475	2,741
	26,509	27,936
OTHER LIABILITIES AND DEFERRED CREDITS:		
Accrued nuclear decommissioning	7,165	6,020
Deferred income tax benefits from safe harbor lease	10,711	11,454
Other deferred credits	7,215	6,676
	25,091	24,150
	$570,172	**$577,373**

S e accompanying notes to financial statements.

STATEMENTS OF OPERATIONS

for the years ended October 31, 1992 and 1991
(in thousands)

	1992	1991
Operating revenue, including sales to members of $127,495 in 1992 and $120,380 in 1991	$133,438	$145,347
Operating expenses:		
Purchased power	34,448	43,054
Transmission — operation	10,531	9,319
Transmission — maintenance	98	69
Production — operation	15,674	15,556
Production — maintenance	6,258	7,731
Fuel	7,263	8,453
Depreciation, net	12,511	11,441
Taxes	4,336	4,279
Administrative and general	6,186	5,994
	97,305	105,896
Operating margin before interest and other deductions	36,133	39,451
Interest and other deductions (income):		
Interest expense, net of allowance for funds used during construction of $1,144 in 1992 and $1,042 in 1991	38,465	41,277
Other deductions (income), net	(965)	14
	37,500	41,291
Operating deficit	(1,367)	(1,840)
Nonoperating margins:		
Net nonoperating rental loss	(21)	(72)
Interest income	2,840	3,657
Other	924	794
	3,743	4,379
Net margin	**$ 2,376**	**$ 2,539**

See accompanying notes to financial statements.

STATEMENTS OF EQUITIES

for the years ended October 31, 1992 and 1991
(in thousands)

	Memberships	Donated Capital	Patronage Capital	Other Margins and Equities	Unrealized Loss on Marketable Equity Securities	Total
Balance at November 1, 1990	$3	$51	$38,574	$(28,476)	$(177)	$ 9,975
Change in unrealized loss on marketable equity securities					177	177
Net margin				2,539		2,539
Retirement of capital credits			(622)			(622)
Balance at October 31, 1991	3	51	37,952	(25,937)	—	12,069
Net margin				2,376		2,376
Balance at October 31, 1992	$3	$51	$37,952	$(23,561)	—	$14,445

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

for the years ended October 31, 1992 and 1991
(in thousands)

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 2,376	$ 2,539
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and fuel amortization	19,053	19,218
Amortization of deferred charges and deferred credits	(3,585)	(859)
Gain on sale of other investments	(200)	(116)
Increase (decrease) in cash due to changes in operating assets and liabilities:		
Accounts receivable	3,454	(2,329)
Inventories	(253)	(224)
Other current and noncurrent assets	(855)	(438)
Deferred charges	(33)	(361)
Accounts payable and accrued expenses	(864)	(1,885)
Accounts payable to members	1,734	(3,799)
Other liabilities and deferred credits	3,603	(687)
Net cash provided by operating activities	**24,430**	**11,059**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric utility plant and nonutility property	(16,991)	(15,359)
Purchase (redemption) of investments in associated organizations	(1)	182
Payments received on notes receivable from members	362	322
Purchase of other investments	(8,604)	(12,514)
Proceeds from sale of other investments	8,209	12,281
Net cash used in investing activities	**(17,025)**	**(15,088)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	4,531	3,933
Payments on long-term debt	(15,919)	(9,196)
Payment of debt repurchase premium	(9,743)	—
Retirement of capital credits	—	(622)
Net cash used in financing activities	(21,131)	(5,885)
Decrease in cash and cash equivalents	(13,726)	(9,914)
Cash and cash equivalents at beginning of year	37,117	47,031
Cash and cash equivalents at end of year	**$23,391**	**$37,117**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Allegheny Electric Cooperative, Inc. (Allegheny) is a rural electric cooperative utility established under the laws of the Commonwealth of Pennsylvania. Financing assistance is provided by the U.S. Department of Agriculture, Rural Electrification Administration (REA) and, therefore, Allegheny is subject to certain rules and regulations promulgated for rural electric borrowers by REA. Allegheny is a generation and transmission cooperative, providing power supply to fourteen owner/members who are rural electric distribution cooperative utilities providing electric power to consumers in certain areas of Pennsylvania and New Jersey.

Allegheny maintains its accounting records in accordance with the Federal Energy Regulatory Commission's chart of accounts as modified and adopted by REA.

Electric Utility Plant and Depreciation:

Electric utility plant is stated at cost, which includes an allowance for funds used during construction. Depreciation for nuclear utility plant and production assets is provided on the modified sinking fund method under the amended phase-in plan adopted to conform to Financial Accounting Standards Board Statement No. 92, "Regulated Enterprises - Accounting for Phase-in Plans" (Statement No. 92). The straight-line method is used for all other assets, except nuclear fuel. The cost of units of property retired or replaced is removed from utility plant accounts and charged to accumulated depreciation.

Nuclear Fuel:

Nuclear fuel is charged to fuel expense based on the quantity of heat produced for electric generation. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel removed from nuclear reactors. Allegheny currently pays to Pennsylvania Power & Light Company (PP&L), co-owner of Susquehanna Steam Electric Station (SSES), its portion of DOE fees for such future disposal services.

Cost of Decommissioning Nuclear Plant:

The estimated cost of decommissioning Allegheny's portion of SSES is approximately $36.4 million and is being accrued over the estimate useful life of the plant. Decommissioning costs are included in rates to the extent required to meet the funding schedule approved by the Nuclear Regulatory Commission (NRC). Differences between amounts accrued and amounts collected in current rates are deferred for future recovery in accordance with the funding schedule. As of October 31, 1992 and 1991, deferred charges included $2.8 million and $1.8 million, respectively, of deferred nuclear decommissioning costs.

As required by the NRC, Allegheny established a Decommissioning Trust Fund (Trust Fund B) which is restricted for use to ultimately decommission SSES. In accordance with the NRC funding schedule, $0.9 million and $0.8 million was funded to the Trust Fund B for the years ended October 31, 1992 and 1991, respectively. Allegheny's Board of Directors has restricted as of October 31, 1992 and 1991, $3.4 million and $3.8 million, respectively, of Trust Fund A for future payments to Trust Fund B. Trust Fund A and B are included in other investments.

Accrued nuclear decommissioning as of October 31, 1992 and 1991 was $7.2 million and $6.0 million, respectively.

1. Summary of Significant Accounting Policies, continued:

Allowance for Funds Used During Construction:

Allowance for funds used during construction represents the cost of directly related borrowed funds used for construction of or additions to an electric utility plant. The allowance is capitalized as a component of the cost of electric utility plant while under construction.

Investments in Associated Organizations:

Investments in associated organizations are carried at cost.

Preliminary Surveys:

Costs of preliminary surveys for potential development projects are recorded as deferred charges. If construction of a project results from such surveys, the deferred charges are transferred to the cost of the facilities. If a preliminary survey is abandoned, the costs incurred are charged to operations.

Cash Equivalents:

For purposes of the statements of cash flows, Allegheny considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, plus accrued interest, which approximates market value.

Inventories:

Effective January 1, 1991, Allegheny began to account for certain power plant spare parts using a deferred inventory method. Under this method, purchases of spare parts under inventory control are included in an inventory account and then charged to the appropriate capital or expense accounts when the parts are used or consumed.

The value of these spare parts was $4.5 million and was recorded as an increase in inventory on the balance sheet. The associated income statement effect was recorded as a deferred credit and will be amortized as a credit to expense over a three-year period consistent with the ratemaking treatment.

In May 1992, Allegheny received permission from the Internal Revenue Service to use this method of accounting for income tax purposes. Therefore, Allegheny will include the value of these spare parts in taxable income over a six-year period beginning with the tax year ended October 31, 1991.

Inventories are carried at the lower of cost or market value, cost being determined on the average cost method.

Other Investments:

Other investments include U.S. government obligations, corporate obligations, and common stocks (marketable equity securities). The U.S. government and corporate obligations are stated at amortized cost which approximates market value. Marketable equity securities are carried at the lower of their aggregate cost or market value. Changes in net unrealized losses on noncurrent marketable equity securities are recorded directly in a separate equities' account and are not included in the determination of net margin. Realized gains and losses are determined on a specific identification basis.

Patronage Capital and Other Margins and Equities:

Allegheny had established an unallocated equity account, Other Margins and Equities, as a result of a charge against income in connection with the adoption of Statement No. 92. This charge against income was recorded as a deficiency in an unallocated equity account since the amount is not allocable to Allegheny's members. All margins recognized by Allegheny are required by REA to be used to reduce this deficiency.

1. Summary of Significant Accounting Policies, continued:

Rates:

The Board of Directors of Allegheny has full authority to establish electric rates subject to approval by REA.

Revenues:

Revenues from the sale of electricity are recorded based on billings to members and on contracts and scheduled power usages, as appropriate.

Income Taxes:

Net operating losses for financial and tax reporting purposes differ as a result of timing differences relating primarily to depreciation. Investment tax credits, other than those sold through the safe harbor lease arrangement, are accounted for under the flow-through method whereby credits are recognized as a reduction of income tax expense in the year in which the credit is utilized for tax purposes.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109), which requires a change, effective for the fiscal year beginning November 1, 1993, from the current method of accounting for income taxes pursuant to Accounting Principles Board Opinion No. 11, to the liability method. Management expects that the adoption of Statement No. 109 will not have a material impact on Allegheny's net margin or financial position.

Margin Stabilization Plan and Annual Operating Adjustment Plan:

During 1992 Allegheny established an annual operating adjustment plan, which has been approved by REA, to replace the margin stabilization plan which was terminated as of October 31, 1991. Under the provisions of both plans, Allegheny develops a budgeted margin each year based on a targeted Times Interest Earned Ratio (TIER) of 1.06. If the actual margin realized is in excess of the TIER, Allegheny records the difference as a reduction of the current year's operating revenue and as a liability to its members.

The plans differ in that under the margin stabilization plan if the actual margin realized was less than the TIER, Allegheny was permitted to record the difference as an addition to the current year's operating revenue and as a receivable from its members. Under the annual operating adjustment program, Allegheny is not permitted to record the difference by which actual margins realized are less than the TIER as an addition to the current year's operating revenue and as a receivable from members. The liability to members, if any, recorded at the end of each year is incorporated into Allegheny's rate structure for the following year through a cost-of-service billing adjustment made by Allegheny to its members.

For the years ended October 31, 1992 and 1991, operating revenues were reduced by $4.3 million and $2.5 million, respectively, due to actual margins exceeding the TIER. These amounts are included in accounts payable to members as of October 31, 1992 and 1991.

In accordance with REA requirements the aforementioned margin stabilization plan ceased as of October 31, 1991, with credits to members for the October 31, 1991 liability continuing through October 31, 1992.

Reclassification:

The 1991 financial statements have been reclassified to conform with the current year presentation.

2. Electric Utility Plant In Service:

Electric utility plant in service consists of the following as of October 31, 1992 and 1991:

	Depreciation/ Amortization, Lives/Rates	1992 (in thousands)	1991
Nuclear Utility Plant:			
Production	39 years	$516,345	$516,391
Transmission	2.75%	35,444	32,193
General plant	3% - 12.5%	859	859
Nuclear fuel	Heat production	84,670	76,314
		637,318	625,757
Non-Nuclear Utility Plant	3% - 33%	7,111	6,802
Total		**$644,429**	**$632,559**

3. Susquehanna Steam Electric Station:

Allegheny owns a 10% undivided interest in SSES. PP&L owns the remaining 90%. Both participants provide their own financing. Allegheny's portion of SSES' assets, which included electric utility plant in service, construction and nuclear fuel in progress, totalled $645 million and $639 million as of October 31, 1992 and 1991, respectively. Allegheny's share of anticipated costs for ongoing construction and nuclear fuel for SSES is estimated to be approximately $63 million over the next five years. Allegheny receives a portion of the total SSES output equal to its percentage ownership. The balance sheets and statements of operations reflect Allegheny's respective share of assets, liabilities and operations associated with SSES.

4. Investments in Associated Organizations:

Investments in associated organizations, at cost, consists of the following as of October 31, 1992 and 1991:

	1992 (in thousands)	1991
National Rural Utilities Cooperative Finance Corporation (CFC) Subordinated Term Certificates, bearing interest from 0% to 5%, maturing January 1, 2014 through October 1, 2080	$3,860	$3,860
National Rural Utilities Cooperative Finance Corporation Capital Term Certificates	142	125
National Bank for Cooperatives: Stock certificates	48	63
Other	19	20
	$4,069	**$4,068**

Allegheny is required to maintain these investments pursuant to certain loan and guarantee agreements.

5. Notes Receivable From Members:

Notes receivable from members arise from the lease of load management equipment to the member cooperatives. Such notes bear interest at a variable rate (5.189% and 5.761% as of October 31, 1992 and 1991, respectively) and mature at various dates through September 30, 2000.

6. Other Investments:

Other investments consists of the following as of October 31, 1992 and 1991:

	1992 Cost (in thousands)	1992 Market (in thousands)	1991 Cost (in thousands)	1991 Market (in thousands)
DECOMMISSIONING TRUST FUND A:				
Money market funds	$ 103	$ 103	$ 64	$ 64
U.S. Government securities	1,161	1,187	1,824	1,874
Corporate bonds	1,088	1,104	913	935
Common stocks	1,055	1,153	990	1,095
	3,407	3,547	3,791	3,968
NRC MANDATED DECOMMISSIONING TRUST FUND B:				
Money market funds	39	39	33	33
U.S. Government securities	1,403	1,427	779	793
Corporate bonds	315	313	—	—
	1,757	1,779	812	826
DEBT SERVICE RESERVE FUND:				
U.S. Government securities	1,796	1,796	1,775	1,775
Accrued interest receivable	34	34	49	49
	$6,994	**$7,156**	**$6,427**	**$6,618**

The gross unrealized gains and losses in the value of common stocks were $172 and $74, respectively, as of October 31, 1992 and $144 and $39, respectively, as of October 31, 1991.

7. Deferred Charges:

Deferred charges consists of the following as of October 31, 1992 and 1991:

	1992 (in thousands)	1991 (in thousands)
Unamortized FFB debt repurchase premium	$ 9,664	—
Nuclear decommissioning costs	2,838	$1,796
Low level radiation waste facility costs	502	349
Safe harbor lease closing costs	242	254
Preliminary surveys	124	244
	$13,370	**$2,643**

8. Long-Term Debt:

Long-term debt consists principally of advances under mortgage notes payable for electric utility plant to REA and to the United States of America acting through the Federal Financing Bank (FFB) and guaranteed by REA. Substantially all the assets of Allegheny are pledged as collateral. Long-term debt consists of the following as of October 31, 1992 and 1991:

	1992	1991
	(in thousands)	
Advances under mortgage notes payable to FFB at interest rates varying from 4.879% to 10.734% in 1992 and 6.418% to 13.820% in 1991, due in varying amounts through 2021	$476,462	$487,276
Pollution Control Revenue Bonds, payable semi-annually, including interest through 2014. Variable rates ranged from 1.75% to 6.50% in 1992 and 3.75% to 6.0% in 1991	26,600	27,000
Mortgage loan payable to CFC, payable in various quarterly installments, including interest through January 2015. Variable rates ranged from 5.00% to 6.625% in 1992 and 6.625% to 9.125% in 1991	1,939	1,973
Notes payable to CFC, payable in various quarterly installments, including interest through October 2019. Variable rates ranged from 5.00% to 6.625% in 1992 and 6.625% to 9.125% in 1991	3,075	3,101
5% mortgage notes payable to REA due in varying amounts through 2019	7,399	7,513
	515,475	526,863
Less current portion	11,348	13,645
	$504,127	**$513,218**

Allegheny has the option on advances under long-term mortgage notes payable to FFB to elect (subject to REA approval) a short-term interest rate with an interim maturity date of two years after the date of the advance. At the date of the advance or on the maturity of an interim advance, Allegheny may also designate that it desires a long-term interest rate with a long-term maturity up to a maximum of 34 years from the end of the calendar year in which the note was issued. As of October 31, 1992 and 1991, Allegheny had elected short-term interest rates and interim maturities on advances under these mortgage notes payables to FFB of $82.6 million and $92.2 million, respectively. The remaining advances under mortgage notes payable to FFB have previously been converted to long-term interest rates and maturities. As of October 31, 1992, Alle-

8. Long-Term Debt, continued:

gheny had $25.5 million of advances which are scheduled to mature and have interest rates reset within one year. Allegheny intends to roll these advances over for additional two-year periods or to extend them to long-term maturities, in accordance with the mortgage agreement.

Effective August 31, 1992, Allegheny executed a three-party agreement modifying promissory note with FFB and REA resulting in a one-time reduction of the interest rates on certain advances made to Allegheny by FFB under the original mortgage notes. Total outstanding advances modified under the agreement amounted to $122.0 million. Under terms of the agreement, Allegheny was required to pay a repurchase premium, as calculated by REA, of $9.7 million. This premium was recorded as a deferred charge and will be amortized over the remaining term of the advances modified by the agreement.

Long-term Pollution Control Revenue Bonds (Bonds) were issued by an industrial development authority on Allegheny's behalf. The Bonds are subject to purchase on demand of the holder and remarketing on a "best efforts" basis until the Bonds are converted to a fixed interest rate at Allegheny's option. If a fixed interest rate is established for the Bonds, the Bonds will cease to be subject to purchase by the remarketing agent or the trustee. The Bonds are collateralized by irrevocable letters of credit from Rabobank Nederland which are backed by a five-year credit facility in the event the bondholders tender the Bonds prior to the conversion to a fixed interest rate and the Bonds cannot be remarketed. The stated amount of the letters of credit are equal to the amount of outstanding Bonds plus an amount equal to sixty-five days' interest accrued on the Bonds at 12%. The indenture agreement contains various redemption provisions with redemption prices ranging from 100% to 103%. Included in other investments, at both October 31, 1992 and 1991, are $1.8 million of investments which relate to a debt service reserve fund required under the bond indenture.

FUTURE MATURITIES OF ALL LONG-TERM DEBT FOR THE NEXT FIVE YEARS ARE AS FOLLOWS (IN THOUSANDS):

1993	$11,348
1994	12,014
1995	12,527
1996	13,045
1997	13,703

The above maturity schedule reflects management's intent to convert advances under mortgage notes payable to FFB with interim maturity dates to long-term debt.

Allegheny has a short-term line of credit available with CFC of $21.4 million. There were no amounts outstanding as of October 31, 1992 or 1991. The interest rate is generally at prime plus 1%. Restrictions are imposed under the line of credit arrangement including, among other things, maintenance of ratio requirements under existing long-term debt arrangements and limitations of total short-term indebtedness.

As of October 31, 1992, Allegheny had unadvanced portions of certain existing REA, FFB and CFC long-term commitments of $40.7 million.

Allegheny is required by mortgage covenants to maintain certain levels of interest coverage and annual debt service coverage. Allegheny was in compliance with such requirements as of October 31, 1992 and 1991.

Certain of Allegheny's long-term debt is at variable interest rates and is therefore subject to various market and interest rate fluctuations.

8. Long-Term Debt, continued:

During 1992 and 1991, Allegheny incurred interest costs of $39.6 million and $42.3 million, respectively, of which $1.1 million and $1.0 million, respectively, was capitalized as part of the construction of the electric utility plant. Interest paid, net of amounts capitalized, was $39.0 million and $41.3 million, respectively.

9. Deferred Credits:

Deferred credits consists of the following as of October 31, 1992 and 1991:

	1992	1991
	(in thousands)	
SSES inventory adjustment	$2,980	$4,469
1992 cash settlement (See Note 12)	2,333	—
Raystown lease gain	1,741	1,786
Deferred compensation arrangement with PREA	161	248
Other	—	173
	$7,215	**$6,676**

10. Income Taxes:

As of October 31, 1992, Allegheny had available nonmember net operating loss carryforwards of $190.0 million for tax reporting purposes expiring through 2006 and investment tax credit carryforwards of approximately $22.1 million expiring through 2003. Allegheny also had operating loss carryforwards attributable to member activities of $129.2 million for tax reporting purposes which may be carried forward indefinitely.

11. Related Party Transactions:

Allegheny has an arrangement with an associated organization, Pennsylvania Rural Electric Association (PREA), under which PREA provides Allegheny with certain management, general, and administrative services on a cost reimbursement basis. Total costs for the services provided for the years ended October 31, 1992 and 1991 were approximately $4.0 million and $3.6 million, respectively.

12. Commitments and Contingencies:

Insurance:

Allegheny and PP&L are members of certain insurance programs which provide coverage for property damage to members' nuclear generating plants. Allegheny's portion of the facilities at SSES is insured against property damage losses up to $21.5 million under these programs. Allegheny is also a member of an insurance program which provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, Allegheny could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. The maximum amount Allegheny could be assessed under these programs during the current policy year is $0.9 million.

Allegheny's public liability for claims resulting from a nuclear incident is currently limited to $780.7 million under provisions of the Price-Anderson Amendments Act of 1988 (Act), which extended the Price-Anderson Act to August 1, 2002. Allegheny is protected against this potential liability by a combination of commercial insurance and an industry retrospective assessment program.

In the event of a nuclear incident at any of the facilities owned by others and covered by the Act, Allegheny could be assessed up to $12.6 million per incident, but not more than $2.0 million in a calendar year.

12. Commitments and Contingencies, continued:

Safe Harbor Leases:

Allegheny previously sold certain investment and energy tax credits and depreciation deductions pursuant to a safe harbor lease. The proceeds from the sale, including interest earned thereon, have been deferred and are being recognized on the statements of operations over the 30-year term lease. The net proceeds and related interest were required by REA to be used to retire outstanding FFB debt.

Under the term of the safe harbor lease, Allegheny is contingently liable in varying amounts in the event the lessor's tax benefits are disallowed and in the event of certain other occurrences. The maximum amount for which Allegheny was contingently liable as of October 31, 1992 was approximately $18.0 million. Payment of this contingent liability has been guaranteed by CFC.

Litigation:

In the normal course of business, there are various claims and suits pending against Allegheny. In the opinion of Allegheny's management, the amount of such losses that might result from these claims and suits, if any, would not affect materially the financial statements.

Settlements:

In May 1992, Allegheny received a settlement of $3.5 million in cash. Allegheny recorded the $3.5 million cash settlement as deferred revenue to be recognized as income over three years. The amount of revenue recognized during 1992 related to the settlement was $1.2 million. In addition, Allegheny will receive $4.5 million through noncash discounts on purchases of capital equipment.

In July 1991, a settlement was reached between Pennsylvania Electric Company (Penelec) and Allegheny for excess energy wheeled through and used by the Penelec system. Under the settlement agreement Penelec reimbursed Allegheny $2.5 million for the excess energy received. Allegheny recognized the full amount of the settlement in 1991.

13. Sale/Leaseback Arrangement:

Allegheny previously completed a sale and leaseback of its hydroelectric generation facility at the Raystown Dam (the Facility). The Facility was sold to a trustee bank representing Ford Motor Credit Company (Ford) for $32 million in cash. Under terms of the arrangement, Allegheny is leasing the Facility from Ford's trustee for an initial term of 30 years. Payments under the lease are due in semi-annual installments which commenced January 10, 1989. At the end of the 30-year term, Allegheny will have the option to purchase the Facility for an amount equal to the Facility's fair market value or for a certain amount fixed by the transaction documents (determined by 1988 appraisal of the then foreseeable residual value at the end of the lease term), whichever is less.

Allegheny also has the option to renew the lease for a five-year fixed rate renewal and three fair market renewal periods, each of which may not be for a term of less than two years. Payments during the fixed rate renewal period are 30% of the average semi-annual installments during the initial lease term. Allegheny will retain co-licensee status for the Facility throughout the term of the lease. The gain of $1.9 million related to the sale is being recognized over the lease term in the same proportion that the annual rental payments relate to total rental payments.

The payments by Allegheny under this lease were determined in part on the assumption that Ford will be entitled to certain income tax benefits as a result of the sale and leaseback of the Facility. In the event that Ford were to lose all or any portion of such tax benefits, Allegheny would be required to indemnify Ford for the amount of the additional federal income tax payable by Ford as a result of any such loss.

13. Sale/Leaseback Arrangement, continued:

The leaseback of the Facility is accounted for as an operating lease by Allegheny. As of October 31, 1992, future minimum lease payments under this lease, which can vary based on the interest paid on the debt used by Ford to finance the transaction, are estimated as follows (in thousands):

1993	$ 2,361
1994	2,361
1995	2,361
1996	2,237
1997	2,078
Thereafter	50,737
Total minimum lease payments	$62,135

The future minimum lease payments shown above are for the initial lease term and the five-year renewal period. These payments are based on an assumed interest rate of 8.8% and may fluctuate based on differences between the future interest rate and the assumed interest rate.

Rental expense for this lease totalled $1.8 million for each of the years ended October 31, 1992 and 1991, respectively.

14. Concentrations of Credit Risk:

Allegheny is comprised of member rural electric cooperatives, whose operations are located in Pennsylvania and New Jersey. The member cooperatives' primary service areas are small communities located throughout much of rural Pennsylvania and New Jersey.

Allegheny's investments are invested in a variety of financial instruments. The related values as presented in the financial statements are subject to various market fluctuations which include changes in the equity markets, interest rate environment and the general economic conditions.

15. Government Regulations:

The Energy Policy Act of 1992 established, among other things, a fund to pay for the decontamination and decommissioning of three nuclear enrichment facilities operated by DOE. A portion of the fund is to be collected from electric utilities that have purchased enrichment services from DOE and will be in the form of annual special assessments for a period not to exceed more than 15 years. The special assessments will be based on a formula that takes into account the amount of enrichment services purchased by the utilities in past periods.

As of October 31, 1992, the financial statements do not reflect the additional liability and related deferred charge. Allegheny recorded its share of the liability in December 1992 in connection with PP&L's recognition of the liability in accounts of SSES. Allegheny's share of the liability is $4.4 million which will be paid over a period of 15 years.

Allegheny

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