

April 18, 1988

RE: LAC-12537

DOCKET NO. 50-409

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, D.C. 20555

Gentlemen:

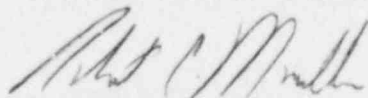
DAIRYLAND POWER COOPERATIVE
LA CROSSE BOILING WATER REACTOR (LACBWR)
PROVISIONAL LICENSE NO. DPR-45
FINANCIAL STATEMENTS AND AUDITORS' REPORT

Reference: 1) 10 CFR 50.71.(b)

In accordance with the requirements of Reference 1, we are forwarding three (3) copies of the annual financial report and certified financial statements for Dairyland Power Cooperative for the years 1987 and 1986. We will forward our 1987 Annual Report to you as soon as it is completed.

Sincerely,

DAIRYLAND POWER COOPERATIVE



Robert C. Mueller
Assistant General Manager
and Controller

RCM:iae

Enclosures

cc: C. Bert Davis, Regional Administrator, NRC-DRO III
NRC Resident Inspector - LACBWR
Peter B. Erickson, NRC Project Manager
J. Parkyn, LACBWR

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Dairyland Power Cooperative and Subsidiary

*Consolidated Financial Statements
as of December 31, 1987 and 1986
Together with Auditors' Report*

ARTHUR ANDERSEN & CO.
MINNEAPOLIS, MINNESOTA

To the Members and the Board of Directors,
Dairyland Power Cooperative:

We have examined the consolidated balance sheets of DAIRYLAND POWER COOPERATIVE (a Wisconsin cooperative) AND SUBSIDIARY as of December 31, 1987 and 1986 and the related consolidated statements of revenues, expenses and patronage capital and cash flows for the years then ended. 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 consolidated financial statements referred to above present fairly the financial position of Dairyland Power Cooperative and Subsidiary as of December 31, 1987 and 1986 and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

March 3, 1988.

DAIRYLAND POWER COOPERATIVE

CONSOLIDATED BALANCE SHEETS--DECEMBER 31

(In Thousands)

<u>ASSETS</u>			<u>CAPITALIZATION AND LIABILITIES</u>		
	<u>1987</u>	<u>1986</u>		<u>1987</u>	<u>1986</u>
ELECTRIC PLANT (Notes 1, 2, 7 and 10):			CAPITALIZATION:		
Plant and equipment, at original cost	\$491,803	\$499,041	Member and patron equities--		
Less- Accumulated depreciation	(202,653)	(197,911)	Membership fees	\$ 10	\$ 10
	-----	-----	Patronage capital (Note 4)	70,351	71,505
	289,150	301,130		-----	-----
Construction work in progress	7,634	4,786	Total member and patron equities	70,361	71,515
Nuclear fuel, at amortized cost	-	16,446			
	-----	-----	Long-term obligations (Note 2)	363,705	353,718
Total electric plant	296,784	322,362		-----	-----
	-----	-----	Total capitalization	434,066	425,233
OTHER ASSETS:				-----	-----
Investments (Note 1)	36,887	32,271	DEFERRED CREDITS (Notes 5 and 8)	20,194	21,989
Investment in fiber optics venture (Note 9)	3,126	5,351		-----	-----
Investments in capital term certificates					
of National Rural Utilities Cooperative			COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)		
Finance Corporation	9,856	9,856			
Pollution Control Bond proceeds on					
deposit with trustee	2,041	1,869			
Deferred charges--					
LACBWR costs, net (Note 10)	17,199	-			
Other (Note 8)	4,103	5,087			
	-----	-----			
Total other assets	73,212	55,434			
	-----	-----			
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and temporary cash investments	51,542	25,951	Current maturities of long-term obligations	8,614	8,185
Accounts receivable--			Advances from member cooperatives (Note 3)	8,471	7,278
Energy sales	14,982	15,002	Accounts payable	6,785	2,724
Other	4,819	1,850	Accrued liabilities--		
Inventories, at average cost--			Payroll and vacation pay	2,416	2,081
Fossil fuels	35,622	40,924	Taxes	2,108	1,310
Materials and supplies	8,442	9,516	Interest	939	937
Prepaid expenses	779	915	Other	2,589	2,207
	-----	-----		-----	-----
Total current assets	116,186	94,158	Total current liabilities	31,922	24,732
	-----	-----		-----	-----
	\$486,182	\$471,954		\$486,182	\$471,954
	*****	*****		*****	*****

The accompanying notes are an integral part of these consolidated balance sheets

DAIRYLAND POWER COOPERATIVE

CONSOLIDATED STATEMENTS OF REVENUES,

EXPENSES AND PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31

(In Thousands)

	<u>1987</u>	<u>1986</u>
OPERATING REVENUES:		
Sales of electric energy	\$151,764	\$155,325
Other	789	896
	-----	-----
Total operating revenues	152,553	156,221
	-----	-----
OPERATING EXPENSES:		
Fuel	62,790	72,737
Purchased and interchanged power, net	6,488	3,968
Other operations	23,241	23,708
Maintenance	8,894	8,836
Depreciation and amortization (Notes 1 and 10)	17,715	16,453
Taxes	6,682	5,651
	-----	-----
Total operating expenses	125,810	131,353
	-----	-----
Operating margin before interest and other deductions	26,743	24,868
	-----	-----
INTEREST AND OTHER DEDUCTIONS:		
Interest	24,623	24,552
Allowance for borrowed funds used during construction (Note 1)	(467)	(1,105)
Other (Note 9)	5,179	511
	-----	-----
Total interest and other deductions	29,335	23,958
	-----	-----
Operating margin (deficit)	(2,592)	910
	-----	-----
NONOPERATING MARGIN, principally investment income	5,440	4,853
	-----	-----
Net margin	2,848	5,763
	-----	-----
PATRONAGE CAPITAL, beginning of year	71,505	69,670
	-----	-----
RETIREMENT OF CAPITAL CREDITS (Note 4)	(4,002)	(3,928)
	-----	-----
PATRONAGE CAPITAL, end of year, including margins assignable of \$2,848 in 1987 and \$5,763 in 1986	\$ 70,351 =====	\$ 71,505 =====

The accompanying notes are an integral
part of these consolidated statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

(In Thousands)

	1987	1986
CASH FLOW PROVIDED BY (USED IN):		
Operating activities-		
Net margin	\$ 2,848	\$ 5,763
Depreciation and amortization	16,486	16,453
Amortization of nuclear fuel	1,968	2,751
Amortization of deferred charges- LACBWR	1,228	-
Reduction in carrying value of fiber optics venture	5,567	-
Other	2,400	2,792
Change in current operating items:		
Accounts receivable	352	39
Inventories	5,988	(8,648)
Prepaid expenses	136	94
Accounts payable	3,201	(2,035)
Accrued liabilities	1,517	(572)
Cash provided by operating activities	41,691	16,637
Financing activities-		
Proceeds from long-term obligations	18,608	9,980
Change in Pollution Control Bond proceeds on deposit with trustee	(172)	242
Repayment of long-term obligations	(6,999)	(7,904)
Retirement of capital credits	(4,002)	(3,928)
Cash provided by (used for) financing activities	7,435	(1,610)
Investing activities-		
Electric plant additions, net	(15,034)	(12,552)
Changes due to termination of LACBWR operations:		
Electric plant	20,408	-
Deferred charges	(18,427)	-
Other	(1,981)	-
Increase in other investments	(4,616)	(6,455)
Investment in fiber optics venture	(2,342)	(5,079)
Other, net	(1,543)	4,899
Cash used in investing activities	(23,535)	(19,187)
Cash flow during the year	\$25,591	\$(4,160)
	=====	=====

The accompanying notes are an integral part of these consolidated statements

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies-

Organization:

Dairyland Power Cooperative (the Cooperative) is an electric generation and transmission cooperative association organized under the laws of Wisconsin. The Cooperative provides wholesale electric service to Class A members engaged in the retail sale of electricity to member consumers located in Wisconsin, Minnesota, Iowa, Illinois and Michigan and provides electric and other services to Class C, D and E members.

The accounting records of the Cooperative are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission as adopted by the Rural Electrification Administration (REA), the Cooperative's principal regulatory agency.

The consolidated financial statements include the accounts of the Cooperative and its wholly owned subsidiary, Curtis Telecommunications, Inc. (CTI). All intercompany accounts and transactions between the Cooperative and CTI have been eliminated.

Depreciation:

Depreciation is provided based on the straight-line method at rates which are designed to amortize the original cost of properties over their estimated useful lives and include a provision for the cost of removal and decommissioning of the properties. The provision for depreciation averaged 3.8% of depreciable plant balances for 1987 and 1986.

Amortization of Nuclear Fuel:

Prior to April 30, 1987, the cost of nuclear fuel was charged to fuel expense based on heat produced for the generation of electricity. The cost of disposal of spent fuel was recorded over the lives of individual assemblies. See Note 10 for further discussion regarding the cessation of operations of the Cooperative's nuclear generating facility.

Income Taxes:

The Cooperative is exempt from federal and state income taxes and, accordingly, no provision for

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies (continued)-

Income Taxes (continued):

such taxes is reflected in the consolidated financial statements.

Allowance for Funds Used During Construction:

Allowance for funds used during construction represents the cost of borrowed funds used for construction purposes and is capitalized as a component of electric plant. The amount of such allowance is determined by applying a rate to certain electric plant additions under construction and, for periods prior to May 1, 1987, to the balance of nuclear fuel in stock and in fabrication. The rates used varied from 7.0% to 8.1% and from 6.6% to 11.1% in 1987 and 1986, respectively, depending on the source of funds.

Property Additions:

The cost of renewals and betterments of units of property (as distinguished from minor items of property) is charged to electric plant accounts. The cost of units of property retired, sold, or otherwise disposed of, plus removal costs, less salvage, is charged to accumulated depreciation. No profit or loss is recognized in connection with ordinary retirements of property units. Maintenance and repair costs, and replacement and renewal of minor items of property are charged to operating expenses.

Investments:

Investments of the Cooperative consist primarily of commercial paper and government obligations. All investments are recorded at the lower of aggregate cost or quoted market value. The carrying value of the investments is adjusted for amortization of premiums and discounts.

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Long-Term Obligations-

Long-term obligations at December 31 consist of the following (in thousands):

	<u>1987</u>	<u>1986</u>
REA Obligations, 2%	\$ 72,537	\$ 77,302
REA Obligations, 5%	33,400	33,973
FFB Obligations, 7.5% to 10.9%	225,511	208,668
NRUCFC Obligations, 8%	6,477	6,810
City of Alma, Wisconsin, Pollution Control Bonds:		
Fixed rate (6.383%)	11,620	11,910
Adjustable rate (5.31% at December 31, 1987)	13,900	13,900
City of La Crosse, Wisconsin, Industrial Development Revenue Bonds, adjustable rate (5.31% at December 31, 1987)	4,160	4,160
Capitalized lease obligations, principally at im cit interest rates of , due in varying amounts co 1995	4,714	5,180
	-----	-----
	372,319	361,903
Less- Current maturities	(8,614)	(8,185)
	-----	-----
Total long-term obligations	\$363,705	\$353,718
	=====	=====

Long-term obligations to the REA are payable in equal quarterly principal and interest installments through 2015. Principal repayments on the long-term obligation to the Federal Financing Bank (FFB) extend through 2021. Principal and interest payments on the National Rural Utilities Cooperative Finance Corporation (NRUCFC) obligations are payable quarterly through 1999. The fixed rate Pollution Control Bonds are payable in increasing annual amounts through 2008.

The adjustable rate Pollution Control and Industrial Development Revenue Bonds mature in 2015 unless previously called for redemption. Bank letters of credit aggregating \$19,000,000 and terminating in February 1991 have been issued on behalf of the Cooperative to the trustee to provide funds for payment of principal of any such bonds to be redeemed or repurchased prior to that date. Accordingly, the entire principal amount of these bonds is classified as long-term debt.

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Long-Term Obligations (continued)-

Substantially all of the Cooperative's assets are pledged as collateral for these obligations. The Cooperative is required to and has maintained certain financial ratios related to earnings and liquidity in accordance with the covenants of its loan agreements.

Maturities of the Cooperative's long-term obligations are as follows (in thousands):

<u>Year</u>	<u>Amount</u>
1989	\$ 8,960
1990	9,329
1991	9,630
1992	10,003
Thereafter	325,783

Total	\$363,705
	=====

(3) Lines of Credit-

To provide interim financing, the Cooperative has arranged lines of credit aggregating approximately \$27.3 million, principally through NRUCFC. Borrowings (which were not significant in either 1987 or 1986) are at the prime interest rate and prime minus 3/4%. Compensating balance requirements or fees relating to the lines of credit are not significant.

The Cooperative also allows member cooperatives to prepay their power bills, and pays interest on these prepayments based on current short-term borrowing rates. Interest expense on member cooperative advances has been netted against interest income earned by the Cooperative on prepayments in excess of its working capital requirements and reflected as nonoperating margins in the accompanying consolidated statements of revenues and expenses.

(4) Retirement of Capital Credits-

The Cooperative's Board of Directors has adopted a policy of retiring capital credits allocated to members on a "first-in, first-out" basis so that at all times the Cooperative will not retain as patronage capital any capital contributed or deposited more than 20 years prior to the current year. Accordingly, the 1967 and 1966

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Retirement of Capital Credits (continued)-

capital credits were retired in 1987 and 1986, respectively. Implementation of this policy is subject to annual review and approval by the Board of Directors and the REA, and no cash retirements are to be made which would impair the financial condition of the Cooperative or violate any terms of its agreements.

(5) Shared Transmission Agreements-

The Cooperative has entered into shared transmission agreements with the Southern Minnesota Municipal Power Agency (SMMPA) and the Western Wisconsin Municipal Power Group (WWMPG) which provide SMMPA and WWMPG use of the Cooperative-owned transmission system to deliver power and energy requirements to SMMPA and WWMPG members in the Cooperative's electric service area for a period of 50 years. Payments received from SMMPA and WWMPG for use of the Cooperative's transmission system are reflected as deferred credits in the consolidated balance sheets and are being amortized to operations over the terms of the related agreements. The Cooperative may be entitled to further payments depending on the investment in, and joint use of, the system.

(6) Commitments and Contingencies-

The Cooperative has been named a defendant in several lawsuits and claims, primarily related to construction and operation of its electric plant. Although the outcome of these matters cannot be determined at the present time, management and legal counsel believe these actions can be successfully defended or resolved without a material adverse effect on the financial position of the Cooperative.

(7) Construction-

The Cooperative's 1988 estimated construction program is \$30.6 million. Financing of construction is expected to be provided by borrowings from the FFB, proceeds from the issuance of Pollution Control Bonds, short-term lines of credit with the NRUCFC, advances from member cooperatives and funds generated internally.

(8) Pension Plan-

Pension benefits for substantially all employees are provided through participation in the National Rural

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Pension Plan (continued)-

Electric Cooperative Association (NRECA) Retirement and Security Program. The cost for this defined benefit pension program was approximately \$759,000 in 1987 and \$2,030,000 in 1986. Contributions are determined in accordance with the provisions of the program and are based on salaries, as defined, of each participant. During 1987, NRECA declared a moratorium on plan contributions effective July 1, 1987 through December 31, 1988. As of December 31, 1985, the date of the last available actuarial valuation, net assets of the plan available for benefits exceeded the actuarial present value of accumulated plan benefits.

Effective January 1, 1986, the Cooperative adopted an amendment to the pension plan which reduced the normal retirement age from 65 to 62. This amendment resulted in the creation of an unfunded prior service cost of \$2,452,000, which is included in deferred credits in the consolidated balance sheet with an intangible asset of the same amount recorded in deferred charges to reflect the expected future economic benefits associated with the amendment. The intangible asset is being amortized to expense on a straight-line basis over 30 years. Additionally, interest at 8% is also being recognized on the unfunded prior service costs.

(9) Fiber Optics Venture-

The Cooperative's wholly owned subsidiary, CTI, owns a 23.8% partnership interest in NorLight, a venture with four other partners, to own and operate a fiber optics network in the Upper Midwest.

Prior to 1987, losses incurred by CTI (principally due to recognition of its proportionate share of NorLight losses) and payments received by the Cooperative from NorLight for use of the Cooperative's right-of-way were deferred based on a Board of Directors' resolution to allow recovery of such deferrals through future service rates. Such deferred amounts were to be amortized to operations (with appropriate recognition in service rates charged to members) over a period commencing the first year in which CTI became profitable, with all deferred amounts amortized by 1997. Amounts deferred in 1986 included an approximate \$1 million loss of NorLight and a \$1.3 million payment received for right-of-way which are included in investment in fiber optics venture and deferred credits, respectively, in the consolidated balance sheets.

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Fiber Optics Venture (continued)-

As a result of a resolution adopted by its members during 1987 which effectively prohibits future service rate increases as a result of losses of CTI, the Cooperative ceased the policy of deferring CTI losses and charged the previous deferred losses and right-of-way payments to operating expenses. In addition, in recognition of developments in the fiber optics industry, the carrying value of CTI's investment in NorLight was reduced to reflect CTI's proportionate interest in the estimated current value of the NorLight venture. The effect of the above actions was to reduce 1987 margins by \$5.6 million.

Based upon information currently available, the Cooperative expects to continue its involvement in the venture and to be able to recover the remaining carrying value of its investment either through operations of the venture or divestiture of its ownership interest.

In November 1987, CTI assigned its interest in NorLight to a bank as collateral securing NorLight's financing.

(10) Nuclear Reactor-

The La Crosse Boiling Water Nuclear Reactor (LACBWR) was voluntarily removed from service by the Cooperative effective April 30, 1987. The intent was to terminate operation of the reactor and a "possession only" license has been obtained from the Nuclear Regulatory Commission during August 1987. The facility is being placed in a "safe storage" status and will remain so until 2010 to 2014 at which time decommissioning will be completed. All LACBWR-related property (net of depreciation), construction work-in-progress, inventories and nuclear fuel (net of amortization and salvage value) totaling \$18.4 million has been transferred to a deferred charge and is being amortized to operating expense over a ten-year period with appropriate recognition in rates charged to members for electric service.

The provision for depreciation includes \$1.8 million to provide for the estimated costs of decommissioning the nuclear generating facility; however, the manner of decommissioning the facility has not been determined. The Cooperative continues to review its decommissioning cost estimates and expects that any increases in such costs will be recovered through future rates. The Cooperative has adopted a policy of funding decommissioning costs currently and the related investments are

DAIRYLAND POWER COOPERATIVE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Nuclear Reactor (continued)-

included in investments in the consolidated balance sheets, while the decommissioning reserve of \$9.4 million is included in accumulated depreciation.

Under the Nuclear Waste Policy Act of 1982 (Act), the United States Department of Energy (DOE) is responsible for the storage and disposal of spent nuclear fuel removed from nuclear reactors. Under the provisions of the Act and a contract with the DOE, the Cooperative made quarterly payments for nuclear fuel burned during the year.