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YANKEE ATOMIC ELECTRIC COMPANY

YANKEE

1671 Worcester Road, Framingham, Massachusetts 01701

March 29, 1988
FYR 88-43

United States Nuclear Regulatory Commission
Document Control Desk
Washington, DC 20555

Reference: (a) License No. DPR-3 (Docket No. 50-29)

Subject: 1987 Certified Financial Statements

Dear Sir:

In accordance with Yankee Atomic Electric Company's Facility Operating License No. DPR-3, we enclosed a copy of our annual certified financial statements for the three-year period ending December 31, 1987, pursuant to the requirements of 10CFR, Section 140.15, and Section 50.71.

Very truly yours,

YANKEE ATOMIC ELECTRIC COMPANY

George Papanic Jr

G. Papanic
Senior Project Engineer
Licensing

GP/25.516

Enclosures

cc: USNRC Region I
USNRC Resident Inspector, YNPS

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1/1

Yankee Atomic Electric Company

Annual Report 1987

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YANKEE ATOMIC ELECTRIC COMPANY
1671 WORCESTER ROAD
FRAMINGHAM, MASSACHUSETTS 01701

Yankee Atomic Electric Company (the Company), an electric utility company, was incorporated in Massachusetts in 1954 under the provisions of the Massachusetts utility law which permits two or more electric companies to join in the construction and operation of a generating plant to serve their common needs.

The organization of the Company was sponsored by New England utilities for the purpose of constructing and operating New England's first nuclear power plant. In addition to its license to generate, buy, transmit and sell electricity, the Company is authorized to conduct research and assist others engaged in a similar business. The ten sponsoring utilities own the entire common capital stock of the Company and are entitled to and obligated to purchase the output of the plant at a cost equal to total operating expenses plus a return on investment.

The Yankee plant is located on the Deerfield River in the Berkshire Hills in the Town of Rowe, Massachusetts. The plant was placed in commercial operation in 1961 and has been in full operation since that time except f[illegible]intenance and refueling shutdowns. The unit is rated at 185 megawatts (gross) and has generated over 29 billion kwh of electricity since inception.

In 1968, the Securities and Exchange Commission authorized the Company to organize a Nuclear Services Division under the Company's corporate structure. The Nuclear Services Division has a staff of approximately 400 engineers who provide engineering services in all aspects of nuclear power plant construction and operation including Nuclear Engineering, Environmental Engineering, Operations, Quality Assurance, Plant Engineering and Fuel Management. Services are performed on a cost basis for the Yankee plant and other power plants of the sponsoring companies. A limited amount of work is performed at a profit for other companies in the United States and abroad.

Common Stock Ownership

	Ownership Percentage	Shares Owned
New England Power Company	30.[illegible]%	46,020
The Connecticut Light and Power Company	24.5	37,583
Boston Edison Company	9.5	14,57[illegible]
Central Maine Power Company	9.5	14,573
Public Service Company of New Hampshire	7.0	10,738
Western Massachusetts Electric Company	7.0	10,738
Montaup Electric Company	4.5	6,903
Central Vermont Public Service Corporation	3.5	5,369
Commonwealth Electric Company	2.5	3,835
Cambridge Electric Light Company	2.0	3,068
	100.0%	153,400

Selected Financial Data (in thousands, except where noted)

	Year Ended December 31,				
	1987	1986	1985	1984	1983
Operating revenue:					
Electric sales	$ 59,020	$55,031	$62,398	$60,522	$53,672
Engineering services	31,365	30,977	29,977	28,081	27,339
Total	$ 90,385	$86,008	$92,375	$88,603	$81,011
Operating income	$ 5,377	$ 6,082	$ 6,390	$ 7,429	$ 7,267
Net income	$ 3,004	$ 2,951	$ 3,612	$ 3,750	$ 3,928
Common dividends	$ 2,761	$ 3,068	$ 3,605	$ 3,758	$ 3,835
Total assets	$100,102	$91,302	$94,838	$90,922	$86,359
Long-term debt	$ 26,328	$31,813	$29,213	$16,325	$15,750
Short-term debt	$ 9,985	$ 3,400	$ 7,700	$ 9,300	$13,000
Earnings per share ($ per share)	$ 19.58	$ 19.24	$ 23.55	$ 24.45	$ 25.61
Return on Equity (percent)	13.8%	13.5%	16.3%	16.9%	17.7%
Net generation (millions of kwh)	1,136	1,393	1,182	1,026	1,343
Power cost (¢/kwh)	5.2¢	4.0¢	5.3¢	5.9¢	4.0¢

COOPERS & LYBRAND

Report of Independent Certified Public Accountants

YANKEE ATOMIC ELECTRIC COMPANY
Framingham, Massachusetts

We have examined the balance sheets of Yankee Atomic Electric Company as of December 31, 1987 and 1986, and the related statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1987. 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 Yankee Atomic Electric Company as of December 31, 1987 and 1986, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987 in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Boston, Massachusetts
February 3, 1988

Financial Review

The Company has power contracts with its stockholder utilities through June 1991 which require these utilities to purchase all of the electrical output of the plant at a cost equal to total operating expenses plus a return on investment, whether or not the plant operates. The Company also operates a Nuclear Services Division which furnishes engineering services to the Yankee plant and to other New England power projects on a cost basis. Limited engineering work is also performed for others at a profit.

During 1987, the Yankee plant operated with an availability of 77.6% and provided electricity to stockholder utilities at a cost of 5.2¢ per kilowatt hour.

The plant was routinely refueled in 1987, whereas in 1986 the plant operated without a refueling. This accounts for the reduction of generation in 1987 of 257 million kwh. The next refueling is scheduled for November 1988.

Fuel expenses decreased by $891,000 in 1987 from 1986, due to the reduction in generation.

Operations, engineering, and maintenance expenses increased $6,282,000, $2,504,000, and $3,230,000, respectively during 1987 from 1986, due primarily to work performed during the 1987 refueling.

During 1986, the Company prevailed in a federal income tax court case against the United States government regarding the exclusion of its decommissioning revenues from taxable income for fiscal years 1981 through 1983, and a portion of 1984. As a result, the Company recorded federal and state tax benefits of $6,791,000 and $2,507,000 in 1987 and 1986, respectively. In addition, $656,000 and $605,000 of related interest income was recorded in other income in 1987 and 1986, respectively. As of December 31, 1987, all federal and state income taxes resulting from the tax court case have been refunded to customers in accordance with regulatory requirements. (See Note F of "Notes to Financial Statements" for additional information regarding federal income taxes.)

The $123,000 decrease in interest on long-term debt from 1986 to 1987 was the result of a decrease in long-term debt outstanding due to scheduled repayments.

The Federal Energy Regulatory Commission has begun actions to reduce the Company's current allowed 14.5% rate of return on equity on a prospective basis. (See Note I of "Notes to Financial Statements" for additional information.)

In 1987, the Company began incurring costs, not recoverable from customers, relating to the November 1988 Massachusetts referendum to shut down operating commercial nuclear power plants. The Company may expend a significant portion of its 1988 earnings to defeat the referendum. (See Note J of "Notes to Financial Statements" for additional information.)

Construction expenditures for 1988 are estimated to be $5,392,000.

In December 1987, the Company paid its 41st consecutive dividend.

Statements of Income and Retained Earnings

	Year Ended December 31,		
	1987	1986	1985
Operating revenues (Note A):			
Electric sales	$59,020,654	$55,030,825	$62,397,278
Engineering services to others	31,364,660	30,977,235	29,977,261
Total operating revenues	90,385,314	86,008,060	92,374,539
Operating expenses (Note A):			
Fuel (Note B)	11,352,513	12,243,314	10,984,812
Operations	20,304,820	14,022,557	21,638,469
Engineering	40,967,748	38,463,323	39,594,648
Maintenance	4,956,007	1,725,694	2,706,299
Decommissioning (Note G)	5,741,004	5,741,004	5,031,558
Depreciation	5,262,122	6,372,412	5,216,940
Taxes, other than federal income	2,174,999	2,935,310	1,778,046
Federal income taxes (Note F)	(5,750,532)	(1,577,873)	(965,848)
Total operating expenses	85,008,681	79,925,741	85,984,924
Operating income	5,376,633	6,082,319	6,389,615
Other income:			
Allowance for equity funds used during construction (Note A)	115,073	96,917	228,308
Other, net	726,984	212,107	(34,101)
Total other income	842,057	309,024	194,207
Operating and other income	6,218,690	6,391,343	6,583,822
Interest:			
Interest on long-term debt	3,082,114	3,204,927	2,861,747
Interest on short-term debt	264,310	266,592	483,919
Other interest, net	49,601	162,366	(220,100)
Allowance for borrowed funds used during construction (Note A)	(181,308)	(193,650)	(154,050)
Total interest	3,214,717	3,440,235	2,971,516
Net income	$ 3,003,973	$ 2,951,108	$ 3,612,306
Retained earnings:			
Retained earnings at beginning of year	$ 5,891,625	$ 6,008,517	$ 6,001,111
Net income	3,003,973	2,951,108	3,612,306
	8,895,598	8,959,625	9,613,417
Dividends paid	2,761,200	3,068,000	3,604,900
Retained earnings at end of year (Note C)	$ 6,134,398	$ 5,891,625	$ 6,008,517
Per share data:			
Earnings per share	$19.58	$19.24	$23.55
Dividends per share	$18.00	$20.00	$23.50

The accompanying notes are an integral part of these financial statements.

Balance Sheets

ASSETS

	December 31, 1987	December 31, 1986
Utility plant, at original cost (Note A)	$ 84,822,387	$82,793,749
Less accumulated provisions for depreciation	69,868,238	64,712,359
	14,954,149	18,081,390
Construction work in progress	293,808	140,769
Nuclear fuel, at amortized cost (Notes B and J)	27,667,135	31,879,767
Net utility plant	42,915,092	50,101,926
Decommissioning trust (Note G)	26,326,403	21,647,820
Nonutility property, less accumulated provisions for depreciation of $502,482 and $453,538	890,424	525,339
Other investments	1,245,526	911,209
Current assets:		
Cash and temporary cash investments	1,222,073	6,870
Accounts receivable:		
Electric sales	7,557,125	5,015,094
Engineering services to others (Note A)	4,958,235	4,610,766
Other	2,896,004	3,706,599
Materials and supplies, at average cost	848,117	820,692
Prepayments and other	545,285	500,054
Total current assets	18,026,839	14,660,075
Deferred federal and state income taxes (Note F)	10,697,243	3,455,411
	$100,101,527	$91,301,780

CAPITALIZATION AND LIABILITIES

	1987	1986
Capitalization:		
Capital stock, par value $100 per share; 153,400 shares authorized and outstanding	$ 15,340,000	$15,340,000
Retained earnings (Note C)	6,134,398	5,891,625
Long-term debt (Note D)	26,328,000	31,812,500
Total capitalization	47,802,398	53,044,125
Current liabilities:		
Long-term debt due within one year (Note D)	4,984,500	3,400,000
Short-term debt (Note E)	5,000,000	—
Accounts payable	5,825,037	4,126,612
Accrued interest	355,715	373,232
Total current liabilities	16,165,252	7,899,844
Decommissioning reserve (Note G)	33,827,059	26,729,328
Unamortized investment tax credits (Note F)	2,306,818	3,628,483
Commitments and contingencies (Notes B, G, and J)		
	$100,101,527	$91,301,780

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Financial Position

	Year Ended December 31,		
	1987	1986	1985
Financial resources were provided by:			
Net income	$ 3,003,973	$ 2,951,108	$ 3,612,306
Principal noncash items:			
Depreciation, including nonutility property	5,311,066	6,421,356	5,265,884
Amortization of nuclear fuel	10,216,895	11,067,150	9,720,926
Allowance for funds used during construction (AFUDC)	(296,381)	(290,567)	(382,358)
Deferred federal and state income taxes	(7,241,832)	(2,873,487)	4,323,711)
Investment tax credits—net	(1,321,665)	(1,430,014)	432,260
Provision for prior core spent fuel disposal liability	—	—	6,091,888
Working capital provided from operations	9,672,056	15,845,546	20,417,195
Issuance of long-term debt	—	6,000,000	14,000,000
Increase in decommissioning reserve	7,097,731	6,998,180	7,255,139
Other	(50,763)	59,618	218,669
	16,719,024	28,903,344	41,891,003
Financial resources were used for:			
Construction expenditures, net of AFUDC	2,641,914	1,258,729	4,502,373
Nuclear fuel purchases, net of AFUDC	5,717,154	10,885,088	12,846,092
Repayment of long-term debt	3,900,000	1,800,000	3,362,500
Increase in decommissioning trust	4,678,583	3,728,668	5,220,143
Spent fuel payment	—	—	13,206,630
Other investments	334,317	303,278	383,310
Dividends on common stock	2,761,200	3,068,000	3,604,900
	20,033,168	21,043,763	43,125,948
Increase (Decrease) in working capital	$(3,314,144)	$ 7,859,581	$(1,234,945)
Changes in components of working capital:			
Cash and temporary cash investments	$ 1,215,203	$ (103,539)	$ (1,466)
Accounts receivable	2,078,905	(4,935,623)	3,494,814
Materials and supplies	27,425	(24,244)	(4,421)
Prepayments and other	45,231	(264,654)	132,021
Short-term debt	(5,000,000)	5,900,000	(650,000)
Accounts payable	(1,698,425)	7,212,708	(4,623,467)
Accrued federal income tax	—	—	520,364
Accrued interest	17,517	74,933	(102,790)
Increase (Decrease) in working capital	$(3,314,144)	$ 7,859,581	$(1,234,945)

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Note A—Summary of Significant Accounting Policies:

1. System of Accounts:

The accounts of the Company are maintained in accordance with the Uniform System of Accounts prescribed by regulatory bodies having jurisdiction. The accounts of the Yankee Decommissioning Trust (the Trust) are presented on a consolidated basis.

2. Nuclear Services Division:

The Company operates a Nuclear Services Division under the applicable rules and regulations of the Public Utility Holding Company Act of 1935 for the purpose of furnishing nuclear engineering services to the Company and its sponsoring utilities. Such services are provided on a full cost basis, including a return on working capital. The cost of services provided to the Yankee plant amounted to $11,724,666 in 1987, $9,627,064 in 1986, and $11,550,311 in 1985, and are included as engineering costs in the Statements of Income and Retained Earnings.

3. Utility Plant:

Utility plant is stated at the original cost of construction, which includes an allowance for the cost of funds used during construction. Costs of current repairs and minor replacements of plant and properties, which do not extend the current life of the plant, are charged to maintenance expense accounts as incurred. Plant retired or otherwise disposed of, together with costs of removal less salvage, is charged to accumulated provisions for depreciation.

4. Depreciation:

For financial statement purposes, depreciation is provided over the estimated service lives of the various classes of property on a straight-line basis. The estimated average remaining service life at December 31, 1987 is approximately three years.

5. Allowance for Funds Used During Construction (AFUDC):

The Company capitalizes as a part of construction and fuel costs an item called allowance for borrowed funds used during construction, which represents the approximate pretax cost of short-term debt and an item called allowance for equity funds used during construction, which represents the cost of other funds. AFUDC is recognized as a cost of "Utility plant" and "Nuclear fuel". Accordingly, AFUDC is capitalized in the same manner as construction labor and material costs with an offsetting credit to "Interest" and "Other Income". This is in accordance with an established regulatory approved rate-making practice under which a utility is permitted a return on, and the recovery of, these capital costs through their ultimate inclusion in the rate base and in the provisions for depreciation and amortization.

The combined rate used in calculating AFUDC was 9.8% in 1987, 10.4% in 1986, and 11.0% in 1985. In accordance with regulatory directives, these rates included the before-income-tax effect of borrowed funds.

6. Nuclear Decommissioning:

In a 1984 decommissioning study, the Company estimated the cost of decommissioning the Yankee plant, utilizing the immediate dismantlement and removal method, at approximately $68 million in 1984 dollars. The Company records and bills decommissioning on a remaining life basis in accordance with regulatory approval. (See Note G.)

Notes to Financial Statements (continued)

Note A—Summary of Significant Accounting Policies (continued):

7. Income Taxes:

The tax effect of the timing differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of income subject to tax) is accounted for in accordance with regulatory approval.

Investment tax credits are deferred and amortized over the estimated service lives of the property giving rise to the credits.

Note B—Nuclear Fuel:

The cost of nuclear fuel in the reactor is amortized to fuel expense on a unit of production method at rates based on estimated kilowatt hours to be produced from each core. Fuel expense also includes a charge for the permanent disposal of spent fuel.

The following table lists nuclear fuel components.

	December 31,	
	1987	1986
In stock	$ 1,568,069	$ 4,323,621
In process	6,641,921	13,517,249
Assemblies in reactor	33,241,747	32,291,127
Gross nuclear fuel	41,451,737	50,131,997
Less accumulated amortization	13,784,602	18,252,230
Net nuclear fuel	$27,667,135	$31,879,767

Components of fuel expense are set forth in the following table.

	Year Ended December 31,		
	1987	1986	1985
Amortization of nuclear fuel:			
Enriched uranium	$ 8,369,330	$ 9,089,487	$ 8,277,039
Fabrication	1,598,340	1,810,537	1,435,826
AFUDC	249,225	167,126	8,011
	10,216,895	11,067,150	9,720,926
Provision for current core spent fuel disposal	1,135,618	1,176,164	1,263,886
Fuel expense	$11,352,513	$12,243,314	$10,984,812

Under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the United States Department of Energy (DOE), under which it is required to pay a fee of 1.0 mill per kilowatt hour for net electricity generated after April 6, 1983, in exchange for DOE services in disposing of the spent nuclear fuel used to generate that electricity.

On June 30, 1985, the Company elected to pay a lump-sum amount of $13,206,630 to the DOE to satisfy its contractual liability for disposal of nuclear fuel used prior to April 7, 1983. As a result, the Company reversed and refunded an interest accrual of $2,323,429 previously billed to its customers. In addition, the Company amortized to operations expense its remaining balance of unbilled spent fuel disposal costs, amounting to $8,415,317 at December 31, 1984 and recognized certain tax benefits not previously recognized. (See Note F.)

Note C—Restrictions on Retained Earnings Available for Dividends on Common Stock:

Pursuant to restrictions contained in the Loan Agreements, $4,660,000 of the Company's retained earnings at December 31, 1987 were restricted as to dividends on common stock.

Note D—Long-Term Debt:

	December 31,		
	19	1986	1985
Term loans:			
Due through March 31, 1991, at varied interest rates	$18,000,000	$20,000,000	$14,000,000
Due through June 30, 1990, at varied interest rates	13,312,500	13,312,500	13,312,500
8¼% installment note	—	1,900,000	3,700,000
Total	31,312,500	35,212,500	31,012,500
Less long-term debt due within one year	4,984,500	3,400,000	1,800,000
Long-term debt, net	$26,328,000	$31,812,500	$29,212,500

Interest rates on the term loans are variable and are set, at the Company's election, at either the banks' prime rate or the London Interbank Offered Rate, plus a fraction thereof.

The weighted average interest rates on year-end, long-term borrowings were 9.4%, 9.3%, and 10.4% for 1987, 1986, and 1985, respectively. The weighted average interest rates during 1987, 1986, and 1985, based on average month-end balances, were 9.3%, 10.1%, and 10.9%, respectively.

The term loan agreements are secured by the collateral assignment of all the Company's rights under the customer power contracts. There are no compensating balance or monthly commitment fee requirements.

The aggregate principal amounts of long-term debt scheduled for repayment in each of the four years following December 31, 1987 are $4,984,500, $8,328,000, $10,000,000, and $8,000,000, respectively.

Note E—Short-Term Debt:

The Company has lines of credit with banks aggregating $25,000,000. Interest on borrowings is set at the banks' prime rate or the London Interbank Offered Rate plus a fraction thereof at the time of the advance. In lieu of compensating balance requirements, the Company is obligated to pay a commitment fee.

The Company has been authorized by the Securities and Exchange Commission to issue and sell up to $25,000,000 of short-term notes and/or commercial paper through December 31, 1988. The Company generally utilizes commercial paper, supported by its lines of credit, to finance construction projects or meet general working capital requirements.

Information regarding short-term borrowings is summarized in the following table.

	1987	1986	1985
Bank notes payable at year-end	$5,000,000	$ —	$ —
Commercial paper outstanding at year-end	$ —	$ —	$ 5,900,000
Maximum amount of borrowings at any month-end	$7,355,000	$12,850,000	$12,200,000
Weighted monthly average borrowings outstanding during the year	$3,209,000	$ 3,458,000	$ 6,435,000

Note E—Short-Term Debt (continued):

The weighted average interest rates on year-end, short-term borrowings were 9.6% and 8.9%, for 1987 and 1985, respectively. The weighted average interest rates during 1987, 1986, and 1985, based on average month-end balances, were 8.2% 7.8%, and 7.5%, respectively.

Note F—Federal Income Taxes:

Federal income taxes consist of the following components.

	1987	1986	1985
Current income taxes	$ 4,865,638	$ 3,137,156	$ 2,997,870
Deferred income taxes	(9,377,358)	(3,119,257)	(4,323,711)
Investment tax credits—net	(1,321,665)	(1,430,014)	432,260
	$(5,833,385)	$(1,412,115)	$ (893,581)

Investment tax credits—net reflect increases or decreases in federal income taxes attributable to such investment tax credits which have been deferred and amortized.

The Company has adopted comprehensive interperiod tax allocation (normalization) consistent with regulatory accounting. The following table details the components of deferred federal income taxes.

	1987	1986	1985
Provision for plant decommissioning	$(2,296,402)	$(3,814,787)	$(1,266,721)
Provision for decommissioning refunds	(5,894,262)	2,555,680	667,620
Allowance for funds used during construction	67,809	(53,456)	261,815
Excess book depreciation and fuel amortization	(918,613)	(1,806,694)	(1,014)
Other	(335,890)	—	—
Provision for spent fuel disposal	—	—	(3,985,411)
	$(9,377,358)	$(3,119,257)	$(4,323,711)

The tax effect of the cumulative amount of timing differences at December 31, 1987 for which deferred income taxes have not been provided is not material. Total federal income taxes differ from the amounts computed by applying the statutory tax rate to income before taxes. The reasons for the differences are as follows:

	1987	1986	1985
Computed tax at statutory rate	$(1,131,765)	$ 707,937	$ 1,250,614
Increase (reduction) in tax resulting from:			
Amortization of investment tax credits	(1,374,172)	(1,627,407)	(1,306,240)
Decommissioning refunds	(3,536,557)	(1,268,706)	—
Provision for decommissioning	—	237,935	363,432
Provision for spent fuel disposal	—	—	(1,578,024)
All other	209,109	538,126	376,637
Federal income tax provisions (including $(82,853), $165,758, and $72,267 (credited) charged to other income)	$(5,833,385)	$(1,412,115)	$ (893,581)
Effective federal income tax rate	(206.2%)	(91.8%)	(32.9%)

Note F—Federal Income Taxes (continued):

In 1981, the Company established a Decommissioning Trust fund. (See Note G.) Consistent with 1984 federal tax legislation, the Company has amended the original Trust to comply with the new legislative requirements for a decommissioning tax deduction. The Company has filed for approval from the IRS, and has reflected a federal tax benefit of $475,870 through 1987.

Beginning in April 1985, in accordance with regulatory approval, the Company began recording deferred federal income tax benefits on that portion of decommissioning expense which is not currently deductible for federal tax purposes. This amounted to $7,500,656 at December 31, 1987.

In January 1986, the United States Court of Appeals for the Federal Circuit reaffirmed a lower court decision that decommissioning revenues collected from January 1981 through June 1984 were not taxable to the Company. The IRS did not appeal this decision, and, as a result, the Company expects to receive total federal tax benefits of approximately $8,244,000 plus interest. Of this amount, $3,223,000 and $2,350,000, plus interest, have been received from the IRS during 1987 and 1986, respectively. These amounts, together with $2,671,000 not yet received from the IRS, have been refunded to customers in accordance with regulatory requirements.

As discussed in Note B, in 1985, the Company made a lump-sum payment of $13,206,630 to the DOE for disposal of spent fuel produced prior to April 7, 1983. Concurrently, the Company recognized $1,578,024 of federal tax benefits not previously recorded.

Federal income tax returns for the Company have been examined and reported on by the IRS through 1981. Tax years ending December 31, 1982 and 1983 have also been examined and are pending final resolution.

Note G—Decommissioning:

In April 1985, the Federal Energy Regulatory Commission approved a revised decommissioning rate schedule filed by the Company. The revised schedule allows the Company to collect $5,741,000 annually during the period from April 1, 1985 through its plant license expiration date of November 4, 1997. This will allow the Company to collect $68,000,000 from customers (in 1984 dollars) to provide for decommissioning of the Yankee plant.

Funds collected are being deposited in an irrevocable trust, maintained by a commercial bank, with principal and interest to be used exclusively to discharge future decommissioning obligations as incurred. Components of the Decommissioning Trust are set forth in the following table.

	December 31,	
	1987	1986
Cash	$ 167,984	$ 28,287
Accounts receivable	890,320	897,032
Investments	25,282,049	20,723,751
Bank fees payable	(13,950)	(1,250)
Decommissioning Trust assets, net	$26,326,403	$21,647,820

Decommissioning Trust investments are invested in federal and state guaranteed securities, valued at cost which approximates market. At December 31, 1987, deferred federal income taxes included $7,500,656, which represented federal income taxes paid on decommissioning collections which will be recovered when the Yankee plant is decommissioned and the decommissioning expenses become deductible. The Trust received $1,271,196 in interest income, net, during 1987, which has been included in the balance sheet as an increase to both the Decommissioning Trust assets and the Decommissioning Reserve.

Note H—Retirement Plans:

The Company has noncontributory defined benefit pension plans covering substantially all employees. The Company's funding policy is to fund the net periodic pension cost, but never less than the minimum required contribution under ERISA nor more than the maximum deductible contribution as determined under the Internal Revenue Code.

In December 1987, the Company implemented, retroactive to January 1, 1987, the principles of "Statement of Financial Accounting Standards No. 87—Employers' Accounting for Pensions" (SFAS No. 87). Accordingly, the Company changed its actuarial method from the entry age method to the projected unit credit method. The net effect of the change was not significant.

The Company participates in the plans with subsidiaries of New England Electric System (the System). As of January 1, 1987, the effective date for the adoption of SFAS No. 87, plan assets are stated at fair market value. In future years, pension cost will be determined using a market-related value of assets.

The following table sets forth the System plans' funded status at December 31, 1987.

Actuarial present value of:	
Accumulated benefit obligation:	
Vested portion	$334,636,000
Nonvested portion	13,667,000
Total	$348,303,000
Projected benefit obligation	$411,753,000
Plan assets at fair value	424,922,000
Projected benefit obligation less than plan assets	(13,169,000)
Unrecognized net loss	(7,638,000)
Unrecognized net asset from initial application of SFAS No. 87	21,801,000
Net accrued pension liability	$ 994,000

The Company's allocated share of the net accrued pension liability at December 31, 1987 is $289,295.

The actuarial present value of vested and nonvested accumulated plan benefits as of April 1, 1986, were $287,940,000 and $5,696,000, respectively; net assets available for plan benefits amounted to $377,097,000. Plan assets are comprised primarily of guaranteed insurance contracts and corporate equity and debt securities.

Total pension cost charged principally to operating expenses of both the Yankee plant and the Nuclear Services Division, was $789,000 in 1987, $772,000 in 1986, and $740,000 in 1985. The components of the 1987 cost are as follows:

Service cost benefits earned during the period	$ 1,157,363
Interest cost on projected benefit obligation	1,701,362
Less actual return on plan assets	(1,311,130)
Net amortization and deferral	(469,300)
Deferred pension cost	(289,295)
Net periodic pension cost	$ 789,000

Assumptions used to determine pension costs were:	
Discount rate	8.5%
Rate of increase in future compensation levels	7.7%
Expected long-term rate of return on assets	9.0%

Note H—Retirement Plans (continued):

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for these benefits if they reach retirement age while working for the Company. Effective January 1, 1987, the Company accrues these benefits over the remaining work lifetime of those employees expected to qualify for such benefits. Accrued costs, which were $757,000 in 1987, are deposited in a trust, with principal and interest used exclusively to provide for post-retirement health care and life insurance benefits. Prior to 1987, the costs of these benefits were recognized as claims were paid. In 1986 and 1985, these costs totalled $57,000 and $33,000, respectively.

Note I—Rate Proceedings:

In March 1987, the Federal Energy Regulatory Commission (FERC) instituted a review of the Company's 14.5% rate of return on equity. On July 6, 1987, the Administrative Law Judge issued an initial decision in which he concluded that the Company's rate of return on equity was just and reasonable. On September 30, 1987, the FERC reversed the initial decision and ordered the Company to reduce its rate of return on equity to 12%. In addition, the FERC ordered the Company to include a retrospective equity reopener clause in the Company's power contract.

On October 23, 1987, the Company filed a request for rehearing. The FERC has not yet ruled on the Company's request for a rehearing. Any change in the Company's rate of return on equity will be prospective.

Note J—Commitments and Contingencies:

1. The Company has requirements contracts for the purchase, conversion, enrichment, and fabrication of nuclear fuel. Approximately $8,081,000, relating to these contracts, is scheduled to be paid in 1988.

The Company has contracted for uranium through the year 1999. The Company is committed under a long-term purchase contract to make minimum payments aggregating $3,217,000. At December 31, 1987, the total commitment under this contract is estimated to be:

	Minimum
1988	$1,485,000
1989	1,485,000
1990	247,000
Later years	—
Total	$3,217,000

2. The Company maintains the maximum amount of public nuclear liability insurance, currently $160,000,000 available from private insurers. A federal statute, the Price-Anderson Act, mandates an industry-wide program under which nuclear facilities could be assessed in the event that a nuclear incident resulted in damages exceeding the $160,000,000 of private coverage. Under this Act, each nuclear reactor may be assessed a retrospective insurance premium of up to $5,000,000 for each nuclear incident within the United States. In the event of more than one incident per year, the maximum annual assessment per reactor is $10,000,000. Under the billing provisions of the power contracts, the retrospective insurance premium would be includable in the cost of power. The Price-Anderson Act expired on August 1, 1987 for reactors coming into service after that date; however, the provisions of Price-Anderson continue to apply to any activity covered by an existing indemnity agreement. Legislation is pending in the Congress which would amend or modify the Act, but the Company cannot predict what final action the Congress will take or what effect any such amendment or modification would have on the Company.

Note J—Commitments and Contingencies (continued):

3. At December 31, 1987 and 1986, the Company had leases covering its office facilities, certain equipment and vehicles. Such rentals are included in and recovered through the billings of the Nuclear Services Division and, therefore, have no effect on net income. In the normal course of business, the Company expects that as leases expire they will be renewed or replaced by other leases.

Estimated future annual lease payments, exclusive of taxes and insurance, are as follows:

1988	$ 2,324,000
1989	2,285,000
1990	1,758,000
1991	1,541,000
1992	1,541,000
Later years	4,623,000
Total	$14,072,000

Rental payments charged to operating expense amounted to $2,034,000 in 1987, $1,991,000 in 1986, and $1,859,000 in 1985.

4. The Nuclear Services Division of the Company has provided technical services to the joint-owners of the Seabrook nuclear plant in support of design and construction of that facility. This facility has been subject to substantial delays in its scheduled completion, and to significant increases in costs. The joint-owners have applied to the Nuclear Regulatory Commission to obtain a license for operation of Seabrook Unit 1. (Seabrook Unit 2 has been cancelled.) Such licensing has been delayed primarily due to the refusal of certain towns and the Commonwealth of Massachusetts to participate in developing evacuation plans for the six Massachusetts towns which are within a ten-mile radius of the Seabrook facility.

On January 28, 1988, Public Service Company of New Hampshire filed for protection under Chapter 11 of the Bankruptcy Code. This fact could also serve to delay licensing of the Seabrook plant by the Nuclear Regulatory Commission. The bankruptcy is not expected to have a material impact upon the Company's ability to continue to receive payment for services rendered to the Seabrook project.

On February 2, 1987 joint owners of the facility and certain contractors, including the Company, who have provided services to the joint-owners, entered into a Standstill Agreement. Under this Agreement, the signatories agreed to refrain until at least October 31, 1988 from claims against other signatories as to potential damages relating to the design, engineering, construction, or management of the facility, subject to certain terms, conditions, and exceptions. The running of any statutes of limitation is suspended during this specified period of time. The signatories agreed to allow certain discovery to proceed under a specified schedule and that discovery has commenced.

The Company believes that claims potentially could be asserted against the contractors, including the Company, by one or more of the joint-owners. Management is unable to predict the outcome of such unasserted claims, and it is possible that resolution of such unasserted claims could have a significant effect on the financial position and operations of the Company. However, based in part on consultations with legal counsel, management is not aware of any legitimate basis for such unasserted claims against the Company. Management believes that the Company's position is strong and that any such claims will be vigorously contested by the Company.

5. The Company expects that a binding referendum to shut down operating commercial nuclear power plants in Massachusetts will be placed on the ballot as an initiative petition in November 1988. The Company plans to take vigorous action to defeat the referendum. If the referendum is passed by the electorate, the final outcome will likely be decided by the courts.

6. The Company, in common with other utilities, is subject to current and future regulations relative to nuclear power plant licensing.

Officers of the Company

EDWARD A. BROWN,
Chairman

LOUIS H. HEIDER,
Vice President

KIRK L. RAMSAUER,
Clerk

ARMAND R. SOUCY,
Treasurer and Chief Financial Officer

JAMES E. TRIBBLE,
President and Chief Executive Officer

JOHN DEVINCENTIS,
Vice President

ANDREW C. KADAK,
Vice President

Board of Directors

EDWARD A. BROWN, *Chairman of the Company; Chairman and Chief Executive Officer, New Hampshire Yankee Electric Corporation*

WILLIAM F. BURT, *Assistant to the Chief Executive Officer, COM/Energy Services Company*

JOHN F. G. EICHORN, JR., *Chairman and Chief Executive Officer, Eastern Utilities Associates*

BERNARD M. FOX, *President and Chief Operating and Financial Officer, Northeast Utilities*

FREDERIC E. GREENMAN, *Senior Vice President General Counsel and Secretary, New England Electric System*

ROBERT J. HARRISON, *President and Chief Executive Officer, Public Service Company of New Hampshire*

THOMAS J. MAY, *Senior Vice President and Treasurer, Boston Edison Company*

JOHN F. OPEKA, *Executive Vice President, Engineering and Operations, Northeast Utilities Service Company*

JOHN B. RANDAZZA, *Vice President, Nuclear Resources, Central Maine Power Company*

JEFFREY D. TRANEN, *Vice President, New England Power Company*

JAMES E. TRIBBLE, *President and Chief Executive Officer of the Company*

THOMAS C. WEBB, *President and Chief Executive Officer, Central Vermont Public Service Corporation*