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 FACIL: 50-387 Susquehanna Steam Electric Station, Unit 1, Pennsylvania 05000387  
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 AUTH. NAME: CURTIS, N.W. AUTHOR AFFILIATION: Pennsylvania Power & Light Co.  
 RECIP. NAME: DENTON, H.R. RECIPIENT AFFILIATION: Office of Nuclear Reactor Regulation, Director

SUBJECT: Forwards audited financial statements & other financial info for Nov 1983 - Oct 1984, in accordance w/10CFR50.71.

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NOTES: 1cy NMSS/FCAF/PM, LPDR 2cys Transcripts, 05000387  
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*See Annual Financial Rpts*

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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

**JUN 05 1985**

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-2485

Docket Nos. 50-387  
50-388

Dear Mr. Denton:

In accordance with 10CFR50.71(b), attached are ten copies of the 1984 annual financial report including certified financial statements for Allegheny Electric Cooperative, Inc. The attached reports cover the period November 1, 1983 through October 31, 1984. The 1984 annual report for Pennsylvania Power & Light Co. was forwarded on March 21, 1985 (PLA-2437).

Very truly yours,

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

Attachments

cc: Mr. R. H. Jacobs USNRC  
Ms. M. J. Campagnone USNRC

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Audited Financial Statements and  
Other Financial Information

ALLEGHENY ELECTRIC COOPERATIVE, INC.

October 31, 1984

Audited Financial Statements

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# Ernst & Whinney

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212 Locust Street  
Harrisburg, Pennsylvania 17101

717/232-7575

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

We have examined the balance sheets of Allegheny Electric Cooperative, Inc. as of October 31, 1984 and 1983, and the related statements of operations and patronage capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Allegheny Electric Cooperative, Inc. at October 31, 1984 and 1983, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Ernst & Whinney*

Harrisburg, Pennsylvania  
January 31, 1985

## BALANCE SHEETS

## ALLEGHENY ELECTRIC COOPERATIVE, INC.

	October 31	
	1984	1983
	<u>(In Thousands)</u>	
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT--Note C</b>		
In service--Note B	\$ 277,893	\$ 269,499
Construction work in process	236,548	196,482
Nuclear fuel in process	<u>32,668</u>	<u>25,812</u>
	547,109	491,793
Less accumulated depreciation and amortization	<u>12,600</u>	<u>5,074</u>
	534,509	486,719
<b>OTHER ASSETS AND INVESTMENTS</b>		
Nonutility property, at cost (net of accumulated depreciation of \$658 in 1984 and \$635 in 1983)	5,925	6,224
Investments in associated organizations--Note D	6,405	4,455
Construction advances	2,309	3,628
Other noncurrent assets	<u>6,777</u>	<u>6,928</u>
	21,416	21,235
<b>CURRENT ASSETS</b>		
Cash and short-term investments of \$25,660 in 1984 and \$18,235 in 1983	25,396	18,170
Accounts receivable from members	5,300	5,976
Other accounts receivable	3,179	2,361
Other	<u>529</u>	<u>592</u>
	<u>34,404</u>	<u>27,099</u>
	<u>\$ 590,329</u>	<u>\$ 535,053</u>

	October 31	
	1984	1983
	(In Thousands)	
<b>EQUITIES AND LIABILITIES</b>		
<b>EQUITIES</b>		
Memberships	\$ 3	\$ 3
Donated capital	49	30
Patronage Capital	<u>19,906</u>	<u>16,920</u>
	19,958	16,953
LONG-TERM DEBT, less current portion--Note F	475,791	459,928
<b>CURRENT LIABILITIES</b>		
Notes payable--Note E	60,450	19,079
Current portion of long-term debt--Note F	1,209	-
Accounts payable and accrued expenses	11,802	14,770
Accounts payable to members	<u>921</u>	<u>3,992</u>
	74,382	37,841
<b>DEFERRED CREDITS</b>		
Deferred income tax benefits from safe harbor lease--Note G	16,375	16,813
Other	<u>3,823</u>	<u>3,518</u>
	20,198	20,331
	<u>\$ 590,329</u>	<u>\$ 535,053</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1984	1983
	<u>(In Thousands)</u>	
Operating revenue, including sales to members of \$81,414 in 1984 and \$65,496 in 1983	\$ 109,733	\$ 77,833
Operating expenses:		
Purchased power	51,964	50,384
Transmission	6,579	5,450
Production	8,645	2,752
Fuel	4,209	2,647
Depreciation	3,247	1,301
Taxes	1,816	839
Administrative and general	3,553	2,024
	<u>80,013</u>	<u>65,397</u>
OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS	29,720	12,436
Interest and other deductions:		
Interest expense	55,604	51,322
Allowance for funds used during construction	(25,733)	(38,942)
Other deductions (credits)-net	(127)	385
	<u>29,744</u>	<u>12,765</u>
OPERATING MARGIN (DEFICIT)	(24)	(329)
Nonoperating margins:		
Net nonoperating rental expense	(168)	(210)
Interest income	2,660	1,400
	<u>2,492</u>	<u>1,190</u>
MARGIN BEFORE INCOME TAXES	2,468	861
Deferred income tax benefits from safe harbor lease	518	378
NET MARGIN	2,986	1,239
Patronage capital at beginning of year	<u>16,920</u>	<u>15,681</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 19,906</u>	<u>\$ 16,920</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1984	1983
	<u>(In Thousands)</u>	
<b>SOURCE OF WORKING CAPITAL</b>		
Net margin	\$ 2,986	\$ 1,239
Charges (credits) to margin not affecting working capital:		
Depreciation	3,413	1,467
Fuel amortization	3,649	3,642
Deferred income tax benefits from safe harbor lease	(518)	(378)
TOTAL FROM OPERATIONS	<u>9,530</u>	<u>5,970</u>
Additions to long-term debt	27,609	80,356
Proceeds from sale of income tax benefits from safe harbor lease	80	17,191
Decrease in construction advances	1,319	5,084
Other sources	475	382
	<u>39,013</u>	<u>108,983</u>
<b>APPLICATION OF WORKING CAPITAL</b>		
Additions to electric utility plant	54,553	99,527
Reduction of long-term debt	11,746	15,931
Other applications	1,950	4,489
	<u>68,249</u>	<u>119,947</u>
DECREASE IN WORKING CAPITAL	<u>\$ 29,236</u>	<u>\$ 10,964</u>
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Increase (decrease) in current assets:		
Cash and short-term investments	7,226	9,647
Accounts receivable from members	(676)	1,398
Other accounts receivable	818	2,232
Other	(63)	389
	<u>7,305</u>	<u>13,666</u>
Increase (decrease) in current liabilities:		
Notes payable	41,371	18,508
Current portion of long-term debt	1,209	-
Accounts payable and accrued expenses	(2,968)	2,130
Accounts payable to members	(3,071)	3,992
	<u>36,541</u>	<u>24,630</u>
DECREASE IN WORKING CAPITAL	<u>\$ 29,236</u>	<u>\$ 10,964</u>

See notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

ALLEGHENY ELECTRIC COOPERATIVE, INC.

October 31, 1984.

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 consumers 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. The cost of units of property retired or replaced is removed from utility plant accounts and charged to accumulated depreciation.

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 over the estimated useful life of the plant.

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

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: 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 years ended October 31, 1984 and 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 1983 amounts to conform with the 1984 presentation.

NOTE B--ELECTRIC UTILITY PLANT IN SERVICE

Electric utility plant in service consists of the following:

	Depreciation/ Amortization, Lives/Rates	October 31	
		1984	1983
(In Thousands)			
Nuclear Utility Plant:			
Production	39 years	\$ 231,485	\$ 227,326
Transmission	2.75%	27,994	28,149
General plant	3% - 12.5%	813	813
Nuclear fuel	Heat production	16,776	12,523
Non-Nuclear Utility Plant	3% - 20%	825	688
	Total	\$ 277,893	\$ 269,499

NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

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 \$547 million and \$491 million at October 31, 1984 and 1983, respectively.

Allegheny's share of costs to complete the station are estimated to be approximately \$30 million as of October 31, 1984. 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 February, 1985. 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" and Baltimore Bank for Cooperatives (BBC) "C" stock. Certificates bear interest at 3% and begin maturing in 2025.

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

NOTE E--NOTES PAYABLE

Allegheny has short-term lines-of-credit available with banks and CFC of \$52 million of which \$41.9 million was outstanding at October 31, 1984. Interest rates are generally at prime plus 1%.

Notes payable of \$18.6 million are outstanding at October 31, 1984, relating to Pollution Control Revenue Bonds issued by an Industrial Development Authority on Allegheny's behalf. The bonds are subject to purchase on demand of the holder and remarketing on a "best efforts" basis. Sinking fund redemption is scheduled in varying amounts from 1986 through 2014, and interest is due monthly at variable rates (6.1% to 6.9% for 1984). The bonds are convertible to a fixed interest rate and fixed term at Allegheny's option. \$1.8 million of investments included in other noncurrent assets relate to a debt service reserve fund required under the bond indenture.



NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE E--NOTES PAYABLE--Continued

Certain restrictions are imposed under short-term credit arrangements including, among other things, 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.

NOTE F--LONG-TERM DEBT

Long-term debt consists principally of mortgage notes payable for the 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	
	1984	1983
	(In Thousands)	
Mortgage notes payable to FFB at interest rates varying from 8.28% to 14.724%, due in varying amounts through 2016	\$ 474,306	\$ 457,226
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	2,135	2,148
Other	559	554
	<u>477,000</u>	<u>459,928</u>
Less current portion	<u>1,209</u>	<u>-</u>
	<u>\$ 475,791</u>	<u>\$ 459,928</u>

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, 1984, Allegheny had \$144 million of advances maturing within one year which it intends to refinance for 34 years.

NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE F--LONG-TERM DEBT--Continued

Aggregate maturities of long-term debt for the four years subsequent to October 31, 1985, are as follows (in thousands):

1986	\$ 2,142
1987	3,355
1988	5,377
1989	8,548

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, 1984, interest rate, to compute the annual principal requirements.

At October 31, 1984, Allegheny had unused loan commitments from FFB and REA of \$107 million.

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, 1984.

NOTE G--INCOME TAXES

At October 31, 1984, Allegheny had available net operating loss carryovers of \$896 thousand for financial reporting purposes and \$58 million for tax reporting purposes and investment tax credit carryovers of approximately \$29.5 million, expiring through 1999.

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 have been deferred and are being recognized over the term of the lease (30 years).

The net proceeds and related interest were required by REA to be used to retire outstanding FFB debt. The amount so restricted of \$2.3 million was included in other noncurrent assets 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 \$24 million at October 31, 1984. Payment of this contingent liability has been guaranteed by CFC.



NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

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 years ended October 31, 1984 and 1983, totalled \$1.4 million and \$1.2 million, 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 \$110 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 \$2.1 million.

Allegheny's public liability for claims resulting from a nuclear incident is currently limited to \$6.2 million under provisions of the Price-Anderson Act (Act). Allegheny is protected against this potential liability by a combination of commercial insurance and an industry retrospective assessment program.

In the event of a nuclear incident at any of the facilities owned by others and covered by the Act, Allegheny could be assessed up to \$1 million per incident, but not more than \$2 million in a calendar year in the event more than one incident is experienced.

The Board of Directors has approved construction of a hydroelectric generation facility and purchase of equipment for a project to reduce peak power demand (Load Management Project). Financing for these projects has been arranged with REA (\$48.8 million) and CFC (\$3.2 million). There were no significant outstanding construction or purchase commitments or loan advances at October 31, 1984.



# Ernst & Whinney

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Allegheny Electric Cooperative, Inc.  
Harrisburg, Pennsylvania

The audited financial statements of the Cooperative and our report thereon are presented in the preceding section of this report. The information presented hereinafter is for purposes of additional analysis and is not required for a fair presentation of the financial position, results of operations, or changes in financial position of the Cooperative. Such information has been subjected to the auditing procedures applied in our examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Harrisburg, Pennsylvania  
January 31, 1985

*Ernst & Whinney*

SCHEDULES OF NONOPERATING RENTAL INCOME (EXPENSE)

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1984	1983
	(In Thousands)	
INCOME:		
Rental-building	\$ 656	\$ 607
Rental-parking	47	46
	<u>703</u>	<u>653</u>
EXPENSES:		
Utilities	129	110
Payroll and employee benefits	39	46
Management and leasing fees	21	20
Office and administrative expenses	12	2
Maintenance and repairs	99	77
Real estate taxes	133	134
Insurance	30	30
Interest	198	278
Depreciation	166	166
Loss on property disposal	44	-
	<u>871</u>	<u>863</u>
NET NONOPERATING RENTAL EXPENSE	<u>\$ 168</u>	<u>\$ 210</u>

SCHEDULES OF ADMINISTRATIVE AND GENERAL EXPENSES

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1984	1983
	(In Thousands)	
Office supplies	\$ 110	\$ 64
Travel, conventions and meetings	97	74
Payroll and employee benefits	919	726
Legal, auditing and engineering	940	277
Association membership dues	83	25
Experimental and general research	279	237
Board meetings, directors' fees and travel	79	65
Penn Lines	82	75
Information programs	113	51
Rent	120	96
Payroll taxes	58	47
Insurance	16	16
Insurance--SSES Unit #1	632	257
Miscellaneous	25	14
	<hr/>	<hr/>
TOTAL ADMINISTRATIVE AND GENERAL EXPENSES	\$ 3,553	\$ 2,024