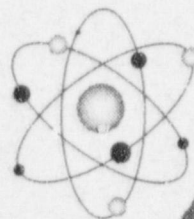


1997

# Annual Report



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CONNECTICUT YANKEE  
ATOMIC POWER COMPANY

1997 Annual Report

Connecticut Yankee Atomic Power Company

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## Directors

Kent R. Brown  
Senior Vice President of  
Engineering and Operations  
Central Vermont Public Service

James F. Crowe  
Group Vice President—  
Power Supply Services  
The United Illuminating Company

Don K. Davis  
Chairman, President and  
Chief Executive Officer

Ted C. Feigenbaum  
Executive Vice President and  
Chief Nuclear Officer  
North Atlantic Energy  
Service Corporation

John H. Forsgren  
Executive Vice President and  
Chief Financial Officer  
The Connecticut Light and  
Power Company  
Public Service Company of  
New Hampshire  
Western Massachusetts  
Electric Company

Frederic E. Greenman  
Vice President and  
General Counsel (Retired)  
New England Power Company

James J. Keane  
Vice President of Energy Supply  
and Engineering Services  
Commonwealth Electric Company,  
a subsidiary of Commonwealth  
Energy Systems

John B. Keane  
Vice President and Treasurer  
The Connecticut Light and  
Power Company  
Public Service Company of  
New Hampshire  
Western Massachusetts  
Electric Company

Bruce D. Kenyon  
President—Nuclear Group  
The Connecticut Light and  
Power Company  
Public Service Company of  
New Hampshire  
Western Massachusetts  
Electric Company

Hugh C. MacKenzie  
President  
The Connecticut Light and  
Power Company  
Western Massachusetts  
Electric Company

Michael G. Morris  
Chairman  
The Connecticut Light and  
Power Company  
Western Massachusetts  
Electric Company  
Chairman and Chief  
Executive Officer  
Public Service Company of  
New Hampshire

Henry V. Oheim, Jr.  
General Manager, Technical  
Nuclear Organization  
Boston Edison Company

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

James S. Robinson  
Director of Nuclear Investments  
New England Power Company

F. Allen Wiley  
Managing Director of Generation  
Central Maine Power Company

## Officers

Don K. Davis  
Chairman, President and  
Chief Executive Officer

Thomas W. Bennet, Jr.  
Vice President, Chief Financial  
Officer and Treasurer

Russell A. Mellor  
Vice President—Operations  
and Decommissioning

John A. Ritscher  
Secretary

John J. Roman  
Controller

Theresa H. Allsop  
Assistant Secretary

O. Kay Comendul  
Assistant Secretary

Robert C. Aronson  
Assistant Treasurer—  
Treasury Operations

John B. Keane  
Assistant Treasurer

David R. McHale  
Assistant Treasurer—Finance



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Connecticut Yankee Atomic Power Company

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Report of Independent Public Accountants

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

We have audited the accompanying balance sheets of Connecticut Yankee Atomic Power Company (a Connecticut corporation) as of December 31, 1997 and 1996, and the related statements of income, retained earnings, and cash flows for each of the years then ended. 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 Connecticut Yankee Atomic Power Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Hartford, Connecticut  
March 9, 1998



# CONNECTICUT YANKEE ATOMIC POWER COMPANY

## STATEMENTS OF INCOME

For the years ended December 31, 1997 1996

(Thousands of Dollars, except share information)

Operating Revenues (Note 1)	\$ 120,213	\$ 207,660
Operating Expenses:		
Operation -		
Nuclear fuel	-	14,693
Other	47,875	64,105
Maintenance	18,396	49,873
Depreciation	-	16,362
Decommissioning	23,200	14,500
Amortization of net unrecovered assets	21,577	-
Federal and state income taxes	9,185	13,750
Taxes other than income taxes (Note 2J)	(19,373)	8,919
Total operating expenses	100,860	182,202
Operating Income	19,353	25,458
Other Income:		
Interest income on special deposits	5,820	5,098
Other, net	440	(595)
Income (taxes)/credits applicable to other income	(390)	296
Other income, net	5,870	4,799
Income before interest charges	25,223	30,257
Interest Charges:		
Interest on long-term debt	8,773	13,908
Other interest	1,957	3,946
Interest charges, net	10,730	17,854
Net Income	\$ 14,493	\$ 12,403
Earnings per Common Share	\$ 41.41	\$ 35.44
Common Shares Outstanding	350,000	350,000

## STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 1997 1996  
(Thousands of Dollars)

Balance at beginning of period	\$ 68,152	\$ 63,449
Net income	14,493	12,403
Dividends on common stock	(9,999)	(7,700)
Balance at end of period	\$ 72,646	\$ 68,152

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



## CONNECTICUT YANKEE ATOMIC POWER COMPANY

**STATEMENTS OF CASH FLOWS**

For the years ended December 31,	1997	1996
	(Thousands of Dollars)	
<b>Operating Activities:</b>		
Net Income	\$ 14,493	\$ 12,403
Adjustments to reconcile to net cash from operating activities:		
Depreciation	-	16,362
Decommissioning	23,200	14,500
Amortization of net unrecovered assets	21,577	-
Deferred income taxes and investment tax credits, net	16,824	14,503
Amortization of nuclear fuel	-	13,107
Interest on prior period spent nuclear fuel disposal costs	6,217	5,855
Property tax settlement (Note 2J)	(9,237)	-
Other sources of cash	22,987	12,786
Other uses of cash	(14,563)	(5,186)
Changes in working capital:		
Accounts receivables	(3,734)	13,323
Taxes receivables	7,635	(12,768)
Materials and supplies	-	165
Accounts payable	189	5,747
Accrued taxes	1	(3,863)
Other working capital (excludes cash)	(2,092)	4,670
Net cash flows from operations	<u>83,497</u>	<u>91,604</u>
<b>Financing Activities:</b>		
Net increase in long-term debt	30,000	-
Net (decrease)/increase in short-term debt	(60,000)	46,500
Reacquisitions and retirements of long-term debt	(58,375)	(14,375)
Cash dividends on common stock	(9,999)	(7,700)
Net cash flows (used for)/from financing activities	<u>(98,374)</u>	<u>24,425</u>
<b>Investment Activities:</b>		
Investment in Plant:		
Electric utility plant	-	(4,298)
Nuclear fuel	-	(24,423)
Sale of nuclear material	3,900	-
Net cash flows from/(used for) investment in plant	<u>3,900</u>	<u>(28,721)</u>
Investments in nuclear decommissioning trusts	(33,651)	(26,444)
Investments in special deposits	(5,995)	(5,098)
Other investments	(504)	190
Net cash flows used for investment activities	<u>(36,250)</u>	<u>(60,073)</u>
Net (Decrease)/Increase In Cash For the Period	(51,127)	55,956
Cash and restricted cash - beginning of period	<u>60,580</u>	<u>4,624</u>
Cash and restricted cash - end of period	<u>\$ 9,453</u>	<u>\$ 60,580</u>
<b>Supplemental Cash Flows Information:</b>		
Cash paid/(refunded) during the period for:		
Interest, net of amounts capitalized	\$ 3,566	\$ 8,657
Income taxes	<u>\$ (6,609)</u>	<u>\$ 13,670</u>

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

# CONNECTICUT YANKEE ATOMIC POWER COMPANY

## Balance Sheets

At December 31,	1997	1996
-----------------	------	------

(Thousands of Dollars)

### ASSETS

#### Utility Plant, at original cost:

Electric	\$ 567	\$ 567
Nuclear fuel (Note 2F)	9,971	3,900
Total net utility plant	<u>10,538</u>	<u>4,467</u>

#### Investments:

Nuclear decommissioning trust, at market	260,376	204,482
Special deposits	107,613	101,618
Other investments	521	17
	<u>368,510</u>	<u>306,117</u>

#### Current Assets:

Cash and cash equivalents	9,453	60,580
Accounts receivable	6,813	3,079
Taxes receivable	10,489	18,124
Prepayments and other	2,407	3,098
	<u>29,162</u>	<u>84,881</u>

#### Deferred Charges:

Regulatory assets-closure (Note 1)	395,101	516,433
Net unrecovered assets (Note 1)	214,291	247,544
Unamortized debt expense	896	961
Other	14,020	4,026
	<u>624,308</u>	<u>768,964</u>

Total Assets	\$ <u>1,032,518</u>	\$ <u>1,164,429</u>
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The accompanying notes are an integral part of these financial statements.



# CONNECTICUT YANKEE ATOMIC POWER COMPANY

## Balance Sheets

At December 31, 1997 1996

(Thousands of Dollars)

## CAPITALIZATION AND LIABILITIES

### Capitalization:

Common stock, \$100.00 par value.		
Authorized 700,000 shares; outstanding		
350,000 shares in 1997 and 1996	\$ 35,000	\$ 35,000
Capital surplus, paid in	3,139	2,964
Retained earnings	72,646	68,152
Total common stockholder's equity	110,785	106,116
Long-term debt, net	141,954	115,737
Total capitalization	252,739	221,853

### Current Liabilities:

Notes payable to banks	-	60,000
Current portion of long-term debt	10,000	58,375
Accounts payable	14,501	14,312
Accrued taxes	3,975	3,974
Accrued pension liability	1,214	7,222
Current portion of deferred DOE obligation	2,901	2,838
Other	10,407	7,245
	42,998	153,966

### Deferred Credits:

Regulatory obligation-closure (Note 1)	395,101	516,433
Decommissioning and cost of removal (Note 1)	260,792	205,139
Deferred DOE obligation (Note 2F)	23,209	25,542
Accumulated deferred income taxes	17,863	8,402
Accumulated deferred investment tax credits	6,497	6,713
Property tax under appeal (Note 2J)	-	9,237
Deferred curtailment gain (Note 10C)	7,786	-
Other	25,533	17,144
	736,781	788,610

### Commitments and Contingencies (Note 11)

Total Capitalization and Liabilities	\$ 1,032,518	\$ 1,164,422
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The accompanying notes are an integral part of these financial statements.



1. CLOSURE OF PLANT AND RATE FILING

Connecticut Yankee Atomic Power Company (the company or CYAPC) owns a single unit nuclear-power electric generating plant (CY). The company's common stock is owned by the ten New England electric utilities (Sponsors) listed below:

	<u>Ownership %</u>
The Connecticut Light and Power Company	34.50%
New England Power Company	15.00
Boston Edison Company	9.50
The United Illuminating Company	9.50
Western Massachusetts Electric Company	9.50
Central Maine Power Company	6.00
Public Service Company of New Hampshire	5.00
Cambridge Electric Light Company	4.50
Montaup Electric Company	4.50
Central Vermont Public Service Corporation	2.00

CY, which commenced commercial operation on January 1, 1968, was taken out of service on July 22, 1996. On December 4, 1996, the board of directors of CYAPC voted unanimously to cease permanently the production of power at CY. In late December 1996, CYAPC filed an amendment to its power contracts with the Federal Energy Regulatory Commission (FERC) to clarify the obligations of the ten stockholders who are its purchasing utilities. This filing estimated the Sponsors' obligations, including the funding of decommissioning, to be approximately \$762.8 million. At December 31, 1997, the amount estimated to be remaining based on CYAPC's proposed contract amendment to be recovered was approximately \$609.4 million.

The FERC filing proposed an increase in annual decommissioning costs and fuel recovery costs over a 10-1/2 year period, beginning in 1997, and ending in mid-2007. This increase in decommissioning and fuel recovery costs is more than offset by savings in operation and maintenance expenses that will result from the shutdown. The change in revenues requested in this filing supports the recovery of CYAPC's net assets and the funding of the costs to close and decommission CY.

On February 27, 1997, the FERC approved an order for hearing which, among other things, accepted CYAPC's contract amendment. The new rates became effective on March 1, 1997 and a portion of revenues currently being collected may be subject to refund. An initial order from the Administrative Law Judge is expected in the spring of 1998.

The components of the net unrecovered assets at December 31, 1997 and 1996 are:

	<u>1997</u>	<u>1996</u>
	(Thousand of Dollars)	
Net plant .....	\$163,491	\$180,163
Nuclear fuel, excluding salvage .....	8,003	19,432
Materials and supplies .....	11,556	12,617
Other regulatory assets .....	<u>31,241</u>	<u>35,332</u>
	<u>\$214,291</u>	<u>\$247,544</u>

The estimated future costs of closure to be incurred by CYAPC have been recorded as a regulatory obligation. Management believes that the decision to close CY will be found by the FERC to be prudent and that the company will be able to recover the resulting costs of closure and any unrecovered assets through FERC-approved amended rates. CYAPC has recognized the sum of its estimated future costs of closure at December 31, 1997 as a regulatory asset.

The components of the sum of CYAPC's estimated future costs of closure based upon CYAPC's proposed contract amendment at December 31, 1997 and 1996 are:

	<u>1997</u>	<u>1996</u>
	(Thousand of Dollars)	
Decommissioning contributions .....	\$237,200	\$260,400
Closure operations, net .....	<u>157,901</u>	<u>256,033</u>
	<u>\$395,101</u>	<u>\$516,433</u>

See Note 2B, "Summary of Significant Accounting Policies - Sponsors," Note 2E, "Summary of Significant Accounting Policies - Regulatory Accounting," Note 2F, "Summary of Significant Accounting Policies - Nuclear Fuel," Note 2G, "Summary of Significant Accounting Policies - Depreciation," Note 2H, "Summary of Significant Accounting Policies - Income Taxes," and Note 5, "Nuclear Decommissioning" for additional information regarding the closure of CY, the recovery of assets and closure costs, and nuclear decommissioning.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. General

Northeast Utilities (NU) operating subsidiaries have a combined 49 percent ownership interest in the company. NU's service subsidiary Northeast Utilities Service Company (NUSCO) furnishes accounting, legal, engineering, construction, maintenance, financial and other administrative services to the company. The total cost of these services billed to the company amounted to



\$14,387,000 and \$26,948,000 for the years ended December 31, 1997 and 1996, respectively. A new management team has been established at CYAPC consisting of individuals from NUSCO, CYAPC, Yankee Atomic Electric Company and Duke Engineering and Services (a subsidiary of Duke Energy) to evaluate the ongoing services being provided to the company.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Certain reclassifications of prior years' data have been made to conform with the current year's presentation.

B. *Sponsors*

The company has power contracts with its Sponsors for the sale of the entire output of the Plant to them for the life of CY. Under the terms of the contracts, each Sponsor is required to pay the company an amount equal to its entitlement percentage of the company's total operating expenses, including a return on net unit investment and decommissioning costs. The obligations of Sponsors to meet their obligations under their power contracts are several and not joint. For further information on the power contracts and the Sponsors, see Note 1, "Closure of Plant and Rate Filing," and Note 11C, "Commitments and Contingencies - Industry Restructuring."

C. *New Accounting Standards*

See Note 11A, "Commitments and Contingencies-Environmental Matters," for information on a newly adopted accounting and reporting standard that applies to environmental disclosure.

D. *Public Utility Regulation*

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



E. *Regulatory Accounting*

The accounting policies of the company and the accompanying financial statements conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process in accordance with Statement of Financial Accounting Standard (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation." Assuming a cost-of-service based regulatory structure, regulators may permit incurred costs, normally treated as expenses, to be deferred and recovered through future revenues. Through their actions, regulators may also reduce or eliminate the value of an asset, or create a liability. If any portion of the company's operations were no longer subject to the provisions of SFAS 71, as a result of a change in the cost-of-service based regulatory structure, the company would be required to write off related regulatory assets and liabilities. Based on current regulation, the company believes that its use of regulatory accounting remains appropriate.

SFAS 90, "Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs" (SFAS 90) amends SFAS 71 and governs the accounting and reporting required when it becomes probable that a plant will be abandoned. The accompanying financial statements conform to the requirements of SFAS 90.

SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," requires the evaluation of long-lived assets for impairment when certain events occur or conditions exist that indicate the carrying amounts of assets, including regulatory assets, may not be recoverable. SFAS 121 requires that any assets which are no longer probable of recovery through future revenues be revalued based on estimated future cash flows. If the revaluation is less than the book value of the asset, an impairment loss would be charged to earnings. Based on the current regulatory environment, the adoption of SFAS 121 did not have a material impact on the company's financial position or results of operations. This conclusion may change in the future if the cost-of-service based regulatory structure were to change.

For further information see 11C, "Commitments and Contingencies - Industry Restructuring."

F. *Nuclear Fuel*

Through 1996, the cost of nuclear fuel was amortized to operation expense using a units-of-production method at rates based on estimated kilowatts-hours of energy to be provided.

Under the Nuclear Waste Policy Act of 1982, the company must pay the United States Department of Energy (DOE) for the disposal of spent nuclear fuel and high-level radioactive waste. Fees for nuclear fuel burned on or after April 7, 1983, were billed to Sponsors and paid to the DOE on a quarterly basis. For nuclear fuel used to generate electricity prior to April 7, 1983 (prior-period fuel), payment may be made anytime prior to the first delivery of spent fuel to the DOE. Until such payment for the disposal of prior-period fuel is made to the DOE, the outstanding balance due will continue to accrue interest at the three-month Treasury Bill Yield Rate. At December 31, 1997, fees due to the DOE for the disposal of prior-period fuel were approximately \$122.0 million, including interest costs of \$73.2 million, and have been fully collected through rates.

The DOE was originally scheduled to begin accepting delivery of spent fuel in 1998. However, delays in identifying a permanent storage site have continually postponed plans for the DOE's long-term storage and disposal site. The company has primary responsibility for the interim storage of its spent nuclear fuel. The decommissioning cost study included in the company's December 1996 filing with the FERC assumes long-term storage of spent fuel on-site in CY's fuel building. The decommissioning study assumes the DOE will begin taking CY fuel in 2006, and will finish by January 1, 2022. The 2006 assumption is based on the probability that the DOE will have access to an interim storage facility by 2006 and reflects CY's priority ranking to have fuel taken away.

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 contractual obligation to begin accepting spent nuclear fuel no later than January 31, 1998. Currently, the DOE has not taken the spent nuclear fuel as scheduled, and as a result, may have to pay contract damages. The ultimate outcome of this legal proceeding is uncertain at this time.

On March 4, 1998, CYAPC filed suit against the DOE for \$90 million for used nuclear fuel storage costs at its plant on the basis that the additional cost to store the fuel at CY until the DOE meets its contracted obligation is unfairly borne by CYAPC and its sponsors.

For additional information regarding the company's obligations to the DOE, see Note 9, "Special Deposits."

Under the Energy Policy Act of 1992 (the Energy Act), the company is assessed for its proportionate share of the costs of the decontamination and decommissioning of uranium enrichment plants owned by the DOE (D&D assessment). The



Energy Act requires that regulators treat D&D assessments as a reasonable and necessary current cost of fuel, to be fully recovered in rates like any other fuel cost. The D&D assessment is allocated among utilities based upon services purchased in prior years. In 1997 and 1996, the company made payments to the DOE totaling \$2.9 million and \$2.8 million, respectively. At December 31, 1997, CYAPC's D&D obligation was approximately \$23.2 million.

During 1997, approximately \$4 million of fuel was sold. In December 1997, approximately \$10 million of fuel was reclassified from net unrecovered assets back to nuclear fuel based on expectations that this fuel could be sold for salvage. During 1998, approximately \$8 million of this fuel has been sold and CYAPC expects to sell the remaining fuel by year end.

The remaining nuclear fuel (net of any salvage) and the remaining D&D assessment regulatory asset are being amortized over the amended contract life beginning March 1, 1997 and ending in mid-2007. For additional information, see Note 1, "Closure of Plant and Rate Filing."

G. *Depreciation*

While CY was in service, depreciation rates were applied to the average plant in service during the period. The provision for depreciation was calculated using the straight-line method based on estimated remaining lives of the depreciable utility plant in service, adjusted for salvage value and removal costs as approved by the FERC. The depreciation rates for the various classes of plant in service was equivalent to a composite rate of 4.5 percent in 1996.

The remaining net utility plant, excluding decommissioning costs, is being amortized over the amended contract life beginning March 1, 1997 and ending in mid-2007. For additional information, see Note 1, "Closure of Plant and Rate Filing" and Note 5, "Nuclear Decommissioning."

H. *Income Taxes*

The tax effect of temporary differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of income subject to tax) is accounted for in accordance with the ratemaking treatment of the FERC.



The tax effect of temporary differences, including timing differences accrued under previously approved accounting standards, which give rise to the accumulated deferred tax obligation is as follows:

At December 31,	1997	1996
	(Thousands of Dollars)	
Accelerated depreciation and other plant-related differences .....	\$77,650	\$59,271
Decommissioning trust earnings/accruals ..	(18,232)	(16,789)
Medical and life insurance reserves .....	(1,407)	(1,459)
Pension accruals, net of funding .....	(3,278)	(3,122)
Property taxes .....	(314)	(4,310)
Decommissioning and decontamination .....	(4,149)	(3,235)
Unrecovered assets .....	(11,416)	(10,501)
SFAS 109 income taxes .....	(17,713)	(11,224)
Connecticut corporate business tax NOL carryforward .....	(1,393)	-
Other .....	(1,885)	(229)
	<u>\$17,863</u>	<u>\$ 8,402</u>

The 1996 shutdown of CY generated a net operating loss (NOL) of approximately \$60 million which was fully utilized on a carryback basis for Federal purposes. Income tax refunds for 1997 resulting from the carryback claim approximated \$21 million. The state of Connecticut does not allow an NOL carryback but does provide an NOL carryforward. As of December 31, 1997, the company had a remaining estimated state of Connecticut NOL carryforward of approximately \$11 million which, if unused, expires in 2001.

I. *Cash and Cash Equivalents*

Cash and cash equivalents at December 31, 1997, includes cash on-hand and short-term cash investments which are highly liquid in nature and have original maturities of three months or less.

J. *Property Tax Settlement*

On May 9, 1997, the Town of Haddam (town) and CYAPC reached an agreement regarding the repayment of property taxes due CYAPC for the tax years beginning October 1, 1991 through October 1, 1995. Under this agreement, CYAPC reversed its reserved portion of property taxes of \$9,237,000 and the town has repaid to CYAPC an amount totaling \$13,990,000 which is inclusive of taxes and interest for those years. This settlement results from the decision of a Connecticut court on September 5, 1996 in which the court found that the town had overassessed the property owned by CYAPC.

### 3. LEASES

The company reimburses Northeast Nuclear Energy Company (NNECO, a subsidiary of NU) for its share of expenses (including an equity return) related to a nuclear control room simulator building. In addition, NUSCO, which provides administrative services to the company, has entered into lease agreements for the use of data processing equipment, office equipment, vehicles and office space. The company is billed for its proportionate share of these leases. The NNECO and NUSCO billings are treated as operating leases for financial reporting purposes. For the years 1997 and 1996, the company made rental payments of \$403,000 and \$970,000, respectively, to operating expense.

Future minimum lease payments, excluding executory costs, as of December 31, 1997, are:

(Thousands of Dollars)

1998 .....	\$ 757
1999 .....	614
2000 .....	533
2001 .....	489
2002 .....	467
After 2002 .....	<u>2,492</u>
	<u>\$5,352</u>

As CY goes through closure and decommissioning, the company expects that the need for NUSCO services could change and the company's allocated portion of such leases could change during this time period.

### 4. INCOME TAX EXPENSE

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

For the Years Ended December 31,	1997	1996
	(Thousands of Dollars)	
Current income taxes:		
Federal .....	\$ (7,249)	\$ (971)
State .....	-	(78)
Total current .....	<u>(7,249)</u>	<u>(1,049)</u>
Deferred income taxes, net:		
Federal .....	13,687	10,794
State .....	<u>3,352</u>	<u>3,924</u>
Total deferred .....	<u>17,039</u>	<u>14,718</u>
Investment tax credits .....	<u>(215)</u>	<u>(215)</u>
Total income tax expense .....	<u>\$ 9,575</u>	<u>\$13,454</u>



The components of total income tax expenses are classified as follows:

Income taxes charged to operating expenses .....	\$ 9,185	\$13,750
Other income taxes .....	390	(296)
Total income tax expense .....	<u>\$ 9,575</u>	<u>\$13,454</u>

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

For the Years Ended December 31,	1997	1996
	(Thousands of Dollars)	
Abandoned plant .....	\$17,881	\$17,600
Liberalized depreciation .....	(5,217)	(479)
Obsolete inventory .....	-	(345)
Decommissioning trust accruals .....	(1,064)	867
DOE decontamination and decommissioning costs .....	(927)	(804)
Property taxes .....	4,384	(763)
Unrecovered materials and supplies inventory .....	(356)	(330)
Unrecovered final core costs .....	(533)	(60)
Provision for rate refunds .....	(1,189)	-
Connecticut corporate business tax NOL carryforward utilization .....	4,978	-
Other .....	(918)	(968)
Deferred income taxes, net .....	<u>\$17,039</u>	<u>\$14,718</u>

A reconciliation between income tax expense and the expected tax expense at the 35 percent of pretax income:

For the Years Ended December 31,	1997	1996
	(Thousands of Dollars)	
Expected federal income tax .....	\$ 8,424	\$ 9,050
Tax effect of differences:		
Depreciation differences .....	912	2,069
Investment tax credit amortization .....	(215)	(215)
State income taxes, net of federal benefit .....	2,481	2,500
Adjustment for prior years' taxes .....	(2,581)	(13)
Other, net .....	554	63
Total income tax expense .....	<u>\$ 9,575</u>	<u>\$13,454</u>

## 5. NUCLEAR DECOMMISSIONING

The company's 1996 decommissioning study, which was filed with the FERC as part of the amendment of the power contracts, concluded that complete and immediate dismantlement at retirement continues to be the most viable and economic method of decommissioning CY. The estimated cost of decommissioning CY used in the FERC contract filing, in year end 1997 dollars, is approximately \$455.9 million.

Prior to the closure of CY, nuclear decommissioning costs were accrued over the expected service life of CY and included in depreciation expense on the Statements of Income. Nuclear decommissioning costs amounted to \$23.2 million in 1997 and \$14.5 million in 1996. Nuclear decommissioning accrued to date, as a cost of removal, is included in the decommissioning and cost of removal reserve on the Balance Sheets. At December 31, 1997 and 1996, the balance in the trust for decommissioning amounted to \$260.4 million and \$204.5 million, respectively.

As part of its December 1996 filing with the FERC, the company, beginning March 1, 1997, has increased its decommissioning accruals to an annual rate of \$24.8 million, continuing through mid-2007. This revised annual accrual is based on an annual 4.5 percent decommissioning estimate escalation rate and approximately a 5.6 percent after-tax return on the trust funds.

The company has established an independent, irrevocable decommissioning trust. Each month the Sponsors are billed for their proportionate share of FERC-approved decommissioning expense, and make payments directly to the trust. As of December 31, 1997, approximately \$143.8 million has been paid to the decommissioning trust. Earnings on the decommissioning trusts increase the decommissioning trust balance and the reserve for decommissioning. Unrealized gains and losses associated with the decommissioning trust also impact the balance of the trusts and the reserve for decommissioning.

Changes in requirements or technology, the timing of funding or dismantling, or adoption of a decommissioning method other than immediate dismantlement would change decommissioning cost estimates and the amounts required to be recovered from the Sponsors. The company attempts to recover sufficient amounts through its allowed rates to cover its expected decommissioning costs. Only the portion of currently estimated total decommissioning cost that has been approved by the FERC is reflected in the amounts billed to Sponsors. An initial order from the Administrative Law Judge is expected in the spring of 1998.



## 6. CAPITAL CONTRIBUTIONS

The Sponsors are obligated under the terms of capital funds agreements, entered into with the company in 1964, to provide their percentage ownership shares of additional capital required for commercial operation of CY to the company either through common stock purchases, loans or advances. The total obligation of the Sponsors under these agreements is limited to an aggregate amount of \$70 million, of which \$32 million had not been drawn down at December 31, 1997. Since CY is no longer operating, and is being decommissioned, CYAPC is unable to request any capital contributions from the Sponsors under these agreements.

## 7. LONG-TERM DEBT

Details of outstanding long-term debt are:

At December 31,	1997	1996
	(Thousands of Dollars)	
Term Loan, 8.23% due August 22, 2000 .....	\$30,000	\$ -
First Mortgage Bonds, Series A, 12% due June 1, 2000 .....	-	58,000
Pollution Control Note, 6% due 1997 .....	-	375
Fees and interest due for spent nuclear fuel disposal costs .....	121,954	115,737
	151,954	174,112
Less: Amounts due within one year .....	10,000	58,375
Total long-term debt .....	<u>\$141,954</u>	<u>\$115,737</u>

On August 22, 1997, CYAPC entered into a three-year term loan to be repaid in three annual installments through final maturity in August 2000. The term loan is secured by a pledge of the company's rights under the power contracts and capital fund agreements with its Sponsors and the rights of the company to receive federal and state income tax refunds.

The First Mortgage Bonds (Series A Bonds) were secured under a Mortgage Indenture and Deed of Trust, with a bank as trustee, by a direct lien on the company's electric generating plant and a pledge of the company's rights under the power contracts and capital funds agreements with its Sponsors. As a result of the decision to permanently close CY effective December 4, 1996, the company reacquired and retired its outstanding Series A Bond obligation during January 1997. This early debt retirement resulted in a loss of \$2.3 million which is included in other on the accompanying balance sheets and is being amortized on a monthly basis.

8. SHORT-TERM DEBT

On March 7, 1997, CYAPC entered into a Restructured Credit Agreement with a group of four banks. The credit available under the Restructured Credit Agreement as of January 1, 1998, is \$30 million. Under the terms of the restructured facility, the company is obligated to pay a commitment fee of one-half of one percent per annum on the daily average of the unused amount. The restructured facility is secured by a pledge of the company's rights under the power contracts and capital fund agreements with its Sponsors and the rights of the company to receive federal and state income tax refunds. The commitments under the facility expire on August 14, 1998. As of December 31, 1997, there were no borrowings under this facility.

9. SPECIAL DEPOSITS

In 1990, the company established an independent, irrevocable spent fuel trust with a commercial bank to work in conjunction with the cash collateral account. With the redemption of the Series A Bonds in January 1997 the cash collateral account is no longer in effect and the funds are being held to meet the company's future spent nuclear fuel obligation to the DCE. Future annual deposits to the trust are expected to be largely satisfied from internal sources or, to the extent necessary, from short-term borrowings. As of December 31, 1997 and 1996, the company has approximately \$107.6 million and \$101.6 million, respectively, in these special deposit accounts. In 1997 and 1996, interest earnings on these special deposit accounts amounted to approximately \$5.8 million and \$5.1 million, respectively. Cumulative gross unrealized holding gains were not material in 1997 and 1996. The funds in the special deposit accounts may not be withdrawn by the company prior to 1998.

For information regarding prior-period fuel, see Note 2F, "Summary of Significant Accounting Policies - Nuclear Fuel."

10. POSTRETIREMENT BENEFITS

A. *Pension Benefits*

The company has a noncontributory-defined benefit retirement plan covering all regular employees. Benefits are based on years of service with the company and employees' highest eligible compensation during five consecutive years of employment. Total pension cost, part of which was charged to utility plant, approximated \$537,000 in 1997 and \$1,088,000 in 1996. Pension costs for 1996 included approximately \$634,000 related to workforce reduction programs.

Currently, the company funds annually an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and the Internal



Revenue Code. Pension costs are determined using market-related values of pension assets. Pension assets are invested primarily in domestic and international equity securities and bonds.

The components of net pension cost are:

For the Years Ended December 31,	1997	1996
	(Thousands of Dollars)	
Service cost .....	\$ 1,394	\$ 1,853
Interest cost .....	2,380	2,126
Return on plan assets .....	(7,137)	(4,365)
Net amortization .....	<u>3,900</u>	<u>1,474</u>
Net pension cost .....	<u>\$ 537</u>	<u>\$ 1,088</u>

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

For the Years Ended December 31,	1997	1996
Discount rate .....	7.75%	7.50%
Expected long-term rate of return .....	8.75	8.75
Compensation/progression rate .	4.75	4.75

The following table represents the plan's funded status reconciled to the Balance Sheets:

At December 31,	1997	1996
	(Thousands of Dollars)	
Accumulated benefit obligation, including \$(19,917,000) of vested benefits at December 31, 1997 and \$(16,683,000) at December 31, 1996 .....	<u>\$(23,785)</u>	<u>\$(19,573)</u>
Projected benefit obligation .....	<u>\$(28,405)</u>	<u>\$(30,876)</u>
Market value of plan assets .....	<u>41,605</u>	<u>35,883</u>
Market value in excess of projected benefit obligation .....	13,200	5,007
Unrecognized transition amount .....	(362)	(396)
Unrecognized prior service costs .....	253	786
Unrecognized net gain .....	<u>(14,305)</u>	<u>(12,619)</u>
Accrued pension liability .....	<u>\$ (1,214)</u>	<u>\$ (7,222)</u>

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

At December 31,	1997	1996
Discount rate .....	7.25%	7.75%
Compensation/progression rate .....	4.25	4.75

B. *Postretirement Benefits Other Than Pensions*

The company provides certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees (referred to as SFAS 106 benefits). These benefits are available for employees retiring from the company who have met specified service requirements. For current employees and certain retirees, the total SFAS 106 benefit is limited to two times the 1993 per-retiree health care costs. The SFAS 106 obligation has been calculated based on this assumption. Total SFAS 106 benefits approximated \$(50,000) in 1997 and \$509,000 in 1996.

SFAS 106 requires that the expected cost of postretirement benefits, primarily health and life insurance benefits, be charged to expense during the years that eligible employees render service. Under the terms of the company's power contracts, these costs are being passed on to the Sponsors. The trust assets are invested primarily in equity securities and bonds.

The components of health care and life insurance costs are:

For the Years Ended December 31,	1997	1996
	(Thousands of Dollars)	
Service cost .....	\$104	\$207
Interest cost .....	350	442
Return on plan assets .....	(735)	(245)
Net amortization .....	<u>231</u>	<u>105</u>
Net health care and life insurance (credit)/cost .....	<u>\$(50)</u>	<u>\$509</u>



For calculating SFAS 106 benefits cost, the following assumptions were used:

For the Years Ended December 31,	1997	1996
Discount rate .....	7.75%	7.50%
Long-term rate of return- Health assets, net of tax ..	6.00	5.25
Life assets .....	9.25	8.75

The following table represents the plan's funded status reconciled to the Balance Sheets:

At December 31,	1997	1996
	(Thousands of Dollars)	

Accumulated postretirement benefit obligation of:		
Retirees .....	\$ (3,003)	\$ (2,984)
Active employees not eligible to retire .....	(1,201)	(3,034)
Total accumulated postretirement benefit obligation .....	(4,204)	(6,018)
Market value of plan assets .....	<u>4,109</u>	<u>3,713</u>

Accumulated postretirement benefit obligation in excess of plan assets	(95)	(2,305)
Unrecognized transition asset .....	(61)	(58)
Unrecognized prior service cost .....	(275)	(505)
Unrecognized net (gain)/loss .....	<u>(1,169)</u>	<u>27</u>
Accrued postretirement benefit liability .....	<u>\$ (1,600)</u>	<u>\$ (2,841)</u>

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

At December 31,	1997	1996
Discount rate .....	7.25%	7.75%
Health care cost trend rate (a) .....	5.76	7.23

(a) The annual growth in per capita cost of covered health care benefits was assumed to decrease to 4.40 percent by 2001.

The effect of increasing the assumed-health-care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1997 by \$251 thousand and the aggregate of the service and interest-cost components of the net periodic postretirement benefit cost for the year then ended by \$24

thousand. The trust holding the plan assets is subject to federal income taxes at a 39.6 percent tax rate.

C. *Regulatory Accounting Treatment*

As a result of the workforce reduction at CYAPC, the pension and SFAS 106 benefit plans have experienced curtailment gains of approximately \$6.5 million and \$1.2 million, respectively, in 1997. Both gains have been deferred and are being treated as regulatory obligations. The method and timing of the amortization of these obligations have not yet been determined.

11. COMMITMENTS AND CONTINGENCIES

A. *Environmental Matters*

The company is subject to regulation by federal, state and local authorities with respect to air and water quality, the handling and disposal of toxic substances and hazardous and solid wastes, and the handling and use of chemical products. The company has an active environmental auditing and training program and believes that it is in substantial compliance with current environmental laws and regulations. However, the company is subject to certain pending enforcement actions and governmental investigations in the environmental area. Management cannot predict the outcome of these enforcement actions and investigations.

The cumulative long-term, economic cost impact of increasingly stringent environmental requirements cannot be accurately estimated. The company may incur significant additional environmental costs, greater than amounts included in cost of removal and other reserves, in connection with the storage, transportation, and disposal of by-products and wastes. The company may also encounter significantly increased costs to remedy the environmental effects of prior waste handling activities.

The company has recorded a liability based upon currently available information for what it believes are its estimated environmental remediation costs expected to be incurred for the cleanup of waste disposal sites. In most cases, additional future environmental cleanup costs are not reasonably estimable due to a number of factors including the unknown magnitude of possible contamination, the appropriate remediation methods, the possible effects of future legislation or regulation and the possible effects of technological changes. At December 31, 1997, the net liability recorded by the company for its estimated environmental remediation costs, excluding any possible insurance recoveries or recoveries from third parties, amounted to approximately \$231 thousand.



During 1997, the company adopted Statement of Position 96-1, "Environmental Remediation Liabilities" (SOP). The principal objective of the SOP is to improve the manner in which existing authoritative accounting literature is applied by entities to specific situations of recognizing, measuring and disclosing environmental remediation liabilities. The adoption of the SOP did not have a material impact on CYAPC in 1997.

The company cannot estimate the potential liability for future claims, including remediation costs, that may be brought against it. However, considering known facts, existing laws and regulatory practices, management does not believe the matters disclosed above will have a material effect on the company's financial position or future results of operations.

B. *Nuclear Insurance Contingencies*

Under certain circumstances, in the event of a nuclear accident at one of the nuclear facilities in the country covered by the federal government's third-party liability indemnification program, the company could be assessed up to \$75.5 million per incident. The company's payments of this assessment would be limited to \$10.0 million in any one year. In addition, if the sum of all claims and costs from any one nuclear incident exceeds the maximum amount of financial protection, the company would be subject to an additional five percent, or \$3.8 million. The company's maximum liability, which the company would be required to pay with respect to an incident at any nuclear plant, including any additional assessments, would be \$79.3 million. The potential liability for assessments will continue until the company is granted an exemption from the program by the NRC. Under the terms of the company's power contracts, any assessments would be passed on to the Sponsors.

Insurance has been purchased to cover the primary cost of repair, replacement, or decontamination of utility property resulting from insured occurrences. The company is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer. The maximum potential assessment against the company with respect to losses arising during the current policy year is approximately \$4.6 million under the primary property insurance program which, under the terms of the company's power contracts, would be passed on to the Sponsors.

Insurance has been purchased to cover the excess cost of repair, replacement, or decontamination or premature decommissioning of utility property resulting from insured occurrences. The company is subject to retroactive assessments if losses exceed the accumulated funds

available to the insurer. The maximum potential assessment against the company with respect to losses arising during current policy years is approximately \$11.3 million which, under the terms of the company's power contracts, would be passed on to the Sponsors. The cost of a nuclear incident could exceed available insurance proceeds.

Insurance has been purchased aggregating \$200 million on an industry basis for coverage of worker claims. All participating reactor operators insured under this coverage are subject to retrospective assessments of \$3.0 million per reactor. The maximum potential assessment against the company with respect to losses arising during the current policy period are approximately \$3.0 million which, under the terms of the company's power contracts, would be passed on to the Sponsors. Effective January 1, 1998, a new worker policy was purchased which is not subject to any retrospective adjustments.

In October 1997, CYAPC applied for an exemption from the insurance requirements discussed above. If the exemption is granted, CYAPC will carry a lower level of insurance coverage that otherwise meets all the necessary requirements. A decision on the exemption is expected by June 1998.

C. *Industry Restructuring*

The obligations of Sponsors to meet their obligations under their power contracts are several and not joint. The NRC, however, has recently expressed a position that in certain circumstances they would seek to hold the Sponsors jointly liable for safety issues such as decommissioning. The movement toward electric industry restructuring in the Northeast has created uncertainty with respect to future rates and the recovery of strandable investments for utilities. In fact, several Sponsors have experienced reduced credit ratings or other significant financial strain arising from restructuring or other issues primarily related to nuclear operations.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

*Cash:* The carrying amount approximates fair value.

*Special deposits:* The carrying amount approximates fair value.

*Nuclear decommissioning trust:* The carrying amount approximates fair value.



SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," requires investments in debt and equity securities to be presented at fair value. As a result of this requirement, the investments held in the nuclear decommissioning trusts were adjusted to market by approximately \$32.8 million and \$10.5 million as of December 31, 1997 and 1996, respectively, with a corresponding offset to decommissioning and costs of removal. The increases in 1997 and 1996 represent cumulative gross unrealized holding gains. There were no material cumulative gross unrealized holding losses in 1997 and 1996.

According to the requirements of SFAS 115, the investments held in special deposits are also adjusted to market. As of December 31, 1997 and 1996, the adjustments to increase these investments to market were immaterial.

Long-term debt: The fair value of the company's fixed-rate long-term debt is based upon the quoted market price for those issues or similar issues. At December 31, 1997 and 1996, there were no material differences between the carrying amount and fair value of the company's long-term debt.

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*Data contained in this Annual Report are submitted  
for the sole purpose of providing information to  
present security holders about the Company.*

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