VERMONT YANKEE NUCLEAR POWER CORPORATION

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REPLY TO
ENGINEERING OFFICE
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March 29, 1991
BVY 91-031

United States Nuclear Regulatory Commission
Document Control Desk
Washington, DC 20555

References: a. License No. DPR-28 (Docket No. 50-271)

Subject: Vermont Yankee Nuclear Power Corporation
Annual Financial Statements

Dear Sir:

In accordance with the provisions of 10CFR50.71(b), enclosed please find one (1) copy of Vermont Yankee Nuclear Power Corporation's certified financial statements for the three (3) year period ending December 31, 1990.

Should you have any questions regarding this report, please contact this office.

Very truly yours,

VERMONT YANKEE NUCLEAR POWER CORPORATION

Leonard A. Tremblay, Jr.

Leonard A. Tremblay, Jr.
Senior Licensing Engineer

cc with enclosure:

USNRC Region I Administrator
USNRC Resident Inspector - VYNPS
USNRC Project Manager - VYNPS

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KPMG Peat Marwick

Certified Public Accountants

VERMONT YANKEE NUCLEAR POWER CORPORATION

Financial Statements

December 31, 1990, 1989 and 1988

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick

Certified Public Accountants

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Independent Auditors' Report

The Stockholders and Board of Directors
Vermont Yankee Nuclear Power Corporation:

We have audited the accompanying balance sheets of Vermont Yankee Nuclear Power Corporation as of December 31, 1990 and 1989, and the related statements of income and retained earnings and cash flows for each of the years in the three-year period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Yankee Nuclear Power Corporation at December 31, 1990 and 1989, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 1990, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

February 13, 1991

VERMONT YANKEE NUCLEAR POWER CORPORATION

Balance Sheets

December 31, 1990 and 1989

Assets	1990	1989
	(Dollars in thousands)	
Utility plant:		
Electric plant, at cost	$ 353,054	352,082
Less accumulated depreciation	162,065	148,616
	190,989	203,466
Construction work in progress	140	125
Net electric plant	191,129	203,591
Nuclear fuel, at cost:		
Assemblies in reactor	83,213	89,188
Fuel in process	4,267	10,086
Fuel in stock	789	-
Spent fuel	227,040	195,275
	315,309	294,549
Less accumulated amortization of burned nuclear fuel	265,000	246,134
	50,309	48,415
Less accumulated amortization of final core nuclear fuel	5,011	3,857
Net nuclear fuel	45,298	44,558
Net utility plant	236,427	248,149
Current assets:		
Cash	2,271	1,752
Temporary investments, at amortized cost which approximates market	5,032	249
Accounts receivable, primarily from sponsors	15,560	11,166
Income tax refunds receivable	3,121	2,142
Materials and supplies	14,877	12,756
Prepaid expenses	4,363	2,721
Total current assets	45,224	30,786
Deferred charges:		
Deferred decommissioning costs (note 2)	31,560	30,328
Accumulated deferred income taxes	9,164	6,762
Other deferred charges	2,332	1,810
Total deferred charges	43,056	38,900
Long-term funds at amortized cost:		
Decommissioning fund (notes 2, 4 and 9)	53,339	39,072
Postemployment medical benefits fund (notes 4 and 9)	-	1,155
Disposal fee defeasance fund (notes 4, 6 and 9)	17,606	10,278
Total long-term funds	70,945	50,505
	$ 395,652	368,340

See accompanying notes to financial statements.

Capitalization and Liabilities	1990	1989
	(Dollars in thousands)	
Capitalization:		
Common stock equity (note 13):		
Common stock, $100 par value; authorized 400,100 shares; outstanding 400,014 shares	$ 40,001	40,001
Additional paid-in capital	14,227	14,227
Retained earnings	1,982	5,444
Total common stock equity	56,210	59,672
Long-term obligations, net (note 5)	79,233	78,657
Total capitalization	135,443	138,329
Commitments and contingencies (notes 2, 11 and 12)		
Disposal fee and accrued interest for spent nuclear fuel (note 6)	71,125	65,806
Current liabilities:		
Accrued liabilities	23,690	15,301
Accounts payable	2,372	286
Accrued interest	1,398	1,320
Accrued taxes	1,502	718
Total current liabilities	28,962	17,625
Accrued decommissioning costs (note 2)	86,887	70,570
Accumulated deferred income taxes	60,720	62,842
Accumulated deferred investment tax credits	8,971	9,397
Unamortized gain on reacquired debt, net	3,267	3,689
Other deferred credits	277	82
Total deferred credits	160,122	146,580
	$ 395,652	368,340

VERMONT YANKEE NUCLEAR POWER CORPORATION

Statements of Income and Retained Earnings

Years ended December 31, 1990, 1989 and 1988

	1990	1989	1988
	(Dollars in thousands)		
Operating revenues	$ 166,583	145,585	139,833
Operating expenses:			
Nuclear fuel expense	22,110	24,109	31,347
Other operating expense	64,677	51,301	52,181
Maintenance	26,578	19,446	8,279
Depreciation	14,852	14,857	14,247
Decommissioning expense (note 2)	11,536	6,778	6,108
Taxes on income (note 8)	1,669	3,364	2,616
Property and other taxes	5,246	5,599	5,511
Total operating expenses	146,668	125,454	120,289
Operating income	19,915	20,131	19,544
Other income and (deductions):			
Interest on decommissioning fund (notes 2, 4 and 9)	3,318	3,017	1,526
Decommissioning expense (note 2)	(3,318)	(3,017)	(1,526)
Allowance for equity funds used during construction	126	219	433
Interest	3,634	801	604
Taxes on other income (note 8)	(1,397)	(313)	(236)
Other, net	(55)	(50)	(25)
	2,308	657	776
Income before interest expense	22,223	20,788	20,320
Interest expense:			
Interest on long-term debt	7,889	8,551	8,831
Interest on disposal costs of spent nuclear fuel (note 6)	5,319	5,319	3,845
Other interest expense	-	330	82
Allowance for borrowed funds used during construction	(451)	(1,205)	(866)
Total interest expense	12,757	12,995	11,892
Net income	9,466	7,793	8,428
Retained earnings at beginning of year	5,444	5,411	5,449
	14,910	13,204	13,877
Dividends declared:			
Preferred stock, $7.48 per share	-	592	674
Common stock, $32.32, $17.92 and $19.48 per share, respectively	12,928	7,168	7,792
Retained earnings at end of year	$ 1,982	5,444	5,411
Net income per average share of common stock outstanding	$ 23.66	18.00	19.38

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 1990, 1989 and 1988

	1990	1989	1988
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	$ [illegible]6	7,793	8,428
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of nuclear fuel	20,020	20,502	27,234
Depreciation	14,852	14,857	14,247
Decommissioning expense	11,536	6,778	6,108
Income tax accrual	7,439	6,162	(2,472)
Income taxes paid	(6,683)	(5,777)	(6,220)
Income tax refund received	-	-	6,801
Nuclear fuel disposal fee interest accrual	5,319	5,319	3,845
Amortization of deferred taxes	(3,796)	(1,770)	7,570
Amortization of deferred investment tax credits	(426)	(1,418)	(2,246)
Increase (decrease) in accounts payable	10,475	(11,097)	8,461
Other	(3,414)	(1,573)	(5,694)
Total adjustments	55,322	31,983	57,634
Net cash provided by operating activities	64,788	39,776	66,062
Cash flows from investing activities:			
Electric plant additions	(2,390)	(3,367)	(5,832)
Nuclear fuel additions	(20,760)	(5,811)	(26,366)
Purchase of materials and supplies	(8,376)	(5,443)	(3,028)
Payments to decommissioning fund	(11,526)	(6,499)	(17,262)
Reimbursement from (payments to) postemployment medical benefits fund	1,264	-	(1,062)
Payments to disposal fee defeasance fund	(5,930)	(10,000)	-
Reimbursement for emergency response facility information system	-	12,001	-
Other	577	1,424	1,252
Net cash used in investing activities	(47,141)	(17,695)	(52,298)
Cash flows from financing activities:			
Common stock dividends	(12,928)	(7,168)	(7,792)
Preferred stock dividends	-	(592)	(674)
(Payment) issuance of notes payable	-	(6,185)	6,185
Borrowings under long-term agreements	63,200	229,900	227,708
Issuance of Series G first mortgage bonds	25,000	-	-
Payments of long-term obligations	(87,617)	(237,111)	(236,271)
Redemption of preferred stock	-	(8,353)	(806)
Net cash used in financing activities	(12,345)	(29,509)	(11,650)
Net increase (decrease) in cash and temporary investments	5,302	(7,428)	2,114
Cash and temporary investments at beginning of year	2,001	9,429	7,315
Cash and temporary investments at end of year (note 9)	$ 7,303	2,001	9,429

See accompanying notes to financial statements.

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

December 31, 1990, 1989 and 1988

(1) Summary of Significant Accounting Policies

(a) Regulations and Operations

The Company is subject to regulations prescribed by the Federal Energy Regulatory Commission ("FERC"), the Securities and Exchange Commission ("SEC") and the Public Service Board of the State of Vermont as to accounting, transactions subject to the Public Utility Holding Company Act of 1935, and securities issues. The Company is also subject to regulation by the Nuclear Regulatory Commission ("NRC") for nuclear plant licensing and safety, and by Federal and state agencies for environmental matters such as air quality, water quality and land use.

The Company recognizes revenue pursuant to the terms of the Power Contracts and Additional Power Contracts. The Sponsors, a group of nine New England utilities, are obligated to pay the Company each month their entitlement percentage of amounts equal to the Company's total fuel costs and operating expenses of its plant, plus an allowed return on equity (since December 1, 1989, 12-1/4%; from May 6, 1988 to December 1, 1989, 12%). Such contracts also obligate the Sponsors to make decommissioning payments through the end of the plant's service life and the completion of the decommissioning of the plant. All Sponsors are committed to such payments regardless of the plant's operating level or whether the plant is out of service during the period.

Under the terms of the Capital Funds Agreements, the Sponsors are committed, subject to obtaining necessary regulatory authorizations, to make funds available to obtain or maintain licenses necessary to keep the plant in operation.

(b) Depreciation and Maintenance

Electric plant is being depreciated on the straight-line method at rates designed to fully depreciate all depreciable properties over the lesser of estimated useful lives or the plant's remaining NRC license life. The operating license originally expired in 2007 but in December 1990 was extended to 2012. See note 3 for a discussion of the plant's NRC license extension and the prospective treatment of depreciation in future years. Depreciation expense was equivalent to overall effective rates of 4.08%, 4.18% and 4.10% for the years 1990, 1989 and 1988, respectively.

Renewals and betterments constituting retirement units are charged to electric plant. Minor renewals and betterments are charged to maintenance expense. When properties are retired, the original cost, plus cost of removal, less salvage are charged to the accumulated provision for depreciation.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(c) Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense based on the rate of burn-up of the individual assemblies comprising the total core. The Company also provides for the costs of disposing of spent nuclear fuel at rates specified by the United States Department of Energy ("DOE") under a contract for disposal between the Company and the DOE. See note 6.

In 1985, the Company began amortizing to expense on a straight-line basis seventy-five percent of the estimated costs of the final unspent nuclear fuel core which is expected to be in place at the expiration of the plant's NRC operating license. Effective December 1, 1989, the Company began amortizing one hundred percent of these costs in conformity with rates authorized by the FERC. See note 3 for a discussion of the plant's NRC operating license extension and the prospective treatment of final core amortization in future years.

(d) Amortization of Materials and Supplies

In 1985, the Company began amortizing to expense a formula amount designed to fully amortize the cost of the material and supplies inventory which is expected to be on hand at the expiration of the plant's NRC operating license. See note 3 for a discussion of the plant's NRC operating license extension and the prospective treatment of final core amortization in future years.

(e) Long-term Funds

The Company accounts for its investments in long-term funds at amortized cost since it has both the intent and ability to hold these investments for the foreseeable future. Amortized cost represents the cost to purchase the investment net of any unamortized premiums or discounts. See note 4.

(f) Amortization of Gain on Reacquired Debt

The difference between the amount paid upon reacquisition and the face value, plus any unamortized premium less any related unamortized debt expense and reacquisition costs, or less any unamortized discount, related debt expense and reacquisition costs applicable to the debt redeemed, retired and cancelled is deferred by the Company and amortized to expense on a straight-line basis over the remaining life of the respective security issues.

(g) Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is the estimated cost of funds used to finance the Company's construction work in progress and nuclear fuel in process which is not recovered from the Sponsors through current revenues. The allowance is not realized in cash currently, but under the Power Contracts the allowance will be recovered in cash over the plant's service life because of higher revenues associated with higher depreciation and amortization expense.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

AFUDC was capitalized at overall effective :es of 7.09%, 7.87% and 7.72% for 1990, 1989 and 1988, respectively, using the gross rate method.

(h) Decommissioning

The Company is accruing the estimated costs of decommissioning its plant over the plant's remaining NRC license life. Any amendments to these estimated costs are accounted for prospectively. See note 2. See note 3 for a discussion of the plant's NRC license extension and the prospective treatment of decommissioning costs in future years.

(i) Taxes on Income

The tax effects of timing differences are accounted for in accordance with the rate-making policies of the FERC. Provisions for deferred income taxes reflect the tax effects of all timing differences.

Investment tax credits have been deferred and are being amortized to income over the lives of the related assets.

(j) Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid short-term investments with a maturity of three months or less to be cash equivalents.

(2) Decommissioning

The Company accrues estimated decommissioning costs for its nuclear plant based on an updated 1981 study by an independent engineering firm which assumes that decommissioning will be accomplished by the prompt removal and dismantling method. This method requires that radioactive materials be removed from the plant site with all buildings and facilities dismantled immediately after shutdown. The study estimates that approximately six years would be required to dismantle the plant at shutdown, remove wastes and restore the site. The original study which estimated total decommissioning costs of $72.8 million in 1981 dollars was updated in connection with the 1985 FERC rate case to an estimate of $96.8 million in 1984 dollars. In February 1989, a second decommissioning study was completed which estimated total decommissioning costs of approximately $220 million in 1988 dollars. The Company has implemented rates based on a settlement agreement with the FERC which allowed $190 million, in 1988 dollars, as the estimated decommissioning costs. This allowed amount is used to compute the Company's liability and billings to the Sponsors. Based on an assumed inflation rate of 6% per annum and an expiration of the plant's NRC operating license in 2007, the estimated cost of decommissioning at end of life is approximately $575 million. The present value of the prorata portion of decommissioning costs recorded to date is $86.9 million.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Not s to Financial Statements

Bill.ngs o Sponsors for estimated decommissioning costs commenced during 1983, at which time the Company recorded a deferred charge for the present value of the prorata portion of decommissioning costs applicable to operations of the plant for prior periods. Current period decommissioning costs not funded through billings to Sponsors or earnings on decommissioning fund assets are also deferred. These deferred costs will be amortized to expense as they are funded over the remaining life of the NRC operating license.

On January 1, 1993, and each four year period thereafter, pursuant to the FERC rate order, the Company must revise its schedule of future annual decommissioning fund collections to reflect historical differences between assumed and actual rates of inflation, and historical differences between assumed and actual rates of earnings on decommissioning fund assets. Changes in Federal corporate income tax laws and rates require immediate revision in the decommissioning funding schedule and subsequently in billings.

In March, 1988, the Internal Revenue Service issued the final regulations implementing Section 468A of the Code and delineating the criteria for establishing a qualified decommissioning trust, deposits into which would be allowed as a current deduction for tax purposes. In accordance with these regulations, the Company established the Vermont Yankee Decommissioning Trust, pursuant to an Indenture of Trust, dated March 11, 1988, and deposited therein $12,106,000, being the amount of decommissioning costs collected in 1988 and prior years. In July 1988, the Internal Revenue Service issued its letter, pursuant to said regulations, establishing the Ruling Amount allowable for each year since 1984. Based on this letter, the Company filed amended returns for the years 1982 and 1984 through 1986.

Cash received from Sponsors for plant decommissioning costs is deposited into the Decommissioning Trust in either the Qualified Fund (i.e., amounts deductible pursuant to the IRS letter) or the Non-Qualified Fund (i.e., excess collections pursuant to FERC authorization which are not currently deductible). Funds held by the Trust are invested in high grade government securities or certificates of deposit of banking institutions with assets in excess of $100 million. Interest on the Decommissioning Trust assets is recorded in other income and deductions with an equal amount representing the current period decommissioning cost funded by such earnings reflected as decommissioning expense in other income and deductions.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(3) FERC Rate Case Matters

On January 2, 1990, the FERC issued an order granting the Company's motion to implement rates based on the proposed settlement agreement on an interim basis, subject to refund, effective as of December 1, 1989. The proposed settlement agreement specifies a return on equity of 12.25% as compared to the 14.25% the Company requested; an allowance for the estimated cost of decommissioning of $190 million in 1988 dollars, as compared to the $212 million the Company requested; and that the Company will be allowed to amortize 100% of the final fuel core as compared to the 75% previously allowed. The proposed settlement agreement was approved on August 1, 1990. Under the settlement as approved, decommissioning charges, depreciation and amortization are calculated based on a service life ending in December 2007.

On April 27, 1989, Vermont Yankee filed an application with the NRC to extend the term of the operating license to 2012, so that the plant may operate for forty years after it entered commercial service in 1972. On December 17, 1990 the NRC issued an amendment of the operating license extending its term to March 21, 2012 The extension is subject to reversal or modification upon further proceedings at the NRC. In addition, a final NRC determination is subject to judicial review. The Company submitted a rate reduction filing with the FERC to reflect in rates the adjustments to decommissioning, depreciation and amortization resulting from the license extension. The Company proposes to make this reduction effective as of March 1, 1991 and, since the extension was issued in 1990, to reflect the necessary adjustment for the period January 1, 1990 through February 28, 1991.

On February 28, 1991, the FERC approved the Company's rate reduction filing. The effects of this ruling will be accounted for prospectively beginning in fiscal year 1991 and will produce a net annual reduction of approximately $8 million and $4 million in projected revenue requirements for fiscal year 1991 and years thereafter, respectively. The reduction in 1991 reflects the retroactive treatment to January 1, 1990.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(4) Long-term Funds

The book value and estimated market value of long-term fund investment securities at December 31, is as follows:

	1990		1989	
	Book value	Market value	Book value	Market value
	(Dollars in thousands)			
Decommissioning fund:				
U.S. Treasury obligations	$ 21,666	22,243	7,590	7,590
U.S. Government agency obligations	-	-	5,722	5,779
State of Vermont obligations	31,522	31,436	25,140	25,140
Money market funds	151	151	620	620
	53,339	53,830	39,072	39,129
Postemployment medical benefits fund:				
U.S. Treasury obligations	-	-	1,155	1,155
Disposal fee defeasance fund:				
Corporate bonds and notes	17,205	16,983	10,062	9,941
Money market funds	401	401	216	216
	17,606	17,384	10,278	10,157
Total long-term fund investments	$ 70,945	71,214	50,505	50,441

At December 31, 1990 and 1989, gross unrealized gains and gross unrealized losses pertaining to the long-term fund investment securities were as follows:

	1990	1989
	(Dollars in thousands)	
Unrealized gains on U.S. Treasury obligations	$ 577	-
Unrealized gains on U.S. Government agency obligations	$ -	57
Unrealized gains on State of Vermont obligations	$ 28	-
Unrealized losses on State of Vermont obligations	$ (114)	-
Unrealized gains on corporate bonds and notes	$ 5	-
Unrealized losses on corporate bonds and notes	$ (227)	121

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

Maturities of obligations, bonds and notes (face amount) at December 31, 1990 are as follows (dollars in thousands):

Within one year	$ 10,034
Two to five years	5,249
Five to seven years	20,765
Over seven years	34,345
	$ 70,393

(5) Long-Term Obligations

A summary of long-term obligations at December 31, 1990 and 1989 is as follows:

	1990	1989
	(Dollars in thousands)	
First mortgage bonds:		
Series A - 9.625% due 1998	$ 10,485	10,485
Series B - 8.50% due 1998	1,332	1,332
Series C - 7.70% due 1998	3,695	3,695
Series D - 10.125% due 2007	27,259	27,259
Series E - 9.875% due 2007	5,703	5,703
Series F - 9.375% due 2007	5,704	5,704
Series G - 8.94% due 1995	25,000	-
Total first mortgage bonds	79,178	54,178
Unamortized premium on debt	55	62
Net first mortgage bonds	79,233	54,240
Commercial paper issued under Eurodollar Credit Agreement - weighted average interest rate of 8.58% at December 31, 1989	-	24,417
Total long-term obligations	$ 79,233	78,657

The first mortgage bonds are issued under, have the terms and provisions set forth in, and are ratably and equally with all other bonds outstanding thereunder secured by, an Indenture of Mortgage dated as of October 1, 1970 between the Company and the Trustee, as modified and supplemented by eleven supplemental indentures. All bonds are secured by a first lien on utility plant, exclusive of nuclear fuel, and a pledge of the Power Contracts (except for fuel payments) and the Capital Funds Agreements with Sponsors. Annual sinking fund requirements for Series A, Series B and Series C first mortgage bonds will be partially met by depositing bonds held in treasury. The bonds held in treasury will be sufficient to meet the sinking fund requirements for these bonds through 1995; except, to the extent cash sinking fund payments will be required as follows:

	Series A	Series C
	(Dollars in thousands)	
1994	$ -	594
1995	1,090	786

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

Cash sinking fund requirements for Series D, Series E and Series F first mortgage bonds will commence in 1999. There are no sinking fund requirements on the Series G first mortgage bonds.

In February of 1990 the Company issued $25,000,000 of series G 8.94% first mortgage bonds stated to mature on January 1, 1995. The Company applied the proceeds of the sale of the bonds to retire other long-term obligations.

The Company has a $75,000,000 Eurodollar Credit Agreement which expires on December 31, 1994. A prior agreement with similar terms expired on July 19, 1990. The Company issued commercial paper under these agreements with weighted average interest rates of 8.44% for 1990 and 9.26% for 1989. Payment of the commercial paper is supported by the Eurodollar Credit Agreement which is secured by the nuclear core of the Company's generating facility. Although the prior agreement expired on July 19, 1990, the Company had effectively refinanced the outstanding obligation with the issuance of the series G first mortgage bonds which expire in 1995. Accordingly, the commercial paper had been classified as long-term debt at December 31, 1989.

(6) Disposal Fee for Spent Nuclear Fuel

The Company has a contract with the United States Department of Energy ("DOE") for the permanent disposal of spent nuclear fuel. Under the terms of this contract, in exchange for the one-time fee discussed below and a current fee of 1 mil per kwh of net generation paid quarterly, DOE agrees to provide disposal services when a facility for spent nuclear fuel and other high-level radioactive waste is available, which is required by current statute to be prior to January 31, 1998.

The DOE contract obligates the Company to pay a one-time fee of $39,285,000 for disposal costs for all spent fuel discharged through April 7, 1983. Although such amount has been collected in rates from the Sponsors, the Company has elected to defer payment of the fee to the DOE as permitted by the DOE contract. The fee must be paid no later than the first delivery of spent nuclear fuel to the DOE. Interest accrues on the unpaid obligation based on the thirteen-week Treasury Bill rate and is compounded quarterly.

In 1989 the Company deposited $10,000,000 in an irrevocable trust to be used exclusively for defeasing this obligation at some future date provided the DOE complies with the terms of the aforementioned contract. In 1990, the Company deposited an additional $5,929,939 into this trust.

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(7) Short-Term Borrowings

The Company had lines of credit from various banks totalling $14,200,000 at December 31, 1990 and 1989. The maximum amount of short-term borrowings outstanding at any month-end during 1990, 1989, and 1988 was $-0-, $8,000,000 and $6,185,000, respectively. The average daily amount of short-term borrowings outstanding was approximately $92,000, $4,782,000 and $2,172,000 with corresponding weighted average interest rates of 9.77%, 10.69% and 9.78%, respectively.

(8) Taxes on Income

The components of income tax expense for the years ended December 31, 1990, 1989 and 1988 are as follows:

	1990	1989	1988
	(Dollars in thousands)		
Taxes on operating income:			
Federal - current	$ 5,251	6,084	(2,607)
Federal - deferred	(3,675)	(2,335)	5,941
State - current	1,368	1,275	(101)
State - deferred	(849)	(242)	1,629
Investment tax credit adjustments	(426)	(1,418)	(2,246)
	1,669	3,364	2,616
Taxes on other income:			
Federal - current	1,124	252	190
State - current	273	61	46
	1,397	313	236
Total income taxes	$ 3,066	3,677	2,852

A reconciliation of the Company's effective income tax rates with the Federal statutory rate is as follows:

	1990	1989	1988
Federal statutory rate	34.0%	34.0%	34.0%
State income taxes, net of Federal income tax benefit	5.2	5.6	9.2
Investment credit	(7.3)	(10.3)	(19.9)
Book depreciation in excess of tax basis	2.7	4.2	5.9
AFUDC equity	(1.8)	-	-
Flowback of excess deferred taxes	(8.8)	(2.1)	(6.9)
Other	0.5	0.7	3.0
	24.5%	32.1%	25.3%

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

The items comprising deferred income tax expense are as follows:

	1990	1989	1988
	(Dollars in thousands)		
Decommissioning costs	$ (281)	(651)	10,476
Tax depreciation over (under) financial statement depreciation	(2,160)	(249)	1,315
Tax fuel amortization over (under) financial statement amortization	(141)	(304)	(1,841)
Pension expense disallowed	(232)	(519)	(463)
Postemployment benefits (disallowed) reversed	-	414	(414)
Low level waste accrual disallowed	(441)	(390)	-
Flowback of excess deferred taxes	(1,101)	(243)	(775)
Other	(168)	(635)	(728)
	$ (4,524)	(2,577)	7,570

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes". This Statement will require the Company to change from the deferred method to the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. Adoption of this Statement, which is required for years beginning after December 15, 1992 but may be adopted earlier, will not have a significant effect on tax expense or cash flows of the Company.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(9) Supplemental Cash Flow Information

The following information supplements the cash flow information provided in the Statements of Cash Flows:

	1990	1989	1988
	(Dollars in thousands)		
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 7,359	7,722	9,292
Income taxes	$ 6,683	5,777	6,220
Decommissioning fund activity:			
Payments from the Company related to tax refunds	$ -	-	11,186
Cash received from Sponsors	11,526	6,499	6,076
Investment income	3,318	3,017	1,526
Income taxes paid	(577)	(1,509)	(1,050)
Net increase	14,267	8,007	17,738
Balances at beginning of year:			
Decommissioning fund	39,072	28,590	11,588
Special deposit	-	2,475	1,739
Balances at end of year	$ 53,339	39,072	31,065
Decommissioning fund	53,339	39,072	28,590
Special deposit	-	-	2,475
	$ 53,339	39,072	31,065
Postemployment medical benefits fund activity:			
Payments from the Company	$ -	-	1,062
Investment income	109	93	-
Reimbursement to the Company	(1,264)	-	-
Net increase (decrease)	(1,155)	93	1,062
Balance at beginning of year	1,155	1,062	-
Balance at end of year	$ -	1,155	1,062

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

In November, 1988 the Company's Board of Directors approved the funding of $1,062,000 for postemployment medical benefits based on an estimate calculated by the Company's actuary. The Company subsequently deposited $1,062,000 into an escrow account established to accumulate these funds. In 1989 the Company reversed the liability established for postemployment medical benefits as these amounts are included in the current FERC approved rate settlement as a component of decommissioning. In 1990 the Company transferred this fund to the Company's operating account.

DOE defeasance fund activity (see note 6):

	1990	1989	1988
	(Dollars in thousands)		
Payments from the Company	$ 5,930	10,000	-
Investment income	1,398	278	-
Net increase	7,328	10,278	-
Balance at beginning of year	10,278	-	-
Balance at end of year	$ 17,606	10,278	-

(10) Pension Plans and Postemployment Benefits Other than Pensions

The Company has two noncontributory trusteed pension plans covering substantially all of its regular employees. The Company's funding policy is to fund the net periodic pension expense accrued each year. Benefits are based on age, years of service and the level of compensation during the final years of employment.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

The aggregate funded status of the Company's pension plans as of December 31, 1990 and 1989 is as follows:

	1990	1989
	(Dollars in thousands)	
Vested benefits	$ 4,484	3,890
Nonvested benefits	673	627
Accumulated benefit obligation	5,157	4,517
Additional benefits related to future compensation levels	7,703	6,924
Projected benefit obligation	12,860	11,441
Fair value of plan assets, invested primarily in equities and bonds	9,239	9,163
Projected benefit obligation in excess of plan assets	$ 3,621	2,278

Certain changes in the items shown above are not recognized as they occur, but are amortized systematically over subsequent periods. Unrecognized amounts still to be amortized and the amount which is included in the balance sheet appear below.

	1990	1989
	(Dollars in thousands)	
Unrecognized net transition obligation	$ 1,177	1,237
Unrecognized net (gain) loss	(925)	(1,429)
Pension liability included in balance sheet	3,351	2,451
Unrecognized prior service costs	18	19
Projected benefit obligation in excess of plan assets	$ 3,621	2,278

The weighted average discount rate was 8.0% as of December 31, 1990 and December 31, 1989. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 7.5%, and the expected long-term rate of return on plan assets was 8.5% as of December 31, 1990 and December 31, 1989.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

Net pension expense for 1990 included the following components:

	(Dollars in thousands)
Service cost - benefits earned	$ 1,047
Interest cost on projected benefit obligation	959
Actual (return) loss on plan assets	118
Net amortization and deferral	(730)
Net pension expense	$ 1,394

Pension expense was $1,394,000, $1,322,000 and $1,166,000 for the years 1990, 1989 and 1988, respectively.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". This Statement will require the Company to change from the cash method to the accrual method of accounting for postemployment benefits. The accrual method will require the Company to record the estimated expense of postemployment benefits as employees render the services necessary to earn their postemployment benefits. Adoption of this Statement, which is required for years beginning after December 15, 1992, is not expected to have a material impact on the Company's future financial position or results of operations because the costs are, and will continue to be, recovered in rates.

(11) Lease Commitments

The Company leases equipment and systems under non-cancellable operating leases. Charges against income for rentals under these leases were approximately $3,417,000, $1,060,000 and $753,000 in 1990, 1989 and 1988, respectively. Minimum future rentals as of December 31, 1990 are as follows:

Fiscal years ended	Annual rentals (Dollars in thousands)
1991	$ 3,514
1992	3,155
1993	2,892
1994	2,680
1995	2,380
1996 and after	8,652

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(12) Commitments and Contingencies

The Company has commitments through 1999 approximating $54,000,000 associated with nuclear fuel requirements. Such commitments amount to approximately $18,000,000, $3,000,000, $18,000,000, $12,000,000 and $0 for the years 1991 through 1995, respectively, and approximately $3,000,000 thereafter.

The Company has contracted for uranium concentrate to meet substantially all of its power production requirements through 1999

The Company had contracted for uranium enrichment services from a company in France. This contract provided for all the company's uranium enrichment services for the period 1989 to 1996, with an option to extend. However, the Company terminated this contract in 1990. The Company also has an enrichment contract with the DOE which expires in 2001. However, the Company has exercised its right to partially terminate the DOE contract for the period 1989 to 1996. In 19[illegible], the Company contracted for uranium enrichment services from NUEXCO and Techsnabexport for the period 1991 through 1993 and 1994 through 2002, respectively.

The Company has commitments for capital expenditures amounting to approximately $4,300,000 for 1991.

The Price-Anderson Act provides, among other things, that the liability for damages resulting from a nuclear incident would not exceed the greater of $560,000,000 or the amount of financial protection required of the licensee (presently about $7.8 billion). Under the NRC regulations promulgated pursuant to the Price-Anderson Act, the Company has insured against this exposure by purchasing the maximum available private insurance and maintaining an indemnity agreement with the NRC. Under a mandatory industry-wide program, owners of operating nuclear facilities (including the Company) may be assessed a retrospective premium of up to $63,000,000 for each reactor owned in the event of any one nuclear incident occurring at any licensed commercial reactor in the United States, with a maximum assessment of $10,000,000 per year per reactor owned. Such owners may also be assessed additional retrospective premiums with respect to insurance purchased to cover third party property and bodily injury damages resulting from nuclear accident related events at licensed commercial reactor facilities, but in no case will such additional premiums exceed 5% of above-referenced retrospective premium.

(Continued)

VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

(13) Capital Stock
The changes in additional paid-in capital and preferred stock for the three years ended December 31, 1990 are as follows:

	Additional paid-in capital	Preferred stock
	(Dollars in thousands)	
Balance at December 31, 1987	$ 14,455	9,159
Redemption of preferred stock at $102.98	(24)	(806)
Balance at December 31, 1988	14,431	8,353
Redemption of preferred stock at $96.75	32	(1,000)
Redemption of preferred stock at $103.23	(236)	(7,353)
Balance at December 31, 1989 and 1990	$ 14,227	-

(14) Unaudited Quarterly Financial Information
The following quarterly financial information is unaudited and in the opinion of management includes all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of results of operations for such periods.

	Quarter ended			
1990	March	June	September	December
	(Dollars in thousands - except per share amounts)			
Operating revenues	$ 37,200	37,904	47,361	44,118
Fuel expense*	6,548	7,106	4,485	3,971
Other operating expenses*	14,430	13,997	15,181	21,069
Maintenance expense*	2,303	3,020	14,093	7,162
Operating income	5,276	5,135	5,150	4,354
Net income	2,364	2,391	2,357	2,354
Net income per share of common stock	5.90	5.98	5.89	5.89
1989				
Operating revenues	$ 45,330	33,977	33,606	32,672
Fuel expense*	3,415	6,387	6,993	7,314
Other operating expenses*	16,015	12,650	12,218	10,418
Maintenance expense*	13,275	2,885	1,718	1,568
Operating income	5,132	4,543	4,985	5,471
Net income	1,935	1,923	1,926	2,009
Net income per share of common stock	4.45	4.46	4.47	4.62

* These selected expenses fluctuate from quarter to quarter due to plant outages; the majority of the outage activity occurred in the third quarter of 1990 and the first quarter of 1989. The operating expenses not presented remain relatively constant.

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