

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1991

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1991

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

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)

422 South Church Street
Charlotte, North Carolina

(Address of principal executive offices)

56-0205520

(IRS Employer Identification No.)

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	
7¾% Series B Due 2001	New York Stock Exchange
7¾% Series Due 2002	New York Stock Exchange
7¾% Series B Due 2002	New York Stock Exchange
7¾% Series Due 2003	New York Stock Exchange
8½% Series B Due 2003	New York Stock Exchange
9½% Series Due 2005	New York Stock Exchange
8¾% Series Due 2006	New York Stock Exchange
8½% Series Due 2007	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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at February 28, 1992 \$6,362,065,922

Number of shares of Common Stock, without par value, outstanding at February 28, 1992 204,701,398

Documents incorporated by reference:

The registrant has incorporated herein by reference certain sections of its proxy statement relating to the 1992 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

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 4,600,000 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 1991, the Company's electric revenues amounted to approximately \$3.8 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 1,662,000 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 \$475 million of the Company's revenues for 1991, 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, 1991, its sources of electric energy for 1991, and certain information presently projected for 1992:

<u>Source</u>	<u>Generating Capability — KW(a)</u>		<u>Generation — KWH</u> <u>(millions)</u>
	<u>Actual</u> <u>December 31, 1991</u>	<u>Projected</u> <u>December 31,</u> <u>1992</u>	<u>Actual</u> <u>1991</u>
Coal	7,316,000	7,510,000	26,455
Nuclear (b)	7,054,000	7,054,000	49,328
Hydro and other	3,281,000(c)	3,281,000(c)	1,552
Total (b)	<u>17,651,000</u>	<u>17,845,000</u>	77,335
Less: Other Catawba Joint Owners' share			12,280
Plus: Purchases from Other Catawba Joint Owners			8,525
Purchased power and net interchange			587
Total			<u>74,167</u>

(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 1991 and projected for 1992 give no effect to the joint ownership of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")
- (c) Includes Bad Creek and Jocassee hydroelectric stations at licensed generating capabilities of 1,065,000 KW and 610,000 KW, respectively.

Nantahala Power and Light Company (NP&L), which operates 11 hydroelectric stations and buys supplemental power to provide service to its 49,600 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.

In 1990 NP&L entered into an interconnection agreement with the Tennessee Valley Authority. The agreement provides for interconnected operations and transactions between the two systems including the purchase by NP&L of 200 MW of electricity for a four-year period beginning in 1991. The Company and NP&L also entered into an agreement whereby the latter will sell the 200 MW of electricity to the Company at cost. In 1991, the FERC approved both agreements, and transactions under these agreements commenced.

The Company also reached a bulk power sale agreement in 1987 to provide Carolina Power and Light (CP&L) 400 MW of electricity for a six-year period beginning in 1992. This proposed agreement was accepted for filing by the FERC in 1989. The Company and CP&L subsequently disagreed on whether the agreement was binding, and litigation was initiated before the FERC and the Wake County North Carolina Superior Court regarding this dispute. The Company and CP&L have settled the dispute and amended the agreement to reflect that settlement, which basically provides for an 18-month deferral in the implementation of the six-year contract period. The parties have terminated the litigation between them and the amended agreement has been filed with the FERC. FERC approval of the amendment is being contested by other parties.

According to industry statistics through 1990, the Company ranked first in the nation for the last 17 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 third and fourth most efficient in the nation in 1990. Statistics compiled by the Nuclear Regulatory Commission (NRC) on multi-unit nuclear plants indicate that the Catawba, Oconee and McGuire Nuclear Stations were ranked first, second and fifth, 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 23, 1991, the Company experienced its all-time peak load of 14,677,000 KW during unusually hot weather. The 1991-1992 winter peak load of 13,001,000 KW occurred on January 16, 1992. The 1990-1991 winter peak load of 12,778,000 KW occurred on January 23, 1991. The Company currently forecasts a 2.4% compound annual growth in peak load through 2005. This amount is not reduced by those future demand-side management program contributions considered resources for meeting peak demand. (See "Energy Management and Future Power Needs.")

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 NCMCA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company.

Rate requests filed by the Company in 1991 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in the Bad Creek Hydroelectric Station. Rate orders issued by the NCUC and PSC recognized costs of the Bad Creek Hydroelectric Station, including an amortization of costs deferred between commercial operation and the rate order, which the Company had requested. The wholesale customers challenged the Company's proposed rate increase and in 1991 the FERC issued an order that accepted the Company's proposed rates for filing, but suspended them until mid-1992. A negotiated settlement with these customers, which is consistent with the increase in retail rates, is pending FERC approval.

In the Company's most recent general rate case, the NCUC authorized a jurisdictional rate of return on common equity of 12.50% and the PSC authorized a jurisdictional rate of return on common equity of 12.25%.

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, beginning in 1983, the costs of abandonment of the Cherokee Nuclear Station. 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 authorized 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 authorized 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.

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. North Carolina adopted legislation assuring the legality of such adjustments, which contains a sunset provision effective June 30, 1997.

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 and Future Power Needs

The Company continues to engage in a comprehensive energy management program as part of its Integrated Resource Plan. 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 in excess of 1,500 MW of equivalent demand-side programs by the year 2000 that would otherwise have been new supply-side generation.

Demand-side management programs are becoming an integral part of meeting the Company's future power needs. These programs provide for load control through interruptible control features and by promoting energy efficiency. In return for participation in demand-side management programs, the Company's customers may be eligible to receive various incentives which help to reduce their electric bills. Currently, the demand-side management programs known as Industrial Interruptible Service and Residential Load Control, are projected to have the most impact on reducing the Company's peak demand. Other examples of demand-side management programs include promoting the use of Residential High Efficiency Heat Pumps, High Efficiency Air Conditioners and High Efficiency Refrigerators. In the 1991 rate orders, the NCUC and the PSC allowed the Company recovery of the costs for demand-side management programs and allowed the deferral for later recovery of certain demand-side management costs that exceed the level received in rates.

Through 1994, the Company expects to maintain a summer reserve margin of approximately 25% to 30% of its anticipated peak load requirements. These reserves will be maintained through a combination of generation resources, power purchases, and demand-side management programs. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

The Company's construction program and the estimated construction costs set forth below 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.

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 1992, 1993 and 1994 and for the three-year period 1992-1994, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1992	1993	1994	Total
Generation	\$203	\$282	\$388	\$ 873
Transmission	66	71	66	203
Distribution	274	290	301	865
Other	91	90	130	311
Total	<u>\$634</u>	<u>\$733</u>	<u>\$885</u>	<u>\$2,252</u>
Nuclear Fuel	<u>\$142</u>	<u>\$138</u>	<u>\$142</u>	<u>\$ 422</u>

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.

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 MW of electricity. Current plans are for the first CT to be operational as early as 1995. During 1991, the NCUC granted the Certificate of Public Convenience and Necessity and the North Carolina Division of Environmental Management issued a final air permit for the facility. Certain parties appealed the issuance of the air permit. Management believes the appeal will be denied.

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, 1991, nine coal-fired units with a generating capability of 1,022,000 KW had been returned to the system. It

is anticipated that two additional coal-fired generating units with generating capability of 194,000 KW will be returned to the system during 1992. The four units remaining in the PMP after 1992 represent 184,000 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 \$202 million. (For additional information with respect to purchased capacity levelization, see Note 3, "Notes to Consolidated Financial Statements.")

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, "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		
	1991	1990	1989	1991	1990	1989
Coal.....	34.2%	36.9%	34.7%	179.29*	180.61*	180.24*
Nuclear.....	63.8	60.5	63.3	55.00	55.65	59.56
Oil and Gas.....	—	—	—	—	—	—
All Fuels (cost based on weighted average).....	98.0	97.4	98.0	96.48	101.14	100.11
Hydroelectric*.....	2.0	2.6	2.0			
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>			

* 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 south-western 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:

<u>Nuclear Station</u>	<u>Uranium Material</u>	<u>Conversion Service</u>	<u>Enrichment Service</u>	<u>Fabrication Service</u>
Oconee	1995	1994	1995	1997
McGuire.....	1995	1994	1995	1998
Catawba	1995	1994	1995	1998

Uranium material requirements will be met through various supplier contracts, with uranium material produced primarily 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 1991 at an average price of approximately \$24 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 \$475 million through 1991. 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 1992-1993 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$15.9 million, including \$8.6 million in 1992 and \$7.3 million in 1993. 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 no later than January 1, 1998 is currently being developed. Estimated costs to implement phase two of the requirements are expected to be approximately \$1 billion in capital expenditures and approximately \$81 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 *de minimus* contributor at one Superfund site and may be involved at other sites at which materials were discharged but it 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 stress corrosion cracking (SCC). Because the March 1989 rupture occurred near the bottom of the steam generator and not in an area where SCC usually occurs, that occurrence was considered to be a unique event. All other steam generator tubes in Unit 1 of the McGuire Nuclear Station were examined and no other abnormalities of that type were detected at that time. In January 1992, however, McGuire Unit 1 developed a tube leak in the same region of the steam generator where the 1989 tube rupture occurred. As a result, all tubes at McGuire Units 1 and 2 with similar indications were plugged, thereby removing them from service. The NRC authorized the return of McGuire Unit 1 to service in February 1992.

In addition, the steam generators at the McGuire and Catawba Nuclear Stations are of a certain design which is known to be susceptible to SCC on the inside and outside of the steam generator tubes, typically in the tight U-bends, at the tube support plates and where the tubes are attached to the tubesheets. Units 1 and 2 of the McGuire Nuclear Station and Unit 1 of the Catawba Nuclear Station have experienced significant SCC of this type. Catawba Unit 2, which has certain design differences and came into service at a later date, has not yet shown the degree of SCC which has occurred in McGuire Units 1 and 2 and Catawba Unit 1. It is, however, too early in the life of Catawba Unit 2 to determine the extent to which SCC will be a problem.

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 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 and has necessitated that the Company plan for the replacement of steam generators at McGuire Units 1 and 2, and Catawba Unit 1. Although the sequence and schedule for the replacement of the steam generators has not been established, the Company anticipates that replacement may begin as early as 1995, with a goal of completing the replacement of all three units by the end of 1997. The estimated cost of replacement will be \$150 million to \$200 million per unit.

The Company, on its own behalf and, in connection with its Catawba Nuclear Station, on behalf of NCEMC, NCMPPA, 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 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. Effective with the implementation of new retail rates in 1991, the NCUC and the PSC granted the Company recovery of the estimated site-specific decommissioning costs through retail rates.

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 \$1.25 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 \$22 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 \$1.25 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 \$2 million, \$2.9 million and \$3.1 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.

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 through 2027 for the Bad Creek Pumped Storage Project which uses Lake Jocassee as its lower reservoir and has a nameplate rating of 1,065,000 KW. 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. In addition, the Company is engaged in continuing competition with various natural gas providers.

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 and providing engineering and technical services. Subsidiary and non-utility activities contributed 5 percent of total Company earnings in 1991.

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.

On December 31, 1991, the Company consummated an agreement with the City of Spartanburg, South Carolina, which resulted in the Company discontinuing the ownership and operation of a transit system in Spartanburg. Similar agreements were consummated with the City of Anderson, South Carolina in 1989 and the cities of Durham and Greensboro, North Carolina earlier in 1991. As a result of the divestiture of the Spartanburg transit system, the Company no longer has any obligations to provide transit service in any cities. These transactions will not have a material impact on the results of operations or on the financial position of the Company.

Employees

At December 31, 1991, the Company employed approximately 18,200 full-time persons, exclusive of approximately 650 full-time employees of subsidiaries. About 2,124 electrical operating employees are represented by the International Brotherhood of Electrical Workers (IBEW) with which the Company had a labor agreement which expired on October 1, 1991. A new agreement has been submitted by the IBEW bargaining committee to the membership for a ratification vote with a recommendation for ratification.

The Company has been engaged in a concentrated effort to more efficiently and effectively utilize its resources through better work practices. The implementation of these practices has resulted in a reduction in workforce. The number of full-time employees has decreased by approximately 1,200 since December 31, 1990. This trend is expected to continue primarily through employee attrition. A reorganization in 1991 recast the business units of the Company in a structure which will focus on more effectively serving its customers and meeting their energy needs. This reorganization included decentralizing its construction and engineering functions in order to provide a more focused effort on efficient operation and plant maintenance and less emphasis on new plant construction.

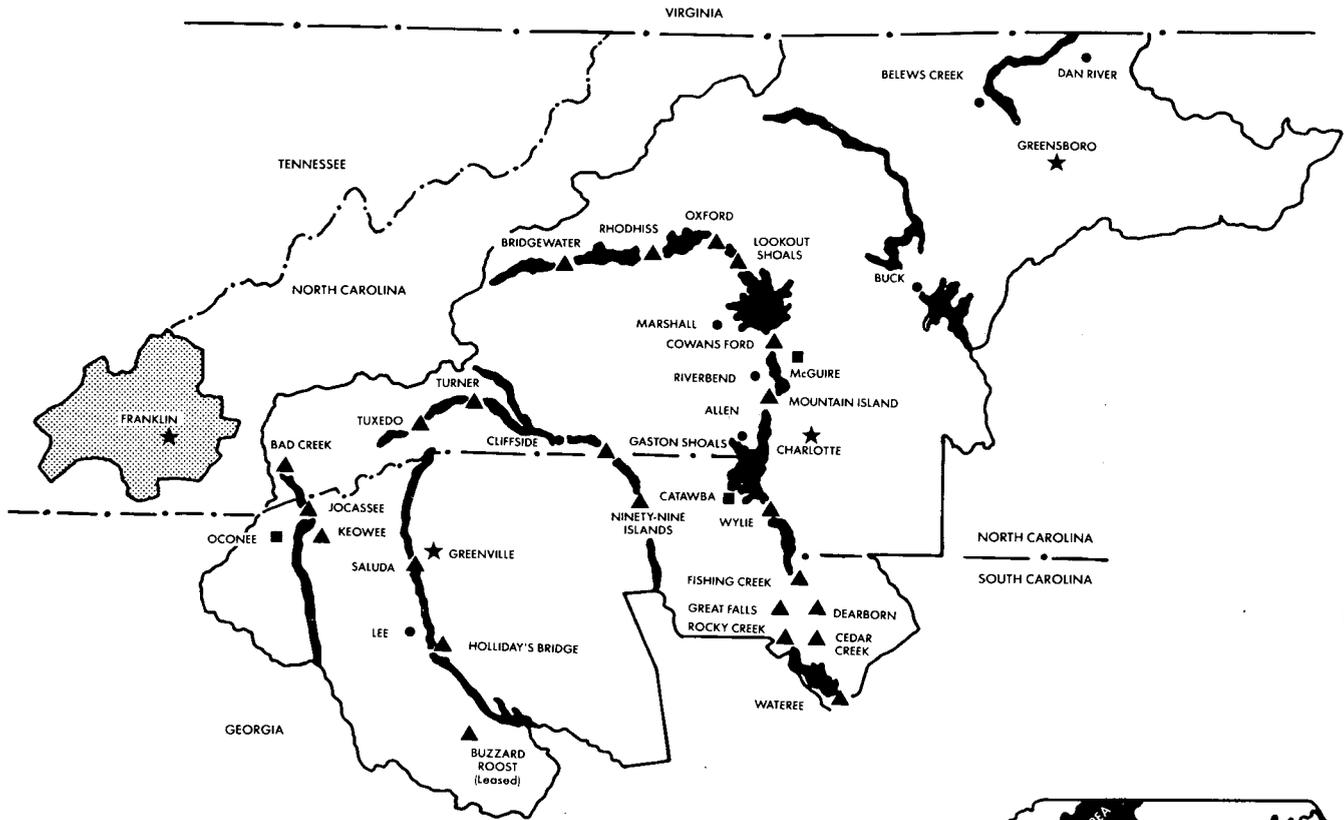
Subsequent Events

On February 10, 1992 the Company redeemed \$95,623,000 principal amount of its First and Refunding Mortgage Bonds, 9³/₄% Series Due 2004. To replace these securities, the Company sold \$100 million in First and Refunding Mortgage Bonds through its medium-term notes facility with rates of 7.37% to 7.41% maturing in 2004.

On March 27, 1992 the Company also redeemed \$120,610,000 principal amount of its First and Refunding Mortgage Bonds, 9³/₈% Series Due 2008 and \$50,000,000 principal amount of its First and Refunding Mortgage Bonds, 10¹/₈% Series B Due 2015. On April 10, 1992 the Company also called for redemption \$92,800,000 principal amount of its First and Refunding Mortgage Bonds, 9¹/₂% Series Due 2005. On March 11, 1992, the Company issued \$75,000,000 principal amount of its First and Refunding Mortgage Bonds, 8% Series Due 2004, \$100,000,000 principal amount of its First and Refunding Mortgage Bonds, 8⁵/₈% Series Due 2022 and \$100,000,000 First and Refunding Mortgage Bonds with an interest rate of 7¹/₂% maturing in 1999, for the purpose of replacing the securities redeemed or called for redemption.

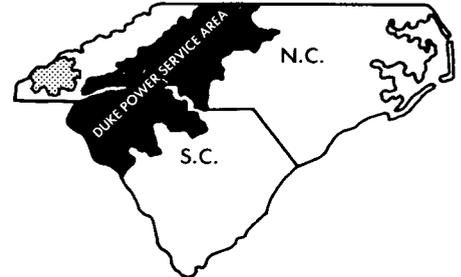
In addition, the Company called for redemption on April 6, 1992 all outstanding shares of its Cumulative Preference Stock, 6.75% Convertible Series AA.

Duke Power Service Area



LEGEND

- ★ REGION OFFICE
- STEAM ELECTRIC STATION
- ▲ HYDROELECTRIC STATION
- NUCLEAR ELECTRIC STATION
- ⊠ NANTHALA



DUKE POWER COMPANY

OPERATING STATISTICS

Year Ended December 31

	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
Sources of Electric Energy					
Millions of kilowatt-hours:					
Generated — net output:					
Coal.....	26,455	27,262	26,175	23,930	23,617
Nuclear (A).....	49,328	44,649	47,773	47,934	44,810
Hydro.....	1,545	1,879	1,520	402	1,454
Oil and gas.....	7	53	27	32	(1)
Total generation.....	<u>77,335</u>	<u>73,843</u>	<u>75,495</u>	<u>72,298</u>	<u>69,880</u>
Purchased power and net interchange (B).....	587	1,531	1,158	1,385	928
Total output.....	<u>77,922</u>	<u>75,374</u>	<u>76,653</u>	<u>73,683</u>	<u>70,808</u>
Less: Other Catawba Joint Owners' share.....	12,280	11,735	12,566	12,166	11,961
Plus: Purchases from Other Catawba Joint Owners.....	8,525	8,658	9,809	10,244	10,872
Total sources of energy.....	<u>74,167</u>	<u>72,297</u>	<u>73,896</u>	<u>71,761</u>	<u>67,719</u>
Line loss and company usage.....	(4,261)	(3,682)	(4,892)	(4,614)	(4,045)
Total energy sales billed (C).....	<u>69,906</u>	<u>68,615</u>	<u>69,004</u>	<u>67,147</u>	<u>65,674</u>
Average Cost Per Ton of Coal Burned.....	\$45.21	\$45.49	\$45.13	\$44.27	\$45.42
Electric Energy Sales					
Millions of kilowatt-hours:					
Residential.....	17,918	17,221	16,895	16,744	16,580
General service.....	15,586	15,032	14,206	13,634	13,026
Industrial					
Textile.....	11,315	11,130	11,443	11,134	11,236
Other.....	14,955	14,764	14,491	14,020	13,738
Wholesale and other energy sales (B)(D).....	10,132	10,468	11,969	11,615	11,094
Total energy sales billed.....	<u>69,906</u>	<u>68,615</u>	<u>69,004</u>	<u>67,147</u>	<u>65,674</u>
Unbilled energy sales.....	(19)	(540)	370	165	—
Total energy sales (C).....	<u>69,887</u>	<u>68,075</u>	<u>69,374</u>	<u>67,312</u>	<u>65,674</u>
Electric Revenue					
Thousands of dollars:					
Residential.....	\$1,272,322	\$1,216,945	\$1,198,705	\$1,205,471	\$1,226,529
General service.....	921,337	886,480	851,422	833,709	829,466
Industrial					
Textile.....	475,191	476,493	493,933	495,100	511,026
Other.....	668,765	654,551	653,830	651,420	661,736
Wholesale and other energy sales (B)(D).....	441,777	391,803	449,545	463,793	477,438
Other electric revenues.....	37,568	78,859	45,520	(5,083)	17,845
Total electric revenues (C)....	<u>\$3,816,960</u>	<u>\$3,705,131</u>	<u>\$3,692,955</u>	<u>\$3,644,410</u>	<u>\$3,724,040</u>
Number of Customers — End of Year					
Residential.....	1,415,605	1,391,336	1,362,118	1,339,206	1,302,819
General service.....	230,372	224,642	216,960	210,122	202,482
Industrial					
Textile.....	1,385	1,398	1,408	1,424	1,408
Other.....	7,255	7,325	7,310	7,232	7,119
Wholesale and other energy sales (B).....	7,605	7,405	7,249	7,133	6,886
Total customers.....	<u>1,662,222</u>	<u>1,632,106</u>	<u>1,595,045</u>	<u>1,565,117</u>	<u>1,520,714</u>
Residential Customer Statistics					
Average number for year.....	1,409,775	1,383,799	1,356,088	1,327,452	1,292,293
Average annual use — KWH.....	12,710	12,444	12,459	12,614	12,830
Average annual billing.....	\$902.50	\$879.42	\$883.94	\$908.11	\$949.11
Average Annual Billed Revenue Per KWH					
Residential.....	7.10 ^e	7.07 ^e	7.09 ^e	7.20 ^e	7.40 ^e
General service.....	5.91 ^e	5.90 ^e	5.99 ^e	6.11 ^e	6.37 ^e
Industrial.....	4.35 ^e	4.37 ^e	4.43 ^e	4.56 ^e	4.70 ^e
Wholesale and other energy sales (B).....	4.36 ^e	3.74 ^e	3.76 ^e	3.99 ^e	4.30 ^e

(A) Includes 100% of Catawba generation.

(B) Purchased power and net interchange, kilowatt-hour sales, electric revenue, number of customers, and average annual billed revenue per KWH include a reclassification for certain power transactions previously classified as net interchange and purchased power per a recent FERC order.

(C) Does not reflect operating statistics, kilowatt-hour sales and revenues of Nantahala Power and Light Company.

(D) Includes sales to Nantahala Power and Light Company.

EXECUTIVE OFFICERS OF THE COMPANY

<u>Name</u>	<u>Position</u>	Service In Such Capacity Since	Age*
W. S. Lee**	Chairman of the Board and President (Chief Executive Officer)	1982	62
W. H. Grigg**	Vice Chairman of the Board, Corporate Group	1991	59
W. A. Coley**	Executive Vice President, Customer Group	1991	48
Steve C. Griffith, Jr.**	Executive Vice President and General Counsel	1991	58
R. B. Priory**	Executive Vice President, Power Generation Group	1991	45
Richard J. Osborne.....	Vice President and Chief Financial Officer	1991	40
David L. Hauser.....	Controller (Chief Accounting Officer)	1987	40

OTHER OFFICERS

Donald H. Denton, Jr.	Senior Vice President, Planning and Operating
Hal B. Tucker	Senior Vice President, Nuclear Generation Department
James R. Bavis	Vice President, Human Resources
Paul F. Briggs, Jr.	Vice President, Winston-Salem Area
J. Kenneth Clark	Vice President, Corporate Communications
Robert L. Dick	Vice President, Corporate Excellence
E. O. Ferrell, III.....	Vice President, Northern Region
William L. Foust	Vice President, Charlotte Area
James E. Grogan.....	Vice President, Generation Services Department
James W. Hampton.....	Vice President, Oconee Nuclear Site
Donald E. Hatley.....	Vice President, Public Affairs
Jim R. Hicks.....	Vice President, Power Delivery
J. W. Hillhouse, Jr.	Vice President, Hickory Area
John P. Holland.....	Vice President, Marketing
F. Alfred Jenkins	Vice President, Customer Planning
John P. Kincaid.....	Vice President, Greenville Area
John F. Lomax	Vice President, Southern Region
David H. Maner	Vice President, Greensboro Area
Maurice D. McIntosh.....	Vice President, Fossil & Hydro Generation Department
Ted C. McMeekin	Vice President, McGuire Nuclear Site
John P. O'Keefe	Vice President, Taxes
William F. Reinke.....	Vice President, System Planning & Operating
William T. Robertson	Vice President, Procurement, Services and Materials
William R. Stimart.....	Vice President, Rates and Regulatory Affairs
George E. Stubbins.....	Vice President, Information Systems
Michael S. Tuckman	Vice President, Catawba Nuclear Site
Fred E. West, Jr.	Vice President, Central Region
Sue A. Becht	Treasurer
Lewis F. Camp, Jr.	Secretary and Associate General Counsel
Virginia M. Britton	Assistant Controller
Carolyn R. Duncan	Assistant Secretary
Sherwood L. Love	Assistant Treasurer
Phyllis T. Simpson	Assistant Secretary

*As of February 1, 1992.

**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.

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. — "Energy Management and Future Power Needs."

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 1991.

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, 1991, there were approximately 119,896 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	Low
1991 by Quarter			
Fourth.....	\$0.43	\$35	\$30 ¹ / ₈
Third.....	0.43	32 ¹ / ₂	27 ³ / ₈
Second.....	0.41	29 ³ / ₈	27 ¹ / ₄
First.....	0.41	30 ³ / ₄	26 ³ / ₄
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

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

Selected Financial Data

	1991	1990	1989	1988	1987
Condensed consolidated statements of income (thousands)					
Electric revenues (a)	\$ 3,816,960	\$ 3,705,131	\$3,692,955	\$3,644,410	\$3,720,000
Electric expenses (a)	<u>3,110,137</u>	<u>3,062,348</u>	<u>2,988,355</u>	<u>3,014,859</u>	<u>3,060,000</u>
Electric operating income	706,823	642,783	704,600	629,551	657,957
Other income	<u>150,905</u>	<u>146,740</u>	<u>101,826</u>	<u>46,211</u>	<u>72,902</u>
Income before interest deductions	857,728	789,523	806,426	675,762	730,859
Interest deductions	274,105	251,335	234,815	227,631	230,661
Cumulative effect of accrual of unbilled revenues	—	—	—	102,255	—
Net income	<u>583,623</u>	<u>538,188</u>	<u>571,611</u>	<u>550,386</u>	<u>500,198</u>
Dividends on preferred and preference stocks	<u>54,683</u>	<u>52,616</u>	<u>52,477</u>	<u>53,329</u>	<u>54,264</u>
Earnings for common stock	<u>\$ 528,940</u>	<u>\$ 485,572</u>	<u>\$ 519,134</u>	<u>\$ 497,057</u>	<u>\$ 445,934</u>
Common stock data (b)					
Shares of common stock — year-end (thousands)	204,699	202,584	202,563	202,544	202,517
— average (thousands)	203,431	202,570	202,554	202,533	202,501
Per share of common stock					
Earnings (c)	\$2.60	\$2.40	\$2.56	\$2.45	\$2.20
Dividends	\$1.68	\$1.60	\$1.52	\$1.44	\$1.37
Book value — year-end	\$19.86	\$18.84	\$18.05	\$17.01	\$15.98
Market price — high-low	\$35-26 ³ / ₄	\$32 ³ / ₈ -25 ¹ / ₂	\$28 ¹ / ₄ -21 ³ / ₈	\$24 ¹ / ₂ -21 ¹ / ₈	\$25 ⁷ / ₈ -19 ¹¹ / ₁₆
— year-end	\$35	\$30 ⁷ / ₈	\$28 ¹ / ₁₆	\$23 ¹ / ₈	\$21 ⁷ / ₁₆
Balance sheet data (thousands)					
Total assets	\$10,470,615	\$10,083,507	\$9,542,398	\$8,890,605	\$8,511,794
Long-term debt	\$ 3,159,575	\$ 3,102,746	\$2,822,442	\$2,728,794	\$2,723,382
Preferred stocks with sinking fund requirements	\$ 228,650	\$ 239,800	\$ 247,825	\$ 255,850	\$ 263,875

- (a) Electric revenues, electric expenses, kilowatt-hour sales and Net interchange and purchased power include a reclassification for certain power transactions previously classified as Net interchange and purchased power per a recent FERC order.
- (b) All common stock data reflects the two-for-one split of common stock on September 28, 1990.
- (c) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

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

Results Of Operations

Earnings and Dividends

Earnings per share increased to \$2.60 in 1991 compared to \$2.40 in 1990. The increase in the current year was primarily due to higher kilowatt-hour sales. Higher depreciation expense and interest expense partially offset the benefit of higher kilowatt-hour sales.

Earnings per share increased over the past three years at an annual rate of 1 percent to \$2.60 in 1991 from \$2.56 in 1989. Over the past five years, earnings per share increased at an annual rate of 4 percent from \$2.20 in 1987 to \$2.60 in 1991. (Earnings per share for periods prior to 1990 have been restated to reflect the two-for-one split of Duke Power common stock effective on September 28, 1990.) The total Company's earned return on average common equity was 13.5 percent in 1991 compared to 13.1 percent in 1990 and 14.7 percent in 1989.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from \$1.52 in 1989 to \$1.68 in 1991, rising at an annual rate of 5 percent. Indicated annual dividends per share increased to \$1.72.

Revenues and Sales

In 1989 to 1991, revenues increased at an annual rate of 2 percent principally due to higher kilowatt-hour sales to the retail sector customers.

Kilowatt-hour sales for 1991 increased 3 percent compared to 1990. An increase in sales to the retail sector was partially offset by a decrease in special sales to other utilities.

Sales billed to residential and general service customers increased 4 percent. For the first quarter of 1991, sales to textile customers decreased 9 percent compared to the first quarter of 1990; however, an increase in textile sales for the last three quarters of 1991 resulted in a 2 percent increase for the year compared to 1990.

Operating Expenses

Non-fuel operating and maintenance expenses increased only 1 percent from 1990 to 1991. Higher fees paid to the Nuclear Regulatory Commission and one-time costs associated with reorganizing the Company's corporate structure were substantially offset by lower maintenance expenses at both fossil and nuclear plants.

Non-fuel operating and maintenance expenses increased at an annual rate of 7 percent from 1989 to 1991. Higher fees paid to the Nuclear Regulatory Commission, greater retirement plan expenses and one-time costs associated with reorganizing the Company's corporate structure were the primary reasons for the increase.

From 1989 to 1991, Net interchange and purchased power decreased at an annual rate of 2 percent. The decline was substantially due to a decrease in contractual obligations to purchase power from the other Catawba joint owners.

Fuel expense was flat from 1989 to 1991. Higher production requirements were offset by declining fuel prices.

From 1990 to 1991, Depreciation and amortization expense increased 6 percent primarily due to additional equipment needed on the Company's electric delivery system to meet the needs of new and existing customers. Depreciation and amortization expense increased at an annual rate of 2 percent from 1989 to 1991.

Other Income and Interest Deductions

Allowance for funds used during construction (AFUDC) represented 13 percent of earnings for common stock in 1991, decreasing from 23 percent in 1990 and 15 percent in 1989. The decrease in the amount of AFUDC in 1991 compared to 1990 is a result of the completion of the Bad Creek Hydroelectric Station. AFUDC is expected to decrease in 1992 and then gradually increase as construction on the Lincoln Combustion Turbine Station begins. (For additional information on the Lincoln Combustion Turbine Station, see Capital Needs "Meeting Future Power Needs," page 19.)

Included in Other, net is a net of tax carrying charge on costs incurred on the Bad Creek Hydroelectric Station after commercial operation but prior to recovery of costs through rates. This carrying charge represented 7 percent of earnings for 1991 and will be amortized over 3 years.

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 in 1991 and 1990 and 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 of 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 recovers the accumulated balance including the carrying charge when the declining purchased capacity payments drop below the levelized revenues. (For additional information on purchased capacity levelization, see Capital Needs "Purchased Capacity Levelization," page 19.)

The Company has continued to pursue diversified activities through its subsidiaries and non-utility operations. The overall contribution of these operations to the Company's earnings was 5 percent for 1991 and 1990 and 7 percent for 1989. The major sources of subsidiary and non-utility earnings are investment income and the activities of Crescent Resources, Inc., the Company's land management and development subsidiary.

Interest on long-term debt increased 6 percent from 1990 to 1991. Issuances of long-term debt in 1990 and 1991 accounted for the increase. From 1989 to 1991, Interest on long-term debt increased at an annual rate of 8 percent.

Rate Matters

In 1991, the average price of electricity charged to retail customers declined 1.6 percent from 1986. During 1991, the Company filed its first request for a rate increase in five years. Since the last general rate increase in 1986, the Company's retail rates have been lowered twice.

On April 12, 1991, the Company filed a request with the North Carolina Utilities Commission (NCUC) seeking a 9.22 percent rate increase primarily to recover costs associated with the Bad Creek Hydroelectric Station. On May 17, 1991, the Company filed a similar request with The Public Service Commission of South Carolina (PSCSC) seeking a 7.29 percent increase. In November 1991, the NCUC issued a rate order granting the Company \$100.1 million in additional revenues, a 4.15 percent increase. The NCUC granted a 12.50 percent rate of return on common equity. The PSCSC, in a November 1991 rate order, granted the Company \$30.2 million in additional revenues, a 3.0 percent increase. The PSCSC granted a 12.25 percent rate of return on common equity. In September 1991, the Company filed a request with the Federal Energy Regulatory Commission (FERC) seeking a 7.47 percent rate increase for its wholesale customers, who represent approximately 2 percent of the Company's total revenues. The wholesale customers challenged the Company's proposal and in November 1991, the FERC issued an order that accepted the Company's proposed rates for filing, but suspended them until April 19, 1992. A negotiated settlement with these customers, which is consistent with the increase in retail rates, is pending FERC approval.

The Public Staff of the NCUC, joined by two other parties, appealed an order on remand from the NCUC, contesting the basis on which the NCUC determined the fair rate of return for the Company's 1986 rate order. The Company is of the opinion that the NCUC 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 contractual agreements (See Note 3 to the Consolidated Financial Statements). The basic contention in each proceeding is that certain calculations affecting bills under these agreements should be performed differently. Although these matters may be material, the items are covered by these 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 these agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

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.

Cash From Operations

In 1991 net cash provided by operating activities accounted for 77 percent of total cash from operating, financing and investing activities compared to 66 percent in 1990. An increase in earnings and the completion of the Bad Creek Hydroelectric Station, partially offset by cash required for refinancings, accounted for the increase in this percentage.

Financing and Investing Activities

The Company's capital structure at year-end 1991 was 51 percent common equity, 40 percent long-term debt, and 9 percent preferred and preference stocks.

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. These proceeds 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.

During 1991 the Company obtained proceeds from the issuance of \$300 million in First and Refunding Mortgage Bonds maturing in 2021. Part of these proceeds was used to refund \$100 million of long-term debt. The Company also issued \$125 million in bonds through its medium-term notes facility. These bonds, which have maturities of three to four years, were used to refund \$125 million of long-term debt. As of December 31, 1991, the Company's bonds were rated "double A" by Moody's Investors Service and Fitch Investors Service and "double A minus" by Standard & Poor's Corp. and Duff & Phelps.

During 1992 the Company anticipates issuing approximately \$50 million in preferred stock and replacing \$100 million of long-term debt, which matures in 1992. In January 1992 the Company issued call notices to redeem on February 10, 1992, its 9¾ percent First and Refunding Mortgage Bonds due in May 2004. To replace these bonds, the Company sold \$100 million in bonds through its medium-term notes facility with rates of 7.37 percent to 7.41 percent maturing in 2004. The Company also anticipates refinancings of higher cost debt and preferred stock when such transactions result in overall cost savings.

Effective April 1, 1991, the Company began issuing common stock in lieu of purchasing shares on the open market for its various stock purchase plans. Smaller than anticipated capital expenditures eliminated the need for additional equity financings, and the Company discontinued issuances of common stock, effective December 1, 1991, and resumed open market purchases to satisfy the requirements of the various stock purchase plans. The Company will continue to issue common stock for preference stock conversions.

During 1990 the Board of Directors declared a two-for-one split of Duke Power common stock. The Company issued common stock to satisfy the requirements for the stock split and for the conversion rights of preference stock.

The Company's embedded cost of long-term debt for 1991 decreased to 8.72 percent compared to 8.78 percent for 1990. During 1991, two \$50 million series of long-term debt with 1992 maturity dates and with interest rates of 4½ percent and 4¼ percent were reclassified to current liabilities. The Company's financings in December 1991 offset somewhat by such reclassification accounted for the decreased percentage. From 1989 to 1990, the Company's embedded cost of long-term debt increased from 8.71 percent to 8.78 percent because of issuances of long-term debt during 1990. The embedded cost of preferred stock declined to 7.48 percent for 1991 compared to 7.74 percent for 1990 and 7.86 percent for 1989 reflecting the impact of declining dividend rates on two series of preferred stocks with adjustable dividend rates.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$800 million and retirements of \$80 million resulted in an increase in gross plant of \$720 million in 1991.

Since January 1, 1989, additions to property and nuclear fuel of \$2.9 billion and retirements of \$271 million have resulted in an increase in gross plant of \$2.7 billion.

Construction Expenditures

Plant construction costs for generating facilities, including AFUDC, decreased from \$388 million in 1989 to \$232 million in 1991. The decrease in plant construction costs from 1989 to 1991 was primarily due to the completion of the Bad Creek Hydroelectric Station. Units 1 and 2 began commercial operation on May 15, 1991. Units 3 and 4 began commercial operation on September 3 and 13, 1991, respectively. Construction costs for distribution plant, including AFUDC, decreased from \$310 million in 1989 to \$275 million in 1991.

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

Church Street Capital Corp., a wholly owned subsidiary of Duke Power Company, provides for central management of funds for the consolidated group. As of December 31, 1991, the consolidated group had approximately \$28 million in intermediate-term investments and \$92 million in short-term investments.

Fixed Charges Coverage

Fixed charges coverage increased to 3.85 times for 1991 compared to 3.66 times in 1990 using the SEC method. Fixed charges coverage, excluding AFUDC and the return on purchased capacity levelization, was 3.46 times in 1991 compared to 3.15 times in 1990 and to the Company's goal of 3.5 times.

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 \$202 million. (For additional information with respect to purchased capacity levelization, see Note 3 to the Consolidated Financial Statements.)

Meeting Future Power Needs

Projected construction and nuclear fuel costs, both including AFUDC, are \$2.3 billion and \$422 million, respectively, for 1992 through 1994. Projected construction costs for generating facilities for 1992 through 1994 will reflect the commencement of work on the new Lincoln Combustion Turbine Station as discussed below.

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 1995. In December 1991, the Company was issued a final air permit by the North Carolina Division of Environmental Management.

Demand-side management programs are becoming an integral part of meeting the Company's future power needs. These programs benefit the Company and its customers by providing for load control through interruptible control features and by promoting energy efficiency. In return for participation in demand-side management programs, the Company's customers may be eligible to receive various incentives which help to reduce their electric bills. Currently, the demand-side management programs Industrial Interruptible Service and Residential Load Control, are projected to have the most impact on reducing the Company's peak demand. Other examples of demand-side management programs include promoting the use of Residential High Efficiency Heat Pumps, High Efficiency Air Conditioners and High Efficiency Refrigerators. In the November 1991 rate orders, the NCUC and the PSCSC allowed the Company recovery of the costs for demand-side management programs and allowed the deferral for later recovery of certain demand-side management costs that exceed the level received in rates.

While the Company improved its financial performance in 1991 compared to 1990, the ability to maintain and improve its current level of earnings will depend to a large extent on the ability of the Company to control costs, on the outcome of various legislative and regulatory activities, on the success of non-regulated activities, and on the economic conditions of the Piedmont Carolinas.

The Company has been engaged in a concentrated effort to more efficiently and effectively utilize its resources through better work practices. The implementation of these practices has resulted in a reduction in workforce. The number of full-time employees (excluding subsidiaries and affiliates) has decreased from 19,449 at year-end 1990 to 18,187 at year-end 1991. Future reductions in workforce are expected to continue primarily through employee attrition. A reorganization in 1991 recast the business units of the Company in a structure which will focus on more effectively serving its customers and meeting their energy needs. This reorganization included decentralizing its construction and engineering functions in order to provide a more focused effort on efficient operation and plant maintenance and less emphasis on new plant construction.

On December 31, 1991, the Company consummated an agreement with the City of Spartanburg, South Carolina, which resulted in the Company discontinuing the ownership and operation of a transit system in Spartanburg. Similar agreements were consummated with the City of Anderson, South Carolina in 1989 and the cities of Durham and Greensboro, North Carolina earlier in 1991. As a result of the divestiture of the Spartanburg transit system, the Company no longer has any obligations to provide transit service in any cities. These transactions will not have a material impact on the results of operations or on the financial position of the Company.

In 1990 Nantahala Power and Light Company (NP&L), a subsidiary of the Company, entered into an interconnection agreement with the Tennessee Valley Authority (TVA). 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. The Company and NP&L also entered into an agreement whereby NP&L will sell the 200-megawatts of electricity to the Company at cost. In May 1991, the FERC approved both agreements. Transactions under these agreements commenced in 1991.

The Company also reached a bulk power sale agreement in 1987 to provide Carolina Power and Light (CP&L) 400-megawatts of electricity for a six-year period beginning in 1992. This proposed agreement was accepted for filing by the FERC in March of 1989. The Company and CP&L subsequently disagreed on whether the agreement was binding, and litigation was initiated before the FERC and the Wake County North Carolina Superior Court regarding this dispute. The Company and CP&L have settled the dispute and amended the agreement to reflect that settlement, which basically provides for an 18-month deferral in the implementation of the six-year contract period. The parties have terminated the litigation between them and the amended agreement has been filed with the FERC. FERC approval of the agreement is being contested by other parties.

The Financial Accounting Standards Board has issued a

statement that will require certain health care and life insurance benefits for retired employees (postretirement benefits) to be recognized as earned during the years that employees receive service, replacing the current cash (pay-as-you-go) method of accounting. An unrecognized transition obligation of approximately \$250 million will result from the adoption of this standard. This obligation, which will be amortized over twenty years, represents the accumulated difference between recognizing the cost of these benefits as earned versus recognition on a pay-as-you-go basis. An annual postretirement benefit cost of approximately \$40 million, which includes the amortization of the transition obligation, will result from the adoption of this standard. This is compared to a cost of \$12 million in 1991 which recognized these costs as paid. The transition obligation and the annual cost of providing postretirement benefits are reflected in rates effective November 1991. The Company will implement this standard in 1992 thereby matching the inclusion of these costs in rates with the costs associated with the new standard. Under the terms of its benefit plans, the Company reserves the right to change, modify or terminate the plans. (For additional information with respect to postretirement benefits, see Note 11 to the Consolidated Financial Statements.)

The Clean Air Act Amendments of 1990 require electric utilities to reduce aggregate annual 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 phase begins 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. The Company is currently working on a detailed compliance plan that must be filed and approved by the Environmental Protection Agency by 1995. Based on a preliminary compliance plan, the estimated costs to implement phase two of the requirements are expected to be approximately \$1 billion in capital expenditures and approximately \$81 million annually in operations and maintenance expenses stated in year 2000 dollars.

Stress corrosion cracking (SCC) has occurred in steam generators of a certain design, including those at the McGuire and Catawba Nuclear Stations. Catawba Unit 2, which has certain design differences and came into service at a later date, has not yet shown the degree of SCC which has occurred in McGuire Units 1 and 2 and Catawba Unit 1. It is, however, too early in the life of Catawba Unit 2 to determine the extent to which SCC will be a problem. 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 it is difficult to predict the extent to which future remedial measures will be required. SCC could result in possible reductions in plant output and is expected to result in eventual replacement of steam generators at the McGuire and Catawba Stations well before the end of their 40-year design life. The Company has begun planning for the replacement of the steam generators. 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 steam 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 replacements, and for punitive damages related to the fact that Westinghouse concealed this information.

Item 8. Financial Statements and Supplementary Data.

DUKE POWER COMPANY

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Consolidated Statements of Income

Dollars in Thousands	Year ended December 31,	1991	1990	1989
Electric revenues (Notes 1, 2 and 14)		<u>\$3,816,960</u>	<u>\$3,705,131</u>	<u>\$3,690,000</u>
Electric expenses				
Operation				
Fuel used in electric generation (Note 1)		657,725	660,298	660,212
Net interchange and purchased power (Notes 3 and 14)		545,840	565,034	567,805
Wages, benefits and materials		622,121	564,624	508,743
Maintenance of plant facilities		354,679	403,831	348,944
Depreciation and amortization (Notes 1 and 10)		431,624	405,762	410,938
General taxes		204,688	197,087	184,134
Income taxes (Notes 1 and 4)		293,460	265,712	307,579
Total electric expenses		<u>3,110,137</u>	<u>3,062,348</u>	<u>2,988,355</u>
Electric operating income		<u>706,823</u>	<u>642,783</u>	<u>704,600</u>
Other income (Notes 1, 4 and 13)				
Allowance for equity funds used during construction		50,704	79,176	61,347
Other, net		102,884	54,210	28,930
Income taxes — other, net		(25,472)	(15,284)	(9,053)
Income taxes — credit		22,789	28,638	20,602
Total other income		<u>150,905</u>	<u>146,740</u>	<u>101,826</u>
Income before interest deductions		<u>857,728</u>	<u>789,523</u>	<u>806,426</u>
Interest deductions				
Interest on long-term debt		274,662	260,333	230,000
Other interest		18,834	21,296	10,000
Allowance for borrowed funds used during construction (credit) (Note 1)		(19,391)	(30,294)	(18,877)
Total interest deductions		<u>274,105</u>	<u>251,335</u>	<u>234,815</u>
Net income		<u>583,623</u>	<u>538,188</u>	<u>571,611</u>
Dividends on preferred and preference stocks		<u>54,683</u>	<u>52,616</u>	<u>52,477</u>
Earnings for common stock		<u>\$ 528,940</u>	<u>\$ 485,572</u>	<u>\$ 519,134</u>
Common stock data (Note 6)				
Average shares outstanding (thousands)		203,431	202,570	202,554
Earnings per share		\$2.60	\$2.40	\$2.56
Dividends per share		\$1.68	\$1.60	\$1.52

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Dollars in Thousands	Year ended December 31,	1991	1990	1989
Cash flows from operating activities				
Net income		\$ 583,623	\$ 538,188	\$ 571,611
Adjustments to reconcile net income to net cash provided by operating activities:				
Non-cash items				
Depreciation and amortization (Notes 1 and 10)		619,823	576,268	605,105
Deferred income taxes and investment tax credit, net of amortization (Note 4)		27,456	31,850	61,063
Allowance for equity funds used during construction		(50,704)	(79,176)	(61,347)
Purchased capacity levelization (Note 3)		(70,605)	(93,853)	(95,216)
Other, net		(32,149)	(19,194)	21,154
(Increase) Decrease in				
Accounts receivable		(45,412)	56,353	(63,285)
Materials and supplies		6,866	(28,535)	(13,960)
Prepayments		181	356	915
Increase (Decrease) in				
Accounts payable		44,265	(5,181)	29,249
Taxes accrued (Notes 1 and 4)		11,739	(42,034)	49,961
Interest accrued and other liabilities (Notes 1 and 9)		12,863	31,728	3,628
Total adjustments		<u>524,323</u>	<u>428,582</u>	<u>537,267</u>
Net cash provided by operating activities		<u>1,107,946</u>	<u>966,770</u>	<u>1,108,878</u>
Cash flows from investing activities				
Construction expenditures		(572,705)	(836,474)	(819,799)
Investment in nuclear fuel		(183,803)	(136,528)	(179,093)
Net change in investment securities (Note 1)		<u>(35,807)</u>	<u>23,952</u>	<u>26,515</u>
Net cash used in investing activities		<u>(792,315)</u>	<u>(949,050)</u>	<u>(972,377)</u>
Cash flows from financing activities				
Proceeds from the issuance of				
First and refunding mortgage bonds		414,297	385,293	—
Pollution-control trust		—	1,187	15,906
Nuclear fuel trusts		—	—	50,945
Short-term notes payable, net (Note 5)		(99,000)	15,000	170,000
Other long-term debt		—	—	130,000
Preferred stock		—	73,875	—
Common stock		48,014	—	—
Payments for the redemption of				
First and refunding mortgage bonds		(279,970)	(108,893)	—
Nuclear fuel trusts		—	—	(136,945)
Preferred stock		(9,650)	(8,025)	(8,025)
Payments under capital lease obligation		(5,662)	(5,185)	(4,748)
Dividends paid		<u>(381,589)</u>	<u>(376,720)</u>	<u>(360,352)</u>
Net cash used in financing activities		<u>(313,560)</u>	<u>(23,468)</u>	<u>(143,219)</u>
Net increase (decrease) in cash		2,071	(5,748)	(6,718)
Cash at beginning of year		<u>8,210</u>	<u>13,958</u>	<u>20,676</u>
Cash at end of year		<u>\$ 10,281</u>	<u>\$ 8,210</u>	<u>\$ 13,958</u>

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Dollars in Thousands	Assets	December 31,	1991	1990
Electric plant (at original cost — Notes 1, 3, 9 and 12)				
Electric plant in service			\$11,830,211	\$10,224,000
Less accumulated depreciation and amortization			<u>3,915,761</u>	<u>3,614,122</u>
Electric plant in service, net			7,914,450	6,610,799
Nuclear fuel			2,004,441	1,870,975
Less accumulated amortization			<u>1,722,192</u>	<u>1,552,977</u>
Nuclear fuel, net			282,249	317,998
Construction work in progress (including nuclear fuel in process: 1991 - \$183,812; 1990 - \$124,259)			<u>501,942</u>	<u>1,521,391</u>
Total electric plant, net			<u>8,698,641</u>	<u>8,450,188</u>
Other property and investments				
Other property — at cost (less accumulated depreciation: 1991 - \$77,261; 1990 - \$73,783)			187,788	189,627
Other investments, at cost or less			<u>99,005</u>	<u>100,366</u>
Total other property and investments			<u>286,793</u>	<u>289,993</u>
Current assets				
Cash (Note 5)			10,281	8,210
Short-term investments			92,003	54,835
Receivables (less allowance for losses: 1991 - \$4,988; 1990 - \$3,683) (Note 1)			508,898	463,486
Materials and supplies — at average cost				
Coal			96,361	86,477
Other			192,295	209,045
Prepayments			<u>10,672</u>	<u>10,853</u>
Total current assets			<u>910,510</u>	<u>832,906</u>
Deferred debits				
Purchased capacity costs (Note 3)			337,699	295,952
Canceled construction projects (Note 10)			67,302	105,715
Debt expense (Note 1)			86,018	77,932
Other (Note 13)			<u>83,652</u>	<u>30,841</u>
Total deferred debits			<u>574,671</u>	<u>510,420</u>
Total assets			<u>\$10,470,615</u>	<u>\$10,083,507</u>
Capitalization and Liabilities				
Capitalization (See Consolidated Statements of Capitalization)			<u>\$ 7,956,498</u>	<u>\$ 7,661,504</u>
Current liabilities				
Accounts payable			336,488	299,802
Taxes accrued (Note 1)			46,318	34,579
Interest accrued			73,410	73,878
Other			<u>93,668</u>	<u>86,757</u>
Total			549,884	495,016
Notes payable (Note 5)			86,000	185,000
Current maturities of long-term debt and preferred stocks			<u>115,777</u>	<u>13,687</u>
Total current liabilities			<u>751,661</u>	<u>693,703</u>
Accumulated deferred income taxes (Notes 1 and 4)			<u>1,293,594</u>	<u>1,256,223</u>
Deferred credits and other liabilities				
Investment tax credit (Notes 1 and 4)			307,743	322,800
Other			<u>161,119</u>	<u>149,000</u>
Total deferred credits and other liabilities			<u>468,862</u>	<u>471,800</u>
Commitments and contingencies (Note 12)				
Total capitalization and liabilities			<u>\$10,470,615</u>	<u>\$10,083,507</u>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Capitalization and Retained Earnings

Dollars in Thousands	December 31,	1991	1990
Capitalization			
Common stock equity (Notes 6 and 7)			
Common stock, no par, 300,000,000 shares authorized; 204,699,851 shares outstanding for 1991 and 202,584,324 shares outstanding for 1990		\$ 1,924,998	\$1,862,978
Retained earnings		2,141,259	1,953,779
Total common stock equity		<u>4,066,257</u>	<u>3,816,757</u>
Preferred and preference stocks without sinking fund requirements (Note 7)		<u>502,016</u>	<u>502,201</u>
Preferred stocks with sinking fund requirements (Note 8)		<u>228,650</u>	<u>239,800</u>
Long-term debt (Note 9)			
First and refunding mortgage bonds		3,105,042	2,934,098
Capitalized leases		59,966	65,628
Other long-term debt		130,000	130,000
Unamortized debt discount and premium, net (Note 1)		(29,181)	(21,318)
Current maturities of long-term debt		<u>(106,252)</u>	<u>(5,662)</u>
Total long-term debt		<u>3,159,575</u>	<u>3,102,746</u>
Total capitalization		<u>\$ 7,956,498</u>	<u>\$7,661,504</u>

Dollars in Thousands	Year ended December 31,	1991	1990	1989
Retained Earnings				
Balance — Beginning of year		\$1,953,779	\$1,793,829	\$1,581,901
Add — Net income		<u>583,623</u>	<u>538,188</u>	<u>571,611</u>
Total		<u>2,537,402</u>	<u>2,332,017</u>	<u>2,153,512</u>
Deduct				
Dividends				
Common stock		341,801	324,104	307,875
Preferred and preference stocks		54,683	52,616	52,477
Capital stock transactions, net		<u>(341)</u>	<u>1,518</u>	<u>(669)</u>
Total deductions		<u>396,143</u>	<u>378,238</u>	<u>359,683</u>
Balance — End of year		<u>\$2,141,259</u>	<u>\$1,953,779</u>	<u>\$1,793,829</u>

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

A. Revenues

Revenues are recorded as service is rendered to customers. Receivables on the Consolidated Balance Sheets include \$165,629,000 and \$168,069,000 as of December 31, 1991 and

1990, respectively, for service that has been rendered but not billed to customers.

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 8.86 percent for 1991, 9.13 percent for 1990 and 9.35 percent for 1989.

D. Depreciation and Amortization

Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.48 percent for 1991, 3.57 percent for 1990 and 3.58 percent for 1989. Effective with the implementation of new retail rates in November 1991, all coal-fired generating units are depreciated at a rate of 2.57 percent and all nuclear units are depreciated at a rate of 4.70 percent, of which 1.61 percent is for decommissioning.

for decommissioning related to their ownership interest in the station. Effective with the implementation of new retail rates in November 1991, the North Carolina Utilities Commission and The Public Service Commission of South Carolina granted the Company recovery of the estimated site-specific decommissioning costs through retail rates.

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.

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 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

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 spent 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," page 36.)

F. Income Taxes

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

intermediate-term investments.

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

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 and canceled construction projects. Investment tax credits are deferred and amortized over the estimated useful life 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 re-

spective 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 rates 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. In 1991 the statute was extended through June 30, 1997.

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 an original 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 \$245,945,000 in 1991, \$194,339,000 in 1990 and \$188,125,000 in 1989.

Interest paid, net of amount capitalized, was \$269,330,000, \$240,451,000 and \$230,091,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

Note 2. Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSCSC) must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission (FERC) 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 set through contractual agreements. (See Note 3.)

On April 12, 1991, the Company filed a request with the NCUC seeking a 9.22 percent rate increase primarily to recover costs associated with the Bad Creek Hydroelectric Station. On May 17, 1991, the Company filed a similar request with the PSCSC seeking a 7.29 percent rate increase. In November 1991, the NCUC issued a rate order granting the Company \$100.1 million in additional revenues, a 4.15 percent increase. The

NCUC granted a 12.50 percent rate of return on common equity. The PSCSC, in a November 1991 rate order, granted the Company \$30.2 million in additional revenues, a 3.0 percent increase. The PSCSC granted a 12.25 percent rate of return on common equity. In September 1991, the Company filed a request with the FERC seeking a 7.47 percent rate increase for its wholesale customers, who represent approximately 2 percent of the Company's total revenues. The wholesale customers challenged the Company's proposal and in November 1991, the FERC issued an order that accepted the Company's proposed rates for filing, but suspended them until April 19, 1992. A negotiated settlement with these customers, which is consistent with the increase in retail rates, is pending FERC approval. (For additional information about an appeal of the Company's 1986 rate order, see Note 12.)

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%
Edmont 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, 1991, \$540,437,000 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 \$166,849,000 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. These 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 1996 are \$384,000,000 for 1992, \$403,000,000 for 1993, \$388,000,000 for 1994, \$164,000,000 for 1995 and \$50,000,000 for 1996.

Effective in its November 1991 rate order, the North Carolina Utilities Commission (NCUC) reaffirmed the Company's recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners. The new NCUC rate order changed the levelized basis to a 15-year period ending 2001 for all of the other joint owners compared to the previous 15-year levelization period for NCMPA and PMPA and 10-year levelization period for NCEMC and Saluda River. The Public Service Commission of South Carolina (PSCSC), in its November 1991 rate order, reaffirmed the Company's recovery on a levelized basis of the capital costs of capacity purchased from the other joint owners. The new PSCSC rate order retained the levelized basis of a 7½ year period ending April 1994 for PMPA and NCMPA; for NCEMC and Saluda River the new levelized basis reflects the projected purchased capacity payments for the twelve month period from November 1991 through October 1992. 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. 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 covered through current rates is being accumulated, and the Company is recording a net of tax carrying charge on the accumulated balance. The Company recovers the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1991, 1990 and 1989, the Company recorded purchased capacity and energy costs from the other joint owners of \$536,500,000, \$572,500,000, and \$598,100,000, 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, 1991 and 1990, \$337,699,000 and \$295,932,000 net of income taxes, respectively (\$589,561,000 and \$518,956,000, 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):

	<u>1991</u>	<u>1990</u>	<u>1989</u>
Income taxes related to electric expenses			
Current income taxes			
Federal	\$232,121	\$203,282	\$203,899
State	<u>54,335</u>	<u>44,246</u>	<u>44,784</u>
	<u>286,456</u>	<u>247,528</u>	<u>248,683</u>
Deferred taxes, net			
Excess tax over book depreciation	60,976	75,757	76,950
Property taxes	(11,987)	(10,852)	—
Catawba purchased capacity costs, net of amounts reflected in current rates	8,163	20,116	13,620
Amortization of canceled construction costs	(23,959)	(23,959)	(23,959)
Unbilled revenues	—	(13,929)	(15,716)
Storm damage	(1,917)	(1,900)	24,397
Other	<u>(13,065)</u>	<u>(23,799)</u>	<u>(9,481)</u>
	<u>18,211</u>	<u>21,434</u>	<u>65,811</u>
Investment tax credit			
Deferred	2,273	12,727	11,394
Amortization of deferrals (credit)	<u>(13,480)</u>	<u>(15,977)</u>	<u>(18,309)</u>
	<u>(11,207)</u>	<u>(3,250)</u>	<u>(6,915)</u>
Total income taxes related to electric expenses	<u>293,460</u>	<u>265,712</u>	<u>307,579</u>
Income taxes related to other income			
Income taxes - return on deferred Catawba purchased capacity costs	20,675	17,476	14,743
Income taxes — other, net	4,797	(2,192)	(5,600)
Income taxes — (credit)	<u>(22,789)</u>	<u>(28,638)</u>	<u>(20,000)</u>
Total income taxes related to other income	<u>2,683</u>	<u>(13,354)</u>	<u>(11,549)</u>
Total income tax expense	<u>\$296,143</u>	<u>\$252,358</u>	<u>\$296,030</u>

Total current income taxes were \$268,686,000 for 1991, \$220,508,000 for 1990 and \$234,967,000 for 1989. Of these amounts, state income taxes were \$48,671,000 for 1991, \$38,911,000 for 1990 and \$40,877,000 for 1989.

Total deferred income taxes were \$38,664,000 for 1991, \$35,100,000 for 1990 and \$67,978,000 for 1989. Of these amounts, deferred state income taxes were \$10,833,000 for 1991, \$9,209,000 for 1990 and \$13,960,000 for 1989.

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

	1991	1990	1989
Income taxes on pretax income at the statutory federal rate of 34%	\$299,120	\$268,786	\$294,998
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(23,832)	(37,220)	(27,276)
Amortization of electric investment tax credit deferrals	(13,480)	(15,977)	(18,309)
AFUDC in book depreciation/amortization	25,923	27,309	29,372
Deferred income tax flowback at rates higher than statutory	(22,561)	(21,638)	(22,761)
State income taxes, net of federal income tax benefits	39,345	31,818	36,852
Other items, net	(8,372)	(720)	3,154
Total income tax expense	<u>\$296,143</u>	<u>\$252,358</u>	<u>\$296,030</u>

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 Con-

solidated 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 1993.

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

To support short-term obligations, the Company had unused credit facilities of \$340,385,000 as of December 31, 1991 and \$340,285,000, as of December 31, 1990 and December 31, 1989, with 53 and 52 commercial banks, respectively. Included in these facilities is a three-year, \$300,000,000 revolving credit agreement with the balance in separate, annually-renewable lines of credit. These facilities are on a fee or compensating-balance basis.

Cash balances maintained at the banks on deposit were

\$7,842,000 as of December 31, 1991 and \$4,852,000 as of December 31, 1990. 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 \$509,000 as of December 31, 1991 and \$499,000 as of December 31, 1990. 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, 1991	December 31, 1990	December 31, 1989
Amount outstanding at end of period — average rate of 4.65% as of December 31, 1991, 7.96% as of December 31, 1990, and 8.68% as of December 31, 1989	\$ 86,000	\$185,000	\$170,000
Maximum amount outstanding during the period	\$285,500	\$250,321	\$180,000
Average amount outstanding during the period	\$ 92,090	\$109,322	\$ 34,538
Weighted-average interest rate for the period — computed on a daily basis	6.47%	8.21%	8.93%

Note 6. Common Stock and Retained Earnings

Common Stock

Effective April 1, 1991, the Company began issuing common stock in lieu of purchasing shares on the open market for its various stock purchase plans. The Company discontinued issuances of common stock, effective December 1, 1991, and resumed open market purchases to satisfy the requirements of the various stock purchase plans. During 1990 and 1989, open market purchases were used to satisfy the requirements of the Company's various stock plans.

For the past three years, the Company has issued common stock to satisfy the conversion rights of preference stock (see

Note 7). During 1990 the Board of Directors declared a two-for-one split of Duke Power common stock. The Company issued common stock to satisfy the stock split.

As of December 31, 1991, a total of 7,197,779 shares were reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1991, 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, 1991 and 1990:

	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 prefer-

ence stock valued at par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1991, 1990 and 1989, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1991	1,846	15,440
1990	2,564	21,434
1989	2,256	18,844

Preferred and preference stocks without sinking fund requirements as of December 31, 1991 and 1990, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1991	1990
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	75,000
6¾%, AA Convertible	1969	20,164	2,016	—
		22,010	—	2,201
Total			\$502,016	\$502,201

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, 1991 and 1990:

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

Preferred stocks with sinking fund requirements as of December 31, 1991 and 1990, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1991	1990
7.35% I	1973	408,000	\$ 40,800	\$ —
		432,000	—	43,200
8.20% J	1977	300,000	30,000	—
		320,000	—	32,000
8.375% L	1978	320,000	32,000	—
		340,000	—	34,000
8.84% N	1979	353,750	35,375	—
		386,250	—	38,625
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)
7.875% P			(1,500)	—
Total			<u>\$228,650</u>	<u>\$239,800</u>

The annual sinking fund requirements through 1996 are \$9,525,000 in 1992; \$11,025,000 in 1993, 1994, 1995 and 1996. Some additional redemptions are permitted at the Company's option.

The call provisions for the outstanding preferred and preferred stocks specify various redemption prices not exceeding 107 percent of par values, plus accumulated dividends to the redemption date.

Note 9. Long-Term Debt

and refunding mortgage bonds outstanding as of December 31, 1991 and 1990, were as follows (dollars in thousands):

Series	Year Due	1991	1990	Series	Year Due	1991	1990
4½%	1992	\$ 50,000	\$ 50,000	<i>(continued)</i>			
4¼% B	1992	50,000	50,000	8½%	2007	\$ 119,500	\$ 119,500
6.06%-6.23%	1994	81,700	—	9¾%	2008	120,610	120,610
6.47%-6.60%	1995	40,300	—	10¼%	2009	—	145,050
4½%	1995	40,000	40,000	10¼% B	2015	50,000	50,000
8½% B	1995	—	125,000	9%	2016	175,000	175,000
6.59%	1996	3,000	—	8½%	2017	150,000	150,000
7⅞%	1996	100,000	100,000	9⅝%	2020	200,000	200,000
7½% B	1997	100,000	100,000	10¼% B	2020	150,000	150,000
5⅜%	1997	72,600	72,600	8¾%	2021	150,000	—
6⅜%	1998	68,500	68,500	8⅜% B	2021	150,000	—
7%	1999	56,075	56,075	8.95%	2027	15,994	—
8% B	1999	64,739	64,739	<u>Pollution-Control</u>			
8½%	2000	69,244	69,244	9¼%	2013	77,000	77,000
8⅝% B	2000	95,635	95,635	7.70%	2012	20,000	20,000
7½%	2001	97,900	97,900	7.75%	2017	10,000	10,000
7⅜% B	2001	38,050	38,050	7.50%	2017	25,000	25,000
7¾%	2002	78,100	78,100	4.13% (1991)	2014	40,000	40,000
7⅜% B	2002	67,900	67,900	5.85% (1990)			
7¾%	2003	94,872	94,872	Total		<u>\$3,105,042</u>	<u>\$2,934,098</u>
8¼% B	2003	98,050	98,050				
¾%	2004	95,623	95,623				
7½%	2005	92,800	92,800				
8⅜%	2006	96,850	96,850				

Substantially all electric plant was mortgaged as of December 31, 1991.

In 1991, the Company issued \$125,000,000 in bonds through its medium-term notes facility with maturities of 3 to 4 years and interest rates of 6.06 percent to 6.60 percent.

As of December 31, 1991 and 1990, the Company had \$40,000,000 in pollution control revenue bonds backed by an unused, two-year revolving credit facility of \$40,000,000 and \$130,000,000 in commercial paper backed by an unused three-year \$130,000,000 revolving credit facility. These facilities are on

a fee basis. Both the \$40,000,000 in pollution control bonds and the \$130,000,000 in commercial paper are included in long-term debt.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1996 are \$106,252,000 in 1992; \$7,565,000 in 1993; \$103,581,000 in 1994; \$82,823,000 in 1995 and \$105,787,000 in 1996.

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 that began in October 1983.

As of December 31, 1991 and 1990, the balances for this canceled project, net of amortization, were \$67,302,000 and \$105,715,000 net of income taxes, respectively (\$109,152,000 and \$171,524,000, 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 have been 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. During 1991 the Company

amended its plan for employees that retire after December 31, 1991. The effect of this amendment was to reduce benefits by a Social Security adjustment for all retirees. 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, 1991 and 1990 is as follows (dollars in thousands):

	1991	1990
Accumulated benefit obligation:		
Vested benefits	\$ (802,851)	\$ (680,350)
Nonvested benefits	(17,501)	(25,810)
Accumulated benefit obligation	<u>\$ (820,352)</u>	<u>\$ (706,160)</u>
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	\$ 931,708	\$ 796,951
Projected benefit obligation	(1,054,825)	(930,992)
Unrecognized net experience (gain) loss	158,709	114,308
Unrecognized prior service cost (reduction) increase	(43,709)	470
Remaining unrecognized transitional obligation	1,335	1,469
Accrued pension cost	<u>\$ (6,782)</u>	<u>\$ (17,794)</u>

Net periodic pension cost for the years ended December 31, 1991, 1990 and 1989 included the following components (dollars in thousands):

	1991	1990	1989
Service cost benefits earned during the year	\$ 37,286	\$ 33,259	\$ 24,809
Interest cost on projected benefit obligation	79,175	79,673	64,735
Actual return on plan assets	(127,978)	(33,506)	(104,226)
Amount deferred for recognition	<u>52,574</u>	<u>(41,241)</u>	<u>34,532</u>
Expected return on plan assets	(75,404)	(74,747)	(69,111)
Net amortization	4,347	1,266	(1,111)
Net periodic pension cost	<u>\$ 45,404</u>	<u>\$ 39,451</u>	<u>\$ 18,689</u>

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 8.25 percent in 1991 and 9.5 percent in 1990 and 1989. The future salary increase assumption is age-related. The assumed increase in future pension level was determined on an age-related basis in

1991, and was 5.5 percent for a participant of average age. For 1990 and 1989 an increase of 6.5 percent was assumed for all participants. The expected long-term rate of return on plan assets used in determining pension cost was 9.25 percent in 1991 and 10.0 percent in 1990 and 1989.

B. Postretirement Benefits

The Company currently provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees have become eligible for these benefits if they have elected early retirement at age fifty-five with ten years of service or if they have retired at sixty-five while working for the Company. Employees who retire after January 1, 1992, will receive a fixed Company allowance based on years of service to be used to pay medical insurance premiums. Also, beginning in 1992, all new retirees must have at least ten years of service to be eligible for postretirement benefits. The cost of retiree benefits is recognized as the benefits are paid. The cost to the Company for 1991, 1990 and 1989 amounted to \$11,900,000, \$10,200,000 and

\$6,800,000, 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 impact of the new standard will result in a transition obligation of approximately \$250,000,000 for service rendered to date to be amortized over twenty years. An annual cost of approximately \$40,000,000, which includes the amortization of the transition obligation, will also result from the adoption of this standard. The Company will implement this standard in 1992.

Note 12. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs, both including AFUDC, are \$2.3 billion and \$422 million, respectively, for 1992 through 1994. 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, 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 \$1.25 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 \$22 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 \$1.25 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 prop-

erty 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 \$2 million, \$2.9 million and \$3.1 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 per-

cent 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

The Public Staff of the NCUC, joined by two other parties, has appealed an order on remand from the NCUC, contesting the basis on which the NCUC had determined the fair rate of return for the Company's 1986 rate 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 contractual agreements (See Note 3). The basic contention in each proceeding is that certain calculations affecting bills under these agreements should be performed differently. Although these matters may be material, the items are covered by these 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 these agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

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 year ended December 31, 1991, the Company recorded a net of tax carrying charge of \$36,765,000 on costs incurred on the Bad Creek Hydroelectric Station after commercial operation

but prior to recovery of costs through rates. This carrying charge is a component of Other, net in the Consolidated Statements of Income.

Note 14. Reclassification

In the Consolidated Statements of Income, Electric revenues and Net interchange and purchased power include a reclassifica-

tion for certain power transactions previously classified as Net interchange and purchased power per a recent FERC order.

INDEPENDENT AUDITORS' REPORT

Duke Power Company:

We have audited the consolidated financial statements of Duke Power Company and subsidiaries (the Company) 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 Duke Power Company and subsidiaries at December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 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.

Charlotte, North Carolina
February 7, 1992

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

Supplemental Financial Data — (unaudited)

Quarterly Financial Data

Dollars in Thousands (except per-share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1991 by quarter					
Electric Revenues (a)	\$886,638	\$893,638	\$1,096,416	\$920,211	\$3,816,960
Electric Operating Income	166,713	161,893	241,221	136,996	706,823
Net Income	137,399	138,394	207,807	100,023	583,623
Earnings Per Share	\$0.61	\$0.61	\$0.96	\$0.42	\$2.60
1990 by quarter					
Electric Revenues (a)	\$855,416	\$870,315	\$1,105,023	\$850,713	\$3,705,131
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	\$0.56	\$0.52	\$0.99	\$0.33	\$2.40

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

(a) Total electric revenues include a reclassification for the years 1991 and 1990 for certain power transactions previously classified as Net interchange and purchased power per a recent FERC order. Quarterly data does not include the effects of this reclassification due to its immateriality.

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

Subsidiary Highlights

Income from the Company's subsidiaries and non-utility operations accounted for 5 percent of the Company's earnings in 1991 and 1990. Highlights of selected 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)

	1991	1990
Assets net of liabilities	\$39,384	\$36,663
Net income	\$ 2,721	\$ 2,777

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)

	1991	1990
Short-term investments and marketable securities	\$120,303	\$95,692
Investment income (after tax)	\$ 6,397	\$ 7,251

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)

	1991	1990
Assets net of liabilities	\$88,046	\$69,662
Net income (before accounting change) (a)	\$ 9,661	\$ 6,923

(a) 1991 excludes the cumulative effect of an accounting change of \$6,727 after tax.

- **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 Engineering 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)

	1991	1990
Assets net of liabilities	\$13,480	\$30,889
Net income (loss)	\$ 1,512	\$ (42)

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
<i>For the Year Ended December 31, 1991</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$ 4,965,205	\$ 1,229,905	\$ 7,356	\$ 40,478	\$ 6,228,232
Transmission.....	1,223,152	80,809	2,627	(1,313)	1,300,021
Distribution.....	3,079,886	283,097	27,681	591	3,335,893
General.....	844,706	98,575	47,163	(1,433)	894,685
Miscellaneous.....	111,972	(2,229)	201	(38,162)	71,380
Nuclear Fuel.....	1,870,975	133,466	0	0	2,004,441
Total electric plant in service.....	<u>12,095,896</u>	<u>1,823,623</u>	<u>85,028</u>	<u>161</u>	<u>13,834,652</u>
Construction Work in Progress.....	1,521,391	(1,019,449)	0	0	501,942
Other Property — At Cost					
Water plant.....	33,886	1,312	189	0	35,009
Transit plant.....	2,782	0	1,283	0	1,499
Total other property.....	<u>36,668</u>	<u>1,312</u>	<u>1,472</u>	<u>0</u>	<u>36,508</u>
Total plant.....	<u>\$13,653,955</u>	<u>\$ 805,486</u>	<u>\$ 86,500</u>	<u>\$ 161</u>	<u>\$14,373,102</u>
<i>For the Year Ended December 31, 1990</i>					
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.....	<u>11,433,950</u>	<u>782,846</u>	<u>122,285</u>	<u>1,385</u>	<u>12,095,896</u>
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.....	<u>35,830</u>	<u>926</u>	<u>93</u>	<u>5</u>	<u>36,668</u>
Total plant.....	<u>\$12,725,012</u>	<u>\$1,049,931</u>	<u>\$122,378</u>	<u>\$ 1,390</u>	<u>\$13,653,955</u>
<i>For the Year Ended December 31, 1989</i>					
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.....	<u>10,659,521</u>	<u>844,355</u>	<u>52,537</u>	<u>(17,389)</u>	<u>11,433,950</u>
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.....	<u>34,525</u>	<u>1,624</u>	<u>283</u>	<u>(36)</u>	<u>35,830</u>
Total plant.....	<u>\$11,732,137</u>	<u>\$1,063,120</u>	<u>\$ 52,820</u>	<u>\$(17,425)</u>	<u>\$12,725,012</u>

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
<i>For the Year Ended December 31, 1991</i>						
Accumulated Depreciation of Electric Plant						
Production	\$1,902,284	\$198,372	\$ —	\$ 13,054	\$ 31,789	\$2,119,391
Transmission	500,555	34,589	—	2,901	(911)	531,332
Distribution	896,226	109,461	—	26,787	905	979,805
General	221,691	30,920	13,393	35,269	(1,335)	229,400
Miscellaneous	88,258	—	352	—	(38,760)	49,850
	<u>3,609,014</u>	<u>373,342</u>	<u>13,745</u>	<u>78,011</u>	<u>(8,312)</u>	<u>3,909,778</u>
Accumulated Amortization of Limited Term Plant	5,108	—	497	—	378	5,983
Accumulated Amortization of Nuclear Fuel	1,552,977	169,215	—	—	—	1,722,192
	<u>5,167,099</u>	<u>542,557</u>	<u>14,242</u>	<u>78,011</u>	<u>(7,934)</u>	<u>5,637,953</u>
Accumulated Depreciation of Water Plant	7,578	682	—	166	—	8,094
Accumulated Depreciation of Transit Plant	2,662	41	—	1,283	—	1,420
Total Accumulated Depreciation	<u>\$5,177,339</u>	<u>\$543,280</u>	<u>\$ 14,242</u>	<u>\$ 79,460</u>	<u>\$ (7,934)</u>	<u>\$5,647,467</u>
<i>For the Year Ended December 31, 1990</i>						
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
	<u>3,369,827</u>	<u>344,638</u>	<u>15,673</u>	<u>121,148</u>	<u>24</u>	<u>3,609,014</u>
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
	<u>4,771,887</u>	<u>344,638</u>	<u>171,697</u>	<u>121,147</u>	<u>24</u>	<u>5,167,099</u>
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	<u>\$4,781,456</u>	<u>\$345,397</u>	<u>\$171,697</u>	<u>\$121,235</u>	<u>\$ 24</u>	<u>\$5,177,339</u>
<i>For the Year Ended December 31, 1989</i>						
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
	<u>3,099,939</u>	<u>325,980</u>	<u>13,652</u>	<u>69,446</u>	<u>(298)</u>	<u>3,369,827</u>
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
	<u>4,323,916</u>	<u>325,980</u>	<u>191,746</u>	<u>69,446</u>	<u>(309)</u>	<u>4,771,887</u>
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	<u>\$4,333,014</u>	<u>\$326,741</u>	<u>\$191,746</u>	<u>\$ 69,736</u>	<u>\$ (309)</u>	<u>\$4,781,456</u>

DUKE POWER COMPANY

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(Dollars in thousands)

<u>Description</u>	<u>Balance Beginning of Year</u>	<u>Balance End of Year</u>
<i>For the Year Ended December 31, 1991</i>		
Reserves Related to Assets on Balance Sheet	\$43,712	\$25,592
Other Reserves		
Operating Reserves (1)	\$59,527	\$67,577
<i>For the Year Ended December 31, 1990</i>		
Reserves Related to Assets on Balance Sheet	\$24,352	\$43,712
Other Reserves		
Operating Reserves (1)	\$85,703	\$59,527
<i>For the Year Ended December 31, 1989</i>		
Reserves Related to Assets on Balance Sheet	\$27,335	\$24,352
Other Reserves		
Operating Reserves (1)	\$51,890	\$85,703

(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

	<u>Year Ended December 31</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(Dollars in thousands)		
Taxes, other than payroll and income taxes:			
Real and personal property	\$ 68,117	\$ 66,072	\$ 60,000
State and city franchise	89,307	86,943	84,913
Other	12,531	10,983	9,958
Total	<u>\$169,955</u>	<u>\$163,998</u>	<u>\$154,871</u>

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		
	1991	1990	1989
	(Dollars in thousands except per share figures)		
Fully Diluted:(1)			
Earnings applicable to common stock (2).....	\$528,940	\$485,572	\$519,134
Add: Dividends on Preference Stock, 6¾% Convertible Series AA	140	160	172
Earnings as adjusted for computation	<u>\$529,080</u>	<u>\$485,732</u>	<u>\$519,306</u>
Average common shares outstanding — twelve months (thousands) (2)	203,431	202,570	202,554
Add: Common shares required for conversion of Preference Stock, 6¾% Convertible Series AA, \$100 par, 500,000 shares authorized (20,164 shares outstanding as of December 31, 1991)(3).....	169	184	206
Common shares as adjusted for computation	<u>203,600</u>	<u>202,754</u>	<u>202,760</u>
Fully diluted earnings per share.....	\$ 2.60	\$ 2.40	\$ 2.56

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

(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 1992 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 1992 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 1992 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 1992 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, 1991

Consolidated Statements of Cash Flows

for the Three Years Ended December 31, 1991

Consolidated Balance Sheets — December 31, 1991 and 1990

Consolidated Statements of Capitalization — December 31, 1991 and 1990

Consolidated Statements of Retained Earnings for the Three Years Ended
December 31, 1991

Notes to Consolidated Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules

Schedule V — Property, Plant and Equipment for the Three Years Ended
December 31, 1991

Schedule VI — Accumulated Depreciation and Amortization of Property,
Plant and Equipment for the Three Years Ended December 31, 1991

Schedule VIII — Valuation and Qualifying Accounts and Reserves
for the Three Years Ended December 31, 1991

Schedule X — Supplementary Consolidated Income Statement Information
for the Three Years Ended December 31, 1991

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

The Company filed a report on Form 8-K on November 21, 1991 setting forth information under Item 5 and Item 7.

EXHIBIT 24

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 33-15183, 33-19274, 33-45501, 33-40973 and 33-45502 of Duke Power Company on Form S-3 and in Post-Effective Amendment No. 10 to Registration Statement No. 2-72172 of Duke Power Company on Form S-8 of our report dated February 7, 1992, appearing in this Annual Report on Form 10-K of Duke Power Company for the year ended December 31, 1991.

DELOITTE & TOUCHE

Charlotte, North Carolina
March 27, 1992

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 27th day of March, 1992.

DUKE POWER COMPANY
(Registrant)

By: W. S. LEE
Chairman of the Board and President

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
W. S. LEE	Chairman of the Board and President (Principal Executive Officer)	March 27, 1992
R. J. OSBORNE	Vice President and Chief Financial Officer (Principal Financial Officer)	March 27, 1992
DAVID L. HAUSER	Controller (Principal Accounting Officer)	March 27, 1992
ROBERT L. ALBRIGHT G. ALEX BERNHARDT CRANDALL C. BOWLES 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. S. LEE MAX LENNON BUCK MICKEL REECE A. OVERCASH, JR. R. B. PRIORY JAMES C. SELF	A majority of the Directors	March 27, 1992

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

/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.

<u>Exhibit Number</u>	
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 (filed with Form 10-K for the year ended December 31, 1990, File No. 1-4928, as Exhibit 3-C).
3-D	— Articles of Amendment to the Articles of Incorporation dated May 16, 1990 (filed with Form 10-K for the year ended December 31, 1990, File No. 1-4928, as Exhibit 3-D).
*3-E	— Articles of Amendment to the Articles of Incorporation dated May 10, 1991.
3-F	— 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-G	— 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-H	— 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-I	— 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-J	— 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-K	— 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-L	— Articles of Amendment of registrant dated October 22, 1990 relating to the Preferred Stock, Auction Series A (filed with Form 10-K for the year ended December 31, 1990, File No. 1-4928, as Exhibit 3-K).
*3-M	— 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)).

Exhibit
Number

- 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)).
- 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).

Exhibit
Number

- 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).
- 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).

Exhibit
Number

- 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).
- 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 (filed with Form 10-K for the year ended December 31, 1990, File No. 1-4928, as Exhibit 4-B-60).
- 4-B-61 — Supplemental Indenture, dated as of May 1, 1990, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1990, File No. 1-4928, as Exhibit 4-B-61).
- 4-B-62 — Supplemental Indenture, dated as of May 15, 1990, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1990, File No. 1-4928, as Exhibit 4-B-62).
- 4-B-63 — Supplemental Indenture, dated as of March 1, 1991, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1990, File No. 1-4928, as Exhibit 4-B-63).
- 4-B-64 — Supplemental Indenture, dated as of July 1, 1991, supplementing said Mortgage (filed with Form S-3, File No. 33-45501, effective February 13, 1992, as Exhibit 4-B-64).

- Exhibit
Number
- 4-B-65 — Supplemental Indenture, dated as of December 1, 1991, supplementing said Mortgage (filed with Form S-3, File No. 33-45501, effective February 13, 1992, as Exhibit 4-B-65).
 - *4-B-66 — Supplemental Indenture, dated as of March 1, 1992, 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.
 - *25(a) — Manually signed copies of powers of attorney authorizing Lewis F. Camp, Jr. and others to sign the annual report on behalf of the registrant and certain of its directors and officers.
 - *25(b) — Certified copy of resolution of the Board of Directors of the registrant authorizing power of attorney.
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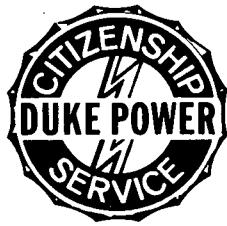
DUKE POWER COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

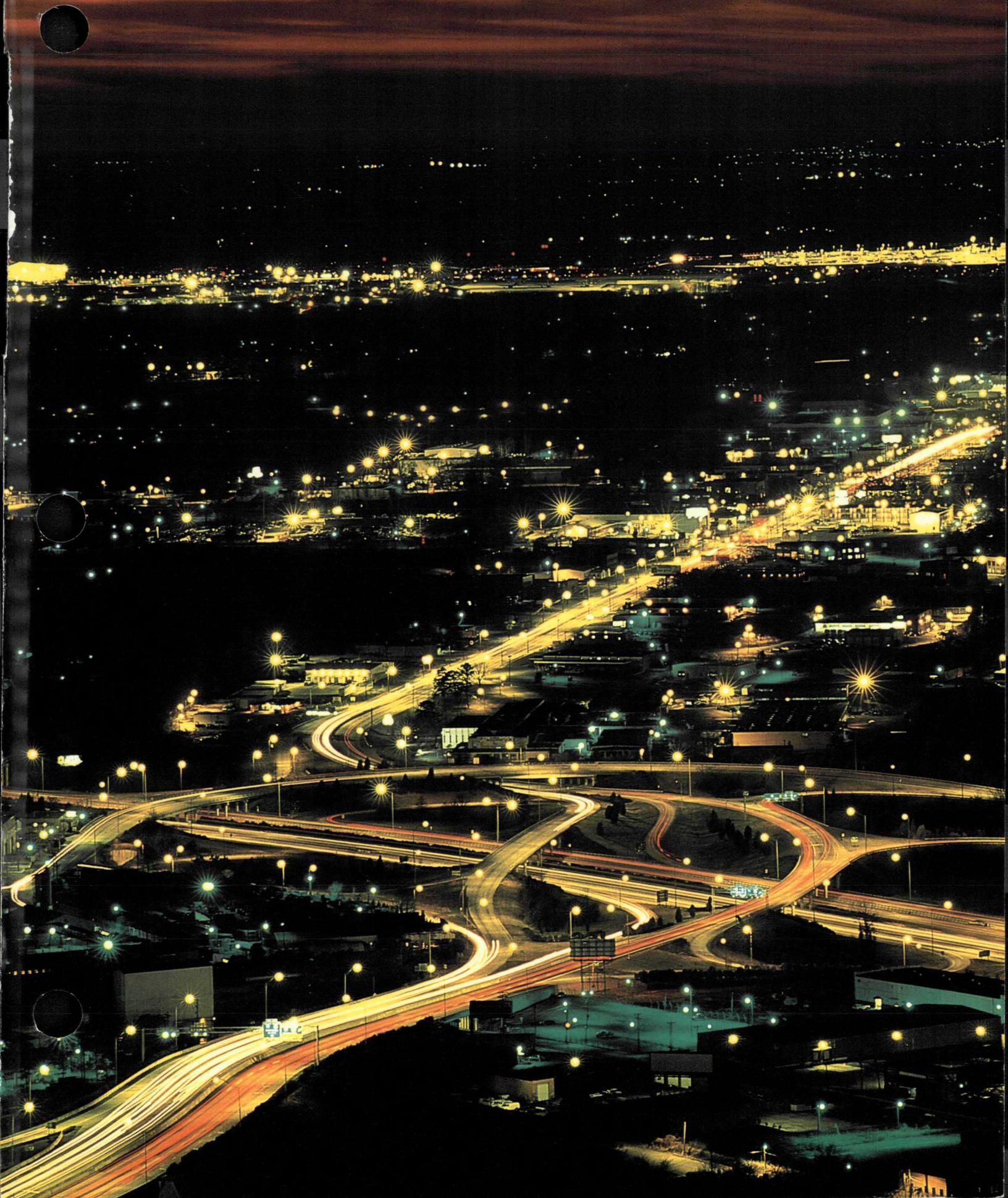
(Dollars in Thousands)

	Year Ended December 31				
	1987	1988	1989	1990	1991
Earnings Before Income Taxes (1).....	\$ 878,522	\$ 827,732	\$ 867,641	\$ 790,546	\$ 879,766
Fixed Charges	251,812	254,622	266,497	297,116	308,862
Total	<u>\$1,130,334</u>	<u>\$1,082,354</u>	<u>\$1,134,138</u>	<u>\$1,087,662</u>	<u>\$1,188,628</u>
Fixed Charges					
Interest on long-term debt.....	\$ 232,795	\$ 230,403	\$ 232,510	\$ 255,334	\$ 269,419
Other interest	3,853	7,979	18,203	24,306	22,780
Amortization of debt discount, premium, and expense	4,572	4,658	4,677	4,998	5,242
Interest component of rentals.....	10,592	11,582	11,107	12,478	11,421
Fixed Charges.....	<u>\$ 251,812</u>	<u>\$ 254,622</u>	<u>\$ 266,497</u>	<u>\$ 297,116</u>	<u>\$ 308,862</u>
Ratio of Earnings to Fixed Charges.....	4.49	4.25	4.26	3.66	3.85

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



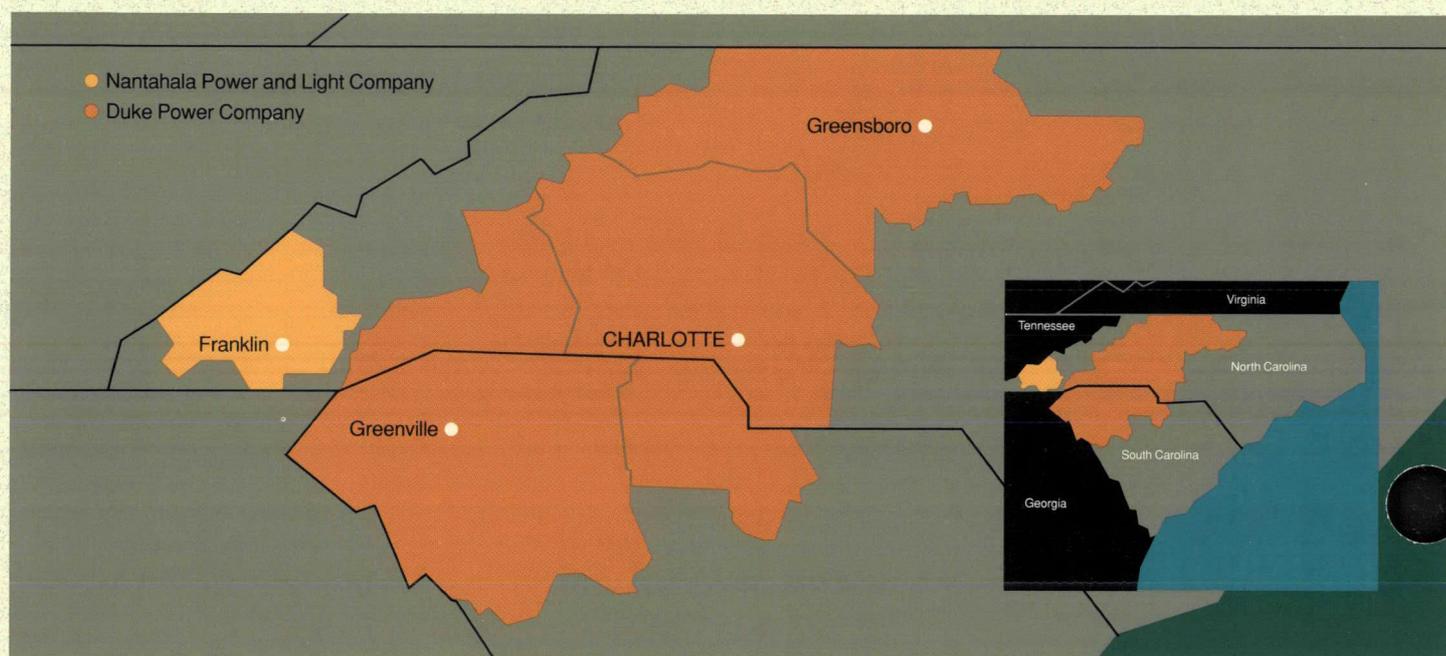
Duke Power Company • Annual Report 1991



Shaping A Strategy For the Future

As Duke Power heads further into the 1990s, the Company is creating a new kind of public electric utility. A utility which understands that competition increasingly impacts its business. A utility which knows that customers demand and deserve quality service. A utility whose employees and suppliers know no boundaries to their commitment to excellence, nor to their dedication to help build Duke Power into a world-class company.

Creating such a utility will not happen overnight. On the other hand, the growing impact of rising competition on Duke Power and its customers is driving the Company to accomplish that objective as quickly as possible. To guide its efforts, the Company has created a Corporate Strategic Plan. For a fuller explanation of just how this plan has been designed to foster excellence and quality, please turn to page 4.



About Duke Power

Headquartered in Charlotte, N.C., Duke Power supplies electricity to more than 1.6 million residential, commercial and industrial customers in a 20,000 square-mile service area in North Carolina and South Carolina. Since its founding nearly 90 years ago, the Company has grown to become the nation's seventh-largest investor-owned electric utility, serving approximately 4.6 million people in its service area.

Duke Power's three nuclear generating stations, eight coal-fired stations and 27 hydroelectric stations produced 77.3 billion kilowatt-hours of electricity in 1991. Electric revenues

totalled \$3.8 billion. About 70 percent of sales were in North Carolina and 30 percent were in South Carolina.

Retail customers are currently served from 90 customer service offices located throughout Duke Power's service area. In addition, the Company makes wholesale, bulk power and contractual sales.

Nantahala Power and Light Company, a Duke Power subsidiary, provides electricity to another 49,600 customers in a five-county area in western North Carolina. Nantahala is headquartered in Franklin, North Carolina.

About the Cover

The setting sun doesn't mean the end of the work day for Duke Power. All across its service area, Duke Power helps light up the night in homes, businesses and factories.

To enhance customer satisfaction Duke's new Customer Service Center operates around the clock, 24 hours a day, seven days a week. Staffed by customer service personnel spe-

cially trained to handle almost any Duke Power-related matter, the center is built around a sophisticated telecommunication system that links customers throughout the Duke service area to the center via a local telephone call.

More about this innovative service is on page 6 of this year's report.

Financial Highlights

	1991	1990	Percent increase (decrease)
Kilowatt-hour sales (millions) (a)	69,887	68,075	2.7
Electric revenues (a)	\$3,816,960,000	\$3,705,131,000	3.0
Earnings for common stock	\$ 528,940,000	\$ 485,572,000	8.9
Common stock data			
Average shares outstanding	203,431,000	202,570,000	0.4
Earnings per share	\$2.60	\$2.40	8.3
Dividends per share	\$1.68	\$1.60	5.0
Book value per share (year-end)	\$19.86	\$18.84	5.4
Return on average common equity	13.5%	13.1%	3.1
Plant construction costs (including AFUDC)	\$ 606,614,000	\$ 909,698,000	(33.3)
Nuclear fuel construction costs (including AFUDC)	\$ 193,019,000	\$ 141,233,000	36.7
Internal cash generation	77%	66%	16.7
Earnings coverage of fixed charges, SEC method	3.85X	3.66X	5.2
Total electric plant, net	\$8,698,641,000	\$8,450,188,000	2.9
Peak load (KW) (b)			
Summer	14,677,000	14,046,000	4.5
Winter	12,778,000	12,139,000	5.3
Number of employees (c)	18,187	19,449	(6.5)

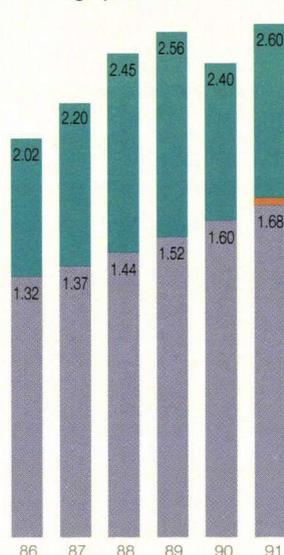
(a) Electric revenues and Kilowatt-hour sales include a reclassification for certain power transactions previously classified as Net interchange and purchased power per a recent FERC order.
 (b) The Power Company experienced an all-time peak of 14,677 MW on July 23, 1991.
 (c) Full-time employees (excluding subsidiaries and affiliates).

Return on average common equity



*Average authorized return (N.C. jurisdiction)
 **In 1989 the N.C. authorized return was reduced to 13.2% retroactive to October 31, 1986.

Earnings per share* Dollars



■ Dividends per share
 ■ Indicated dividend rate
 ■ Earnings per share
 *Reflects the two-for-one stock split in 1990.

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To Our Shareholders:

When we introduced our vision of The Company of Choice to you last year, the Company was in the second year of a long-term process designed to create a new Duke Power built upon uncompromising excellence. The vision is still before us, and 1991 saw your Company move well along on our continuous journey to make our vision a reality. We completed comprehensive training on our personal responsibility for change. We set up pilot or "flagship" groups to institute the quality improvement process in several areas of the Company. We developed a new corporate strategic plan and commissioned a measurement team to help us develop ways of measuring our progress.

These accomplishments are only the beginning of an ongoing process that will lead Duke Power into a new era marked by an emphasis on excellence and a dedication to quality improvement. You will read more about the strategies we have developed to achieve our vision elsewhere in this year's Annual Report. As you do, I hope you will begin to develop a sense of the excitement that all of us who are sharing this process are experiencing. We have launched an exhilarating era in Duke Power's history.

Earnings

The accomplishments Duke Power made toward becoming The Company of Choice helped make 1991 a successful year. Financially, the Company's results were improved over 1990. Duke Power earned \$584 million in 1991 on revenues of \$3.8 billion. Earnings per share of common stock increased to \$2.60 compared to \$2.40 per share in 1990.

Contributing to the increase in earnings were increased sales due to weather and some measure of economic recovery. Kilowatt-hour (Kwh) sales totalled 69.9 billion Kwh, up 2.7 percent over 1990. An encouraging economic sign was an increase in textile energy sales, which were up 1.7 percent for the year.

While the Company's financial performance was positive, we took steps to recover expenses generated by completion of the Bad Creek Hydroelectric Station and certain other expenses. In November, a portion of the Company's requests for increases in revenues, our first in five years, was approved by the North Carolina Utilities Commission and The Public Service Commission of South Carolina. Both regulatory agencies agreed with our assessment of the need for Bad Creek and other expenses. They did not agree with us on the rate of return on equity (ROE) of 13.17 percent we ultimately requested for our shareholders, selecting instead a 12.5 percent return in North Carolina and 12.25 percent in South Carolina. We must achieve a total company common equity return greater than that reflected in commission decisions in our two retail electric jurisdictions, and we are committed to do so.

Reorganization

In an extensive reorganization of the senior management team, your Board of Directors approved the promotion of several

senior managers and the realignment of the Company into four major groups. The new organization streamlines many reporting relationships and groups various departments along functional lines.

Executive Vice President Bill Grigg was named vice chairman of the Board and now oversees a newly formed Corporate Group. This group provides corporate and administrative functions through Corporate Communications, Corporate Excellence, Finance, Human Resources, Information Systems, Planning & Operating, Internal Audit and Purchasing, Services & Materials. Grigg will also oversee Crescent Resources, Inc., Duke's land management and development subsidiary and Duke Energy Corp., the Company's independent power developer.

Bill Coley was named executive vice president and heads the Customer Group. His role is to supervise the departments responsible for delivering power and providing direct service to Duke's customers. He will also be responsible for Marketing, the Customer Service Center, Customer Operations Support, Community Relations and Nantahala Power and Light Company, a subsidiary that provides electric service to a five-county area in western North Carolina.

Executive Vice President Rick Priory heads the Power Generation Group, formerly called the Power Group. This group consolidates all power generating operations — nuclear and fossil and hydroelectric — with the goal of helping the Company focus on efficient operation and plant maintenance. Priory is also responsible for overseeing operations of our non-utility entities, Duke Engineering & Services, Inc., and Duke/Fluor Daniel.

Steve Griffith, Jr. was named executive vice president and heads up the Legal, Tax, Risk Management and Public Affairs departments.

The new organization is designed to enhance employee responsibility, broaden the decision-making process through all levels of the Company and de-emphasize centralized control from the corporate office. Within the Customer Group, for example, the number of operating divisions has been reduced to three from eight. Management within each region has the authority and responsibility to run the region as a business. Each regional vice president is responsible for business planning, quality of service and contribution towards corporate profitability.

Retirements

An unusual number of longtime employees, more than 700, chose to retire in 1991. Some of the departures were long-planned decisions; others were influenced by changes in the organization and modifications in retirement benefits that took effect early in 1992.

These teammates contributed mightily to make Duke Power what it is today. They built and operated generating plants for less cost than anyone else in the world. They brought the Company into the age of nuclear power,

computers and fiber optics. They rebuilt a large portion of our distribution network when it was virtually destroyed by Hurricane Hugo.

Among those retirees is Executive Vice President Warren Owen, who completed a 44-year career with Duke Power upon his retirement February 1, 1992. Warren joined the Company in 1948 as an engineer in the steam production department. He transferred to design engineering in 1962 and became vice president of that area in 1971. In 1978, he was named senior vice president, engineering and construction, and became a member of the Board of Directors. Warren was named executive vice president, engineering and construction in 1982 and became responsible for engineering, construction and production in 1984. From 1988 until November 1, 1991, he was responsible for Power Group operations. Since November 1, he had been assistant to the chairman with responsibilities for implementing the reorganization.

During his career Warren was involved in the design and construction of new generating plants with a total of 14,295,000 kilowatts of capacity. His leadership contributed to the outstanding efficiency and operating performance recorded by the Company's fossil and nuclear plants, including a record of 17 straight years in which Duke's coal-fired plants have been ranked the nation's most efficient.



We will miss the intellect, leadership and dedication that Warren demonstrated throughout his years with Duke Power Company. We wish him and all his fellow retirees well as they begin their well-deserved retirements.

New Board Member Elected

Like all healthy organizations, Duke Power is continuously renewing itself with new talent and new perspectives. We welcomed to your Board of Directors last year G. Alex Bernhardt, president of Bernhardt Furniture Company of Lenoir, North Carolina. Bernhardt was elected to the Duke Power Board at last year's annual meeting of shareholders and brings to your Company in-depth business knowledge and expertise gained through more than 25 years of experience in furniture manufacturing and sales.

Our Strategic Plan

As you read through the rest of this year's Annual Report, you will become acquainted with Duke Power's Corporate Strategic Plan, which is guiding us in our quest for excellence. The plan is a significant achievement, because it clearly details the objectives we have set for ourselves over the next few years and, most importantly, how we will measure our success in attaining these objectives.

Excellence is a subjective term that often has different meanings to different people. Some say quality can't be measured, but at Duke Power we believe that by defining the components critical to business success and setting measurable objectives, we can define what is necessary for Duke Power to achieve excellence.

As you read about the strategic plan, keep in mind that while it is a roadmap for Duke Power's future, it charts an unfinished path. The plan concentrates on seven areas of strategic focus that we believe are important. These are the areas in which we will set objectives and deploy our resources. In the years ahead, the plan will almost certainly change as business circumstances change. In addition, as the excellence process itself creates change within Duke Power, of necessity the Company will modify the plan as old objectives are achieved and new ones evolve.

The planning process and the quest for excellence are tied together in a never-ending cycle. Out of that process, all of us at Duke Power are building an excitingly different company that offers greater opportunity, greater rewards and greater satisfaction for our customers, our employees and our shareholders.

We thank you for the confidence you demonstrate with your investment in this Company.

William S. Lee

William S. Lee
Chairman of the Board, President and Chief Executive Officer
February 7, 1992

The Company of Choice: A Strategy for Excellence

For nearly 90 years, Duke Power's commitment to citizenship and service has served the Company well. From a small company created to provide electric power to a handful of textile companies, Duke has grown to become the seventh-largest investor-owned utility in the country, based on kilowatt-hour sales, serving more than 1.6 million customers and 4.6 million people in the two Carolinas.

The Company's commitment to its customers has never been stronger. Other things, however, are different. In the last few years the ground rules have been altered in industry after industry. Rising competition, shifting markets and higher customer expectations have redefined business as usual for all kinds of companies.

While the extent of these changes thus far has not been as great in the electric utility industry as in some others, the inevitability of change has prompted Duke Power's drive to become The Company of Choice. The Company understands that anticipatory planning and preparation are the best ways to compete in a dynamic marketplace.

Guiding efforts to become The Company of Choice in the years ahead is the Company's Strategic Plan. Designed to be a flexible document that will change as market circumstances evolve, the plan currently identifies seven areas of strategic focus. Each

has specific and measurable goals on which the Company intends to concentrate its resources in the years ahead. In 1992, Duke will focus on:

- Customer satisfaction
- Financial management
- Nuclear excellence
- Team excellence
- Environmental leadership
- Expanded business opportunities
- Excellence management philosophy

These seven areas of focus were developed after an assessment of the external challenges facing the Company and of Duke's ability to meet those challenges. As a whole, the Strategic Plan stresses total commitment to employee involvement and empowerment, while encouraging a process of continuous improvement to enhance productivity. The Company embraces its new philosophy of excellence. It confirms the Company's commitment to several efforts, including decentralizing the organization and fully exploiting demand-side options.

The following pages detail Duke's future objectives in each area of strategic focus as well as report on the Company's performance in these areas during 1991. While the strategic objectives described are future goals, Duke's performance during 1991 provides a firm foundation for achieving the objectives the Company has set for itself in the Strategic Plan.

Duke Power's new Customer Service Center in Charlotte is the link between the Company and its customers. Built around a modern telecommunications system, the center has specially trained personnel available 24 hours a day to handle customer inquiries from anywhere in the Duke Power service area. The center won't be fully operational until the end of 1992, but during 1991 it handled 1.2 million customer calls.



Customer Satisfaction

Our strategic focus: To understand and meet our customers' expectations.

Shoppers in Spartanburg, S.C., may not realize it, but their local BI-LO grocery store is an energy laboratory. In a trial program underwritten by Duke Power, a sophisticated energy-monitoring system was installed. The system monitors air temperature, lighting, refrigeration, relative humidity, defrost and anti-sweat equipment, water heating and deli/bakery equipment. Information generated by the equipment spotlighted ways for BI-LO to reduce energy consumption by heating water more efficiently using a heat pipe heat exchanger. The heat pipe, a passive cooling system, permits the store to operate at a lower relative humidity, reducing the load on the store's refrigerated display cases. The work with BI-LO is just one example of Duke's increasing emphasis on demand-side programs to help customers find ways to use energy more efficiently.

Meeting the diverse needs and expectations of more than 1.6 million Duke Power customers is a demanding job. Many customers have precise energy requirements that call for close coordination between customers and their Duke Power representatives. Other customers' needs are not as complex, but they are striving to conserve energy and keep energy costs low. Regardless of their individual characteristics, the common denominator for all customers is the expectation that the Company will deliver reliable, reasonably priced electrical energy to meet their needs. To meet that expectation, Duke Power uses a mix of supply- and demand-side measures to ensure that customers have the electric power they need when they need it and at the lowest possible cost.

One customer-focused objective that will receive increasing emphasis in the future is reducing energy consumption through



1991 Sales-KWH

Residential	+4.0%	Total industrial	+1.5%
General service	+3.7%	All other	
Textile	+1.7%	Total	
Non-textile industrial	+1.3%		

demand-side programs. The goal of this program is to permit Duke to defer new generation capacity, consistent with the Integrated Resource Plan (IRP). This plan is prepared periodically and submitted to the two state utility commissions. It prescribes the combination of resources available to meet customers' electric needs 15 years into the future.

Customer Service Center Signals New Era of Service

In December, Duke Power completed construction of its new Customer Service Center and began consolidating customer service operations there. At year-end, the center was handling system-wide emergency dispatching after hours and on weekends and holidays, and about one-third of all other customer calls on a 24-hour-a-day basis. Even on this reduced basis, the Customer Service Center responded to 1.2 million telephone inquiries during 1991. By the end of 1992, the center will field all customer calls from throughout the service area 24 hours a day, seven days a week.

Announced in 1988, the Customer Service Center's mission is to provide a higher level of customer service. Duke customers anywhere on the system can call a local phone number to reach the center, located in Charlotte. Customer service representatives are trained to deal with almost any question or situation related to Duke Power, whether an emergency, a question about billing, a complaint or a request for new service. Duke's commitment is to provide live-voice answering, although the Company is researching electronic alternatives for use during

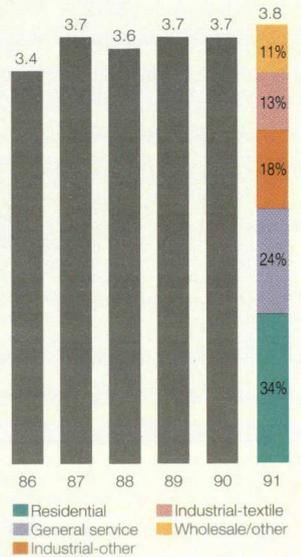


spread emergencies.

Creation of the Customer Service Center is, in part, a response to customers who said they prefer doing business by phone at times outside normal business hours. The Customer

Service Center will also provide faster responses for many areas in the service territory during storm outages. Duke continues to maintain a network of field offices that are available to customers who choose to

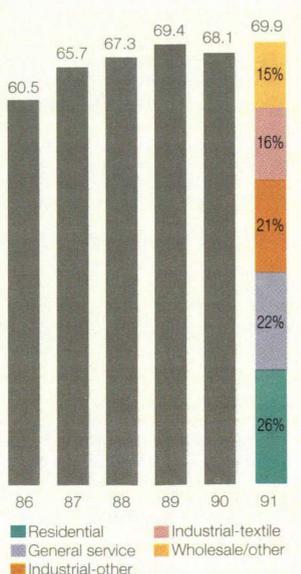
Electric revenues* Billions of dollars



*Beginning in 1987, restated to reflect reclassification of certain power transactions previously classified as net interchange and purchased power, per a recent FERC order.

The new NationsBank Corporate Center in uptown Charlotte is one of the tallest buildings in the Southeast. With more than 1,000,000 square feet of rentable space, the building required Duke Power to install a complete substation within the building — the first time in the Company's history that such a facility was built indoors.

Kilowatt-hour sales* Billions



*Beginning in 1987, restated to reflect reclassification of certain power transactions previously classified as net interchange and purchased power, per a recent FERC order.

do business in person during the business day.

Duke Marketing Programs Emphasize Demand-Side Management

An integral part of Duke Power's Strategic Plan is a growing reliance on Demand-Side Management (DSM) to meet future system energy needs. DSM attempts to influence customer energy consumption patterns to free up existing resources so they can be used to satisfy new customer growth.

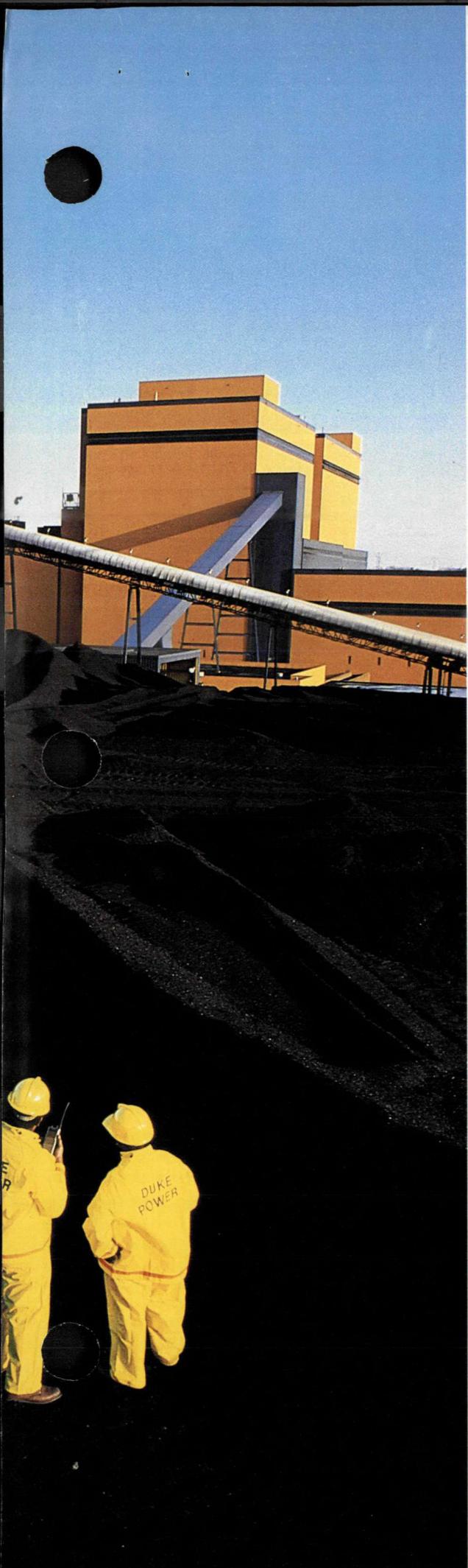
Demand-side resources can be created by improving customers' energy efficiency, reshaping customers' energy-use profiles, or allowing Duke to control certain appliances during emergency situations. Interruptible programs such as air-conditioner load control and various energy efficiency rebate programs make up a significant portion of the Company's comprehensive DSM plan.

With DSM, customers will have more options than ever before to control their energy bills. This is especially important to industrial customers who are looking for ways to be more competitive in world markets. In addition, Duke hopes to delay the need for a new base-load generating plant until sometime after 2005 by emphasizing DSM. Reclaiming energy resources from existing customers in most cases is more cost-effective than building new generation, and helps Duke meet its commitments to improve environmental quality.

Supply-side Solutions To Meet Customers' Needs

The 1990s will be a time of greater emphasis on energy conservation and efforts to curb demand. However, contributions from the supply side remain essential. Duke's projections indicate that the Company has adequate generating capacity to meet base-load requirements through the 1990s. Additional capacity will be needed to meet peak-load demands.





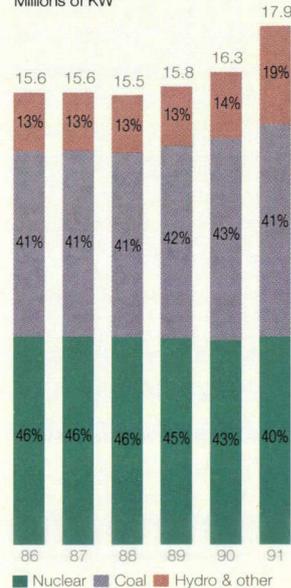
Toward this end, Duke Power completed one new generating plant in 1991 and moved ahead with plans to install additional peaking capacity. The Bad Creek Hydroelectric Station, which is licensed to provide 1,065,000 kilowatts of electric power, was completed in September, when units 3 and 4 went into commercial operation. Units 1 and 2 had been declared commercial in May. Thanks to the dedication and hard work of the hundreds of Duke Power employees who worked on the project, Bad Creek was completed about a year ahead of schedule at a cost savings of more than \$90 million. Duke Power's forecasts continue to show a need for additional peaking power during the late 1990s. Accordingly, plans continue to move ahead for the Lincoln Combustion Turbine Station, which will include the installation of up to 16 combustion turbine generators powered by oil or natural gas at a site in Lincoln County, North Carolina.

Coal-fired Units Continue To Lead In Efficiency

Duke's eight coal-fired generating plants provided 34 percent of the electric power used by the Company's customers in 1991. For the 17th consecutive year *Electric Light & Power* magazine ranked Duke's coal-fired system the country's most efficient, based on 1990 figures.

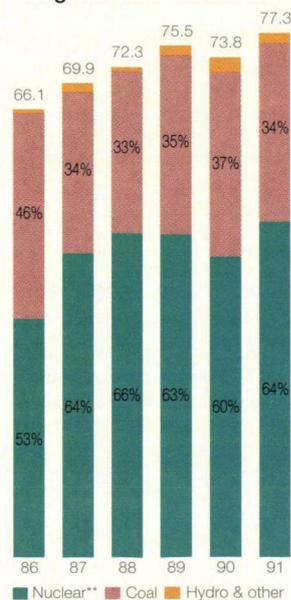
The ranking is based on heat rate, the number of British Thermal Units (BTUs) required to generate a kilowatt-hour of electricity. High efficiency translates into getting the most electricity from the least amount of coal burned. Duke's fossil system efficiency saved customers more than \$11 million in fuel costs they otherwise would have paid had the Company's plants been only as efficient as the second-ranked system. Efficiency helps keep the environment clean through reduced atmospheric emissions.

Generating capacity
Millions of KW



Coal reserves create a man-made mountain at Duke Power's Belews Creek Steam Station. Belews Creek is one of eight coal-fired generating plants Duke Power operates. As a group, the eight stations were ranked the nation's most efficient for the 17th straight year in 1990.

Net generation* Billions of KWH



*Excludes interchange power with the other joint owners of the Catawba Nuclear Station.
**Includes 100% of Catawba generation.

Our strategic focus: To manage the business to increase value and lower costs.

One of Duke Power's primary goals is to increase value both for customers and shareholders. Accomplishing that goal involves a combination of lower costs, increased productivity and cost-effective business decisions. Duke has four primary financial strategic objectives. First, the Company will place increased emphasis on controlling growth in total electric operating and maintenance expenses.

Second, Duke Power will control new capital expenditures and limit annual increases.

Third, the Company will maintain a double-A bond rating to ensure adequate access to financial markets.

Finally, Duke intends to increase shareholder dividends at a rate greater than the inflation rate and, over time, pay out up to 65 percent of earnings in dividends on common stock. Achieving this objective requires long-term growth in earnings at a like pace.

Accomplishing these objectives will enhance Duke Power's financial strength and attractiveness to investors, serving to make an already strong company even better going forward. In the year just passed, the Company's performance continued to improve. Earnings per share rose to \$2.60, up 8.3 percent over 1990. Total kilowatt-hour sales were up 2.7 percent, with the largest increases occurring in the residential and commercial market segments, which increased 4.0 percent and 3.7 percent respectively.

As part of Duke Power's commitment to increase the value of shareholders' investments, the Company sought rate increases to recover the cost of investing in the Bad Creek Hydroelectric Station and other increases in the cost of doing business. Through aggressive cost control, the Company managed its business to keep expenses as low as possible. The 1991 rate increase was the first for Duke Power customers in five years. In

fact, Duke Power retail rates had been lowered twice since the last general rate increase in 1986.

In November, the North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSCSC) ruled on the Company's request for a combined \$295 million increase in annual revenues from customers in the Carolinas. In North Carolina, the NCUC approved a 4.2 percent increase, which will result in an additional \$100.1 million a year, and approved an ROE of 12.50 percent. In South Carolina, the PSCSC granted an increase of \$30.2 million, or 3.0 percent, with a 12.25 percent ROE. In September, Duke Power filed an application with the Federal Energy Regulatory Commission (FERC) to increase rates on power sold to Duke's wholesale customers, who represent about 2 percent of the Company's business. A negotiated settlement with these customers, which is consistent with the increase in retail rates, is pending FERC approval.

A specific objective in Duke Power's financial strategic focus is to increase the common stock dividend at a rate greater than the annual inflation rate. This is a very tangible result for shareholders in Duke Power's focus on financial excellence. In September, the Company increased its common stock quarterly dividend 5 percent to 43 cents a share, up two cents. The action marked the 16th straight year that the Board of Directors increased the dividend. Duke Power has paid shareholders dividends for 65 consecutive years.

Another specific financial objective is to control expenses. Late in the fourth quarter the Company seized upon opportunities made available by declining interest rates to refinance two existing debt issues at lower rates. A third issue was refinanced in early 1992. As a result, the Company will save approximately \$43

Capital Structure
(Excludes current maturities)
Billions of dollars



Duke Power's stock has been listed on the New York Stock Exchange since 1961. The Company depends on a combination of equity and debt to fund its capital projects. Duke Power continues to work to enhance shareholder value.

million over the lives of the refunding periods.

In other financing activity, Duke issued \$100 million in First and Refunding Mortgage Bonds in March to finance additions to electric plant and acquire nuclear fuel.

In April, the Company changed its method of funding its dividend reinvestment plan and employee stock plans from buying stock on the open market to issuing new shares of stock. The gradual issuance of new

common stock to satisfy plan requirements resulted in the issuance of approximately 2.1 million shares of stock for \$61.8 million between April 1 and November 30. The Company returned to open-market funding of the plans in December. These decisions were made to maintain previously set goals for balancing the composition of the Company's capital between common stock, preferred stock and long-term debt.



Bond Redemptions Help Duke Save

Responding to lower interest rates in late 1991, Duke Power refinanced several bond issues.

In December, Duke Power redeemed its 10½ percent First and Refunding Mortgage Bonds due in May 2009 and replaced them with the proceeds from the sale of \$150 million of 8¾ percent First and Refunding Mortgage Bonds due in 2021. In the same month, Duke called its 8½ percent First and Refunding Mortgage Bonds due in July 1995. To replace these funds, Duke sold \$125 million in bonds through its medium-term notes facility with maturities of three to four years and rates of 6.06 to 6.60 percent. Replacing the old bonds will save \$26 million over the refunding periods.

In January 1992, the Company issued call notices to redeem on February 10, 1992, its 9¾ percent First and Refunding Mortgage bonds due in May 2004. To replace these funds, Duke sold \$100 million in bonds maturing in 2004 at rates of 7.37 to 7.41 percent through its medium-term notes facility. This refinancing will save \$17 million over the remaining life of the called bonds.

Our strategic focus: To safeguard the public and our nuclear investment.

Duke Power operates a total of seven nuclear reactors at three nuclear stations, the second-highest number operated by any utility in the United States. Since 1973, when units at Oconee Nuclear Station came on line, the Company has built a solid reputation for reliability and safety.

All three of Duke's nuclear stations operate nuclear training academies, which are accredited by the National Academy for Nuclear Training, an independent industry organization created to promote quality training of nuclear personnel and safer operation of nuclear plants. Duke Power was the first nuclear utility in the industry to gain academy accreditation at all its nuclear locations. That dedication to training, coupled with a stringent maintenance program, paid off in 1991 when the nuclear stations collectively ran at an average 80 percent of capacity, well ahead of the national average of 67 percent in 1990, the most recent year for which national figures are available. The seven reactors at the Oconee, McGuire and Catawba stations continue to provide the bulk of the Company's base-load demand, last year producing 64 percent of all electricity generated.

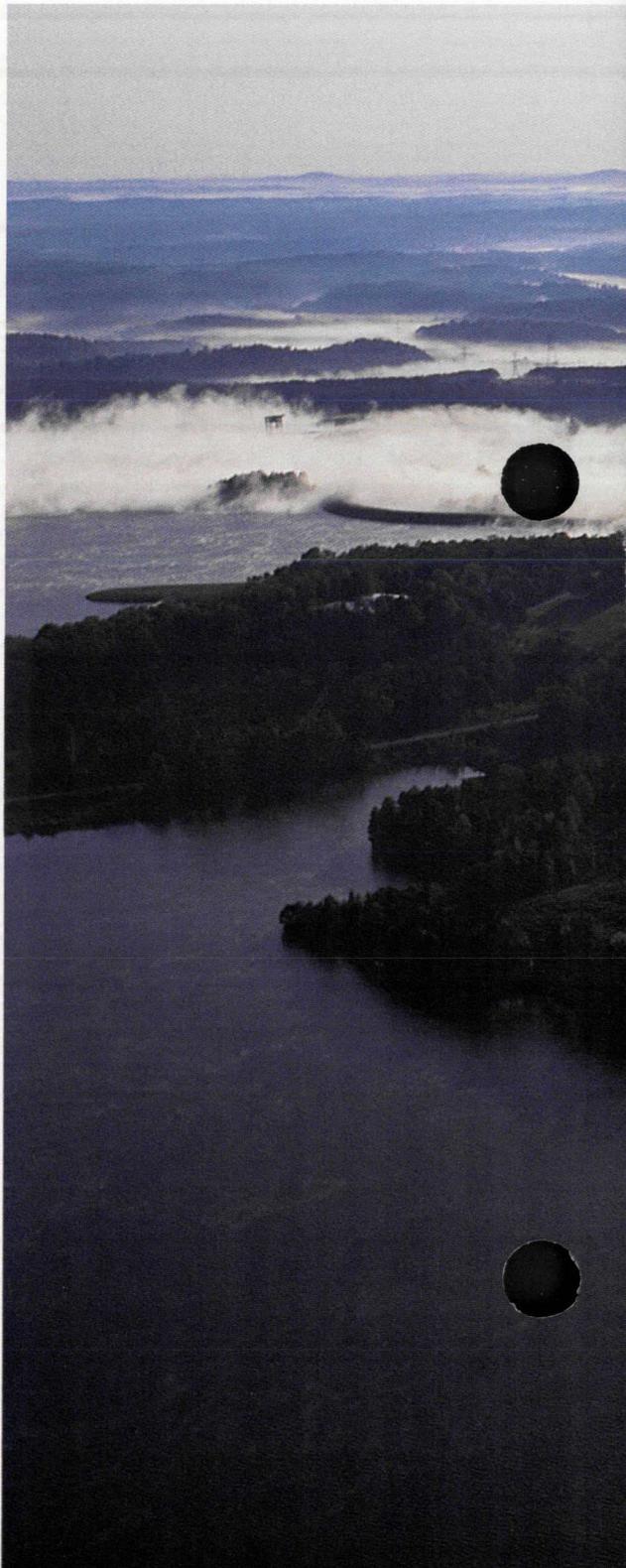
Based on Nuclear Regulatory Commission (NRC) statistics for 1990, the latest year that such figures are obtainable, the Catawba Nuclear Station was the nation's most efficient multi-unit nuclear plant in 1990, followed in second place by Oconee Nuclear Station. McGuire Nuclear Station was the nation's fifth most efficient.

In November, Oconee Unit 3 experienced a tubing break in an instrumentation line, causing reactor water to spill into the containment building, where it was isolated. The operating team performed with professional excellence in controlling the incident. The unit was returned to service in

early January.

Oconee Unit 1 achieved the distinction of becoming the first reactor to generate 10 billion kilowatt-hours. This milestone was due, in part, to Duke's highly sophisticated preventive maintenance program that is designed to keep it and all of the Company's nuclear units in excellent operating condition. Because roughly two-thirds of Duke's

Early morning sun burns away the mist rising from Lake Keowee at Duke Power's Oconee Nuclear Station, one of three nuclear facilities the Company operates. Duke's nuclear stations operated at a capacity factor of almost 80 percent in 1991.



generation is provided by nuclear units, the Company made excellence in nuclear operations an area of strategic focus. As part of this focus, Duke has set two objectives to measure its success. In the years ahead, Duke intends to maximize nuclear's contribution as measured by actual net generation. This means that the nuclear units will remain on-line longer due to improved

maintenance, reduced outage time and improved operating procedures.

The overall quality of nuclear operations will be measured using a performance evaluation index. The index is an equation created by using ratings from the Institute of Nuclear Power Operations and the NRC's Systematic Assessment of Licensee Performance.



Team Excellence

Our strategic focus: To prepare the team to achieve excellent business results, and reward success.

To attain excellence at Duke Power, employees throughout the Company must work as a team, which requires employees who understand Duke Power's business, their role in the Company's success and how the Company's success benefits them.

The Strategic Plan sets several objectives for the next few years designed to diversify Duke's workforce, increase training and improve employee efficiency. One such objective is to fill more than 20 percent of management positions with females and minorities near the turn of the century.

As part of its training efforts in 1991, Duke completed specialized training to teach all employees basic skills about decision-making, assuming responsibility, adapting to change, creating partnerships and other aspects of the excellence management philosophy. These skills build a common foundation among employees and the sense of

teamwork that is a critical part of the excellence process. The training objective is to provide a minimum of 24 hours of training each Duke Power employee during 1992, much of which will be met through quality improvement implementation.

Quality improvement techniques will be an integral tool in achieving the objectives of the Strategic Plan. To determine the techniques most beneficial to the Company, Duke created "Quality Improvement Flagships" at several Company locations in 1991. Lessons learned through the flagships will be expanded in coming months as all employees become involved in the training and the quality improvement process.

Duke completed a massive examination of its rewards system in 1991. Called the Rewards System Alignment Project, the study helped pinpoint how Duke's employee rewards — pay, benefits and other policies — should be designed to encourage and motivate employees to embrace the Company's vision.

Subsequently named "Rewarding Excellence," the study resulted in many improvements. New compensation and incentive programs tie employee pay and rewards more closely to individual and team performance. Overall, changes made under Rewarding Excellence are designed to give employees more job responsibility and choice in how they are rewarded.

Duke Power employees continue to be involved in the communities in which they live and work. More than 2,000 employees system-wide participated in the Company's Power in Education program, giving their time and skills to help students improve academically.

Duke employees continue to support the United Way. Collectively, employees pledged approximately \$2.6 million to campaigns in the Carolinas during a year marked by reduced contributions in many local campaigns.





Duke Power believes in quality day care for children like these at Bright Horizons Children's Center. Duke is one of four major Charlotte employers who formed a consortium to open the Bright Horizons Center, located near the Duke Power Customer Service Center in Charlotte's University Research Park.

Our strategic focus: To provide leadership to maintain a sustainable environment.

Duke Power uses thousands of pounds of solvents annually. To reduce the amount of solvents that must be purchased and disposed of each year, the Company uses solvent recovery units like this one. With the recovery units, solvents used in painting, cleaning and degreasing activities can be recycled for re-use, while the volume of hazardous waste disposed is greatly reduced.

Duke Power has a long-standing commitment to environmental quality. In 1923 Duke started an effort to control mosquitoes on its lakes adjacent to its hydroelectric stations, becoming one of the first utility companies in the country to launch an environmental program. In the years since, maintaining environmental quality has been a major consideration in all Duke Power projects.

Today, the Company employs more than 200 environmental scientists, technicians and engineers. Working out of the Applied Science Center on Lake Norman, just north of Charlotte, the mission of these employees is to monitor and safeguard the air, water and other natural resources surrounding the Company's 38 generating plants. They also conduct environmental impact studies for future facilities.

Duke's commitment to environmental stewardship is reflected in the fact that the Company has set objectives for itself as part of

the Strategic Plan. An objective in this area is to reduce the volume of wastes produced by the Company using a pollution prevention measure. This measure will track emissions discharges and wastes with a focus on reducing pollution through minimization and prevention.

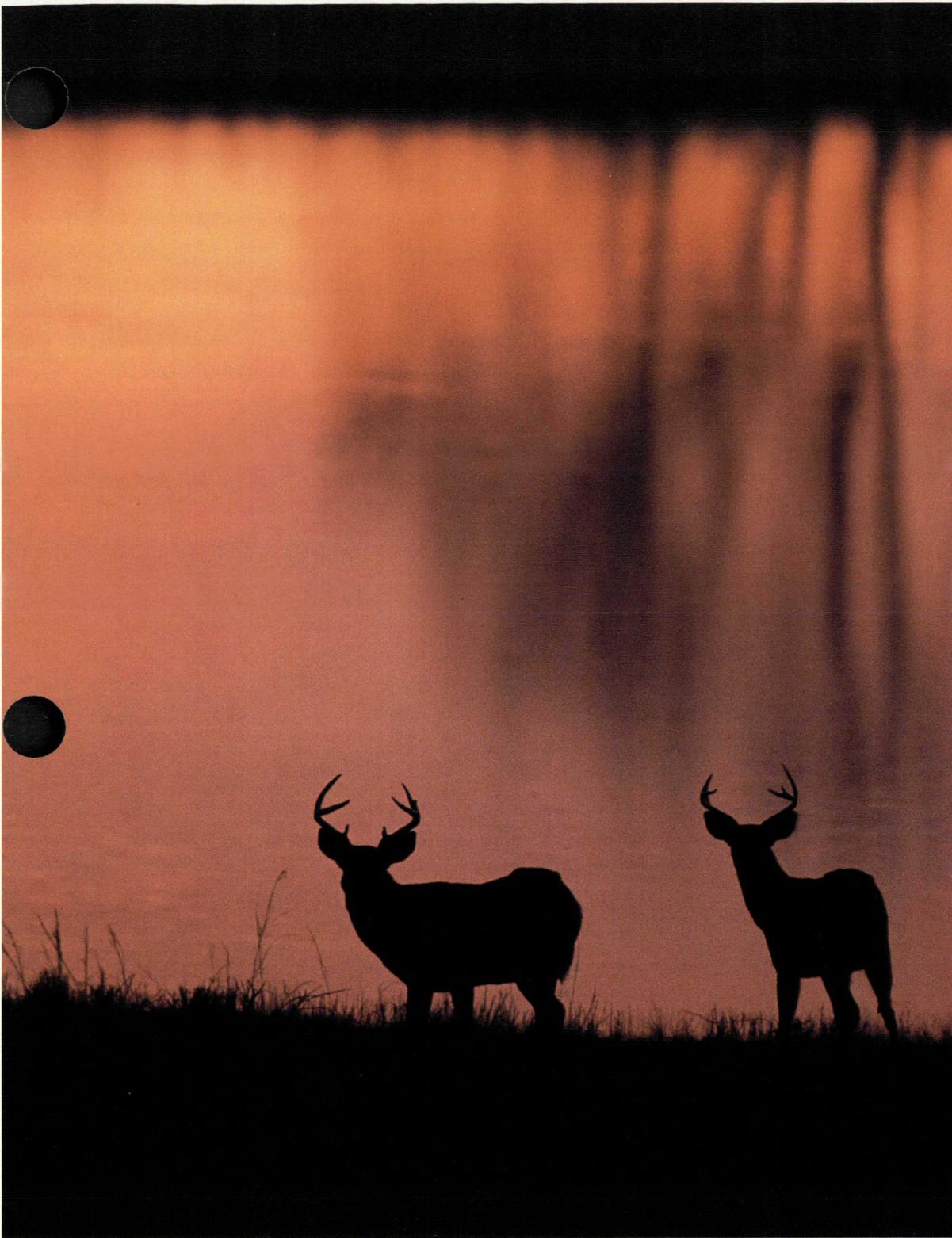
Duke has long been concerned about recycling and reducing the amount of waste and emissions. For years, Duke Power has used low-sulfur coal in its coal-fired plants, which, when coupled with its nuclear plants, means Duke maintains one of the lowest sulfur emission rates per kilowatt-hour of electricity generated of any utility in the nation. As a result, Duke's sulfur dioxide emissions already comply with the limits mandated under Phase I of the Clean Air Act, which gives companies until 1995 to comply.

Electrostatic precipitators on the boilers at Duke's coal plants trap more than 99 percent of the fly ash before it goes up the stack. The fly ash is collected and some is recycled into concrete and other building materials. Solvents used in painting, cleaning and degreasing activities are recycled, which saves resources in two ways. It reduces the amount of chemical waste that must be disposed of and the amount of solvents that must be purchased.

Recycling also reduces the amount of solid waste that would normally go to landfills. Millions of pounds of scrap metal — aluminum, copper and steel — are recycled each year. Hundreds of thousands of pounds of lead are recovered each year from recycled batteries of all sizes. Transformer oil and used motor oil are reprocessed and used as boiler fuel. Even old asphalt is being recycled for paving.

Duke employees annually recycle thousands of tons of paper, which is effectively reducing the total waste output from Duke's corporate offices. Many field offices have





Mecklenburg County is one of North Carolina's most urbanized areas, yet there's still room for wildlife like these deer feeding at sundown on land owned by Crescent Resources near Duke Power's Riverbend Steam Station. Always concerned about the quality of our environment, Crescent has offered the land for sale to Mecklenburg County to maintain it as a wildlife preserve.

independent, employee-driven recycling programs that include both paper and aluminum soft-drink cans.

The Company is applying state-of-the-art technology to limit nuclear waste, linking economy and ecology in yet another area. By reducing the volume of low-level radioactive waste, such as clothing and tools, Duke both

saves money and limits the material that must be handled at disposal sites.

Duke's efforts to date already place the Company in a leadership position regarding environmental protection. By making it one area of strategic focus, Duke is ensuring that this position is not only maintained, but enhanced in the years ahead.

Our strategic focus: To profitably use our strengths to serve a variety of customers and enhance developmental opportunities for employees.

200 Meeting Street in Charleston, S.C., which opened in the summer of 1991, is one of Crescent Resources' most recent commercial developments. The 144,000-square-foot building is anchored by the Charleston headquarters of NationsBank.



Duke Power's subsidiaries and affiliates continue to reflect the Company's determination to develop business opportunities in areas related to Duke's core business. Duke Engineering & Services, Inc. (DE&S), Duke/Fluor Daniel and Duke Energy Corp. are all involved in energy-related projects, and many of their employees previously worked for Duke Power. Creating these companies served as an excellent way for Duke to maintain these employees' design-and-build expertise and to hone their skills for future projects. Crescent Resources, Inc., conducts an extensive forestry operation and continues to develop commercial and residential real estate projects. Collectively, more than 440 people work for these four companies and are helping add value to Duke Power's stock.

DE&S continued profitable growth in 1991. During the year the company worked on 147 projects for 90 clients and doubled its workforce. DE&S now provides its own environmental management, assessments, impact statements and audits, restoration

services and radioactive waste management services. Highlighting work in this area is a contract to assist the U.S. Department of Energy with the nation's civilian radioactive waste management program. More than 70 DE&S employees were assigned to this project at the end of 1991.

DE&S's Nuclear Power Services division, which provides project management and outage support services, is helping assess the status of the Tennessee Valley Authority's Bellefonte nuclear units. The National Nuclear Programs division offers engineering services, management consulting and on-site staffing for U.S. government facilities and agencies.

Other services offered by DE&S include engineering, project management, siting and licensing for combustion turbine, hydroelectric and advanced nuclear and fuel cycle facilities.

Duke Energy Corp. continues to pursue development and ownership of advanced coal-fueled generating facilities, principally in the eastern United States. Additionally, the company is selectively pursuing international projects. Construction on the Mecklenburg Cogeneration Facility began in May. A joint venture between Duke Energy and Transco Power Company, the 130,000-kilowatt coal-fired plant will provide electricity for Virginia Power and steam energy for Burlington Industries in Mecklenburg County, Virginia. Duke Energy and Transco share equally in the \$175 million plant, which is scheduled for completion in November 1992.

Duke/Fluor Daniel, a partnership between DE&S and Fluor Daniel, a subsidiary of Fluor Corporation of Irvine, California, is designing and building the facility and will operate it upon its completion.

Duke/Fluor Daniel also signed a contract in 1991 to design, engineer and build a 385,000-kilowatt coal-fired generating plant for South Carolina Electric & Gas Co.



Expertise in radioactive waste management is one reason Duke Engineering & Services, Inc. (DE&S), was chosen to be a member of a team assisting the U.S. Department of Energy with the nation's civilian radioactive waste management program. DE&S is one of several Duke subsidiaries or affiliates capitalizing on existing expertise and assets within the organization to build income-producing enterprises.

Construction of the plant is scheduled to begin in late 1992, with completion and commercial operation set for 1996. The \$450 million project is located in Orangeburg County, South Carolina, near the town of Cope.

During 1991, Crescent Resources completed construction of a four-story, 144,000-square-foot office building in Charleston, South Carolina. The anchor tenant for this commercial development is the Charleston headquarters of NationsBank, the fourth-largest bank in the U.S. At year-end, 79 percent of Crescent's 1,134,000 square feet of commercial, retail, office and warehouse space was leased. Further real estate developments are a renewal of demand.

Sales at The Peninsula, a 600-acre residential community on Lake Norman in North Carolina, remained strong in 1991 despite a general downturn in the real estate market. The private residential community had

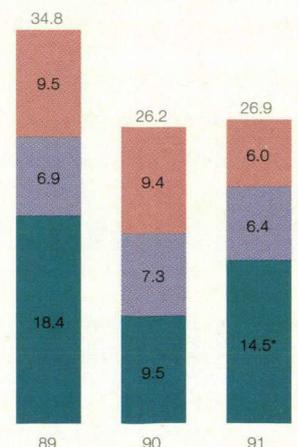
sold 116 lots with 59 homes built or under construction at the end of 1991. And late in the year, Crescent broke ground for a \$3 million, 30,000-square-foot clubhouse at The Peninsula Club.

Crescent's forestry division, which manages approximately 270,000 acres of land within Duke's service area, harvested 23.2 million board feet of timber and 48,700 cords of pulpwood for the construction, furniture and paper industries.

As Duke Power's subsidiaries and affiliates build their businesses, specific objectives have been set for their future. The overriding strategy continues to stress capitalizing on existing expertise and assets to build income-producing enterprises. In 1991, Duke's subsidiaries and affiliates contributed 5 percent of corporate earnings, or 13 cents per share. The Company intends for Duke's diversified businesses to improve their contributions to corporate profits.

Subsidiary and Non-Utility Earnings

Millions of Dollars
(From investments and diversified operations)



■ Operating subsidiary income
■ Church Street Capital Corp. investment income
■ Other non-utility earnings

*Excludes the cumulative effect of an accounting change of \$6.7 after tax.

Our strategic focus: To implement the Excellence Management Philosophy throughout our business.

The seventh area of strategic focus at Duke Power is possibly the most important. Establishing a philosophy of excellence is critical to achieving the objectives set forth in all areas of strategic focus that the Company has set for itself.

What is the excellence management philosophy? More than just a stated dedication to excellence, Duke's excellence management philosophy comprises eight elements: values of trust and teamwork; leaders who create vision and remove barriers to success; a customer focus; employees who are considered the Company's most important asset; employees who are involved in Company processes; a commitment to continuous improvement; use of adequate data and measurement to gauge improvement; and recognition that vendors and customers are partners in Duke Power's business.

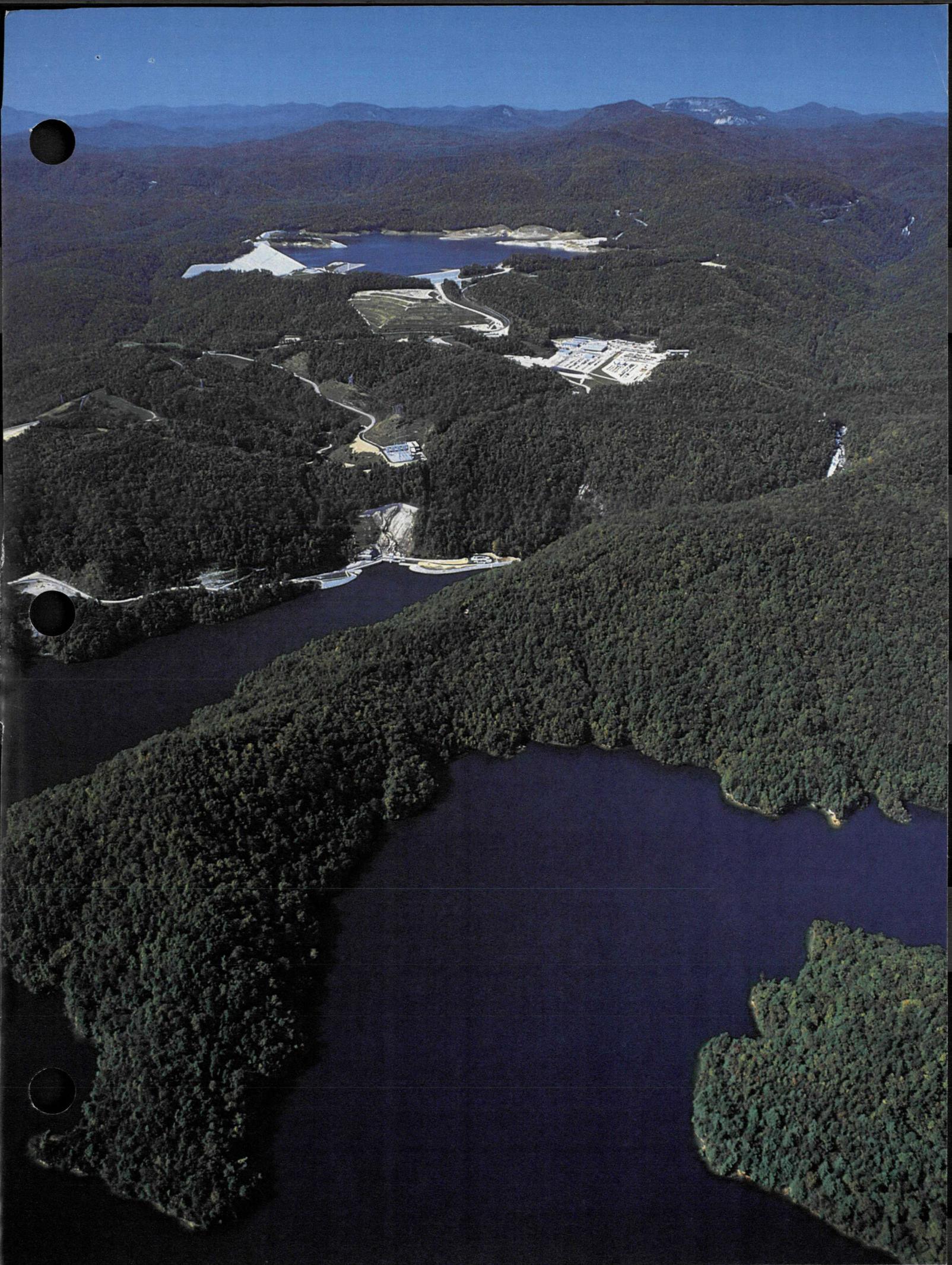
The upper reservoir at the Bad Creek Hydroelectric Station gleams in the morning sunlight in the South Carolina mountains rising above Lake Jocassee. The massive, 10-year construction project was completed in 1991 and is now producing power for Duke Power customers throughout the system.

The Company will gauge its success in achieving the excellence management philosophy by conducting periodic assessments against the Malcolm Baldrige National Quality Award criteria. These assessments use measures developed by the U.S. Department of Commerce for use by companies wanting to improve operations through comparison with excellent national companies. By 1996, Duke's objective is to score at a world-class level on the assessment. Since its inception in 1987, the Baldrige award — named after the late Malcolm Baldrige, Secretary of Commerce under President Reagan — has quickly risen to symbolize the best that corporate America has to offer the world.

A Road Stretching Beyond the Horizon

Objectives for customer satisfaction, financial management, nuclear excellence, team excellence, environmental leadership, expanding business opportunities and excellence: These are the areas of strategic focus around which Duke Power created its Strategic Plan. The plan is the start of a process that really has no end. Like individuals, companies cannot attain excellence and expect to maintain it without continuous effort. Duke Power employees are beginning to understand the process. As employees work together in the years ahead to refine their planning, the process will continue to broaden and involve employees at all levels throughout the Company. The goal is complete commitment and involvement of every employee.

As a customer, an employee, a shareholder or a supplier, you have made a choice to purchase from, work with, invest in or sell to Duke Power. By fulfilling its vision, Duke Power will justify and enhance your decision by becoming The Company of Choice for new customers, employees, shareholders and suppliers for years to come.



Glossary of Terms

<i>Base Load</i>	Base load is the amount of electric power delivered or needed at the lowest point of demand during the day. At Duke Power, base-load demand is met primarily by the Company's nuclear and coal-fired generating plants.
<i>Peak Load</i>	Peak load is the amount of electricity required during periods of highest demand. Peak periods fluctuate by season, generally occurring in the morning hours in winter and in late afternoon during the summer. At Duke Power, peak-load demand is met by power generated at the Company's hydroelectric stations, combustion turbine units and some smaller coal-fired plants.
<i>Demand-side Management (DSM)</i>	Demand-side management is the process to modify electricity use patterns of customers and promote energy efficiency. Load control, half-price water heating and interruptible service are examples of DSM programs offered. Customers participating in the programs are offered special rates in exchange for permitting Duke to limit their power consumption during periods of peak demand. Controlling peak demand enables Duke to postpone the construction of new peaking capacity.
<i>Supply-side Options</i>	Supply-side options refer to choices Duke Power has in meeting energy demands through the construction of new generating capacity or bulk purchases from other utilities. The Company uses a mix of nuclear, fossil-fuel and hydroelectric generating plants to produce electricity.
<i>Integrated Resource Plan (IRP)</i>	A plan prepared annually forecasting Duke customers' energy needs over the next 15 years. It combines supply-side options and demand-side management options into the best mix that will provide affordable and reliable electricity to Duke's customers. The plan is submitted to the two state utility commissions.
<i>Return on Equity</i>	Return on equity is a measure of profitability. Common stock equity, which is listed in the Company's Statement of Capitalization, is common stock outstanding plus retained earnings. Return on equity is calculated by dividing earnings on common stock by average common stock equity.
<i>Dividend Payout Ratio</i>	The portion of earnings available for common stock which is paid to common shareholders in dividends. The ratio is calculated by dividing dividends per common share by earnings per common share.

Consolidated Statements of Income

Dollars in Thousands	Year ended December 31,	1991	1990	1989
Electric revenues (Notes 1, 2 and 14)		<u>\$3,816,960</u>	<u>\$3,705,131</u>	<u>\$3,692,955</u>
Electric expenses				
Operation				
Fuel used in electric generation (Note 1)		657,725	660,298	660,212
Net interchange and purchased power (Notes 3 and 14)		545,840	565,034	567,805
Wages, benefits and materials		622,121	564,624	508,743
Maintenance of plant facilities		354,679	403,831	348,944
Depreciation and amortization (Notes 1 and 10)		431,624	405,762	410,938
General taxes		204,688	197,087	184,134
Income taxes (Notes 1 and 4)		293,460	265,712	307,579
Total electric expenses		<u>3,110,137</u>	<u>3,062,348</u>	<u>2,988,355</u>
Electric operating income		<u>706,823</u>	<u>642,783</u>	<u>704,600</u>
Other income (Notes 1, 4 and 13)				
Allowance for equity funds used during construction		50,704	79,176	61,347
Other, net		102,884	54,210	28,930
Income taxes — other, net		(25,472)	(15,284)	(9,053)
Income taxes — credit		22,789	28,638	20,602
Total other income		<u>150,905</u>	<u>146,740</u>	<u>101,826</u>
Income before interest deductions		<u>857,728</u>	<u>789,523</u>	<u>806,426</u>
Interest deductions				
Interest on long-term debt		274,662	260,333	237,187
Other interest		18,834	21,296	16,505
Allowance for borrowed funds used during construction (credit) (Note 1)		(19,391)	(30,294)	(18,877)
Total interest deductions		<u>274,105</u>	<u>251,335</u>	<u>234,815</u>
Net income		<u>583,623</u>	<u>538,188</u>	<u>571,611</u>
Dividends on preferred and preference stocks		<u>54,683</u>	<u>52,616</u>	<u>52,477</u>
Earnings for common stock		<u>\$ 528,940</u>	<u>\$ 485,572</u>	<u>\$ 519,134</u>
Common stock data (Note 6)				
Average shares outstanding (thousands)		203,431	202,570	202,554
Earnings per share		\$2.60	\$2.40	\$2.56
Dividends per share		\$1.68	\$1.60	\$1.52

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Dollars in Thousands	Year ended December 31,	1991	1990	1989
Cash flows from operating activities				
Net income		\$ 583,623	\$ 538,188	\$ 571,611
Adjustments to reconcile net income to net cash provided by operating activities:				
Non-cash items				
Depreciation and amortization (Notes 1 and 10)		619,823	576,268	605,105
Deferred income taxes and investment tax credit, net of amortization (Note 4)		27,456	31,850	61,063
Allowance for equity funds used during construction		(50,704)	(79,176)	(61,347)
Purchased capacity levelization (Note 3)		(70,605)	(93,853)	(95,216)
Other, net		(32,149)	(19,194)	21,154
(Increase) Decrease in				
Accounts receivable		(45,412)	56,353	(63,285)
Materials and supplies		6,866	(28,535)	(13,960)
Prepayments		181	356	915
Increase (Decrease) in				
Accounts payable		44,265	(5,181)	29,249
Taxes accrued (Notes 1 and 4)		11,739	(42,034)	49,961
Interest accrued and other liabilities (Notes 1 and 9)		12,863	31,728	3,628
Total adjustments		<u>524,323</u>	<u>428,582</u>	<u>537,267</u>
Net cash provided by operating activities		<u>1,107,946</u>	<u>966,770</u>	<u>1,108,878</u>
Cash flows from investing activities				
Construction expenditures		(572,705)	(836,474)	(819,000)
Investment in nuclear fuel		(183,803)	(136,528)	(179,000)
Net change in investment securities (Note 1)		<u>(35,807)</u>	<u>23,952</u>	<u>26,515</u>
Net cash used in investing activities		<u>(792,315)</u>	<u>(949,050)</u>	<u>(972,377)</u>
Cash flows from financing activities				
Proceeds from the issuance of				
First and refunding mortgage bonds		414,297	385,293	—
Pollution-control trust		—	1,187	15,906
Nuclear fuel trusts		—	—	50,945
Short-term notes payable, net (Note 5)		(99,000)	15,000	170,000
Other long-term debt		—	—	130,000
Preferred stock		—	73,875	—
Common stock		48,014	—	—
Payments for the redemption of				
First and refunding mortgage bonds		(279,970)	(108,893)	—
Nuclear fuel trusts		—	—	(136,945)
Preferred stock		(9,650)	(8,025)	(8,025)
Payments under capital lease obligation		(5,662)	(5,185)	(4,748)
Dividends paid		<u>(381,589)</u>	<u>(376,720)</u>	<u>(360,352)</u>
Net cash used in financing activities		<u>(313,560)</u>	<u>(23,468)</u>	<u>(143,219)</u>
Net increase (decrease) in cash		2,071	(5,748)	(6,718)
Cash at beginning of year		<u>8,210</u>	<u>13,958</u>	<u>20,676</u>
Cash at end of year		<u>\$ 10,281</u>	<u>\$ 8,210</u>	<u>\$ 13,958</u>

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Assets

Dollars in Thousands	December 31,	1991	1990
Electric plant (at original cost — Notes 1, 3, 9 and 12)			
Electric plant in service	\$11,830,211	\$10,224,921	
Less accumulated depreciation and amortization	<u>3,915,761</u>	<u>3,614,122</u>	
Electric plant in service, net	<u>7,914,450</u>	<u>6,610,799</u>	
Nuclear fuel	2,004,441	1,870,975	
Less accumulated amortization	<u>1,722,192</u>	<u>1,552,977</u>	
Nuclear fuel, net	<u>282,249</u>	<u>317,998</u>	
Construction work in progress (including nuclear fuel in process: 1991 - \$183,812; 1990 - \$124,259)	<u>501,942</u>	<u>1,521,391</u>	
Total electric plant, net	<u>8,698,641</u>	<u>8,450,188</u>	
Other property and investments			
Other property — at cost (less accumulated depreciation: 1991 - \$77,261; 1990 - \$73,783)	187,788	189,627	
Other investments, at cost or less	<u>99,005</u>	<u>100,366</u>	
Total other property and investments	<u>286,793</u>	<u>289,993</u>	
Current assets			
Cash (Note 5)	10,281	8,210	
Short-term investments	92,003	54,835	
Receivables (less allowance for losses: 1991 - \$4,988; 1990 - \$3,683) (Note 1)	508,898	463,486	
Materials and supplies — at average cost			
Coal	96,361	86,477	
Other	192,295	209,045	
Prepayments	<u>10,672</u>	<u>10,853</u>	
Total current assets	<u>910,510</u>	<u>832,906</u>	
Deferred debits			
Purchased capacity costs (Note 3)	337,699	295,932	
Canceled construction projects (Note 10)	67,302	105,715	
Debt expense (Note 1)	86,018	77,932	
Other (Note 13)	<u>83,652</u>	<u>30,841</u>	
Total deferred debits	<u>574,671</u>	<u>510,420</u>	
Total assets	<u>\$10,470,615</u>	<u>\$10,083,507</u>	

Capitalization and Liabilities

Capitalization (See Consolidated Statements of Capitalization)	\$ 7,956,498	\$ 7,661,504
Current liabilities		
Accounts payable	336,488	299,802
Taxes accrued (Note 1)	46,318	34,579
Interest accrued	73,410	73,878
Other	<u>93,668</u>	<u>86,757</u>
Total	<u>549,884</u>	<u>495,016</u>
Notes payable (Note 5)	86,000	185,000
Current maturities of long-term debt and preferred stocks	<u>115,777</u>	<u>13,687</u>
Total current liabilities	<u>751,661</u>	<u>693,703</u>
Accumulated deferred income taxes (Notes 1 and 4)	<u>1,293,594</u>	<u>1,256,223</u>
Deferred credits and other liabilities		
Investment tax credit (Notes 1 and 4)	307,743	322,802
Other	<u>161,119</u>	<u>149,275</u>
Total deferred credits and other liabilities	<u>468,862</u>	<u>472,077</u>
Commitments and contingencies (Note 12)		
Total capitalization and liabilities	<u>\$10,470,615</u>	<u>\$10,083,507</u>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Capitalization and Retained Earnings

Dollars in Thousands	December 31,	1991	1990
Capitalization			
Common stock equity (Notes 6 and 7)			
Common stock, no par, 300,000,000 shares authorized; 204,699,851 shares outstanding for 1991 and 202,584,324 shares outstanding for 1990		\$ 1,924,998	\$1,862,978
Retained earnings		<u>2,141,259</u>	<u>1,953,779</u>
Total common stock equity		<u>4,066,257</u>	<u>3,816,757</u>
Preferred and preference stocks without sinking fund requirements (Note 7)		<u>502,016</u>	<u>502,201</u>
Preferred stocks with sinking fund requirements (Note 8)		<u>228,650</u>	<u>239,800</u>
Long-term debt (Note 9)			
First and refunding mortgage bonds		3,105,042	2,934,098
Capitalized leases		59,966	65,628
Other long-term debt		130,000	130,000
Unamortized debt discount and premium, net (Note 1)		(29,181)	(21,318)
Current maturities of long-term debt		<u>(106,252)</u>	<u>(5,662)</u>
Total long-term debt		<u>3,159,575</u>	<u>3,102,746</u>
Total capitalization		<u>\$ 7,956,498</u>	<u>\$7,661,504</u>

Dollars in Thousands	Year ended December 31,	1991	1990	1989
Retained Earnings				
Balance — Beginning of year		\$1,953,779	\$1,793,829	\$1,581,901
Add — Net income		<u>583,623</u>	<u>538,188</u>	<u>571,611</u>
Total		<u>2,537,402</u>	<u>2,332,017</u>	<u>2,153,512</u>
Deduct				
Dividends				
Common stock		341,801	324,104	307,875
Preferred and preference stocks		54,683	52,616	52,477
Capital stock transactions, net		<u>(341)</u>	<u>1,518</u>	<u>(669)</u>
Total deductions		<u>396,143</u>	<u>378,238</u>	<u>359,683</u>
Balance — End of year		<u>\$2,141,259</u>	<u>\$1,953,779</u>	<u>\$1,793,829</u>

See Notes to Consolidated Financial Statements.

Notes To Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Revenues

Revenues are recorded as service is rendered to customers. Receivables on the Consolidated Balance Sheets include \$165,629,000 and \$168,069,000 as of December 31, 1991 and

1990, respectively, for service that has been rendered but not yet billed to customers.

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 8.86 percent for 1991, 9.13 percent for 1990 and 9.35 percent for 1989.

D. Depreciation and Amortization

Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.48 percent for 1991, 3.57 percent for 1990 and 3.58 percent for 1989. Effective with the implementation of new rates in November 1991, all coal-fired generating units are depreciated at a rate of 2.57 percent and all nuclear units are depreciated at a rate of 4.70 percent, of which 1.61 percent is for decommissioning.

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 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. Effective with the implementation of new retail rates in November 1991, the North Carolina Utilities Commission and The Public Service Commission of South Carolina granted the Company recovery of the estimated site-specific decommissioning costs through retail rates.

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 spent 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," page 41.)

F. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes have been 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 and canceled construction projects. 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 re-

spective 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 rates 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. In 1991 the statute was extended through June 30, 1997.

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 an original 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 \$245,945,000 in 1991, \$194,339,000 in 1990 and \$188,125,000 in 1989.

Interest paid, net of amount capitalized, was \$269,330,000, \$240,451,000 and \$230,091,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

Note 2. Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSCSC) must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission (FERC) 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 set through contractual agreements. (See Note 3.)

On April 12, 1991, the Company filed a request with the NCUC seeking a 9.22 percent rate increase primarily to recover costs associated with the Bad Creek Hydroelectric Station. On May 17, 1991, the Company filed a similar request with the PSCSC seeking a 7.29 percent rate increase. In November 1991, the NCUC issued a rate order granting the Company \$100.1 million in additional revenues, a 4.15 percent increase. The

NCUC granted a 12.50 percent rate of return on common equity. The PSCSC, in a November 1991 rate order, granted the Company \$30.2 million in additional revenues, a 3.0 percent increase. The PSCSC granted a 12.25 percent rate of return on common equity. In September 1991, the Company filed a request with the FERC seeking a 7.47 percent rate increase for wholesale customers, who represent approximately 2 percent of the Company's total revenues. The wholesale customers challenged the Company's proposal and in November 1991, the FERC issued an order that accepted the Company's proposed rates for filing, but suspended them until April 19, 1992. A negotiated settlement with these customers, which is consistent with the increase in retail rates, is pending FERC approval. (For additional information about an appeal of the Company's 1986 rate order, see Note 12.)

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, 1991, \$540,437,000 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 \$166,849,000 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. These 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 1996 are \$384,000,000 for 1992, \$400,000,000 for 1993, \$388,000,000 for 1994, \$164,000,000 for 1995 and \$50,000,000 for 1996.

Effective in its November 1991 rate order, the North Carolina Utilities Commission (NCUC) reaffirmed the Company's recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners. The new NCUC rate order changed the levelized basis to a 15-year period ending 2001 for all of the other joint owners compared to the previous 15-year levelization period for NCMPA and PMPA and 10-year levelization period for NCEMC and Saluda River. The Public Service Commission of South Carolina (PSCSC), in its November 1991 rate order, reaffirmed the Company's recovery on a levelized basis of the capital costs of capacity purchased from the other joint owners. The new PSCSC rate order retained the levelized basis of a 7½ year period ending April 1994 for PMPA and NCMPA; for NCEMC and Saluda River the new levelized basis reflects the projected purchased capacity payments for the twelve month period from November 1991 through October 1992. 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. 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 recovers the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1991, 1990 and 1989, the Company recorded purchased capacity and energy costs from the other joint owners of \$536,500,000, \$572,500,000, and \$598,100,000, 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, 1991 and 1990, \$337,699,000 and \$295,932,000 net of income taxes, respectively (\$589,561,000 and \$518,956,000, 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):

	<u>1991</u>	<u>1990</u>	<u>1989</u>
Income taxes related to electric expenses			
Current income taxes			
Federal	\$232,121	\$203,282	\$203,899
State	54,335	44,246	44,784
	<u>286,456</u>	<u>247,528</u>	<u>248,683</u>
Deferred taxes, net			
Excess tax over book depreciation	60,976	75,757	76,950
Property taxes	(11,987)	(10,852)	—
Catawba purchased capacity costs, net of amounts reflected in current rates	8,163	20,116	13,620
Amortization of canceled construction costs	(23,959)	(23,959)	(23,959)
Unbilled revenues	—	(13,929)	(15,716)
Storm damage	(1,917)	(1,900)	24,397
Other	<u>(13,065)</u>	<u>(23,799)</u>	<u>(9,481)</u>
	<u>18,211</u>	<u>21,434</u>	<u>65,811</u>
Investment tax credit			
Deferred	2,273	12,727	11,394
Amortization of deferrals (credit)	<u>(13,480)</u>	<u>(15,977)</u>	<u>(18,309)</u>
	<u>(11,207)</u>	<u>(3,250)</u>	<u>(6,915)</u>
Total income taxes related to electric expenses	<u>293,460</u>	<u>265,712</u>	<u>307,579</u>
Income taxes related to other income			
Income taxes - return on deferred Catawba purchased capacity costs	20,675	17,476	14,743
Income taxes — other, net	4,797	(2,192)	(5,690)
Income taxes — (credit)	<u>(22,789)</u>	<u>(28,638)</u>	<u>(20,602)</u>
Total income taxes related to other income	<u>2,683</u>	<u>(13,354)</u>	<u>(11,549)</u>
Total income tax expense	<u>\$296,143</u>	<u>\$252,358</u>	<u>\$296,030</u>

(continued from page 29)

Total current income taxes were \$268,686,000 for 1991, \$220,508,000 for 1990 and \$234,967,000 for 1989. Of these amounts, state income taxes were \$48,671,000 for 1991, \$38,911,000 for 1990 and \$40,877,000 for 1989.

Total deferred income taxes were \$38,664,000 for 1991, \$35,100,000 for 1990 and \$67,978,000 for 1989. Of these amounts, deferred state income taxes were \$10,833,000 for 1991, \$9,209,000 for 1990 and \$13,960,000 for 1989.

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

	1991	1990	1989
Income taxes on pretax income at the statutory federal rate of 34%	\$299,120	\$268,786	\$294,998
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(23,832)	(37,220)	(27,276)
Amortization of electric investment tax credit deferrals	(13,480)	(15,977)	(18,309)
AFUDC in book depreciation/amortization	25,923	27,309	29,372
Deferred income tax flowback at rates higher than statutory	(22,561)	(21,638)	(22,761)
State income taxes, net of federal income tax benefits	39,345	31,818	36,852
Other items, net	(8,372)	(720)	3,154
Total income tax expense	\$296,143	\$252,358	\$296,030

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 Con-

solidated 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 1993.

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

To support short-term obligations, the Company had unused credit facilities of \$340,385,000 as of December 31, 1991 and \$340,285,000, as of December 31, 1990 and December 31, 1989, with 53 and 52 commercial banks, respectively. Included in these facilities is a three-year, \$300,000,000 revolving credit agreement with the balance in separate, annually-renewable lines of credit. These facilities are on a fee or compensating-balance basis.

Cash balances maintained at the banks on deposit were

\$7,842,000 as of December 31, 1991 and \$4,852,000 as of December 31, 1990. 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 \$509,000 as of December 31, 1991 and \$499,000 as of December 31, 1990. 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, 1991	December 31, 1990	December 31, 1989
Amount outstanding at end of period — average rate of 4.65% as of December 31, 1991, 7.96% as of December 31, 1990, and 8.68% as of December 31, 1989	\$ 86,000	\$185,000	\$170,000
Maximum amount outstanding during the period	\$285,500	\$250,321	\$180,000
Average amount outstanding during the period	\$ 92,090	\$109,322	\$ 34,538
Weighted-average interest rate for the period — computed on a daily basis	6.47%	8.21%	8.93%

Note 6. Common Stock and Retained Earnings

Common Stock

Effective April 1, 1991, the Company began issuing common stock in lieu of purchasing shares on the open market for its various stock purchase plans. The Company discontinued issuances of common stock, effective December 1, 1991, and resumed open market purchases to satisfy the requirements of the various stock purchase plans. During 1990 and 1989, open market purchases were used to satisfy the requirements of the Company's various stock plans.

For the past three years, the Company has issued common stock to satisfy the conversion rights of preference stock (see

Note 7). During 1990 the Board of Directors declared a two-for-one split of Duke Power common stock. The Company issued common stock to satisfy the stock split.

As of December 31, 1991, a total of 7,197,779 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1991, 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, 1991 and 1990:

	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 prefer-

ence stock valued at par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1991, 1990 and 1989, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1991	1,846	15,440
1990	2,564	21,434
1989	2,256	18,844

Preferred and preference stocks without sinking fund requirements as of December 31, 1991 and 1990, were as follows (dollars in thousands):

Date/Series	Year Issued	Shares Outstanding	1991	1990
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	75,000
6¾%, AA Convertible	1969	20,164	2,016	—
		22,010	—	2,201
Total			<u>\$502,016</u>	<u>\$502,201</u>

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, 1991 and 1990:

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

(continued from page 31)

Preferred stocks with sinking fund requirements as of December 31, 1991 and 1990, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1991	1990
7.35% I	1973	408,000	\$ 40,800	\$ —
		432,000	—	43,200
8.20% J	1977	300,000	30,000	—
		320,000	—	32,000
8.375% L	1978	320,000	32,000	—
		340,000	—	34,000
8.84% N	1979	353,750	35,375	—
		386,250	—	38,625
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)
7.875% P			(1,500)	—
Total			<u>\$228,650</u>	<u>\$239,800</u>

The annual sinking fund requirements through 1996 are \$9,525,000 in 1992; \$11,025,000 in 1993, 1994, 1995 and 1996. 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 107 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, 1991 and 1990, were as follows (dollars in thousands):

Series	Year Due	1991	1990	Series	Year Due	1991	1990
4½%	1992	\$ 50,000	\$ 50,000	<i>(continued)</i>			
4¼% B	1992	50,000	50,000	8½%	2007	\$ 119,500	\$ 119,500
6.06%-6.23%	1994	81,700	—	9¾%	2008	120,610	120,610
6.47%-6.60%	1995	40,300	—	10½%	2009	—	145,050
4½%	1995	40,000	40,000	10½% B	2015	50,000	50,000
8½% B	1995	—	125,000	9%	2016	175,000	175,000
6.59%	1996	3,000	—	8½%	2017	150,000	150,000
7½%	1996	100,000	100,000	9¾%	2020	200,000	200,000
7½% B	1997	100,000	100,000	10½% B	2020	150,000	150,000
5¾%	1997	72,600	72,600	8¾%	2021	150,000	—
6¾%	1998	68,500	68,500	8¾% B	2021	150,000	—
7%	1999	56,075	56,075	8.95%	2027	15,994	—
8% B	1999	64,739	64,739	<u>Pollution-Control</u>			
8½%	2000	69,244	69,244	9½%	2013	77,000	77,000
8½% B	2000	95,635	95,635	7.70%	2012	20,000	20,000
7½%	2001	97,900	97,900	7.75%	2017	10,000	10,000
7¾% B	2001	38,050	38,050	7.50%	2017	25,000	25,000
7¾%	2002	78,100	78,100	4.13% (1991)	2014	40,000	40,000
7¾% B	2002	67,900	67,900	5.85% (1990)			
7¾%	2003	94,872	94,872	Total		<u>\$3,105,042</u>	<u>\$2,934,098</u>
8½% B	2003	98,050	98,050				
9¾%	2004	95,623	95,623				
9½%	2005	92,800	92,800				
8¾%	2006	96,850	96,850				

Substantially all electric plant was mortgaged as of December 31, 1991.

In 1991, the Company issued \$125,000,000 in bonds through its medium-term notes facility with maturities of 3 to 4 years and interest rates of 6.06 percent to 6.60 percent.

As of December 31, 1991 and 1990, the Company had \$100,000,000 in pollution control revenue bonds backed by an unused, two-year revolving credit facility of \$40,000,000 and \$130,000,000 in commercial paper backed by an unused three-year \$130,000,000 revolving credit facility. These facilities are on

a fee basis. Both the \$40,000,000 in pollution control bonds and the \$130,000,000 in commercial paper are included in long-term debt.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1996 are \$106,252,000 in 1992; \$7,565,000 in 1993; \$103,581,000 in 1994; \$82,823,000 in 1995 and \$105,787,000 in 1996.

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 that began in October 1983.

As of December 31, 1991 and 1990, the balances for this canceled project, net of amortization, were \$67,302,000 and \$105,715,000 net of income taxes, respectively (\$109,152,000 and \$171,524,000, 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 have been reduced by a Social Security adjustment for employees age forty-five and over and for early retirees with no creditable service prior to September 1, 1980. During 1991 the Company

amended its plan for employees that retire after December 31, 1991. The effect of this amendment was to reduce benefits by a Social Security adjustment for all retirees. 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, 1991 and 1990 is as follows (dollars in thousands):

	1991	1990
Accumulated benefit obligation:		
Vested benefits	\$ (802,851)	\$ (680,350)
Nonvested benefits	(17,501)	(25,810)
Accumulated benefit obligation	<u>\$ (820,352)</u>	<u>\$ (706,160)</u>
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	\$ 931,708	\$ 796,951
Projected benefit obligation	(1,054,825)	(930,992)
Unrecognized net experience (gain) loss	158,709	114,308
Unrecognized prior service cost (reduction) increase	(43,709)	470
Remaining unrecognized transitional obligation	1,335	1,469
Accrued pension cost	<u>\$ (6,782)</u>	<u>\$ (17,794)</u>

Net periodic pension cost for the years ended December 31, 1991, 1990 and 1989 included the following components (dollars in thousands):

	1991	1990	1989
Service cost benefits earned during the year	\$ 37,286	\$ 33,259	\$ 24,809
Interest cost on projected benefit obligation	79,175	79,673	64,735
Actual return on plan assets	(127,978)	(33,506)	(104,226)
Amount deferred for recognition	52,574	(41,241)	34,532
Expected return on plan assets	(75,404)	(74,747)	(69,694)
Net amortization	4,347	1,266	(1,161)
Net periodic pension cost	<u>\$ 45,404</u>	<u>\$ 39,451</u>	<u>\$ 18,689</u>

(continued from page 33)

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 8.25 percent in 1991 and 9.5 percent in 1990 and 1989. The future salary increase assumption is age-related. The assumed increase in future compensation level was determined on an age-related basis in

1991 and was 5.5 percent for a participant of average age. For 1990 and 1989 an increase of 6.5 percent was assumed for all participants. The expected long-term rate of return on plan assets used in determining pension cost was 9.25 percent in 1991 and 10.0 percent in 1990 and 1989.

B. Postretirement Benefits

The Company currently provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees have become eligible for these benefits if they have elected early retirement at age fifty-five with ten years of service or if they have retired at sixty-five while working for the Company. Employees who retire after January 1, 1992, will receive a fixed Company allowance based on years of service to be used to pay medical insurance premiums. Also, beginning in 1992, all new retirees must have at least ten years of service to be eligible for postretirement benefits. The cost of retiree benefits is recognized as the benefits are paid. The cost to the Company for 1991, 1990 and 1989 amounted to \$11,900,000, \$10,200,000 and

\$6,800,000, 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 impact of the new standard will result in a transition obligation of approximately \$250,000,000 for service rendered to date to be amortized over twenty years. An annual cost of approximately \$40,000,000, which includes the amortization of the transition obligation, will also result from the adoption of this standard. The Company will implement this standard in 1992.

Note 12. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs, both including AFUDC, are \$2.3 billion and \$422 million, respectively, for 1992 through 1994. 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, 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 \$1.25 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 \$22 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 \$1.25 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 prop-

erty 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 \$2 million, \$2.9 million and \$3.1 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 per-

cent 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

The Public Staff of the NCUC, joined by two other parties, has appealed an order on remand from the NCUC, contesting the basis on which the NCUC had determined the fair rate of return for the Company's 1986 rate 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 contractual agreements (See Note 3). The basic contention in each proceeding is that certain calculations affecting bills under these agreements should be performed differently. Although these matters may be material, the items are covered by these 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 these agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

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 year ended December 31, 1991, the Company recorded a net of tax carrying charge of \$36,765,000 on costs incurred on the Bad Creek Hydroelectric Station after commercial operation

but prior to recovery of costs through rates. This carrying charge is a component of Other, net in the Consolidated Statements of Income.

Note 14. Reclassification

In the Consolidated Statements of Income, Electric revenues and Net interchange and purchased power include a reclassifica-

tion for certain power transactions previously classified as Net interchange and purchased power per a recent FERC order.

Independent Auditors' Report

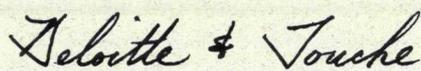
Duke Power Company:

We have audited the accompanying consolidated balance sheets and the consolidated statements of capitalization of Duke Power Company and subsidiaries (the Company) as of December 31, 1991 and 1990, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Duke Power Company and subsidiaries at December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.



Deloitte & Touche
Charlotte, North Carolina
February 7, 1992

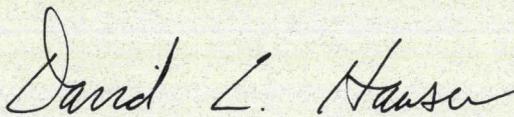
Responsibility for Financial Statements

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 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

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

Results Of Operations

Earnings and Dividends

Earnings per share increased to \$2.60 in 1991 compared to \$2.40 in 1990. The increase in the current year was primarily due to higher kilowatt-hour sales. Higher depreciation expense and interest expense partially offset the benefit of higher kilowatt-hour sales.

Earnings per share increased over the past three years at an annual rate of 1 percent to \$2.60 in 1991 from \$2.56 in 1989. Over the past five years, earnings per share increased at an annual rate of 4 percent from \$2.20 in 1987 to \$2.60 in 1991. (Earnings per share for periods prior to 1990 have been restated to reflect the two-for-one split of Duke Power common stock effective on September 28, 1990.) The total Company's earned return on average common equity was 13.5 percent in 1991 compared to 13.1 percent in 1990 and 14.7 percent in 1989.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from \$1.52 in 1989 to \$1.68 in 1991, rising at an annual rate of 5 percent. Indicated annual dividends per share increased to \$1.72.

Revenues and Sales

In 1989 to 1991, revenues increased at an annual rate of 2 percent principally due to higher kilowatt-hour sales to the retail sector customers.

Kilowatt-hour sales for 1991 increased 3 percent compared to 1990. An increase in sales to the retail sector was partially offset by a decrease in special sales to other utilities.

Sales billed to residential and general service customers increased 4 percent. For the first quarter of 1991, sales to textile customers decreased 9 percent compared to the first quarter of 1990; however, an increase in textile sales for the last three quarters of 1991 resulted in a 2 percent increase for the year compared to 1990.

Operating Expenses

Non-fuel operating and maintenance expenses increased only 1 percent from 1990 to 1991. Higher fees paid to the Nuclear Regulatory Commission and one-time costs associated with reorganizing the Company's corporate structure were substantially offset by lower maintenance expenses at both fossil and nuclear plants.

Non-fuel operating and maintenance expenses increased at an annual rate of 7 percent from 1989 to 1991. Higher fees paid to the Nuclear Regulatory Commission, greater retirement plan expenses and one-time costs associated with reorganizing the Company's corporate structure were the primary reasons for the increase.

From 1989 to 1991, Net interchange and purchased power decreased at an annual rate of 2 percent. The decline was substantially due to a decrease in contractual obligations to purchase power from the other Catawba joint owners.

Fuel expense was flat from 1989 to 1991. Higher production requirements were offset by declining fuel prices.

From 1990 to 1991, Depreciation and amortization expense increased 6 percent primarily due to additional equipment needed on the Company's electric delivery system to meet the needs of new and existing customers. Depreciation and amortization expense increased at an annual rate of 2 percent from 1989 to 1991.

Other Income and Interest Deductions

Allowance for funds used during construction (AFUDC) represented 13 percent of earnings for common stock in 1991, decreasing from 23 percent in 1990 and 15 percent in 1989. The decrease in the amount of AFUDC in 1991 compared to 1990 is a result of the completion of the Bad Creek Hydroelectric Station. AFUDC is expected to decrease in 1992 and then gradually increase as construction on the Lincoln Combustion Turbine Station begins. (For additional information on the Lincoln Combustion Turbine Station, see Capital Needs "Meeting Future Power Needs," page 39.)

Included in Other, net is a net of tax carrying charge on costs incurred on the Bad Creek Hydroelectric Station after commercial operation but prior to recovery of costs through rates. This carrying charge represented 7 percent of earnings for 1991 and will be amortized over 3 years.

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 in 1991 and 1990 and 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 of 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 recovers the accumulated balance including the carrying charge when the declining purchased capacity payments drop below the levelized revenues. (For additional information on purchased capacity levelization, see Capital Needs "Purchased Capacity Levelization," page 39.)

The Company has continued to pursue diversified activities through its subsidiaries and non-utility operations. The overall contribution of these operations to the Company's earnings was 5 percent for 1991 and 1990 and 7 percent for 1989. The major sources of subsidiary and non-utility earnings are investment income and the activities of Crescent Resources, Inc., the Company's land management and development subsidiary.

Interest on long-term debt increased 6 percent from 1990 to 1991. Issuances of long-term debt in 1990 and 1991 accounted for the increase. From 1989 to 1991, Interest on long-term debt increased at an annual rate of 8 percent.

Liquidity And Resources

Rate Matters

In 1991, the average price of electricity charged to retail customers declined 1.6 percent from 1986. During 1991, the Company filed its first request for a rate increase in five years. Since the last general rate increase in 1986, the Company's retail rates have been lowered twice.

On April 12, 1991, the Company filed a request with the North Carolina Utilities Commission (NCUC) seeking a 9.22 percent rate increase primarily to recover costs associated with the Bad Creek Hydroelectric Station. On May 17, 1991, the Company filed a similar request with The Public Service Commission of South Carolina (PSCSC) seeking a 7.29 percent increase. In November 1991, the NCUC issued a rate order granting the Company \$100.1 million in additional revenues, a 4.15 percent increase. The NCUC granted a 12.50 percent rate of return on common equity. The PSCSC, in a November 1991 rate order, granted the Company \$30.2 million in additional revenues, a 3.0 percent increase. The PSCSC granted a 12.25 percent rate of return on common equity. In September 1991, the Company filed a request with the Federal Energy Regulatory Commission (FERC) seeking a 7.47 percent rate increase for its wholesale customers, who represent approximately 2 percent of the Company's total revenues. The wholesale customers challenged the Company's proposal and in November 1991, the FERC issued an order that accepted the Company's proposed rates for filing, but suspended them until April 19, 1992. A negotiated settlement with these customers, which is consistent with the increase in retail rates, is pending FERC approval.

The Public Staff of the NCUC, joined by two other parties, appealed an order on remand from the NCUC, contesting the basis on which the NCUC determined the fair rate of return for the Company's 1986 rate order. The Company is of the opinion that the NCUC 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 contractual agreements (See Note 3 to the Consolidated Financial Statements). The basic contention in each proceeding is that certain calculations affecting bills under these agreements should be performed differently. Although these matters may be material, the items are covered by these 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 these agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

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.

Cash From Operations

In 1991 net cash provided by operating activities accounted for 77 percent of total cash from operating, financing and investing activities compared to 66 percent in 1990. An increase in earnings and the completion of the Bad Creek Hydroelectric Station, partially offset by cash required for refinancings, accounted for the increase in this percentage.

Financing and Investing Activities

The Company's capital structure at year-end 1991 was 51 percent common equity, 40 percent long-term debt, and 9 percent preferred and preference stocks.

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. These proceeds 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.

During 1991 the Company obtained proceeds from the issuance of \$300 million in First and Refunding Mortgage Bonds maturing in 2021. Part of these proceeds was used to refund \$100 million of long-term debt. The Company also issued \$125 million in bonds through its medium-term notes facility. These bonds, which have maturities of three to four years, were used to refund \$125 million of long-term debt. As of December 31, 1991, the Company's bonds were rated "double A" by Moody's Investors Service and Fitch Investors Service and "double A minus" by Standard & Poor's Corp. and Duff & Phelps.

During 1992 the Company anticipates issuing approximately \$50 million in preferred stock and replacing \$100 million of long-term debt, which matures in 1992. In January 1992 the Company issued call notices to redeem on February 10, 1992, its 9¾ percent First and Refunding Mortgage Bonds due in May 2004. To replace these bonds, the Company sold \$100 million in bonds through its medium-term notes facility with rates of 7.37 percent to 7.41 percent maturing in 2004. The Company also anticipates refinancings of higher cost debt and preferred stock when such transactions result in overall cost savings.

Effective April 1, 1991, the Company began issuing common stock in lieu of purchasing shares on the open market for its various stock purchase plans. Smaller than anticipated capital expenditures eliminated the need for additional equity financings, and the Company discontinued issuances of common stock, effective December 1, 1991, and resumed open market purchases to satisfy the requirements of the various stock purchase plans. The Company will continue to issue common stock for preference stock conversions.

During 1990 the Board of Directors declared a two-for-one split of Duke Power common stock. The Company issued common stock to satisfy the requirements for the stock split and for the conversion rights of preference stock.

The Company's embedded cost of long-term debt for 1991 decreased to 8.72 percent compared to 8.78 percent for 1990. During 1991, two \$50 million series of long-term debt with 1992 maturity dates and with interest rates of 4½ percent and 4¼ percent were reclassified to current liabilities. The Company's refinancings in December 1991 offset somewhat by such reclassification accounted for the decreased percentage. From 1989 to 1990, the Company's embedded cost of long-term debt increased from 8.71 percent to 8.78 percent because of issuances of long-term debt during 1990. The embedded cost of preferred stock declined to 7.48 percent for 1991 compared to 7.74 percent for 1990 and 7.86 percent for 1989 reflecting the impact of declining dividend rates on two series of preferred stocks with adjustable dividend rates.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$800 million and retirements of \$80 million resulted in an increase in gross plant of \$720 million in 1991.

Since January 1, 1989, additions to property and nuclear fuel of \$2.9 billion and retirements of \$271 million have resulted in an increase in gross plant of \$2.7 billion.

Construction Expenditures

Plant construction costs for generating facilities, including AFUDC, decreased from \$388 million in 1989 to \$232 million in 1991. The decrease in plant construction costs from 1989 to 1991 was primarily due to the completion of the Bad Creek Hydroelectric Station. Units 1 and 2 began commercial operation on May 15, 1991. Units 3 and 4 began commercial operation on September 3 and 13, 1991, respectively. Construction costs for distribution plant, including AFUDC, decreased from \$310 million in 1989 to \$275 million in 1991.

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

Church Street Capital Corp., a wholly owned subsidiary of Duke Power Company, provides for central management of funds for the consolidated group. As of December 31, 1991, the consolidated group had approximately \$28 million in intermediate-term investments and \$92 million in short-term investments.

Fixed Charges Coverage

Fixed charges coverage increased to 3.85 times for 1991 compared to 3.66 times in 1990 using the SEC method. Fixed charges coverage, excluding AFUDC and the return on purchased capacity levelization, was 3.46 times in 1991 compared to 3.15 times in 1990 and to the Company's goal of 3.5 times.

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 \$202 million. (For additional information with respect to purchased capacity levelization, see Note 3 to the Consolidated Financial Statements.)

Meeting Future Power Needs

Projected construction and nuclear fuel costs, both including AFUDC, are \$2.3 billion and \$422 million, respectively, for 1992 through 1994. Projected construction costs for generating facilities for 1992 through 1994 will reflect the commencement of work on the new Lincoln Combustion Turbine Station as discussed below.

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 1995. In December 1991, the Company was issued a final air permit by the North Carolina Division of Environmental Management.

Demand-side management programs are becoming an integral part of meeting the Company's future power needs. These programs benefit the Company and its customers by providing for load control through interruptible control features and by promoting energy efficiency. In return for participation in demand-side management programs, the Company's customers may be eligible to receive various incentives which help to reduce their electric bills. Currently, the demand-side management programs Industrial Interruptible Service and Residential Load Control, are projected to have the most impact on reducing the Company's peak demand. Other examples of demand-side management programs include promoting the use of Residential High Efficiency Heat Pumps, High Efficiency Air Conditioners and High Efficiency Refrigerators. In the November 1991 rate orders, the NCUC and the PSCSC allowed the Company recovery of the costs for demand-side management programs and allowed the deferral for later recovery of certain demand-side management costs that exceed the level received in rates.

Current Issues

While the Company improved its financial performance in 1991 compared to 1990, the ability to maintain and improve its current level of earnings will depend to a large extent on the ability of the Company to control costs, on the outcome of various legislative and regulatory activities, on the success of non-regulated activities, and on the economic conditions of the Piedmont Carolinas.

The Company has been engaged in a concentrated effort to more efficiently and effectively utilize its resources through better work practices. The implementation of these practices has resulted in a reduction in workforce. The number of full-time employees (excluding subsidiaries and affiliates) has decreased from 19,449 at year-end 1990 to 18,187 at year-end 1991. Future reductions in workforce are expected to continue primarily through employee attrition. A reorganization in 1991 recast the business units of the Company in a structure which will focus on more effectively serving its customers and meeting their energy needs. This reorganization included decentralizing its construction and engineering functions in order to provide a more focused effort on efficient operation and plant maintenance and less emphasis on new plant construction.

On December 31, 1991, the Company consummated an agreement with the City of Spartanburg, South Carolina, which resulted in the Company discontinuing the ownership and operation of a transit system in Spartanburg. Similar agreements were consummated with the City of Anderson, South Carolina in 1989 and the cities of Durham and Greensboro, North Carolina earlier in 1991. As a result of the divestiture of the Spartanburg transit system, the Company no longer has any obligations to provide transit service in any cities. These transactions will not have a material impact on the results of operations or on the financial position of the Company.

In 1990 Nantahala Power and Light Company (NP&L), a subsidiary of the Company, entered into an interconnection agreement with the Tennessee Valley Authority (TVA). 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. The Company and NP&L also entered into an agreement whereby NP&L will sell the 200-megawatts of electricity to the Company at cost. In May 1991, the FERC approved both agreements. Transactions under these agreements commenced in 1991.

The Company also reached a bulk power sale agreement in 1987 to provide Carolina Power and Light (CP&L) 400-megawatts of electricity for a six-year period beginning in 1992. This proposed agreement was accepted for filing by the FERC in March of 1989. The Company and CP&L subsequently disagreed on whether the agreement was binding, and litigation was initiated before the FERC and the Wake County North Carolina Superior Court regarding this dispute. The Company and CP&L have settled the dispute and amended the agreement to reflect that settlement, which basically provides for an 18-month deferral in the implementation of the six-year contract period. The parties have terminated the litigation between them and the amended agreement has been filed with the FERC. FERC approval of the agreement is being contested by other parties.

The Financial Accounting Standards Board has issued a

statement that will require certain health care and life insurance benefits for retired employees (postretirement benefits) recognized as earned during the years that employees render service, replacing the current cash (pay-as-you-go) method of accounting. An unrecognized transition obligation of approximately \$250 million will result from the adoption of this standard. This obligation, which will be amortized over twenty years, represents the accumulated difference between recognizing the cost of these benefits as earned versus recognition on a pay-as-you-go basis. An annual postretirement benefit cost of approximately \$40 million, which includes the amortization of the transition obligation, will result from the adoption of this standard. This is compared to a cost of \$12 million in 1991 which recognized these costs as paid. The transition obligation and the annual cost of providing postretirement benefits are reflected in rates effective November 1991. The Company will implement this standard in 1992 thereby matching the inclusion of these costs in rates with the costs associated with the new standard. Under the terms of its benefit plans, the Company reserves the right to change, modify or terminate the plans. (For additional information with respect to postretirement benefits, see Note 11 to the Consolidated Financial Statements.)

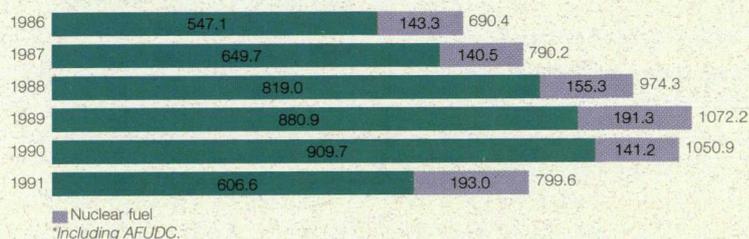
The Clean Air Act Amendments of 1990 require electric utilities to reduce aggregate annual emissions of sulfur dioxide by 10 million tons and nitrogen oxide by 2 million tons by the year 2000. These requirements are being phased in over several periods. The first phase begins January 1, 1995, and the second phase begins 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. The Company is currently working on a detailed compliance plan that must be filed and approved by the Environmental Protection Agency by 1995. Based on a preliminary compliance plan, the estimated costs to implement phase two of the requirements are expected to be approximately \$1 billion in capital expenditures and approximately \$81 million annually in operations and maintenance expenses stated in year 2000 dollars.

Stress corrosion cracking (SCC) has occurred in steam generators of a certain design, including those at the McGuire and Catawba Nuclear Stations. Catawba Unit 2, which has certain design differences and came into service at a later date, has not yet shown the degree of SCC which has occurred in McGuire Units 1 and 2 and Catawba Unit 1. It is, however, too early in the life of Catawba Unit 2 to determine the extent to which SCC will be a problem. 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 it is difficult to predict the extent to which future remedial measures will be required. SCC could result in possible reductions in plant output and is expected to result in eventual replacement of steam generators at the McGuire and Catawba Stations well before the end of their 40-year design life. The Company has begun planning for the replacement of the steam generators. Stress corrosion problems are excluded under the

nuclear insurance policies.

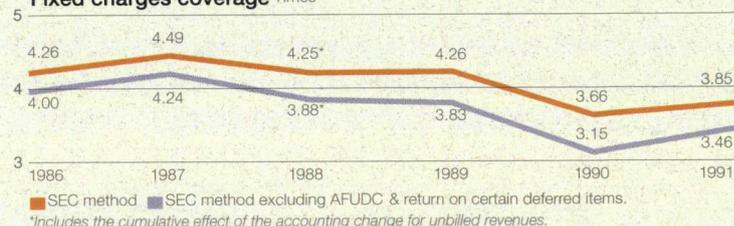
The Company in connection with its McGuire and Catawba Stations and on behalf of the other joint owners of the Catawba Station—North Carolina Municipal Power Agency Number 1, North Carolina Electric Membership Corporation, Piedmont Municipal Power Agency and Saluda River Cooperative, Inc.—commenced an action on March 22, 1990, that alleges Westinghouse Electric Corporation (Westinghouse), the supplier of the steam 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 replacements, and for punitive damages related to the fact that Westinghouse concealed this information.

Construction costs* Millions of dollars



*Including AFUDC.

Fixed charges coverage Times



*Includes the cumulative effect of the accounting change for unbilled revenues.

Subsidiary Highlights

Income from the Company's subsidiaries and non-utility operations accounted for 5 percent of the Company's earnings in 1991 and 1990. Highlights of selected subsidiaries are presented below.

Electric Power Supply

Catawba 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)

	1991	1990
Assets net of liabilities	\$39,384	\$36,663
Net income	\$ 2,721	\$ 2,777

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)

	1991	1990
Short-term investments and marketable securities	\$120,303	\$95,692
Investment income (after tax)	\$ 6,397	\$ 7,251

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)

	1991	1990
Assets net of liabilities	\$88,046	\$69,662
Net income (before accounting change) (a)	\$ 9,661	\$ 6,923

(a) 1991 excludes the cumulative effect of an accounting change of \$6,727 after tax.

• 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)

	1991	1990
Assets net of liabilities	\$13,480	\$30,889
Net income (loss)	\$ 1,512	\$ (42)

Selected Financial Data

	1991	1990	1989	1988	1987
Condensed consolidated statements of income (thousands)					
Electric revenues (a)	\$ 3,816,960	\$ 3,705,131	\$3,692,955	\$3,644,410	\$3,724,780
Electric expenses (a)	3,110,137	3,062,348	2,988,355	3,014,859	3,066,083
Electric operating income	706,823	642,783	704,600	629,551	657,957
Other income	150,905	146,740	101,826	46,211	72,902
Income before interest deductions	857,728	789,523	806,426	675,762	730,859
Interest deductions	274,105	251,335	234,815	227,631	230,661
Cumulative effect of accrual of unbilled revenues	—	—	—	102,255	—
Net income	583,623	538,188	571,611	550,386	500,198
Dividends on preferred and preference stocks	54,683	52,616	52,477	53,329	54,264
Earnings for common stock	<u>\$ 528,940</u>	<u>\$ 485,572</u>	<u>\$ 519,134</u>	<u>\$ 497,057</u>	<u>\$ 445,934</u>
Common stock data (b)					
Shares of common stock — year-end (thousands)	204,699	202,584	202,563	202,544	202,517
— average (thousands)	203,431	202,570	202,554	202,533	202,501
Per share of common stock					
Earnings (c)	\$2.60	\$2.40	\$2.56	\$2.45	\$2.20
Dividends	\$1.68	\$1.60	\$1.52	\$1.44	\$1.37
Book value — year-end	\$19.86	\$18.84	\$18.05	\$17.01	\$15.98
Market price — high-low	\$35-26 ³ / ₄	\$32 ³ / ₈ -25 ¹ / ₂	\$28 ¹ / ₄ -21 ³ / ₈	\$24 ¹ / ₂ -21 ¹ / ₈	\$25 ⁷ / ₈ -19 ¹¹ / ₁₆
— year-end	\$35	\$30 ⁵ / ₈	\$28 ¹ / ₁₆	\$23 ³ / ₈	\$21 ¹ / ₁₆
Balance sheet data (thousands)					
Total assets	\$10,470,615	\$10,083,507	\$9,542,398	\$8,890,605	\$8,511,794
Long-term debt	\$ 3,159,575	\$ 3,102,746	\$2,822,442	\$2,728,794	\$2,723,382
Preferred stocks with sinking fund requirements	\$ 228,650	\$ 239,800	\$ 247,825	\$ 255,850	\$ 263,875
Electric and other statistics					
Kilowatt-hour sales (millions)					
Residential	17,918	17,221	16,895	16,744	16,600
General service	15,586	15,032	14,206	13,634	13,300
Industrial	26,270	25,894	25,934	25,154	24,974
Other energy and wholesale (a) (d)	10,132	10,468	11,969	11,615	11,094
Total kilowatt-hour sales billed	69,906	68,615	69,004	67,147	65,674
Unbilled kilowatt-hour sales (e)	(19)	(540)	370	165	—
Total kilowatt-hour sales	<u>69,887</u>	<u>68,075</u>	<u>69,374</u>	<u>67,312</u>	<u>65,674</u>
Residential customer data					
Average annual KWH use	12,710	12,444	12,459	12,614	12,830
Average revenue billed per KWH	7.10¢	7.07¢	7.09¢	7.20¢	7.40¢
Sources of energy (millions of KWH)(f)					
Generated — Coal	26,455	27,262	26,175	23,930	23,617
— Nuclear (g)	49,328	44,649	47,773	47,934	44,810
— Hydro (h)	1,545	1,879	1,520	402	1,454
— Oil and gas	7	53	27	32	(1)
Total generation	77,335	73,843	75,495	72,298	69,880
Purchased power and net interchange (a)	587	1,531	1,158	1,385	928
Total output	77,922	75,374	76,653	73,683	70,808
Less: Other Catawba joint owners' share	12,280	11,735	12,566	12,166	11,961
Plus: Purchases from other Catawba joint owners	8,525	8,658	9,809	10,244	10,872
Total sources of energy	74,167	72,297	73,896	71,761	69,719
Line loss and Company usage	4,280	4,222	4,522	4,449	4,045
Total kilowatt-hour sales	<u>69,887</u>	<u>68,075</u>	<u>69,374</u>	<u>67,312</u>	<u>65,674</u>
System average heat rate	9,996	10,007	10,013	10,021	10,024
System load factor	59.4%	59.9%	61.8%	59.8%	62.5%

(a) Electric revenues, electric expenses, kilowatt-hour sales and Net interchange and purchased power include a reclassification for certain power transactions previously classified as Net interchange and purchased power per a recent FERC order.

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

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

(d) Includes sales to Nantahala Power and Light Company.

(e) Includes the restatement of unbilled kilowatt-hours for 1988.

(f) Does not include operating statistics of Nantahala Power and Light Company.

(g) Includes 100% of Catawba generation.

(h) 1991 includes KWH of the Bad Creek Hydroelectric Station prior to commercial operation.

Selected Financial Data

Long-Term Financings

To meet its capital requirements, the Company has financed with long-term debt and equity securities and has raised additional capital through other types of financings. Proceeds generated from financings from 1989 through 1991 were as follows (dollars in thousands):

	1991 Net proceeds	1990 Net proceeds	1989 Net proceeds
Common stock (2,100,087 shares issued April 1 - November 30)	<u>\$ 48,014</u>		
Preferred stock			
Auction Series A, \$100 par (750,000 shares issued October 16)		<u>\$ 73,875</u>	
Long-term debt			
First and refunding mortgage bonds			
8¾% Series due 2021 (Issued March 7)	<u>\$144,018</u>		
8¾% Series B due 2021 (Issued December 5)	<u>145,760</u>		
Medium-Term Notes (Issued various dates: December 4 - December 13)	<u>124,519</u>		
9½% Series due 2020 (Issued February 13)		197,258	
10½% Series B due 2020 (Issued May 8)		148,035	
Pollution-control series		<u>41,187</u>	<u>\$ 15,906</u>
Total	<u>414,297</u>	<u>386,480</u>	<u>15,906</u>
Nuclear fuel trusts			50,945
Other long-term debt			<u>130,000</u>
Total long-term debt	<u>414,297</u>	<u>386,480</u>	<u>196,851</u>
Total financings	<u>\$462,311</u>	<u>\$460,355</u>	<u>\$196,851</u>

Quarterly Financial Data

Dollars in Thousands (except per-share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1991 by quarter					
Electric Revenues (a)	\$886,638	\$893,638	\$1,096,416	\$920,211	\$3,816,960
Electric Operating Income	166,713	161,893	241,221	136,996	706,823
Net Income	137,399	138,394	207,807	100,023	583,623
Earnings Per Share	\$0.61	\$0.61	\$0.96	\$0.42	\$2.60
1990 by quarter					
Electric Revenues (a)	\$855,416	\$870,315	\$1,105,023	\$850,713	\$3,705,131
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	\$0.56	\$0.52	\$0.99	\$0.33	\$2.40

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

(a) Total electric revenues include a reclassification for the years 1991 and 1990 for certain power transactions previously classified as Net interchange and purchased power per a recent FERC order. Quarterly data does not include the effects of this reclassification due to its immateriality.

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

Stock Market Information

The Company had 119,896 holders of record of common stock as of December 31, 1991, and 115,773 holders as of December 31, 1990. During 1991 approximately 65,928,000 shares of common stock were traded, compared with 86,700,400 during the previous year. The Company's common stock prices, as quoted in the New York Stock Exchange Composite Transactions, and dividends paid are as follows:

	Dividends Per Share	Stock Price Range			Dividends Per Share	Stock Price Range	
		High	Low			High	Low
1991 by quarter				1990 by quarter			
Fourth	\$0.43	\$35	\$30⅞	Fourth	\$0.41	\$32⅜	\$27⅝
Third	0.43	32½	27⅞	Third	0.41	29⅝	27
Second	0.41	29⅞	27¼	Second	0.39	28¼	26⅜
First	0.41	30¾	26¼	First	0.39	28⅜	25½

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

Board of Directors

William S. Lee
Chairman of the Board, President
and Chief Executive Officer^{1,3,4,5}

Dr. Robert L. Albright
President Johnson C. Smith
University²

G. Alex Bernhardt
President and Director Bernhardt
Furniture Company²

Crandall C. Bowles
President The Springs Company⁴

William A. Coley
Executive Vice President
Customer Group¹

John L. Fraley
Chairman of the Board
Carolina Freight Carriers³

Steve C. Griffith, Jr.
Executive Vice President and
General Counsel¹

William H. Grigg
Vice Chairman of the Board
Corporate Group^{1,4}

Paul H. Henson
Chairman Kansas City Southern
Industries, Inc.^{4,5}

Dr. George R. Herbert
Vice Chairman and President
Emeritus Research Triangle
Institute²

George Dean Johnson, Jr.
President Johnson Development
Associates, Inc.²

James V. Johnson
Retired Vice Chairman and
Director of Public Affairs
Coca-Cola Bottling Co.
Consolidated²

W. W. Johnson
Chairman of the Executive
Committee
NationsBank Corp.^{4,5}

Dr. Max Lennon
President Clemson University²

Buck Mickel
Chairman and Chief Executive
Officer RSI Corporation³

Reece A. Overcash, Jr.
Chairman of the Board and Chief
Executive Officer
Associates First Capital Corp.^{4,5}

Richard B. Priory
Executive Vice President
Power Generation Group¹

James C. Self, Sr.
Chairman of the Executive
Committee
Greenwood Mills, Inc.
Trustee
The Duke Endowment

1. Management Committee
2. Audit Committee
3. Compensation Committee
4. Finance Committee
5. Nominating Committee

Retiring Director

Warren H. Owen
Executive Vice President and
Assistant to the Chairman of the
Board

Officers

William S. Lee
Chairman of the Board, President
and Chief Executive Officer

William H. Grigg
Vice Chairman of the Board
Corporate Group

William A. Coley
Executive Vice President
Customer Group

Steve C. Griffith, Jr.
Executive Vice President and
General Counsel

Richard B. Priory
Executive Vice President
Power Generation Group

Donald H. Denton, Jr.
Senior Vice President
Planning and Operating

Hal B. Tucker
Senior Vice President
Nuclear Generation Department

James R. Bavis
Vice President
Human Resources

Paul F. Briggs, Jr.
Vice President Winston-Salem
Area

J. Kenneth Clark
Vice President Corporate
Communications

Robert L. Dick
Vice President Corporate
Excellence

Excell O. Ferrell, III
Vice President Northern Region

William L. Foust
Vice President Charlotte Area

James E. Grogan
Vice President Generation Services
Department

James W. Hampton
Vice President Oconee Nuclear Site

Donald E. Hatley
Vice President
Public Affairs

Jim R. Hicks
Vice President Power Delivery

J. William Hillhouse, Jr.
Vice President Hickory Area

John P. Holland
Vice President
Marketing

F. Alfred Jenkins
Vice President
Customer Planning

John P. Kincaid, Jr.
Vice President Greenville
Area

John F. Lomax
Vice President Southern Region

David H. Maner
Vice President Greensboro Area

Maurice D. McIntosh
Vice President Fossil and Hydro
Generation Department

Ted C. McMeekin
Vice President
McGuire Nuclear Site

John P. O'Keefe
Vice President Taxes

Richard J. Osborne
Vice President and Chief
Financial Officer

William F. Reinke
Vice President System Planning
and Operating

W. T. Robertson, Jr.
Vice President Procurement,
Services and Materials

William R. Stimart
Vice President Rates and
Regulatory Affairs

George E. Stubbins
Vice President Information
Systems

Michael S. Tuckman
Vice President Catawba Nuclear
Site

Fred E. West, Jr.
Vice President Central Region

Sue A. Becht
Treasurer

Lewis F. Camp, Jr.
Secretary and Associate
General Counsel

David L. Hauser
Controller

Virginia M. Britton
Assistant Controller

Carolyn R. Duncan
Assistant Secretary

S. L. Love
Assistant Treasurer

Phyllis T. Simpson
Assistant Secretary

Principal Subsidiaries and Affiliates

Ronald F. Green
President
Duke/Fluor Daniel

E. N. Hedgepeth, Jr.
President and Chairman of the
Board
Nantahala Power and Light
Company

William S. Lee
President
Church Street Capital Corp.

John F. Norris, Jr.
President
Duke Engineering &
Services, Inc.

Richard C. Ranson
Chairman
Crescent Resources, Inc.

M. Rhem Wooten, Jr.
President
Duke Energy Corp.

Retiring Officers

The following officers
have retired:

Warren H. Owen*
Executive Vice President and
Assistant to the Chairman of the
Board

Henry L. Cranford
Senior Vice President

Paul G. Martin
Vice President Customer Group
Community and Business Support

Eugene C. Sites
Assistant Controller

* effective February 1, 1995

Other Information

Notice of annual meeting

The 1992 meeting of holders of Duke Power Company common stock will be held Thursday, April 23, at 10 a.m. in the O.J. Miller Auditorium of the Electric Center, 526 South Church Street, Charlotte, N.C.

Transfer agents

All Stocks:

Investor Relations
Duke Power Company
P.O. Box 1005
Charlotte, N.C. 28201-1005

Registrar

All Stocks:

First Union National Bank
of North Carolina
Charlotte, N.C.

Stock exchange listing

Duke Power Company common stock is traded on the New York Stock Exchange. The trading symbol is DUK.

Corporate headquarters

422 South Church Street
Charlotte, N.C. 28242-0001
704/373-4011

Securities Ratings

Rating Agency	Bonds	Preferred Stock	Commercial Paper
Duff & Phelps	AA -	A +	Duff-1
Fitch	AA	AA -	F-1 +
Moody's	Aa2	aa2	P-1
Standard & Poor's	AA -	A +	A-1 +

SEC Form 10-K, statistical supplement and audiotape

Upon request, the Company will provide the following without charge:

- 1991 Annual Report on Form 10-K as filed with the Securities and Exchange Commission
- Statistical Supplement to the 1991 Annual Report to Shareholders
- The 1991 Annual Report to Shareholders on audiotape

Shareholder inquiries

Shareholders with questions about their stock accounts or services offered may write:

Investor Relations
Duke Power Company
P.O. Box 1005
Charlotte, N.C. 28201-1005

or call:

800/488-3853 toll-free or
704/373-4579

Investor services

The Stock Purchase and Dividend Reinvestment Plan is available to all shareholders of record and Duke Power electric customers. This provides a convenient way to buy common shares without brokerage fees.

Direct Deposit of Dividends automatically credits dividends to shareholders' bank accounts on the dividend payment date.

Small Share Repurchase Service offers investors with 99 or fewer shares an opportunity to sell their shares back to the Company without paying brokerage fees as long as the sale closes the account.

We recommend all certificates be mailed by registered mail, insured for two percent of the market value.

Duke Power Company

422 South Church Street

Charlotte, North Carolina 28242-0001

Bulk Rate
U.S. Postage
PAID
Charlotte, NC
Permit No. 3073