

VERMONT YANKEE NUCLEAR POWER CORPORATION

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May 18, 1999
BVY 99-71

United States Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555

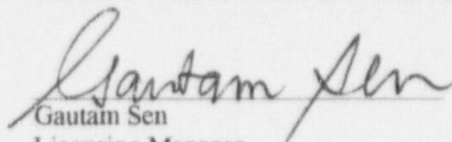
**Subject: Vermont Yankee Nuclear Power Station
License No. DPR-28 (Docket No. 50-271)
Vermont Yankee Nuclear Power Corporation – 1998 Annual Report**

In accordance with the provisions of 10CFR50.71(b), attached is a copy of Vermont Yankee Nuclear Power Corporation's annual financial report, including the certified financial statements, for 1998.

Should you have any questions regarding the attached material, please contact John J. Boguslawski at 802-258-4136.

Sincerely,

VERMONT YANKEE NUCLEAR POWER CORPORATION


Gautam Sen
Licensing Manager

Attachment

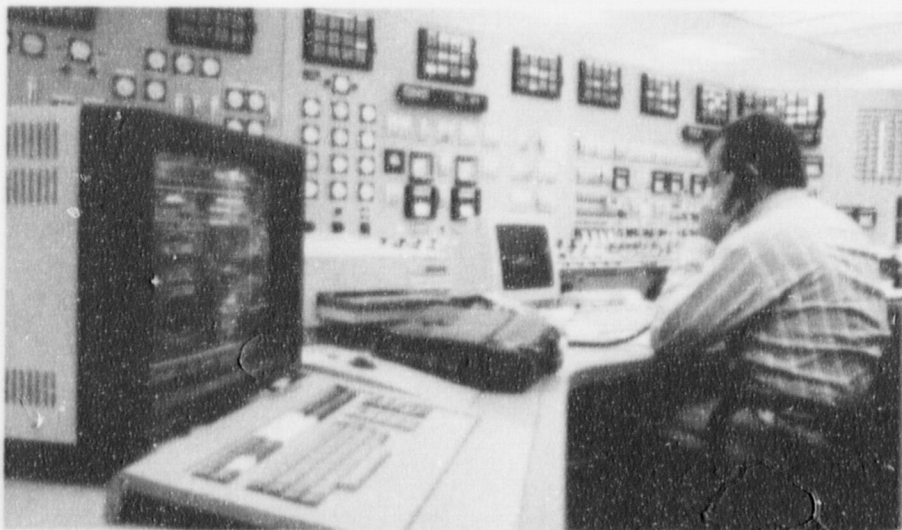
cc: USNRC Region 1 Administrator
USNRC Resident Inspector – VYNPS
USNRC Project Manager – VYNPS
Vermont Dept. of Public Service

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Vermont Yankee Nuclear Power Corporation 1998 Annual Report



Vermont Yankee 1998 Annual Report

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Vermont Yankee Nuclear Power Corporation

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President's Letter

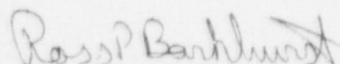
For Vermont Yankee, 1998 was marked by solid overall progress on several fronts. Our employees continued their commitment to high standards of safety and quality in every aspect of plant operations, and Vermont Yankee engineers made significant progress in documenting our design basis.

The basis for much of the progress made during the past year is the Continuous Process Improvement (CPI) initiative. Employee enthusiasm for evaluating and improving our work processes is in strong evidence throughout the company, and the results are more efficient operations and measurable savings in time, materials and money.

Economic viability studies completed during 1998 have once again demonstrated the economic benefit of continued operation of the plant. Vermont Yankee's own assessment showed a net present value of \$44.9 million dollars for continuing to operate through end of license in 2012, compared to shutting down in 1999. An independent economic viability study of the same shutdown scenario performed by the Vermont Department of Public Service showed Vermont Yankee with a net present value of \$153 million in 1998.

During 1998, Vermont Yankee engineers worked to document the design bases for 23 safety-significant systems in the plant. This project affirmed the robust safety margins built into Vermont Yankee's basic design, and has received a very positive response from the NRC. The Design Basis Documentation project created a centralized design database that will pave the way for even higher safety and capacity factors in future operations and for improvements like power uprate and license extension, should Vermont Yankee's owners choose to follow that course.

As this annual report goes to press, Vermont Yankee has signed an exclusivity contract with the AmerGen Corporation and is in the midst of a due diligence that could lead to a sale. AmerGen's stated objective is to purchase well maintained plants with highly trained, skilled staff and strong records of safe and efficient operation. Vermont Yankee is proud to be selected for consideration under these demanding criteria.



Ross P. Barkhurst

Description of Business

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

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

Located on the west bank of the Connecticut River in Vernon, Vermont, the facility has a gross maximum dependable capacity of approximately 535 megawatts. The common stock of Vermont Yankee is owned by thirteen utilities, nine of which are the Sponsoring utilities that are

entitled and obligated to purchase the output of the Plant.

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

Sponsor	Entitlement Percentage
Central Vermont Public Service Corporation	35.0%
Green Mountain Power Corporation	20.0
New England Power Company	20.0
The Connecticut Light and Power Company	9.5
Central Maine Power Company	4.0
Public Service Company of New Hampshire	4.0
Cambridge Electric Light Company	2.5
Montaup Electric Company	2.5
Western Massachusetts Electric Company	2.5
	100.0%

Comparative Highlights

	<u>1998</u>	<u>1997</u>	<u>% Change</u>
Financial (Dollars in millions):			
Operating revenues	\$195.2	\$173.1	12.8
Net income	7.1	6.8	4.3
Total assets	635.9	610.0	4.2
Average number of shares of common stock outstanding (thousands)	392.5	392.5	0.0
Per Share of Common Stock:			
Basic earnings per common share	\$18.15	\$17.41	4.3
Dividends paid per common share	17.25	18.71	(7.8)
Book value per common share (year-end)	139.23	138.32	0.7
Operating:			
Kilowatt-hour sales (billions)	3.36	4.27	(21.3)
Cost per kilowatt-hour (cents)	5.81	4.06	43.1

Common Stock Ownership

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

Financial Review

Operating revenues of the Company are billed and received from its Sponsors based on the terms of its Power Contracts. Under those contracts, the Sponsors are severally required to pay the Company an amount equal to their respective entitlement share of the Company's total fuel and operating expenses, return on net unit investment and an amount designated to meet anticipated decommissioning costs at the end of the nuclear electric generating plant's useful life.

Operating revenues increased in 1998 from 1997 by \$22.1 million, or 12.8%, primarily due to higher maintenance and other operating expense associated with the scheduled refueling and maintenance shutdown in 1998. There was no refueling and maintenance shutdown in 1997. The plant operates on an 18 month refueling cycle and the last scheduled refueling prior to the 1998 shutdown was completed in November 1996.

Nuclear fuel expense decreased by \$3.3 million in 1998 from 1997, reflecting the lower generation in 1998, a year with a refueling and maintenance shutdown. Depreciation expense increased by \$1.2 million in 1998 over the 1997 level reflecting the

impact of the capital projects completed during the refueling and maintenance shutdown in 1998. Property tax decreased by \$0.9 million due to lower municipal tax assessments.

Other income, net of associated income tax, decreased by \$0.3 million in 1998 due to lower after-tax earnings on the fixed income investments in the Spent Fuel Disposal Fee Defeasance Trust.

Total interest expense increased by \$0.7 million in 1998 from 1997. Interest charges on the spent fuel disposal fee obligation were higher than in 1997 as a result of the increasing obligation balance, and interest charges on long-term debt increased over 1997 due to the purchase of the new batch of fuel in early 1998.

Net income, computed in accordance with the Company's formula rate approved by the Federal Energy Regulatory Commission ("FERC") increased by \$0.3 million in 1998 due to larger differences between the Company's net unit investment and total capitalization. Income tax expense increased by \$0.6 million as a consequence of the higher net income and a lower flow back of excess deferred taxes.

Report of Independent Public Accountants

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

We have audited the accompanying balance sheets of Vermont Yankee Nuclear Power Corporation as of December 31, 1998 and 1997, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Yankee Nuclear Power Corporation as of December 31, 1998 and 1997, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen L.L.P.
Boston, Massachusetts
January 21, 1999 (except with respect to the matter discussed in Note 15,
as to which the date is February 26, 1999)

Statements of Income and Retained Earnings

	Years ended December 31,		
	1998	1997	1996
	(In thousands except per share data)		
Operating revenues	\$195,249	\$173,106	\$181,715
Operating expenses:			
Nuclear fuel expense (NOTES 4 and 8)	15,902	19,232	18,810
Other operating expense	89,441	83,360	76,390
Maintenance expense	34,494	17,162	33,216
Depreciation and amortization expense	17,059	15,889	14,703
Decommissioning expense (NOTE 3)	12,625	12,582	12,672
Taxes on income (NOTE 10)	2,223	1,762	2,030
Property and other taxes	8,223	9,158	9,189
Total operating expenses	179,967	159,145	167,010
Operating income	15,282	13,961	14,705
Other income (expense):			
Net earnings on decommissioning trust (NOTES 3 and 5)	7,969	8,229	6,791
Decommissioning expense (NOTE 3)	(7,969)	(8,229)	(6,791)
Allowance for equity funds used during construction	36	60	100
Earnings on spent fuel disposal defeasance trust (NOTE 5)	5,341	5,492	4,686
Taxes on other income (NOTE 10)	(1,911)	(1,760)	(1,791)
Other, net	(226)	(224)	(145)
Total other income	3,240	3,568	2,850
Income before interest expense	18,522	17,529	17,555
Interest expense:			
Interest on long-term debt	6,423	5,910	6,197
Interest on spent fuel disposal fee obligation (NOTE 8)	5,104	4,985	4,720
Allowance for borrowed funds used during construction	(130)	(200)	(347)
Total interest expense	11,397	10,695	10,570
Net income	7,125	6,834	6,985
Retained earnings at beginning of year	1,191	1,700	846
	8,316	8,534	7,831
Dividends declared	6,770	7,343	6,131
Retained earnings at end of year	\$1,546	\$1,191	\$1,700
Average number of shares outstanding	392	392	392
Net income per share of common stock outstanding	\$18.15	\$17.41	\$17.80
Dividends per share of common stock outstanding	\$17.25	\$18.71	\$15.62

See accompanying notes to financial statements.

Balance Sheets

Assets

	December 31,	
	1998	1997
	(Dollars in thousands)	
Utility plant:		
Electric plant, at cost (NOTE 6):	\$410,574	\$392,593
Less accumulated depreciation	269,494	253,229
	141,080	139,364
Construction work in progress	3,731	2,691
Net electric plant	144,811	142,055
Nuclear fuel, at cost:		
Assemblies in reactor	66,476	64,989
Fuel in process	--	21,401
Spent fuel	353,856	333,194
	420,332	419,584
Less accumulated amortization of burned nuclear fuel	386,835	375,885
	33,497	43,699
Less accumulated amortization of final core nuclear fuel	10,317	9,677
Net nuclear fuel	23,180	34,022
Net utility plant	167,991	176,077
Long-term investments, at fair market value:		
Decommissioning trust (NOTES 3, 5 and 7)	228,423	193,144
Spent fuel disposal fee defeasance trust (NOTES 5, 7 and 8)	98,143	92,010
Total long-term investments	326,566	285,154
Current assets:		
Cash and cash equivalents	93	4,135
Accounts receivable from sponsors	12,680	15,027
Other accounts receivable	4,183	2,778
Materials and supplies, net of amortization	16,150	16,796
Prepaid expenses	3,841	4,370
Total current assets	36,947	43,106
Deferred charges:		
Deferred decommissioning costs (NOTE 3)	21,391	29,906
Deferred low-level waste facility expenses (NOTES 4 and 14)	26,195	26,539
Accumulated deferred income taxes (NOTE 10)	28,097	25,184
Deferred design basis documentation costs (NOTE 4)	11,885	8,551
Deferred DOE enrichment site decontamination and decommissioning fee (NOTE 4)	10,350	11,362
Net unamortized loss on reacquired debt	1,970	2,152
Other deferred charges (NOTES 4 and 5)	4,482	1,993
Total deferred charges	104,370	105,687
	\$635,874	\$610,024

See accompanying notes to financial statements.

Balance Sheets

Capitalization and Liabilities

	December 31,	
	1998	1997
	(Dollars in thousands)	
Capitalization:		
Common stock equity:		
Common stock, \$100 par value; authorized 400,100 shares; issued 400,014 shares of which 7,533 are held in Treasury	\$40,001	\$40,001
Additional paid-in capital	14,226	14,226
Treasury stock (7,533 shares at cost)	(1,130)	(1,130)
Retained earnings	1,546	1,191
Total common stock equity	54,643	54,288
Long-term obligations, net (NOTES 6 and 7)	93,274	93,757
Total capitalization	147,917	148,045
Commitments and contingencies (NOTES 3, 13 and 14)		
Spent fuel disposal fee and accrued interest (NOTES 7 and 8)	103,821	98,718
Current liabilities:		
Accounts payable	488	2,053
Accrued expenses	16,261	18,928
Accrued low-level waste expenses (NOTE 14)	5,282	3,684
Accrued taxes	2,177	2,017
Accrued interest	1,708	1,642
Other accrued liabilities	6,334	5,814
Total current liabilities	32,250	34,138
Deferred credits and other liabilities:		
Accrued decommissioning costs (NOTE 3)	260,141	231,840
Accumulated deferred income taxes (NOTE 10)	41,780	47,001
Accrued low-level waste facility expenses (NOTES 4 and 14)	23,591	23,935
Accrued DOE enrichment site decontamination and decommissioning fee (NOTE 4)	8,281	9,325
Accrued employee benefits (NOTE 12)	8,696	6,691
Net regulatory tax liability (NOTE 10)	4,965	5,355
Accumulated deferred investment tax credits	4,432	4,976
Total deferred credits and other liabilities	351,886	329,123
	\$635,874	\$610,024

See accompanying notes to financial statements.

Statements of Cash Flows

	Years ended December 31,		
	1998	1997	1996
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$7,125	\$6,834	\$6,985
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of nuclear fuel	11,590	14,716	14,133
Depreciation and amortization	17,059	15,889	14,703
Decommissioning expense	12,625	12,582	12,672
Deferred tax expense	(8,524)	(2,025)	(8,676)
Amortization of deferred investment tax credits	(543)	(534)	(538)
Nuclear fuel disposal fee interest accrual	5,104	4,985	4,720
Interest and dividends on disposal fee defeasance trust	(5,133)	(5,535)	(4,595)
Decrease (increase) in accounts receivable	943	(2,228)	801
Decrease (increase) in prepaid expense	529	98	652
Decrease (increase) in materials and supplies inventory	646	637	(665)
(Decrease) increase in accounts payable and accrued liabilities	(2,114)	2,011	6,304
Increase (decrease) in interest and taxes payable	225	755	(99)
Other	(3,057)	(3,921)	(418)
Total adjustments	29,350	37,430	38,994
Net cash provided by operating activities	36,475	44,264	45,979
Cash flows from investing activities:			
Electric plant additions and retirements	(19,113)	(5,322)	(14,599)
Nuclear fuel additions	(748)	(21,401)	(21,427)
Payments to decommissioning trust	(12,403)	(12,901)	(12,896)
Payments to spent fuel disposal fee defeasance trust	(1,000)	(8,000)	(8,000)
Net cash used for investing activities	(33,264)	(47,624)	(56,922)
Cash flows from financing activities:			
Dividend payments	(6,770)	(7,343)	(6,131)
Payments of long-term obligations	(236,751)	(76,458)	(44,410)
Borrowings under long-term agreements	236,268	90,187	48,592
Net cash (used for) provided by financing activities	(7,253)	6,386	(1,949)
Net (decrease) increase in cash and cash equivalents	(4,042)	3,026	(12,892)
Cash and cash equivalents at beginning of year	4,135	1,109	14,001
Cash and cash equivalents at end of year	\$93	\$4,135	\$1,109

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1. Nature of Business

Vermont Yankee Nuclear Power Corporation ("the Company") was incorporated under the laws of the State of Vermont on August 4, 1966. The Company was formed by a group of New England utilities for the purpose of constructing and operating a nuclear-powered electric generating plant ("the Plant"). The Company's common stock is owned by thirteen utilities, nine of which are the Sponsoring utilities that are entitled and obligated to purchase the output of the Plant. Under the terms of the Company's Power Contracts each Sponsor is obligated to pay Vermont Yankee monthly, regardless of the Plant's operating level, or whether or not it is operating, an amount equal to its entitlement percentage of Vermont Yankee's total fuel costs, operating expenses, decommissioning costs and an allowed return on equity. Also, under the terms of the Capital Funds Agreements, the Sponsors are committed to make funds available for changes or replacements needed to maintain or restore operation of the Plant or to obtain or maintain licenses necessary for its operation.

The names of the sponsoring utilities and their respective entitlement percentages of Vermont Yankee's capacity and output are as follows: Central Vermont Public Service Corporation with 35.0%, Green Mountain Power Corporation with 20.0%, New England Power Company with 20.0%, The Connecticut Light and Power Company with 9.5%, Central Maine Power Company with 4.0%, Public Service Company of New Hampshire with 4.0%, Cambridge Electric Light Company with 2.5%, Montaup Electric Company with 2.5%, and Western Massachusetts Electric Company with 2.5% ("the Sponsors").

The Plant commenced commercial operation on November 30, 1972, and except during maintenance and refueling outages, has been in full operation since that time. The Plant has a gross maximum dependable capacity of approximately 535 megawatts and is licensed by the Nuclear Regulatory Commission to operate until 2012, though there is no assurance that it will do so. Other nuclear plants, including some in the Northeast with similar ownership structures have been shut down prior to the end of their license life for economic reasons. Generally, regulators have allowed plants shut down prematurely for economic reasons to recover the as yet unrecovered cost at the time of the shut down, including undepreciated plant and unfunded nuclear decommissioning costs. The Company prepares periodic economic studies. Study results to date have determined that it is economical to continue to operate the plant.

NOTE 2. Summary of Significant Accounting Policies

(a) Regulations and Operations

The Company is subject to regulations prescribed by the Federal Energy Regulatory Commission ("FERC"), and the Public Service Board of the State of Vermont with respect to accounting and other matters. The Company is also subject to regulation by the Nuclear Regulatory Commission ("NRC") for nuclear plant licensing and safety, and by federal and state agencies for environmental matters such as air quality, water quality and land use.

The Company recognizes revenue pursuant to the terms of the Power Contracts and Additional Power Contracts filed with the FERC. The Sponsors, a group of nine New England utilities, are severally obligated to pay the Company each month their entitlement percentage of amounts equal to the Company's total fuel costs and operating expenses, plus an allowed return on equity (11.0% since August 1, 1994). Such contracts also obligate the Sponsors to make decommissioning payments through the end of the Plant's service life and completion of the decommissioning of the Plant. All Sponsors are committed to such payments regardless of the Plant's operating level or whether the Plant is out of service during the period.

Under the terms of the Capital Funds Agreements, the Sponsors are committed, subject to obtaining necessary regulatory authorizations, to make funds available to obtain or maintain licenses necessary to keep the Plant in operation.

(b) Depreciation and Maintenance

Electric plant is being depreciated on the straight-line method at rates designed to fully depreciate all depreciable properties over the lesser of estimated useful lives or the Plant's remaining NRC license life, which extends to March, 2012. Depreciation expense was equivalent to overall effective rates of 4.06%, 3.98% and 3.87% for the years 1998, 1997 and 1996, respectively.

The cost of additions, including replacements and betterments of units of property, is charged to electric plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property are charged to maintenance expense. The cost of property retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation.

(c) Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense based on the rate of burn-up of the individual assemblies comprising the total core. The Company also provides for the costs of disposing of spent nuclear fuel at rates specified by the United States Department of Energy ("DOE") under a contract for disposal between the Company and the DOE.

In conformity with rates authorized by the FERC, the Company amortizes to expense on a straight-line basis the estimated costs of the final unspent nuclear fuel core, which is expected to be in place at the expiration of the Plant's operating license.

(d) Amortization of Materials and Supplies

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

(e) Long-term Funds

The Company accounts for its investments in long-term funds at fair value as required by Statement of Financial Accounting Standards No. 115. See NOTE 5 for further discussion of this accounting method.

(f) Amortization of Loss on Reacquired Debt

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

(g) Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") is the estimated cost of funds used to finance the Company's construction work in progress and nuclear fuel in-process which is not recovered from the Sponsors through current revenues. The allowance is not realized in cash currently, but under the Power Contracts, the allowance is recovered in cash over the Plant's service life or as nuclear fuel is used through higher revenues associated with higher depreciation and amortization expense.

AFUDC was capitalized at overall effective rates of 5.96%, 6.04% and 5.82%, for 1998, 1997 and 1996, respectively, using the gross rate method.

(h) Decommissioning

The Company is accruing the estimated costs of decommissioning its Plant over the Plant's remaining NRC license life. Any amendments to these estimated costs are accounted for prospectively. See NOTE 3 for further detail.

(i) Taxes on Income

The Company accounts for taxes on income under the liability method. See NOTE 10 for a further discussion of the accounting for taxes on other income.

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

(j) Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents.

(k) Reclassifications

The Company makes reclassifications of information presented in prior period financial statements to conform with the current period when considered significant.

(l) Earnings per Common Share

Basic earnings per common share have been computed by dividing earnings available to common stock by the weighted average number of shares outstanding during the year. Diluted earnings per common share have not been disclosed as they do not differ from basic earnings per share.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. Decommissioning

The Company accrues estimated decommissioning costs for its nuclear plant over its remaining NRC licensed life. The accrual is currently based on a 1994 site study by an independent engineering firm and a settlement agreement approved by the FERC for rates effective January 1, 1995. The study assumes decommissioning will be accomplished by the prompt removal and dismantling method (DECON) which requires that radioactive materials be removed from the plant site and all buildings and facilities be dismantled immediately after shutdown. The study estimates that approximately seven years would be required to dismantle the Plant at shutdown, remove non-fuel wastes and restore the site, and that spent fuel would be stored on-site in a dry fuel storage facility until 2025. The FERC approved settlement agreement allowed \$312.7 million, in 1993 dollars, as the estimated decommissioning cost. This allowed amount is used to compute the Company's liability and billings to the Sponsors. Based on the study's assumed cost escalation rate of 5.4% per annum and an expiration of the Plant's operating license in the year 2012, the estimated current cost of decommissioning is \$406.8 million and, at the end of 2012, is approximately \$816.6 million. The present value of the pro rata portion of decommissioning costs recorded to date is \$260.1 million.

The Company is in the process of preparing an updated site decommissioning cost study. Preliminary results indicate that the revised estimate could exceed \$500 million in 1998 dollars. The Company is required to file the results of the new study with the FERC by March 31, 1999, and expects that any resulting change in rates will be effective January 1, 2000.

Billings to Sponsors for estimated decommissioning costs commenced during 1983, at which time the Company recorded a deferred charge for the present value of decommissioning costs applicable to operations of the Plant for prior periods. Current period decommissioning costs not funded through billings to Sponsors or earnings on decommissioning trust assets are also deferred. These deferred costs will be amortized to expense as they are funded over the remaining life of the Company's operating license.

Cash received from Sponsors for plant decommissioning costs is deposited directly into the Vermont Yankee Decommissioning Trust in either the Qualified Fund (i.e., amounts currently deductible pursuant to the IRS regulations) or the Nonqualified Fund (i.e., collections pursuant to FERC authorization which are not currently deductible). Earnings on the Decommissioning Trust assets are recorded in other income, with an equal and offsetting amount representing the current period decommissioning cost funded by such earnings reflected as decommissioning expense. On December 31, 1998, the fair market value of the Decommissioning Trust was \$228.4 million including pre-tax unrealized appreciation of \$37.8 million, and funds held by the Trust were invested in corporate bonds, government securities and equities. See NOTE 5 for further detail.

The staff of the Securities and Exchange Commission has questioned certain current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in the financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board ("FASB") is reviewing the accounting for closure and removal costs, including decommissioning of nuclear power plants. In February 1996, the FASB issued a proposed statement entitled "Accounting for Liabilities Related to Closure or Removal of Long-Lived Assets." If adopted, the principal impact on the Company's financial statements would be an increase in the accrued decommissioning costs to the present value of the total obligation, with a corresponding increase in electric plant. The Company does not believe the changes proposed would have an adverse effect on the results of operations due to its current and future ability to recover costs from the Sponsors.

NOTE 4. Deferred Charges, Credits and Other Liabilities

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

In 1998, the Company paid the seventh of the fifteen annual charges. As of December 31, 1998, the Company had recognized a current accrued liability of \$1.2 million for the fee payment expected to be made in 1999, a non-current liability of \$8.3 million for the expected seven annual fee payments that are due subsequent to 1999 and a corresponding regulatory asset of \$10.4 million which represents the total amount includable in future billings to the Sponsors under the Power Contracts.

In 1994, the states of Vermont, Maine and Texas each ratified legislation to join a low-level radioactive waste disposal compact for the purpose of disposing of low-level radioactive waste in the state of Texas. The Company has recorded a non-current liability of \$23.6 million to recognize the \$27.5 million compact fund requirements less amounts on deposit with the State of Vermont and a corresponding deferred debit of \$26.2 million which represents the total amount to be included in future billings to the Sponsors under the Power Contracts. The Compact was ratified by the U.S. Congress in 1998. See NOTE 14 for further detail.

During 1996, Vermont Yankee initiated a Design Basis Documentation project expected to be complete by December 31, 2000. This project was undertaken to incorporate all design documentation into a centralized system. The objective is to ensure that Vermont Yankee maintains its safety margins in connection with any plant modifications. The Design Basis Documentation project will create a set of design basis documents which will support more efficient systematic problem solving, maintenance, and system overview. This effort supports the safe, cost effective, long term operation of the Plant. The Company received FERC approval in 1996 to recognize deferred charges for these unrecovered study costs and amortize the costs through billings to Sponsors over the remaining license life of the Plant. As of December 31, 1998 the Company had recorded deferred charges of \$11.9 million related to this initiative.

NOTE 5. Long-term Investments

Under generally accepted accounting principles, the Company must account for its investments in certain debt or equity securities by classifying each such security as either trading, available-for-sale or held-to-maturity. Both trading and available-for-sale securities must be reflected on the balance sheet at their aggregate fair values. Held-to-maturity securities are reflected on the balance sheet at amortized cost.

The Company classifies securities in the Decommissioning Trust as available-for-sale. As of December 31, 1998, the Decommissioning Trust had a net unrealized gain of \$37.8 million which reduces deferred decommissioning costs because the Company will not realize this gain, rather, the gain will be used to reduce future billings to Sponsors.

The Company also classifies securities held in the Spent Fuel Disposal Fee Defeasance Trust as available-for-sale. As of December 31, 1998, the reported Trust balance includes net unrealized gains of \$0.6 million with a corresponding decrease reflected in Other Deferred Charges.

The cost and estimated market value of long-term investments at December 31, are as follows (Dollars in thousands):

	1998		1997	
	Cost	Market Value	Cost	Market Value
Decommissioning Trust:				
US Treasury obligations	\$65,457	\$68,674	\$64,657	\$66,683
Municipal obligations	48,542	50,365	28,073	28,959
Corporate bonds	30,680	31,623	33,306	33,721
Stocks	38,814	70,666	39,433	57,671
Accrued interest and money market funds	7,095	7,095	6,110	6,110
	190,588	228,423	171,579	193,144
Spent Fuel Disposal Fee Defeasance Trust:				
US Treasury obligations	85,457	85,899	82,331	82,787
Municipal obligations	8,427	8,594	7,699	7,744
Corporate bonds	2,981	2,971	-	-
Accrued interest and money market funds	679	679	1,479	1,479
	97,544	98,143	91,509	92,010
Total long-term investments	\$288,132	\$326,566	\$263,088	\$285,154

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

The securities included in the Spent Fuel Disposal Trust represent funds invested by the Company for which the earnings and principal will be used to pay the DOE fee for spent fuel discharged prior to April 7, 1983. See NOTE 8 for further details. Although the Company collected this fee from its Sponsors in rates, it has elected to defer payment as permitted by the contract with the DOE. Since any gains (losses) have the effect of reducing (increasing) the amount of funding necessary to cover the required payment upon delivery of spent fuel to DOE, the Company has included the difference between cost and market value of the Spent Fuel Disposal Trust as a decrease to Other Deferred Charges.

At December 31, gross unrealized gains and losses pertaining to the long-term investment securities in the Decommissioning Trust and the Spent Fuel Disposal Fee Defeasance Trust were as follows (Dollars in thousands):

	1998	1997
Unrealized gains on U.S. Treasury obligation	\$4,129	\$ 2,483
Unrealized losses on U.S. Treasury obligations	(470)	(1)
Unrealized gains on municipal obligations	2,265	963
Unrealized losses on municipal obligations	(275)	(32)
Unrealized gains on corporate bonds and notes	977	441
Unrealized losses on corporate bonds and notes	(44)	(26)
Unrealized gains on stocks	31,930	18,301
Unrealized losses on stocks	(78)	(63)
	\$38,434	\$22,066

For the years ended December 31, gross realized gains and losses pertaining to the long-term investment securities were as follows (Dollars in thousands):

	1998	1998	1997	1997
	Total Sale Proceeds	Gross Realized Gain Loss	Total Sale Proceeds	Gross Realized Gain Loss
Decommissioning	\$189,570	\$1,724 \$(1,121)	\$207,176	\$1,146 \$(335)
Spent fuel disposal fee defeasance*	\$68,009	\$424 \$(20)	\$134,780	\$461 \$(185)

*Includes maturity of short-term Commercial Paper

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

	1998	1998	1997	1997
	Decommissioning Trust	Disposal Fee Defeasance Trust	Decommissioning Trust	Disposal Fee Defeasance Trust
Within one year	\$4,850	\$34,785	\$ 8,159	\$21,495
One to five years	27,678	51,295	30,886	63,150
Five to ten years	62,092	1,935	48,142	—
Over ten years	63,498	7,805	46,043	4,665
	\$158,118	\$95,820	\$133,230	\$89,310

NOTE 6. Long-term Obligations

A summary of long-term obligations at December 31, is as follows (Dollars in thousands):

	1998	1997
First mortgage bonds: Series I - 6.48% due 2009	\$75,845	\$75,845
Commercial Paper - Eurodollar Credit Agreement	17,429	17,912
Total long-term obligations	\$93,274	\$93,757

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

In November 1993, the Company issued \$75.8 million of Series I, first mortgage bonds stated to mature on November 1, 2009. The Company applied the proceeds of the bond issuance principally to retire the remaining Series D, Series E, Series F, Series G and Series H first mortgage bonds including call premiums totaling \$3.7 million. Cash sinking fund requirements for the Series I first mortgage bonds are \$5.4 million annually beginning in November 1999.

During 1996, the Company extended its \$75.0 million Eurodollar Credit Agreement through July 19, 2001 subject to two optional one-year extensions. The Company issued commercial paper under this agreement with weighted average interest rates of 5.68% for 1998 and 6.24% for 1997. Payment of the commercial paper is supported by the Eurodollar Credit Agreement, which is secured by a second mortgage on the Company's generating facility. Borrowings under this agreement were \$17.4 million at December 31, 1998.

NOTE 7. Disclosures About the Fair Value of Financial Instruments

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

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

	1998		1997	
	Cost Amount	Estimated Fair Value	Cost Amount	Estimated Fair Value
Decommissioning Trust	\$190,588	\$228,423	\$171,579	\$193,144
Spent Fuel Disposal Fee Defeasance Trust	97,544	98,143	91,509	92,010
Long-term debt	93,274	95,303	93,757	91,049
Spent fuel disposal fee and accrued interest	103,821	103,821	98,718	98,718

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

NOTE 8. Spent Fuel Disposal Fee

Under the Nuclear Waste Policy Act of 1982, the DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. The Company, as required by that Act, has signed a contract with the DOE to provide for the disposal of spent nuclear fuel and high-level radioactive waste from its nuclear generation station beginning no later than January 31, 1998; however, this delivery schedule has not been met and is expected to be delayed significantly. It is not certain when the DOE will accept spent nuclear fuel and high-level radioactive waste from the Company and other owners of nuclear power plants. These delays by the DOE have caused the Company to consider other costly alternatives for storing high-level waste.

The DOE contract obligates the Company to pay a one-time fee of approximately \$39.3 million for disposal costs for all spent fuel discharged through April 6, 1983, and a fee payable quarterly equal to one mill per kilowatt-hour of nuclear generated and sold electricity after April 6, 1983. Although the \$39.3 million for the one-time fee has been collected from the Sponsors in rates, the Company has elected to defer payment to the DOE as permitted by the DOE contract. The fee plus accrued interest must be paid no later than the first delivery of spent fuel to the DOE repository. Interest accrues on the unpaid obligation based on the thirteen-week Treasury Bill rate and is compounded quarterly. Through 1998, the Company has accumulated \$98.1 million in an irrevocable trust to be used exclusively for defeasing this obligation (\$103.8 million including accrued interest) at some future date, provided the DOE complies with the terms of the aforementioned contract.

The Company has primary responsibility for the interim storage of its spent nuclear fuel. The plant is currently able to operate with the ability to discharge the entire reactor core to the spent fuel storage pool through the year 2001 refueling outage. Full core discharge capability through the year 2008 refueling outage could be achieved with the installation of additional storage racks in the spent fuel pool, subject to an NRC license amendment. A request for this amendment was submitted in September 1998. The Company is also investigating other options for additional storage capacity beyond the year 2001.

In November 1997, the U.S. District Court of Appeals for the D.C. Circuit ruled that the lack of an interim storage facility does not excuse the DOE from meeting its contract obligation to begin accepting spent nuclear fuel no later than January 31, 1998. The ruling said, however, that the 1982 federal law could not require the DOE to accept waste when it did not have a suitable storage facility. The court directed the plaintiffs to pursue relief under terms of their contracts with the DOE. Based on this ruling, since the DOE did not take the spent nuclear fuel as scheduled, it may have to pay contract damages.

In May 1998, the same court denied petitions from 60 states and state agencies and 41 utilities, including the Company, asking the court to compel the DOE to submit a program, beginning immediately, for disposing of spent nuclear fuel. The petitions were filed after the DOE defaulted on its January 31, 1998 obligation to begin accepting the fuel. The court directed the Company and other plaintiffs to pursue relief under the terms of their contracts with the DOE.

In a petition filed in August 1998, the court's May 1998 decision was appealed to the U.S. Supreme Court. In November 1998, the Supreme Court declined to review the lower court ruling that said utilities should go to court and seek monetary damages from the DOE. In December 1998, the U.S. Court of Claims ruled that three petitioning companies were entitled to monetary damages from the DOE for failure to perform under the standard contract. Although the Court did not award specific damages, leaving this for subsequent litigation, it did establish the DOE's responsibility and liability for spent fuel. The ultimate outcome of this legal proceeding is uncertain at this time.

NOTE 9. Short-term Borrowings

The Company had lines of credit from various banks which totaled \$6.3 million at December 31, 1998 and 1997. There were no short-term borrowings outstanding at any month-end during 1998 and 1997. The average daily amount of short-term borrowings outstanding was approximately \$0.2 million for 1998 and \$0.5 million for 1997 with weighted average interest rates of 7.76% in 1998 and 6.86% in 1997.

NOTE 10. Taxes on Income

The Company uses the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities ("temporary differences").

For certain items, the Company's allowed rates have recognized income tax expense on a different method. As a result, the Company has recognized net liabilities to Sponsors of \$5.0 million as of December 31, 1998 and \$5.4 million as of December 31, 1997 representing taxes collected from them in excess of amounts that would have been recorded under the liability method. These amounts will be systematically returned to Sponsors by reducing future power bills.

The components of income tax expense for the years ended December 31, are as follows (Dollars in thousands):

	1998	1997	1996
Taxes on operating income:			
Current federal income tax	\$8,648	\$3,187	\$8,939
Deferred federal income tax	(6,995)	(3,418)	(7,393)
Current state income tax	2,642	1,134	2,305
Deferred state income tax	(1,529)	1,393	(1,283)
Investment tax credit adjustment	(543)	(534)	(538)
	2,223	1,762	2,030
Taxes on other income:			
Current federal income tax	1,762	1,722	1,576
Current state income tax	149	38	215
	1,911	1,760	1,791
Total income taxes	\$4,134	\$3,522	\$3,821

The Company's effective income tax rates differed from the federal statutory rate of 35% for the years ended December 31, as follows:

	1998	1997	1996
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	7.3	7.1	7.4
Change in state tax rate, net of federal tax benefit	0.0	9.3	0.0
Investment credit	(4.7)	(5.3)	(5.0)
Book depreciation in excess of tax basis	2.6	2.8	2.5
Change in excess deferred tax due to state tax rate change	0.0	(9.3)	0.0
Flowback of excess deferred taxes	(3.2)	(3.9)	(4.5)
Other	(0.3)	(1.0)	0.0
	36.7%	34.7%	35.4%

The significant components of deferred tax expense for the years ended December 31, are as follows (Dollars in thousands):

	1998	1997	1996
Decommissioning expense not currently deductible	\$(1,509)	\$(1,654)	\$(1,594)
Tax depreciation (under) over financial statement depreciation	(4,359)	(676)	(5,399)
Tax fuel amortization (under) over financial statement amortization	(404)	1,516	(302)
Tax loss on reacquisition of debt (under) over financial statement expense	(75)	(52)	(73)
Pension expense deduction (under) over financial statement expense	(450)	(269)	(91)
Postemployment benefits deduction (under) over financial statement expense	(555)	(473)	(25)
Materials and supplies deduction over (under) financial statement expense	43	307	(64)
Low-level waste deduction (under) over financial statement expense	(661)	737	(567)
Flowback and other change in excess deferred taxes	(356)	(1,343)	(481)
Other, net	(198)	(118)	(80)
	\$(8,524)	\$(2,025)	\$(8,676)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, are presented below (Dollars in thousands):

	1998	1997
Deferred tax assets:		
Accumulated amortization of final nuclear core	\$4,264	\$4,000
Nuclear decommissioning liability	10,948	9,165
Regulatory liabilities	3,526	3,935
Accumulated deferred investment credit	1,832	2,057
Accumulated amortization of materials and supplies	2,713	2,763
Pension and retiree benefit liabilities	4,568	3,563
Accrued low-level waste disposal costs	2,183	1,519
Other	811	624
Total gross deferred tax assets	30,845	27,626
Less valuation allowance	(2,748)	(2,442)
Net deferred tax assets	28,097	25,184
Deferred tax liabilities:		
Plant and equipment	(37,802)	(42,693)
Other	(3,978)	(4,308)
Total gross deferred tax liabilities	(41,780)	(47,001)
Net deferred tax liability	\$(13,683)	\$(21,817)

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

NOTE II. Supplemental Cash Flow Information

The following information supplements the cash flow information provided in the Statements of Cash Flows (Dollars in thousands):

Cash paid during the year for:	1998	1997	1996
Interest (net of amount capitalized)	\$5,978	\$5,330	\$ 5,406
Income taxes	\$14,815	\$6,242	\$14,878

NOTE 12. Pension and Other Post Retirement Benefit Plans

The Company has two qualified defined benefit pension plans which together cover substantially all of its employees. The benefits provided under these plans are based on final average earnings, integrated with Social Security benefits. The Company also has a supplemental unfunded nonqualified pension plan for certain employees providing benefits based on final earnings. The Company also has two postretirement welfare benefit plans providing healthcare and life insurance benefits to retired employees (and their covered spouses).

The following tables reconcile the beginning and ending benefit obligation balances for the plans:

Pension plan benefits (aggregated)	1998	1997
Beginning of year benefit obligation	\$26,123	\$21,710
Service cost	1,588	1,095
Interest cost	1,979	1,672
Actuarial loss (gain)	2,452	2,267
Disbursements	(688)	(467)
Settlements/curtailments	(201)	(154)
End of year benefit obligation	\$31,253	\$26,123

Postretirement welfare plan benefits (aggregated)	1998	1997
Beginning of year benefit obligation	\$12,502	\$11,493
Service cost	1,010	700
Interest cost	801	802
Participant contributions	6	4
Actuarial loss (gain)	(2,363)	(346)
Disbursements	(240)	(151)
End of year benefit obligation	\$11,716	\$12,502

The following tables reconcile the beginning and ending fair value of assets for the plans:

Pension plan assets (aggregated)	1998	1997
Beginning of year fair value of assets	\$29,590	\$25,352
Actual return on assets	4,737	4,620
Company contributions	85	85
Disbursements	(688)	(467)
End of year fair value of assets	\$33,724	\$29,590

Postretirement welfare plan assets (aggregated)	1998	1997
Beginning of year fair value of assets	\$9,923	\$7,563
Actual return on assets	1,291	806
Company contributions	1,358	1,694
Disbursements	(323)	(140)
End of year fair value of assets	\$12,249	\$9,923

Plan assets consist primarily of cash equivalent funds, fixed income securities and equity securities.

The following tables reconcile the funded status of the plans as of December 31:

Pension plans (aggregated)	1998	1997
Projected benefit obligation (PBO)	\$(31,253)	\$(26,123)
Fair value of assets (FVA)	33,724	29,591
PBO (in excess of) less than FVA	2,471	3,468
Unrecognized prior service cost	1,163	1,396
Unrecognized net transition obligation	711	775
Unrecognized actuarial loss (gain)	(12,185)	(12,391)
Net amount recognized	\$(7,840)	\$(6,752)

Amounts recognized in the balance sheets:

Accrued benefit liability	\$(7,840)	\$(6,752)
Additional minimum liability	(392)	(439)
Intangible asset	392	439
Net amount recognized	\$(7,840)	\$(6,752)

Postretirement welfare plans (aggregated)	1998	1997
Accumulated postretirement benefit obligation (APBO)	\$(11,716)	\$(12,501)
Fair value of assets (FVA)	12,248	9,923
APBO less than (in excess of) FVA	532	(2,578)
Unrecognized net transition obligation	7,439	8,011
Unrecognized actuarial loss (gain)	(7,319)	(4,893)
Net amount recognized	\$ 652	\$ 540

Amounts recognized in the balance sheets:

Prepaid benefit cost	\$1,468	\$1,577
Accrued benefit liability	(816)	(1,037)
Net amount recognized	\$ 652	\$ 540

Net periodic benefit costs recognized for the periods ended December 31 are as follows:

Pension benefits (aggregated)	1998	1997	1996
Service cost	\$1,588	\$1,095	\$1,148
Interest cost	1,979	1,673	1,560
Expected return on assets	(2,170)	(1,916)	(1,703)
Net amortization:			
Prior service cost	100	110	116
Net actuarial loss (gain)	(269)	(405)	(322)
Net transition obligation	63	63	63
Total amortization	(106)	(232)	(143)
Loss (gain) recognized due to settlement/curtailment	(106)	(145)	-
Net periodic benefit cost	\$1,185	\$ 475	\$ 862

Postretirement welfare benefits (aggregated)	1998	1997	1996
Service cost	\$1,010	\$700	\$790
Interest cost	801	802	843
Expected return on assets	(756)	(595)	(435)
Net amortization:			
Net actuarial loss (gain)	(448)	(370)	(137)
Net transition obligation	572	889	414
Total amortization	124	519	277
Net periodic benefit cost	\$1,179	\$1,426	\$1,475

The following weighted average assumptions were used as of December 31:

	1998	1997	1996
Discount rate	6.75%	7.00%	7.50%
Compensation scale	4.00%	4.00%	4.00%
Expected return on assets:			
Management VEBA (post-tax)	6.00%	6.00%	6.00%
All other plan assets	8.50%	8.50%	8.50%

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease ratably to 5.5% for 2001 and remain at that level thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects on the information for the postretirement welfare plans:

	1% Increase	1% Decrease
Effect on total service and interest cost components	\$379	\$(299)
Effect on accumulated postretirement benefit obligation	\$2,204	\$(1,752)

NOTE 13. Lease Commitments

The Company leases equipment and systems under noncancelable operating leases. Charges against income for leases were approximately \$7.3 million in 1998, 1997, and 1996.

Minimum future lease payments as of December 31, 1998 are as follows (Dollars in thousands):

Fiscal years ended	Annual Leases
1999	\$ 6,900
2000	4,701
2001	4,618
2002	4,618
2003	4,618
Thereafter	6,927

Included in the above lease payments is the cost of low pressure turbines constructed by General Electric Corporation; valued at approximately \$30.8 million including installation costs when installed in 1995. Under the lease agreement which commenced on July 1, 1995, the Company will make 120 monthly payments of \$384,834.

NOTE 14. Commitments and Contingencies

(a) Low-level Waste

In 1998, the U.S. Congress approved the tri-state compact between Vermont, Texas and Maine to site a facility in Texas for the disposal of low-level radioactive waste. Also in 1998, the proposed Texas low-level waste disposal site in Hudspeth County was rejected because of geological and socioeconomic concerns. Because of delays in the ratification and siting processes, the Company will not begin disposing its waste under the compact until the year 2000 at the earliest, assuming that facility licensing and site development proceed on schedule. The Company has stored some of its low-level radioactive waste on the Plant site since July 1, 1994 and has the capacity to store low-level waste on site until the year 2002. Management anticipates that a Texas facility will open prior to that date or that other arrangements for disposal can be made. The accompanying financial statements include a \$5.3 million cost estimate to dispose of waste currently stored on site. The actual cost of disposal could differ from management estimates if the Texas facility is not available as planned. Any difference in costs would likely be collected from or refunded to the Sponsors and would not have a material impact on the Company.

Under the proposed compact, Vermont will pay Texas up to \$27.5 million to site, license and construct the disposal facility. The Company has received approval from FERC to recover the cost of this compact from Sponsors over the remaining license life of the Plant, commencing with the first payment to Texas.

The Company has recorded a non-current liability of \$23.6 million to recognize the \$27.5 million compact fund requirements less the remaining fund balance from the State of Vermont, and a corresponding deferred debit of \$26.2 million which represents the total amount to be included in future billings to Sponsors under the Power Contracts. The deferred debit and deferred credit amounts have both decreased by \$0.3 million from the amounts reflected in 1997 as a result of earnings on the State of Vermont fund balance.

(b) Nuclear Fuel

The Company has several "requirements based" contracts for the four components (uranium, conversion, enrichment and fabrication) used to produce nuclear fuel. These contracts are executed only if the need or requirement for fuel arises. Under these contracts, any disruption of operating activity would allow the Company to cancel or postpone deliveries until actually required. The contracts extend through various time periods and contain clauses to allow the Company the option to extend the agreements. Negotiation of new contracts and renegotiation of existing contracts routinely occurs, often focusing on one of the four components at a time. The price of the 1998 reload was approximately \$22 million. Future reload costs will depend on market and contract prices.

On January 20, 1997, the Company entered into an agreement with a former uranium supplier whereby the supplier could opt to terminate a production purchase agreement dated August 4, 1978. Although there had been no transactions under the production purchase agreement for several years, the Company maintained certain financial rights. In consideration for the option to terminate the production purchase agreement and the subsequent exercise of the option, the Company received \$0.6 million in 1997 which was recorded as an offset to nuclear fuel expense. The potential future payments to be received over a ten year period, range from \$0.0 million to \$2.4 million. No payments were received in 1998 under this agreement. Due to the uncertainty of this transaction, the potential benefits will be recorded on a cash basis.

(c) Insurance

The Price-Anderson Act currently sets the statutory limit of liability from a single incident at a nuclear power plant to \$9.8 billion. Any damages beyond \$9.8 billion are indemnified under the Price-Anderson Act, but subject to Congressional approval. The first \$200 million of liability coverage is the maximum provided by private insurance. The Secondary Financial Protection program is a retrospective insurance plan providing additional coverage up to \$9.6 billion per incident by assessing each of the 109

reactor units that are currently subject to the Program in the United States a total of \$88.1 million, limited to a maximum assessment of \$10 million per incident per nuclear unit in any one year. The maximum assessment is adjusted at least every five years to reflect inflationary changes.

The above insurance now covers all workers employed at nuclear facilities for bodily injury claims. The Company had previously purchased a Master Worker insurance policy with limits of \$200 million with one automatic reinstatement of policy limits to cover workers employed on or after January 1, 1988. Vermont Yankee no longer participates in this retrospectively based worker policy and has replaced this policy with the guaranteed cost coverage mentioned above. The Company does however retain a potential obligation for retrospective adjustments due to past operations of several smaller facilities that did not join the new program. These exposures will cease to exist no later than December 31, 2007. Vermont Yankee's maximum retrospective obligation remains at \$3.1 million. The Secondary Financial Protection layer, as referenced above, would be in excess of the Master Worker policy.

Insurance has been purchased from Nuclear Electric Insurance Limited ("NEIL") to cover the costs of property damage, decontamination or premature decommissioning resulting from a nuclear incident. All companies insured with NEIL are subject to retroactive assessments if losses exceed the accumulated funds available. The maximum potential assessment against the Company with respect to NEIL losses arising during the current policy year is \$11.6 million. The Company's liability for the retrospective premium adjustment for any policy year ceases six years after the end of that policy year unless prior demand has been made.

(d) Industry Restructuring and Other Regulatory Developments

The electric utility industry is in a period of potential transition which may result in a shift away from cost of service and return on equity based rates to market based rates. Most states in which the Company's Sponsors operate, including Vermont, are exploring or, in some cases, have implemented plans to bring greater competition, customer choice, and market influence to the industry while retaining the benefits associated with the current regulatory system.

The Company cannot predict what effect these restructuring plans will have on the Company or its Sponsors. It is possible, however, that these restructuring orders or other regulatory actions could have a material adverse effect on the Sponsors, which could, in turn, have a material adverse effect on the Company.

(e) Year 2000 Issue (unaudited)

Various software applications and embedded systems are used throughout the Company's business that will be affected by so-called "Year 2000 issues." These issues may prevent an application or system from correctly processing dates up to the Year 2000 and beyond. A failure to correct any critical Year 2000 processing problem prior to January 1, 2000 could have material adverse operational and financial consequences if the affected systems either cease to function or produce erroneous data. At this time, the major risks associated with the inability of systems and software to process Year 2000 data correctly are a system failure or miscalculation causing disruption of operations, including among other things, an inability to operate the Company's generating plant. Such failures could materially and adversely affect results of operations, financial position and cash flow.

The Company has established a project team to address Year 2000 issues. The team is focused on elements that are integral to the project: business continuity, project management and risk management. In addition to these internal efforts, the Company is working with various industry groups to coordinate industry Year 2000 efforts.

The Company's approach to identify and address non-compliant software applications and embedded systems consists of the following stages: inventory, analysis, remediation, and testing. The first stage is to inventory all applications and systems. The analysis stage involves assessing whether software applications and embedded systems are Year 2000 compliant. The remediation stage involves modifying or upgrading applications and systems to make them Year 2000 ready. The testing stage determines whether the remediated applications and systems are Year 2000 ready. As of December 31, 1998, the Company has completed the Year 2000 inventory and estimates completion percentages for the analysis,

remediation, and testing stages of 95%, 29% and 7%, respectively. Estimated completion dates for the analysis, remediation, and testing stages are April 1999, September 1999 and October 1999, respectively. The Company expects to complete the development of contingency plans in accordance with industry guidance by June 1999. The contingency plans will allow the plant operating staff to mitigate any Year 2000 induced events that might occur. These events may be from internal or external sources.

The Company's Year 2000 project focuses on facets of the business that are required to deliver safe, reliable power production. The project encompasses the computer systems that support core business functions such as finance, procurement, supply, and personnel as well as the components of reactor and systems operation. Certain financial systems have been and are to be replaced with new software that is Year 2000 compliant.

The Company's current schedule is subject to change, depending on developments that may arise through unforeseen business circumstances and through the remediation and testing phases of our compliance effort. The Company also depends upon third parties, including suppliers, government agencies and financial institutions, to reliably deliver their products and services. Additional initiatives have been initiated to assess the degree to which third parties, with whom the Company has business relationships, are addressing Year 2000 issues. These initiatives include analysis of the Year 2000 warranties in certain new contracts and licenses. Protocols are being established for assuring that software and embedded systems remain Year 2000 compliant on a continuing basis. Contingency planning is addressing mechanisms for preventing or mitigating interruption caused by suppliers.

The Company's contingency plans will address the reasonably likely scenarios that could occur in the event that various Year 2000 issues are not resolved in a timely manner. The most likely worst case scenario is a loss of the power grid, which would cause a shutdown of the generating plant. This could result in the possible loss of production for several days, but does not represent a significant financial risk because of the power contracts. Restart would be pursued as soon as the power grid was determined to be stable which would most likely be within a few hours, since the most probable cause would be a loss of load on the grid. Current best information does not reveal any significant risk of plant transients from internal components or controls. However, the project's ongoing contingency planning will cover all reasonable possibilities with the intention of minimizing the effect on both safety and performance due to any Year 2000 related incident.

The cost of the project and the dates on which the Company plans to complete Year 2000 modifications are based on management's best estimates, which were derived utilizing assumptions of future events, including the continued availability of certain resources, third parties' Year 2000 readiness and other factors. The present budget for all aspects of the remaining effort, including remediation work, is \$1 million. Current best estimates indicate that the project should finish on or under budget.

Based on the current schedule for completion of Year 2000 tasks, the Company believes that its ongoing planning is adequate to secure Year 2000 readiness of critical systems. Nevertheless, achieving Year 2000 readiness is subject to various risks and uncertainties, many of which are described above. The Company is not able to predict all the factors that could cause actual results to differ materially from current expectations as to Year 2000 readiness. However, if the Company, or a third party with whom the Company has significant business relationships, fails to achieve Year 2000 readiness with respect to critical systems, there could be an adverse effect on the Company.

Note 15. Subsequent Event

On February 25, 1999, the Company granted a 120 day exclusive right to AmerGen Energy Company to conduct due diligence and negotiate a possible agreement to purchase the Company's assets. The granting of this right does not guarantee that a sale will occur.

Board of Directors

ROSS P. BARKHURST

President and Chief Executive Officer
Vermont Yankee Nuclear Power Corporation
Brattleboro, VT

KENT R. BROWN

Senior Vice President, Engineering & Operations
Central Vermont Public Service Corporation
Rutland, VT

CHRISTOPHER L. DUTTON

President and Chief Executive Officer
Green Mountain Power Corporation
South Burlington, VT

TED C. FEIGENBAUM

Exec. Vice President and Chief Nuclear Officer
North Atlantic Energy Service Corporation
Seabrook, NH

FREDERIC E. GREENMAN

Former Vice President and General Counsel
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Westborough, MA

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Former Vice President and Chief Operating Officer
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JAMES J. KEANE

Vice President, Energy Supply & Engineering Services
COM Electric Company
Wareham, MA

JOHN B. KEANE

Vice President and Treasurer
Northeast Utilities
Hartford, CT

F. RAY KEYSER, JR., Esq.

Attorney, Keyser, Crowley, Meub, Layden, Kulig
and Sullivan, P.C.
Former Chairman
Central Vermont Public Service Corporation
Rutland, VT (1)

MARY ALICE McKENZIE

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McKenzie of Vermont
Burlington, VT
Director
Central Vermont Public Service Corporation
Rutland, VT (2)

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F. ALLEN WILEY

Director of Generation
Central Maine Power Company
Augusta, ME

ROBERT H. YOUNG

Chairman
Vermont Yankee Nuclear Power Corporation
Brattleboro, VT
President and Chief Executive Officer
Central Vermont Public Service Corporation
Rutland, VT

(1) Resigned May 13, 1998

(2) Elected May 13, 1998

Officers

ROBERT H. YOUNG

Chairman

ROSS P. BARKHURST

President and Chief Executive Officer

DONALD A. REID

Senior Vice President, Operations (1)

DON M. LEACH

Vice President, Engineering (2)

BRUCE W. WIGGETT

Vice President, Finance and Treasurer

THOMAS F. SCHIMELPFENIG

Manager of Financial Planning,
Assistant Treasurer (3)

JOHN J. BOGUSLAWSKI

Controller and Secretary

JOHN A. RITSHER, Esq.

Assistant Secretary

(1) Resigned August 1, 1998

(2) Elected May 13, 1998

(3) Resigned December 11, 1998

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

Vermont Yankee Nuclear Power Corporation

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