VERMONT YANKEE NUCLEAR POWER CORPORATION

ANNUAL REPORT 1991

Contents

Page

Contents	Page
Description of Business	1
President's Letter	2
Highlights	3
Common Stock Ownership	3
Financial Review	4
Statements of Income and Retained Earnings	5
Balance Sheets	
Assets	6
Capitalization and Liabilities	7
Statements of Cash Flows	8
Notes to Financial Statements	9
Independent Auditors' Report	21
Board of Directors	22
Officers	22

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

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 has been in full operation since that time except for maintenance and refueling shutdowns. The Plant's operating license, originally due to expire in December, 2007, has been extended to March, 2012.

The Plant is located in Vernon, Vermont and has a net electrical capacity of about 528 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 the operation of the plant. The names of the sponsors and their respective entitlement percentages of the capacity and output of the plant are as follows:

Sponsor	Entitlement Percentage
Central Vermont Public Service Corporation	35.6%
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
	100.0%

President's Letter

Vermont Yankee celebrated another landmark year in 1991, producing enough electricity to supply the power needs of over 500,000 households for an entire year at a rate of 3.69 cents per kilowatt hour. The plant sent more than four billion kilowatt hours of electricity to the New England power grid last year, making it one of our best years in terms of the amount of electricity generated.

For the years 1990 and 1991 combined the plant was the number one General Electric boiling water reactor in the world for availability, or for the percentage of time that electricity was available to the grid during the two-year period. In 1991 electricity was available 93.6% of the time.

A Nuclear Regulatory Commission (NRC) "report card" on the plant's operation for an 18-month period indicated a continued high federal approval of the plant. The report, named the Systematic Assessment of Licensee Performance (SALP), ranked Vermont Yankee's performance from October, 1989 until March, 1991 in five areas as "continued superior performance", the highest grade possible. The categories are plant operations, maintenance and surveillance, engineering and technical support, emergency preparedness and safety assessment and quality verification. In addition to the NRC's normal regulatory process, SALP is designed to ensure compliance with NRC rules and regulations.

Several important financial activities also took place during 1991. The Federal Energy Regulatory Commission approved the Company's $3.5 million annual rate reduction resulting from an extension of the plant operating license from December, 2007, to March, 2012. Vermont Yankee's finance department managed an average of $60 million in decommissioning trust fund assets during 1991, producing a 14.6% total return on investments. A settlement was negotiated with a supplier of nuclear fuel enrichment services eliminating a $2.8 million contract cancellation fee. The Company also settled with the Internal Revenue Service all issues related to a 1984 through 1986 audit resulting in the receipt of over $2 million in tax refunds and interest. Finally, during 1991 Vermont Yankee completed the repurchase of approximately 2% of the outstanding common stock and executed a $10.5 million bond exchange resulting in a reduction in the cost of debt.

Vermont Yankee continues to have an outstanding safety and operating record and ranks as one of the best commercial nuclear power plants in the world, the result of a dedicated staff and a program of continuous improvement.

February 11, 1992

Gary Weigand

J. Gary Weigand

Highlights

	1991	1990	% Change
Financial (dollars in millions):			
Operating Revenues	$151.7	$166.6	-8.9
Net Income	8.5	9.5	-10.5
Total Assets	417.6	395.7	+5.5
Average Number of Shares of Common Stock Outstanding (thousands)	394	400	-1.5
Return on Average Common Equity	15.5%	16.2%	-4.3
Per Share of Common Stock:			
Earnings per Average Common Share	21.56	23.56	-8.9
Dividends Paid per Common Share	23.71	32.32	-26.6
Book Value per Common Share (year end)	138.26	140.52	-1.6
Operating:			
Kilowatt-hour Sales (billions)	4.1	3.6	+13.9
Cost per Kilowatt-hours (cents)	3.69	4.60	-19.8
Number of Employees (year end)	336	336	0.0

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
Lydonville Electric Department	0.6	2,387
	100.0%	392,481

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 the Company's total fuel costs, operating expenses with respect to the Plant, and a return on net unit investment as defined in such power contracts.

Operating revenues decreased in 1991 from 1990 by 8.9%, primarily as a result of lower operating, maintenance, depreciation and decommissioning expenses, offset, in part, by higher fuel and property tax expenses.

Nuclear fuel expense increased by $2.8 million in 1991 from 1990. The increased fuel expense is almost entirely related to increased electrical generation in 1991 due to the fact that a scheduled refueling and maintenance outage was not undertaken during 1991.

Other operating expenses decreased 7.7% to $59.7 million in 1991, largely due to the reversal of a $2.8 million fuel enrichment contract cancellation fee which was originally recorded in 1990. The cancellation fee was withdrawn by the vendor following renegotiations with the Company.

Maintenance expense decreased by $12.9 million in 1991 from 1990 primarily because a refueling outage was not performed during 1991. The plant operates on an eighteen-month refueling cycle, with the last scheduled refueling outage completed in October, 1990.

Depreciation expense decreased by $3.1 million and decommissioning expense decreased by $3.5 million in 1991, primarily as a result of rate reductions related to an extension in the term of the plant's operating license from December, 2007 to March, 2012. The rate reduction was approved by the Federal Energy Regulatory Commission on February 28, 1991, with the new rates effective beginning January 1, 1990.

Property and other taxes increased from $5.2 million in 1990 to $10.3 million in 1991. This 98.1% increase is almost solely the result of an increase in state property taxes following the passage of new tax legislation in early 1991.

Other income, net of other deductions, decreased by $2.2 million in 1991 from 1990. Contributing to this decrease was a loss on the sale of securities, the partial reversal of a 1990 interest income accrual associated with an IRS audit settlement and lower prevailing interest rates. Lower interest rates also produced most of the $1.2 million decrease in 1991 interest expense from 1990.

Net income for 1991 was $1.0 million less than the net income for 1990. The lower net income in 1991 is the result of a decrease in common equity following the Company's repurchase of approximately 2% of the outstanding shares and a lower average net unit investment base used in determining net income.

During the fourth quarter of 1991 the Company paid its seventy-sixth consecutive quarterly dividend to common shareholders.

Statements of Income and Retained Earnings

	Years ended December 31,		
	1991	1990	1989
	(Dollars in thousands except per share amounts)		
Operating revenues	$151,722	$166,583	$145,585
Operating expenses:			
Nuclear fuel expense	24,864	22,110	24,109
Other operating expense	59,666	64,677	51,301
Maintenance	13,664	26,578	19,446
Depreciation	11,800	14,852	14,857
Decommissioning expense (note 2)	8,065	11,536	6,778
Taxes on income (note 9)	3,485	1,669	3,364
Property and other taxes	10,294	5,246	5,599
Total operating expenses	131,838	146,668	125,454
Operating income	19,884	19,915	20,131
Other income and (deductions):			
Earnings on decommissioning fund (notes 2, 5 and 10)	5,558	3,318	3,017
Decommissioning expense (note 2)	(5,558)	(3,318)	(3,017)
Allowance for equity funds used during construction	124	126	219
Interest	1,377	3,634	801
Taxes on other income (note 9)	(447)	(1,397)	(313)
Other, net	(917)	(55)	(50)
	137	2,308	657
Income before interest expense	20,021	22,223	20,788
Interest expense:			
Interest on long-term debt	7,684	7,889	8,551
Interest on disposal costs of spent nuclear fuel (note 7)	4,312	5,319	5,319
Other interest expense	—	—	330
Allowance for borrowed funds used during construction	(465)	(451)	(1,205)
Total interest expense	11,531	12,757	12,995
Net income	8,490	9,466	7,793
Retained earnings at beginning of year	1,982	5,444	5,411
	10,472	14,910	13,204
Dividends declared:			
Preferred stock, $7.48 per share	—	—	592
Common stock, respectively $23.71, $32.32 and $17.92	9,306	12,928	7,168
Retained earnings at end of year	$ 1,166	$ 1,982	$ 5,444
Net income per average share of common stock outstanding	$ 21.56	$ 23.66	$ 18.00

See accompanying notes to financial statements.

Balance Sheets

Assets

	December 31, 1991	December 31, 1990
	(Dollars in thousands)	
Utility plant:		
Electric plant, at cost (note 6)	$355,564	$353,054
Less accumulated depreciation	173,827	162,065
	181,737	190,989
Construction work in progress	4,188	140
Net electric plant	185,925	191,129
Nuclear fuel, at cost:		
Assemblies in reactor	83,213	83,213
Fuel in process	637	4,267
Fuel in stock	22,863	789
Spent fuel	227,040	227,040
	333,753	315,309
Less accumulated amortization of burned nuclear fuel	285,326	265,000
	48,427	50,309
Less accumulated amortization of final core nuclear fuel	5,687	5,011
Net nuclear fuel	42,740	45,298
Net utility plant	228,665	236,427
Current assets:		
Cash	84	2,271
Temporary investments, at amortized cost which approximates market	4,984	5,032
Accounts receivable from sponsors	15,535	12,390
Other accounts receivable	3,275	6,291
Materials and supplies	16,408	14,877
Prepaid expenses	3,222	3,385
Total current assets	43,508	44,246
Deferred charges:		
Deferred decommissioning costs (note 2)	33,655	31,560
Accumulated deferred income taxes	10,358	9,165
Other deferred charges (note 4)	8,029	3,309
Total deferred charges	52,042	44,034
Long-term funds at amortized cost:		
Decommissioning fund (notes 2, 5 and 10)	66,085	53,339
Disposal fee defeasance fund (notes 5, 7 and 10)	27,317	17,606
Total long-term funds	93,402	70,945
	$417,617	$395,652

See accompanying notes to financial statements.

Balance Sheets

Capitalization and Liabilities

	December 31, 1991	December 31, 1990
	(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	14,227	14,227
Treasury stock (7,533 shares at cost)	(1,131)	—
Retained earnings	1,166	1,982
Total common stock equity	54,263	56,210
Long-term obligations, net (note 6)	77,093	79,233
Total capitalization	131,356	135,443
Commitments and contingencies (notes 2, 12 and 13)		
Disposal fee and accrued interest for spent nuclear fuel (note 7)	75,437	71,125
Current liabilities:		
Accrued liabilities	28,759	23,690
Accounts payable	2,798	2,372
Accrued interest	1,092	1,398
Accrued taxes	1,048	1,502
Total current liabilities	33,697	28,962
Accrued decommissioning costs (note 2)	101,550	86,887
Accumulated deferred income taxes	61,112	60,720
Accumulated deferred investment tax credits	8,231	8,971
Unamortized gain on reacquired debt, net	2,582	3,267
Other deferred credits	3,652	277
Total deferred credits	177,127	160,122
	$417,617	$395,652

See accompanying notes to financial statements.

Statements of Cash Flows

	Years ended December 31, 1991	1990	1989
	(Dollars in thousands except per share amounts)		
Cash flows from operating activities:			
Net income	$ 8,490	$ 9,466	$ 7,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of nuclear fuel	21,002	20,020	20,502
Depreciation	11,800	14,852	14,857
Decommissioning expense	8,065	11,536	6,778
Nuclear fuel disposal fee interest accrual	4,312	5,319	5,319
Interest and dividends on disposal fee defeasance fund	(1,495)	(1,398)	(278)
(Increase) decrease in accounts receivable	(129)	(5,373)	1,988
(Increase) decrease in prepaid expenses	163	(664)	(160)
(Increase) in materials and supplies inventory	(1,531)	(2,121)	(659)
Increase (decrease) in accounts payable and accrued liabilities	5,495	10,475	(11,097)
Increase (decrease) in interest and taxes payable	(760)	862	9
(Decrease) in deferred taxes	(801)	(4,524)	(2,577)
(Decrease) in deferred investment tax credits	(740)	(426)	(1,418)
Other	(1,776)	(1,612)	(2,724)
Total adjustments	43,605	46,946	30,540
Net cash provided by operating activities	52,095	56,412	38,333
Cash flows from investing activities:			
Electric plant additions	(6,596)	(2,390)	(3,367)
Nuclear fuel additions	(18,444)	(20,760)	(5,811)
Payments to decommissioning fund	(8,323)	(11,526)	(6,499)
Payments to disposal fee defeasance fund	(8,216)	(5,930)	(10,000)
Reimbursement for emergency response facility information system	—	—	12,001
Other	—	1,841	(2,576)
Net cash used in investing activities	(41,579)	(38,765)	(16,252)
Cash flows from financing activities:			
Common stock divider.ds	(9,306)	(12,928)	(7,168)
Preferred stock dividends	—	—	(592)
Purchase of treasury stock	(1,131)	—	—
Redemption of preferred stock	—	—	(8,353)
Issuance of Series G first mortgage bonds	—	25,000	—
Issuanc of Series H first mortgage bonds	10,485	—	—
Paym[illegible] notes payable	—	—	(6,185)
Payments of long term obligations	(66,597)	(87,617)	(237,111)
Borrowings under long-term agreements	53,798	63,200	229,900
Net cash used in financing activities	(12,751)	(12,345)	(29,509)
Net increase (decrease) in cash and temporary investments	(2,235)	5,302	(7,428)
Cash and temporary investments at beginning of year (note 10)	7,303	2,001	9,429
Cash and temporary investments at end of year	$ 5,068	$ 7,303	$ 2,001

See accompanying notes to financial statements.

NOTE 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. Depreciation expense was equivalent to overall effective rates of 3.23%, 4.08% and 4.18% for the years 1991, 1990 and 1989, 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. See note 7.

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.

(Continued)

(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 materials and supplies amortization.

(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 5.

(f) Amortization of Gain on Reacquired Debt

The difference between the amount paid upon reacquisition of any debt security and the face value thereof, 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 canceled 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.

AFUDC was capitalized at overall effective rates of 6.98%, 7.09% and 7.87% for 1991, 1990 and 1989, 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.

(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.

(Continued)

(k) Reclassifications

Certain information in the 1989 and 1990 financial statements has been reclassified to conform with the 1991 presentation.

NOTE 2. Decommissioning

The Company accrues estimated decommissioning costs for its nuclear plant based on studies by an independent engineering firm which assume 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. Studies estimate that approximately six years would be required to dismantle the plant at shutdown, remove wastes and restore the site. The original study which was prepared in 1981 and 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 2012, the estimated cost of decommissioning at end of life is approximately \$736 million. The present value of the pro rata portion of decommissioning costs recorded to date is \$101.6 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 the pro rata 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 \$12.1 million, 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.

(Continued)

Decommissioning expense for 1991 includes an adjustment of approximately $2.1 million resulting from the Company's rate reduction filing approved by the FERC on February 28, 1991. This filing was in response to an amendment of the nuclear plant's operating license issued by the NRC on December 17, 1990. This amendment extended the term of the operating license from December, 2007 to March, 2012. This adjustment reflects the approved retroactive effect on decommissioning expense to January, 1990. In August 1991, the Internal Revenue Service issued a letter, pursuant to the above regulations, establishing a revised Ruling Amount for 1991 and subsequent years which conforms to the approved FERC filing.

NOTE 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 specified 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 were 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 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 proposed 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 were accounted for prospectively in fiscal year 1991 producing a net revenue reduction of approximately $7.4 million in 1991 which reflects the retroactive treatment to January 1, 1990. This ruling will result in reduced revenue requirements in future years; approximately $3.5 million in 1992.

NOTE 4. Other Deferred Charges

Approximately $3.3 million of the $8.0 million in other deferred charges at December 31, 1991 relate to payments made to a vendor for the construction of a main transformer. The Company financed the construction of the transformer which will be installed in 1992 and is expected to be purchased by a third party and leased to the Company under an operating lease. Approximately $3.2 million of the remaining balance in other deferred charges at December 31, 1991 relate to payments made to the Vermont Low Level Radioactive Waste Authority ("VLLRWA"), an agency of the State of Vermont, for the siting and construction of a low level waste disposal facility. Payments made to the VLLRWA not pertaining directly to the siting and construction of a low level waste disposal facility are being expensed currently.

(Continued)

NOTE 5. Long-term Funds

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

	1991		1990	
	Book value	Market value	Book value	Market value
	(Dollars in thousands)			
Decommissioning fund:				
U.S. Treasury obligations	$35,921	$38,055	$21,666	$22,243
State of Vermont obligations	28,799	30,152	31,522	31,436
Accrued interest and money market funds	1,365	1,365	151	151
	66,085	69,572	53,339	53,830
Disposal fee defeasance fund:				
Corporate bonds and notes	26,791	26,192	17,205	16,983
Accrued interest and money market fund	526	526	401	401
	27,317	26,718	17,606	17,384
Total long-term fund investments	$93,402	$96,290	$70,945	$71,214

At December 31, 1991 and 1990, gross unrealized gains and gross unrealized losses pertaining to the long-term investment securities were as follows:

	1991	1990
	(Dollars in thousands)	
Unrealized gains on U.S. Treasury obligations	$2,134	$ 577
Unrealized gains on State of Vermont obligations	$1,353	$ 28
Unrealized losses on State of Vermont obligations	$ —	$(114)
Unrealized gains on corporate bonds and notes	$ —	$ 5
Unrealized losses on corporate bonds and notes	$(599)	$(227)

Maturities of obligations, bonds and notes (face amount) at December 31, 1991 are as follows (dollars in thousands):

Within one year	$23,181
Two to five years	5,950
Five to seven years	18,236
Over seven years	42,835
	$90,202

(Continued)

NOTE 6. Long-term Obligations

A summary of long-term obligations at December 31, 1991 and 1990 is as follows:

	1991	1990
	(Dollars in thousands)	
First mortgage bonds:		
Series A – 9.625% due 1998	$ —	$ 10,485
Series B – 8.50% due 1998	1,307	1,332
Series C – 7.70% due 1998	1,612	[illegible]
Series D – 10.125% due 2007	27,234	[illegible]
Series E – 9.875% due 2007	5,703	[illegible]
Series F – 9.375% due 2007	5,704	[illegible]
Series G – 8.94% due 1995	25,000	25,000
Series H – 8.25% due 1996	10,485	—
Total first mortgage bonds	77,045	79,178
Unamortized premium on debt	48	55
Total long-term obligations	$ 77,093	$ 79,233

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 twelve 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. Annual sinking fund requirements for 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 1996. 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. Cash sinking fund requirements for the Series H first mortgage bonds amount to approximately $2.1 million per year for the years 1992 through 1995.

In February of 1990 the Company issued $25.0 million 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. In July of 1991 the Company issued $10.5 million of Series H 8.25% first mortgage bonds stated to mature on June 1, 1996. The Company applied the proceeds of the sale of the bonds to retire the remaining Series A 9.625% first mortgage bonds.

The Company has a $75.0 million Eurodollar Credit Agreement which expires on December 31, 1994. The Company issued commercial paper under this agreement with weighted average interest rates of 6.56% for 1991 and 8.44% for 1990. 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. There were no amounts outstanding under this Agreement as of December 31, 1991 and 1990.

NOTE 7. 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.

(Continued)

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 1990 the Company deposited approximately $15.9 million 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 1991, the Company deposited an additional amount of approximately $8.2 million into this trust.

On December 31, 1991 the DOE issued a final rule amending the Standard Contract for Disposal of Spent Nuclear Fuel and/or High Level Radioactive Waste. The amended final rule conforms with a March 17, 1989 ruling of the US Court of Appeals for the District of Columbia that the 1 mil per kilowatt hour fee in the Standard Contract should be based on net electricity generated and sold. The impact of the amendment on the Company is to reduce the basis for the fee by 6% on an ongoing basis and to establish a receivable from the DOE at December 31, 1991 of $2.2 million for previous overbillings and accrued interest. The Company has recognized in its rates the full impact of the amended final rule to the Standard Contract.

NOTE 8. Short-Term Borrowings

The Company had lines of credit from various banks totalling $6.3 million and $14.2 million at December 31, 1991 and 1990 respectively. The maximum amount of short-term borrowings outstanding at any month-end during 1991, 1990, and 1989 was approximately $0.4 million, $ -0- and $8.0 million, respectively. The average daily amount of short-term borrowings outstanding was approximately $0.1 million, $0.1 million and $4.8 million with corresponding weighted average interest rates of 8.19%, 9.77% and 10.69%, respectively. There were no amounts outstanding under these lines of credit as of December 31, 1991 and 1990.

NOTE 9. Taxes on Income

The components of income tax expense for the years ended December 31, 1991, 1990 and 1989 are as follows:

	1991	1990	1989
	(Dollars in thousands)		
Taxes on operating income:			
Federal – current	$4,005	$5,251	$6,084
Federal – deferred	(1,285)	(3,675)	(2,335)
State – current	1,024	1,368	1,275
State – deferred	483	(849)	(242)
Investment tax credit adjustment	(740)	(426)	(1,418)
	3,485	1,669	3,364
Taxes on other income:			
Federal – current	353	1,124	252
State – current	94	273	61
	447	1,397	313
Total income taxes	$3,932	$3,066	$3,677

(Continued)

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

	1991	1990	1989
Federal statutory rate	34.0%	34.0%	34.0%
State income taxes, net of Federal income tax benefit	6.1	5.2	5.6
Investment credit	(6.0)	(7.3)	(10.3)
Book depreciation in excess of tax basis	1.7	2.7	4.2
AFUDC equity	0.9	(1.8)	—
Flowback of excess deferred taxes	(6.7)	(8.8)	(2.1)
Other	1.7	0.5	0.7
	31.7%	24.5%	32.1%

The items comprising deferred income tax expense are as follows:

	1991	1990	1989
	(Dollars in thousands)		
Decommissioning costs	$ 14	$ (281)	$ (651)
Tax depreciation over (under) financial statement depreciation	955	(2,160)	(249)
Tax fuel amortization under financial statement amortization	(1,389)	(141)	(304)
Pension expense disallowed	(562)	(232)	(519)
Postemployment benefits reversed	—	—	414
Low level waste accrual disallowed	(50)	(441)	(390)
Flowback of excess deferred taxes	(828)	(1,101)	(243)
Low Level Waste Authority Fee	875	370	—
Other	184	(538)	(635)
	$(801)	$(4,524)	$(2,577)

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "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)

NOTE 10. Supplemental Cash Flow Information

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

	1991	1990	1989
	(Dollars in thousands)		
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 7,990	$ 7,359	$ 7,722
Income taxes	$ 4,793	$ 6,683	$ 5,777
Decommissioning fund activity:			
Cash received from Sponsors	$ 8,323	$11,526	$ 6,499
Investment earnings	5,558	3,318	3,017
Income taxes paid	(1,135)	(577)	(1,509)
Net increase	12,746	14,267	8,007
Balances at beginning of year:			
Decommissioning fund	53,339	39,072	28,590
Special deposit	—	—	2,475
Balances at end of year	$66,085	$53,339	$39,072

Postemployment medical benefits fund activity:

	1991	1990	1989
	(Dollars in thousands)		
Investment income	$ —	$ 109	$ 93
Reimbursement to the Company	—	(1,264)	—
Net increase (decrease)	—	(1,155)	93
Balance at beginning of year	—	1,155	1,062
Balance at end of year	$ —	$ —	$1,155

In November, 1988 the Company's Board of Directors approved the funding of $1.1 million for postemployment medical benefits based on an estimate calculated by the Company's actuary. The Company subsequently deposited $1.1 million 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.

(Continued)

DOE defeasance fund activity (see note 7):

	1991	1990	1989
	(Dollars in thousands)		
Payments from the Company	$ 8,216	$ 5,930	$10,000
Investment income	1,495	1,398	278
Net increase	9,711	7,328	10,278
Balance at beginning of year	17,606	10,278	—
Balance at end of year	$27,317	$17,606	$10,278

Fund activity includes purchases, sales proceeds and maturities of approximately $67.9 million, $46.4 million and $10.0 million, respectively, in the decommissioning fund and $48.1 million, $0.2 million and $37.4 million, respectively, in the DOE defeasance fund.

NOTE 11. 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.

The aggregate funded status of the Company's pension plans as of December 31, 1991 and 1990 is as follows:

	December 31, 1991	December 31, 1990
	(Dollars in thousands)	
Vested benefits	$ 5,047	$ 4,484
Nonvested benefits	851	673
Accumulated benefit obligation	5,898	5,157
Additional benefits related to future compensation levels	8,823	7,703
Projected benefit obligation	14,721	12,860
Fair value of plan assets, invested primarily in equities and bonds	11,640	9,239
Projected benefit obligation in excess of plan assets	$ 3,081	$ 3,621

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.

	December 31, 1991	December 31, 1990
	(Dollars in thousands)	
Unrecognized net transition obligation	$ 1,117	$ 1,177
Unrecognized net (gain) loss	(2,430)	(925)
Pension liability included in balance sheet	4,377	3,351
Unrecognized prior service costs	17	18
Projected benefit obligation in excess of plan assets	$ 3,081	$ 3,621

(Continued)

The weighted average discount rate was 8.0% as of December 31, 1991 and 1990. 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, 1991 and 1990.

Net pension expense for 1991 included the following components:

	(Dollars in thousands)
Service cost – benefits earned	$ 1,147
Interest cost on projected benefit obligation	1,104
Actual (return) loss on plan assets	(2,124)
Net amortization and deferral	1,452
Net pension expense	$ 1,579

Pension expense was approximately $1.6 million, $1.4 million and $1.3 million for the years 1991, 1990 and 1989, 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" ("SFAS 106"). This Statement will require the Company to change from the cash method to the accrual method of accounting for postretirement benefits. The accrual method will require the Company to record the estimated expense of postretirement benefits as employees render the services necessary to earn their postretirement benefits. The Company expects to adopt SFAS 106 during 1992. Adoption of SFAS 106 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.

NOTE 12. Lease Commitments

The Company leases equipment and systems under non-cancelable operating leases. Charges against income for rentals under these leases were approximately $3.7 million, $3.4 million and $1.1 million in 1991, 1990 and 1989, respectively. Minimum future rentals as of December 31, 1991 are as follows:

Fiscal years ended	Annual rentals
	(Dollars in thousands)
1992	$3,689
1993	3,575
1994	3,211
1995	2,869
1996	2,696
1997 and after	8,687

NOTE 13. Commitments and Contingencies

The Company has unconditional purchase commitments of approximately $1.0 million associated with nuclear fuel requirements through 1992. The Company also has approximately $180 million of "requirements based" purchase contracts for nuclear fuel needs to meet substantially all of its power production requirements through 2001. Under these contracts, any disruption of operating activity would allow the Company to cancel or postpone deliveries until actually needed.

The Company has contracted for uranium enrichment services from a company in France for the period 1990 to 1996, with an option to extend and from alternative vendors for the period 1991 through

(Continued)

2002. 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 1990 to 1996.

The Company has commitments for capital expenditures amounting to approximately $6.5 million for 1992.

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 million 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 ($200 million) 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 $66.2 million 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 retrospective premium is subject to inflation-based indexing at five-year intervals after 1988 and, if the sum of all public liability claims and legal costs arising from any nuclear incident exceeds the maximum amount of financial protection, then each such owner can be assessed up to an additional 5% of the maximum retrospective assessment.

NOTE 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			
	March	June	September	December
	(Dollars in thousands – except per share amounts)			
1991				
Operating revenues	$32,947	$35,250	$38,765	$43,760
Fuel expense*	6,281	5,629	6,096	6,858
Other operating expenses*	11,014	14,083	16,370	18,199
Maintenance expense*	2,289	2,892	2,947	5,536
Operating income	6,226	4,639	4,586	4,433
Net income	2,350	2,044	1,937	2,159
Net income per average share of common stock	5.91	5.21	4.94	5.50
1990				
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	1[illegible],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 average share of common stock	5.90	5.98	5.89	5.89

* These selected expenses fluctuate from quarter to quarter due to plant outages. There was no outage in 1991, the majority of the outage activity occurred in the third quarter of 1990. The operating expenses not presented remain relatively constant.

KPMG Peat Marwick

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, 1991 and 1990, 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, 1991. 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, 1991 and 1990, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 1991, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

Boston, Massachusetts
February 11, 1992

Board of Directors

Bernard M. Fox, President and Chief Operating Officer, Northeast Utilities, Hartford, Connecticut

Frederic E. Greenman, Vice President and General Counsel, New England Power Company, Westborough, Massachusetts

Joseph Harrington, Vice President, New England Power Company, Westborough, Massachusetts

Douglas G. Hyde, Executive Vice President, Green Mountain Power Corporation, So. Burlington, Vermont

F. Ray Keyser, Jr., Esquire, Chairman, Keyser, Crowley & Meub, Chairman, Central Vermont Public Service Corporation, Rutland, Vermont

Leon E. Maglathlin, Jr., President and Chief Executive Officer, Public Service Company of New Hampshire, Manchester, New Hampshire

Gordon P. Mills, President and Chief Executive Officer, ELCON Management Services, St. Johnsbury, Vermont

John F. Opeka, Executive Vice President, Northeast Utilities Service Company, Hartford, Connecticut

Donald G. Pardus, President and Chief Executive Officer, Eastern Utilities Associates, Boston, Massachusetts

Gerald C. Poulin, Vice President, Engineering, Central Maine Power Company, Augusta, Maine

A. Norman Terreri, Senior Vice President, Green Mountain Power Corporation, So. Burlington, Vermont

Thomas C. Webb, Chairman, Vermont Yankee Nuclear Power Corporation, Brattleboro, Vermont, President and Chief Executive Officer, Central Vermont Public Service Corporation, Rutland, Vermont

J. Gary Weigand, President and Chief Executive Officer, Vermont Yankee Nuclear Power Corporation, Brattleboro, Vermont

Russell D. Wright, Financial Vice President, COM/Energy Services Company, Cambridge, Massachusetts

Officers

Thomas C. Webb, Chairman

J. Gary Weigand, President and Chief Executive Officer

Warren P. Murphy, Senior Vice President, Operations

James P. Pelletier, Vice President, Engineering

John A. Ritsher, Esquire, Assistant Secretary

Bruce W. Wiggett, Vice President, Finance and Treasurer

Glenn J. Morgan, Secretary and Assistant Treasurer

Linda S. Griffin, Acting Assistant Treasurer
