

# VERMONT YANKEE NUCLEAR POWER CORPORATION



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REPLY TO:  
ENGINEERING OFFICE

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FRAMINGHAM, MASSACHUSETTS 01701  
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March 27, 1986

FVY 86/25

U. S. Nuclear Regulatory Commission  
Washington, D. C. 20555

Attention: Office of Nuclear Reactor Regulation  
Mr. Harold R. Denton, Director

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

Subject: Vermont Yankee Annual Financial Statements

Dear Sir:

In accordance with the provisions of 10CFR 50.71 (b), enclosed please find ten (10) copies of Vermont Yankee's certified financial statements for the year ending December 31, 1984.

Should you have any questions regarding this report, please do not hesitate to contact this office.

Very truly yours,

Robert W. Capstick  
Licensing Engineer

RWC/no

Enclosures

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VERMONT YANKEE NUCLEAR POWER CORPORATION

Financial Statements

December 31, 1985, 1984 and 1983

(With Accountants' Report Thereon)



Peat, Marwick, Mitchell & Co.  
Certified Public Accountants  
One Boston Place  
Boston, Massachusetts 02108  
617-723-7700

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

We have examined the balance sheets of Vermont Yankee Nuclear Power Corporation as of December 31, 1985 and 1984 and the related statements of income and retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Vermont Yankee Nuclear Power Corporation at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co*

February 14, 1986

VERMONT YANKEE NUCLEAR POWER CORPORATION

Balance Sheets

December 31, 1985 and 1984

<u>Assets</u>	<u>1985</u>	<u>1984</u>
	(Dollars in thousands)	
Utility plant:		
Electric plant, at cost	\$ 279,072	267,067
Less accumulated depreciation	<u>104,350</u>	<u>102,186</u>
	174,722	164,881
Construction work in progress	<u>30,757</u>	<u>8,771</u>
Net electric plant	<u>205,479</u>	<u>173,652</u>
Nuclear fuel, at cost:		
Assemblies in reactor	80,629	80,629
Fuel in process	11,048	14,983
Fuel in stock	29,373	1,587
Spent fuel	<u>108,762</u>	<u>108,762</u>
	229,812	205,961
Less accumulated amortization	<u>166,079</u>	<u>148,307</u>
Net nuclear fuel	<u>63,733</u>	<u>57,654</u>
Net utility plant	<u>269,212</u>	<u>231,306</u>
Current assets:		
Cash (note 5)	3,185	3,503
Special deposit (note 4)	3,030	487
Temporary investments, at amortized cost which approximates market	-	26,598
Accounts receivable, primarily from sponsors	14,987	13,462
Income tax refunds receivable	5,426	1,080
Materials and supplies, at cost	8,764	7,876
Prepaid expenses	<u>1,643</u>	<u>1,277</u>
Total current assets	<u>37,035</u>	<u>54,283</u>
Deferred charges:		
Decommissioning fund (note 4)	5,395	2,784
Deferred decommissioning costs (note 4)	22,795	24,479
Unamortized debt expense	630	725
Accumulated deferred income taxes (note 8)	6,256	6,563
Deferred reload analysis development costs	431	948
Other deferred charges	<u>554</u>	<u>-</u>
Total deferred charges	<u>36,061</u>	<u>35,499</u>
	<u>\$ 342,308</u>	<u>321,088</u>

See accompanying notes to financial statements.

Capitalization and Liabilities

1985      1984  
(Dollars in thousands)

Capitalization:

Common stock equity (note 6):

Common stock, \$100 par value; authorized 400,100  
shares; outstanding 400,014 shares

\$ 40,001      40,001

Additional paid-in capital

14,403      14,392

Retained earnings

5,547      5,449

Total common stock equity

59,951      59,842

Redeemable cumulative preferred stock, 7.48% series;  
\$100 par value; authorized 300,000 shares; out-  
standing 116,830 shares in 1985 and 1984  
(note 6)

11,683      11,683

Long-term debt, net (note 7)

74,457      59,328

Disposal fee for spent nuclear fuel (note 3)

39,285      39,285

Accrued interest on disposal fee for spent nuclear  
fuel (note 3)

10,766      6,777

Total capitalization

196,142      176,915

Current liabilities:

Long-term debt to be retired within one year (note 7)

4,871      2,746

Notes payable (note 5)

-      29,000

Accounts payable

28,060      11,502

Accrued interest

1,395      1,447

Accrued taxes

2,816      2,912

Total current liabilities

37,142      47,607

Accrued decommissioning costs (note 4)

34,219      30,535

Accumulated deferred income taxes (note 8)

57,391      50,834

Accumulated deferred investment tax credits (note 8)

12,617      10,530

Unamortized gain on reacquired debt, net

4,797      4,667

Total deferred credits

109,024      96,566

Commitments and contingencies (notes 3, 4 and 10)

\$ 342,308      321,088

VERMONT YANKEE NUCLEAR POWER CORPORATION

Statements of Income and Retained Earnings

Years ended December 31, 1985, 1984 and 1983

	1985	1984	1983
	(Dollars in thousands)		
Operating revenues (note 2)	\$ <u>118,868</u>	<u>117,009</u>	<u>113,070</u>
Operating expenses:			
Nuclear fuel expense (note 3)	20,771	21,449	18,750
Other operation expense	40,508	35,475	33,992
Maintenance	16,175	16,749	20,398
Depreciation	12,460	12,031	10,889
Decommissioning expense (note 4)	4,984	3,640	2,234
Taxes on income (note 8)	2,678	3,609	5,558
Property and other taxes	4,287	4,715	4,192
Total operating expenses	<u>101,863</u>	<u>97,668</u>	<u>96,013</u>
Operating income	<u>17,005</u>	<u>19,341</u>	<u>17,057</u>
Other income and deductions:			
Allowance for equity funds used during construction	767	-	-
Interest	1,598	2,078	40
Taxes on other income	(667)	(1,041)	(47)
Other, net	(25)	(2)	38
	<u>1,673</u>	<u>1,035</u>	<u>31</u>
Income before interest expense	<u>18,678</u>	<u>20,376</u>	<u>17,088</u>
Interest expense:			
Interest on long-term debt, net	5,945	6,537	7,192
Interest on disposal costs of spent nuclear fuel (note 3)	3,990	4,169	2,608
Other interest expense	2,415	2,805	319
Allowance for borrowed funds used during construction	(2,440)	-	-
Total interest expense	<u>9,910</u>	<u>13,511</u>	<u>10,119</u>
Net income	8,768	6,865	6,969
Retained earnings at beginning of year	<u>5,449</u>	<u>5,259</u>	<u>5,165</u>
	<u>14,217</u>	<u>12,124</u>	<u>12,134</u>
Dividends declared:			
Preferred stock, \$7.48 per share	874	915	1,115
Common stock, \$19.49, \$14.40 and \$14.40 per share, respectively	<u>7,796</u>	<u>5,760</u>	<u>5,760</u>
Retained earnings at end of year	\$ <u>5,547</u>	<u>5,449</u>	<u>5,259</u>
Net income per average share of common stock outstanding	\$ <u>19.74</u>	<u>14.87</u>	<u>14.64</u>

See accompanying notes to financial statements.



VERMONT YANKEE NUCLEAR POWER CORPORATION

Statements of Changes in Financial Position

Years ended December 31, 1985, 1984 and 1983

	1985	1984	1983
	(Dollars in thousands)		
Source of funds:			
Net income	\$ 8,768	6,865	6,969
Charges (credits) to income not requiring funds:			
Depreciation	12,460	12,031	10,889
Amortization of nuclear fuel	17,772	18,462	18,750
Allowance for equity funds used during construction	(767)	-	-
Deferred income taxes	6,863	(3,538)	16,921
Investment tax credit adjustments	2,087	1,568	3,217
Increase in decommissioning costs	5,368	3,817	2,239
Interest on disposal costs of spent nuclear fuel	3,990	4,169	2,608
Other, net	199	1,491	524
Total funds from operations	56,740	44,865	62,117
Additions to long-term debt	20,018	12	8,948
Decrease in working capital	6,783	7,409	-
Total funds provided	\$ <u>83,541</u>	<u>52,286</u>	<u>71,065</u>
Use of funds:			
Electric plant additions	37,435	11,740	18,650
Plant removal costs, net of salvage value	6,852	(7)	19
Nuclear fuel additions	23,851	10,423	22,678
Allowance for equity funds used during construction	(767)	-	-
Decommissioning fund	2,611	2,185	599
Increase in deferred charges	-	-	956
Reduction of long-term debt	4,889	19,059	3,040
Redemption of preferred stock	-	2,211	1,013
Preferred stock dividends	874	915	1,115
Common stock dividends	7,796	5,760	5,760
Increase in working capital	-	-	17,235
Total funds applied	\$ <u>83,541</u>	<u>52,286</u>	<u>71,065</u>
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash	(318)	2,223	474
Special deposit	2,543	(106)	593
Temporary investments	(26,598)	26,598	-
Accounts receivable	1,525	(2,981)	2,430
Income tax refunds receivable	4,346	(9,804)	10,884
Materials and supplies	888	446	1,421
Prepaid expenses	366	137	(690)
	<u>(17,248)</u>	<u>16,513</u>	<u>15,112</u>
Increase (decrease) in current liabilities:			
Long-term debt to be retired within one year	2,125	544	(2,629)
Notes payable	(29,000)	24,900	4,100
Accounts payable	16,558	(731)	1,656
Accrued interest	(52)	(192)	67
Accrued taxes	(96)	(599)	(5,317)
	<u>(10,465)</u>	<u>23,922</u>	<u>(2,123)</u>
Increase (decrease) in working capital	\$ <u>(6,783)</u>	<u>(7,409)</u>	<u>17,235</u>

See accompanying notes to financial statements.



VERMONT YANKEE NUCLEAR POWER CORPORATION

Notes to Financial Statements

December 31, 1985, 1984 and 1983

(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 with associated companies, and securities issues, respectively. 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.

Pursuant to the terms of the amended Power Contracts and Additional Power Contracts, each Sponsor is obligated to pay the Company each month, an amount equal to such Sponsor's entitlement percentage of the Company's total fuel costs and operating expenses of the Plant, and an allowed return on equity. 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 unit, even though the unit may not be operating or may be prematurely decommissioned. 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. At December 31, 1985 the plant was out of service for a major replacement of the recirculation piping system. See notes 2 and 10 to the financial statements.

Under the terms of the Capital Funds Agreements, which terminate on December 31, 2002, 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 by 2007. Depreciation expense was equivalent to overall effective rates of 4.38%, 4.33% and 4.18% of the cost of depreciable utility plant for the years 1985, 1984 and 1983, respectively. See note 2 to the financial statements.

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

Costs associated with scheduled plant downtime for replacement of nuclear fuel assemblies and major maintenance are expensed as incurred.

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## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

(c) Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense based on the rate of burn-up of the individual assemblies comprising the total core. The Company also accrues the estimated future costs of disposing of spent nuclear fuel.

In 1985, the Company began amortizing to expense the final unspent nuclear fuel core and unused inventory which is expected to be in place in 2007, the end of the plant's service life. Such amortization was approved in the Company's 1985 rate case. See note 2 to the financial statements.

(d) Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") represents the estimated cost of funds used to finance the Company's construction work in progress and nuclear fuel which is not recovered from customers through current revenues. Although the allowance is not realized in cash currently, under the rate-making process the allowance is expected to be recovered in cash over the plant's service life. Such recovery will be from increased revenue collected because of higher depreciation and amortization expense.

AFUDC was equivalent to an overall effective rate of 9.59% for 1985. The Company recorded AFUDC using the gross rate method.

(e) Decommissioning

The Company accrues the estimated costs of decommissioning its nuclear reactor over its estimated useful life. Any costs not billed currently are deferred. See note 4 to the financial statements.

(f) Taxes on Income

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

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

(2) Rate Increases Granted

On July 16, 1985 and September 18, 1985, FERC approved temporary and permanent rate increase requests filed by the Company on May 31, 1985 and July 10, 1985, respectively. The new return on equity rates of 15.5% and 15% were effective on May 14, 1985 and June 1, 1985, respectively. The September 18, 1985 FERC order also provided for changes in depreciation, amortization and decommissioning to be reflected in power billings to Sponsors. The Company is not required to refund amounts collected during the interim period.

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## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

The rate case allows the Company to extend the depreciation term of its electric plant from the year 1998 to the year 2007, the life of the unit as determined by its operating license. This includes all electric plant except certain property units specified in the settlement.

The Company anticipates unburned nuclear fuel will remain in the reactor core at the end of the plant's operating life. The settlement allows the Company to begin amortizing the estimated costs of such remaining unburned fuel at the initial rate of 75% of the estimate.

The Company is also allowed to begin fully depreciating the costs of materials and supplies inventory. Such depreciation and related collections are pursuant to a formula specified in the FERC settlement.

The FERC settlement included two modifications to the decommissioning funding schedule. First, the estimated decommissioning amount required by the year 2007 was modified to reflect the increased burial costs through 1984. Second, the funding methodology was modified for tax advantages allowed under the Deficit Reduction Act of 1984. See note 4 to the financial statements.

(3) Nuclear Fuel Expense

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, DOE will 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.

Effective April 7, 1983, the Company began billing Sponsors a disposal fee, which is subject to annual DOE adjustment, of \$.001 per kilowatt hour of generation. This \$.001 fee was based on gross generation through December 31, 1984 and net generation thereafter. The fee is for disposal of all fuel burned after April 7, 1983 and all funds collected are remitted to the DOE quarterly. Included in operating expenses are approximately \$2,999,000, \$2,987,000 and \$3,300,000, for 1985, 1984 and 1983, respectively for contractual obligations to dispose of spent nuclear fuel.

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## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

The DOE contract also obligates the Company to pay a one-time fee of \$39,285,000 for disposal costs of all spent fuel discharged through April 7, 1983. Such amount has been collected from Sponsors and is included as a long-term obligation in the accompanying financial statements as of December 31, 1985 and 1984, respectively.

In 1985, the Company elected to pay this fee in a lump sum, along with interest, prior to the first delivery of spent nuclear fuel to the DOE. Interest, based on the thirteen-week Treasury Bill rate, amounted to \$3,990,000, \$4,169,000 and \$2,608,000 at weighted average interest rates of 7.78%, 9.74% and 8.67%, for the years ended December 31, 1985, 1984 and 1983, respectively.

(4) Decommissioning

The Company anticipates that three methods of decommissioning nuclear power plants will be acceptable to the NRC, which maintains responsibility for approving the method used. Such methods include complete and prompt dismantling and removal, entombment and mothballing. A combination of such methods may also be acceptable. The estimated cost of decommissioning using the complete and prompt dismantlement method, which management presently believes is the most desirable alternative, is approximately \$96,798,000 in 1984 dollars. The determination of this amount is based on a comprehensive study which will be periodically updated as necessary.

Decommissioning billings, adjusted for 7% annual inflation, commenced on September 24, 1983 pursuant to the terms of the Power Contracts and Additional Power Contracts which obligate all Sponsors for their pro rata share of such cost.

The Company is required to modify its schedule of collections every four years based on actual inflation. When the average inflation rate, as determined by the Consumer Price Index ("CPI"), differs from the 7% rate used for the prior four years, the prior four-year period must be recomputed using actual inflation rates. Effective January 1, 1985, the Company adjusted its collection schedule based on actual inflation rates of 4.3%, 3.2% and 6.1% for 1984, 1983 and 1982, respectively. An estimated 7% inflation rate is being used for all future years to fund the estimated liability through the time of decommissioning.

As discussed in note 2, the Company adjusted its decommissioning funding schedule in 1985 pursuant to its rate case settlement with the FERC. Such adjustments increased the projected decommissioning fund balance in the year 2007 from approximately \$394,000,000 to \$459,000,000.

(Continued)



## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

The accompanying financial statements include the following amounts relative to decommissioning costs at December 31, 1985 and 1984:

	<u>1985</u>	<u>1984</u>
	(Dollars in thousands)	
Accrued decommissioning costs:		
Decommissioning fund	\$ 5,395	2,784
Accounts receivable from sponsors	224	233
Deferred income taxes	5,805	3,039
Deferred decommissioning costs	<u>22,795</u>	<u>24,479</u>
	\$ <u>34,219</u>	<u>30,535</u>

(5) Compensating Balances and Short-Term Borrowings

The Company had lines of credit from various banks totalling \$16,000,000 and \$15,750,000 at December 31, 1985 and 1984, respectively. None of the credit lines required compensating balances at December 31, 1985. At December 31, 1984, \$8,000,000 of the credit lines required average compensating balances equal to 7% of the outstanding line.

The Company also had a \$50,000,000 Eurodollar Credit Agreement which was cancelled on October 30, 1985. The balance outstanding under such agreement at December 31, 1984 of \$29,000,000 was due January 28, 1985, and had an interest rate of 9.06%. The Company replaced this credit agreement with a \$75,000,000 Eurodollar Credit Agreement dated July 19, 1985. See note 7 to the financial statements.

The maximum amount of short-term borrowings outstanding at any month-end during 1985 and 1984 was \$29,000,000 and \$29,770,000, respectively. The average daily amount of such borrowings outstanding was \$23,245,000 and \$22,592,000 with corresponding weighted average interest rates of 9.10% and 11.23%, respectively.

(6) Capital Stock

If cumulative preferred stock is outstanding, the payment of cash dividends and distributions on Common Stock is limited when Common Stock Equity (as defined) is less than 25% of Total Capitalization (as defined). This excludes redemptions which require 30% common equity after redemption. At December 31, 1985, Common Stock Equity was 40% of Total Capitalization.

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## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

The 7.48% series preferred stock is redeemable at par through a mandatory sinking fund in the amount of \$1,100,000 per annum and is redeemable at an additional \$1,100,000 per annum at the option of the Company. Redemption prices range from \$105 per share in 1985 to \$100 per share in 1998, along with accrued and unpaid dividends to the redemption date. Gains or losses on redemption of preferred stock are charged or credited to other paid-in capital.

(7) Long-Term Debt

A summary of long-term debt at December 31, 1985 and 1984 is as follows:

	<u>1985</u>	<u>1984</u>
	(Dollars in thousands)	
First mortgage bonds:		
Series A - 9.625% due 1998	\$ 40,770	42,339
Series B - 8.50% due 1998	7,624	8,024
Series C - 7.70% due 1998	<u>10,170</u>	<u>10,958</u>
Total first mortgage bonds	58,564	61,321
Unamortized premium on debt	<u>91</u>	<u>98</u>
Net first mortgage bonds	58,655	61,419
Eurodollar Credit Agreement	14,940	-
Vernon Energy Trust borrowings	5,064	-
Obligation under capital lease	<u>669</u>	<u>655</u>
Total long-term debt	79,328	62,074
Less long-term debt to be retired within one year	<u>4,871</u>	<u>2,746</u>
Long-term debt, net	\$ <u>74,457</u>	<u>59,328</u>

The first mortgage bonds are secured by a first lien on utility plant, exclusive of nuclear fuel. Such bonds are further secured by the terms of the Power Contracts (except for related fuel payments) and the Capital Funds Agreements with Sponsors. Sinking fund requirements with respect to first mortgage bonds amount to \$4,514,000 annually.

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## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

On July 19, 1985, the Company entered into a \$75,000,000 Eurodollar Credit Agreement which expires on July 19, 1990. The Company has issued commercial paper under this Agreement with a weighted average interest rate of 8.20% which is secured by the nuclear core of the Company's generating facility. Although the commercial paper matures through February 3, 1986, the Company intends to refinance the obligations under this Agreement beyond 1986. Accordingly, this borrowing has been classified as long-term debt at December 31, 1985.

In November 1981, the Company entered into agreements to finance its nuclear fuel through the Vernon Energy Trust. The Trust finances nuclear fuel through the issuance of commercial paper and bank loans on a revolving credit basis up to an amount of \$40,000,000. The Trust may acquire an inventory of nuclear fuel in process from or on behalf of the Company. After fabrication, the Trust may sell the fuel to the Company and lend the Company funds to pay for such fuel. Loans issued by the Trust are secured by a pledge of the Company's right to receive fuel costs under power contracts with Sponsors. Loans outstanding to the Trust are paid as fuel is consumed.

The Company has borrowed under the above agreement based on the net book value of the fuel in its reactor. As additional financing is needed, the Company may assign its interest in uranium and fuel contracts to the Trust. The Trust will continue in existence for one-year periods through the year 2000, unless the Trust notifies the Company in writing of its intention to terminate. Such notification must be received at least one year in advance of the effective termination date.

(8) Taxes on Income

The components of income tax expense for the years ended December 31, 1985, 1984 and 1983 are as follows:

	1985	1984	1983
	(Dollars in thousands)		
Taxes on operating income:			
Federal - current	\$ (5,858)	4,163	(13,174)
Federal - deferred	5,545	(2,959)	14,578
State - current	(414)	1,416	(1,406)
State - deferred	1,318	(579)	2,343
Investment tax credit adjustments	<u>2,087</u>	<u>1,568</u>	<u>3,217</u>
	2,678	3,609	5,558
Taxes on other income:			
Federal - current	653	870	40
State - current	<u>14</u>	<u>171</u>	<u>7</u>
Total income taxes	<u>\$ 3,345</u>	<u>4,650</u>	<u>5,605</u>

(Continued)



## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

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

	1985	1984	1983
Federal statutory rate	46.0	46.0%	46.0%
State income taxes, net of			
Federal income tax benefit	4.1	4.1	4.0
Investment credit	(23.5)	(13.5)	(9.1)
Other	1.0	3.8	3.7
	<u>27.6%</u>	<u>40.4%</u>	<u>44.6%</u>

The items comprising deferred income tax expense are:

	1985	1984	1983
	(Dollars in thousands)		
Decommissioning costs	\$ (2,766)	(1,925)	(1,114)
Excess of tax depreciation over financial statement depreciation	4,242	1,191	265
Fuel amortization for financial statement purposes less (greater) than tax amortization	1,495	(1,153)	19,084
Interest on disposal costs of spent nuclear fuel	3,424	(2,101)	(1,314)
Other	463	450	-
	<u>\$ 6,858</u>	<u>(3,538)</u>	<u>16,921</u>

## (9) Pension Plans

The Company has two non-contributory trustee pension plans covering all regular employees and funds all costs accrued. Pension costs were \$526,000, \$311,000 and \$320,000 for the years 1985, 1984 and 1983, respectively, including amortization of unfunded liabilities over a period ending in 1998. Accumulated plan benefits and net assets available for benefits as of the latest valuation dates are presented below:

	January 1,	
	1985	1984
	(Dollars in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	\$ 1,493	1,180
Nonvested	294	261
	<u>\$ 1,787</u>	<u>1,441</u>
Net assets available for benefits	<u>\$ 3,068</u>	<u>3,172</u>

An assumed weighted average rate of return of 8.5% was used in determining the actuarial present value of accumulated plan benefits.

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## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

(10) Commitments and Contingencies

The Company has commitments for nuclear fuel purchases through 1999 approximating \$152,000,000. Such commitments amount to approximately \$12,000,000, \$22,000,000, \$28,000,000, \$21,000,000 and \$14,000,000 for the years 1986 through 1990, respectively, and approximately \$55,000,000 thereafter.

The Company has contracted for uranium concentrate to meet substantially all its power production requirements through 1991. It has two long-term contracts for uranium by-product extraction, expiring in 1992 and 2003, respectively, each of which at the time of execution was expected to provide up to about 20% of its uranium requirements during these periods. The Company and others initiated legal action in January 1983 to terminate the contract expiring in 1992 because of the seller's failure to comply with the contract terms. In February, 1986 the Company and others reached a settlement agreement with the supplier under this contract to modify and improve the contract terms as they affect the Company. Accordingly, the Company and others have withdrawn the legal action. Under the contract expiring in 2003, the Company is committed to make minimum payments, aggregating \$3,798,000 plus interest as of December 31, 1985, over a period ending not later than 1993 regardless of the amount of uranium that is actually produced. These minimum payments exclude the Company's portion of decommissioning charges from the extraction company which Vermont Yankee is contesting.

The Company has contracted for uranium enrichment services from a source other than the Department of Energy, which has its facilities in France. The contract provides for all the Company's uranium enrichment services for the period 1987 to 1996, with an option to extend if the Company so chooses. The Company also has an enrichment contract with the Department of Energy through 2001, which it has partially terminated for the period 1987 to 1996.

The Company has commitments for capital expenditures amounting to approximately \$19,000,000 and \$9,000,000 for the years 1986 and 1987, respectively.

The Company is replacing the plant's recirculation piping system during the outage which began in September 1985. The Company estimates the outage will last for approximately 40 weeks. Although information obtained from other plants and long-range planning are considered in the Company's estimate, unforeseen conditions could extend the outage.

(Continued)

## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

The Price-Anderson Act currently limits public liability from a single accident at a nuclear power plant to \$650,000,000. If the total damages resulting from an accident exceed the private pool insurance coverage of \$160,000,000, then the Company would be required to pay its share of the excess up to a maximum of \$5,000,000 per accident with a maximum of \$10,000,000 per year. Under the provisions of the Power Contracts, the Company's share of any such payments would be passed on to the Sponsors. Although the Price-Anderson Act expires by its terms in 1987, Congressional hearings on possible extension are now underway.

Pursuant to its First Mortgage Bond Indenture, the Company is limited to \$50,000 as the amount which can be expended as "other income deductions," as defined in the FERC Uniform System of Accounts. In the third quarter of 1985, the Company was assessed a \$50,000 fine by the NRC, and after an appeal of the assessment was denied, the Company paid the fine in March, 1986. If the Company is required to make any other expenditures which are "other income deductions" during calendar 1986, the Company would be in technical default under the Indenture. The Company is in the process of requesting modification of the Indenture to relax or eliminate this restriction.

(11) 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 to a fair statement of results of operations for such periods.

<u>1985</u>	<u>Quarter ended</u>			
	<u>March</u>	<u>June</u>	<u>September</u>	<u>December</u>
	(Dollars in thousands - except per share amounts)			
Operating revenues	\$26,348	28,493	28,256	35,771
Operating income	3,845	4,328	4,463	4,369
Net income	1,713	2,119	2,469	2,467
Net income per share of common stock	3.74	4.75	5.62	5.63

<u>1984</u>	<u>Quarter ended</u>			
	<u>March</u>	<u>June</u>	<u>September</u>	<u>December</u>
	(Dollars in thousands - except per share amounts)			
Operating revenues	\$ 24,745	29,228	31,888	31,148
Operating income	4,681	4,919	4,864	4,877
Net income	1,728	1,710	1,714	1,713
Net income per share of common stock	3.67	3.73	3.74	3.73

(Continued)

## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

(12) Unaudited Information on the Effects of Changing Prices (Inflation)

The following supplementary information is supplied in accordance with Statement of Financial Accounting Standards ("SFAS") No. 33, Financial Reporting and Changing Prices, as amended. It should be viewed as an estimate of the approximate effects of inflation, rather than as a precise measure. Such data is not intended as a substitute for earnings reported on a historical basis.

	Year ended December 31, 1985 (dollars in thousands)	
	Conventional historical cost	Adjusted for changes in specific prices
Operating revenues	\$ 118,868	118,868
Operating expenses:		
Nuclear fuel expense	20,771	21,703
Other operation expense	40,508	40,508
Maintenance	16,175	16,175
Depreciation	12,460	28,634
Decommissioning expense	4,984	4,984
Taxes on income	2,678	2,678
Property and other taxes	4,287	4,287
Total operating expenses	101,863	118,969
Operating income (loss)	17,005	(101)
Other income and deductions, net	1,673	1,673
Interest expense	(9,910)	(9,910)
Net income (loss), excluding reduction to net recoverable cost	\$ 8,768	(8,338) (A)
Gain from decline in purchasing power of net amounts owed		3,386
Reduction to net recoverable cost		(7,922)
		\$ (4,536)
Increase in specific prices (current cost) of property, plant and equipment held during the year(B)		32,897
Effect of increase in general price level		18,363
Excess of increase in specific prices over increase in general price level		\$ 14,534

(A) Including the reduction to net recoverable cost, the net loss would have been \$16,260,000.

(B) At December 31, 1985, the current cost of utility plant, net of accumulated depreciation and amortization, was estimated to be approximately \$525,636,000 as compared with net utility plant recoverable through depreciation and amortization of \$269,212,000.

(Continued)

## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

A five-year comparison of selected supplementary financial data adjusted for the effects of changing prices, stated in average 1985 dollars follows:

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(dollars in thousands—except per share amounts)				
<u>Operating revenues</u>	\$ 118,868	121,183	122,088	118,422	104,289
<u>Current cost information:</u>					
Net loss (excluding reduction to net recoverable cost)	\$ 8,338	13,212	21,936	13,089	10,283
Net loss per share of common stock (excluding reduction to net recoverable cost)	23.03	35.40	57.84	27.12	28.53
Increase in general price level over (under) increase in specific prices	(14,534)	15,308	(8,198)	(29,820)	13,634
Net assets at year-end at net recoverable cost	\$ 58,998	60,010	50,595	60,030	66,134
<u>General information:</u>					
Gain from decline in purchasing power of net amounts owed	\$ 3,386	2,561	7,175	7,208	16,966
Cash dividends declared per common share	\$ 19.49	14.91	15.55	16.04	17.74
Average consumer price index	322.2	311.1	298.4	289.1	272.4

Dollar amounts adjusted for changes in specific prices (current cost amounts) reflect the changes in specific prices of net utility plant from the date the plant was acquired to the present.

The current cost of property, plant and equipment, which includes land, land rights, intangible plant and construction work in progress, represents the estimated cost of replacing existing plant assets and was determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current cost of nuclear fuel was determined by engineering estimates of the replacement cost of fuel currently in the reactor. The current year's provisions for nuclear fuel expense and depreciation of utility plant were determined by applying the Company's depreciation and amortization rates to the restated plant amounts.

As prescribed in SFAS No. 33, income taxes were not adjusted.

(Continued)



## VERMONT YANKEE NUCLEAR POWER CORPORATION

## Notes to Financial Statements

Under terms of the Power Contracts, which specify costs billable to the Company's Sponsors, only the historical cost of utility plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of current cost that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. The Company will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the statement of income adjusted for changing prices, the reduction of net property, plant and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.





