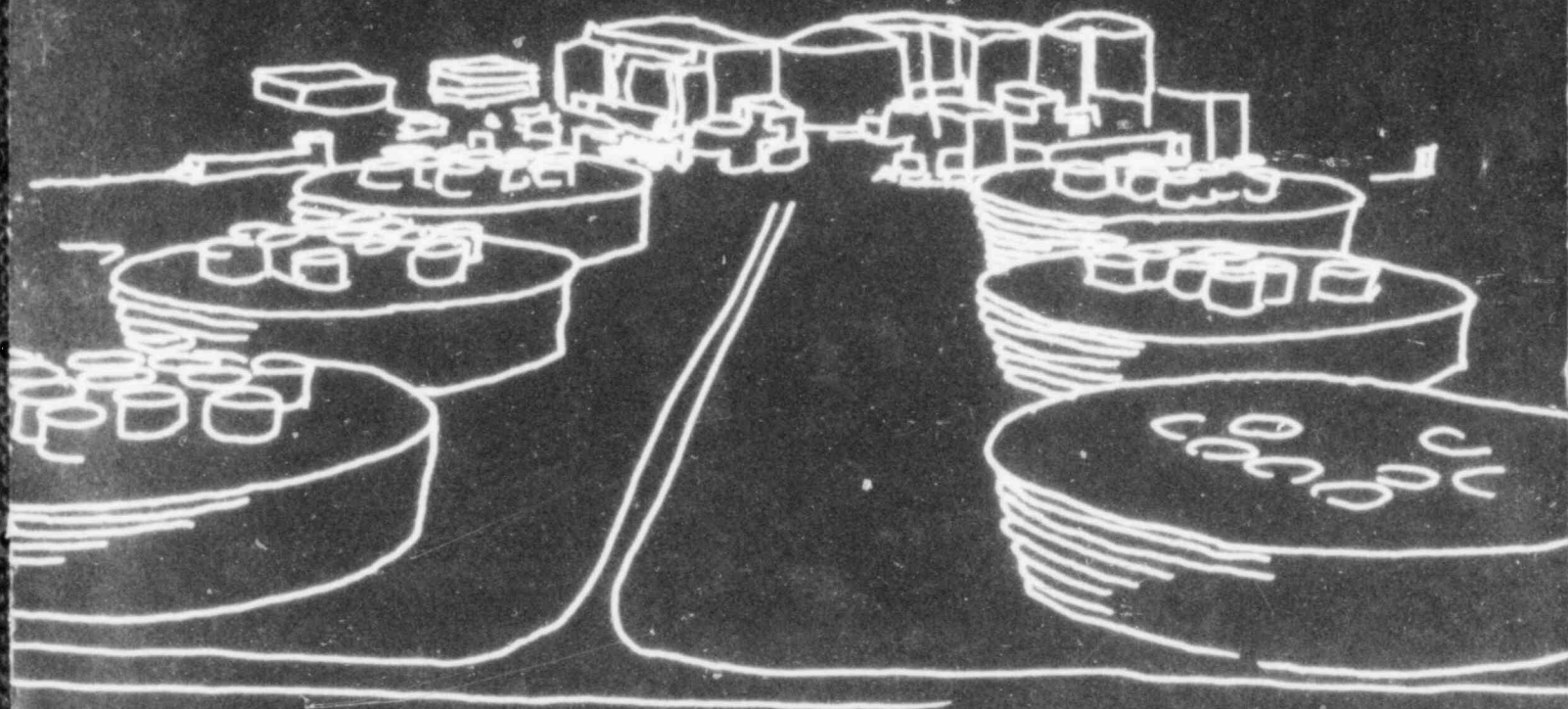




North Carolina Municipal Power Agency Number 1

1982 ANNUAL REPORT



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**NORTH CAROLINA
MUNICIPAL POWER AGENCY NUMBER 1**
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1982/Year in Review

This 1982 annual report of NCMPA I provides a detailed analysis of the Agency's operations during the past year. It also seeks to place our activities in a proper perspective by offering appropriate background material and a full explanation of significant events and actions.

The NCMPA I Board of Commissioners and staff are gratified that years of planning and negotiation will result in the Agency becoming fully operational in 1983. This milestone will be achieved under re-negotiated contracts that will result in still-greater savings for our participants.

While we take pride in the achievements of our Commissioners, professional staff and consultants, we are mindful that we perform our duties at the pleasure and direction of the municipalities that comprise the Agency. Without the support of forward-looking citizens in 19 communities, NCMPA I would not exist, and we would not have the opportunity to provide a low-cost source of electric power for 277,676 citizens in Piedmont North Carolina.

We would take this opportunity, then, to express our appreciation to these citizens, and pledge to them our continued best efforts to be worthy of their trust.

George W. Clay, Jr.

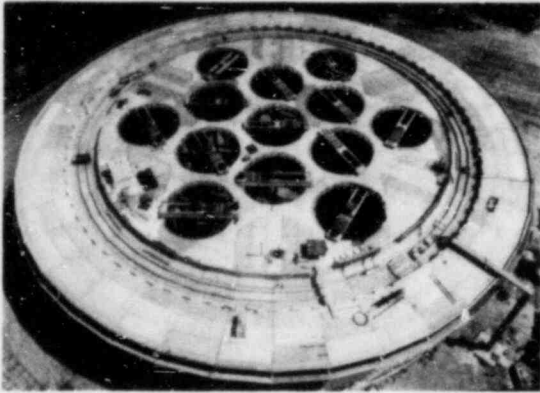
George W. Clay, Jr.
Chairman
Board of Commissioners

Ralph W. Shaw

Ralph W. Shaw
General
Manager



Duke Power Company and the Catawba Project



Since 1904, Duke Power Company has provided the Piedmont areas of North and South Carolina with a safe, reliable and economical supply of electricity.

During these 79 years, the utility has produced a track record unmatched in the utility industry in the design, construction and operation of its coal-fired and nuclear-fueled plants.

Consequently, Duke's 1.3 million customers have traditionally enjoyed some of the lowest electric rates on the Eastern Seaboard.

For the future, Duke has dedicated itself to continue to "serve our customers with reliability, serve our communities with citizenship, and provide our investors with a fair, competitive reward for the use of their money."

Catawba Nuclear Station

Duke is building Catawba Nuclear Station on the shores of Lake Wylie, about 25 miles south of the utility's corporate offices. The lake, created in 1904 to drive the turbines of the company's first hydroelectric plant, is home to more than 2,500 families along its 325-mile shoreline.

When Catawba begins commercial operation, the plant will have the capability of generating 2.29 million kilowatts of electricity. The two-unit nuclear-fueled generating facility will provide electric power to NCMCA 1's 19 project participants.

These participants, municipal electric utilities in North Carolina's Piedmont, have acquired a 75 percent undivided ownership interest in Unit 2 at Catawba, and 37.5 percent ownership interest in the station's support facilities. Under contract, Duke serves as engineer-contractor and will serve as station operator for the Agency.

NCMPA 1 periodically issues bonds to pay Duke for the Agency's portion of estimated costs of acquisition and construction, with approval of the North Carolina Local Government Commission.

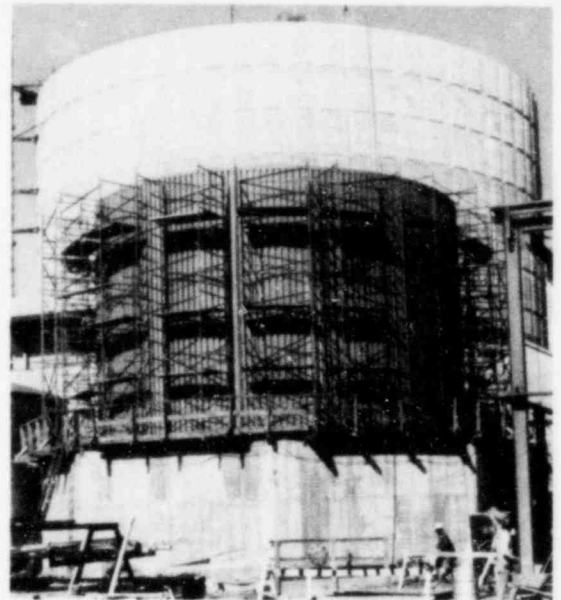
This is a result of Duke's offer to sell portions of Catawba to a group of wholesale customers in 1975. NCMPA 1 entered into the joint agreement when it was concluded that substantial, long-term savings in electric power costs would accrue to Agency participants through direct ownership in Catawba.

The Joint Agreement

As a non-profit municipal corporation, the Agency is able to issue tax-exempt electric revenue bonds at interest rates below capital costs of an investor-owned utility. As an operating power-supply utility, NCMPA 1 will provide power to its

**NCMPA 1 POWER SUPPLY PROGRAM
(December 31, 1982)**

Unit/ Operation Date	Proposed Capacity (MW)	% Construction Complete
Catawba Unit 2 6/87 Ownership Share: 75%	1145	46%
Catawba Unit 1 6/85 Exchange Unit	1145	91%
McGuire Unit 1 12/81 Exchange Unit	1180	100%
McGuire Unit 2 3/84 Exchange Unit	1180	98%



participating municipalities at rates designed to recover only actual operating, maintenance and debt-service expenses. The Agency will not need to recover stockholders' dividends or income taxes.

A customary "take or pay" contract has been executed with NCMPA 1 by each participating city, which has agreed to pay its share of Catawba's annual operating costs, including debt service on bonds, whether or not Catawba is completed.

Also, each participant has signed a supplemental power sales agreement with NCMPA 1. Under this agreement, the Agency will purchase from Duke all additional power needed beyond that provided by ownership of generation, and in excess of federal power allotments some cities obtain from the Southeastern Power Administration (SEPA).

McGuire Reliability Exchange

The NCMPA 1 Board of Commissioners voted December 16, 1982, to initiate the McGuire Reliability Exchange. The agreement, a special provision of the Agency's contracts with Duke, will be triggered July 1, 1983.

On that date, NCMPA 1 will replace Duke as all-requirements power supplier for the Agency's participants. Project power will be provided from the two-unit McGuire Nuclear Station where Unit 1 began commercial operation on December 1, 1981.

McGuire, Catawba's "sister" station, is under construction by Duke near Charlotte. Unit 2 at McGuire is expected to be fully operational no later than early 1984.

A Brief History

On January 13, 1976, NCMPA 1 was chartered as a municipal corporation. Of the 23 municipal electric utilities that are presently all-requirements wholesale customers of Duke Power Company, 20 are members of the Agency.

And all but one Agency member, the City of Concord, are participants in NCMPA 1's joint-ownership arrangement with Duke. The participants own a 75 percent share of Unit 2 at Catawba Nuclear Station.

None of the Agency's member municipalities owns or operates any independent electric generating facility.

Highlights in the history of NCMPA 1 include:

- On May 1, 1975, the North Carolina General Assembly enacted the Joint Municipal Electric Power and Energy Act. This enabled municipalities owning electric systems to create joint agencies with authority to construct, operate, maintain and finance electric generating and transmission facilities.

- In October 1975, Duke made a proposal to all its municipal wholesale customers in North and South Carolina (including NCMPA 1 members) for the sale of a portion of Catawba.

- In 1977, an amendment to the North Carolina Constitution, ratified by the state's voters, enabled a municipal power agency to participate as a joint owner in generation or transmission projects with private utilities or rural electric co-operatives.

- On February 27, 1978, the Agency's Board of Commissioners approved the Catawba Project and authorized the execution of joint-ownership contracts with Duke. This came after 2½ years of negotiations between NCMPA 1 and Duke.

- By July 1978, the governing bodies of 19 Agency members had approved all contracts required for the joint project.

- In October 1978, NCMPA 1 (and two other municipal power agencies in the state) contracted to acquire a full range of management services at cost from ElectriCities of North Carolina. The use of a combined staff eliminates the duplication and expense of separate staffs for each agency.

- On November 16, 1978, NCMPA 1 sold a \$400 million electric revenue bond issue at a net interest cost of 6.812 percent. It was the second largest issue of its kind ever offered by a public utility, and the largest single issue ever sold by the North Carolina Local Government Commission.

- On November 29, 1978, the Agency and Duke closed on the Agency's purchase of 75 percent of Unit 2 at Catawba.

- In May 1979, NCMPA 1 went to market, selling an issue of \$150 million at a net interest cost of 7.338 percent.

- In July 1979, Duke revised its construction schedule at Catawba. This slipped the commercial operation date for Unit 1 from July 1981 to July 1983, and for Unit 2, from January 1983 to January 1985.

- In April 1980, NCMPA 1 sold a third issue, \$100 million in bonds at a net interest cost of 10.507 percent.



- In June 1980, the NCMPA 1 Board of Commissioners approved a revolving credit agreement with a group of four banks. By year end, the Agency had borrowed the \$75 million at its disposal under that agreement.

- In June 1980, Duke slipped the commercial operation date for Unit 1 at Catawba from July 1983 to March 1984. Unit 2 was slipped from January 1985 to September 1985.

- In April 1981, NCMPA 1 sold a \$125 million issue of bonds at a net interest cost of 10.731 percent.

- In September 1981, NCMPA 1 sold a \$200 million issue of bonds and \$100 million of bond anticipation notes. The long-term bonds were sold at a net interest cost of 14.45 percent. The interest on the bond anticipation notes was 12.17 percent.

- In May 1982, Duke slipped the commercial operation dates for Catawba Units 1 and 2 to June 1985 and June 1987, respectively.

- On November 12, 1982, the Board voted to amend Agency contracts with Duke to increase the amount of capacity and energy sold back to Duke from the project when Catawba begins commercial operation. This will be beneficial to Agency participants through lower overall delivery costs of power and energy. These amendments also delayed the Agency's option to trigger the McGuire Reliability Exchange by six months, until July 1, 1983.

- In December 1982, NCMPA 1 sold a \$200 million issue of bonds at a net interest cost of 10.99 percent.

- On December 16, 1982, the NCMPA 1 Board of Commissioners voted to initiate the McGuire Reliability Exchange, a special provision in the Agency's contracts with Duke. NCMPA 1 would replace Duke as all-requirements power supplier to the participants on January 1, 1983.

Other Agencies Formed

In 1976, two additional municipal power agencies were formed.

On December 30, 1981, North Carolina Eastern Municipal Power Agency (NCEMPA) began delivering power to 11 of its 32 participating municipalities. These 11 northeastern North Carolina municipalities formerly purchased all their power from Virginia Electric and Power Company.

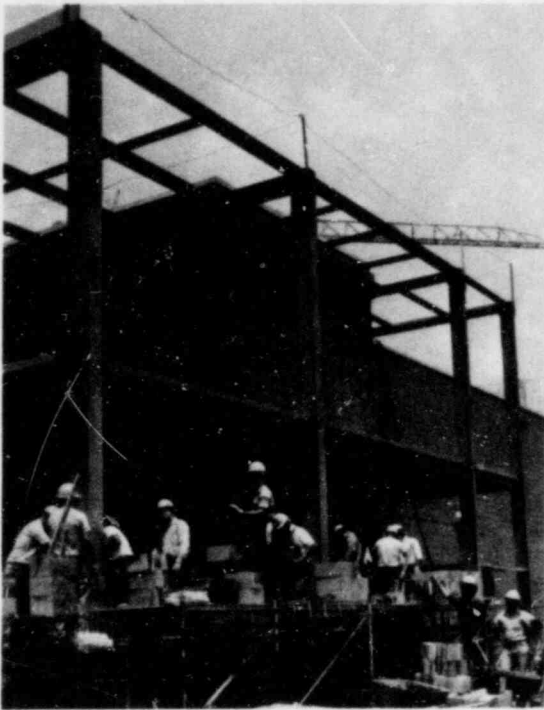
These cities were also charter members of North Carolina Municipal Power Agency Number 2 (NCMPA 2). In early 1980, these cities joined NCEMPA in anticipation of completion of NCEMPA's negotiations for the joint ownership of generating facilities owned by Carolina Power & Light Company (CP&L). In June 1982, the six-year-old NCMPA 2 was dissolved by its Board of Commissioners.

NCEMPA has negotiated to purchase ownership interests in seven generating units in operation or under construction by CP&L, a Raleigh-based private utility serving some 757,000 electric customers in the Carolinas.

The remaining 21 participants of NCEMPA began receiving Agency power on April 22, 1982, at the time of NCEMPA's first closing on ownership interests purchased from CP&L.



Agency I Participants



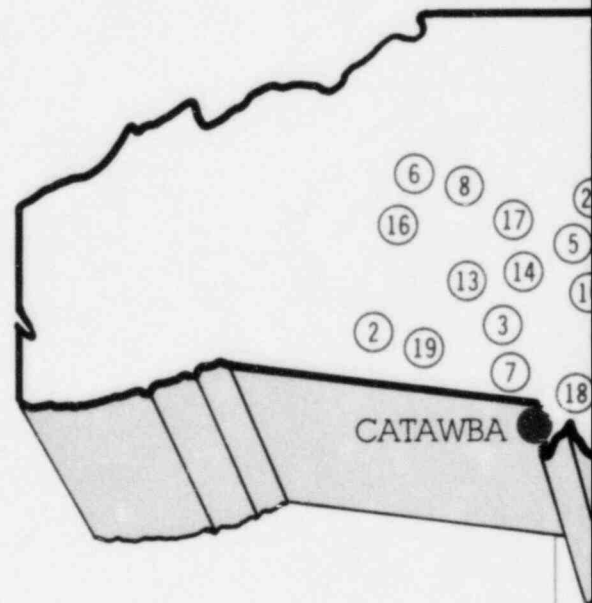
NCMPA I's 19 member cities provide electric power to 277,676 residents in 14 counties, along 2,289 miles of distribution lines in a 565-square-mile area of the North Carolina Piedmont. In 1982, these cities provided 2.6 million megawatt hours of power, and generated revenues of almost \$119.4 million.

The Agency's participants are clustered in the state's Piedmont section, a 40-county region ranging from the foothills of the Blue Ridge Mountains east to Raleigh, the state capital. This area, comprising 45 percent of the state, has been and is North Carolina's leader in growth, population and wealth.

The Piedmont is home to 3.5 million of the state's six million residents. Earmarks of the region are an agreeable climate, progressive government, and stable work force in its thriving economic base of industry and agriculture.

Each participant owns and operates an electric system for the distribution of electric power, but none operates any electric generating facility. Collectively, these cities represent more than 13 centuries of experience in providing electric service. Individually, the cities have served their customers from 43 (Pineville) to 93 (Statesville) years.

- 1 Albemarle
- 2 Bostic
- 3 Cherryville
- 4 Concord*
- 5 Cornelius
- 6 Drexel
- 7 Gastonia
- 8 Granite Falls
- 9 High Point
- 10 Huntersville
- 11 Landis
- 12 Lexington
- 13 Lincolnton
- 14 Maiden
- 15 Monroe
- 16 Morganton
- 17 Newton
- 18 Pineville
- 19 Shelby
- 20 Statesville



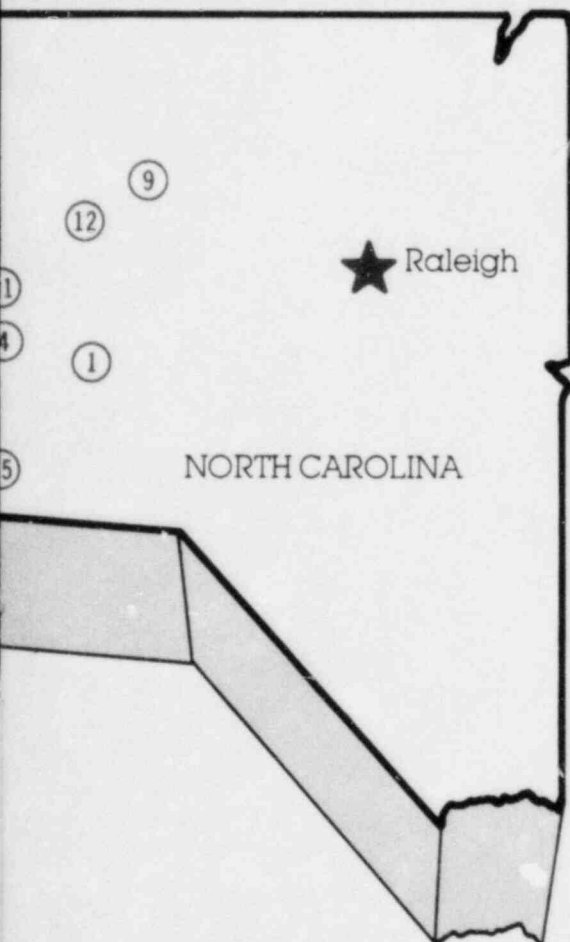
*Concord is an Agency member
but not a project participant

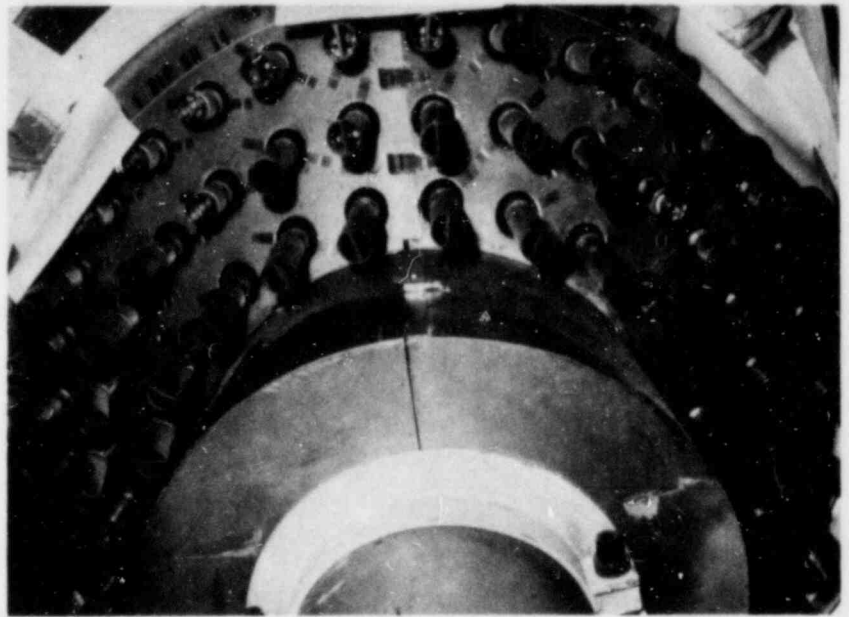
Management of the individual electric systems falls to the governing bodies of each member municipality, except in Lexington, where a Utilities Commission has that responsibility. The Agency's business matters are governed by a Board of Commissioners that consists of one representative from each participating city.

A full range of professional management services is provided at cost to NCMPA 1, under contract with ElectriCities of North Carolina. ElectriCities' management services staff conducts the daily business of NCMPA 1, and of NCEMPA. The combined staff is economical, in that it eliminates the need for each Agency to hire employees.

Once the principal suppliers of electric power in the state, the individual municipal systems thrived before rural electric co-operatives and investor-owned utilities came into existence. Later, cities' small generation stations became less profitable to operate, and municipal systems began to purchase power at wholesale from private power companies that could operate larger, more economical, generating plants.

The member cities of NCMPA 1 are an example of the emergence of municipal electric utilities as a significant partner in ownership of electrical generating facilities. By renewing municipal ownership of these facilities, NCMPA 1 is today restoring the cities' historic role in North Carolina's electric power-supply community.





Engineering/1982

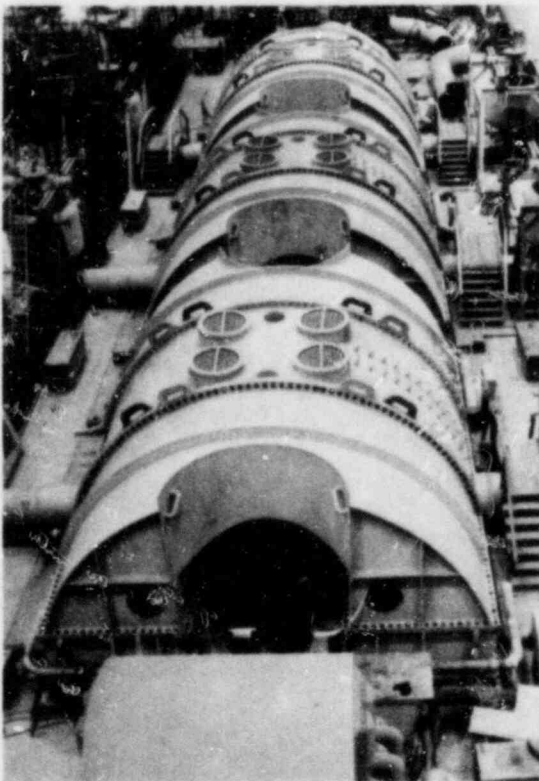
Uerifying that provisions of contractual agreements between NCMPA 1 and Duke Power Company are being executed in the best interests of the Agency and its participants, reviewing construction costs at Catawba Nuclear Station for propriety and accuracy of charges to the Agency, and designing all-requirements rates, are the main concerns of the Engineering Division.

The 15-member Engineering Division includes an engineering director, managers of construction and operation, power supply and technical support services; administrators of interconnect services, engineering systems, and safety and training services; cost engineers, power delivery engineer, rate and forecast analysts, site representatives and engineering technicians.

During 1982, the management staff and engineering team continued to monitor all aspects of Duke's activities at Catawba through on-site inspection, and by attending formal buyer meetings at the utility's corporate headquarters in Charlotte. As provided for in the Agency's joint-ownership contracts with Duke, the buyer meetings were established as a means for co-owners of the Catawba facility to obtain a timely review of project scheduling, construction status, and budget and financial matters. Day-to-day monitoring of the Catawba Project is the responsibility of one of the division's professional engineers who is an on-site representative.

McGuire Reliability Exchange

On December 16, 1982, the NCMPA 1 Board of Commissioners voted to initiate the McGuire Reliability Exchange. The decision meant that the Agency would replace



Duke as all-requirements power supplier for NCMPA 1 participants on July 1, 1983.

The Exchange is a special provision under contractual agreements between the Agency and Duke which governs their joint ownership of the Catawba project. It enables the Agency to provide power to participants from McGuire Nuclear Station, Catawba's sister station.

Since 1978 when NCMPA 1 first acquired its 75 percent ownership interest in Unit 2 at Catawba, Duke has sold or arranged to sell all but a 25 percent interest in the two-unit plant. The Saluda River and Electric Cooperative in South Carolina and North Carolina Electric Membership Corporation collectively own a 75 percent interest in Unit 1 at Catawba. The Piedmont Municipal Power Agency, a group of 10 South Carolina municipalities, is arranging to buy the remaining 25 percent of Unit 2 at Catawba, the unit in which NCMPA 1 has its ownership.

During 1982, the Agency completed a major re-examination of its ownership agreements with Duke. This was in an effort to clarify and define certain contractual obligations and relationships of the co-owners one to another. The Agency then negotiated contractual changes with Duke whereby NCMPA 1 would increase the amount of capacity and energy sold back to Duke from the project after commercial operation of Catawba begins. The results of these changes, which the Board of Commissioners adopted November 12, 1982, will be beneficial to the Agency's participants through lower overall delivery costs of power and energy.

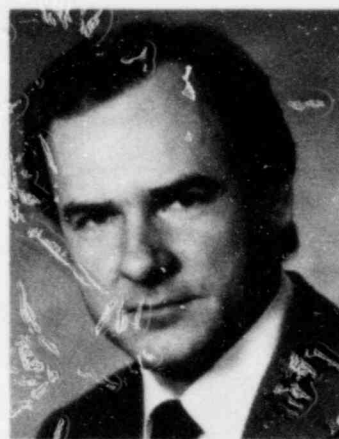
In consideration to Duke for the changes, the Agency agreed to delay initiation of the McGuire Reliability Exchange by six months for Catawba's Unit 1, from January 1, 1983, to July 1, 1983, and agreed to delay exercising its option to trigger the Exchange for Catawba's Unit 2, from January 1, 1984, to January 1, 1986.

When NCMPA 1 becomes the power supplier for its participating municipalities on July 1, 1983, the Engineering Division will be actively engaged in meeting participants' requirements for technical services, including demand and energy forecasting, rate design, and assistance in determining project expenditure and revenue projections.

Catawba Construction Status

At year end, Duke estimated construction of the total Catawba Station to be 75 percent complete (as compared to 72 percent in 1981). Construction of Catawba Unit 1 was 92 percent complete (88 percent in 1980) and Catawba Unit 2 was 47 percent complete (30 percent in 1980).

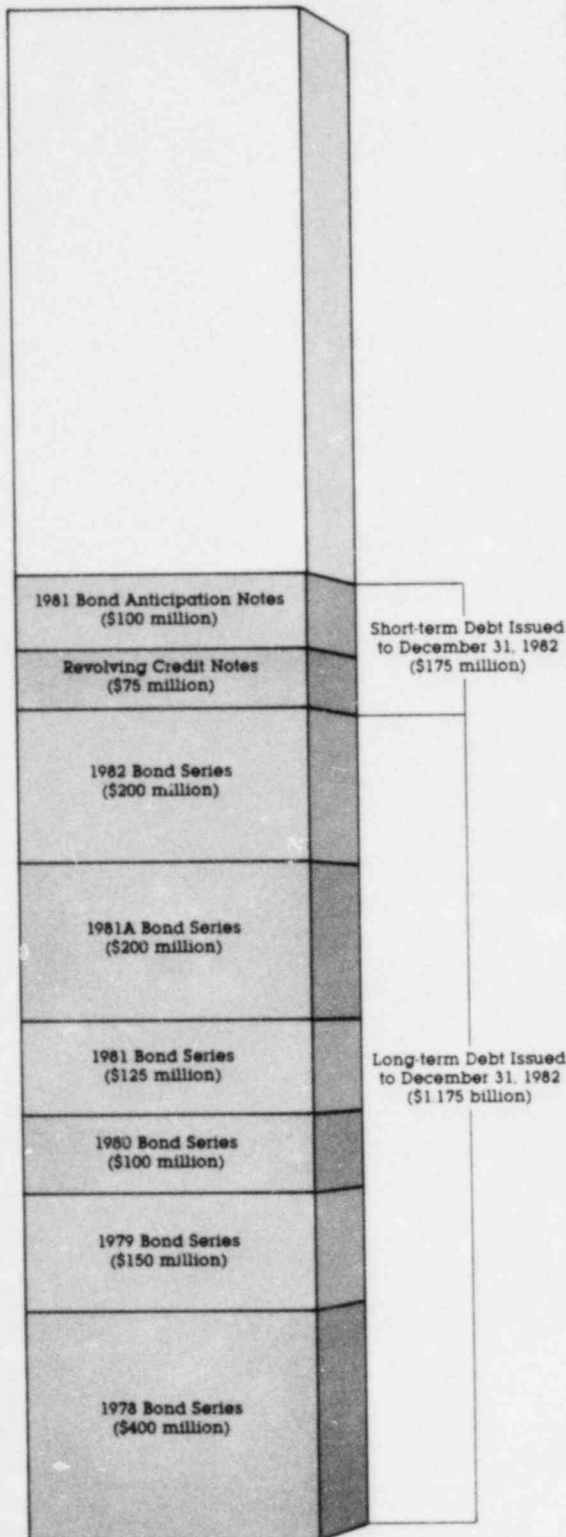
The current construction schedule estimates a commercial operation date of June 1985 for Catawba Unit 1 and June 1987 for Catawba Unit 2.



William G. Wernhoff
Director, Engineering

Finance and Accounting/1982

ESTIMATED FUNDING REQUIREMENTS (\$1.97 billion)



As of January 1, 1982, NCMPA 1 had outstanding: \$975 million in bonds, \$100 million in bond anticipation notes, and \$75 million in revolving credit notes. During the year, the Agency continued the financing of its ownership interest in Catawba Nuclear Station through the issuance of additional bonds.

On December 16, the North Carolina Local Government Commission sold \$200 million of Series 1982 Bonds on behalf of NCMPA 1. The net interest cost was 10.99 percent.

This series of bonds was rated A by Moody's Investors Service, and Standard & Poor's Corporation, the independent rating agencies. The bonds were issued in denominations of \$5,000. With this sale, the Agency's total amount of debt outstanding grew to \$1.175 billion in bonds and \$175 million in notes.

The 1982 sale provided funds sufficient to meet estimated cash flow requirements for construction costs into the first quarter of 1984, and interest requirements on bonds outstanding to January 1, 1984. Under these same cost flow projections, NCMPA 1 would not have to issue more debt until late 1983. However, the Agency may choose to enter the market prior to that time if conditions are favorable.

With authorization from the NCMPA 1 Board of Commissioners, the staff continued to explore alternative methods of debt issuance which could provide the Agency with flexibility in today's market. One method which shows promise is the use of tax-exempt commercial paper.

Meanwhile, in May 1982, Duke Power Company revised its construction schedule at Catawba. The utility announced a delay of 15 months for Unit 1, and a delay of 21 months for Unit 2. This slipped the commercial operation dates for Units 1 and 2 to June 1985 and June 1987, respectively.

During the preparation for issuance of debt in December, it was estimated that the total principal amount of bonds required to finance the NCMPA 1 project was \$1.97 billion. This represents a \$38 million increase over the Agency's 1981 project estimate of \$1.59 billion. The \$1.97 billion figure is based on the current construction schedule for Catawba, and the current regulatory and economic environment. The estimated total amount of bonds required to finance the project is subject to revision if there are economic changes affecting finance costs, and if dates for commercial operation of the Catawba units are revised again.

By year end, NCMPA 1 had completed 60 percent of the estimated \$1.97 billion financing program through the issuance of long-term bonds, and spent \$969 million for construction, nuclear fuel, financing and administrative costs.

Agency Financings

The finance and accounting staff has the essential task of planning, controlling and reporting the financial activities of NCMPA 1 and NCEMPA. The finance staff's primary responsibility on behalf of NCMPA 1 is acquiring and managing the funds needed to finance the Agency's share of construction and initial fueling costs at Catawba.

In accomplishing this task, the financial staff works closely with the North Carolina Local Government Commission (a division of the Department of the State Treasurer) and with the Agency's financing team of consultants, underwriters and other staff. This assures the investing community of proper disclosure of pertinent information on a timely basis, through official statements and periodic status reports.

Systems Development

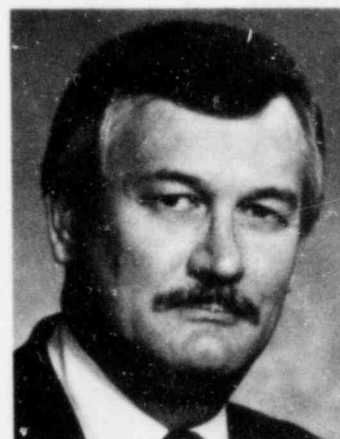
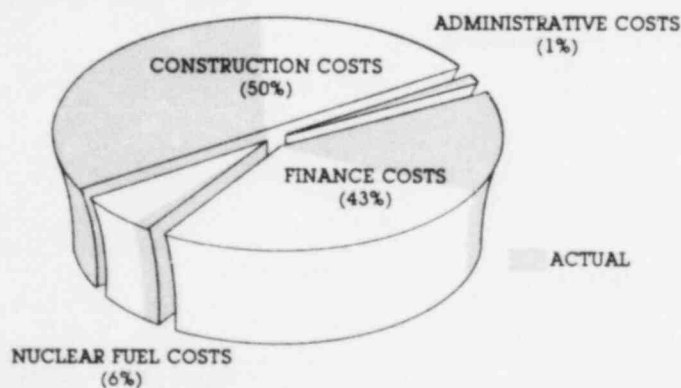
The evolutionary role of both Agencies as power suppliers has required the design of flexible, integrated systems which will enable the Agencies to meet their contractual, regulatory, planning and control responsibilities.

During 1982, steady progress was made in the development of operating systems for each Agency through the use of common software. Specifically, the Financial Reporting and Control system was considered operational as of December 31, 1982. This system is designed to accumulate and maintain detailed accounting information required by the staff for analysis and control of financial activities of NCMPA 1, and of NCEMPA.

The Annual Planning and Budgeting system is expected to be operational by June 1983. This system is designed to prepare an annual budget and aid in the setting of all-requirements rates and charges for approval by each Agency's Board of Commissioners. A key aspect of the system is its ability to measure the performance of the Agencies' operations under changing operating events and revised budget assumptions.

These two programs, and the Power Demand and Operating Statistics system which went into effect at the end of 1981, will continue to be enhanced and refined in coming years. The Power Demand and Operating Statistics system was designed to aid in verifying the power suppliers' billings for the monthly energy and demand costs, and to collect, maintain and report monthly load statistics.

Additional programs, systems and reports will be identified and developed as needed.



James T. Bobo
Director,
Finance and Administration

Project Estimate (Thousands of Dollars)

	Project Estimate	Actual 12-31-82
Construction Costs	991,725	\$623,985
Nuclear Fuel Costs	127,831	35,276
Finance Costs	841,203	305,374
Administrative Costs	9,241	4,810
	<u>\$1,970,000</u>	<u>\$969,445</u>

Balance Sheets

(\$000's)

	December 31,	
	1982	1981
ASSETS		
ELECTRIC UTILITY PLANT—		
Construction Work in Progress, at cost (Notes 1 and 2)	\$ 796,362	\$ 638,192
SPECIAL FUNDS (Notes 1, 3, 4, 5 and 6):		
Construction Fund:		
Construction account	113,330	112,019
Construction interest account	131,109	141,471
Construction revolving account	101	94
Note interest account	27,913	32,801
Bond Fund:		
Interest account	44,712	40,886
Reserve account	142,550	110,500
Reserve and Contingency Fund:		
Reserve and contingency account	12,003	
Operating Fund:		
Working capital account	5,761	5,021
Revolving Credit Fund:		
Revolving credit account	81,558	79,072
	<u>559,037</u>	<u>521,864</u>
DEFERRED DEBT ISSUANCE COSTS (Note 1)	48,543	35,841
	<u>\$1,403,942</u>	<u>\$1,195,897</u>
LIABILITIES		
CAPITALIZATION (Notes 4, 5 and 6):		
Revenue bonds	\$1,175,000	\$ 975,000
Revolving credit notes payable	75,000	75,000
Bond anticipation notes payable	100,000	100,000
	<u>1,350,000</u>	<u>1,150,000</u>
OTHER LIABILITIES:		
Accounts payable	746	428
Accrued interest on bonds	46,433	40,791
Accrued interest on revolving credit notes	1,013	1,803
Accrued interest on bond anticipation notes	5,750	2,875
	<u>53,942</u>	<u>45,897</u>
COMMITMENTS AND CONTINGENCIES (Notes 2, 7 and 8)		
	<u>\$1,403,942</u>	<u>\$1,195,897</u>

See notes to financial statements.

Statements of Changes in Financial Position

(\$000's)

	Years Ended December 31,	
	1982	1981
SOURCE OF FUNDS:		
Proceeds from sale of revenue bonds	\$200,000	\$325,000
Proceeds from sale of bond anticipation notes		100,000
Increase in other liabilities	8,045	18,547
	<u>\$208,045</u>	<u>\$443,547</u>
APPLICATION OF FUNDS:		
Additions to electric utility plant - construction work in progress	\$158,170	\$121,687
Additions to special funds	37,173	299,166
Additions to net deferred debt issuance costs	12,702	22,694
	<u>\$208,045</u>	<u>\$443,547</u>

See notes to financial statements

Statements of Changes in Assets of Special Funds (\$000's)

Years ended December 31, 1982 and 1981

	CONSTRUCTION FUND				BOND FUND
	Construction Account	Construction Interest Account	Construction Revolving Account	Note Interest Account	Interest Account
Cash and Investments, December 31, 1980 (1)	\$ 30,759	\$ 25,277	\$ 96	\$	\$ 26,501
Bond proceeds (2)	85,058	174,710			
Note proceeds (3)	66,705			31,625	
Investment income	8,690	9,709	12	1,176	162
Disbursements	(87,172)		(42)		(50,254)
Transfers	7,979	(68,225)	28		64,477
Cash and Investments, December 31, 1981 (1)	112,019	141,471	94	32,801	40,886
Bond proceeds (4)	98,435	67,959			
Investment income	10,697	18,396	8	4,413	225
Disbursements	(108,042)		(1)	(8,625)	(85,431)
Transfers	221	(96,717)		(676)	89,032
Cash and Investments, December 31, 1982 (1)	<u>\$ 113,330</u>	<u>\$ 131,109</u>	<u>\$ 101</u>	<u>\$ 27,913</u>	<u>\$ 44,712</u>

ND	REVENUE FUND	RESERVE AND CONTINGENCY FUND	OPERATING FUND	REVOLVING CREDIT FUND	
Reserve Account	Revenue Fund Account	Reserve and Contingency Account	Working Capital Account	Revolving Credit Account	Total
\$ 59,414	\$	\$	\$5,009	\$75,642	\$ 222,698
45,424					305,192
9,106			839	11,648	98,330
(3,444)	(12)		(827)	(8,218)	41,342
	12				(145,698)
110,500			5,021		
21,372	2	3	740	79,072	521,864
14,536				10,607	187,766
(3,858)	(2)	12,000		(8,121)	59,627
					(210,220)
<u>\$ 142,550</u>	<u>\$ 0</u>	<u>\$12,003</u>	<u>\$5,761</u>	<u>\$81,558</u>	<u>\$559,037</u>

1. Cash and investments at December 31, 1980, 1981 and 1982 include accrued interest of \$3,724, \$7,514 and \$6,332, respectively.
2. Net of underwriter's fee of \$9,166 and discount on bonds of \$11,583 plus accrued interest of \$941.
3. Net of underwriter's fee of \$1,830 plus accrued interest of \$160.
4. Net of underwriter's fee of \$4,990 and discount on bonds of \$8,978 plus accrued interest of \$1,734.

See notes to financial statements.

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1 NOTES TO FINANCIAL STATEMENTS Years ended December 31, 1982 and 1981

1. GENERAL MATTERS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General Matters

North Carolina Municipal Power Agency Number 1 (Agency) was organized on January 13, 1976, pursuant to the Joint Municipal Electric Power and Energy Act, adopted by the General Assembly of North Carolina on May 1, 1975. The Act enables municipalities owning electric systems to create joint agencies with authority to construct, operate, maintain and finance electric generation and transmission facilities.

The Agency currently has as members 20 North Carolina municipalities which are wholesale customers of Duke Power Company (Duke). The Agency's principal activities to date consist of financing and purchasing electric generation and transmission facilities.

The Agency and Duke have entered into the following agreements, as amended:

The Purchase, Construction and Ownership Agreement provides, among other things, for the Agency to purchase a 75% undivided ownership interest in Unit 2 of the Catawba Nuclear Station and a 37.5% undivided ownership interest in certain support facilities of the Project. This facility is presently under construction by Duke. The acquisition is being financed by the issuance of electric revenue bonds pursuant to Resolution No. R-16-78, as amended, (Resolution) of the Board of Commissioners of the Agency.

The Interconnection Agreement provides for the interconnection between Duke's electric power system and the Agency's above mentioned undivided ownership interest in the Catawba Nuclear Station and for the exchange of power between Unit 1 and Unit 2 of the Catawba Nuclear Station and between the Catawba units and Duke's McGuire Nuclear Station. The Agreement also provides for the purchase and sale of energy capacities and demands, and the transmission of energy to the Agency's participants.

The Operating and Fuel Agreement provides for Duke to operate, maintain and fuel the facility, make renewals, replacements and capital additions as approved by the Agency, and for the ultimate decommissioning of the facility at the end of its useful life.

The Agency has entered into a Project Power Sales Agreement and a Supplemental Power Sales Agreement with each of the 19 members (participants) who have elected to participate in the Project. These Agreements provide for each participant to purchase its total share of Project Output and its All Requirements Bulk Power Supply, as defined, from the Agency. The Agency is required to provide all electric power and energy required by each participant at the respective delivery points. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

Basis of Accounting

The accounts of the Agency are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, and are in conformity with generally accepted accounting principles.

Electric Utility Plant — Construction Work in Progress

All direct and indirect expenditures, including interest expense net of amounts earned on invested funds not otherwise classified, are considered to be costs associated with the development and construction of the Project. These costs will be capitalized as construction work in progress until such time as the plant becomes operational. Depreciation expense will be recognized on the facility when operations commence.

Investment Securities

Investment securities are stated at amortized cost as market declines are not recorded by the Agency unless a permanent loss is anticipated.

Deferred Debt Issuance Costs

Costs of the issuance of revenue bonds, revolving credit notes and bond anticipation notes, are deferred and amortized over the lives of the related debt instruments.

2. CONSTRUCTION PROGRAM

The Agency has substantial commitments in connection with the construction of the Catawba facility. The Agency's cost of construction, including nuclear fuel, is presently estimated at approximately \$1,151,269,000. These costs, together with provisions for required working capital funds, and operating and debt service costs during the construction period, will require the use of the proceeds from the issuance of up to an estimated \$2,005,000,000 of Electric Revenue Bonds. Any future delays in construction could further increase the cost of such facilities and this could require the issuance of additional revenue bonds.

In accordance with provisions of the Purchase, Construction and Ownership Agreement, as amended, between the Agency and Duke (Note 1), the Agency makes progress payments to Duke upon receipt of monthly billings.

The components of the construction work in progress costs are as follows (\$000's):

	December 31	
	1982	1981
Electric Plant	\$761,086	\$616,163
Nuclear Fuel Deposits	35,276	22,029
	<u>\$796,362</u>	<u>\$638,192</u>

3. INVESTMENT SECURITIES

Investment securities include securities of the U.S. Government and governmental agencies and securities purchased under agreements to resell (securities of the U.S. Government and governmental agencies serve as collateral under such agreements).

4. REVENUE BONDS

The Agency has been authorized to issue Catawba Electric Revenue Bonds (Bonds) in accordance with the terms, conditions and limitations of the Resolution. The total amounts to be issued are to be sufficient to pay the costs of acquisition and construction of the Project, as defined, and/or for other purposes set forth in the Resolution. On November 29, 1982, the Local Government Commission of North Carolina approved the issuance of such bonds up to a maximum principal amount of \$1,970,000,000. additional Local Government Commission approval must be obtained for the issuance of bonds in excess of this amount.

As of December 31, 1982, the Agency had issued \$1,175,000,000 of the total authorized amount. These outstanding Revenue Bonds consist of the following:

SERIES 1978

5.20% to 6.45% maturing annually from 1986 to 2000	\$ 77,905,000
6.60% maturing in 2003 with annual sinking fund requirements beginning 2001	25,870,000
6.70% maturing in 2008 with annual sinking fund requirements beginning 2004	55,935,000
6.875% maturing in 2020 with annual sinking fund requirements beginning 2009	240,290,000
	<u>400,000,000</u>

SERIES 1979

5.75% to 6.90% maturing annually from 1986 to 2000	27,200,000
7.10% maturing in 2004 with annual sinking fund requirements beginning 2001	12,905,000
7.375% maturing in 2020 with annual sinking fund requirements beginning 2005	109,895,000
	<u>150,000,000</u>

SERIES 1980

9.10% to 9.90% maturing annually from 1986 to 1995	16,855,000
10.25% maturing in 2000 with annual sinking fund requirements beginning 1996	16,145,000
10.50% maturing in 2010 with annual sinking fund requirements beginning 2001	67,000,000
	<u>100,000,000</u>

SERIES 1981

9.40% to 10.50% maturing annually from 1991 to 1998	11,125,000
10.75% maturing in 2001 with annual sinking fund requirements beginning 1999	9,875,000
8.5% maturing in 2017 with annual sinking fund requirements beginning 2011	25,000,000
11.125% maturing in 2020 with annual sinking fund requirements beginning 2002	79,000,000
	<u>125,000,000</u>

SERIES 1981A

14.375% maturing in 2001 with annual sinking fund requirements beginning in 1997	17,500,000
11% maturing in 2015 with annual sinking fund requirements beginning in 2012	25,000,000
14.75% maturing in 2020 with annual sinking fund requirements beginning in 2002	157,500,000
	<u>200,000,000</u>

SERIES 1982

11% maturing in 2003 with annual sinking fund requirements beginning in 1991	14,700,000
7.5% maturing in 2018 with annual sinking fund requirements beginning in 2009	25,000,000
11.25% maturing in 2020 with annual sinking fund requirements beginning in 2004	160,300,000
	<u>200,000,000</u>
	<u>\$1,175,000,000</u>

Interest on Bonds is payable semi-annually on January 1 and July 1. The Bonds are subject to redemption prior to maturity at the option of the Agency, on or after the following dates at a maximum of 103% of the respective principal amounts:

Series 1978	January 1, 1989
Series 1979	January 1, 1990
Series 1980	January 1, 1991
Series 1981	January 1, 1991
Series 1981A	January 1, 1991
Series 1982	January 1, 1993

These bonds are special obligations of the Agency, payable solely from and secured solely by the Revenues, as defined, generated from the operation of the Project subject to the prior payment from Revenues of Operating Expenses, as defined, as well as other moneys and securities included in funds specifically established for that purpose by the Resolution.

The Resolution requires the Agency to deposit into special funds all proceeds of Electric Revenue Bonds issued and all Revenues, as defined, generated as a result of the Power Sales Agreements mentioned above. The utilization of the contents of the individual funds is specifically defined in the Resolution.

5. REVOLVING CREDIT AGREEMENT

On July 17, 1980, the Agency and a group of four banks entered into a revolving credit agreement (Agreement) which allows the Agency to borrow up to \$75,000,000 until July 17, 1983. Borrowings under the Agreement bear interest (with a ceiling of 12%) at 65% of the prime rate as established by the banks from time to time. Interest is payable on the last business day of July, October, January and April, commencing July 1980.

The Agency borrowed \$18,750,000 on July 17, 1980 and the remaining \$56,250,000 on December 17, 1980, evidenced by notes maturing July 17, 1983. These proceeds were deposited in the "Revolving Credit Fund" in accordance with the Agreement, to be used for payment of costs of acquisition and construction of the project as defined. These moneys may be invested by the Agency until expended.

The notes are payable from proceeds of subsequently issued Bonds and are additionally secured by a lien on Revenues, junior in right of payment to the Bonds (Note 4). The Agreement requires the repayment of all outstanding notes from the proceeds of any Bonds issued within six months prior to maturity of the notes.

6. BOND ANTICIPATION NOTES

Bond Anticipation Notes in the aggregate principal amount of \$100,000,000 dated October 1, 1981, bearing an interest rate of 11.50% per annum, will mature July 1, 1984. Interest will be payable semi-annually on January 1 and July 1, commencing January 1, 1982.

The notes are payable from proceeds of subsequently issued Bonds and are additionally secured by a lien on Revenues on a parity with the Revolving Credit Notes, junior in right of payment to the Bonds (Note 4).

7. COMMITMENTS

The Agency has a contractual agreement with ElectricCities of North Carolina whereby ElectricCities provides general management services to the Agency. Such services include, among other things, accounting services, review of billings from Duke, assistance in connection with the issuance of revenue bonds, preparation of construction and operating budgets, specific rate matters, any other services requested, and the necessary facilities required for the Agency to conduct its normal business. According to the agreement, charges for these services are at the actual costs to ElectricCities.

The terms of the agreement specify automatic contract renewal for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term. The present agreement extends through December 31, 1984.

8. CONTINGENCIES

Duke has applied to the Nuclear Regulatory Commission (NRC) for an operating license for the Catawba Nuclear Station. The license is expected to be received prior to the end of the construction period. However, there is no assurance that the NRC will issue such license and the facility cannot be placed into service without it.

The Price-Anderson Act limits the public liability for a nuclear generating unit to \$560,000,000, which amount is to be covered by private insurance and agreements of indemnity with the Nuclear Regulatory Commission. Such private insurance and agreements of indemnity are carried by Duke on behalf of all co-owners of the Catawba Nuclear Station. The terms of this coverage require the owners of all licensed facilities to provide up to \$5,000,000 per year per unit in the event of any nuclear incident involving any licensed facility in the nation with a maximum of \$10,000,000 per year per unit owned in the event of more than one incident. If any such payments are required after the Catawba Nuclear Station has received its operating license, the Agency would be liable for 75% of those payments applicable to Unit #2.

Property damage insurance coverage presently available for the entire Catawba Nuclear Station has a maximum benefit limited to \$450,000,000. Such available coverage has been obtained.

Auditor's Opinion

February 14, 1983

Board of Commissioners
North Carolina Municipal Power
Agency Number 1
Raleigh, North Carolina

We have examined the balance sheets of North Carolina Municipal Power Agency Number 1 as of December 31, 1982 and 1981, and the related statements of changes in financial position and changes in assets of special funds 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 financial statements referred to above present fairly the financial position of North Carolina Municipal Power Agency Number 1 at December 31, 1982 and 1981, and the changes in its financial position and the changes in its assets of special funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



Touche Ross & Co.
Certified Public Accountants

Alternate Commissioners

Clyde E. Bagwell
Utility Director, Statesville

P.E. Bazemore
Councilman, Monroe

Belvin B. Beck, Jr.
Manager, Lexington

Cyrus L. Brooks
Manager, High Point

Jack R. Clark
Commissioner, Granite Falls

Wayne Dellinger
Mayor, Newton

Richard L. French
Manager, Huntersville

Kenneth Harris
Mayor, Drexel

Pauline T. Helms
Council Member, Albemarle

Gary D. Hicks
Manager, Gastonia

Eric L. Jones
Alderman, Landis

Andrew W. Kistler, II
Mayor, Morganton

John E. McGinnis
Councilman, Cherryville

Marcus C. Midgett
Councilman, Maiden

Stephen Royster
Alderman, Shelby

Wayne Sheppard
Councilman, Bostic

A.E. Tarr
Alderman, Lincolnton

Charles R. Yandell
Councilman, Pineville

(Cornelius and Concord seats vacant at year end)

Board of Commissioners

Morris Baker
Manager, Drexel

***George W. Clay, Jr.**
Mayor, Shelby

***Molly M. Darwin**
Council Member, Morganton

W.C. Deadmon
Director of Public Utilities
Landis

James L. Dorton
Alderman, Concord

William M. Edwards
Council Member, Cherryville

H. Max Gunter
Mayor, Bostic

***J.E. Hinkel**
Manager, Monroe

A.W. Huffman, Jr.
Mayor, Granite Falls

***David E. Lowe**
Administrator, Lincolnton

Judy Mendenhall
Council Member, High Point

***Jack F. Neel**
Manager, Albemarle

***Earle E. Riddle**
Utilities Commission Chairman
Lexington

Marion Sparrow
Commissioner, Huntersville

David R. Walker
Manager, Maiden

R. Duke Whisenant
Manager, Newton

***E. Graham Wilson**
Utility Director, Gastonia

Margaret S. Wingate
Council Member, Pineville

**Executive Committee*

(Cornelius and Statesville seats vacant at year end.)



(From Front Row, left): Hinkel, Darwin, Clay (chairman), Lowe (secretary-treasurer), Baker (1983 alternate), Riddle (vice chairman), Wingate; Bagwell (alternate), Ransom, Edwards; Walker, Gunter, Whisenant, Huffman.

Employees

In 1982, the combined staff of Electricities of North Carolina continued to expand to meet the needs of the rapidly evolving and complex power-supply programs of NCMPA 1 and NCEMPA.

With the full operation of NCEMPA—and the approaching operation of NCMPA 1—as all-requirements power suppliers, staff additions have been required in all disciplines. The staff grew from 35 employees in early 1982, to 39 at year end.

Last year, the focus of hiring was on personnel with special technical training, and experience in areas including power supply forecasting, power plant design/construction management, power delivery coordination, and accounting. Support personnel will be added in all areas, as needed.

Warren B. Allen
Rate Analyst

Linda L. Anderson
Clerk/Typist

Elaine M. Bagley
Supervisor—Administrative Services

Sandra L. Barnes
Secretary

Barbara J. Beckham
Accounting Technician

Katherine S. Benson
Secretary

James T. Bobo
Director—Finance & Administration

Hope C. Brown
Project Accountant

Lynda E. Burgiss
Communications Coordinator

Arthur J. Burke, Jr.
Manager—Administrative Support Services

Dennis M. Cameron
Site Representative—Catawba

Thomas A. Collins
Manager—Accounting & Budgets

Al M. Conyers
Manager—Treasury Services

Irene S. Fellows
General Accountant

Diane I. Gallant
Receptionist

Michael J. Gaona
Investment Specialist

John R. Gaster, II
Cost Engineer

David B. Holloway
Administrator—Safety & Training Services

Arthur L. Hubert
Manager—Construction & Operations

Danny B. Jones
Project Accountant

William S. Jones, Jr.
Manager—Management Information Services

Paul A. Jordan
Site Representative
—Roxboro/Mayo

Frederick R. Kisner
Power Delivery Engineer

Fred M. Mills, Jr.
Director—Government Affairs

Mary A. Proctor
Accounting & Compensation Technician

Kenneth M. Raber
Manager—Technical Support Services

James W. Sally
Site Representative
—Brunswick/Harris

Ralph W. Shaw
General Manager

Steve R. Shelton
Administrator
—Interconnect Services

Mark D. Sherman
Specialist—Budgets & Studies

Michelle S. Simpson
Programmer

Lois B. Smith
Programmer Analyst

Lois M. Smith
Administrative Services Assistant

Daniel M. Stone
Administrator
—Engineering Systems

William F. Watson
Manager—Power Supply

Clarence C. Wells
Engineering Technician

William G. Wemhoff
Director—Engineering

Karen S. Wood
Supervisor—Accounting

Sandra J. Young
Accounting Technician

Consultants, Trustees

North Carolina Counsel
Spruill Lane Carlton McCotter & Jolly
Rocky Mount, North Carolina

Washington Counsel
Spiegel & McDiarmid
Washington, D.C.

Engineering Consultant
R.W. Beck and Associates
Orlando, Florida

Bond Counsel
Wood & Dawson
New York, New York

Bond Fund Trustee
Chemical Bank
New York, New York

Construction Fund Trustee
Wachovia Bank and Trust Company, N.A.
Winston-Salem, North Carolina

Paying Agents

Chemical Bank
New York, New York

Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois

Wachovia Bank and Trust Company, N.A.
Winston-Salem, North Carolina



Duke Power Company Statement of Purpose

Contents

Our purpose at Duke Power, working together in a creative environment, is to serve our customers with reliability, serve our communities with citizenship, and provide our investors with a fair, competitive reward for the use of their money. To this end, we:

- will conduct our business with self-evident integrity;
- will provide our customers with low-cost, reliable electric service at fair, non-discriminatory prices;
- will reward our investors with a fair, competitive return;
- will strive as stewards to enhance investor assets and remain financially sound;
- will provide an equitable, safe and stimulating work environment, pledging equal opportunity to all for personal growth and offering rewards commensurate with performance;
- will be innovative, anticipatory, productive, and cost efficient in all our activities;
- will help each other achieve company goals established for individuals and for groups of employees;
- will engage selectively in other business activities that will complement our success as an electric utility;
- will communicate forthrightly and lift the level of understanding in ourselves and others;
- will honor and protect environmental quality and human welfare in the area we serve;
- will demonstrate good citizenship in all of our public actions;
- and will seek excellence in all that we do.

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4	Year in Review
11	Electricity: An Essential Resource
	Industrial Development, Jobs, Economic Growth
	Health, Education, Environmental Quality
	Comfort, Convenience, Recreation
18	Electricity: Will There Be Enough?
19	Financial Statements and Other Financial Data
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44	Officers

Notice of Annual Meeting

The 1983 meeting of holders of Duke Power Company common stock will be held at 10 a.m. Friday, April 29, 1983, in the O.J. Miller Auditorium of the Electric Center, 526 South Church Street, Charlotte, N.C.

About the Cover

The skyline of Charlotte, N.C. shines against the night with light and energy supplied by Duke Power. The largest city in Duke's 20,000-square-mile service territory is representative of the rapid economic growth that has transformed the Piedmont Carolinas into one of the most vibrant, progressive regions in the nation. Electricity's essential role in the past, present and future development of the area is highlighted in the feature section of this year's annual report, beginning on page 11.

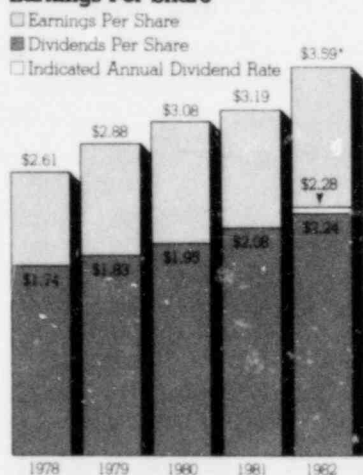
Highlights

DUKE POWER COMPANY

	1982	1981	Percent Increase (Decrease)
Kilowatt-hour sales	51,380,037,000	53,547,929,000	(4.0)
Electric revenues	\$2,244,480,000	\$1,908,454,000	17.6
Earnings for common stock before extraordinary item	\$ 287,713,000	\$ 278,356,000	3.4
Extraordinary item	\$ 48,304,000	—	—
Earnings for common stock	\$ 336,017,000	\$ 278,356,000	20.7
Common stock data			
Average shares outstanding	93,679,000	87,313,000	7.3
Earnings per share before extraordinary item	\$ 3.07	\$ 3.19	(3.8)
Extraordinary item	\$ 0.52	—	—
Earnings per share	\$ 3.59	\$ 3.19	12.5
Dividends per share	\$ 2.24	\$ 2.08	7.7
Book value per share (year-end)	\$24.89	\$23.83	4.4
Return on average common equity	13.9%*	13.7%	1.5
Plant construction costs	\$ 736,060,000	\$ 804,371,000	(8.5)
Total electric plant, net	\$6,385,691,000	\$5,998,307,000	6.5
Peak load (Kw)			
Summer	10,097,000	10,602,000	(4.8)
Winter	11,145,000	10,530,000	5.8

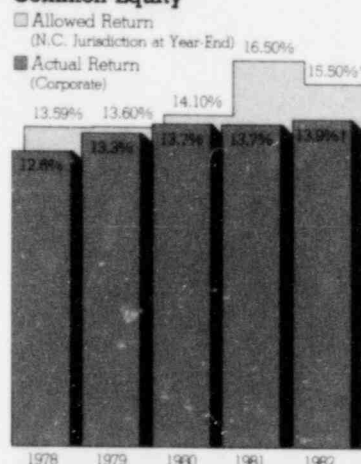
*Excluding extraordinary item — gain on retirement of bonds, and excluding provision for loss on pending sale of certain coal mining assets.

Earnings Per Share



*Including extraordinary item—gain on retirement of bonds - \$0.52.

Return on Average Common Equity



*Subsequently revised to 15.22%.

†Excluding extraordinary item—gain on retirement of bonds, and excluding provision for loss.

To Our Shareholders:

1982 was a year of modest financial progress for Duke Power.

- Earnings per share rose to \$3.59 from the \$3.19 reported in 1981. This includes an extraordinary gain of 52 cents from the exchange of new common stock for outstanding bonds and a provision for loss of 32 cents on the pending disposal of certain coal mining assets.
- Total earnings increased to \$336 million from the \$278.4 million earned in 1981.
- Return on common equity, excluding the effects of the extraordinary item and the provision for loss, improved slightly to 13.9 percent from 13.7 percent a year ago.
- The quarterly cash dividend on common stock was raised to 57 cents per share from its previous level of 55 cents, increasing the indicated annual dividend to \$2.28.

These improvements, however, were clouded in many respects by economic, political and regulatory difficulties, raising renewed uncertainties about the future availability of adequate electricity supplies in the Piedmont Carolinas.

The impact of the adverse economy on industrial pro-

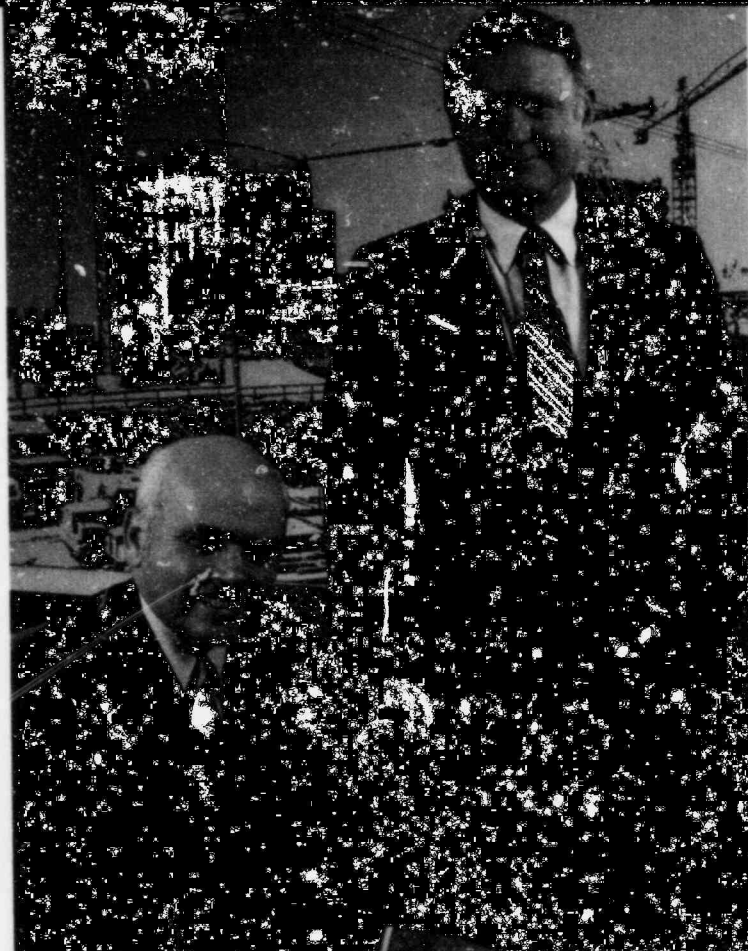
duction and employment contributed to a 4 percent decline in overall kilowatt-hour sales.

The public's frustration with economic conditions was reflected in the political process in North Carolina. Legislation was enacted that hampers the full and timely recovery of fuel expenses, as well as financing costs for projects under construction.

Despite the continuing impact of inflation and double-digit interest rates, the North Carolina Utilities Commission disallowed about two-thirds of a requested rate increase, while lowering the authorized rate of return on common equity.

Financial improvements were clouded by economic, political and regulatory difficulties.

To protect the interests of our shareholders while continuing to provide adequate, economical service to our 1.3 million customers, management acted to offset these developments by restraining capital expenditures and operating expenses; embarking on new programs to achieve a higher level of understanding among legislators, the news media and the public; and taking steps to strengthen our capital



Douglas W. Booth

William S. Lee

structure and enhance the value of our securities.

In recognition of reduced forecasts for future growth, regulatory and economic uncertainties, and difficulties in attracting the necessary capital, we abandoned plans for the three-unit Perkins Nuclear Station and Units 2 and 3 of the Cherokee Nuclear Station. The status of Cherokee Unit 1 remains unchanged. Cancellation of these units will minimize the need for additional stock offerings below book value and lessen exposure to volatile capital markets. We will seek to recover through rates costs associated with these units.

To further reduce capital requirements, we continued to expand our comprehensive Load Management Program with the ad-

dition of several new programs. This effort, which has been cited as among the most aggressive in the nation, is designed to reduce growth in winter peak demand by more than 6 million kilowatts through 1997, eliminating the need to build six major, new generating units.

To enable the Company to fully recover its operating costs and increase current earnings, we are continuing to seek adequate rates in our regulatory jurisdictions. In South Carolina, our request for a 17.56 percent rate increase is pending a final decision. A portion of this request was placed into effect on an interim basis in September, subject to refund. In February 1983, we filed for a 7.68 percent retail rate increase in North Carolina.

Even with these increases, our rates remain well below the national average and among the lowest on the Eastern Seaboard.

To minimize the level of future rate increases, we took additional steps in 1982 to control our operating expenses. These included a freeze on the hiring of new employees and introduction of a program encouraging our employees to step forward with suggestions for reducing costs.

We also expanded the Corporate Goals Program this past year to include improved profitability as an objective. The program includes specific performance targets in such areas as generating efficiency, load management, safety and reliability of service. Our 20,000 employees again met the challenge, achieving eight of the nine incentive goals established under this program, which will be expanded further in 1983.

Our efforts to minimize fuel costs through increased generating efficiency again were cited by *Electric Light and Power* magazine, which awarded us top honors in its most recent survey for the most efficient fossil-fired generating system in the nation — the eighth consecutive year we have earned this distinction.

To improve political and regulatory climates, we initiated a series of meetings

with small groups of legislators, newspaper editors and opinion leaders to communicate our corporate goals and financial needs more effectively.

In early 1983, we began offering our customers the opportunity to purchase Duke Power stock directly from the Company. This program is designed to help us raise needed capital, as well as provide our customers with a new perspective and understanding of our financial situation.

Electricity is essential to growth, prosperity and the quality of life in the Piedmont Carolinas.

Two new community action programs were developed and introduced in 1982 to demonstrate our concern for our customers in these uncertain economic times. Through our 96 local offices, we recruited and trained volunteers from churches, civic organizations and the community, as well as many Duke employees, to weatherize the homes of more than 1,700 low-income families, using materials provided by the Company. We also established a Community Challenge Heating Fund, through which we are contributing \$1 to designated community assistance agencies

every \$4 they raise to help the needy pay their heating bills. The Company has committed up to \$100,000 for this purpose.

We made overall progress in 1982 in strengthening our financial structure and flexibility. Through an innovative exchange of common stock for low-interest, outstanding mortgage bonds, for example, we strengthened our equity base without further diluting the financial interests of existing shareholders.

We also continued to explore the potential for increasing unregulated earnings and expanding our financial base by offering a variety of design, engineering and management consulting services to other companies and utilities. We plan to market aggressively the expertise we have acquired in designing, building and operating our own power plants.

Although we have made great strides in restraining long-term growth in demand, greater supplies of electricity will be needed by the mid-1990s. In the current economic, political and regulatory environments, however, we face severe limitations in continuing to provide this necessary service without jeopardizing our financial integrity and the interests of our shareholders. This places us in a dilemma for which there are no easy or instant solutions. As high-

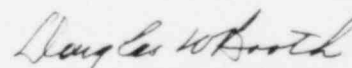
lighted in this year's annual report, electricity is essential to growth, prosperity and the quality of life in the Piedmont Carolinas.

As we work to resolve this dilemma, we are seeking to balance fairly the interests of both our customers and investors by providing high-quality, low-cost electric service while striving simultaneously for higher earnings and greater financial stability. Your board of directors has set forth these objectives in a Statement of Purpose, which appears on the inside front cover of this report. Supported by the energies and talents of our dedicated employees, we are confident in our ability to meet these goals.

We thank you for your support and encourage your interest and participation in helping to build a secure and promising future for Duke Power and the people we are in business to serve.



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



Douglas W. Booth
President and
Chief Operating Officer

February 18, 1983

Year in Review

The quarterly cash dividend on common stock was increased to 57 cents per share.

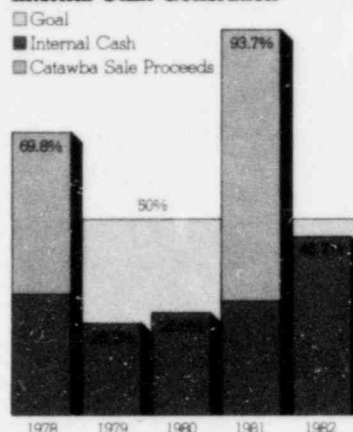
Financial Results

Earnings per share rose to \$3.59 in 1982 from the \$3.19 reported in 1981. Earnings for common stock totaled \$336 million, up from \$278.4 million in 1981.

Earnings per share for 1982 include an extraordinary gain of 52 cents from the exchange of new common stock for outstanding bonds and a provision for loss of 32 cents on the pending disposal of certain coal mining assets.

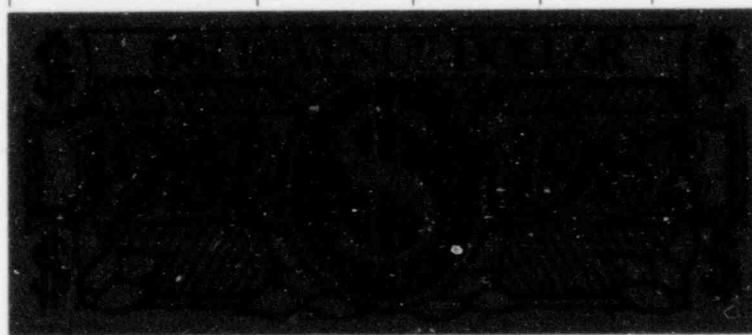
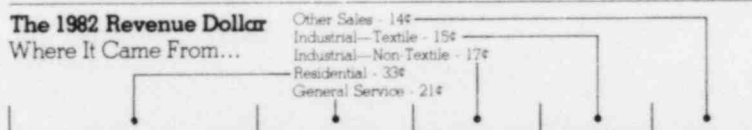
The extraordinary gain totaled \$48.3 million and resulted from the January 1982 exchange of 3.7 million shares of new common stock for \$119.9 million principal amount of outstanding bonds.

Internal Cash Generation

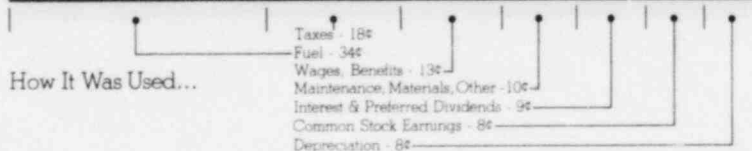


the land it leases from Eastover Land Company. Both Eastover companies are wholly-owned subsidiaries of Duke Power. The Company determined to sell these properties after the most recent rate order from the North Carolina Utilities Commission prohibited full recovery of the cost of Eastover coal.

The 1982 Revenue Dollar Where It Came From...



How It Was Used...



The provision for loss was \$30 million, net of income taxes. It was recorded in anticipation of the disposition of the assets of Eastover Mining Company and

Earnings for the year were favorably affected by rate increases in late 1981 and the fourth quarter of 1982. The impact of these rate increases was partially offset

by lower kilowatt-hour sales.

Return on common equity increased slightly from 13.7 percent in 1981 to 13.9 percent, excluding the effects of the extraordinary item and the provision for loss.

Earnings coverage of fixed charges rose to 2.98 times at year-end, but remained below the Company's goal of 3.5 times. The Company generated approximately 46 percent of its capital requirements internally. The long-range objective is to achieve a 50 percent level of internal cash generation.

The board of directors raised the quarterly cash dividend on common stock to 57 cents per share from 55 cents per share, effective with the dividend paid in September 1982. This increased the Company's indicated annual dividend to \$2.28 from its previous level of \$2.20.

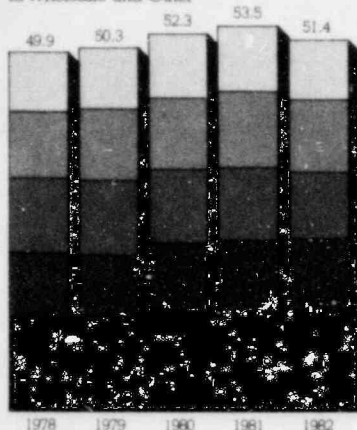
Sales and Customers

Sales of electricity declined in 1982 due to unfavorable economic conditions and mild weather. Sales totaled 51.4 billion kilowatt-hours, down 4 percent from 1981.

Sales to the textile industry showed a substantial decline, dropping 8.8 percent, largely as a result of adverse economic conditions that reduced production levels. Sales to non-textile industrial customers fell 4.1 percent.

Sales (Billions of KWH)

■ Residential
■ General Service
■ Industrial—Textile
■ Industrial—Non-Textile
□ Wholesale and Other



Sales to general service and commercial customers increased 3.7 percent over 1981.

Sales to residential customers declined 1.1 percent, reflecting mild weather and increased conservation efforts.

Wholesale and other energy sales decreased 11.3 percent.

Of the Company's total sales in 1982, residential customers accounted for 27 percent, general service and commercial customers 19 percent, non-textile industrial customers 20 percent and textile customers 18 percent. Wholesale and other energy sales accounted for the remaining 16 percent.

Continued growth in the Piedmont Carolinas resulted in a 1.2 percent increase in the Company's customer base in 1982. As of December 31, 1982, the Company served 1.3 million customers.

Status of Construction Program

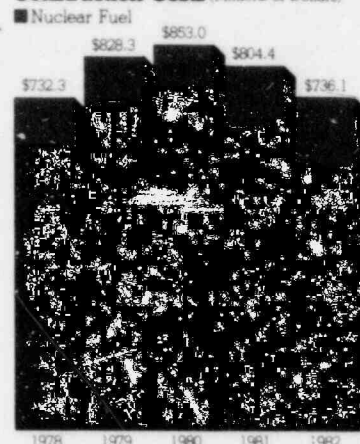
The Company's board of directors canceled plans for the Perkins Nuclear Station and for Units 2 and 3 of the Cherokee Nuclear Station. These decisions were based on reduced growth projections, uncertain economic and regulatory climates, and difficulties in attracting capital on acceptable terms.

The proposed three-unit Perkins plant was canceled in February 1982. The Company had never initiated work on the project,

nor had it received the necessary federal construction permits. Approximately \$8.9 million was incurred for preliminary engineering and licensing. The Company is recovering through rates the portion of these costs allocated to its North Carolina jurisdiction. It is seeking similar recovery in its South Carolina retail and its wholesale jurisdictions.

Plans for Cherokee Units 2 and 3 were canceled in November 1982. Work on Unit 2 was suspended in February 1981. Construction had not begun, nor had any equipment com-

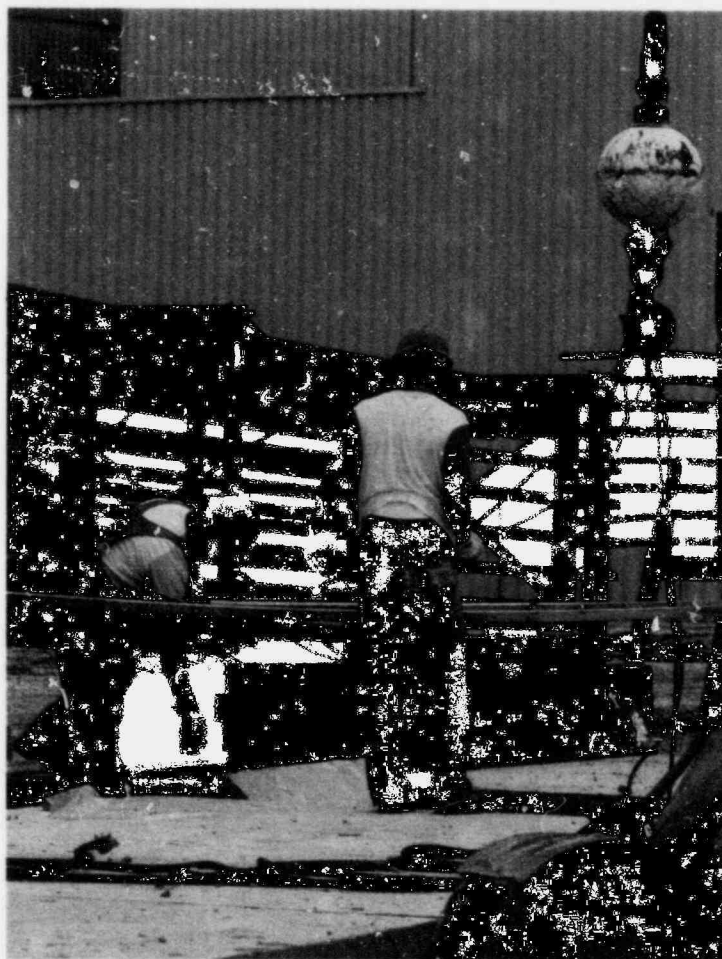
Construction Costs (Millions of Dollars)



mitments been made on Unit 3. At the time of cancellation, the Company had incurred costs of approximately \$70 million. Additional costs will be incurred as the Company negotiates the termination of contracts related to Unit 2. The Company will seek approval in each of its regulatory jurisdictions to recover costs incurred for these units.

Catawba Unit 1 is about 92 percent complete and is scheduled for commercial operation in 1985.

Work on Cherokee Unit 1 is continuing at the limited pace authorized by the board in February 1981. While the unit will be needed to meet customer demand by the early 1990s, a schedule for its completion has not been established because of financial constraints. As of December 31, 1982, \$538 million had been invested



With more than 7,700 engineering and construction personnel, Duke Power is the only investor-owned electric utility in the nation that designs and builds its own generating facilities.

in this unit.

Construction timetables for the two-unit Catawba Nuclear Station, in which the Company has a 25 percent interest, were revised in 1982 to reflect more accurately the current status of the project. Catawba Unit 1 now is scheduled for completion in 1985, with Catawba Unit 2 scheduled for operation in 1987. The two units previously had been scheduled for completion in 1984 and 1985, respectively. As of December 31, 1982, Catawba Unit 1 was approximately 92 percent complete. Catawba Unit 2 was about 47 percent complete. When placed into commercial operation, the Catawba plant will have the capability of generating 2,290,000 kilowatts of electricity.

Construction work on Unit 2 of the McGuire Nuclear Station is virtually complete. Initial testing was begun in 1982, and fuel loading and further testing are scheduled for the spring of 1983. Commercial operation is planned for no later than early 1984.

In anticipation of projected demand in the early 1990s, the Company is continuing site preparation work for the Bad Creek Hydroelectric Station, a four-unit, 1-million-kilowatt, pumped storage facility to be located above Lake Jocassee in South Carolina. While required state and federal

permits for this facility have been obtained, construction will continue only to the extent the Company is able to raise sufficient capital on reasonable terms. No timetable has been established for completion of the project.

Costs for plant construction and investment in additional nuclear fuel totaled \$736 million in 1982, compared with \$804 million in 1981.

Legislation

The North Carolina General Assembly enacted legislation in June

1982 changing procedures for the recovery of fuel expenses and modifying the treatment of construction work in progress (CWIP) for rate-making purposes.

Unfavorable legislation in North Carolina may hamper the full and timely recovery of fuel costs.

Under the new law, the fuel-cost component of Duke's retail rates will be established in general rate

case proceedings. In addition, fuel costs will be reviewed again within one year of the resolution of a general rate case. Previously, the North Carolina Utilities Commission (NCUC) allowed three fuel-cost adjustments annually based on the Company's fuel costs over a prior four-month period.

Legislators also modified the statute permitting current recovery of carrying costs for construction projects. The law previously required the inclusion in rates of carrying costs requested by the Company and incurred after July 1,



The Company is embarking on new programs to achieve a higher level of understanding of its needs among state lawmakers.

1979. Under the revised statute, the NCUC may include these costs in rates at its discretion, after considering the public interest and the Company's financial stability.

The ultimate impact of this revision will depend on how it is applied by the NCUC. In the Company's most recent rate case, the NCUC allowed in rates the carrying costs on \$276 million of CWIP, representing almost 90 percent of the amount requested by the Company.

Rate Increases

Rates to all customers were increased in 1982 to help offset increased costs brought about primarily by inflation and the high cost of money.

A 4.38 percent rate increase, designed to generate \$61.7 million in additional revenues annually, was approved by the NCUC in November 1982. The approved rates were based on a 15.5 percent allowed return on common equity, which subsequently was revised to 15.22 percent. The Company had sought a \$197 million increase in its North Carolina retail rates, including a 17.5 percent allowed return on common equity. The Public Service Commission of South Carolina (PSC) currently is considering the Company's request for a 17.56 percent



Duke Power attorneys presented the Company's case for higher electric rates in all rate jurisdictions in 1982. The Company will continue to pursue adequate rates from regulatory bodies in the future.

retail rate increase. If granted in its entirety, this increase would generate \$99.5 million in additional revenues annually, based on a requested 17.5 percent rate of return on common equity. The Company placed a portion of this request, an 11.5 percent increase, into effect in September 1982, subject to refund. A final ruling from the PSC on the full request is expected in March 1983.

Rates to all customers were increased to help offset higher costs.

The Company and its wholesale customers settled on a \$26 million rate increase designed to approx-

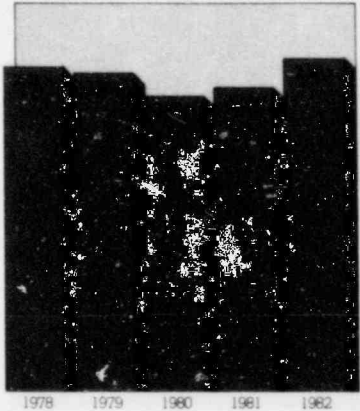
imate the rate of return approved for North Carolina retail industrial customers. The higher rates, effective as of November 1982, are subject to refund and final approval by the Federal Energy Regulatory Commission.

Financing

The Company issued 3.7 million shares of new common stock in January 1982 in exchange for \$119.9 million of outstanding first mortgage bonds. An extraordinary gain of \$48.3 million was recognized from the retirement of the bonds, which were trading at discounts from face value. The transaction strengthened the Company's equity base without

Earnings Coverage of Fixed Charges (SEC Method)

□ Goal
■ Earnings Coverage of Fixed Charges



the dilutive effect of selling new common stock below book value.

External financing in 1982 included the sales of \$100 million of nine-year bonds at 15 1/8 percent; \$40 million of Preferred Stock A (\$25 par) with a 15.4



Duke raised \$423 million in domestic and foreign markets in 1982.

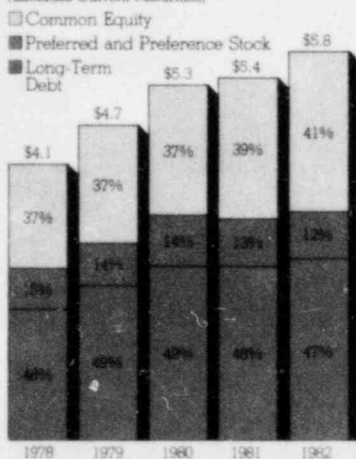
percent dividend rate; and \$125 million of 30-year bonds at 14 1/2 percent. In addition, the Company borrowed the proceeds of \$60 million of seven-year notes issued by a subsidiary to foreign investors. The Company has filed a registration statement with the Securities and Exchange Commission for the prospective sale of up to two million shares of additional Preferred Stock A. No timetable has been es-

tablished for this sale.

The Company also raised \$77 million from the issuance of 3.5 million shares of new common stock through the Dividend Reinvestment and Stock Purchase Plan, the Stock Purchase-Savings Program for Employees, and the Employees' Stock Ownership Plan.

As of December 31, 1982, the Company's capital structure consisted of 47 percent long-term debt, 12 percent preferred and preference stocks, and 41 percent common equity. These ratios are consistent with the Company's current objectives.

Capital Structure (Billions of Dollars)
(Excludes Current Maturities)



Sale of Assets

The Company plans to sell 25 percent of Unit 2 of the Catawba Nuclear Station to the Piedmont Municipal Power Agency

(PMPA), representing a group of 10 South Carolina cities and towns. The Company had anticipated finalizing the sale in 1982, but a legal challenge has delayed the sale indefinitely.

Under the agreement with PMPA, the Company would sell the interest in Catawba at a price based primarily on the Company's investment at the time of closing. In addition, PMPA would make monthly progress payments to finance the continued construction of its portion of Catawba Unit 2, scheduled for completion in 1987.

A group of North Carolina municipalities purchased the other 75 percent of Catawba Unit 2 in 1978. The sale of 75 percent of Catawba Unit 1 to a group of the Company's North Carolina and South Carolina rural electric cooperative customers was finalized in early 1981. Duke will retain ownership of the remaining 25 percent of Catawba Unit 1 and operate the facility on behalf of the joint owners.

Generation and Capacity

Coal and nuclear plants provided the bulk of the Company's generation in 1982.

Coal-fired generation decreased slightly from 1981, providing 70 percent of total generation. Nuclear plants supplied 27 percent of total output. Hydroelec-

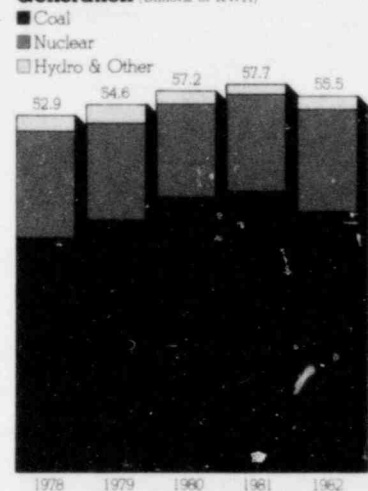
tric facilities contributed 3 percent.

Modifications to McGuire Unit 1 should be completed in early 1983.

Unit 1 of the McGuire Nuclear Station operated at reduced levels because of problems with the manufacturer's design of its steam generators. Despite this, the unit operated reliably, generating more than 4 billion kilowatt-hours of electricity, representing 29 percent of total nuclear generation. The Company is working with the manufacturer of the unit's steam generators on modifications to allow full-power operation. These modifications, which are expected to be made at no charge to the Company, are scheduled to be completed in early 1983.

Units 2 and 3 of the Oconee Nuclear Station were out of service for extended periods in 1982 for

Generation (Billions of KWH)





McGuire Nuclear Station Unit 1 generated approximately 4 billion kilowatt-hours of electricity in 1982, representing 29 percent of total nuclear generation.

Duke customers millions of dollars on their electric bills. If the Company's generating system heat rate had been equal to the median of the companies in the *EL&P* survey, Duke customers would have faced more than \$90 million in additional fuel costs in 1981.

Based on information compiled by the Nuclear Regulatory Commission, the Company's Oconee Nuclear Station was the most efficient pressurized water reactor nuclear plant in the nation in 1981.

required 10-year inspection procedures and refueling. Bolts securing thermal shields in both units also were replaced. Similar work was completed on Oconee Unit 1 in 1981. Despite these planned outages, Oconee generated almost 11 billion kilowatt-hours of electricity in 1982 and achieved a 47 percent capacity factor.

As of December 31, 1982, the Company's installed net generating capacity totaled 13,234,000 kilowatts, consisting of 7,423,000 kilowatts of coal-fired units, 3,760,000 kilowatts of nuclear units, 1,452,000 kilowatts of hydroelectric facilities and 599,000 kilowatts of combustion turbine units. The Company subsequently upgraded certain of its coal-fired units, increasing total capability to 13,411,000 kilowatts.

Efficiency

For the second consecutive year, the Company's combined coal and nuclear generating system led the nation in overall efficiency in 1981, according to a survey conducted by *Electric Light and Power (EL&P)* magazine.

EL&P also cited the Company's fossil-fired generating system as the most efficient in the United States — the eighth consecutive year the Company has earned that honor.

The *EL&P* survey was based on comparative heat rates of the nation's 100 largest electric utilities in 1981, the latest year for which industry statistics are available. (Heat rate is a measure of the amount of energy required to produce a kilowatt-hour of electricity.)

In addition to winning the top awards for both overall and fossil-system efficiency, Duke plants swept the first six places in the survey's unit-by-unit efficiency rankings for fossil units. Unit 4 of the Company's Marshall Steam Station was the most efficient single generating unit of the 2,100 units evaluated in the survey.

A Duke plant has led the nation in efficiency 14 of the past 16 years.

The Marshall station was recognized in another industry survey as the most efficient coal-fired generating plant in the nation in 1981. A Duke plant has led the nation in efficiency 14 of the last 16 years.

This unparalleled efficiency record has helped save

Peak Demand

A new system peak was set January 11, 1982 when customer demand reached 11,145,000 kilowatts, 5.8 percent above the previous winter peak of 10,530,000 kilowatts set January 12, 1981. Summer peak demand reached 10,097,000 kilowatts on July 28, 1982, 4.8 percent below the record summer peak of 10,602,000 kilowatts set August 5, 1981.

In June 1982, the Company reduced its projection for long-term growth in peak demand to 2.8 percent annually from 3.8 percent.

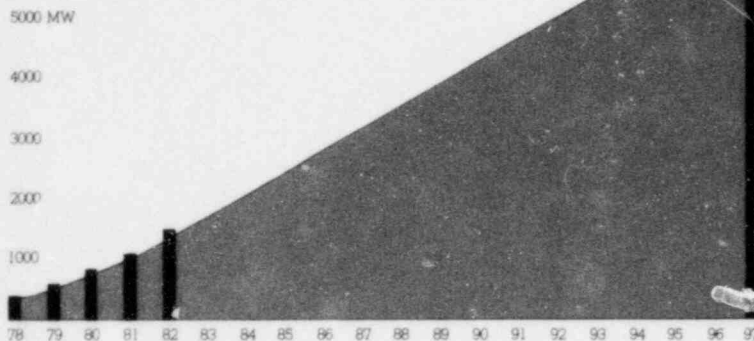
Load Management

The Company's load management program again met established goals in 1982, achieving an additional reduction of 291,000 kilowatts in summer peak demand and

Cumulative Load Management Goals & Accomplishments

(Winter)

■ Goal ■ Accomplishment



340,000 kilowatts in winter peak demand.

As of December 31, 1982, the Company had achieved an accumulated reduction of 1.1 million kilowatts in summer peak demand and 1.4 million kilowatts in winter peak demand through load management.

The long-range goal of the program is to eliminate 5.2 million kilowatts in summer peak demand and 6.6 million kilowatts in winter peak demand through 1997.

Dividend Reinvestment

The number of participants in the Company's Dividend Reinvestment and Stock Purchase Plan increased 65 percent in 1982, largely as a result of legislation allowing the

Investment in new common stock through the Dividend Reinvestment and Stock Purchase Plan doubled in 1982.

deferral of federal income taxes on dividends reinvested in qualified plans.

There were 38,090 shareholders enrolled in the plan as of December 31, 1982, compared with 23,065 participants on December 31, 1981.

Under the new federal law, applicable through 1985, plan participants who file joint returns are eligible to defer income taxes on up to \$1,500 of dividends reinvested in additional stock. A \$750 limit applies to shareholders filing individual returns. If the additional stock purchased through the plan is held for at least one year and no other shares of stock are sold during the period, the reinvested dividends will be taxed as long-term capital gain when the shares are sold.

The Company also modified the plan in 1982 to allow participation by the owners of preferred and preference stock and to allow participants to reinvest dividends on only a portion of the shares they hold.

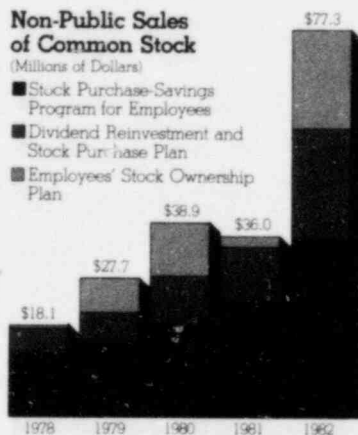


Duke employees achieved eight of nine targets in the Company's 1982 Corporate Goals Program, including improved customer service reliability.

Non-Public Sales of Common Stock

(Millions of Dollars)

- Stock Purchase-Savings Program for Employees
- Dividend Reinvestment and Stock Purchase Plan
- Employees' Stock Ownership Plan



More than \$67 million has been invested through the plan since its inception in 1973, including \$22 million in 1982.

Inquiries concerning the plan should be directed to the Investor Relations Department, Duke Power Company, P.O. Box 33189, Charlotte, N.C. 28242.

Employee Incentive Program

The Company's 20,000 employees achieved eight of nine performance targets established under the 1982 Corporate Goals Program.

Goals were achieved in vehicle and employee safety, service reliability, load management, generating efficiency, design and construction and affirmative action. Employees also met the Company's target of improving profitability.

Achievement of these goals will be rewarded with an additional Company contribution to the Stock Purchase-Savings Program for Employees.

Electricity: An Essential Resource

What is the value of electricity? How do we measure its contributions? What is it worth to be warm at 2:30 a.m. when it's 15 degrees outside? What is the value of turning night into day with a flick of a switch, or an evening of entertainment?

These are some of the traditional ways we relate the value of electricity to our personal lives. But the contributions of this essential resource extend far beyond the home. It helps keep manufacturing plants producing, people working, doctors healing, students learning and the wheels of government turning.

In the present era, it is difficult to imagine life without electricity. It is the heartbeat of progress, the circulatory system of our society.

For 79 years, Duke Power has provided the Piedmont Carolinas with a safe, reliable and economical supply of electricity. And over the years, the Company has built an unmatched record of efficiency in the design, construction and operation of its power plants, serving its 1.3 million customers with among the lowest rates on the Eastern Seaboard. In the words of one North Carolina newspaper: "Duke Power Company does what it does better than anybody."

In recent years, however, high interest rates, inflation and greater regulatory requirements have combined to increase dramatically the cost of supplying this essential resource. As a result, the Company faces the prospect of having to raise twice as much capital as it has in its entire history, simply to meet projected growth in demand through the end of this century.

Meeting this financial challenge has significant implications for the Company's 121,000 common shareholders. After all, every new investment dollar raised through the sale of additional common stock below book value would dilute the equity of existing shareholders. And raising large amounts of debt capital at high interest rates could undermine the Company's financial integrity. In the face of persisting volatile economic conditions, Duke would be far stronger financially if construction were curtailed or stopped completely.

To do so, however, would jeopardize the future of the Piedmont Carolinas and its four million residents. A continued supply of electricity is essential for industrial growth, jobs, economic progress, health care, education and personal comfort.

The following pages offer an overview of the contributions of electricity to the Piedmont Carolinas and the efforts Duke is making to ensure continued progress and prosperity for its customers and shareholders alike.



Part I: Industrial Development, Jobs, Economic Growth

Almost 40 percent of the electricity Duke Power produced in 1982 went to drive the wheels of industry in the Piedmont Carolinas. These 19 billion kilowatt-hours helped keep nearly 2 million workers on the job, enabling them to earn an estimated \$30 billion in wages to feed, clothe and shelter their families.

Almost half of this energy supply went to power the spinning, weaving and finishing machinery of the Company's 1,300 textile customers. Even in a year when adverse economic conditions forced cutbacks in production levels, sales to the area's textile manufacturers still exceeded 9 billion kilowatt-hours, helping support the employment of more than a quarter of a million people.

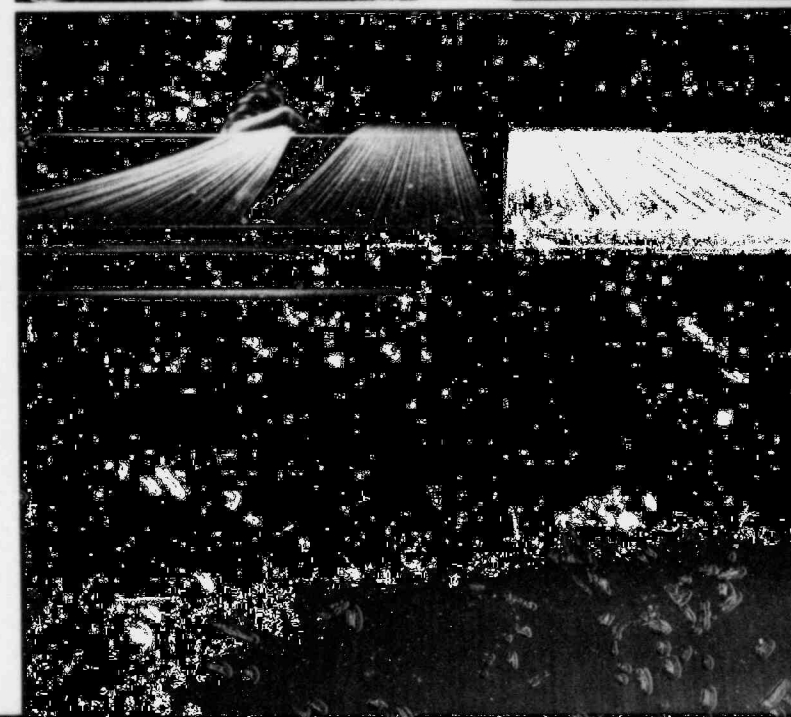
Already the most modern in the world, the Carolinas textile industry is investing millions of dollars in more sophisticated, more efficient equipment to increase productivity and help assure future growth in the face of foreign competition. Conventional shuttle looms are being replaced with high-speed, air-jet looms with two to four times the production capacity. New spinning techniques promise to streamline the entire manufacturing process.

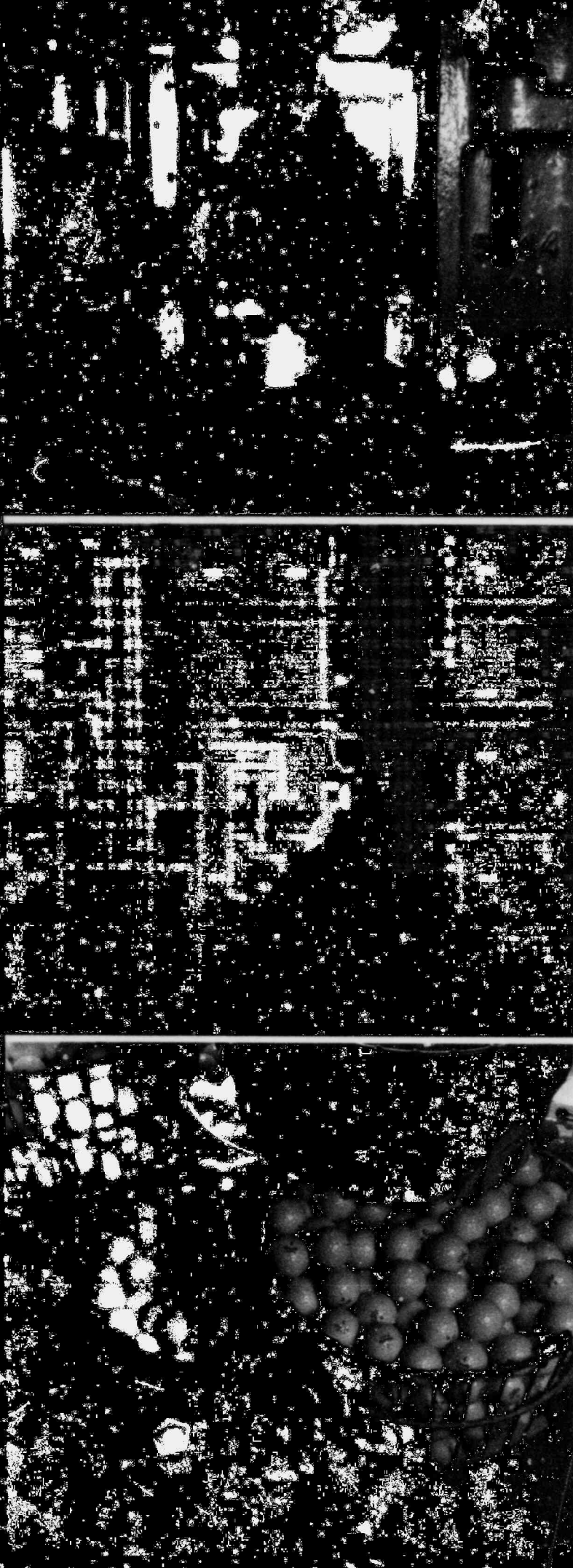
As recently as 1970, Duke

depended on textile manufacturers for almost two-thirds of its industrial sales. Since then, however, almost 12,000 industrial firms have invested nearly \$31 billion in new and expanded manufacturing facilities in the Carolinas. Much of this new investment has been concentrated in Duke's service area. As a result, the Company's industrial sales market has become more diverse. Electric sales to non-textile manufacturers have almost doubled over the last 12 years and today exceed those to the textile industry.

Among Duke's 6,500 non-textile industrial customers are an increasing number of research facilities and high-technology manufacturers that have been attracted to the Piedmont area. At the noted Research Triangle Park near Durham, N.C., Duke supplies electricity to support research laboratories operated by General Electric, Monsanto, Burroughs Wellcome and others. The Company also serves a growing number of customers in the University Research Park near Charlotte and the Ravenel Research Center at Clemson.

Elsewhere, this supply of electricity contributes to the production of telephone switching equipment for Northern Telecom, surgical instruments for Squibb and electronic banking equipment for IBM. In addition, more than 200 foreign-based manufacturers and distributors of such varied





products as chemicals, ball bearings, heavy machinery, aluminum, telephone cable, plastics and pharmaceuticals now are located in the Company's service area.

Electricity-fueled economic development has created more than 500,000 new jobs in the Carolinas since 1970. This economic growth has contributed directly to the expansion of service and related industries: hotels, restaurants, banks, retail sales and homebuilding, to name a few. This, in turn, has added significantly to the revenue base of local governments, helping to finance improvements in highways, urban redevelopment, schools and other public services. According to U.S. Chamber of Commerce ratios, every new manufacturing plant that creates 1,000 new jobs generates an additional 680 jobs in the local economy.

To accommodate this expanding economy, Duke has invested about \$5 billion in new generating facilities since 1970, while adding 8 million kilowatts of additional capacity. To meet future demand, the Company is investing in new power plants that will provide more than 3 million kilowatts of new capacity by 1987.

Seeking to minimize the amount of capital required to meet future growth,

Duke is working aggressively with both new and existing manufacturers and industries to maximize the energy efficiency of their facilities and thereby limit growth in peak demand. With guidance from Duke's load management experts, for example, one of the Company's largest industrial customers — Bowater Carolina Corporation — reduced demand at its Catawba, S.C. plant by more than 20,000 kilowatts. As a result, Bowater will save an estimated \$1.3 million on its annual electric bill. This effort recently was cited as the most outstanding example of industrial conservation retrofit in the Southeast in 1982. Through load management, Duke is seeking to reduce projected growth in industrial summer peak demand by nearly 1.2 million kilowatts by 1997.

Continued industrial development and diversification will be absolutely essential to provide expanded job opportunities not only for the 425,000 Carolinians who were out of work in 1982, but also for millions of young people who will enter the job market in the future. But this economic growth cannot be assured due to uncertainty over the availability of adequate electricity beyond the 1990s. Without this supply, the Piedmont Carolinas face the prospect of economic stagnation.

From left to right: Burroughs Wellcome automated office; forging surgical instruments at Squibb's Edward Weck & Company; dining at Greenville's new Hyatt Regency; microelectronics by General Electric; spinning at J. P. Stevens; golf balls produced by Dunlop Sports.

Part II: Health, Education, Environmental Quality

Remarkable advances in electronics and computer technology in recent years have propelled our society into an exciting new age in health care, education and communications. The common denominator in this technological revolution has been electricity. By providing a dependable, affordable supply to the hospitals, universities, schools and government agencies of its service territory, Duke Power has enhanced the lives of millions of Piedmont Carolinians.

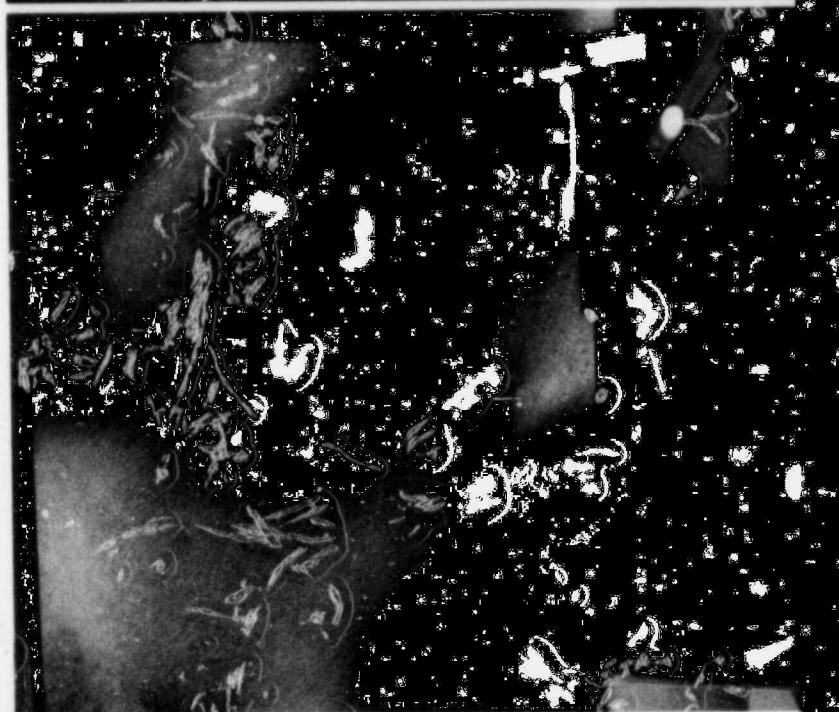
Today, this supply of electricity is helping ophthalmologists at Duke University Medical Center treat glaucoma patients with lasers and dermatologists at North Carolina Memorial Hospital heal burn victims with skin grafts. At many major hospitals, the Company is powering computerized axial tomography (CAT) scanners and ultrasound units to enable radiologists to locate and treat cancerous tumors by displaying cross sections of the brain and other organs on video-screens. This vital energy source also is keeping emergency rooms and intensive care units functioning at hospitals throughout the Piedmont.

At North Carolina, Wake Forest and Duke universities, the electricity Duke

generates plays an essential role in medical research into cancer, hypertension, cell transplants, blood diseases and arthritis. And at more than 80 other colleges and universities in the Carolinas, electricity is contributing to the development of new technological advances that promise to surpass those of the past 20 years. At Clemson University, for example, the new Center for Automated Manufacturing Technology is investigating the relationship between humans and machines, and will serve as a magnet to draw high-technology industries to the Piedmont.

Electric-powered technology is being incorporated increasingly into secondary and elementary schools to prepare today's youth for tomorrow's world. More than 700 North Carolina public schools now are equipped with classroom microcomputers. At the North Carolina School of Science and Math, for instance, students are offered an advanced computer curriculum supported by a network of 37 microcomputers and terminals.

Highly sophisticated electronic networks dependent on electricity are used in many cities to coordinate the delivery of essential services. Computerized dispatching systems, for example, keep track of police and fire units, matching incoming calls with the closest available assistance. Most major cities in the Piedmont are using computers to coor-





ordinate street lighting and traffic signals. And air traffic controllers are using computers and video-screens to safely coordinate incoming and outgoing flights.

Duke Power has incorporated much of this sophisticated technology into its own operations to improve productivity, service, safety and efficiency. At the Company's generating stations, for example, computers monitor temperatures, pressures and heat rates, helping Duke's fossil-fired system lead the nation in efficiency for eight consecutive years. Duke engineers use computer-assisted graphics to design new generating facilities and thereby minimize costs and maximize efficiency. All of the Company's nuclear plant operators are trained on elaborate simulators, exposing them to actual control room procedures and conditions.

These advanced tools also are helping Duke continue its commitment to preserving the environmental integrity of the Carolinas. The Company's new Physical Sciences Complex on the shores of Lake Norman, for example, is equipped with state-of-the-art chemistry, biology, radio-chemistry and chromatography laboratories.

Duke first established an environmental department

in the 1920s — long before state and federal environmental agencies existed. Today, more than 170 environmental specialists are employed by Duke to monitor and safeguard the air, water and other natural resources surrounding its generating facilities. Last year, they assisted state scientists in relocating more than 4,000 endangered Oconee Bell wildflowers from the rolling hills of South Carolina to the North Carolina Botanical Gardens.

To minimize the environmental impact of producing more than 55 billion kilowatt-hours of electricity annually, the Company uses low-sulfur coal and has equipped its plants with electrostatic precipitators to reduce emissions. And by relying on nuclear plants for more than a fourth of this electricity, Duke has provided the Piedmont with the cleanest and safest source of large-scale power available today.

By supplying the energy to advance the quality of health care, education, and communications, and by minimizing the environmental impact of producing this electricity, Duke is contributing to an improved quality of life for all the people of the Carolinas.

From left to right: radar tracking at Charlotte airport; Duke environmentalists on Lake Norman; laser treatment at Duke Medical Center; North Carolina School of Science and Math; robotics at Clemson University; microsurgery at Presbyterian Hospital.

Part III: Comfort, Convenience, Recreation

Twenty years ago, Duke Power's 658,000 residential customers used an average of about 5,900 kilowatt-hours of electricity in their homes each year. Even with individual conservation efforts, average consumption for today's 1.1 million residential customers has more than doubled, rising to about 12,100 kilowatt-hours annually.

This greater reliance on electricity to run the home has provided the people of the Piedmont with a more convenient and comfortable lifestyle. It also has helped create more personal freedom and flexibility for the pursuit of individual goals and ambitions.

While inflation has pushed up the cost of all goods and services, including electricity, Duke Power residential customers paid only about 5.4 cents — substantially less than the national average — for each of the 14 billion kilowatt-hours they used in 1982. Duke's average residential customer still pays about the same percentage of the average manufacturing wage for electric service as in 1955.

The invisible nature of Duke's product makes it easy to take for granted the day-to-day amenities it provides: a hot shower, steaming cup of coffee and warm kitchen on a cold winter morning...iced tea

and air conditioning on a hot summer afternoon...instantaneous news and home entertainment...computers and microwave ovens to save time in the home...power tools to build with...security lights to protect against prowlers. For the benefits of electricity, the average Duke Power residential customer pays only about \$2 a day — about the same as the price of a meal at a fast-food restaurant.

To help reduce the need for higher rates, Duke has created one of the most innovative and comprehensive residential load management programs in the nation. By building or upgrading their homes to Duke's recommended insulation standards, for example, residential customers automatically qualify for the Company's lowest available rate. Today, nearly 80 percent of the new homes in Duke's service territory are being built to Energy Efficient Structure standards. And under a recently introduced program, the Company is offering to pay a portion of the interest rate on bank loans obtained by homeowners to upgrade their houses to its recommended standards.

To provide a ready supply of electricity 24 hours a day, 365 days a year, Duke operates two nuclear power complexes, eight coal-burning plants and 26 hydroelectric stations. And much of the land surrounding these generating facilities has been developed into recreational areas for the public.





Lake Norman, near Charlotte, for example, was designed and built by Duke engineers to power the Cowans Ford Hydroelectric Station and provides cooling water to both the Marshall Steam Station and the new McGuire Nuclear Station. As North Carolina's largest body of fresh water, Lake Norman offers more than 32,000 acres of open water for boating, sailing and water skiing, and nurtures some 40 species of fish. Its 520-mile shoreline is home to more than 6,000 year-round residents and attracts an estimated 3 million summer visitors each year.

Less than 25 miles south of its corporate headquarters, Duke is building the two-unit Catawba Nuclear Station on the shores of Lake Wylie. Created in 1904 to drive the turbines of the Company's first hydroelectric plant, Lake Wylie provides home sites to more than 2,500 families along its 325-mile shoreline and offers nearby residents more than 12,000 acres of recreational opportunities.

In developing its award-winning Keowee-Toxaway Energy Complex in the early 1970s, Duke created Lake Jocassee and Lake Keowee near Clemson. Together, they provide 26,000 acres of open water for recreation and supply more than 3 million kilowatts of generating capacity. In addition to

powering the Jocassee and Keowee hydroelectric plants, the lakes provide cooling water to Duke's Oconee Nuclear Station. Since beginning operation in 1973, Oconee has saved Duke customers more than \$500 million, compared with the cost of producing the same amount of energy at the Company's most efficient, comparable coal-fired plant.

Duke completed work this past year on a 43-mile segment of the Foothills Trail, a hiking path which winds more than 80 miles from Table Rock State Park to Oconee State Park. The trail was designed in harmony with the natural beauty of the surrounding area, which encompasses more than 60,000 acres of timberland and wildlife preserves, and includes Whitewater Falls — the highest cascade in the eastern United States. The trail features camp sites and lake access areas, as well as a two-mile hiking section specially designed for the handicapped.

In providing these resources while producing a reliable and reasonably priced supply of electricity, Duke has contributed immeasurably to the comfort, convenience and recreational opportunities of the people of the Piedmont.

From left to right: modern electric kitchen; Duke home energy analysis; hiking on Foothills Trail; sailing on Lake Norman; collegiate basketball at Charlotte Coliseum; comfort and security of home.

Electricity: Will There Be Enough?

The continued progress of the Piedmont Carolinas and its four million people is tied inextricably to assurances of an adequate supply of electricity. But Duke Power's ability to provide power needed for the future is uncertain.

Despite plans to invest billions of dollars in new facilities, and one of the most ambitious load management programs in the nation, projections show that demand for electricity will exceed available supplies in the late 1990s.

While plans exist for projects that would add 2.3 million kilowatts of new capacity, a lack of adequate financing on reasonable terms has prevented a firm schedule for their completion. Even with adequate financial resources, it now takes 10 to 13 years to design and build a new power plant. Unless regulatory, legislative and financial obstacles are overcome soon, the Company will be unable to supply the electricity that will be needed in the future.

Duke must offer potential investors a competitive return if new capital is to be attracted. Yet over the last decade, Duke investors have earned less than compensatory returns, as rates have failed to fully reflect the cost of service. As a result, the Company's common stock continues to be traded at a discount to its book value.

To reverse this trend, the Company is seeking more realistic electric rates and more competitive rates of return to enhance the value of its securities. Yet, regulatory commissions and governmental bodies have been slow to recognize the long-term consequences of failing to compensate investors adequately, opting instead for the expediency of responding to the short-term preferences of consumers and voters. Frequently, the paramount issue of an adequate supply of electricity is overlooked in debates over near-term issues. A reliable supply of electricity is taken for granted simply because it has been there for so long. And most assume it always will be.

In looking at future prospects, there really is no question as to whether greater amounts of electricity will be required. Within the limits of its financial resources, Duke Power is committed to meeting the challenges that lie ahead. This can be accomplished, however, only to the extent that providing the needed energy benefits both customers and investors. Duke Power is working actively to make that a reality.



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About Your Company

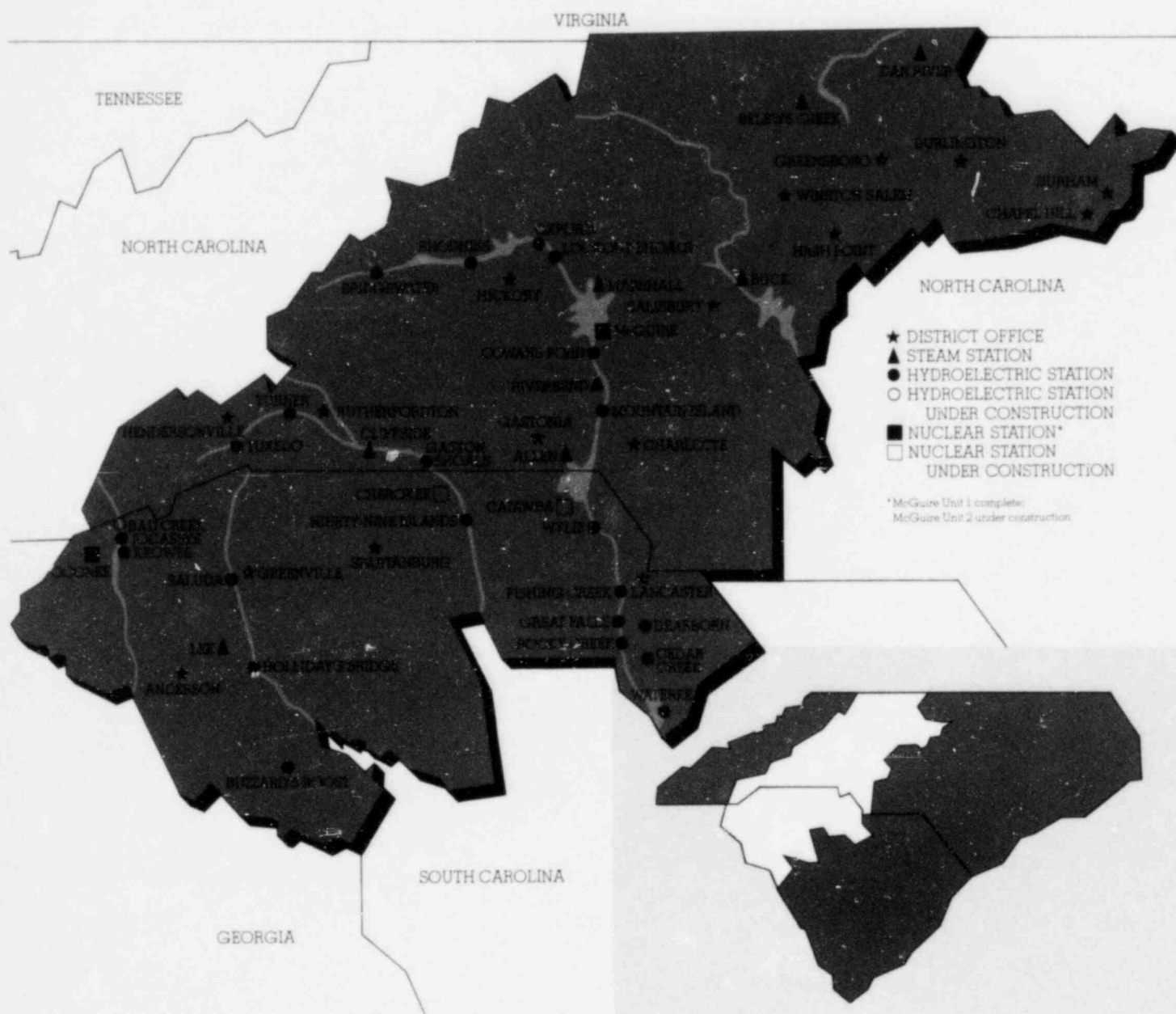
Duke Power Company is an investor-owned electric utility serving approximately 1.3 million customers in North Carolina and South Carolina. The Company's service area encompasses about 20,000 square miles through the Piedmont sections of the two states. Retail customers are served locally through 96 district and branch offices.

In addition to selling electricity directly to its own retail customers, the Company sells bulk electricity to 55 major

wholesale customers, primarily municipal electric systems and rural electric cooperative systems.

During the 12 months ended December 31, 1982, Duke's electric revenues were \$2.2 billion, of which approximately 70 percent was derived from sales in North Carolina and 30 percent from sales in South Carolina.

Duke Power Service Area



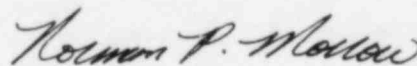
Responsibility for Financial Statements

The financial statements of Duke Power Company were prepared by management which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included. The other information in the annual report is consistent with the financial statements. In preparing the financial statements, management makes informed judgements and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected by employees within a timely period in the normal course of performing

their assigned functions. The Company's accounting controls are continually reviewed for effectiveness and are augmented by written policies, standards and procedures, and a strong program of internal audit.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, composed solely of directors who are not officers or employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each and to monitor the discharge by each of their responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells, who have free access to the audit committee or the Board of Directors, without management present, to discuss internal accounting control, auditing and financial reporting matters.



Norman P. Morrow
Controller

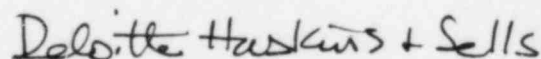
Auditors' Opinion

Duke Power Company:

We have examined the balance sheets and the statements of capitalization of Duke Power Company as of December 31, 1982 and 1981 and the related statements of income, retained earnings and source of funds for plant construction costs for each of the three years in the period ended December 31, 1982. 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.

As discussed in Note 12, the Company has canceled plans for construction of two nuclear generating units and is requesting permission in each of its regulatory jurisdictions to recover all costs related to such units. The final outcome of this matter cannot presently be determined. In our report dated February 15, 1982, our opinion on the 1981 and 1980 financial statements referred to above was unqualified; however, in view of the uncertainty referred to above, our present opinion on such financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of the Company at December 31, 1982 and 1981 and the results of its operations and the source of its funds for plant construction costs for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.



Deloitte Haskins & Sells
Certified Public Accountants

Charlotte, North Carolina
February 18, 1983

Statements of Income

DUKE POWER COMPANY

(dollars in thousands)	Year Ended December 31		
	1982	1981	1980
Kilowatt-Hour Sales (thousands)	51,380,037	53,547,929	52,311,276
Electric Revenues (Notes 1 and 2)	<u>\$2,244,480</u>	<u>\$1,908,454</u>	<u>\$1,682,822</u>
Electric Expenses			
Operation			
Fuel used in electric generation (Note 1)	781,406	790,967	680,693
Net interchange and purchased power (credit)	(10,685)	25,068	(12,908)
Wages, benefits and materials	329,954	264,488	211,014
Maintenance of plant facilities	177,766	131,670	114,597
Depreciation and amortization (Note 1)	186,080	142,899	131,441
General taxes	158,289	139,140	124,422
Income taxes (Notes 1 and 8)	231,902	137,872	153,463
Total electric expenses	<u>1,854,712</u>	<u>1,632,104</u>	<u>1,402,722</u>
Electric operating income	<u>389,768</u>	<u>276,350</u>	<u>280,100</u>
Other Income (Notes 1, 8 and 11)			
Allowance for equity funds used during construction	146,214	159,285	150,846
Earnings of subsidiaries, net	7,039	14,662	3,418
Provision for loss on disposal of assets	(30,000)	—	—
Other, net (deduction)	12,548	28,791	(3,299)
Income taxes—other, net (deduction)	(11,687)	(9,442)	(982)
Income taxes—credit	50,934	60,747	58,382
Total other income	<u>175,048</u>	<u>254,043</u>	<u>208,365</u>
Income before interest deductions	<u>564,816</u>	<u>530,393</u>	<u>488,465</u>
Interest Deductions			
Interest on long-term debt	254,643	245,070	220,271
Other interest	12,802	11,694	17,287
Allowance for borrowed funds used during construction (credit) (Note 1)	(52,506)	(62,622)	(60,184)
Total interest deductions	<u>214,939</u>	<u>194,142</u>	<u>177,374</u>
Income before extraordinary item	<u>349,877</u>	<u>336,251</u>	<u>311,091</u>
Extraordinary Item (Note 3)	<u>48,304</u>	—	—
Net Income	<u>398,181</u>	<u>336,251</u>	<u>311,091</u>
Dividends on preferred and preference stocks	<u>62,164</u>	<u>57,895</u>	<u>58,612</u>
Earnings for Common Stock	<u>\$ 336,017</u>	<u>\$ 278,356</u>	<u>\$ 252,479</u>
Common Stock Data			
Average shares outstanding (thousands)	93,679	87,313	81,985
Earnings before extraordinary item	\$3.07	\$3.19	\$3.08
Extraordinary item	0.52	—	—
Earnings per share	<u>\$3.59</u>	<u>\$3.19</u>	<u>\$3.08</u>
Dividends per share	<u>\$2.24</u>	<u>\$2.08</u>	<u>\$1.95</u>

See Notes to Financial Statements.

Statements of Source of Funds for Plant Construction Costs

DUKE POWER COMPANY

(dollars in thousands)	Year Ended December 31		
	1982	1981	1980
Funds from Operations			
Income before non-fund extraordinary item	\$349,877	\$336,251	\$311,091
Non-fund items			
Depreciation and amortization (includes nuclear fuel amortization)	268,651	224,675	210,600
Deferred income taxes and investment tax credit, net of amortization	159,515	109,572	68,198
Equity component of the allowance for funds used during construction	(146,214)	(159,285)	(150,846)
Other, net	25,171	(13,146)	2,989
Funds from operations	657,000	498,067	442,032
Dividends paid	(272,115)	(239,598)	(217,618)
Funds retained in the business	384,885	258,469	224,414
Funds from Financing and Sale of Assets - Net Proceeds			
First mortgage bonds	221,521	—	271,150
Common stock (Note 3)	199,134	35,954	105,829
Term notes	79,721	—	10,000
Preferred stock	38,296	—	49,323
Nuclear fuel trusts	33,052	42,248	30,664
Sale of an interest in the Catawba Nuclear Station (Note 11)	—	520,562	—
Increase (decrease) in notes payable for construction	(114,140)	(25,650)	85,000
Funds from financing and sale of assets	457,584	573,114	551,966
Total available funds	842,469	831,583	776,380
Increase in Working Capital Requirement	(58,068)	(92,946)	(31,000)
Retirements of Long-Term Debt and Preferred Stock (Note 3)	(194,555)	(93,551)	(43,211)
Plant Construction Expenditures	589,846	645,086	702,169
Equity component of the allowance for funds used during construction	146,214	159,285	150,846
Plant Construction Costs	\$736,060	\$804,371	\$853,015
Summary of Plant Construction Costs			
Production	\$405,329	\$504,292	\$590,420
Transmission	40,599	36,233	51,300
Distribution	113,881	112,073	92,990
General	23,895	22,557	25,000
Subtotal	583,704	675,155	759,710
Nuclear fuel	152,356	129,216	93,305
Plant Construction Costs	\$736,060	\$804,371	\$853,015

See Notes to Financial Statements.

Balance Sheets

DUKE POWER COMPANY

Assets <i>(dollars in thousands)</i>	December 31	
	1982	1981
Electric Plant (at original cost—Notes 1, 7, 12 and 13)		
Electric plant in service	\$5,940,941	\$5,662,674
Less accumulated depreciation and amortization	<u>2,106,427</u>	<u>1,842,831</u>
Electric plant in service, net	3,834,514	3,819,843
Construction work in progress	<u>2,551,177</u>	<u>2,178,464</u>
Total electric plant, net	<u>6,385,691</u>	<u>5,998,307</u>
Other Property and Investments		
Other property—at cost (less accumulated depreciation: 1982 - \$7,384; 1981 - \$6,781)	28,675	26,444
Investments in and advances to subsidiaries (Note 1)	<u>75,430</u>	<u>54,981</u>
Other investments—at cost or less (Note 11)	<u>24,900</u>	<u>22,592</u>
Total other property and investments	<u>129,005</u>	<u>104,017</u>
Current Assets		
Cash (Note 10)	4,053	4,526
Receivables (less allowance for losses: 1982 - \$3,983; 1981 - \$3,998)	<u>162,671</u>	<u>189,036</u>
Materials and supplies—at average cost		
Coal	179,987	126,581
Other	<u>98,815</u>	<u>93,457</u>
Prepayments	<u>8,841</u>	<u>6,172</u>
Total current assets	<u>454,367</u>	<u>419,772</u>
Deferred Debits		
Debt expense, being amortized over terms of related debt	4,961	3,113
Canceled construction projects (Note 12)	<u>77,794</u>	<u>—</u>
Other	<u>5,962</u>	<u>5,835</u>
Total deferred debits	<u>88,717</u>	<u>8,948</u>
Total Assets	<u>\$7,057,780</u>	<u>\$6,531,044</u>

See Notes to Financial Statements.

Capitalization and Liabilities*(dollars in thousands)*December 31
1982 1981**Capitalization** (see Statements of Capitalization)

Common stock equity	\$2,388,592	\$2,108,935
Preferred and preference stocks without sinking fund requirements	424,035	388,610
Preferred stocks with sinking fund requirements	304,026	308,674
Long-term debt	2,712,372	2,545,694
Total capitalization	5,829,025	5,351,913

Current Liabilities

Accounts payable	87,664	87,290
Interest accrued	85,453	71,615
Taxes accrued	61,037	59,958
Other	25,360	26,872
Total	259,514	245,735
Notes payable for construction—pending permanent financing (Note 10)	57,210	171,350
Current maturities of long-term debt and preferred stock	60,851	79,646
Total current liabilities	377,575	496,731

Accumulated Deferred Income Taxes (Notes 1 and 8)	486,834	419,958
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Deferred Credits

Investment tax credit (Notes 1 and 8)	349,327	249,208
Other	15,019	13,234
Total deferred credits	364,346	262,442

Commitments and Contingencies (Notes 12 and 13)

Total Capitalization and Liabilities	\$7,057,780	\$6,531,044
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See Notes to Financial Statements.

Statements of Capitalization and Retained Earnings

DUKE POWER COMPANY

Capitalization

(dollars in thousands)

	December 31	
	1982	1981
Common Stock Equity (Notes 3 and 4)		
Common stock, no par, 150,000,000 shares authorized; 95,948,783 and 88,482,596 shares outstanding for 1982 and 1981, respectively	\$1,734,611	\$1,579,093
Retained earnings	653,981	529,842
Total common stock equity	2,388,592	2,108,935
Preferred and Preference Stocks Without Sinking Fund Requirements (Note 5)		
Preferred stock	415,000	375,000
Preference stock	9,035	13,610
Total preferred and preference stocks without sinking fund requirements	424,035	388,610
Preferred Stocks With Sinking Fund Requirements (Note 6)	304,026	308,674
Long-Term Debt (Note 7)		
First and refunding mortgage bonds	2,474,598	2,376,250
Promissory note due subsidiary, 16 1/2%—due 1989	58,725	—
Term note, floating rate—due 1987	21,000	—
Term note, 9.025%—due 1985	6,000	8,500
Pollution control obligations, 75% of prime rate—due 1983	2,500	2,500
Sinking fund debentures, 4 7/8%—due 1982	—	25,000
Capitalized leases	96,738	101,579
Nuclear fuel trusts	125,000	125,000
Unamortized debt discount and premium, net	(15,338)	(15,489)
Current maturities of long-term debt	(56,851)	(77,646)
Total long-term debt	2,712,372	2,545,694
Total Capitalization	\$5,829,025	\$5,351,913

Retained Earnings

(dollars in thousands)

	Year Ended December 31		
	1982	1981	1980
Balance—Beginning of year	\$529,842	\$433,245	\$343,225
Add—Net income	398,181	336,251	311,091
Total	928,023	769,496	654,316
Deduct			
Dividends			
Common stock	210,206	181,703	159,240
Preferred and preference stocks	62,164	57,895	58,612
Capital stock expense	1,672	56	3,219
Total deductions	274,042	239,654	221,071
Balance—End of year	\$653,981	\$529,842	\$433,245

See Notes to Financial Statements.

Notes to Financial Statements

DUKE POWER COMPANY

1. Summary of Significant Accounting Policies

A. Additions to Electric Plant

The Company capitalizes all construction-related direct labor and materials, as well as indirect construction costs, including general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized; the cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. Allowance for Funds Used During Construction (ADC)

ADC is an accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are capitalized in the same manner as construction labor and material costs. ADC, a non-cash, non-operating item, is recognized as a cost of "Electric Plant" with offsetting credits to "Other Income" and "Interest Deductions." Under established regulatory rate practices, a utility is permitted to capitalize ADC with respect to construction work in progress (CWIP) not included in rate base, but is not permitted to do so with respect to CWIP included in rate base. After construction is completed, a utility is permitted to include a fair return on, and the recovery of, these capital costs through their inclusion in rate base and in the provision for depreciation. CWIP included in the Company's North Carolina rate base and excluded for purposes of capitalizing ADC was \$276 million and \$145 million at December 31, 1982 and 1981, respectively.

ADC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.38 percent, 8.67 percent and 8.10 percent for 1982, 1981 and 1980, respectively.

C. Depreciation and Amortization

Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted average depreciation rates were 3.47 percent for 1982, 3.44 percent for 1981 and 3.33 percent for 1980. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a 4.00 percent rate, which includes an allowance for decommissioning costs.

Under the Nuclear Waste Policy Act of 1982, all electric utilities with nuclear facilities will be required to make payments to fund development and implementation of nuclear waste repositories. Provisions for amortization of nuclear fuel include estimates for disposal costs. Such provisions, which are included in "Fuel used in electric generation," are recorded using the unit-of-production method.

D. Subsidiaries

The Company accounts for investments in its subsidiaries, all of which are wholly-owned, using the equity method. (See "Subsidiaries" on page 42.) Retained earnings include \$47,709,738 of undistributed earnings of subsidiaries at December 31, 1982. Dividends received from subsidiaries were \$1,600,000 in 1982, \$981,302 in 1981 and \$1,675,000 in 1980.

The Company intends to dispose of the assets of Eastover Mining Company and the related land leased from Eastover Land Company. In anticipation of this disposition, a provision for loss of \$30 million was recorded in 1982 (after the effect of income tax benefits of approximately \$28 million).

E. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income or loss.

Income taxes are allocated to electric operating expense and to non-electric operations under "Other Income." The "Income taxes-credit" classified under "Other Income" results from tax deductions of interest costs relating to investments in non-utility properties, mainly CWIP not included in rate base.

Deferred income taxes are provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, capitalized taxes and employee benefits, and nuclear fuel disposal costs. Investment tax credit is deferred and amortized over the useful lives of the related properties.

F. Fuel Cost Adjustment Procedures

The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel costs. In the South Carolina retail jurisdiction, fuel costs are reviewed semiannually with provisions for changing such costs in base rates. This jurisdiction allows the Company to reflect in revenues the difference between actual fuel costs incurred and fuel costs recovered through base rates. In the North Carolina retail jurisdiction, fuel costs in base rates are reviewed during general rate case proceedings. Also, an annual fuel hearing is required to review such costs in base rates. Procedures for the wholesale jurisdiction provide for monthly fuel cost adjustments.

2. Rate Matters

General rate increases since January 1, 1980 are as follows (dollars in thousands):

Jurisdiction and Date Implemented	Percent Increase	Annualized on 1982 Sales	Approximate Revenue Recorded		
			1982	1981	1980
N.C. Retail					
October 3, 1980.....	6.03	\$ 66,100	\$ 66,100	\$ 66,700	\$14,800
December 1, 1981.....	14.99	165,000	165,000	13,400	—
November 1, 1982.....	4.38	65,300	7,000	—	—
S.C. Retail					
December 1, 1981.....	13.00	55,000	55,000	21,600	—
September 15, 1982.....	11.50*	52,700	11,300	—	—
Wholesale					
October 3, 1980.....	6.71	13,500	13,500	13,700	3,300
January 23, 1981.....	2.10	4,500	4,500	4,100	—
December 1, 1981.....	11.86	29,400	29,400	2,700	—
November 2, 1982.....	10.16*	23,800	2,900	—	—
Total		\$475,300	\$354,700	\$122,200	\$18,100

*Subject to refund with interest.

3. Extraordinary Item

On January 7, 1982, the Company issued 3,727,544 shares of common stock with a market value of \$73,489,000 in exchange for portions of several series of outstanding first and refunding mortgage bonds with a face value of \$119,902,000.

The transaction resulted in a non-taxable gain of \$48,304,000, or \$.52 per share, on the retirement of the bonds. The North Carolina Utilities Commission approved the classification of the transaction as an extraordinary item.

4. Common Stock and Retained Earnings

Common Stock

In 1982, 1981 and 1980, the Company received \$199,134,000, \$35,954,000 and \$108,361,000 from the issuance of 7,274,724 shares, 1,884,944 shares and 6,278,820 shares of common stock, respectively. (See Note 3.)

At December 31, 1982, certain shares of common stock were reserved for issuance as follows:

	Shares
Stock Purchase-Savings Program for Employees	3,629,642
Conversion of Preference Stock	390,164
Dividend Reinvestment and Stock Purchase Plan	2,490,580
Employees' Stock Ownership Plan	1,998,738
Total	<u>8,509,124</u>

Retained Earnings

None of the Company's retained earnings as of December 31, 1982 were restricted with respect to the declaration or payment of dividends.

5. Preferred and Preference Stocks Without Sinking Fund Requirements

At December 31, 1982 and 1981, 10,000,000 shares of preferred stock (\$100 par value) and 10,000,000 shares of preferred stock A (\$25 par value) were authorized and issuable with or without sinking fund requirements. In addition, 1,500,000 shares of preference stock (\$100 par value) were authorized at December 31, 1982 and 1981.

The outstanding Preference Stock, 6 3/4 percent Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at \$100 par for such purpose. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1982, 1981 and 1980, 45,759 shares, 72,477 shares and 127,476 shares were converted into 191,463 shares, 303,236 shares and 526,657 shares of common stock, respectively.

Preferred and preference stocks without sinking fund requirements at December 31, 1982 and 1981 were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1982	1981
4.50% C	1964	350,000	\$ 35,000	\$ 35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
15.40% A	1982	1,600,000	40,000	—
6 3/4%, AA				
Convertible	1969	90,350	9,035	—
		136,109	—	13,610
Total			<u>\$424,035</u>	<u>\$388,610</u>

6. Preferred Stocks With Sinking Fund Requirements

At December 31, 1982 and 1981, 10,000,000 shares of preferred stock (\$100 par value) and 10,000,000 shares of preferred stock A (\$25 par value) were authorized and issuable with or without sinking fund requirements.

Preferred stocks with sinking fund requirements at December 31, 1982 and 1981 were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1982	1981
7.35% I	1973	600,000	\$ 60,000	\$ 60,000
8.20% J	1977	480,000	48,000	—
		500,000	—	50,000
8.375% L	1978	500,000	50,000	50,000
8.84% N	1979	500,000	50,000	50,000
11.00% O	1980	500,000	50,000	50,000
10.76% A	1975	2,220,000	55,500	—
		2,280,000	—	57,000

Less: Preferred shares reacquired for current and future sinking fund requirements—at cost

	Shares Reacquired		
10.76% A	83,998	(1,826)	—
	119,998	—	(2,660)
8.84% N	32,500	(2,419)	(2,430)
11.00% O	13,750	(1,229)	(1,236)

Less: Current sinking fund requirements

8.20% J	(2,000)	(2,000)
8.375% L	(2,000)	—
Total	<u>\$304,026</u>	<u>\$308,674</u>

The annual sinking fund requirements through 1987, net of amounts reacquired, are \$4,000,000 in 1983, \$7,300,050 in 1984, \$7,900,000 in 1985, \$9,525,000 in 1986 and \$9,525,000 in 1987, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 115 percent of par values plus accumulated dividends to the redemption date.

7. Long-Term Debt

First and refunding mortgage bonds outstanding at December 31, 1982 and 1981 were as follows (see Note 3) (dollars in thousands):

Series	Year Due	1982	1981	Series	Year Due	1982	1981
3 5/8%	1986	\$ 30,000	\$ 30,000	(continued)			
14 3/8%	1987	50,000	50,000	7 3/8%B	2001	\$ 38,050	\$ 40,000
12%	1990	75,000	75,000	7 3/4%	2002	78,100	100,000
15 1/8%	1991	100,000	—	7 3/8%B	2002	67,900	75,000
4 1/2%	1992	50,000	50,000	7 3/4%	2003	94,872	100,000
4 1/4%B	1992	50,000	50,000	8 1/8%B	2003	98,050	100,000
11%	1994	84,500	91,250	9 3/4%	2004	95,623	100,000
4 1/2%	1995	40,000	40,000	9 1/2%	2005	92,800	100,000
5 3/8%	1997	72,600	75,000	8 3/8%	2006	96,850	100,000
6 3/8%	1998	68,500	75,000	8 1/8%	2007	119,500	125,000
7%	1999	56,075	75,000	9 3/8%	2008	120,610	125,000
8%B	1999	64,739	75,000	10 1/8%	2009	145,050	150,000
8 1/2%	2000	69,244	75,000	10 7/8%B	2009	148,000	150,000
8 5/8%B	2000	95,635	100,000	14 7/8%	2010	100,000	100,000
7 1/2%	2001	97,900	100,000	13 1/8%B	2010	50,000	50,000
				14 1/2%	2012	125,000	—
				Total		<u>\$2,474,598</u>	<u>\$2,376,250</u>

Substantially all electric plant was mortgaged at December 31, 1982.

The annual maturities of long-term debt (including sinking fund requirements and capitalized lease principal payments) through 1987 are \$56,851,000 in 1983, \$49,589,000 in 1984, \$45,734,000 in 1985, \$51,160,000 in 1986 and \$81,727,000 in 1987.

Included in the annual maturities are amounts relating to \$125,000,000 in outstanding obligations under two nuclear fuel trusts. Such maturities are based on estimated nuclear fuel consumption. The Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

8. Income Tax Expense

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

	1982	1981	1980
Electric Expenses			
Current income taxes			
Federal	\$ 58,118	\$ 30,244 (a)	\$ 69,134
State	21,694	11,183	16,121
	<u>79,812</u>	<u>41,427</u>	<u>85,255</u>
Deferred taxes, net			
Excess tax over book depreciation	46,985	49,353	25,114
Capitalized taxes, employee benefits, etc.	9,431	16,672	17,680
Revenues refundable	6,456	(8,281)	—
Repair allowance and cost of removal	(144)	(38)	5,872
Nuclear fuel disposal costs	(12,893)	(12,336)	(12,263)
	<u>49,835</u>	<u>45,370</u>	<u>36,403</u>
Investment tax credit			
Deferred	109,596	56,146	36,854
Amortization of deferments (credit)	(7,341)	(5,071)	(5,049)
	<u>102,255</u>	<u>51,075</u>	<u>31,805</u>
Total electric expenses	<u>231,902</u>	<u>137,872</u>	<u>153,463</u>
Other Income			
Income taxes—other, net (deduction)	11,687	51,592 (b)	982
Income taxes—credit	(50,934)	(60,747)	(58,382)
Total other income	<u>(39,247)</u>	<u>(9,155)</u>	<u>(57,400)</u>
Total income tax expense	<u>\$192,655</u>	<u>\$128,717</u>	<u>\$ 96,063</u>

(a) Reflects substantial investment tax credit utilization related to the tax gain on sale of assets in February 1981.

(b) Includes \$42,150,000 resulting from the sale of assets in February 1981 and nominal amounts thereafter. (See Note 11.) Such income taxes, which are included in "Other, net (deduction)" on the Statements of Income, reflect a taxable gain in excess of book gain resulting principally from the treatment of ADC.

Total current income taxes were \$33,128,000, \$24,002,000 and \$30,037,000 of which state income taxes were \$15,687,000, \$11,086,000 and \$10,753,000 for 1982, 1981 and 1980, respectively.

Total deferred income taxes were \$57,272,000, \$53,641,000 and \$34,221,000 of which deferred state income taxes were \$7,430,000, \$7,899,000 and \$3,896,000 for 1982, 1981 and 1980, respectively.

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

	1982	1981	1980
Income taxes on pretax income at the statutory federal rate of 46%	\$263,365*	\$213,885	\$187,291
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (ADC)	(91,411)	(102,077)	(97,074)
Amortization of electric investment tax credit deferrals	(7,341)	(5,071)	(5,049)
State income taxes, net of federal income tax benefit	12,132	13,595	9,044
Increase in tax expense primarily because of excess of tax gain over book profit on sale of assets	—	12,468	—
Other items, net	15,910	(4,083)	1,851
Total income tax expense (see above)	<u>\$192,655</u>	<u>\$128,717</u>	<u>\$ 96,063</u>

*Pretax income excludes the provision for loss on disposition of assets of subsidiaries, recorded net of applicable income taxes. (See Note 1.)

9. Retirement Plan

The Company and two of its subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The Company's policy is to fund pension costs accrued. Total pension expense amounted to \$32,000,000 in 1982, \$31,896,000 in 1981 and \$26,782,000 in 1980. Effective September 1, 1980, the plan was amended to provide for certain plan changes including increased benefits for active and retired employees. In 1981, the actuarial cost method and certain actuarial assumptions were changed. The effect of these changes did not significantly increase the Company's pension cost.

A comparison of accumulated plan benefits and plan net assets at December 31, 1981, the date of the latest actuarial report, and December 31, 1980 is as follows (dollars in thousands):

	1981	1980
Actuarial present value of accumulated plan benefits		
Vested	\$229,783	\$202,851
Non-Vested	71,742	60,332
Total	<u>\$301,525</u>	<u>\$263,183</u>
Net assets available for benefits	<u>\$263,241</u>	<u>\$244,008</u>

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9.0 percent in 1981 and 8.3 percent in 1980.

10. Short-Term Borrowings

As of December 31, 1982, the Company had lines of credit with 72 commercial banks. These lines, plus the sale of commercial paper, were used to finance current cash requirements. The lines of credit were on either a fee basis and/or a compensating balance basis, with total balance requirements

of \$1,658,500. Bank loans, normally for 90 days or less, are either at the lending bank's commercial prime interest rate or market rate. Certain of the Company's bank line arrangements may require additional balances related to usage.

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

	1982	1981	1980
Amount outstanding at year-end—average rates of 10.38%, 11.69% and 17.74%, respectively	\$ 57,210	\$171,350	\$197,000
Maximum amount outstanding during the year	\$189,950	\$250,398	\$197,000
Average amount outstanding during the year	\$ 74,148	\$ 38,829	\$ 84,466
Weighted average interest rate for the year—computed on a daily basis	12.38%	15.39%	12.91%
Lines of credit at year-end	\$385,400	\$305,400	\$280,400

11. Other Income

In February 1981, the Company sold a 75 percent interest in Unit 1 of the Catawba Nuclear Station (Catawba) and a 37.5 percent interest in the station's support facilities to groups of North Carolina and South Carolina rural electric cooperative customers. At closing, \$521 million and two notes totaling \$76 million were received. The notes are non-interest bearing until 10 years after the first Catawba unit begins commercial operation, after which, interest and principal payments com-

mence. The Company has discounted the notes and recorded the present value (\$15.7 million and \$13.8 million at December 31, 1982 and 1981, respectively) under "Other investments." The implicit interest on the notes is accrued monthly. At December 31, 1982 and 1981, "Construction work in progress" included \$516,951,000 and \$401,502,000, respectively, representing the Company's investment in its remaining interest in Catawba.

12. Canceled Construction Projects

The Board of Directors, at its February 23, 1982 meeting, approved the withdrawal of the Company's application for a construction permit for the proposed Perkins Nuclear Station. The Company has been permitted to recover the cost of Perkins allocated to its North Carolina retail jurisdiction over a five-year period beginning November 1, 1982. It is seeking similar recovery from the wholesale and South Carolina retail jurisdictions. Accordingly, the entire \$8,927,000 cost of Perkins, excluding land, has been classified as a deferred debit and is being amortized to electric operations. As of

December 31, 1982, the remaining unamortized balance was \$8,630,000.

The Board of Directors, on November 2, 1982, announced the cancellation of Units 2 and 3 of the Cherokee Nuclear Station. Costs incurred related to Units 2 and 3 totaled \$69,164,000 as of December 31, 1982. Significant costs relating to the cancellation will be incurred; however, the amount of such costs cannot be determined pending negotiations with suppliers. The Company is requesting permission in each of its regulatory jurisdictions to recover all costs related to these units.

13. Commitments and Contingencies

A. Construction Program

The Company is engaged in a construction program for which substantial commitments have been made. Projected construction and nuclear fuel costs are \$1.93 billion and \$581 million, respectively, for the years 1983 through 1985. The program is subject to periodic review and revision, and actual construction costs incurred may vary from such estimates. This is due to various factors including changing levels of inflation, revised load estimates, the cost and availability of capital, and the outcome of licensing and environmental matters.

On February 24, 1981, the Board of Directors, because of the uncertainty of the availability of funds on reasonable terms, indefinitely delayed completion of Unit 1 of the Cherokee Nuclear Station. This status remains unchanged. As of December 31, 1982, \$538 million had been spent on this unit.

B. Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to \$560 million under provisions of the Price-Anderson Act, which provides for nuclear liability insurance up to that amount. A portion of this insurance is provided through Nuclear Regulatory Commission regulations pursuant to which the Company could be assessed up to \$5 million for each of its licensed reactors in the event there is a nuclear incident involving any licensed facility in the nation, with a maximum of \$10 million a year for each of its licensed

reactors in the event of more than one incident. At December 31, 1982, the Company had four licensed reactors.

Property damage coverage for certain of the Company's nuclear facilities is provided through membership in Nuclear Mutual Limited (NML). If NML's losses were to exceed its reserves, the Company could be liable, on a pro rata basis, for additional assessments of up to \$86 million, representing 14 times the Company's current annual premium to NML.

The Company is a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance for the increased cost of generation and/or purchased power resulting from the accidental outage of a nuclear unit. If losses were to exceed the accumulated funds available to NEIL, the Company would be liable for a retrospective premium adjustment currently estimated to be \$31 million, which is up to 5 times the regular annual premium.

The Company purchases from NEIL, through its Excess Property Insurance Program, \$400 million of property damage insurance. This is in addition to the \$500 million of coverage provided by the Company's underlying property damage policies issued through NML. If losses were to exceed the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable for a retrospective premium adjustment of up to 7.5 times the regular annual premium. The maximum potential liability per incident currently is estimated to be \$17 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations

DUKE POWER COMPANY

Capital Needs

Since January 1, 1978, additions to property of \$4.0 billion (including nuclear fuel) and retirements of \$800 million have resulted in a net increase in gross plant of \$3.2 billion. Retirements were unusually large because of sales of portions of the Catawba Nuclear Station in 1978 and 1981. During 1982 additions to property of \$736 million (including nuclear fuel) and retirements of \$82 million resulted in a net increase in gross plant of \$654 million. Plant construction costs were lower in 1982 than in previous years because of the completion in late 1981 of Unit 1 of the McGuire Nuclear Station, prior sales of portions of the Catawba Nuclear Station, and recent curtailments in the construction program.

Projected construction and nuclear fuel costs are \$2.5 billion for the years 1983 through 1985, excluding costs related to the portions of the Catawba Nuclear Station which have been sold. Construction plans reflect a decline in the projected growth rate of peak load. This decline is due in part to the Company's comprehensive load management program and energy conservation. The load management program is designed to limit future construction costs without restricting the continued economic development of the service area by encouraging consumers to reduce demands on the system.

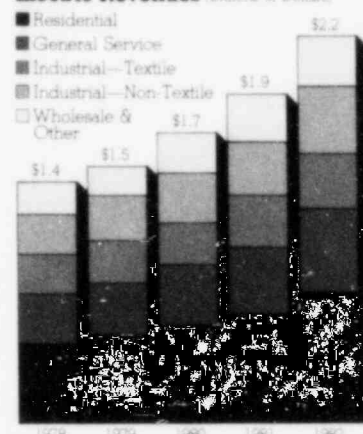
The construction program includes plans for three nuclear units to begin operation within the next five years. Commercial operation of Unit 2 of the McGuire Nuclear Station is scheduled for early 1984. Total estimated costs, including nuclear fuel, for both units of the McGuire Station are \$2.2 billion, including \$2.0 billion spent as of December 31, 1982. The Company's portion of the total estimated construction and nuclear fuel costs for both units of the Catawba Nuclear Station is \$1.0 billion, including \$517 million spent as of December 31, 1982.

During the past two years, several planned generating units have been delayed or canceled. In 1982 Units 2 and 3 of the Cherokee Nuclear Station were canceled and the application for a

construction permit for the proposed Perkins Nuclear Station was withdrawn. (See Note 12 in Notes to Financial Statements.) Completion of Unit 1 of the Cherokee Nuclear Station was indefinitely delayed in 1981. As of December 31, 1982, \$538 million had been spent on this unit. Projected construction costs include nominal amounts for the Bad Creek Hydroelectric Station. As of December 31, 1982, \$22 million had been spent on this pumped storage facility, although construction completion has not been definitely scheduled.

Expenditures for construction of major generating facilities and for nuclear fuel constituted approximately 80 percent of the Company's capital requirements during the past five years. Additional funds were required for transmission and distribution facilities, the refunding of maturing securities and sinking funds, and increased working capital.

Electric Revenues (Billions of Dollars)



Liquidity and Resources

The Company's long-term financial plan has three key goals: to improve the percentage of internal cash generation, to raise fixed charges coverage, and to strengthen capital structure. Achieving these goals should assist in attaining improved ratings on the Company's securities. The Company also seeks to sell common stock at or above book value. During the past five years, the market price of common stock has averaged 85 percent of book value.

The construction program currently requires expenditures greater than cash generated internally from operations.

The Company initially funds the excess with short-term bank borrowings and commercial paper. While the Company prefers to limit short-term debt to about \$150 million, it presently has bank lines of credit of \$385 million. Short-term debt was \$57 million as of December 31, 1982. The Company's policy is to refund short-term debt at least once each year, and such refundings have occurred in each of the past five years.

To supplement the internal generation of funds, the Company obtained an additional \$781 million from the 1978 and 1981 sales of the Catawba Nuclear Station. Funds from the Catawba sale eliminated the need for external financing in 1981. Additional funds were obtained in the other years by issuing \$1.2 billion in long-term debt (principally first and refunding mortgage bonds), \$225 million in preferred stock, and \$600 million in common stock, including the non-cash exchange for bonds in January 1982. (See Note 3 in Notes to Financial Statements.) To increase financing flexibility and to facilitate financing in the European market, Duke Power Overseas Finance N.V., a subsidiary in the Netherlands Antilles, was established. In April 1982, the net proceeds of a sale of \$60 million principal amount of notes were borrowed from this subsidiary.

The Company's long-range objective is to generate at least 50 percent of its capital requirements from internal sources. From 1978 through 1982, funds from operations provided approximately 33 percent of the Company's capital requirements. In 1982, however, funds generated internally increased to 46 percent, mainly as a result of the inclusion of McGuire Unit 1 and additional construction work in progress (CWIP) in rate base.

During the past five years, the North Carolina Utilities Commission (NCUC) has granted rate increases allowing approximately 60 percent of the requested additional revenues. During 1982 legislation was enacted which could have a negative effect on the Company's ability to generate funds internally. This legislation revised the statutes under which the NCUC adjusts base rates to reflect fuel costs and under

which the NCUC includes CWIP in rate base. In the Company's first rate order subsequent to this legislation, the NCUC allowed only 31 percent of the requested additional revenues to be implemented effective November 1, 1982; however, the amount of CWIP included in rate base was increased from \$145 million to \$276 million, which was almost 90 percent of the amount requested.

During the past five years, rate increases allowing approximately 60 percent of the requested additional revenues have been granted by The Public Service Commission of South Carolina. A January 1982 rate order allowed 55 percent of the requested additional revenues. On February 15, 1982, a request was filed for an additional increase in retail rates. An 11.5 percent increase, representing a portion of this request, was implemented subject to refund effective September 15, 1982. A rate order is anticipated in March 1983.

The Company and its wholesale customers generally settle on rate increases based on the most recent NCUC rate order as it pertains to North Carolina retail industrial customers. A rate increase was implemented in November 1982, subject to refund and final approval by the Federal Energy Regulatory Commission.

To recover increasing costs and to include additional CWIP in rate base, a request for a 7.68 percent retail rate increase in North Carolina was filed in February 1983. Additional requests for increased rates are planned in the South Carolina and wholesale jurisdictions.

The Company seeks to maintain a capital structure containing no more than 47 percent debt and 40 to 42 percent common equity in order to improve financial strength. To improve capital structure while avoiding the dilution of shareholders' existing equity and to increase coverage ratios, 3,727,544 shares of common stock were issued in exchange for portions of several series of first and refunding mortgage bonds in January 1982. (See Note 3 in Notes to Financial Statements.) As of December 31, 1982, the capital structure was 47 percent long-term debt, 12 percent preferred stock, and 41 percent common equity.

The Company's goal for fixed charges coverage, using the Securities and

Exchange Commission (SEC) method, is 3.5 times. During the past five years, actual coverage has not changed significantly because higher earnings have been offset by increasing embedded costs of debt. For the year 1982, this coverage was 2.98 times, but it is expected to improve as increased internal cash generation reduces external financing requirements.

The Company continually analyzes and implements alternative methods to meet its long-term financial goals. These methods have included cost reductions by means of a more stringent budgeting system and the adoption of an employee incentive plan for reducing costs. Unregulated business opportunities are being explored to enhance earnings. In addition, flexibility has been built into long-term construction plans to minimize financings under unfavorable conditions.

Results of Operations

Net Income and Dividends

From 1978 through 1982, earnings per share increased at an annual rate of 8 percent from \$2.61 to \$3.59. Earnings per share for 1982 includes a provision for loss of \$.32 per share on the pending disposal of certain coal mining assets and an extraordinary gain of \$.52 per share from the debt/equity exchange. (See Notes 1 and 3 in Notes to Financial Statements.) Although the earned return on common equity fluctuated during the past five years, the average earned return was consistently below the average return granted by the NCUC. During 1982 the Company's earned return was 13.9 percent, excluding the extraordinary item and the provision for loss on the disposal of assets. Dividends per share increased at an annual rate of 7 percent from \$1.74 in 1978 to \$2.24 in 1982.

Revenues

Revenues increased at an annual rate of 13 percent over the 1978-1982 period because of increases in rates and kilowatt-hour sales. The rate increases were necessitated by the effects of inflation, the inclusion of construction work in progress and McGuire Unit 1 in rate base, and the increased cost of capital. Kilowatt-hour sales increased an average of 1 percent annually. This increase is principally attributable to a higher number of customers. Sales in 1982, however, were 4 percent lower than in 1981 because of milder weather

conditions, a decline in the average kilowatt-hour usage per residential customer, and a decrease in industrial sales as a result of the current economic environment.

Operating Expenses

Increases in total electric expenses have substantially offset the increase in revenues during the 1978-1982 period. The most significant increase was in non-fuel operating and maintenance expense, which rose at an annual rate of 21 percent. Key factors were the commencement of commercial operation for McGuire Unit 1 on December 1, 1981, increased requirements by the Nuclear Regulatory Commission, and inflation. (See "Selected Financial Data — Effects of Changing Prices.") Fuel and purchased power expenses increased at an annual rate of 8 percent over the five-year period. In 1982, however, these expenses declined primarily because of reduced generation as a result of decreased kilowatt-hour sales.

Other

From 1978 through 1981, allowance for funds used during construction (ADC), included in both other income and interest deductions, increased as a result of higher construction work in progress and higher embedded costs of funds. In 1982, however, ADC decreased because McGuire Unit 1 began commercial operation on December 1, 1981, and additional construction work in progress was included in rate base. Interest income for 1981 was \$20 million, which was unusually high because of the investment of proceeds from the Catawba sale. Earnings of subsidiaries amounted to \$7 million in 1982. Since 1978 interest deductions and dividends on preferred and preference stocks have increased at annual rates of 12 percent and 7 percent, respectively. These increases are attributable to higher financing rates and the issuance of additional securities.

In anticipation of the disposition of the assets of Eastover Mining Company and the related land it leases from Eastover Land Company, a provision for loss of \$30 million was recorded in 1982 (after the effect of income tax benefits of approximately \$28 million). Both Eastover companies are wholly-owned subsidiaries. The Company determined to sell these properties after the most recent rate order from the NCUC prohibited full recovery of the cost of coal from these mines.

Long-Term Financing and Sale of Assets

DUKE POWER COMPANY

To meet its capital requirements, the Company has financed extensively with long-term debt and equity securities and has raised additional capital through other types of financing plus the sale of certain assets (dollars in thousands).

		1982	1981	1980
	Price Per Share	Net Proceeds	Net Proceeds	Net Proceeds
Financing				
Common stock				
Public sales				
(4,000,000 shares; August 26)	\$17.375			\$ 66,968
Stock Purchase-Savings Program for Employees*				
(1,624,436 shares)	21.79	\$ 35,390		
(1,236,180 shares)	18.88		\$ 23,344	
(1,104,545 shares)	17.03			18,815
Dividend Reinvestment and Stock Purchase Plan*				
(1,019,484 shares)	21.62	22,042		
(534,151 shares)	19.49		10,412	
(552,000 shares)	16.67			9,201
Employees' Stock Ownership Plan*				
(903,260 shares)	22.04	19,909		
(114,613 shares)	19.18		2,198	
(622,275 shares)	17.43			10,845
Bond/Stock Exchange				
(3,727,544 shares)	19.715	121,793		
Total common stock		193,134	35,954	105,829
Preferred stock, \$100 par				
15.40% Series A, 1982 (1,600,000 shares; March 2)		38,296		
11% Series O (500,000 shares; February 14)				49,323
Total preferred stock		38,296		49,323
Long-term debt				
First mortgage bonds				
15 1/8% Series due 1991 (March 2)		98,680		
14 1/2% Series due 2012 (September 16)		122,841		
14 7/8% Series due 2010 (March 19)				98,410
14 3/8% Series due 1987 (March 19)				49,533
12% Series due 1990 (August 26)				73,857
13 1/8% Series B due 2010 (August 26)				49,350
Total first mortgage bonds		221,521		271,150
Other financing				
Nuclear fuel trusts		33,052	42,248	30,664
Promissory note due subsidiary—due 1989		58,725		
Term note—due 1987		20,996		
Term note—due 1985				10,000
Total other financing		112,773	42,248	40,664
Total long-term debt		334,294	42,248	311,814
Total financing		571,724	78,202	466,966
Sale of Assets				
Sale of an interest in the Catawba Nuclear Station			520,562	
Total long-term financing and sale of assets		\$571,724	\$598,764	\$466,966

* Average price per share

See Notes to Financial Statements.

Selected Financial Data

DUKE POWER COMPANY

	1982	1981	1980	1979	1978
Condensed Statements of Income (thousands)					
Electric revenues	\$2,244,480	\$1,908,454	\$1,682,822	\$1,492,557	\$1,396,720
Electric expenses	1,854,712	1,632,104	1,402,722	1,238,680	1,159,719
Electric operating income	389,768	276,350	280,100	253,877	237,001
Other income	175,048	254,043	208,365	168,612	131,899
Income before interest deductions	564,816	530,393	488,465	422,489	368,900
Interest deductions	214,939	194,142	177,374	147,729	138,299
Income before extraordinary item	349,877	336,251	311,091	274,760	230,601
Extraordinary item	48,304	—	—	—	—
Net income	398,181	336,251	311,091	274,760	230,601
Dividends on preferred and preference stocks	62,164	57,895	58,612	52,562	46,632
Earnings for common stock	\$ 336,017	\$ 278,356	\$ 252,479	\$ 222,198	\$ 183,969
Common Stock Data					
Shares of common stock—year-end (thousands)	95,949	88,483	86,294	79,489	72,132
—average (thousands)	93,679	87,313	81,985	77,168	70,367
Per share of common stock					
Earnings before extraordinary item	\$3.07	\$3.19	\$3.08	\$2.88	\$2.61
Extraordinary item	0.52	—	—	—	—
Earnings	\$3.59	\$3.19	\$3.08	\$2.88	\$2.61
Dividends	\$2.24	\$2.08	\$1.95	\$1.83	\$1.74
Book value—year-end	\$24.89	\$23.83	\$22.82	\$22.12	\$21.31
Market price—high-low	\$24-20 ³ / ₈	\$22 ¹ / ₂ -15 ⁷ / ₈	\$19 ¹ / ₄ -14 ¹ / ₈	\$20 ⁵ / ₈ -16 ¹ / ₄	\$22-18 ¹ / ₈
—year-end	\$23 ¹ / ₄	\$20 ⁵ / ₈	\$18 ¹ / ₈	\$17 ¹ / ₄	\$19 ³ / ₈
Balance Sheet Data (thousands)					
Total assets	\$7,057,780	\$6,531,044	\$6,328,174	\$5,615,372	\$4,984,621
Long-term debt	\$2,712,372	\$2,545,694	\$2,594,008	\$2,300,488	\$1,974,209
Preferred stocks with sinking fund requirements	\$ 304,026	\$ 308,674	\$ 316,559	\$ 268,500	\$ 220,000
Electric and Other Statistics					
Kilowatt-hour sales (millions)					
Residential	13,711	13,861	13,765	12,832	12,959
General service	10,087	9,731	9,395	8,778	8,920
Industrial	19,345	20,667	20,060	20,260	19,523
Wholesale and other energy sales	8,237	9,289	9,091	8,453	8,537
Total kilowatt-hour sales	51,380	53,548	52,311	50,323	49,939
Number of customers—year-end					
Residential	1,139,248	1,125,371	1,105,035	1,078,419	1,049,543
Other	183,061	181,331	179,370	175,258	172,626
Total customers	1,322,309	1,306,702	1,284,405	1,253,677	1,222,169
Residential customer data					
Average annual KWH use	12,065	12,392	12,560	12,013	12,469
Average revenue billed per KWH	5.41¢	4.51¢	4.11¢	3.90¢	3.62¢
Number of employees—year-end					
Operating and maintenance	12,539	12,134	11,463	10,758	9,895
Engineering and construction	7,735	7,943	8,149	9,372	7,839
Source of energy (millions of KWH)					
Generated—Coal	38,927	42,513	40,984	37,404	34,598
—Nuclear	15,009	14,229	14,213	14,228	15,905
—Hydro	1,569	843	1,820	2,809	1,941
—Oil and gas	7	146	203	163	484
Net interchange and purchased power	(301)	494	(472)	(512)	1,016
System average heat rate	9,666	9,633	9,675	9,742	9,769
System load factor	56.8%	61.9%	61.6%	62.3%	62.9%

See Notes to Financial Statements.

Selected Financial Data

DUKE POWER COMPANY

Quarterly Financial Data

A summary of quarterly financial data for 1982 and 1981 is as follows (dollars in thousands except per share data):

	<u>Electric Revenues</u>	<u>Electric Operating Income</u>	<u>Net Income</u>	<u>Earnings Per Share</u>
1982 by Quarter				
Fourth.....	\$540,925	\$105,358	\$ 71,127	\$0.58
Third.....	578,902	97,144	97,702	0.87
Second.....	531,204	86,069	83,027	0.72
First.....	593,449	101,197	146,325	1.42
1981 by Quarter				
Fourth.....	\$484,782	\$ 64,388	\$ 79,626	\$0.74
Third.....	499,216	64,188	83,740	0.79
Second.....	426,200	70,397	80,111	0.76
First.....	498,256	77,377	92,774	0.90

Net income and earnings per share for the first quarter of 1982 include an extraordinary item of \$48,304,000, or \$0.52 per share. Net income and earnings per share for the fourth quarter of 1982 include a provision for loss on disposal of assets of \$30,000,000, or \$0.32 per share. Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate increases (including fuel cost adjustment procedures) and maintenance of electric generating units, especially nuclear-fueled units.

See Notes to Financial Statements.

Stock Market Information

At December 31, 1982 and 1981, the Company had approximately 121,218 and 123,900 holders of record of common stock, respectively. During 1982 approximately 47,462,800 shares of common stock were traded, compared to 30,610,000 during the previous year. The Company's common stock is traded on the New York Stock Exchange.

	<u>Dividends Per Share</u>	<u>Stock Price Range</u>	
		<u>High</u>	<u>Low</u>
1982 by Quarter			
Fourth.....	\$0.57	\$23 1/2	\$20 5/8
Third.....	0.57	23 5/8	20 1/2
Second.....	0.55	24	20 3/8
First.....	0.55	23 1/2	20 3/8
1981 by Quarter			
Fourth.....	\$0.55	\$22 1/2	\$19 5/8
Third.....	0.51	21 1/4	18 3/4
Second.....	0.51	20 1/8	17 1/8
First.....	0.51	19 1/4	15 7/8

Selected Financial Data

DUKE POWER COMPANY

Effects of Changing Prices

In recent years, the impact of general inflation and changes in specific prices has caused distortions in traditional accounting measurements of income and capital. Although the rate of inflation in 1982 substantially decreased, the replacement of existing plant capacity occurs at a significantly higher cost than recovered through historical cost depreciation due to the high levels of inflation in previous years. In response to this problem, the Financial Accounting Standards Board (FASB) issued Statement No. 33 requiring disclosure of the effects of inflation on a company's operations and financial position.

Because the accompanying supplementary information involves various assumptions and approximations, it should be viewed as an estimate of the effects of inflation, rather than a precise measurement.

Constant Dollar Accounting

Constant dollar accounting reflects the overall decline in the purchasing power of the dollar by restating historical costs in terms of dollars of equal purchasing power.

Constant dollar amounts for electric plant in service were determined by indexing surviving historical costs of plant with the Consumer Price Index for all Urban Consumers (CPI-U). Historical depreciation rates were applied to the restated amounts of plant thereby trending the provision for depreciation to reflect the impact of general inflation.

Current Cost Accounting

Current cost accounting reflects changes in specific prices of the property used in the Company's operations from the date the property was acquired to the present. This method differs from constant dollar accounting to the extent that costs of specific utility property have increased more or less rapidly than the rate of general inflation. The current cost amounts of plant in service represent the estimated cost for replacing existing plant facilities and were determined by indexing surviving plant costs by internally generated indices or the Handy-Whitman Index of Public Utility Construction Costs. Since plant facilities are not expected to be replaced precisely in kind, "current cost" does not necessarily represent the replacement cost of existing productive capacity. Current cost depreciation is computed by applying the same rates used in the historical cost and constant dollar statements to the current cost plant amounts.

Effects of Rate Regulation

Under the Company's present ratemaking procedures, only the historical cost of plant in service is recoverable in rates as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current costs over the historical cost of plant, resulting from inflation in the current year, is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost.

The reduction is offset by the Company having significant amounts of long-term debt outstanding, as well as other net monetary liabilities, which will be paid back in dollars of less purchasing power. Thus, the gain from decline in purchasing power of net amounts owed in the accompanying schedules results from inflation's effect on obligations to pay cash at a future date.

Other

Income statement items other than depreciation have not been adjusted. The Company's operation and maintenance expenses already include the average effects of changing prices during the period and, therefore, no adjustments have been made to them.

No adjustments to income tax expense have been made in computing the impact of inflation since only historical costs are deductible for income tax purposes.

Supplementary Statement of Earnings for Common Stock Adjusted for Changing Prices

DUKE POWER COMPANY

(dollars in thousands)	Year Ended December 31, 1982		
	Historical \$	Constant Dollar	Current Cost
Electric revenues	\$2,244,480	\$2,244,480	\$2,244,480
Operating expenses	1,100,675	1,100,675	1,100,675
Maintenance of plant facilities	177,766	177,766	177,766
Depreciation	186,080	392,536	410,277
Taxes	390,191	390,191	390,191
Total operating expenses	1,854,712	2,061,168	2,078,909
Operating income	389,768	183,312	165,571
Other income	175,048	175,048	175,048
Income before interest	564,816	358,360	340,619
Interest expense	214,939	214,939	214,939
Income before extraordinary item	349,877	143,421	125,680
Extraordinary item	48,304	48,304	48,304
Net income	398,181	191,725	173,984
Dividends on preferred and preference stocks	62,164	62,164	62,164
Earnings for common stock	<u>\$ 336,017</u>	<u>\$ 129,561*</u>	<u>\$ 111,820</u>
Increase in specific prices (current cost) of utility plant held during the year**			\$ 287,288
Reduction to net recoverable cost		\$ (9,078)	
Effect of increase in general price level			(386,771)
Excess of increase in general price level over increase in specific prices			(99,483)
Gain from decline in purchasing power of net amounts owed		146,148	146,148
Net		<u>\$ 137,070</u>	<u>\$ 46,665</u>

* If the reduction to net recoverable cost of \$9,078,000 were reflected, and no recognition were given to the \$146,148,000 purchasing power gain, earnings for common stock on a constant dollar basis would have been \$120,483,000.

**At December 31, 1982, current cost of electric plant, net of accumulated depreciation, was \$10,419,359,000.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices

DUKE POWER COMPANY

<i>(in thousands of average 1982 dollars, except per share figures)</i>	1982	1981	1980	1979	1978
Electric revenues					
In historical dollars	\$2,244,480	\$1,908,454	\$1,682,822	\$1,492,557	\$1,396,720
In constant dollars	2,244,480	2,025,455	1,971,247	1,984,812	2,066,488
Income from continuing operations					
In historical dollars	349,877	336,251	311,091	274,760	
In constant dollars	143,421	175,087	197,199	216,211	
In current cost	125,680	153,604	177,474	188,889	
Earnings per share before extraordinary item					
In historical dollars	3.07	3.19	3.08	2.88	
In constant dollars	0.86	1.31	1.57	1.90	
In current cost	0.67	1.05	1.33	1.54	
Common stock dividends per share					
In historical dollars	2.24	2.08	1.95	1.83	1.74
In constant dollars	2.24	2.21	2.28	2.43	2.57
Market price per common share at year-end					
In historical dollars	23.25	20.625	18.125	17.25	19.375
In constant dollars	22.99	21.18	20.28	21.69	27.61
Net assets at year-end					
In historical dollars	2,388,592	2,108,935	1,969,140	1,758,016	
In constant dollars	2,361,635	2,165,872	2,203,090	2,210,711	
In current cost	2,361,635	2,165,872	2,203,090	2,210,711	
Purchasing power gain on net monetary items	146,148	346,958	482,925	514,678	
Decrease in the current cost of electric plant in service, net of inflation, after reduction to net recoverable cost	99,483	280,634	524,346	584,586	
Average Consumer Price Index	289.1	272.4	246.8	217.4	195.4

Subsidiaries

DUKE POWER COMPANY

Subsidiary Investments

(dollars in thousands)

	December 31	
	1982	1981
Property and investments—at cost		
Real estate, recreational and land development	\$ 33,391	\$ 32,057
Coal mining	56,545	89,457
Net current assets, principally investments, receivables and inventories	46,820	7,104
Total assets	136,756	128,618
Coal production commitments	(24,868)	(37,272)
Deferred income taxes	(36,458)	(36,365)
Total liabilities	(61,326)	(73,637)
Investments in and advances to subsidiaries	\$ 75,430	\$ 54,981

Crescent Land & Timber Corp.

Formed in 1969, this subsidiary manages approximately 270,000 acres of "non-utility" property consisting primarily of timber lands surrounding Duke Power's hydroelectric facilities, but also including recreational, industrial and commercial sites.

Crescent has instituted new programs to search for other natural resources which may exist on its properties, including oil, gas and various minerals. Additional programs are under way to determine the best use for properties, which may lead to expanded industrial, commercial and residential development.

In 1982 Crescent harvested 32 million board feet of timber and 62,000 cords of pulpwood. Approximately 2 million new trees are being planted each year. Since Duke Power initiated its reforestation activities in 1939, some 57 million seedlings have been planted on 81,000 acres.

Duke Power Overseas Finance N.V.

This subsidiary was formed in Curacao, Netherlands Antilles to provide Duke Power with financial resources from out-

side the United States. In 1982 Duke Power made a capital contribution to the subsidiary, which has been invested in short-term securities. In April 1982,

the subsidiary loaned Duke Power the net proceeds of a sale in the Eurodollar market of \$60 million principal amount of notes.

The Eastover Companies

Eastover Mining Company and Eastover Land Company were founded in the early 1970s to help ensure Duke Power an adequate supply of quality coal for its fossil-fueled generating stations.

In 1982 Eastover Mining Company shipped 2.7 million tons of coal to Duke Power plants, representing about 17

percent of the system's total annual requirements. The completion of the processing plant modernization program in late 1980 allowed Eastover to ship a consistent quality product to Duke Power during 1982.

The Company intends to dispose of the assets of Eastover Mining Company and the related land leased from Eastover

Land Company. In anticipation of this disposition, a provision for loss of \$30 million was recorded in 1982 (after the effect of income tax benefits of approximately \$28 million). The Company determined to sell these properties after the most recent rate order from the North Carolina Utilities Commission prohibited full recovery of the cost of coal from these mines.

Mill-Power Supply Company

Duke Power's oldest active subsidiary, Mill-Power Supply, was organized in 1910 to supply the necessary equipment to textile mills and other industries then converting to electricity. From its main location in Charlotte, N.C. and its new warehouse facilities in Greensboro, N.C., Mill-Power Sales Division continues to perform as one of the largest electrical distributors in the Southeast.

Responding to the need for equipment which reduces on-peak power demand, in January 1982, Mill-Power formed the Applied Energy Management Department to market energy-saving equipment. Another major development this year was the installation of a fully-integrated data-based business computer system. This development enhances the operating efficiency of Mill-Power, especially the decentralized warehouse-

ing function. The capabilities of the system also provide Mill-Power's management with a better means of evaluating the possibilities for future expansion.

Mill-Power Supply also acts as purchasing agent for Duke Power. In this role, the purchasing division contracted for more than \$1 billion worth of supplies, equipment, fuel and services required by Duke Power in 1982.

Western Fuel, Inc.

This subsidiary was formed in June 1978 to participate in a uranium exploration and mining venture with Ogle Petroleum Inc. of California.

Western Fuel has expended approx-

imately \$12 million, including capital costs, in connection with the venture. In August 1981, the joint venture began commercial production. As a result of certain geological problems in the mining process, the cost per pound of uranium produced exceeded expectations.

The additional cost required to resolve such problems, coupled with a declining uranium market, led to a curtailment of operations. In September 1982, operations were suspended, and Western Fuel currently does not anticipate any further uranium production.

Board of Directors

DUKE POWER COMPANY



Left to right: Davis, Henson, Mickel, Owen, Furman, Sloan, Watkins, Fraley, Hicks, Grigg, Booth, Albanese, Thies, Self, Edwards, Herbert, Lee, Johnson, Overcash. Not pictured: Griffith.

William S. Lee ◀■★
Chairman and
Chief Executive Officer
Duke Power Company

Naomi G. Albanese ●
Dean Emeritus, School
of Home Economics
University of North Carolina
at Greensboro

Douglas W. Booth ■★
President and
Chief Operating Officer
Duke Power Company

Thomas H. Davis ●
Chairman of the Board
and Treasurer
Piedmont Aviation, Inc.

Robert C. Edwards ◀
Chairman of the Board
Textile Hall Corporation

John L. Fraley ●◀
Vice Chairman and
Chief Executive Officer
Carolina Freight Carriers
Corporation

Alester G. Furman, III ★
Chairman of the Board
Furman Realty Co., Inc.

Steve C. Griffith, Jr. ■
Senior Vice President
and General Counsel
Duke Power Company

William H. Grigg ■★
Executive Vice President
Finance and Administration
Duke Power Company

Paul H. Henson ★
Chairman and
Chief Executive Officer
United Telecommunications,
Inc.

George R. Herbert ●
President
Research Triangle Institute
(diversified research for cor-
porations and government
agencies)

John D. Hicks ■
Senior Vice President
Public Affairs
Duke Power Company

James V. Johnson ●
Vice Chairman and
Director of Public Affairs
Coca-Cola Bottling Co.,
Consolidated

Buck Mickel ◀
Chairman of the Board
Daniel International
Corporation
(industrial and commercial
construction)

Reece A. Overcash, Jr. ★
Chairman of the Board and
Chief Executive Officer
Associates Corporation of
North America
(finance-consumer lending,
commercial lending and in-
surance)

Warren H. Owen ■
Executive Vice President
Engineering and Construction
Duke Power Company

James C. Self ★
President
Greenwood Mills, Inc.
Trustee
The Duke Endowment

Maceo A. Sloan ★
Executive Vice President and
Chief Operating Officer
North Carolina Mutual Life
Insurance Company

Austin C. Thies ■
Executive Vice President
Power Operations
Duke Power Company

William L. Watkins ●
Partner in the law firm of
Watkins, Vandiver, Kirven,
Gable & Gray

- Member of Audit Committee
- ◀ Member of Compensation Committee
- Member of Executive Committee
- ★ Member of Finance Committee

Officers

DUKE POWER COMPANY

William S. Lee

Chairman of the Board and
Chief Executive Officer

Douglas W. Booth

President and
Chief Operating Officer

William H. Grigg

Executive Vice President
Finance and Administration

Warren H. Owen

Executive Vice President
Engineering and Construction

Austin C. Thies

Executive Vice President
Power Operations

Henry L. Cranford

Senior Vice President
Division Operations

Donald H. Denton, Jr.

Senior Vice President
Marketing and Rates

Steve C. Griffith, Jr.

Senior Vice President
and General Counsel

John D. Hicks

Senior Vice President
Public Affairs

Frank A. Jenkins

Senior Vice President
Transmission and Distribution

Thomas C. Berry

Vice President
Southern Division

Ralph W. Bostian

Vice President
Production Support

J. Kenneth Clark

Vice President
Corporate Communications

Linwood C. Dail

Vice President
Design Engineering

Robert L. Dick

Vice President
Construction

George W. Ferguson, Jr.

Vice President and
Deputy General Counsel

M. Thomas Hatley, Jr.

Vice President
Rates

E. N. Hedgepeth, Jr.

Vice President
Distribution

Samuel T. Lattimore

Vice President
Finance Administration

John F. Lomax

Vice President
Western Division

Joe S. Major, Jr.

Vice President
Personnel

Joseph G. Mann

Vice President
Northern Division

Paul H. Mann, Jr.

Vice President
Operation

Paul G. Martin

Vice President
Eastern Division

Dwight B. Moore

Vice President
Central Division

William O. Parker, Jr.

Vice President
Fossil Production

Richard R. Pierce

Assistant to the President

E. Bruce Shuler

Vice President
Transmission

William R. Stimart

Vice President
Regulatory Affairs

George E. Stubbins

Vice President
Information Systems

Hal B. Tucker

Vice President
Nuclear Production

Fred E. West, Jr.

Vice President
Charlotte Division

James W. White

Vice President
General Services

Lewis F. Camp, Jr.

Secretary and
Associate General Counsel

Norman P. Morrow

Controller

Richard J. Osborne

Treasurer

C. Joe Sherrill

Assistant Vice President
Transmission-Substation Division

Carolyn R. Duncan

Assistant Secretary

John C. Goodman, Jr.

Assistant Secretary

Charles A. Markel

Assistant Treasurer

W. Bruce Shannon

Assistant Treasurer

Eugene C. Sites

Assistant Controller

H. D. Whitley

Assistant Controller

Subsidiaries

Richard C. Ranson

President
Crescent Land & Timber Corp.

W. T. Robertson, Jr.

President
Mill-Power Supply Company
and Western Fuel, Inc.

Robert M. Moore

President
Eastover Land Company

Norman Yarborough

Chairman of the Board and
Chief Executive Officer
Eastover Mining Company

Management Changes

The following management changes were made in 1982:

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

Douglas W. Booth was elected President and Chief Operating Officer;

William H. Grigg was elected Executive Vice President - Finance and Administration;

Warren H. Owen was elected Executive Vice President - Engineering and Construction;

Austin C. Thies was elected Executive Vice President - Power Operations;

Henry L. Cranford was elected Senior Vice President - Division Operations;

Donald H. Denton, Jr. was elected Senior Vice President - Marketing and Rates;

Steve C. Griffith, Jr. was elected Senior Vice President and General Counsel;

Frank A. Jenkins was elected Senior Vice President - Transmission and Distribution;

Ralph W. Bostian, formerly Manager - Steam Results and Fuel Management, was elected Vice President - Production Support;

George W. Ferguson, Jr. was elected Vice President and Deputy General Counsel;

E. N. Hedgepeth, Jr. was elected Vice President - Distribution;

Samuel T. Lattimore was elected Vice President - Finance Administration;

Paul G. Martin, formerly Assistant Division Manager, was elected Vice President - Eastern Division;

William O. Parker, Jr. was elected Vice President - Fossil Production;

Richard R. Pierce was elected Assistant to the President;

E. Bruce Shuler was elected Vice President - Transmission;

George E. Stubbins, formerly Manager - Load Analysis, was elected Vice President - Information Systems;

Hal B. Tucker, formerly Manager - Nuclear Production, was elected Vice President - Nuclear Production;

Norman P. Morrow was elected Controller;

Norman Yarborough was elected Chairman of the Board and Chief Executive Officer of Eastover Mining Company.

(Effective January 1, 1983, **E. D. Slone** succeeded **Norman Yarborough** as Chairman of the Board and Chief Executive Officer of Eastover Mining Company.)

Other Information

Transfer Agents and Registrars for Common Stock

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, NY 10015
North Carolina National Bank
P.O. Box 120
Charlotte, NC 28255

Transfer Agent and Registrar for Preferred and Preference Stocks

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, NY 10015

Stock Exchange Listing

Duke Power Company common stock is listed and traded on The New York Stock Exchange. The trading symbol for the stock is DUK.

General Offices

422 South Church Street
P.O. Box 33189
Charlotte, NC 28242
(704/373-4011)

SEC Form 10-K and Statistical Supplement

Upon written request, the Company will provide, without charge, a copy of its 1982 annual report on Form 10-K as filed with the Securities and Exchange Commission. Also available without charge is a Statistical Supplement to the 1982 Annual Report to Shareholders. Requests for such documents should be directed to Sue H. Cannon, Investor Relations Department, Duke Power Company, P.O. Box 33189, Charlotte, NC 28242.