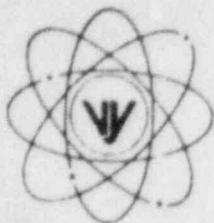


VERMONT YANKEE NUCLEAR POWER CORPORATION



RD 5, Box 169, Ferry Road, Brattleboro, VT 05301

(802) 257-5271

May 7, 1985

FVY 85-41

U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Attention: Office of Nuclear Reactor
Regulation
Mr. Harold R. Denton, Director

Reference: License No. DPR-28 (Docket No. 50-271)

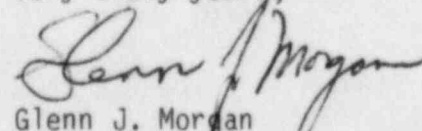
Subject: Vermont Yankee Annual Financial Statements

Dear Sir:

In accordance with the provisions of 10CFR 50.71 (b), enclosed please find ten (10) copies of Vermont Yankee's certified financial statements for the year ending December 31, 1984.

Should you have any questions regarding this report please do not hesitate to contact me.

Very truly yours,


Glenn J. Morgan
Assistant Treasurer

GJM/vms
Enclosures

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Financial Statements

December 31, 1984, 1983, and 1982

(With Accountants' Report Thereon)



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
One Boston Place
Boston, Massachusetts 02108
617-723-7700

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

We have examined the balance sheets of Vermont Yankee Nuclear Power Corporation as of December 31, 1984 and 1983 and the related statements of income and retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Vermont Yankee Nuclear Power Corporation at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co

February 8, 1985

VERMONT YANKEE NUCLEAR POWER CORPORATION

Balance Sheets

December 31, 1984 and 1983

| <u>Assets</u> | <u>1984</u> | <u>1983</u> |
|---|------------------------|----------------|
| | (Dollars in thousands) | |
| Utility plant: | | |
| Electric plant, at cost | \$ 267,067 | 262,391 |
| Less accumulated depreciation | <u>102,186</u> | <u>90,430</u> |
| | 164,881 | 171,961 |
| Construction work in progress | <u>8,771</u> | <u>1,034</u> |
| Net electric plant | <u>173,652</u> | <u>172,995</u> |
| Nuclear fuel, at cost: | | |
| Assemblies in reactor | 80,629 | 76,991 |
| Fuel in process | 14,983 | 30,932 |
| Fuel in stock | 1,587 | - |
| Spent fuel | <u>108,762</u> | <u>87,615</u> |
| | 205,961 | 195,538 |
| Less accumulated amortization | <u>148,307</u> | <u>129,845</u> |
| Net nuclear fuel | <u>57,654</u> | <u>65,693</u> |
| Net utility plant | <u>231,306</u> | <u>238,688</u> |
| Current assets: | | |
| Cash (note 4) | 3,503 | 1,280 |
| Restricted fund (note 3) | 487 | 593 |
| Temporary investments, at amortized cost which approximates market | 26,598 | - |
| Accounts receivable, primarily from sponsors (note 3) | 13,462 | 16,443 |
| Income tax refunds receivable | 1,080 | 10,884 |
| Materials and supplies, at cost | 7,876 | 7,430 |
| Prepaid expenses | <u>1,277</u> | <u>1,140</u> |
| Total current assets | <u>54,283</u> | <u>37,770</u> |
| Deferred charges: | | |
| Restricted fund (note 3) | 2,784 | 599 |
| Deferred decommissioning costs (note 3) | 27,518 | 25,034 |
| Unamortized debt expense | 725 | 895 |
| Accumulated deferred income taxes (note 7) | 3,524 | 1,680 |
| Deferred reload analysis development costs | 948 | 1,465 |
| Other deferred charges | <u>-</u> | <u>959</u> |
| Total deferred charges | <u>35,499</u> | <u>30,632</u> |
| | <u>\$ 321,088</u> | <u>307,090</u> |

See accompanying notes to financial statements.

Capitalization and Liabilities

1984 1983
(Dollars in thousands)

Capitalization:

Common stock equity (note 5):

Common stock, \$100 par value; authorized 400,100
shares; outstanding 400,014 shares

\$ 40,001 40,001

Additional paid-in capital

14,392 13,953

Retained earnings

5,449 5,259

Total common stock equity

59,842 59,213

Redeemable cumulative preferred stock, 7.48% series;

\$100 par value; authorized 300,000 shares; out-
standing 116,830 shares (138,941 shares in 1983)
(note 5)

11,683 13,894

Long-term debt, net (note 6)

59,328 78,375

Disposal fee for spent nuclear fuel (note 2)

39,285 39,285

Total capitalization

170,138 190,767

Current liabilities:

Long-term debt to be retired within one year (note 6)

2,746 2,202

Notes payable (note 4)

29,000 4,100

Accounts payable

11,502 12,233

Accrued interest

1,447 1,639

Accrued taxes

2,912 3,511

Total current liabilities

47,607 23,685

Accrued decommissioning costs (note 3)

30,535 26,159

Accrued interest on disposal fee for spent nuclear
fuel (note 2)

6,777 2,608

Accumulated deferred income taxes (note 7)

50,834 50,603

Accumulated deferred investment tax credits (note 7)

10,530 8,962

Unamortized gain on reacquired debt, net

4,667 4,306

Total deferred credits

103,343 92,638

Commitments and contingencies (notes 2, 3 and 9)

\$ 321,088 307,090

VERMONT YANKEE NUCLEAR POWER CORPORATION

Statements of Income and Retained Earnings

Years ended December 31, 1984, 1983 and 1982

| | <u>1984</u> | <u>1983</u> | <u>1982</u> |
|--|--|---------------------|---------------------|
| | (Dollars in thousands - except per share amounts) | | |
| Operating revenues | \$ <u>117,009</u> | <u>113,070</u> | <u>106,256</u> |
| Operating expenses: | | | |
| Nuclear fuel expense (note 2) | 21,449 | 18,750 | 31,725 |
| Other operating expenses | 35,475 | 33,992 | 29,758 |
| Maintenance | 16,749 | 20,398 | 10,718 |
| Depreciation | 12,031 | 10,889 | 9,942 |
| Decommissioning expense (note 3) | 1,793 | 1,122 | - |
| Taxes on decommissioning (note 3) | 1,847 | 1,112 | - |
| Taxes on income (note 7) | 3,609 | 5,558 | 5,048 |
| Property and other taxes | <u>4,715</u> | <u>4,192</u> | <u>4,349</u> |
| Total operating expenses | <u>97,668</u> | <u>96,013</u> | <u>91,540</u> |
| Operating income | 19,341 | 17,057 | 14,716 |
| Other income and deductions: | | | |
| Interest | 2,078 | 40 | 88 |
| Taxes on other income | (1,041) | (47) | (43) |
| Other, net | <u>(2)</u> | <u>38</u> | <u>(57)</u> |
| | 1,035 | 31 | (12) |
| Income before interest expense | <u>20,376</u> | <u>17,088</u> | <u>14,704</u> |
| Interest expense: | | | |
| Interest on long-term debt, net | 6,537 | 7,192 | 7,684 |
| Interest on disposal costs of spent nuclear fuel (note 6) | 4,169 | 2,608 | - |
| Other interest expense | <u>2,805</u> | <u>319</u> | <u>107</u> |
| Total interest expense | <u>13,511</u> | <u>10,119</u> | <u>7,791</u> |
| Net income | 6,865 | 6,969 | 6,913 |
| Retained earnings at beginning of year | <u>5,259</u> | <u>5,165</u> | <u>5,193</u> |
| | 12,124 | 12,134 | 12,106 |
| Dividends declared: | | | |
| Preferred stock, \$7.48 per share | 915 | 1,115 | 1,181 |
| Common stock, \$14.40 per share | <u>5,760</u> | <u>5,760</u> | <u>5,760</u> |
| Retained earnings at end of year | \$ <u><u>5,449</u></u> | <u><u>5,259</u></u> | <u><u>5,165</u></u> |
| Net income per average share of common stock outstanding | \$ <u>14.87</u> | <u>14.64</u> | <u>14.33</u> |

See accompanying notes to financial statements.

VERMONT YANKEE NUCLEAR POWER CORPORATION
Statements of Changes in Financial Position
Years ended December 31, 1984, 1983 and 1982

| | 1984 | 1983 | 1982 |
|--|------------|---------------|----------|
| | (Dollars | in thousands) | |
| Source of funds: | | | |
| Net income | \$ 6,865 | 6,969 | 6,913 |
| Charges (credits) to income not requiring funds: | | | |
| Depreciation | 12,031 | 10,889 | 9,942 |
| Amortization of nuclear fuel | 18,462 | 18,750 | 31,725 |
| Amortization of deferred downtime costs | - | - | 7,876 |
| Deferred income taxes | (1,613) | 18,035 | (11,213) |
| Investment tax credit adjustments | 1,568 | 3,217 | (592) |
| Increase in decommissioning costs | 1,892 | 1,125 | - |
| Interest on disposal costs of spent nuclear fuel | 4,169 | 2,608 | - |
| Other, net | 1,498 | 505 | 567 |
| Total funds from operations | 44,872 | 62,098 | 45,218 |
| Additions to long-term debt | 12 | 8,948 | 6,233 |
| Decrease in working capital | 7,409 | - | - |
| Total funds provided | \$ 52,293 | 71,046 | 51,451 |
| Use of funds: | | | |
| Electric plant additions | 11,740 | 18,650 | 8,674 |
| Nuclear fuel additions | 10,423 | 22,678 | 21,205 |
| Restricted fund | 2,185 | 599 | - |
| Deferred reload analysis development costs | - | - | 201 |
| Increase in deferred charges | - | 956 | - |
| Reduction of long-term debt | 19,059 | 3,040 | 4,135 |
| Redemption of preferred stock | 2,211 | 1,013 | 1,158 |
| Preferred stock dividends | 915 | 1,115 | 1,181 |
| Common stock dividends | 5,760 | 5,760 | 5,760 |
| Increase in working capital | - | 17,235 | 9,137 |
| Total funds applied | \$ 52,293 | 71,046 | 51,451 |
| Changes in components of working capital: | | | |
| Increase (decrease) in current assets: | | | |
| Cash | 2,223 | 474 | (339) |
| Restricted fund | (106) | 593 | - |
| Temporary investments | 26,598 | - | - |
| Accounts receivable | (2,981) | 2,430 | 2,387 |
| Income tax refunds receivable | (9,804) | 10,884 | - |
| Materials and supplies | 446 | 1,421 | 1,596 |
| Prepaid expenses | 137 | (690) | 1,387 |
| | 16,513 | 15,112 | 5,031 |
| Increase (decrease) in current liabilities: | | | |
| Long-term debt to be retired within one year | 544 | (2,629) | (8,694) |
| Notes payable | 24,900 | 4,100 | - |
| Accounts payable | (731) | 1,656 | (2,957) |
| Accrued interest | (192) | 67 | (354) |
| Accrued taxes | (599) | (5,317) | 7,899 |
| | 23,922 | (2,123) | (4,106) |
| Increase (decrease) in working capital | \$ (7,409) | 17,235 | 9,137 |

See accompanying notes to financial statements.

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

December 31, 1984, 1983 and 1982

(1) Summary of Significant Accounting Policies

(a) Regulation and Operations

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

Pursuant to the terms of Power Contracts, as amended, and Additional Power Contracts, each Sponsor is obligated to pay the Company each month (regardless of the Plant's operating level or whether it is operating or shutdown during the period), an amount equal to such Sponsor's entitlement percentage of the Company's total fuel costs and operating expenses with respect to the Plant, and an allowed return on equity. Such contracts obligate the Sponsors to make decommissioning payments to the end of the service life and the completion of the decommissioning of the unit, notwithstanding that the unit may not operate or may be prematurely decommissioned.

Under the terms of the Capital Funds Agreements, which terminate on December 31, 2002, the Sponsors are committed, subject to obtaining necessary regulatory authorizations, to make funds available in amounts required to obtain or maintain licenses necessary to keep the Plant in operation.

(b) Depreciation and Maintenance

Electric plant is being depreciated on the straight-line method at rates designed to fully depreciate all depreciable properties by 1998. Total depreciation expense was between 4.0% and 4.33% of the cost of depreciable utility plant for the years 1982 through 1984.

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

(c) Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense on the basis of the rate of burn down of the individual assemblies comprising the total core. The Company also accrues the estimated future costs of disposing of spent nuclear fuel. In compliance with Statement of Financial Accounting Standards No. 71 the Company has classified the disposal fee for spent nuclear fuel as other long-term debt and has revised the 1983 presentation to conform to the 1984 presentation. See note 2 to the financial statements.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(d) Deferred Charges

Costs associated with scheduled plant downtime for replacement of nuclear fuel assemblies and major maintenance are expensed as incurred.

(e) Decommissioning

The Company accrues and defers the estimated costs of decommissioning its nuclear reactor as such costs are incurred. See note 3 to the financial statements.

(f) Taxes on Income

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

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

(2) Nuclear Fuel Expense

On June 10, 1983, the Company entered into a contract with the United States Department of Energy (DOE) for the permanent disposal of spent nuclear fuel. Disposal services will be provided to the Company when the DOE's disposal facility for spent nuclear fuel and other high-level radioactive waste is available, which is required by statute to be prior to January 31, 1998.

Consistent with the terms of the above contract, Sponsors are billed a fee, subject to annual adjustment by the DOE, of \$.001 per gross kilowatt hour of generation. Such billings commenced on April 7, 1983. Funds collected are remitted to the DOE on a quarterly basis. Operating expenses include approximately \$2,987,000, \$3,300,000, and \$10,500,000, for 1984, 1983 and 1982, respectively for contractual obligations to dispose of spent nuclear fuel.

The above contract also obligates the Company to pay a one-time fee of \$39,285,000, which has been collected from Sponsors, for the disposal costs associated with all fuel burned through April 7, 1983. This amount can be paid by one of three payment options which include (1) a lump sum payment of the fee anytime prior to June 30, 1985; (2) a lump sum payment of the fee plus accrued interest anytime prior to the first delivery of spent nuclear fuel to the DOE; or (3) quarterly payments of the fee plus accrued interest over a ten-year period beginning anytime prior to January 31, 1988. Interest charges for the last two options are based on the thirteen-week Treasury-Bill rate and a combination of the thirteen-week Treasury Bill and ten-year Treasury Note rates, respectively. The Company began collecting these anticipated interest charges from its Sponsors, based on the thirteen-week Treasury-Bill rate, in June, 1983. As of December 31, 1984, \$6,777,000 of such interest has been collected which is subject to refund, depending on the method of payment selected. The weighted average interest rate for such collections was 9.74% and 8.67% for 1984 and 1983, respectively.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(3) Decommissioning

The Company anticipates that any of three methods of decommissioning nuclear power plants will be acceptable to the NRC, which maintains responsibility for approving the method used. Such methods include complete dismantling and removal, entombment, and mothballing; or a combination of these methods. Based on a consultant's study, the estimated cost of decommissioning using the complete dismantlement method, which management presently believes is the most desirable alternative, is approximately \$72,700,000 in 1981 dollars. Such study will be updated on a periodic basis.

Billings for decommissioning, adjusted for 7% annual inflation, commenced on September 24, 1983 pursuant to the terms of the Power Contracts which obligate all Sponsors for their pro rata share of such cost. Funds collected for decommissioning and the related tax liability thereon are presently placed in decommissioning escrow accounts.

The Company is required to modify its schedule of collections every four years based on inflation, with the first modification effective January 1, 1985. If the average inflation rate, as determined by the Consumer Price Index, differs from the 7% rate used for the prior four year period, the prior four year period will be recomputed using actual inflation rates. An estimated 7% rate will be used for all future years and future collections will then be adjusted to fund the estimated liability through the time of decommissioning.

In compliance with Statement of Financial Accounting Standards No. 71 the Company began to accrue and defer the above decommissioning liability, as adjusted for inflation, in 1984. The accompanying financial statements include the following amounts relative to decommissioning:

| | 1984 | 1983 |
|-----------------------------------|------------------------|---------------|
| | (Dollars in thousands) | |
| Accrued decommissioning costs: | | |
| Restricted fund - deferred | \$ 2,784 | 599 |
| Accounts receivable from sponsors | 233 | 526 |
| Deferred decommissioning costs | <u>27,518</u> | <u>25,034</u> |
| | <u>\$ 30,535</u> | <u>26,159</u> |
| Income taxes: | | |
| Restricted fund - current | 487 | 593 |
| Accounts receivable from sponsors | <u>242</u> | <u>521</u> |
| | <u>\$ 729</u> | <u>1,114</u> |

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

Operating expenses include \$1,793,000 and \$1,122,000 for decommissioning costs, and \$1,847,000 and \$1,112,000 for the related tax liability for 1984 and 1983, respectively.

Income taxes collected are subject to refund pending resolution of the tax status of the decommissioning funds.

(4) Compensating Balances and Short-term Borrowings

The Company had lines of credit from various banks totalling \$15,750,000 and \$16,000,000 at December 31, 1984 and 1983, respectively. Of these amounts \$8,000,000 and \$10,000,000 required average compensating balances equal to 7.0% and 7.1% of the outstanding line. Additionally \$1,000,000 of the December 31, 1983 credit line required an average compensating balance equal to 2.5% of the outstanding loans.

The Company also has a \$50,000,000 Eurodollar Credit Agreement which expires on October 4, 1987. The balance outstanding under such agreement was \$29,000,000 at December 31, 1984. This amount, due January 28, 1985, has an interest rate of 9.06% and is secured by the nuclear core of the Company's generating facility.

The maximum amount of short-term borrowings outstanding at any month-end during 1984 and 1983 was \$29,770,000 and \$5,600,000, respectively. The average daily amount of such borrowings outstanding was \$22,592,000 and \$2,236,800, respectively, with a corresponding weighted average interest rate of 11.23% and 10.12%.

(5) Capital Stock

So long as any shares of the Cumulative Preferred Stock are outstanding, the payment of cash dividends and distributions on Common Stock (other than redemptions, which requires 30% common equity after redemption) is limited when Common Stock Equity (as defined) is less than 25% of Total Capitalization (as defined). At December 31, 1984 Common Stock Equity was 46% of Total Capitalization.

The 7.48% series Preferred Stock is redeemable (1) at par through a mandatory sinking fund in the amount of \$1,100,000 per annum, (2) at the option of the Company, at par, an additional \$1,100,000 per annum and (3) in whole or in part from time to time, at redemption prices per share ranging from \$105 in 1984 to \$100 in 1998, together in each case with accrued and unpaid dividends to the redemption date. Any gains or losses on redemption of preferred stock are charged or credited to other paid-in capital.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(6) Long-Term Debt

A summary of long-term debt is as follows:

| | <u>1984</u> | <u>1983</u> |
|---|------------------------|---------------|
| | (Dollars in thousands) | |
| First mortgage bonds: | | |
| Series A - 9.625% due 1998 | \$ 42,339 | 45,529 |
| Series B - 8.50% due 1998 | 8,024 | 8,024 |
| Series C - 7.70% due 1998 | <u>10,958</u> | <u>11,738</u> |
| Total first mortgage bonds | 61,321 | 65,291 |
| Unamortized premium on debt | <u>98</u> | <u>105</u> |
| Net first mortgage bonds | 61,419 | 65,396 |
| Obligation under capital lease | 655 | 643 |
| Vernon Energy Trust borrowings | <u>-</u> | <u>14,538</u> |
| Total long-term debt | 62,074 | 80,577 |
| Less long-term debt to be retired within one year | <u>2,746</u> | <u>2,202</u> |
| Long-term debt, net | <u>\$ 59,328</u> | <u>78,375</u> |

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

In November 1981, the Company entered into agreements to finance its nuclear fuel through the Vernon Energy Trust. The Trust finances nuclear fuel through the issuance of commercial paper and bank loans on a revolving credit basis up to an aggregate amount of \$40,000,000 outstanding. The Trust may acquire an inventory of nuclear fuel in process from or on behalf of the Company. After fabrication is completed, the Trust may sell the fuel to the Company and lend the Company funds to pay for such fuel. Loans issued by the Trust are secured by a pledge of the Company's right to receive fuel costs under power contracts with its sponsors. Loans outstanding to the Trust are to be paid as fuel is consumed.

The Company initially borrowed under the above agreement based on the value of the fuel in its reactor. As additional financing is needed, the Company may assign its interest in uranium and fuel contracts to the Trust. The initial term of the agreement is through November 1, 1985. If the Trust fails to give written notification of termination, the term will continue for additional one year periods through the year 2000. Such written notification must be at least one year in advance of the effective termination date.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(7) Income Taxes

The components of income tax expense are:

| | <u>1984</u> | <u>1983</u> | <u>1982</u> |
|-----------------------------------|------------------------|---------------------|---------------------|
| | (Dollars in thousands) | | |
| Taxes on operating income: | | | |
| Federal - current | \$ 2,553 | (14,106) | 14,416 |
| Federal - deferred | (1,349) | 15,510 | (9,644) |
| State - current | 1,101 | (1,588) | 2,437 |
| State - deferred | (264) | 2,525 | (1,569) |
| Investment tax credit adjustments | <u>1,568</u> | <u>3,217</u> | <u>(592)</u> |
| | <u>3,609</u> | <u>5,558</u> | <u>5,048</u> |
| Taxes on other income: | | | |
| Federal - current | 870 | 40 | 38 |
| State - current | <u>171</u> | <u>7</u> | <u>5</u> |
| Total income taxes | \$ <u><u>4,650</u></u> | <u><u>5,605</u></u> | <u><u>5,091</u></u> |

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

| | <u>1984</u> | <u>1983</u> | <u>1982</u> |
|----------------------------|---------------------|---------------------|---------------------|
| Federal statutory rate | 46.0% | 46.0% | 46.0% |
| State income taxes, net of | | | |
| Federal income tax benefit | 4.1 | 4.0 | 3.9 |
| Investment credit | (13.5) | (9.1) | (9.0) |
| Other | <u>3.8</u> | <u>3.7</u> | <u>1.5</u> |
| | <u><u>40.4%</u></u> | <u><u>44.6%</u></u> | <u><u>42.4%</u></u> |

The items comprising deferred income tax expense are:

| | <u>1984</u> | <u>1983</u> | <u>1982</u> |
|---|--------------------------|----------------------|------------------------|
| | (Dollars in thousands) | | |
| Excess of tax depreciation over financial statement depreciation | \$ 1,191 | 265 | 1,726 |
| Fuel amortization for financial statement purposes less (greater) than tax amortization | (1,153) | 19,084 | (9,236) |
| Interest on disposal costs of spent nuclear fuel | (2,101) | (1,314) | - |
| Deferral of maintenance expenses for financial statement purposes | - | - | (3,920) |
| Other | <u>450</u> | <u>-</u> | <u>217</u> |
| | \$ <u><u>(1,613)</u></u> | <u><u>18,035</u></u> | <u><u>(11,213)</u></u> |

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(8) Pension Plans

The Company has two non-contributory trustee pension plans covering all regular employees and follows the consistent policy of funding all costs accrued. Pension costs were \$311,000, \$320,000, and \$254,000 for the years 1984, 1983 and 1982, respectively, including amortization of unfunded liabilities over a period ending in 1998. Accumulated plan benefits and net assets available for benefits as of the latest valuation dates are presented below:

| | January 1, | |
|---|------------------------|--------------|
| | 1984 | 1983 |
| | (Dollars in thousands) | |
| Actuarial present value of accumulated plan benefits: | | |
| Vested | \$ 1,180 | 965 |
| Nonvested | 261 | 206 |
| | <u>\$ 1,441</u> | <u>1,171</u> |
| Net assets available for benefits | <u>\$ 3,172</u> | <u>2,604</u> |

An assumed weighted average rate of return of 8.5% was used in determining the actuarial present value of accumulated plan benefits.

(9) Commitments and Contingencies

The Company has commitments for nuclear fuel purchases through 1989 approximating \$87,000,000. Such commitments amount to approximately \$25,000,000, \$12,000,000, \$15,000,000, \$17,000,000 and \$18,000,000 for the years 1985 through 1989, respectively.

Vermont Yankee has contracted for uranium concentrate to meet substantially all its power production requirements through 1991. It has two long-term contracts for uranium by-product extraction, expiring in 2003 and 1992, respectively, each of which at the time of execution was expected to provide up to about 20% of its uranium requirements during these periods. Under the contract expiring in 2003, the Company is committed to make minimum payments, aggregating \$4,987,000 plus interest as of December 31, 1984, over a period ending not later than 1993 regardless of the amount of uranium that is actually produced. In January 1983, the Company and others initiated legal action to determine whether the latter contract (expiring in 1992) could be terminated because of the seller's failure to perform properly thereunder.

The Company has also contracted for uranium enrichment services from a source other than the Department of Energy, which has its facilities in France. The contract provides for all of the Company's uranium enrichment services, for the term of 1987-1996, with option to extend if the Company so chooses. The Company also has an enrichment contract with the Department of Energy through 2001, which it has partially terminated for the period 1987 to 1996.

The Company has commitments for capital expenditures amounting to approximately \$23,000,000 and \$10,000,000 for the years 1985 and 1986, respectively.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

The Company has filed a petition for a rate increase with the FERC. In its petition the Company requested that it be allowed to (1) increase the rate of return earned on its common equity capital from 10% to 18%, (2) modify the remaining depreciable lives of certain components of its plant in service, and (3) adopt the FERC's current rulemaking regarding the inclusion of construction work in progress in the Company's rate base.

Events at Three Mile Island Nuclear Unit No. 2 in Pennsylvania ("TMI") have prompted a rigorous reexamination of safety related equipment and operating procedures in all nuclear facilities. New regulatory requirements involving both physical and procedural changes have been and are being promulgated, with which all nuclear facilities will have to comply. Until the scope of these improvements, as they apply to the Plant, and the time schedules for compliance have been fully defined, neither the cost of all modifications nor their effect, if any, on the operations of the Company can be definitively determined. The Company anticipates these and other requirements will necessitate significant capital expenditures in the future.

The Price-Anderson Act currently limits public liability from a single accident at a nuclear power plant to \$610,000,000. If the total damages resulting from an accident exceed the private pool insurance coverage of \$160,000,000, then the Company would be required to pay its share of the excess up to a maximum of \$5,000,000 per accident with a maximum of \$10,000,000 per year. Under the provisions of the Power Contracts, the Company's share of any such payments would be passed on to the Sponsors. Although the Price-Anderson Act expires by its terms in 1987, Congressional hearings on possible bases for its extension are expected in the coming months.

(10) Unaudited Quarterly Financial Information

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

| <u>1984</u> | <u>Quarter ended</u> | | | |
|---|---|-------------|------------------|-----------------|
| | <u>March</u> | <u>June</u> | <u>September</u> | <u>December</u> |
| | (Dollars in thousands - except per share amounts) | | | |
| Operating revenues | \$ 24,745 | 29,228 | 31,888 | 31,148 |
| Operating income | 4,681 | 4,919 | 4,864 | 4,877 |
| Net income | 1,728 | 1,710 | 1,714 | 1,713 |
| Net income per share of common stock | 3.67 | 3.73 | 3.74 | 3.73 |
| <u>1983</u> | <u>Quarter ended</u> | | | |
| | <u>March</u> | <u>June</u> | <u>September</u> | <u>December</u> |
| | (Dollars in thousands - except per share amounts) | | | |
| Operating revenues | \$ 23,845 | 31,064 | 23,707 | 34,454 |
| Operating income | 3,409 | 3,609 | 3,597 | 6,442 |
| Net income | 1,736 | 1,740 | 1,742 | 1,751 |
| Net income per share of common stock | 3.64 | 3.65 | 3.65 | 3.70 |

(Continued)

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Notes to Financial Statements

(11) Unaudited Information on the Effects of Changing Prices (Inflation)

The following is supplied for the purpose of providing certain information about the effects of inflation. It should be viewed as an estimate of the approximate effects of inflation, rather than as a precise measure. A statement of income adjusted for changes in specific prices (current cost) follows:

| | Year ended December 31, 1984 (dollars in thousands) | |
|--|--|--|
| | Conventional historical cost | Adjusted for changes in specific prices |
| Operating revenues | \$ <u>117,009</u> | <u>117,009</u> |
| Operating expenses: | | |
| Nuclear fuel expense | 21,449 | 24,619 |
| Other operating expenses | 35,475 | 35,475 |
| Maintenance | 16,749 | 16,749 |
| Depreciation | 12,031 | 28,483 |
| Decommissioning expense | 1,793 | 1,793 |
| Taxes on decommissioning | 1,847 | 1,847 |
| Taxes on income | 3,609 | 3,609 |
| Property and other taxes | 4,715 | 4,715 |
| Total operating expenses | <u>97,668</u> | <u>117,290</u> |
| Operating income (loss) | 19,341 | (281) |
| Other income and deductions, net | 1,035 | 1,035 |
| Interest expense | <u>(13,511)</u> | <u>(13,511)</u> |
| Net income (loss), excluding reduction to net recoverable cost | \$ <u>6,865</u> | <u>(12,757)</u> (A) |
| Gain from decline in purchasing power of net amounts owed | | 2,473 |
| Reduction to net recoverable cost | | <u>(10,420)</u> |
| | | \$ <u>(7,947)</u> |
| Effect of increase in general price level | | 18,971 |
| Increase in specific prices (current cost) of property, plant and equipment held during the year(B) | | <u>4,191</u> |
| Excess of increase in general price level over increase in specific prices | | <u>14,780</u> |

(A) Including the reduction to net recoverable cost, the net loss would have been \$23,177,000.

(B) At December 31, 1984, the current cost of utility plant, net of accumulated depreciation and amortization, was estimated to be approximately \$471,940,000 as compared with net utility plant recoverable through depreciation and amortization of \$231,306,000.

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Notes to Financial Statements

A five-year comparison of selected supplementary financial data adjusted for the effects of changing prices, stated in average 1984 dollars follows:

| | <u>1984</u> | <u>1983</u> | <u>1982</u> | <u>1981</u> | <u>1980</u> |
|--|---|-------------|-------------|-------------|-------------|
| | (dollars in thousands-except per share amounts) | | | | |
| <u>Operating revenues</u> | \$ 117,009 | 117,882 | 114,342 | 100,696 | 98,749 |
| <u>Current cost information:</u> | | | | | |
| Net loss (excluding reduction to net recoverable cost) | \$ 12,757 | 21,180 | 12,638 | 9,929 | 8,804 |
| Net loss per share of common stock (excluding reduction to net recoverable cost) | 34.18 | 55.85 | 26.19 | 27.55 | 27.35 |
| Increase in general price level over (under) increase in specific prices | 14,780 | (7,915) | (28,792) | 13,164 | 29,668 |
| Net assets at year-end at net recoverable cost | \$ 57,943 | 48,851 | 57,961 | 63,855 | 75,054 |
| <u>General information:</u> | | | | | |
| Gain from decline in purchasing power of net amounts owed | \$ 2,473 | 6,928 | 6,960 | 16,382 | 23,181 |
| Cash dividends declared per common share | \$ 14.40 | 15.01 | 15.49 | 17.13 | 18.92 |
| Average consumer price index | 311.1 | 298.4 | 289.1 | 272.4 | 246.8 |

Dollar amounts adjusted for changes in specific prices (current cost amounts) reflect the changes in specific prices of net utility plant from the date the plant was acquired to the present.

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

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

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Under terms of the Power Contracts, which specify costs billable to the Company's Sponsors, only the historical cost of utility plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of current cost that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. The Company will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

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