



CONNECTICUT YANKEE ATOMIC POWER COMPANY

BERLIN, CONNECTICUT

P.O. BOX 270 • HARTFORD, CONNECTICUT 06141-0270

TELEPHONE
203-685-5000

April 23, 1992

RE: 10CFR50.71(b)

Director
Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Sir:

In accordance with paragraph 50.71(b) of 10CFR, Part J, enclosed is one copy of the 1991 Annual Financial Report for Connecticut Yankee Atomic Power Company, license holder.

Please acknowledge receipt by returning the duplicate of this letter in the stamped, self-addressed envelope enclosed for your convenience.

Respectfully yours,

Donald W. Haight
Supervisor
External Financial Reports
Northeast Utilities Service Company

FJG/pw/NRC2
Enclosures

050059

9205060062 920423
PDR ADOCK 05000213
I PDR

moat 1/1

CONNECTICUT YANKEE ATOMIC POWER COMPANY

1991 ANNUAL REPORT

Together With Auditor's Report

CONNECTICUT YANKEE ATOMIC POWER COMPANY

Directors

Robert E. Busch - Senior Vice President
and Chief Financial Officer
The Connecticut Light and Power Company
Western Massachusetts Electric Company

*John P. Cagnetta - Senior Vice President,
Corporate Planning and Regulatory Relations
The Connecticut Light and Power Company
Western Massachusetts Electric Company

William B. Ellis - Chairman and
Chief Executive Officer
The Connecticut Light and Power Company
Western Massachusetts Electric Company

Robert L. Fisous - President and Chief
Financial Officer
The United Illuminating Company

Bernard M. Fox - President and Chief
Operating Officer
The Connecticut Light and Power Company
Western Massachusetts Electric Company

Frederic E. Greenman - Senior Vice
President, General Counsel, and
Secretary
New England Electric System

Joseph Harrington - Vice President
New England Electric System

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

Thomas J. May - Senior Vice President
Boston Edison Company

John F. Opeka - Executive Vice President,
Nuclear
The Connecticut Light and Power Company
Western Massachusetts Electric Company

Donald G. Pardus - Chairman and
Chief Executive Officer
Eastern Utilities Associates

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

**Lawrence H. Shay - Senior Vice President,
Administrative Services
The Connecticut Light and Power Company
Western Massachusetts Electric Company

Robert de R. Stein - Vice President,
Energy Supply Planning and Engineering
Central Vermont Public Service Company

Russell D. Wright - Financial Vice President
Commonwealth Energy Systems

Officers

William B. Ellis - Chairman and Chief Executive Officer

Bernard M. Fox - President and Chief Operating Officer

John F. Opeka - Executive Vice President

Robert E. Busch - Senior Vice President and Chief
Financial Officer

**Lawrence H. Shay - Senior Vice President

Walter F. Torrance, Jr. - Senior Vice President, Secretary
and General Counsel

C. Thayer Browne - Vice President and Treasurer

Eric A. DeBarba - Vice President

John W. Noyes - Vice President

Wayne D. Romberg - Vice President

C. Frederick Sears - Vice President

George D. Uhl - Vice President / Controller

C. Duane Blinn - Assistant Secretary

Theresa H. Allsop - Assistant Secretary

Karen G. Valenti - Assistant Secretary

Robert C. Aronson - Assistant Treasurer

***Arthur H. Hierl - Assistant Treasurer

Eugene G. Vertefeuille - Assistant Treasurer

*Mr. Cagnetta was elected a Director effective March 4, 1992.

**Mr. Shay will retire effective April 1, 1992.

***Mr. Hierl has resigned effective April 1, 1992.

1991 Annual Report

Connecticut Yankee Atomic Power Company

Index

<u>Contents</u>	<u>Page</u>
Report of Independent Public Accountants	1
Statements of Income and Retained Earnings	2
Statements of Cash Flows	3
Balance Sheets	4-5
Notes to Financial Statements	6-14
Management's Discussion and Analysis of Financial Condition and Results of Operations	15-17

Connecticut Yankee Atomic Power Company

Report of Independent Public Accountants

To the Board of Directors of Connecticut Yankee Atomic Power Company:

We have audited the accompanying balance sheets of Connecticut Yankee Atomic Power Company (a Connecticut corporation) as of December 31, 1991 and 1990, and the related statements of income, retained earnings, and cash flows for each of the three years in the 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 audits 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 Connecticut Yankee Atomic Power Company as of December 31, 1991 and 1990 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Hartford, Connecticut
March 24, 1992

STATEMENTS OF INCOME

For the Years Ended December 31,	1991	1990	1989
	(Thousands of Dollars, Except Share Information)		
Operating Revenues	<u>\$210,731</u>	<u>\$175,230</u>	<u>\$200,241</u>
Operating Expenses:			
Operation --			
Nuclear fuel	32,913	11,870	28,458
Other	68,297	68,462	70,824
Maintenance	38,651	25,640	38,316
Depreciation	18,807	17,317	15,109
Federal and state income taxes (Note 2)	15,035	5,581	6,087
Taxes other than income taxes	8,544	8,190	7,010
Total operating expenses	<u>182,247</u>	<u>137,060</u>	<u>165,804</u>
Operating Income	<u>34,484</u>	<u>38,170</u>	<u>34,437</u>
Other Income:			
Allowance for other funds used during construction	-	-	1,071
Interest income on special deposit (Note 7)	3,626	3,254	3,037
Other, net	692	35	348
Income taxes applicable to other income (Note 2)	1,627	15	(144)
Other income, net	<u>5,945</u>	<u>3,304</u>	<u>4,312</u>
Income before interest charges	<u>40,429</u>	<u>41,474</u>	<u>38,749</u>
Interest Charges:			
Interest on long-term debt	19,488	22,457	23,607
Other interest	7,989	4,030	2,792
Allowance for borrowed funds used during construction	(1,148)	(541)	(3,698)
Interest charges, net	<u>26,329</u>	<u>25,946</u>	<u>22,701</u>
Net Income	<u>\$ 14,100</u>	<u>\$ 15,528</u>	<u>\$ 16,048</u>
Earnings Per Common Share	<u>\$ 40.29</u>	<u>\$ 44.36</u>	<u>\$ 45.85</u>
Common Shares Outstanding	<u>350,000</u>	<u>350,000</u>	<u>200</u>

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31,	1991	1990	1989
	(Thousands of Dollars)		
Balance at beginning of period	\$ 61,667	\$ 58,384	\$ 53,886
Net income	14,100	15,528	16,048
Dividends declared on common stock	(14,000)	(12,250)	(11,550)
Balance at end of period	<u>\$ 61,767(a)</u>	<u>\$ 61,662</u>	<u>\$ 58,384</u>

- (a) At December 31, 1991, there was approximately \$19,617,000 of retained earnings available for payment of cash dividends on common stock under the provisions of the Company's Mortgage Indenture and Deed of Trust.

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	1991	1990	1989
	--thousands of Dollars)		
Cash Flows From Operations:			
Net income	\$14,100	\$15,528	\$16,048
Adjusted for the following:			
Depreciation (includes decommissioning)	25,126	22,771	20,312
Deferred income taxes and investment tax credits, net	(6,448)	(2,054)	(2,907)
Amortization of nuclear fuel	29,200	10,687	25,491
Interest on prior period spent nuclear fuel disposal costs	5,256	9,770	11,846
Net change in deferred charges and other noncash items	1,523	5,878	(2,363)
Changes in working capital:			
Receivables	(4,199)	(8,399)	3,629
Materials and supplies	1,490	(179)	(675)
Accounts payable	6,089	2,760	10,750
Accrued taxes	3,298	1,661	(1,528)
Other working capital (excludes cash)	5,831	(993)	(56)
Net cash flows from operations	<u>81,266</u>	<u>57,430</u>	<u>80,547</u>
Cash Flows From Financing Activities:			
Net increase (decrease) in commercial paper	(18,700)	32,500	13,000
Cash dividends	(14,000)	(12,250)	(11,550)
Reacquisitions and retirements of long-term debt	(15,716)	(8,077)	(8,956)
Net cash flows from financing activities	<u>(48,416)</u>	<u>12,173</u>	<u>(7,506)</u>
Investment Activities:			
Investments in plant:			
Electric utility plant	(7,228)	(23,529)	(31,045)
Nuclear fuel	(7,290)	(20,824)	(19,678)
Less: Allowance for other funds used during construction	-	-	(1,071)
Net cash flows used for investment in plant	<u>(14,518)</u>	<u>(44,353)</u>	<u>(49,652)</u>
Investment - special deposit (Note 7)	(8,116)	(15,907)	(3,037)
Investment - nuclear decommissioning trust	<u>(10,196)</u>	<u>(9,331)</u>	<u>(24,847)</u>
Net cash flows used for investment activities	<u>(32,830)</u>	<u>(69,591)</u>	<u>(77,536)</u>
Net Increase (Decrease) in Cash For the Period	20	12	(4,495)
Cash beginning of period	<u>19</u>	<u>7</u>	<u>4,502</u>
Cash end of period	<u>\$ 39</u>	<u>\$ 19</u>	<u>\$ 7</u>
Supplemental Cash Flow Information:			
Cash paid during the period for:			
Interest, net of amounts capitalized during construction	<u>\$17,114</u>	<u>\$19,565</u>	<u>\$16,543</u>
Income taxes	<u>\$17,000</u>	<u>\$ 6,758</u>	<u>\$12,677</u>

The accompanying notes are an integral part of these financial statements

Connecticut Yankee Atomic Power Company

BALANCE SHEETS

At December 31,	1991	1990
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost:		
Electric	\$345,501	\$339,369
Less: Accumulated provision for depreciation	<u>216,531</u>	<u>194,157</u>
	128,970	145,212
Construction work in progress	8,220	11,620
Nuclear fuel, net of amortization	<u>65,514</u>	<u>93,039</u>
Total net utility plant	<u>202,704</u>	<u>249,871</u>
Investments:		
Nuclear decommissioning trust, at cost (Note 3)	95,351	85,155
Special deposit (Note 7)	<u>58,309</u>	<u>50,193</u>
	<u>153,660</u>	<u>135,349</u>
Current Assets:		
Cash	39	19
Accounts receivable	29,879	25,680
Materials and supplies, at average cost	16,530	18,020
Prepayments and other	<u>2,191</u>	<u>2,587</u>
	<u>48,639</u>	<u>46,306</u>
Deferred Charges:		
Unamortized debt expense	2,513	3,132
Other	<u>19,577</u>	<u>16,972</u>
	<u>22,090</u>	<u>20,104</u>
Total Assets	\$427,093	\$451,629

The accompanying notes are an integral part of these financial statements.

Connecticut Yankee Atomic Power Company

BALANCE SHEETS

At December 31,	1991	1990
	(Thousands of Dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock--\$100 par value. Authorized 700,000 shares; outstanding 350,000 shares in 1991 and 1990	\$ 35,000	\$ 35,000
Capital surplus, paid in	2,964	2,964
Retained earnings	<u>61,762</u>	<u>61,662</u>
Total common stockholders' equity	99,726	99,626
Long-term debt, net (Note 5)	<u>195,127</u>	<u>201,736</u>
Total capitalization	<u>294,853</u>	<u>301,362</u>
Current Liabilities:		
Commercial paper (Note 6)	40,800	59,500
Current portion of long-term debt (Note 5)	375	4,226
Accounts payable	31,693	25,604
Accrued taxes	12,933	9,635
Accrued interest	5,535	1,699
Other	<u>5,765</u>	<u>3,383</u>
	<u>97,101</u>	<u>104,047</u>
Deferred Credits:		
Unamortized gain on reacquired debt	426	791
Accumulated deferred investment tax credits	9,434	10,046
Accumulated deferred income taxes	11,441	17,278
Other	<u>13,838</u>	<u>18,105</u>
	<u>35,139</u>	<u>46,220</u>
Commitments and Contingencies (Note 9)		
Total Capitalization and Liabilities	\$427,093	\$451,629

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Connecticut Yankee Atomic Power Company (the Company) owns and operates a single unit nuclear-power electric generating plant of the pressurized water type, having a net capability of 590,000 kilowatts (the Plant). The Plant commenced commercial operation on January 1, 1968. The Company's common stock is owned by ten New England electric utilities.

Northeast Utilities (NU), whose operating subsidiaries have a combined 44 percent ownership interest in the Company, furnishes accounting, engineering, construction, maintenance, financial, legal, and other administrative services to the Company through its Northeast Utilities Service Company (NUSCO) subsidiary. The total cost of these services billed to the Company amounted to \$38,175,000, \$39,987,000, and \$44,171,000 for the years ended December 31, 1991, 1990, and 1989, respectively.

Sponsors - The Company has entered into power contracts with its ten stockholders (Sponsors) for the sale to them of the entire output of the Plant for the life of the Plant. Under the terms of the contracts, each Sponsor is required to pay the Company an amount equal to its entitlement percentage of the Company's total operating expenses, including a return on net unit investment.

Public Utility Regulation - The Company and each of its Sponsors is a public utility under Part II of the Federal Power Act and is subject to regulation by the Federal Energy Regulatory Commission (FERC) with respect to, among other matters, wholesale rates and accounting procedures. The Company is subject to further regulation regarding both its long-term and short-term financings by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935. In addition, the Connecticut Department of Public Utility Control has jurisdiction over the Company with respect to, among other things, accounting procedures, certain dispositions of property and plant, mergers and consolidations, securities issues, and construction and operation of generation, transmission and distribution facilities.

Allowance for Funds Used During Construction (AFUDC) - AFUDC, a noncash item calculated in accordance with FERC guidelines, represents the estimated cost of capital funds used to finance the Company's construction and nuclear fuel program. These costs, which are one component of the total capitalized costs of nuclear fuel, plant modifications and improvements, generally are not recognized as part of the net unit investment until facilities are placed in service.

The effective AFUDC rates for 1991, 1990, and 1989 were 7.6 percent, 9.7 percent, and 12.2 percent, respectively. These rates were calculated in accordance with FERC guidelines.

Nuclear Fuel - The cost of nuclear fuel is amortized to operation expense using a units-of-production method at rates based on estimated kilowatt-hours of energy provided. Under the Nuclear Waste Policy Act of 1982, the Company must pay the United States Department of Energy (DOE) for the disposal of spent nuclear fuel and high-level radioactive waste. For nuclear fuel burned prior to April 7, 1983 (prior period fuel), the payment may be made anytime prior to the first delivery of spent fuel to the DOE. At December 31, 1991, fees due to the DOE for the disposal of prior period fuel were approximately \$93.3 million, including accrued interest costs of \$44.6 million, and have been collected through rates. Fees for fuel burned on or after April 7, 1983 are paid to the DOE on a quarterly basis. For additional information regarding the Company's obligation to the DOE, see Note 7 "Special Deposit."

NOTES TO FINANCIAL STATEMENTS

Depreciation - The provision for depreciation is calculated using the straight-line method based on estimated remaining lives of the depreciable utility plant in service, adjusted for expected salvage value and removal costs as approved by the FERC. Depreciation factors are applied to the average plant in service during the period. When plant is retired from service, the original cost of plant, including costs of removal, less salvage, is charged to the accumulated provision for depreciation.

The depreciation rates for the various classes of plant in service are equivalent to composite rates of 5.4 percent in 1991, 5.2 percent in 1990, and 5.0 percent in 1989. See Note 3 "Nuclear Decommissioning" for additional information.

Income Taxes - The tax effect of timing differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect taxable income) is accounted for in accordance with the ratemaking treatment of the FERC.

The Company had not provided deferred income taxes for certain timing differences during periods when the FERC did not permit the current recovery of such income taxes through rates. The cumulative net amount of income tax timing differences for which deferred taxes have not been provided was approximately \$30 million at December 31, 1991. As allowed under current regulatory practices, deferred taxes not previously provided are being collected in rates over the remaining life of the unit.

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 supersedes previously issued income tax accounting standards and will be effective beginning in 1993. The Company expects that when SFAS 109 is adopted it will increase assets and liabilities by approximately \$25 to \$30 million but will not have a material effect on net income.

NOTES TO FINANCIAL STATEMENTS

(2) INCOME TAXES

The components of the federal and state income tax provisions are:

For the Years Ended December 31,	1991	1990	1989
	(Thousands of Dollars)		
Current income taxes:			
Federal	\$13,330	\$ 4,357	\$ 5,840
State	6,526	3,263	3,298
Total current	<u>19,856</u>	<u>7,620</u>	<u>9,138</u>
Deferred income taxes, net:			
Federal	(4,526)	(1,118)	(1,164)
State	(1,310)	90	(53)
Total deferred	<u>(5,836)</u>	<u>(1,028)</u>	<u>(1,217)</u>
Investment tax credits	<u>(612)</u>	<u>(1,026)</u>	<u>(1,690)</u>
Total income tax expense	13,408	5,566	6,231
Less: Income taxes (credits)			
included in other			
income	<u>(1,627)</u>	<u>(15)</u>	<u>144</u>
Total income taxes charged to			
operating expenses	<u>\$15,035</u>	<u>\$ 5,581</u>	<u>\$ 6,087</u>

Deferred income taxes are comprised of the tax effects of timing differences as follows:

Sales tax accrual	\$ -	\$ -	\$ 2,506
Spent nuclear fuel disposal costs,			
including interest	(813)	(1,692)	(2,889)
Liberalized depreciation	(1,913)	839	(1,639)
Decommissioning trust earnings/accruals	(177)	(324)	1,148
Interest - tax audit	(1,940)	-	-
Alternative minimum tax	(845)	-	-
Other	<u>(148)</u>	<u>149</u>	<u>(343)</u>
Deferred income taxes, net	<u>\$ (5,836)</u>	<u>\$ (1,028)</u>	<u>\$ (1,217)</u>

NOTES TO FINANCIAL STATEMENTS

The effective income tax rate is computed by dividing total income tax expense by the sum of such taxes and net income. The differences between the effective income tax rate and the federal statutory income tax rate are:

For the Years Ended December 31,	1991	1990	1989
Federal statutory income tax rate	34.00%	34.00%	34.00%
Tax effect of differences:			
Depreciation differences	3.98	(18.46)	(3.97)
Investment tax credit amortization	(2.22)	(4.87)	(8.23)
State income taxes, net of federal benefit	12.51	10.49	9.61
Allowance for other funds used during construction--not recognized as income for tax purposes	-	-	(1.63)
Unrecovered final core and materials and supply inventory	3.63	4.57	4.54
Tax rate differential	(3.68)	(2.32)	(6.47)
Other, net	0.52	2.98	0.12
Effective income tax rate	<u>48.74%</u>	<u>26.39%</u>	<u>27.97%</u>

(3) NUCLEAR DECOMMISSIONING

The Company accrues decommissioning costs, which are included in depreciation expense, on the basis of immediate dismantlement at retirement. The estimated decommissioning cost, based on a 1989 study, is approximately \$225.0 million in year-end 1991 dollars. Decommissioning studies are reviewed and updated periodically to reflect changes in decommissioning requirements, technology and inflation. Changes in requirements, technology or adoption of a decommissioning method other than immediate dismantlement could increase these estimates. As a result of 1987 FERC actions, the Company's depreciation expense includes a provision for decommissioning at a level of \$130 million. The Company believes that decommissioning recoveries must be increased in order to collect the full projected costs of decommissioning.

The Company has established an independent, irrevocable decommissioning trust with a commercial bank. Each month, the Sponsors are billed for their proportionate shares of decommissioning expense, as allowed by the FERC, and make payments directly to the trust. The trust balance of \$95.4 million at December 31, 1991, includes \$66.0 million collected through rates and \$29.4 million in interest earnings. The amount in the trust must be used exclusively to discharge decommissioning costs as incurred.

(4) CAPITAL CONTRIBUTIONS

The Sponsors are obligated under the terms of the capital funds agreements, entered into with the Company in 1964, to provide their percentage ownership of capital to the Company either through common stock purchases, loans or advances. The total obligation of the Sponsors under these agreements is limited to an aggregate amount of \$70 million, of which \$32 million had not been drawn down at December 31, 1991.

NOTES TO FINANCIAL STATEMENTS

(5) LONG-TERM DEBT

Details of outstanding long-term debt (net of reacquired amounts) are:

At December 31,	1991	1990
	(Thousands of Dollars)	
First Mortgage Bonds,		
Series A, 12% due June 1, 2000	\$100,000	\$100,000
Debentures, 17% due 1996		
Series A	-	14,657
Series B	-	684
Pollution Control Note, 6% due 1997	2,250	2,625
Fees and interest due for spent nuclear fuel disposal costs	<u>93,252</u>	<u>87,996</u>
	195,502	205,962
Less: Amounts due within one year	<u>375</u>	<u>4,226</u>
	<u>\$195,127</u>	<u>\$201,736</u>

The First Mortgage Bonds (the 12% Series A Bonds), secured by a direct lien on the Company's electric generating plant and a pledge of the Company's rights under the power contracts and capital funds agreements with its Sponsors, require minimum annual sinking fund payments sufficient to retire \$14,000,000 principal amount of the 12% Series A Bonds on each June 1, commencing 1994 to and including June 1, 1999. For additional information regarding the 12% Series A Bonds, see Note 7 "Special Deposit."

The Company's 17% Series A and Series B Debentures were retired on October 1, 1991. The 6% Pollution Control Note has annual sinking fund requirements of \$375,000 through November 1, 1996.

(6) SHORT-TERM DEBT

To meet its general working capital needs, the Company has a \$90 million Credit and Letter of Credit Agreement (the Credit Agreement) with a group of banks. Under the terms of the Credit Agreement, the Company is obligated to pay a commitment fee of one-quarter of one percent per annum on the daily average of the unused amount. The Credit Agreement allows the Company to obtain funds through either direct borrowings (with rates based on the London Interbank Offered Rate plus a margin of five-eighths of one percent, a certificate of deposit rate plus a margin of three-fourths of one percent or at the prime rate) or issuance of letter of credit-backed commercial paper. On December 31, 1991, the Company had \$40.8 million of letter of credit-backed commercial paper outstanding under the Credit Agreement. Borrowings under the Credit Agreement are not guaranteed by the Sponsors.

NOTES TO FINANCIAL STATEMENTS

(7) SPECIAL DEPOSIT

As additional security for the 12% Series A Bonds, \$30 million was deposited with the indenture trustee under the Mortgage Indenture and Deed of Trust in a cash collateral account. In 1990, the Company established an independent, irrevocable spent fuel trust with a commercial bank to work in conjunction with the cash collateral account. During 1991, the Company deposited \$4.5 million into the trust; interest earnings on these special deposit accounts amounted to \$3.6 million. Future annual deposits to the trust will be satisfied from short-term borrowings through commercial paper. As of December 31, 1991, the Company has approximately \$58.3 million in these special deposit accounts. The funds in the special deposit accounts may not be withdrawn by the Company prior to 1998. In 1998, funds in the special deposit accounts will be available to satisfy the Company's obligation to the DOE for the disposal of prior period fuel. For additional information regarding the 12% Series A Bonds, see Note 5 "Long-Term Debt." For additional information regarding prior period fuel, see Note 1 "Summary of Significant Accounting Policies."

(8) POSTRETIREMENT BENEFITS

The Company has a noncontributory defined benefit retirement plan covering all regular employees. Benefits are based on years of service with the Company and average annual compensation for the highest consecutive five years of employment. Total pension cost, part of which was charged to utility plant, approximated \$739,000 in 1991, \$496,000 in 1990, and \$879,000 in 1989.

It is the policy of the Company to fund annually an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and the Internal Revenue Code. Pension costs are determined using market-related values of pension assets. Pension assets are invested primarily in equity securities and bonds.

The components of net pension cost are:

For the Years Ended December 31,	1991	1990	1989
	(Thousands of Dollars)		
Service cost	\$ 1,099	\$ 1,070	\$ 982
Interest cost	1,701	1,374	1,476
Return on plan assets	(3,924)	214	(3,081)
Net amortization	1,863	(2,162)	1,502
Net pension cost	<u>\$ 739</u>	<u>\$ 496</u>	<u>\$ 879</u>

NOTES TO FINANCIAL STATEMENTS

For calculating pension costs, the following actuarial assumptions were used:

For the Years Ended December 31,	1991	1990	1989
Discount rate	9.0%	9.0%	9.5%
Expected long-term rate of return	10.0%	10.0%	10.0%
Compensation/progression	7.5%	7.5%	8.5%

The following table shows the plan's funded status reconciled to the balance sheet:

At December 31,	1991	1990
	(Thousands of Dollars)	
Accumulated benefit obligation, including \$7,581,000 of vested benefits at December 31, 1991 and \$6,018,000 at December 31, 1990	\$ 9,245	\$ 7,233
Projected benefit obligation	\$19,095	\$17,605
Less: Market value of plan assets	<u>21,771</u>	<u>18,085</u>
Market value in excess of projected benefit obligation	2,676	480
Unrecognized transition amount	(564)	(598)
Unrecognized prior service costs	407	430
Unrecognized net gain	<u>(6,065)</u>	<u>(3,119)</u>
Accrued pension liability	<u>\$ (3,546)</u>	<u>\$ (2,807)</u>

The following actuarial assumptions were used in calculating the plan's year-end funded status:

At December 31,	1991	1990
Discount rate	8.5%	9.0%
Compensation/progression rate	6.8%	7.5%

In addition to pension benefits, the Company currently has a practice of providing certain health care and life insurance benefits to retired employees. The cost of providing those benefits was not material for the years 1991, 1990, and 1989. The Company currently recognizes health care benefits primarily as incurred and provides for life insurance benefits through premiums paid to an insurance company.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106). SFAS 106 requires that the expected cost of postretirement benefits, primarily health and life insurance benefits, must be charged to expense during the years that employees render service. Based upon the information available to date, and assuming that postretirement benefits similar to those currently provided are maintained in the future, when SFAS 106 is adopted in 1993, the Company estimates its SFAS 106 liability, related to prior years service for all its active employees and current retirees, will be

NOTES TO FINANCIAL STATEMENTS

approximately \$9 million. The effect of the SFAS 106 liability is not expected to have a material effect on net income. Under the terms of the Company's power contracts, the Company expects that any increase in operating expense that would result from adopting this standard would be passed on to the Sponsors.

(9) **COMMITMENTS AND CONTINGENCIES**

Construction Program - The Company currently forecasts construction expenditures (including AFUDC) of \$73.6 million for the years 1992-1996, including \$14.1 million for 1992. These estimated construction expenditures are for Plant modifications and improvements, to meet requirements imposed by the Nuclear Regulatory Commission and to maintain and improve the reliability of the Plant. The estimates are subject to periodic review and revision by the Company to reflect changes in regulatory requirements, the Plant's operating experience and other matters.

Nuclear Fuel - The Company estimates that nuclear fuel requirements will be \$78.6 million (excluding AFUDC) for the years 1992-1996, including \$14.1 million for 1992.

Nuclear Insurance Contingencies - The Price-Anderson Act currently limits public liability from a single incident at a nuclear power plant to \$7.8 billion. The first \$200 million of liability would be provided by purchasing the maximum amount of commercially available insurance. Additional coverage of up to \$7.2 billion would be provided by an assessment of \$53 million per incident levied on each of the 115 nuclear units with operating licenses in the United States, subject to a maximum assessment of \$10 million per incident per nuclear unit in any year. In addition, if the sum of all public liability claims and legal costs arising from any nuclear incident exceeds the maximum amount of financial protection, each reactor operator can be assessed an additional five percent, up to \$3.2 million or \$362.3 million in total, for all 115 nuclear units. The maximum assessment is to be adjusted at least every five years to reflect inflationary changes. The maximum amount which the Company would currently be required to pay with respect to an incident at any nuclear plant is \$66.2 million. Under the terms of the Company's power contracts, any assessment would be passed on to the Sponsors.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination, or premature decommissioning of utility property resulting from insured occurrences. Under this policy, the Company is subject to retroactive assessments if losses exceed the accumulated funds available to NEIL. The maximum potential assessment against the Company with respect to losses arising during the current policy year is approximately \$6.4 million which, under the terms of the Company's power contracts, would be passed on to the Sponsors. Although the Company has purchased the limits of coverage currently available from conventional nuclear insurance pools, the cost of a nuclear incident could exceed available insurance proceeds.

In addition, insurance has been purchased from American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters, aggregating \$200 million on an industry basis, for coverage for worker claims. All companies insured under this coverage are subject to retrospective assessments. The maximum potential assessments against the Company with respect to losses arising during the current policy period are approximately \$3.2 million. Any such assessments, under the terms of the Company's power contracts, would be passed on to the Sponsors.

NOTES TO FINANCIAL STATEMENTS

(10) LEASES

The Company is leasing a portion of Northeast Nuclear Energy Company's (an affiliate of two of the Sponsors) nuclear control room simulator building. In addition, NUSCO, which provides administrative support to the Company, has entered into lease agreements for the use of data processing equipment, office equipment, vehicles and office space. The Company is billed for its proportionate share of these leases. For the years 1991, 1990, and 1989, the Company charged rental payments of \$954,000, \$1,496,000, and \$1,613,000, respectively, to operating expense. Future minimum lease payments, excluding executory costs, are approximately:

1992	\$ 2,252,000
1993	1,679,000
1994	1,526,000
1995	1,473,000
1996	1,371,000
After 1996	<u>3,939,000</u>
	<u>\$12,240,000</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section contains management's assessment of Connecticut Yankee Atomic Power Company's (the Company) financial condition and the principal factors having an impact on the results of operations. This discussion should be read in conjunction with the Company's financial statements and footnotes.

FINANCIAL CONDITION

The power contracts between the Company and its ten stockholders (Sponsors) obligate the Sponsors to purchase all of the net electrical output of its single unit nuclear electric plant (the Plant) and to make monthly payments during the balance of the Plant's life designed to cover the Company's total operating expenses plus a return on the Company's net unit investment. Outside financing is necessary to the extent that planned expenditures for nuclear fuel, construction projects and refunding of debt maturities exceed funds provided by the Sponsors.

The Company's net income decreased to \$14.1 million for the twelve months ended December 31, 1991 from \$15.5 million for the twelve months ended December 31, 1990. The decrease in net income is primarily attributable to a decrease in the return on a lower net unit investment and a refund to Sponsors of some prior year nuclear fuel repair costs resulting from a Federal Energy Regulatory Commission audit.

Construction Program and Financing

Construction expenditures to support Plant modifications and improvements, to meet requirements imposed by the Nuclear Regulatory Commission and to maintain and improve the reliability of the Plant, amounted to \$7.2 million in 1991. Nuclear fuel expenditures for the same period amounted to \$7.3 million. An estimated \$73.6 million, including AFUDC, will be needed for the period 1992 through 1996 to support planned construction expenditures for Plant modifications and improvements. Nuclear fuel expenditures, excluding AFUDC, for the same period are estimated at \$78.6 million.

To meet its general working capital needs, the Company has a \$90 million Credit and Letter of Credit Agreement with a group of banks. The agreement allows the Company to obtain funds through either direct borrowings or issuance of letter of credit-backed commercial paper. On December 31, 1991, the Company had \$40.8 million of borrowings outstanding under this agreement. Borrowings under this agreement are not guaranteed by the Sponsors. The Company's aggregate short-term borrowings under this agreement and any other arrangements cannot exceed \$90 million without further Securities and Exchange Commission approval.

The Company intends to meet its spent fuel obligation to the United States Department of Energy (DOE) with respect to the period prior to April 7, 1983 (after taking into account the \$30 million deposited with the trustee as required under the Company's Mortgage Indenture and Deed of Trust) through deposits in the spent fuel trust through 1997, although it has no obligation to do so. See Note 1 and Note 7 of "Notes to Financial Statements" for further discussion of the Company's obligation to the DOE.

The Company is obligated to meet \$43.9 million of long-term debt maturities and cash sinking fund requirements in the years 1992 through 1996. In 1992, long-term debt maturities and cash sinking fund requirements will be \$0.4 million.

Cash requirements for construction, nuclear fuel, long-term debt maturities and sinking funds in these years are expected to be largely satisfied from internal sources. The Company expects to obtain the balance of its requirements under the bank credit arrangement and, to the extent necessary, from additional sales of securities.

Outage

On October 17, 1991, the Company began a scheduled refueling and maintenance outage. During the outage, fuel assembly inspection and reconstitution was completed. The first reload fuel, clad with zircaloy, has been installed during this outage (approximately 1/3 core), replacing the stainless steel clad fuel, which will make the operation of the core more economic.

In addition to normal refueling activities, erosion corrosion inspections of main system piping were undertaken at the Plant in response to pipe rupture incidents at other nuclear generating units. Inspections detected some defective components that could have failed prior to the next scheduled maintenance outage had they not been replaced. As of December 31, 1991, the total cost for the outage was approximately \$31.0 million.

The Plant returned to service on March 15, 1992 and reached full power on March 27, 1992. The next refueling and maintenance outage is scheduled to begin in the spring of 1993.

Sponsors

In recent years, one or more of the Sponsors have experienced, in varying degrees, financial difficulties and liquidity constraints. One Sponsor, Public Service Company of New Hampshire (PSNH, a 5 percent owner of the Company) filed a petition seeking reorganization under Chapter 11 of the federal Bankruptcy Code on January 28, 1988, and emerged from bankruptcy on May 16, 1991. PSNH paid in full the amount due under its power contract while in reorganization, and remains bound by the power contract after its successful reorganization.

So far as the Company is aware, no other Sponsor has informed the Company that it is experiencing financial difficulties or liquidity constraints which may impact the Sponsor's ability to perform under its power contract.

New Accounting Standards

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 supersedes previously issued income tax accounting standards and will be effective beginning in 1993. The Company expects that when SFAS 109 is adopted it will increase assets and liabilities by approximately \$25 to \$30 million but will not have a material effect on net income.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106). SFAS 106 requires that the expected cost of postretirement benefits, primarily health and life insurance benefits, must be charged to expense during the years that employees render service. Based upon the information available to date, and assuming that postretirement benefits similar to those currently provided are maintained in the future, when SFAS 106 is adopted in 1993, the Company estimates its SFAS 106 liability, related to prior years service for all its active employees and current retirees, will be approximately \$9 million. The accrual of the SFAS 106 liability is not expected to have a material effect on net income. Under the terms of the Company's power contracts, the Company expects that any increase in operating expense that would result from adopting this standard would be passed on to the Sponsors.

RESULTS OF OPERATIONS

Operating revenues earned by the Company are the aggregate of operating expenses, including decommissioning, plus a return on net unit investment as stipulated in the power contracts with the ten Sponsors. Substantial operation and maintenance costs are incurred during refueling and maintenance outages and, as a result, are one of the primary causes of fluctuation in such expenses.

Operating revenues increased \$41.5 million in 1991 as compared to 1990 as a result of higher nuclear fuel and operating expenses (as discussed below), partially offset by the return on a lower net unit investment. Operating revenues decreased \$25.0 million in 1990 as compared to 1989 as a result of lower nuclear fuel and operating expenses, partially offset by the return on a higher net unit investment.

Kilowatt-hour generation increased significantly in 1991 as compared to 1990 and decreased 60.2 percent in 1990 as compared to 1989 primarily as the result of lower production in 1990 due to an extended outage in 1989-1990. Accordingly, nuclear fuel expense increased \$21.0 million in 1991 as compared to 1990 and decreased \$16.6 million in 1990 as compared to 1989.

Maintenance expenses increased \$13.0 million in 1991 as compared to 1990 as a result of expenses associated with the outage which began on October 17, 1991. Other operation and maintenance expenses decreased \$15.0 million in 1990 as compared to 1989 as a result of higher expenses in 1989 associated with the beginning of an extended outage in 1989-1990.

Depreciation expense increased \$1.5 million in 1991 as compared to 1990 and increased \$2.2 million in 1990 as compared to 1989 as a result of increased depreciation rates and higher plant balances in each period.

Federal and state income taxes increased \$7.8 million in 1991 as compared to 1990 as a result of deductions taken in 1990 for costs associated with the removal of the thermal shield during an extended outage in 1989-1990.

AFUDC decreased \$4.0 million in 1990 as compared to 1989 as a result of a lower average AFUDC rate and lower average construction work in progress and nuclear fuel in process balances.

(This page intentionally left blank)