



Peat, Marwick, Mitchell & Co.

VERMONT YANKEE NUCLEAR POWER CORPORATION

Financial Statements

December 31, 1979 and 1978

(With Accountants' Report Thereon)



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

One Boston Place
Boston, Massachusetts 02108

The Stockholders and Board of Directors
Vermont Yankee Nuclear Power Corporation:

We have examined the balance sheets of Vermont Yankee Nuclear Power Corporation as of December 31, 1979 and 1978 and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Vermont Yankee Nuclear Power Corporation at December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 15, 1980

VERMONT YANKEE NUCLEAR POWER CORPORATION

Balance Sheets

December 31, 1979 and 1978

<u>Assets</u>	<u>1979</u>	<u>1978</u>	<u>Capitalization and Liabilities</u>	<u>1979</u>	<u>1978</u>
Utility plant:			Capitalization:		
Electric plant, at cost	\$ 214,335,562	209,990,887	Common stock equity (note 4):		
Less accumulated depreciation	<u>53,003,149</u>	<u>45,273,555</u>	Common stock, \$100 par value;		
Net electric plant	<u>161,332,413</u>	<u>164,717,332</u>	authorized 400,100 shares;	\$ 40,001,400	40,001,400
			outstanding 400,014 shares	13,100,071	13,006,204
			Other paid-in capital	<u>5,578,401</u>	<u>5,774,009</u>
Nuclear fuel, at cost (note 2):			Retained earnings		
Assemblies in reactor	48,955,319	35,734,808	Total common stock equity	<u>58,679,872</u>	<u>58,781,613</u>
Fuel in process	16,011,781	14,026,990			
Spent nuclear fuel	<u>51,294,372</u>	<u>44,223,367</u>	Cumulative preferred stock, 7.48%		
Less accumulated amortization	<u>116,261,472</u>	<u>93,985,165</u>	series; \$100 par value; authorized		
Net nuclear fuel	<u>35,587,341</u>	<u>23,856,867</u>	300,000 shares; outstanding		
Net utility plant	<u>196,919,754</u>	<u>193,574,199</u>	183,254 shares (194,254 shares		
			in 1978) (note 4)	18,325,400	19,425,400
			Long-term debt, net (note 5)	<u>81,278,573</u>	<u>85,799,697</u>
			Total capitalization	<u>150,283,845</u>	<u>164,006,710</u>
Current assets:					
Cash (note 3)	4,053,574	3,457,350	Current liabilities:		
Temporary investments, at cost	-	2,591,448	Notes payable	6,000,000	-
which approximates market			Long-term debt to be retired within		
Accounts receivable, principally	9,482,524	6,659,793	one year (note 5)	4,348,000	2,118,000
from sponsors	3,188,717	2,754,398	Accounts payable	4,065,958	4,144,681
Materials and supplies, at cost	<u>390,143</u>	<u>290,848</u>	Accrued interest	1,977,273	2,006,587
Prepaid expenses			Accrued taxes	<u>625,409</u>	<u>1,147,672</u>
Total current assets	<u>17,114,958</u>	<u>15,753,837</u>	Total current liabilities	<u>17,020,640</u>	<u>9,416,940</u>
Deferred charges:					
Unamortized debt expense	410,944	432,861	Unamortized gain on reacquired debt, net	392,370	313,878
Unamortized downtime costs	<u>3,218,783</u>	<u>1,470,045</u>	Accumulated deferred income taxes	<u>41,967,584</u>	<u>37,493,414</u>
Total deferred charges	<u>3,629,727</u>	<u>1,902,906</u>	Commitments and contingencies (note 8)		
	\$ <u>217,664,439</u>	<u>211,230,942</u>		\$ <u>217,664,439</u>	<u>211,230,942</u>

See accompanying notes to financial statements.

VERMONT YANKEE NUCLEAR POWER CORPORATION

Statements of Income and Retained Earnings

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
Operating revenues	\$ <u>55,981,810</u>	<u>61,637,509</u>
Operating expenses:		
Nuclear fuel expense (note 2)	15,326,978	13,151,317
Other operating expenses	11,245,967	10,260,905
Maintenance	5,363,759	3,120,981
Depreciation	8,299,930	8,085,918
Taxes on income (note 6)	6,564,000	7,509,531
Other taxes, principally property taxes	<u>4,006,552</u>	<u>3,812,365</u>
Total operating expenses	<u>50,807,186</u>	<u>45,941,017</u>
Operating income	15,174,624	15,696,492
Other income and deductions, net	<u>190,387</u>	<u>153,024</u>
Income before interest expense	<u>15,365,011</u>	<u>15,849,516</u>
Interest expense:		
Interest on long-term debt	7,944,832	8,373,201
Other interest expense	<u>162,557</u>	<u>71,949</u>
Total interest expense	<u>8,107,389</u>	<u>8,445,150</u>
Net income	7,257,622	7,404,366
Retained earnings at beginning of year	<u>5,774,009</u> <u>13,031,631</u>	<u>6,899,155</u> <u>14,303,521</u>
Dividends declared:		
Preferred stock, 7.48% series	1,453,020	1,537,267
Common stock, \$15.00 per share (\$17.48 in 1978)	<u>6,000,210</u>	<u>6,992,245</u>
Retained earnings at end of year	\$ <u><u>5,578,401</u></u>	<u><u>5,774,009</u></u>
Net income per average share of common stock outstanding	\$ <u><u>14.53</u></u>	<u><u>14.68</u></u>

See accompanying notes to financial statements.

VERMONT YANKEE NUCLEAR POWER CORPORATION

Statements of Changes in Financial Position

Years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
Source of funds:		
From operations:		
Net income	\$ 7,257,622	7,404,366
Charges not requiring use of funds:		
Depreciation	8,299,930	8,085,918
Amortization of nuclear fuel	15,326,978	13,151,317
Amortization of deferred downtime costs	2,350,554	2,567,388
Deferred income taxes	4,013,170	5,667,414
Investment tax credit adjustments	461,000	204,000
Amortization of debt and capital stock expense	18,711	23,018
Total from operations	37,727,965	37,103,421
Decrease in working capital	6,242,579	-
Other, net	499,609	384,267
	<u>\$ 44,470,153</u>	<u>37,487,688</u>
Use of funds:		
Electric plant additions	5,020,200	4,389,235
Nuclear fuel additions	22,276,307	16,472,622
Downtime costs deferred	4,099,292	2,140,169
Reduction of long-term debt	4,521,124	4,521,124
Retirement of preferred stock	1,100,000	1,126,300
Preferred stock dividends	1,453,020	1,537,267
Common stock dividends	6,000,210	6,992,245
Increase in working capital	-	308,726
	<u>\$ 44,470,153</u>	<u>37,487,688</u>
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	596,224	2,771,088
Temporary investments	(2,591,448)	(1,098,295)
Accounts receivable	2,822,731	(443,884)
Materials and supplies	434,319	230,395
Prepaid expenses	99,295	(36,484)
	<u>1,361,121</u>	<u>1,422,820</u>
Increase (decrease) in current liabilities:		
Notes payable	6,000,000	-
Long-term debt to be retired within one year	2,230,000	(2,269,000)
Accounts payable	(78,723)	2,971,668
Accrued interest	(29,314)	(155,354)
Accrued taxes	(518,263)	566,780
	<u>7,603,700</u>	<u>1,114,094</u>
Increase (decrease) in working capital	<u>\$ (6,242,579)</u>	<u>308,726</u>

See accompanying notes to financial statements.

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

December 31, 1979 and 1978

(1) Summary of Significant Accounting Policies

(a) Regulation and Operations

The Company is subject to the regulatory authority of the Federal Energy Regulatory Commission (FERC) and the Public Service Board of the State of Vermont as to transactions with associated companies, accounting and security issues. The Company is also subject to regulation by Federal or state agencies with respect to nuclear plant licensing and safety, air and water quality, land use and other environmental matters.

Pursuant to the terms of Power Contracts with sponsors, for a term of 30 years commencing on December 1, 1972, each Sponsor is obligated to pay the Company each month (regardless of the Plant's operating level or whether it is operating or shutdown during the period), an amount equal to its entitlement percentage of the Company's total fuel costs and operating expenses with respect to the Plant, and an allowed return on equity. Also, under terms of the Capital Funds Agreements, the Sponsors are committed, subject to obtaining necessary regulatory authorizations, to make funds available in amounts required to obtain or maintain licenses necessary to keep the Plant in operation.

(b) Depreciation and Maintenance

Electric plant is being depreciated on the straight-line method at rates designed to fully depreciate all depreciable properties through 1998.

Renewals and betterments constituting retirement units are charged to electric plant. Minor renewals and betterments are charged to maintenance expense. At the time depreciable properties are retired, the original cost, plus cost of removal, less salvage of such property is charged to the accumulated provision for depreciation.

(c) Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense on the basis of the rate of burn down of the individual assemblies comprising the total core. The Company also accrues the estimated future costs of disposing of spent nuclear fuel. See note 2 of notes to financial statements.

(d) Deferred Charges

Costs associated with scheduled plant downtime for replacement of nuclear fuel assemblies and major maintenance are amortized to expense over the estimated period until the succeeding downtime (normally between twelve and fourteen months).

(e) Taxes on Income

The tax effects of timing differences are accounted for as prescribed by and in accordance with the rate-making policies of FERC. Provisions for deferred income taxes reflect the tax effects of all timing differences.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

Investment tax credits are deferred and amortized to income over the life of the related assets.

(2) Nuclear Fuel Expense

The Company accrues estimated costs of disposing of nuclear fuel as a component of nuclear fuel expense. Provisions for estimated costs of disposing of nuclear fuel in the reactor (at projected costs in 1987 when disposal facilities may be available) are being accrued based on the rate of burn-down of assemblies in the reactor. Provisions for costs of disposing of nuclear fuel used prior to October, 1977 (estimated to cost \$36,400,000 in 1987) are being accrued over a 10 year period ending in 1987.

Accruals for estimated costs of disposing of nuclear fuel increased 1979 and 1978 nuclear fuel expense by approximately \$5,800,000 and \$4,900,000, respectively, and are expected to increase annual nuclear fuel expense by approximately \$9,000,000 (including \$4,700,000 for spent fuel) in 1980 and through the year 1987. Current estimates of disposal costs are subject to a number of uncertainties including the cost, availability and timing of disposal facilities, the extent of future inflation, regulatory requirements and the cost of future services, all of which may require periodic revisions in estimated costs of disposal.

(3) Compensating Balances and Short-term Borrowings

The Company had bank lines of credit aggregating \$12,000,000 at December 31, 1979 requiring average compensating balances equal to 7.5% of outstanding loans (there were \$6,000,000 of loans outstanding at December 31, 1979) and 7.5% of the line. During 1979 the maximum amount of short-term borrowings outstanding at any month end was \$6,000,000 and the daily average amount of short-term borrowings outstanding was \$975,300 with a corresponding weighted average interest rate of 15.35%. There were no significant amounts of short-term borrowings during 1978.

(4) Capital Stock

So long as any shares of the Cumulative Preferred Stock are outstanding, the payment of cash dividends and distributions on Common Stock (other than redemptions, which requires 30% common equity after redemption) is limited when Common Stock Equity (as defined) is less than 25% of Total Capitalization (as defined). At December 31, 1979, Common Stock Equity was 35.91% of Total Capitalization.

The 7.48% series Preferred Stock is redeemable (1) at par through a mandatory sinking fund in the amount of \$1,100,000 per annum, (2) at the option of the Company, at par, an additional \$1,100,000 per annum and (3) in whole or in part from time to time, at redemption prices per share ranging from \$106.97 in 1980 to \$100 in 1998, together in each case with accrued and unpaid dividends to the redemption date.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(5) Long-Term Debt

A summary of long-term debt follows:

	<u>1979</u>	<u>1978</u>
First mortgage bonds:		
Series A - 9-5/8% due 1998	\$ 59,503,000	61,110,000
Series B - 8-1/2% due 1998	11,150,000	11,394,000
Series C - 7.70% due 1998	<u>14,840,000</u>	<u>15,273,000</u>
Total first mortgage bonds	85,493,000	87,777,000
Unamortized premium on debt	<u>133,573</u>	<u>140,697</u>
Total long-term debt	85,626,573	87,917,697
Less long-term debt to be retired within one year	<u>4,348,000</u>	<u>2,118,000</u>
Long-term debt, net	<u>\$ 81,278,573</u>	<u>85,799,697</u>

The Mortgage constitutes a first lien on utility plant, excluding nuclear fuel. Bonds issued under the Mortgage are further secured by the terms of the Power Contracts (except for related fuel payments) and the Capital Funds Agreements with the sponsors. Sinking fund requirements with respect to First Mortgage Bonds amount to \$4,514,000, annually.

(6) Income Taxes

The components of income tax expense are:

	<u>1979</u>	<u>1978</u>
Current:		
Federal income taxes:		
Included in operating income	\$ 1,419,479	826,912
Included in non-operating income	173,000	158,000
Vermont income taxes:		
Included in operating income	<u>670,351</u>	<u>811,205</u>
	<u>2,262,830</u>	<u>1,796,117</u>
Deferred:		
Federal income taxes:		
Included in operating income	3,695,521	5,412,088
Vermont income taxes:		
Included in operating income	<u>317,649</u>	<u>255,326</u>
Total deferred income taxes	<u>4,013,170</u>	<u>5,667,414</u>
Investment credit adjustments	<u>461,000</u>	<u>204,000</u>
Total income taxes	<u>\$ 6,737,000</u>	<u>7,667,531</u>

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

A reconciliation of the Company's effective income tax rates with the Federal statutory rate is as follows:

	<u>1979</u>	<u>1978</u>
Federal statutory rate	46.0%	48.0%
State income taxes, net of Federal income tax benefit	3.8	3.7
Investment credit	(3.1)	(2.4)
Other	<u>1.4</u>	<u>1.6</u>
	<u>48.1%</u>	<u>50.9%</u>

The principal items comprising deferred income tax expense are:

	<u>1979</u>	<u>1978</u>
Excess of tax depreciation over financial statement depreciation	\$ 3,196,427	3,995,000
Excess of fuel amortization for financial statement purposes over (under) tax amortization	(1,750,704)	(1,614,000)
Maintenance expenses deferred for financial statement purposes	735,875	(220,000)
Other	51,572	60,000
Investment tax credits utilized	<u>1,780,000</u>	<u>3,446,414</u>
	<u>\$ 4,013,170</u>	<u>5,667,414</u>

(7) Retirement Plans

The Company has retirement plans covering all regular employees. The Company's policy is to provide for and fund the normal cost including provisions to amortize the unfunded liability by 1998. Pension expense for 1979 and 1978 was \$230,217 and \$215,962, respectively.

(8) Commitments and Contingencies

Certain intervenors, challenging the sufficiency of the Nuclear Regulatory Commission's (NRC) environmental review of portions of the fuel cycle, appealed the NRC decision authorizing the Company's permanent, full power, forty-year operating license, to the Court of Appeals for the District of Columbia Circuit, where their appeal was consolidated with another appeal from the NRC's generic rulemaking proceeding on the same subject. In July, 1976, that Court decided the appeals by setting aside and remanding to the NRC for further proceedings certain aspects of the rulemaking which dealt with fuel reprocessing and waste disposal and by remanding the Vermont Yankee decision to await the outcome of the rulemaking. On April 3, 1978 the United States Supreme Court ruled favorably on the Company's Appeal from that decision and remanded the consolidated cases to the District of Columbia Circuit where the matter is still pending.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

The Company has commitments for nuclear fuel purchases through 1992 approximating \$139,850,000. Expenditures for such commitments will be approximately \$19,800,000 in 1980 and approximately \$17,000,000; \$18,400,000; \$19,200,000 and \$19,100,000 in the years 1981 through 1984, respectively.

The Company has contracted for uranium concentrate to meet substantially all power production requirements through 1983. The Company has an enrichment contract with the United States Energy Research and Development Administration through 2001 and has contracted for fuel fabrication requirements through 1984 and conversion services through 1983.

The Company does not have contracts for disposal of spent fuel. Pursuant to an effective amendment to the plant's operating license, work is underway to expand temporary storage capacity so that spent fuel removed from the reactor through 1987 can be safely stored while maintaining the ability to discharge a full core should that be necessary for operational reasons. By decision dated January 27, 1978 the NRC Atomic Safety and Licensing Appeal Board affirmed an earlier Licensing Board decision authorizing the license amendment to permit expansion of the fuel rack capacity for storage of spent fuel at the Vermont Yankee plant. An appeal by one intervenor from that decision is currently pending before the Court of Appeals for the District of Columbia Circuit.

The Company is responsible for costs which will be incurred to decommission its nuclear generating plant at the end of its useful life. While studies indicate that such costs could amount to \$21,000,000 (in 1975 dollars), the eventual costs of decommissioning will be largely dependent upon technology and regulatory commission requirements at or near the time of decommissioning (the plant's current operating license expires in 2007) and such requirements could materially affect estimates based upon current technology. The Company is not presently providing for decommissioning costs.

The 1975 amendments to the Price-Anderson Act provide that each owner of an operating power reactor may be assessed a retrospective premium of up to \$5,000,000 per reactor in the event of any one nuclear incident occurring in any reactor in the United States (with a maximum assessment of \$10,000,000 per year per reactor) should any nuclear incident result in liability losses which exceed the maximum available private insurance protection (presently \$160,000,000). That Act further provides for federal indemnity for liability losses in excess of the above two layers of insurance up to the statutory limit of liability of \$560,000,000.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(9) Unaudited Quarterly Financial Information

The following quarterly financial information is unaudited and in the opinion of management includes all adjustments (consisting only of normal recurring accruals) necessary to a fair statement of results of operations for such periods.

<u>1979</u>	<u>Quarter ended</u>			
	<u>December</u>	<u>September</u>	<u>June</u>	<u>March</u>
Operating revenues	\$ 19,318,085	15,762,525	15,788,644	15,112,556
Operating income	4,089,777	3,516,110	3,804,876	3,763,861
Net income	1,999,078	1,611,900	1,826,582	1,820,062
Net income per share of common stock	4.11	3.12	3.66	3.64
<u>1978</u>				
Operating revenues	\$ 15,245,831	13,490,261	16,477,351	16,424,066
Operating income	3,904,369	3,874,709	3,937,949	3,979,465
Net income	1,839,998	1,835,956	1,860,868	1,867,544
Net income per share of common stock	3.65	3.63	3.69	3.71

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(10) Unaudited Information on the Effects of Changing Prices

The following information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33 for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of changing prices, rather than as a precise measure. A statement of income adjusted for changing prices follows (dollars in thousands):

	Year ended December 31, 1979		
	Conventional historical cost	Adjusted for general inflation	Adjusted for changes in specific prices
Operating revenues	\$ <u>65,982</u>	\$ <u>65,982</u>	\$ <u>65,982</u>
Operating expenses:			
Nuclear fuel expense	15,327	17,190	18,312
Other operating expenses	11,246	11,246	11,246
Maintenance	5,364	5,364	5,364
Depreciation	8,300	14,365	16,523
Taxes on income	6,564	6,564	6,564
Other taxes, principally property taxes	<u>4,006</u>	<u>4,006</u>	<u>4,006</u>
Total operating expenses	<u>50,807</u>	<u>58,735</u>	<u>62,015</u>
Operating income	15,175	7,247	3,967
Other income and deductions, net	190	190	190
Interest expense	<u>(8,107)</u>	<u>(8,107)</u>	<u>(8,107)</u>
Net income (loss) excluding reduction to net recoverable cost	\$ <u>7,258</u>	<u>(670) (A)</u>	<u>(3,950) (A)</u>
Gain from decline in purchasing power of net amounts owed		16,830	16,830
Reduction to net recoverable cost		<u>(17,548)</u>	<u>(14,268)</u>
		\$ <u>(718)</u>	<u>(2,562)</u>
Increase in specific prices (current cost) of property, plant and equipment held during the year (B)			38,085
Effect of increase in general price level			<u>49,586</u>
Excess of increase in general price level over increase in specific prices			\$ <u>11,501</u>

(A) Including the reduction to net recoverable cost, the net loss would have been \$18,218.

(B) At December 31, 1979, the current cost of utility plant net of accumulated depreciation and amortization were estimated to be approximately \$402,346,000 as compared with net utility plant recoverable through depreciation and amortization of \$196,920,000.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

A five-year comparison of selected supplementary financial data adjusted for the affects of charging prices follows (in thousands of average 1979 dollars except per share amounts):

	Year ended December 31				
	1979	1978	1977	1976	1975
<u>Operating revenues</u>	\$ 65,982	68,578	73,203	67,602	76,194
<u>Historical cost information</u>					
<u>adjusted for general inflation:</u>					
Net loss (excluding reduction to net recoverable cost)	670				
Net loss per share of common stock (excluding reduction to net recoverable cost)	5.29				
Net assets at year-end at net recoverable cost	66,869				
<u>Current cost information:</u>					
Net loss (excluding reduction to net recoverable cost)	\$ 3,950				
Net loss per share of common stock (excluding reduction to net recoverable cost)	13.49				
Excess of increase in general price level over increase in specific prices	11,501				
Net assets at year-end at net recoverable cost	66,869				
<u>General information:</u>					
Gain from decline in purchasing power of net amounts owed	\$ 16,830				
Cash dividends declared per common share	15.00	19.45	20.94	22.29	17.86
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Dollar amounts adjusted for general inflation (constant dollar amounts) represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumers Price Index for all Urban Consumers (CPI-U). Dollar amounts adjusted for changes in specific prices (current cost amounts) reflect the changes in specific prices of net utility plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

The current cost of property, plant, and equipment, which includes land, land rights, intangible plant, property held for future use, nuclear fuel and construction work in progress, represents the estimated cost of replacing existing plant assets and was determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current year's provisions for nuclear fuel expense and depreciation on the constant dollar and current cost amounts of utility plant were determined by applying the Company's depreciation and amortization rates to the indexed plant amounts.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

Under terms of the Power Contracts, which specify costs billable to the Company's sponsors, only the historical cost of utility plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the Power Contracts give no recognition to the current cost of replacing property, plant, and equipment, based on past practices the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the statement of income adjusted for changing prices, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.