

Iowa Electric Light and Power Company

1984 Annual Report

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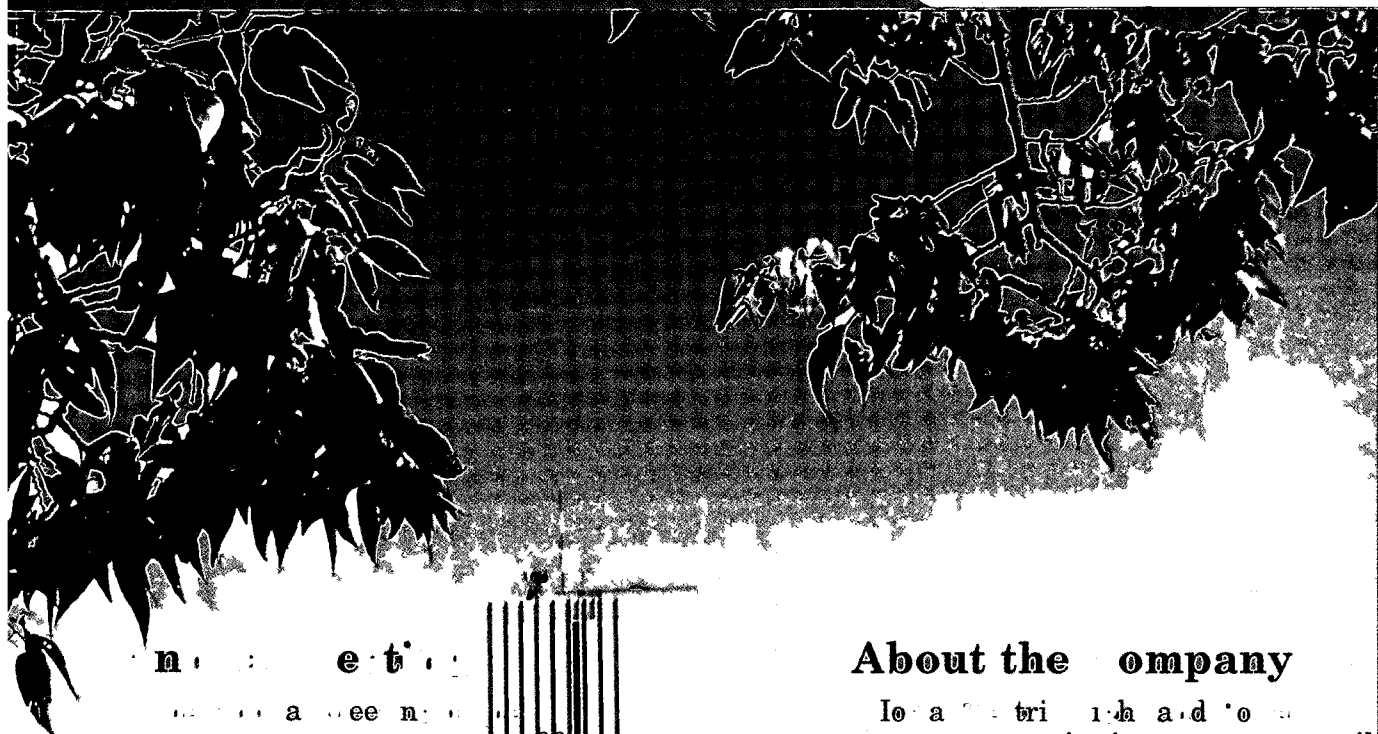
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Iowa Electric Light and Power Company

1984 Annual Report



Notice of Meeting

A meeting of the Board of Directors of the Iowa Electric Light and Power Company will be held on Wednesday, April 21, 1985, at 10:00 a.m. in the Board Room, 200 First Street, S.E., Cedar Rapids, Iowa. A proxy statement for this meeting will be mailed on or about April 2, 1985. All shareholders are cordially invited to attend. Shareholders who are unable to attend in person

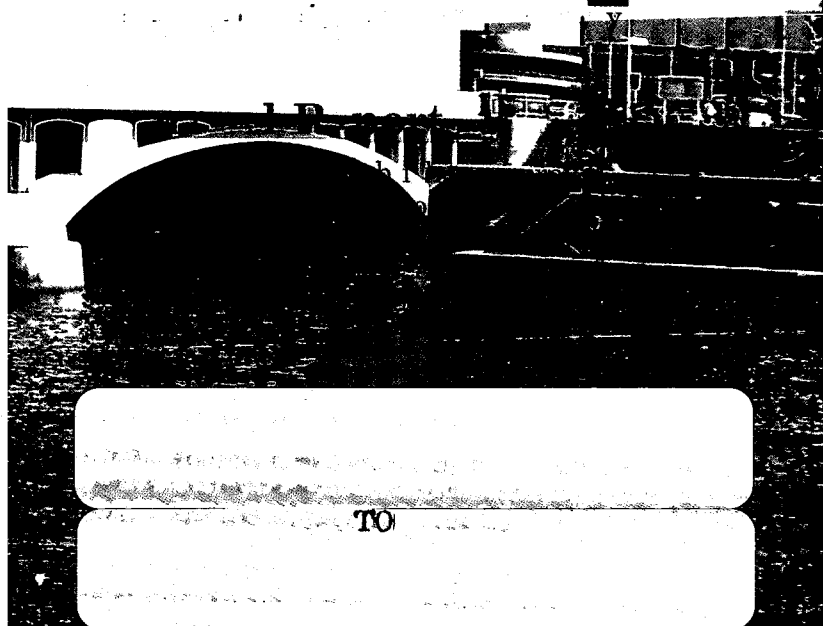
About the Company

Iowa Electric Light and Power Company is a public utility organization incorporated in Iowa in 1882 and currently provides gas and steam heating service to residential, commercial and industrial customers in Cedar Rapids, Iowa. The company is a subsidiary of the Iowa Electric Light and Power Company, which is a public utility corporation with a capital of \$10,000,000. The company's principal power source is a coal-fired power station located in Cedar Rapids, Iowa. The company also operates several small supply stations throughout the state.

The company's electric service is supplied to more than 204,000 residential, commercial and industrial customers in 55 counties in Iowa. The company also serves 20 unincorporated communities. Natural gas is distributed in 12 cities in Iowa; Fairmont, Minnesota; Sterling, Colorado; and five small communities in eastern Nebraska. The company also delivers steam for heating and industrial purposes in Cedar Rapids.

About the Cover

The Tower, shown here overlooking the Cedar River, serves as the corporate headquarters of Iowa Electric Light and Power Company in Cedar Rapids, Iowa.



1984 Highlights

	1984	1983	Increase (Decrease)	Percent Increase (Decrease)
Operating revenues (000's)	\$468,228	\$444,713	\$23,515	5%
Net income (000's)	\$ 34,432	\$ 27,898	\$ 6,534	23
Net income available for common stock (000's)	\$ 30,023	\$ 23,289	\$ 6,734	29
Earnings per average common share	\$ 2.41	\$ 2.14	\$ 0.27	13
Dividends declared per common share	\$ 1.855	\$ 1.795	\$ 0.06	3
Construction expenditures (000's)	\$ 38,793	\$ 47,874	\$ (9,081)	(19)
Funds provided internally (000's)	\$ 57,653	\$ 43,535	\$14,118	32
Sales of electricity to customers (Kwh) (000's)	4,205,528	4,219,286	(13,758)	—
Sales of gas to customers (dekatherms) (000's)	34,685	34,112	573	2
Number of stockholders	35,811	34,889	922	3
Number of full-time employees	1,472	1,618	(146)	(9)

Quarterly High, Low and Closing Prices of Common Stock (dollars)

Common Stock

Quarterly common stock dividends of \$.46 and \$.445 were paid by the Company during 1984 and 1983, respectively. The Company's common stock is traded on the New York Stock Exchange. The accompanying chart shows the range of trading prices for the last two years.

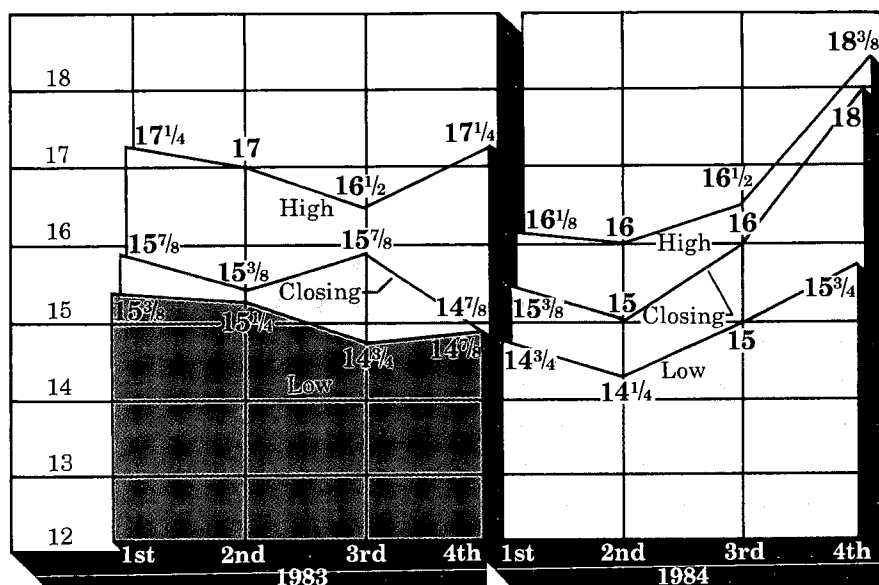


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Dear Stockholder:

Last year we stated that the greatest challenge for Iowa Electric Light and Power Company was to prepare for the new economic environment that confronts electric and gas utilities in the future. I am pleased to report to you that our Company is now well positioned to meet that challenge.

Our financial results for the year 1984 prove that the new spirit of dedication by our employees and the management team was the key to our success in the past year. It is vital to the future financial success of our Company that this new Company spirit continues. I am confident that it will.

Cost cutting measures, coupled with the full impact of a \$40.0 million electric rate increase implemented in July, 1983, caused our financial performance to be strong. Revenues, earnings, and dividends increased and, at the same time, the trading level of our common stock rose above book value for the first time in nearly a decade.

The 1984 earnings per share of \$2.41 represents an increase of 13 percent over 1983. The rate of return on common equity was 13.5 percent, close to the level authorized by the Iowa State Commerce Commission. To assist in achieving these improved results, our operating and capital budgets were monitored closely by a state-of-the-art responsibility reporting system which became fully operational in January, 1984.

As a result of the increase in profitability, the Board of Directors, in November 1984, increased the quarterly common stock dividend from \$.46 to \$.475 per share, payable January 1, 1985. For the 9th consecutive year dividends declared have been increased.

Cost Containment Program

Iowa Electric's cost containment program received national recognition when our Company was among four utilities nominated for the prestigious Edison Award. This program contributed significantly to the Company's profitability in 1984. The full effect of all these program elements is expected to contribute to the Company's financial results in 1985 and beyond.

The Company took steps to reduce its coal costs by cancelling a long-term coal contract. Although the Iowa State Commerce Commission denied a special petition to pass through contract cancellation charges to customers, the Company proceeded to implement the decision because lower prices for coal on the spot market will result in lower fuel costs for customers. The Commerce Commission, however, left open the possibility of recovering these costs in a future electric rate case. We will vigorously pursue recovery of these costs at the earliest opportunity.

The decision to delay construction of a new power plant in Guthrie County, Iowa has reduced pressure to finance large capital expenditures. It is expected that the Company will essentially be able to finance its capital programs for the rest of the 80's with internally generated funds.

Containment of capital expenditures is central to a strategy adopted in 1983 to stabilize electric rates. One of our goals is to avoid electric rate increases until 1986 or beyond, and then only at levels consistent with overall economic price changes.

Strategic Planning

In 1984, the officers and senior management of the Company completed the first phase of a comprehensive strategic planning process. The result of this effort strengthened our commitment to reach out into new business areas not generally associated with the regulated utility business. In order to continue our goal of positive financial performance and to increase future returns on our investment in the Company, the strategic planning process confirmed the need for Iowa Electric to diversify. We intend to pursue diversification as an alternative business strategy and organize for success before aggressively venturing into new areas.

Co-generation, alternative energy technology and expansion of the operation of the Cedar Rapids and Iowa City Railroad Company, a subsidiary of the Company, continue to be the leading candidates for diversification. Diversification is a long-term process, and we will not consider quick, high-risk investments.

Utility Operations

The Company made fundamental changes in its electric rate structure which distributes costs more fairly among residential, industrial, commercial, and farm customers. In addition, seasonal rates have been revised to encourage more rational energy consumption and orderly load management during seasonal peaks.

Last year 64 percent of the electricity generated by the Company was produced by the state's only nuclear power plant, the Duane Arnold Energy Center. We will also continue to take advantage of the newly formed, state-wide generation consortium, ENEREX, to provide to our customers the lowest cost electricity available at any given hour of the day. ENEREX is an entity created in 1984 by five major utility companies in the state with the sole purpose of state-wide economic energy dispatch.

Consumer prices for natural gas remained stable in 1984. With the current price stability, the rate of the decline in natural gas consumption experienced in recent years has decreased. We expect this trend to continue.

Marketing

Iowa Electric is a leader in promoting innovative time-of-day discount rates. Efforts to market time-of-day rates will continue into 1985 and beyond, because they offer rewards to both consumers and the Company. Consumers save money on electric bills and the Company benefits from reduced pressure to build expensive new generating facilities to meet peak demands for electricity.

In the industrial sector, customer response has been good. Most of our industrial customers are now on time-of-day rates and they are realizing substantial savings in energy costs.

Employees and the New Corporate Culture

The major strength of Iowa Electric continues to be its employee base. By voluntarily joining with management to contain costs by accepting a one year wage freeze, employees demonstrated their commitment to contribute to the financial stability of our Company.

Our early retirement program resulted in the departure of many skilled employees, as well as a significant number of managers and department heads. While their loss was keenly felt, it is a tribute to our present personnel that the transition to a leaner and realigned organization was accomplished with a minimum of difficulty.

Our employees continue to help the Company solidify its position as a good corporate citizen in the communities we serve. The confidence level by consumers in our Company remains high as evidenced by

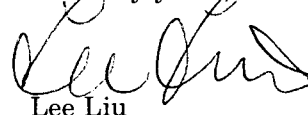
Stevan B. Smith retired from the Board of Directors in early February, 1985 after nearly 50 years of service as a valued employee, officer, and member of the Board of Directors. He has been named a Director Emeritus.

J. B. Rehnstrom, Senior Vice President-Finance and Secretary of the Company, was named to succeed Mr. Smith. Mr. Rehnstrom has served in a number of accounting and financial positions since joining the Company in 1959. He was named to his present position in 1978.

Iowa Electric will continue to grow with Iowa. We will vigorously market our services, adjust to the economic environment we face, and continue to improve our Company for the benefit of stockholders, customers, employees, and the communities we serve.

Our financial performance in 1984 is a strong indication that our corporate direction and strategy are on the right track. We are going to continue working hard to sustain this progress.

Sincerely yours,



Lee Liu

1984 Review

Financial Highlights

Earnings of the company gained momentum during 1984. Per share earnings were \$2.41 compared with \$2.14 in 1983. This increase was in large measure the result of an aggressive cost containment program placed into effect in 1984. It allowed the Company to report a 13 percent gain in earnings per share despite a general downturn in the economy of the State of Iowa.

The cash portion of earnings remains strong. At 4 percent of net income, the allowance for funds used during construction, a non-cash component of earnings, is at its lowest level in seven years, retreating from a high of 35 percent in 1980.

It is significant to note that earnings increased even though total kilowatt-hour sales dropped slightly during the year, while sales of natural gas increased a

This positive financial result is reflective of a new corporate culture at Iowa Electric. Management and employees share a common interest: to achieve our financial and operational goals while providing our customers with the highest quality service at the lowest achievable cost.

One of our goals in 1984 was to minimize the yearly rise in expenses and we were successful in that effort. While inflation and the costs naturally associated with maintaining plant in service caused total operating expenses in 1984 to be more than 1983, the rate of increase of these costs was reduced significantly. Operating expenses were up 4 percent in 1984, versus a 12 percent rise in 1983.

Net income available for common stock in 1984 increased 29 percent over 1983, from \$23.3 million to \$30.0 million. Operating revenues increased 5 percent over 1983, from \$444.7

benefiting from a \$40.0 million settlement in March of a \$44.2 million electric rate case filed in July, 1983. This settlement resulted in a refund of \$4.7 million to our customers.

An overall return on common equity of 13.5 percent was realized in 1984. While below the 14.7 percent return granted by the Iowa State Commerce Commission (ISCC) in our last electric rate case, the return increased significantly over the 11.6 percent earned in 1983. The overall return was aided by another profitable year from the Company's subsidiary, the Cedar Rapids and Iowa City Railway Company.

For the ninth consecutive year, dividends declared on common stock were increased. Most recently, the Board of Directors at its meeting on November 7, 1984 declared a dividend of \$.475 per share, payable January 1, 1985. This is equivalent to an annual rate of \$1.90 compared to \$1.84 in 1984.

Iowa Electric remains committed to pay out to shareholders dividends consistent with our earnings and that of the industry in general.

The market price of the Company's common stock of \$18.00 per share at year-end was essentially at book value and the highest since 1972. We believe that positive operating results, continued reduced pressure on our construction program resulting in a diminished need for outside financing, and the prospects for more stable interest rates will continue to favorably affect our stock price.

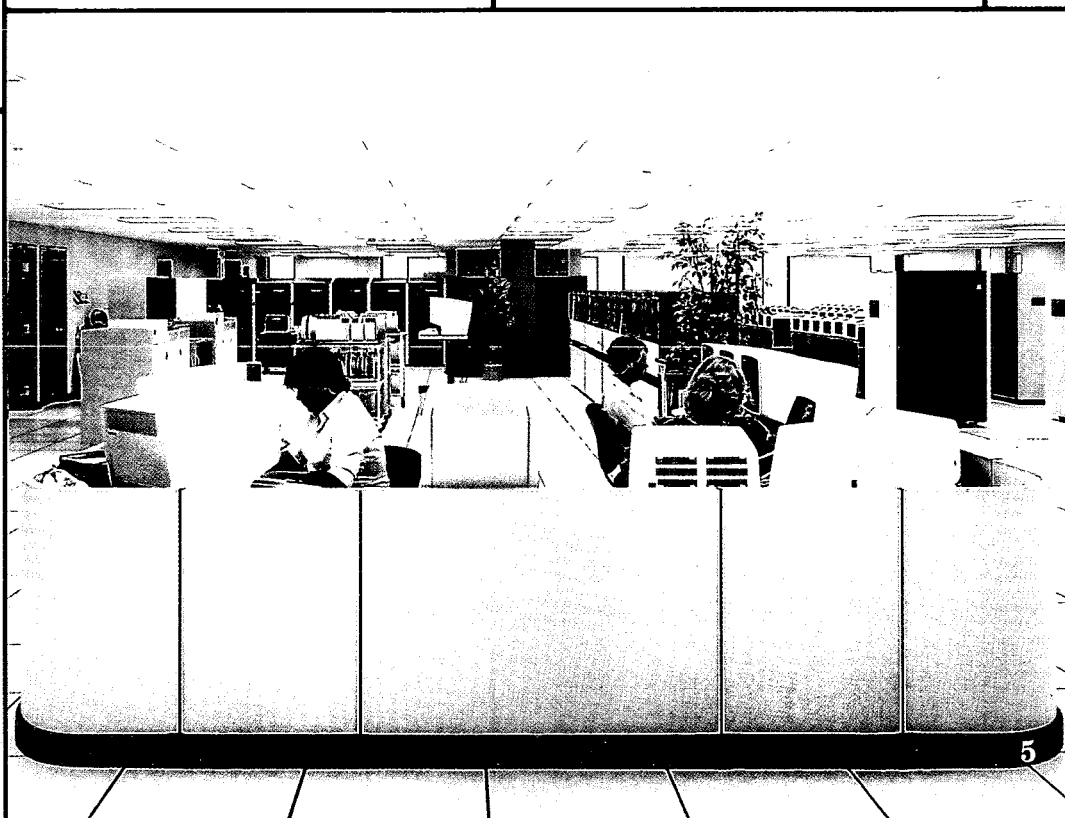
Shareholders may reinvest their dividends in additional shares of common stock through the Company's Dividend Reinvestment and Stock Purchase Plan. At year-end, 28 percent of all Iowa Electric shareholders were participating in the Plan and 30 percent of the total number of outstanding shares were being reinvested in the

Plan. The Economic and Tax Recovery Act of 1981 will continue to provide tax advantages to utility shareholders who reinvest their dividends through 1985. Up to \$1,500 (for married persons filing a joint tax return) of utility dividends may be excluded for Federal income tax purposes when these dividends are reinvested. A prospectus for the Plan may be obtained by writing to the Company.

At year-end, the Company had 32,805 common shareholders and 3,006 preferred and preference shareholders.

The Company expects to complete the year 1985 without seeking an increase in the rates charged for electricity. We successfully met our goal to stabilize the Company's utility rates in 1984. We recognize that consumer costs for utility service have risen significantly in the past ten years, and we are committed to our cost containment

At right is the computer room at Banks of Iowa Computer Services located in the Life Investors building. The company provides extensive data processing services for many banks in the State of Iowa and surrounding states.



program, which we believe will provide significant benefits to both consumers and stockholders.

Our strategy for the future is to increase revenues and earnings in ways other than through increasing prices for electricity and natural gas service. The strategic planning process begun last year indicated that increases in earnings can be achieved by investing in expansion outside of regulated utility operations. We will, however, be cautious in this regard, and make such investments only when we have as much assurance as can be gathered that such investments will prove to be successful.

Operations

During 1984, the Company did not experience growth in total kilowatt-hours sold. In fact, total kilowatt-hour sales declined slightly from 1983. Sales to residential customers declined 5 percent, and sales to rural customers declined 1 percent. Sales to commercial customers in 1984 were virtually the same as in 1983.

The bright spot in kilowatt-hour sales was in the industrial customer class. Such sales increased 6 percent, from 1.3 billion in 1983 to 1.4 billion in 1984. This compares with essentially flat industrial sales if the 1983 sales year is compared to 1982.

The five year compound growth rate in electric sales declined slightly from 1.8 percent last year to 1.4 percent. Our peak load for 1984 was 966,935 kilowatts, 18,521 kilowatts lower than 1983.

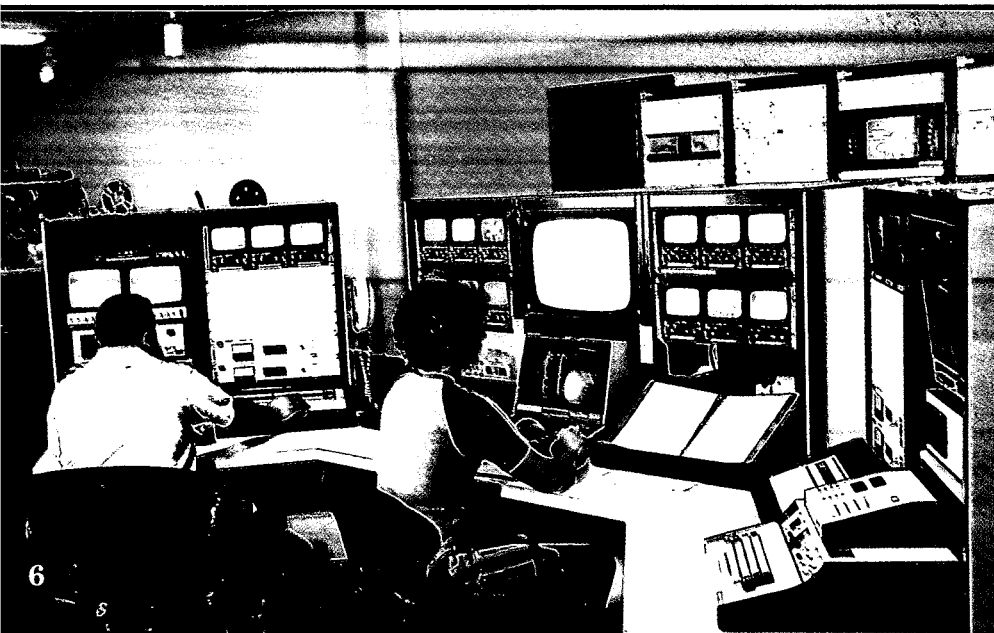
Electric capability available at the time of peak was 1,147,150 kilowatts, consisting of 998,150 kilowatts from Company owned and operated facilities, supplemented by 149,000 kilowatts from purchased power and other sources.

Fossil generation provided approximately 24 percent of Iowa Electric's electric power requirements, while the Duane Arnold Energy Center, Iowa's only nuclear-fueled generating station, provided 41 percent of our requirements.

Nuclear fuel continues to be the least expensive electric energy source. The average cost for fuel in 1984 was \$1.55 per million Btu's burned, a decrease of 4 cents from 1983. Nuclear fuel costs were \$.84 cents per million Btu's burned, while coal was



Starting in 1966 with less than 200 students, Kirkwood Community College in Cedar Rapids has grown to an enrollment of over 30,000 full-time, part-time and adult education students.



\$2.61. Oil was the highest cost fuel source at \$5.96, and natural gas costs were \$4.23 per million Btu's burned.

The Company's service territory did not experience a prolonged hot summer as it did in the previous year, thus creating a lower demand for summer electricity. Also, the Company implemented a new price strategy to give the correct pricing signals to those customers with low load factors and high energy demand. We expect the new price structure to mitigate future summer electric demand and reduce pressure on the Company to build expensive generating stations, which serve to meet short-term demand for electricity while driving costs up for those customers who do not add to peak load.

Sales of natural gas in 1984 totaled 34,685,000 dekatherms, a 2 percent increase over the 34,112,000 dekatherms sold in 1983. A 7 percent decrease in industrial firm sales was more than offset by a

3 percent increase in residential sales, a 2 percent increase in commercial sales and a 4 percent increase in industrial interruptible sales.

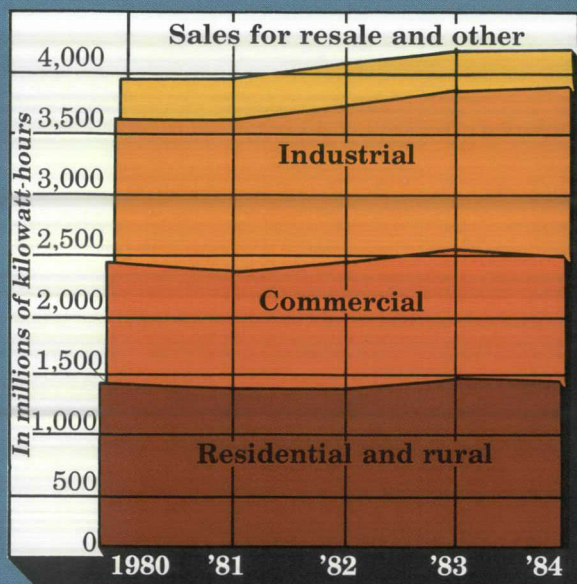
We expect competition with coal and other energy sources to keep natural gas prices fairly stable in 1985. If price increases do occur, they will be far below those increases experienced following the natural gas shortages of a few years ago.



Directors:
David Q. Reed
J.B. Rehnstrom
Leo L. Nussbaum
Henrietta D. Arnold

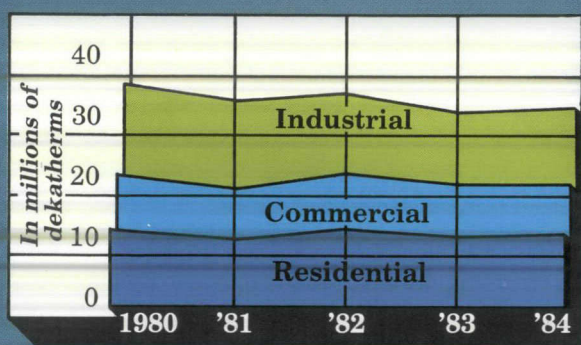


Teleconnect, a Cedar Rapids based company, has developed one of the most innovative, professional telemarketing operations in the nation. Its telemarketing center serves Fortune 500 clients on a national basis and sells Teleconnect services.



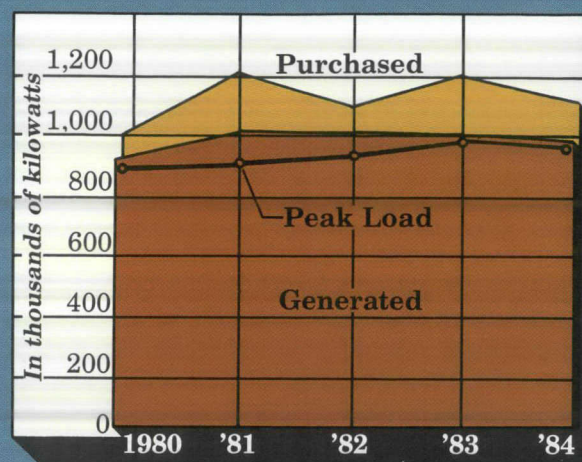
Electric Sales

Electric kilowatt-hour sales showed no change from 1983. Residential sales decreased 5% and rural sales decreased 1%. Commercial sales showed no change while industrial sales increased 6%. Sales for resale and other decreased 4%. The 5-year historical average growth rate is 1.4%.



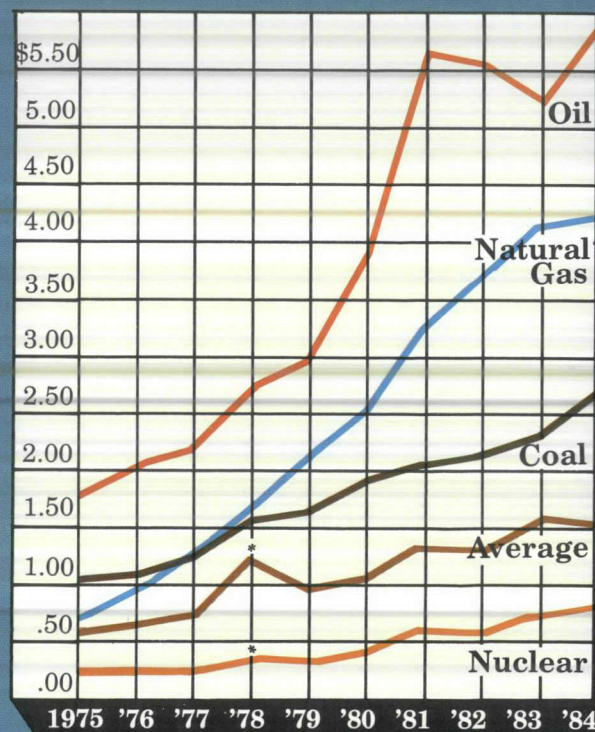
Gas Sales

Gas sales in 1984 totaled 34,685,000 dekatherms, a 2% increase from 1983. Residential sales increased 3% and commercial sales increased 2%. Industrial firm sales decreased 7% while industrial interruptible sales increased 4%.



Electric Capability and Peak Load

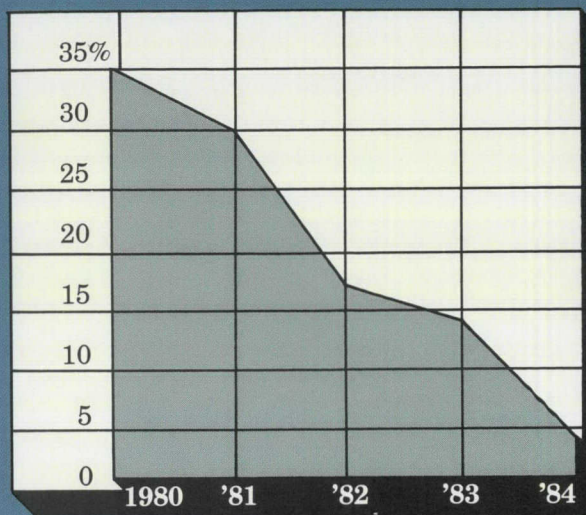
The Company's 1984 peak load of 966,935 kilowatts occurred on August 7. Its additional reserve obligation was 145,040 kilowatts. Available generating capability at that time was 998,150 kilowatts, supplemented by 149,000 kilowatts of purchased capability and other.



*Influenced by unavailability of DAEC

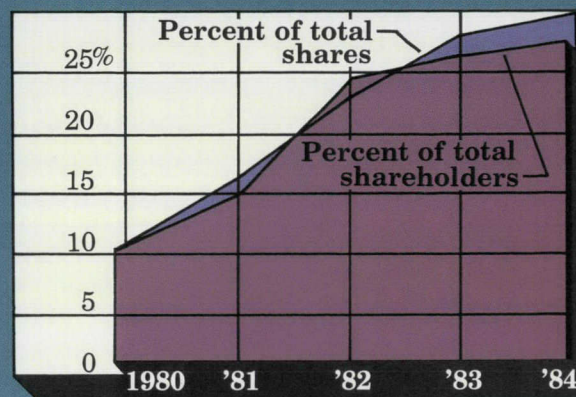
Fuel Cost

(Per Million Btu's Burned)

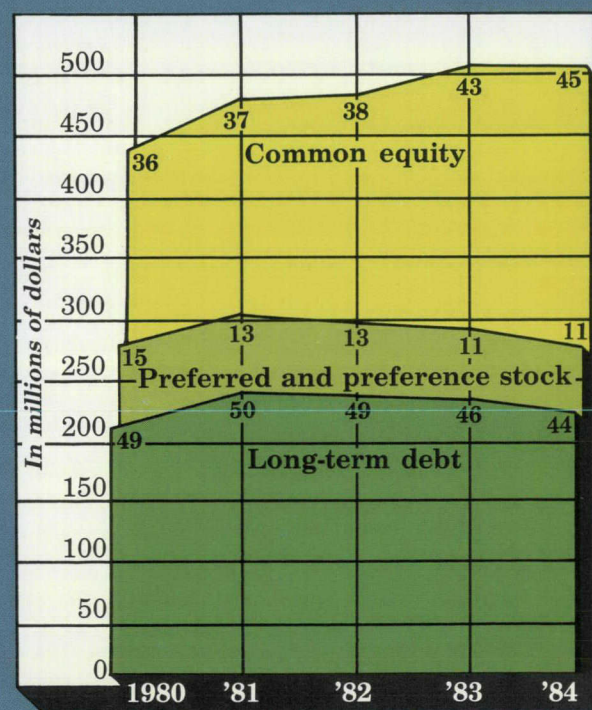


Allowance for Funds Used for Construction as a Percent of Net Income

The allowance for funds used for construction (a non-cash component of income) decreased from 35% of net income in 1980 to 4% in 1984, thus improving the quality of net income.

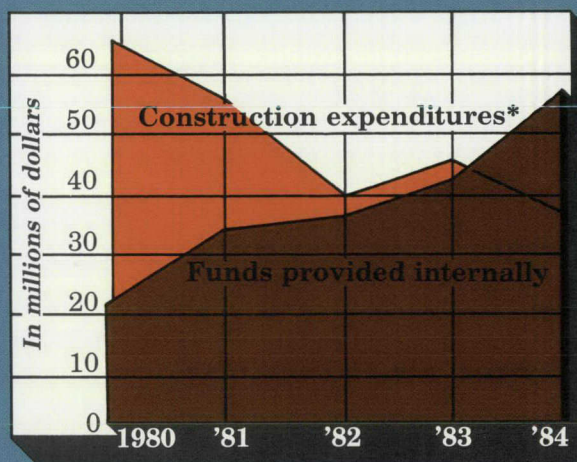


Participation in Dividend Reinvestment and Stock Purchase Plan



Year-End Capitalization

The capitalization ratios at December 31, 1984 show significant improvement from those existing at December 31, 1980.



**Exclusive of allowance for equity funds*

Construction Expenditures and Funds Provided Internally

All funds for construction expenditures were provided internally in 1984, a vast improvement from the 35% provided internally in 1980.

Cost Containment

We believe that with continued containment of operation and maintenance cost increases and a well-managed construction program, future consumer price increases can be held to less than the general trend of inflation in the economy.

The Annual Operational Planning and Reporting System (AOPARS) implemented in 1984 helped managers to control costs. This state-of-the-art computerized system provides timely updates of expenditures allowing frequent review of actual expenses measured against budget. We began the year with a goal to maintain operation and maintenance expenses at 1983 levels, which was achieved. The AOPARS system focused management's attention on cost increases.

Last year we reported a plan to defer building a new generating station originally scheduled for completion early in 1985. Iowa Electric and its partners in the project, Central Iowa Energy Cooperative of Marion and Interstate Power Company of Dubuque, have determined that the proposed plant will not be needed before the mid-1990s. As a result, all commitments for the purchase of equipment and machinery were cancelled or deferred.

The following were factors in the decision to delay this project: a pause in the growth rate of power requirements, the significant results of our load-management efforts and power availability in Mid-Continent Area Power Pool.

The Company has filed documents with the ISCC to preserve the plant site in Guthrie County, Iowa for future use as an electric generating facility.

Consumer costs for electric service will also be favorably affected by the Company's ability to finance construction costs in the near future almost entirely from internal sources. Early in 1985 the Company sold \$35,000,000 of First Mortgage Bonds by private placement to several institutional investors. The bonds, due in 1988, bear an interest rate of 11 percent. Proceeds will be used to retire outstanding commercial paper and for other corporate purposes including a \$16,550,000 payment for nuclear waste disposal which is due prior to June 30, 1985. The commercial paper had been issued primarily to finance the cancellation of the coal contract referred to below.

The Company announced in October, 1984 a decision to cancel two expensive long-term coal contracts. A payment of \$31.9 million to coal producers would be



Directors:
William O. Gray
James A. Van Allen
Lee Liu
Richard E. Scherling

required to free the Company of these contracts. The largest contract has been terminated.

It is estimated that cancellation of the coal contracts would result in net savings exceeding \$9 million the first year and approximately \$123 million over the 13-year period of the contracts. The Company intends to pass these savings on to customers. Savings to the average residential customer after considering contract cancellation costs are estimated at \$18 in the first year and \$246 over the entire period.

The Company asked the ISCC to pass along the costs for cancelling these contracts to consumers through its fuel adjustment clause. Although the request was denied, the ISCC indicated the matter should be reviewed in a future general rate case.

Since purchase of coal at lower prices on the spot market will result in lower consumer costs, the Company believes that customers should bear the cost of

contract cancellation. Even with such costs added in, as noted above, consumers will realize a significant net savings over the 13-year period.

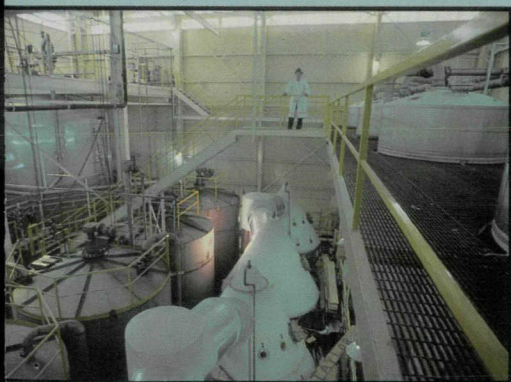
In February, 1984 the Board of Directors announced a retirement incentive program designed to reduce the Company's annual payroll. When the offer expired June 30, 1984, 221 of the 283 eligible employees elected early retirement. While the plan resulted in a \$2.3 million charge to income in the first six months of the year, the program produced a substantial reduction in the Company's annual payroll.

At year-end, the Company's workforce had been reduced 9 percent, from 1,618 to 1,472 employees.

The Company's Consumer Advisory Panel continues to be a key factor in the Company's link to its customers. The 12-member panel meets monthly with key members of management and openly discusses key facets of Company operations.

This year's agenda included a meeting with the three person ISCC and members of its staff. Iowa Electric consumer concerns were brought to the attention of the ISCC. Panel members, on the other hand, received first hand information on the responsibilities of the body that regulates utilities in the state.

We are convinced of the importance of this Advisory Panel to present and future relations with our customers, and offer encouragement to other utility companies to develop such a forum for the exchange of views of customers and management. We wish to thank David Ziegler, Marilyn Naughton and Gordon Dunn for donating their time during the first year of the Panel's existence. These members have resigned due to other commitments. Mr. Dunn, recently was named Energy Conservation Programs Coordinator of the ISCC staff in Des Moines.



This ADM-Corn Sweeteners plant manufactures sweeteners made from corn that is used in soft drinks and other consumer products.



Economic Outlook

The task of coping with a sluggish state economy is the major challenge facing the Company in the future, but there are bright spots ahead for business and industry in Iowa Electric's service territory, and the Company is well positioned to grow financially as the state's economy recovers.

Exporting has been a key factor in the Iowa economy. The export of farm products, farm implements and other manufactured items have been the linchpin of the gross State product. A strong dollar and the imbedded cost of high interest on loans to farmers and farm related businesses are seen as the reasons Iowa's export sales have declined over the past several years.

There is reason, however, to be optimistic about the future of the economy in Iowa Electric's service area. To that end, the Company has intensified its marketing program by working together with state and local business

development programs. Our goal is to attract new business and industry to the state, expand existing ones, and provide them with the energy necessary to support economic growth.

One example which supports our optimistic outlook for the future is the Norand Corporation, headquartered in Cedar Rapids, Iowa.

Norand is the leading company in the manufacture and distribution of hand-held computer terminals used on route distribution systems. The company also manufactures a sophisticated electronic cash register system.

The Company's workspace has grown as well as its work force. Within the past year, Norand has almost doubled the space that it occupies in Cedar Rapids, bringing the total area to about 210,000 square feet. The company's work force has grown to about 750, an increase of 100 over a year ago. About 550 employees work in the

company's Cedar Rapids facilities, and it expects to increase that number by about 50 during 1985.

Norand is optimistic about its future, contemplating growth at an aggressive rate.

Another Cedar Rapids based firm that has flourished despite economic recession is Oak Hill Engineering, Inc. This 10-year old manufacturing concern is unique for another reason; it is the state's largest minority-owned manufacturer.

Oak Hill Engineering manufactures the wiring systems that connect the electrical units in motors and engines. The company's largest customer is the John Deere Tractor Works in Waterloo, Iowa.

Begun as a community project to provide employment opportunities for minority and disadvantaged Cedar Rapids residents, Oak Hill Engineering has a stable base



*Directors Emeritus:
Stevan B. Smith
John W. Norris*

The new public library in Cedar Rapids houses over 120,000 volumes. Its architectural design has been recognized nationally.



of 45 employees. Recently the company became the largest single stockholder in a new venture that will market an electronic device designed for energy management systems in hotels and other commercial buildings.

In 1984, Oak Hill Engineering began manufacturing wiring systems for nearby Amana Refrigeration (energy for the huge Amana facility is supplied by Iowa Electric through a company wholesale customer). Oak Hill hopes to double its business with Amana in 1985.

Norand Corporation and Oak Hill Engineering are just two of the bright spots in the economy of our service territory, selected to be highlighted for the benefit of our stockholders. They typify the spirit of the state's slogan "Iowa, a Place to Grow". And there are others:

The Teleconnect Company, headquartered in Cedar Rapids, was founded in late 1979 and started by selling telephone systems to

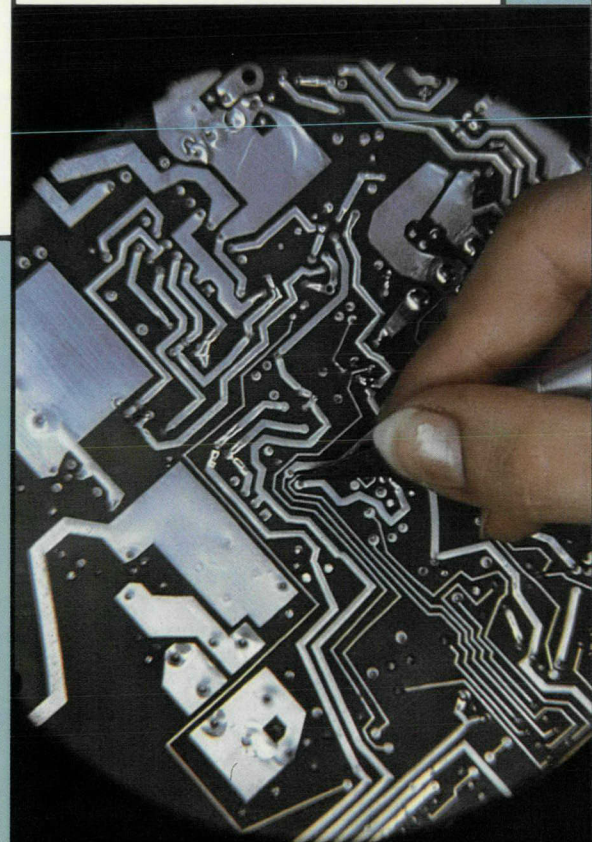
businesses. In 1982 the firm became a long distance resaler. Today Teleconnect provides discounted long distance service to more than 90,000 residential and business customers in nearly all major cities in Iowa, a number of Illinois cities and Omaha, Nebraska. The long distance service led to the development of a major telemarketing operation, now serving a number of major U.S. corporations. The Company has experienced steady growth, with employment reaching 650 by early 1985. Teleconnect, a privately held company, is planning several major telecommunications developments in the near future.

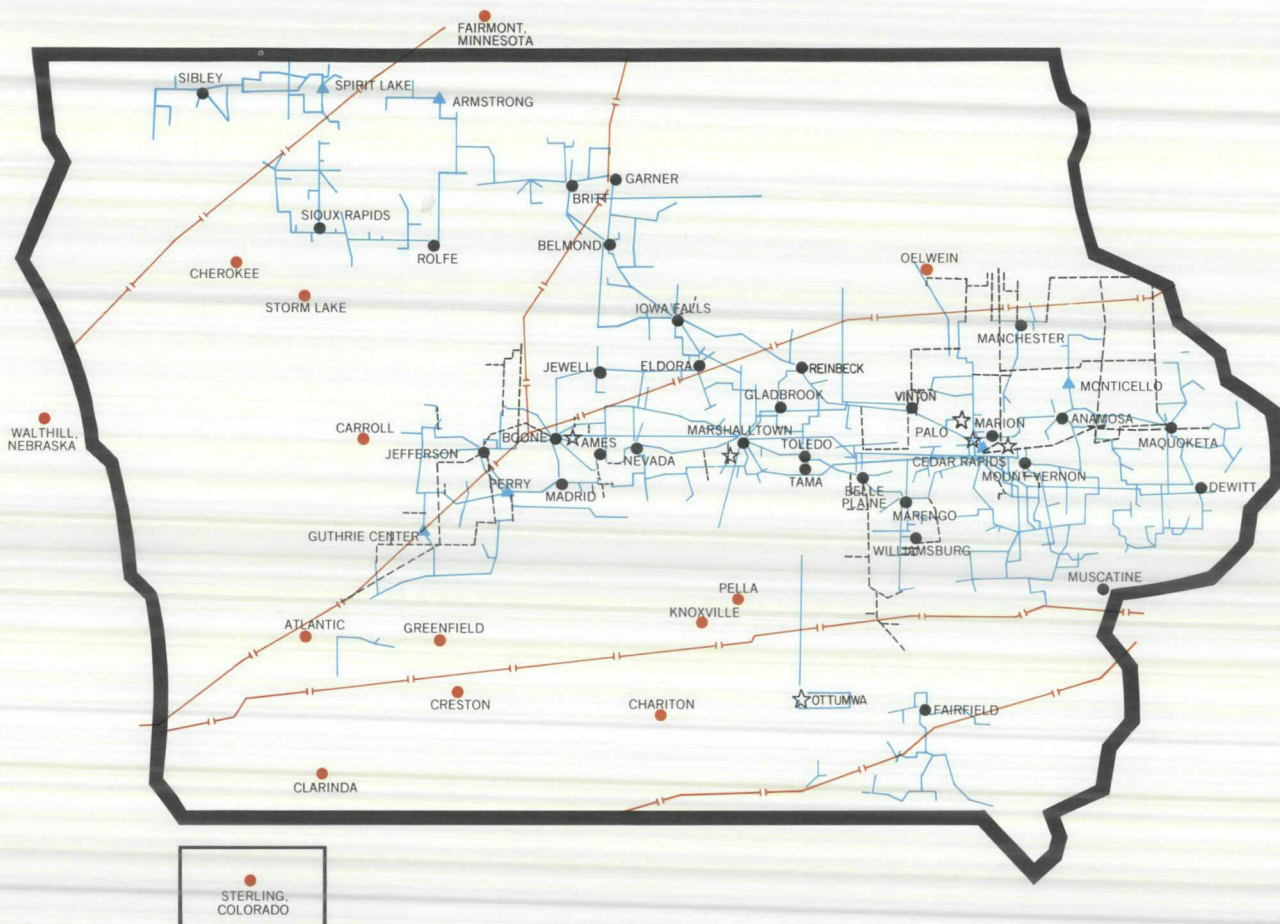
A new all-electric ground transportation center with 180,560 square feet of office space is now fully operational in Cedar Rapids. Construction of a new library, capable of housing 200,000 volumes was recently dedicated. The city's three institutions of higher learning, Coe, Mt. Mercy, and

Kirkwood Community Colleges, and Cornell College in Mt. Vernon, Iowa, just twelve miles away, all reported higher enrollments in 1984 than in the previous year.

We are aware that the financial health of our company is related directly to the economy of the state of Iowa. We are confident that demand-side energy planning and management favorably positions our Company to grow with the state's economy.

Norand Corporation manufactures sophisticated electronic cash register systems. It is a wholly-owned subsidiary of Pioneer Hi-Bred International, Inc., and is headquartered in Cedar Rapids, Iowa. Norand designs, manufactures and markets computer systems and services for the baking, beverage, dairy, snackfood, restaurant and convenience store industries.





ie: System Map



Iowa Electric Light and Power Company

1984 Financial Report

Auditors' Report

To the Board of Directors of Iowa Electric Light and Power Company:

We have examined the balance sheets and statements of capitalization of IOWA ELECTRIC LIGHT AND POWER COMPANY (an Iowa corporation) as of December 31, 1984 and 1983, and the related statements of income, retained earnings, paid-in surplus and sources of funds used for construction for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed more fully in Note 2, the Office of Consumer Advocate has appealed the Iowa State Commerce Commission's order in the Company's 1983 electric rate case. The ultimate outcome of the appeal and related refund obligations, if any, are uncertain at this time.

As discussed more fully in Note 13, the Company has deferred \$20,218,000 related to the termination in 1984 of a contract with a coal supplier. The Company intends to pursue recovery of the coal contract termination costs through the ratemaking process, but the ultimate outcome of this matter is uncertain at this time.

In our opinion, subject to the effects on the 1984 and 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the second and third paragraphs been known, the financial statements referred to above present fairly the financial position of Iowa Electric Light and Power Company as of December 31, 1984 and 1983, and the results of its operations and sources of funds used for construction for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect on the balance sheets to the change, with which we concur, in the method of accounting for capital leases described more fully in Note 3.

Arthur Andersen & Co.

Chicago, Illinois
February 1, 1985

Statements of Income

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Revenues (Note 2):			
Electric	\$297,538	\$276,194	\$246,888
Gas	163,896	162,226	148,945
Steam	6,794	6,293	7,014
	<u>468,228</u>	<u>444,713</u>	<u>402,847</u>
Expenses:			
Gas purchased for resale	136,603	140,844	125,753
Fuel for production	60,698	63,844	57,468
Purchased power, net	63,499	48,010	34,237
Operation —			
Change in adjustment clause balances	(14)	(4,562)	2,752
Other	68,147	67,234	57,794
Maintenance	23,354	24,867	19,546
Depreciation	29,522	27,494	25,790
Property taxes	13,776	12,128	12,196
Federal and state income taxes	14,563	15,882	18,821
Miscellaneous taxes	3,895	2,722	2,487
	<u>414,043</u>	<u>398,463</u>	<u>356,844</u>
Operating income	<u>54,185</u>	<u>46,250</u>	<u>46,003</u>
Other income and deductions:			
Allowance for equity funds used during construction	902	1,624	1,731
Income from subsidiaries	1,939	2,122	2,245
Miscellaneous, net	1,542	912	661
	<u>4,383</u>	<u>4,658</u>	<u>4,637</u>
Interest:			
Long-term debt	21,231	21,539	21,895
Other	3,514	3,784	4,660
Allowance for debt funds used during construction	(609)	(2,313)	(2,951)
	<u>24,136</u>	<u>23,010</u>	<u>23,604</u>
Net income (Note 2)	<u>34,432</u>	<u>27,898</u>	<u>27,036</u>
Preferred and preference dividend requirements	<u>4,409</u>	<u>4,609</u>	<u>4,789</u>
Net income available for common stock (Note 2)	<u>\$ 30,023</u>	<u>\$ 23,289</u>	<u>\$ 22,247</u>
Average number of common shares outstanding	<u>12,445</u>	<u>10,901</u>	<u>10,339</u>
Earnings per average common share (Note 2)	<u>\$2.41</u>	<u>\$2.14</u>	<u>\$2.15</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Balance Sheets

ASSETS	December 31	
	1984	1983
	(in thousands)	
Utility plant, at original cost:		
Plant in service —		
Electric	\$787,500	\$764,696
Gas	69,586	67,173
Other	20,021	14,902
	<u>877,107</u>	<u>846,771</u>
Less — Accumulated depreciation	303,233	275,500
	<u>573,874</u>	<u>571,271</u>
Leased nuclear fuel, at amortized cost	40,808	31,920
Construction work in progress	29,794	38,388
Plant held for future use	11,734	219
	<u>656,210</u>	<u>641,798</u>
Investments:		
Wholly-owned subsidiaries at underlying book value —		
Cedar Rapids and Iowa City Railway Company	11,268	9,381
Iowa Land and Building Company	4,984	4,701
Industrial Energy Applications, Inc.	969	1
Other	1,116	549
	<u>18,337</u>	<u>14,632</u>
Current assets:		
Cash	1,714	1,261
Cash on deposit with trustee	10,354	597
Accounts receivable —		
Customer, less reserve	42,833	55,841
Other	4,962	12,978
Income tax refunds receivable	5,147	3,717
Production fuel, at average cost	25,501	17,883
Materials and supplies, at average cost	6,428	5,936
Adjustment clause balances	2,208	2,194
Prepayments and other	11,156	15,902
	<u>110,303</u>	<u>116,309</u>
Deferred charges (Note 13)	<u>41,557</u>	<u>22,166</u>
	<u><u>\$826,407</u></u>	<u><u>\$794,905</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CAPITALIZATION AND LIABILITIES	December 31	
	1984	1983
	(in thousands)	
Capitalization:		
Common stock	\$ 31,685	\$ 30,236
Paid-in surplus	130,751	123,649
Retained earnings	67,743	60,840
Total common equity	230,179	214,725
Preferred stock	18,320	18,320
Redeemable preference stock	36,156	39,250
Long-term debt	220,252	233,108
Total capitalization (see Statements of Capitalization)	504,907	505,403
Current liabilities:		
Commercial paper	25,450	15,365
Nuclear fuel lease obligation	7,936	8,977
Long-term debt maturities	9,800	800
Debt sinking fund requirements	3,133	3,133
Preference stock sinking fund requirements	3,094	3,094
Accounts payable	36,230	48,882
Accrued interest	3,299	3,320
Accrued taxes	15,790	13,385
Replacement power refund	—	6,771
Nuclear waste disposal	17,026	807
Accumulated refueling outage provision	8,152	—
Other	7,508	9,015
	137,418	113,549
Other long-term liabilities:		
Nuclear fuel lease obligation	32,872	22,943
Other	8,538	19,513
	41,410	42,456
Deferred credits:		
Accumulated deferred income taxes	100,658	97,285
Accumulated deferred investment tax credits	42,014	36,212
	142,672	133,497
Commitments and contingencies		
	\$826,407	\$794,905

Statements of Capitalization

	December 31	
	1984	1983
	(in thousands)	
Common equity:		
Common stock — par value \$2.50 per share — authorized 24,000,000 shares; outstanding 12,673,902 and 12,094,485 shares, respectively	\$ 31,685	\$ 30,236
Paid-in surplus	130,751	123,649
Retained earnings (\$24,863,000 restricted as to payment of cash dividends)	67,743	60,840
	<u>230,179</u>	<u>214,725</u>
Cumulative preferred stock — par value \$50 per share — authorized 466,406 shares; outstanding 366,406 shares —		
6.10% — 100,000 shares	5,000	5,000
4.80% — 146,406 shares	7,320	7,320
4.30% — 120,000 shares	6,000	6,000
	<u>18,320</u>	<u>18,320</u>
Redeemable cumulative preference stock — par value \$100 per share — authorized 700,000 shares; outstanding 392,502 and 423,439 shares, respectively —		
9.50% — 56,252 and 60,939 shares	5,625	6,094
8.92% — 55,000 and 60,000 shares	5,500	6,000
8.65% — 27,500 and 30,000 shares	2,750	3,000
8.55% — 140,000 and 150,000 shares	14,000	15,000
7.96% — 81,250 and 87,500 shares	8,125	8,750
7.44% — 32,500 and 35,000 shares	3,250	3,500
	<u>39,250</u>	<u>42,344</u>
Less — Amount to be redeemed within one year	3,094	3,094
	<u>36,156</u>	<u>39,250</u>
Long-term debt:		
First mortgage bonds —		
Series H, 3 $\frac{1}{8}$ %, due 1985	9,000	9,000
Series I, 5 $\frac{1}{8}$ %, due 1991	16,000	16,000
Series J, 6 $\frac{1}{4}$ %, due 1996	15,000	15,000
Series K, 8 $\frac{5}{8}$ %, due 1999	20,000	20,000
Series L, 7 $\frac{7}{8}$ %, due 2000	15,000	15,000
Series M, 7 $\frac{5}{8}$ %, due 2002	30,000	30,000
Series N, 11%, due 1989	11,100	13,200
Series O, 9.80%, due 1991	6,986	8,019
Series P and Q, 6.70%, due 2006	9,200	9,200
Series R, 8 $\frac{1}{4}$ %, due 2007	25,000	25,000
Series S, 12%, due 2009	25,000	25,000
Series T, 14 $\frac{3}{4}$ %, due 1991	30,000	30,000
Series U, 9 $\frac{7}{8}$ %, due 2000	5,300	5,300
	<u>217,586</u>	<u>220,719</u>
Guarantee of pollution control bonds, 5.71%, \$6,800,000 due serially 1985-1994; \$10,200,000 due 2003	17,000	17,800
Unamortized debt premium and (discount) — net	(1,401)	(1,478)
	<u>233,185</u>	<u>237,041</u>
Less — Amount due within one year	12,933	3,933
	<u>220,252</u>	<u>233,108</u>
	<u>\$504,907</u>	<u>\$505,403</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Statements of Sources of Funds Used for Construction

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Funds provided internally:			
Net income	\$ 34,432	\$ 27,898	\$ 27,036
Non-cash items included in net income —			
Depreciation	29,522	27,494	25,790
Deferred taxes and investment tax credits	9,175	14,347	10,768
Amortization of deferred charges	6,728	2,031	—
Refueling outage provision	8,152	—	—
Allowance for equity funds used during construction	(902)	(1,624)	(1,731)
Other	(1,939)	(2,122)	(2,245)
Total funds provided internally	85,168	68,024	59,618
Less — Cash dividends	27,515	24,489	22,747
Net funds provided internally	57,653	43,535	36,871
Funds from outside financing:			
Net proceeds from issuance of common stock	8,537	25,530	5,100
Net change in commercial paper	10,085	(6,750)	(13,035)
Sinking fund requirements and reduction in long-term debt	(7,027)	(5,226)	(9,226)
Net funds from outside financing	11,595	13,554	(17,161)
Funds provided (required) from other sources:			
Cash and temporary cash investments	(10,210)	935	46
Accounts receivable	19,594	(21,920)	(5,365)
Materials, supplies and fuel	(8,110)	2,135	9,410
Adjustment clause balances	(14)	(4,562)	2,752
Deferred charges	(26,119)	(10,407)	(8,842)
Accounts payable	(12,652)	13,418	3,752
Accrued taxes	2,405	(1,645)	2,788
Amounts billed to partners for prior years' generation construction expenditures	—	—	9,665
Other	3,749	11,207	6,233
Net funds from other sources	(31,357)	(10,839)	20,439
Allowance for equity funds used during construction	902	1,624	1,731
Funds used for construction	\$ 38,793	\$ 47,874	\$ 41,880

Statements of Paid-in Surplus

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Balance at beginning of year	\$123,649	\$102,016	\$ 97,880
Add:			
Proceeds from sales of common stock in excess of par value	7,102	21,633	4,136
Balance at end of year	\$130,751	\$123,649	\$102,016

The accompanying Notes to Financial Statements are an integral part of these statements.

Statements of Retained Earnings

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Balance at beginning of year:	\$ 60,840	\$ 57,513	\$ 53,239
Add:			
Net income (Note 2)	<u>34,432</u>	<u>27,898</u>	<u>27,036</u>
	<u>95,272</u>	<u>85,411</u>	<u>80,275</u>
Deduct:			
Cash dividends declared —			
Preferred stock, at stated rates	914	914	914
Redeemable preference stock, at stated rates	3,495	3,696	3,874
Common stock, at per share rates of \$1.855, \$1.795 and \$1.735, respectively	23,106	19,879	17,959
Expenses in connection with sale of capital stock	14	82	15
	<u>27,529</u>	<u>24,571</u>	<u>22,762</u>
Balance at end of year			
(\$24,863,000 restricted as to payment of cash dividends)	<u>\$ 67,743</u>	<u>\$ 60,840</u>	<u>\$ 57,513</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies:

(a) Depreciation —

Depreciation as provided in the accounts is based on straight-line composite rates which in 1984 averaged 3.6% and 3.0% of the cost of depreciable electric and gas property, respectively. The rates for 1983 and 1982 averaged 3.6% and 3.5%, respectively, for electric and 3.0% for both years for gas.

The Company uses a straight-line depreciation rate based on a 28-year life for the Duane Arnold Energy Center (DAEC). Additions to the DAEC are depreciated over the then remaining life of the plant. The expected life of the plant is difficult to estimate and significant uncertainties exist as to the process (and the related cost) by which the plant will eventually be decommissioned at the end of such life. The Company will continue to review the adequacy of its depreciation provision for the plant and will reflect appropriate changes at any time it is determined that the rate must be revised in order to record and recover all of the estimated costs of the plant (including future decommissioning expenditures) over its life.

(b) Revenues —

The Company records revenue when billed to its customers based on a monthly meter reading cycle. Electric and gas service provided from the date of the latest meter reading to month-end is unbilled.

(c) Allowance for Funds Used During Construction —

The allowance for funds used during construction (AFC), which represents the cost

during the construction period of funds used for construction purposes, is capitalized as a component of the cost of utility plant. The amount of AFC applicable to debt funds and to other (equity) funds, a non-cash item, is computed in accordance with the formula prescribed by the Federal Energy Regulatory Commission. The aggregate gross rates for 1984, 1983 and 1982 were 11.4%, 11.2% and 12.3%, respectively.

(d) Income Taxes —

Federal income tax expense includes provisions for deferred taxes to reflect the tax effect of the difference between depreciation allowed for tax purposes under accelerated methods permitted by the tax laws and that recorded in the accounts. The provision for deferred taxes also includes the tax effects of timing differences between when costs are recorded in the accounts and deducted for tax return purposes related to the Company's adjustment clause balances (see Note 1(e)), the deductions for nuclear waste disposal costs (see Note 10) and coal contract termination costs (see Note 13), and the nuclear refueling outage provision (see Note 1(f)). As these timing differences reverse, the related accumulated deferred income taxes are reversed to Operating income.

In accordance with rate making practices, the tax effects of the interest component of the allowance for funds used during construction, certain capitalized overheads, certain differences in depreciable lives, utility plant removal costs, and certain other timing differences are not being deferred. Iowa state

income taxes were similarly deferred until June 1, 1981, at which time such deferral ceased pursuant to an order of the Iowa State Commerce Commission (ISCC). That order also required that Federal accumulated deferred income taxes provided in excess of the current 46% tax rate be amortized to income over a five year period. Pursuant to the August 1, 1984 court decision discussed in Note 2, certain accumulated Federal and state deferred income taxes previously provided are being amortized to income over seven years.

At December 31, 1984, as a result of rate making practices, Federal and state deferred income taxes have not been provided on cumulative net tax timing differences of \$56,102,000 and \$134,842,000, respectively. The Company believes that the income taxes payable in the future due to the reversal of such timing differences will be recovered through the rate making process.

Investment tax credits are utilized to offset Federal income taxes which otherwise would be currently payable. Such credits (other than those relating to the Company's Employees' Stock Ownership Plan) are deferred currently and are credited against Operating income over the lives of the property which gave rise to the credits.

Federal and state income taxes as set forth in the Statements of Income are comprised of the following:

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Federal income taxes:			
Current	\$ 1,547	\$ (137)	\$ 1,975
Deferred —			
Adjustment clause balances, net	(458)	1,473	(177)
Nuclear waste disposal costs, net	(2,536)	7,619	(411)
Coal contract termination costs	9,300	—	—
Refueling outage provision	(3,750)	—	—
Depreciation and other	7,390	9,124	9,007
Prior years	(6,531)	(2,358)	(2,228)
Investment tax credits —			
Deferred	7,285	355	6,016
Amortization	(1,482)	(1,470)	(1,269)
Employees' Stock Ownership Plan	626	(23)	1,637
Total Federal income taxes	<u>11,391</u>	<u>14,583</u>	<u>14,550</u>
State income taxes:			
Current	2,856	68	3,037
Deferred —			
Depreciation and other	98	(288)	(68)
Prior years	(140)	(109)	(102)
Total state income taxes	<u>2,814</u>	<u>(329)</u>	<u>2,867</u>
Total income taxes	<u>\$14,205</u>	<u>\$14,254</u>	<u>\$17,417</u>
Included in the Statements of Income as:			
Federal and state income taxes	\$14,563	\$15,882	\$18,821
Other income and deductions	(358)	(1,628)	(1,404)
	<u>\$14,205</u>	<u>\$14,254</u>	<u>\$17,417</u>

The overall effective income tax rates shown below were computed by dividing total income tax expense by the sum of such expense and Net income, after reflecting the income taxes associated with the subsidiaries' net income included in Other income and deductions.

	Year Ended December 31		
	1984	1983	1982
Statutory Federal income tax rate	46.0%	46.0%	46.0%
Add (deduct):			
Allowance for funds used during construction	(1.4)	(4.1)	(4.6)
Utility plant removal cost	(1.0)	(1.0)	(1.0)
Amortization of investment tax credits	(2.9)	(3.3)	(2.7)
Amortization of certain accumulated deferred income taxes over five and seven years	(6.0)	(1.2)	(1.1)
Effect of court decision on prior years	(8.2)	—	—
State income taxes, net of Federal benefits	3.1	0.1	3.9
Other items, net	2.4	0.3	1.4
Overall effective income tax rate	<u>32.0%</u>	<u>36.8%</u>	<u>41.9%</u>

(e) Adjustment Clauses —

The electric Energy Adjustment Clause is designed to reflect the current costs of fuel (including nuclear fuel and an estimated cost associated with nuclear waste disposal (see Note 10)) and the energy portion of purchased power in billings to customers. The clause is based on the estimated cost of fuel consumed and the estimated energy cost of purchased power for the current month and the immediately preceding month. A correction factor is included to reflect previous over-or-under collections of revenue resulting from variances between the actual cost of fuel consumed and the amount included in billings to customers. The Company records the change in over-or-under collections by charging or crediting operation expense, and reflects the cumulative effect in the Balance Sheet as a Current asset or Current liability, pending automatic reflection in future billings to customers.

The Company's gas tariffs include clauses designed to reflect changes in the cost of gas purchased for resale on a current basis.

(f) Accumulated Refueling Outage Provision —

The ISCC allows the Company to collect as part of its base revenues funds required to offset higher operation and maintenance expenditures during refueling outages at the DAEC. Other operation and maintenance expenses are charged as such revenues are collected with such amounts being accumulated to offset the higher expenses during the period of the outage. The amount accumulated in 1984 was \$8,152,000 and is equivalent to the revenues collected for this purpose.

(2) Rate Matters:

The financial statements include the following amounts which were billed subject to refund pending final regulatory decisions:

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Electric revenues	\$ 2,977*	\$ 1,438*	\$ 110
Net income and Net income available for common stock	\$ 80	\$ 63	\$ 54
Earnings per average common share	\$ 0.01	\$ 0.01	\$ 0.01

**Of the above amounts, \$2,814,000 for 1984 and \$1,310,000 for 1983 relate to a deferred income tax issue and a refund would not significantly affect net income. Should the Company be required to refund such revenue, related deferred income taxes which have been provided would be reversed.*

Electric and gas retail rate increases filed in 1981 were settled, except for the legality of employee discounts, in conjunction with the 1983 electric rate case discussed below, by a joint motion approved by the Linn County District Court on August 1, 1984. In an Order dated October 19, 1984, the ISCC ruled that there was no refund obligation in connection with the settlement of the 1981 electric case. With respect to the gas case, the Company was ordered by the ISCC to refund \$367,000, including interest of \$111,000. The refund has been made.

On May 27, 1983, the Company filed for an electric rate increase of \$44.2 million on an annual basis. The ISCC allowed the Company to collect, subject to refund, \$43.6 million on an interim basis commencing July 14, 1983. Subsequently, in an Order dated March 26, 1984, the ISCC allowed a rate increase of \$40.0 million. The Company appealed to Linn County District Court certain disallowances by the ISCC and obtained a stay so as to allow the collection, subject to refund, of revenues at the interim rate level pending the appeal. The Consumer Advocate also appealed the ISCC Order contesting certain issues.

On August 1, 1984, the Linn County District Court granted a motion filed jointly by the Consumer Advocate and the Company limiting issues on appeal and approving rates approximating \$40.0 million on an annual basis.

The issues remaining on appeal by the Company relate to the legality of employee discounts for utility service and a single deferred income tax issue. On January 17, 1985, the Court issued its order overturning the ISCC on the issue of employee discounts, remanding the matter back to the ISCC for further hearings.

The issues remaining on appeal by the Consumer Advocate would require a significant reduction of the \$40 million rate increase if decided against the Company. A future court decision adverse to the Company relating to one of the issues would result in an immediate refund obligation. An adverse decision on the remaining issues on appeal would result in refund obligations through prospective reduction in rates. The Company is of the opinion that the likelihood of an appellate decision overturning the ISCC's Order on any of the issues remaining on appeal by the Consumer Advocate is remote. Accordingly, such amounts have not been reflected in the above table. The appeal process is expected to take a minimum of one year and may possibly take longer if the appeal is taken to the State's highest court.

In accordance with the joint motion, the ISCC approved the Company's refund plan. A refund of \$4,676,000, including interest of \$588,000, has been made.

(3) Leases:

The Company has a nuclear fuel lease covering its 70% undivided interest in the nuclear fuel purchased for the DAEC. Future purchases of fuel may also be added to the fuel lease. The lease provides for annual one-year extensions which the Company presently intends to exercise to a date not later than December 31, 2023. The credit agreement between the lessor and the bank has a termination date of December 31, 1987, but will continue on a year to year basis unless either party provides at least a one year notice of termination. The maximum amount of financing available under the agreement is currently \$50,000,000. The Company is responsible for the payment of taxes, maintenance, operating cost, risk of loss and insurance relating to the leased fuel.

Annual nuclear fuel lease expenses include the cost of fuel, based on the quantity of heat produced for the generation of electric energy, plus the lessor's interest costs related to fuel in the reactor and administrative expenses. These expenses (included in fuel for production) for 1984-1982 were \$11,408,000, \$9,815,000 and \$8,703,000, respectively. The estimated annual expenses for fuel currently under the lease will approximate \$7,936,000, \$9,701,000, \$7,867,000, \$7,267,000 and \$5,401,000 for 1985-1989, respectively.

Effective in 1984, pursuant to Financial Accounting Standards Board Statement No. 71, the lease is reflected on the Balance Sheet as a capital lease. The prior period Balance Sheet has been restated.

Operating lease rental expenses were \$6,014,000, \$4,593,000 and \$2,997,000 for 1984-1982, respectively. For the years 1985-1989, minimum annual rental commitments for leases in excess of one year will approximate \$3,802,000, \$3,449,000, \$2,709,000, \$2,772,000 and \$2,743,000, respectively.

(4) Retirement Plan:

The Company and its wholly-owned railway subsidiary have a non-contributory retirement plan for the benefit of their employees. The Company follows the policy of funding all pension costs accrued. Total pension cost requirements paid to the Trustee were \$3,076,000, \$3,678,000 and \$3,682,000 for 1984-1982, respectively. Payments made from the pension fund to retired employees

and beneficiaries during 1984 totaled \$3,601,000.

Other information supplied by the actuary concerning the plan is as follows:

	December 31	
	1984	1983
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	\$46,185	\$39,364
Non-vested	4,787	4,970
	<u>\$50,972</u>	<u>\$44,334</u>
Net assets available for benefits	<u>\$59,670</u>	<u>\$55,366</u>
Assumed rate of return	<u>7.0%</u>	<u>6.0%</u>

The above benefits were determined using the frozen entry age actuarial cost method, which computes the normal cost as a level percentage of pay.

Several actuarial assumptions were changed in 1984, including the rate of return, mortality, rates of retirement and asset valuation method.

The plan was amended, effective January 1, 1984, to reflect the effects of the Company's early retirement program. All full time employees who attained age 55 with 15 years of service on or before June 30, 1984 were eligible for this program provided they retired no later than July 1, 1984.

Of 283 eligible employees, 221 opted to retire and \$2,291,000 was charged to income prior to July 1, 1984 to account for certain benefits under this program. In addition, a long-term liability (\$5,200,000 as of December 31, 1984) was recorded to reflect the present value of the supplemental retirement benefits to be paid in future periods to the early retirees. A corresponding amount has also been recorded as a deferred charge and is being amortized as the amount is funded through payments to the pension plan and is expected to be recovered through the rate making process in future periods.

The plan amendment had the effect of increasing the liability for accumulated plan benefits by \$12,222,000 and the change in actuarial assumptions decreased such liability by \$6,111,000.

In addition to providing pension benefits, the Company and its railway subsidiary provide certain health care benefits for retired employees. The cost of such benefits is expensed as claims are paid. Such costs totaled \$559,000 for 1984.

(5) Changes in Outstanding Shares of Common Stock:

The following table presents information relating to the issuance of the Company's common stock:

	Shares Reserved at December 31, 1984	Shares Issued		
		1984	1983	1982
Public offerings		—	1,000,000	—
Dividend Reinvestment and Stock Purchase Plan	910,051	523,622	407,612	350,662
Employee Stock Purchase Plan	90,065	41,900	41,511	40,731
Employees' Stock Ownership Plan	219,470	13,895	142,767	412
	<u>1,219,586</u>	<u>579,417</u>	<u>1,591,890</u>	<u>391,805</u>

(6) Preferred and Preference Stock:

The 6.10%, 4.80% and 4.30% Series of Cumulative Preferred Stock are redeemable at the option of the Company upon 30 days' notice at \$51.00, \$50.25 and \$51.00 per share, respectively, plus accrued dividends.

The Cumulative Preference Stock is redeemable at the prices shown below at the option of the Company upon 30 days' notice. However, no redemption may be made as a part of a refunding operation prior to the restricted date shown below, with respect to the 9.50% issue, in anticipation of the incurrence of any debt or the issuance of any equity security, and, with respect to the 8.55% issue, by the application of certain monies having a cost to the Company of less than 8.55% per annum.

Series	Restricted Through	Redemption Prices		
		Present	Through	Subsequent
9.50%	July 1, 1986	\$107.13	July 1, 1986	\$104.75-102.38
8.92%	—	105.82	July 1, 1986	103.59
8.65%	—	106.09	January 1, 1986	103.93
8.55%	October 1, 1988	106.41	October 1, 1988	104.28-102.14
7.96%	—	104.98	October 1, 1988	102.99
7.44%	—	104.32	January 1, 1988	102.46

Cumulative Preference Stock aggregating \$3,093,700 in 1984 and \$2,093,700 annually in 1983 and 1982 was redeemed at par under mandatory sinking fund provisions. Annual sinking fund redemptions of \$3,093,700 in 1985-1989 will be required.

(7) Long-term Debt:

The Company's Indenture securing its First Mortgage Bonds constitutes a direct first mortgage lien upon substantially all tangible public utility property of the Company.

Total sinking fund requirements and debt maturities are as follows for the years shown:

Year	Sinking Fund Requirements*	Debt Maturities			
		Debt Issue	Maturity Date	Amount	Total
1985	\$4,593,000	Series H	1/1/85	\$9,000,000	
		Pollution Control	11/1/85	800,000	\$14,393,000
1986	4,593,000	Pollution Control	11/1/86	800,000	5,393,000
1987	4,593,000	Pollution Control	11/1/87	800,000	5,393,000
1988	4,593,000	Pollution Control	11/1/88	800,000	5,393,000
1989	2,493,000	Series N	9/1/89	2,700,000	
		Pollution Control	11/1/89	600,000	5,793,000

*Includes annual sinking fund requirements of \$1,460,000 for the years 1985-1989 which, by terms of the Indenture under which Series I, J, K, L, M, R and S bonds have been issued, may be satisfied by the pledging of additional property. The Company intends to meet the 1985 requirements for these issues by this means.

The Company's Series P, Q and U bonds secure the obligation of the Company with respect to three series of pollution control revenue bonds issued by three Iowa municipalities.

(8) Commercial Paper:

Commercial paper outstanding at December 31, 1984 amounted to \$25,450,000 and was due at various dates in January, 1985. The weighted average interest rate of such paper was 8 $\frac{5}{8}$ %.

Back-up financing arrangements for the commercial paper are available through lines of credit from commercial banks at generally prevailing rates. Such lines aggregated \$60,000,000 at December 31, 1984.

(9) Commitments and Contingencies:

The construction program for 1985 anticipates expenditures aggregating approximately \$51,000,000 for which the Company has made substantial commitments.

Pursuant to provisions in various nuclear insurance policies, the Company could be assessed retroactive premiums in connection with an accident at a nuclear facility owned by a utility participating in the particular insurance plan. With respect to public liability coverage, the Company could be assessed a maximum of \$3,500,000 per accident with a maximum of \$7,000,000 per year if losses relating to the accidents exceeded \$160,000,000. With respect to excess property damage and replacement power coverages, the Company could be assessed a maximum of \$5,000,000 and \$3,020,000, respectively, if the insurer's losses relating to an accident exceeded its reserves. No such assessments have been made under these policy provisions.

(10) Nuclear Waste Policy Act of 1982:

Under provisions of the Nuclear Waste Policy Act of 1982, the Federal government's nuclear waste disposal program is being partially funded by requiring companies to pay a quarterly charge of 1.0 mill per kilowatt-hour (effective April 7, 1983) for electricity generated by their nuclear power plants. This 1.0 mill is being collected from customers through the energy adjustment clause.

In addition, a one time fee is payable for nuclear waste disposal costs related to electricity generated prior to April 7, 1983. The amount of the one time fee will approximate \$16,550,000. Although this fee may be paid before June 30, 1985 without interest, payment with accumulated interest is not required until shipment of nuclear waste is made, which is not expected to be before 1998. Consistent with the Company's intent to pay the fee in June, 1985, this amount has been classified as a current liability and no interest has been accrued.

At December 31, 1984, \$6,112,000 of the \$16,550,000 had not been recovered from customers and is included in deferred charges. The ISCC Order of March 26, 1984, provides for the recovery of these costs through base rates over a three year period and the deferred charge is being amortized as the cost is recovered. In connection with the electric rate case settlement discussed in Note 2, the Company recorded a catch-up amortization entry in the amount of \$1,743,000 to reflect recovery of these costs through base rates for 1983.

(11) Long-term Power Purchase Contract:

The Company entered into a contract with the City of Muscatine, Iowa for the purchase of power. The contract, which was amended by a Supplement, provides for capacity purchases of 100 Mw through May, 1987, 90 Mw for the next four years and 70 Mw for the final two years. The cost of such capacity purchases, along with the Company's proportionate share of operating and maintenance costs, was \$30,195,000 in 1984.

The above costs, as well as fuel costs, have been reflected in purchased power expense in the Statements of Income since July, 1983 at which time increased rates were placed into effect as a part of the Company's 1983 electric rate increase applications. For the period May 1, 1983 through the dates the increased rates were placed into effect, all capacity purchase costs (approximately \$6,112,000) were deferred. The unamortized deferred costs at December 31, 1984 (\$3,644,000) are being charged against monthly income. The charge is an amount determined by the greater of (1) the actual kilowatt-hour sales in excess of the sales included in the rate case test period (1982), or (2) a minimum amortization (based on contract life) when actual sales are less than test period sales.

Included in Production fuel are \$7,583,000 and \$3,979,000 as of December 31, 1984 and 1983, respectively, of coal inventory stored at the Muscatine Generating Plant.

(12) Plant Held for Future Use:

The Company has a 250 Mw undivided ownership interest in a generating station to be located in Guthrie County, Iowa. On September 27, 1984, the Company announced the postponement of the in-service date of this project until the mid 1990's due to a reduction in the anticipated generating needs of the Company and its two partners. All commitments for the purchase of equipment and machinery were cancelled or deferred. The Company filed with the ISCC to extend the site acceptability and to allow the partners to maintain the site for future power plant use when needed.

The Company's investment in this project at December 31, 1984 was \$13,568,000, of which \$5,214,000 was AFC. Recording of the AFC was discontinued as of September 27, 1984 and \$11,448,000 of the plant cost has been transferred from Construction Work in Progress to Plant Held for Future Use. The balance of such cost (\$2,120,000) has been recorded as a deferred charge and is being amortized over a five year period commencing October, 1984. The Company expects to recover these costs in the future through the rate making process.

(13) Coal Contract Termination:

In October, 1984, the Company exercised a provision in an agreement with a coal supplier to cancel a contract which was to have expired on September 30, 1997. Such action was taken because of lower spot market coal prices and reduced coal requirements. The terms of the agreement specified a contract termination payment of \$20,218,000. This payment was partially off-set by prepayments of \$6,203,000 made in prior years.

The Company filed an application with the ISCC to recover the costs through its fuel adjustment clause. The ISCC denied the Company's petition, but did not object to such termination. The ISCC believes that the termination costs should be made part of a general rate case instead of being recovered through the fuel adjustment clause. The Company has deferred the \$20,218,000 and is vigorously pursuing recovery of these costs through the rate making process. On December 13, 1984, the Company filed a petition with the Linn County District Court for judicial review which alleges that the ISCC's action was in violation of its own rules and regulations by not allowing recovery of such costs through the fuel adjustment clause.

(14) Jointly-owned Electric Utility Plant:

Under joint ownership agreements with other Iowa utilities, the Company has undivided ownership interests in two electric generating stations and related transmission facilities. Each of the respective owners was responsible for the issuance of its own securities to finance its portion of the construction costs.

Iowa Electric Light and Power Company

Kilowatt-hour generation and operating expenses are divided on the same basis as ownership with each owner reflecting its respective costs in its Statements of Income. Information relative to the Company's ownership interest in these facilities at December 31, 1984 is as follows:

	DAEC	Ottumwa Unit 1
	(in thousands)	
Utility plant in service	\$297,036	\$ 61,972
Accumulated depreciation	\$ 86,380	\$ 7,059
Construction work in progress	\$ 25,650	\$ 109
Plant capacity — Mw	500	675
Company's share	70%	15%
In-service date	1974	1981

(15) Segments of Business:

The Company is engaged primarily in the generation, transmission, distribution and sale of electric energy and in the purchase, distribution and sale of natural gas. Certain financial information relating to these segments of the Company's business is presented below:

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Operating results:			
Revenues —			
Electric	\$297,538	\$276,194	\$246,888
Gas	164,330	162,914	149,583
Operating income before income taxes —			
Electric	\$ 58,857	\$ 53,016	\$ 54,830
Gas	9,353	8,951	8,882
Other information:			
Depreciation —			
Electric	\$ 27,245	\$ 25,577	\$ 23,948
Gas	2,140	1,792	1,717
Construction expenditures —			
Electric	\$ 33,102	\$ 44,372	\$ 37,868
Gas	3,046	3,388	3,974
Assets —			
Identifiable assets* —			
Electric	\$676,285	\$653,894	\$609,533
Gas	54,868	53,575	45,591
	731,153	707,469	655,124
Other corporate assets	95,254	87,436	90,196
Total assets	\$826,407	\$794,905	\$745,320

*Includes net utility plant, leased nuclear fuel, production fuel, materials and supplies, and other identifiable assets.

(16) Significant Subsidiary:

The investments in the Company's wholly-owned subsidiaries are stated at their underlying book value, and the net income or loss from such subsidiaries is included in Other income and deductions in the Statements of Income. Certain financial information for the Cedar Rapids and Iowa City Railway Company (CRANDIC) is summarized below:

	Year Ended December 31		
	1984	1983	1982
	(in thousands)		
Operating revenues	\$ 7,754	\$ 7,641	\$ 7,518
Operating income	\$ 1,204	\$ 1,427	\$ 1,163
Net income	\$ 1,887	\$ 1,973	\$ 2,159
Total assets	\$15,526	\$14,387	\$13,676
Total liabilities	\$ 4,259	\$ 5,006	\$ 4,768

The common stock of CRANDIC is pledged under the indenture for the First Mortgage Bonds.

Supplementary Financial Information

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

Results of Operations

Net income has shown continued improvement during the past three years. The following discussion analyzes the various factors affecting net income (the Notes to Financial Statements should be read in conjunction with this discussion).

Electric revenues increased due to the following factors:

	Electric Revenues Increase (Decrease) from Prior Year		
	1984	1983	1982
	(in millions)		
Rate increases	\$25.7	\$20.9	\$10.8
Recovery of fuel costs	(1.1)	1.6	10.1
Sales and other	(3.3)	6.8	6.3
	<u>\$21.3</u>	<u>\$29.3</u>	<u>\$27.2</u>

As indicated in the above table, electric revenues increased significantly during each of the three years. Such increases resulted primarily from rate increases. (For a discussion of current rate matters, refer to Note 2 of the Notes to Financial Statements.) The increase during 1982 attributable to the recovery of fuel costs is due primarily to higher fuel costs associated with the greater utilization of fossil generation and an over-collection of revenues.

Overall sales of electricity (in Kwh) decreased 0.3% during 1984. Sales to residential and rural customers, with higher unit prices, decreased 6% while sales to the industrial customers, with lower unit prices, increased 6%. Overall electric sales increased by 3% for 1983 and 1982.

Gas revenues increased due to the following factors:

	Gas Revenues Increase (Decrease) from Prior Year		
	1984	1983	1982
	(in millions)		
Rate increases	\$ —	\$ 1.6	\$ 3.5
Recovery of gas costs	(1.0)	20.7	22.8
Sales and other	2.7	(9.0)	3.4
	<u>\$ 1.7</u>	<u>\$13.3</u>	<u>\$29.7</u>

Gas tariffs include clauses designed to reflect changes in the cost of gas purchased for resale on a current basis. A reduction in the cost of gas purchased for resale during 1984 resulted in decreased gas revenues. Increases in such costs during 1983 and 1982 resulted in significant increases in gas revenues. Overall gas sales (in therms) increased 2% and 1% during 1984 and 1982, respectively, but decreased 6% during 1983.

The decrease in the cost of gas purchased for resale during 1984 resulted from lower commodity rates charged by pipeline suppliers. Higher commodity rates charged in 1983 and 1982 were the primary causes for the increases in the cost of gas purchased for resale during those years. Decreased volumes of gas purchased during 1983 partially offset such increase.

Fuel for production decreased during 1984 due to a significant reduction in fossil generation. Partially offsetting such decrease was the amortization of a portion of the pre-April 7, 1983 nuclear waste disposal costs (see Note 10 of the Notes to Financial Statements). The increase in fuel for production for 1983 was primarily related to higher fuel costs. During 1982, the increase was attributable to the greater utilization of fossil generation and, to a lesser extent, higher fossil fuel prices charged by suppliers.

The increase in purchased power costs for 1984 and 1983 resulted from higher demand (primarily attributable to the capacity purchases discussed in Note 11 of the Notes to Financial Statements) and energy charges, partially offset by an increase in energy sales. The decrease in such costs for 1982 is attributable to lower energy and demand charges as well as higher energy sales.

Changes in the adjustment clause balances result from recording the effects of the over-or-under collection of revenues through the Company's EAC and, beginning in 1983, PGA clauses as described in Note 1(e) of the Notes to Financial Statements.

Other operation and maintenance expenses decreased during 1984 due primarily to reductions in DAEC related expenses and a reduction in labor costs attributable to the early retirement program (see Note 4 of the Notes to Financial Statements). Partially offsetting such reductions was the recording of a refueling outage provision for the DAEC (see Note 1(f) of the Notes to Financial Statements). Other operation and maintenance expenses increased during 1983 and 1982 primarily due to expenses incurred at the DAEC and labor costs. Most of the increase in the DAEC related expenses for 1983 was associated with refueling outage activities from February 11 through May 8. There was no refueling outage during 1984 or 1982. Also contributing to the increases in expenses at the DAEC were expenses incurred to comply with additional regulatory requirements.

The increases in depreciation relate to additional plant in service including, for 1982, that associated with the commencement of commercial operations of the Ottumwa Generating Station in May, 1981.

Changes in current income taxes for the three years are primarily related to changes in taxable income. See Note 1(d) of the Notes to Financial Statements for a detailed discussion of income tax matters.

The decrease in the allowance for funds used during construction (AFC) for the three years reflects the lower level of construction work in progress since the Ottumwa Generating Station was placed into commercial operation. Additionally, AFC was discontinued on the Guthrie County Generating Station effective September 27, 1984 due to a postponement of construction of that unit (see Note 12 of the Notes to Financial Statements). Also

contributing to the decreases in 1983 and 1982 were the effects of lower AFC rates.

Earnings per average common share for the three years have been affected by the dilutive effect of the issuance of additional shares of common stock.

Liquidity and Capital Resources

All funds used for construction were generated internally in 1984. The percentages of internally provided funds were 94% and 92% for the years 1983 and 1982, respectively. Construction expenditures for 1985 will approximate \$51,000,000, with approximately 86% of the funds expected to be internally generated. The levels of construction are expected to remain relatively stable for the remainder of the 1980's. It is estimated that substantially all construction will be funded with internally generated funds for the four year period 1986-1989.

In 1985, the Company sold \$35,000,000 of First Mortgage Bonds, Series V, at 11%. The bonds, which were privately placed, will mature in 1988. The proceeds will be used to repay short-term debt, finance construction expenditures and for other corporate purposes.

As of December 31, 1984, the Company had authority from the Federal Energy Regulatory Commission to issue up to \$85,000,000 of short-term notes, of which a maximum of \$75,000,000 can be in

the form of commercial paper. Lines of credit aggregating \$60,000,000 were available at that date.

The Company's capitalization ratios at the end of each of the last three years were as follows:

	December 31		
	1984	1983	1982
Long-term debt	44%	46%	49%
Preferred and preference stock	11	11	13
Common equity	45	43	38
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The 1984 ratios are consistent with the Company's long-term capital structure objectives.

The indenture pursuant to which the Company's First Mortgage Bonds are issued contains covenants restricting the amount of additional bonds which may be issued thereunder. The Articles of Incorporation of the Company limit the aggregate amount of additional shares of Cumulative Preference Stock and Cumulative Preferred Stock which may be issued. At December 31, 1984, the most restrictive limitations would have permitted the Company to issue \$135,000,000 of First Mortgage Bonds, \$58,000,000 (580,000 shares) of Preference Stock and no additional Preferred Stock.

Selected Quarterly Financial Data

The following unaudited quarterly data, in the opinion of the Company, includes all adjustments necessary for the fair presentation of such amounts.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands)			
1984				
Revenues	\$142,321	\$100,110	\$112,475	\$113,323
Operating income	16,803	7,936	17,474	11,972
Net income	11,683	2,669	13,600	6,481
Net income available for common stock	10,561	1,547	12,500	5,415
Earnings per average common share	0.86	0.12	1.01	0.42
1983				
Revenues	\$117,762	\$ 92,744	\$110,893	\$123,313
Operating income	10,916	8,033	17,513	9,789
Net income	6,009	3,393	13,000	5,496
Net income available for common stock	4,842	2,226	11,856	4,364
Earnings per average common share	0.46	0.20	1.10	0.38

The above amounts are affected by seasonal weather conditions and the timing of rate increases. The increase in earnings for the quarter ended March 31, 1984 from the comparable 1983 quarter was a result of rate increases and decreases in DAEC related refueling outage expenses; there was no refueling outage in 1984.

Impact of Inflation

The Company's financial statements are prepared in accordance with generally accepted accounting principles and accordingly reflect historical costs in dollars of varying purchasing power. The following unaudited data estimates the impact on the Company of changing prices and was prepared in accordance with Financial Accounting Standards Board (FASB) Statement No. 33, as amended by FASB Statement No. 82. This information should be viewed as an estimate of the impact of changing prices rather than as a precise measurement.

The disclosure below is in constant dollars, which does not vary significantly from current costs. Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers.

In accordance with FASB No. 33, operating revenues and all expenses other than depreciation are deemed to be stated in terms of average current year prices and, accordingly, no adjustment for the effects of changing prices is necessary. Depreciation provisions were determined by applying the Company's composite depreciation rate to the adjusted average utility plant in service during the year.

Income tax expense was not adjusted because only historical costs are deductible for income tax purposes.

During periods of inflation, holders of monetary

assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. Due primarily to the substantial amount of debt and preferred stock which has been used to finance utility plant, the Company has experienced a gain from the decline in purchasing power of net monetary liabilities.

Under the rate-making principles prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. As a result, the Company has experienced a loss equivalent to the current year's impact of inflation on utility plant.

In addition, the regulatory process imposes a substantial time lag between the time when operating and capital costs are incurred and when they are recovered. During periods of inflation, this lag, coupled with rates based on historical costs and inadequate rates of return allowed on common equity, produce revenues which do not recover the cost, in terms of purchasing power, of the productive facilities used to provide services to current customers. While the gain from the use of debt and preferred stock financing reduces the effect of this loss on common shareholders' equity, the common shareholders still experience a net erosion in their investment due to inflation.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES**YEAR ENDED DECEMBER 31, 1984**

(in average 1984 dollars)

	Constant Dollars
	(in thousands)
Net income available for common stock, as reported	\$ 30,023
Erosion of common shareholders' equity because of changing prices:	
Cost in excess of the original cost of productive facilities not recoverable in rates as depreciation* —	
Reportable as an additional provision for depreciation	36,976
Reportable as an adjustment to net recoverable cost	(11,754)
Total amount not specifically recoverable in rates	25,222
Offsetting effect of debt and preferred stock financing	(16,635)
Net erosion of common shareholders' equity	8,587
Net income available for common stock, as adjusted**	\$ 21,436

*At December 31, 1984, the constant dollar value of utility plant, net of accumulated depreciation, was \$1,248,102,000 while the historical (recoverable) cost was \$656,210,000.

**Adjusted net income (loss) available for common stock would be \$(6,953,000) on a constant dollar basis if only the amount reportable as an additional provision for depreciation was deducted from the reported amount of such income.

**FIVE-YEAR COMPARISON OF SELECTED
SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS
OF CHANGING PRICES**

(in average 1984 dollars, except "as reported" amounts)

	1984	Year Ended December 31			1980
		1983	1982	1981	
		(in thousands)			
Revenues:					
As reported	\$468,228	\$444,713	\$402,847	\$345,590	\$311,013
As adjusted	468,228	463,640	433,503	394,688	392,043
Net income (loss) available for common stock:					
As reported	\$ 30,023	\$ 23,289	\$ 22,247	\$ 19,128	\$ 16,223
As adjusted for the net erosion of common shareholders' equity	21,436	16,544	16,839	5,558	(2,550)
Earnings (loss) per average common share:					
As reported	\$2.41	\$2.14	\$2.15	\$1.94	\$1.89
As adjusted for the net erosion of common shareholders' equity	1.72	1.52	1.62	.56	(.30)
Common shareholders' investment (net assets), at year-end:					
As reported	\$230,179	\$214,725	\$185,785	\$176,396	\$157,931
As adjusted	226,969	220,102	197,667	194,944	190,141
Gain from decline in purchasing power of net amounts owed	\$ 16,635	\$ 14,946	\$ 16,105	\$ 37,892	\$ 53,075
Dividends declared per common share:					
As reported	\$1.855	\$1.795	\$1.735	\$1.675	\$1.615
As adjusted	1.855	1.87	1.87	1.91	2.04
Market price per common share, at year-end:					
As reported	\$18.00	\$14.875	\$15.75	\$12.125	\$11.625
As adjusted	17.75	15.25	16.76	13.40	14.00
Average consumer price index	311.1	298.4	289.1	272.4	246.8

Selected Financial Data

	1984	1983	1982	1981	1980	1979
(in thousands, except per share amounts and ratios)						
Income statement data:						
Operating revenue	\$468,228	\$444,713	\$402,847	\$345,590	\$311,013	\$288,523
Operating income	54,185	46,250	46,003	41,340	31,559	32,806
Net income	34,432	27,898	27,036	24,095	21,347	20,067
Net income available for common stock	30,023	23,289	22,247	19,128	16,223	14,821
Common stock data:						
Average number of shares outstanding	12,445	10,901	10,339	9,856	8,602	7,478
Earnings per average common share	\$ 2.41	\$ 2.14	\$ 2.15	\$ 1.94	\$ 1.89	\$ 1.98
Dividends declared per common share	1.855	1.795	1.735	1.675	1.615	1.525
Market price per common share at year-end	18.00	14.875	15.75	12.125	11.625	13.00
Book value per common share at year-end	18.16	17.75	17.69	17.45	18.01	17.94
Capitalization:						
Common equity	\$230,179	\$214,725	\$185,785	\$176,396	\$157,931	\$151,746
Preferred and preference stock	54,476	57,570	60,664	62,758	64,851	66,945
Long-term debt	220,252	233,108	236,965	240,021	217,240	215,060
	<u>\$504,907</u>	<u>\$505,403</u>	<u>\$483,414</u>	<u>\$479,175</u>	<u>\$440,022</u>	<u>\$433,751</u>
Capitalization ratios:						
Common equity	45%	43%	38%	37%	36%	35%
Preferred and preference stock	11	11	13	13	15	15
Long-term debt	44	46	49	50	49	50
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Balance sheet data:						
Utility plant in service —						
Electric	\$787,500	\$764,696	\$729,351	\$691,741	\$601,221	\$566,173
Gas	69,586	67,173	64,484	61,180	58,284	54,856
Other	20,021	14,902	13,170	12,325	11,604	11,100
	<u>\$877,107</u>	<u>\$846,771</u>	<u>\$807,005</u>	<u>\$765,246</u>	<u>\$671,109</u>	<u>\$632,129</u>
Accumulated depreciation	<u>\$303,233</u>	<u>\$275,500</u>	<u>\$250,562</u>	<u>\$226,979</u>	<u>\$206,299</u>	<u>\$186,897</u>
Ratio of accumulated depreciation to utility plant in service	35%	33%	31%	30%	31%	30%
Total assets*	\$826,407	\$794,905	\$745,320	\$730,935	\$662,193	\$617,760
Other selected financial data:						
Construction expenditures, including AFC	\$ 38,793	\$ 47,874	\$ 41,880	\$ 57,092	\$ 68,146	\$ 51,938
Percent of construction expenditures financed internally from operations	100%	94%	92%	63%	35%	43%
AFC as a percent of net income	4%	14%	17%	30%	35%	25%
Times interest earned before income taxes	3.05	2.74	2.67	2.33	2.47	2.52
Number of preferred and preference shareholders	3,006	3,121	3,251	3,336	3,291	3,490
Number of common shareholders	32,805	31,768	31,743	31,546	30,085	29,578

*1983-1979 have been restated to reflect the Company's nuclear fuel lease as a capital lease.

Electric Operating ComparisonFive Year
Compound
Rate of
Growth

	1984	1983	1982	1981	1980	1979	
Operating revenue (000's):							
Residential	\$ 98,882	\$ 92,229	\$ 79,721	\$ 71,214	\$ 68,467	\$ 62,544	
Rural	17,233	16,106	15,304	13,433	12,692	12,457	
Commercial	89,500	83,019	73,932	66,778	61,482	57,495	
Industrial	73,629	66,332	63,520	54,865	49,425	47,006	
Street lighting and public authorities	4,367	4,150	3,770	3,556	3,267	3,051	
Total from ultimate consumers	283,611	261,836	236,247	209,846	195,333	182,553	
Sales for resale	12,883	13,447	9,931	9,236	9,010	8,022	
Other	1,044	911	710	601	530	490	
	<u>\$ 297,538</u>	<u>\$ 276,194</u>	<u>\$ 246,888</u>	<u>\$ 219,683</u>	<u>\$ 204,873</u>	<u>\$ 191,065</u>	
Energy sales (000's Kwh):							
Residential	1,209,678	1,272,030	1,186,263	1,161,253	1,215,332	1,183,697	0.4%
Rural	210,958	212,775	221,803	211,394	214,848	227,694	(1.4)
Commercial	1,071,934	1,066,847	1,031,782	1,017,005	1,023,906	1,018,414	1.0
Industrial	1,365,959	1,290,168	1,292,404	1,216,450	1,171,121	1,144,953	3.6
Street lighting and public authorities	52,952	55,030	52,664	54,279	52,891	50,579	0.9
Total to ultimate consumers	3,911,481	3,896,850	3,784,916	3,660,381	3,678,098	3,625,337	1.5
Sales for resale	294,047	322,436	314,973	308,429	311,011	291,926	0.1
	<u>4,205,528</u>	<u>4,219,286</u>	<u>4,099,889</u>	<u>3,968,810</u>	<u>3,989,109</u>	<u>3,917,263</u>	<u>1.4%</u>
Sources of electric energy (000's Kwh):							
Generated —							
Fossil, primarily coal	1,079,576	1,608,895	1,602,903	1,438,669	1,346,577	1,304,312	
Nuclear	1,889,865	1,615,878	1,588,391	1,542,730	1,949,212	2,022,441	
Hydro	5,517	6,309	6,706	5,198	4,709	5,035	
	2,974,958	3,231,082	3,198,000	2,986,597	3,300,498	3,331,788	
Purchased and net interchange	1,594,019	1,377,310	1,248,647	1,334,437	1,085,793	950,215	
	<u>4,568,977</u>	<u>4,608,392</u>	<u>4,446,647</u>	<u>4,321,034</u>	<u>4,386,291</u>	<u>4,282,003</u>	
Operating statistics:							
Heat rate (Btu per Kwh generated)	11,657	11,591	11,610	11,519	11,532	11,216	
Net capability at time of peak load (Kw) —							
Net generating capability —							
Steam stations —							
Nuclear*	350,000	350,000	350,000	350,000	350,000	350,000	
Fossil	492,250	491,250	499,750	498,500	395,500	395,500	
Peaking turbines and other	155,900	157,800	157,800	180,500	180,600	181,650	
	998,150	999,050	1,007,550	1,029,000	926,100	927,150	
Purchase capability and other	149,000	201,250	102,504	177,202	149,001	141,098	
	<u>1,147,150</u>	<u>1,200,300</u>	<u>1,110,054</u>	<u>1,206,202</u>	<u>1,075,101</u>	<u>1,068,248</u>	
Net peak load (Kw) — 60 minutes integrated	966,935	985,456	930,985	914,100	900,032	847,310	2.7%
Number of customers at year-end	204,712	204,460	204,290	203,997	203,023	200,977	0.4%
Residential and rural service:							
Average number of customers	175,039	174,002	173,890	173,882	172,827	170,606	
Average annual Kwh sales per customer	8,116	8,533	8,097	7,894	8,275	8,273	
Revenue per Kwh sold	8.17¢	7.30¢	6.75¢	6.17¢	5.67¢	5.31¢	
Average annual revenue per customer	\$663.37	\$622.60	\$546.46	\$486.81	\$469.60	\$439.62	

*Represents Company's 70% undivided interest in Duane Arnold Energy Center which is operated by the Company.

Gas Operating ComparisonFive Year
Compound
Rate of
Growth

	1984	1983	1982	1981	1980	1979	
Operating revenue (000's):							
Residential	\$ 73,089	\$ 71,202	\$ 65,219	\$ 47,536	\$ 39,948	\$ 39,007	
Commercial — firm	28,995	28,123	25,985	18,630	15,929	16,014	
— interruptible	12,055	12,041	11,520	8,633	7,406	6,517	
Industrial — firm	17,868	19,815	19,250	21,430	17,569	14,791	
— interruptible	31,456	29,999	26,743	22,808	18,631	15,647	
Total from ultimate consumers	163,463	161,180	148,717	119,037	99,483	91,976	
Other	433	1,046	228	183	156	151	
	<u>\$163,896</u>	<u>\$162,226</u>	<u>\$148,945</u>	<u>\$119,220</u>	<u>\$ 99,639</u>	<u>\$ 92,127</u>	
Energy sales (000's Dekatherms):							
Residential	13,444	13,015	14,320	12,936	14,039	15,832	(2.8)%
Commercial — firm	5,575	5,374	5,984	5,350	5,983	6,989	(3.8)
— interruptible	2,838	2,840	3,065	2,861	3,136	3,300	(2.7)
Industrial — firm	4,842	5,186	5,630	7,179	7,060	7,336	(6.0)
— interruptible	7,986	7,697	7,378	7,664	8,235	8,181	(0.5)
	<u>34,685</u>	<u>34,112</u>	<u>36,377</u>	<u>35,990</u>	<u>38,453</u>	<u>41,638</u>	<u>(3.1)%</u>
Operating statistics:							
Gas purchased for resale (000's Dekatherms)	34,125	34,894	35,925	35,924	38,870	41,523	
Cost of gas purchased for resale (000's)	\$136,603	\$140,844	\$125,753	\$102,921	\$ 87,788	\$ 77,352	
Cost per Dekatherm of gas purchased for resale	\$4.00	\$4.04	\$3.50	\$2.86	\$2.26	\$1.86	
Sendout capability at time of peak demand (Dekatherms)	261,291	261,221	273,942	269,683	268,328	265,682	
Peak daily sendout (Dekatherms)	246,384	272,727	269,455	252,442	235,189	233,253	1.1%
Number of customers at year-end	133,165	132,587	131,638	131,285	130,055	126,912	1.0%
Residential service:							
Average number of customers	114,316	113,603	112,926	112,221	110,086	107,381	
Average annual Dekatherm sales per customer	118	115	127	115	128	147	
Revenue per Dekatherm sold	\$5.44	\$5.47	\$4.55	\$3.67	\$2.85	\$2.46	
Average annual revenue per customer	\$639.36	\$626.77	\$577.54	\$423.59	\$362.88	\$363.26	

Units for the years 1982-1979 are reported in 000's Mcf.

Directors and Officers

Board of Directors

Martin L. Andreas (A)

*President, ADM Corn Sweeteners
Division of Archer Daniels Midland
Company
(Corn Processing)
Cedar Rapids, Iowa*

Henrietta D. Arnold

*Civic and Cultural Affairs
Cedar Rapids, Iowa*

Walter E. Brown (N)

*President
Kiowa Corporation
(Valve and Zinc Die Casting)
Marshalltown, Iowa*

William O. Gray (E) (N)

*Attorney at Law
Cedar Rapids, Iowa*

Lee Liu (E) (N)

*Chairman of the Board,
President and Chief Executive
Officer of the Company*

Dr. Leo L. Nussbaum

*President Emeritus
Coe College, Cedar Rapids
St. Petersburg, Florida*

David Q. Reed

*Attorney and Counselor at Law
Kansas City, Missouri*

J.B. Rehnstrom*

*Senior Vice President — Finance and
Secretary of the Company*

Henry Royer (A)

*Chairman of the Board and
President, The Merchants National
Bank of Cedar Rapids
Cedar Rapids, Iowa*

Richard E. Scherling (A) (E)

*Retired Merchant
Cedar Rapids, Iowa*

Dr. James A. Van Allen (E)

*Professor of Physics and Head of the
Department of Physics and
Astronomy, University of Iowa
Iowa City, Iowa*

(E) Member Executive Committee

(A) Member Audit Committee of the Board of Directors

(N) Member Nominating Committee of the Board of Directors

**Effective February 6, 1985*

Directors Emeritus

William C. Crawford

*Retired
Cedar Rapids, Iowa*

John W. Norris

*Retired, Former President and
Chairman of the Board
Lennox Industries, Inc.
Marshalltown, Iowa*

Stevan B. Smith

*Retired, Former Vice President and
Secretary of the Company
Cedar Rapids, Iowa*

Officers

Lee Liu (51-27)

*Chairman of the Board,
President and Chief
Executive Officer*

James M. Davidson (55-27)

Senior Vice President

J.B. Rehnstrom (54-25)

*Senior Vice President — Finance and
Secretary (Chief Financial Officer)*

Larry D. Root (48-14)

*Senior Vice President — Operations
and Technical Services*

Dr. Samuel J. Tuthill (59-7)

Senior Vice President — Energy Production

Robert J. Kucharski (52-10)

*Vice President and Treasurer
(Chief Accounting Officer)*

Virgil J. Schmidt (56-36)

Vice President — Central Region

Thomas J. Pitner (43-6)

General Counsel

William C. Jurgensen (44-26)

Assistant Secretary

Figures in parentheses represent age and years of service.

Transfer Agents

**Common, Preferred and
Preference Stocks**

**The First National Bank of
Chicago**

Chicago, Illinois

**The Merchants National Bank
of Cedar Rapids**

Cedar Rapids, Iowa

Registrars

**Common, Preferred and
Preference Stocks**

**The First National Bank of
Chicago**

Chicago, Illinois

**Peoples Bank and Trust
Company**

Cedar Rapids, Iowa

Trustee

Mortgage and Deed of Trust

**The First National Bank of
Chicago**

Chicago, Illinois

General Offices

*ie: Tower
200 First Street S.E.
Cedar Rapids, Iowa 52401
319-398-4411*

1984 Form 10-K Available on Request

The Company files annually with the Securities and Exchange Commission an Annual Report Form 10-K. This required report contains certain other information not made a part of this Report. The Company will be happy to send you a copy of our 1984 Form 10-K without charge upon request to:

**IOWA ELECTRIC LIGHT AND POWER
COMPANY**
P.O. Box 351
Cedar Rapids, Iowa 52406
Attention: Mr. J.B. Rehnstrom
Senior Vice President-Finance
and Secretary

The statements in this report are furnished solely for your information, and the facts and figures presented, while accepted by the management as reliable in the operations of the property, are not, however, guaranteed by us against inaccuracy or omission of material fact and are not furnished by us nor to be used by you in any way which implies liability on our part or on the part of our officers and directors in connection with your dealings in the securities of this Company. The purpose of this paragraph is to protect you and this Company against any liability that may occur under any State or Federal Securities Act.

Iowa Electric Light and Power Company

ie:

