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 CURTIS, N.W. Pennsylvania Power & Light Co.
 RECIP. NAME RECIPIENT AFFILIATION
 DENTON, H.R. Office of Nuclear Reactor Regulation, Director

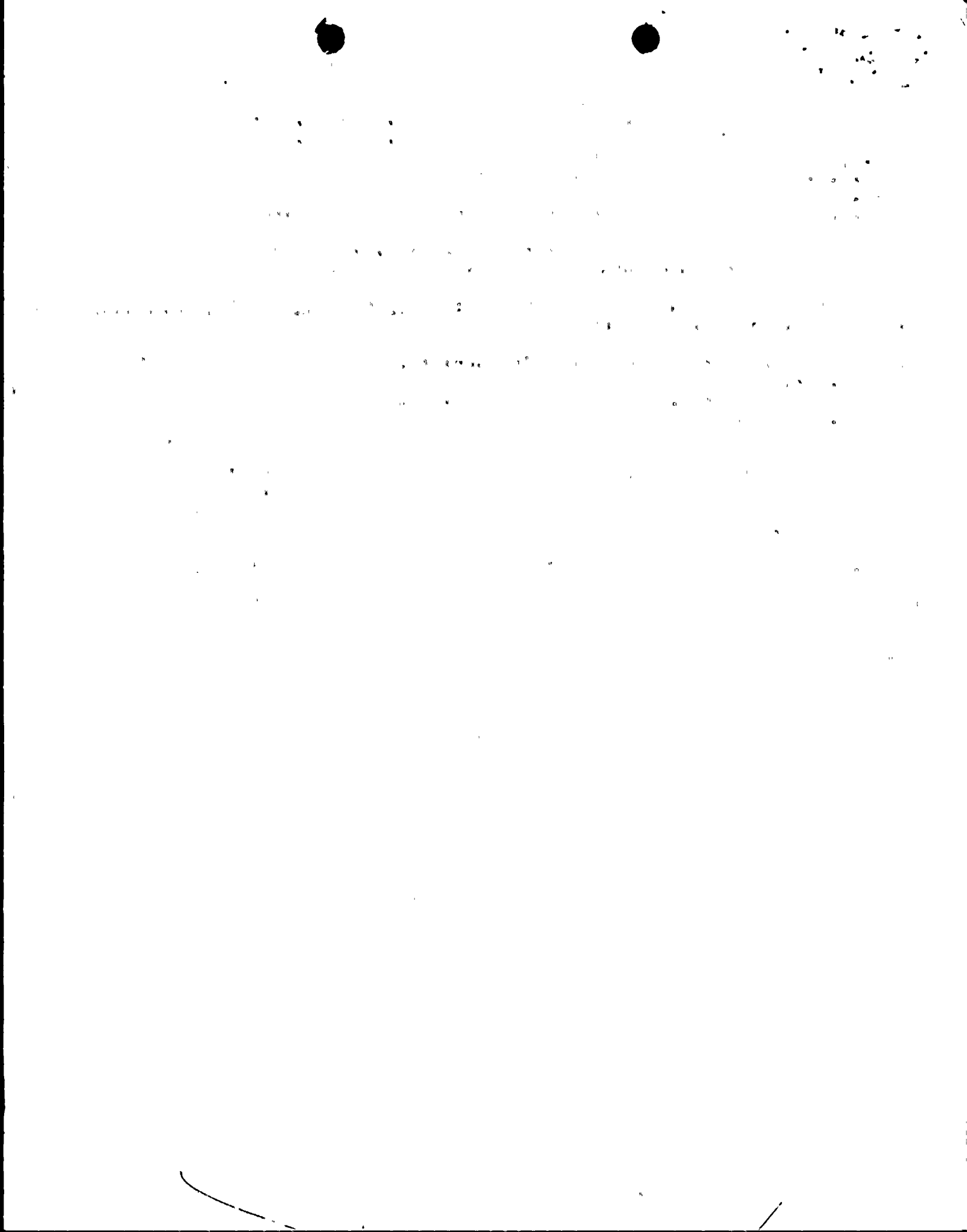
SUBJECT: Forwards Allegheny Electric Cooperative, Inc audited financial statements for FY ending Oct 1983. *on SW 1/2*

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NOTES: 1cy NMSS/FCAF/PM. LPDR 2cys Transcripts. 05000387
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Pennsylvania Power & Light Company

Two North Ninth Street • Allentown, PA 18101 • 215 / 770-5151

Norman W. Curtis
Vice President-Engineering & Construction-Nuclear
215/770-7501

JUL 9 '1 1984

Mr. Harold R. Denton, Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, DC 20555

SUSQUEHANNA STEAM ELECTRIC STATION
ANNUAL FINANCIAL REPORT
ER 100450 FILE 841
PLA-2262

Docket Nos. 50-387
50-388

Dear Mr. Denton:

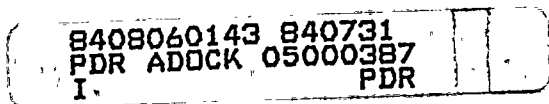
In accordance with 10CFR50.71(b), attached are ten copies of the 1983 annual financial report including certified financial statements for Allegheny Electric Cooperative, Inc. The attached reports cover the period November 1, 1982 through October 31, 1983. The 1983 annual report for Pennsylvania Power & Light Co. was forwarded on March 22, 1984 (PLA-2145).

Very truly yours,

N. W. Curtis
Vice President-Engineering & Construction-Nuclear

RMH/cp

Attachments



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Audited Financial Statements

Allegheny Electric
Cooperative, Inc.

October 31, 1983

 Ernst & Whinney



Audited Financial Statements

ALLEGHENY ELECTRIC COOPERATIVE, INC.

October 31, 1983

Audited Financial Statements

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Ernst & Whinney

300 Locust Court
212 Locust Street
Harrisburg, Pennsylvania 17101

717/232-7575

Board of Directors
Allegheny Electric Cooperative, Inc.
Harrisburg, Pennsylvania

We have examined the balance sheet of Allegheny Electric Cooperative, Inc. as of October 31, 1983, and the related statements of operations and patronage capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Allegheny Electric Cooperative, Inc. for the 10 months ended October 31, 1982, were examined by other auditors whose report dated March 14, 1983, expressed an unqualified opinion on those statements.

In our opinion, the financial statements for the year ended October 31, 1983, referred to above present fairly the financial position of Allegheny Electric Cooperative, Inc. at October 31, 1983, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Whinney

Harrisburg, Pennsylvania
March 23, 1984

BALANCE SHEETS

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	October 31	
	1983	1982
	(In Thousands)	
ASSETS		
ELECTRIC UTILITY PLANT--Note C		
In service--Note B	\$ 269,499	\$ 595
Construction work in process	196,482	365,812
Nuclear fuel in process	25,812	25,877
	<u>491,793</u>	<u>392,284</u>
Less accumulated depreciation and amortization	5,074	131
	<u>486,719</u>	<u>392,153</u>
OTHER ASSETS AND INVESTMENTS		
Nonutility property, at cost (net of accumulated depreciation of \$635 in 1983 and \$469 in 1982)	6,224	6,384
Investments in associated organizations--Note D	3,662	2,741
Other noncurrent investments--Note G	2,280	-
Construction advances	3,628	8,712
Other noncurrent assets	5,441	4,159
	<u>21,235</u>	<u>21,996</u>
CURRENT ASSETS		
Cash and short-term investments of \$18,235 in 1983 and \$8,653 in 1982	18,170	8,523
Accounts receivable from members	5,976	4,578
Other accounts receivable	2,361	129
Other	592	203
	<u>27,099</u>	<u>13,433</u>
	<u>\$ 535,053</u>	<u>\$ 427,582</u>

October 31
 1983 1982
 (In Thousands)

EQUITIES AND LIABILITIES

EQUITIES

Memberships	\$	3	\$	3
Donated capital		30		30
Patronage Capital		16,920		15,681
		<u>16,953</u>		<u>15,714</u>

LONG-TERM DEBT--Note F		459,928		395,503
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CURRENT LIABILITIES

Notes payable--Note E		19,079		571
Accounts payable and accrued expenses		14,770		12,640
Accounts payable to members		3,992		-
		<u>37,841</u>		<u>13,211</u>

DEFERRED CREDITS

Deferred income tax benefits from safe harbor lease--Note G		16,813		-
Other		3,518		3,154
		<u>20,331</u>		<u>3,154</u>

		<u>\$ 535,053</u>		<u>\$ 427,582</u>
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See notes to financial statements.

STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL

ALLEGHENY ELECTRIC COOPERATIVE, INC.

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	Year Ended October 31, 1983	Ten Months Ended October 31, 1982
	(In Thousands)	
Operating revenue	\$ 77,833	\$ 48,618
Operating expenses:		
Purchased power	50,384	42,814
Transmission	5,450	2,937
Production	2,752	-
Fuel	2,647	-
Depreciation	1,301	29
Taxes	839	-
Administrative and general	2,024	1,383
	<u>65,397</u>	<u>47,163</u>
OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS	12,436	1,455
Interest and other deductions:		
Interest expense	51,322	34,500
Allowance for funds used during construction	(38,942)	(34,500)
Other deductions-net	385	106
	<u>12,765</u>	<u>106</u>
OPERATING MARGIN (DEFICIT)	(329)	1,349
Nonoperating margins:		
Nonoperating rental income (expense)	(210)	(246)
Interest income	1,400	1,007
	<u>1,190</u>	<u>761</u>
MARGIN BEFORE INCOME TAXES	861	2,110
Deferred income tax benefits from safe harbor lease	<u>378</u>	<u>-</u>
NET MARGIN	1,239	2,110
Patronage capital at beginning of year	<u>15,681</u>	<u>13,571</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 16,920</u>	<u>\$ 15,681</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31, 1983	Ten Months Ended October 31, 1982
	<u>(In Thousands)</u>	
SOURCE OF WORKING CAPITAL		
Net margin	\$ 1,239	\$ 2,110
Charges (credits) to margin not affecting working capital:		
Depreciation	1,467	170
Fuel amortization	3,642	-
Deferred income tax benefits from safe harbor lease	(378)	-
TOTAL FROM OPERATIONS	<u>5,970</u>	<u>2,280</u>
Additions to long-term debt	80,356	75,700
Proceeds from sale of income tax benefits from safe harbor lease	17,191	-
Decrease in construction advances	5,084	-
Other sources	382	82
	<u>108,983</u>	<u>78,062</u>
APPLICATION OF WORKING CAPITAL		
Additions to electric utility plant	99,527	74,424
Increase in other noncurrent investments	2,280	-
Reduction of long-term debt	15,931	-
Increase in other noncurrent assets	1,282	-
Increase in construction advances	-	4,429
Other applications	927	214
	<u>119,947</u>	<u>79,067</u>
DECREASE IN WORKING CAPITAL	<u>\$ 10,964</u>	<u>\$ 1,005</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and short-term investments	9,647	1,747
Accounts receivable from members	1,398	(1,042)
Other accounts receivable	2,232	(158)
Other	389	89
	<u>13,666</u>	<u>636</u>
Increase (decrease) in current liabilities:		
Notes payable	18,508	571
Accounts payable and accrued expenses	2,130	1,070
Accounts payable to members	3,992	-
	<u>24,630</u>	<u>1,641</u>
DECREASE IN WORKING CAPITAL	<u>\$ 10,964</u>	<u>\$ 1,005</u>

NOTES TO FINANCIAL STATEMENTS

ALLEGHENY ELECTRIC COOPERATIVE, INC.

October 31, 1983

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allegheny Electric Cooperative, Inc. (Allegheny) is a rural electric cooperative utility established under the laws of the Commonwealth of Pennsylvania. Financing assistance is provided by the U. S. Department of Agriculture, Rural Electrification Administration (REA) and, therefore, Allegheny is subject to certain rules and regulations promulgated for rural electric borrowers by REA. Allegheny is a generation and transmission cooperative, providing power supply to fourteen owner/members who are rural electric distribution cooperative utilities which provide electric power to customers in certain areas of Pennsylvania and New Jersey.

Allegheny maintains its accounting records in accordance with the Federal Energy Regulatory Commission's chart of accounts as modified and adopted by REA.

Electric Utility Plant and Depreciation: Electric utility plant is stated at cost, which includes an allowance for funds used during construction. Depreciation is provided on the modified sinking fund method for nuclear utility plant production assets and the straight line method for all other assets, except nuclear fuel.

Nuclear Fuel: Nuclear fuel usage is charged to fuel expense based on the quantity of heat produced for electric generation. Under the Nuclear Waste Policy Act of 1982, the U. S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel removed from nuclear reactors. Allegheny currently pays to Pennsylvania Power & Light Company (PP&L), co-owner of Susquehanna Steam Electric Station (SSES), its portion of DOE fees for such future disposal services.

Cost of Decommissioning Nuclear Plant: Allegheny's portion of the estimated decommissioning costs of SSES are charged to operating expenses.

Allowance for Funds Used During Construction: Allowance for funds used during construction represents the cost of directly related borrowed funds used for construction of electric utility plant. The allowance is capitalized as a component of the cost of the electric utility plant while it is under construction.

Investments in Associated Organizations: Investments in associated organizations are carried at cost.

NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Other Noncurrent Investments: Other noncurrent investments are carried at cost, plus accrued interest, which approximates market value.

Preliminary Surveys: Costs of preliminary surveys for potential development projects are recorded as deferred charges in other noncurrent assets. If construction of a project results from such surveys, the deferred charges are transferred to the cost of the facilities. If a preliminary survey is abandoned, the costs incurred are written off.

Short-Term Investments: Short-term investments are carried at cost, plus accrued interest, which approximates market value.

Income Taxes: Allegheny has been a tax-exempt corporation in years prior to 1983 under Section 501(c)(12) of the Internal Revenue Code. For the year ended October 31, 1983, Allegheny no longer qualified as a tax-exempt organization and will remain as such for the foreseeable future. This change was necessary for Allegheny to receive the benefits under its safe harbor lease arrangement.

Investment and energy tax credits, other than those sold through the safe harbor lease arrangement, are accounted for under the flow-through method whereby credits are recognized as a reduction of income tax expense in the year in which the credit is utilized for tax purposes.

Allegheny had no provision for income taxes for the year ended October 31, 1983, because of patronage dividends which are a deduction for income tax purposes but not an expense for financial reporting purposes.

Reclassifications: Certain reclassifications have been made to the 1982 amounts to conform with the 1983 presentation.



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NOTES TO FINANCIAL STATEMENTS—Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE B—ELECTRIC UTILITY PLANT IN SERVICE

Electric utility plant in service consists of the following:

	Depreciation/ Amortization, Lives/Rates	October 31	
		1983	1982
(In Thousands)			
Nuclear Utility Plant:			
Production	39 years	\$ 227,326	\$ -
Transmission	2.75%	28,149	-
General plant	3% - 12.5%	813	-
Nuclear fuel	Heat production	12,523	-
Non-Nuclear Utility Plant	3% - 20%	688	595
Total		\$ 269,499	\$ 595

NOTE C--SUSQUEHANNA STEAM ELECTRIC STATION

Allegheny owns a 10% undivided interest in SSES. PP&L owns the remaining 90%. Allegheny's portion of costs associated with the station totalled \$491 million and \$392 million at October 31, 1983 and 1982, respectively.

Allegheny's share of costs to complete the station are estimated to be approximately \$115 million as of October 31, 1983.

Both participants provide their own financing.

Unit #1 of SSES began commercial operations in June of 1983. Unit #2 is expected to begin commercial operations in late 1984. Allegheny receives a portion of the total station output equal to its percentage ownership. The statement of operations reflects Allegheny's share of fuel and other operating costs associated with the station.

NOTE D--INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consist primarily of National Rural Utilities Cooperative Finance Corporation (CFC) patronage capital, "Capital Term Certificates," and "Subordinate Term Certificates." Certificates bear interest at 3% and begin maturing in 2025.

Allegheny is required to maintain CFC investments pursuant to certain loan and guarantee agreements.

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NOTES TO FINANCIAL STATEMENTS—Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE E--NOTES PAYABLE

Allegheny has a \$52 million short-term line-of-credit available with the Baltimore Bank for Cooperatives, of which \$19,079,000 was outstanding at October 31, 1983. Interest is at a rate established by the Bank (9.75% at October 31, 1983). Equity investments in the Bank, which are included in other noncurrent assets, totalling \$793,000 at October 31, 1983, are required to be held by Allegheny to secure the line-of-credit. Certain restrictions are imposed by the line-of-credit arrangement including maintenance of ratio requirements under existing long-term debt arrangements and limitation of total short-term indebtedness outstanding to an amount not to exceed the remaining unadvanced portion of existing REA long-term loan commitments.

Allegheny also has a \$43.5 million short-term line-of-credit available with CFC of which there were no borrowings outstanding at October 31, 1983, and \$571,000 outstanding at October 31, 1982. Interest is at prime plus 1%.

NOTE F--LONG-TERM DEBT

Long-term debt consists principally of mortgage notes payable for electric utility plant to the United States of America acting through the Federal Financing Bank (FFB) and guaranteed by REA and a mortgage loan payable to CFC relating to non-utility property. Substantially all the assets of Allegheny are pledged as collateral. Long-term debt consists of the following:

	October 31 1983	1982
	<u>(In Thousands)</u>	
Mortgage notes payable to FFB at interest rates varying from 8.28% to 16.37%, due in varying amounts through 2016.	\$ 457,226	\$ 391,789
9 1/4% mortgage loan payable to CFC, \$52,685 payable quarterly, including interest, to January 2015. Interest rate to be renegotiated in January 1986.	2,148	3,168
Other	<u>554</u>	<u>546</u>
	<u>\$ 459,928</u>	<u>\$ 395,503</u>

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NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE F--LONG-TERM DEBT--Continued

Allegheny has the option on FFB promissory note advances to elect (subject to REA approval) interim maturity dates of not less than two years nor more than seven years after the date of the advance. At the date of the advance or on the maturity of an interim advance, Allegheny may also designate that it desires a long-term maturity of 34 years after the end of the calendar year in which the advance was made. At October 31, 1983, Allegheny had \$140,440,000 of advances maturing within one year which it intends to refinance for 34 years.

Approximate annual maturities of long-term debt for the next five years ended October 31 are as follows (in thousands):

1984	\$ -
1985	1,168
1986	1,573
1987	2,061
1988	2,717

The above maturity schedule reflects management's intent to convert FFB advances with interim maturity dates to long-term debt. Allegheny has used a rate it estimates to be an appropriate long-term rate, based on the October 31, 1983, interest rate, to compute the annual principal requirements.

At October 31, 1983, Allegheny had unused loan commitments from FFB and REA of \$149,469,000.

Allegheny is required by mortgage covenants to maintain certain levels of interest coverage and annual debt service coverage. Allegheny was in compliance with such requirements at October 31, 1983.

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NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE G--INCOME TAXES

At October 31, 1983, Allegheny had available net operating loss carryovers of \$375,000 and investment tax credit carryovers of approximately \$18 million, expiring through 1998.

In February of 1983, Allegheny sold certain investment and energy tax credits and depreciation deductions pursuant to a Safe Harbor Lease. The proceeds from the sale, including interest earned thereon through October 31, 1983, amounting to \$17 million, have been deferred and are being recognized over the term of the lease (30 years).

The net proceeds and related interest are required by REA to be used to retire outstanding FFB debt. The remaining amount so restricted, totalling \$2,280,000, was reported as other noncurrent investments at October 31, 1983.

Under the terms of the safe harbor lease, Allegheny is contingently liable in varying amounts in the event the lessor's tax benefits are disallowed and in the event of certain other occurrences. The maximum amount for which Allegheny was contingently liable approximated \$25 million at October 31, 1983. Payment of this contingent liability has been guaranteed by CFC.

NOTE H--RELATED PARTY TRANSACTIONS

Allegheny has an arrangement with an associated organization, Pennsylvania Rural Electric Association (PREA) under which PREA provides Allegheny with certain management, general and administrative services on a cost reimbursement basis. Total costs for the services provided for the year ended October 31, 1983, and the ten months ended October 31, 1982, totalled \$1,158,000 and \$802,000, respectively.

NOTE I--COMMITMENTS AND CONTINGENCIES

Allegheny and PP&L are members of certain insurance programs which provide coverage for property damage to members' nuclear generating plants. Allegheny's portion of the facilities at SSES is insured against property damage losses up to \$100 million under these programs. Allegheny is also a member of an insurance program which provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions. Under the property and replacement power insurance programs, Allegheny could be assessed retrospective premiums in the event the insurers' losses exceed their reserves. The maximum amount Allegheny could be assessed under these programs during the current policy year is \$1.63 million.

NOTES TO FINANCIAL STATEMENTS---Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE I--COMMITMENTS AND CONTINGENCIES---Continued

In the event of a nuclear incident at any of the facilities covered by the federal government's third-party liability indemnification program, Allegheny could be assessed up to \$500,000 per accident, but not more than \$1 million in a calendar year in the event more than one incident is experienced. These amounts will double when an operating license for SSES Unit #2 is received.

Allegheny is committed to purchase an estimated \$460,000 of Capital Term Certificates from CFC in 1984. The amount to be purchased is determined by applying an average power cost factor (as determined by CFC) to Allegheny's preceding year's gross operating revenue.