



Pennsylvania Power & Light Company

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Harold W. Keiser
Vice President-Nuclear Operations
215/770-7502

APR 22 1987

Dr. Thomas E. Murley
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, DC 20555

SUSQUEHANNA STEAM ELECTRIC STATION
ANNUAL FINANCIAL REPORT
PLA-2847 FILE R41-2A

Docket Nos. 50-387
50-388

Dear Dr. Murley:

In accordance with 10CFR50.71(b), attached is the 1986 annual financial report including certified financial statements for Allegheny Electric Cooperative, Inc. The attached report covers the period November 1, 1985 through October 31, 1986. The 1986 annual report for Pennsylvania Power & Light Co. was forwarded on March 19, 1987 (PLA-2820):

Very truly yours,

H. W. Keiser
Vice President-Nuclear Operations

Attachment

cc: NRC Document Control Desk (original)
NRC Region I
Mr. L. R. Plisco, NRC Resident Inspector
Mr. M. C. Thadani, NRC Project Manager

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Audited Financial Statements and
Other Financial Information

ALLEGHENY ELECTRIC COOPERATIVE, INC.

October 31, 1986

Audited Financial Statements

Auditors' Report.....	1
Balance Sheets.....	2
Statements of Operations and Patronage Capital.....	4
Statements of Changes in Financial Position.....	5
Notes to Financial Statements.....	6

Other Financial Information

Auditors' Report on Other Financial Information.....	13
Schedules of Nonoperating Rental Income (Expense).....	14
Schedules of Administrative and General Expenses.....	15

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

We have examined the balance sheets of Allegheny Electric Cooperative, Inc. as of October 31, 1986 and 1985, 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, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



Harrisburg, Pennsylvania
January 13, 1987

BALANCE SHEETS

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	October 31	
	1986	1985
	(In Thousands)	
ASSETS		
ELECTRIC UTILITY PLANT--Note C		
In service--Note B	\$ 558,098	\$ 540,436
Construction work in process	23,267	9,985
Nuclear fuel in process	20,650	27,345
	<u>602,015</u>	<u>577,766</u>
Less accumulated depreciation and amortization	38,651	25,838
	<u>563,364</u>	<u>551,928</u>
OTHER ASSETS AND INVESTMENTS		
Nonutility property, at cost (net of accumulated depreciation of \$928 in 1986 and \$793 in 1985)	5,668	5,799
Investments in associated organizations--Note D	5,009	4,938
Construction advances	327	848
Other noncurrent assets	4,304	5,539
	<u>15,308</u>	<u>17,124</u>
CURRENT ASSETS		
Cash and short-term investments of \$5,675 in 1986 and \$16,559 in 1985	5,257	16,242
Accounts receivable from members	8,022	7,208
Other accounts receivable	2,564	3,160
Other	213	550
	<u>16,056</u>	<u>27,160</u>
	<u>\$ 594,728</u>	<u>\$ 596,212</u>

	October 31	
	1986	1985
	(In Thousands)	
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	\$ 3	\$ 3
Donated capital	50	49
Patronage capital	29,590	24,434
	<u>29,643</u>	<u>24,486</u>
LONG-TERM DEBT, less current portion--Note F	494,452	505,148
CURRENT LIABILITIES		
Notes payable--Note E	30,646	27,474
Current portion of long-term debt--Note F	7,744	7,003
Accounts payable and accrued expenses	11,722	10,406
Accounts payable to members	209	1,688
	<u>50,321</u>	<u>46,571</u>
DEFERRED CREDITS		
Deferred income tax benefits from safe harbor lease--Note G	15,087	15,816
Other	5,225	4,191
	<u>20,312</u>	<u>20,007</u>
	<u>\$ 594,728</u>	<u>\$ 596,212</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1986	1985
	(In Thousands)	
Operating revenue, including sales to members of \$97,170 in 1986 and \$87,901 in 1985	\$ 139,582	\$ 131,246
Operating expenses:		
Purchased power	43,543	43,280
Transmission	5,987	6,450
Production	16,245	14,385
Fuel	7,875	8,280
Depreciation	7,156	5,674
Taxes	3,148	3,356
Administrative and general	4,353	3,004
	<u>88,307</u>	<u>84,429</u>
OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS	51,275	46,817
Interest and other deductions:		
Interest expense	51,560	55,430
Allowance for funds used during construction	(3,380)	(10,149)
Other deductions (credits), net	(43)	(465)
	<u>48,137</u>	<u>44,816</u>
OPERATING MARGIN	3,138	2,001
Nonoperating margins:		
Net nonoperating rental expense	(76)	(63)
Interest income	1,365	2,031
	<u>1,289</u>	<u>1,968</u>
MARGIN BEFORE INCOME TAXES	4,427	3,969
Deferred income tax benefits from safe harbor lease	<u>729</u>	<u>559</u>
NET MARGIN	5,156	4,528
Patronage capital at beginning of year	<u>24,434</u>	<u>19,906</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 29,590</u>	<u>\$ 24,434</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1986	1985
	(In Thousands)	
SOURCE OF WORKING CAPITAL		
Net margin	\$ 5,156	\$ 4,528
Charges (credits) to margin not affecting working capital:		
Depreciation	7,291	5,808
Fuel amortization	6,775	7,132
Deferred income tax benefits from safe harbor lease	(729)	(559)
TOTAL FROM OPERATIONS	<u>18,493</u>	<u>16,909</u>
Additions to long-term debt	4,990	37,047
Decrease in construction advances	521	1,461
Other sources	2,270	3,073
	<u>26,274</u>	<u>58,490</u>
APPLICATION OF WORKING CAPITAL		
Additions to electric utility plant	25,371	30,233
Reduction of long-term debt	15,686	7,690
Other applications	71	-
	<u>41,128</u>	<u>37,923</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (14,854)</u>	<u>\$ 20,567</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and short-term investments	\$ (10,985)	\$ (9,154)
Accounts receivable from members	814	1,908
Other accounts receivable	(596)	(19)
Other	(337)	21
	<u>(11,104)</u>	<u>(7,244)</u>
Increase (decrease) in current liabilities:		
Notes payable	3,172	(32,976)
Current portion of long-term debt	741	5,794
Accounts payable and accrued expenses	1,316	(1,396)
Accounts payable to members	(1,479)	767
	<u>3,750</u>	<u>(27,811)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (14,854)</u>	<u>\$ 20,567</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

ALLEGHENY ELECTRIC COOPERATIVE, INC.

October 31, 1986

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 providing 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: The 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 is 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 electric utility plant while 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.

Variations in the customary relationship between pretax accounting income and income tax expense are the result of patronage dividends. Net operating losses for financial and tax reporting purposes differ as a result of timing differences relating primarily to depreciation.

NOTE B--ELECTRIC UTILITY PLANT IN SERVICE

Electric utility plant in service consists of the following:

	Depreciation/ Amortization, Lives/Rates	October 31	
		1986	1985
(In Thousands)			
Nuclear Utility Plant:			
Production	39 years	\$ 482,021	\$ 480,363
Transmission	2.75%	29,713	29,200
General plant	3% - 12.5%	829	829
Nuclear fuel	Heat production	44,466	29,120
Non-Nuclear Utility Plant	3% - 20%	<u>1,069</u>	<u>924</u>
	TOTAL	<u>\$ 558,098</u>	<u>\$ 540,436</u>

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%. Both participants provide their own financing. Allegheny's portion of costs associated with the station totalled \$596 million and \$576 million at October 31, 1986 and 1985, respectively. Allegheny's share of anticipated costs for ongoing construction and nuclear fuel for SSES are estimated to be approximately \$48.5 million over the next five years.

Unit #1 of SSES began commercial operations in June of 1983. Unit #2 began 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 \$2.0 million and \$8.9 million were outstanding at October 31, 1986 and 1985, respectively. Interest rates are generally at prime plus 1%.

Notes payable of \$28.6 million and \$18.6 million were outstanding at October 31, 1986 and 1985, respectively, 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 through 2014, and interest is due monthly at variable rates (4.0% to 8.3% for 1986 and 4.5% to 6.7% for 1985). 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 at both October 31, 1986 and 1985 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

Restrictions are imposed under certain 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 certain existing REA long-term loan commitments (\$66 million at October 31, 1986).

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 nonutility property. Substantially all the assets of Allegheny are pledged as collateral. Long-term debt consists of the following:

	October 31	
	1986	1985
	(In Thousands)	
Mortgage notes payable to FFB at interest rates varying from 6.473% to 13.185%, due in varying amounts through 2020	\$ 499,575	\$ 509,488
9 1/4% mortgage loan payable to CFC, \$53 thousand payable quarterly, including interest, to January 2015. Interest rate to be renegotiated in 1987	2,106	2,121
Other	515	542
	<u>502,196</u>	<u>512,151</u>
Less current portion	7,744	7,003
	<u>\$ 494,452</u>	<u>\$ 505,148</u>

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, 1986, Allegheny had \$147 million of advances maturing within one year which it intends to refinance for 34 years.

Aggregate maturities of long-term debt for the four years subsequent to October 31, 1987 are as follows (in thousands):

1988	\$ 9,613
1989	10,057
1990	12,044
1991	13,627

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, 1986 interest rate, to compute the annual principal requirements.

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, 1986.

NOTE G--INCOME TAXES

At October 31, 1986, Allegheny had available net operating loss carryovers of \$2.0 million for financial reporting purposes and \$206 million for tax reporting purposes, and investment tax credit carryovers of approximately \$32.3 million for both financial and tax reporting purposes, expiring through 2001. Under the Tax Reform Act of 1986, the amount of investment tax credit allowable as a result of a carryforward must be reduced by 12% for the year ended October 31, 1987 and 35% for years thereafter.

In 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ALLEGHENY ELECTRIC COOPERATIVE, INC.

NOTE G--INCOME TAXES--Continued

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 \$22 million at October 31, 1986. 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 years ended October 31, 1986 and 1985, were \$2.1 million and \$1.8 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 \$120 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 \$1.6 million.

Allegheny's public liability for claims resulting from a nuclear incident is currently limited to \$70 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.

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 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 Act is scheduled to expire in August 1987, and Congress is considering several proposals to amend the Act. The proposed amendments generally include provisions which would increase the public liability limit of utilities in the event of a nuclear incident. Management is unable to predict what action Congress might ultimately take regarding the Act and what effect such action might have on Allegheny's potential liability.

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). At October 31, 1986, total project costs of the hydroelectric generation facility and Load Management Project were estimated at \$33 million and \$11.4 million, respectively. Costs incurred through October 31, 1986 were \$3.7 million for the hydroelectric generation facility and \$2.1 million for the Load Management Project.

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 13, 1987

SCHEDULES OF NONOPERATING RENTAL INCOME (EXPENSE)

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1986	1985
	(In Thousands)	
INCOME:		
Rental-building	\$ 709	\$ 669
Rental-parking	51	47
	<u>760</u>	<u>716</u>
EXPENSES:		
Utilities	182	139
Payroll and employee benefits	37	38
Management and leasing fees	22	21
Office and administrative expenses	6	5
Maintenance and repairs	81	75
Real estate taxes	138	136
Insurance	40	34
Interest	196	197
Depreciation	135	134
Gain on property disposal	(1)	-
	<u>836</u>	<u>779</u>
NET NONOPERATING RENTAL EXPENSE	<u>\$ 76</u>	<u>\$ 63</u>

SCHEDULES OF ADMINISTRATIVE AND GENERAL EXPENSES

ALLEGHENY ELECTRIC COOPERATIVE, INC.

	Year Ended October 31	
	1986	1985
	(In Thousands)	
Office supplies	\$ 112	\$ 122
Travel, conventions, and meetings	104	78
Payroll and employee benefits	1,103	541
Legal, auditing, and engineering	1,316	478
Association membership dues	(34)	71
Experimental and general research	223	361
Board meetings, directors' fees, and travel	116	102
Penn Lines	91	87
Information programs	195	192
Rent	143	66
Payroll taxes	89	46
Insurance	30	19
Insurance--SSES	818	804
Miscellaneous	47	37
	<hr/>	<hr/>
TOTAL ADMINISTRATIVE AND GENERAL EXPENSES	\$ 4,353	\$ 3,004