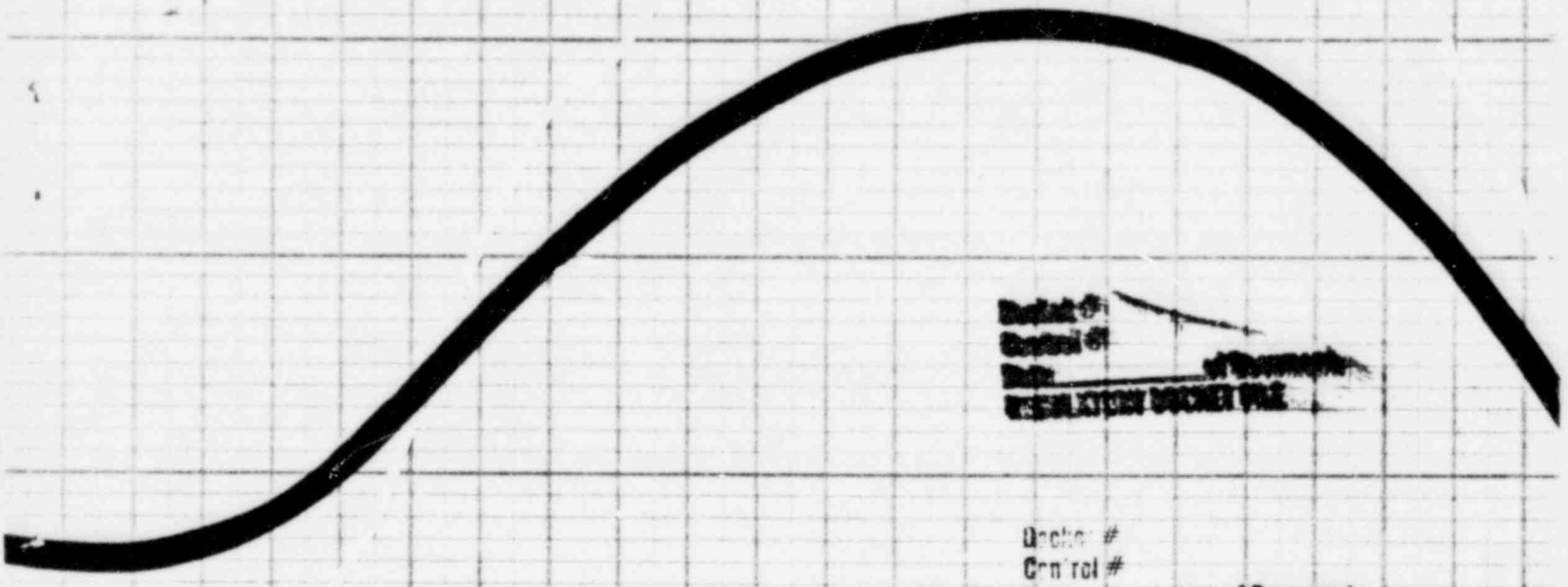
DUKE POWER
ANNUAL REPORT
1976



LOAD MANAGEMENT
reshaping future electric demand

Notice of Annual Meeting

The 1977 meeting of holders of Duke Power Company common stock will be held at 10 a.m. (Eastern Daylight Savings Time), Tuesday, April 26, 1977, in the O. J. Miller Auditorium of the Electric Center, 526 South Church Street, Charlotte, N.C.

Contents

About the Cover

With the cost of new generating facilities climbing higher each year, Duke Power has initiated a new marketing program to reduce the growth in the peak demand for electricity and the amount of new generating capability that will be required to serve future electric loads. The orange line, superimposed over a typical summer daily load curve, symbolizes the objective of that program. The Load Management story begins on page 8.

Making Sense of the Financial Statements

The primary purpose of the Annual Report to Shareholders is to give the Company's owners a detailed accounting of how their investments have been managed. The financial statements, which compare results of the reporting year with those of the preceding year, are an important part of this accounting.

This year, we've made a special effort to help our shareholders interpret these increasingly complex statements. Bound into the financial section are partial pages, like this one, on which the individual statements are explained. We have attempted to define those items which have the greatest impact on the Company's operations and the investments of its shareholders.

We hope this effort will assist you in measuring the performance of your Company in 1976.

Highlights

These important operating and financial statistics are presented near the front of the Annual Report to give shareholders a quick look at how the Company performed during the reporting year.

Of particular interest to shareholders are the two items under *Common Stock Data*. *Earnings Per Share* is the amount of money the Company earned for each share of common stock. *Dividends Per Share* is the amount actually paid to the shareholders for each share. The difference is reinvested in the business.

Return on Average Book Common Equity is one of the commonly used methods of measuring an electric utility's financial performance. It compares what the shareholders made (their *earnings*) with what they've invested (their *equity*). The return can be determined by dividing *Earnings for Common Stock* by the average of *Total common stock equity* for the current and preceding years, shown on the STATEMENT OF CAPITALIZATION (Page 20). *Total common stock equity* is the total amount of investments that has been made in the Company through the sale of common stock, plus the total of shareholders' earnings that has been reinvested in the business.

Highlights	1976	1975*	Percent Increase
Electric Revenues	$1,108,358,000	$ 930,384,000	19.1
Earnings for Common Stock	$ 138,711,000	$ 82,799,000	67.5
Common Stock Data			
Average Shares Outstanding	57,767,000	51,020,000	13.2
Earnings Per Share	$2.40	$1.62	48.1
Dividends Per Share	$1.525	$1.40	8.9
Return on Average Book Common Equity	12.7%	8.5%	49.4
Plant Construction Costs	$ 475,248,000	$ 438,952,000	8.3
Electric Plant, Net	$3,720,408,000	$3,366,419,000	10.5
Kilowatthour Sales (thousands)	45,633,000	42,138,000	8.3
Peak Load (Kw)	8,600,630	8,421,960	2.1

*Restated – See Note 2 to notes to financial statements.

1976
Year of marked improvement

To Our Shareholders:

Nineteen seventy-six was a year of marked improvement for your Company.

Earnings per share of common stock totaled $2.40, a 48.1 per cent increase over the restated $1.62 of 1975.

The annual dividend rate on common stock was increased from $1.40 per share to $1.60 per share, the first increase in the common dividend since 1968.

The market price of Duke Power common stock returned to a level above book value after reaching a low of about 50 per cent of book value just two years ago.

These achievements are gratifying in view of the severe economic pressures under which your Company and the electric utility industry have operated during the first half of this decade.

Beginning in 1969 and continuing through the first half of 1975, Duke Power was engaged in an uphill struggle against the effects of inflation, unprecedented capital requirements for plant construction, and inadequate rate levels. The economic recession, which resulted in a slight decline in kilowatthour sales in both 1974 and 1975, further contributed to the erosion of earnings during much of this period.

The turning point came in mid-1975. At that time, rates were adjusted to more nearly reflect current costs. Sales improved as the industries of our service area began recovering from the recession. The rate of inflation, which had plunged the nation into its worst economic recession since the 1930's, slowed to a more manageable level.

These improved economic conditions, coupled with more adequate rates and the absence of new generating facilities coming into service, resulted in a greatly improved return on common shareholders' investments in 1976 without a further increase in electric rates to customers. The earned level of return, however, was still below that allowed by regulatory agencies.

Earnings for 1975 have been restated to reflect the potential refunding to North Carolina retail customers of approximately $18.3 million under a January, 1977 N.C. Supreme Court ruling, and a related $5.7 million revenue adjustment with respect to the Company's wholesale business (see "Rates," page 5).

While we are encouraged by the results of 1976, we realize that many of the problems which our industry faced during the first half of this decade still exist.

One such problem is the continuing escalation in the cost of building new generating facilities. As new plants are brought into service at higher costs per kilowatt of capacity, rates must be adjusted to reflect the higher costs. Some erosion of earnings normally occurs between the time these costs are incurred and rates are increased to recover them.

We are attempting to reduce the size and frequency of rate increases by restraining the growth in peak demand for electricity. This would reduce the amount of new generating capability that will be required to serve future growth. Various aspects of this program are discussed in detail later in this Report.

We also are working through industry organizations, and through our Congressional delegations, to impress upon Congress the vital necessity of developing a national energy policy. To make the U.S. less dependent upon foreign energy sources, such a policy must include full use of our nation's most abundant energy resources – coal and uranium.

In this regard, it also is vital to the nation's future energy supply that U.S. uranium enrichment capacity be enlarged, and that the nuclear fuel cycle be completed. Despite the more than 380 successful plant years of nuclear fuel reprocessing worldwide, there is not a single reprocessing plant currently licensed for operation in this country.

The final missing link in the nuclear fuel cycle is the ultimate storage of high-level radioactive wastes. Although the technology for safe and reliable disposal

of these low-volume wastes is now available, the necessary criteria, standards and regulations have yet to be established by the federal government.

With voters in seven states having soundly rejected proposals that would have crippled nuclear power development in this country, we should now move forward in fully utilizing this important energy resource.

Another major area of concern is that of environmental over-protection. Under current regulations, the U.S. Environmental Protection Agency in many cases is not required to weigh costs against benefits in pursuing its goal of "cleaning up" the environment. As a result, industry is being required to spend millions of dollars on environmental activities which offer little or no compensating benefits.

Having established its first full-time environmental department in 1923, your Company has a long-standing commitment to the quality of the environment in its service area. However, we strongly oppose environmental regulations which place unnecessary financial burdens on electric consumers. At a time when both government and private enterprise should be working to reduce unnecessary costs, potential benefits clearly must be considered in the development of regulations designed to protect our environment.

Despite the challenges which lie ahead, we are optimistic about the future of our Company and the electric utility industry. In addition to the improved economic conditions discussed earlier, that optimism is based on a growing, national awareness of electricity's essential role in meeting the nation's future energy needs.

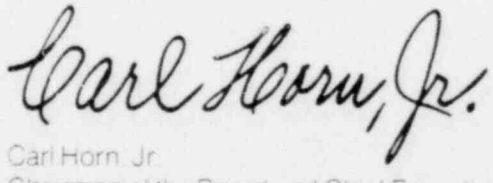
To help chart our own course through the years ahead, the management of your Company has adopted these corporate objectives:

- To earn a fair and reasonable return on the investments of our shareholders.
- To continue providing reliable electric service to our customers at the lowest possible cost.
- To regain double-A ratings on our senior securities, thus improving the Company's financing flexibility and softening the impact of financing costs on rates to customers.
- To maintain an annual growth rate in earnings and dividends per share of common stock at a level that will enhance the prospect of a market price substantially above book value.
- To attract the necessary capital and to obtain all required licenses and permits to maintain a construction schedule that will ensure a reliable source of electrical energy for our service area.
- To protect the environmental quality of the Piedmont Carolinas and to provide the electrical energy required for the area's economic development.

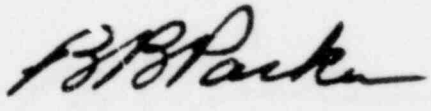
The management and more than 13,000 employees of our Company are dedicated to the fulfillment of these goals.

We are grateful for the continued support and confidence of our shareholders, our employees, our customers, and the communities we serve.

FOR THE BOARD OF DIRECTORS



Carl Horn, Jr.
Chairman of the Board and Chief Executive Officer



B. B. Parker
President and Chief Operating Officer

February 17, 1977

1976
Year in review

Electric Sales

Electric sales in 1976 of 45.6 billion kilowatthours represent an 8.3 per cent increase over those of the previous year. It was the first increase in kilowatthour sales since 1973.

Sales had remained essentially unchanged in 1974 and 1975 due to the economic recession, which was particularly damaging to industries in the Duke Power service area, and to energy conservation efforts by customers.

The increase in sales for 1976 resulted primarily from an upswing in sales to industrial customers, who used 10.0 per cent more electricity in 1976 than in the previous year.

Modest gains also were recorded in sales to commercial customers, who increased their electric usage 5.6 per cent, and to residential customers, who used 4.8 per cent more electricity in 1976 than in 1975. Sales to residential customers remained substantially below the historic growth level due to abnormally mild weather during the first three quarters, and continued energy conservation efforts.

Not included in these sales statistics are sales to other electric utilities, which more than doubled in 1976. These sales are particularly important since they are derived from generating reserves which otherwise would be idle.

Generation

Of the total kilowatthours generated in 1976, 70.6 per cent came from coal-fired units, 25.5 per cent from nuclear units, and 3.9 per cent from hydroelectric and and other sources.

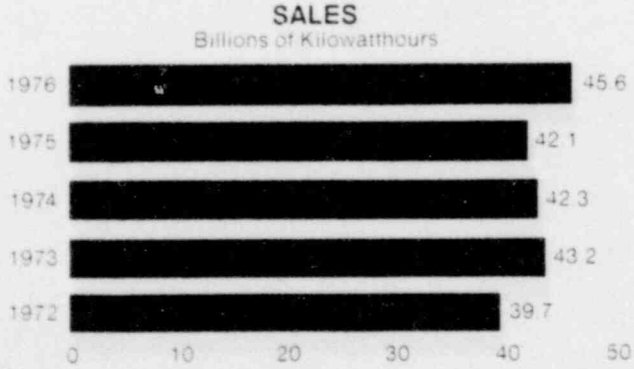
As a percentage of the total, output of the Oconee Nuclear Station declined from its 1975 level due to required maintenance, scheduled refueling of all three units, and removal of metal samples installed in the reactors by the manufacturer.

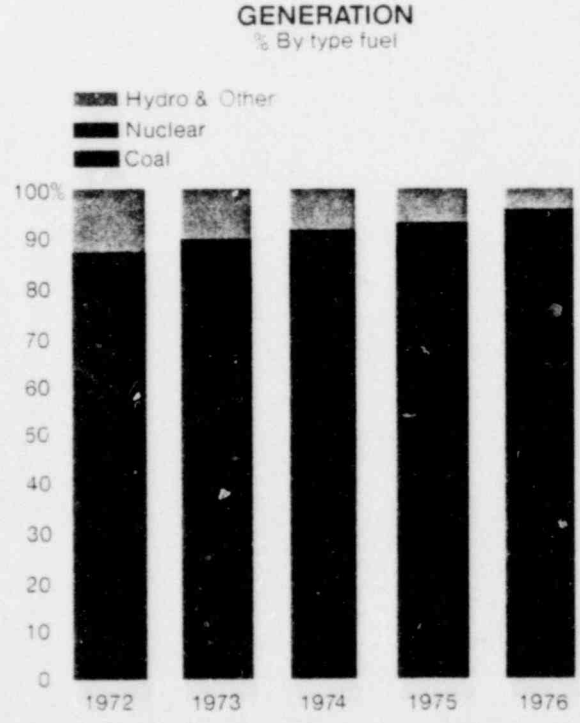
Efficiency

Duke's steam-fossil generating system set a new Company record for thermal efficiency in 1976. The year's heat rate of 9,315 BTUs of energy per net kilowatthour generated was the lowest ever reported to the Federal Power Commission for a multi-plant generating system.

According to a preliminary survey by the Edison Electric Institute, the Company's steam-fossil system also was the nation's most efficient in 1975, the latest year for which industry operating statistics have been compiled. Duke's steam-fossil system has been the nation's most efficient for four of the past six years for which industry statistics are available, and second most efficient for the other two years.

In addition to reducing operating costs, improved thermal efficiency has a significant impact on conservation of energy resources.





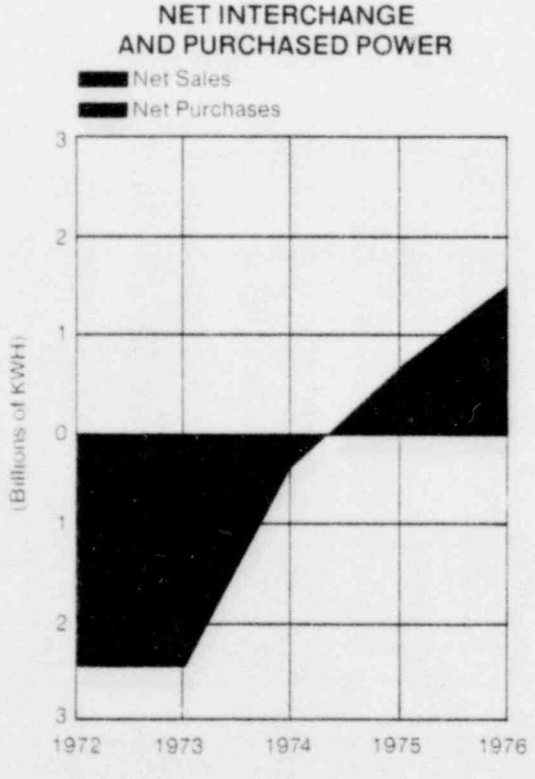
Rates

Although no requests for general rate increases were filed in 1976, several important events associated with the Company's system of rates and charges occurred during the year.

On December 31, the North Carolina Supreme Court affirmed a 1973 order of the N.C. Utilities Commission which granted the Company an automatic fuel cost adjustment clause. The Company had recorded approximately $151 million under that clause before it was replaced by an "Approved Fuel Charge" in September, 1975. Under the new procedure a utility must obtain Commission approval before adjusting rates to reflect changes in fuel costs. The Company still has automatic fuel cost adjustment clauses in both its South Carolina retail rates and in its rates to wholesale customers in both states.

Certain fuel expenses had been incurred under provisions of the automatic fuel cost adjustment clause in North Carolina but were unbilled at the time the clause was replaced by the approved fuel charge. The Commission had allowed Duke to collect these unbilled revenues over a 13-month period through a temporary surcharge to North Carolina retail customers. That decision was upheld by the N.C. Court of Appeals. However, in January, 1977, the N.C. Supreme Court reversed the Court of Appeals' ruling, declaring that the Commission had exceeded its authority in allowing the temporary surcharge. The reversal would require a refund of approximately $18.3 million to retail customers in North Carolina, and a revenue adjustment of about $5.7 million with respect to the Company's wholesale business. Although Duke plans to petition for a rehearing on the Supreme Court's decision, earnings for 1975 have been restated to reflect the potential refund and revenue adjustment.

On October 4, 1976, the Company filed proposed time-of-day rates for retail customers in North Carolina in response to a directive from the N.C. Utilities Commission. The Company asked to place such rates into effect on a voluntary, experimental basis involving a limited number of customers in that state. Time-of-day rates have been proposed as a possible means of reducing the growth in peak demand for electricity and the amount of new generating capability required to serve future electric demands.



Construction Deferrals

Completion dates of eight major generating units were pushed back in 1976 as a result of reduced load forecasts, design changes and delays in receiving components from manufacturers.

The two units of the William B. McGuire Nuclear Station, previously scheduled for completion in 1978 and 1979, are now scheduled for service in 1979 and 1980. Construction of the two, 1,180,000 kilowatt units was delayed by design changes and late deliveries of piping supports and components.

Following new estimates of load growth in the Piedmont Carolinas, the Company also delayed by one year the completion of Unit 2 of the Catawba Nuclear Station (1,150,000 kw), Unit 3 of the Cherokee Nuclear Station (1,280,000 kw), and Unit 3 of the Perkins Nuclear Station (1,280,000 kw). These units are now scheduled for completion in 1983, 1989, and 1990, respectively. Delayed for six months were Unit 1 of the Catawba station (1,150,000 kw), now scheduled for operation in 1981; Unit 2 of the Cherokee station (1,280,000 kw), now planned for 1986, and Unit 2 of the Perkins station (1,280,000 kw), now scheduled for service in 1987.

Year in review *continued*

Unit 1 of the Cherokee station and Unit 1 of the Perkins station, both rated at 1,280,000 kilowatts, were unaffected by the construction deferrals. The units are scheduled for service in 1984 and 1985, respectively.

Site preparation and other work have commenced at the Cherokee station following receipt of a limited work authorization from the Nuclear Regulatory Commission.

Catawba Negotiations

Negotiations with certain wholesale customers over the proposed sale of the Catawba Nuclear Station were continuing at the date of this Report. Duke offered to sell the two 1,150,000 kilowatt units to a group of wholesale customers in late 1975 as a financing alternative.

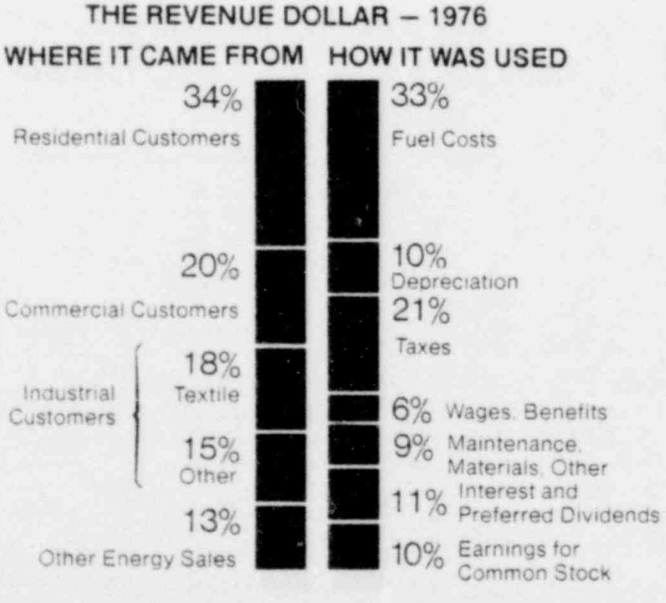
Management Performance Audit

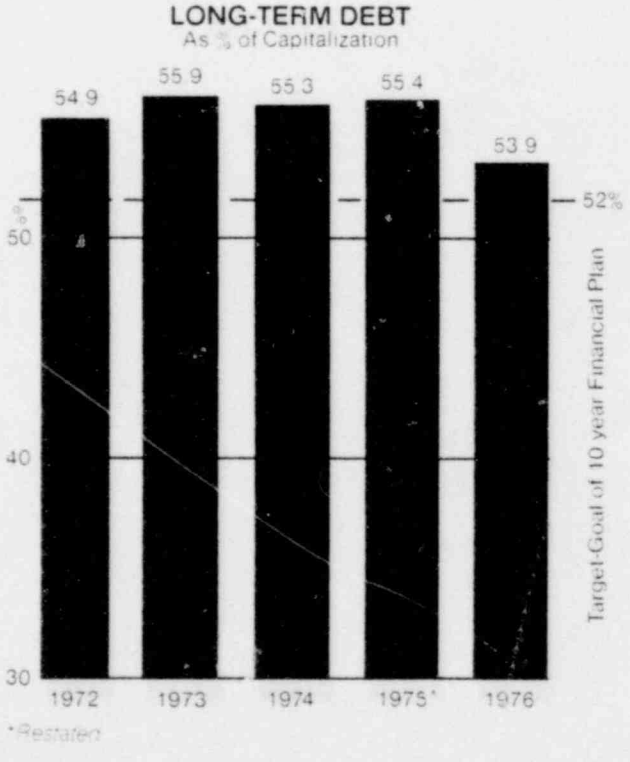
An eight-month study by Booz, Allen & Hamilton, Inc., a nationally recognized management consulting firm, has found Duke Power to be "a well managed company operating generally in a cost effective manner in all major functional areas." The management performance audit was ordered by the North Carolina Utilities Commission in April, 1976, to provide an impartial, professional assessment of Duke's management and operating efficiency.

Duke has clearly demonstrated during the course of this audit why it is considered a leader in the electric utility industry; the company conducts its affairs in a generally outstanding manner," the firm reported in its summary comments. While the audit identified certain areas which have potential for improvement, it found "particular strengths" in certain areas, including:

- "Duke has developed a strong, experienced management team."
- "Managers at all levels are both technically competent and cost conscious."
- "Management exhibits pride in past accomplishments but also a positive attitude toward constructive changes. Duke is clearly a technological leader in the electric utility industry."
- "The company consistently ranks at or near the top of comparable utilities in the relative efficiency of its generating plant design, construction, and operating practices."
- "Duke makes extensive use of state-of-the-art applications of data processing and telecommunications technology in several functional areas."
- "Major expense items – fuel, construction costs, and interest expense – are tightly controlled."

The audit report said opportunities for improvement in managerial and operating efficiency in most cases





represented refinements or improvements to existing procedures.

Peak Load

The 1976 peak demand for electricity on the Duke Power system was set on January 19 when customer demands rose to a record 8,600,630 kilowatts. This peak was substantially exceeded on January 17, 1977, when extremely cold weather in the Company's service area pushed the demand for electricity to 9,487,210 kilowatts. On January 12, 1977, customer demands combined with emergency sales to other utilities resulted in a record demand on Duke's system of 10,476,460 kilowatts.

Financing

Public financing in 1976 included the issuance of 5,000,000 new shares of common stock and the sale of $100 million in first and refunding mortgage bonds.

The common stock issue was offered to the public at $17.625 per share, with net proceeds to the Company of $84.3 million. The Company also issued 418,563 shares of common stock through the Stock Purchase-Savings Program for Employees, 179,807 shares through the Dividend Reinvestment and Stock Purchase Plan, and 59,864 shares through the new Employees' Stock Ownership Plan.

The bonds were sold at competitive bidding at an annual cost to Duke of 8.48 per cent. This compares with 11.04 per cent for the Company's previous bond sale — the private placement of $125 million negotiated in 1975. The final $19.2 million of the private placement was closed in January, 1976.

Pollution control obligations of $2.4 million and sale/leaseback transactions of $17.7 million also were consumated during the year.

Ten-Year Financial Plan

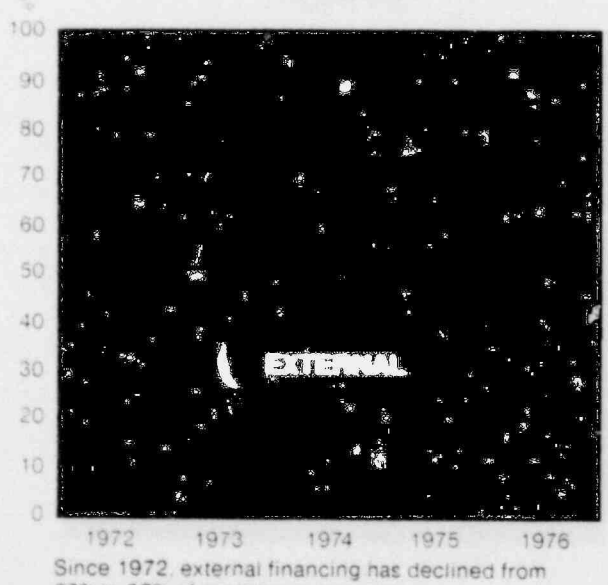
In October, 1975, the Board of Directors adopted a Ten-Year Financial Plan to improve the Company's financial strength and its flexibility in financing future plant construction. This flexibility can be attained primarily through higher credit ratings on Duke securities and improved liquidity.

As target goals, the Plan calls for reducing the debt component of the capital structure to a maximum 52 per cent, increasing the earnings coverage of fixed charges to a minimum of three times, and generating at least 40 per cent of total capital requirements from internal sources.

Considerable progress was made toward achieving those goals in 1976. The debt component of the capital structure was reduced from 55.4 per cent to 53.9 per cent, earnings coverage of fixed charges rose from 2.19 times to 2.81 times, and approximately 62 per cent of capital requirements during the year came from internal sources.

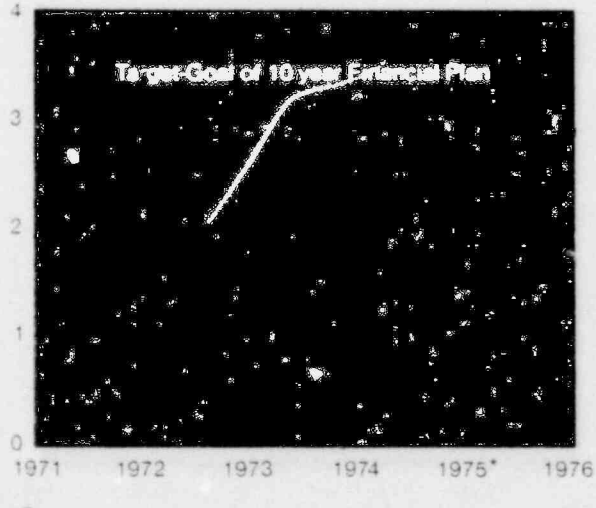
Principally as a result of the Company's improved financial condition, Standard and Poor's Corporation upgraded the rating on Duke's commercial paper from A-2 to A-1, its highest rating for commercial paper, the rating on preferred stock from BBB to A, and the rating on preference stock from BB to BBB.

FINANCING



Since 1972, external financing has declined from 86% to 38% of capital requirements.

EARNINGS COVERAGE OF FIXED CHARGES
SEC Method



*Restated

LOAD MANAGEMENT: Reshaping future electric demand

The "peak demand" for electricity is one of the most significant factors affecting the operation of an electric utility. It determines the amount of generating capability an electric supplier must have in service, which in turn influences construction schedules, financial planning, rates, and to a growing extent, earnings.

In this interview, Executive Vice President D. W. Booth outlines a new marketing concept aimed at reducing the growth of peak demand for electricity in the Duke Power service area. He also discusses how that concept will affect both rates to Duke's customers and earnings for its shareholders.

The concept is called Load Management. Its goal is to reduce the growth in peak demand by 1,300,000 kilowatts by 1990.

Mr. Booth, why would an electric utility want to restrain the growth in the demand for its service?

As you know, the peak demand for electricity determines the amount of generating capability an electric utility must have in service. As the peak grows, a utility must increase its generating capability by building new power plants. The cost of these new plants has a direct impact on the cost of providing electric service. If the cost of a new plant is *lower*, on a per kilowatt basis, than the average cost of the plants already in service, this tends to *reduce* the overall cost of providing electricity. Being able to build plants at a lower per kilowatt cost was the major factor in our being able to reduce rates six times during the 1960's. Right now, we're in a situation where the cost of new plants is higher per kilowatt than the average cost of plants already in service. This means we now have to *increase* rates every time a new plant is built. By restraining the growth in the peak demand, we can reduce the amount of new generating capability that has to be built, thereby softening the impact that the higher costs will have on our Company and its customers.

Why is it now costing more to build new power plants?

There are two main reasons. One, of course, is inflation. There has always been a certain amount of inflation in our business, but we were able to offset it by generating electricity more efficiently. We're still making improvements, but there is simply no way to offset the inflation our industry has been experiencing since 1969. Another reason for the higher cost of new plants is the tremendous capital expenditures that are now required for environmental considerations. Obviously, these expenditures do not produce any additional electricity. This means customers have to pay higher rates without receiving any increased benefits insofar as their electric service is concerned.

Are the costs of building new plants beginning to level off?

No, they're actually climbing higher. The Oconee Nuclear Station was completed in 1974 at a cost of $179 per kilowatt. The McGuire Nuclear Station, which is to be completed in 1980, is expected to cost $398 per kilowatt. Plants beyond that will cost even more. Obviously, rates will have to be increased each time one of these units is placed in service.

Are other utilities experiencing the same inflationary pressures?

Yes, any electric utility that is in a growth situation is having the same type of problems. In fact, Duke is better off in this regard than most of the other utilities since we design and build our own plants at a lower cost than most other utilities. The costs we've been discussing probably will be low compared to what other companies will have to pay for new generating capacity.

If customers will benefit from a reduction in new generating capability coming into service, wouldn't they benefit even more if Duke were to simply stop building new power plants?

Not at all. A certain amount of new generating capability is absolutely essential to the well-being of the people we serve. If people are to improve their standard of living, more and better-paying jobs have to be provided. All those jobs will require some form of energy. And with other energy forms already in short supply it's inevitable that electricity will have to play an even bigger role in the future in providing jobs for people and in producing the goods and services that people will require. Of course, a certain amount of new generating capability also has to be added periodically to replace worn-out facilities. The purpose of Load Management is not to restrict the availability of power to our service area, but rather to help people use electricity they need in such a way as to minimize the amount of more expensive new generating capability that will be required to provide that power.

How do you plan to accomplish that goal?

Right now, we have 21 separate activities underway to help reduce the growth in peak demand. There will be others as we move further into the Load Management program. One category includes those activities which encourage customers to shift certain uses of electricity from "on-peak" periods to "off-peak" periods.

Another is helping customers improve the efficiency of their on-peak uses of electricity which cannot be shifted. A third category involves the possible voluntary control of certain customer electric devices during the peak demand period.

Let's take one category at a time. What type of electric uses can be shifted from on-peak to off-peak periods?

Using a washing machine, dryer or dishwasher are examples of the types of electric uses which, in most cases, can be done virtually any time of the day. If we can get people to do these things at other than peak periods, the peak can be reduced. In theory, shifting non time-sensitive uses of electricity from peak to off-peak is an ideal marketing concept. It not only reduces the amount of generating capability required, but also increases the output of generating plants at times when much of the capacity otherwise would be idle. It would have the same effect, from the standpoint of economic operations, as creating new, off-peak uses of electricity without requiring any additional investments in generating capacity. Of course, these economies of operations not only help hold down the cost of electricity to customers, but also enhance the Company's prospects of actually earning the return on its shareholders' investments that regulatory agencies have determined to be fair and reasonable.

"In theory, shifting non time-sensitive uses of electricity from peak to off-peak is an ideal marketing concept."

Do you think customers will voluntarily make these changes in their living habits?

Some of them will, if they can come to understand how these changes will affect the future cost of their electric service. Of course, bringing about this understanding will require a great deal of educational work on our part. We realize, however, that some sort of pricing incentive may have to be offered.

Something like time-of-day rates?

Perhaps. Some people refer to this as "peak load pricing." The theory behind this pricing system is that by charging lower rates during the off-peak periods than during the on-peak periods, consumers will shift uses of electricity to the off-peak hours to take advantage of the lower rates. Duke is very interested in this concept and has recently asked the North Carolina Utilities Commission for permission to put time-of-day rates into effect on a voluntary, experimental basis involving a limited number of customers.

If time-of-day rates will help reduce the growth in peak demand, why not put them into effect on a systemwide basis?

At this point, time-of-day rates are an essentially unproven concept. Although they appear to have the potential of reducing the growth in peak demand, there are some questions that need to be resolved before such rates are placed into effect on a systemwide basis. One question is that of public acceptance. We need to find out if people will make the necessary adjustments in their lifestyles to take advantage of the off-peak rates. There also are some significant costs associated with this concept. Time-of-day rates will require special meters capable of separately recording electric usage during the on-peak and off-peak periods.

"To have any influence on the amount of generating capability required, energy conservation must occur at the time of peak."

These meters are relatively expensive. Obviously, to be a viable pricing concept, the benefits must outweigh the costs. It will take a reasonable amount of time to find the answers.

You mentioned improving the efficiency of on-peak usages as an element of the Load Management Program. Aren't people already conserving energy?

Yes, and those efforts already have had some impact on the peak. But there's still a lot more to be done. One of the problems with energy conservation, as it's generally thought of, is that people will conserve energy all year long and then run their air-conditioners full blast on the hottest day of the year, or their heat on the coldest day, when the peaks normally occur. To have any influence on the amount of generating capability required, energy conservation must occur at the time of peak. Instead of expecting people to turn off their air-conditioners on the hottest day of the year, we have developed a program that will allow them to run their air-conditioners, but use less energy in the process.

How is that possible?

Some of the electricity that is required for air-conditioning and heating in homes that are inadequately insulated – in fact, as much as a third in some cases – is actually wasted. These inadequate levels of insulation cause equipment to work harder and use more electricity. That same equipment would use much less energy – and place far less demand on our generating facilities – if homes were better insulated and better designed for the efficient use of energy.

How does the program work?

We have developed a set of standards for what we call an "Energy Efficient Structure" – or EES. These standards require far greater levels of insulation than required either by our own electric heating rates or by the state building code. A home qualifying as an Energy Efficient Structure also must have double-paned glass or storm windows, insulated or storm doors, and, in the case of new homes, a limit on glass of 12 per cent of the outside wall area. Our goal is to have about 15,000 homes in our service area meeting these standards by 1980, and about 220,000 by 1990.

Are you offering a special rate to homes meeting the EES standards?

No. The incentive to build an EES home, or to upgrade an existing home to the EES standards, is the significant savings the homeowner will realize in energy costs. We're promoting this concept through an extensive consumer education program aimed not only at the homeowner, but also at builders, architects, realtors, mortgage bankers and others engaged in the home-building and home-improvement fields. So far, the response from all these groups has been extremely favorable.

Are there other energy conservation programs involved in Load Management?

Yes, there are several. One is our "Energy Efficient Appliances," or EEA, program. This program is aimed at improving the energy efficiency of major appliances such as water heaters, refrigerators and air-conditioners. These appliances are relatively large users of electricity, and they are normally in operation at the time of peak. We're attacking this particular problem on three different fronts. First, we're encouraging the manufacturers of these appliances to build more energy efficient models. Secondly, we're encouraging appliance dealers to stock and promote those energy efficient appliances currently available. Thirdly, we have launched a consumer education program to make our customers aware of the advantages these appliances offer over less energy-efficient models.

You mentioned that Duke might control certain customer electric devices during peak demand periods. How would this figure into the goals of Load Management?

In addition to having sufficient generating capability to meet the peak demand for electricity, a power company must have a certain amount of generating reserves to insure the reliability of the system. Without those reserves, the breakdown of a major generating unit at the time of peak would result in a power shortage. This essential margin between generating capability and peak demand can be provided in either one of two ways. The conventional way is to have actual generating capability ranging from 15 to 25 per cent above the expected peak demand. The other way is to be able to automatically *reduce* the demand, if necessary, during the peak demand period. The advantage of the second method, which may be incorporated in the Load Management program, is that you could provide the required reserve margin with *less* actual generating capability, and at less cost.

How would you automatically reduce the demand for electricity during the peak demand periods?

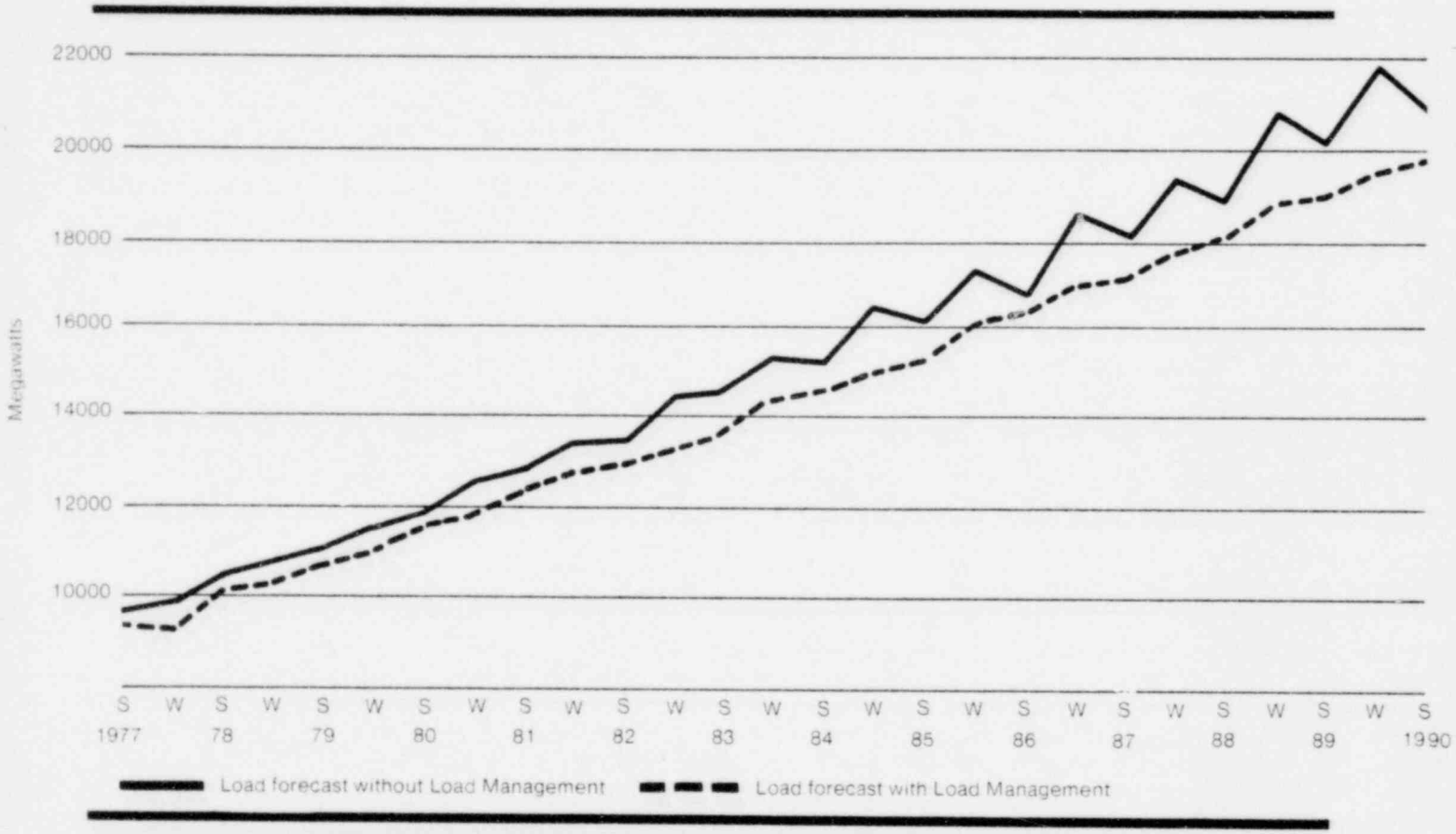
One way would be to have interruptible rate agreements with some of our large industrial customers. Under such an agreement, the Company would be

permitted to interrupt service to certain loads during the peak demand periods. These would be rather sizeable loads, but they would be of the type that would not materially affect the customers' operations during the period of interruption.

Another example of how the demand could be reduced would be interruption of service to certain home appliances. The water heater is an especially good candidate for this element of Load Management since interruption of service to this appliance would impose little or no inconvenience on our customers. In most cases, the water inside the tank would remain heated for the length of time that service would be interrupted. Of course, this capability would require installing electronic devices on the heaters, or in the service panel that would allow the Company to control service to the appliance. The feasibility of both these activities is being studied at this time.

It seems that in addition to reducing the growth in peak demand, certain elements of Load Management – especially EES and EEA – will reduce the growth in kilowatthour sales. Won't this adversely affect earnings?

No, we don't believe so. Although there will be some reduction in the growth of kilowatthour sales, there will be a proportionately *greater* reduction in the growth of the peak and the amount of generating capability required to serve that peak. This will result in a gradually improving load factor, which in the long run will benefit both customers and shareholders. Another way that shareholders will benefit from Load Management is that it will reduce the erosion of earnings which normally occurs between the time costs are incurred and they are recovered through higher rates. We're also hopeful that smaller and less frequent requests for rate increases will shorten the time required in processing rate applications.



Mr. Booth, how long do you feel Load Management will be a viable marketing concept?

When you talk about marketing strategy, you have to keep in mind that any marketing plan must be designed to help the Company fulfill its responsibilities as a regulated, investor-owned business. Those responsibilities are to provide a reliable source of electricity at the lowest possible cost to customers, and to earn a fair and reasonable return on its shareholders' investments. Right now, we can fulfill those responsibilities best by restraining the growth in the peak demand for electricity. And in view of what we know about the cost of plants scheduled for service through the 1980's, Load Management will be a viable marketing concept for at least that long, and probably even beyond.

ENERGY: Confronting the issues

Perhaps no issue in recent years has stirred such public and legislative emotions as those associated with our nation's lifeblood – energy.

Energy has been thrust into the spotlight for the same reasons that any commodity or service occupies a high place on the value scale – it has become *scarce*; in relative terms, it has become *expensive*.

It is not surprising that electricity, the most versatile and essential of all energy forms, is at the center of this growing and multifaceted issue. Its cost and availability have become embroiled in controversy. Issues abound, one often aggravating and compounding another.

Chief among its offenses against a captive customer/public is a recent history of increasing rates. Yet, in some instances, consumer efforts to resist higher rates tend to drive the cost of electricity even higher.

At a time when more raw energy is needed to meet the nation's growing demand for electricity (and to reduce its dependence on foreign energy sources), an avalanche of legislative proposals would restrict the availability and inflate the cost of our own energy resources.

With worldwide reserves of oil and natural gas being depleted faster than new sources have been discovered, some environmental groups simultaneously oppose the only two practical alternatives for meeting future energy demands – coal and uranium.

With rising living costs already imposing a very real burden on many American families, environmental restrictions require that the consuming public be burdened with billions of dollars of additional costs which, in some cases, offer little or no compensating environmental benefits to them.

Whether you're a shareholder of an electric utility, or one of its customers, you have a stake in the outcome of these issues. Here is a summary of the major issues and our views of what needs to be done to resolve them.

THE ISSUES

1. Rates

Although an electric utility should be required to prove that rate increases are necessary, decisions on rate requests which deny a utility the needed revenues to offset its rising costs may have the effect of causing rates to go even higher.

Because of the tremendous amounts of investment capital required by an electric utility, the cost of financing is a major item reflected in consumers' electric bills. That cost is determined in part by a company's financial condition at the time securities are issued.

Capital costs are a virtually permanent fixture in electric rates once they are incurred. If a company is required to sell its securities at high costs because of inadequate earnings, those higher costs must be borne by the consumer for the entire life of the securities (usually 30 years in the case of first mortgage bonds, forever in the case of common stock).

There are two basic ways that the impact of financing costs on electric rates can be reduced. One is to reduce the *amount* of investment capital required. This can be done by reducing the growth in peak demand for electricity and the required increase in generating capability to serve that peak. A comprehensive plan to accomplish that objective is outlined elsewhere in this Report.

The second way to reduce the impact of financing costs on rates is for electric utilities to remain financially healthy so that whatever investment capital is required can be raised at the *lowest possible cost*.

In the Duke Power service area, state laws require that requests for rate increases be based on historical operating data, and decisions on such requests are rendered only after lengthy hearings.

With inflation continuing between the time higher costs are incurred and rates can be adjusted to recover them, a utility's financial condition erodes, forcing the cost of financing higher.

The rate-making process must be directed toward matching rates with current expenses. Such matching would not only help electric utilities attract the necessary capital for plant construction, but would reduce the cost of financing and the impact of financing costs on electric rates.

2. Electric Supply

Although the rising cost of electricity has placed an added financial burden on all consumers, a greater danger to their economic well-being is the possibility of power shortages which could disrupt the economy. The future of the nation's electric supply depends largely on the ability of electric utilities to finance construction of new generating facilities, and on the availability of raw fuels for use in those facilities.

Even considering energy conservation measures and the effects of our own Load Management program, the peak demand for electricity in the Duke Power service area is expected to grow at an annual rate of about six per cent from 1977 through 1990. That growth will require significant amounts of new generating capability.

At least half of the billions of dollars required to provide this new capability will have to be raised through the sale of Duke Power securities. Both the cost and availability of investment capital are influenced to a great extent by a company's financial strength at the time a particular issue is offered for sale. If a company is not earning a fair and reasonable return on the investments of its current shareholders, the ability to attract *new* investments may be seriously impaired.

3. Availability of Fuels

In planning for future electric requirements, an electric supplier must rely on known and reliable fuel sources.

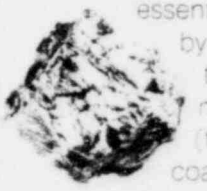
Oil and natural gas, which combined represent only about five per cent of the world's known energy resources, are already in short supply as a result of our heavy dependence upon these fuels. Some experts predict that the world's known reserves of these two fuels will be exhausted by the end of this century. Even if research and exploration make additional supplies available, increasing amounts of oil and natural gas must be devoted to uses – such as petrochemicals – for which there is no known substitute. Since much of the country's oil is imported, both the supply and cost of this fuel are subject to the whims of foreign governments.

Certainly, from the standpoint of energy allocation, it would not seem prudent to increase the amounts of these fuels used for electric generation since other, more abundant domestic fuels are available for such purposes and have limited other practical uses.

a. Coal

Although agencies vary in their estimates of coal reserves, it is believed that reserves of this fuel are sufficient in this country alone to meet electric requirements for at least a century at the projected level of usage. There are, however, a number of social and economic factors which must be resolved before the full potential of this resource can be realized.

Although reasonable regulations are required to assure protection of the environment, much of the legislation now in effect or pending could eliminate much of the nation's coal reserves as available fuel. Of particular concern is the myriad of existing and proposed regulations and legislation concerning strip-mining. By requiring that mined land be essentially restored to its original contour and by prohibiting strip-mining on slopes of more than 20 degrees, such regulations would make this very important method of mining (from which Duke gets over 50 per cent of its coal) much more costly. Deep-mining alone could not produce the necessary coal for meeting future electric requirements.



Duke Power has invested many millions of dollars in air pollution control equipment necessary to comply with the National Ambient Air Standards, which, by definition, protect against any known or anticipated adverse effects to society. In addition to these investments, we have made large financial commitments in mining properties in Virginia, West Virginia and Kentucky to help assure a continuing supply of low-sulfur coal for our boilers.

We are concerned, however, over proposed amendments to the Federal Clean Air Act that would prohibit *any* deterioration in air quality, even if such deterioration resulted in no adverse effects to society. Since the necessary technology for compliance is not available, these amendments would, in effect, prevent the future construction of economically-sized coal-burning plants. They also would place an additional financial burden on our customers and could prohibit the industrial and commercial development which would create needed jobs for the most underdeveloped areas of our country.

b. Uranium

Since uranium has virtually no commercial application other than electric generation, this energy resource can be devoted almost entirely to meeting the growing need for electricity. It is estimated that uranium deposits already discovered in this country alone will satisfy the nation's requirements for nuclear fuel for at least 30 years.

The life span of nuclear fuel, however, cannot be measured by the availability of raw fuel alone. The fast-breeder reactor, which actually produces more nuclear fuel than it consumes, could extend the life span of the nuclear industry by literally hundreds of years.

Energy *continued*

There are, however, some missing links in the nuclear fuel cycle. Under present regulations, nuclear fuel enrichment is restricted to facilities owned and operated by the federal government. Those facilities are not adequate to provide the nuclear fuel that will be required in the years ahead. Unless the government significantly enlarges its own enrichment capacity, it is vital to the nation's future energy supply that the private sector become involved in the enrichment process. Such involvement would require Congressional approval.

Also missing from the nuclear fuel cycle are the necessary facilities for reprocessing spent fuel. Such facilities are required to recover reusable fuel and for solidifying high-level wastes for ultimate storage. Although Congress has made reprocessing a responsibility of the private sector (and despite 380 plant years of worldwide reprocessing experience), not a single reprocessing plant is currently licensed for operation in this country.

Once these wastes have been converted into insoluble, glasslike blocks, they must be permanently isolated from the biosphere. This can be accomplished through storage in deep, underground formations, such as salt domes, which have been stable for millions of years and are remote from local water tables.

Although the technology for safe disposal of high-level radioactive wastes is proven, standards and regulations, as well as specific storage locations, have yet to be designated by the federal government.

4. Nuclear Power— Its Risks and Benefits

There are risks associated with nuclear power plants, just as there are risks associated with any industrial development. Those risks, however, are extremely low and must be weighed against the atom's current and potential benefits to mankind.

A three-year, federally-funded study by a team led by Dr. Norman Rasmussen of the Massachusetts Institute of Technology shows that an individual's chances of being fatally injured by a nuclear accident is about one in five *billion* years. That risk is hundreds of times *less* than the risk from even the most remote natural event, such as a tornado or hurricane, and *thousands* of times less than the risks already accepted from such man-caused events as air and auto travel, dam failures and explosions.

While it is necessary to postulate the risks of commercial nuclear power reactors (in over 300 reactor years of operations there has not been a single nuclear-related injury on which to base actual risks), the benefits of nuclear power are both tangible and measurable. For one thing, nuclear power plants help reduce our dependence on foreign energy sources. In 1976, it would have required the use of over 23,000,000 barrels of oil to generate the electric output of our own Oconee Nuclear Station. That output also resulted in a savings to Duke customers of millions of dollars of additional costs that would have been incurred had Oconee been designed to use coal instead of nuclear fuel.

Clearly, these benefits far outweigh the virtually non-existent risks of this vital energy resource.

CONCLUSIONS

The energy problem will not disappear, nor will it solve itself. There are no easy, painless solutions.

The prospect of again enjoying cheap, abundant energy is dim. The prospect of obtaining even adequate energy, at any price, depends on our willingness to face the basic problems and to solve them.

What can be done?

For one thing, we must face the reality that this nation will never gain energy independence while restricting the availability of its own energy resources. There must be an aggressive national energy policy to develop those domestic resources which qualify as *practical* energy forms. To be practical, an energy must be (1) available for large-scale use, (2) dependable, (3) compatible with the environment, (4) safe, and (5) economical. Right now, there are only two energy sources that can qualify—coal and uranium.

We must accelerate our search for new energy sources. But that search should not be based on the fantasy that some technological miracle will bail us out of our energy problems overnight. The development of such potential energy sources as solar and geothermal will take time. While Duke and other utilities are sponsoring research into these potential energy sources, current decisions must be based on known and reliable energy sources.

We must accept the economic facts of life. So long as inflation continues in the national economy, the cost of all forms of energy will continue to go up. Although higher electric rates place added burden on consumers,

the best interest of consumers is not served by punitive legislation and regulation which deny suppliers the opportunity to recover legitimate operating costs and to achieve a level of earnings that will enable the companies to assure continuity of electric supply.

We should not expect to have energy production without some environmental impact. And we should not expect to create jobs for people unless we produce more energy. State and national energy policies must be directed toward striking a balance between the need for environmental protection and our society's need for more energy.

Clearly, we must manage our energy use better. Adoption of significant conservation practices such as more efficient equipment and better thermal insulation could produce significant energy savings without degrading our life style. Among the nation's electric utilities, Duke Power has been a leader in promoting energy conservation. We were the first major utility to establish insulation standards as part of our rates design. We have now embarked upon a dynamic new Load Management program to conserve the nation's energy resources and the energy dollars of our customers.

Today, our nation wants desperately to take the next step toward enriching its future. It is a step which rests squarely on the continued availability of energy to provide jobs for our growing population, and to improve the standard of living of today's Americans.

Financial Report

The financial statements should be the most revealing part of the Annual Report to Shareholders. They show the results of just about everything that affected the Company's financial operations during the year.

The problem with financial statements is that not everyone can understand them. Unless you're an accountant, or have some understanding of accounting, you may view the statements as an agonizing exercise in corporate arithmetic.

Actually, the financial statements appear more complicated than they really are. The trick is knowing what the statements are supposed to show, and being able to get from one line to the next without tripping over a "deferred this" or a "depreciated that."

To help our shareholders better interpret their Company's performance in 1976, we've done something special in the financial section of this year's Report. Alongside each statement is a brief discussion of what the statement does and what some of the more significant items represent.

The purpose of this exercise is not to give technical definitions of the statements and their major items, but rather to explain, in general terms, what the statements show. We hope this effort will help take some of the mystery out of this important part of your 1976 Annual Report.

Statement of Income

Duke Power Company

(dollars in thousands)	Year Ended December 31 1976		1975*	
ELECTRIC REVENUES (Notes 2 and 3)		$1,108,358		$930,384
ELECTRIC EXPENSES				
Operation				
Fuel used in electric generation	$399,770		$338,024	
Net interchange and purchased power (credit)	(28,815)		(11,588)	
Wages, benefits and materials	118,834		105,890	
Maintenance of plant facilities	45,369		40,968	
Depreciation (Note 1)	110,644		100,995	
Taxes (Notes 1 and 7)				
General	85,215		75,757	
Federal income	25,927		36,361	
State income	10,978		5,379	
Deferred income, net	55,624		51,208	
Investment tax credits				
Deferred	53,372		—	
Amortization of deferments (credit)	(1,977)		(406)	
Total electric expenses		874,941		742,588
Electric operating income		233,417		187,796
OTHER INCOME (Note 1)				
Allowance for funds used during construction	61,725		54,794	
Earnings of subsidiaries from operations, net	4,582		197	
Other, net (deduction)	265		(1,666)	
Income tax – credit (Note 7)	22,963		21,789	
Total other income		89,535		75,114
Income before interest deductions		322,952		262,910
INTEREST DEDUCTIONS				
Interest on long-term debt	143,899		134,431	
Other interest	4,502		10,478	
Amortization of debt discount, premium and expense	850		858	
Total interest deductions		149,251		145,767
NET INCOME		173,701		117,143
Dividends on preference and preferred stocks		34,990		34,344
EARNINGS FOR COMMON STOCK		$ 138,711		$ 82,799
COMMON STOCK DATA				
Average shares outstanding (thousands)		57,767		51,020
Earnings per share		$2.40		$1.62
Dividends per share		$1.525		$1.40

*Restated – See Note 2

See notes to financial statements.

Statement of Source of Funds for Plant Construction Costs

Generally, money used for plant construction comes from two sources – the Company's own operations, and financing.

One way that cash can be generated from operations is by retaining a portion of the common shareholders' earnings. In addition, certain items, such as *depreciation* and *deferred income taxes*, are shown as expenses on the STATEMENT OF INCOME, but do not currently require cash payment. Revenues collected to offset these non-cash expenses also can be used for plant construction.

The rest of the money required for plant construction is raised through the sale of various securities such as common, preferred and preference stocks, and first mortgage bonds.

Statement of Income

This statement summarizes the Company's financial operations during the year. Simply stated, it shows the Company's revenues, its expenses, and the amount left for the Company's owners – its shareholders.

About half the cost of doing business in 1976 was represented by *Fuel used in electric generation* and *Total interest deductions*. The latter is interest costs on money the Company has borrowed, primarily through the sale of long-term debt securities, to help finance power plants and other facilities. These interest costs are particularly large for an electric utility because of the tremendous amounts of money required for plant construction.

An electric utility also must sell significant amounts of preference and preferred stocks. While *Dividends on preference and preferred stocks* is not considered an operating expense, this item represents the cost of essential financing and must be deduc before a utility's earnings for common shareholders are known.

EARNINGS FOR COMMON STOCK is the amount left for the common shareholder after all expenses, including costs associated with all other types of financing, have been paid. This amount is divided by the average number of shares outstanding during the year to determine *Earnings per share* of common stock. The portion of *Earnings per share* that is actually paid to the common shareholder is called the *Dividend per share*. The unpaid portion is reinvested in the business.

Statement of Source of Funds For Plant Construction Costs

Duke Power Company

(dollars in thousands)	Year Ended December 31 1976		1975*	
FUNDS FROM OPERATIONS				
Net income	$173,701		$117,143	
Non-fund items				
Depreciation and amortization	118,646		110,327	
Deferred income taxes, net	55,624		51,208	
Investment tax credits, net	51,395		(406)	
Less common equity component of the allowance for funds used during construction	(29,702)		(25,331)	
Other, net	(1,259)		4,073	
Funds from operations		$368,405		$257,014
Dividends paid on common stock		(87,833)		(70,949)
Dividends paid on preference and preferred stocks		(34,990)		(34,075)
Funds retained in the business		245,582		151,990
FUNDS FROM FINANCING – NET PROCEEDS				
First mortgage bonds	118,329		203,632	
Pollution control obligations	2,364		–	
Common stock	97,429		75,188	
Preferred stock	–		57,450	
Sale and sale/lease-back transactions	17,443		61,429	
Decrease in current notes payable	(59,043)		(57,049)	
Retirement of long-term debt	(30,938)		(87,225)	
Funds from financing		145,584		253,425
Total available funds		391,166		405,415
DECREASE (INCREASE) IN WORKING CAPITAL, ETC.				
Materials and supplies	11,943		(44,670)	
Investment in and advances to subsidiaries	13,414		(5,183)	
Other current assets	(10,136)		26,248	
Other current liabilities	23,874		19,134	
Other, net	15,285		12,677	
Decrease (increase) in working capital, etc.		54,380		8,206
Plant construction expenditures		445,546		413,621
Common equity component of the allowance for funds used during construction		29,702		25,331
PLANT CONSTRUCTION COSTS		$475,248		$438,952

*Restated – See Note 2.

See notes to financial statements.

Balance Sheet

Assets

(dollars in thousands)

	December 31 1976		1975*	
ELECTRIC PLANT				
(At original cost—Notes 1 and 5)				
Electric plant in service	$3,576,654		$3,427,933	
Less accumulated depreciation and amortization	939,962		826,627	
Electric plant in service, net	2,636,692		2,601,306	
Construction work in progress	1,083,716		765,113	
Total electric plant, net		$3,720,408		$3,366,419
OTHER PROPERTY AND INVESTMENTS				
Other property—at cost (less accumulated depreciation: 1976 - $4,109; 1975 - $3,748)	22,643		22,024	
Investments in and advances to subsidiaries (Note 1)	36,354		45,071	
Other investments—at cost or less	8,814		8,840	
Total other property and investments		67,811		75,935
CURRENT ASSETS				
Cash (Note 8)	21,176		21,288	
Receivables (less allowance for losses: 1976 - $2,369; 1975 - $2,394)	83,017		79,897	
Fuel clause revenues accrued (Notes 2 and 3)	10,832		3,704	
Materials and supplies - at average cost				
Coal	89,752		101,078	
Other	49,201		49,818	
Total current assets		253,978		255,785
DEFERRED DEBITS				
Debt expense, being amortized over terms of related debt	11,931		11,651	
Other	4,516		13,069	
Total deferred debits		16,447		24,720
TOTAL ASSETS		$4,058,644		$3,722,859

*Restated—See Note 2.

See notes to financial statements.

Balance Sheet

This statement is an inventory of what the Company owned, and what it owed, on the last day of the year.

There are two sides to a balance sheet. One side lists the Company's *ASSETS*; the other side lists its *CAPITALIZATION and LIABILITIES*.

Generally, *ASSETS* are anything of value the Company owns. *CAPITALIZATION* is the amount of money that has been invested in the Company by its owners (holders of common, preferred and preference stocks), and by purchasers of various long-term debt securities such as first mortgage bonds. *LIABILITIES* are other types of debt owed by the Company.

This financial statement is called a BALANCE SHEET because the totals of the two sides always equal, or balance. One side shows the total cost of the Company's assets; the other side shows the total investments and debts required to obtain those assets.

Capitalization and Liabilities

The largest item on this side of the BALANCE SHEET is *Total capitalization*. This is the total amount of money invested in the Company by its common, preferred and preference shareholders, as well as money raised through the sale of long-term debt securities such as first mortgage bonds.

Current Liabilities are debts which must be paid within one year. In addition to *Accounts payable* (bills from creditors which have not been paid), these liabilities include both taxes and interest costs which have been incurred but not yet paid.

Also shown are *Accumulated Deferred Income Taxes* and deferred *Investment tax credits*. Essentially, deferred income taxes are taxes which have been incurred but for which payment has been postponed until future years. Deferred investment tax credits are deductions from federal income taxes based on the amount of qualifying new investments in facilities. These credits are recognized as income over the life of the related facilities. Both these incentives are authorized by Congress to encourage expansion by industry.

Assets

The largest asset of an electric utility is its electric plant—the generating stations, power lines, substations and other facilities involved in providing electric service. The net cost of these facilities is their total original cost, less the amount the facilities have been depreciated since they were placed in service. Although the cost of building a facility is incurred during the construction period, this cost is recovered through revenues during the number of years the facility is in service. This means of spreading the cost of a facility over its expected lifetime is called *depreciation*.

Also shown as an asset is *Construction work in progress*. This consists of generating plants and other facilities that are under construction but not yet in service.

Other assets include various properties owned by the Company but not actually used in providing electric service, investments in subsidiaries and other companies, cash, money that is owed the Company by its customers and debtors, and materials and supplies (mainly fuel) that are in inventory.

Capitalization and Liabilities

(dollars in thousands)

	December 31 1976		1975*	
CAPITALIZATION (See Statement of Capitalization)				
Common stock equity	$1,163,942		$1,015,637	
Preference and preferred stocks	455,000		455,000	
Long-term debt	1,892,505		1,827,562	
Total capitalization		$3,511,447		$3,298,199
CURRENT LIABILITIES				
Accounts payable	87,065		70,731	
Interest accrued	44,399		41,600	
Taxes accrued	21,784		14,275	
Other	8,276		10,735	
Total	161,524		137,341	
Notes payable for construction – pending permanent financing (Note 8)	26,000		85,043	
Current maturities of long-term debt	76,990		30,649	
Total current liabilities		264,514		253,033
ACCUMULATED DEFERRED INCOME TAXES (Note 1)		208,317		150,880
DEFERRED CREDITS				
Investment tax credits (Note 1)	52,705		2,390	
Other	21,661		18,357	
Total deferred credits		74,366		20,747
COMMITMENTS (Notes 6 and 9)				
TOTAL CAPITALIZATION AND LIABILITIES		$4,058,644		$3,722,859

**Restated – See Note 2.*

See notes to financial statements.

Statement of Capitalization

Duke Power Company

(dollars in thousands)				December 31 1976	1975*
COMMON STOCK EQUITY (Note 4)					
Common stock, no par, authorized 70,000,000 shares; 59,179,502 and 53,521,268 shares outstanding for 1976 and 1975, respectively				$1,002,332	$ 901,116
Retained earnings				161,610	114,521
Total common stock equity				1,163,942	1,015,637
Percent of capitalization				33.1%	30.8%
PREFERENCE AND PREFERRED STOCKS (Note 4)					
	Rate/Series	Shares Outstanding			
Preference stock, $100 par, authorized 1,500,000 shares	Convertible 6¾% AA	500,000		50,000	50,000
Preferred stock, $100 par, authorized 5,000,000 shares	4.50% C	350,000		35,000	35,000
	5.72% D	350,000		35,000	35,000
	6.72% E	350,000		35,000	35,000
	8.70% F	600,000		60,000	60,000
	8.20% G	600,000		60,000	60,000
	7.80% H	600,000		60,000	60,000
	7.35% I	600,000		60,000	60,000
Preferred stock A, $25 par, authorized 10,000,000 shares	10.76%, 1975	2,400,000		60,000	60,000
Total preference and preferred stocks				455,000	455,000
Percent of capitalization				13.0%	13.8%
LONG-TERM DEBT (Note 5)					
	Rate	Due			
First and refunding mortgage bonds	2.65%-11%	1977-2006		1,700,000	1,580,750
Sinking fund debentures	4⅞%	1982		30,000	30,000
Term notes	6½%-7%	1976-1978		87,950	98,000
	13%	1979		100,000	100,000
	Floating Prime	1976		–	18,500
Pollution control obligations	Floating Prime	1983		2,420	–
Turbine generator leases (Note 6)				19,081	15,853
Capitalized leases				29,132	13,610
Unamortized debt discount and premium, net				912	1,498
Current maturities of long-term debt				(76,990)	(30,649)
Total long-term debt				1,892,505	1,827,562
Percent of capitalization				53.9%	55.4%
TOTAL CAPITALIZATION				$3,511,447	$3,298,199

*Restated – See Note 2

See notes to financial statements

Statement of Capitalization

Over the years, more than $3.5 billion has been invested in Duke Power to finance generating plants and other facilities. This statement summarizes the sources of those investments.

COMMON STOCK EQUITY is the investments that have been made in the Company by its owners -- the common shareholders. *Total common stock equity* includes not only the amount of money that has been raised through the sale of common stock, but also the earnings of common shareholders that have been reinvested in the Company over the years.

Holders of *PREFERENCE AND PREFERRED STOCKS* also are considered owners of the Company. They have preferential rights to the payment of dividends, but ordinarily do not have voting rights in matters affecting the Company. Unlike the dividend rate on common stock, which may fluctuate with the Company's financial performance, dividend rates on preference and preferred stocks are fixed at the time particular issues are sold.

LONG-TERM DEBT is a form of borrowing. The primary source of debt financing is *First and refunding mortgage bonds*. As the name implies, these bonds are secured by a mortgage on substantially all of the Company's electric properties. Both the interest rate and the date these "loans" must be repaid are determined at the time the securities are sold. Interest on debt securities must be paid before any dividends can be paid on preference, preferred or common stock.

Statement of Retained Earnings

As discussed under STATEMENT OF INCOME, not all of the common shareholders' earnings is actually paid in dividends. A portion usually is retained for reinvestment in the business. This statement shows the amount of earnings that has been reinvested in the Company over the years of its operations, and how that amount was affected by the Company's operations during the reporting year.

Auditors' Opinion

The financial statements are examined by an independent auditing firm. The purposes of this examination are to assure shareholders and other interested parties that, in the auditors' opinion, the statements fairly reflect the Company's operations for the year and its financial position at year-end, that the statements were prepared in accordance with generally accepted accounting principles, and that the accounting principles used for the reporting year were the same as those used for preceding years.

Statement of Retained Earnings — Duke Power Company

(dollars in thousands)	Year Ended December 31 1976		1975	
BALANCE – Beginning of year (as previously reported)	$125,613		$109,037	
Prior period adjustment of fuel clause revenues recorded in 1975, net of taxes (Note 2)	(11,092)		–	
BALANCE – Beginning of year (as restated)	114,521		109,037	
ADD – Net income	173,701		117,143	
Total		$288,222		$226,180
DEDUCT				
Cash dividends				
Common stock	87,833		70,949	
Preference and preferred stocks	34,990		34,344	
Capital stock expense	3,789		6,366	
Total deductions		126,612		111,659
BALANCE – End of year		$161,610		$114,521

See notes to financial statements.

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, 1976 and 1975 and the related statements of income, retained earnings, and source of funds for plant construction costs for the years 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.

In our opinion, the above mentioned financial statements present fairly the financial position of the Company at December 31, 1976 and 1975 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, 1977

Haskins & Sells

1. Summary of Significant Accounting Policies

A. *Additions to Electric Plant.* The Company capitalizes all construction related 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). The cost of repairs and replacements representing less than a unit of property is charged to electric expenses; the cost of renewals and betterments of units of property is capitalized. The original cost of property retired, together with removal costs less salvage, is charged to accumulated depreciation.

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 statement of income 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 offsetting 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 an 8% rate, net of applicable income taxes, for 1976 and 1975.

B. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year-end composite average rate was 3.26% for 1976 and 1975. Provisions for amortization of nuclear fuel, which are included in "Fuel used in electric generation," are recorded using the unit of production method.

C. *Subsidiaries.* The Company accounts for investments in its subsidiaries by the equity method. See "Subsidiaries" on page 32.

D. *Income Taxes.* The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income or loss.

The Company's 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 tax deductions for interest costs relating to investments in non-utility properties, mainly construction work in progress.

The Company has provided deferred income taxes under normalization accounting for differences in book and tax depreciation arising from the use of accelerated tax depreciation on substantially all electric plant. In 1975 the Company expanded its normalization to include capitalized taxes, employee benefits, etc., currently deducted for income tax purposes as allowed by regulatory authorities. The effect of the change on the financial statements was not material.

Investment tax credits are being deferred and amortized over the depreciable lives of the related properties. The investment tax credit deferral of $53,372,000 in 1976 represents the utilization of investment tax credits generated prior to January 1, 1976, applied in conformity with the Tax Reform Act of 1976. At December 31, 1976, unused investment tax credits amounting to approximately $30,000,000 were available for use through 1983.

E. *Retirement Plan Costs.* 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 $11,788,000 in 1976 and $6,493,000 in 1975.

The plan was amended effective September 1, 1975, to provide for increased survivor benefits, early retirement benefits without penalty at age 62 with 10 years service, and to comply with the "Employee Retirement Income Security Act of 1974," principally by permitting employee participation at an earlier age and vesting rights with less service. In addition, the assumed earnings rate was increased from 4¼% to 5%, and the period of funding was increased from 10 to 20 years. These changes increased the approximate total unfunded prior service costs of the plan from $3,600,000 to $19,600,000.

The actuarially computed value of vested benefits under the plan exceeded the assets of the plan by $11,049,000 as of the date of the latest available actuarial report.

2. Restatement of Financial Statements – Fuel Clause Revenues

The Supreme Court of North Carolina, on January 31, 1977, rendered a judgement declaring that an order of the North Carolina Utilities Commission of August 27, 1975, authorizing the Company to impose a temporary fuel adjustment surcharge to its North Carolina retail rates was in excess of the Commission's authority. The Court remanded the case for entry of an order by the Commission directing refund of amounts collected from the Company's customers pursuant to such surcharge. Under the terms of a rate settlement agreement with the Company's wholesale customers, a similar refund will be required to be made to such customers. The Company, however, intends to petition the North Carolina Supreme Court for a rehearing and reconsideration of this matter.

The financial statements for the year 1975 have been restated to reflect the Court Order by a reduction in "Electric Revenues" of $24,030,000, "Net Income" of $11,092,000, and "Earnings per common share" of $0.22.

3. Rate Matters

Rate increases granted since January 1, 1975, which are included in "Electric Revenues" in the accompanying Statement of Income, are summarized below:

Rate Schedule	Per Cent Revenue Increase	Effective Date	Approximate Revenue Increases (dollars in thousands) 1976	1975
N. C. Retail*	23.6	October 3, 1975	$118,000	$47,800
S. C. Retail*	22.8	January 13, 1976	40,000	21,200
Wholesale*	22.0	August 17, 1976	23,000	10,400
			$181,000	$79,400

*Includes interim revenue increases of approximately 20% placed into effect in mid-1975.

The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The procedures entail 60 to 90-day lags from the date fuel expense changes occur until they are reflected in bills to customers. Total revenues under such procedures amounted to $57,800,000 for 1976 and $132,500,000 for 1975. The decrease in fuel clause revenues in 1976 reflects an adjustment increasing the level of fuel expense in base rates for wholesale and North Carolina retail rate schedules. While the Company has in the past accrued revenues under such procedures in anticipation of recovering fuel expense in excess of that in base rates in all jurisdictions, such accruals were discontinued for North Carolina retail revenues effective September 1, 1975, upon a change in applicable North Carolina regulation, and for wholesale revenues in conjunction with an August, 1976, settlement agreement (See Note 2).

4. Capital Stock

In 1976, 5,658,234 shares of common stock were issued for a consideration of $101,218,000. In 1975, 5,685,209 shares of common stock were issued for a consideration of $79,003,000 and 2,400,000 shares of 10.76% Preferred Stock A, 1975 Series, were issued for $60,000,000.

In 1976 the Company's shareholders authorized the implementation of an Employees' Stock Ownership Plan and authorized the reservation of 300,000 shares of the Company's common stock for issuance under such plan. The plan is being funded by an additional 1% investment tax credit effective January 1, 1975, as provided under the Tax Reduction Act of 1975.

At December 31, 1976, certain shares of common stock were reserved for issuance as follows:

	Shares
Conversion of Preference Stock	1,956,182
Stock Purchase-Savings Program for Employees	480,723
Dividend Reinvestment and Stock Purchase Plan	406,372
Employees' Stock Ownership Plan	240,136
Total	3,083,413

The outstanding Preference Stock, 6¾% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $25.56 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.

The call provisions for the outstanding preference and preferred capital stocks specify various redemption prices not exceeding 111% of par values plus accumulated dividends to the redemption date.

None of the Company's retained earnings at December 31, 1976 or 1975 was restricted with respect to the declaration or payment of dividends.

5. Long-Term Debt

First and refunding mortgage bonds outstanding at December 31, 1976 and 1975 were as follows (dollars in thousands):

Series	Year Due	1976	1975	Series	Year Due	1976	1975
				(Continued)			
2.65%	1977	$40,000	$40,000	8⅝%B	2000	100,000	100,000
2¾%	1979	40,000	40,000	7½%	2001	100,000	100,000
3¼%	1981	35,000	35,000	7⅞%B	2001	40,000	40,000
3⅜%	1986	30,000	30,000	7¾%	2002	100,000	100,000
4½%	1992	50,000	50,000	7⅞%B	2002	75,000	75,000
4¼%B	1992	50,000	50,000	7⅜%	2003	100,000	100,000
4½%	1995	40,000	40,000	8¼%B	2003	100,000	100,000
5⅜%	1997	75,000	75,000	9¼%	2004	100,000	100,000
6¾%	1998	75,000	75,000	9½%	2005	100,000	100,000
7%	1999	75,000	75,000	11%	1994	125,000	105,750
8¾%B	1999	75,000	75,000	8¾%	2006	100,000	–
8½%	2000	75,000	75,000			$1,700,000	$1,580,750

Substantially all electric plant was mortgaged at December 31, 1976. The annual amounts of long-term debt maturities (including sinking fund requirements and capitalized lease principal payments) through 1981 are $76,990,000 in 1977, $70,309,000 in 1978, $150,330,000 in 1979, $10,353,000 in 1980 and $45,379,000 in 1981.

6. Leases

Rentals incurred in 1976 and 1975, and rental commitments at December 31, 1976, under all non-cancelable leases (substantially all non-capitalized financing leases as defined by the Securities and Exchange Commission) were as follows (dollars in thousands):

	Combustion Turbines	Real Estate	Nuclear Fuel	Other	Total
Rentals Incurred					
1975	$ 8,587	$ 2,475	$23,517	$3,484	$38,063
1976	8,593	2,828	22,390	3,732	37,543
Rental Commitments					
1977	8,591	2,963	16,605	3,405	31,564
1978	8,591	3,071	8,681	2,732	23,075
1979	8,591	3,175	–	2,138	13,904
1980	8,591	3,302	–	1,825	13,718
1981	8,591	3,470	–	1,476	13,537
1982-1986	41,167	19,274	–	2,693	63,134
1987-1991	–	14,080	–	125	14,205
1992-1996	–	12,569	–	–	12,569
Remainder	–	33,943	–	–	33,943

Amounts in 1976 and 1975 include $34,629,000 and $34,593,000, respectively, charged to operating expenses. Substantially all leases require the Company to pay taxes and operation and maintenance expenses. Rentals incurred and rental commitments under 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 tax expense is comprised of the following components (dollars in thousands):

	1976		1975	
Tax expense applicable to electric operations				
Federal	$25,927		$36,361	
State	10,978		5,379	
		$ 36,905		$41,740
Tax credit applicable to other income				
Federal	(20,268)		(19,232)	
State	(2,695)		(2,557)	
		(22,963)		(21,789)
Income taxes currently payable		13,942*		19,951*
Deferred taxes, net (timing differences)				
Excess tax over book depreciation	41,443		42,756	
Repair allowance and cost of removal	4,699		4,091	
Capitalized taxes, employee benefits, etc.	9,482		4,361	
		55,624		51,208
Investment tax credit				
Deferred	53,372		–	
Amortization of deferments (credit)	(1,977)		(406)	
		51,395		(406)
Total recorded income tax expense		$120,961		$70,753

*For consolidated income tax return purposes, only a minimum amount of income taxes is payable due to utilization of tax loss and investment tax credit carryovers of the parent and certain subsidiaries.

Deferred taxes, net, include state income taxes of $6,406,000 for 1976 and $5,511,000 for 1975.

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1976	1975
Income taxes on pretax income at the statutory federal rate of 48%	$141,438	$ 90,190
Adjustments to above at 48%		
Allowance for funds used during construction	(29,628)	(26,301)
Pensions and taxes capitalized on books	–	(2,797)
Amortization of investment tax credit deferrals	(1,977)	(406)
Amortization of nuclear fuel book-tax basis differences (principally ADC)	1,568	1,845
Other items, net	1,922	3,889
State income taxes, net of federal income tax benefit	7,638	4,333
Recorded income tax expense (see above)	$120,961	$ 70,753

8. Short-Term Borrowing

The Company has lines of credit with 78 commercial banks and uses these lines, plus the sale of commercial paper, to finance its current cash requirements. Bank loans are for 90 days or less.

At December 31, 1976, Notes payable for construction consisted of $26,000,000 of bank loans at 6¼%. At December 31, 1975, Notes payable for construction consisted of $52,000,000 of bank loans at interest rates ranging from 7.250% to 8.225%, $21,800,000 of commercial paper at rates of 5⅞% to 6⅛% and $11,243,000 of pollution control bond anticipation notes at 6⅝% maturing on March 10, 1976.

At December 31, 1976 and December 31, 1975, $195,177,000 and $189,198,000 of the Company's bank lines of credit required compensating balances of approximately $19,518,000 and $18,920,000, respectively. The remaining lines of credit (principally non-daily depository accounts) were on a fee basis calculated in general to equate to the cost of balances. Borrowings are principally at the lending banks' commercial prime interest rate. Certain of the Company's bank line arrangements may require additional balances equal to 10% of the borrowings on an annual average.

A summary of information relating to short-term borrowing is as follows (dollars in thousands):

	1976	1975
Amount outstanding	$ 26,000	$ 85,043
Maximum amount outstanding during the year	$102,043	$214,813
Average amount outstanding during the year	$ 44,984	$ 87,791
Lines of credit at year-end	$252,677	$246,698
Weighted average interest rate—year-end		
Bank notes payable	6.25%	7.79%
Commercial paper	–	5.90%
Weighted average interest rate for the year—computed on a daily basis	6.20%	7.60%

9. Commitments

The Company is engaged in a long range construction program for which substantial commitments have been made. Costs for the years 1977 through 1979 are currently estimated at $1.9 billion for the construction program and $305 million for nuclear fuel.

10. Quarterly Financial Data (Unaudited)

A summary of quarterly financial data for 1976 is as follows (dollars in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Electric Revenues	$277,379	$258,414	$289,114	$283,451
Electric Operating Income	$ 62,918	$ 50,522	$ 64,748	$ 55,229
Net Income	$ 44,937	$ 34,274	$ 50,965	$ 43,525
Earnings per Common Share	$0.67	$0.42	$0.72	$0.59
Dividends per Common Share	$0.375	$0.375	$0.375	$0.40

11. Current Replacement Cost (Unaudited)

Because of inflation and environmental and regulatory requirements, the cost of replacing the Company's plant in service today would significantly exceed the amounts actually spent for such facilities and reported in the Company's financial statements. It is anticipated that as the replacement costs of facilities are incurred in the future, electric rates will reflect, under present regulatory procedures, the higher depreciation expense associated with such investments. Replacement cost data required by the Securities and Exchange Commission is included in the Company's annual report (Form 10-K) filed with the Commission.

Electric Revenues

Revenue increases for 1976 and 1975 resulted primarily from rate increases implemented in mid-1975 and the continuation of revenue collections under fuel cost adjustment procedures. In addition, electric revenues increased in 1976 due to an 8.3% increase in kilowatthour sales. Increased electric revenues in 1975 reflected a significant change in kilowatthour sales mix, with increased residential consumption and decreased industrial consumption. For further information, see Notes to Financial Statements.

Kilowatthour Sales

The 8.3% increase in 1976 kilowatthour sales over 1975 was due primarily to the effects of the economic recovery on industrial usage plus customer growth of 2%. Depressed kilowatthour sales in 1975 and 1974 resulted primarily from the economic recession and energy conservation efforts. Economic conditions had the most pronounced effect on sales to the textile industry, which increased 9% in 1976 over 1975, compared to an 8% decrease from 1974 to 1975.

Fuel Used in Electric Generation

Fuel expense in 1976 increased 18% over 1975 due to an increase in total generation coupled with lower nuclear generation. Unanticipated maintenance requirements at the Company's Oconee Nuclear Station during 1976 prevented it from operating at the 1975 level of generation. The higher operating level attained by the nuclear units in 1975 compared to 1974 was due to the addition of Oconee Units 2 and 3 in the latter half of 1974. This was a major contributing factor to the more favorable mix in fuels used for generation in 1975, which resulted in only a 1.4% increase in fuel expense over 1974.

The system average fuel cost for 1976 was 85.08¢/MBTU compared to 79.55¢/MBTU in 1975 and 81.79¢/MBTU in 1974, reflecting both a change in generation mix and the continued increase in fuel costs.

FUEL EXPENSES

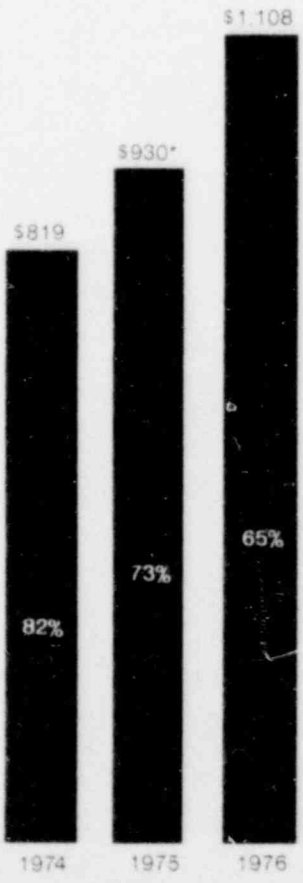
(¢/MBTU)

	1974	1975	1976
Coal	91.69	115.45	110.80
Nuclear	17.76	19.67	21.29
System Average Fuel Cost*	81.79	79.55	85.08

*Includes the cost of oil and gas used for electric generation which was nominal in 1975 and 1976.

ELECTRIC REVENUES

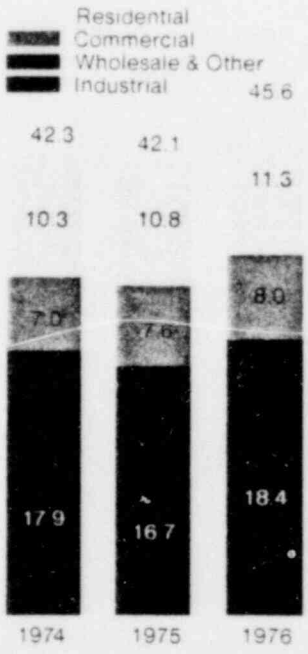
(Millions of Dollars)



*Restated

KILOWATTHOUR SALES

(Billions of KWH)



GENERATION

(Billions of KWH)

Net Interchange and Purchased Power

New generating plants brought into service in late 1974 and 1975 eliminated the Company's need for purchased power. In 1976 and 1975, interchange transactions with other utilities resulted in net interchange and purchased power credits. These credits amounted to $28,815,000 in 1976 and $11,588,000 in 1975, contrasted with purchased power costs of $8,495,000 in 1974.

Other Operation, Maintenance and Depreciation Expenses

Other operation and maintenance expenses increased 12% and 16% for 1976 and 1975, respectively. The 1976 increases were the result of compliance with the Employee Retirement Income Security Act of 1974, increases in salaries, wages, and benefits reflecting an increase in employees and the effects of inflation, unanticipated maintenance on the Company's nuclear units, and additional maintenance on the Company's overhead power lines and rights of way. In 1975 the increases were due primarily to the additional operating and maintenance costs associated with the addition of Oconee Units 2 and 3 and Belews Creek Unit 1, coupled with the impact of inflation on wages, benefits, materials and supplies.

Depreciation expense showed increases of 10% and 20% for 1976 and 1975, respectively, as a result of additions to plant in service.

Tax Expense

General taxes increased 12% in 1976 and 17% in 1975 primarily as a result of increased gross receipts taxes, which rose proportionately with increased revenues. Property taxes increased principally due to an increased property tax base from new plant additions.

Income taxes increased 56% in 1976 and 67% in 1975, primarily reflecting higher pretax income. The major contributing factor to this increase was additional revenues from rate increases placed into effect in mid-1975.

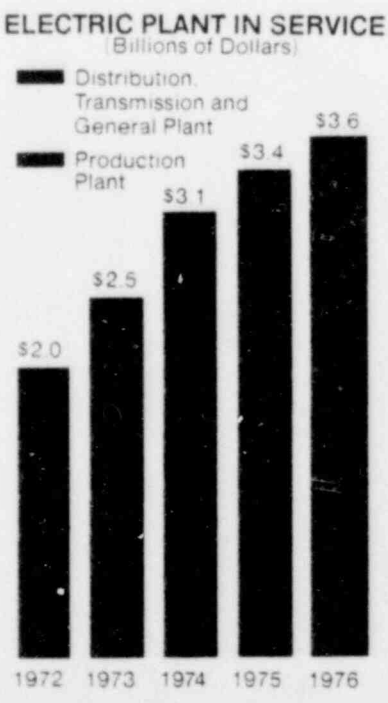
In 1976 the Company utilized most of its investment tax credit carryovers generated prior to January 1, 1976.

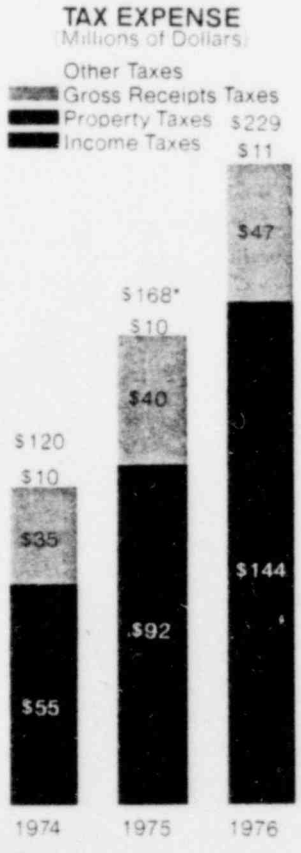
See Notes to Financial Statements.

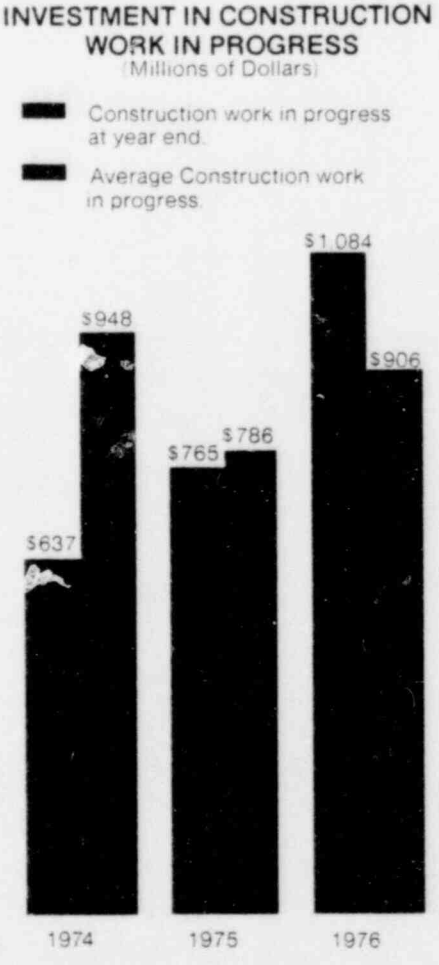
Other Income

Allowance for funds used during construction (AFDC) increased 13% in 1976 reflecting the higher average investment in construction work in progress. ADC for 1975 was 12% below the 1974 level due to a decline in the average investment in construction work in progress resulting from certain generating units being placed in service.

Earnings of subsidiaries increased $4,385,000 in 1976. This increase is largely attributable to lake lot sales by Crescent Land & Timber Corp.







Interest Deductions and Preference and Preferred Dividends

Total interest deductions and preference and preferred dividends increased $4,130,000 and $24,395,000 for 1976 and 1975, respectively. These increases were primarily due to the issuance of additional securities to finance the Company's construction program and to the higher costs of capital. Other interest declined in both 1976 and 1975 with the reduction in the average level of short-term debt outstanding and lower short-term interest rates. Greater internal cash generation contributed significantly to the reduced short-term debt borrowings.

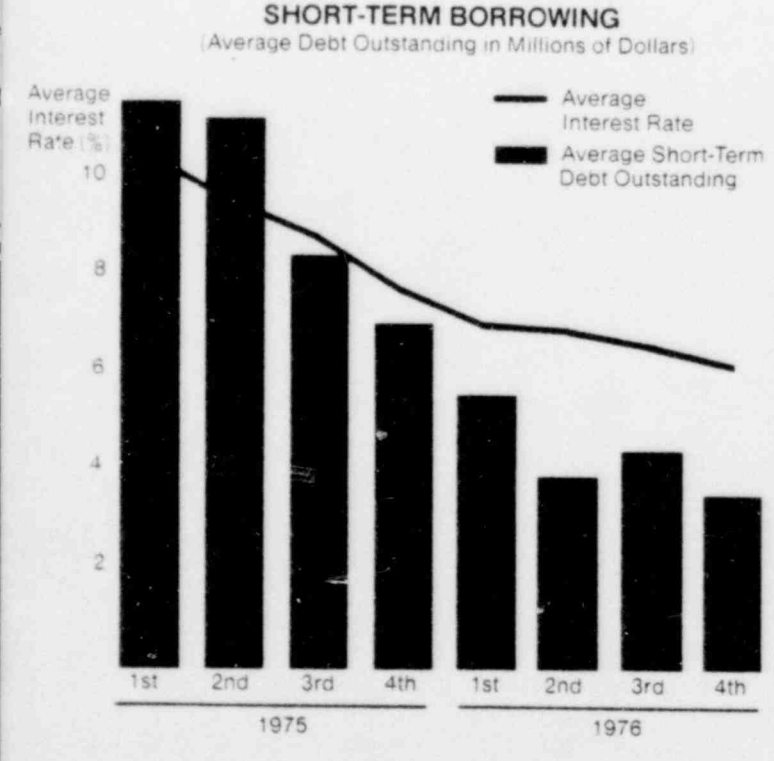
Quarterly Results

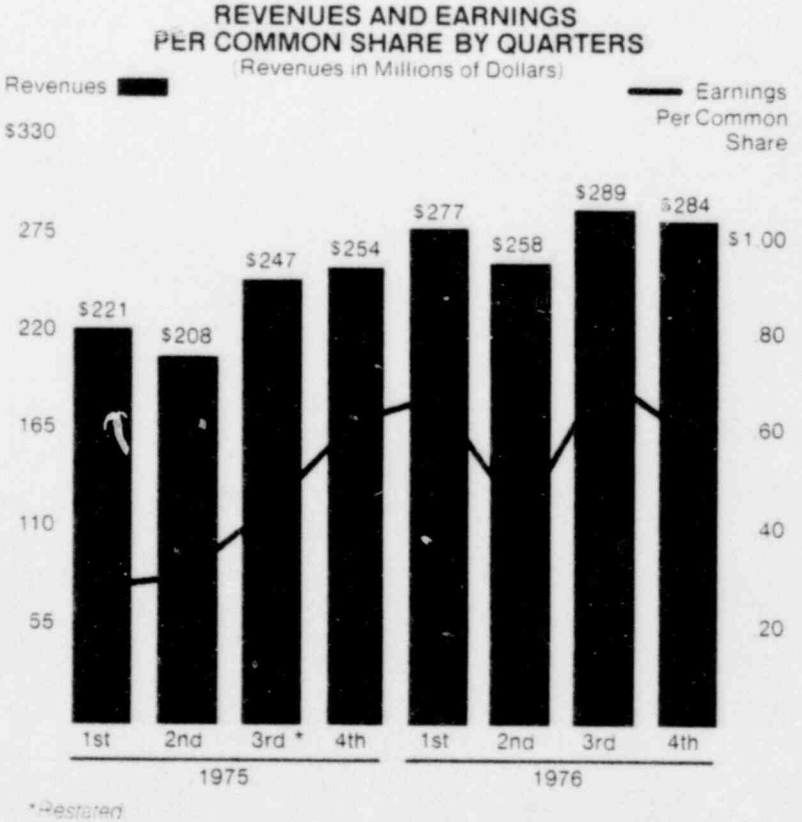
Quarterly revenues and earnings per share of common stock for 1976 and the last half of 1975 reflected the impact of rate increases implemented in mid-1975. Quarterly earnings tend to fluctuate with seasonal weather conditions. This factor, coupled with higher than normal fossil fuel expenses necessitated by the reduced availability of nuclear units during the second and fourth quarters of 1976, resulted in lower than normal earnings per share of common stock for these periods compared to other quarters since the rate increases were implemented. See Notes to Financial Statements.

Stock Market Information

At December 31, 1976 and 1975, the Company had approximately 83,300 and 82,300 holders of common stock, respectively. During 1976 approximately 9,563,000 shares of common stock were traded as compared to 10,075,000 during the previous year.

Common Stock	Dividend Per Share	Stock Price Range High	Stock Price Range Low
1976 by Quarter			
First	$0.375	$20½	$17¼
Second	0.375	19⅜	16⅝
Third	0.375	22¼	19
Fourth	0.400	23⅜	19¾
Total	$1.525		
1975 by Quarter			
First	$0.35	$15	$10¾
Second	0.35	17	12¾
Third	0.35	16⅞	15
Fourth	0.35	19⅝	15⅞
Total	$1.40		





*Restated

Financing

To meet its capital requirements, the Company has financed extensively with debt and equity securities and has raised additional capital through the sale and sale/lease-back of certain assets (dollars in thousands):

	1976		1975	
	Gross Proceeds	Net Proceeds	Gross Proceeds	Net Proceeds
Common stock				
Public sales				
(5,000,000 shares, March 16, $17.625 per share)	$ 88,125	$ 84,336		
(5,000,000 shares, June 5, $13.75 per share)			$ 68,750	$ 64,935
Stock Purchase-Savings Program for Employees				
(418,563 shares, $19.69 average price per share)	8,241	8,241		
(504,241 shares, $14.69 average price per share)			7,407	7,407
Dividend Reinvestment and Stock Purchase Plan				
(179,807 shares, $20.08 average price per share)	3,611	3,611		
(180,968 shares, $15.73 average price per share)			2,846	2,846
Employees' Stock Ownership Plan				
(59,864 shares, $20.73 average price per share)	1,241	1,241		
Total common stock	101,218	97,429	79,003	75,188
Preferred stock				
Preferred stock A, 10.76%, $25 par				
(2,400,000 shares, February 6)			60,000	57,450
Long-term debt				
First mortgage bonds				
11% Series Due 1994 (Various dates)	19,250	19,160	105,750	105,213
8⅜% Series Due 2006 (October 21)	100,000	99,169		
9½% Series Due 2005 (February 20)			100,000	98,419
Pollution control obligations (June 8)	2,420	2,364		
Total long-term debt	121,670	120,693	205,750	203,632
Sale and sale/lease-back transactions				
Capitalized real estate leases (Various dates)	17,700	17,443	12,000	12,000
Capitalized construction equipment lease (April 23)			14,694	14,694
Nuclear fuel lease (May 13)			24,894	24,894
Other			9,841	9,841
Total sale and sale/lease-back transactions	17,700	17,443	61,429	61,429
Total	$240,588	$235,565	$406,182	$397,699

Summary of Operations

Duke Power Company

	1976	1975(a)	1974	1973	1972	1966
CONDENSED STATEMENT OF INCOME (thousands)						
Electric revenues						
Residential	$ 370,348	$ 324,437	$ 269,105	$ 212,213	$ 184,581	$ 95,902
Commercial	227,367	200,292	156,562	122,788	104,479	47,547
Industrial	361,310	375,286	254,099	189,879	157,407	86,596
Other energy	149,094	124,692	98,493	66,274	57,258	25,932
Other revenues	2,161	34,323	39,644	3,172	4,507	2,717
Total electric revenues	1,108,358	930,384	818,803	594,326	508,232	258,694
Electric expenses						
Fuel	399,770	338,024	333,399	191,861	172,072	62,494
Net interchange and purchased power (credit)	28,815	(11,588)	8,495	28,575	30,478	1,705
Operation and maintenance	164,203	146,888	126,259	107,466	94,209	47,197
Depreciation	110,644	100,995	83,914	70,459	59,923	31,524
Taxes-income	143,924	92,542	55,380	34,293	18,075	28,665
Taxes-general	85,215	75,757	64,710	49,776	44,421	23,237
Total electric expenses	874,941	742,588	672,157	482,430	419,178	204,822
Electric operating income	233,417	187,796	146,646	111,896	89,054	53,872
Other income						
Allowance for funds used during construction	61,725	84,794	62,159	59,459	51,185	1,638
Other income, net (deduction)	4,847	(1,469)	5,086	1,093	1,511	1,921
Income tax-credit	22,963	21,789	16,094	15,406	13,035	140
Interest deductions	149,251	145,767	(127,182)	(91,535)	(74,418)	(15,837)
Income before extraordinary items	173,701	117,143	102,803	96,319	80,367	41,734
Extraordinary items	–	–	–	–	–	4,103 (b)
Net income	173,701	117,143	102,803	96,319	80,367	45,837
Dividends on preference and preferred stocks	34,990	34,344	28,534	27,456	21,901	2,141
Earnings for common stock	138,711	82,799	74,269	68,863	58,466	43,696
Dividends on common stock	87,833	70,949	59,263	54,036	47,758	25,309
Earnings retained for use in the business	$ 50,878	$ 11,850	$ 15,006	$ 14,827	$ 10,708	$ 18,387
COMMON STOCK DATA						
Shares of common stock – year end (thousands)	59,180	53,521	47,836	38,751	35,493	23,033
– average (thousands)	57,760	51,020	42,618	38,465	34,592	23,005
Per share of common stock						
Earnings before extraordinary items	$2.40	$1.62	$1.74	$1.79	$1.69	$1.72
Extraordinary items, net of related income taxes	–	–	–	–	–	0.18(b)
Earnings for common stock	$2.40	$1.62	$1.74	$1.79	$1.69	$1.90
Dividends	$1.525	$1.40	$1.40	$1.40	$1.40	$1.10
Market value – high-low	23¾-16⅝	19⅝-10⅛	20¾-10	23⅛-16	25⅛-21	43-35½
– year end	22	19½	10⅞	17¼	23¾	40⅞
BALANCE SHEET DATA (thousands)						
Electric plant (original cost)	$4,660,376	$4,193,046	$3,783,777	$3,355,392	$2,903,710	$1,124,220
Accumulated depreciation	939,962	826,627	727,878	652,922	584,748	354,512
Capitalization and short-term notes						
Common stock equity	1,163,942	1,015,637	931,150	793,487	703,899	335,016
Preference stock	50,000	50,000	50,000	50,000	50,000	–
Preferred stock	405,000	405,000	345,000	345,000	285,000	64,700
Long-term debt	1,892,505	1,827,562	1,638,752	1,505,174	1,270,224	367,500
Short-term notes payable	26,000	85,043	142,092	69,296	96,000	41,000
ELECTRIC AND OTHER STATISTICS						
Kilowatthour sales (millions)						
Residential	11,327	10,806	10,325	10,186	9,237	5,320
Commercial	7,987	7,567	7,053	7,287	6,515	3,148
Industrial	18,417	16,736	17,881	18,848	17,778	11,442
Other	7,902	7,029	7,085	6,838	6,158	3,532
Total kilowatthour sales	45,633	42,138	42,344	43,159	39,688	23,442
Number of customers (year end)						
Residential	989,601	969,863	951,459	931,020	895,488	743,504
Other	161,464	156,396	154,221	152,132	144,939	110,174
Total customers	1,150,965	1,126,259	1,105,680	1,083,152	1,040,427	853,678
Residential customer data						
Average annual KWH use	11,628	11,237	10,927	11,072	10,447	7,306
Average revenue per KWH	3.29¢	3.00¢	2.61¢	2.08¢	2.00¢	1.80¢
Number of employees (year end)						
Operating and maintenance	8,367	8,077	8,103	7,938	7,721	5,870
General plant construction and engineering	4,916	3,729	4,240	5,125	4,780	611
Source of energy (millions of KWH)						
Generated – Coal	35,875	28,202	34,810	37,036	35,870	24,067
– Nuclear	12,978	15,290	6,761	2,402	–	–
– Hydro	1,961	2,736	2,320	2,377	1,961	1,401
– Oil and Gas	13	57	1,236	2,218	2,735	–
Net interchange and purchased power	1,656	(776)	503	2,469	2,607	233
Loss and company use	3,538	3,371	3,286	3,343	3,485	2,259
% loss and company use	7.2%	7.4%	7.2%	7.2%	8.1%	8.8%
System average heat rate	9,616	9,777	9,780	9,713	9,702	9,619
System load factor	64.6%	61.6%	64.1%	64.2%	65.7%	66.1%

(a) Restated – See Note 2.

(b) 1966 – $8,013,000 net gain from sale of capital stock of a non-affiliated company; $3,910,000 plant acquisition adjustment.

Subsidiaries

Crescent Land & Timber Corp.

Timber harvesting and reforestation continue to be the primary activities of this land-management subsidiary.

In 1976, Crescent harvested 27 million board feet of timber and 42,770 cords of pulpwood from the Company's non-utility lands. More than 47 million seedlings have been planted on Company land since the reforestation program began in 1939. Crescent is currently planting new trees at the rate of 1.3 million per year.

Also in 1976, Crescent continued selling recreational lots on Duke reservoirs to qualified leaseholders. An estimated 5,200 lots are expected to be offered for sale through this program.

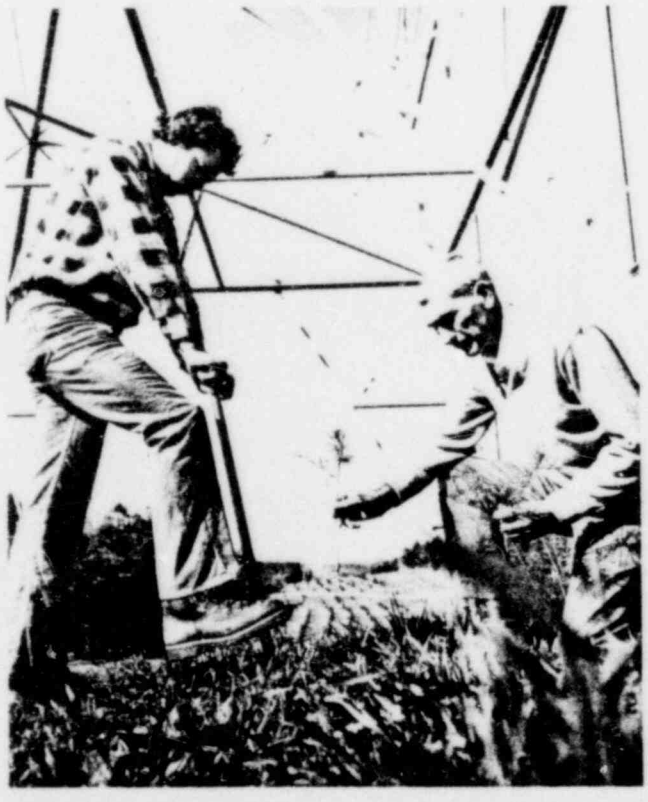
Eastover Mining Company
Eastover Land Company

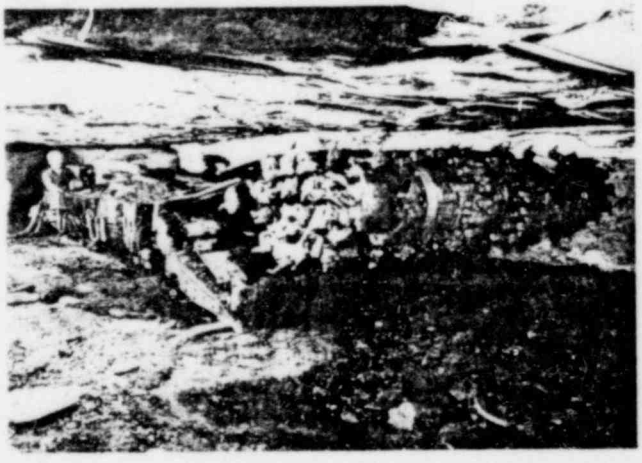
The Eastover companies were organized in 1970 to help assure an adequate supply of coal for Duke's coal-fired generating plants. On December 31, 1976, Eastover owned or had controlling interest in approximately 30,600 acres of coal reserves with an estimated 245,000,000 tons of recoverable coal. Those reserves are located in eastern Kentucky and Virginia.

Both the amount and quality of coal shipped from operating mines in 1976 showed marked improvement over the previous year. Production was up 18 per cent to 2,250,000 tons; total energy (BTUs) shipped increased 24 per cent. The improved quality of coal from these mines resulted from improvements in coal preparation plants, which remove non-combustible products from the mined coal.

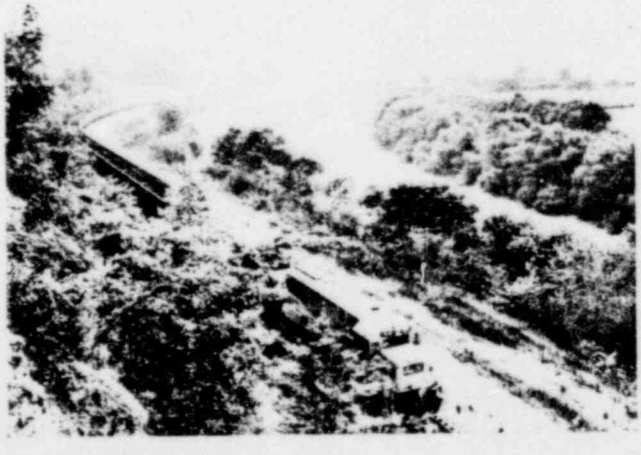
Eastover mines provided approximately 17 per cent of Duke's coal requirements in 1976 and 15 per cent in 1975.

Someday, this seedling will be a Christmas tree for a Piedmont Carolinas family. Planting Christmas trees on transmission lines rights-of-way and other lands is part of Crescent Land & Timber Corp.'s reforestation program.





A continuous miner in operation at Eastover Mining Company's Highsplint Mine, Harlan County, Ky. Coal from the Eastover mines is shipped by unit trains to Duke Power steam-electric stations.



In addition to those mining properties owned or controlled by Eastover, capital investments also have been made in two additional properties being developed by other coal companies.

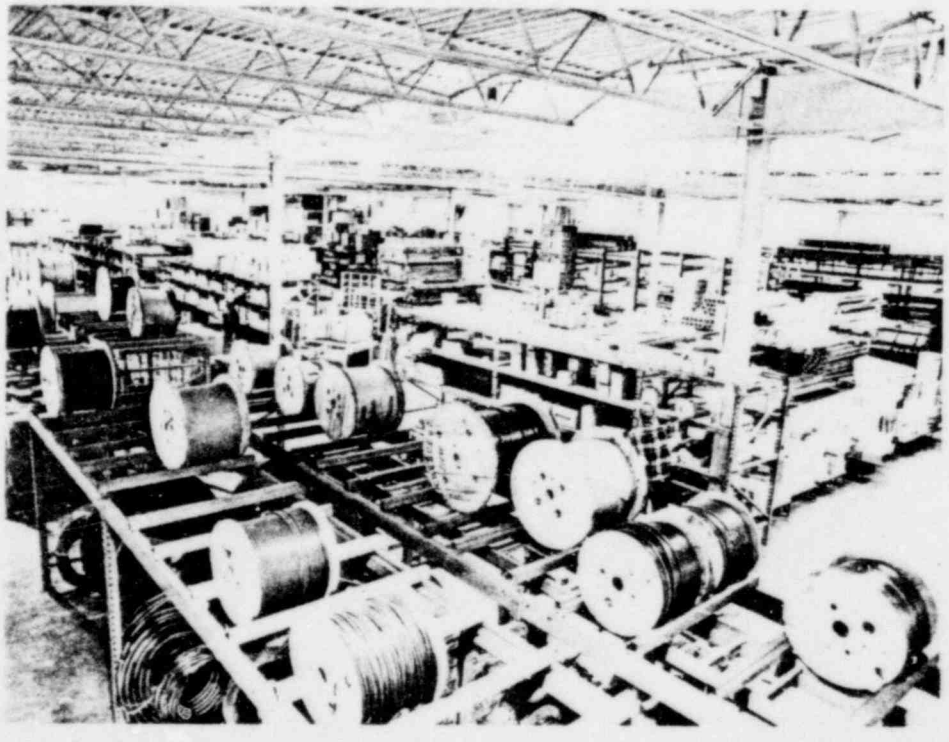
Mill-Power Supply Company

The oldest of Duke's operating subsidiaries is a wholesale distributor of electrical equipment and serves as purchasing agent for virtually all supplies, equipment and fuel required by Duke.

Mill-Power's sales continued to be depressed in 1976 due to a slowdown in electrical construction and increased competition in the electrical equipment market.

Subsidiary Investments

(dollars in thousands)	December 31 1976		1975	
Property and investments-at cost				
Real estate, recreational and land development	$ 31,702		$ 32,865	
Coal mining	103,293		86,000	
Net current assets, principally receivables and inventories	9,350		20,605	
Total assets		$ 144,345		$139,470
Long-term notes	(31,309)		(16,600)	
Coal production commitments	(51,520)		(50,000)	
Deferred income taxes	(25,162)		(27,799)	
Total liabilities		(107,991)		(94,399)
Parent company investments and advances		36,354		45,071
Advances from parent		(4,245)		(16,936)
Net assets of subsidiaries		$ 32,109		$ 28,135



In addition to serving as purchasing agent for Duke, Mill-Power Supply Company is a major distributor of electrical equipment. Here, a portion of the Mill-Power warehouse in Charlotte, N.C.

Executive Committee of the Board of Directors

*CARL HORN, JR.
Chairman of the Board
and Chief Executive Officer

*B. B. PARKER
President and
Chief Operating Officer

DOUGLAS W. BOOTH
Executive Vice President

WILLIAM S. LEE
Executive Vice President

*WILLIAM H. GRIGG
Senior Vice President
Legal and Finance

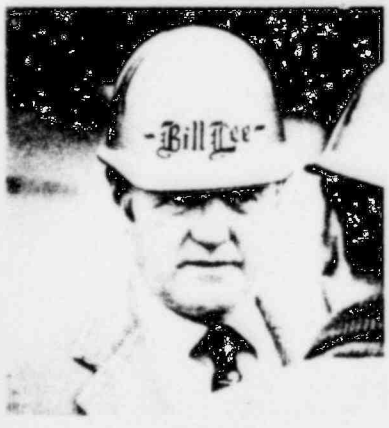
AUSTIN C. THIES
Senior Vice President
Production and Transmission

JOHN D. HICKS
Vice President
Corporate Affairs

*Member of the Finance Committee

HORN

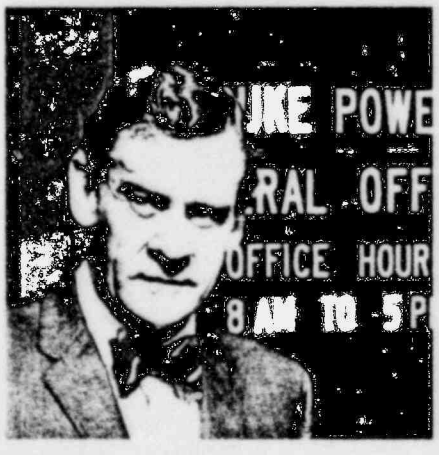
PARKER



LEE

GRIGG

BOOTH



HICKS

THIES

Outside Directors

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Dean, School of Home Economics
University of North Carolina at Greensboro

DR. ROBERT C. EDWARDS
President
Clemson University

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Chairman of the Board
United Telecommunications, Inc.
(telecommunications services and products)

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

*HERMAN W. LAY
Chairman of the Executive Committee
PepsiCo, Inc.
(Mfg. and dist. of soft drinks, snack foods, sporting goods; transportation and leasing service)

+BUCK MICKEL
Chairman of the Board
Daniel International Corporation
(industrial and commercial construction)

*REECE A. OVERCASH
President
Associates Corporation of North America
(finance - consumer lending, commercial lending, and insurance)

*+MARSHALL I. PICKENS
Honorary Chairman of Trustees
The Duke Endowment

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

*JOHN S. STEWART
President
Mutual Savings and Loan Association, Durham
(on leave of absence)

+WILLIAM L. WATKINS
Partner in the law firm of Watkins, Vandiver, Kirven, Long and Gable


ALBANESE


EDWARDS


HENSON


HOLDERNESS


LAY


MICKEL


OVERCASH


PICKENS


REESE


STEWART


WATKINS

+Member of Audit Committee *Member of Finance Committee

Other Officers

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Vice President
Western Division

THOMAS C. BERRY
Vice President
Southern Division

FRANZ W. BEYER
Vice President
System Planning

CARL J. BLADES
Vice President
Real Estate

WILLIAM J. BURTON
Vice President
Corporate Communications

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Vice President
Central Division

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Vice President
Marketing

ROBERT L. DICK
Vice President
Construction

A. MELL DOOLITTLE
Vice President
Distribution Engineering,
Construction and Operations

PORTER A. HAUSER
Vice President
Finance Administration

FRANK A. JENKINS
Vice President
Transmission and Electric
Installations

LLOYD P. JULIAN
Vice President
Operation

J. WESLEY LEWIS
Vice President
Division Operations

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Vice President
Personnel

JOSEPH G. MANN
Vice President
Northern Division

WARREN H. OWEN
Vice President
Design Engineering

WILLIAM O. PARKER, JR.
Vice President
Steam Production

THOMAS M. PATRICK, JR.
Vice President
Eastern Division

STEVE C. GRIFFITH, JR.
General Counsel

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

RICHARD C. RANSON
Treasurer

WILLIAM R. STIMART
Controller

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

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Assistant Vice President
Computer Services

RICHARD R. PIERCE
Assistant Vice President
Corporate Communications

EDWIN D. POWELL
Assistant Vice President
Production and Transmission

LEWIS F. CAMP
Assistant Secretary and
Associate General Counsel

JOHN C. GOODMAN, JR.
Assistant Secretary

RICHARD W. HOLMES
Assistant Controller

W. BRUCE SHANNON
Assistant Treasurer

KENNETH C. STONEBRAKER
Assistant Controller

DOROTHEA B. STROUPE
Assistant Secretary

Management Changes

Three new members were elected to the Board of Directors at the annual Shareholders' Meeting on April 27, 1976. The new directors are Paul H. Henson, Chairman, United Telecommunications, Inc., Westwood, Kan.; Buck Mickel, Chairman, Daniel International Corporation, Greenville, S. C.; and Reece A. Overcash, Jr., President and Chief Operating Officer, Associates Corporation of North America, Dallas, Texas. Chas. B. Wade, Jr., formerly Senior Vice President, R. J. Reynolds Industries, Inc., resigned.

The Board of Directors made the following management changes during the year:

Thomas C. Berry, from Manager, Greenville District, to Vice President – Southern Division; A. Mell Doolittle, from Vice President – Southern Division to Vice President – Distribution Engineering, Construction and Operations; Porter A. Hauser, from Controller to Vice President – Finance Administration; Lloyd P. Julian, from Assistant Vice President to Vice President – Operations; George W. Ferguson, Jr., from Secretary and Associate General Counsel to Secretary and Deputy General Counsel; Richard C. Ranson, from Manager, Financial Administration, to Treasurer; William R. Stimart, from Treasurer to Controller; Lewis F. Camp, from Assistant Secretary and Assistant General Counsel to Assistant Secretary and Associate General Counsel; and Richard W. Holmes, from Manager, Treasury and Financial Accounting, to Assistant Controller.

The Company was saddened by the death on July 14, 1976, of Patrick D. Huff, Vice President and Special Assistant to the Executive Vice President. Mr. Huff had ably served the Company since 1936.

Transfer Agents for Common Stock

Morgan Guaranty Trust Company of New York
New York, N. Y.

North Carolina National Bank
Charlotte, N. C.

Registrars for Common Stock

Citibank
New York, N. Y.

Wachovia Bank and Trust Company
Charlotte, N. C.

Stock Exchange Listing

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

The trading symbol of Duke Power Company Common Stock is DUK.

General Offices

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

SEC Form 10-K

Upon written request, the Company will provide, without charge, a copy of its 1976 annual report on Form 10-K as filed with the Securities and Exchange Commission. Please direct requests to Richard R. Babcock, Duke Power Company, Investor Relations Dept., P.O. Box 2178, Charlotte, N. C. 28242.

About Our Company

Duke Power is an investor-owned electric utility serving approximately 1,150,000 customers in North Carolina and South Carolina. Its service area encompasses approximately 20,000 square miles through the Piedmont sections of the two states. Retail customers are served locally through 96 district and branch offices.

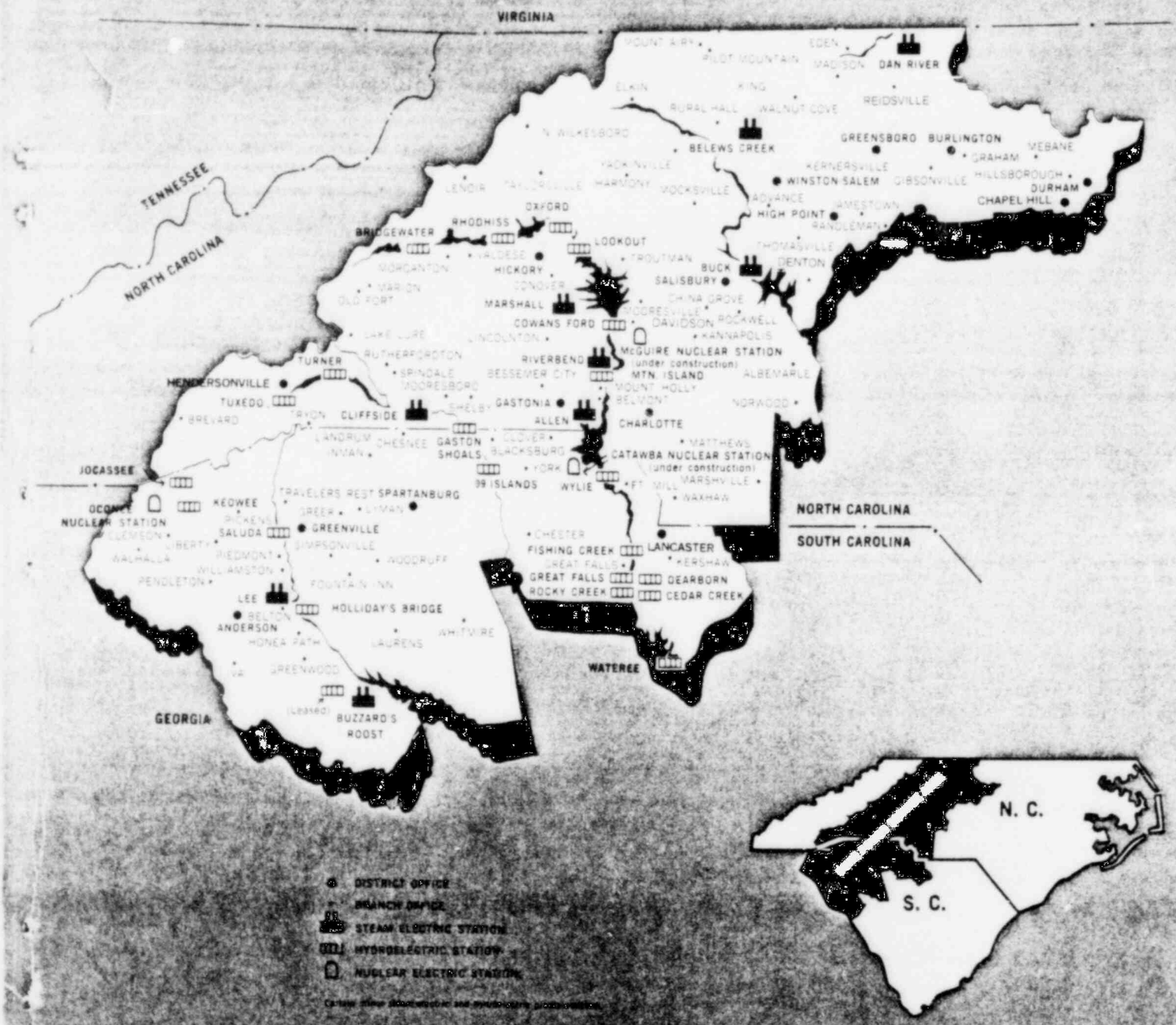
In addition to selling electricity directly to its own retail customers, the Company sells bulk electricity to 55 major wholesale customers, primarily municipal electric systems and rural cooperative electric systems. In 1976, sales to wholesale customers represented approximately 15 per cent of the Company's sales.

During the 12 months ended December 31, 1976, the Company's electric revenues amounted to approximately $1.1 billion, of which approximately 70 per cent was derived from sales in North Carolina and 30 per cent from sales in South Carolina.

Generating capability on December 31, 1976, of 12,317,000 kilowatts was comprised of 7,622,000 kilowatts from coal-fired steam stations, 2,580,000 kilowatts from nuclear stations, 1,452,000 kilowatts from hydroelectric stations, and 663,000 kilowatts from combustion turbines and combined-cycle units.

Duke Power has four active subsidiaries—Crescent Land & Timber Corp., land management; Mill-Power Supply Company, wholesale distribution of electrical equipment (also serves as purchasing agent for Duke); Eastover Land Company, coal property management; and Eastover Mining Company, coal mining.

Duke Power Service Area



A Statistical Supplement to this Report may be obtained by writing Duke Power Company, Investor Relations Dept., P.O. Box 2178, Charlotte, N. C. 28242.