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Jersey Central Power & Light Company

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A subsidiary of General Public Utilities Corporation

ANNUAL REPORT 1969

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JERSEY CENTRAL POWER & LIGHT COMPANY

A subsidiary of General Public Utilities Corporation (GPU)

MADISON AVENUE AT PUNCH BOWL ROAD

MORRISTOWN, NEW JERSEY 07960

DIRECTORS

*R. F. BOVIER, Basking Ridge, N. J. G. J. SCHNEIDER, Ridgewood, N. J.
*W. G. KUHN, Tenafly, N. J. R. H. SIMS, Convent Station, N. J.
*J. E. LOGAN, Mountain Lakes, N. J. F. I. SMITH, Mountain Lakes, N. J.

**Executive Committee*

OFFICERS

R. F. BOVIER President
J. R. LEVA Vice President, Personnel, Safety and Services
J. E. LOGAN Vice President, Engineering, Operations and Generation
G. H. RITTER Vice President
R. H. SIMS Vice President
G. J. SCHNEIDER Vice President, Financial
F. I. SMITH Vice President, Sales
J. S. BURCHELL Comptroller
J. F. FARRELL Assistant Comptroller
E. C. SCHOENER Treasurer
H. S. CLAYTON Assistant Treasurer
L. SLOAN Secretary
M. B. PETERS Assistant Secretary

COUNSEL

A. A. ROCHESTER General Counsel
W. T. OSBORNE General Attorney

DIVISION MANAGERS

F. M. AMBLER Coast Division
T. R. HEIGHT Southern Division
J. R. MCGALLIARD Bay Division
E. J. VAN DEUSEN Central Division

TRUSTEE — FIRST MORTGAGE BONDS

FIRST NATIONAL CITY BANK
55 Wall Street, New York, N. Y. 10015

TRANSFER AGENT — PREFERRED STOCK
MANUFACTURERS HANOVER TRUST COMPANY
40 Wall Street, New York, N. Y. 10015

TRUSTEE — DEBENTURES

IRVING TRUST COMPANY
One Wall Street, New York, N. Y. 10015

REGISTRAR — PREFERRED STOCK

CHEMICAL BANK
20 Pine Street, New York, N. Y. 10015

Jersey Central Power & Light Company



MADISON AVENUE AT PUNCH BOWL ROAD • MORRISTOWN, N. J. • JEFFERSON 9-6111

March 24, 1970

TO THE STOCKHOLDERS AND EMPLOYEES OF JERSEY CENTRAL POWER & LIGHT COMPANY

On August 1, 1969, for the first time in its corporate history, the Company filed with the New Jersey Board of Public Utility Commissioners an application for a general rate increase designed to produce approximately \$12.7-million of additional revenues based on 1968 consumption.

Much as the Company regrets the need to increase the cost of its service, we believe that we have reached the point where advances in technology are no longer sufficient to offset the staggering increases in capital costs and operating costs attendant on our load growth. Thus, it was felt that in view of these increases, this was the only course open to us.

If the Company should be successful in achieving the rate increase sought, of the total of \$12.7-million in additional revenues, \$7-million would go for taxes, based on 1970 tax rates, leaving the Company a net increase in revenues of \$5.7-million. The Board has issued an order suspending the rate increase until May 1, 1970 and it is expected that the suspension will be extended pending completion of the case. Direct testimony has been filed and cross examination is underway at the date of this report.

We are confident that the Board appreciates the gravity of the situation and will respond promptly and favorably to our request for increases in our electric service rates.

Despite the fact that the Company found it necessary to apply for a rate increase, there were some encouraging signs during the year. Our sales of electricity continued the growth that we have been experiencing in recent years. Sales totaled 5,378,849 megawatt hours and sales revenues were \$108.2-million, increases of 10% and 9%, respectively, over the previous year. The average annual use per residential customer was 5,914 kilowatt hours, an increase of 8% over 1968. Net income was up \$1.5-million, or 8%.

On July 17 the Company set a new annual hourly peak load of 1,240,000 kilowatts (KW), an increase of 116,000 KW over the previous year's peak.

On December 23, 1969, about two-and-a-quarter years behind its initially scheduled operation date, the Oyster Creek Nuclear Generating Station went into commercial operation.

Our disappointment in the long delayed start-up of the station was partially offset by the fact that when the station entered commercial operation, it was at a capacity of 530,000 KW, or 15,000 KW above its warranted rated capacity. Its expected ultimate rating is 640,000 KW. Coincident with the first Oyster Creek unit entering service, we announced plans for a second nuclear unit at Oyster Creek. This unit, which is scheduled for completion by the summer of 1976, will have a capacity of 1,190,000 KW.

Construction of another nuclear unit, originally scheduled for completion in 1973 as the second unit at Oyster Creek, was transferred late in 1968 to Three-Mile Island in the Susquehanna River near Harrisburg, Pa., which also is the site of an essentially identical nuclear unit presently under construction by Metropolitan Edison Company, another GPU subsidiary. The two 840,000-KW units are scheduled for completion in 1972 and 1974.

The Company announced in August, 1969 that it would build two 400,000-KW oil-fired units on a Company-owned site at Union Beach on Raritan Bay. These units were scheduled for completion in 1973 and 1974. However, in order to accelerate the availability of additional generating capacity, it was decided in December, 1969 to cancel the first unit planned for Union Beach and to order 400,000 KW of combustion turbines to be installed in time to meet the summer loads of 1971.

Together with Public Service Electric and Gas Company, which is joint owner with the Company of the Yards Creek Pumped Storage Station in Blairstown, the Company is seeking authorization to expand the project from its present capacity of 330,000 KW to 1,600,000 KW. The Company's share of the present capacity is 165,000 KW, and of the ultimate capacity, 560,000 KW.

During the year the Company expended \$67.4-million for nuclear fuel and plant additions. To finance this program, \$10-million of 8½% 30-year First Mortgage Bonds were sold at an effective interest cost of 8.4295%, cash capital contributions of \$23-million were received from GPU and bank loans of \$25.2-million were issued. Bank loans outstanding at December 31, 1969 totaled \$37.6-million.

Despite the fact that the amount of power purchased was down, the cost of power received from other utilities increased by \$2-million due to higher costs per KWH of power received.

The \$13.5-million spent for fuel represented an increase of 12% due to increases in the cost per BTU and in the kilowatt hours generated.

The Board of Directors at a meeting May 21, 1969 approved the retirement of Mr. R. D. MacFee as Vice President, Accounting, and as a member of the Board. Subsequently, Mr. George J. Schneider, a member of the Company's Board of Directors and Vice President of GPU, was elected Vice President, Financial. Also in 1969, Mr. James R. Leva was elected Vice President, Personnel, Safety and Services. Mr. Robert H. Sims, a Vice President, was elected a member of the Board of Directors at a meeting on January 15, 1970.

For the Board of Directors,

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R. F. Bovier

R. F. BOVIER
President

ELECTRIC GENERATION AND SALES STATISTICS

	1969	1968	1967	1966	1965
GENERATING CAPACITIES AND PEAKS — KW:					
Installed Capacity	1,438,000	929,200	777,400	627,400	607,400
Firm Power Purchases	—	—	—	—	28,000
Totals	<u>1,433,000</u>	<u>929,200</u>	<u>777,400</u>	<u>627,400</u>	<u>635,400</u>
Annual Peak Load	<u>1,240,000</u>	<u>1,124,000</u>	<u>906,000</u>	<u>863,600</u>	<u>744,400</u>
NET SYSTEM LOAD (megawatt hours):					
Net Generation	4,312,270	3,707,028	2,919,077	2,571,945	2,360,719
Purchased	83,779	78,187	75,072	123,579	61,840
Net Interchange	1,494,490	1,551,748	1,794,566	1,738,650	1,492,118
Net System Load	<u>5,890,539</u>	<u>5,336,963</u>	<u>4,788,715</u>	<u>4,434,174</u>	<u>3,914,677</u>
STEAM PRODUCTION DATA:					
Average Btu (per net KWH)	10,530	10,553	10,839	10,627	10,564
Fuel Cost (¢ per million btu)	30.3	29.8	30.9	31.0	30.0
Cost of Fuel (mills per KWH)	3.19	3.14	3.35	3.29	3.17
Total Production Costs (mills per KWH)	4.44	4.28	4.63	4.50	4.52
ENERGY SALES (megawatt hours):					
Residential	2,059,975	1,828,726	1,623,472	1,451,889	1,289,346
Commercial	1,321,492	1,195,989	1,068,747	980,766	872,318
Industrial	1,796,199	1,668,865	1,539,150	1,450,182	1,243,620
All Other	201,183	185,262	170,421	176,139	155,707
Totals	<u>5,378,849</u>	<u>4,878,842</u>	<u>4,401,790</u>	<u>4,058,976</u>	<u>3,560,991</u>
Gain Over Prior Year	<u>10.2%</u>	<u>10.8%</u>	<u>8.4%</u>	<u>14.0%</u>	<u>9.4%</u>
OPERATING REVENUES:					
Residential	\$52,006,767	\$ 47,111,539	\$42,619,152	\$38,855,768	\$35,155,078
Commercial	30,907,885	28,405,800	25,889,045	23,993,526	21,793,781
Industrial	21,060,209	19,510,171	18,089,037	17,138,528	15,125,475
Other	4,221,716	3,966,022	3,662,767	3,653,748	3,408,229
Total, from KWH Sales	<u>\$108,196,777</u>	<u>\$ 98,993,532</u>	<u>\$90,260,001</u>	<u>\$83,641,570</u>	<u>\$75,482,563</u>
Other Revenues	1,410,696	1,343,883	1,253,764	1,196,504	1,037,164
Totals	<u>\$109,607,273</u>	<u>\$100,337,415</u>	<u>\$91,513,765</u>	<u>\$84,838,074</u>	<u>\$76,519,727</u>
Gain Over Prior Year	<u>9.2%</u>	<u>9.6%</u>	<u>7.9%</u>	<u>10.9%</u>	<u>8.7%</u>
CUSTOMERS — YEAR-END:					
Residential	352,441	339,779	326,142	312,293	297,682
Commercial	38,590	37,591	36,587	35,616	34,547
Industrial	1,573	1,513	1,461	1,424	1,373
All Other	259	262	266	258	253
Totals	<u>392,863</u>	<u>379,145</u>	<u>364,456</u>	<u>349,591</u>	<u>333,855</u>
AVERAGE USE, BILL AND PRICE:					
Residential Customers:					
KWH Use per Customer	5,914	5,451	5,044	4,714	4,395
Annual Bill	\$149.31	\$140.43	\$132.42	\$126.17	\$119.82
Price per KWH	2.52¢	2.58¢	2.63¢	2.68¢	2.73¢

JERSEY CENTRAL POWER & LIGHT COMPANY

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

For the Years Ended December 31, 1969 and 1968

	<u>1969</u>	<u>1968</u>
SOURCE OF FUNDS:		
Net income (see statement on page 6)	\$21,521,629	\$20,016,418
Depreciation (Note 2)	12,475,700	10,997,800
Investment credit, less amortization (Note 5)	2,360,106	547,223
Totals	<u>\$36,357,435</u>	<u>\$31,561,441</u>
Sale of bonds	10,000,000	26,000,000
Cash contributions from General Public Utilities Corporation, parent company	23,000,000	23,800,000
Bank borrowings	25,200,000	—
Other, net	—	3,462,588
Total Funds Received	<u>\$94,557,435</u>	<u>\$84,824,029</u>
APPLICATION OF FUNDS:		
Additions to utility plant	\$64,262,763	\$54,774,652
Nuclear fuel	3,125,439	1,944,139
Dividends on preferred stock	500,000	500,000
Dividends on common stock	22,401,852	19,645,238
Payment of bank borrowings	—	7,000,000
Retirement of first mortgage bonds and debentures	2,998,000	960,000
Other, net (Note 3)	1,269,381	—
Total Funds Applied	<u>\$94,557,435</u>	<u>\$84,824,029</u>

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Board of Directors,
JERSEY CENTRAL POWER & LIGHT COMPANY,
 Morristown, New Jersey.

We have examined the balance sheet of Jersey Central Power & Light Company as of December 31, 1969 and the related statements of income and unappropriated earned surplus and the statement of source and application of funds 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. We previously examined and reported upon the financial statements for the year 1968.

In our opinion, the aforementioned statements present fairly the financial position of Jersey Central Power & Light Company at December 31, 1969 and 1968 and the results of its operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, N. Y.
 January 29, 1970.

JERSEY CENTRAL POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1969 and 1968

ASSETS

	<u>1969</u>	<u>1968</u>
PROPERTY, PLANT AND EQUIPMENT (at original cost):		
Utility plant in service and under construction (Note 1)	\$601,047,318	\$540,224,811
Less, accumulated depreciation (Note 2)	<u>69,225,040</u>	<u>59,310,663</u>
Net utility plant	<u>\$531,822,278</u>	<u>\$480,914,148</u>
Nuclear fuel	\$ 14,022,786	\$ 10,897,347
Less, accumulated amortization	37,049	—
Net nuclear fuel	<u>\$ 13,985,737</u>	<u>\$ 10,897,347</u>
Net property, plant and equipment	<u>\$545,808,015</u>	<u>\$491,811,495</u>
INVESTMENTS:		
Other physical property, at original cost	\$ 98,860	\$ 321,148
Other, at cost	<u>15,433</u>	<u>76,721</u>
Totals	<u>\$ 114,293</u>	<u>\$ 397,869</u>
CURRENT ASSETS:		
Cash (Note 3)	\$ 6,845,976	\$ 1,782,691
Accounts receivable (Note 5)	12,895,706	9,642,700
Materials and supplies (including construction materials), at average cost or less	6,678,335	6,385,375
Prepayments	594,979	435,071
Other	<u>743,836</u>	<u>574,225</u>
Totals	<u>\$ 27,758,832</u>	<u>\$ 18,820,062</u>
DEFERRED DEBITS:		
Unamortized premium on bonds redeemed	\$ 34,799	\$ 69,599
Charges related to proposed construction projects and other work	1,175,590	806,756
Other	<u>236,179</u>	<u>29,820</u>
Totals	<u>\$ 1,446,568</u>	<u>\$ 906,175</u>
TOTAL ASSETS	<u><u>\$575,127,708</u></u>	<u><u>\$511,935,601</u></u>

The accompanying notes are an integral part of the financial statements.

JERSEY CENTRAL POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1969 and 1968

LIABILITIES AND CAPITAL

	<u>1969</u>	<u>1968</u>
LONG-TERM DEBT, CAPITAL STOCK AND SURPLUS		
(see page 7):		
First mortgage bonds and debentures	\$287,915,000	\$279,995,000
Notes payable to banks due within one year to be refinanced	37,600,000	12,400,000
Totals	<u>\$325,515,000</u>	<u>\$292,395,000</u>
Cumulative preferred stock	\$ 12,500,000	\$ 12,500,000
Premium on cumulative preferred stock	148,750	148,750
Totals	<u>\$ 12,648,750</u>	<u>\$ 12,648,750</u>
Common stock and surplus:		
Common stock	\$ 69,787,700	\$ 69,787,700
Capital surplus (parent made capital contributions of \$23,000,000 in 1969 and \$23,800,000 in 1968)	127,189,323	104,189,323
Unappropriated earned surplus (see statement on page 7 and Note 4)	7,288,099	8,668,322
Totals	<u>\$204,265,122</u>	<u>\$182,645,345</u>
Totals	<u>\$542,428,872</u>	<u>\$487,689,095</u>
CURRENT LIABILITIES:		
First mortgage bonds and debentures due within one year	\$ 252,000	\$ 1,170,000
Accounts payable	12,567,206	7,606,982
Customer deposits	1,394,303	1,294,005
Taxes accrued	887,131	852,534
Interest accrued	4,726,263	3,908,072
Other	2,919,257	2,037,806
Totals	<u>\$ 22,746,160</u>	<u>\$ 16,869,399</u>
DEFERRED CREDITS:		
Unamortized premium on debt	\$ 1,369,985	\$ 1,448,552
Other	777,197	730,762
Totals	<u>\$ 2,147,182</u>	<u>\$ 2,179,314</u>
RESERVE FOR UNAMORTIZED INVESTMENT CREDIT		
(Note 5)	<u>\$ 6,967,029</u>	<u>\$ 4,606,923</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION		
	<u>\$ 838,465</u>	<u>\$ 590,870</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$575,127,708</u>	<u>\$511,935,601</u>

The accompanying notes are an integral part of the financial statements.

JERSEY CENTRAL POWER & LIGHT COMPANY

STATEMENTS OF INCOME

For the Years Ended December 31, 1969 and 1968

	1969	1968
OPERATING REVENUES	\$109,607,273	\$100,337,415
OPERATING EXPENSES:		
Operation	\$ 33,367,827	\$ 29,543,628
Power purchased and interchanged	13,820,147	11,846,118
Maintenance	6,555,276	6,544,321
Depreciation of utility plant (Note 2)	12,475,700	10,997,800
Federal income tax (Note 5)	(2,574,302)	1,906,320
Amount equivalent to current investment credit (Note 5)	3,191,096	1,059,103
Amortization of accumulated investment credit (Note 5)	(830,990)	(511,880)
Other taxes	13,499,639	12,258,734
Totals	\$ 79,504,393	\$ 73,644,144
OPERATING INCOME	\$ 30,102,880	\$ 26,693,271
OTHER INCOME	231,762	19,534
GROSS INCOME	\$ 30,334,642	\$ 26,712,805
INCOME DEDUCTIONS:		
Interest on first mortgage bonds and debentures	\$ 14,052,806	\$ 12,543,229
Other interest	2,197,254	1,172,997
Interest charged to construction	(7,520,098)	(6,923,366)
Other	83,051	(96,473)
Totals	\$ 8,813,013	\$ 6,696,387
NET INCOME	\$ 21,521,629	\$ 20,016,418

() Indicates red figure.

The accompanying notes are an integral part of the financial statements.

JERSEY CENTRAL POWER & LIGHT COMPANY

STATEMENTS OF UNAPPROPRIATED EARNED SURPLUS

For the Years Ended December 31, 1969 and 1968

	<u>1969</u>	<u>1968</u>
BALANCE, Beginning of year	\$ 8,668,322	\$ 8,797,142
ADD, Net income (see statement on page 6)	21,521,629	20,016,418
Totals	<u>\$30,189,951</u>	<u>\$28,813,560</u>
DEDUCT, Dividends on capital stock:		
4% Series cumulative preferred stock	\$ 500,000	\$ 500,000
Common stock	22,401,852	19,645,238
Totals	<u>\$22,901,852</u>	<u>\$20,145,238</u>
BALANCE, End of year (Note 4)	<u>\$ 7,288,099</u>	<u>\$ 8,668,322</u>

The accompanying notes are an integral part of the financial statements.

LONG-TERM DEBT AND CAPITAL STOCK

December 31, 1969

LONG-TERM DEBT OUTSTANDING IN HANDS OF PUBLIC

(excluding sinking fund requirements due within one year):

First mortgage bonds (a):

27 $\frac{7}{8}$ % Series due 1976	\$ 34,500,000
31 $\frac{1}{8}$ % Series due 1978	3,500,000
31 $\frac{1}{4}$ % Series due 1981	6,000,000
31 $\frac{1}{2}$ % Series due 1985	20,000,000
41 $\frac{1}{8}$ % Series due 1986	10,000,000
5% Series due 1987	15,000,000
51 $\frac{1}{4}$ % Series due 1989	5,770,000
43 $\frac{3}{8}$ % Series due 1992	11,000,000
41 $\frac{1}{2}$ % Series due 1993	18,525,000
45 $\frac{3}{8}$ % Series due 1994	18,000,000
47 $\frac{3}{8}$ % Series due 1995	20,000,000
61 $\frac{1}{8}$ % Series due 1996	29,010,000
63 $\frac{3}{8}$ % Series due 1997	28,860,000
71 $\frac{1}{4}$ % Series due 1998	24,730,000
81 $\frac{1}{2}$ % Series due 1999	8,680,000

Debentures (a):

45 $\frac{3}{8}$ % Series due 1988	7,740,000
45 $\frac{3}{8}$ % Series due 1989	4,400,000
51 $\frac{1}{8}$ % Series due 1990	8,100,000
6% Series due 1992	14,100,000
Total	<u>\$287,915,000</u>

Notes payable (71 $\frac{1}{2}$ % and 81 $\frac{1}{2}$ %) to banks due within one year to be refinanced	\$ 37,600,000
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CAPITAL STOCK:

Cumulative preferred stock, par value \$100 a share, 175,000 shares authorized; 4% Series, 125,000 shares outstanding, callable at \$106.50 a share	<u>\$ 12,500,000</u>
Common stock, par value \$10 a share, 7,000,000 shares authorized; 6,978,770 shares outstanding	<u>\$ 69,787,700</u>

(a) At December 31, 1969, annual sinking fund requirements amounted to \$2,080,000, of which \$1,828,000 were reacquired.

NOTES TO FINANCIAL STATEMENTS

1. UTILITY PLANT:

For the past several years, the Company and the City of Jersey City have been making expenditures in connection with the Longwood Valley joint water supply and pumped storage power project. At December 31, 1969, the Company had an investment of approximately \$5,300,000 in the project and understands that the City had invested a reasonably comparable amount. As a result of changed conditions, it appears that the project would not be feasible under the original arrangements. Studies of revisions of these arrangements are now in process so as to permit the project to go forward.

In view of the foregoing, the Company believes that no adjustment of its investment in such project is required. If subsequent events indicate that the project should be abandoned, the net loss would be approximately \$2,800,000 (after salvage and income tax deductions).

2. DEPRECIATION:

For rate-making and financial accounting purposes, the Company provides for depreciation at annual rates determined and revised periodically on the basis of studies by independent engineers to be sufficient to amortize the original cost of depreciable property over estimated service lives, which are generally longer than those employed for tax purposes. The Company uses depreciation rates based on functional account groups which, on an aggregate composite basis, resulted in an approximate annual rate of 2.89%, 2.88%, 2.88%, 2.66% and 2.61% for the years 1969, 1968, 1967, 1966 and 1965, respectively.

3. COMPENSATING BALANCES:

Except for daily working funds and like items, substantially all the funds included in cash represent compensating balances maintained in respect of short-term bank borrowing or lines of credit for potential borrowings.

4. UNAPPROPRIATED EARNED SURPLUS:

Certain limitations on the declaration of cash dividends on common stock are contained in the Company's mortgage, debenture indenture and charter, the most restrictive presently being that contained in the mortgage and debenture indenture, under which \$1,729,154 of the balance of unappropriated earned surplus at December 31, 1969 are so restricted.

5. FEDERAL INCOME TAX:

The Company joins with its parent and others in filing consolidated Federal income tax returns. Examination of returns through 1965 has been completed and all deficiencies have been paid. The consolidated Federal income tax liability is allocated among the participants in the consolidated returns pursuant to agreements generally designed to allocate such liability in proportion to the participants' respective contributions to such liability. The agreements also provide that a participant will not pay a tax in excess of separate return tax liability.

The 1969 investment tax credit (the accounting for which is described below in this note) of approximately \$3,200,000 was in excess of the 1969 Federal income tax (before such investment tax credit). The Internal Revenue Code provides that such current investment tax credits may only be utilized to the extent of 50% of the current tax liability before such credit, but that any balance of such credit may be carried back and applied against the income tax paid in prior years. Principally as a result of these facts, the 1969 Federal income tax is reflected in the income statement as a net credit of \$2,574,302. The carry-back to prior years resulted in a claim for refund of tax paid in prior years and that claim for refund (amounting to \$2,450,000) is classified in the 1969 balance sheet as an account receivable.

As a public utility, the revenues of the Company in any period are dependent to a significant extent upon the costs which are recognized and allowed in that period for rate-making purposes. It is the policy of the Company, in connection with the financial statements contained in registration statements pursuant to which securities are offered and in reports of financial condition and of the results of operations to the holders of such securities, to follow the basic accounting principle of matching costs and revenues, taking into consideration this aspect of the rate-

making process. In accordance therewith, the Company has employed the following policies:

LIBERALIZED DEPRECIATION AND GUIDELINES AND RULES: The provisions for income tax in the accompanying income statements were directly reduced by amounts equal to the reduction in income tax attributable to the employment of liberalized depreciation and the "Guidelines and Rules."

INVESTMENT CREDIT: Charges to income equal to the 3% investment credit are made and the accumulated balances (classified in the accompanying balance sheets as a reserve but as deferred credits in reports to regulatory agencies) are being amortized over a ten-year period.

6. COMMITMENTS:

The Company expects to make expenditures of approximately \$104,000,000 for plant additions during 1970, and in that connection had incurred substantial commitments at December 31, 1969. The Company plans to issue securities to partially finance such construction.

7. COAL MINE DEVELOPMENT COSTS:

The Company has participated with six non-affiliated co-owners of the Keystone generating station in the guarantee of certain indebtedness (maturing serially through 1977) incurred by a non-affiliated mining company in connection with the development and equipment of mines to supply the Keystone generating station. The amount of indebtedness so guaranteed by the Company is \$1,300,000. The co-owners of the Keystone generating station have also made unrestricted advance deposits with the mining company which the latter is to apply against future deliveries of coal at times when such application would not create a default by it under its loan agreements. The amount so deposited by the Company at December 31, 1969 was \$257,000.

8. RATE INCREASE APPLICATION:

Reference is made to the accompanying report for information relating to the status of the application of the Company for a rate increase.

9. PENSION PLANS:

The Company has established pension plans for its employees and, pursuant thereto, made aggregate provisions for pension expense of approximately \$1,200,000 and \$1,050,000 for 1969 and 1968, respectively.

Effective as of October 31, 1969, the Company and the collective bargaining representatives of the organized employees of the Company agreed upon a new contract (which was ratified by the membership of such local unions on November 21, 1969) involving among other things a comprehensive revision of the pension plans of the Company. As a result, the Company is modifying the terms of such plans and the methods of determining the cost thereof and of making provision therefor. The new plans will involve both a plan applicable to all employees of the Company, the cost of which will be funded with a trustee, and a supplemental plan applicable only to supervisory employees which will not be funded but for which a reserve will be created by regular monthly charges to pension expense.

The Company has heretofore followed the policy of treating and funding as "current service costs" all changes in the costs of the pension plans including increases in cost resulting from plan changes that increased benefits based upon periods of service prior to such plan changes. However, effective as of January 1, 1970, the Company will treat benefit changes related to prior periods of service as a "past service cost" to be funded and amortized over a period of approximately 25 years. Moreover, for the past several years the costs of the plans have been determined on the basis of an assumption that the pension funds would earn 4% per annum. Effective January 1, 1970, the Company will increase that earnings assumption to 5½% per annum. On these bases, the unfunded past service liability as of December 31, 1969 for the Company's plans amounted to approximately \$5,000,000. If such unfunded past service cost is amortized over a period of approximately 25 years, the total annual provision for pension costs will approximate the amount charged to pension expense in the years 1969 and 1968.