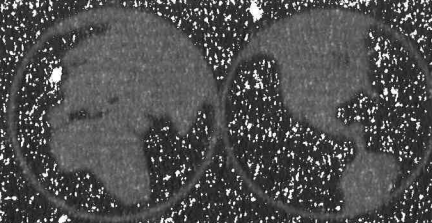


Vermont Yankee
Nuclear Power Corporation
1994 Annual Report



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1994 Annual Report

VERMONT YANKEE NUCLEAR POWER CORPORATION
FERRY ROAD
BRATTLEBORO, VERMONT 05301-7002



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Description of Business

Vermont Yankee Nuclear Power Corporation was incorporated under the laws of Vermont on August 4, 1966. The Company was formed by a group of New England utilities for the purpose of constructing and operating a nuclear-powered generating plant (the "Plant").

The Plant commenced commercial operation on November 30, 1972, and, except during maintenance and refueling outages, has been in full operation since that time. The Plant is licensed by the Nuclear Regulatory Commission to operate until 2012.

Located in Vernon, Vermont, the facility has a gross maximum dependable capacity of approximately 535 megawatts. The common stock of Vermont Yankee is owned by thirteen utilities, nine of which are the sponsoring utilities that are entitled to and obligated to purchase the output of the Plant.

Under the terms of the Company's Power Contracts each sponsor is obligated to pay Vermont Yankee monthly, regardless of the Plant's operating level, or whether or not it is operating, an amount equal to its entitlement percentage of Vermont Yankee's total fuel costs, operating expenses, decommissioning costs and an allowed return on equity. Also, under the terms of the Capital Funds Agreements with its sponsors, the sponsors are committed to make funds available for changes or replacements needed to maintain or restore operation of the Plant or to obtain or maintain licenses necessary for its operation. The names of the sponsors and their respective entitlement percentages of capacity and output are as follows:

Entitlement Sponsor	Percentage
Central Vermont Public Service Corporation	35.0%
Green Mountain Power Corporation	20.0
New England Power Corporation	20.0
The Connecticut Light and Power Company	9.5
Central Maine Power Company	4.0
Public Service Company of New Hampshire	4.0
Western Massachusetts Electric Company	2.5
Montaup Electric Company	2.5
Cambridge Electric Light Company	2.5
	<u>100%</u>



President's Letter

A year of exceptional operating performance placed Vermont Yankee at the top of its class worldwide. Our capacity factor for 1994 was 97.7%. That means the plant produced 97.7% of the power it could generate — it operated at full power 24 hours a day, 365 days a year. This capacity factor was the highest in our 22 years of operation and was the best of all General Electric boiling water reactors for the year.

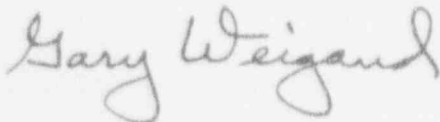
For the last several years, Vermont Yankee has operated at average capacity factors in excess of 85%, approximately 20% higher than the industry average for plants of similar design. During 1994, Vermont Yankee became the only boiling water reactor of the 24 that went on-line before 1985 to achieve a lifetime capacity factor above 75%.

In addition to our excellence in operating performance during 1994, we are also proud of some of our other accomplishments. During 1994 we continued our excellent industrial safety record and had one of the lowest personnel radiation exposure averages for all boiling water reactors.

Vermont Yankee also performed well financially in 1994, finishing the year under budget and generating electricity at a cost of 3.77 cents per kilowatt hour. This cost includes all facets of Vermont Yankee's operations, including decommissioning, low-level radioactive waste disposal and fees paid to the Department of Energy for high-level radioactive waste disposal. The more widely reported statistic, operations and maintenance cost (excluding fuel), was a very competitive 1.17 cents per kilowatt hour.

During 1994, Vermont Yankee received approval from the Federal Energy Regulatory Commission (FERC) to begin investing the assets of the decommissioning fund in a diverse mix of investments, including common stocks and corporate bonds. The resulting improvement in the expected earnings on fund investments is projected to save ratepayers in excess of \$70 million over our remaining license life (1995-2012).

Vermont continues to lead the nation as the state with the highest percentage of total electrical generation — 79.5% — that is produced from nuclear power. As you can see from the following pages of this report, we continue to fulfill our obligation to safely and successfully manage nuclear technology to produce competitively priced electricity for Vermonters and other New Englanders.



J. Gary Weigand

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Highlights

	1994	1993	% Change
Financial (dollars in millions):			
Operating revenue	\$162.8	\$180.1	(9.6)
Net income	6.6	7.8	(15.4)
Total assets	512.1	469.8	9.0
Average number of shares of common stock outstanding (thousands)	392	392	0.0
Per Share of Common Stock:			
Earnings per average common share	\$16.79	\$19.86	(15.4)
Dividends paid per common share	16.00	20.14	(20.6)
Book value per common share (year end)	138.80	138.01	0.6
Operating:			
Kilowatt-hour sales (billions)	4.3	3.4	26.5
Cost per kilowatt-hours (cents)	3.77	5.34	(29.4)
Number of employees (year end)	340	338	0.6



Common Stock Ownership

	Percentage Owned	Shares Owned
Central Vermont Public Service Corporation	31.3%	122,653
New England Power Company	20.0	78,402
Green Mountain Power Corporation	17.9	70,088
Connecticut Light and Power Corporation	9.5	37,242
Central Maine Power Company	4.0	15,681
Public Service Company of New Hampshire	4.0	15,681
Burlington Electric Department	3.6	14,301
Montaup Electric Company	2.5	9,801
Cambridge Electric Light Company	2.5	9,801
Western Massachusetts Electric Company	2.5	9,800
Vermont Electric Cooperative, Inc.	1.0	4,213
Washington Electric Cooperative, Inc.	0.6	2,431
Lyndonville Electric Department	0.6	2,387
	<u>100.0%</u>	<u>392,481</u>



Management Review

"A year of exceptional operating performance placed Vermont Yankee at the top of its class worldwide."



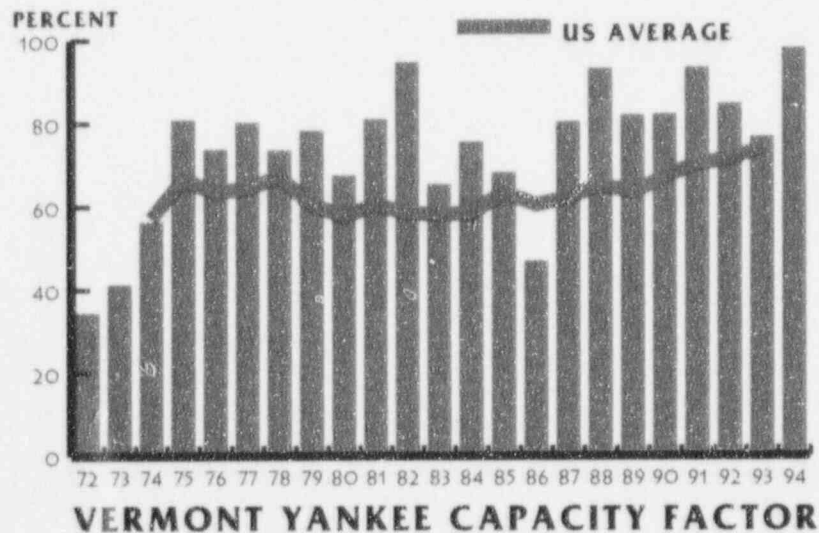
Plant Performance

Capacity Factor

During 1994, Vermont Yankee achieved a capacity factor of 97.7%, broke its previous record of 94.5% and led all General Electric boiling water reactors worldwide. With this performance, we continue to improve upon our already outstanding record of reliability. Once again, Vermont Yankee ranks as one of the world's best nuclear power plants. The graph below depicts the Company's annual capacity factor since the commercial operation began in 1972 and compares it to the industry average for both pressurized and boiling water reactors.

On August 18, 1994, Vermont Yankee achieved a 75% lifetime capacity factor, making it one of the top five boiling water reactors nationwide for consistent electricity production. This distinction also makes us the only boiling water reactor of the 24 that went on-line before 1985 to have a lifetime capacity factor of 75%.

From the beginning of its commercial operation in 1972 through the end of 1994, Vermont Yankee generated over 78 billion kilowatt-hours of electricity.



Operation & Maintenance Costs

(Cents per KWH)¹

Year	Vermont Yankee	Industry Average
1990	1.94	1.47
1991	1.22*	1.47
1992	1.95	1.54
1993	2.36	1.55
1994	1.17*	**

⁽¹⁾ Excluding Fuel and General and Administrative Expenses.

* Non-refueling Year ** Not Available

Plant Economics

Vermont Yankee, despite having the handicap of being a relatively small plant, has operation and maintenance costs that are competitive with the industry as illustrated by the chart.

Total Cost of Power

Vermont Yankee continues to be a low-cost producer of electricity. The table illustrates Vermont Yankee's cost per kilowatt hour of electricity generated.

Total Cost of Power

(Cents per KWH)¹

Year	Vermont Yankee
1990	4.61
1991	3.69*
1992	4.70
1993	5.34
1994	3.77*

5-year average: 4.42

Cumulative Cost of power: 3.26²

⁽¹⁾ Inclusive of all costs.

⁽²⁾ Since commercial operations began in 1972

* Non-refueling year

Nuclear Fuel Costs

(Cents per KWH)¹

Year	Vermont Yankee	Industry Average
1990	0.67	0.76
1991	0.61	0.68
1992	0.57	0.63
1993	0.58 ²	0.60
1994	0.52 ²	*

⁽¹⁾ Includes spent fuel disposal rates

⁽²⁾ Includes DOE enrichment site cleanup fee.

* Not Available

Fuel Economics

Vermont Yankee's fuel costs continue to be below the industry average as illustrated by the chart.

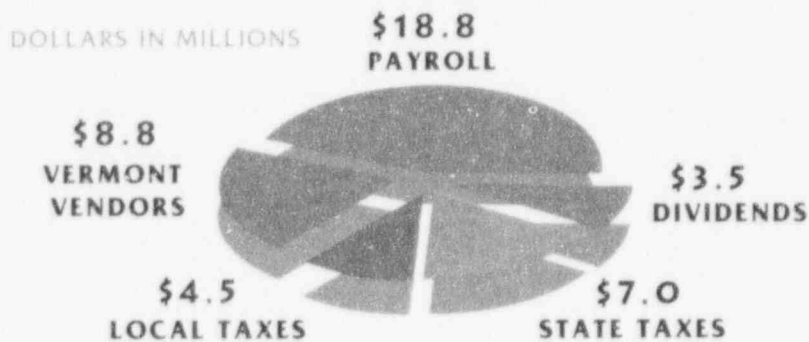


Low-Level Radioactive Waste Disposal

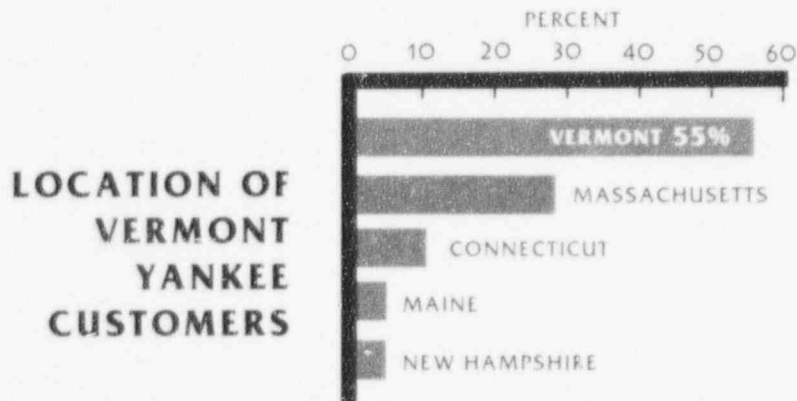
The proposed Compact between Texas, Vermont and Maine was approved by the respective states during 1994 and is expected to be ratified by the U.S. Congress during early 1995. Construction of a disposal facility in the host state of Texas will begin when ratified and deliveries are projected to start during 1997.

Impact on the Vermont Economy

Vermont Yankee makes substantial direct contributions to the Vermont economy in the form of employee wages, state and local taxes and fees, payments to Vermont vendors, and dividends to Vermont shareholders. The chart below shows the amount of these payments during 1994.



The Company provides 55% of the electricity we produce to Vermont utilities, which gives Vermonters the benefit of our low cost electricity. Also, since 45% of our output is sold to utilities outside of Vermont, we are one of Vermont's largest exporters. The value of our electricity exported to other New England states during 1994 was over \$73 million. Vermont leads the Nation

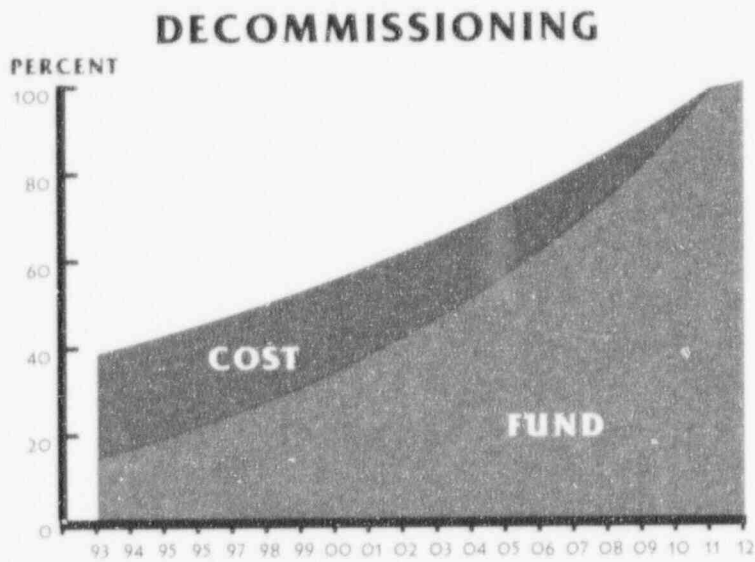


LOCATION OF VERMONT YANKEE CUSTOMERS

with the highest percent of total electric generation in the state from nuclear power (79.5% during 1994). The chart to the right compares percent of nuclear generation by state based on year-end 1993 statistics (1994 statistics not available at time of this publication).

Funding for Decommissioning

Vermont Yankee continues to fund for the ultimate decommissioning of our plant with the goal of restoring the plant site to its original condition once we have concluded operations. At the end of 1994, the Decommissioning Trust totalled \$113.3 million out of a projected decommissioning cost of \$329.6 million (1994 dollars). The chart below depicts decommissioning funding status:



Industrial Safety

Three years ago, Vermont Yankee enhanced its industrial safety program by appointing a full-time safety coordinator to implement a program of formal safety inspections. The Company also instituted a program for employees to submit safety suggestions, an industrial safety program which rewards employees each month for achieving safety goals, and revised the employee safety manual. These efforts contributed to the achievement of an important milestone during February, 1994 - one million hours without a lost time accident.

US Leaders Nuclear Power Generated by State (1993)

STATE	% NUCLEAR
VERMONT	78.4
CONNECTICUT	75.9
NEW JERSEY	72.7
MAINE	71.7
NEW HAMPSHIRE	62.0
SOUTH CAROLINA	61.1
ILLINOIS	55.9
VIRGINIA	43.5
PENNSYLVANIA	35.7
ARKANSAS	35.6



Financial Review

Operating revenues of the Company are billed and received from customers based on the terms of the Power Contracts. Under those contracts, customers are severally required to pay the Company an amount equal to their respective entitlement share of the Company's total fuel costs, operating expenses, and a return on net unit investment.

Operating revenues decreased in 1994 from 1993 by \$17.3 million, or 9.6%, primarily due to lower operating and maintenance costs. Maintenance expense decreased \$13.2 million and other operating expenses decreased \$5.4 million, both reflecting differences in costs between a year with a scheduled refueling and maintenance shutdown (1993) and one without (1994). The plant operates on an eighteen-month refueling cycle, with the last scheduled refueling completed in October, 1993.

Nuclear fuel expense increased by \$3.0 million in 1994 from 1993 reflecting excellent operating performance and the lack of a scheduled refueling shutdown which allowed the plant to generate 26% more electricity in 1994.

Depreciation expense increased by \$0.7 million in 1994 as a result of an increase in depreciable assets including two major additions, a new spent fuel pool cooling system and new feedwater heaters, which were placed in service in 1993. Decommissioning expense increased \$0.5 million in 1994 due to the inflation factor included in the Company's decommissioning rate schedule as approved by the Federal Energy Regulatory Commission (FERC).



Interest income increased by \$0.8 million in 1994 due to an increase in the Spent Fuel Disposal Fee Defeasance Trust balance and higher interest rates during 1994. Higher interest rates were also responsible for the \$1.1 million increase in interest expense on the disposal costs for spent nuclear fuel because the interest rate charged by the DOE is related to the rate of thirteen-week U.S. Treasury Bills. Interest expense on long-term debt decreased by \$1.1 million in 1994 reflecting the Series I 6.48% first mortgage bonds issued by the Company in November, 1993. The proceeds of the Series I bonds were used to retire the Company's then outstanding Series D, E, F, G, and H bonds that had coupon rates ranging from 8.25% to 10.125%.

Net income and the associated income taxes decreased by \$1.2 million and \$0.6 million, respectively in 1994. These decreases were the result of lower differences between the Company's net unit investment and total capitalization computed in accordance with the Company's formula rate, and a settlement approved by the FERC which reduced the Company's authorized return on equity from 12.25% to 11.0% on August 1, 1994.

*"...Operations
and
maintenance
cost
(excluding fuel),
was a
very
competitive
1.17 cents
per
kilowatt hour."*



Report of Independent Public Accountants

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

We have audited the accompanying balance sheet of Vermont Yankee Nuclear Power Corporation as of December 31, 1994 and 1993, and the related statements of income and retained earnings and cash flows for the years then ended. 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. The financial statements of Vermont Yankee Nuclear Power Corporation as of December 31, 1992, were audited by other auditors whose report, dated February 5, 1993, expressed an unqualified opinion on those statements and included an additional paragraph discussing the Company's 1992 change in accounting for postretirement benefits other than pensions.

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 as of December 31, 1994 and 1993, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in note 10 of the accompanying financial statements, effective January 1, 1993 the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

Arthur Andersen LLP

Boston, Massachusetts



Statements of Income and Retained Earnings

Years ended December 31,

	1994	1993	1992
	(Dollars in thousands except per share amounts)		
Operating revenues	\$162,757	\$180,145	\$175,919
Operating expenses:			
Nuclear fuel expense	22,520	19,526	21,240
Other operating expense	68,591	74,013	72,967
Maintenance expense	18,193	31,405	27,878
Depreciation and amortization expense	14,404	13,707	13,253
Decommissioning expense (NOTE 2)	11,860	11,315	10,649
Taxes on income (NOTE 10)	2,830	3,777	3,401
Property and other taxes	10,004	9,961	10,227
Total operating expenses	148,402	163,704	159,615
Operating income	14,355	16,441	16,304
Other income and (deductions):			
Net earnings on decommissioning trust (NOTES 2 and 5)	5,271	5,653	5,395
Decommissioning expense (NOTE 2)	(5,271)	(5,653)	(5,395)
Allowance for equity funds used during construction	110	92	89
Interest	2,397	1,550	2,046
Taxes on other income (NOTE 10)	(986)	(623)	(756)
Other, net	(5)	(232)	(199)
	1,516	787	1,180
Income before interest expense	15,871	17,228	17,484
Interest expense:			
Interest on long-term debt	6,173	7,281	7,101
Interest on spent fuel disposal fee obligation (NOTE 8)	3,367	2,450	2,801
Allowance for borrowed funds used during construction	(257)	(297)	(339)
Total interest expense	9,283	9,434	9,563
Net income	6,588	7,794	7,921
Retained earnings at beginning of year	1,067	1,178	1,166
Dividends declared	6,279	7,905	7,909
Retained earnings at end of year	\$ 1,376	\$ 1,067	\$ 1,178
Average number of shares outstanding in thousands	392	392	392
Net income per average share of common stock outstanding	\$ 16.79	\$ 19.86	\$ 20.18
Dividends per average share of common stock outstanding	\$ 16.00	\$ 20.14	\$ 20.15

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



Balance Sheets

Assets

	December 31,	
	1994	1993
	(Dollars in thousands)	
Utility plant:		
Electric plant, at cost (NOTE 6)	\$ 376,551	\$ 374,736
Less accumulated depreciation	212,569	198,389
	163,982	176,347
Construction work in progress	645	597
Net electric plant	164,627	176,944
Nuclear fuel at cost (NOTE 6):		
Assemblies in reactor	69,108	69,063
Fuel in Stock	20,038	-
Spent fuel	287,700	287,700
	376,846	356,763
Less accumulated amortization of burned nuclear fuel	333,990	317,039
	42,856	39,724
Less accumulated amortization of final core nuclear fuel	7,849	7,220
Net nuclear fuel	35,007	32,504
Net utility plant	199,634	209,448
Current assets:		
Cash and cash equivalents	1,285	2,349
Accounts receivable from sponsors	16,742	12,235
Other accounts receivable	1,471	4,522
Materials and supplies, net of amortization	17,165	17,081
Prepaid expenses	4,753	3,949
Total current assets	41,416	40,136
Deferred charges:		
Deferred decommissioning costs (NOTE 2)	38,238	54,379
Accumulated deferred income taxes (NOTE 10)	20,740	18,231
Deferred DOE enrichment site decontamination and decommissioning fee (NOTE 4)	14,200	18,627
Deferred low-level radioactive waste expenses (NOTES 4 and 15)	26,458	2,118
Net unamortized loss on reacquired debt	2,698	2,942
Other deferred charges	1,563	1,525
Total deferred charges	103,897	77,822
Long-term funds, at fair market:		
Decommissioning trust (NOTES 2, 5, and 7)	113,256	98,880
Spent fuel disposal fee defeasance trust (NOTES 5, 7, and 8)	53,939	43,484
Total long-term funds	167,195	142,364
	<u>\$512,142</u>	<u>\$469,770</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



Capitalization and Liabilities

	December 31,	
	1994	1993
	(Dollars in thousands)	
Capitalization:		
Common stock equity:		
Common stock, \$100 par value; authorized 400,100 shares; issued 400,014 shares of which 7,533 are held in Treasury	\$ 40,001	\$ 40,001
Additional paid-in capital	14,226	14,226
Treasury stock (7,533 shares at cost)	(1,130)	(1,130)
Retained earnings	1,376	1,067
Total common stock equity	54,473	54,164
Long-term obligations, net (NOTES 6 and 7)	75,845	79,636
Total capitalization	130,318	133,800
Commitments and contingencies (NOTES 2, 14 and 15)		
Spent fuel disposal fee and accrued interest (NOTES 7 and 8)	84,055	80,688
Current liabilities:		
Accrued liabilities	22,160	21,487
Accounts payable	4,072	2,117
Accrued interest	1,116	635
Accrued taxes	1,767	1,206
Total current liabilities	29,115	25,445
Deferred credits:		
Accrued decommissioning costs (NOTE 2)	155,310	134,614
Accumulated deferred income taxes	55,763	56,478
Net regulatory tax liability (NOTE 10)	8,351	8,351
Accumulated deferred investment tax credits	6,581	7,013
Accrued DOE enrichment site decontamination and decommissioning fee (NOTE 4)	12,092	15,966
Accrued low level radioactive waste (NOTES 4 and 15)	23,935	-
Accrued employee benefits	6,622	7,415
Total deferred credits	268,654	229,837
	<u>\$512,142</u>	<u>\$469,770</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



Statements of Cash Flows

Years ended December 31,

	1994	1993	1992
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 6,588	\$ 7,794	\$ 7,921
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of nuclear fuel	17,581	15,410	18,143
Depreciation and amortization	14,404	13,707	13,253
Decommissioning expense	11,860	11,315	10,649
Deferred tax expense	(3,225)	(979)	(2,169)
Amortization of deferred investment tax credits	(431)	(577)	(641)
Nuclear fuel disposal fee interest accrual	3,367	2,450	2,802
Interest and dividends on disposal fee defeasance trust	(2,265)	(1,402)	(1,385)
(Increase) decrease in accounts receivable	(1,457)	1,365	688
(Increase) decrease in prepaid expenses	(804)	432	(1,159)
(Increase) in materials and supplies inventory	(84)	(219)	(454)
Increase (decrease) in accounts payable and accrued liabilities	2,628	3,729	(8,534)
Increase (decrease) in interest and taxes payable	1,042	(605)	306
Other	2,086	(111)	(329)
Total adjustments	44,702	44,515	31,170
Net cash provided by operating activities	51,290	52,309	39,091
Cash flows from investing activities:			
Electric plant additions and retirements	(2,086)	(7,229)	(10,750)
Nuclear fuel additions	(20,083)	(18,303)	(4,707)
Payments to decommissioning trust	(11,925)	(11,250)	(10,612)
Payments to spent fuel disposal fee defeasance trust	(8,190)	(8,190)	(5,190)
Net cash used in investing activities	(42,284)	(44,972)	(31,259)
Cash flows from financing activities:			
Dividend payments	(6,279)	(7,905)	(7,909)
Issuance of Series I first mortgage bonds, net	-	75,125	-
Retirement of first mortgage bonds including redemption costs	-	(74,629)	(6,521)
Payments of long-term obligations	(133,945)	(137,911)	(107,763)
Borrowings under long-term agreements	130,154	138,410	111,215
Net cash used in financing activities	(10,070)	(6,910)	(10,978)
Net increase (decrease) in cash and cash equivalents	(1,064)	427	(3,146)
Cash and cash equivalents at beginning of year	2,349	1,922	5,068
Cash and cash equivalents at end of year	\$ 1,285	\$ 2,349	\$ 1,922

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



NOTE 1. Summary of Significant Accounting Policies

(a) Regulations and Operations

Vermont Yankee Nuclear Power Corporation ("the Company") is subject to regulations prescribed by the Federal Energy Regulatory Commission ("FERC"), and the Public Service Board of the State of Vermont with respect to accounting and other matters. 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.

Prior to November 1993, the Company was subject to regulation by the Securities and Exchange Commission. As a result of the debt refinancing discussed in NOTE 6, the Company is no longer subject to such regulation.

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 severally 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 (12.25% through July 31, 1994 and 11.0% thereafter). 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, which extends to March, 2012. Depreciation expense was equivalent to overall effective rates of 3.84%, 3.74% and 3.69% for the years 1994, 1993 and 1992, 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, is charged to the accumulated provision for depreciation.

(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.

Notes to Financial Statements



Notes to Financial Statements

*"Vermont
continues
to lead
the nation
as the state
with the highest
percentage of
total electrical
generation...
from
nuclear power."*

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The Company amortizes to expense on a straight-line basis 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 in conformity with rates authorized by the FERC.

(d) Amortization of Materials and Supplies

The Company amortizes to expense a formula amount designed to fully amortize the cost of the material and supplies inventory that is expected to be on hand at the expiration of the Plant's NRC operating license.

(e) Long-term Funds

Effective January 1, 1994 the Company began accounting for its investments in long-term funds at fair value as required by Statement of Financial Accounting Standard 115. See NOTE 5 for further discussion of this change in accounting method.

(f) Amortization of Loss on Recquired Debt

The difference between the amount paid upon reacquisition of any debt security and the face value thereof, adjusted for any unamortized premium or discount, related unamortized debt expense and reacquisition costs, applicable to the reacquired debt, is deferred by the Company and amortized to expense on a straight-line basis over the remaining life of the new debt issuance.

(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 through higher revenues associated with higher depreciation and amortization expense.

AFUDC was capitalized at overall effective rates of 5.42%, 5.92% and 6.82% for 1994, 1993 and 1992, 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 for further detail.

(i) Taxes on Income

Effective January 1, 1993, the Company began accounting for taxes on income under the liability method required by Statement of Financial Accounting Standard 109. See NOTE 10 for a further discussion of this change in accounting method.

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 an original maturity of three months or less to be cash equivalents.

(k) Reclassifications

Certain information in the 1993 and 1992 financial statements has been reclassified to conform with the 1994 presentation.

(l) Earnings per Common Share

Earnings per common share have been computed by dividing earnings available to common stock by the weighted average number of shares outstanding during the year.

NOTE 2. Decommissioning

The Company accrues estimated decommissioning costs for its nuclear plant over its remaining NRC licensed life based on studies by an independent engineering firm that assume that decommissioning will be accomplished by the prompt removal and dismantling method (DECON). This method requires that radioactive materials be removed from the plant site and that all buildings and facilities be dismantled immediately after shutdown. Studies estimate that approximately seven years would be required to dismantle the Plant at shutdown, remove non-fuel wastes and restore the site. Studies also assume that spent fuel will be stored on-site in a dry fuel storage facility until 2025. The Company will implement rate changes effective January 1, 1995 based on a settlement agreement with the FERC which allowed \$312.7 million, in 1993 dollars, as the estimated decommissioning cost (NOTE 3). This allowed amount is used to compute the Company's liability and billings to the Sponsors. Based on an assumed cost escalation rate of 5.4% per annum and an expiration of the Plant's NRC operating license in 2012, the estimated current cost of decommissioning is \$329.6 million and, at the end of 2012, is approximately \$816.6 million. The present value of the pro rata portion of decommissioning costs recorded to date is \$155.3 million. On December 31, 1994, the fair market value of the market value in the Decommissioning Trust was \$113.3 million.

Billings to Sponsors for estimated decommissioning costs commenced during 1983, at which time the Company recorded a deferred charge for the present value 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.

Cash received from Sponsors for plant decommissioning costs is deposited directly into the Vermont Yankee Decommissioning Trust in either the Qualified Fund (i.e., amounts currently deductible pursuant to the IRS regulations) or the Nonqualified Fund (i.e., excess collections pursuant to FERC authorization which are not currently deductible). Through December 31, 1994, funds held by the Trust were invested in high-grade U.S. government securities and municipal obligations. As discussed in NOTE 3, in connection with the rate changes effective January 1, 1995, the Company will change its decommissioning strategy as



Notes to Financial Statements

authorized by the FERC. Interest earned by the Decommissioning Trust assets is recorded in other income and deductions, with an equal and offsetting amount representing the current period decommissioning cost funded by such earnings reflected as decommissioning expense.

The staff of the Securities and Exchange Commission has questioned certain of the current accounting practices of the electric utility industry, including the Company, regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in the financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board ("FASB") has agreed to review the accounting for removal costs, including decommissioning. The FASB has not yet reached any conclusion on this matter. However, the Company does not believe that any changes to the Company's current accounting practices for decommissioning costs, if required, would have an adverse effect on the results of operations due to its current and future ability to recover decommissioning costs from sponsors.

NOTE 3. FERC Rate Case Matters

On March 26, 1993, the FERC initiated a review of the return on common equity component of the formula rates included in the Company's Power Contracts. On October 22, 1993, the FERC approved a settlement whereby the Company retained its 12.25% authorized rate of return on common equity and agreed to credit monthly power billings by approximately \$85,000 plus a tax impact of \$54,000 beginning in June, 1993.

On June 15, 1994, the Company filed an application with the FERC to change its wholesale rates based on a settlement reached in advance with interested parties. The primary changes to the Company's wholesale rates included (1) an increase in the decommissioning cost estimates, a revised decommissioning funding schedule, and a revised decommissioning investment strategy, (2) a reduction in the rate of return on common equity from 12.25% to 11.0%, and (3) various billing changes necessary to reflect the implementation of the requirements of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, to deduct certain reserves from the calculation of net unit investment under the Power Contracts, and to include in rates certain payments that the Company will be required to make for low-level radioactive waste disposal (NOTE 15). On September 2, 1994, the Company received FERC approval. The rate decrease related to the reduction in the rate of return on common equity went into effect on August 1, 1994. All other rate changes will commence on January 1, 1995.

The revised estimate of decommissioning costs approved by FERC, is \$312.7 million, in 1993 dollars, and the revised schedule of future annual decommissioning fund collections reflects an annual decommissioning cost escalation rate of 5.4% and a financial inflation rate of 4%. The approved investment strategy for decommissioning funds under which those funds will be invested uses a balanced approach subject to strict guidelines which cover permissible and impermissible investments, diversification criteria, and quality standards. Under the approved investment strategy, no more than 30% of the Decommissioning Trust funds can be invested in common or preferred equities and no more than 35% in corporate bonds.

On October 28, 1994, the Company filed an application with the FERC to effect a \$175,632 reduction for 1994 over 1993 and an increase of \$230,324 for 1995 over 1994 in one component of its rates - the amount recovered for Post-retirement Benefits Other than Pensions (NOTE 13). On December 9, 1994, the Company received FERC approval allowing all such costs to be recovered in rates.



NOTE 4. Other Deferred Charges and Credits

In October, 1992, Congress passed the Energy Policy Act of 1992 which requires, among other things, that certain utilities help pay for the cleanup of the DOE's enrichment facilities over a 15-year period. The Company's annual fee is estimated based on the historical share of enrichment service provided by the DOE and is indexed to inflation. These fees will not be adjusted for future business as the DOE's future cost of sales will include a decontamination and decommissioning component. The Act stipulates that the annual fee shall be fully recoverable in rates in the same manner as other fuel costs.

In 1994, the Company paid the second and third of the 15 annual fees. As of December 31, 1994, the Company has recognized a current accrued liability of \$11 million for the fee payment expected to be made in 1995, a deferred credit of \$12.1 million for the expected 11 annual fee payments that are due subsequent to 1995 and a corresponding regulatory asset of \$14.2 million which represents the total amount includable in future billings to the purchasers under the Power Contracts. These amounts were changed during 1994 to reflect a reduction in Vermont Yankee's assessment resulting from the Company's successful appeal of the initial assessed amount.

In 1994, the states of Vermont, Maine and Texas each ratified legislation to join a low-level radioactive waste disposal compact for the purpose of disposing of low-level radioactive waste in the state of Texas (NOTE 15). During 1994, the Company recorded a deferred credit of \$23.9 million to recognize the \$27.5 million compact fund requirements less the fund balance remaining for the Vermont Low Level Radioactive Waste Authority ("VLLRWA") and a corresponding deferred debit of \$26.5 million which represents the total amount to be included in future billings to the purchasers under the Power Contracts. On June 30, 1994, the VLLRWA was eliminated and its responsibilities transferred to the Vermont Department of Natural Resources.

NOTE 5. Long-term Funds

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which established standards for financial accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. All investment securities impacted by the guidelines of this provision must be classified as either trading, available-for-sale, or held-to-maturity securities. Both trading and available-for-sale securities must be reflected on the balance sheet at their aggregate fair values.

Prior to 1994, the Company accounted for its investments in Long-term funds at amortized cost. Prior periods have not been restated to reflect this new accounting.

The Company has two irrevocable trusts which are impacted by the provisions of the Statement. The Company has classified the Decommissioning Trust as available-for-sale securities. This trust had an unrealized net loss of \$2,004,000 as of December 31, 1994 which is offset in deferred decommissioning costs. The Spent Fuel Disposal Fee Defeasance Trust is classified entirely as held-to-maturity as the Company has the positive intent and ability to hold all securities in this trust to maturity. These securities require no adjustment to market as of December 31, 1994.

*"...the only
boiling water
reactor
of the 24
that went
on-line
before 1985
to have a
lifetime
capacity factor
of 75%."*

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Notes to Financial Statements

*"Once again,
Vermont Yankee
ranks as
one of
the world's
best
nuclear power
plants."*

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

	1994		1993	
	Book value	Market value	Book value	Market value
(Dollars in thousands)				
Decommissioning Trust:				
U.S. Treasury obligations	\$29,296	\$28,836	\$17,262	18,666
Municipal obligations	83,530	81,986	79,755	84,576
Accrued interest and money market funds	2,434	2,434	1,863	1,863
	115,260	113,256	98,880	105,105
Spent Fuel Disposal Fee Defeasance Trust:				
Short-term investments	53,176	53,176	39,870	39,870
Corporate bonds and notes	-	-	3,195	3,083
Accrued interest and money market funds	763	763	419	419
	53,939	53,939	43,484	43,372
Total long-term investments	\$169,199	\$167,195	\$142,364	\$148,477

Pursuant to the Company's arrangements with its customers, the difference between market value and book value of the Decommissioning Trust has been recorded as an increase to deferred decommissioning costs. Specifically, the Company's contracts with its customers provide for full recovery of decommissioning costs and any excess or shortage in the fund including those resulting from investment performance will be refunded to or collected from the customers.

At December 31, 1994 and 1993, gross unrealized gains and losses pertaining to the long-term investment securities in the Decommissioning Fund were as follows:

	1994	1993*
(Dollars in thousands)		
Unrealized gains on U.S. Treasury obligations	\$ 48	\$ 1,431
Unrealized losses on U.S. Treasury obligations	(508)	(27)
Unrealized gains on Municipal obligations	728	4,843
Unrealized losses on Municipal obligations	(2,272)	(22)
Unrealized losses on corporate bonds and notes	-	(112)
	\$ (2,004)	\$ 6,113

* Includes Spent Fuel Disposal Fee Defeasance Trust

At December 31, 1994, gross realized gains and losses pertaining to the long-term investment securities were as follows:

	Total Sale Proceeds	Gross Realized Gain	Gross Realized Loss
Decommissioning Spent fuel disposal fee defeasance	\$35,826,252	\$210,900	\$(613,540)
	\$3,200,000	\$7,500	\$(2,000)

Maturities of short-term obligations, bonds and notes (face amount) at December 31, 1994 and 1993 are as follows (dollars in thousands):

	1994 Decommissioning Trust	1994 Disposal Fee Defeasance Trust	1993 Decommissioning Trust	1993 Disposal Fee Defeasance Trust
Within one year	\$25,335	\$52,237	\$2,000	\$40,200
One to five years	42,069	-	13,277	3,200
Five to ten years	30,210	-	54,530	-
Over ten years	13,638	-	23,500	-
	<u>\$111,252</u>	<u>\$52,237</u>	<u>\$93,307</u>	<u>\$43,400</u>

NOTE 6. Long-term Obligations

A summary of long-term obligations at December 31, 1994 and 1993 is as follows:

	1994 (Dollars in thousands)	1993
First mortgage bonds:		
Series I - 6.48% due 2009	\$ 75,845	75,845
Eurodollar Agreement Commercial Paper	-	3,791
Total long-term obligations	<u>\$ 75,845</u>	<u>\$ 79,636</u>

The first mortgage bonds are issued under, have the terms and provisions set forth in, and are secured by an Indenture of Mortgage dated as of October 1, 1970 between the Company and the Trustee, as modified and supplemented by 13 supplemental indentures. All bonds are secured by a first lien on utility plant, exclusive of nuclear fuel, and a pledge of the Power Contracts and the Additional Power Contracts (except for fuel payments) and the Capital Funds Agreements with Sponsors.

On July 1, 1993, the Company retired the outstanding Series B and Series C first mortgage bonds. In November, 1993, the Company issued \$75.8 million of Series I, first mortgage bonds stated to mature on



Notes to Financial Statements

November 1, 2009. The Company applied the proceeds of the bond issuance principally to retire the remaining Series D, Series E, Series F, Series G and Series H first mortgage bonds including call premiums totalling \$3.7 million. Cash sinking fund requirements for the Series I first mortgage bonds are \$5.4 million annually beginning in November, 1999.

The Company has a \$75.0 million Eurodollar Credit Agreement that expires on December 31, 1996 subject to one optional one-year extension. The Company issued commercial paper under this agreement with weighted average interest rates of 4.28% for 1994 and 3.22% for 1993. Payment of the commercial paper is supported by the Eurodollar Credit Agreement, which is secured by a second mortgage on the Company's generating facility.

NOTE 7. Disclosures About the Fair Value of Financial Instruments

The carrying amounts for cash and temporary investments, trade receivables, accounts receivable from sponsors, accounts payable and accrued liabilities approximate their fair values because of the short maturity of these instruments. The fair values of long-term funds are estimated based on quoted market prices for these or similar investments. The fair values of each of the Company's long-term debt instruments are estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities.

The estimated fair value of the Company's financial instruments as of December 31 are summarized as follows (dollars in thousands):

	1994		1993	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Decommissioning Trust Spent Fuel Disposal Fee	\$115,260	\$113,256	\$98,880	\$105,105
Defeasance Trust	53,939	53,939	43,484	43,372
Long-term debt	75,845	63,331	79,636	77,361
Spent fuel disposal fee and accrued interest	84,055	84,055	80,688	80,688

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 8. Spent Fuel Disposal Fee

The Company has a contract with the 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 quarterly fee of 1 mil per kwh of electricity generated and sold, the 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 contract to be prior to January 31, 1998.



The DOE contract obligates the Company to pay a one-time fee of approximately \$39.3 million 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. Through 1994, the Company accumulated \$53.9 million in an irrevocable trust to be used exclusively for defeasing this obligation (\$84.1 million including accrued interest) at some future date, provided the DOE complies with the terms of the aforementioned contract.

NOTE 9. Short-term Borrowings

The Company had lines of credit from various banks totalling \$6.3 million at December 31, 1994 and 1993. The maximum amount of short-term borrowings outstanding at any month-end during 1994, 1993 and 1992 was approximately \$0.2 million, \$0.2 million and \$0.6 million, respectively. The average daily amount of short-term borrowings outstanding was approximately \$0.2 million for 1994, \$0.3 million for 1993, and \$0.1 million for 1992 with weighted average interest rates of 6.6% in 1994, 5.75% in 1993, and 6.12% in 1992. There were no amounts outstanding under these lines of credit as of December 31, 1994 and 1993.

NOTE 10. Taxes on Income

In February, 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which required the Company on January 1, 1993 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 ("temporary differences").

This new statement requires recognition of deferred tax liabilities for (a) income tax benefits associated with timing differences previously passed on to customers and (b) the equity component of allowance for funds used during construction, and of a deferred tax asset for the tax effect of the accumulated deferred investment tax credits. It also requires the adjustment of deferred tax liabilities or assets for an enacted change in tax laws or rates, among other things.

Although adoption of this new statement has not and is not expected to have a material impact on the Company's cash flow, results of operations or financial position because of the effect of rate regulation, the Company was required to recognize an adjustment to accumulated deferred income taxes and a corresponding regulatory asset or liability to customers (in amounts equal to the required deferred income tax adjustment) to reflect the future revenues or reduction in revenues that will be required when the temporary differences turn around and are recovered or settled in rates. In addition, this new statement required a reclassification of certain deferred income tax liabilities to liabilities to customers in order to reflect the Company's obligation to flow back deferred income taxes provided at rates higher than the current 35% federal tax rate. The Company has applied the provisions of this new statement without restating prior year financial statements.

*"The value
of our
electricity
exported
to other
New England
states
during 1994
was over
\$73 million."*

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The components of income tax expense for the years ended December 31, 1994, 1993 and 1992 are as follows:

	1994	1993	1992
	(Dollars in thousands)		
Taxes on operating income:			
Current federal income tax	\$ 5,111	\$ 4,236	\$ 4,926
Deferred federal income tax	(2,839)	(1,059)	(1,840)
Current state income tax	1,376	1,097	1,285
Deferred state income tax	(386)	80	(329)
Investment tax credit adjustment	(432)	(577)	(641)
	<u>2,830</u>	<u>3,777</u>	<u>3,401</u>
Taxes on other income:			
Current federal income tax	784	496	598
Current state income tax	202	127	158
	<u>986</u>	<u>623</u>	<u>756</u>
Total income taxes	<u>\$ 3,816</u>	<u>\$ 4,400</u>	<u>\$ 4,157</u>

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

	1994	1993	1992
Federal statutory rate	35.0%	35.0%	34.0%
State income taxes, net of federal income tax benefit	7.4	6.9	6.1
Investment credit	(4.2)	(4.7)	(5.3)
Book depreciation in excess of tax basis	2.3	2.0	1.9
Flowback of excess deferred taxes	(3.5)	(3.6)	(3.1)
Other	(0.3)	0.5	0.8
	<u>36.7%</u>	<u>36.1%</u>	<u>34.4%</u>

The items comprising deferred income tax expense are as follows:

	1994	1993	1992
	(Dollars in thousands)		
Decommissioning expense not currently deductible	\$ (432)	\$ (351)	\$ (104)
Tax depreciation over (under) financial statement depreciation	(1,566)	(978)	(679)
Tax fuel amortization over (under) financial statement amortization	(19)	(255)	(637)
Tax loss on reacquisition of debt over (under) financial statement expense	(99)	1,887	187
Pension expense not currently deductible	(397)	(167)	(192)
Postemployment benefits deduction over (under) financial statement expense	77	67	(141)
Amortization of materials and supplies not currently deductible	(325)	(335)	(343)
Low-level waste deduction over (under) financial statement expense	(211)	(596)	139
Flowback of excess deferred taxes	(359)	(442)	(376)
Other	106	191	(23)
	<u>\$ (3,225)</u>	<u>\$ (979)</u>	<u>\$ (2,169)</u>



The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1994 and 1993 are presented below:

	December 31, 1994	December 31, 1993
	(Dollars in thousands)	
Deferred tax assets:		
Accumulated amortization of final nuclear core	\$ 3,168	\$ 2,914
Nuclear decommissioning liability	3,309	2,810
Regulatory liabilities	5,619	5,856
Accumulated deferred investment credit	2,656	2,830
Accumulated amortization of materials and supplies	2,657	2,281
Pension and retiree benefit liabilities	2,673	2,353
Other	2,042	418
Total gross deferred tax assets	22,124	19,462
Less valuation allowance	(1,384)	(1,231)
Net deferred tax assets	20,740	18,231
Deferred tax liabilities:		
Plant and equipment	(50,805)	(51,258)
Other	(4,958)	(5,220)
Total gross deferred tax liabilities	(55,763)	(56,478)
Net deferred tax liability	\$ (35,023)	\$ (38,247)

The valuation allowance is the result of a provision in Vermont tax law which limits refunds resulting from carrybacks of net operating losses.

NOTE 11. Supplemental Cash Flow Information

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

	1994	1993	1992
	(Dollars in thousands)		
Cash paid during the year for:			
Interest (net of amount capitalized)	\$ 5,108	\$ 7,632	\$ 7,062
Income taxes	\$ 7,525	\$ 7,070	\$ 6,192

Notes to Financial Statements



NOTE 12. Pension Plans

The Company has two noncontributory 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.

The aggregate funded status of the Company's pension plans as of December 31, 1994 and 1993 is as follows:

	December 31,	
	1994	1993
	(Dollars in thousands)	
Vested benefits	\$ 8,718	\$ 8,882
Nonvested benefits	1,136	1,338
Accumulated benefit obligation	9,854	10,220
Additional benefits related to future compensation levels	5,126	8,540
Projected benefit obligation	14,980	18,760
Fair value of plan assets, invested primarily in equities and bonds	16,559	16,343
Projected benefit obligation in excess (less than) of plan assets	\$ (1,579)	\$ 2,417

The decrease in the projected benefit obligation from \$18.8 million in 1993 to \$15 million in 1994 is primarily the result of changed plan assumptions.

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 that is included in the balance sheet appear below.

	December 31,	
	1994	1993
	(Dollars in thousands)	
Unrecognized net transition obligation	\$ 936	\$ 996
Unrecognized net gain	(8,559)	(4,086)
Pension liability included in balance sheet	5,511	4,866
Unrecognized prior service costs	533	641
Projected benefit obligation (less than) greater than plan assets	\$ (1,579)	\$ 2,417

The following are pension plan assumptions as of December 31, 1994 and 1993:

	December 31,	
	1994	1993
Discount rate	8.0%	7.0%
Compensation scale	4.5%	5.5%
Expected return on assets	8.5%	8.5%



Net pension expense for the three years ending December 31, 1994 included the following components:

	1994	1993	1992
	(Dollars in thousands)		
Service cost - benefits earned	\$ 1,282	\$ 1,141	\$ 1,275
Interest cost on projected benefit obligation	1,361	1,288	1,305
Actual (return) loss on plan assets	(1,530)	(1,792)	(867)
Net amortization and deferral	186	631	78
Net pension expense	\$ 1,299	\$ 1,268	\$ 1,791

NOTE 13. Postretirement Benefits Other Than Pensions

On January 1, 1992 the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106). This statement requires companies to use accrual accounting for postretirement benefits other than pensions ("PBOP" on "PBOPs"). Prior to 1992, the Company accrued and collected a portion of PBOP costs through decommissioning billings while the remaining cost was expensed when benefits were paid. Since January, 1992, the Company has accrued PBOP costs determined in accordance with SFAS 106 and has included the incremented cost in excess of the amount being collected through decommissioning billings, in its monthly power billings to Sponsors. The Company is funding this liability by placing monies in separate trusts. In order to maximize the deductible contributions permitted under IRS regulations, the Company amended its pension plans and established separate VEBA trusts for management and union employees.

In December, 1992, the FERC issued its policy statement setting forth how utilities can recover in rates the increased costs associated with the implementation of SFAS 106. The policy statement specifies three conditions that must be met before FERC will consider companies' election of the accrual method: (a) the Company must agree to make cash deposits to an irrevocable external trust fund, at least quarterly, in amounts that are proportional and, on an annual basis, equal to the annual test period allowance for postretirement benefits other than pensions; (b) the Company must agree to maximize the use of income tax deductions for contributions to funds of this nature; and (c) in order to recover the transition obligation, the Company must file a general rate change within three years of adoption of SFAS 106.

On September 2, 1994, the FERC approved the Company's rate filing which included establishing an additional SFAS 106 transition obligation of \$2.7 million, the total amount deposited in the decommissioning fund for PBOPs during 1992, 1993 and 1994. The \$2.7 million amount in the decommissioning fund for PBOPs will remain in the decommissioning fund and reduce future decommissioning funding requirements. This additional transition obligation will be amortized into expense in future years and recovered from customers as amortized. As a result of this filing and compliance with other FERC regulations, the cost for PBOPs is fully recoverable from customers.

"From the beginning of its commercial operation in 1972 through the end of 1994, Vermont Yankee generated over 78 billion kilowatt-hours of electricity."

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The following table presents the plan's funded status reconciled with amounts recognized in the Company's balance sheets as of December 31, 1994 and 1993 (dollars in thousands):

Accumulated postretirement benefit obligation:	1994	1993
Retirees	\$ 1,187	\$ 1,078
Fully eligible active plan participants	1,100	921
Other active participants	8,209	8,071
Total accumulated postretirement benefit obligation	10,496	10,070
Fair value of plan assets, invested primarily in short-term investments	2,891	2,457
Accumulated postretirement benefit obligation in excess of plan assets	\$ 7,605	\$ 7,613
Unrecognized net transition obligation	\$ 7,030	\$ 7,933
Additional unrecognized transition obligation	2,563	-
Unrecognized net gain	(1,988)	(1,980)
Accrued postretirement benefit cost included in accrued liabilities	-	1,660
Accumulated postretirement benefit obligation in excess of plan assets	\$ 7,605	\$ 7,613

The net periodic postretirement benefit cost for 1994 and 1993 includes the following components (dollars in thousands):

	1994	1993
Service cost	\$ 732	\$ 735
Interest cost	691	749
Actual return on plan assets	84	(97)
Net amortization and deferral	54	350
Net periodic postretirement benefit cost	\$ 1,561	\$ 1,737

For measurement purposes, a 13% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 1994; the rate was assumed to decrease gradually to 6% by the year 2001 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1994 by \$2.3 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 1994 by \$0.3 million. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7% at December 31, 1994.

The change in the accumulated postretirement benefit obligation from \$10 million in 1993 to \$10.5 million in 1994 is the result of additional service accruals. The reduction in the unrecognized net transition obligation from \$7.9 million in 1993 to \$7.0 million in 1994 is primarily the result of one additional year of amortization.



NOTE 14. Lease Commitments

The Company leases equipment and systems under noncancelable operating leases. Charges against income for rentals under these leases were approximately \$3.1 million in 1994, \$3.7 million in 1993 and \$2.6 million in 1992. Minimum future rentals as of December 31, 1994 are as follows:

Fiscal years ended	Annual rentals (Dollars in thousands)
1995	\$ 6,397
1996	7,888
1997	7,966
1998	7,944
1999	7,425
Thereafter	28,192

The Company has entered into an agreement with General Electric Capital Corporation to lease turbine components being constructed by General Electric Corporation valued at approximately \$33.4 million including installation costs. Under the lease agreement, the Company will make 120 monthly payments of \$440,464 each commencing on the later of (1) April 15, 1995 or (2) the commissioning date of the equipment. The lease will also include the sale and leaseback of a \$2 million turbine rotor forging previously owned by the Company. The lease will be classified as an operating lease for accounting purposes.

The contract with General Electric for turbine components required progress payments by Vermont Yankee prior to installation of the equipment. Just prior to the first delivery of the equipment, General Electric Capital Corporation reimbursed Vermont Yankee \$11.3 million for those payments and will continue to make the remaining payments until the commencement date of the lease.

NOTE 15. Commitments and Contingencies

Low-level Waste

All efforts to site a low-level radioactive waste facility in Vermont ended during 1994. The Vermont Low Level Radioactive Waste Authority ("VLLRWA") was eliminated and its responsibilities transferred to the Vermont Department of Natural Resources.

During 1994, Vermont joined with the states of Texas and Maine in a three-state compact to site a facility in Texas for the disposal of low-level radioactive waste. Currently, each participating state has obtained approval from its respective legislature. The compact is expected to be ratified by the U.S. Congress early during the 1995 session. If such approval is received and facility development proceeds on schedule, Vermont Yankee will begin sending its waste to Texas during 1997. The Company has stored low-level radioactive waste on its plant site since July 1, 1994. Under the proposed compact, Vermont would pay the State of Texas \$25 million (\$12.5 million when the U.S. Congress ratifies the



Notes to Financial Statements

*"...an
important
milestone
during
February,
1994 -
one million
hours
without a
lost time
accident."*

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compact and \$125 when the facility opens). In addition, Vermont must pay \$25 million (\$1.25 million when Congress ratifies the compact and \$1.25 million when the facility is licensed) for community assistance projects in Hudspeth County, Texas, where the facility will be located. Vermont would also pay one-third of the Texas Low-Level Radioactive Waste Disposal Compact Commission's expenses until the facility opens. The disposal fees for generators in Vermont and Maine would then be set at a level that is the same as charged generators in Texas. During 1994, the company received approval from FERC to recover the cost of this compact from sponsors over the remaining license life of the Plant.

During 1994, the Company recorded a deferred credit of \$23.9 million to recognize the \$27.5 million compact fund requirements less the remaining fund balance from the VLLRWA and a corresponding deferred debit of \$26.5 million which represents the total amount to be included in future billings to the purchasers under the Power Contracts.

Nuclear Fuel

The Company has approximately \$141 million of "requirements based" purchase contracts for nuclear fuel to meet substantially all of its power production requirements through 2002. Under these contracts, any disruption of operating activity would allow the Company to cancel or postpone deliveries until actually needed.

Insurance

The Price-Anderson Act currently limits public liability from a single incident at a nuclear power plant to \$8.9 billion. Any damages beyond \$8.9 billion are indemnified under an agreement with the NRC, but subject to congressional approval. The first \$200 million of liability coverage is the maximum provided by private insurance. The Secondary Financial Protection program is a retrospective insurance plan providing additional coverage up to \$8.7 billion per incident by assessing each of the 110 reactor units that are currently subject to the Program in the United States a total of \$79.3 million, limited to a maximum assessment of \$10 million per incident per nuclear unit in any one year. The maximum assessment is expected to be adjusted at least every five years to reflect inflationary changes.

The above insurance covers all workers employed at nuclear facilities prior to January 1, 1988, for bodily injury claims. The Company has purchased a Master Worker insurance policy with limits of \$200 million with one automatic reinstatement of policy limits to cover workers employed on or after January 1, 1988. Vermont Yankee's contingent liability for a retrospective premium on the Master Worker policy as of December, 1993 is \$3.1 million. The Secondary Financial Protection layer, as referenced above would be excess of the Master Worker policy.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL II and NEIL III) to cover the costs of property damage, decontamination or premature decommissioning resulting from a nuclear incident. All companies insured with NEIL are subject to retroactive assessments if losses exceed the accumulated funds available. The maximum potential assessment against the Company with respect to NEIL II losses arising during the current policy year is \$6.4 million at the time of a first loss and \$13.8 million at the time of a subsequent loss and the NEIL III maximum retroactive assessment is \$8.4 million. The Company's liability for the retrospective premium adjustment for any policy year ceases six years after the end of that policy year unless prior demand has been made.

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Central Vermont Public Service Corporation, Rutland, Vermont



* Elected February 2, 1994

** Resigned February 2, 1994



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Chairman

President and Chief Executive Officer

Vice President, Operations

Vice President, Finance and Treasurer

Vice President, Engineering

Secretary

Manager of Financial Planning, Assistant Treasurer*

Assistant Secretary

* Resigned as of March 31, 1995

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This report is not to be considered an offer to sell or buy
or solicitation of an offer to sell or buy any security

Designer: Jan Kobeski