VERMONT YANKEE
NUCLEAR POWER CORPORATION
185 OLD FERRY ROAD, PO BOX 7002, BRATTLEBORO, VT 05302-7002
(802) 257-5271

April 29, 2002
BVY 02-28

U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, D.C. 20555

Subject: **Vermont Yankee Nuclear Power Station**
License No. DPR-28 (Docket No. 50-271)
Vermont Yankee Nuclear Power Corporation - 2001 Annual Financial Report

In accordance with 10CFR50.71(b), attached is a copy of Vermont Yankee Nuclear Power Corporation's 2001 annual financial report including certified financial statements.

We trust that the information provided is adequate; however, should you have questions or require additional information, please contact Mr. John J. Boguslawski at (802) 258-4136.

Sincerely,

VERMONT YANKEE NUCLEAR POWER CORPORATION

Gautam Sen

Gautam Sen
Licensing Manager

Attachment
cc: USNRC Region 1 Administrator
USNRC Resident Inspector – VYNPS
USNRC Project Manager – VYNPS
Vermont Department of Public Service

M004

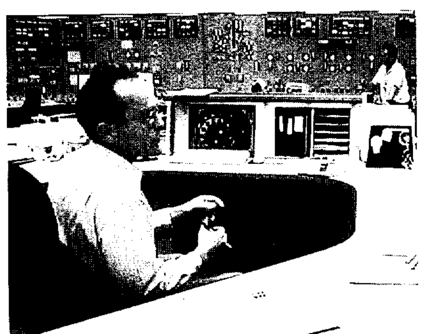
SUMMARY OF VERMONT YANKEE COMMITMENTS

BVY NO.: 02-28 Vermont Yankee Nuclear Power Corporation - 2001 Annual Financial Report

The following table identifies commitments made in this document by Vermont Yankee. Any other actions discussed in the submittal represent intended or planned actions by Vermont Yankee. They are described to the NRC for the NRC's information and are not regulatory commitments. Please notify the Licensing Manager of any questions regarding this document or any associated commitments.

COMMITMENT	COMMITTED DATE OR "OUTAGE"
None	N/A

Vermont Yankee Nuclear Power Corporation 2001 Annual Report



Vermont Yankee 2001 Annual Report

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Vermont Yankee Nuclear Power Corporation

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President's Letter

Vermont Yankee began the year 2001 in a maelstrom of sale activity. In February, after having spent much of the previous year hearing testimony on the proposed $23.5 million sale to AmerGen, the Vermont Public Service Board formally rejected the AmerGen sale proposal as being too low. Following an auction process administered by JPMorgan, Vermont Yankee and the Entergy Nuclear Corporation signed a purchase agreement to sell the plant for $180 million on August 15. During the auction process, news teams from The New York Times, The Washington Post, Chicago Tribune, ABC "World News" and others focused on Vermont Yankee as a prime example of a well-run nuclear plant aggressively being sought for acquisition by several major nuclear operators.

On April 27, Vermont Yankee shut down for a scheduled refueling outage, concluding the most productive cycle in the company's history, having generated more than 6.3 billion kilowatt hours and achieving a 101.8% cycle reliability. At the beginning of the outage, VY performed a noble metals chemical injection as the first phase of a hydrogen water chemistry project. The project is an important factor in the long-term operating strategy of the plant. Other significant outage projects included turbine valve inspections and refurbishing, repairs to the #2 feedwater heaters, a comprehensive internal inspection of the main and auxiliary transformers, and successful refueling. When VY rejoined the New England power grid on May 20, it concluded the best refueling/maintenance outage in company history — 23 days, 7 hours, 1 minute — shorter by 11 days than any similar outage. Focus on integrated planning and scheduling was a major contributor to the accomplishment. VY's commitment to safety and quality was reflected in achievement of all six outage goals encompassing safety, quality, duration, radiation exposure and cost.

Throughout the auction process, successful negotiation of a three-year union contract, the tragic events of September 11 and the heightened security that followed, VY employees remained focused on the safe, efficient operation of the plant. The plant's year-end capacity factor was the best ever for a year with a refueling outage and its fifth best overall. The plant was available 93% of the time and a new maximum generation record for a year with a refueling outage was set by generating 4,171,120 net megawatts electric. In addition, a new record was set for the lowest average personnel radiation exposure in a year with a refueling outage. All in all, 2001 was a banner year for Vermont Yankee.

On a personal note, 2001 was my last full year at Vermont Yankee. Although I will continue to serve as president and chief executive officer through the expected closing of the Entergy sale in July, I formally retired as a Vermont Yankee employee effective March 15, 2002. I have greatly enjoyed the past six years, and it has truly been a privilege to work with VY's board of directors and the men and women whose dedication to excellence has made Vermont Yankee one of the finest plants in the U.S. nuclear fleet. We have accomplished a lot together since 1996 and I will always have great memories of my years here in Vermont. I wish all of you the very best in the years to come.

Ross P Barkhurst

Ross P. Barkhurst

Description of Business

Vermont Yankee Nuclear Power Corporation ("the Company") was incorporated under the laws of the State of Vermont on August 4, 1966. The Company was formed by a group of New England utilities to construct and operate a nuclear-powered generating plant ("the Plant").

The Plant commenced commercial operation on November 30, 1972, and except during maintenance and refueling outages, has been in full operation since that time. The Plant is licensed by the Nuclear Regulatory Commission to operate until March 21, 2012.

Located on the west bank of the Connecticut River in Vernon, Vermont, the facility has a gross maximum dependable capacity of approximately 535 megawatts. The common stock of Vermont Yankee is owned by twelve utilities (on January 16, 2002, the Company repurchased the shares of the four non-Sponsor owners, leaving eight remaining owners), eight of which are the Sponsoring utilities that are entitled and obligated to purchase the output of the Plant.

Under the terms of certain Power Contracts and Additional Power Contracts (collectively, the "Power Contracts"), each Sponsor is obligated to pay Vermont Yankee monthly, regardless of the Plant's operating level, or whether or not it is operating, an amount equal to its entitlement percentage of Vermont Yankee's total fuel costs, operating expenses, decommissioning costs and an allowed return on equity. Also, under the terms of the Capital Funds Agreements, the Sponsors are committed to make funds available for changes or replacements needed to maintain or restore operation of the Plant or to obtain or maintain licenses necessary for its operation. The names of the Sponsors and their respective entitlement percentages of Vermont Yankee's capacity and output are as follows:

Sponsor	Entitlement Percentage
Central Vermont Public Service Corporation	35.0%
New England Power Company	22.5
Green Mountain Power Corporation	20.0
The Connecticut Light and Power Company	9.5
Central Maine Power Company	4.0
Public Service Company of New Hampshire	4.0
Cambridge Electric Light Company	2.5
Western Massachusetts Electric Company	2.5
	100.0%

See Note 1 to the Financial Statements for discussion on the possible sale of the Plant and related assets and liabilities.

Comparative Highlights

	2001	2000	% Change
Financial (Dollars in millions):			
Operating revenues	**$178.8**	$178.3	0.3
Net income	**6.1**	6.6	(7.0)
Total assets	**723.8**	707.0	2.4
Average number of shares of common stock outstanding (thousands)	**392.5**	392.5	0.0
Per Share of Common Stock:			
Basic earnings per common share	**$15.59**	$16.77	(7.0)
Dividends paid per common share	**15.96**	15.77	1.2
Book value per common share (year-end)	**138.03**	138.40	(0.3)
Operating:			
Kilowatt-hour sales (billions)	**4.17**	4.55	(8.3)
Cost per kilowatt-hour (cents)	**4.29**	3.92	9.4

Common Stock Ownership at 12/31/01

Stock Owner	Percentage Owned	Shares Owned
Central Vermont Public Service Corporation	31.3%	122,653
New England Power Company	22.5	88,203
Green Mountain Power Corporation	17.9	70,088
The Connecticut Light and Power Company	9.5	37,242
Central Maine Power Company	4.0	15,681
Public Service Company of New Hampshire	4.0	15,681
Burlington Electric Department*	3.6	14,301
Cambridge Electric Light Company	2.5	9,801
Western Massachusetts Electric Company	2.5	9,800
Vermont Electric Cooperative, Inc.*	1.0	4,213
Washington Electric Cooperative, Inc.*	0.6	2,431
Village of Lyndonville Electric Department*	0.6	2,387
	100.0%	392,481

* On January 16, 2002, the Company repurchased the shares of these non-Sponsor owners.

Financial Review

Operating revenues of the Company are billed and received from its Sponsors based on the terms of the Power Contracts. Under those contracts, the Sponsors are severally required to pay the Company an amount equal to their respective entitlement share of the Company's total fuel and operating expenses, return on net unit investment and an amount designated to meet anticipated decommissioning costs at the end of the nuclear electric generating plant's useful life.

The Company continued its run of operating success in 2001. The plant produced 4,171,120 net megawatt hours of electricity during the year corresponding to an overall capacity factor of 93.4% (net maximum design capability). Both results are records for a year with a refueling outage. This performance comes on the heels of the record setting performance for a year without a refueling outage in 2000 when the plant produced a record 4,548,065 net megawatt hours of electricity corresponding to a record capacity factor of 101.5%.

The plant shuts down to refuel approximately every 18 months. The last refueling prior to 2001 was completed in December 1999. When the plant shutdown to refuel in April 2001, it marked the end of the most productive operating cycle in the company's history with more than 6.3 billion kilowatt hours of electricity produced and cycle reliability in excess of 100%.

The refueling outage itself was record setting. The well planned and executed outage lasted a total of just over 23 days, or about 11 days shorter than the prior best for a similar outage. It was also the lowest cost outage in more than 15 years, finishing nearly $3 million under budget.

Operating revenues increased in 2001 from 2000 by $0.5 million, or 0.3%, primarily due to higher maintenance and other operating expenses associated with the refueling and maintenance outage in 2001. There was no refueling and maintenance shutdown in 2000. Several other items largely offset the impact of the 2001 cost of the refueling and maintenance shutdown.

Nuclear fuel expense decreased by $3.4 million in 2001 from 2000 as a result of less generation in 2001 due to the refueling outage, and a favorable sales tax decision involving nuclear fuel. Decommissioning expense decreased by $4.5 million as a result of a revised collection schedule included in a settlement agreement approved by the Federal Energy Regulatory Commission (FERC) in 2001. The FERC approved settlement agreement also included a provision allowing the deferral of costs associated with the potential sale of the plant. While all costs incurred during 2001 related to the sale were deferred, operating costs for 2000 included approximately $3.0 million of sale related expenditures.

Other income, net of associated income tax, increased by $1.1 million in 2001 from 2000 due to higher after-tax earnings on the fixed income investments in the Spent Fuel Disposal Trust. Total interest expense decreased by $2.6 million in 2001 from 2000 as a result of the lower prevailing interest rates in 2001. This is particularly noteworthy for the DOE spent fuel disposal obligation where the applicable interest rate dropped from 6.257% at the end of 2000 to 2.364% at the end of 2001.

Net income, computed in accordance with the Company's formula rate approved by the Federal Energy Regulatory Commission ("FERC") decreased by approximately $0.5 million in 2001 from 2000.

Report of Independent Public Accountants

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

We have audited the accompanying balance sheets of Vermont Yankee Nuclear Power Corporation as of December 31, 2001 and 2000, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Yankee Nuclear Power Corporation as of December 31, 2001 and 2000, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with generally accepted accounting principles in the United States.

Arthur Andersen L.L.P.

Boston, Massachusetts
January 24, 2002

Statements of Income and Retained Earnings

	Years ended December 31,		
	2001	**2000**	**1999**
	(In thousands except per share data)		
Operating revenues	**$178,840**	$178,294	$208,812
Operating expenses:			
Nuclear fuel expense (NOTES 5 and 9)	**17,527**	20,907	18,834
Other operating expense	**79,699**	79,565	94,694
Maintenance expense	**32,180**	19,724	40,232
Depreciation and amortization expense	**14,751**	14,349	15,973
Decommissioning expense (NOTES 3 and 4)	**11,764**	16,245	12,559
Taxes on income (NOTE 10)	**2,227**	2,031	1,903
Property and other taxes	**8,709**	9,329	9,685
Total operating expenses	**166,857**	162,150	193,880
Operating income	**11,983**	16,144	14,932
Other income (expense):			
Net earnings on decommissioning trust (NOTES 4 and 6)	**28,704**	11,271	8,864
Decommissioning expense (NOTE 4)	**(28,704)**	(11,271)	(8,864)
Earnings on spent fuel disposal trust (NOTE 6)	**8,214**	6,255	4,748
Taxes on other income (NOTE 10)	**(2,839)**	(2,257)	(1,669)
Other, net	**(447)**	(169)	(116)
Total other income	**4,928**	3,829	2,963
Income before interest expense	**16,911**	19,973	17,895
Interest expense:			
Interest on long-term debt	**6,330**	6,835	6,736
Interest on spent fuel disposal fee obligation (NOTE 9)	**4,717**	6,577	4,953
Allowance for borrowed funds used during construction	**(255)**	(22)	(265)
Total interest expense	**10,792**	13,390	11,424
Net income	**6,119**	6,583	6,471
Retained earnings at beginning of year	**1,224**	830	1,546
	7,343	7,413	8,017
Dividends declared	**6,265**	6,189	7,187
Retained earnings at end of year	**$1,078**	$1,224	$830
Average number of shares outstanding	**392**	392	392
Net income per share of common stock outstanding	**$15.59**	$16.77	$16.49
Dividends per share of common stock outstanding	**$15.96**	$15.77	$18.31

See accompanying notes to financial statements.

Balance Sheets

Assets

	December 31, 2001	December 31, 2000
	(Dollars in thousands)	
Utility plant:		
Electric plant, at cost (NOTE 7):	$430,020	$420,640
Less accumulated depreciation	308,302	295,773
	121,718	124,867
Construction work in progress	5,034	8,121
Net electric plant	126,752	132,988
Nuclear fuel, at cost:		
Assemblies in reactor	69,148	69,016
Assemblies in process	708	12,914
Spent fuel	386,030	372,101
	455,886	454,031
Less accumulated amortization of burned nuclear fuel	425,961	414,532
	29,925	39,499
Less accumulated amortization of final core nuclear fuel	12,773	11,888
Net nuclear fuel	17,152	27,611
Net utility plant	143,904	160,599
Long-term investments, at fair market value:		
Decommissioning trust (NOTES 4, 6, 8 and 15)	297,059	281,704
Spent fuel disposal trust (NOTES 6, 8 and 9)	116,514	109,239
Total long-term investments	413,573	390,943
Current assets:		
Cash and cash equivalents	4	775
Accounts receivable from sponsors	13,848	16,074
Other accounts receivable	2,022	1,729
Materials and supplies, net of amortization	16,421	15,762
Prepaid expenses	3,049	2,847
Total current assets	35,344	37,187
Deferred charges:		
Deferred decommissioning costs (NOTES 4 and 15)	31,811	25,407
Deferred low-level waste facility expenses (NOTES 5 and 14)	25,673	25,830
Accumulated deferred income taxes (NOTE 10)	41,307	37,012
Deferred design basis documentation costs (NOTE 5)	16,395	17,807
Deferred DOE enrichment site decontamination and decommissioning fee (NOTE 5)	7,409	8,473
Net unamortized loss on reacquired debt	1,425	1,606
Other deferred charges (NOTES 3, 5 and 6)	6,974	2,120
Total deferred charges	130,994	118,255
	$723,815	$706,984

See accompanying notes to financial statements.

Balance Sheets

Capitalization and Liabilities

	December 31, 2001	December 31, 2000
	(Dollars in thousands)	
Capitalization:		
Common stock equity:		
Common stock, $100 par value; authorized 400,100 shares; issued 400,014 shares of which 7,533 are held in Treasury	**$40,001**	$40,001
Additional paid-in capital	**14,226**	14,226
Treasury stock (7,533 shares at cost)	**(1,130)**	(1,130)
Retained earnings	**1,078**	1,224
Total common stock equity	**54,175**	54,321
Long-term obligations, net (NOTES 7 and 8)	**54,173**	59,591
Total capitalization	**108,348**	113,912
Commitments and contingencies (NOTES 4, 13 and 14)		
Spent fuel disposal fee and accrued interest (NOTES 8 and 9)	**120,068**	115,351
Current liabilities:		
Accounts payable	**2,086**	3,185
Accrued expenses (Note 2)	**10,728**	13,403
Accrued low-level waste expenses (NOTES 3 and 14)	**4,541**	4,858
Accrued taxes	**1,629**	2,360
Accrued interest	**1,419**	2,218
Current maturities of long-term debt (NOTE 7)	**5,418**	36,393
Revolving credit agreement debt (NOTE 7)	**27,540**	-
Other current liabilities	**10,721**	9,739
Total current liabilities	**64,082**	72,156
Deferred credits and other liabilities:		
Accrued decommissioning costs (NOTE 4)	**349,903**	321,409
Accumulated deferred income taxes (NOTE 10)	**34,023**	36,561
Accrued low-level waste facility expenses (NOTES 5 and 14)	**23,070**	23,226
Accrued DOE enrichment site decontamination and decommissioning fee (NOTE 5)	**5,157**	6,280
Accrued employee benefits (NOTE 12)	**12,654**	10,885
Net regulatory tax liability (NOTE 10)	**3,641**	3,982
Accumulated deferred investment tax credits	**2,869**	3,222
Total deferred credits and other liabilities	**431,317**	405,565
	$723,815	$706,984

See accompanying notes to financial statements.

Statements of Cash Flows

	2001	2000	1999
	Years ended December 31, (Dollars in thousands)		
Cash flows from operating activities:			
Net income	**$6,119**	$6,583	$6,471
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of nuclear fuel	**13,753**	15,423	13,845
Depreciation and amortization	**14,751**	14,349	15,973
Decommissioning expense	**11,764**	16,245	12,559
Deferred tax expense	**(7,175)**	(8,692)	(6,424)
Amortization of deferred investment tax credits	**(353)**	(666)	(545)
Nuclear fuel disposal fee interest accrual	**4,717**	6,577	4,953
Interest and dividends on spent fuel disposal trust	**(7,275)**	(7,714)	(3,383)
(Increase) decrease in accounts receivable	**1,933**	150	(1,090)
(Increase) decrease in prepaid expense	**(203)**	311	683
(Increase) decrease in materials and supplies inventory	**(659)**	981	(593)
Increase (decrease) in accounts payable and accrued liabilities	**(3,109)**	(12,526)	15,347
Increase (decrease) in interest and taxes payable	**(1,529)**	1,403	(710)
Other	**5,851**	2,596	(1,728)
Total adjustments	**32,466**	28,437	48,887
Net cash provided by operating activities	**38,585**	35,020	55,358
Cash flows from investing activities:			
Electric plant additions and retirements	**(6,923)**	(5,292)	(10,686)
Nuclear fuel additions	**(3,294)**	(12,914)	(20,785)
Payments to decommissioning trust	**(14,022)**	(16,454)	(12,898)
Net cash used for investing activities	**(24,239)**	(34,660)	(44,369)
Cash flows from financing activities:			
Dividend payments	**(6,264)**	(6,189)	(7,187)
Series I Bonds Sinking Fund Payments	**(5,418)**	(5,418)	(5,418)
Payments of long-term obligations	**(423,709)**	(323,050)	(328,000)
Borrowings under long-term agreements	**420,274**	327,102	337,493
Net cash used for financing activities	**(15,117)**	(7,555)	(3,112)
Net increase (decrease) in cash and cash equivalents	**(771)**	(7,195)	7,877
Cash and cash equivalents at beginning of year	**775**	7,970	93
Cash and cash equivalents at end of year	**$4**	$775	$7,970

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1. Nature of Business and Possible Sale of Assets

Vermont Yankee Nuclear Power Corporation ("the Company") was incorporated under the laws of the State of Vermont on August 4, 1966. The Company was formed by a group of New England utilities for the purpose of constructing and operating a nuclear-powered electric generating plant ("the Plant"). As of December 31, 2001, the Company's common stock was owned by twelve utilities, eight of which are the Sponsoring utilities that are entitled and obligated to purchase the output of the Plant. On January 16, 2002, the Company repurchased the shares of the four non-Sponsor owners. Under the terms of certain Power Contracts and Additional Power Contracts (collectively, the "Power Contracts"), each Sponsor is obligated to pay Vermont Yankee monthly, regardless of the Plant's operating level, or whether or not it is operating, an amount equal to its entitlement percentage of Vermont Yankee's total fuel costs, operating expenses, decommissioning costs and an allowed return on equity. Also, under the terms of the Capital Funds Agreements, the Sponsors are committed to make funds available for changes or replacements needed to maintain or restore operation of the Plant or to obtain or maintain licenses necessary for its operation.

The names of the sponsoring utilities and their respective entitlement percentages of Vermont Yankee's capacity and output are as follows: Central Vermont Public Service Corporation with 35.0%, New England Power Company with 22.5%, Green Mountain Power Corporation with 20.0%, The Connecticut Light and Power Company with 9.5%, Central Maine Power Company with 4.0%, Public Service Company of New Hampshire with 4.0%, Cambridge Electric Light Company with 2.5%, and Western Massachusetts Electric Company with 2.5% ("the Sponsors").

The Plant commenced commercial operation on November 30, 1972, and except during maintenance and refueling outages, has been in full operation since that time. The Plant has a gross maximum dependable capacity of approximately 535 megawatts and is licensed by the Nuclear Regulatory Commission to operate until March 21, 2012, though there is no assurance that it will do so. Other nuclear plants, including some in the Northeast with similar ownership structures, have been shut down prior to the end of their license life for economic reasons. The Federal Energy Regulatory Commission, which regulates the rates charged by the Company under the Power Contracts, has allowed plants that are shut down prematurely for economic reasons to recover the as yet unrecovered costs at the time of the shut down, if it is determined that the decision to shut down was prudent. These unrecovered costs include undepreciated plant and unfunded nuclear decommissioning costs. The Company prepares periodic economic studies. Study results to date have determined that it is economical to continue to operate the plant.

In November 1999 the Company had executed an agreement to sell the Plant and related assets and liabilities, including the liability to decommission the Plant, to AmerGen Energy Company, LLC (AmerGen). The agreement was subject to several conditions including approvals or specific rulings by various federal and state regulatory and tax authorities.

On February 14, 2001, the Vermont Public Service Board (PSB) ruled against the sale to AmerGen. The ruling to dismiss the petition stated that the dismissal would benefit ratepayers and promote the general good of the state and that the proposed sale was of less value than is otherwise available on the market today. The decision was based in part on the fact that, during PSB proceedings in 2000, three other parties expressed interest in buying the plant. One of the three submitted a bid to the PSB, backed by a bond, with terms that were better than those of the AmerGen agreement and the other two asked to participate if an auction of the Plant were conducted.

On August 15, 2001, following an auction process conducted by J.P. Morgan Securities, Inc. as agent for the Company, a Purchase and Sale Agreement (PSA) was executed with Entergy Nuclear Vermont Yankee, LLC (ENVY). Under the PSA, ENVY will pay a purchase price of $180 million, subject to closing adjustments, and will assume the Company's obligation to operate and decommission the Plant in exchange for the transfer of ownership of the Plant and related assets (including the decommissioning fund) and liabilities to ENVY. The PSA also contemplates that the Company will purchase from ENVY 100% of the output of the Plant (based on the Plant's current capacity) after closing through March 21, 2012 pursuant to a Power Purchase Agreement (PPA) with prices that generally range from 3.9 cents to 4.5 cents per kilowatt-hour. The PPA prices are subject to a "low market adjuster" beginning in 2005 that would provide for lower power purchase prices if the market price of power is significantly less than the PPA price. The Company will resell power purchased under the PPA to the sponsoring utilities pursuant to the Power Contracts (as amended for this arrangement).

The above agreements are subject to several conditions, including approvals or specific rulings by the Nuclear Regulatory Commission, the Federal Energy Regulatory Commission, the PSB and the Internal Revenue Service. As such, execution of the Agreements does not provide assurance that the sale will occur.

If the sale does occur, proceeds are expected to be sufficient to retire all of the Company's current debt including its First Mortgage Bonds and borrowings under its Secured Credit Agreement. No material gain or loss is expected to be realized as a result of the sale. The Company expects that if there is a loss on the sale, it will be recorded as a regulatory asset recoverable from the Sponsors over the current remaining license life of the plant under the Power Contracts as amended.

Due to the threat of a possible terrorist attack on important infrastructure sites within the United States following the events of September 11, 2001, nuclear plants, including the nuclear plant owned by the Company, have operated under a heightened level of security. This has resulted in a marginal increase in the plant's operating costs which may continue for the foreseeable future. The Company does not believe that the additional costs will have an adverse effect on the results of operations due to its current and future ability to recover costs from the Sponsors.

NOTE 2. Summary of Significant Accounting Policies

(a) Regulations and Operations

The Company is subject to regulations prescribed by the Federal Energy Regulatory Commission ("FERC"), and the Public Service Board of the State of Vermont with respect to accounting and other matters. The Company is also subject to regulation by the Nuclear Regulatory Commission ("NRC") for nuclear plant licensing and safety, and by federal and state agencies for environmental matters such as air quality, water quality and land use.

The Company recognizes revenue pursuant to the terms of the Power Contracts and Additional Power Contracts filed with the FERC. The Sponsors, a group of eight New England utilities, are severally obligated to pay the Company each month their entitlement percentage of amounts equal to the Company's total fuel costs and operating expenses, plus an allowed return on equity (11.0% since August 1, 1994). Such contracts also obligate the Sponsors to make decommissioning payments through the end of the Plant's service life and completion of the decommissioning of the Plant. All Sponsors are committed to such payments regardless of the Plant's operating level or whether the Plant is out of service during the period.

Under the terms of the Capital Funds Agreements, the Sponsors are committed, subject to obtaining necessary regulatory authorizations, to make funds available 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 over the lesser of estimated useful lives or the Plant's remaining NRC license life, which extends to March 21, 2012. Depreciation expense was equivalent to overall effective rates of 3.08%, 3.08% and 3.59% for the years 2001, 2000 and 1999, respectively.

The cost of additions, including replacements and betterments of units of property, is charged to electric plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property are charged to maintenance expense. The cost of property retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation.

(c) Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense based on the rate of burn-up of the individual assemblies comprising the total core. The Company also provides for the costs of disposing of spent nuclear fuel at rates specified by the United States Department of Energy ("DOE") under a contract for disposal between the Company and DOE.

In conformity with rates authorized by the FERC, the Company amortizes to expense on a straight-line basis the estimated costs of the final unspent nuclear fuel core, which is expected to be in place at the expiration of the Plant's operating license.

(d) Amortization of Materials and Supplies

The Company amortizes to expense a formula amount designed to fully amortize the cost of the material and supplies inventory that is expected to be on hand at the expiration of the Plant's operating license.

(e) Long-term Funds

The Company accounts for its investments in long-term funds at fair value as required by Statement of Financial Accounting Standards No. 115. See NOTE 6 for further discussion of this accounting method.

(f) Amortization of Loss on Reacquired Debt

The difference between the amount paid upon reacquisition of any debt security and the face value thereof, adjusted for any unamortized premium or discount, related unamortized debt expense and reacquisition costs, applicable to the reacquired debt, is deferred by the Company and amortized to expense on a straight-line basis over the remaining life of the new debt issuance consistent with the rate treatment authorized by the FERC.

(g) Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") is the estimated cost of funds used to finance the Company's construction work in progress and nuclear fuel in-process which is not recovered from the Sponsors through current revenues. The allowance is not realized in cash currently, but under the Power Contracts, the allowance is recovered in cash over the Plant's service life or as nuclear fuel is used through higher revenues associated with higher depreciation and amortization expense.

AFUDC was capitalized at overall effective rates of 2.45%, 6.29% and 6.29%, for 2001, 2000 and 1999, respectively, using the gross rate method.

(h) Decommissioning

The Company is accruing the estimated costs of decommissioning its Plant over the Plant's remaining NRC license life. Any amendments to these estimated costs are accounted for prospectively. See NOTE 4 for further detail.

(i) **Taxes on Income**

The Company accounts for taxes on income under the liability method. See NOTE 10 for a further discussion of the accounting for taxes on other income.

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

(j) **Cash Equivalents**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents.

(k) **Accrued Expenses**

Accrued Expenses represents the Company's best estimate of costs incurred for which no invoice has been received by the Balance Sheet date. The amount shown for 2001 includes $1.4 million in capital project costs and $9.3 million in operating and maintenance costs. The comparable amounts for 2000 were $1.9 million and $11.5 million, respectively.

(l) **Reclassifications**

The Company makes reclassifications of information presented in prior period financial statements to conform with the current period when considered significant.

(m)**Earnings per Common Share**

Basic earnings per common share have been computed by dividing earnings available to common stock by the weighted average number of shares outstanding during the year. Diluted earnings per common share have not been disclosed as they do not differ from basic earnings per share.

(n) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. FERC Rate Case Matters

On June 22, 2000, a group of municipal utilities that purchase power produced by the Plant from certain of the Sponsors filed a complaint at the FERC seeking refunds of amounts they had paid in the past for decommissioning and challenging the Company's immediate recovery of costs associated with negotiating and documenting a proposed sale to AmerGen, claiming that those costs should be absorbed by the Company or deferred for recovery through amortization. The FERC set the complaint for investigation and hearing. A settlement agreement was filed with the FERC on June 25, 2001, in which the parties agreed that: (1) Vermont Yankee would make refunds, with interest, to the Sponsors and certain wholesale customers of the Sponsors, for transaction costs associated with the proposed sale of the Plant to AmerGen; (2) Vermont Yankee and affected Sponsors could recover such refunds through amortization, with a return; (3) Vermont Yankee was authorized to recover transaction costs associated with future pursuits to sell the Plant through amortization, with a return; (4) Vermont Yankee would prospectively reduce its annual decommissioning charges to $11.4 million annually until the financial closing of any new sale transaction or the implementation of superseding rates; and (5) Vermont Yankee would no longer reserve for certain low-level radioactive waste disposal costs through its formula rates, instead those costs would be recovered on an as-incurred basis or as decommissioning costs. The FERC approved the settlement agreement effective August 1, 2001. In accordance with the provisions of the settlement agreement, Vermont Yankee made refunds of sale costs, as account credits, totaling $0.8 million.

NOTE 4. Decommissioning

The Company accrues estimated decommissioning costs for its nuclear plant over its remaining NRC licensed life. The accrual is currently based on a 1994 site study by an independent engineering firm and a settlement agreement approved by the FERC for rates effective July 1, 2001. The study assumes decommissioning will be accomplished by the prompt removal and dismantling method (DECON) which requires that radioactive materials be removed from the plant site and all buildings and facilities be dismantled immediately after shutdown. The study estimates that approximately seven years would be required to dismantle the Plant at shutdown, remove non-fuel wastes and restore the site, and that spent fuel would be stored on-site in a dry fuel storage facility until 2025. The FERC approved settlement agreement allowed $312.7 million, in 1993 dollars, as the estimated decommissioning cost. This allowed amount is used to compute the Company's liability and billings to the Sponsors. Based on the agreement's assumed cost escalation rate of 5.4% per annum through 2000 and 4.25% thereafter, the estimated current cost of decommissioning is $471.1 million and, at the expiration of the Plant's operating license in March 2012, is approximately $721.8 million. The present value of the pro rata portion of decommissioning costs recorded to date is $349.9 million. The actual decommissioning costs could vary from the above estimates because of changes in the assumed date of decommissioning, changes in regulatory requirements, changes in technology, and changes in labor, materials and equipment.

On August 15, 2001, the Company executed a Purchase and Sale Agreement (PSA) with the intent to sell the Plant and related assets and liabilities, including the liability to decommission the Plant, to Entergy Nuclear Vermont Yankee, LLC (ENVY). The sale of the plant, as contemplated, would result in the transfer of responsibility for decommissioning the plant to the new owner and may make future decommissioning collections unnecessary after the closing under the PSA. See NOTE 1 for further discussion.

Billings to Sponsors for estimated decommissioning costs commenced during 1983, at which time the Company recorded a deferred charge for the present value of decommissioning costs applicable to operations of the Plant for prior periods. Current period decommissioning costs not funded through billings to Sponsors or earnings on decommissioning trust assets are also deferred. At December 31, 2001, deferred decommissioning costs were $31.8 million. These deferred costs are amortized to expense as they are funded over the remaining life of the Company's operating license.

Cash received from Sponsors for plant decommissioning costs is deposited directly into the Vermont Yankee Decommissioning Trust in either the Qualified Fund (i.e., amounts currently deductible pursuant to the IRS regulations) or the Nonqualified Fund (i.e., collections pursuant to FERC authorization which are not currently deductible). Earnings on the Decommissioning Trust assets are recorded in other income, with an equal and offsetting amount representing the current period decommissioning cost funded by such earnings reflected as decommissioning expense. On December 31, 2001, the fair market value of the Decommissioning Trust was $297.1 million including pre-tax unrealized appreciation of $28.2 million, and funds held by the Trust were primarily invested in corporate bonds, government securities and equities. See NOTE 6 for further detail.

The staff of the Securities and Exchange Commission has questioned certain current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board ("FASB") has issued SFAS 143, which establishes accounting and disclosure for asset retirement costs, including the decommissioning of nuclear power plants. The Company is currently evaluating the effects of the new standard. However, when the Company's current accounting practice is changed as required by the new standard in 2003, the present value of the full estimated cost of decommissioning will be recorded as a liability (rather than a pro rata portion), with an increase in the recorded cost of the Plant. The Company does not believe the changes would have an adverse effect on the results of operations due to its current and future ability to recover costs from the Sponsors.

NOTE 5. Deferred Charges, Credits and Other Liabilities

In October 1992, Congress passed the Energy Policy Act of 1992. The Act requires, among other things, that certain utilities help pay for the cleanup of DOE's enrichment facilities over a fifteen year period. The Company's annual fee is based on its historical share of enrichment services provided by DOE and is indexed to inflation. The fees are not adjusted for subsequent business as DOE's cost of sales now includes a decontamination and decommissioning component. The Act stipulates that the annual fee shall be fully recoverable in rates in the same manner as other fuel costs.

In 2001, the Company paid the tenth of the fifteen annual charges. As of December 31, 2001, the Company had recognized a current accrued liability of $1.3 million for the fee payment expected to be made in 2002, a non-current liability of $5.2 million for the expected four annual fee payments that are due subsequent to 2002, and a corresponding regulatory asset of $7.4 million which represents the total amount to be included in future billings to the Sponsors under the Power Contracts.

In 1994, the states of Vermont, Maine and Texas each ratified legislation to join a low-level radioactive waste disposal compact for the purpose of disposing of low-level radioactive waste in the state of Texas. The Company has recorded a non-current liability of $23.1 million to recognize the $27.5 million compact fund requirements less amounts on deposit with the State of Vermont and a corresponding deferred debit of $25.7 million which represents the total amount to be included in future billings to the Sponsors under the Power Contracts. The Compact was ratified by the U.S. Congress in 1998, however to date, no site has been licensed. See NOTE 14 for further detail.

During 2001, Vermont Yankee completed Design Basis Documentation, a project undertaken to incorporate all design documentation into a centralized system. The objective was to ensure that Vermont Yankee maintains its safety margins in connection with any plant modifications. The project created a set of design basis documents which enable more efficient systematic problem solving, maintenance, and system overview in support of the safe, cost effective, long term operation of the Plant. The Company received FERC approval in 1996 to recognize deferred charges for these unrecovered study costs and amortize the costs through billings to Sponsors over the remaining license life of the Plant. As of December 31, 2001, the Company had recorded deferred charges of $16.4 million, net of amortization related to this initiative.

In 2001, FERC approved a settlement agreement between the Company and intervening parties that included, among other things, a settlement on the regulatory treatment of costs incurred in conjunction with initiatives to sell the plant and related assets and liabilities. The agreement provided for the refund of a portion of the costs incurred in pursuit of the then terminated AmerGen transaction, and the authorization for the Company and the affected Sponsors to recover this refund through amortization, with a return. In addition, the settlement agreement provided for the deferral of all costs associated with the pursuit of a new agreement for the sale of the plant, and for the recovery of these costs, through amortization with a return, commencing with the financial closing of the new transaction. If no new transaction is consummated, the Company will have to apply to the FERC for the recovery of such costs. As of December 31, 2001, the Company had recorded deferred charges of $3.6 million, net of amortization relative to the sale initiatives.

NOTE 6. Long-term Investments

The Company accounts for its investments in certain debt or equity securities by classifying each such security as either trading, available-for-sale or held-to-maturity. Both trading and available-for-sale securities must be reflected on the balance sheet at their aggregate fair values. Held-to-maturity securities are reflected on the balance sheet at amortized cost.

The Company classifies securities in the Decommissioning Trust as available-for-sale. As of December 31, 2001, the Decommissioning Trust had net unrealized gains of $28.2 million which reduce deferred decommissioning costs because the Company will not realize the gains, rather, the gains will be used to reduce future billings to Sponsors.

The Company also classifies securities held in the Spent Fuel Disposal Trust as available-for-sale. As of December 31, 2001, the reported Trust balance includes net unrealized gains of $1.7 million with a corresponding adjustment reflected in Other Deferred Charges.

The cost and estimated market value of long-term investments at December 31, are as follows (Dollars in thousands):

	2001		2000	
	Cost	**Market Value**	Cost	Market Value
Decommissioning Trust:				
US Treasury obligations	**$107,319**	**$112,064**	$108,400	$113,753
Municipal obligations	**57,853**	**58,902**	36,068	37,044
Corporate bonds	**32,776**	**33,244**	31,139	31,208
Stocks	**64,647**	**86,634**	40,639	80,870
Accrued interest and money market funds	**6,215**	**6,215**	18,829	18,829
	268,810	**297,059**	235,075	281,704
Spent Fuel Disposal Trust:				
US Treasury obligations	**43,193**	**44,186**	81,827	82,517
Municipal obligations	**51,297**	**51,646**	8,911	8,994
Corporate bonds	**17,455**	**17,786**	14,245	14,496
Accrued interest and money market funds	**2,896**	**2,896**	3,232	3,232
	114,841	**116,514**	108,215	109,239
Total long-term investments	**$383,651**	**$413,573**	$343,290	$390,943

Pursuant to the Company's arrangements with its Sponsors, the difference between market value and cost of the Decommissioning Trust has been recorded as a decrease to deferred decommissioning costs. The Company's Power Contracts with its Sponsors provide for full recovery of decommissioning costs and any excess or shortage in the fund, including those resulting from investment performance, will be refunded to or collected from Sponsors.

The Company has entered into certain derivative contracts to hedge the total return on its nuclear decommissioning trust fund. As required by SFAS 133, these derivative instruments are recorded at fair value on the balance sheet with any change in the value recorded as an increase or decrease to deferred decommissioning costs, consistent with the treatment of all gains and losses on the decommissioning trust fund. Unrealized gains recorded as reductions to deferred decommissioning costs as of December 31, 2001 and 2000 were $28.2 million and $46.6 million, respectively.

The securities included in the Spent Fuel Disposal Trust represent funds invested by the Company for which the earnings and principal will be used to pay the DOE fee for spent fuel discharged prior to April 7, 1983. See NOTE 9 for further details. Although the Company collected this fee from its Sponsors in rates, it has elected to defer payment as permitted by the contract with DOE. Since any realized gains (losses) have the effect of reducing (increasing) billing to customers, the Company has included the difference between cost and market value of the Spent Fuel Disposal Trust as a decrease to Other Deferred Charges.

At December 31, gross unrealized gains and losses pertaining to the long-term investment securities in the Decommissioning Trust and the Spent Fuel Disposal Trust were as follows (Dollars in thousands):

	2001	2000
Unrealized gains on US Treasury obligations	$5,738	$6,209
Unrealized losses on US Treasury obligations	-	(166)
Unrealized gains on municipal obligations	1,398	1,221
Unrealized losses on municipal obligations	-	(162)
Unrealized gains on corporate bonds	863	469
Unrealized losses on corporate bonds	(64)	(149)
Unrealized gains on stocks	22,706	40,575
Unrealized losses on stocks	(719)	(344)
	$29,922	$47,653

For the years ended December 31, gross realized gains and losses pertaining to the long-term investment securities were as follows (Dollars in thousands):

	2001	2001		2000	2000	
	Total Sale	Gross Realized		Total Sale	Gross Realized	
	Proceeds	Gain	Loss	Proceeds	Gain	Loss
Decommissioning	$255,941	$22,358	$(1,600)	$202,879	$4,555	$(3,702)
Spent fuel disposal	$169,746	$2,259	$(1,230)	$188,061	$591	$(409)

Maturities of short-term obligations, bonds and notes (face amount) at December 31, are as follows (Dollars in thousands):

	2001 Decommissioning Trust	2001 Disposal Fee Defeasance Trust	2000 Decommissioning Trust	2000 Disposal Fee Defeasance Trust
Within one year	$ 1,814	$33,680	$ -	$37,255
One to five years	52,688	61,155	36,963	52,631
Five to ten years	65,983	9,489	49,443	4,346
Over ten years	73,481	5,509	85,850	15,908
	$193,966	$109,833	$172,256	$110,140

NOTE 7. Debt Obligations

A summary of debt obligations at December 31, is as follows (Dollars in thousands):

	2001	2000
Current maturities of long-term debt:		
First mortgage bonds: Series I sinking fund requirement	$ 5,418	$ 5,418
Commercial Paper - Eurodollar Credit Agreement	-	30,975
Total debt maturing within one year	$5,418	$36,393
Long-term obligations (excluding current maturities):		
First mortgage bonds: Series I - 6.48% due 2009	$54,173	$59,591

The first mortgage bonds are issued under, have the terms and provisions set forth in, and are secured by an Indenture of Mortgage dated as of October 1, 1970 between the Company and the Trustee, as modified and supplemented by thirteen supplemental indentures. All bonds are secured by a first lien on utility plant, exclusive of nuclear fuel, and a pledge of the Power Contracts and the Additional Power Contracts (except for fuel payments) and the Capital Funds Agreements with Sponsors.

In November 1993, the Company issued $75.8 million of Series I, first mortgage bonds stated to mature on November 1, 2009. The Company applied the proceeds of the bond issuance principally to retire the remaining Series D, Series E, Series F, Series G and Series H first mortgage bonds including call premiums totaling $3.7 million. Annual cash sinking fund requirements for the Series I first mortgage bonds of $5.4 million began in November 1999. The Company has classified the sinking fund requirements of November 2002 as a current liability at December 31, 2001.

The Company's $75.0 million Eurodollar Credit Agreement expired on August 13, 2001 and was not renewed. In its place, the Company signed a one-year $50.0 million Secured Credit Agreement which expires on August 12, 2002. Under this agreement, payment is secured by a pledge of nuclear fuel payments under the Power Contracts and Capital Funds Agreements and by a second mortgage on the Company's generating facility . The Company expects that, if necessary, either the current agreement will be extended or another credit agreement will be put in place by the expiration date. Since neither has occurred by the issuance of these financial statements, the Company has classified this debt as a current liability at December 31, 2001. The Company issued commercial paper under the Eurodollar Credit Agreement with weighted average interest rates of 5.24% for 2001 and 6.39% for 2000 and borrowed funds under the Secured Credit Agreement with a weighted average interest rate of 3.81% for 2001. Borrowings under the Secured Credit Agreement were $27.0 million at December 31, 2001 and were $31.0 million under the Eurodollar Credit Agreement at December 31, 2000.

The Company also had available lines of credit of $5.5 million at December 31, 2001 and $3.0 million at December 31, 2000. The maximum amount of short-term borrowings outstanding at any month-end was approximately $3.0 million for 2001 and $3.0 million for 2000. The average daily amount of short-term borrowings outstanding was approximately $0.5 million for 2001 and $0.3 million for 2000 with weighted average interest rates of 6.88% in 2001 and 7.93% in 2000. The Company had borrowings of $0.5 million under the line of credit as of December 31, 2001.

NOTE 8. Disclosures About the Fair Value of Financial Instruments

The carrying amounts for cash and temporary investments, trade receivables, accounts receivable from Sponsors, accounts payable, accrued liabilities and debt maturing within one year approximate their fair values because of the short maturity of these instruments. Long term funds are carried at fair market value which are estimated based on quoted market prices for these or similar investments. The fair values of each of the Company's long-term debt instruments are estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities.

The estimated fair value of the Company's financial instruments as of December 31, are summarized as follows (Dollars in thousands):

	2001		2000	
	Cost Amount	Estimated Fair Value	Cost Amount	Estimated Fair Value
Decommissioning Trust	$268,810	$297,059	$235,075	$281,704
Spent Fuel Disposal Trust	114,841	116,514	108,215	109,239
Long-term debt	54,173	54,647	59,591	57,261
Spent fuel disposal fee and accrued interest	120,068	120,068	115,351	115,351

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 9. Spent Fuel Disposal

Under the Nuclear Waste Policy Act of 1982, DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. The Company, as required by that Act, has signed a contract with DOE to provide for the disposal of spent nuclear fuel and high-level radioactive waste from its nuclear generation station beginning no later than January 31, 1998. This delivery schedule has not been met and is expected to be delayed significantly. It is not certain when DOE will accept spent nuclear fuel and high-level radioactive waste from the Company and other owners of nuclear power plants, although DOE has stated that the earliest would be 2010. These delays by DOE have caused the Company to consider other costly alternatives for storing high-level waste.

The Company has primary responsibility for the interim storage of its spent nuclear fuel. The plant is currently able to operate with the ability to discharge the entire reactor core to the spent fuel storage pool through the year 2008 refueling outage. The Company is also investigating other options for additional storage capacity beyond the year 2008.

Various legal proceedings have been filed by the owners and operators of nuclear power plants and by states and state regulatory agencies against DOE and the federal government to enforce the DOE's obligation to dispose of spent nuclear fuel and seeking damages resulting from DOE's breach of those obligations. In addition, legislation has been introduced in Congress over the past several years to assure that DOE carries out its obligations and to protect the funds paid to the government by utilities and their customers that were intended to pay for the disposal of utilities' spent nuclear fuel.

In July, 1996, the U.S. Court of Appeals for the District of Columbia Circuit ruled that DOE had an unconditional obligation to begin disposing of the utilities' spent nuclear fuel by January 31, 1998, and that the absence of a DOE interim storage facility did not excuse DOE from that obligation. In November, 1997, the same Court in ruling on a petition brought by thirty six utilities, including the Company, reaffirmed the 1996 ruling but declined to order DOE to accept spent nuclear fuel, saying that the utilities had another potentially adequate remedy under their DOE contracts.

After the January 1998 deadline passed without compliance by DOE with its contractual and statutory obligation, forty one utilities, including the Company, and sixty states and state regulatory commissions, petitioned the same Court to compel DOE to act. In orders issued in May 1998 and July 1998, the Court declined to order DOE to act and again directed the utilities to pursue relief in accordance with their DOE contracts. In November 1998, the U.S. Supreme Court denied petitions by the Government and by the states and state agencies to review the lower Court's decisions.

Beginning in February 1998, a series of lawsuits have been filed with the U.S. Court of Federal Claims seeking damages from the Government for DOE's breach of its obligation to begin disposing of the utilities' spent fuel by the 1998 deadline. In October and November 1998, the Court granted summary judgment in favor of Yankee Atomic Electric Company, Connecticut Yankee Power Company and Maine Yankee Atomic Power Company (collectively "Yankee") as to DOE's liability for its breach of the 1998 obligation. The Court rejected the Government's argument that the utilities must first bring claims for damages to the DOE Contracting Officer. In April 1999, another judge of the U.S. Court of Federal Claims, in a case brought by Northern States Power Company, reached the opposite conclusion, ruling that the utility could not sue for breach of contract damages in the Court but must rather submit a claim for equitable adjustment with the DOE Contracting Officer.

On August 31, 2000, the U.S. Court of Appeals for the Federal Circuit decided appeals from both Yankee and Northern States cases, ruling that the utilities were entitled to sue in the U.S. Court of Federal Claims for breach of contract damages and need not first submit equitable adjustment claims to the DOE Contracting Officer.

A "discovery judge" has been designated in all except the Yankee cases and one other case and discovery is underway in all except the latter case, although the discovery judge suspended discovery in November 2001, and then revoked the suspension in January 2002. The Government has moved to reinstate the suspension.

In all the cases, the Government has filed motions for partial summary judgment regarding the rate of spent nuclear fuel acceptance and on the issue of Greater Than Class C Radioactive Waste. The Government has also filed motions to dismiss takings and illegal exaction claims in those cases which include such claims. In the Yankee cases, the Government is currently obligated to submit its pretrial filings by February 8, 2002. The Yankee plaintiffs submitted their pretrial filings in June 1999.

On July 19, 2000, DOE entered into a settlement agreement with PECO Energy Company ("PECO") allowing PECO to take credits against payments into the Nuclear Waste Fund to offset certain spent fuel storage costs which PECO had incurred because of DOE's failure to meet its 1998 obligation. Alabama Power Company and a number of other utilities have initiated a challenge in the U.S. Court of Appeals for the Eleventh Circuit to DOE's attempt to use Nuclear Waste Fund credits to offset potential spent fuel damages claims.

The DOE contract obligates the Company to pay a one-time fee of approximately $39.3 million for disposal costs for all spent fuel discharged through April 6, 1983, and a fee payable quarterly equal to one mill per kilowatt-hour of nuclear generated and sold electricity after April 6, 1983. Although the $39.3 million for the one-time fee has been collected from the Sponsors in rates, the Company has elected to defer payment to DOE as permitted by the DOE contract. The fee plus accrued interest must be paid no later than the first delivery of spent fuel to DOE. Interest accrues on the unpaid obligation based on the thirteen-week Treasury Bill rate and is compounded quarterly. Through 2001, the Company has accumulated $116.5 million in an irrevocable trust to be used exclusively for meeting this obligation ($120.1 million including accrued interest) at some future date, provided the DOE complies with the terms of the aforementioned contract.

NOTE 10. Taxes on Income

The Company uses the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities ("temporary differences").

For certain items, the Company's allowed rates have recognized income tax expense on a different method. As a result, the Company has recognized net liabilities to Sponsors of $3.6 million as of December 31, 2001 and $4.0 million as of December 31, 2000 representing taxes collected from them in excess of amounts that would have been recorded under the liability method. These amounts will be systematically returned to Sponsors by reducing future power bills.

The components of income tax expense for the years ended December 31, are as follows (Dollars in thousands):

	2001	2000	1999
Taxes on operating income:			
Current federal income tax	**$7,358**	$8,740	$6,841
Deferred federal income tax	**(6,421)**	(8,099)	(5,494)
Current state income tax	**2,397**	2,649	2,031
Deferred state income tax	**(754)**	(593)	(930)
Investment tax credit adjustment	**(353)**	(666)	(545)
	2,227	2,031	1,903
Taxes on other income:			
Current federal income tax	**2,389**	2,104	1,606
Current state income tax	**450**	153	63
	2,839	2,257	1,669
Total income taxes	**$5,066**	$4,288	$3,572

The Company's effective income tax rates differed from the federal statutory rate of 35% for the years ended December 31, as follows:

	2001	2000	1999
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal income tax benefit	**12.2**	13.2	7.5
Investment credit	**(3.2)**	(6.1)	(5.4)
Book depreciation in excess of tax basis	**1.3**	1.3	2.1
Flowback of excess deferred taxes	**(2.0)**	(2.1)	(2.6)
Other	**2.0**	(1.9)	(1.0)
	45.3%	39.4%	35.6%

The significant components of deferred tax expense for the years ended December 31, are as follows (Dollars in thousands):

	2001	2000	1999
Decommissioning expense not currently deductible	**$(6,120)**	$(3,233)	$(1,844)
Tax depreciation (under) over financial statement depreciation	**(2,503)**	(2,157)	(3,226)
Asset sale cost deduction over (under) financial statement expense	**2,612**	(810)	(1,388)
Tax fuel amortization (under) over financial statement amortization	**(1,221)**	(936)	1,038
Tax loss on reacquisition of debt (under) over financial statement expense	**(75)**	(75)	(75)
Pension expense deduction (under) over financial statement expense	**(375)**	(252)	(627)
Postemployment benefits deduction over (under) financial statement expense	**111**	23	99
Materials and supplies deduction over (under) financial statement expense	**81**	(227)	(124)
Low-level waste deduction over (under) financial statement expense	**135**	(156)	327
Flowback and other change in excess deferred taxes	**(230)**	(223)	(264)
Other, net	**410**	(646)	(340)
	$(7,175)	$(8,692)	$(6,424)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, are presented below (Dollars in thousands):

	2001	2000
Deferred tax assets:		
Accumulated amortization of final nuclear core	$5,280	$4,914
Nuclear decommissioning liability	24,173	16,944
Regulatory liabilities	2,565	2,830
Accumulated deferred investment credit	1,186	1,332
Accumulated amortization of materials and supplies	3,316	3,127
Pension and retiree benefit liabilities	5,590	5,326
Accrued low-level waste disposal costs	1,877	2,012
Other	2,968	4,755
Total gross deferred tax assets	46,955	41,240
Less valuation allowance	(5,648)	(4,228)
Net deferred tax assets	41,307	37,012
Deferred tax liabilities:		
Plant and equipment	(30,383)	(33,507)
Other	(3,640)	(3,054)
Total gross deferred tax liabilities	(34,023)	(36,561)
Net deferred tax asset (liability)	$7,284	$451

The valuation allowance is primarily the result of a provision in Vermont tax law which limits refunds resulting from carrybacks of net operating losses.

NOTE 11. Supplemental Cash Flow Information

The following information supplements the cash flow information provided in the Statements of Cash Flows (Dollars in thousands):

Cash paid during the year for:	2001	2000	1999
Interest (net of amount capitalized)	$5,649	$6,362	$6,350
Income taxes	$16,941	$14,627	$13,174

NOTE 12. Pension, Post Retirement and Other Benefit Plans

The Company has two qualified defined benefit pension plans which together cover substantially all of its employees. The benefits provided under these plans are based on final average earnings, integrated with Social Security benefits. The Company also has a supplemental unfunded nonqualified pension plan for certain employees providing benefits based on final earnings. In addition, the Company has two postretirement welfare benefit plans providing healthcare and life insurance benefits to retired employees and their covered spouses.

The Company has two severance plans which together provide substantially all of its employees with continuing income and other benefits for a period of time in the event of a layoff. The individual benefits provided under these plans are based on the employee's final base salary and years of service with the Company. Since the benefits provided under these plans are event driven and no such event has occurred, the plans have had no impact on the results of operations or financial position of the Company.

The following tables reconcile the beginning and ending benefit obligation balances for the plans:

Pension plan benefits (aggregated)	2001	2000
Beginning of year benefit obligation	$36,169	$30,143
Service cost	1,651	1,639
Interest cost	2,652	2,350
Actuarial loss (gain)	(1,167)	2,885
Disbursements	(951)	(848)
Plan Amendments	2,458	-
End of year benefit obligation	$40,812	$36,169

Postretirement welfare plan benefits (aggregated)	2001	2000
Beginning of year benefit obligation	$14,358	$10,661
Service cost	1,225	902
Interest cost	1,107	833
Participant contributions	15	11
Actuarial loss (gain)	(166)	2,279
Disbursements	(332)	(328)
Plan Amendments	-	-
End of year benefit obligation	$16,207	$14,358

The following tables reconcile the beginning and ending fair value of assets for the plans:

Pension plan assets (aggregated)	2001	2000
Beginning of year fair value of assets	$33,763	$34,554
Actual return on assets	904	(17)
Company contributions	302	74
Disbursements	(961)	(848)
End of year fair value of assets	$34,008	$33,763

Postretirement welfare plan assets (aggregated)	2001	2000
Beginning of year fair value of assets	$13,668	$12,721
Actual return on assets	(163)	843
Company contributions	424	420
Disbursements (net)	(332)	(316)
End of year fair value of assets	$13,597	$13,668

Plan assets consist primarily of cash equivalent funds, fixed income securities and equity securities.

The following tables reconcile the funded status of the plans as of December 31:

Pension plans (aggregated)	2001	2000
Projected benefit obligation (PBO)	$(40,812)	$(36,169)
Fair value of assets (FVA)	34,008	33,763
PBO (in excess of) less than FVA	(6,804)	(2,406)
Unrecognized prior service cost	3,058	968
Unrecognized net transition obligation	521	584
Unrecognized actuarial loss (gain)	(7,661)	(9,112)
Net amount recognized	$(10,886)	$(9,966)

Amounts recognized in the balance sheets:		
Accrued benefit liability	**$(10,886)**	$(9,966)
Additional minimum liability	**(574)**	(155)
Intangible asset	**574**	155
Net amount recognized	**$(10,886)**	$(9,966)

Postretirement welfare plans (aggregated)	**2001**	**2000**
Accumulated postretirement benefit obligation (APBO)	**$(16,207)**	$(14,358)
Fair value of assets (FVA)	**13,597**	13,668
APBO less than (in excess of) FVA	**(2,610)**	(690)
Unrecognized net transition obligation	**5,412**	5,953
Unrecognized actuarial loss (gain)	**(3,954)**	(5,316)
Net amount recognized	**$(1,152)**	$(53)

Amounts recognized in the balance sheets:		
Prepaid benefit cost	**$1,364**	$1,555
Accrued benefit liability	**(2,516)**	(1,608)
Net amount recognized	**$(1,152)**	$(53)

Net periodic benefit costs recognized for the periods ended December 31 are as follows:

Pension benefits (aggregated)	**2001**	**2000**	**1999**
Service cost	**$1,651**	$1,639	$1,856
Interest cost	**2,652**	2,350	2,224
Expected return on assets	**(2,982)**	(2,782)	(2,463)
Net amortization:			
Prior service cost	**367**	100	100
Net actuarial loss (gain)	**(529)**	(602)	(253)
Net transition obligation	**63**	63	63
Total amortization	**(99)**	(439)	(90)
Loss (gain) recognized due to settlement/curtailment	-	-	-
Net periodic benefit cost	**$1,222**	$768	$1,527

Postretirement welfare benefits (aggregated)	**2001**	**2000**	**1999**
Service cost	**$1,225**	$902	$1,046
Interest cost	**1,107**	833	768
Expected return on assets	**(1,006)**	(948)	(914)
Net amortization:			
Net actuarial loss (gain)	**(359)**	(664)	(580)
Net transition obligation	**541**	541	541
Total amortization	**182**	(123)	(39)
Net periodic benefit cost	**$1,508**	$664	$861

The following weighted average assumptions were used as of December 31:

	2001	2000	1999
Discount rate	7.25%	7.25%	7.50%
Compensation scale	4.50%	4.50%	4.00%
Expected return on assets:			
Management VEBA (post-tax)	6.00%	6.00%	6.00%
All other plan assets	8.50%	8.50%	8.50%

For measurement purposes, a 7.5% percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease to 6.5% for 2003, 5.5% for 2004 and remain at that level thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects on the information for the postretirement welfare plans:

	1% Increase	1% Decrease
Effect on total service and interest cost components	$398	$(324)
Effect on accumulated postretirement benefit obligation	$2,518	$(2,072)

NOTE 13. Lease Commitments

The Company leases equipment and systems under noncancelable operating leases. Charges against income for leases were approximately $5.2 million in 2001, $5.2 million in 2000 and $7.2 million in 1999.

Minimum future lease payments as of December 31, 2001 are as follows (Dollars in thousands):

Fiscal years ended	Annual Leases
2002	$ 5,194
2003	4,618
2004	4,618
2005	2,309
Thereafter	0

Included in the above lease payments is the cost of low pressure turbines constructed by General Electric Corporation valued at approximately $30.8 million including installation costs when installed in 1995. Under the lease agreement which commenced on July 1, 1995, the Company will make 120 monthly payments of $384,834.

NOTE 14. Commitments and Contingencies

(a) Low-level Waste

In 1998, the U.S. Congress approved the tri-state compact between Vermont, Texas and Maine to site a facility in Texas for the disposal of low-level radioactive waste. Also in 1998, the proposed Texas low-level waste disposal site in Hudspeth County was rejected because of geological and socioeconomic concerns. Various parties have proposed alternative sites in Texas. Because of delays in the ratification and siting processes, the Company cannot predict when a facility in Texas will be licensed and built. However, it is unlikely that waste disposal under the compact will begin prior to 2003. The Company has been disposing of low-level waste at other active sites and currently has the capacity to store all of its low-level waste on site until the year 2007. If the Texas facility is not available by that date, other options will continue to be pursued.

Under the terms of the compact and related Vermont Statutes, Vermont will pay Texas, and in turn assess in-state generators of low level waste up to $27.5 million to site, license and construct the disposal facility. The Governors of the three States participating in the compact have agreed that any required payment under the compact will be deferred until a site is selected and a facility is licensed. The Company has received approval from FERC to recover the cost of this compact from Sponsors over the remaining license life of the Plant, commencing with the first payment to Texas.

The Company has recorded a non-current liability of $23.1 million to recognize the $27.5 million compact fund requirements less the remaining fund balance from the State of Vermont, and a corresponding deferred debit of $25.7 million which represents the total amount to be included in future billings to Sponsors under the Power Contracts. The deferred debit and deferred credit amounts have both decreased by $0.1 million from the amounts reflected in 2000 as a result of earnings on the State of Vermont fund balance.

(b) Nuclear Fuel

The Company has several "requirements based" contracts for the four components (uranium, conversion, enrichment and fabrication) used to produce nuclear fuel. These contracts are executed only if the need or requirement for fuel arises. Under these contracts, any disruption of operating activity would allow the Company to cancel or postpone deliveries until actually required. The contracts extend through various time periods and contain clauses to allow the Company the option to extend the agreements. Negotiation of new contracts and re-negotiation of existing contracts routinely occurs, often focusing on one of the four components at a time. The cost of the 2001 reload was approximately $16 million and the cost of the 2002 reload is estimated to be approximately $23 million. Future reload costs will depend on market and contract prices.

(c) Insurance

The Price-Anderson Act currently sets the statutory limit for nuclear liability from a single incident at a nuclear power plant to $9.5 billion. Any damages beyond $9.5 billion are provided for under the Price-Andersen Act, but subject to Congressional approval. The first $200 million of nuclear liability coverage is the maximum provided by private insurance. The Secondary Financial Protection program is a retrospective insurance plan providing additional coverage up to $9.3 billion per incident by assessing each of the 106 reactor units that are currently subject to the Program in the United States a retrospective premium of up to $88.1 million per unit per incident, limited to a maximum assessment of $10 million per incident per nuclear unit in any one year. The maximum assessment is adjusted at least every five years to reflect inflationary changes.

The Price-Anderson Act has been renewed three times since it was first enacted in 1957. The Act is set to expire in August 2002 and Congress is currently considering reauthorization of this legislation.

The above insurance now covers all workers employed at nuclear facilities for bodily injury claims. The Company had previously purchased a Master Worker insurance policy with limits of $200 million with one automatic reinstatement of policy limits to cover workers employed on or after January 1, 1988. Vermont Yankee no longer participates in this retrospectively based worker policy and has replaced this policy with the guaranteed cost coverage mentioned above. The Company does however retain a potential obligation for retrospective adjustments due to past operations of several smaller facilities that did not join the new program. These exposures will cease to exist no later than December 31, 2007. Vermont Yankee's maximum retrospective obligation remains at $3.1 million. The Secondary Financial Protection layer, as referenced above, would be in excess of the Master Worker policy.

Insurance has been purchased from Nuclear Electric Insurance Limited ("NEIL") to cover the costs of property damage, decontamination or premature decommissioning resulting from an incident. All companies insured with NEIL are subject to retroactive assessments if so determined by the Board of NEIL due to losses. The maximum potential assessment against the Company with respect to NEIL losses arising during the current policy year is $16.2 million. The Company's liability for the retrospective premium adjustment for any policy year ceases six years after the end of that policy year unless prior demand has been made.

(d) Industry Restructuring and Other Regulatory Developments

The electric utility industry has been in a period of potential transition which may result in a shift away from cost of service and return on equity based rates to market based rates. Most states in which the Company's Sponsors operate have explored or, in some cases, have implemented plans to bring greater competition, customer choice, and market influence to the industry while retaining the benefits associated with the current regulatory system.

The Company cannot predict what effect these restructuring plans will have on the Company or its Sponsors. It is possible, however, that these restructuring orders or other regulatory actions could have a material adverse effect on the Sponsors, which could, in turn, have a material adverse effect on the Company.

NOTE 15. New Accounting Principles

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (ARO's). Effective for fiscal years beginning after June 15, 2002, ARO's must be recognized as a liability and measured at fair value. The liability will be recognized when the obligation is incurred which, in many cases, will be when the long-lived asset is placed in service. Costs associated with recognizing an ARO will be capitalized as part of the related long-lived asset and amortized on a systematic and rational basis over its useful life as depreciation expense. Additionally, because the ARO is initially recorded at fair value (discounted), accretion expense will be recognized each period as an operating expense.

The new rules apply to all companies that incur legal obligations to retire tangible long-live assets, such as the obligation for decommissioning a nuclear power plant. The Company will have to convert to the new standard, recognizing the resulting change in its decommissioning obligation via a cumulative effect adjustment at adoption. See Note 4 for further explanation.

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Central Vermont Public Service Corporation
Rutland, VT

(1) Resigned February 28, 2001
(2) Elected February 28, 2001

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