

DUKE POWER ANNUAL REPORT 1974

4.2-75

To Our Shareholders:

Although the year 1974 may be remembered by many as a time of doubt and disillusionment, the lessons it offered should now provide the foundation for rational solutions to the challenges which confront our Company and the electric utility industry.

Throughout this report, we will be discussing some of those challenges, their causes and the realities we believe must be faced to overcome them.

Among the realities . . .

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To Our Shareholders (from the cover)

... brought into focus by the events of 1974 are many directly related to our industry's efforts to meet the nation's growing energy requirements. Here are a few which will be discussed in detail later in this report:

- The national goal of energy self-sufficiency demands an immediate relaxation of unreasonable domestic restrictions which limit the availability of our own energy resources.
- In view of the anticipated diversion of coal to other industries for conversion to petroleum products, nuclear power represents the best alternative for meeting the nation's long-range energy requirements.
- The consumer must not be further burdened by environmental expenditures which do not offer compen-

sating environmental benefits.

- Utilities charged with the responsibility of assuring a reliable source of electric power must not be deprived of the economic means by which to meet that responsibility.

The emphasis of this report on problem-solving, rather than operations, is not without basis. While we realize that management's objective is to produce and sell electricity for the highest benefit of shareholders and customers, we also realize that successful management depends largely on its ability to interpret and respond to changing social, political and economic conditions.

Following this summary of 1974 operations, we will explore some of those conditions, their impact on our Company and how we're responding to meet the

Highlights of the Year	1974	1973	Percent Increase (Decrease)
Electric Revenues:			
Total	\$822,921,000	\$600,681,000	37.0
Regular Sales	\$810,209,000	\$593,570,000	36.5
Earnings for Common Stock	\$ 76,562,000	\$ 72,106,000	6.2
Per Share of Common Stock:			
Earnings	\$1.30	\$1.87	(3.7)
Dividends Paid	\$1.40	\$1.40	—
Average Common Shares Outstanding	42,618,000	38,465,000	10.8
Plant Construction Costs	\$510,752,000	\$478,953,000	6.6
Kilowatthour Sales (thousands):			
Total	42,344,000	43,159,000	(1.9)
Regular Sales	41,678,000	42,669,000	(2.3)
Peak Load (KW)	8,057,625	8,235,585	(2.2)
Customers	1,105,680	1,083,152	2.1

challenges.

Financial Operations

Many of the challenges facing our Company are reflections of the broader national dilemma. Double-digit inflation remains the critical issue and continues to offset major gains in revenues.

Electric revenues for 1974 were \$823 million, an increase of \$222 million or 37 per cent over 1973. It should be noted, however, that \$151 million of 1974 revenues was recorded through fuel cost adjustment charges which, by allowing the Company to pass directly to customers increases in fuel costs without markup, resulted in no additional earnings.

Earnings for common stock rose to \$77 million in 1974, a six per cent increase over 1973, while earnings per share declined from \$1.87 to \$1.80.

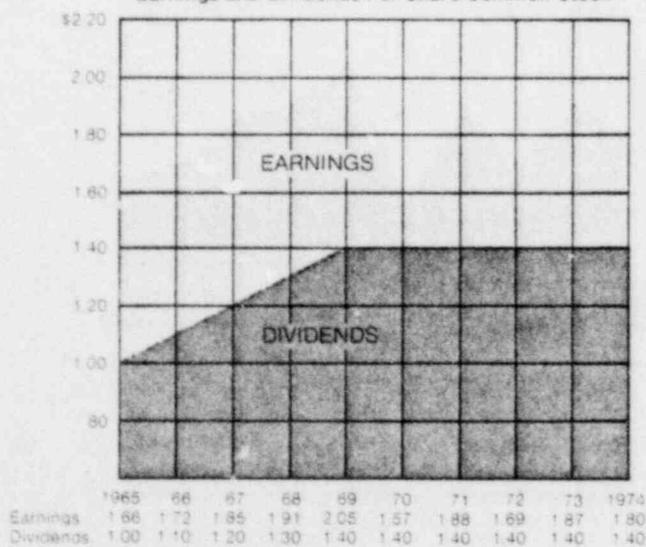
Among the factors adversely affecting earnings in 1974 was a February 3, 1975, order by the North Carolina Utilities Commission temporarily limiting to 75 per cent the amount of fuel cost adjustment charges that can be passed on to the Company's retail residential customers in that state. Under that order, the Company was not permitted to bill approximately \$1,123,000 of revenues which had been accrued on an estimated basis for December, 1974, thereby reducing 1974 net income and earnings for common stock by about \$526,000 and earnings per share of common stock by one cent. The effects of the order will be discussed further in this letter under *Rate Activities*.

Earnings also were adversely affected by (1) a two per cent decline in kilowatt-hour sales, resulting primarily from mild weather conditions, energy conservation efforts and the general slowdown of the economy, and (2) higher actual costs than the historic costs on which 1974 rates were based, including the addition of \$682 million in new facilities placed in service in 1974 but not yet included in rates. Retail rates under which customers were billed in 1974 were based on the Company's operations in 1973. The problem of "regulatory lag" will be discussed later in this report.

Earnings per share were further affected by dilution resulting from the sale of over nine million additional shares of common stock at levels below book value. The increase in common equity without a compensating increase in earnings reduced the return on common equity to 8.8 per cent, far short of what regulatory agencies have found to be just and reasonable in the Company's rate cases. The return on total capitalization in 1974 was 7.6 per cent.

For the sixth straight year, the annual cash dividend on common stock has remained at \$1.40 per share. All

Earnings and Dividends Per Share Common Stock



Before extraordinary items and adjusted for stock split

of the 1974 dividend is considered a return of capital and is non-taxable for Federal income tax purposes. However, dividends on preference and preferred stock are fully taxable.

Financing

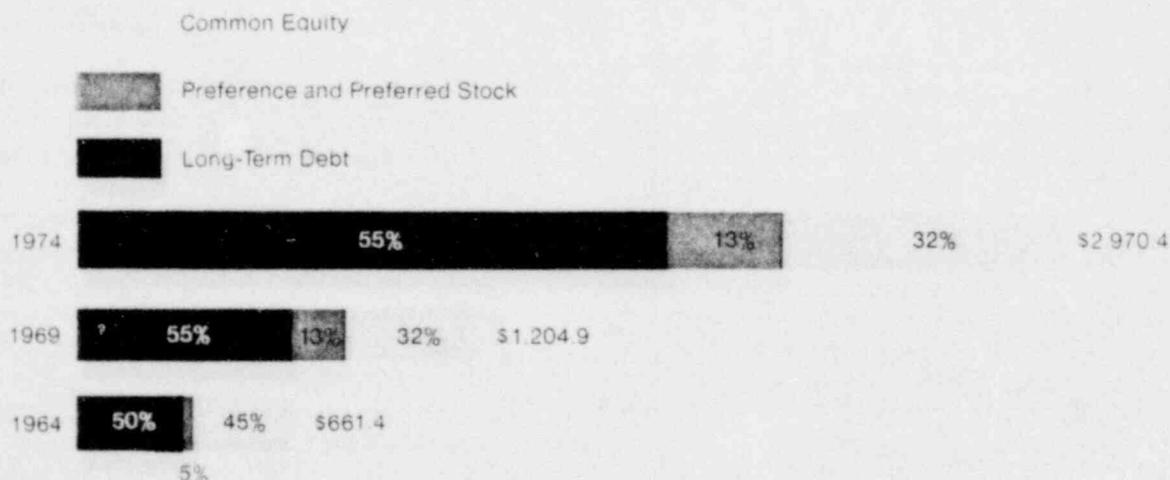
Intermediate and long-term financing in 1974 included the sale of \$100 million in first and refunding mortgage bonds (9 3/4%), \$100 million in five-year notes (13%), and two common stock issues totaling 8,500,000 shares. The first public offering of 4,500,000 shares was priced at \$16.875 per share and resulted in proceeds to the Company of \$72 million; the second offering, of 4,000,000 shares, was priced at \$11.625 per share and resulted in proceeds of \$43 million. An additional 585,387 shares of common stock were issued through the Company's Dividend Reinvestment and Stock Purchase Plan and the Stock Purchase-Savings Program for employees, with total proceeds of \$7.6 million.

In addition, the Company received \$16 million from bond anticipation notes for certain pollution control facilities at the Oconee Nuclear Station, \$18.5 million from nuclear term notes, and approximately \$56 million from the sale and sale-lease-back of certain assets.

In 1975, the Company plans to sell approximately \$100 million in assets, including certain non-utility assets, to help reduce capital requirements from conventional outside sources. The sale of non-utility assets will help reduce the dilutive effect on earnings per share of issuing new common stock at levels below book value.

Although the issuance of new shares at below book value creates a dilutive effect within itself, periodic issues are required to maintain a favorable debt-equity ratio while financing the Company's construction program. Of long-term financing, first mortgage bonds are the most economical. If the debt portion of the capital structure

Capitalization Millions of Dollars



becomes excessive, the Company's bond credit rating could be reduced, forcing interest rates up even further. In addition to increasing the cost of financing, such a reduction could seriously jeopardize the Company's ability to sell bonds and impair its ability to meet future capital requirements.

Since the cost of financing is a direct function of the market's rigorous demands for adequate earnings, it is not surprising that Duke's embedded cost of long-term debt has risen sharply since 1969. With increasingly higher interest rates, the embedded cost of long-term debt has increased from 5.09 per cent in 1969 to 7.30 per cent in 1974. The embedded cost of preference and preferred stock has climbed from 6.00 per cent to 7.22 per cent. At the same time, the return on average common equity has declined from 12.6 per cent to 8.8 per cent.

Improved earnings, of course, are a necessary ingredient in any formula to hold capital costs down and to restore investor confidence in utility common stock. In addition, changes in the Federal tax laws are needed to remove built-in penalties against the formation of new capital. Notable among the needed changes are elimination of the double taxation of dividends and reduction of the corporate income tax rate.

Plant Additions

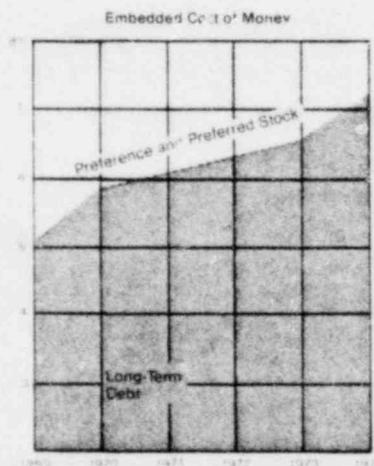
System generating capability on January 1, 1975, was 10,923,000 kilowatts, boosted in 1974 by completion of Units 2 and 3 of the Oconee Nuclear Station, and the first

unit of the coal-fired Belows Creek Steam Station.

Each of the three Oconee units is rated at 871,000 kilowatts, giving the station a total capability of 2,613,000 kilowatts, or 24 per cent of the system's capability at year end. In 1975, the first year all three Oconee units will be

operating at full capability, the station is expected to account for 31 per cent of total system production.

The completed Belows Creek unit is rated at 1,060,000 kilowatts. An identical unit is scheduled for completion in late 1975. Also scheduled for completion in 1975 are the final two units of the Jocassee Hydroelectric Station, which will add 305,000 kilowatts of pumped-storage capability. Two identical units at Jocassee became operational in December, 1973.



During this period the embedded cost of long-term debt and preferred stock dividends increased 42 per cent and 20 per cent, respectively.

Construction Cutback

The current economic situation has placed a particularly heavy

burden on the capital-intensive electric utility industry. Charged by law with the responsibility of providing a reliable source of power for their customers, many companies now find themselves in the position of being economically deprived of the means by which to meet that responsibility.

Duke Power was one of many utilities forced to make significant cutbacks in expansion efforts during the year. After thoroughly investigating all available means of financing, we concluded that critical conditions existing in the financial markets made it impossible to maintain the former construction schedule.

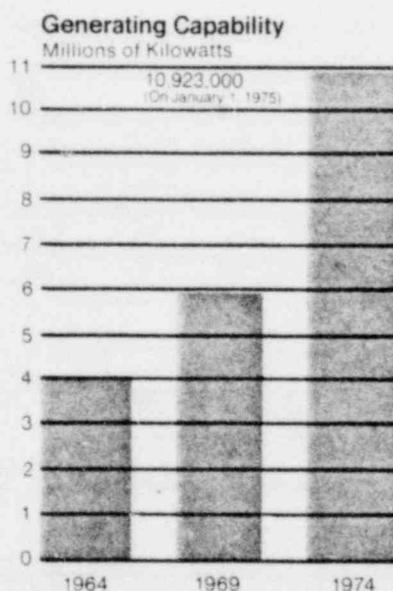
The revised construction schedule reduced Duke's

capital expenditures by about \$150 million through 1975 and resulted in a total capital reduction of almost \$1.5 billion through 1979. The construction program for 1975 is now budgeted at \$502 million. Construction costs for the period 1975-79 are estimated at \$3 billion. Under the new schedule, the two units of the William B. McGuire Nuclear Station, previously planned for operation in 1976 and 1977, will become operational in 1978 and 1979. Work on the Catawba Nuclear Station has been delayed and the two units have been rescheduled for operation in 1981 and 1982, two years later than previously scheduled. Start of construction on the Perkins Nuclear Station and Cherokee Nuclear Station, each consisting of three identical units, has been moved back two years. The first unit of the six, originally planned for operation in 1981, is now scheduled for completion in 1983 with the five remaining units to follow at one-year intervals.

Load Management

Although load growth forecasts have been revised downward to reflect current energy conservation efforts and the general slowdown of the economy, the reduced construction schedule would, by the early 1980's, result in a level of generating reserves below that which we consider necessary for reliability.

To help offset possible future problems in meeting demands, the Company has launched a comprehensive program of load management directed toward further reducing the growth of peak demand. This program has as its goal the achievement of a 16 to 17 per cent margin of



reserves in the early 1980's instead of the 12 to 13 per cent reserve that would result from unmanaged load growth.

A partial list of activities in this area includes:

- Encouraging higher levels of insulation in existing and new homes in order to reduce air-conditioning loads.
- Assisting commercial and industrial design teams in achieving task-oriented lighting levels, with a consequent reduction in air-conditioning requirements.
- Assisting large industrial customers in the development of in-house load management programs, for the purpose of shifting certain power requirements from on-peak to off-peak times.
- Promoting heat recovery energy systems.
- Working with architects and engineers in optimizing energy utilization by use of computer techniques.

Among other possibilities being explored are various pricing incentives which could potentially further reduce the peak by shifting portions of the peak-causing demand to off-peak hours.

We're also studying the feasibility of installing electronic controls which would permit the shedding of water-heating and air-conditioning loads during high peak conditions as an alternative to building expensive new generating equipment.

While working to reduce the peak in accordance with the cutback in planned generating additions, we are convinced that the demand for electricity will, by the mid-1980's, continue its steady climb upward despite the best conservation and energy utilization efforts. Indeed,

electricity **must** supply a growing proportion of the nation's energy requirements if the national goal of energy self-sufficiency is to be reached.

To reduce the nation's dependence on petroleum products, whose price and availability are dictated largely by foreign governments, we believe that many users of these products must develop the necessary technology for converting to electrical energy systems. When these systems are developed, the electricity to power them must be available.

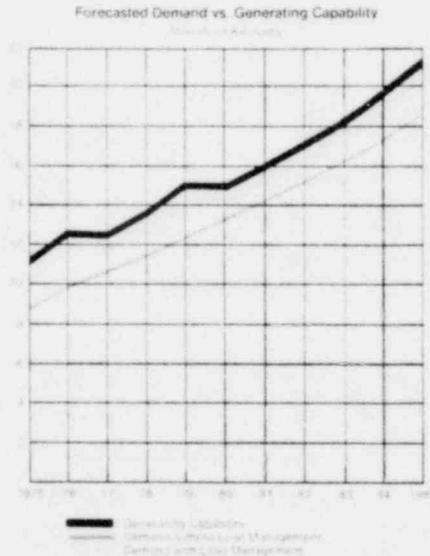
Project Independence

One of the realities which must be accepted is that the goal of energy self-sufficiency cannot be reached so long as domestic restrictions limit the availability of our own energy resources.

Only two basic fuels—coal and uranium—are available in sufficient quantities to fuel the generation of the vast amounts of electricity that will be required to help meet this goal.

Although Duke's future generating additions will be primarily nuclear (with some hydro additions for increased peaking capability), our system will rely heavily on coal for some time as the main source of energy for generating electricity. Both the availability and cost of coal have been severely affected by well-intentioned safety and environmental regulations which, if unaltered, may seriously jeopardize the reliability of service and place additional hardships on both utility investors and utility customers.

In December, 1973, Duke's average price per ton of coal



burned was \$12.56. A year later, in December, 1974, the price had increased to \$27.64. At a time when utilities and other industries were requiring more coal, safety and environmental restrictions were making less coal obtainable. With the demand up and supply down, costs have soared.

The supply of coal has been drastically affected by stringent reclamation laws which have forced the shutdown of some mines and curtailment of operations at others. New mine safety regulations have been the major factor in reducing underground coal production from 16 tons per man-day in 1969 to 11 tons in 1974.

At the same time, there has been increased competition for the limited supply of low-sulfur coal resulting from environmental restrictions which prohibit burning of normal sulfur coal. Competition also has been accelerated by economic and political pressures which have forced many utilities that previously burned oil to switch to coal.

Over the long run, it seems inevitable that coal costs will go even higher as additional restrictions become effective. Roughly one-third of the nation's coal supply contains too much sulfur to be used by utilities under proposed new environmental regulations. Another 20 to 30 million tons may be lost annually by the shutdown of additional mines as a result of new health and safety requirements for underground mining. Although the President has vetoed a bill which would have further reduced the available supply of coal from surface mining, efforts to revive the measure have already resumed in the new Congress.

While Duke expects to supply about half of its 1975-

1979 coal requirements from its own mines and other mining operations in which Duke has investments, the same factors which have forced production down and costs up on the national scene also affect the production and cost of coal from our own mines.

If the goals of "Project Independence" are to be realized, and the cost of electricity is to remain within the means of the ordinary citizen, the nation's coal reserves must be fully utilized. To achieve these goals, we need reasonable laws that will strike a balance between the need for environmental protection and the need of society for more energy.

The Role of Nuclear

Although coal will remain a vital fuel for many decades, we are convinced that the best solution to the energy problem lies in nuclear power. Despite its impeccable safety record, however, development of the nuclear industry continues to be blunted by mounting regulation, intervention, and problems of financing.

Due primarily to the staggering proliferation of regulations, the lead time from initial design to start-up of nuclear units has now increased to ten years. That time must be reduced if future units are to become operational in time to meet the predicted, if not inevitable, increases in electric consumption.

The environmental advantages of nuclear power are self-evident. Since no combustion products are involved, there are no releases of smoke or other combustion gases to the atmosphere. The minute amounts of radioactivity routinely released to the environment are well below the

levels of radioactivity found in the natural environment. Insofar as radioactivity is concerned, the most sensitive monitoring devices have been unable to detect any increases in radioactivity at the Oconee Nuclear Station site above that which existed before the plant was built.

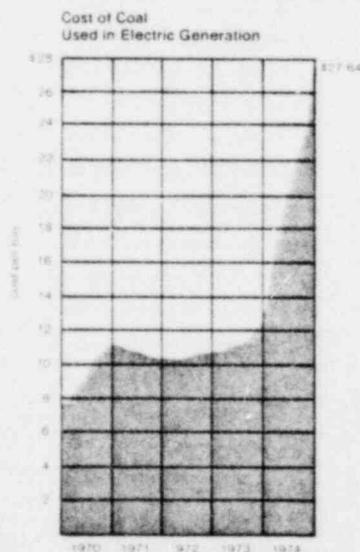
The safety record of the nuclear industry is just as impressive. During an accumulated 250 reactor years of successful operations, no employee nor any member of the public has ever received a radiation injury from a licensed nuclear power plant in this country.

Nuclear power has two additional advantages which make it clearly the best choice of available energy sources.

First are its favorable effects on both current and future operating costs. In 1974, the spiraling cost of fossil fuels was painfully felt by our customers in the form of a fuel cost adjustment charge which, at year-end, amounted to about a half-cent per kilowatt-hour. If the Oconee Nuclear

Station, which accounted for 15 per cent of generation, had been a coal-burning plant, an additional \$27 million in charges to customers would have been required in 1974 to recover the higher fuel costs. These hypothetical charges take into consideration the lower capital costs of a coal-burning plant of the same size and vintage.

An even more vivid illustration of the economics of nuclear is the comparison of the projected capital and operating costs for the Cherokee and Perkins stations. Although the capital investments in these plants are expected to be around \$841 million higher than comparably-sized coal-burning plants, their lower operating costs are



expected to result in a net savings to customers of \$8 billion over the 25-30 years useful lives of the plants. These projections are based on early 1974 estimates of anticipated capital and operating costs.

What should be the convincing argument for nuclear is its vital role in achieving the goals of "Project Independence." For utilities which rely heavily on oil, increased utilization of nuclear power results in a direct reduction of oil consumption. In our own case, the use of nuclear makes possible the diversion of coal to utilities currently dependent on oil, and to other industries for conversion to a number of petroleum-based products historically derived from oil.

With the three units of the Oconee Nuclear Station operating at full capability, the nuclear generation displaces roughly 24,000 tons of coal per day — the equivalent of 100,000 barrels of oil.

Environmental Costs

Duke Power has long recognized its responsibility to protect the environment, and over the years has spent millions of dollars on pollution control equipment and related activities. This work has included a \$70 million air pollution control program, completed in 1973, that has virtually eliminated flyash emissions from our coal-burning plants.

We believe these expenditures have been justified and we consider them a necessary expense involved in meeting our customers' requirements for electricity.

However, we are particularly concerned over recent Environmental Protection Agency (EPA) actions which, we feel, would place an unnecessary additional financial

burden on Duke Power customers. In recently-issued discharge permits for a number of Duke steam stations, the EPA has set standards for thermal discharges which, if not modified, would either severely restrict the operation of these plants or require the construction of expensive cooling towers.

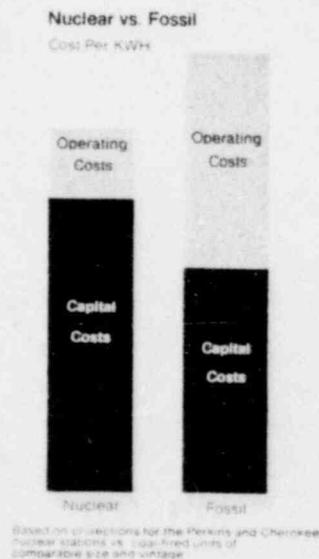
In either case, the cost of electricity produced by the affected plants would rise sharply.

We have asked for public hearings before the EPA and, in the event the permits are upheld, intend to take whatever legal recourse that is available to avoid these unnecessary expenditures.

Our resistance to the EPA permits should in no way be interpreted as an effort by Duke Power to avoid its environmental responsibilities. On the contrary, we feel that in most cases the installation of cooling towers would have greater adverse impact on the environment than lake or river cooling.

While we fully recognize that thermal discharges may alter (and in some cases, enhance) the lake ecology in the discharge areas, our long experience with operating steam stations on the lakes and rivers of the Piedmont Carolinas has given no indication that such alterations warrant the vast expenditures required to comply with the EPA permits. This belief is supported by years of environmental studies by our own scientists and by consulting scientists from leading colleges and universities.

In addition to requiring the unnecessary expenditure of millions of additional dollars, the construction of cooling towers would essentially nullify the capital invest-



ments already made in certain of our lakes which, in addition to providing a valuable water resource and recreational asset, are already providing the necessary cooling.

Cooling towers also would substantially reduce the efficiency of the plants, which would be plainly contrary to the national effort to conserve basic energy resources.

Even in the best of times, environmental expenditures without compensating environmental benefits must be avoided. In view of the financial burden already placed on consumers by the rising costs of virtually all necessities, such expenditures must now be fully resisted by industries which provide those necessities.

Rate Activities

In a period of continuing inflation, the most crucial problem facing a growth utility is achieving rates that will produce revenues sufficient to offset increases in expenses. This is the issue upon which all other activity hinges. Solutions to the problems of financing, service and even the rising cost of electricity all depend on the Company's ability to maintain financial stability.

The matching of revenues with current expenses has been hampered largely by the problem of regulatory lag. Traditionally, requests for rate relief have been based on historic expenses. By the time the requests are compiled, heard, studied and acted upon by the regulatory agencies, the requested rates, even if approved in their entirety, are no longer sufficient to recover the higher expenses brought on by inflationary pressures.

Under a new state law permitting the use of forward test periods in rate filings, the Company in late November, 1974, asked the North Carolina Utilities Commission (NCUC) for permission to increase rates approximately \$131 million based on projected operations for the test period ending December 31, 1975. The Company subsequently amended a pending request in South Carolina to

coincide with the test period of the North Carolina filing. The South Carolina request would produce additional annual revenues of approximately \$57 million.

The North Carolina filing also requested that \$108 million in interim relief be granted, but hearings previously scheduled for mid-February have been delayed.

Essentially, the use of a forward test period makes it possible to design rates that will reflect expenses anticipated to be incurred at the time the requested rates become effective.

Decisions on previous filings were handed down by both state agencies during the year. Both commissions granted 100 per cent of rate requests in effect on an interim basis since April, 1974, which together would produce additional annual revenues of about \$87.9 million based on 1974 levels of business. In both orders, the Company was directed to restructure the retail rate design, shifting more of the increase to industrial customers and lessening the impact of the increase on residential customers.

Both agencies also gave final approval to a "coal cost adjustment charge" that had been in effect in both states since January, 1974, and which accounted for \$120 million of 1974 revenues (\$81 million applicable to N.C.). The North Carolina commission altered the charge to include all fossil fuels, and a request for a similar alteration is included in the pending South Carolina case. An additional \$31 million was recorded during the year through a fuel cost adjustment charge on wholesale business.

The North Carolina decision, however, has been appealed by the State Attorney General, who contends that automatic rate adjustments violate the statutory requirement of advance approval of rate increases. The appeal also contends that refunds should be made in accordance with the new rate design included in the NCUC's order approving the general rate increases.

On February 3, 1975, the Company received a new order

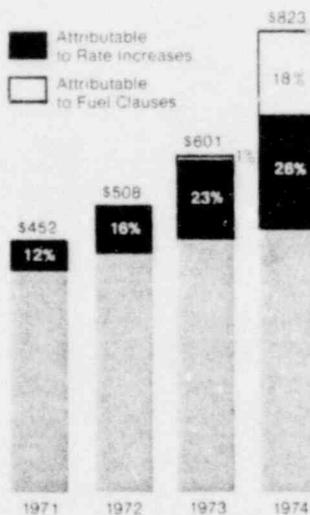
from the NCUC which temporarily limited to 75 per cent the amount of fuel cost adjustment charges that can be passed on to retail residential customers in North Carolina. The order, which was to remain in effect a maximum 60 days beginning February 1, 1975, followed public hearings on fuel cost adjustment charges previously granted to Duke and two other electric utilities serving North Carolina. The hearings were to be resumed on February 18, 1975, at which time the companies would be given the opportunity to present evidence in support of the fuel cost adjustment charges.

The February 3 order affected 1974 operations because of the 60-day lag between the time fuel costs are incurred and the time such increases are actually billed to customers. To properly match increased fuel costs and revenues, the Company accrues monthly the estimated revenues that will be subsequently billed. In this case, the limiting of fuel charges reduced the amount of revenues the Company had accrued on an estimated basis for December, 1974, with the previously mentioned effect on net income, earnings for common stock and earnings per share of common stock.

In a separate order, the commission approved the Company's accounting procedures related to unbilled revenues resulting from fuel cost adjustment charges.

With the average cost per kilowatt-hour climbing steadily to reflect higher operating and capital costs, it is not surprising that rate increases are the dominant cause of customer discontent. While the interests of the Company and its customers may seem at cross-purposes over the matter of rates, basic utility economics prove

Total Revenues Millions of Dollars



the interests to be mutual.

Successful opposition to rate increases could result in an immediate and direct savings to the rate-payer, thus satisfying his short-term interest of keeping the size of his power bill down. Over the long run, however, this would have potentially disastrous effects on the customer, the least of which is even higher electric bills than he otherwise would have experienced.

As mentioned previously, inadequate earnings could seriously jeopardize the Company's ability to market securities and impair its ability to meet future electrical requirements. A power shortage, of course, would weaken the economy of the region we serve and result ultimately in a loss of income for those whose jobs would be affected by reduced productivity.

Inadequate earnings also tend to have a greater detrimental effect on the cost of electricity than the rate increases necessary to achieve adequate earnings. As shown earlier, inadequate earnings generally result in higher financing costs. These costs, like the cost of labor, materials and equipment, are a necessary expense associated with providing electric service and an expense which eventually must be borne by the rate-payers. For example, debt expenses in 1974 amounted to \$111 million, or nearly half of the Company's income before interest deductions.

Unlike fuel and other variable costs, the cost of debt capital, once incurred, remains constant and has the same influence on rates for the life of the securities on which the costs were incurred.

A failure on our part to vigorously pursue adequate

earnings would, consequently, result in even higher costs to the consumer.

Cost Cutting

Additional rate increases are inevitable to help offset continued inflation in the cost of power production. The Company, however, is not relying solely on rate relief in the fight against inflation. Every effort to reduce costs is being made to help reduce the size and frequency of rate requests.

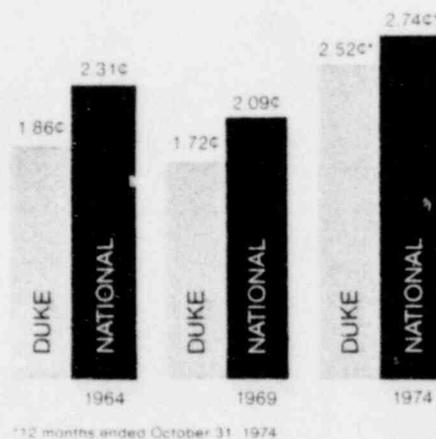
A reduction of about 1,400 employees was made in the latter half of 1974, with most of the layoffs occurring as a natural adjunct to the cutback in construction. Further reductions are expected through attrition.

Distribution costs have been substantially lowered by a reduction in the number of people performing this work by over 400.

The construction of transmission lines has been sharply curtailed, and we have reduced the use of older, less efficient generating units to help lower operating costs.

Average Cost Per Residential KWH

Cents Per KWH



*12 months ended October 31, 1974

Expenses also have been reduced by such actions as the temporary closing of training facilities, the discontinuance of media advertising and reductions in travel expenses and overtime.

While these efforts have direct cost-savings benefits, the greatest savings continue to be realized through improved efficiency and increased productivity. In all areas of Company operations, innovative management techniques and advanced computer applications are being employed to help hold the cost line against inflation.

Indicative of the Company's commitment to efficiency is the unprecedented operating record of Marshall Steam Station, recently declared the nation's most efficient coal-burning

plant for the eighth consecutive year. An even higher level of efficiency was achieved by Unit 1 of the new Belews Creek Steam Station during the first six months of the unit's operating life.

While we will continue to look for ways to blunt the effects of inflation, we realize that the only real solution lies with a curbing of deficit government spending.

In this report, we have attempted to give you a straight-forward appraisal of the problems and challenges facing our Company. Overall, we believe the future to be bright. This optimism is based on the most significant reality of all — the increasingly important role of electricity in meeting the nation's energy requirements.

To successfully meet the challenges, however, we will need the continued support and understanding of the public, the government, our dedicated employees, and our shareholders. Your support is essential to the task.

Carl Horn, Jr.

For the Board of Directors
Carl Horn, Jr. President
February 17, 1975

State of the Union —

The President's Recommendations

In his State of the Union message to Congress on January 15, 1975, President Ford spoke to many of the problems and challenges outlined in this report. His recommendations to the Congress included:

- Completion of 200 major new nuclear power plants and 150 major new coal-fired power plants by 1985.
- Licensing and financial reforms to speed up siting and construction of nuclear plants.
- Amendments to the Energy Supply and Environmental Coordination Act to greatly increase the number of power plants, now fueled by oil or natural gas, that can be converted to burn coal.
- Amendments to the Clean Air Act to allow greater use of the nation's coal reserves.

In an outline of energy questions and answers accompanying the President's message, the Administration said proposed legislation would require state regulatory agencies to permit utilities to generate sufficient revenues "to cover costs during a period of rapid inflation and heavy capital expansion requirements." The Administration also rejected public ownership as a solution to the problems of utility financing, pointing out that "there is no consensus that publicly owned power is cheaper than privately owned power... except to the extent that it receives subsidization through cheaper capital and lower taxes."

We applaud the President's recommendations and urge their prompt approval by Congress.

Statement of Source of Funds for
Plant Construction Costs

Year Ended December 31

1974

1973

SOURCE OF FUNDS:

Funds from operations—		
Net income	\$105,096,000	\$ 99,562,000
Non-cash items (decrease):		
Depreciation and amortization	96,846,000	76,300,000
Deferred income taxes, net	43,885,000	25,272,000
Common equity component of the allowance for funds used during construction	(29,644,000)	(29,492,000)
Other, net	7,187,000	(797,000)
Funds from operations	223,370,000	170,845,000
Dividends paid on common stock	(59,263,000)	(54,036,000)
Dividends paid on preference and preferred stock	(28,534,000)	(27,456,000)
Funds retained in the business	135,573,000	89,353,000
Funds from financing—net proceeds—		
Common stock	122,658,000	72,001,000
Term notes	116,982,000	30,499,000
First mortgage bonds	97,730,000	198,823,000
Sale of assets	53,784,000	—
Preferred stock	—	59,759,000
Increase (decrease) in notes payable	72,790,000	(26,704,000)
Decrease in long-term debt	(4,190,000)	(1,250,000)
Funds from financing	459,754,000	333,128,000
Total available funds	595,327,000	422,481,000
Decrease (increase) in working capital, etc.—		
Materials and supplies	(61,460,000)	6,578,000
Other current assets	(56,426,000)	(7,227,000)
Current liabilities	34,612,000	22,399,000
Investments in and advances to subsidiaries	(13,437,000)	62,000
Other, net	(17,508,000)	5,168,000
PLANT CONSTRUCTION EXPENDITURES	481,108,000	449,461,000
Common equity component of the allowance for funds used during construction	29,644,000	29,492,000
Plant construction costs	\$510,752,000	\$478,953,000

See notes to financial statements

Statement of Retained Earnings

Year Ended December 31

1974

1973

RETAINED EARNINGS—Beginning of year	\$104,629,000	\$ 88,918,000
ADD—Net income	105,096,000	99,562,000
Total	209,725,000	188,480,000
DEDUCT:		
Cash dividends—		
Common stock (\$1.40 per share)	59,263,000	54,036,000
Preference stock (\$6.75 per share)	3,375,000	3,375,000
Preferred stock—		
Series C (\$4.50 per share)	1,575,000	1,575,000
Series D (\$5.72 per share)	2,002,000	2,002,000
Series E (\$6.72 per share)	2,352,000	2,352,000
Series F (\$8.70 per share)	5,220,000	5,220,000
Series G (\$8.20 per share)	4,920,000	4,920,000
Series H (\$7.80 per share)	4,680,000	4,680,000
Series I (\$7.35 per share)	4,410,000	3,332,000
Capital stock expense	7,355,000	2,359,000
Total deductions	95,152,000	83,851,000
RETAINED EARNINGS—End of year	\$114,573,000	\$104,629,000

See notes to financial statements

Statement of Income

Year Ended December 31

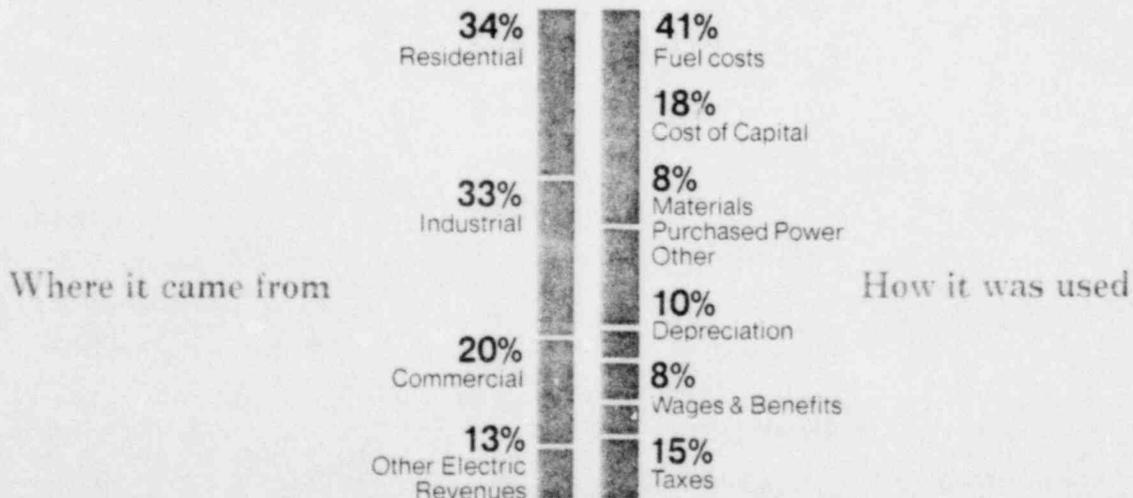
1974

1973

ELECTRIC REVENUES (Note 2)	<u>\$822,921,000</u>	<u>\$600,681,000</u>
ELECTRIC EXPENSES AND TAXES:		
Operation—		
Fuel used in electric generation	333,399,000	191,861,000
Purchased power	8,495,000	28,575,000
Wages, benefits and materials	92,732,000	78,580,000
Maintenance of plant facilities—wages and materials	33,527,000	28,886,000
Depreciation	33,914,000	70,459,000
Taxes (Notes 1 and 7)—		
General	64,871,000	50,054,000
Federal income	13,021,000	13,900,000
State income	1,732,000	1,969,000
Deferred income taxes, net	43,885,000	25,272,000
Investment tax credit:		
Tax credit deferred	—	178,000
Amortization of deferments (credit)	(949,000)	(4,058,000)
Total electric expenses and taxes	<u>674,627,000</u>	<u>485,676,000</u>
Electric operating income	<u>148,294,000</u>	<u>115,005,000</u>
OTHER INCOME:		
Allowance for funds used during construction (Note 1)	62,159,000	59,459,000
Earnings of subsidiaries from operations, net	299,000	58,000
Dividends and interest	2,406,000	1,614,000
Other, net (deduction) (Note 10)	2,381,000	(1,104,000)
Income tax—credit	16,094,000	15,404,000
Total other income	<u>83,339,000</u>	<u>75,951,000</u>
Income before interest deductions	<u>231,633,000</u>	<u>190,963,000</u>
INTEREST DEDUCTIONS:		
Interest on long-term debt	110,777,000	85,659,000
Other interest	15,407,000	5,465,000
Amortization of debt discount, premium and expense	353,000	277,000
Total interest deductions	<u>126,537,000</u>	<u>91,401,000</u>
Net income	<u>105,096,000</u>	<u>99,562,000</u>
DIVIDENDS ON PREFERENCE AND PREFERRED STOCK		
Earnings for common stock	<u>\$ 76,562,000</u>	<u>\$ 72,106,000</u>
AVERAGE COMMON SHARES OUTSTANDING		
EARNINGS PER SHARE OF COMMON STOCK	42,618,000	38,465,000
	\$1.80	\$1.87

See notes to financial statements

The 1974 Revenue Dollar



Balance Sheet

December 31

1974

1973

		Assets	
ELECTRIC PLANT (At original cost--Note 1)	Electric plant in service	\$3,146,529,000	\$2,489,371,000
	Less—accumulated depreciation and amortization	<u>727,878,000</u>	<u>652,922,000</u>
	Electric plant in service, net	2,418,651,000	1,836,449,000
	Construction work in progress (includes in 1974 \$547,274,000 of generating facilities)	<u>637,248,000</u>	<u>866,021,000</u>
		<u>3,055,899,000</u>	<u>2,702,470,000</u>
OTHER PROPERTY AND INVESTMENTS	Other property — at cost (less depreciation: 1974-\$3,395,000; 1973-\$3,106,000)	22,043,000	20,819,000
	Investments in and advances to subsidiaries at equity (Note 3)	39,633,000	30,626,000
	Other securities—at cost or less	<u>8,330,000</u>	<u>8,328,000</u>
		<u>70,006,000</u>	<u>59,773,000</u>
CURRENT ASSETS	Cash	18,643,000	14,563,000
	Receivables, less allowance for losses	76,255,000	60,148,000
	Fuel clause revenues accrued (Note 1)	36,239,000	—
	Materials and supplies—at average cost:		
	Fuel	68,428,000	24,611,000
	Other	<u>56,568,000</u>	<u>38,925,000</u>
		<u>256,133,000</u>	<u>138,247,000</u>
DEFERRED DEBITS, ETC.	Debt expense, being amortized over terms of related debt	10,964,000	8,010,000
	Other	<u>19,017,000</u>	<u>5,518,000</u>
		<u>29,981,000</u>	<u>13,528,000</u>
		<u>\$3,412,019,000</u>	<u>\$2,914,018,000</u>

		Liabilities	
CAPITALIZATION	Total capitalization	\$2,970,438,000	\$2,696,904,000
CURRENT LIABILITIES	Accounts payable	64,957,000	39,128,000
	Interest accrued	33,755,000	27,288,000
	Taxes accrued	9,258,000	8,181,000
	Other	<u>9,968,000</u>	<u>8,729,000</u>
		117,938,000	83,326,000
	Notes payable for construction—pending permanent financing (Notes 8 and 9)	142,092,000	69,296,000
	Current portion of long-term debt	<u>83,500,000</u>	—
		<u>343,530,000</u>	<u>152,622,000</u>
DEFERRED CREDITS, ETC.	Accumulated deferred income taxes (Note 1)	90,073,000	56,438,000
	Investment tax credit (Note 1)	2,796,000	3,746,000
	Other	<u>5,182,000</u>	<u>4,308,000</u>
		<u>98,051,000</u>	<u>64,492,000</u>
		<u>\$3,412,019,000</u>	<u>\$2,914,018,000</u>

See notes to financial statements

Statement of Capitalization

December 31

	1974	Per Cent of Capitalization	1973	Per Cent of Capitalization
Common Stock Equity (Notes 3 and 4):				
Common stock, no par, 70,000,000 shares authorized; 47,836,059 and 38,750,672 shares outstanding for 1974 and 1973, respectively	\$ 822,113,000		\$ 692,101,000	
Retained earnings	114,573,000		104,629,000	
Total common stock equity	<u>936,686,000</u>	31.5	<u>796,730,000</u>	29.5
Preference and Preferred Stock (Note 4):				
Preference stock, \$100 par, 6 3/4% Convertible Series AA, 1,500,000 shares authorized, 500,000 shares outstanding	50,000,000		50,000,000	
Preferred stock, \$100 par, 5,000,000 shares authorized:				
Series Shares outstanding				
4.50% C 350,000	35,000,000		35,000,000	
5.72% D 350,000	35,000,000		35,000,000	
6.72% E 350,000	35,000,000		35,000,000	
8.70% F 600,000	60,000,000		60,000,000	
8.20% G 600,000	60,000,000		60,000,000	
7.80% H 600,000	60,000,000		60,000,000	
7.35% I 600,000	60,000,000		60,000,000	
Preferred stock A, \$25 par, 10,000,000 shares authorized, none outstanding	—		—	
Total preference and preferred stock	<u>395,000,000</u>	13.3	<u>395,000,000</u>	14.7
Long-Term Debt (Note 5):				
First and refunding mortgage bonds:				
Series Year Due				
3% 1975	40,000,000		40,000,000	
2 65% 1977	40,000,000		40,000,000	
2 7/8% 1979	40,000,000		40,000,000	
3 1/4% 1981	35,000,000		35,000,000	
3 5/8% 1986	30,000,000		30,000,000	
4 1/2% 1992	50,000,000		50,000,000	
4 1/4% B 1992	50,000,000		50,000,000	
4 1/2% 1995	40,000,000		40,000,000	
5 3/8% 1997	75,000,000		75,000,000	
6 3/8% 1998	75,000,000		75,000,000	
7% 1999	75,000,000		75,000,000	
8% B 1999	75,000,000		75,000,000	
8 1/2% 2000	75,000,000		75,000,000	
8 5/8% B 2000	100,000,000		100,000,000	
7 1/2% 2001	100,000,000		100,000,000	
7 3/8% B 2001	40,000,000		40,000,000	
7 3/4% 2002	100,000,000		100,000,000	
7 3/8% B 2002	75,000,000		75,000,000	
7 3/4% 2003	100,000,000		100,000,000	
8 1/8% B 2003	100,000,000		100,000,000	
9 3/4% 2004	100,000,000		—	
Sinking fund debentures, 4 7/8% 1982	32,500,000		33,750,000	
Term notes: 6 1/2%—7% 1975-1978	111,000,000		111,000,000	
Floating prime 1975-1976	49,000,000		30,500,000	
13% 1979	100,000,000		—	
Turbine generator leases (Note 6)	12,626,000		12,380,000	
Unamortized debt discount and premium, net	2,126,000		2,544,000	
Less current portion of long-term debt	(83,500,000)		—	
Total long-term debt	<u>1,638,752,000</u>	55.2	<u>1,505,174,000</u>	55.8
Total capitalization	<u>\$2,970,438,000</u>	100.0	<u>\$2,696,904,000</u>	100.0

See notes to financial statements

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

A. *Additions to Electric Plant.* The Company charges to construction all direct labor and materials, as well as related indirect construction costs including general engineering, taxes and the cost of money (allowance for funds used during construction).

Allowance for funds used during construction (ADC) is an accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress in the balance sheet and, accordingly, are capitalized in the same manner as construction labor and material costs. This item is recognized as a cost of "Electric Plant", with an off-setting credit to "Other Income", because, under established regulatory rate practices, a utility is permitted to include a fair return on, and the recovery of, these capital costs through their inclusion in the rate base and in the provision for depreciation. ADC has been calculated using the rates, net of applicable income taxes, of 7 1/2% through June 30, 1974 and 8% thereafter.

B. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year end composite average rate was 3.25% for 1974 and 3.20% for 1973. Provisions for amortization of nuclear fuel, which are included in "Fuel used in electric generation," are recorded using the unit of production method.

C. *Income Taxes.* The Company provides deferred income taxes under normalization accounting for differences in book and tax depreciation arising from the use of accelerated tax depreciation, except for certain plant additions in 1968 and 1969. The Company accrues the future income tax benefits attributable to the carry-forward of income tax operating losses arising from such accelerated tax depreciation and other book-tax differences. At December 31, 1974, \$11,394,000 of such benefits for the years 1973 and 1974 have been recorded by reducing the accumulated deferred income tax liability.

Income taxes are allocated to electric operating expense and to non-electric operations under "Other Income." The income tax-credit classified under "Other Income" results

principally from the tax deductions related to interest expense arising from investments in non-utility properties, mainly construction work in progress.

Income tax reductions arising from the 4% Job Development investment tax credit placed in effect during 1971 are being amortized over the depreciable lives of the related property, and those arising from the 3% investment tax credit in effect until 1969 are being amortized, as approved by regulatory authority over a five-year period. The unused investment tax credits available for carryover to future years were \$35,739,000 and \$17,944,000 at December 31, 1974 and 1973, respectively.

D. *Retirement Plan Cost.* The Company has a non-contributory retirement plan for the benefit of its employees. The Company's policy is to fund pension costs accrued which amounted to \$6,040,000 in 1974 and \$5,783,000 in 1973. During 1973 the plan was amended, raising the level of benefits for employees and retirees, and the assumed earnings rate was increased from 3 1/2% to 4 1/4%. The changes had no material effect on annual costs for the plan. The unfunded prior service cost, which is being amortized over a ten-year period, was \$4,152,000 at December 31, 1974. Amendment of the retirement plan to comply with the Employee Retirement Income Security Act of 1974 will not significantly affect the ultimate cost of the plan; however, it is expected to have some impact on the initial funding requirement.

E. *Fuel Clause Revenue Accrued.* The Company has fuel cost adjustment clauses pertaining to both wholesale and retail business. These clauses provide for a 60-day time lag from the date increases in fuel costs are incurred until the date such increases are billed to customers. To properly match increased fuel costs and revenues, the Company, beginning in 1974, is accruing monthly the estimated revenues that will be subsequently billed. The amounts involved prior to January 1, 1974 were immaterial and no accruals were recorded (See Note 2).

2. *Rate Matters.* Rate increases granted since January 1, 1973, which are included in "Electric Revenues" in the accompanying Statement of Income are summarized in the table below:

Rate Schedules	Per Cent Increase	Effective Date	Rate Increases		
			Approximate Revenue Increases		
			Annualized on 1974 Sales	Year Ended 1974	December 31 1973
Wholesale (1)	18.50	April 26, 1973	\$10,900,000	\$10,900,000	\$ 6,800,000
North Carolina Retail (2)	16.80	April 15, 1974	60,700,000	55,400,000	3,800,000
South Carolina Retail (2)	16.70	April 15, 1974	27,200,000	24,000,000	1,800,000
Total			\$98,800,000	\$90,300,000	\$12,400,000

(1) Subject to refund with interest.

(2) These increases consist of an 8% interim increase effective November 15, 1973, an additional 2.25% effective January 19, 1974 and the remainder effective April 15, 1974, all approved by orders dated October 10, 1974, for North Carolina and November 8, 1974, for South Carolina.

In addition, fossil fuel cost adjustment clauses applicable to wholesale customers since August 23, 1972, and to retail customers since January 19, 1974, have been granted by the regulatory authorities. Total revenues accrued under these fuel clauses have amounted to \$151,500,000 and \$7,500,000 for the years 1974 and 1973, respectively. Included in the above amount for the year 1974 is \$36,200,000 which is accrued but unbilled.

The revenues from the rate increase and fuel cost adjustment clause applicable to wholesale customers, all of which are subject to refund with interest, amounted to \$42,500,000 in 1974, \$14,300,000 in 1973 and \$1,900,000 in 1972. See "Rate Activities" on page 8 concerning other revenue contingencies.

3. **Subsidiaries.** At December 31, 1974, retained earnings included \$2,356,000 of undistributed subsidiary earnings. Cash dividends of \$1,000,000 were received from subsidiaries during the year 1973.

4. **Capital Stock.** See Statement of Capitalization on page 15. In 1974, 9,085,387 shares of common stock were issued for a consideration of \$130,012,000. In 1973, 3,257,229 shares of common stock were issued for a consideration of \$74,119,000, and 600,000 shares of 7.35% Series I Preferred Stock for \$60,000,000. In February 1975, the Company sold 2,400,000 shares of 10.76% Preferred Stock A, 1975 Series for \$60,000,000.

The outstanding Preference Stock, 6 3/4% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$27.73 per share, each share of such Preference Stock being taken at \$100 for such purpose. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution.

At December 31, 1974 certain shares of common stock were reserved for issuance as follows:

	<u>Shares</u>
Conversion of Preference Stock	1,803,101
Stock Purchase-Savings Program for Employees	103,527
Dividend Reinvestment and Stock Purchase Plan	67,147
Total	<u>2,273,775</u>

The outstanding preference and preferred capital stocks are callable at various redemption prices not exceeding \$110 a share plus accumulated dividends to redemption date.

5. **Long-Term Debt.** See Statement of Capitalization on page 15. Substantially all electric plant is mortgaged at December 31, 1974. The annual amounts of long-term debt maturities (including sinking fund requirements) through 1979 are \$84,750,000 in 1975, \$29,800,000 in 1976, \$69,200,000 in 1977, \$61,250,000 in 1978 and \$141,250,000 in 1979. In February 1975 the Company sold \$100,000,000 of First and Refunding Mortgage Bonds, 9-1/2% Due

2005.

6. **Leases.** Rentals incurred in 1974 and 1973, and rental commitments at December 31, 1974, under all non-cancelable leases (substantially all non-capitalized financing leases) are as follows:

<u>Period</u>	<u>Total</u>
Rentals incurred:	
1973	\$13,067,000
1974	14,005,000
Rental commitments:	
1975	30,107,000
1976	26,963,000
1977	26,270,000
1978	13,118,000
1979	12,928,000
1980-1984	60,197,000
1985-1989	28,450,000
1990-1994	12,569,000
Remainder	38,971,000

Amounts in 1974 and 1973 include \$11,765,000 and \$11,147,000, respectively, charged to operating expenses.

Substantially all leases require the Company to pay taxes and operation and maintenance expenses. Rentals and rental commitments under certain combustion turbine generator leases include accruals in excess of current payments in amounts required to equalize annual rent expense and satisfy the obligations of the leases, net of salvage, at the end of the estimated useful life of the generators. Such leases contain options to purchase beginning in 1981 at the lessors' unrecovered cost. Rentals under nuclear fuel leases are based on usage. Other leases generally contain options to purchase at the lessors' unrecovered cost or fair market value.

7. **Income Tax Expense.** Income taxes differ from amounts computed by applying the statutory tax rates to adjusted pre-tax income as follows:

Income taxes on income before income tax at the composite statutory Federal and state tax rate of 51.12%	<u>1974</u>	<u>1973</u>
	\$74,980,000	\$62,068,000
Adjustments to above:		
Allowance for funds used during construction	(31,776,000)	(30,395,000)
Pensions and taxes capitalized on books	(5,201,000)	(5,779,000)
Amortizations of investment tax credit deferrals	(949,000)	(4,058,000)
Other items, net	4,533,000	19,000
Recorded income tax expense (Federal, state, deferred income taxes, investment tax credit, and income tax credit)	<u>\$41,595,000</u>	<u>\$21,855,000</u>

8. **Short-Term Borrowings.** The Company has bank lines of credit with 69 commercial banks and uses these lines plus commercial paper to finance its current cash requirements. At December 31, 1974, the aggregate lines of credit were \$163 million.

During 1974, the maximum outstanding short-term borrowings, including commercial paper, were \$193 million, and the average was \$124 million. Bank loans are for 90 days or less and are at the lending banks' commercial prime interest rate. The daily weighted average interest rate of all short-term borrowings during the year was 11%.

At December 31, 1974, the notes payable for construction consisted of \$55 million of bank loans at interest rates ranging from 10% to 10 1/2% and \$71 million of commercial paper at 9 3/4% to 10 3/4%. Additionally, at December 31, 1974, notes payable for construction included \$16 million of pollution control bond anticipation notes at 5 3/4% maturing March 11, 1975.

The Company's practice is to maintain bank balances with all banks providing services to it, including those with lines of credit. At December 31, 1974, there were agreements requiring compensating balances of \$3.5 million. The average daily bank balance during 1974, as determined from bank statements, was approximately

\$19 million.

9. **Commitments.** See page 4 for the Company's commitments under its construction program.

10. **Other Income, net.** The Company is disposing of certain properties to augment its sources of funds. Gains and losses on such transactions to date are included in "Other income, net". The transactions for 1974 resulted in aggregate gains of \$9,000,000 (related income taxes of \$4,500,000 have been included in the "Income tax-credit") and a provision for loss of \$5,000,000 (on an equity basis, net of income taxes) in connection with the disposition of a subsidiary project.

11. **Reclassifications.** As prescribed by the Uniform System of Accounts, "Contributions in Aid of Construction" has been reclassified to "Electric Plant" and "Unamortized Debt Discount and Premium" has been reclassified to "Long-Term Debt". Certain other immaterial amounts have been reclassified to conform with the current year's presentation.

Auditors' Opinion
HASKINS & SELLS
Certified Public Accountants

DUKE POWER COMPANY:

We have examined the balance sheet and the statement of capitalization of Duke Power Company as of December 31, 1974 and 1973 and the related statements of income, retained earnings, and source of funds for plant construction costs 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.

As explained in Note 2 to the financial statements, electric revenues include amounts allowed subject to refund pending final settlement of certain rate matters.

In our opinion, subject to final settlement of the rate matters referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of the Company at December 31, 1974 and 1973 and the results of its operations and the source of its funds for plant construction costs for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charlotte, North Carolina
February 17, 1975

Haskins & Sells

Subsidiaries

Crescent Land & Timber Corp.

Crescent Land & Timber Corp. is a land-management subsidiary organized in 1963 to manage the Company's non-utility land. Timber harvesting and reforestation are the primary activities of this subsidiary.

In 1974, Crescent harvested over 25 million board feet of timber and 56,000 cords of pulpwood. Nearly 46 million seedlings have been planted on Company land since the beginning of the reforestation program in 1939.

Crescent is currently planting new trees at the rate of 1.5 million per year.

Crescent's equity interest in Carowinds, a theme amusement park on the North Carolina-South Carolina line, will be terminated in 1975 with the park's sale to Family Leisure Centers, Inc. Crescent will continue to have an equity interest in adjacent land which will be devoted to industrial development.

Eastover Mining Company

Eastover Land Company

The Eastover companies were organized in 1970 to purchase and develop coal properties and reserves in Virginia and eastern Kentucky. On December 31, 1974, Eastover owned or had controlling interest in approximately 30,600 acres of coal reserves with an estimated 250,000,000 tons of recoverable coal.

The 1974 production from operating mines was approximately 1,200,000 tons. Production was restricted during the year due to a UMWA strike which had idled the Brookside Mine from July, 1973 until settlement of the strike in August, 1974. Excessive loss of production was avoided, however, by transferring much of the Brookside mining equipment to other Eastover mines.

When the mines being developed by Eastover reach full production, they are expected to provide three and a half to four million tons of coal a year to Duke Power's steam-electric generating stations.

Duke also has made capital investments in two additional mining properties now being developed by other coal companies. These are expected to provide an additional three to four million tons of coal per year when full production is reached.

Mill-Power Supply Company

The oldest of Duke's subsidiaries, Mill-Power Supply Company, was chartered on June 7, 1910, to buy, warehouse and sell electrical equipment to mills and other industries that were converting to electricity from other sources of energy. Today, it is the authorized distributor for many of the largest electrical equipment manufacturers in the country.

In addition to selling items to Duke and others as a wholesale distributor, Mill-Power purchases virtually all supplies, equipment and fuel required by the Company.

Subsidiaries—Financial Highlights

Financial highlights of subsidiaries of Duke Power Company for the year ended December 31, 1974, are as follows:

EARNINGS FROM OPERATIONS

Electrical wholesale distribution	\$ 1,145,000
Forestry, recreational and land developments	(574,000)
Coal mining—under development	—
Gross earnings from operations	571,000
Intercompany profit elimination	(272,000)
Earnings from operations to parent company, net	<u>\$ 299,000</u>

NET ASSETS

Property and investments—at cost:	
Real estate, recreational and land development	\$ 55,330,000
Coal mining	67,000,000
Net current assets, principally	
receivables and inventories	10,555,000
Total assets	132,885,000
Long-term debt—	
Life insurance company	(6,222,000)
Bank, etc.—secured by recreational facilities	
(\$16.1 million guaranteed by Crescent)	(26,188,000)
Coal production commitments	(34,000,000)
Deferred income taxes	(26,842,000)
Parent company investment and advances	39,633,000
Advances from parent at prime rate of interest	(10,855,000)
Net assets	<u>\$ 28,778,000</u>

Summary of Operations

CONDENSED STATEMENT OF INCOME (\$000)

	1974	1973	1972	1971	1970	1964
Electric revenues						
Residential sales	\$ 279,724	\$ 212,213	\$ 184,581	\$ 166,442	\$ 140,281	\$ 83,757
Commercial sales	162,775	122,788	104,479	91,183	75,951	41,317
Industrial sales	267,723	189,879	157,407	139,560	118,811	68,983
Other energy sales	109,294	72,629	57,258	49,796	47,565	19,986
Other revenues	3,405	3,172	4,507	4,560	3,530	2,730
Total electric revenues	822,921	600,681	508,232	451,541	386,138	216,773
Electric expenses and taxes:						
Fuel	333,399	191,861	172,072	161,087	140,526	45,288
Operation and maintenance	134,754	136,041	124,687	100,091	81,781	43,775
Depreciation	83,914	70,459	59,923	53,062	48,427	27,693
Taxes-income	57,689	37,261	18,075	16,020	11,942	35,078
Taxes-general	64,871	50,054	44,421	39,226	35,163	19,984
Total electric expenses and taxes	674,627	485,676	419,178	369,486	317,839	171,818
Electric operating income	148,294	115,005	89,054	82,055	68,299	44,955
Other income:						
Allowance for funds used during construction	62,159	59,459	51,185	37,676	24,342	2,488
Other income, net	5,086	1,093	1,511	4,966	1,847	1,823
Income tax-credit	16,094	15,406	13,035	9,553	8,247	(129)
Interest deductions	(126,537)	(91,401)	(74,418)	(62,395)	(51,557)	(13,594)
Net income	105,096	99,562	80,367	71,855	51,178	35,543
Dividends on preference and preferred stock	28,534	27,456	21,901	16,341	11,177	1,553
Earnings for common stock	76,562	72,106	58,466	55,514	40,001	33,990
Dividends on common stock	59,263	54,036	47,758	40,763	35,271	21,768
Earnings retained for use in the business	\$ 17,299	\$ 18,070	\$ 10,708	\$ 14,751	\$ 4,730	\$ 12,222
COMMON STOCK DATA						
Shares of common stock—year end (thousands)	47,836	38,751	35,493	30,229	25,932	22,935
—average (thousands)	42,618	38,465	34,592	29,482	25,413	22,915
Per share of common stock (average shares):						
Earnings for common stock	\$ 1.80	\$ 1.87	\$ 1.69	\$ 1.80	\$ 1.57	\$ 1.48
Dividends declared and paid	1.40	1.40	1.40	1.40	1.40	.95
Market value—high-low	20 $\frac{1}{4}$ -10	23 $\frac{1}{4}$ -16	25 $\frac{1}{2}$ -21	27 $\frac{1}{2}$ -20 $\frac{1}{2}$	29 $\frac{1}{2}$ -20 $\frac{1}{4}$	37-31 $\frac{1}{2}$
—year end	10 $\frac{3}{8}$	17 $\frac{1}{4}$	23 $\frac{1}{4}$	23 $\frac{1}{4}$	24 $\frac{1}{4}$	36 $\frac{1}{2}$
BALANCE SHEET DATA (\$000)						
Electric plant (original cost) (a)	\$3,783,777	\$3,355,392	\$2,903,710	\$2,459,572	\$2,110,380	\$973,121
Accumulated depreciation	727,878	652,922	584,748	534,216	492,083	302,251
Capitalization and short-term notes:						
Common stock equity	936,686	796,730	706,899	580,025	457,319	296,404
Preference stock	50,000	50,000	50,000	50,000	50,000	—
Preferred stock	345,000	345,000	285,000	225,000	165,000	35,000
Long-term debt (a)	1,638,752	1,505,174	1,270,224	1,040,891	837,500	330,000
Short-term notes payable	142,092	69,296	96,000	119,343	189,806	30,700
ELECTRIC AND OTHER STATISTICS						
Kilowatt-hour sales (millions):						
Residential	10,325	10,186	9,237	8,780	8,126	4,503
Commercial	7,053	7,287	6,515	5,938	5,391	2,509
Industrial	17,881	18,848	17,778	16,357	15,140	9,041
Other	7,085	6,838	6,158	5,838	6,631	2,536
Total kilowatt-hour sales	42,344	43,159	39,688	36,913	35,288	18,589
Number of customers (year end):						
Residential	951,459	931,020	895,488	864,361	835,706	691,492
Other	154,221	152,132	144,939	137,090	129,871	103,715
Total customers	1,105,680	1,083,152	1,040,427	1,001,451	965,577	795,207
Residential customer data:						
Average annual KWH use	10,927	11,072	10,447	10,299	9,864	6,590
Average revenue per KWH	2.61¢	2.08¢	2.00¢	1.90¢	1.73¢	1.86¢
Number of employees (year end):						
Operating and maintenance	8,103	7,938	7,721	7,392	7,363	5,671
Generating plant construction and engineering	4,240	5,125	4,780	3,910	3,210	756
Source of energy (millions of KWH):						
Generated—Steam—Fossil	35,538	38,604	37,736	35,393	34,212	17,736
—Steam—Nuclear	6,761	2,402	—	—	—	—
—Hydro	2,320	2,377	1,961	2,028	1,491	2,126
—Combustion turbine generators	500	650	869	726	837	—
Purchased and net interchange	503	2,469	2,607	1,789	1,728	461
Loss and company use	3,286	3,343	3,485	3,023	2,979	1,734
% loss and company use	7.2%	7.2%	8.1%	7.5%	7.8%	8.5%
System average heat rate	9,780	9,713	9,702	9,728	9,784	9,649
System load factor	64.1%	64.2%	65.7%	68.2%	66.6%	65.7%

(a) The amounts in 1973 and 1974 have been adjusted to conform with revisions in the FPC chart of accounts.

Management's Discussion and Analysis of the Summary of Operations

The following factors had a significant effect upon the Company's results of operations during the years 1970 through 1974:

(a) Electric revenues increased primarily because of rate increases, including a fuel adjustment clause with respect to wholesale customers placed into effect beginning August 23, 1972, and fuel adjustment clauses with respect to North Carolina and South Carolina retail customers placed into effect beginning January 19, 1974 (see Note 2 to the Financial Statements). Electric revenues also were affected by increases in kilowatt-hour sales during 1970, 1971, 1972 and 1973. As a result of reduced industrial and commercial activity, energy conservation and mild weather conditions, kilowatt-hour sales declined about 2% in 1974 from those in 1973. The decline in kilowatt-hour sales has been most pronounced in the textile industry, which accounted for approximately 55% of electric industrial revenues in 1974.

(b) Earnings during the years 1970 through 1974 were adversely affected by increasing fuel costs to the extent that such increases were not offset by fuel adjustment clauses referred to in (a) above. Fuel expenses have risen significantly as system generation has increased and as fuel costs have risen. The cost per million BTU of coal burned by the Company increased during the period 1970-1974 as follows: 1970—40.52¢; 1971—44.56¢; 1972—

43.92¢; 1973—47.27¢, and 1974—91.69¢.

(c) As a result of delays in the start-up of the Oconee Nuclear Station, purchased power expense reached a high of \$30.5 million in 1972. The addition of new generating units since 1972 has reduced the need for purchased power.

(d) Inflationary pressures on wages and material costs have resulted in increases in electric operation and maintenance expenses. Because of regulatory lag in obtaining adequate and timely rate relief, these increasing costs have had an adverse impact on earnings.

(e) Depreciation increased as additional facilities were placed in service.

(f) The Company's annual construction costs have increased to their present level of approximately \$500 million, requiring substantial external financing through the sale of debt and equity securities. While these financings resulted in significant increases in both interest expense and preferred dividends, a substantial amount of such costs has been capitalized through allowance for funds used during construction (see Note 1 to the Financial Statements).

(g) Earnings per share of common stock have fluctuated due primarily to regulatory lag in granting rates necessary to produce revenue levels sufficient to offset rising capital and operating costs.

The price range of Duke Power Common Stock and the dividends paid on Common Stock for each quarter of 1974 and 1973 are shown below:

	<u>1974</u>			
	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
Price Range	\$ 20 ³ / ₄ - 16 ³ / ₄	\$ 17 ¹ / ₂ - 12 ¹ / ₄	\$ 13 ³ / ₈ - 10	\$ 13 ³ / ₈ - 10 ¹ / ₈
Dividends	\$.35	\$.35	\$.35	\$.35
	<u>1973</u>			
	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
Price Range	\$ 23 ¹ / ₄ - 20 ¹ / ₈	\$ 22 ³ / ₄ - 20 ¹ / ₄	\$ 21 ¹ / ₄ - 18 ¹ / ₈	\$ 20 ¹ / ₄ - 16
Dividends	\$.35	\$.35	\$.35	\$.35

Directors



CARL HORN, JR.*
President
Duke Power Company



RICHARD B. HENNEY†
Trustee and Executive
Director
The Duke Endowment



B. B. PARKER*
Executive Vice President
and General Manager
Duke Power Company



HOWARD HOLDERNESS†
Chairman of the Board
Jefferson Standard Life
Insurance Company and
Jefferson Pilot Corporation



DOUGLAS W. BOOTH*
Senior Vice President
Retail Operations
Duke Power Company



HERMAN W. LAY†
Chairman of the Executive
Committee
PepsiCo, Inc. (a)



WILLIAM H. GRIGG*
Senior Vice President
Legal and Finance
Duke Power Company



J. PAUL LUCAS, JR.
Vice President-Public Affairs
Duke Power Company



WILLIAM S. LEE*
Senior Vice President
Engineering and Construction
Duke Power Company



WILLIAM B. MCGUIRE†
Trustee
The Duke Endowment



AUSTIN C. THIES*
Senior Vice President
Production and Transmission
Duke Power Company



MARSHALL I. PICKENS†
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The Duke Endowment



JOHN D. HICKS*
Vice President-Corporate Affairs
Duke Power Company



ADDISON H. REESE
Chairman of the Finance Committee
North Carolina National Bank
and NCNB Corporation



ROBERT C. EDWARDS†
President
Clemson University



CHAS. B. WADE, JR.†
Senior Vice President
R. J. Reynolds Industries, Inc. (b)

* Member of the Executive Committee (a) Mfg. and dist. of soft drinks, snack foods, sporting goods, transportation and leasing service
† Member of the Audit Committee (b) Mfg. and dist. of tobacco, food, aluminum and petroleum products, containerized shipping

Officers

CARL HORN, JR.
President

B. B. PARKER
Executive Vice President
and General Manager

DOUGLAS W. BOOTH
Senior Vice President
Retail Operations

WILLIAM H. GRIGG
Senior Vice President
Legal and Finance

WILLIAM S. LEE
Senior Vice President
Engineering and Construction

AUSTIN C. THIES
Senior Vice President
Production and Transmission

FRANZ W. BEYER
Vice President
System Planning

CARL J. BLADES
Vice President
Real Estate

WILLIAM J. BURTON
Vice President
Corporate Communications

E. ROBERT DAVIS
Vice President
Marketing

ROBERT L. DICK
Vice President
Construction

JOHN D. HICKS
Vice President
Corporate Affairs

PATRICK D. HUFF
Vice President
Distribution Engineering

FRANK A. JENKINS
Vice President
Transmission and
Electric Installations

J. WESLEY LEWIS
Vice President
Division Operations

J. PAUL LUCAS, JR.
Vice President
Public Affairs

JOE S. MAJOR, JR.
Vice President
Personnel

WARREN H. OWEN
Vice President
Design Engineering

WILLIAM O. PARKER, JR.
Vice President
Steam Production

KEITH ARLEDGE
Vice President
Western Division

HENRY L. CRANFORD
Vice President
Central Division

A. MELL DOOLITTLE
Vice President
Southern Division

JOSEPH G. MANN
Vice President
Northern Division

THOMAS M. PATRICK JR.
Vice President
Eastern Division

LLOYD P. JULIAN
Assistant Vice President
Operation

SAMUEL T. LATTIMORE
Assistant Vice President
Computer Services

ROBERT J. ASHMORE
Assistant to the Senior
Vice President
Legal and Finance

RICHARD R. PIERCE
Assistant Vice President
Corporate Communications

EDWARD D. POWELL
Assistant Vice President
Production and Transmission

STEVE C. GRIFFITH, JR.
General Counsel

WILLIAM R. ST' MART
Treasurer

STEWART F. CAMPBELL
Assistant Treasurer

W. BRUCE SHANNON
Assistant Treasurer

PORTER A. HAUSER
Controller

KENNETH C. STONEBRAKER
Assistant Controller

GEORGE W. FERGUSON, JR.
Secretary and
Associate General Counsel

JOHN F. DAY
Assistant Secretary

JOHN C. GOODMAN, JR.
Assistant Secretary

DOROTHEA B. STROUPE
Assistant Secretary

Management Changes

Addison H. Reese, former chairman of the board and chief executive officer of the NCNB Corporation, was elected to the Duke Power Board of Directors on October 29, 1974. Mr. Reese currently serves as chairman of the Finance Committee of the NCNB Corporation and of its major subsidiary, North Carolina National Bank. On December 2, 1974, the Board approved major changes in the legal and financial administration of the Company to coincide with the departure on January 1, 1975, of Robert E. Frazer, director and vice president-finance, who resigned to become president of The Dayton Power and Light Company of Dayton, Ohio. William H. Grigg, formerly vice president and general counsel, was elected Senior Vice President-Legal and Finance, with responsibilities encompassing both legal and financial activities of the Company. Steve C. Griffith, Jr., formerly secretary

and associate general counsel, was elected General Counsel. Mr. Griffith was succeeded as Secretary by George W. Ferguson, Jr., who also remains an associate general counsel. Also in 1974, Henry L. Cranford was elected Vice President-Central Division, succeeding J. D. Sloan, who retired; E. Robert Davis was elected Vice President-Marketing, succeeding Henry H. Orr, who also retired; and William O. Parker, Jr., was elected to the new position of Vice President-Steam Production. Also retiring during the year was W. J. Wortman, Assistant Vice President, Relay, Meters and Communications, who had served the Company for more than 40 years.

The Company was saddened by the death on November 2, 1974, of former Duke President Norman A. Cocke. Mr. Cocke served as president of the Company from 1953 to 1959.

Transfer Agents for Common Stock

Morgan Guaranty Trust Company,
New York, N. Y.
North Carolina National Bank,
Charlotte, N. C.

Registrars for Common Stock

First National City Bank,
New York, N. Y.
Wachovia Bank and Trust Company,
Charlotte, N. C.

Stock Exchange Listing and Trading

Duke Power Common Stock
is listed on the New York
Stock Exchange.

The trading symbol of Duke Power
Common Stock is DJK.

General Offices

422 South Church Street
P. O. Box 2178
Charlotte, N. C. 28242
(704/373-4011)

Notice of 1975 Annual Meeting

The Annual Meeting of holders of
Duke Power Common Stock will be
held at the principal office of
the Company, 422 S. Church Street,
Charlotte, N. C., on April 29, 1975,
at 10 a.m. (Eastern Daylight Savings
Time).

Upon written request, the Company will provide without charge a copy of its
1974 annual report Form 10-K as filed with the Securities and Exchange
Commission. Please direct such requests to Mr. J. C. Goodman, Duke Power Co.,
Investor Relations Dept., P. O. Box 2178, Charlotte, N. C. 28242.

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NOTICE

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NOTICE

MARY JINKS, CHIEF
CENTRAL RECORDS STATION