PIEDMONT MUNICIPAL POWER AGENCY

1990 ANNUAL REPORT

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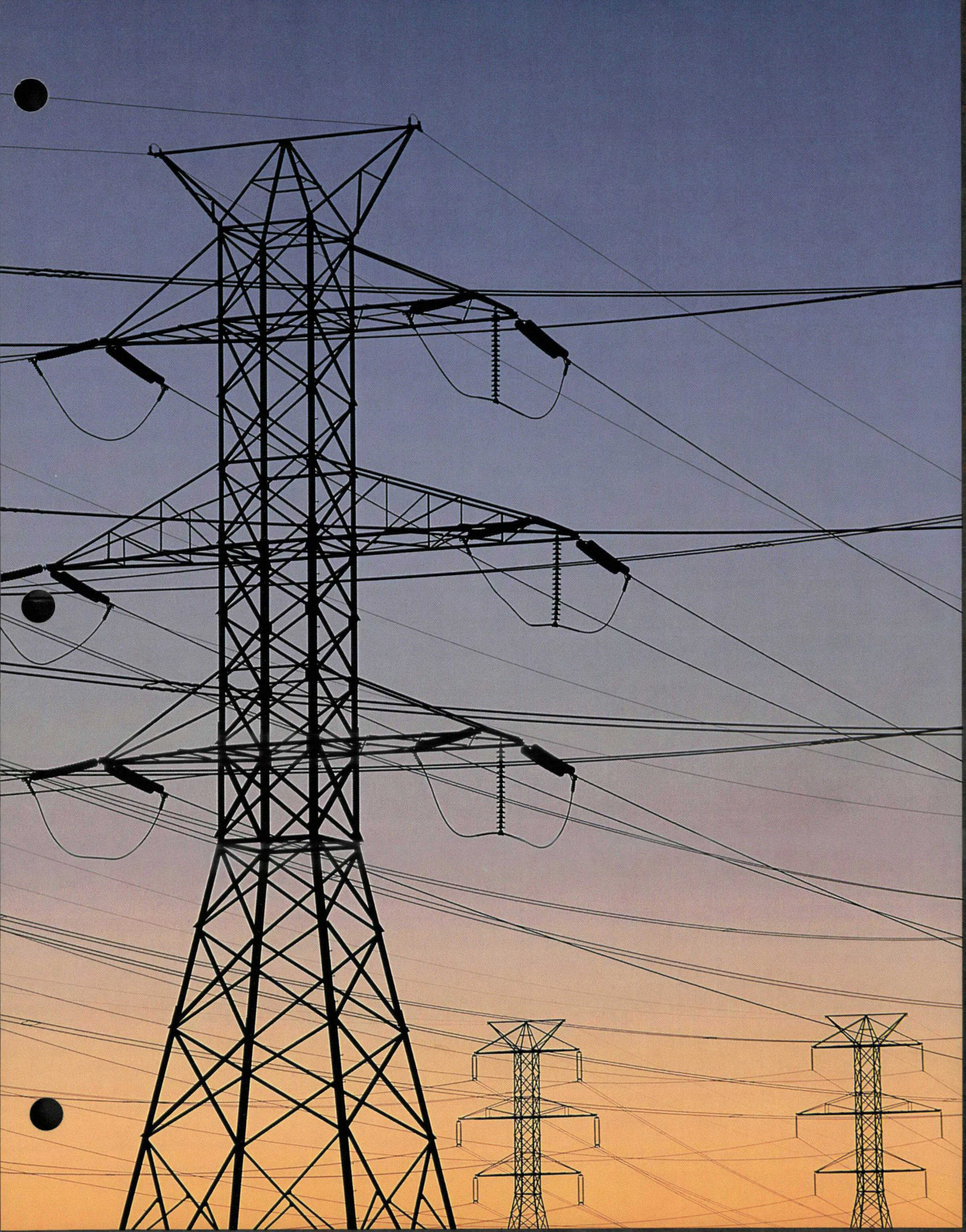
PIEDMONT MUNICIPAL POWER AGENCY

CORPORATE PROFILE

The Piedmont Municipal Power Agency is a joint action agency formed by ten municipal electric utilities in the northwest section of South Carolina. Its mission is to provide its members with adequate, competitively priced supplies of electricity. PMPA owns 25% of the Catawba Nuclear plant and purchases additional power from Duke Power Company. The Agency's corporate office is located in Greer, and it has a staff of eleven employees.

ABBEVILLE
CLINTON
EASLEY
GAFFNEY
GREER
LAURENS
NEWBERRY
ROCK HILL
UNION
WESTMINSTER

ON THE COVER: Haygood Mill was built in 1825 and is located 2 miles north of Pickens on Hwy. 178. The fully restored turn of the century grist mill was used up until the early 1930's to make corn meal and grits. It was restored in the mid-seventies.



GENERATING POWER FOR THE FUTURE

Because electricity is so basic to today's society, little thought is given to how it is produced when a switch is turned on. Unlike the simple water wheel used to power the mills of rural America at the turn of the century, the sources of the power enjoyed today are technologically advanced and far removed from everyday lives. Yet abundant sources of electricity have become vital to the enjoyment of life in the last decade of the twentieth century and are critical to our economic well-being.

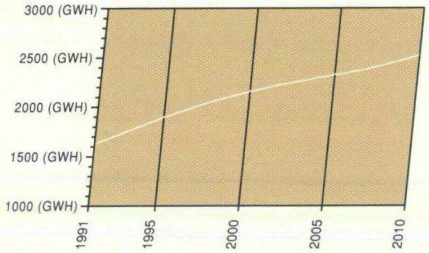
As demand for electricity has grown over the years, each succeeding generation of utility industry workers has perfected existing technologies to increase efficiency and has created new, even more efficient methods of generation. Nuclear power today is the most technologically advanced and most efficient means of generating the electricity that is so essential to our society.

Nuclear power has been good for South Carolina. Nuclear power plants provided more than 60% of the electricity used in the state last year and helped to create an 11.7% increase in non-agricultural employment since 1985, as compared to a national increase of 8%. During the same period South Carolina's retail sales have grown by 57%. Much of this growth has occurred in the Piedmont region of the state where PMPA members are located.

Recognizing in 1975 that the growth was coming, representatives of ten municipal utilities began the arduous task of forming a joint action agency so their customers could benefit from technological advances in the generation of electricity. PMPA received its corporate charter in 1979, and in 1984 bought a 25% ownership interest in a nuclear unit which was then under construction (Catawba Unit 2). The first unit at the Catawba Station began commercial operation in 1985, and the second unit began production in 1986.

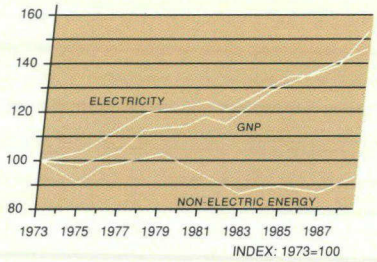
The year 1990 marks PMPA's fifth year of operation, as well as the fifth anniversary of power production at the Catawba Station. This is, then, an appropriate time to review PMPA's investment in nuclear power and to assess the industry's future.

PMPA PROJECTED ANNUAL ENERGY



Projected energy requirements excluding Abbeville's self-generation.

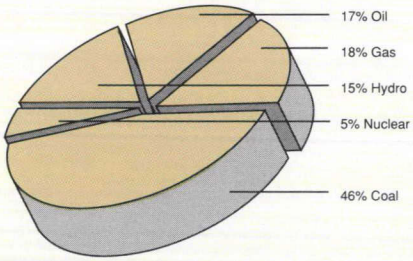
GNP AND ELECTRICITY USE



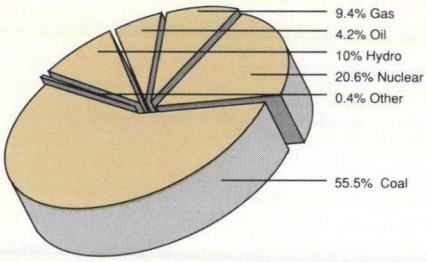
The more goods and services we produce, the more electricity we need.

ENERGY SOURCES USED TO GENERATE U.S. ELECTRICITY IN 1973 AND 1990.

1973

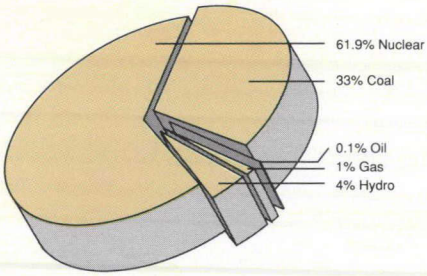


1990



ENERGY SOURCES USED TO GENERATE S.C. ELECTRICITY IN 1990.

1990



In the early 1970's nuclear power was heralded as the prime source for meeting this country's energy needs. The cost to produce energy from coal was much greater than energy produced from nuclear power. Utilities anticipated another decade of doubled electricity use and nuclear power's promise of a plentiful, economical fuel source appeared to be the best way to meet energy demands.

Duke Power Company seized this opportunity and began an ambitious construction program that included five nuclear power stations. In order to finance one of these facilities, Duke invited PMPA, another municipal power joint action agency in North Carolina, and rural electric cooperatives in North and South Carolina to join in ownership and operation of the Catawba Nuclear Station, a station comprised of 2, 1145 MW reactors located on Lake Wylie.

While the vision of economical and abundant nuclear power has remained in focus for PMPA, Duke, and the other owners of the Catawba plant, it has dimmed nationwide. In 1974, analysts predicted that one thousand reactors, nearly 10 times the 112 that are operating today, would be needed to meet energy demand.

But times change. New regulatory requirements narrowed nuclear power's cost advantage over its nearest competitor, coal. The nation's economy was weakened by the Arab oil embargo. Energy demand did not grow as rapidly as predicted. Anti-nuclear activism became wide-spread and then, perhaps the most damaging event in the history of nuclear power, the partial meltdown of the Three Mile Island 2 (TMI) reactor occurred in 1977. Since then no new nuclear power plant has been ordered in this country. Public fear of nuclear power reached an all time high on the heels of the TMI accident, in spite of the fact that safety systems at TMI worked and prevented damaging release of radioactivity to the environment. Since that incident, efforts to make plants safer have led to regulatory uncertainty and long and costly lead time for new plants. Nuclear power was no longer the promised energy source of the future. Because of the slow growth of demand and higher costs, dozens of plants were cancelled, including the last two of Duke's planned five nuclear stations, and utilities turned to coal to meet the country's energy needs.

BATCH COUNTER
TOTALIZER
BORIC ACID
NO MAKEUP
MODE SELECT
NO MAKEUP
CONTROL
PD PUMP
CLOSE
OPEN

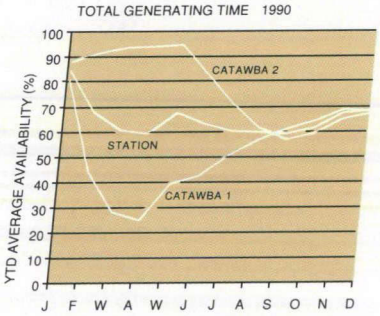
But now, nearly a decade later, nuclear power has resurfaced as the most technically feasible alternative to fossil fuels. Many are questioning the environmental consequences and the wisdom of bearing the regulatory costs of burning coal. They are also looking at the excellent operating records of nuclear plants at companies such as Duke Power for reassurance and for insight in structuring utility organizations for safe and reliable nuclear power plant operation.

PMPA'S INVESTMENT

In looking back at the cost of the Catawba Nuclear Station and its operating history, it becomes apparent that PMPA's investment in the station was wise and prudent. Although the purchase was completed while the plant was still under construction and there was no guarantee it would ever operate, Catawba was completed at a lower cost than expected and has been operating extremely well.

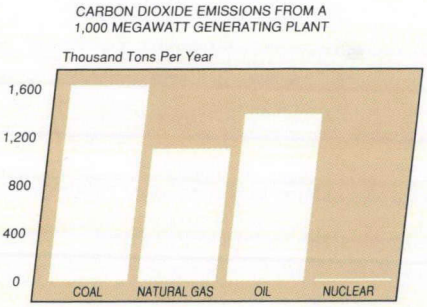
Consider these facts:

- The station construction cost was the lowest cost for any nuclear station in the United States which started commercial operation between June 1984 and August 1987.
- In 1989 the station was ranked the second most efficient multi-unit nuclear plant in the United States.
- For the most recent three year period, Duke's nuclear plants operated at an average 77% availability factor compared to a national average of 64%.
- In 1990 Catawba II set a unit record for continuous operation by generating electricity for 131 days without interruption.



In 1990 both units at the Catawba Station generated electricity for approximately 70 percent of the year.

Much of the credit for these excellent results goes to Duke Power Company which constructed the station and operates it for PMPA. Duke is recognized, both nationally and internationally, for its superior expertise in the nuclear industry. It is also known for its tough training. At Catawba, control room operators spend two weeks out of every ten, or 20% of their time, training on a control room simulator to assure they will operate the plant safely in any situation. It is programs like this, not only at Duke's stations, but at every nuclear station in the country, that are beginning to renew consumer confidence in the industry.



This country's ever growing demand for electricity, coupled with increasing environmental concerns and restrictions, is bringing nuclear power once again to the forefront of the minds of planners responsible for meeting future power needs. Even with successful conservation, the U.S. Department of Energy projects as many as 250 new large coal or nuclear power plants will have to be built in the next twenty years.

In 1991, American business and industry are expected to use more than 1.8 trillion kilowatt hours of electricity. That is an increase of 48% since 1973, almost twenty years ago. And while demand continues its rapid climb, existing coal and nuclear plants are aging, underscoring the need for new construction to begin almost immediately. The question facing the utility executive today is what fuel to use in these new plants.

There are four fuels which can be used in the generating plants being built today: natural gas, oil, coal, and nuclear. Of these, oil and natural gas are not reasonable choices for large plants. To make natural gas available in sufficient quantities for use by electric utilities, existing gas pipeline capabilities would have to be expanded. This is an expensive and possibly environmentally damaging undertaking and would have an unknown effect on the pricing of natural gas. A large increase in the use of oil would subject utilities and their customers to the uncertainties of oil cartel pricing and supplies can be severely limited by factors beyond the utility's control.

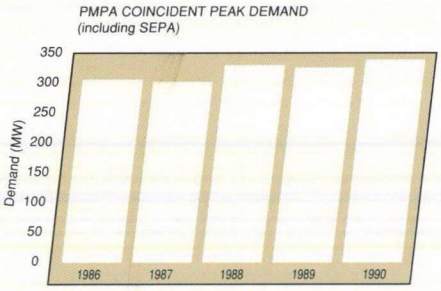
Abundant supplies of both coal and uranium are available in North America. From an environmental standpoint, use of nuclear fuel has the edge over coal. Nuclear plants do not pollute the air with sulphur oxides or greenhouse gases, like carbon dioxide, as coal does. In fact, when operating at full capacity, the Catawba Station saves the polluting effect of burning 22,000 tons of coal every day. It is estimated that an additional five million tons of carbon dioxide would have been released into the environment last year if nuclear power plants had been replaced by coal plants.

Nuclear power has its drawbacks as well. The industry's most difficult and immediate challenge is convincing the public that nuclear waste can be disposed of in an environmentally sound fashion. This is not a technical problem,

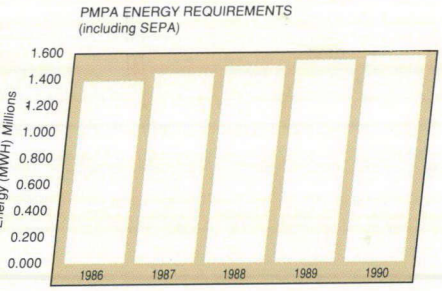
but is a problem of perception. In other countries, such as France and Canada where nuclear power is a major supplier of electricity, the public is less fearful of nuclear waste than in the U.S. The French are converting their high level waste into a stable, glassy substance and storing it in concrete bunkers until permanent waste repositories are built. The safe storage of nuclear waste has not become a political "football" in France as it has in this country.

Also, to make nuclear power a viable option, the public's fears about safety, and the utility executive's concern about plant costs and licensing must be resolved. Current proposals recommending standard plant design and a more rational licensing process can go a long way to overcome both of these obstacles. But until the public believes plants will be built and operated safely, and the utility executive believes he can build the plant in a reasonable time and at reasonable cost, it is unlikely that new nuclear plants will be ordered.

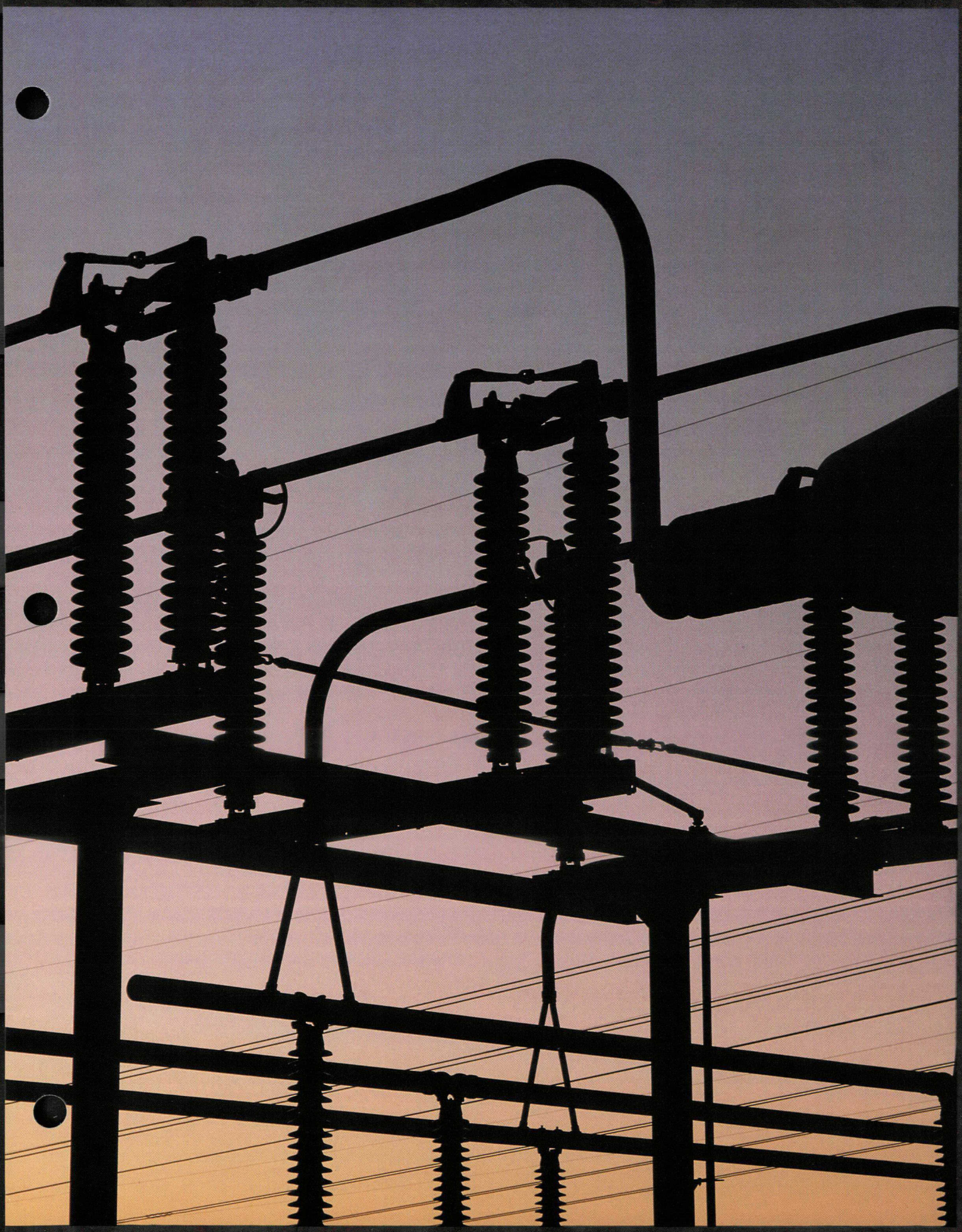
SUMMARY



The future of nuclear power depends on far more than the reliability of the already proven technology. The political and financial events that have shaped public opinion have and will continue to change rapidly. The threat of global warming has underscored the need to limit the number of large coal burning plants. Nuclear power is the only alternative left that has a proven track record and is available now to meet the growing need for electricity.



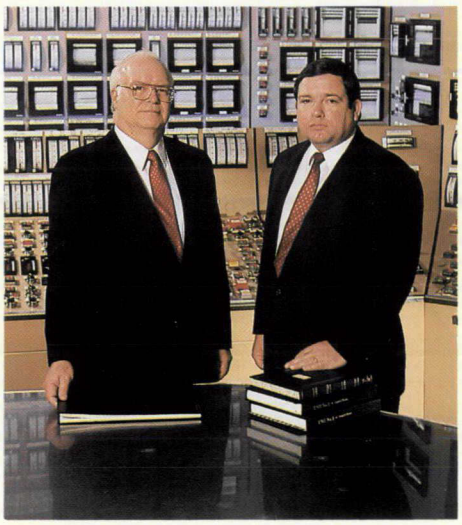
South Carolina, and PMPA in particular, are well prepared to meet the continued growth of demand for electricity as a result of their early investment in the nuclear power option. The 1990 growth in use of electricity by PMPA's members of almost 2% is expected to continue because South Carolina remains at the top of the list of places to move to when companies look to expand their operations or look to relocate. PMPA's nuclear investment is economically and environmentally sound and assures PMPA's ability to supply the power needed to meet its members' future needs.



LETTER FROM MANAGEMENT

During 1990 PMPA continued its steady progress in achieving the goals of its strategic plan. Several major steps were taken that will, when completed, have a beneficial effect on the PMPA charges to its members. One such action had an immediate effect on rates since the agency did not raise its wholesale rate in 1990.

Other actions will have a longer range effect. The staff and consultants continued to work on a power supply arrangement to sell 60 MW of PMPA's base load Catawba capacity and replace it with lower cost peaking capacity. The sale is expected to be for a ten year period, which will be sufficient time for PMPA's base load needs to increase to a level at which 60 MW can be more effectively used to meet PMPA's own load. During those ten years, revenues from the sale will help to keep rates to PMPA's members down.



JAMES A. BAUER, COLEMAN F. SMOAK, JR.

The economic development campaign continued to expand in 1990. Development ads placed in national relocation magazines resulted in over 70 inquiries requesting further information about PMPA cities. A development grant program was established to provide funds for PMPA members' local economic development group activities. Eight such awards were made, and the program is expected to continue in 1991. In addition, the PMPA information booth was displayed at two trade shows during the year to obtain additional interest in the upstate area of South Carolina.

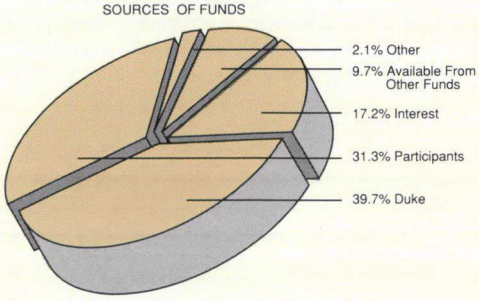
***Between-the-Lines,** PMPA's bimonthly newsletter, featured a series of four articles discussing the current controversy as to whether electric and magnetic fields (EMF) pose a risk to human health. This question cannot be answered, given the current knowledge about EMF, but public awareness of the current status of scientific research provides necessary information to allow informed decision-making about actions on this issue being taken in Congress, state legislatures, and in the courts.*

PMPA and the other owners of Catawba initiated legal action against Westinghouse Electric Corporation during the year, claiming that there were defects in the steam generators supplied by Westinghouse for both the Catawba and McGuire Nuclear Stations. Several other owners of nuclear reactors supplied by Westinghouse have filed similar suits. Resolution of this lawsuit is expected to take several years.

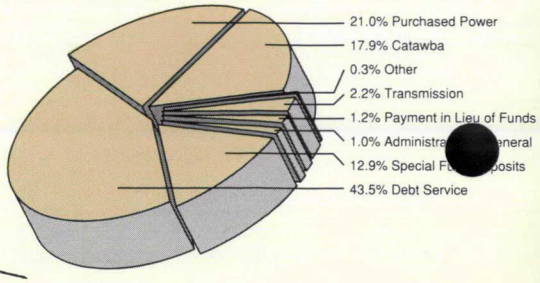
An Engineering Manager, with responsibilities related to all of the engineering aspects of PMPA's operations joined the staff at the end of 1990. A new accountant will assist in the maintenance of accounting records and report preparation.

PMPA has confidence in the strength of the area economy. Economic growth is important to the PMPA members, and the PMPA investment in nuclear power is an important factor in being able to meet the requirements of that growth. Continuing to encourage growth and continuing to advance toward PMPA's strategic goals will make 1991 an exciting year.

SOURCES OF FUNDS



USES OF FUNDS



James A. Bauer Coleman F. Smoak, Jr.

INDEPENDENT AUDITORS' REPORT

KPMG Peat Marwick

Certified Public Accountants

One Shelter Place, Suite 600
P.O. Box 10529
Greenville, SC 29603

The Board of Directors
Piedmont Municipal Power Agency:

We have audited the accompanying balance sheet of Piedmont Municipal Power Agency as of December 31, 1990, and the related statements of revenue and expenses and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Piedmont Municipal Power Agency as of December 31, 1989 and for the year then ended, were audited by other auditors whose report thereon dated April 19, 1990 expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Piedmont Municipal Power Agency as of December 31, 1990, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick

April 11, 1991

BALANCE SHEETS

DECEMBER 31, 1990 AND 1989

DOLLARS IN THOUSANDS	1990	1989
ASSETS		
UTILITY PLANT:		
ELECTRIC PLANT IN SERVICE	$ 544,881	$ 544,800
NUCLEAR FUEL	43,090	39,121
CONSTRUCTION WORK-IN-PROGRESS	2,535	1,643
	590,506	585,564
LESS, ACCUMULATED DEPRECIATION AND AMORTIZATION	(107,515)	(88,781)
NET UTILITY PLANT	**482,991**	**496,783**
RESTRICTED FUNDS	**185,263**	**322,946**
REVENUE FUND ASSETS:		
CASH	6,904	6,680
MARKETABLE DEBT SECURITIES	254,746	240,854
ACCRUED INTEREST RECEIVABLE	15,072	14,562
DUE FROM RESTRICTED FUNDS	1,839	1,312
PARTICIPANT ACCOUNTS RECEIVABLE	4,504	4,977
OTHER ACCOUNTS RECEIVABLE	5,920	12,873
MATERIALS AND SUPPLIES	3,600	3,543
PREPAID EXPENSES	13	—
TOTAL REVENUE FUND ASSETS	**292,598**	**284,801**
DEFERRED CHARGES:		
UNAMORTIZED DEBT ISSUANCE COSTS	20,930	22,046
NET DEFERRED EXPENSES TO BE RECOVERED FROM FUTURE REVENUE	143,704	122,574
EXCESS COSTS ON ADVANCE REFUNDINGS OF DEBT	170,551	177,253
OTHER	2,633	1,288
	337,818	**323,161**
	$ 1,298,670	**$ 1,427,691**
LIABILITIES AND RETAINED EARNINGS		
LONG-TERM DEBT:		
BONDS	1,307,836	1,335,376
UNAMORTIZED DISCOUNTS	(70,328)	(73,875)
	1,237,508	1,261,501
NOTES	—	100,000
	1,237,508	**1,361,501**
RESTRICTED FUND LIABILITIES:		
ACCRUED INTEREST PAYABLE	44,871	48,729
RESERVE FOR DECOMMISSIONING	3,608	1,778
DEFERRED COMPENSATION	242	183
	48,721	**50,690**
REVENUE FUND LIABILITIES:		
ACCOUNTS PAYABLE	**2,963**	**3,049**
RETAINED EARNINGS	**9,478**	**12,451**
	$ 1,298,670	**$ 1,427,691**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1990 AND 1989

DOLLARS IN THOUSANDS	1990	1989
OPERATING REVENUE:		
SALES OF ELECTRICITY TO PARTICIPANTS	$ 65,946	$ 64,791
SALES OF ELECTRICITY TO OTHER UTILITY	83,635	87,123
	149,581	**151,914**
OPERATING EXPENSES:		
OPERATING AND MAINTENANCE	30,254	26,413
NUCLEAR FUEL AMORTIZATION	7,339	8,667
PURCHASED POWER	44,099	42,153
TRANSMISSION	4,600	4,477
PAYMENTS IN LIEU OF PROPERTY TAXES	2,598	2,465
ADMINISTRATIVE AND GENERAL	2,041	2,430
DEPRECIATION	18,211	19,400
DECOMMISSIONING	1,830	586
	110,972	**106,591**
NET OPERATING INCOME	**38,609**	**45,323**
OTHER INCOME (DEDUCTION):		
INTEREST EXPENSE	(92,718)	(104,693)
INVESTMENT INCOME	36,112	48,476
AMORTIZATION EXPENSE	(10,562)	(11,265)
OTHER INCOME	4,456	5,629
	(62,712)	**(61,853)**
NET DEFERRED EXPENSES TO BE RECOVERED FROM FUTURE REVENUE	**21,130**	**12,086**
REVENUE (UNDER) OVER EXPENSES	(2,973)	(4,444)
RETAINED EARNINGS AT BEGINNING OF YEAR	12,451	16,895
RETAINED EARNINGS AT END OF YEAR	**$ 9,478**	**$ 12,451**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1990 AND 1989

DOLLARS IN THOUSANDS	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:		
REVENUE UNDER EXPENSES	$ (2,973)	$ (4,444)
ADJUSTMENTS TO RECONCILE REVENUES UNDER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
DEPRECIATION AND AMORTIZATION	36,112	38,996
NET DEFERRED EXPENSES TO BE RECOVERED FROM FUTURE REVENUE	(21,130)	(12,086)
RESERVE FOR DECOMMISSIONING	1,830	585
DECREASE (INCREASE) IN:		
PARTICIPANT ACCOUNTS RECEIVABLE	473	(315)
OTHER ACCOUNTS RECEIVABLE	6,953	(8,358)
ACCRUED INTEREST RECEIVABLE	1,838	(4,699)
MATERIALS AND SUPPLIES	(57)	(24)
OTHER DEFERRED CHARGES	(543)	—
PREPAID EXPENSES	(13)	—
INCREASE (DECREASE) IN:		
DEFERRED COMPENSATION	59	73
ACCOUNTS PAYABLE	(86)	(1,229)
ACCRUED INTEREST PAYABLE	(3,858)	4,168
NET CASH PROVIDED BY OPERATING ACTIVITIES	**18,605**	**12,667**
CASH FLOWS FROM INVESTING ACTIVITIES:		
NET DECREASE (INCREASE) IN INVESTMENTS	120,977	(41,704)
EXPENDITURES FOR ELECTRIC PLANT IN SERVICE	(2,051)	(2,414)
EXPENDITURES FOR NUCLEAR FUEL	(9,706)	(6,704)
NET CASH PROVIDED BY (USED) IN INVESTING ACTIVITIES	**109,220**	**(50,822)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
PAYMENT OF BOND PRINCIPAL	(455)	(350)
PAYMENT OF NOTES	(100,000)	—
REDEMPTION OF BONDS	(27,085)	—
NET CASH USED IN FINANCING ACTIVITIES	**(127,540)**	**(350)**
NET INCREASE (DECREASE) IN CASH	285	(38,505)
CASH AT BEGINNING OF YEAR	6,876	45,381
CASH AT END OF YEAR	**$ 7,161**	**$ 6,876**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR INTEREST	**$ 96,576**	**$ 99,554**

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

DURING THE YEARS ENDED DECEMBER 31, 1990 AND 1989, THE AGENCY REMOVED $5,737 and $6,393, RESPECTIVELY, OF NUCLEAR FUEL AND RELATED AMORTIZATION FROM ITS BOOKS.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1990 AND 1989

DOLLARS IN THOUSANDS

1. DESCRIPTION OF THE ENTITY

Piedmont Municipal Power Agency (the Agency) was incorporated in 1979 under the South Carolina Joint Municipal Electric Power and Energy Act. The Act was adopted in April 1978 to enable municipalities in South Carolina to form a joint agency to plan, finance, develop, own and operate electric generation and transmission facilities. The Agency is comprised of ten member utilities owned by municipalities or municipal commissions of public works (participants) located in northwestern South Carolina and represents the member utilities in dealings with Duke Power Company (Duke) and other entities.

In order to secure a reliable source of power for the member utility consumers, the Agency purchased a 25 percent undivided ownership interest in Duke's Catawba Nuclear Station Unit 2 and its initial nuclear fuel core. The Agency has no legal ownership in Unit 1 or the support facilities used by both units. However, under the exchange agreements, the Agency receives 12.5 percent of the output of Unit 1 and 12.5 percent of the output of Unit 2. Furthermore, the Agency's costs for 25 percent legal ownership in Unit 2 are based on 12.5 percent of Duke's costs associated with both Unit 1 and Unit 2. Therefore, even though the Agency has no legal ownership rights in Unit 1, for accounting purposes, the Agency does own a revenue producing interest in Unit 1. Additionally, the Agency is charged for its pro-rata portion (12.5 percent) of operation and maintenance expenses of Unit 1 and Unit 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accounting records of the Agency are maintained on an accrual basis in conformity with generally accepted accounting principles and substantially in conformity with the Federal Energy Regulatory Commission's Uniform System of Accounts.

The Agency's rate structure is generally designed to produce revenues which will cover operating costs and debt service costs as required under the General Bond Resolution.

In a given accounting period, the application of the rate structure to electricity sales may produce revenues which are not designed to cover current period costs, and conversely, certain current period costs may not be intended to be recovered by the current period revenues. In such cases, the affected revenues or cost components are deferred for future recognition. The ultimate recognition of these deferred items is linked to specific future events; primarily the payment of debt principal.

Unamortized Debt Issuance Costs — Unamortized debt issuance costs at December 31, 1990 and 1989 of $20,930 and $22,046, respectively, (net of accumulated amortization of $8,069 and $7,176, respectively) are being amortized on the bonds outstanding method.

Excess Costs on Advance Refundings of Debt — Excess costs on advance refundings of debt at December 31, 1990 and 1989 of $170,551 and $177,253, respectively, (net of accumulated amortization of $27,089 and $20,387, respectively) are being amortized on the bonds outstanding method.

Organization Costs — Organization costs at December 31, 1990 and 1989 of $989 and $1,018, respectively, (net of accumulated amortization of $177 and $148, respectively) are being amortized on the straight-line method over a period of 40 years.

Discounts on Bonds Payable — The discounts on bonds payable at December 31, 1990 and 1989 of $70,328 and $73,875, respectively, (net of accumulated amortization of $10,799 and $8,208, respectively) are being amortized on the bonds outstanding method.

Income Taxes — The Agency is exempt from Federal income taxes under Internal Revenue Code Section 115. South Carolina has adopted Section 115 by reference; therefore, the Agency is also exempt from state income taxes.

Cash Flows — For purposes of the statements of cash flows, the Agency considers cash to be as it is disclosed in the balance sheets and Note 5. All highly liquid debt instruments with original maturities of three months or less are considered to be marketable debt securities.

Marketable Debt Securities — As authorized by the bond resolution, investments in marketable debt securities are direct obligations of the United States government, obligations of United States government agencies and general obligations of the State of South Carolina. These investments are uninsured and unregistered and held by the Agency's trust departments in the Agency's name.

Other — In certain instances, the amounts reported in the prior years' financial statements included herein have been reclassified to put them on a comparable basis to the amounts reported in the December 31, 1990 financial statements.

3. PROJECT POWER SALES AGREEMENTS

Catawba Project Power Sales Agreements — Each participant has entered into a Catawba Project Power Sales Agreement with the Agency under which the participant is obligated, in exchange for its participant's share of Catawba Project Output, to pay to the Agency its participant's share of monthly Catawba project power costs. Monthly Catawba project power costs include debt service on all bonds issued for the Catawba Project and indebtedness issued in anticipation of such Bonds and an amount to be deposited in the Reserve and Contingency Fund equal to not less than 10% of debt service on all Bonds issued for the Catawba Project. Such monthly payments into the Reserve and Contingency Fund are in addition to the initial funding of the Reserve and Contingency Fund Requirement made from the proceeds of previously issued Bonds.

Each participant is to make the payments to the Agency under its Catawba Project Power Sales Agreement on a "take-or-pay" basis, whether the Catawba Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of Catawba Project Output, or the power and energy contracted for, in whole or in part, for any reason whatsoever. Such payments are not subject to any reduction, by offset or otherwise, and are not conditioned upon the performance by the Agency or any other participant under the Catawba Project Power Sales Agreements or any other agreement or instrument.

3. PROJECT POWER SALES AGREEMENTS, (continued)

The Participants' Shares of Catawba Project Output are as follows:

CITY OF ABBEVILLE	2.68%
CITY OF CLINTON	7.84
CITY OF EASLEY	13.24
CITY OF GAFFNEY	10.05
CITY OF GREER	9.34
CITY OF LAURENS	6.49
CITY OF NEWBERRY	10.47
CITY OF ROCK HILL	28.04
CITY OF UNION	10.01
CITY OF WESTMINSTER	1.84
	100.00%

The term of the Catawba Project Power Sales Agreements extends until all payments on the Bonds and all obligations under the Project Agreements have been paid or provided for, but in any event not later than August 1, 2035.

Supplemental Power Sales Agreements — Each participant has also entered into a supplemental power sales agreement with the Agency under which each participant has agreed to pay, in exchange for supplemental bulk power supply, its share of supplemental power costs. A participant may terminate its supplemental power sales agreement with ten years advance notice.

Sell-back Arrangement with Duke — Under the Interconnection Agreement, including the provisions of the Catawba Reliability Exchange, Duke is obligated to purchase, on a "take-or-pay" basis, specified maximum annual percentages of the Agency's entitlements to capacity and associated output from Unit 1 and Unit 2 of the Catawba Nuclear Station over a maximum period of fifteen years from the date of commercial operation of each Catawba Unit, which occurred in 1985 for Unit 1 and in 1986 for Unit 2. In 1991 the Agency is obligated to retain a minimum of 20.0% of its capacity entitlement for Unit 1 and 16.7% of its capacity entitlement for Unit 2, with the remainder (80% and 83.3% of the Agency's capacity entitlements from Unit 1 and Unit 2, respectively) being sold to Duke. The capacity retained by the Agency from such Unit will increase each year by at least 3.3% of the Agency's total capacity entitlement from such Unit. Such annual increases will continue for a period of 10 years from the respective date of commercial operation or less, depending upon the timing of the addition by Duke of certain thermal generation units (other than the Catawba Units) to its system, after which the additional capacity retained by the Agency from such Catawba Unit will immediately increase by 50% of the Agency's total capacity entitlement from such Unit and subsequently will increase by 3.3% per year. Thereafter, "take-or-pay" sales by the Agency to Duke will cease, and the Agency will retain 100% of its capacity entitlement from such Unit.

4. UTILITY PLANT

The major classes of the Agency's electric plant in service are as follows:

	1990	1989
LAND	$ 336	$ 329
STRUCTURES	155,370	151,527
REACTOR PLANT EQUIPMENT	248,112	243,656
TURBO GENERATOR UNITS	69,028	68,916
ACCESSORY ELECTRIC EQUIPMENT	50,831	50,144
MISCELLANEOUS PLANT EQUIPMENT	10,542	10,900
STATION EQUIPMENT	4,719	4,718
OTHER	1,452	1,390
UNCLASSIFIED	4,491	13,220
	$ 544,881	**$ 544,800**

Unclassified assets represent assets in service that have not been classified to specific plant accounts.

Nuclear fuel at December 31, 1990 and 1989 of $43,090 and $39,121, respectively, represents the cost of nuclear fuel in the reactor plus the costs associated with acquiring and processing reload fuel assemblies. Nuclear fuel is amortized based on burn rates using a unit of production basis.

The construction work-in-progress at December 31, 1990 and 1989 of $2,535 and $1,643, respectively, is for the Catawba Nuclear Station. Certain direct and indirect expenditures allocable to the Agency's ownership interests in the project are capitalized as part of the cost of acquiring or constructing the utility plant. The Agency also capitalizes net interest costs on borrowings used to finance the construction.

Electric plant in service, including unclassified assets, are depreciated on a straight-line basis at rates calculated to amortize the composite assets over their respective estimated useful lives. Depreciation begins when assets are placed into service.

Total accumulated depreciation and amortization from these components is as follows:

	1990	1989
DEPRECIATION - ELECTRIC PLANT IN SERVICE	$ 87,499	$ 70,368
AMORTIZATION OF NUCLEAR FUEL	20,016	18,413
	$ 107,515	**$ 88,781**

5. RESTRICTED FUNDS

Restricted funds were established by the Agency, in accordance with the respective bond resolutions, to account for proceeds of the bond issuances. These funds are restricted by the resolutions for payment of construction costs, debt service and other specified purposes.

The restricted funds at December 31, 1990 and 1989 consist of the following assets stated at cost, which approximates market:

	1990	1989
CONSTRUCTION	$ 2,290	$ 27,667
BOND	152,903	153,901
RESERVE AND CONTINGENCY	11,135	11,174
DECOMMISSIONING	3,608	1,778
SPECIAL RESERVE	15,086	15,331
REFUNDING TRUST	—	112,912
DEFERRED COMPENSATION	241	183
	$ 185,263	**$ 322,946**
FUNDS ARE COMPRISED OF:		
CASH	257	196
MARKETABLE DEBT SECURITIES	182,966	317,835
ACCRUED INTEREST RECEIVABLE	3,879	6,227
DUE TO REVENUE FUND	(1,839)	(1,312)
	$ 185,263	**$ 322,946**

The Agency is required by the bond resolution to maintain minimum balances in certain restricted funds. At December 31, 1990 and 1989, the amounts in these restricted funds were greater than or equal to the required minimum balances.

6. REVENUE FUND ASSETS AND LIABILITIES

The revenue fund assets were established to account for the operations of the Agency and consist of assets stated at cost, which approximates market. These assets are allocated for the following purposes

6. REVENUE FUND ASSETS AND LIABILITIES (continued)

	1990	1989
WORKING CAPITAL	$ 38,097	$ 47,914
FUEL ACQUISITION	21,138	23,505
RATE STABILIZATION	233,363	213,382
	$ 292,598	**$ 284,801**

Revenue fund liabilities of $2,963 and $3,049 at December 31, 1990 and 1989, respectively, will be paid out of working capital assets.

7. NET DEFERRED EXPENSES TO BE RECOVERED FROM FUTURE REVENUE

As described in Note 2, rates charged to participants are structured to systematically provide for the debt requirements and operating costs of the Agency. Those expenses and revenues excluded from rates are deferred to such periods as they are intended to be included in rates.

Net deferred expenses to be recovered from future revenue include the following:

	1990	1989	CHANGE
ITEMS TO BE RECOVERED IN FUTURE PARTICIPANT BILLINGS:			
INTEREST EXPENSE	$ 314,292	$ 312,731	$ 1,561
DEPRECIATION EXPENSE	88,474	70,365	18,109
AMORTIZATION OF REDEMPTION AND DEFEASANCE LOSSES	26,651	19,906	6,745
AMORTIZATION OF BOND DISCOUNTS AND DEBT ISSUANCE COSTS	20,029	16,546	3,483
NUCLEAR FUEL EXPENSES	873	873	—
LETTER OF CREDIT FEES	5,649	5,649	—
OTHER	1,702	1,702	—
	457,670	**427,772**	**29,898**
ITEMS REDUCING FUTURE PARTICIPANTS BILLINGS:			
INVESTMENT INCOME	(76,238)	(83,776)	7,538
RATE STABILIZATION (REVENUE RECEIVED TO REDUCE FUTURE BILLINGS TO PARTICIPANTS)	(276,361)	(248,843)	(27,518)
RESERVE AND CONTINGENCY DEPOSITS	(3,284)	(1,794)	(1,490)
	(355,883)	**(334,413)**	**(21,470)**
DEFERRED REVENUES (EXPENSES) RECOGNIZED:			
DEFERRED INTEREST, DEPRECIATION, AMORTIZATION EXPENSE INCLUDED IN PARTICIPANT BILLINGS FOR DEBT PRINCIPAL PAYMENTS	(1,285)	(805)	(480)
RATE STABILIZATION DRAWS APPLIED TO EXPENSES	42,998	29,838	13,160
RESERVE AND CONTINGENCY REVENUE APPLIED TO EXPENSES	204	182	22
	41,917	**29,215**	**12,702**
NET DEFERRED EXPENSES TO BE RECOVERED FROM FUTURE REVENUE	**$143,704**	**$122,574**	**$21,130**

The following deferred expenses will be recognized in future periods when rates charged to Participants will produce revenues sufficient to retire the debt which funded those costs:

- Interest expense on the Agency's bonds and variable rate demand obligations along with associated letter-of-credit, banking and remarketing fees (except interest and fees related to Capital Appreciation Bonds) paid from bond proceeds during a defined "Construction Period," (net of income earned on the temporary investment of those bond proceeds);
- Interest expense on Capital Appreciation Bonds accrued but not paid until maturity;
- Amortization of debt issuance expenses, bond discounts, defeasance losses, redemption losses, and organization costs paid from or included in bond proceeds;
- Depreciation on utility plant constructed with and amortization of nuclear fuel acquired with bond proceeds; and
- Certain other project costs paid from bond proceeds.

During 1988, Participant revenues included amounts to pay debt principal and, accordingly, recognition of the associated deferred expenses began.

The Agency has also deferred Participant revenues which, during the "Construction Period," were established at levels to cover Project costs not paid from bond proceeds, as well as scheduled deposits to a Rate Stabilization account. The revenue associated with those scheduled deposits and the interest income thereon will be recognized when those funds are drawn upon to pay Project costs. Also, certain settlement revenues and excess revenues in certain funds have been transferred to the Rate Stabilization account and have been deferred for recognition until the time the funds are applied to the payment of Project costs.

Additionally, the Agency's bond resolution requires Participant revenues to be set at levels sufficient to provide specified deposits into a Reserve and Contingency fund. Monies in that fund are used for the construction or acquisition of utility plant. The recognition of such revenues is deferred until such time as the depreciation is recorded on the assets constructed or acquired with those monies.

8. LONG-TERM DEBT

Long-term debt of the Agency at December 31, 1990, is as follows:

	PRINCIPAL	UNAMORTIZED DISCOUNT	TOTAL
BONDS:			
SERIES 1984	$ 57,805	$ 14,489	$ 43,316
SERIES 1985	25,940	5,008	20,932
SERIES 1985B	240,800	—	240,800
1985 REFUNDING SERIES	54,810	12,230	42,580
1986 REFUNDING SERIES	326,345	17,400	308,945
1986A REFUNDING SERIES	363,735	18,549	345,186
1988 REFUNDING SERIES	123,697	521	123,176
1988A REFUNDING SERIES	114,704	2,131	112,573
TOTAL	**$1,307,836**	**$70,328**	**$1,237,508**

8. LONG-TERM DEBT (continued)

Long-term debt of the Agency at December 31, 1989, is as follows:

	PRINCIPAL	UNAMORTIZED DISCOUNT	TOTAL
BONDS:			
SERIES 1984	$ 59,510	$ 15,729	$ 43,781
SERIES 1985	26,705	5,366	21,339
SERIES 1985B	248,000	—	248,000
1985 REFUNDING SERIES	56,430	12,961	43,469
1986 REFUNDING SERIES	342,140	17,931	324,209
1986A REFUNDING SERIES	363,735	19,131	344,604
1988 REFUNDING SERIES	124,152	548	123,604
1988A REFUNDING SERIES	114,704	2,209	112,495
	1,335,376	73,875	1,261,501
NOTES:			
SERIES 1984	100,000	—	100,000
TOTAL	**$1,435,376**	**$73,875**	**$1,361,501**

Electric Revenue Bonds, Series 1984 — In December 1984, the Agency issued $530,000 of Electric Revenue Bonds, Series 1984 with an original issue discount of $23,500 for the purpose of financing the Agency's investment in the Catawba Nuclear Station described in Note 1. As described in Note 8, the Agency defeased $395,400 and $74,600 of the Electric Revenue Bonds, Series 1984 in December 1985 and July 1986, respectively. The Agency redeemed prior to maturity $490 and $1,705 of the bonds on July 1, 1987 and 1990, respectively. Thus, $57,805 and $59,510 of the bonds were recorded as outstanding at December 31, 1990 and 1989, respectively.

The bonds are special obligations of the Agency and are secured by future revenue as defined by the bond resolution and other monies and securities pledged under the bond resolution.

The bonds bear an annual interest rate of 7 percent and mature on January 1, 2013. The bonds are redeemable at the option of the Agency at prices ranging from 103 percent of the bond principal amount in 1995 to 100 percent in 1998 and thereafter.

Electric Revenue Bonds, Series 1985 — In May, 1985, the Agency issued $340,000 of Electric Revenue Bonds, Series 1985 with an original issue discount of $8,355 for the purpose of financing the Agency's investment in the Catawba Nuclear Station described in Note 1. As described in Note 8, the Agency defeased $200,895 and $111,265 of the Electric Revenue Bonds, Series 1985 in July 1986 and March 1988, respectively. The Agency redeemed prior to maturity $1,135 and $765 of the bonds on July 1, 1987 and 1990, respectively. Thus, $25,940 and $26,705 of the bonds were recorded as outstanding at December 31, 1990 and 1989, respectively.

The bonds are special obligations of the Agency and are secured by future revenue as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the $81,245 bonds maturing on January 1, 2014 is insured.

The bonds bear an annual interest rate of 7.5 percent and mature on January 1, 2016. The bonds are redeemable at the option of the Agency on or after January 1, 1995 upon payment of the principal balance.

Electric Revenue Bonds, Series 1985B — In November, 1985, the Agency issued $250,000 of Electric Revenue Bonds, Series 1985B due January 1, 2025 to provide the funds necessary to pay the $100,000 principal amount of the Agency's 8.5 percent Electric Revenue Bond Anticipation Notes, Series 1984, which matured on January 1, 1988, and the $100,000 principal plus a portion of the interest on the Agency's 9 percent Electric Revenue Bond Anticipation Notes, Series 1984, which matured on January 1, 1990. The Agency redeemed prior to maturity $2,000 and $7,200 of the bonds on July 1, 1987 and 1990, respectively. Thus, $240,800 and $248,000 of the bonds were outstanding at December 31, 1990 and 1989, respectively.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution. The bonds are further secured by an irrevocable letter of credit which is in an amount sufficient to pay the principal and $3,572 accrued interest on the bonds. No borrowings under the letter of credit have occurred as of December 31, 1990.

The bonds will bear interest at a daily, weekly, monthly, long or fixed rate as determined from time to time. The Remarketing Agent determines the rate of interest. The Agency's Board of Directors determines the length of time. From the issue date through December 31, 1990, the interest on the bonds has been at a weekly rate. For the years ended December 31, 1990 and 1989, the average interest rate on the bonds was 5.88% and 6.42%, respectively. Also, the bonds may be permanently converted to a fixed rate. Any time prior to their conversion to a fixed rate, the bonds are redeemable at the option of the Agency at a price equal to 100 percent of the bond principal amount plus any accrued interest at the date of redemption. If the bonds have been converted to a fixed rate, the bonds are redeemable at the option of the Agency at prices ranging from 103 percent of the bond principal amount from 1986 to 2013 to 100 percent in 2024.

Electric Revenue Bonds, 1985 Refunding Series — In December 1985, the Agency issued $445,325 of Electric Revenue Bonds, 1985 Refunding Series at an original issue discount of $14,457 for the purpose of providing funds necessary to refund $395,400 of Electric Revenue Bonds, Series 1984 described earlier in this footnote. As described in Note 8, the Agency defeased $288,895 and $98,725 of the Electric Revenue Bonds, 1985 Refunding Series in December 1986 and November 1988, respectively. The Agency redeemed prior to maturity $1,275 and $1,620 of the bonds on July 1, 1987 and 1990, respectively. Thus $54,180 and $56,430 of the bonds were recorded as outstanding at December 31, 1990 and 1989, respectively.

The bonds are special obligations of the Agency and are secured by future revenue as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the bonds maturing on January 1, 2019, is insured.

The bonds bear an annual interest rate ranging from 7 percent and mature on January 1, 2025. The bonds are redeemable at the option of the Agency on or after January 1, 1996 upon payment of the principal balance.

Electric Revenue Bonds, 1986 Refunding Series — In July 1986, the Agency issued $344,960 of Electric Revenue Bonds, 1986 Refunding Series at an original issue discount of $19,778 for the purpose of providing funds necessary to refund $74,600 of Electric Revenue Bonds, Series 1984 and $200,895 of Electric Revenue Bonds, Series 1985 described earlier in this footnote. The Agency redeemed prior to maturity $2,820 and $15,795 of the bonds on July 1, 1987 and 1990, respectively. Thus $326,345 and $342,140 of the bonds were outstanding at December 31, 1990 and 1989, respectively.

The bonds are special obligations of the Agency and are secured by future revenue as defined by the bond resolution and other monies and securities pledged under the bond resolution.

The bonds bear an annual interest rate ranging from 5 percent to 8 percent with maturity dates ranging from January 1, 1996 to January 1, 2025. The bonds are redeemable at the option of the Agency at prices ranging from 101.5 percent of the bond principal amount in 1996 to 100 percent in 1999 and thereafter.

8. LONG-TERM DEBT (continued)

Electric Revenue Bonds, 1986A Refunding Series — In December 1986, the Agency issued $363,735 of Electric Revenue Bonds, 1986A Refunding Series at an original issue discount of $20,900 for the purpose of providing funds necessary to refund $288,895 of Electric Revenue Bonds, 1985 Refunding Series described earlier in this footnote.

The bonds are special obligations of the Agency and are secured by future revenue as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the bonds maturing on January 1, 2013 is insured.

The bonds bear an annual interest rate ranging from 5.75 percent to 7.25 percent with maturity dates ranging from January 1, 2013 to January 1, 2024. The bonds are redeemable at the option of the Agency at prices ranging from 102 percent of the bond principal amount in 1996 to 100 percent in 2000 and thereafter.

Electric Revenue Bonds, 1988 Refunding Series — In March 1988, the Agency issued $124,502 of Electric Revenue Bonds, 1988 Refunding Series at an original issue discount of $595 for the purpose of providing funds necessary to refund $111,265 of Electric Revenue Bonds, Series 1985 described earlier in this footnote. On January 1, 1990 and 1989, respectively, $455 and $350 of the bonds matured and were paid from debt service sinking funds. Thus, $123,697 and $124,152 of the bonds were outstanding at December 31, 1990 and 1989, respectively.

The bonds are special obligations of the Agency and are secured by future revenue as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the bonds when due is insured.

The bonds bear an annual interest rate ranging from 5.5 percent to 7.75 percent with maturity dates ranging from January 1, 1991 to January 1, 2018. The bonds are redeemable at the option of the Agency at prices ranging from 102 percent of the bond principal amount in 1998 to 100 percent in 2000 and thereafter.

Electric Revenue Bonds, 1988A Refunding Series — In November 1988, the Agency issued $114,704 of Electric Revenue Bonds, 1988A Refunding Series at an original issue discount of $2,293 for the purpose of providing funds necessary to refund $98,725 of Electric Revenue Bonds, 1985 Refunding Series described earlier in this footnote.

The bonds are special obligations of the Agency and are secured by future revenue as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the bonds when due is insured.

The bonds bear an annual interest rate ranging from 6.7 percent to 7.65 percent with maturity dates ranging from January 1, 1998 to January 1, 2019. The bonds are redeemable at the option of the Agency at prices ranging from 102 percent of the bond principal amount in 1998 to 100 percent in 2000 and thereafter.

Electric Revenue Notes, Series 1984 — In December 1984, the Agency issued $200,000 of Electric Revenue Bond Anticipation Notes, Series 1984 for the purpose of financing the Catawba Nuclear Station described in Note 1.

The notes are special obligations of the Agency and are secured by a lien on future revenue as defined under the note resolution.

The lien on revenue securing the notes is subordinate to the lien on revenue securing payments required under the bond resolution. The notes are further secured by irrevocable letters of credit which are in amounts sufficient to pay the principal of the notes plus seven months of accrued interest.

The notes consisted of two principal amounts of $100,000 each which bore annual interest rates of 8.5 percent and 9 percent and maturing on January 1, 1988 and 1990, respectively. As described above, the Electric Revenue Bonds, Series 1985B were issued in order to provide the funds necessary to pay the notes when they mature.

The $100,000 principal amount which matured on January 1, 1988 and January 1, 1990 were paid on that date from the funds provided by the issuance of the Electric Revenue Bonds, Series 1985B.

Principal Debt and Sinking Fund Requirements — The following is a summary of the principal debt and sinking fund requirements for the bonds outstanding at December 31, 1990:

1991	$ 480	2003	$23,245	2015	$ 51,600
1992	1,010	2004	23,890	2016	55,900
1993	1,565	2005	25,060	2017	60,625
1994	1,655	2006	26,918	2018	64,985
1995	2,230	2007	33,642	2019	68,030
1996	8,925	2008	27,058	2020	76,620
1997	14,475	2009	28,521	2021	82,145
1998	15,940	2010	29,972	2022	88,035
1999	17,435	2011	31,649	2023	91,460
2000	14,350	2012	33,449	2024	100,380
2001	9,195	2013	33,280	2025	95,330
2002	21,650	2014	47,132		

9. IN-SUBSTANCE DEBT DEFEASANCE

In December 1985, the Agency purchased $423,024 in U.S. government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric Revenue Bonds, Series 1984: $27,475 of 11 percent bonds due 2014, $100,000 of 10.5 percent bonds due 2019, and $267,925 of 11 percent bonds due 2025. The bonds will be redeemed on January 1, 1995, (the first optional redemption date) at the then applicable redemption price of 103 percent of their aggregate principal amount. The above described defeasance resulted in an extraordinary loss of $41,260 which is deferred as excess cost on advance refunding of debt.

In July 1986, the Agency purchased $327,338 in U. S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric Revenue Bonds, Series 1984: $44,600 of 10.875 percent term bonds due 2004 and $30,000 of 10 percent term bonds due 2012; Series 1985: $13,765 of 9-9.7 percent serial bonds due 1996-2000, $16,650 of 10 percent term bonds due 2004, and $170,480 of 10.25 percent term bonds due 2025. The bonds will be redeemed on January 1, 1995, (the first optional redemption date) at the redemption price of 103 percent of their aggregate principal amount. This defeasance resulted in an extraordinary loss of $62,194 which is deferred as excess cost on advance refunding of debt.

In December 1986, the Agency purchased $344,871 in U. S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric Revenue Bonds, 1985 Refunding Series: $25,175 of 9.625 percent term bonds due 2013, $48,150 of 9.7 percent term bonds due 2016, and $215,570 of 9.7 percent term bonds due 2024. The bonds will be redeemed on January 1, 1996, (the first optional redemption date) at the redemption price of 103 percent of their aggregate principal amount. This defeasance resulted in an extraordinary loss of $64,263 which is deferred as excess cost on advance refunding of debt.

In March 1988, the Agency purchased $117,763 in U.S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric

9. IN-SUBSTANCE DEBT DEFEASANCE (continued)

Revenue Bonds; Series 1985: $80,110 of 9.375 percent term bonds due 2014 and $31,155 of 9.5 percent term bonds due 2018. The bonds will be redeemed on January 1, 1995, (the first optional redemption date) at the redemption price of 103 percent of their aggregate principal amount. This defeasance resulted in an extraordinary loss of $16,792 which is deferred as excess cost on advance refunding of debt.

In November 1988, the Agency purchased $105,781 in U.S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric Revenue Bonds, 1985 Refunding Series: $98,275 of 9.25 percent term bonds due 2019. The bonds will be redeemed on January 1, 1996, (the first optional redemption date) at the redemption price of 103 percent of their aggregate principal amount. This defeasance resulted in an extraordinary loss of $13,364 which is deferred as excess cost on advance refunding of debt.

Each of the above transactions qualifies as an in-substance debt defeasance; therefore, the government securities and applicable defeased bond issues are not recorded on the balance sheet. The Agency defeased the debt primarily to reduce debt service, thereby postponing or reducing future electric rate adjustments.

10. RESERVE FOR DECOMMISSIONING

The reserve for decommissioning is an amount that is being accumulated to provide for the expected cost of decommissioning (dismantling) the nuclear facility. The Agency's portion of decommissioning these jointly owned facilities is based on current price levels and assumes decommissioning will occur promptly after the units are taken out of service and is estimated at approximately $52,837 for the present electric plant in service. This estimate will be adjusted periodically to reflect changing price levels and technology.

11. CONTINGENCIES

The Agency is routinely engaged in discussions and/or negotiations with Duke Power Company related to the appropriateness of charges made under the Project Agreements. Such actions continued at December 31, 1990 with some issues being the subject of continuing arbitration proceedings. The Agency cannot determine, at this time, whether those activities will produce any project cost refunds. At December 31, 1990 the Agency has not recorded any benefit relating to unresolved issues. Management believes the value of any refunds, or liabilities resulting from these activities, would not materially effect the Agency's financial position.

The steam generators at the Catawba station have experienced stress corrosion cracking (SCC) in the steam generator tubes of all four units. Although Duke has taken steps to mitigate the effects of SCC, the potential for future SCC exists, and Duke cannot predict the extent to which remedial measures will be required to minimize the effect of any future SCC. Future corrosion and cracking could result in reduction in plant output and replacement of the steam generators before the end of the plant design life. Neither Duke, nor the Agency, can predict at this time the cost of additional remedial measures to mitigate the effects of any future SCC, including the cost of replacing any of the steam generators before the end of the plant design life.

Duke, on its own behalf and, in connection with the Catawba station, on behalf of the other owners, including the Agency, commenced an action on March 22, 1990, in the United States District Court for the District of South Carolina seeking damages from Westinghouse Electric Corporation for supplying to the Catawba station steam generators that are alleged to be defective in design, workmanship and materials, and that will require replacement well short of their stated design life. Although Duke and other owners are vigorously pursuing this case, its ultimate outcome is undeterminable at this time.

12. SUBSEQUENT EVENT

In January 1991, the Agency issued $213,550 of Electric Revenue Bonds, 1991 Refunding Series with interest rates ranging from 4% to 6.85%. Proceeds from the bonds were used solely to advance refund the outstanding $178,090 of Electric Revenue Bonds, 1986 Refunding Series, maturing January 1, 2023 and bearing interest at 8%. The refunding bonds will be redeemed on January 1, 1996 (the first optional redemption date) at the redemption price of 101 1/2% of their aggregate principal amount. This defeasance resulted in an extraordinary loss on advance refunding of debt of approximately $12,776 in 1991. The Agency defeased the debt primarily to reduce debt service, thereby postponing or reducing future electric rate adjustments.

ADDITIONAL INFORMATION

SCHEDULE 1

SCHEDULE OF REVENUE AND EXPENSES PER THE BOND RESOLUTION AND OTHER AGREEMENTS

YEAR ENDED DECEMBER 31, 1990

DOLLARS IN THOUSANDS	1990 ACTUAL REVENUES AND EXPENSES	1990 BUDGETED REVENUES AND EXPENSES	1990 ACTUAL OVER (UNDER) BUDGET
REVENUE:			
SALES OF ELECTRICITY TO PARTICIPANTS	$ 65,946	$ 67,216	$ (1,270)
SALES OF ELECTRICITY TO DUKE	83,635	83,586	49
INTEREST INCOME	36,112	38,632	(2,520)
OTHER INCOME	4,456	—	4,456
EXCESS FUNDS FROM REFUNDING ESCROW	8,407	8,334	73
TOTAL REVENUE	**$ 198,556**	**$ 197,768**	**$ 788**
EXPENSES:			
CATAWBA OPERATING EXPENSES:			
OPERATION AND MAINTENANCE	30,442	27,167	3,275
McGUIRE RELIABILITY EXCHANGE	(188)	18	(206)
NUCLEAR FUEL	7,339	8,026	(687)
PAYMENTS IN LIEU OF TAXES	2,598	2,472	126
INTERCONNECTION SERVICES:			
PURCHASED POWER:			
DUKE	38,155	34,358	3,797
CITY OF UNION	5,944	5,697	247
TRANSMISSION:			
TRANSMISSION SERVICES	3,403	3,364	39
TRANSMISSION FACILITIES	1,197	1,161	36
ADMINISTRATIVE AND GENERAL:			
AGENCY	1,802	1,823	(21)
DUKE	239	146	93
SPECIAL FUNDS DEPOSITS (WITHDRAWALS):			
BOND FUND:			
DEPOSITS FROM REVENUES	90,437	89,382	1,055
LOC FEES	1,155	1,108	47
RESERVE AND CONTINGENCY FUND:			
DEPOSITS FROM REVENUE	9,046	8,940	105
CAPITAL ADDITIONS	(1,486)	(1,991)	506
TRANSFER EXCESS FUNDS	(7,599)	(6,949)	(650)
DECOMMISSIONING FUND:			
DEPOSITS FROM REVENUE	1,589	1,566	23
INTEREST INCOME (1)	241	252	(11)
CONSTRUCTION FUND:			
DEPOSITS FROM REVENUE	872	1,134	(262)
CAPITAL ADDITIONS	(502)	(351)	(151)
REIMBURSEMENT FROM OTHER FUNDS	1,369	—	1,369
REVENUE FUND:			
WORKING CAPITAL	(9,731)	(5,414)	(4,317)
FUEL	(9,706)	(11,482)	1,776
RATE STABILIZATION:			
INTEREST INCOME (1)	15,799	19,350	(3,551)
NET DEPOSITS	4,182	4,182	—
SUPPLEMENTAL POWER RESERVE:			
INTEREST INCOME (1)	1,753	1,308	445
TRANSFER EXCESS FUNDS	(1,998)	(1,714)	(284)
OTHER CAPITAL TRANSACTIONS:			
PLANT ADDITIONS:			
RESERVE AND CONTINGENCY FUND	1,486	1,991	(505)
CONSTRUCTION FUND	502	351	151
GENERAL PLANT	63	68	(5)
FUEL ACQUISITIONS	9,706	11,482	(1,776)
DEBT ISSUANCE COSTS	449	323	126
TOTAL EXPENSES	**$ 198,556**	**$ 197,768**	**$ 788**

(1) INCLUDED IN "OTHER INCOME: INVESTMENT INCOME."

SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT.

ADDITIONAL INFORMATION

SCHEDULE 2

SCHEDULE OF REVENUE AND EXPENSES PER THE BOND RESOLUTION AND OTHER AGREEMENTS

YEAR ENDED DECEMBER 31, 1990

DOLLARS IN THOUSANDS	FUNDS									
	REVENUE		OPERATING	BOND			RESERVE & CONTINGENCY	DECOMMISSION	CONSTRUCTION	SUPPLEMENTAL POWER
	WORKING CAPITAL	RATE STABILIZATION	FUEL PURCHASES	PRINCIPAL INTEREST RETIRE	RESERVE	ESCROW				
BALANCES AT BEGINNING OF YEAR:										
ASSETS	$ 47,914	$ 213,382	$ 23,505	$ 42,553	$ 111,348	$112,912	$ 11,174	$ 1,778	$ 27,667	$ 15,331
LIABILITIES	(3,049)									
NET	44,865									
PROJECT REVENUES:										
PARTICIPANTS —										
ELECTRIC	64,883									
FACILITIES RENT	1,056									
CONTROL SERVICES	7									
MISCELLANEOUS	54									
DUKE POWER — ELECTRIC	83,635									
INTEREST INCOME	17,447	15,799						241	872	1,753
OTHER INCOME — SETTLEMENT	4,402									
PROJECT COSTS:										
OPERATIONS & MAINTENANCE	(30,442)									
RELIABILITY EXCHANGE	188									
FUEL	(7,339)		7,339							
DECOMMISSIONING	(1,589)							1,589		
GENERAL & ADMINISTRATION	(1,082)									
PAYMENTS IN LIEU OF TAXES	(2,598)									
DEBT SERVICE	(90,437)			90,437						
RESERVE & CONTINGENCY	(9,046)						9,046			
SUPPLEMENTAL POWER COSTS:										
PURCHASED POWER —										
DUKE	(38,155)									
UNION	(5,944)									
TRANSMISSION SERVICES	(3,403)									
TRANSMISSION FACILITIES	(1,197)									
GENERAL & ADMINISTRATION	(959)									
OTHER FUND CHANGES:										
TRANSFERS IN (OUT):										
RATE STABILIZATION	(4,182)	4,182				(104,505)				
BOND REDEMPTION				27,116					(27,116)	
EXCESS FUNDS	18,004					(8,407)	(7,599)			(1,998)
RE-IMBURSEMENT	(1,369)								1,369	
PAYMENTS:										
DEBT RETIRE/REDEEM/ INTEREST	(1,602)			(118,551)						
CAPITAL ADDITIONS	(63)		(9,706)				(1,486)		(502)	
ENDING BALANCES (12/31/90):	**$ 35,134**	**$ 233,363**	**$ 21,138**	**$ 41,555**	**$111,348**	**—**	**$ 11,135**	**$ 3,608**	**$ 2,290**	**$ 15,086**
ASSETS	$ 38,097									
LIABILITIES	$ (2,963)									

SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT.

PIEDMONT MUNICIPAL POWER AGENCY

BOARD OF DIRECTORS

Abbeville
David H. Krumwiede, City Manager

Clinton
Steve Harrell, City Manager

Easley
Richard S. Hale, General Manager
Combined Public Utilities

Gaffney
Larry A. Sossamon, Secretary-Treasurer,
Brookview House, Inc.

Greer
David V. Duncan, Commissioner,
Commission of Public Works

Laurens
Coleman F. Smoak, Jr., General Manager,
Commission of Public Works

Newberry
Steve D. Reeves, Jr., Utilities Director

Rock Hill
Joe B. Lanford, City Manager

Union
T.D. Sherbert, Jr., Utility Director

Westminster
Gary L. Cobb, Superintendent,
Commission of Public Works

OFFICERS

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Coleman F. Smoak, Jr., General Manager
Commission of Public Works, Laurens

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Steve Harrell, City Manager
City of Clinton

Secretary
James A. Bauer, General Manager
PMPA

Treasurer
Neil J. Keane, Finance Director,
PMPA

PIEDMONT MUNICIPAL POWER AGENCY

121 VILLAGE DRIVE

GREER, SOUTH CAROLINA 29651

803 / 877-9632

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Saluda River Electric Cooperative, Inc.

Audited Financial Statements and Other Financial Information

December 31, 1990

ERNST & YOUNG

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

Audited Financial Statements and
Other Financial Information

December 31, 1990

Audited Financial Statements

Other Financial Information

ERNST & YOUNG

C&S Bank Tower
Suite 800
Two Shelter Centre
P.O. Box 10647
Greenville
South Carolina 29603

Phone: 803 242 5740

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Saluda River Electric Cooperative, Inc.

We have audited the accompanying balance sheet of Saluda River Electric Cooperative, Inc. as of December 31, 1990 and 1989, and the related statements of operations and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saluda River Electric Cooperative, Inc. at December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young

March 15, 1991

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

BALANCE SHEET

	December 31 1990	1989
ASSETS		
UTILITY PLANT		
Electric plant in service	$506,290,378	$494,728,426
Construction work-in-progress	5,278,674	4,033,013
	511,569,052	498,761,439
Less accumulated depreciation and amortization	125,025,545	101,182,822
	386,543,507	397,578,617
INVESTMENTS AND OTHER ASSETS		
Investments	29,998,509	17,315,900
Debt service reserve funds	6,644,083	6,624,633
Decommissioning trust funds	736,351	
Deferred charges	515,790	537,244
	37,894,733	24,477,777
CURRENT ASSETS		
Cash and short-term investments	50,436,380	55,409,289
Accounts receivable	44,199,216	41,472,449
Interest receivable	599,977	712,368
Prepaid expenses	39,162	50,452
	95,274,735	97,644,558
	$519,712,975	$519,700,952

	December 31 1990	December 31 1989
MEMBERS' EQUITIES AND LIABILITIES		
MEMBERS' EQUITIES		
Patronage capital	$ 9,867,021	$ 9,867,021
Membership fees	40	30
	9,867,061	9,867,051
LONG-TERM DEBT		
Mortgage notes payable	379,708,228	382,619,255
Note payable	18,928,353	18,928,353
Pollution control bonds payable	44,200,000	44,200,000
	442,836,581	445,747,608
DEFERRED REVENUE	12,555,475	12,864,271
DEFERRED INCOME TAXES	35,066,813	31,380,085
CURRENT LIABILITIES		
Accounts payable	9,025,533	9,536,771
Interest payable	10,094,158	10,287,172
Income taxes payable	240,000	-
Accrued expenses	27,354	17,994
	19,387,045	19,841,937
	$519,712,975	$519,700,952

See the accompanying notes to financial statements.

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

STATEMENT OF OPERATIONS AND PATRONAGE CAPITAL

	Year Ended December 31 1990	1989
OPERATING REVENUES		
Electric sales to members	$ 78,190,734	$ 78,691,769
Electric sales to nonmembers	56,802,904	71,319,096
	134,993,638	150,010,865
OPERATING EXPENSES		
Purchased power	47,102,925	57,397,538
Produced power	26,893,918	29,127,858
Depreciation and amortization	17,852,521	17,544,748
Property taxes	2,949,531	1,961,110
Administrative and general	2,269,716	1,845,070
	97,068,611	107,876,324
OPERATING MARGIN	37,925,027	42,134,541
NON-OPERATING MARGINS		
Interest income	7,074,144	5,977,061
Interest expense	(41,381,239)	(41,732,378)
Deferred revenue	308,796	(915,498)
	(33,998,299)	(36,670,815)
NET MARGIN BEFORE INCOME TAXES	3,926,728	5,463,726
PROVISION FOR INCOME TAXES		
Current	240,000	-
Deferred	3,686,728	5,463,726
NET MARGIN	-0-	-0-
PATRONAGE CAPITAL		
At beginning of year	9,867,021	9,867,021
At end of year	$ 9,867,021	$ 9,867,021

See the accompanying notes to financial statements.

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

STATEMENT OF CASH FLOWS

	Year Ended December 31 1990	1989
OPERATING ACTIVITIES		
Net margin	$ -0-	$ -0-
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	23,844,556	25,932,711
(Decrease) increase in deferred revenue	(308,796)	915,498
Increase in deferred taxes	3,686,728	5,463,726
Change in operating assets and liabilities:		
(Decrease) increase in receivables	(2,614,376)	2,269,136
Decrease (increase) in prepaid expenses	11,290	(13,914)
Decrease in current liabilities	(454,892)	(2,965,107)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,164,510	31,602,050
INVESTING ACTIVITIES		
Net (increase) decrease in investments	(12,592,652)	10,687,262
Expenditures for electric plant in service	(12,787,982)	(17,352,765)
Proceeds from sale of assets	-	11,972
NET CASH (USED IN) INVESTING ACTIVITIES	(25,380,634)	(6,653,531)
FINANCING ACTIVITIES		
Payment of mortgage notes	(2,911,027)	(2,083,510)
Additions to debt service reserve funds	(19,450)	(19,450)
Additions to decommissioning trust funds	(736,351)	-
NET CASH (USED IN) FINANCING ACTIVITIES	(3,666,828)	(2,102,960)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,882,952)	22,845,559
Cash and cash equivalents at beginning of year	51,309,289	28,463,730
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 46,426,337	$ 51,309,289

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

STATEMENT OF CASH FLOWS--Continued

	Year Ended December 31 1990	1989
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents at end of year	$ 46,426,337	$ 51,309,289
Short-term investments (maturing ninety days to one year), not considered cash and cash equivalents	4,010,043	4,100,000
	$ 50,436,380	$ 55,409,289
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of capitalized interest of $237,076 and $266,921 in 1990 and 1989, respectively	$ 41,574,253	$ 41,732,106

See the accompanying notes to financial statements

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1990

NOTE A--DESCRIPTION OF THE ENTITY

Saluda River Electric Cooperative, Inc. (the "Cooperative"), formed in 1958, is a generation and transmission electric cooperative providing wholesale electric power to its five rural electric member cooperatives located in South Carolina. The Cooperative represents its member cooperatives in dealings with power suppliers and various government agencies.

In 1981, in order to secure a reliable source of power for its members, the Cooperative purchased an 18.75 percent undivided ownership interest in Unit 1 and a 9.375 percent undivided ownership interest in certain common support facilities of the Catawba Nuclear Station ("Catawba") in York County, South Carolina, a two-unit nuclear power generation facility constructed by Duke Power Company ("Duke"). Under the terms of agreements executed with Duke, the Cooperative is entitled to 9.375 percent of the power generated by both Units 1 and 2; additionally, a portion of the power produced by the Cooperative's share of each Unit is sold back to Duke. During 1989, Duke purchased 70 percent of the Cooperative's share of power generated by Unit 2 and 60 percent of the Cooperative's share of power generated by Unit 1. During 1990, Duke purchased 60 percent of the Cooperative's share of power generated by Unit 2 and 50 percent of the Cooperative's share of power generated by Unit 1. Duke's purchase of power generated by the Cooperative's share of Units 1 and 2 will continue to decrease by 10 percent annually, subject to certain contractual limitations.

Under the terms of the agreements between Duke and the Cooperative, costs payable by the Cooperative are based upon a 9.375 percent interest in Units 1 and 2 as well as the common support facilities. As a result of the substance of these agreements, the Cooperative, for financial reporting purposes, accounts for its investment based upon a 9.375 percent interest in the entire project.

The accounting records of the Cooperative conform to the Uniform System of Accounts, prescribed by the U. S. Department of Agriculture as modified for electric borrowers of the Rural Electrification Administration.

The Cooperative's electric utility activities are directed by its Board of Trustees and its rates are not regulated by the South Carolina Public Service Commission or Federal Energy Regulatory Commission.

NOTE B--ELECTRIC PLANT IN SERVICE

Major classes of the Cooperative's electric plant in service as of December 31, 1990 and 1989, are stated at cost, including capitalized interest and overhead incurred until the time the asset was placed in service, as follows:

	1990	1989
Generation plant	$433,273,653	$431,200,803
Nuclear fuel	57,784,702	51,705,378
Transmission plant	3,580,761	3,284,464
Substations	8,854,547	6,207,856
General plant	1,335,991	998,072
Land and land rights	1,460,724	1,331,853
	$506,290,378	$494,728,426

Maintenance and repairs of plant and replacements and renewals of items determined to be less than units of property are charged to operations. Replacements and renewals of items considered to be units of property are capitalized in the plant accounts.

Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis at the following rates:

Generation plant	4.0%
Transmission plant and substations	3.2%
General plant	3.0% to 33.3%

The composite depreciation rate for generation plant includes a factor to provide for the expected costs of decommissioning. The Cooperative's portion of decommissioning the jointly-owned facilities of the Catawba Nuclear Station, based on current price levels and decommissioning promptly after the project is taken out of service, is estimated at approximately $37,000,000. This estimate may be adjusted periodically to reflect changing price levels and technology.

Construction work-in-progress, consisting primarily of substations and related materials and supplies, is stated on the basis of cost, including capitalized interest.

NOTE C--NUCLEAR FUEL

The cost of nuclear fuel is being amortized to produced power expense based on the rate of core burn. The total fuel amortization expense in 1990 and 1989 was $5,992,035 and $8,387,963, respectively.

The Cooperative, in accordance with the terms of operating agreements for Catawba, pays Duke a monthly fee for the disposal of spent nuclear fuel. This disposal fee is based on kilowatt hours of energy generated and is charged to operations as a cost of produced power.

NOTE D--LONG-TERM INVESTMENTS

Investments consist of general funds invested for longer than one year and investments in associated organizations.

At December 31, 1990 and 1989, investments in associated organizations included $48,296 of Capital Term Certificates with the National Rural Utilities Cooperative Finance Corporation which earn interest at 4% until maturity in 2080. Other investments in associated organizations are accounted for using the equity method and include capital credits which have been assigned to the Cooperative but are not currently receivable.

NOTE E--DEBT SERVICE RESERVE FUNDS

Debt service reserve funds are held by the National Rural Utilities Cooperative Finance Corporation and are restricted in connection with the Cooperative's Pollution Control Bond indenture agreement. The fund balances at December 31, 1990 and 1989 are as follows:

	1990	1989
Pollution Control Bonds	$4,434,083	$4,414,633
Subordinated Term Certificates	2,210,000	2,210,000
	$6,644,083	$6,624,633

The Pollution Control Bonds Reserve Fund was established to provide for deficiencies, if any, in the amount available to pay the principal and interest on the bonds and to provide for the final payments of principal and interest on the bonds. Investments in the Reserve Fund earn interest at rates ranging from 7.6 percent to 10.375 percent.

The Subordinated Term Certificates represent a 5 percent compensating balance of the Cooperative's outstanding Pollution Control Bonds for the life of the bond issue and earn interest at 11.648 percent.

NOTE F--DECOMMISSIONING TRUST FUNDS

During 1988, the Nuclear Regulatory Commission ("NRC") issued a rulemaking requiring a minimum assurance amount to be funded externally for the expected cost of decommissioning components of nuclear generating stations subject to radioactive contamination.

The minimum assurance required by the NRC for the Catawba Nuclear Station requires the Cooperative to fund a minimum amount annually with an external trustee beginning in 1990, through 2026. In compliance with this requirement, the Cooperative funded $378,696 for Unit 1 and $357,655 for Unit 2 in 1990.

NOTE G--DEFERRED CHARGES

Deferred charges consist of unamortized debt expenses incurred in connection with issuance of certain debt and had balances at December 31, 1990 and 1989 as follows:

	1990	1989
Pollution Control Bonds	$481,829	$501,975
Federal Financing Bank mortgage notes	33,962	35,269
	$515,791	$537,244

The unamortized debt expense related to the Pollution Control Bonds consists primarily of underwriter and legal fees associated with the issuance of the bonds and is being amortized based on bonds outstanding. The unamortized debt expense related to the Federal Financing Bank mortgage notes is being amortized based on the mortgage notes outstanding.

Amounts above are net of accumulated amortization of $134,358 and $112,904 as of December 31, 1990 and 1989, respectively.

NOTE H--MEMBERS' EQUITIES

Net margins are allocated to patronage capital accounts for each member in accordance with guidelines established by the Cooperative's Board of Trustees. In 1990 and 1989, a net margin was not available to be allocated. Patronage capital credits may be paid to the Cooperative's members at the discretion of the Board of Trustees, except as restricted by the debt agreements described in Note I; accordingly, no patronage capital has been retired.

Membership fees represent amounts paid by individuals to become members of the Cooperative who are not otherwise directly served by the Cooperative or its member distribution cooperatives. Membership fees at December 31, 1990 and 1989 were $40 and $30, respectively.

NOTE I--LONG-TERM DEBT

Long-term debt at December 31, 1990 and 1989 consists of the following:

	1990	1989
Federal Financing Bank mortgage notes	$379,708,228	$382,619,255
Duke Power Company note payable	18,928,353	18,928,353
Pollution Control Bonds	44,200,000	44,200,000
	$442,836,581	$445,747,608

The mortgage notes payable to the Federal Financing Bank ("FFB") have maturity dates ranging from December 31, 2015 to 2019, and interest rates ranging from 7.325 percent to 11.118 percent. Substantially all assets of the Cooperative are pledged as security for this debt, and the terms of the debt agreement restrict the Cooperative as to patronage capital distribution, the type of investments and capital activities. At December 31, 1990, the Cooperative had unadvanced loan commitments from FFB of $49,196,000.

The note payable to Duke Power Company, executed in 1981, is unsecured and is to be paid in 100 equal quarterly payments consisting of principal and interest over a term of 25 years. The first installment will be payable on June 29, 1995, 10 years after the date on which the first Unit of Catawba was put into service. Interest is payable monthly on the principal balance at the rate of 11.118 percent.

The Pollution Control Bonds, issued in 1984, bear a variable, semi-annual interest rate (5.85 percent at December 31, 1990 and 6.00 percent at December 31, 1989). Principal payments escalate and are to be made each year beginning with $650,000 in 1994 until $4,000,000 is due on the maturity date in 2014. Proceeds from the bonds were restricted to pay or refinance the costs associated with certain pollution control facilities at Catawba.

Scheduled maturities of long-term debt for the five years after December 31, 1990 are as follows:

1991	$ 3,458,935
1992	3,830,457
1993	4,258,526
1994	5,322,135
1995	5,931,737
Thereafter	420,034,791
	$442,836,581

NOTE I--LONG-TERM DEBT--Continued

The Cooperative has unadvanced loan funds of $12,000,000 available relating to commitments from the National Rural Utilities Cooperative Finance Corporation. The funds may be borrowed at any time during the twelve months ended December 15, 1991. As of December 31, 1990, no proceeds have been borrowed by the Cooperative under this agreement. In addition, the Cooperative had an unused line of credit of $500,000. Advances under the line of credit bear interest at variable rates (10% at December 31, 1990).

In accordance with industry practice, portions of long-term debt due within one year are not segregated, and therefore are not included with current liabilities.

NOTE J--DEFERRED REVENUE

The Cooperative's Board of Trustees sets rates with the intention of recovering certain costs expected to be incurred in the future. Revenue related to these expected future costs are deferred until such time as these costs are incurred in order to achieve a proper matching of revenues with the costs of providing power. The deferral plan adopted by the Board of Trustees is designed to produce a TIER (Times Interest Earned Ratio) of 1.0 and a net margin of zero. It is the Cooperative's intent to reexamine rates on a yearly basis; therefore, the deferred amounts are included in the determination of the Cooperative's rates to members in the year following the year of deferral.

Deferred revenues at December 31, 1990 and 1989 were $12,555,475 and $12,864,271, respectively. Revenues deferred during 1990 and 1989 were $(308,796) and $915,498, respectively.

NOTE K--RETIREMENT BENEFITS

Substantially all of the Cooperative's employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a noncontributory defined benefit multi-employer pension plan. The cost of the plan is funded annually by payments to NRECA to ensure that annuities in amounts established by the plan will be available to individual participants upon their retirement. Accumulated benefits and plan assets are not determined or allocated separately by individual employer. Due to an overfunding of the plan in prior years, a moratorium on normal employer contributions was declared in 1987; accordingly, there were no pension costs related to this plan in 1990 and 1989.

NOTE K--RETIREMENT BENEFITS--Continued

Substantially all of the Cooperative's employees also participate in the NRECA 401(k) plan, a contributory defined contribution plan. The plan requires all eligible employees, after one year of service, to contribute a minimum of 1% of base salary, as defined. The Cooperative contributes additional amounts for participating employees as determined annually by the Cooperative's Board of Trustees. Cooperative contributions in 1990 and 1989 were $66,719 and $47,408, respectively.

In addition to providing pension benefits, the Cooperative provides certain health care and life insurance benefits for retired employees. All employees become eligible for this coverage upon retirement if they reach normal retirement age while working for the Cooperative. The cost for these benefits is recognized as an expense as premiums are paid; accordingly, the costs related to this coverage in 1990 and 1989 were $5,047 and $5,225, respectively.

NOTE L--INCOME TAXES

South Carolina law exempts all electric cooperatives from state income taxes; consequently, the Cooperative is exempt from state income taxes. Whether or not a cooperative is exempt from Federal income taxes is a function of certain tests under the Internal Revenue Service Code Section 501(c)(12) relating to the sources of revenue and is determined annually.

For the years ended December 31, 1990 and 1989, the Cooperative was deemed a taxable entity for Federal income tax purposes. Differences between income tax and financial reporting income result primarily from different treatment of methods of computing depreciation. Investment tax credits are accounted for as reductions of income tax expense in the year utilized, under the deferred method. In addition, for years ended after 1986, unexpired investment tax credits were required to be reduced by 35 percent.

At December 31, 1990, the Cooperative had the following approximate amounts available to carry forward to future years:

	Income Tax Reporting	Financial Reporting
Investment tax credits (expiring in 2000)	$22,000,000	$22,000,000
Operating losses:		
Expiring in 2000	$18,000,000	
Expiring in 2001	49,000,000	
Expiring in 2002	34,000,000	
Expiring in 2003	33,000,000	
Expiring in 2004	30,000,000	
Expiring in 2005	9,000,000	

NOTE M--COMMITMENTS AND CONTINGENCIES

In accordance with the terms of agreements with Broad River Electric Cooperative, the Cooperative purchases all of the power produced by the Cherokee Falls Hydroelectric Generating Plant. The cost of this power purchased by the Cooperative in 1990 and 1989 was approximately $1,125,000 and $853,000, respectively.

The agreements between the Cooperative and Duke Power Company ("Duke") provide for mechanisms to settle disputes under the agreements. As a result, the Cooperative and Duke are currently in arbitration over various issues, including payments on account of Federal income tax expenses that the Cooperative believes are owed by Duke in accordance with the terms of the agreements between the two entities. Consequently, the Cooperative has billed Duke cumulative tax amounts of $31,220,687, included in accounts receivable as of December 31, 1990, chargeable to Duke based upon the terms of the agreements, which amounts Duke has so far refused to pay. Hearings pursuant to this arbitration are currently expected to commence in 1991. The ultimate outcome of these issues cannot presently be determined; however, should the Cooperative not obtain payment of the tax amounts from Duke, it would be necessary for the Cooperative to obtain recovery of appropriate tax amounts through other revenue.

NOTE N--ARBITRATION SETTLEMENTS

During 1990, the Cooperative received approximately $6,581,000 from Duke Power Company in settlement of various Catawba-related issues. Additionally, the Cooperative received a favorable preliminary decision relative to issues in arbitration with Duke Power Company, the financial effect of which has not yet been determined.

NOTE O--ADJUSTMENTS TO THE FINANCIAL STATEMENTS

Certain items in the financial statements for the year ended December 31, 1989 have been reclassified to conform with the presentation used in 1990.

ERNST & YOUNG

C&S Bank Tower
Suite 800
Two Shelter Centre
P.O. Box 10647
Greenville
South Carolina 29603

Phone: 803 242 5740

REPORT OF INDEPENDENT AUDITORS ON
OTHER FINANCIAL INFORMATION

The Board of Trustees
Saluda River Electric Cooperative, Inc.

The audited financial statements of the Cooperative and our report thereon are presented in the preceding section of this report. The following financial information is presented for purposes of additional analysis and is not a required part of the financial statements of the Cooperative. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst + Young

March 15, 1991

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

OFFICERS AND TRUSTEES

DECEMBER 31, 1990

Ralph Hendrix, President
204 Hendrix Drive
Greenville, South Carolina 29607

Ralph M. Settle, Secretary-Treasurer
391 Old Settle Road
Inman, South Carolina 29349

Robert C. Carroll, Trustee
119 Hillside Drive
Gaffney, South Carolina 29340

Robert N. Parker, Trustee
Route 6
Anderson, South Carolina 29621

Roland L. White, Trustee
808 North Main Street
Abbeville, South Carolina 29620

Joseph W. Mulholland, Executive
Vice President & General Manager
106 Wilderness Lane
Laurens, South Carolina 29360

Charles E. Dalton, Trustee
Post Office Box 8
Pickens, South Carolina 29671

J. David Wasson, Jr., Vice President
Route 3, Box 778
Laurens, South Carolina 29360

James A. Darby, Trustee
Route 1, Box 63
Rock Hill, South Carolina 29730

D. W. Stribling, Trustee
Walnut Hill
Westminster, South Carolina 29693

Robert O. Williams, Trustee
201 Oak Street
York, South Carolina 29745

Charles L. Compton, Vice President
Corporate Relations & General Counsel
106 Leftbank Drive
Laurens, South Carolina 29360

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF GENERAL FUND INVESTMENTS

DECEMBER 31, 1990

CASH AND CASH EQUIVALENTS	
The Palmetto Bank, Laurens, South Carolina	
Sweep Account, variable rates	$ 649,671
South Carolina National Bank, Clinton, South Carolina	12,287
Republic National Bank, Columbia, South Carolina	153,774
Petty cash	100
Cooperative Finance Corporation, Washington, D. C.:	
Note #90354193 at 6.975, due January 2, 1991	1,730,000
Note #90362017 at 7.000, due January 2, 1991	150,000
Note #90365131 at 7.000, due January 2, 1991	9,945,688
Note #90348191 at 7.325, due January 14, 1991	1,000,000
Note #90355233 at 6.950, due January 14, 1991	4,390,000
Note #90365130 at 7.350, due January 14, 1991	2,325,000
Note #90360111 at 7.500, due January 16, 1991	50,000
Note #90362018 at 7.500, due January 18, 1991	3,347,852
Note #90347125 at 7.325, due January 25, 1991	16,436,000
Note #90348190 at 7.325, due January 28, 1991	1,000,000
Note #90353196 at 7.375, due February 1, 1991	5,235,965
	46,426,337
SHORT-TERM INVESTMENTS	
First Union, Laurens, South Carolina:	
Certificate of Deposit #032963 at 7.70%, due January 16, 1991	$ 100,000
First Trident, Charleston, South Carolina:	
Certificate of Deposit #5237 at 8.05%, due February 6, 1991	100,000
C&S, Gaffney, South Carolina:	
Certificate of Deposit #726085 at 7.75%, due February 17, 1991	100,000
Fireside Thrift, Newark, California:	
Certificate of Deposit #21921327 at 8.25%, due February 20, 1991	100,000
Western Financial, Irvine, California:	
Certificate of Deposit #7541227982 at 8.30%, due February 26, 1991	100,000
First National Bank of Pickens County, Easley, South Carolina:	
Certificate of Deposit #2011054 at 8.00%, due May 16, 1991	100,000

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF GENERAL FUND INVESTMENTS--Continued

SHORT-TERM INVESTMENTS--Continued	
Republic National Bank, Columbia, South Carolina:	
Certificate of Deposit #0028812 at 8.65%, due May 21, 1991	$ 2,000,000
NCNB, Greenwood, South Carolina:	
Certificate of Deposit #708000094437429 at 8.70%, due June 1, 1991	1,000,000
Certificate of Deposit #708000094437439 at 8.70%, due June 6, 1991	110,043
Vining Sparks IBG, Memphis, Tennessee:	
Certificate of Deposit #15256-1 at 8.85%, due June 17, 1991	100,000
Bank of York, York, South Carolina:	
Certificate of Deposit #6485 at 7.85%, due August 16, 1991	100,000
NCNB, Abbeville, South Carolina:	
Certificate of Deposit #70101009364737 at 8.250%, due November 1, 1991	100,000
	4,010,043
LONG-TERM INVESTMENTS	
Standard Federal, Columbia, South Carolina:	
Certificate of Deposit #101232765 at 7.75%, due August 27, 1992	117,199
Maryland National Bank, Baltimore, Maryland:	
Certificate of Deposit #5741198855702 at 8.39%, due October 19, 1992	99,999
Vining Sparks IBG, Memphis, Tennessee:	
Certificate of Deposit #55262 FKD4 at 8.00%, due December 27, 1993	100,000
Certificate of Deposit #5300120944 at 8.75%, due November 16, 1995	100,000
FNMA at 9.15%, due September 10, 1997	2,000,000
First Tennessee Bank, Memphis, Tennessee:	
FNMA at 8.60%, due December 10, 1997	5,000,000
FNMA at 9.30%, due March 10, 2000	8,265,000
FNMA at 9.30%, due March 10, 2000	8,870,000
FNMA at 9.15%, due October 10, 2000	5,000,000

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF GENERAL FUND INVESTMENTS--Continued

LONG-TERM INVESTMENTS--Continued	
Investments and Accumulated Patronage Capital in Associated Organizations:	
CoBank - National Bank for Cooperatives, Columbia, South Carolina	$ 100
Cooperative Finance Corporation, Washington, DC: Capital Term Certificates at 4.00%, due 2080	48,296
Cooperative Electric Energy Utility Supply, Inc., Lexington, South Carolina	75,467
Cooperative Finance Corporation, Washington, DC	595
Federated Rural Electric Insurance Corporation, Lenexa, Kansas	1,250
The Electric Cooperatives of South Carolina, Inc., Cayce, South Carolina	(35)
Unamortized premiums associated with long-term investments	320,638
	29,998,509
	$80,434,889
DEBT SERVICE RESERVE FUND INVESTMENTS	
Sovran Bank, Richmond, Virginia:	
Certificate of Deposit #845996-90-0 at 7.60%, due February 15, 1991	$ 230,066
Treasury Bond #912810-DB-1 at 10.375%, due November 15, 2012, face value $4,435,000, less discount of $230,983	4,204,017
Cooperative Finance Corporation, Washington, D. C.:	
Subordinated Term Certificate #44 at 11.648%, due August 15, 2014	2,210,000
	$ 6,644,083
DECOMMISSIONING TRUST FUNDS	
The Palmetto Bank, Laurens, South Carolina:	
Various securities with varying rates	$ 736,351

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF ACCOUNTS RECEIVABLE

DECEMBER 31, 1990

Blue Ridge Electric Cooperative, Inc.	$ 2,497,776
Broad River Electric Cooperative, Inc.	856,612
York Electric Cooperative, Inc.	1,754,336
Little River Electric Cooperative, Inc.	703,796
Laurens Electric Cooperative, Inc.	2,270,794
Miscellaneous	933
Duke Power Company	36,114,969
	$44,199,216

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF ACCOUNTS PAYABLE

DECEMBER 31, 1990

	Total
Duke Power Company (O & M)	$1,865,332
Duke Power Company (purchased power)	4,780,469
York County Treasurer (property taxes)	2,060,334
Broad River Coop (purchased power)	104,295
SCG&E (purchased power)	80,250
Miscellaneous	134,853
	$9,025,533

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF FEDERAL FINANCING BANK MORTGAGE NOTES

DECEMBER 31, 1990

Note Number	Date of Note	Interest Term	Due Date	Interest Rate	Principal
H0120	12/01/82	Fixed	12/31/16	10.719%	$ 1,489,627
H0125	12/30/82	Fixed	12/31/16	10.535	10,493,568
H0010	02/06/83	Fixed	12/31/15	11.118	129,838,153
H0030	06/01/83	Fixed	12/31/15	10.980	915,177
H0035	06/30/83	Fixed	12/31/15	11.092	6,355,840
F0270	07/01/85	Fixed	12/31/19	10.483	12,336,000
F0275	08/01/85	Fixed	12/31/19	10.734	996,000
H0040	08/05/85	Fixed	12/31/15	10.815	1,793,227
H0045	09/03/85	Fixed	12/31/15	10.530	3,553,521
H0165	09/03/85	Fixed	12/31/17	10.521	5,627,580
F0280	09/03/85	Fixed	12/31/19	10.514	948,000
H0285	09/30/85	Fixed	12/31/17	10.516	11,795,623
H0050	09/30/85	Fixed	12/31/15	10.525	6,890,383
H0170	09/30/85	Fixed	12/31/17	10.522	11,131,370
H0290	11/01/85	Fixed	12/31/17	10.296	300,564
H0175	11/01/85	Fixed	12/31/17	10.303	3,454,000
H0055	11/04/85	Fixed	12/31/15	10.267	1,702,253
H0060	12/02/85	Fixed	12/31/15	9.907	984,096
H0180	12/02/85	Fixed	12/31/17	9.903	2,811,000
H0295	12/02/85	Fixed	12/31/17	9.897	765,747
H0300	12/30/85	Fixed	12/31/17	9.330	10,969,319
H0185	12/30/85	Fixed	12/31/17	9.336	11,760,000
H0065	01/03/86	Fixed	12/31/15	9.366	8,488,617
H0305	01/03/86	Fixed	12/31/17	9.384	1,564,564
F0190	01/31/86	Fixed	12/31/18	9.391	1,106,000
H0070	02/03/86	Fixed	12/31/16	9.374	945,725
H0310	03/01/86	Fixed	12/31/17	8.316	1,251,602
H0075	03/03/86	Fixed	12/31/16	8.318	2,519,453
F0195	03/03/86	Fixed	12/31/18	8.319	4,907,000
H0315	03/31/86	Fixed	12/31/17	7.690	11,229,657
H0080	04/02/86	Fixed	12/31/16	7.516	6,899,120
H0320	05/01/86	Fixed	12/31/17	7.537	150,181
H0085	05/05/86	Fixed	12/31/16	7.703	1,763,834

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF FEDERAL FINANCING BANK MORTGAGE NOTES--Continued

Note Number	Date of Note	Interest Term	Due Date	Interest Rate	Principal
H0325	06/02/86	Fixed	12/31/17	7.885	1,160,393
H0090	06/10/86	Fixed	12/31/16	7.374	2,864,715
H0200	06/30/86	Fixed	12/31/17	7.371	11,400,803
H0330	06/30/86	Fixed	12/31/17	7.371	11,289,718
H0095	07/02/86	Fixed	12/31/16	7.325	8,495,549
H0335	08/01/86	Fixed	12/31/17	7.480	913,518
H0100	09/30/86	Fixed	12/31/16	7.692	2,317,952
H0105	09/30/86	Fixed	12/31/16	7.692	4,307,445
H0205	09/30/86	Fixed	12/31/17	7.694	2,273,884
H0210	09/30/86	Fixed	12/31/17	7.694	3,020,459
H0215	09/30/86	Fixed	12/31/17	7.694	12,127,706
H0220	09/30/86	Fixed	12/31/17	7.694	683,142
H0225	09/30/86	Fixed	12/31/17	7.694	3,440,104
H0340	09/30/86	Fixed	12/31/17	7.694	6,316,128
H0110	10/01/86	Fixed	12/31/16	7.605	8,787,910
H0230	12/31/86	Fixed	12/31/17	7.445	9,162,887
H0115	12/31/86	Fixed	12/31/16	7.441	2,222,932
H0235	12/31/86	Fixed	12/31/17	7.445	877,298
H0240	12/31/86	Fixed	12/31/17	7.445	3,002,308
H0255	06/30/87	Fixed	12/31/17	8.478	238,495
H0260	06/30/87	Fixed	12/31/17	8.478	3,851,311
H0265	06/30/87	Fixed	12/31/17	8.478	3,216,770
					$379,708,228

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SCHEDULE OF PATRONAGE CAPITAL

DECEMBER 31, 1990

	Blue Ridge	Laurens	York	Broad River	Little River	Total
Patronage capital at December 31, 1988	$3,264,461	$2,467,031	$1,834,904	$1,510,156	$790,469	$9,867,021
Net margin - 1989						-0-
Patronage capital at December 31, 1989	3,264,461	2,467,031	1,834,904	1,510,156	790,469	9,867,021
Net margin - 1990						-0-
Patronage capital at December 31, 1990	$3,264,461	$2,467,031	$1,834,904	$1,510,156	$790,469	$9,867,021

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1990 **Commission File Number: 1-4928**

Duke Power Company

(Exact name of registrant as specified in its charter)

North Carolina (State or other jurisdiction of incorporation or organization)	**56-0205520** (IRS Employer Identification No.)
422 South Church Street **Charlotte, North Carolina** (Address of principal executive offices)	**28242** (Zip Code)

704-373-4011

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange
Preferred Stock, par value $100	
8.70% Series F	New York Stock Exchange
8.20% Series G	New York Stock Exchange
7.80% Series H	New York Stock Exchange
8.28% Series K	New York Stock Exchange
8.84% Series M	New York Stock Exchange
8.84% Series N	New York Stock Exchange
Preference Stock, par value $100	
6¾% Convertible Series AA	New York Stock Exchange
First and Refunding Mortgage Bonds	
7⅜% Series B Due 2001	New York Stock Exchange
7¾% Series Due 2002	New York Stock Exchange
7⅜% Series B Due 2002	New York Stock Exchange
7¾% Series Due 2003	New York Stock Exchange
8⅛% Series B Due 2003	New York Stock Exchange
9¾% Series Due 2004	New York Stock Exchange
9½% Series Due 2005	New York Stock Exchange
8⅜% Series Due 2006	New York Stock Exchange
8⅛% Series Due 2007	New York Stock Exchange
9⅜% Series Due 2008	New York Stock Exchange
10⅛% Series Due 2009	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

Preferred Stock, par value $100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at March 1, 1991 ..... $5,528,241,124

Number of shares of Common Stock, without par value, outstanding at March 1, 1991 202,587,201

Documents incorporated by reference:

The registrant has incorporated herein by reference certain sections of its proxy statement relating to the 1991 annual meeting of shareholders to provide information required by the following parts of this annual report:

Part III — Item 10., Directors and Executive Officers of the Registrant
— Item 11., Executive Compensation
— Item 12., Security Ownership of Certain Beneficial Owners and Management
— Item 13., Certain Relationships and Related Transactions

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 1990

TABLE OF CONTENTS

DUKE POWER COMPANY

PART I.

Item 1. ***Business.***

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,500,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1990, the Company's electric revenues amounted to approximately $3.7 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011). *The statistics presented herein do not include information relating to the Company's utility subsidiary, Nantahala Power and Light Company, unless otherwise indicated. (See "Energy Requirements and Capability.")*

Service Area

The Company supplies electric service directly to approximately 1,632,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Other Catawba Joint Owners). All constituent entities of the Other Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately $476 million of the Company's revenues for 1990, representing 13% of electric revenues and 42% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1990, its sources of electric energy for 1990, and certain information presently projected for 1991:

	Generating Capability — KW(a)		Generation — KWH (millions)
Source	Actual December 31, 1990	Projected December 31, 1991	Actual 1990
Coal	6,994,000	7,316,000	27,262
Nuclear (b)	7,054,000	7,054,000	44,649
Hydro and other	2,246,000	3,311,000(c)	1,932
Total (b)	16,294,000	17,681,000	73,843
Less: Other Catawba Joint Owners' share			11,735
Plus: Purchases from Other Catawba Joint Owners			8,658
Purchased power and net interchange			438
Total			71,204

(footnotes on next page)

(a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.

(b) Nuclear capability and related generation for 1990 and projected for 1991 give no effect to the joint ownership of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")

(c) Reflects full operation of Bad Creek Hydroelectric Station.

Nantahala Power and Light Company (NP&L), which operates 11 hydroelectric stations and buys supplemental power to provide service to its 47,000 mostly residential customers located in five counties in western North Carolina, operates as a separate subsidiary of the Company. The Company is supplying supplemental power to NP&L under the terms of an interconnect agreement approved by the Federal Energy Regulatory Commission (FERC) through a transmission line between the two systems completed during 1990.

NP&L has entered into a new interconnection agreement with the Tennessee Valley Authority. The agreement provides for interconnected operations and transactions between the two systems including the purchase of 200 MW of electricity for a four-year period beginning in 1991. The Company and NP&L have entered into an agreement whereby the latter will sell the 200 MW of electricity to the Company at cost. The Company also reached a bulk power sale agreement in 1987 to provide Carolina Power & Light Company 400 MW of electricity for a six-year period beginning in 1992. These agreements are subject to regulatory approval.

According to industry statistics through 1989, the Company ranked first in the nation for the last 16 consecutive years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that individual units at Marshall Steam Station and Belews Creek Steam Station ranked as second, fourth, sixth and eighth most efficient in the nation in 1989. Statistics compiled by the Nuclear Regulatory Commission (NRC) on multi-unit nuclear plants indicate that the McGuire, Catawba and Oconee Nuclear Stations were ranked first, second and fourth, respectively, in efficiency in the nation among pressurized water reactor nuclear facilities.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On July 11, 1990, the Company experienced its all-time peak load of 14,046,000 KW during unusually hot weather. The 1990–1991 winter peak load of 12,778,000 KW occurred on January 23, 1991. The 1989–1990 winter peak load of 13,126,000 KW occurred on December 22, 1989. The Company currently forecasts a 2.4% compound annual growth in peak load through 2004.

Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSC) must approve the Company's rates for retail sales within the respective States. FERC must approve the Company's rates for sales to wholesale customers. Constituent entities of NCMPA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company.

Rate requests filed by the Company in 1986 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 2 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all costs related to Catawba, although certain non-fuel purchased power costs with associated carrying charges will be recovered on a levelized basis. (See Note 3, "Notes to Consolidated Financial Statements.")

In the Company's most recent general rate case, the NCUC allowed a jurisdictional rate of return on common equity of 13.20% and the PSC allowed a jurisdictional rate of return on common equity of 13.00%.

The Company reduced retail rates by 2.3% on January 1, 1987, and by an additional 3% on January 1, 1988. These reductions recognize the lower corporate income tax rate included in the Tax Reform Act of 1986. These decreases have been approved by the NCUC and PSC.

In July 1987 FERC approved a 3.56% rate increase in the Company's wholesale jurisdiction, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A rate reduction was granted in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

The Company canceled certain nuclear projects in prior years, including the Cherokee Nuclear Station, citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation.The NCUC and the PSC have authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station in recent rate proceedings. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. (See Note 10, "Notes to Consolidated Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the NCUC to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the NCUC's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue was again contested in the appeal of the 1986 rate case. The parties also challenged the NCUC's decision on the rate of return allowed on the Company's common equity, the adoption of the Company's actual capital structure for ratemaking purposes, and inclusion of subsidiary investments in the Company's capital structure for ratemaking purposes. The Court affirmed the NCUC's decision on all questions raised with the exception of the allowed rate of return. The Court held that the NCUC's conclusion regarding the appropriate rate of return on common equity was not supported by adequate factual findings and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40% to 13.20%, required refunds plus interest, and reduced rates to reflect the lower rate of return on common equity. During 1989 the Company paid $24 million as a result of this order. The Public Staff of the NCUC, joined by two other parties, has appealed this order.

On July 28, 1987, FERC granted a petition made by the Other Catawba Joint Owners to exclude costs of abandoned plants from their supplemental power rates, affirming their contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts which upheld the FERC order in January 1989. The order had a one-time impact on 1988 earnings of $.23 per share.

The Company anticipates filing for an increase in rates in all jurisdictions in 1991 primarily associated with its investment in Bad Creek Hydroelectric Station (see "Construction Program, *Facilities Under Construction*").

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The NCUC ordered the Company to follow these procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over- or under-recovery of fuel costs was challenged in the North Carolina courts. In 1987 North Carolina adopted legislation assuring the legality of such adjustments, which currently contains a sunset provision effective July 1, 1991.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Energy Management

The Company continues to engage in a comprehensive energy management program as part of its Least Cost Integrated Resource Plan. Least Cost Integrated Resource Planning is the process used by

utilities to evaluate a variety of resources to cost effectively meet customer energy-service needs. The process evaluates a broad range of demand-side and supply-side options on an equal basis. Demand-side programs are designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area. Peak reduction programs include, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers' consent) of residential electric water heaters and air conditioners during peak demand periods and time-of-day pricing. The current plan calls for a total system capacity of almost 1,200 MW of equivalent demand-side programs by the year 2000 that would otherwise have been new supply-side generation.

To make maximum use of existing production capacity while minimizing the need to add new capacity, the Company is promoting off-peak sales programs. These programs include promotion of all-electric homes using high efficiency electric heat pumps and outdoor lighting as well as commercial and industrial heating and heat recovery systems, all designed to contribute high load factor sales and/or increase seasonal and daily off-peak sales.

Through 1993, the Company expects to maintain a summer reserve margin of approximately 17% to 23% of its anticipated peak load requirements. The Company believes that additional capacity may be purchased if needed. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rates), changing regulatory and environmental standards (see "Regulation — *Environmental Matters*") and other factors.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station owned by the Other Catawba Joint Owners, for each of 1991, 1992 and 1993 and for the three-year period 1991–1993, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1991	1992	1993	Total
Generation	$313	$341	$445	$1,099
Transmission	55	71	96	222
Distribution	304	320	335	959
Other	101	93	118	312
Total	$773	$825	$994	$2,592
Nuclear Fuel	$189	$180	$182	$ 551

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, pumped-storage facility in Oconee County, South Carolina with a nameplate rating of 1,065 MW. Units 1 and 2 are officially scheduled for completion in the fall of 1991, with Units 3 and 4 in early 1992. However, construction is currently ahead of schedule. As of December 31, 1990, the Company had incurred $933 million of the total estimated cost of $1.1 billion, with construction costs of $1,045 per installed KW anticipated for this facility.

A site in Lincoln County, North Carolina, has been selected for a new combustion turbine (CT) facility to meet customer demand in the mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200 MW of electricity. Current plans are for the first CT to be operational as early as 1994. The Company has applied for a Certificate of Public Convenience and Necessity and the required air permit which are necessary to begin construction of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power needs in the 1990s and beyond.

The Company has undertaken a Plant Modernization Program (PMP) to improve the efficiency and reliability of 15 older coal-fired generating units. These units, once modernized, will help the Company meet anticipated future demand. The cost of this program is estimated to be approximately $200–$300 per installed KW, a fraction of the cost of building new plants. As of December 31, 1990, six coal-fired units with a generating capability of 700,000 KW had been returned to the system and during 1991, it is anticipated that three additional coal-fired generating units with generating capability of 322,000 KW will be returned to the system. The six units remaining in the PMP represent 378,000 KW of generating capability.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87½% undivided interest in the Catawba Nuclear Station to the Other Catawba Joint Owners.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then contractually required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange of 50% of each Other Catawba Joint Owner's retained capacity from its ownership interest in the Catawba units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next three years of the costs of purchased power from the Catawba Nuclear Station under contracts with the Other Catawba Joint Owners permitted by regulatory authorities will result in payments by the Company exceeding the amounts collected in rates for such power by approximately $252 million.

The Other Catawba Joint Owners and the Company are involved in various arbitration proceedings involving disputes under the interconnection agreements between such joint owners and the Company. (See Note 12 of "Notes to Consolidated Financial Statements.")

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

	Generation by Source			Average Cost per Million BTU on a Burned Basis		
	Year Ended December 31			Year Ended December 31		
	1990	1989	1988	1990	1989	1988
Coal	36.9%	34.7%	33.1%	180.61¢	180.24¢	175.79¢
Nuclear	60.5	63.3	66.3	55.65	59.56	63.55
Oil and Gas	—	—	—	—	—	—
All Fuels (cost based on weighted average)	97.4	98.0	99.4	101.14	100.11	98.75
Hydroelectric*	2.6	2.0	.6			
	100.0%	100.0%	100.0%			

* Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains a large amount of its coal under long-term supply contracts with mining operators utilizing both underground and surface mining. The Company has on hand an adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment and price renegotiation provisions, have expiration dates ranging from 1993 to 2003. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. However, due to the Clean Air Act Amendments of 1990, fuel premiums may be required as contracts are renewed. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities. (See Regulation, *Environmental Matters*, AIR QUALITY.)

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

Nuclear Station	Uranium Material	Conversion Service	Enrichment Service	Fabrication Service
Oconee	1994	1994	1995	1997
McGuire	1994	1994	1995	1998
Catawba	1994	1994	1995	1998

Approximately one-half of the Company's requirements for uranium material is obtained from Rio Algom, Ltd., a Canadian supplier. The remainder of the requirements will be obtained from various supplier contracts, with uranium material produced in the U.S., Canada and Australia. The Company believes that it will be able to renew contracts as they expire or to enter into similar contractual arrangements with other nuclear fuel materials and services suppliers. Short-term requirements have been and will be fulfilled with uranium spot market purchases.

The Company purchased uranium material during 1990 at an average price of approximately $33 per pound. The Company's material nuclear supply contracts generally contain *force majeure* provisions.

The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required

contracts with DOE for the disposal of nuclear fuel and began making payments in July 1983 for disposal costs of fuel currently being utilized. These payments combined with a one-time payment for disposal costs of fuel consumed prior to April 7, 1983 have totaled about $425 million through 1990. In November 1989, DOE released a report which indicated that it now expects that a facility for spent fuel disposal will not be available until the year 2010. DOE stated further that it planned an initiative to establish a monitored retrievable storage (MRS) facility, with a target operation date of 1998, for earlier acceptance of spent fuel from utilities. The Company believes that it will be able to provide adequate on-system storage capacity until such time as DOE begins receiving spent fuel.

Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities. The Company is exempt from regulation as a holding company under the Public Utility Holding Company Act of 1935, except with respect to the acquisition of the securities of other public utilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1991–1992 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately $40.8 million, including $13.8 million in 1991 and $27 million in 1992. These costs include expenditures to begin compliance with the Clean Air Act Amendments of 1990. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

AIR QUALITY. The Clean Air Act Amendments of 1990 require electric utilities to reduce emissions from 1980 levels of sulfur dioxide by 10 million tons and of nitrogen oxide by 2 million tons by the year 2000. These requirements are being phased in over two periods. The first phase begins January 1, 1995 and the second January 1, 2000. The Company currently meets all requirements of phase one and therefore will not have to implement changes until compliance with phase two requirements is necessary. The Company supports the national objective of clean air and has already reduced emissions through the use of low-sulfur coal in its fossil plants, through efficient operations and by utilizing nuclear generation. A compliance plan that must be filed by January 1, 1996, and approved by the permitting authority by 1998 is currently being planned. Estimated costs to implement phase two of the requirements are expected to be approximately $1 billion in capital expenditures and approximately $200 million annually in operations and maintenance expenses stated in year 2000 dollars.

WATER QUALITY. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

OTHER ENVIRONMENTAL REGULATIONS. North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act. The Company is a Potentially Responsible Party (PRP) at two Superfund sites but the Company is a *de minimis* contributor at these sites and believes that its involvement will not have a material adverse effect on its results of operations or financial position.

Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA) establishes the Emergency Planning and Community Right-To-Know Act. Title III imposes requirements on a wide range of facilities to report information regarding the presence and release of specific chemicals to state and local emergency planning authorities. The Company has implemented procedures to comply with SARA.

GENERAL. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Over the past few decades, the issue of the possible health effects of electric and magnetic fields has generated a number of generally inconclusive studies, some public concern and litigation as well as legislative action in some states regarding high voltage transmission lines. The impact of this issue on the Company cannot presently be determined.

Nuclear Facilities. The Company's nuclear facilities are subject to continuing regulation by the NRC.

In March 1989, Unit 1 of the McGuire Nuclear Station developed a leak inside one of its four steam generators caused by a rupture in a tube located near the bottom of the steam generator. Laboratory examination of the ruptured tube revealed that the split was caused by a phenomenon known as stress corrosion cracking. Primary water stress corrosion cracking (PWSCC), which typically occurs in tight U-bends and where tubes are attached to the tube sheets, has been identified as a problem in steam generators of a certain design including those at the McGuire and Catawba Nuclear Stations. Because the March 1989 rupture occurred near the bottom of the steam generator and not in a U-bend or where a tube was attached to a tube sheet, that occurrence was considered to be a unique event. All other tubes in Unit 1 of the McGuire Nuclear Station were examined and no other abnormalities of that type were detected. The Company's analysis of the cause of this tube rupture was accepted by the NRC which gave its permission to return Unit 1 of the McGuire Nuclear Station to service in May 1989. However, the steam generators at the McGuire and Catawba Nuclear Stations have also experienced stress corrosion cracking (SCC) on the inside and outside of the tubes similar to that experienced by other steam generators of similar design.

The Company examines the steam generator tubes at the McGuire and Catawba Nuclear Stations at each refueling outage. In addition to the inspections of the steam generator tubes, the Company has taken other steps to mitigate the effects of SCC that have occurred in the more typical locations of the McGuire and Catawba steam generator tubes, including tube plugging/tube sleeving, more stringent water chemistry control, shot peening and tight U-bend heat treatment. Despite these efforts, the inherent potential for future SCC in the McGuire and Catawba steam generators still exists. Future cracking could result in more tube plugging/tube sleeving, additional water chemistry control, reductions in plant output and is expected to result in eventual replacement of the steam generators at the McGuire and Catawba Nuclear Stations well before the end of their 40-year design life.

The Company, on its own behalf and, in connection with its Catawba Nuclear Station, on behalf of NCEMC, NCMPA, PMPA and Saluda, commenced an action on March 22, 1990, in the United States District Court for the District of South Carolina (Charleston Division) seeking damages from

Westinghouse Electric Corporation (Westinghouse) for supplying to the McGuire Nuclear Station and Catawba Nuclear Station steam generators that are alleged to be defective in design, workmanship and materials, and that will require replacement well short of their stated design life. The complaint alleges that at the time the contracts for the nuclear steam supply systems for the McGuire and Catawba Nuclear Stations were negotiated and executed in the early and mid 1970s, and continuing thereafter, Westinghouse knew, or recklessly disregarded information in its possession, that the steam generators would be susceptible to corrosion and cracking that would cause deterioration and require premature replacement. The complaint further alleges that Westinghouse deliberately concealed such information from the Company and defrauded the Company by falsely representing that the steam generators were designed to last for 40 years.

The complaint further alleges that Westinghouse engaged in deceptive acts that were intended to prevent the Company from exercising its rights against Westinghouse, and also engaged in a pattern of deceptive acts throughout the domestic and worldwide electric generating industry to the detriment of the Company and others. The complaint contains counts for fraud, negligence, violations of the South Carolina and North Carolina Unfair Trade Practices Acts, promissory estoppel and patterns of racketeering activities prohibited by the Racketeer Influenced and Corrupt Organizations Act (civil RICO). In the action, the Company is seeking a judgment that Westinghouse is obligated to correct the defects in the steam generators at no cost to the Company, including payment for replacement power during the extended outages to accomplish the repairs, plus interest, in an amount to be determined, for treble damages, for punitive damages and for attorneys' fees.

The Company maintains nuclear insurance coverage in three areas; liability coverage, property, decontamination and decommissioning coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the Other Joint Owners of the Catawba Nuclear Station for certain expenses associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately $7.8 billion. The maximum required private primary insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently $7.6 billion, which will be increased by $63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to $63 million for each of their licensed reactors, payable at a rate not to exceed $10 million a year per licensed reactor for each incident. The $63 million amount is subject to indexing for inflation. This amount is further subject to a surcharge of 5 percent (which is included in the above $7.8 billion figure) if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of such assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides $500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to $29 million. This amount represents 5 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL) and purchases $1.13 billion of insurance through NEIL's excess property, decontamination and decommissioning liability insurance program. If losses ever exceed the accumulated funds available to NEIL for the excess property, decontamination and decommissioning liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to $23 million. This amount is limited to 7.5 times the Company's annual premium for $500 million of excess property, decontamination and decommissioning liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from

the NEIL policies applicable to Catawba. The Company has also purchased an additional $400 million of excess property damage insurance for its Oconee and McGuire plants and $700 million for its Catawba plant through a pool of stock and mutual insurance companies.

In addition to the $1.13 billion in coverage through NEIL's excess property program and the $700 million in excess coverage mentioned above, and in lieu of primary property coverage through NML, the Company has placed $500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately $1.9 million, $2.9 million and $2.8 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved in an accidental outage. Coverages continue at 100 percent for 52 weeks, 67 percent for a second 52 weeks, and 33 percent for a third 52 weeks. If NEIL's losses for this program ever exceeded its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to $23 million. This amount represents 5 times the Company's annual premium to NEIL. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to the joint ownership agreements.

The NRC issued a rulemaking in 1988 which will require an external mechanism to fund the estimated cost to decommission the components of a nuclear unit subject to radioactive contamination. The estimated site-specific obligations for decommissioning cost, including cost for plant components not subject to radioactive contamination, total approximately $955 million stated in 1990 dollars. This amount includes only the Company's ownership percentage of 12.5 percent in the Catawba Nuclear Station. The other joint owners of the Catawba Nuclear Station are liable for providing for decommissioning related to their ownership interest in the station. The Company anticipates filing with the NCUC, the PSC and the FERC to recover decommissioning costs based on site-specific studies in early 1991.

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power Act. Eleven developments on the Catawba-Wateree River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for the Keowee-Toxaway Project for a term expiring in 2016, covering the Keowee Hydro Station and the Jocassee Pumped Storage Station for a combined total of 769,500 KW, on the upper tributaries of the Savannah River in northwestern South Carolina. Additionally, the Company is the licensee for the Bad Creek Pumped Storage Project which is under construction. Bad Creek will use Lake Jocassee as its lower reservoir. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

Competition

The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems, rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to

power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

Non-Utility Activities

The Company is engaged in a variety of non-utility activities, most of which are organized in separate subsidiaries, including real estate development and forestry operations, marketing of electrical appliances, management of passive financial investments, developing and investing in electric generation facilities outside the Company's service area, providing engineering and technical services and the marketing of computer software. Subsidiary and non-utility activities contributed 5 percent of total Company earnings in 1990.

In February 1991, Duke Engineering & Services, Inc., as part of a nine-member project team, signed a 10-year contract to perform systems engineering, development and management of the DOE's civilian radioactive waste management program. In June 1989, the Company and four other corporations created Louisiana Energy Services (LES) which plans to establish the nation's first privately owned uranium enrichment facility. LES filed a license application with the NRC in January 1991. In September 1989, the Company and Fluor Corporation of Irvine, California entered into a partnership to create Duke/Fluor Daniel. The partnership offers total design, engineering, construction and operation services for new coal-fired power plants as well as for repowering, upgrading or modifying existing coal-fired plants. During 1990, the Company sold Mill-Power Supply Company, its electrical equipment and high-tech electronics controls supply subsidiary. Also in 1990, the Company entered into an agreement with the city of Greensboro, North Carolina, which will relieve the Company of its obligation to operate the transit system, subject to certain contingencies. In 1989 the Company entered into a similar agreement with the cities of Durham, North Carolina and Anderson, South Carolina, subject to certain contingencies. These transactions will not have a material impact on the results of operations or the financial position of the Company.

Employees

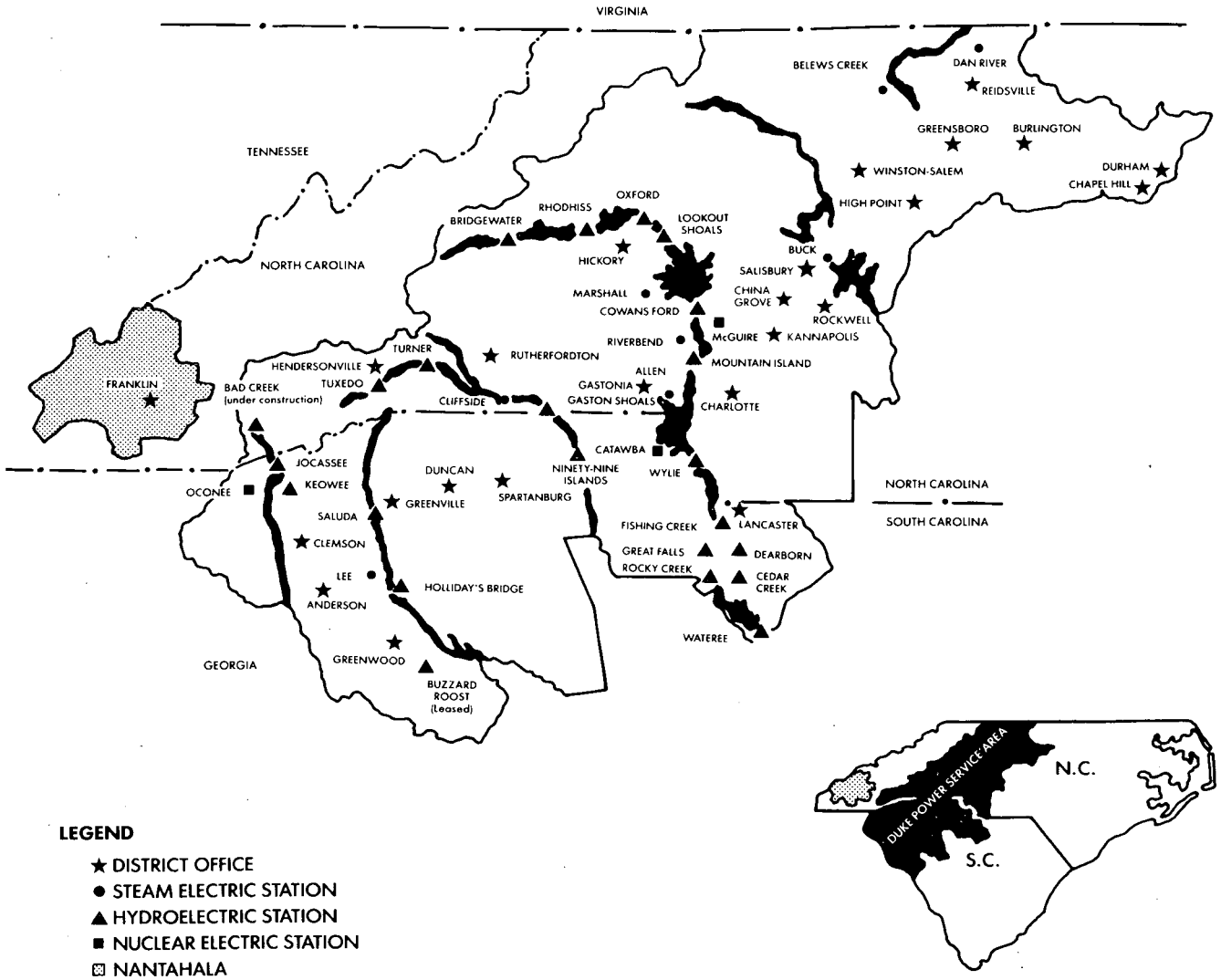
At December 31, 1990, the Company employed approximately 19,400 full-time persons, excluding approximately 500 full-time employees of subsidiaries. About 2,250 electrical operating employees are represented by the International Brotherhood of Electrical Workers with which the Company has a labor agreement expiring on October 1, 1991.

In late 1990 the Company reviewed current and projected costs and made a commitment to better control costs by reducing its workforce by three percent through attrition by the end of 1991.

Subsequent Events

The Company issued and sold on March 7, 1991, $150,000,000 principal amount of its First and Refunding Mortgage Bonds, 8¾% Series Due 2021.

Duke Power Service Area



LEGEND

- ★ DISTRICT OFFICE
- ● STEAM ELECTRIC STATION
- ▲ HYDROELECTRIC STATION
- ■ NUCLEAR ELECTRIC STATION
- ⊠ NANTAHALA

DUKE POWER COMPANY

OPERATING STATISTICS

	Year Ended December 31				
	1990	1989	1988	1987	1986
Sources of Electric Energy					
Millions of kilowatt-hours:					
Generated — net output:					
Coal	27,262	26,175	23,930	23,617	30,249
Nuclear (A)	44,649	47,773	47,934	44,810	35,044
Hydro	1,879	1,520	402	1,454	771
Oil and gas	53	27	32	(1)	14
Total generation	73,843	75,495	72,298	69,880	66,078
Purchased power and net interchange	438	(1,218)	437	5	(822)
Total output	74,281	74,277	72,735	69,885	65,256
Less: Other Catawba Joint Owners' share	11,735	12,566	12,166	11,961	6,261
Plus: Purchases from Other Catawba Joint Owners	8,658	9,809	10,244	10,872	5,953
Total sources of energy	71,204	71,520	70,813	68,796	64,948
Line loss and company usage	(3,682)	(4,892)	(4,614)	(4,045)	(4,435)
Total energy sales (B)	67,522	66,628	66,199	64,751	60,513
Average Cost Per Ton of Coal Burned	$45.49	$45.13	$44.27	$45.42	$47.59
Electric Energy Sales					
Millions of kilowatt-hours:					
Residential	17,221	16,895	16,744	16,580	15,636
General service	15,032	14,206	13,634	13,026	12,312
Industrial					
Textile	11,130	11,443	11,134	11,236	10,595
Other	14,764	14,491	14,020	13,738	12,617
Wholesale and other energy sales	9,375	9,593	10,667	10,171	9,353
Total energy sales billed	67,522	66,628	66,199	64,751	60,513
Unbilled energy sales	(540)	370	165	—	—
Total energy sales (B)(C)	66,982	66,998	66,364	64,751	60,513
Electric Revenue					
Thousands of dollars:					
Residential	$1,216,945	$1,198,705	$1,205,471	$1,226,529	$1,088,886
General service	886,480	851,422	833,709	829,466	748,722
Industrial					
Textile	476,493	493,933	495,100	511,026	471,718
Other	654,551	653,830	651,420	661,736	593,407
Wholesale and other energy sales	368,139	395,929	446,368	459,182	426,882
Other electric revenues	78,859	45,520	(5,083)	17,845	71,318
Total electric revenues (C)	$3,681,467	$3,639,339	$3,626,985	$3,705,784	$3,400,933
Number of Customers — End of Year					
Residential	1,391,336	1,362,118	1,339,206	1,302,819	1,272,888
General service	224,642	216,960	210,122	202,482	195,248
Industrial					
Textile	1,398	1,408	1,424	1,408	1,355
Other	7,325	7,310	7,232	7,119	6,964
Wholesale and other energy sales	7,399	7,241	7,126	6,881	6,635
Total customers	1,632,100	1,595,037	1,565,110	1,520,709	1,483,090
Residential Customer Statistics					
Average number for year	1,383,799	1,356,088	1,327,452	1,292,293	1,259,655
Average annual use — KWH	12,444	12,459	12,614	12,830	12,413
Average annual billing	$879.42	$883.94	$908.11	$949.11	$864.43
Average Annual Billed Revenue Per KWH					
Residential	7.07¢	7.09¢	7.20¢	7.40¢	6.96¢
General service	5.90¢	5.99¢	6.11¢	6.37¢	6.08¢
Industrial	4.37¢	4.43¢	4.56¢	4.70¢	4.59¢
Wholesale and other energy sales	3.93¢	4.13¢	4.18¢	4.51¢	4.56¢

(A) Includes 100% of Catawba generation.

(B) Excludes a portion of the energy sold to the Other Catawba Joint Owners (see "Business — Joint Ownership of Facilities").

(C) Does not reflect Nantahala Power and Light Company.

EXECUTIVE OFFICERS OF THE COMPANY

Name	Position	Service In Such Capacity Since	Age*
W. S. Lee**	Chairman of the Board and President	1982	61
W. H. Grigg**	Executive Vice President, Customer Group and Director	1988	58
W. H. Owen**	Executive Vice President, Power Group and Director	1988	64
W. A. Coley**	Senior Vice President, Customer Operations and Director	1990	47
Steve C. Griffith, Jr.**	Senior Vice President and General Counsel and Director	1982	57
R. B. Priory**	Senior Vice President, Generation and Information Services, and Director	1990	44
Henry L. Cranford	Senior Vice President	1988	63
Donald H. Denton, Jr.	Senior Vice President, Planning and Operating	1990	53
Hal B. Tucker	Senior Vice President, Nuclear	1990	62
James R. Bavis	Vice President, Human Resources	1984	51
Paul F. Briggs, Jr.	Vice President, Winston-Salem Division	1989	47
J. Kenneth Clark	Vice President, Corporate Communications	1981	58
Robert L. Dick	Vice President, Corporate Excellence	1989	63
E. O. Ferrell, III	Vice President, Operation	1988	46
William L. Foust	Vice President, Central Division	1990	47
George W. Grier, III	Vice President, Quality Assurance	1989	48
James E. Grogan	Vice President, Construction and Maintenance	1989	58
Donald E. Hatley	Vice President, Public Affairs	1988	46
Jim R. Hicks	Vice President, Transmission	1990	45
J. W. Hillhouse, Jr.	Vice President, Western Division	1990	48
John P. Holland	Vice President, Marketing	1990	53
F. Alfred Jenkins	Vice President, Customer Planning	1990	46
John P. Kincaid	Vice President, Greenville Division	1989	45
James C. Leathers	Vice President, Production Support	1988	56
John F. Lomax	Vice President, Southern Division	1989	51
David H. Maner	Vice President, Greensboro Division	1990	41
Paul G. Martin	Vice President, Eastern Division	1982	58
Maurice D. McIntosh	Vice President, Fossil Production	1989	50
Ted C. McMeekin	Vice President, Design Engineering	1988	47
John P. O'Keefe	Vice President, Taxes	1986	59
Richard J. Osborne	Vice President, Finance	1988	39
William F. Reinke	Vice President, System Planning	1990	53
William T. Robertson	Vice President, Procurement, Services and Materials	1988	59
William R. Stimart	Vice President, Rates and Regulation	1990	59
George E. Stubbins	Vice President, Information Systems	1982	50
Michael S. Tuckman	Vice President, Nuclear Operations	1990	46
Fred E. West, Jr.	Vice President, Charlotte Division	1981	54
Sue A. Becht	Treasurer	1988	48
Lewis F. Camp, Jr.	Secretary and Associate General Counsel	1980	62
David L. Hauser	Controller	1987	39

*As of February 1, 1991.

**Member of the Management Committee.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for John P. O'Keefe. Mr. O'Keefe was a partner of Deloitte Haskins & Sells serving as its National Director, Public Utility Tax Practice, for approximately ten years immediately prior to joining the Company as Vice President, Taxes, on July 1, 1986.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Item 2. ***Properties.***

The map on page 12 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V — Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. — "Construction Program — *Facilities Under Construction*".

Item 3. ***Legal Proceedings.***

Reference is made to "Business — Regulation — *Nuclear Facilities*" and Note 12 of "Notes to Consolidated Financial Statements".

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of the Company's security holders during the last quarter of 1990.

PART II

Item 5. ***Market for the Registrant's Common Equity and Related Stockholder Matters.***

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1990, there were approximately 115,773 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by the New York Stock Exchange Composite Transactions:

Common Stock	Dividends Per Share	Price Range High	Price Range Low
1990 by Quarter			
Fourth	$0.41	$32 3/8	$27 5/8
Third	0.41	29 5/8	27
Second	0.39	28 1/4	26 3/16
First	0.39	28 3/16	25 1/2
1989 by Quarter			
Fourth	$0.39	$28 1/4	$25 1/4
Third	0.39	26 5/8	24 3/4
Second	0.37	25 1/4	22 1/8
First	0.37	23 3/8	21 3/8

All common stock data reflects the two-for-one split of common stock effective September 28, 1990.

Item 6.

Selected Financial Data

	1990	1989	1988	1987	1986
Condensed consolidated statements of income (thousands)					
Electric revenues	**$ 3,681,467**	$3,639,339	$3,626,985	$3,705,784	$3,400,[illegible]
Electric expenses	**3,038,684**	2,934,739	2,997,434	3,047,827	2,816,1[illegible]
Electric operating income	**642,783**	704,600	629,551	657,957	584,776
Other income	**146,740**	101,826	46,211	72,902	127,880
Income before interest deductions	**789,523**	806,426	675,762	730,859	712,656
Interest deductions	**251,335**	234,815	227,631	230,661	244,822
Cumulative effect of accrual of unbilled revenues	**—**	—	102,255	—	—
Net income	**538,188**	571,611	550,386	500,198	467,834
Dividends on preferred and preference stocks	**52,616**	52,477	53,329	54,264	58,767
Earnings for common stock	**$ 485,572**	$ 519,134	$ 497,057	$ 445,934	$ 409,067
Common stock data (a)					
Shares of common stock — year-end (thousands)	**202,584**	202,563	202,544	202,517	202,472
— average (thousands)	**202,570**	202,554	202,533	202,501	202,440
Per share of common stock					
Earnings (b)	**$2.40**	$2.56	$2.45	$2.20	$2.02
Dividends	**$1.60**	$1.52	$1.44	$1.37	$1.32
Book value — year-end	**$18.84**	$18.05	$17.01	$15.98	$15.17
Market price — high-low	**$32 3/8 - 25 1/2**	$28 1/4 - 21 3/8	$24 1/2 - 21 1/8	$25 7/8 - 19 11/16	$26 - 17 7/16
— year-end	**$30 5/8**	$28 1/16	$23 1/8	$21 7/16	$22 5/8
Balance sheet data (thousands)					
Total assets	**$10,083,507**	$9,542,398	$8,890,605	$8,511,794	$8,226,729
Long-term debt	**$ 3,102,746**	$2,822,442	$2,728,794	$2,723,382	$2,752,302
Preferred stocks with sinking fund requirements	**$ 239,800**	$ 247,825	$ 255,850	$ 263,875	$ 221,991

(a) All common stock data reflects the two-for-one split of common stock on September 28, 1990.
(b) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

Item 7.

Management's Discussion And Analysis Of Results Of Operations And Financial Condition

Results Of Operations

Earnings and Dividends

Earnings per share increased over the past five years at an annual rate of 4 percent, to $2.40 in 1990 from $2.02 in 1986. Earnings per share decreased 6 percent, to $2.40 in 1990 when compared to $2.56 in 1989. Kilowatt-hour deliveries were essentially flat while operating and maintenance expenses increased for 1990. The increase in operating and maintenance expenses was due to increased maintenance at both nuclear and coal-fired stations and greater expenses associated with the retirement plan to better reflect retirement experience of plan participants. The total Company's earned return on average common equity decreased from 14.7 percent in 1989 to 13.1 percent in 1990. (Common stock data for all periods reflects the two-for-one split of Duke Power common stock declared by the Board of Directors on July 30, 1990, effective as of the close of business September 28, 1990.)

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from $1.32 in 1986 to $1.60 in 1990, rising at an annual rate of 5 percent. Indicated annual dividends per share increased to $1.64.

Revenues and Sales

Revenues increased slightly from 1988 to 1990 due to increased kilowatt-hour deliveries to retail sector customers.

Kilowatt-hour sales billed for 1990 increased 1 percent when compared to 1989. An increase in sales to the retail sector was partially offset by a decrease in special sales to other utilities. Sales to general service customers and residential customers increased 6 and 2 percent, respectively, reflecting an increase in customer base and economic growth in the service area. Sales to textile customers decreased 3 percent while sales to other-industrial customers increased 2 percent.

Operating Expenses

Non-fuel operating and maintenance expense rose at an annual rate of 3 percent from 1988 to 1990. Factors contributing to this rise include increased operating and maintenance expenses at both nuclear and coal-fired stations, greater expenses associated with the retirement plan to better reflect retirement experience of plan participants and inflation.

"Net interchange and purchased power" increased 5 percent from $514 million in 1989 to $541 million in 1990. The increase is primarily due to an increase in purchases of electricity from other utilities.

Fuel expense increased slightly from $626 million in 1988 to $660 million in 1990. Higher production required to meet a higher level of demand coupled with increased outages at nuclear plants was partially offset by declining fuel prices. Fuel expense for 1990 was flat when compared to 1989. The Middle East crisis is not expected to have a significant impact on fuel expense because of extensive use of nuclear generation and because fossil generation is predominantly coal-fired.

Other Income

Allowance for funds used during construction (AFUDC) represented 23 percent of earnings for common stock in 1990, increasing from 15 percent in 1989 and 14 percent in 1988. The increase in AFUDC over the past three years is a result of construction of the Bad Creek Hydroelectric Station. AFUDC is expected to decline substantially as the Bad Creek Hydroelectric Station is completed and then to increase gradually as work on the Lincoln Combustion Turbine Station begins.

The net of tax carrying charge on purchased capacity levelization related to the joint ownership of the Catawba Nuclear Station represented 5 percent of total earnings compared to 4 percent in 1989. This carrying charge and related tax benefits are included in "Other, net" and "Income taxes—other, net," respectively. The growth in the carrying charge on purchased capacity levelization is due to the increasing cumulative impact of the Company's funding purchased power costs not currently collected in rates. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized. The portion of costs not recovered through current rates is being accumulated, and the Company is recording a carrying charge on the accumulated balance. The Company will start to recover the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues. (For additional information on purchased capacity levelization, see Management's Discussion and Analysis of Results of Operations and Financial Condition, Capital Needs, "Purchased Capacity Levelization.")

The Company has continued to pursue diversified activities through its subsidiaries and non-utility operations. The overall contribution to the Company's earnings was 5 percent of total Company earnings for 1990 and 7 percent for 1989. The major components of subsidiary and non-utility earnings are investment income, Crescent Resources, Inc. and merchandising. The decrease in these earnings from 1989 is due to a decrease in earnings from subsidiary operations and a decrease in investment income as a result of the reduction in the overall investment base of certain subsidiaries.

Liquidity And Resources

Rate Matters

From 1986 through 1990, the Company was involved in various retail rate activities. In 1986 rate increases provided for the recovery of the Company's investment of Unit 2 of the Catawba Nuclear Station and recovery of increased purchased power and operating expenses. These increases were partially offset when the Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988, to recognize the lower corporate income tax rates included in the Tax Reform Act of 1986. During 1991 the Company anticipates filing in all jurisdictions for a general rate increase, principally to recover the investment in the Bad Creek Hydroelectric Station.

In July 1987 the Federal Energy Regulatory Commission (FERC) approved a 3.56 percent increase in the Company's wholesale rates, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A 2.4 percent rate reduction was implemented in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting a reduction in the corporate income tax rate.

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission (NCUC) to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During 1989 the Company paid $24 million as a result of this order. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that the Commission acted properly and that the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters may be material, the items are covered by the Agreements between the Company and the other joint owners, and have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined; however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

On July 28, 1987, the FERC granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates, affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of $.23 per share, reflected in 1988.

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

Capital Structure

The Company's capital structure at year-end was 50 percent common equity, 40 percent long-term debt, and 10 percent preferred and preference stocks. This capital structure is consistent with the Company's long-term financial goals.

During 1990 the Company purchased common stock on the stock market to satisfy the requirements of various stock purchase plans. The Company continues to issue common stock for preference stock conversions and anticipates issuing common stock in 1991 to satisfy the requirements of various stock purchase plans. The Company issued new long-term debt and preferred stock during 1990 and expects to issue additional such securities during 1991.

Cash From Operations

In 1990 net cash provided by operating activities accounted for 66 percent of total cash from operating, financing and investing activities. Approximately 13 percent of total cash from operating, financing and investing activities is being used for construction of the Bad Creek Hydroelectric Station.

Cash From Financing and Investing Activities

In 1988 there were no sales of First and Refunding Mortgage bonds or preferred stock. In 1989 the Company entered into a financing arrangement involving the issuance and sale of a maximum of $130 million principal amount of its commercial paper backed by long-term bank credit agreements. In accordance with this arrangement, the Company then issued and sold $130 million principal amount of its commercial paper included in the Consolidated Statements of Capitalization as "Other long-term debt." The proceeds from the issuance of this commercial paper were used primarily to terminate the Nuclear Fuel Trust financings of $86 million.

During 1990 the Company issued $390 million in long-term debt, part of which was used to redeem $103 million of long-term debt. The Company also issued $75 million of preferred

stock. The Company intends to issue long-term debt and preferred stock during 1991. Current plans are to issue approximately $230 million in long-term debt and $75 million in preferred stock during 1991.

On July 30, 1990, the Board of Directors declared a two-for-one split of Duke Power common stock effective as of the close of business on September 28, 1990. The Company has not issued any common stock for the past five years except to satisfy the requirements of the two-for-one stock split and the conversion rights of preference stock.

Because of issuances, the Company's embedded cost of long-term debt increased from 8.67 percent at year-end 1988 to 8.78 percent at year-end 1990. The embedded cost of preferred stock declined from 7.94 percent at the end of 1988 to 7.74 percent at the end of 1990.

Church Street Capital Corp., a wholly owned subsidiary of Duke Power Company, was formed in 1985. Church Street Capital provides for central management of funds for the consolidated group. As of December 31, 1990, the consolidated group had approximately $41 million in intermediate-term investments and $55 million in short-term investments.

Fixed Charges Coverage

Fixed charges coverage decreased to 3.66 times for 1990 compared to 4.26 times in 1989 using the SEC method. Fixed charges coverage, excluding AFUDC and the return on purchased capacity levelization, was 3.15 times in 1990 compared to 3.83 times in 1989 and the Company's goal of 3.5 times.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of $1.0 billion and retirements of $121 million resulted in a net increase in gross plant of $.9 billion in 1990.

Since January 1, 1988, additions to property and nuclear fuel of $3.1 billion and retirements of $242 million have resulted in a net increase in gross plant of $2.9 billion.

Construction Expenditures

Plant construction costs for generating facilities, including AFUDC, increased from $327 million in 1988 to $438 million in 1990. This increase is primarily the result of construction expenditures at the Bad Creek Hydroelectric Station. Construction costs for distribution plant, including AFUDC, increased from $272 million in 1988 to $330 million in 1990.

Purchased Capacity Levelization

The rates established in the Company's retail jurisdictions permit the Company to recover its investment in both units of the Catawba Nuclear Station and the costs associated with contractual purchases of capacity from the other Catawba joint owners. The contracts relating to the sales of portions of the station obligate the Company to purchase power from the other joint owners on an annually declining basis. In the North Carolina retail jurisdiction, regulatory treatment of these contracts provides revenue for the recovery of the capital costs and the fixed operating and maintenance costs of purchased capacity on a levelized basis. In the South Carolina retail jurisdiction, revenues are provided for the recovery of the capital costs of purchased capacity on a levelized basis, while the fixed operating and maintenance costs are recovered in current rates.

These rate treatments require the Company to fund portions of the purchased power payments until these costs, including carrying charges, are recovered at a later date. The Company recovers the accumulated costs and carrying charges when the declining purchased capacity payments drop below the levelized revenues.

The levelized recovery of purchased power obligations under contracts with the other joint owners of the Catawba Nuclear Station is expected to result in payments by the Company over the next three years exceeding the amounts collected in rates for such power by approximately $252 million.

Future Construction Program

Construction costs for major generating facilities for 1991 through 1993 will reflect completion of the Bad Creek Hydroelectric Station and commencement of the new Lincoln Combustion Turbine Station as discussed below. Projected construction costs and nuclear fuel costs cumulatively for the next three years are $2.6 billion and $551 million, respectively.

Construction continued at the Bad Creek Hydroelectric Station in 1990. Units 1 and 2 of the 1,065-megawatt pumped-storage facility are officially scheduled for completion in the fall of 1991, with Units 3 and 4 in early 1992. Construction is currently ahead of schedule. By year-end $933 million of an estimated $1.1 billion had been spent.

In 1989 the Company announced that a site in Lincoln County, North Carolina, had been selected for a new combustion turbine (CT) facility to meet customer demand in the mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200-megawatts of electricity. Current plans are for the first CT to be operational as early as 1994. Duke has applied for a Certificate of Public Convenience and Necessity and the required air permit which are necessary to begin construction of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power needs in the 1990s and beyond.

Significant Trends

While results of operations declined for the year, the Company maintained solid financial position in 1990. The ability to maintain and improve its current level of earnings will depend to a large extent on successful implementation of increased rates in 1991, on the ability of the Company to control costs and on economic conditions in the Piedmont Carolinas.

During 1990 the Company completed the sale of Mill-Power Supply Company, one of Duke's subsidiaries. In addition, the Company entered into an agreement with the city of Greensboro, North Carolina, which will relieve Duke of its obligation to operate the transit system, subject to certain contingencies. Management is of the opinion that these transactions will not have a material impact on the results of operations or the financial position of the Company.

The Company continues to pursue additional bulk power transactions. The Company's subsidiary, Nantahala Power and Light Company, has entered into a new interconnection agreement with the Tennessee Valley Authority. The agreement provides for interconnected operations and transactions between the two systems including the purchase of 200-megawatts of electricity for a four-year period beginning in 1991. Duke and Nantahala Power and Light Company have entered into an agreement whereby Nantahala will sell the 200-megawatts of electricity to Duke at cost. The Company also reached a bulk power sale agreement in 1987 to provide Carolina Power and Light Company 400-megawatts of electricity for a six-year period beginning in 1992. These agreements are subject to regulatory approval.

Stress corrosion cracking (SCC) has occured in steam generators of a certain design, including those at the McGuire and Catawba Stations. Although the Company has taken steps to mitigate the effects of SCC, the inherent potential for future SCC in the Catawba and McGuire steam generators still exists, and the Company cannot predict the extent to which remedial measures will be required to mitigate the effects of any future SCC. This could result in possible reductions in plant output and is expected to result in eventual replacement of the steam generators at the McGuire and Catawba Stations well before the end of their 40-year design life. Stress corrosion problems are excluded under the nuclear insurance policies.

The Company in connection with its McGuire and Catawba Stations and on behalf of the other joint owners of the Catawba Station — North Carolina Municipal Power Agency Number 1, North Carolina Electric Membership Corporation, Piedmont Municipal Power Agency and Saluda River Cooperative, Inc. — commenced an action on March 22, 1990, that alleges Westinghouse Electric Corporation (Westinghouse), the supplier of the generators, knew, or recklessly disregarded information in its possession, that the steam generators supplied to the McGuire and Catawba Stations would be susceptible to SCC and that Westinghouse deliberately concealed such information from the Company. The Company is seeking a judgment that Westinghouse is obligated to correct the defects in the steam generators at no cost to the Company, including payment for replacement power during the extended outages to accomplish the repairs, and for punitive damages related to the fact that Westinghouse concealed this information.

The Financial Accounting Standards Board has issued a statement that will require certain health care and life insurance benefits for retired employees to be recognized as earned rather than recognized as paid. The Company has not fully determined the impact of the new standard, but the change will likely result in recognition of significantly greater expense for the provision of these benefits. The Company is required to implement this standard by 1993.

The Clean Air Act Amendments of 1990 require electric utilities to reduce emissions of sulfur dioxide by 10 million tons and nitrogen oxide by 2 million tons by the year 2000. These requirements are being phased in over two periods. The first phase begins January 1, 1995, and the second January 1, 2000. Duke currently meets all requirements of phase one and therefore will not have to implement changes until compliance with phase two requirements is necessary. The Company supports the national objective of clean air and has already reduced emissions through the use of low-sulfur coal in its fossil plants, through efficient operations and by utilizing nuclear generation. Duke will be working on a detailed compliance plan that must be filed and approved by the Environmental Protection Agency by 1995. Estimated costs to implement phase two of the requirements are expected to be approximately $1 billion in capital expenditures and approximately $200 million annually in operations and maintenance expenses stated in year 2000 dollars.

Item 8. ***Financial Statements and Supplementary Data.***

DUKE POWER COMPANY

INDEX

Consolidated Statements of Income

Dollars in Thousands — Year ended December 31,	1990	1989	1988
Electric revenues (Notes 1 and 2)	$ 3,681,467	$3,639,339	$3,626,98
Electric expenses			
Operation			
Fuel used in electric generation (Note 1)	660,298	660,212	626,191
Net interchange and purchased power (Note 3)	541,370	514,189	587,145
Wages, benefits and materials	564,624	508,743	529,129
Maintenance of plant facilities	403,831	348,944	383,307
Depreciation and amortization (Notes 1 and 10)	405,762	410,938	417,503
General taxes	197,087	184,134	182,000
Income taxes (Notes 1 and 4)	265,712	307,579	272,159
Total electric expenses	3,038,684	2,934,739	2,997,434
Electric operating income	642,783	704,600	629,551
Other income (Notes 1, 4 and 13)			
Allowance for equity funds used during construction	79,176	61,347	52,616
Other, net	54,210	28,930	16,978
Provision for abandonment loss (Note 12)	—	—	(81,999)
Income taxes — abandonment loss	—	—	34,967
Income taxes — other, net	(15,284)	(9,053)	3,547
Income taxes — credit	28,638	20,602	20,102
Total other income	146,740	101,826	46,211
Income before interest deductions	789,523	806,426	675,762
Interest deductions			
Interest on long-term debt	260,333	237,187	235,06
Other interest	21,296	16,505	7,979
Allowance for borrowed funds used during construction (credit) (Note 1)	(30,294)	(18,877)	(15,409)
Total interest deductions	251,335	234,815	227,631
Income before cumulative effect of change in accounting method	538,188	571,611	448,131
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)	—	—	102,255
Net income	538,188	571,611	550,386
Dividends on preferred and preference stocks	52,616	52,477	53,329
Earnings for common stock	$ 485,572	$ 519,134	$ 497,057
Common stock data (Note 6)			
Average shares outstanding (thousands)	202,570	202,554	202,533
Earnings per share before cumulative effect of change in accounting method	$2.40	$2.56	$1.95
Cumulative effect of a change in method of accounting for unbilled revenues	—	—	.50
Total earnings per share	$2.40	$2.56	$2.45
Dividends per share	$1.60	$1.52	$1.44

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Dollars in Thousands — Year ended December 31,	1990	1989	1988
Cash flows from operating activities			
Net income	$538,188	$ 571,611	$ 550,386
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash items			
Depreciation and amortization (Notes 1 and 10)	576,268	605,105	632,866
Deferred income taxes and investment tax credit, net of amortization (Note 4)	31,850	61,063	(16,699)
Allowance for equity funds used during construction	(79,176)	(61,347)	(52,616)
Purchased capacity levelization (Note 3)	(93,853)	(95,216)	(95,738)
Provision for abandonment loss (Note 12)	—	—	81,999
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)	—	—	(102,255)
Other, net	(19,194)	21,154	62,970
(Increase) Decrease in			
Accounts receivable	56,353	(63,285)	(5,464)
Materials and supplies	(28,535)	(13,960)	(4,203)
Prepayments	356	915	1,630
Increase (Decrease) in			
Accounts payable	(5,181)	29,249	41,935
Taxes accrued (Notes 1 and 4)	(42,034)	49,961	(19,010)
Interest accrued and other liabilities (Notes 1 and 9)	31,728	3,628	7,061
Total adjustments	428,582	537,267	532,476
Net cash provided by operating activities	966,770	1,108,878	1,082,862
Cash flows from investing activities			
Construction expenditures	(836,474)	(819,799)	(754,076)
Investment in nuclear fuel	(136,528)	(179,093)	(142,575)
Purchase of Nantahala Power and Light	—	—	(29,576)
Net change in investment securities (Note 1)	23,952	26,515	198,586
Net cash used in investing activities	(949,050)	(972,377)	(727,641)
Cash flows from financing activities			
Proceeds from the issuance of			
First and refunding mortgage bonds	385,293	—	—
Pollution-control trust	1,187	15,906	1,283
Nuclear fuel trusts	—	50,945	85,612
Short-term notes payable, net (Note 5)	15,000	170,000	—
Other long-term debt	—	130,000	—
Preferred stock	73,875	—	—
Payments for the redemption of			
First and refunding mortgage bonds	(108,893)	—	—
Nuclear fuel trusts	—	(136,945)	(85,612)
Preferred stock	(8,025)	(8,025)	(8,025)
Payments under capital lease obligation	(5,185)	(4,748)	(4,348)
Dividends paid	(376,720)	(360,352)	(344,964)
Net cash used in financing activities	(23,468)	(143,219)	(356,054)
Net increase (decrease) in cash	(5,748)	(6,718)	(833)
Cash at beginning of year	13,958	20,676	21,509
Cash at end of year	$ 8,210	$ 13,958	$ 20,676

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Dollars in Thousands — December 31,	1990	1989
Assets		
Electric plant (at original cost — Notes 1, 3, 9 and 12)		
Electric plant in service	$10,224,921	$ 9,738,983
Less accumulated depreciation and amortization	3,614,122	3,374,412
Electric plant in service, net	6,610,799	6,364,571
Nuclear fuel	1,870,975	1,694,967
Less accumulated amortization	1,552,977	1,397,475
Nuclear fuel, net	317,998	297,492
Construction work in progress (including nuclear fuel in process: 1990 - $124,259; 1989 - $159,034)	1,521,391	1,255,232
Total electric plant, net	8,450,188	7,917,295
Other property and investments		
Other property — at cost (less accumulated depreciation: 1990 - $73,783; 1989 - $68,391)	189,627	144,513
Other investments, at cost or less	100,366	121,103
Total other property and investments	289,993	265,616
Current assets		
Cash (Note 5)	8,210	13,958
Short-term investments	54,835	58,050
Receivables (less allowance for losses: 1990 - $3,683; 1989 - $3,837) (Note 1)	463,486	519,839
Materials and supplies — at average cost		
Coal	86,477	84,036
Other	209,045	182,951
Prepayments	10,853	11,209
Total current assets	832,906	870,043
Deferred debits		
Purchased capacity costs (Note 3)	295,932	239,671
Canceled construction projects (Notes 10 and 12)	105,715	144,128
Debt expense (Note 1)	77,932	73,191
Other	30,841	32,454
Total deferred debits	510,420	489,444
Total assets	$10,083,507	$ 9,542,398
Capitalization and Liabilities		
Capitalization (See Consolidated Statements of Capitalization)	$ 7,661,504	$ 7,154,274
Current liabilities		
Accounts payable	299,802	306,232
Taxes accrued (Note 1)	34,579	76,613
Interest accrued	73,878	67,992
Other	86,757	60,915
Total	495,016	511,752
Notes payable (Note 5)	185,000	170,000
Current maturities of long-term debt and preferred stocks	13,687	13,210
Total current liabilities	693,703	694,962
Accumulated deferred income taxes (Notes 1 and 4)	1,256,223	1,206,730
Deferred credits and other liabilities		
Investment tax credit (Notes 1 and 4)	322,802	324,466
Other	149,275	161,966
Total deferred credits and other liabilities	472,077	486,43[illegible]
Commitments and contingencies (Note 12)		
Total capitalization and liabilities	$10,083,507	$ 9,542,398

See Notes to Consolidated Financial Statements.

Consolidated Statements of Capitalization and Retained Earnings

Dollars in Thousands — December 31,	1990	1989
Capitalization		
Common stock equity (Notes 6 and 7)		
Common stock, no par, 300,000,000 shares authorized; 202,584,324 shares outstanding for 1990 and 202,562,890 shares outstanding for 1989	$ 1,862,978	$ 1,862,721
Retained earnings	1,953,779	1,793,829
Total common stock equity	3,816,757	3,656,550
Preferred and preference stocks without sinking fund requirements (Note 7)	502,201	427,457
Preferred stocks with sinking fund requirements (Note 8)	239,800	247,825
Long-term debt (Note 9)		
First and refunding mortgage bonds	2,934,098	2,645,838
Capitalized leases	65,628	70,812
Other long-term debt	130,000	130,000
Unamortized debt discount and premium, net (Note 1)	(21,318)	(19,023)
Current maturities of long-term debt	(5,662)	(5,185)
Total long-term debt	3,102,746	2,822,442
Total capitalization	$ 7,661,504	$ 7,154,274

Dollars in Thousands — Year ended December 31,	1990	1989	1988
Retained Earnings			
Balance — Beginning of year	$1,793,829	$1,581,901	$1,374,093
Add — Net income	538,188	571,611	550,386
Total	2,332,017	2,153,512	1,924,479
Deduct			
Dividends			
Common stock	324,104	307,875	291,635
Preferred and preference stocks	52,616	52,477	53,329
Capital stock transactions, net	1,518	(669)	(2,386)
Total deductions	378,238	359,683	342,578
Balance — End of year	$1,953,779	$1,793,829	$1,581,901

See Notes to Consolidated Financial Statements.

Notes To Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Revenues

To provide a better matching of revenues and expenses, the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues effective January 1, 1988. Prior to 1988, the Company recognized revenues concurrent with billings to customers. The cumulative effect of this accounting change, less income taxes of $63,803,000, amounted to $102,255,000 and was included in 1988 income. Other than the recording of the cumulative effect adjustment, the new accounting method had no material effect on net income for 1988. Unbilled revenues of $168,069,000 and $195,867,000 are recorded as a component of "Receivables" on the Consolidated Balance Sheets as of December 31, 1990 and 1989, respectively.

B. Additions to Electric Plant

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

C. Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. AFUDC, a non-cash item, is recognized as a cost of "Construction work in progress" (CWIP), with offsetting credits to "Other income" and "Interest deductions." After construction is completed, the Company is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.13 percent for 1990, 9.35 percent for 1989 and 9.34 percent for 1988.

D. Depreciation and Amortization

Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.57 percent for 1990, 3.58 percent for 1989 and 3.61 percent for 1988. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a rate of 4 percent, which includes an allowance for decommissioning costs.

The Nuclear Regulatory Commission (NRC) issued a rulemaking in 1988 which will require an external mechanism to fund the estimated cost to decommission the components of a nuclear unit subject to radioactive contamination. The estimated site-specific obligations for decommissioning cost, including cost for plant components not subject to radioactive contamination, total approximately $955 million stated in 1990 dollars. This amount includes only the Company's ownership percentage of 12.5 percent in the Catawba Nuclear Station. The other joint owners of the Catawba Nuclear Station are liable for providing for decommissioning related to their ownership interest in the station. The Company anticipates filing with the North Carolina Utilities Commission, The Public Service Commission of South Carolina and the Federal Energy Regulatory Commission to recover decommissioning costs based on site-specific studies in early 1991.

Amortization of nuclear fuel is included in "Fuel used in electric generation" in the Consolidated Statements of Income. The amortization is recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company has entered into contracts with the Department of Energy (DOE) for the disposal of nuclear fuel. Payments made to the DOE for disposal costs are based on nuclear generation and are included in "Fuel used in electric generation" in the Consolidated Statements of Income. These costs are recovered through the fuel cost adjustment procedures in the North and South Carolina retail jurisdictions.

E. Subsidiaries

The Company's consolidated financial statements reflect consolidation of all of its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. (See "Subsidiary Highlights.")

F. Income Taxes

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

Income taxes are allocated to non-electric operations under "Other income" and to electric operating expense. The "Income taxes — credit" classified under "Other income" results from tax deductions of interest costs relating primarily to investments in CWIP, canceled construction projects and short- and intermediate-term investments.

Deferred income taxes have been provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, levelization of purchased power costs, canceled construction projects and unbilled revenues. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

G. Unamortized Debt Premium, Discount and Expense

Expenses incurred in connection with the issuance of presently outstanding long-term debt, and premiums and discounts relating to such debt, are being amortized over the terms of the respective issues. Also, any expenses or call premiums associated with refinancing higher-cost debt obligations are being amortized over the lives of the new issues of long-term debt.

H. Fuel Cost Adjustment Procedures

Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings.

All jurisdictions allow the Company to adjust for past over- or under-recovery of fuel costs. Therefore, the Company reflects in revenues the difference between actual fuel costs incurred and fuel costs recovered through rates.

The North Carolina legislature ratified a bill in July 1987 assuring the legality of such adjustments in rates. The bill has a sunset provision which has been extended to July 1, 1991.

I. Consolidated Statements of Cash Flows

For purposes of the Consolidated Statements of Cash Flows, the Company's investments in highly liquid debt instruments with a maturity of three months or less are included in cash flows from investing activities, and thus are not considered cash equivalents.

Total income taxes paid were $194,339,000 in 1990, $188,125,000 in 1989 and $226,400,000 in 1988.

Interest paid, net of amount capitalized, was $240,451,000, $230,091,000 and $222,102,000 for the years ended December 31, 1990, 1989 and 1988, respectively.

Note 2. Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission must approve the Company's rates for sales to wholesale customers. Sales to the other joint owners of the Catawba Nuclear Station, which represent a substantial majority of the Company's wholesale revenues, are now set through contractual agreements. (See Note 3.)

Changes in retail rates implemented by the Company since January 1, 1986, include rate increases of 6.73 percent, effective October 1986, and 9.55 percent, effective November 1986, in the North Carolina and South Carolina retail jurisdictions, respectively. These increases provided for recovery of the Company's investment in Catawba Unit 2 and payments related to the purchased power contracts with the plant's other joint owners. As a result of an appeal by certain parties of the Company's 1986 rate order of the NCUC, the Company's authorized return on common equity was reduced in 1989 from 13.40 percent to 13.20 percent. (See Note 12.)

The Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988. These reductions recognize the lower corporate income tax rate included in the Tax Reform Act of 1986.

Note 3. Joint Ownership of Generating Facilities

The Company has sold interests in both units of the Catawba Nuclear Station. The other owners of portions of the Catawba Nuclear Station and supplemental information regarding their ownership are as follows:

Owner	Ownership Interest in the Station
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.125%
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%

Each participant has provided its own financing for its ownership interest in the plant.

The Company retains a 12.5 percent ownership interest in Catawba. As of December 31, 1990, $525,435,000 of "Electric plant in service" represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of $139,689,000 associated with Catawba had been recorded as of year-end. The Company's share of operating costs of Catawba are included in the corresponding electric expenses in the Consolidated Statements of Income.

In connection with the joint ownership, the Company has entered into contractual agreements with the other joint owners to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements were effective beginning with the commercial operation of each unit. Unit 1 and Unit 2 began commercial operation in June 1985 and in August 1986, respectively. Such agreements were established for 15 years for NCMPA and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments are based on variable operating costs, a function of the generation output. Capacity payments are based on the fixed costs of the plant. The estimated purchased capacity obligations through 1995 are $434,000,000 for 1991,

$432,000,000 for 1992, $413,000,000 for 1993, $400,000,000 for 1994 and $167,000,000 for 1995.

The North Carolina Utilities Commission and the Federal Energy Regulatory Commission granted the Company recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners over their contractual purchased power buyback periods. The Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over one-half their contractual purchased power buyback periods. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized. The portion of costs not recovered through current rates is being accumulated, and the Company is recording a net of tax carrying charge on the accumulated balance. The Company will start to recover the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1990, 1989 and 1988, the Company recorded purchased capacity and energy costs from the other joint owners of $572,500,000, $598,100,000 and $632,200,000, respectively. These amounts, adjusted for the cost of capacity purchased not reflected in current rates, are included in "Net interchange and purchased power" in the Consolidated Statements of Income. As of December 31, 1990 and 1989, $295,932,000 and $239,671,000 net of income taxes, respectively ($518,956,000 and $425,103,000, pretax, respectively), associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Consolidated Balance Sheets as "Purchased capacity costs."

Note 4. Income Tax Expense

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

	1990	1989	1988
Income taxes related to electric expenses			
Current income taxes			
Federal	$203,282	$203,899	$207,354
State	44,246	44,784	45,606
	247,528	248,683	252,960
Deferred taxes, net			
Excess tax over book depreciation	75,757	76,950	71,102
Property taxes	(10,852)	—	—
Catawba purchased capacity costs, net of amounts reflected in current rates	20,116	13,620	6,808
Amortization of canceled construction costs	(23,959)	(23,959)	(26,116)
Unbilled revenues	(13,929)	(15,716)	(13,965)
Storm damage	(1,900)	24,397	—
Other	(23,799)	(9,481)	(11,731)
	21,434	65,811	26,098
Investment tax credit			
Deferred	12,727	11,394	11,812
Amortization of deferrals (credit)	(15,977)	(18,309)	(18,711)
	(3,250)	(6,915)	(6,899)
Total income taxes related to electric expenses	265,712	307,579	272,159
Income taxes related to other income			
Income taxes — return on deferred Catawba purchased capacity costs	17,476	14,743	11,413
Income taxes — abandonment loss	—	—	(34,967)
Income taxes — other, net	(2,192)	(5,690)	(14,960)
Income taxes — credit	(28,638)	(20,602)	(20,102)
Total income taxes related to other income	(13,354)	(11,549)	(58,616)
Total income tax expense	$252,358	$296,030	$213,543*

Total current income taxes were $220,508,000 for 1990, $234,967,000 for 1989 and $230,242,000 for 1988. Of these amounts, state income taxes were $38,911,000 for 1990, $40,877,000 for 1989 and $42,262,000 for 1988. Total deferred income taxes were $35,100,000 for 1990, $67,978,000 for 1989 and $(9,800,000) for 1988. Of these amounts, deferred state income taxes were $9,209,000 for 1990, $13,960,000 for 1989 and $4,070,000 for 1988.

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

	1990	1989	1988
Income taxes on pretax income at the statutory federal rate of 34%	$268,786	$294,998	$224,967
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(37,220)	(27,276)	(23,128)
Amortization of electric investment tax credit deferrals	(15,977)	(18,309)	(18,711)
AFUDC in book depreciation/amortization	27,309	29,372	31,883
Deferred income tax flowback at rates higher than statutory	(21,638)	(22,761)	(27,989)
State income taxes, net of federal income tax benefits	31,818	36,852	30,928
Other items, net	(720)	3,154	(4,407)
Total income tax expense	$252,358	$296,030	$213,543*

* Excludes income taxes of $63,803,000 related to unbilled revenues. Such income taxes are included in "Cumulative effect of a change in method of accounting for unbilled revenues" on the Consolidated Statements of Income.

The Financial Accounting Standards Board has issued a statement that will require a change in the method of accounting for income taxes. While classification of certain items on the Consolidated Balance Sheets will change, there will be no material effect on the Company's results of operations. The Company is required to implement this accounting standard by 1992.

Note 5. Short-Term Borrowings and Compensating-Balance Arrangements

The Company had unused short-term credit facilities of $380,285,000 as of December 31, 1990 and 1989, and $360,700,000 as of December 31, 1988, with 52 and 54 commercial banks, respectively. Included in these credit facilities are $40,000,000 in 1990 and 1989 and $95,000,000 in 1988, allocated to pollution-control revenue bonds which are subject to being remarketed at least once a year. These facilities are on a fee or compensating-balance basis. A summary of short-term borrowings for 1990 and 1989 is shown below. There were no short-term borrowings during 1988.

Cash balances maintained at the banks on deposit were $4,852,000 as of December 31, 1990 and $8,649,000 as of December 31, 1989. Cash balances and fees compensate banks for their services, even though the Company has no formal compensating-balance arrangements. To compensate certain banks for credit facilities, the Company maintained balances of $499,000 as of December 31, 1990 and 1989. The Company retains the right of withdrawal with respect to the funds used for compensating-balance arrangements.

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

	December 31, 1990	December 31, 1989
Amount outstanding at end of period — average rate of 7.96% as of December 31, 1990 and 8.68% as of December 31, 1989	$185,000	$170,000
Maximum amount outstanding during the period	$250,321	$180,000
Average amount outstanding during the period	$109,322	$ 34,538
Weighted-average interest rate for the period — computed on a daily basis	8.21%	8.93%

Note 6. Common Stock and Retained Earnings

Common Stock

On July 30, 1990, the Board of Directors authorized a two-for-one split of the Company's common stock. New shares were distributed on September 28, 1990 to shareholders of record on August 31, 1990. Common stock data for all periods reflects the two-for-one split of the Company's common stock.

During the past three years, stock market purchases were used to satisfy the requirements of the Company's stock plans. The Company has not issued any common stock for the past three years except to satisfy the requirements of the two-for-one stock split and the conversion rights of preference stock. (See Note 7.)

As of December 31, 1990, a total of 9,313,306 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1990, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

Note 7. Preferred and Preference Stocks Without Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1990 and 1989:

	Par Value	Shares
Preferred Stock	$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

The outstanding Preference Stock, 6¾% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $11.95 per share, with each share of preference stock valued at par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1990, 1989 and 1988, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1990	2,564	21,434
1989	2,256	18,844
1988	3,176	26,584

Preferred and preference stocks without sinking fund requirements as of December 31, 1990 and 1989, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1990	1989
4.50% C	1964	350,000	$ 35,000	$ 35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
Adjustable Rate A	1986	500,000	50,000	50,000
Auction Series A	1990	750,000	75,000	—
6¾%, AA Convertible	1969	22,010	2,201	—
		24,574	—	2,457
Total			$502,201	$427,457

Note 8. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1990 and 1989:

	Par Value	Shares
Preferred Stock	$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

Note 10. Canceled Construction Projects

The construction of the Cherokee Nuclear Station was canceled. All retail jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 12.)

As of December 31, 1990 and 1989, the balances for this canceled project, net of amortization, were $105,715,000 and $144,128,000 net of income taxes, respectively ($171,524,000 and $233,896,000, pretax, respectively).

Note 11. Retirement Benefits

A. Retirement Plan

The Company and its operating subsidiaries, with the exception of Nantahala Power and Light Company which maintains its own retirement plans, have a non-contributory, defined benefit retirement plan covering substantially all their employees. The benefits are based on years of creditable service and the employees' average compensation based on the highest compensation during a consecutive sixty-month period. The benefits are reduced by a Social Security adjustment for employees age sixty-five and over and for early retirees with no creditable service prior to September 1, 1980. Pension cost for 1990 reflects an increase in the assumed period of creditable service to more accurately reflect actual experience. The Company's policy is to fund pension costs accrued.

A reconciliation of the funded status of the plan to the amounts recognized in the Consolidated Balance Sheets as of December 31, 1990 and 1989 is as follows (dollars in thousands):

	1990	1989
Accumulated benefit obligation:		
Vested benefits	$ (680,350)	$ (582,142)
Nonvested benefits	(25,810)	(22,623)
Accumulated benefit obligation	$ (706,160)	$ (604,765)
Fair market value of plan assets, consisting primarily of short-term investments and cash equivalents, common stocks, real estate investments, and government and industrial bonds	$ 796,951	$ 785,435
Projected benefit obligation	(930,992)	(755,353)
Unrecognized net experience (gain) loss	114,308	(20,352)
Unrecognized prior service cost	470	(14,232)
Remaining unrecognized transitional obligation	1,469	1,602
Accrued pension cost	$ (17,794)	$ (2,900)

Net periodic pension cost for the years ended December 31, 1990, 1989 and 1988 included the following components (dollars in thousands):

	1990		1989		1988	
Service cost benefits earned during the year		$ 33,259		$ 24,809		$ 25,442
Interest cost on projected benefit obligation		79,673		64,735		55,993
Actual return on plan assets	(33,506)		(104,226)		(72,465)	
Amount deferred for recognition	(41,241)		34,532		6,815	
Expected return on plan assets		(74,747)		(69,694)		(65,650)
Net amortization		1,266		(1,161)		(199)
Net periodic pension cost		$ 39,451		$ 18,689		$ 15,586

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 9.5 percent in 1990, 1989 and 1988, while the assumed increase in future compensation levels was 6.5 percent in 1990, 1989 and 1988. The expected long-term rate of return on plan assets used in determining pension cost was 10.0 percent for 1990, 1989 and 1988.

During 1988, the Company conducted a work activity review which resulted in the elimination of approximately 1,200 positions. Special termination benefits and severance benefits, which amounted to approximately $24,000,000 of non-plan costs, were provided to those employees that were terminated. Also, as a result of the work activity review, the Company recorded a one-time net loss from terminations associated with its retirement plan of $4,501,000.

Preferred stocks with sinking fund requirements as of December 31, 1990 and 1989, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1990	1989
7.35% I	1973	432,000	$ 43,200	$ —
		456,000	—	45,600
8.20% J	1977	320,000	32,000	—
		340,000	—	34,000
8.375% L	1978	340,000	34,000	—
		360,000	—	36,000
8.84% N	1979	386,250	38,625	—
		402,500	—	40,250
7.875% P	1986	500,000	50,000	50,000
7.12% Q	1987	500,000	50,000	50,000
Less: Current sinking fund requirements				
7.35% I			(2,400)	(2,400)
8.20% J			(2,000)	(2,000)
8.375% L			(2,000)	(2,000)
8.84% N			(1,625)	(1,625)
Total			$239,800	$247,825

The annual sinking fund requirements through 1995 are $8,025,000 in 1991; $9,525,000 in 1992; $11,025,000 in 1993, 1994 and 1995. Some additional redemptions are permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 108 percent of par values, plus accumulated dividends to the redemption date.

Note 9. Long-Term Debt

First and refunding mortgage bonds outstanding as of December 31, 1990 and 1989, were as follows (dollars in thousands):

Series	Year Due	1990	1989
4½%	1992	$ 50,000	$ 50,000
4¼% B	1992	50,000	50,000
4½%	1995	40,000	40,000
8½% B	1995	125,000	125,000
7⅞%	1996	100,000	100,000
7½% B	1997	100,000	100,000
5⅜%	1997	72,600	72,600
6⅜%	1998	68,500	68,500
7%	1999	56,075	56,075
8% B	1999	64,739	64,739
8½%	2000	69,244	69,244
8⅝% B	2000	95,635	95,635
7½%	2001	97,900	97,900
7⅜% B	2001	38,050	38,050
7¾%	2002	78,100	78,100
7⅜% B	2002	67,900	67,900
7¾%	2003	94,872	94,872
8⅛% B	2003	98,050	98,050
9¾%	2004	95,623	95,623
9½%	2005	92,800	92,800
8⅜%	2006	96,850	96,850
(continued)			
8⅛%	2007	$ 119,500	$ 119,500
9⅜%	2008	120,610	120,610
10⅛%	2009	145,050	145,050
12⅝%	2015	—	62,916
10⅛% B	2015	50,000	50,000
9%	2016	175,000	175,000
8½%	2017	150,000	150,000
9⅝%	2020	200,000	—
10⅛% B	2020	150,000	—
Pollution-Control			
9⅛%	2013	77,000	77,000
6.10%	2014	—	40,000
7.70%	2012	20,000	20,000
7.75%	2017	10,000	10,000
7.50%	2017	25,000	25,000
5.85%	2014	40,000	—
Less: Funds held in trust		—	(1,176)
Total		$2,934,098	$2,645,838

Substantially all electric plant was mortgaged as of December 31, 1990.

As of December 31, 1990, the Company had $130,000,000 in commercial paper backed by an unused long-term credit facility of $130,000,000. The $130,000,000 principal amount of commercial paper is included in other long-term debt.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1995 are $5,662,000 in 1991; $106,147,000 in 1992; $6,713,000 in 1993; $20,946,000 in 1994 and $166,494,000 in 1995.

B. Postretirement Benefits

The Company currently provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees become eligible for these benefits if they elect early retirement at age fifty-five with ten years of service or if they retire at sixty-five while working for the Company. The cost of retiree benefits is recognized as the benefits are paid. The cost to the Company for 1990, 1989 and 1988 amounted to $10,200,000, $6,800,000 and $6,700,000, respectively. The Company reserves the right to terminate, suspend, withdraw, amend or modify the Plans in whole or in part at any time.

The Financial Accounting Standards Board has issued a statement that will require postretirement benefits to be recognized as earned by employees rather than recognized as paid. The Company has not fully determined the impact of the new standard, but the change will likely result in recognition of significantly greater expense for the provision of these benefits. The Company is required to implement this standard by 1993.

Note 12. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs are $2.6 billion and $551 million, respectively, for 1991 through 1993. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

B. Nuclear Insurance

The Company maintains nuclear insurance coverage in three areas: liability coverage, property, decontamination and decommissioning coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the other joint owners of the Catawba Nuclear Station for certain expenses associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately $7.8 billion. The maximum required private primary insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently $7.6 billion, which will be increased by $63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to $63 million for each of their licensed reactors, payable at a rate not to exceed $10 million a year per licensed reactor for each incident. The $63 million amount is subject to indexing for inflation. This amount is further subject to a surcharge of 5 percent (which is included in the above $7.8 billion figure) if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of such assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides $500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to $29 million. This amount represents 5 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL) and purchases $1.13 billion of insurance through NEIL's excess property, decontamination and decommissioning liability insurance program. If losses ever exceed the accumulated funds available to NEIL for the excess property, decontamination and decommissioning liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to $23 million. This amount is limited to 7.5 times the Company's annual premium for $500 million of excess property, decontamination and decommissioning liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba. The Company has also purchased an additional $400 million of excess property damage insurance for its Oconee and McGuire plants and $700 million for its Catawba plant through a pool of stock and mutual insurance companies.

In addition to the $1.13 billion in coverage through NEIL's excess property program and the $700 million in excess coverage mentioned above, and in lieu of primary property coverage through NML, the Company has placed $500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased

power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately $1.9 million, $2.9 million and $2.8 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved in an accidental outage. Coverages continue at 100 percent for 52 weeks, 67 percent for a second 52 weeks and 33 percent for a third 52 weeks. If NEIL's losses for this program ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to $23 million. This amount represents 5 times the Company's annual premium to NEIL. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to the joint ownership agreements.

C. Other

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission (NCUC) to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts, and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During 1989 the Company paid $24 million as a result of this order. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that the Commission acted properly and the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters may be material, the items are covered by the Agreements between the Company and the other joint owners, and have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined; however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of $.23 per share, reflected in 1988.

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

Note 13. Other Income

For the years ended December 31, 1990, 1989 and 1988, the Company recorded investment income of $15,210,000, $15,646,000 and $19,397,000, respectively ($12,167,000, $13,847,000 and $20,098,000, net of income taxes, respectively), as a component of "Other, net" in the Consolidated Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes — other, net" in the Company's Consolidated Statements of Income.

Note 14. Reclassification

In the Consolidated Statements of Cash Flows, certain prior-year information has been reclassified to conform with 1990 classifications.

Supplemental Financial Data — (unaudited)

Quarterly Financial Data

Dollars in Thousands (except per-share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1990 by quarter					
Electric Revenues	$855,416	$870,315	$1,105,023	$850,713	$3,681,467
Electric Operating Income	146,489	139,916	249,261	107,117	642,783
Net Income	127,045	116,936	213,765	80,442	538,188
Earnings Per Share (a)	$0.56	$0.52	$0.99	$0.33	$2.40
1989 by quarter					
Electric Revenues	$863,235	$877,304	$1,011,294	$887,506	$3,639,339
Electric Operating Income	152,365	153,850	230,420	167,965	704,600
Net Income	127,280	127,270	194,812	122,249	571,611
Earnings Per Share (a)	$0.56	$0.57	$0.89	$0.54	$2.56

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate changes and maintenance of electric generating units, especially nuclear units.

(a) All common stock data reflects the two-for-one split of common stock on September 28, 1990.

Subsidiary Highlights

The Company's subsidiaries had net of tax earnings of $18,240,000 in 1990 and $24,380,000 in 1989. Highlights of the subsidiaries are presented below.

Electric Power Supply

Nantahala Power and Light Company provides service to a five-county area in the western North Carolina mountains by its operation of 11 hydroelectric stations and purchases of supplemental power. (dollars in thousands)

	1990	1989
Assets net of liabilities	$36,663	$33,886
Net income	$ 2,777	$ 2,683

Funds Management

Church Street Capital Corp. (CSCC) manages investment of funds for the Duke Power consolidated group and is the parent company of several subsidiaries. (dollars in thousands)

	1990	1989
Short-term investments and marketable securities	$95,692	$109,063
Investment income (after tax)	$ 7,251	$ 6,943

Highlights of CSCC's subsidiaries are presented below:

- **Real Estate Management, Land Development**
  Crescent Resources, Inc. is engaged in forestry management, real estate development, and sales and leasing. (dollars in thousands)

	1990	1989
Assets net of liabilities	$69,662	$62,660
Net income	$ 6,923	$13,785

- **Engineering, Construction, Technical Services and Power Development**
  Duke Engineering & Services, Inc. provides engineering, equipment procurement, construction management, start-up and operation support, quality assurance, and construction services for other than coal-fired power plants. Duke/Fluor Daniel, a joint venture with Fluor Daniel, Inc., provides similar engineering and construction expertise for coal-fired plants. Duke Energy Corp. is engaged in development of electric generating facilities including services in obtaining project financing, community relations and contract negotiations (i.e. steam sale contracts, engineering, procurement and construction contracts, coal and rail contracts, ash disposal contracts, etc.) (dollars in thousands)

	1990	1989
Assets net of liabilities	$30,889	$10,327
Net income	$ (42)	$ 840

INDEPENDENT AUDITORS' REPORT

Duke Power Company:

We have audited the consolidated financial statements of Duke Power Company and subsidiaries listed in the accompanying index on page 21. Our audits also included the supplemental schedules listed in the accompanying index on page 21. These financial statements and supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and supplemental schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles. Also, in our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 1988 the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues.

Charlotte, North Carolina
February 8, 1991

DELOITTE & TOUCHE
Certified Public Accountants

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte & Touche. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

DAVID L. HAUSER
Controller

DUKE POWER COMPANY

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements	Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1990					
Electric Plant in Service — At Original Cost					
Production	$ 4,880,284	$ 117,684	$ 63,285	$ 30,522	$ 4,965,205
Transmission	1,152,588	76,324	4,830	(930)	1,223,152
Distribution	2,773,018	334,983	29,158	1,043	3,079,886
General	788,160	73,985	25,012	7,573	844,706
Miscellaneous	144,933	3,862	—	(36,823)	111,972
Nuclear Fuel	1,694,967	176,008	—	—	1,870,975
Total electric plant in service	11,433,950	782,846	122,285	1,385	12,095,896
Construction Work in Progress	1,255,232	266,159	—	—	1,521,391
Other Property — At Cost					
Water plant	33,006	926	51	5	33,886
Transit plant	2,824	—	42	—	2,782
Total other property	35,830	926	93	5	36,668
Total plant	$12,725,012	$1,049,931	$122,378	$ 1,390	$13,653,955
For the Year Ended December 31, 1989					
Electric Plant in Service — At Original Cost					
Production	$ 4,722,544	$ 145,377	$ 19,287	$ 31,650	$ 4,880,284
Transmission	1,114,761	46,564	3,032	(5,705)	1,152,588
Distribution	2,477,568	323,858	22,198	(6,210)	2,773,018
General	622,814	168,358	8,020	5,008	788,160
Miscellaneous	184,301	2,764	—	(42,132)	144,933
Nuclear Fuel	1,537,533	157,434	—	—	1,694,967
Total electric plant in service	10,659,521	844,355	52,537	(17,389)	11,433,950
Construction Work in Progress	1,038,091	217,141	—	—	1,255,232
Other Property — At Cost					
Water plant	31,486	1,624	68	(36)	33,006
Transit plant	3,039	—	215	—	2,824
Total other property	34,525	1,624	283	(36)	35,830
Total plant	$11,732,137	$1,063,120	$ 52,820	$(17,425)	$12,725,012
For the Year Ended December 31, 1988					
Electric Plant in Service — At Original Cost					
Production	$ 4,631,961	$ 93,996	$ 307	$ (3,106)	$ 4,722,544
Transmission	1,092,584	27,882	2,536	(3,169)	1,114,761
Distribution	2,223,589	278,664	25,868	1,183	2,477,568
General	531,167	109,003	16,900	(456)	622,814
Miscellaneous	182,936	480	—	885	184,301
Nuclear Fuel	1,410,315	127,218	—	—	1,537,533
Total electric plant in service	10,072,552	637,243	45,611	(4,663)	10,659,521
Construction Work in Progress	704,610	333,481	—	—	1,038,091
Other Property — At Cost					
Water plant	30,580	1,153	240	(7)	31,486
Transit plant	3,160	(15)	106	—	3,039
Total other property	33,740	1,138	346	(7)	34,525
Total plant	$10,810,902	$ 971,862	$ 45,957	$ (4,670)	$11,732,137

DUKE POWER COMPANY

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Depreciation	Clearing and Other Accounts	Retirements	Other Changes Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1990						
Accumulated Depreciation of Electric Plant						
Production	$1,753,706	$181,151	$ —	$ 69,913	$ 37,340	$1,902,284
Transmission	471,754	33,655	—	5,597	743	500,555
Distribution	826,188	98,993	—	28,154	(801)	896,226
General	193,387	30,839	15,324	17,484	(375)	221,691
Miscellaneous	124,792	—	349	—	(36,883)	88,258
	3,369,827	344,638	15,673	121,148	24	3,609,014
Accumulated Amortization of Limited Term Plant	4,585	—	522	(1)	—	5,108
Accumulated Amortization of Nuclear Fuel	1,397,475	—	155,502	—	—	1,552,977
	4,771,887	344,638	171,697	121,147	24	5,167,099
Accumulated Depreciation of Water Plant	6,967	657	—	46	—	7,578
Accumulated Depreciation of Transit Plant	2,602	102	—	42	—	2,662
Total Accumulated Depreciation	$4,781,456	$345,397	$171,697	$121,235	$ 24	$5,177,339
For the Year Ended December 31, 1989						
Accumulated Depreciation of Electric Plant						
Production	$1,563,245	$178,034	$ —	$ 29,239	$ 41,666	$1,753,706
Transmission	443,828	32,721	—	3,685	(1,110)	471,754
Distribution	769,601	89,192	—	33,661	1,056	826,188
General	156,912	26,033	13,280	2,861	23	193,387
Miscellaneous	166,353	—	372	—	(41,933)	124,792
	3,099,939	325,980	13,652	69,446	(298)	3,369,827
Accumulated Amortization of Limited Term Plant	4,149	—	447	—	(11)	4,585
Accumulated Amortization of Nuclear Fuel	1,219,828	—	177,647	—	—	1,397,475
	4,323,916	325,980	191,746	69,446	(309)	4,771,887
Accumulated Depreciation of Water Plant	6,406	636	—	75	—	6,967
Accumulated Depreciation of Transit Plant	2,692	125	—	215	—	2,602
Total Accumulated Depreciation	$4,333,014	$326,741	$191,746	$ 69,736	$ (309)	$4,781,456
For the Year Ended December 31, 1988						
Accumulated Depreciation of Electric Plant						
Production	$1,390,577	$177,037	$ —	$ 6,875	$ 2,506	$1,563,245
Transmission	415,437	31,022	—	1,528	(1,103)	443,828
Distribution	716,923	79,603	—	27,954	1,029	769,601
General	143,145	18,078	12,229	14,385	(2,155)	156,912
Miscellaneous	165,976	—	377	—	—	166,353
	2,832,058	305,740	12,606	50,742	277	3,099,939
Accumulated Amortization of Limited Term Plant	3,760	—	389	—	—	4,149
Accumulated Amortization of Nuclear Fuel	1,024,099	—	195,729	—	—	1,219,828
	3,859,917	305,740	208,724	50,742	277	4,323,916
Accumulated Depreciation of Water Plant	6,043	610	—	247	—	6,406
Accumulated Depreciation of Transit Plant	2,608	189	—	105	—	2,692
Total Accumulated Depreciation	$3,868,568	$306,539	$208,724	$ 51,094	$ 277	$4,333,014

DUKE POWER COMPANY

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(Dollars in thousands)

Description	Balance Beginning of Year	Balance End of Year
For the Year Ended December 31, 1990		
Reserves Related to Assets on Balance Sheet	$24,352	$43,712
Other Reserves		
Operating Reserves (1)	$85,703	$59,527
For the Year Ended December 31, 1989		
Reserves Related to Assets on Balance Sheet	$27,335	$24,352
Other Reserves		
Operating Reserves (1)	$51,890	$85,703
For the Year Ended December 31, 1988		
Reserves Related to Assets on Balance Sheet	$ 3,710	$27,335
Other Reserves		
Operating Reserves (1)	$37,560	$51,890

(1) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits and Other Liabilities," in the Balance Sheets.

SCHEDULE X — SUPPLEMENTARY CONSOLIDATED INCOME STATEMENT INFORMATION

	Year Ended December 31		
	1990	1989	1988
	(Dollars in thousands)		
Taxes, other than payroll and income taxes:			
Real and personal property	$ 66,072	$ 60,000	$ 52,382
State and city franchise	86,943	84,913	85,355
Other	6,937	6,244	6,566
Total	$159,952	$151,157	$144,303

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE — (Unaudited)

This calculation is submitted in accordance with Regulation S-K under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

	Year Ended December 31		
	1990	1989	1988
	(Dollars in thousands except per share figures)		
Fully Diluted:(1)(2)			
Earnings applicable to common stock	$485,572	$519,134	$497,057
Add: Dividends on Preference Stock, 6¾% Convertible Series AA	160	172	191
Earnings as adjusted for computation	$485,732	$519,306	$497,248
Average common shares outstanding — twelve months (thousands)	202,570	202,554	202,533
Add: Common shares required for conversion of Preference Stock, 6¾% Convertible Series AA, $100 par, 500,000 shares authorized (22,010 shares outstanding as of December 31, 1990)(3)	184	206	225
Common shares as adjusted for computation	202,754	202,760	202,758
Fully diluted earnings per share	$ 2.40	$ 2.56	$ 2.45

(1) Common stock data for all periods reflect the two-for-one split of the Company's common stock.

(2) These figures agree with the related amounts in the Consolidated Statements of Income.

(3) The conversion price used to convert the Preference Stock, 6¾% Convertible Series AA, into shares of common stock was $11.95.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

Item 10. ***Directors and Executive Officers of the Registrant.***

Information for this item concerning directors of the Company is set forth in the sections entitled "Election of Directors" and "Information Regarding the Board of Directors" in the proxy statement of the Company relating to its 1991 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth under the section entitled "Executive Officers of the Company" in this annual report.

Item 11. ***Executive Compensation.***

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1991 annual meeting of shareholders, which is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy statement of the Company relating to its 1991 annual meeting of shareholders, which is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions.***

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1991 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

Item 14. ***Exhibits, Consolidated Financial Statement Schedules, and Reports on Form 8-K.***

Consolidated Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

- Financial Statements
  - Consolidated Statements of Income for the Three Years Ended December 31, 1990
  - Consolidated Statements of Cash Flows for the Three Years Ended December 31, 1990
  - Consolidated Balance Sheets — December 31, 1990 and 1989
  - Consolidated Statements of Capitalization — December 31, 1990 and 1989
  - Consolidated Statements of Retained Earnings for the Three Years Ended December 31, 1990
  - Notes to Consolidated Financial Statements
- Supplemental Financial Data (Unaudited)
- Supplemental Schedules
  - Schedule V — Property, Plant and Equipment for the Three Years Ended December 31, 1990
  - Schedule VI — Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Three Years Ended December 31, 1990
  - Schedule VIII — Valuation and Qualifying Accounts and Reserves for the Three Years Ended December 31, 1990
  - Schedule X — Supplementary Consolidated Income Statement Information for the Three Years Ended December 31, 1990
- Exhibit I — Computation of Fully Diluted Earnings Per Share (Unaudited)

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Exhibits

(a) — See Exhibit Index on page 44.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1990.

EXHIBIT 24

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 33-15183, 33-34429 and 33-19274 of Duke Power Company on Form S-3 and in Post-Effective Amendment No. 9 to Registration Statement No. 2-72172 of Duke Power Company on Form S-8 of our report dated February 8, 1991, appearing in this Annual Report on Form 10-K of Duke Power Company for the year ended December 31, 1990.

DELOITTE & TOUCHE

Charlotte, North Carolina
March 28, 1991

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte and State of North Carolina on the 28th day of March, 1991.

DUKE POWER COMPANY
(Registrant)

By: W. S. LEE
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
W. S. LEE	Chairman of the Board and President (Principal Executive Officer)	March 28, 1991
R. J. OSBORNE	Vice President, Finance (Principal Financial Officer)	March 28, 1991
DAVID L. HAUSER	Controller (Principal Accounting Officer)	March 28, 1991
ROBERT L. ALBRIGHT W. A. COLEY JOHN L. FRALEY STEVE C. GRIFFITH, JR. W. H. GRIGG PAUL H. HENSON GEORGE R. HERBERT GEORGE DEAN JOHNSON, JR. JAMES V. JOHNSON W. W. JOHNSON W. S. LEE MAX LENNON REECE A. OVERCASH, JR. WARREN H. OWEN R. B. PRIORY JAMES C. SELF	A majority of the Directors	March 28, 1991

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

/s/ LEWIS F. CAMP, JR.
Lewis F. Camp, Jr., Attorney-in-fact

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

Exhibit Number	
3-A	— Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
3-B	— Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
*3-C	— Articles of Amendment to the Articles of Incorporation dated May 3, 1988.
*3-D	— Articles of Amendment to the Articles of Incorporation dated May 16, 1990.
3-E	— Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
3-F	— Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-4).
3-G	— Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
3-H	— Statement of Classification of Shares relating to the 7.875% Cumulative Preferred Stock, Series P (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-F).
3-I	— Statement of Classification of Shares relating to the Adjustable Rate Cumulative Preferred Stock, Series A (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-G).
3-J	— Statement of Classification of Shares relating to the 7.12% Cumulative Preferred Stock, Series Q (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-H).
*3-K	— Articles of Amendment of registrant dated October 22, 1990 relating to the Preferred Stock, Auction Series A.
*3-L	— By-Laws of registrant, as amended to date.
4-B-1	— First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).
4-B-2	— Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
4-B-3	— Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
4-B-4	— Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
4-B-5	— Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
4-B-6	— Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
4-B-7	— Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
4-B-8	— Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).

Exhibit Number	
4-B-9	— Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).
4-B-10	— Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).
4-B-11	— Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
4-B-12	— Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
4-B-13	— Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
4-B-14	— Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
4-B-15	— Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
4-B-16	— Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
4-B-17	— Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
4-B-18	— Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
4-B-19	— Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
4-B-20	— Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
4-B-21	— Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-20).
4-B-22	— Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
4-B-23	— Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
4-B-24	— Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No. 2-31304, effective January 21, 1969, as Exhibit 2-B-26).
4-B-25	— Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).
4-B-26	— Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).
4-B-27	— Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42).
4-B-28	— Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).

Exhibit Number	
4-B-29	— Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).
4-B-30	— Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).
4-B-31	— Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
4-B-32	— Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).
4-B-33	— Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
4-B-34	— Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
4-B-35	— Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
4-B-36	— Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
4-B-37	— Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
4-B-38	— Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
4-B-39	— Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
4-B-40	— Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
4-B-41	— Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).
4-B-42	— Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).
4-B-43	— Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).
4-B-44	— Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
4-B-45	— Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).
4-B-46	— Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).
4-B-47	— Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-47).
4-B-48	— Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-48).

Exhibit Number	
4-B-49	— Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-49).
4-B-50	— Supplemental Indenture, dated as of March 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-50).
4-B-51	— Supplemental Indenture, dated as of December 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-51).
4-B-52	— Supplemental Indenture, dated as of April 1, 1986, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-52).
4-B-53	— Supplemental Indenture, dated as of May 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-53).
4-B-54	— Supplemental Indenture, dated as of June 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-54).
4-B-55	— Supplemental Indenture, dated as of February 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-55).
4-B-56	— Supplemental Indenture, dated as of February 15, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-56).
4-B-57	— Supplemental Indenture, dated as of March 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-57).
4-B-58	— Supplemental Indenture, dated as of October 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1987, File No. 1-4928, as Exhibit 4-B-58).
4-B-59	— Supplemental Indenture, dated as of February 1, 1990, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1989, File No. 1-4928, as Exhibit 4-B-59).
*4-B-60	— Supplemental Indenture, dated as of March 1, 1990, supplementing said Mortgage.
*4-B-61	— Supplemental Indenture, dated as of May 1, 1990, supplementing said Mortgage.
*4-B-62	— Supplemental Indenture, dated as of May 15, 1990, supplementing said Mortgage.
*4-B-63	— Supplemental Indenture, dated as of March 1, 1991, supplementing said Mortgage.
10-A	— Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
10-B	— Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
10-C	— Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
10-D	— Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
*12	— Computation of Ratio of Earnings to Fixed Charges.
*24	— Consent of Independent Auditors.

EXHIBIT 12

DUKE POWER COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Dollars in Thousands)

	Year Ended December 31				
	1986	**1987**	**1988**	**1989**	**1990**
Earnings Before Income Taxes (1)	$ 880,692	$ 878,522	$ 827,732	$ 867,641	$ 790,546
Fixed Charges	269,991	251,812	254,622	266,497	297,116
Total	$1,150,683	$1,130,334	$1,082,354	$1,134,138	$1,087,662
Fixed Charges					
Interest on long-term debt	$ 249,313	$ 232,795	$ 230,403	$ 232,510	$ 255,334
Other interest	5,764	3,853	7,979	18,203	24,306
Amortization of debt discount, premium, and expense	3,190	4,572	4,658	4,677	4,998
Interest component of rentals	11,724	10,592	11,582	11,107	12,478
Fixed Charges	$ 269,991	$ 251,812	$ 254,622	$ 266,497	$ 297,116
Ratio of Earnings to Fixed Charges	4.26	4.49	4.25	4.26	3.66

(1) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

CITIZENSHIP
DUKE POWER
SERVICE