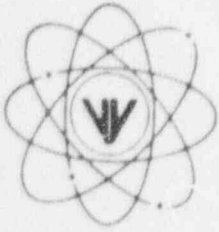


# VERMONT YANKEE NUCLEAR POWER CORPORATION



Ferry Road, Brattleboro, VT 05301-7002

REPLY TO  
ENGINEERING OFFICE  
580 MAIN STREET  
BOLTON, MA 01740  
(508) 779-6711

April 3, 1996  
BVY 96-42

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

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

Subject: Vermont Yankee Nuclear Power Corporation - 1995 Annual Financial Report

In accordance with the provisions of 10CFR50.71(b), enclosed is one (1) copy of Vermont Yankee Nuclear Power Corporation's annual financial report, including the certified financial statements, for 1995.

Should you have any questions regarding the enclosed material, please contact this office.

Sincerely,

VERMONT YANKEE NUCLEAR POWER CORPORATION

James J. Duffy  
Licensing Engineer

080047

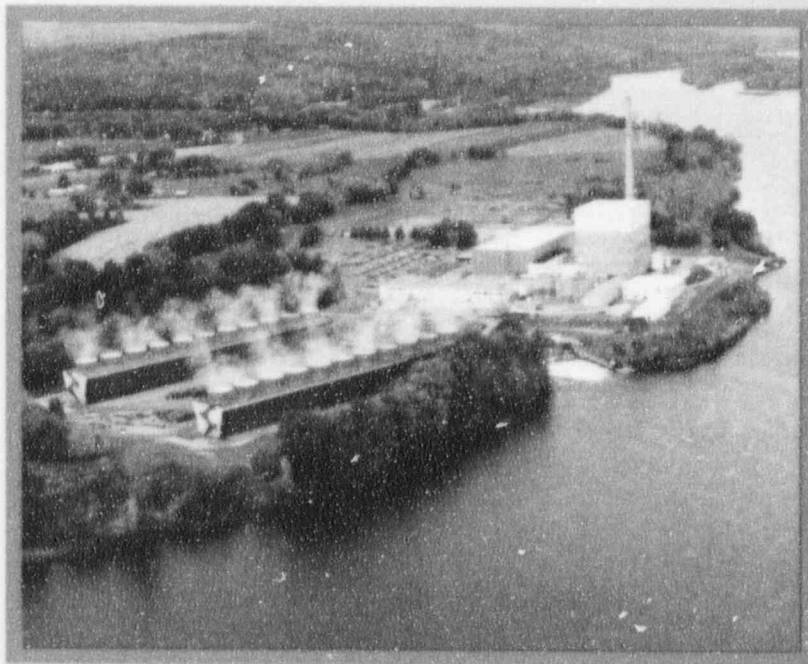
Enclosure

c: USNRC Region I Administrator  
USNRC Resident Inspector - VYNPS  
USNRC Project Manager - VYNPS

9604080242 951231  
PDR ADOCK 05000271  
I PDR

M004  
11

# 1995 Annual Report



**Vermont  
Yankee**

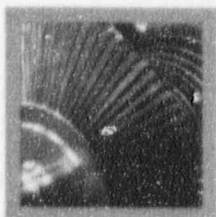
*Nuclear*

*Power*

*Corporation*

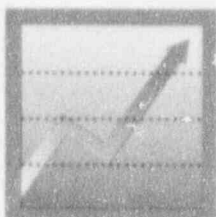
# Year at a Glance

## Contents



### ■ Turbine Retrofit Project

Vermont Yankee replaced both low-pressure turbines — *a first-of-its-kind* project in the industry and resulted in a 12 megawatt output increase. The project is expected to save Vermont Yankee's customers in excess of \$100 million over the remaining license life of the plant.



### ■ Production - Capacity Factor

During 1995, Vermont Yankee set three new records for production of electricity: (1) highest capacity factor in a year with a refueling shutdown (86.7%); (2) highest 18 month cycle capacity factor (95.9%); and (3) highest one month production record (October, 1995 - 389.3 million net kilowatt hours generated)



### ■ Simulator - New Technology

Vermont Yankee was the *first* company in the world to successfully use a PC to run a control room simulator. The single personal computer replaced two large main-frame computer systems and is contributing to substantial savings for Vermont Yankee and its customers.



### ■ Safety Record

Vermont Yankee concluded 1995 with its *best* ever lost-time accident record. The National Safety Council ranked Vermont Yankee as the nation's third *best* utility of its size for industrial safety.



### ■ Refueling Outage - Planning and Costs

Exceptional planning allowed Vermont Yankee to complete its refueling shutdown in 47 days and \$1.5 million under budget.



### ■ Vermont Yankee Vision - Plan 20/20

Vermont Yankee launched Plan 20/20 "A Model for Success", introducing the Company vision - "to be a desired source of electricity for the next 20 years". The Plan provides a framework to ensure Vermont Yankee's continued success as an industry leader in the safe, reliable and efficient production of electricity.

Description of Business	2
President's Letter	3
Highlights	4
Common Stock Ownership	5
Management Review	6
Financial Review	11
Report of Independent Public Accountants	12
Statements of Income & Retained Earnings	13
Balance Sheets	
Assets	14
Capitalization and Liabilities	15
Statements of Cash Flows	16
Notes to Financial Statements	17
Board of Directors	34
Officers	35

## 1995 Annual Report

**Vermont Yankee  
Nuclear Power Corporation**

Ferry Road  
Brattleboro, Vermont 05301-7002

**V**ermont Yankee Nuclear Power Corporation 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 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 to 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 with its sponsors, 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%

Vermont Yankee completed 1995 with an 86.7% capacity factor — our best ever in a year with a refueling outage. That means the plant produced electricity almost continuously, except during the seven-week refueling and maintenance outage in the spring. (Capacity factor measures how much electricity a plant actually produces against the amount of power it could generate if it operated without interruption all year at full power.)

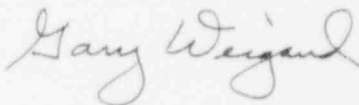
During the refueling outage, Vermont Yankee became the first boiling water reactor in the world to complete the replacement of two low-pressure turbines. The turbine project work was completed in just 39 1/2 days — well within the projected schedule and budget. As a result of the replacement, Vermont Yankee has increased its electrical output by approximately 12 megawatts without using more fuel.

The refueling outage was extremely well planned, using manpower and resources efficiently. As a result, the Company completed refueling in 47 days and \$1.5 million under budget.

Vermont Yankee continued its excellent nuclear and industrial safety records. We experienced no lost-time accidents during 1995, surpassing our previous record of 569 consecutive days.

Vermont leads the nation as the state with the highest percentage of electrical generation produced from nuclear power — approximately 80%. As Vermont's major source of electricity, we strive to keep our cost per kilowatt hour competitive. In 1995, Vermont Yankee generated electricity for 4.68 cents per kilowatt hour. This cost includes all facets of Vermont Yankee's operations, including decommissioning, low-level radioactive waste disposal, and fees paid to the Department of Energy for high-level radioactive waste disposal. The more widely reported statistic, operations and maintenance cost (excluding fuel), was 1.88 cents per kilowatt hour.

To ensure the Company's continued success, Vermont Yankee launched a new strategic plan in 1995, incorporating our vision to be a desired source of safe, reliable and efficient electricity. With employees dedicated to safety, professionalism, leadership and continuous improvement, Vermont Yankee is well positioned to remain a leader in the competitive future of the industry.



J. Gary Weigand

**Financial (dollars in millions)**      1995

Operating revenues      **\$180.4**    \$162.8    10.8

Net income      **6.8**    6.6    3.0

Total assets      **531.3**    512.1    3.7

Average number of shares of common stock outstanding (thousands)      **392**    392    0.0

**Per Share of Common Stock:**

Earnings per average common share      **\$17.30**    \$16.79    3.0

Dividends paid per common share      **18.65**    16.00    16.6

Book value per common share (year end)      **137.40**    138.80    (1.0)

**Operating:**

Kilowatt-hour sales (billions)      **3.86**    4.32    (10.6)

Cost per kilowatt-hour (cents)      **4.68**    3.77    24.1

Number of employees (year end)      **337**    340    (0.9)

---

*\*Non-refueling Year*

Stock Owner	Percentage Owned	Shares Owned
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
	<b>100.0%</b>	<b>392,481</b>

## Plant Performance

### ■ Capacity Factor

During 1995, Vermont Yankee achieved an annual capacity factor of 86.7%, which broke its previous record of 84.4% for a year with a refueling outage. Also, Vermont Yankee achieved another production record this year with an 18 month cycle capacity factor of 95.9%. A cycle is the 18 month operational period between refueling outages. Due to the addition of new low pressure turbines in April 1995, Vermont Yankee was able to achieve its highest one month output ever, in October 1995, with 389.3 million net kilowatt hours generated. What is remarkable about Vermont Yankee's capacity factor in 1995 is that, even though we conducted a refueling outage, we still ended the year as one of the top-ranked plants in the industry. With this performance, Vermont

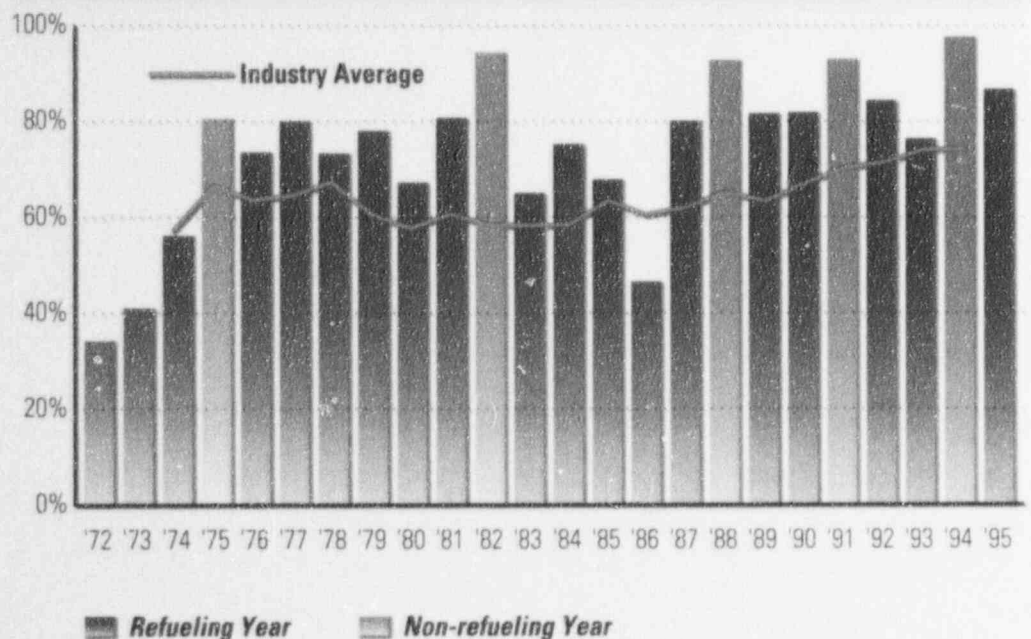
Yankee continues to improve upon its already outstanding record of reliability. The graph below depicts the Company's annual capacity factor since the commercial operation began in 1972 and compares it to the industry average for both pressurized and boiling water reactors.

Vermont Yankee's lifetime capacity factor of 75.8% makes it one of the top five boiling water reactors nationwide for consistent electricity production. This distinction also makes us the only boiling water reactor of the 24 that went on-line before 1985 to have a lifetime capacity factor of more than 75%.

From the beginning of its commercial operation in 1972 through the end of 1995, Vermont Yankee has generated over 78 billion kilowatt-hours of electricity.

*"An 86.7%  
capacity factor  
— our best  
ever in a year  
with a refueling  
outage"*

Vermont Yankee Capacity Factor





### ■ Plant Improvements

Vermont Yankee became the first General Electric BWR (Boiling Water Reactor) in the world to replace two low-pressure steam turbines, casings and related components. The replacement effort finished ahead of schedule and on

budget and is expected to save our customers in excess of \$100 million over the remaining life of the plant. Because the new turbines are more efficient, Vermont Yankee's electrical output increased by 12 megawatts, or approximately 3%.

### ■ Plant Economics

Vermont Yankee, despite having the handicap of being a relatively small plant, has operation and maintenance costs that compare favorably with the industry as illustrated by the chart.

#### Operation & Maintenance Costs (Cents per KWH)<sup>1</sup>

Year	Vermont Yankee	Industry Average
1991	1.22*	1.47
1992	1.95	1.54
1993	2.36	1.55
1994	1.17*	1.56
1995	1.88	**

<sup>1</sup>Excluding Fuel and Administrative and General Expenses

\*Non-refueling Year \*\*Not Available

### ■ Fuel Economics

Vermont Yankee's fuel costs continue to be below the industry average as illustrated by the chart.

#### Nuclear Fuel Costs (Cents per KWH)<sup>1</sup>

Year	Vermont Yankee	Industry Average
1991	0.61	0.68
1992	0.57	0.63
1993	0.58 <sup>2</sup>	0.60
1994	0.52 <sup>2</sup>	0.62
1995	0.51 <sup>2</sup>	**

<sup>1</sup>Includes spent fuel disposal rates <sup>2</sup>Includes DOE enrichment site cleanup fee

\*\*Not Available

### ■ Total Cost of Power

Vermont Yankee continues to be a low-cost producer of electricity. The chart illustrates Vermont Yankee's cost per kilowatt hour of electricity generated.

#### Total Cost of Power (Cents per KWH)<sup>1</sup>

Year	Vermont Yankee
1991	3.69*
1992	4.71
1993	5.34
1994	3.77*
1995	4.68

**5-year average: 4.39 ■ Cumulative Cost of power: 3.32<sup>2</sup>**

<sup>1</sup>Inclusive of all costs <sup>2</sup>Since commercial operations began in 1972 \*Non-refueling year

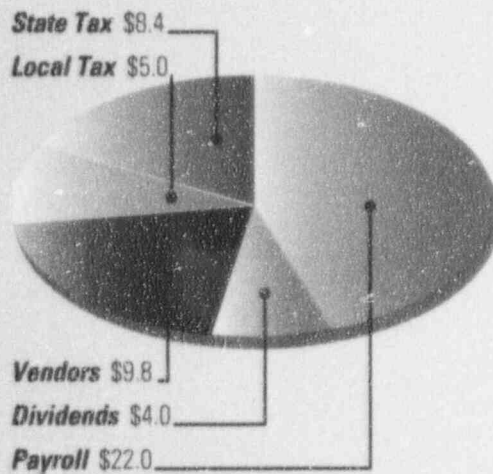
**■ Low-Level Radioactive Waste Disposal**

The proposed Compact between Texas, Vermont and Maine was approved by the respective states during 1994 and is expected to be ratified by the U.S. Congress during 1996. Deliveries are projected to begin during 1998.

**■ Impact on the Vermont Economy**

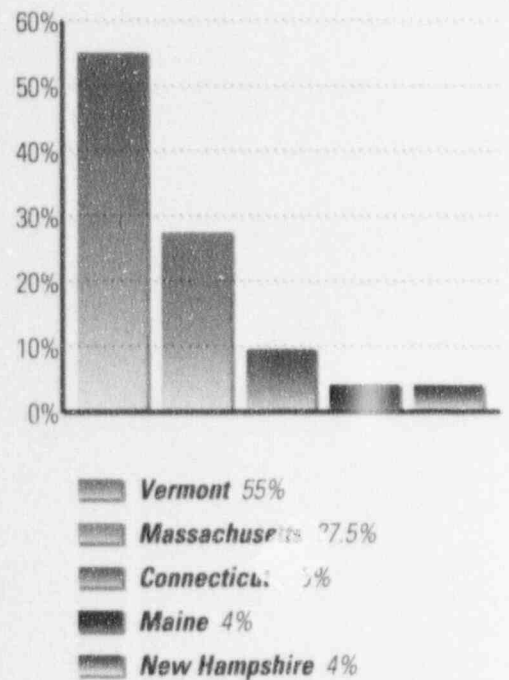
In 1995, Vermont Yankee contributed \$49.2 million to the Vermont economy in the form of employee wages, state and local taxes and fees, payments to Vermont vendors, and dividends to Vermont shareholders. The chart below shows the distribution of these payments during 1995.

*Contributions to 1995 Vermont Economy  
Dollars in Millions*



The Company provides 55% of the electricity we produce to Vermont utilities, which give Vermonters the benefit of our low cost electricity. Also, since 45% of our output is sold to utilities outside of Vermont, we are one of Vermont's largest exporters. The value of our exported electricity to other New England states during 1995 was over \$81 million.

*Location of Vermont Yankee Customers*



Vermont leads the Nation with the highest percent of total electric generation in the state from nuclear power (81.5% during 1994). The following chart compares the percent of nuclear generation by state based on year-end 1994 statistics (1995 statistics were not available at the time of this publication).

**■ US Leaders**

*Nuclear Power Generated by State (1994)*

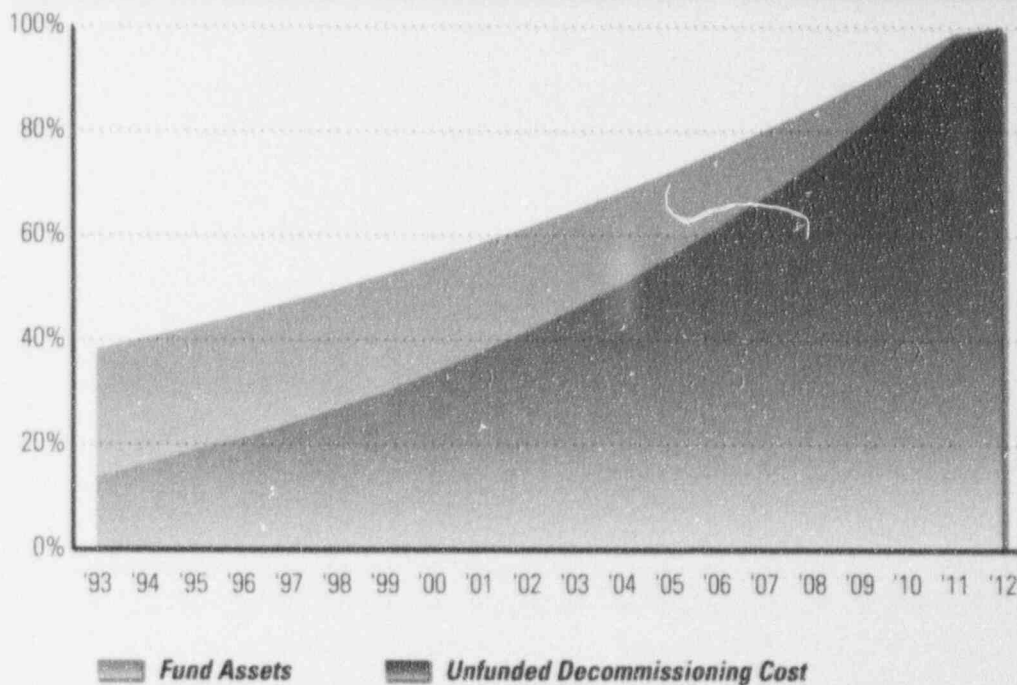
State	Percent
Vermont	81.5
Connecticut	74.1
Maine	73.6
New Jersey	69.8
South Carolina	60.2
Illinois	52.7
New Hampshire	52.2
Virginia	48.3
Pennsylvania	39.8
Mississippi	36.7

**■ Funding for Decommissioning**

Vermont Yankee continues to fund the ultimate decommissioning of our plant with the goal of restoring the plant site to its original condition once we have concluded operations. At the end of 1995, the

Decommissioning Trust totaled \$141.3 million out of a projected decommissioning cost of \$347.4 million (1995 dollars). The graph below depicts decommissioning funding status:

*Vermont Yankee Nuclear Power Corporation Decommissioning Funding Summary*



*"No lost-time accidents during 1995, surpassing our previous record of 569 consecutive days"*

■ **Industrial Safety**

Vermont Yankee continues to maintain its excellent record on safety. With the support of a formal safety program, a safety suggestion program, and the employee safety manual, Vermont Yankee surpassed its record of 569 consecutive days without a lost time accident. Along the way to this record, the Company passed one million hours without a lost time accident and made 1995 the third calendar year without a lost time accident. In 1995, the National Safety Council ranked Vermont Yankee as the nation's third best utility of its size for industrial safety.

■ **Refueling Outage Length**

Vermont Yankee's refueling outages have consistently been shorter than the average for U.S. boiling water reactors for outage duration. This is attributed to excellent pre-outage preparation and safe, efficient completion of activities during the outage. The Company had its best planned outage in 1995, as shown by the low-pressure turbine retrofit being completed ahead of schedule. Less downtime during these outages translates into higher generation and lower cost per KWH. The chart below compares Vermont Yankee's outage lengths to the industry average.

*Refueling Outage Length (Days)*

Year	Vermont Yankee	U.S. BWR Average
1991	*	84
1992	45	97
1993	59	77
1994	*	85
1995	47	64

\*Non-refueling Year

Operating revenues of the Company are billed and received from customers based on the terms of its Power Contracts. Under those contracts, customers are severally required to pay the Company an amount equal to their respective entitlement share of the Company's total fuel costs, operating expenses and a return on net unit investment.

Operating revenues increased in 1995 from 1994 by \$17.7 million, or 10.8%, primarily due to higher operating and maintenance costs related to the scheduled refueling and maintenance shutdown in 1995.

Maintenance expense increased \$12.2 million and other operating expenses increased \$7.0 million, both reflecting differences in costs between a year with a scheduled refueling and maintenance shutdown (1995) and one without (1994). The plant operates on an 18 month refueling cycle, with the last scheduled refueling completed in May, 1995.

Nuclear fuel expense decreased by \$2.7 million in 1995 from 1994 reflecting the scheduled refueling shutdown.

Decommissioning expense increased \$0.8 million in 1995 due to the rate schedule approved by the Federal Energy Regulatory Commission (FERC) during 1994 and effective January 1, 1995.

Interest income increased by \$1.8 million in 1995 due to higher than expected earnings on the Spent Fuel Disposal Fee Defeasance Trust and higher levels of short term investments during 1995.

Total interest expense increased by \$1.4 million in 1995 primarily due to a higher DOE interest charge related to the Spent Fuel Disposal Fee. Declines in long-term interest expense since 1993 reflect lower borrowing requirements related to delays of the low-level radioactive waste compact fee payments and reflect the retirement, repayment and refinancing of debt at lower interest rates.

Net income and the associated income taxes increased by \$0.2 million and \$0.3 million, respectively in 1995. These increases were the result of higher differences between the Company's net unit investment and total capitalization computed in accordance with the Company's formula rate, approved by the Federal Energy Regulatory Commission (FERC).

*"... the first  
boiling water  
reactor in the  
world to  
complete the  
replacement of  
two low-pressure  
turbines"*

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

**W**e have audited the accompanying balance sheet of Vermont Yankee Nuclear Power Corporation as of December 31, 1995 and 1994, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1995. 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. These 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, 1995 and 1994, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

*Arthur Andersen LLP*

**Boston, Massachusetts**

*January 25, 1996*

Years ended December 31,

	1995	1994	1993
	(Dollars in thousands except per share data)		
Operating revenues	\$ 180,437	\$ 162,757	\$ 180,145
<b>Operating expenses</b>			
Nuclear fuel expense	19,771	22,520	19,526
Other operating expense	75,587	68,591	74,013
Maintenance expense	30,373	18,193	31,405
Depreciation and amortization expense	14,445	14,404	13,707
Decommissioning expense (NOTE 3)	12,670	11,860	11,315
Taxes on income (NOTE 11)	2,360	2,830	3,777
Property and other taxes	10,225	10,004	9,961
Total operating expenses	165,431	148,402	163,704
Operating income	15,006	14,355	16,441
<b>Other income and (deductions)</b>			
Net earnings on decommissioning trust (NOTES 3 and 6)	8,226	5,271	5,653
Decommissioning expense (NOTE 3)	(8,226)	(5,271)	(5,653)
Allowance for equity funds used during construction	2	110	92
Interest	4,240	2,397	1,550
Taxes on other income (NOTE 11)	(1,729)	(986)	(623)
Other, net	(95)	(5)	(232)
Total other income and (deductions)	2,418	1,516	787
Income before interest expense	17,424	15,871	17,228
<b>Interest expense</b>			
Interest on long-term debt	5,682	6,173	7,281
Interest on spent fuel disposal fee obligation (NOTE 9)	4,958	3,367	2,450
Allowance for borrowed funds used during construction	(6)	(257)	(297)
Total interest expense	10,634	9,283	9,434
Net income	6,790	6,588	7,794
Retained earnings at beginning of year	1,376	1,067	1,178
	8,166	7,655	8,972
Dividends declared	7,320	6,279	7,905
Retained earnings at end of year	\$ 846	\$ 1,376	\$ 1,067
Average number of shares outstanding in thousands	392	392	392
Net income per average share of common stock outstanding	\$ 17.30	\$ 16.79	\$ 19.86
Dividends per average share of common stock outstanding	\$ 18.65	\$ 16.00	\$ 20.14

See accompanying notes to financial statements.

*"Vermont  
Yankee Vision ...  
to be a desired  
source of  
electricity  
for the next  
20 years"*

	December 31,	
	1995	1994
(Dollars in thousands)		
<b>Assets</b>		
<b>Utility plant</b>		
Electric plant, at cost (NOTE 7)	\$ 376,761	\$ 376,551
Less accumulated depreciation	225,257	212,569
	<b>151,504</b>	163,982
Construction work in progress	869	645
Net electric plant	<b>152,373</b>	164,627
Nuclear fuel, at cost (NOTE 7):		
Assemblies in reactor	65,116	69,108
Fuel in Stock	0	20,038
Spent fuel	311,640	287,700
	<b>376,756</b>	376,846
Less accumulated amortization of burned nuclear fuel	348,213	333,990
	<b>28,543</b>	42,856
Less accumulated amortization of final core nuclear fuel	8,500	7,849
Net nuclear fuel	<b>20,943</b>	35,007
Net utility plant	<b>172,416</b>	199,634
<b>Current assets</b>		
Cash and cash equivalents	14,001	1,285
Accounts receivable from sponsors	14,824	16,742
Other accounts receivable	1,554	1,471
Materials and supplies, net of amortization	16,768	17,165
Prepaid expenses	5,120	4,753
Total current assets	<b>52,267</b>	41,416
<b>Deferred charges</b>		
Deferred decommissioning costs (NOTE 3)	32,687	38,238
Accumulated deferred income taxes (NOTE 11)	22,659	20,740
Deferred DOE enrichment site decontamination and decommissioning fee (NOTE 5)	13,332	14,200
Deferred low-level waste facility expenses (NOTE 16)	26,539	26,458
Net unamortized loss on reacquired debt	2,516	2,698
Other deferred charges	1,667	1,563
Total deferred charges	<b>99,400</b>	103,897
<b>Long-term funds, at fair market</b>		
Decommissioning trust (NOTES 3, 6 and 8)	141,330	113,256
Spent fuel disposal fee defeasance trust (NOTES 6, 8 and 9)	65,880	53,939
Total long-term funds	<b>207,210</b>	167,195
	<b>\$ 531,293</b>	\$ 512,142

See accompanying notes to financial statements.



## Capitalization and Liabilities

December 31,

1995 1994

(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

**846** 1,376

**Total common stock equity**

**53,943** 54,473

Long-term obligations, net (NOTES 7 and 8)

**75,845** 75,845

**Total capitalization**

**129,788** 130,318

Commitments and contingencies (NOTES 3, 15 and 16)

Spent fuel disposal fee and accrued interest (NOTES 8 and 9)

**89,014** 84,055

### Current liabilities:

Accounts payable

**1,892** 4,072

Accrued expenses

**11,904** 15,356

Accrued low-level waste expenses

**4,171** 2,858

Accrued interest

**1,333** 1,116

Accrued taxes

**1,670** 1,767

Other accrued liabilities

**4,088** 3,946

**Total current liabilities**

**25,058** 29,115

### Deferred credits:

Accrued decommissioning costs (NOTE 3)

**179,516** 155,310

Accumulated deferred income taxes

**52,535** 55,763

Net regulatory tax liability (NOTE 11)

**7,998** 8,351

Accumulated deferred investment tax credits

**6,047** 6,581

Accrued DOE enrichment site decontamination  
and decommissioning fee (NOTE 5)

**11,367** 12,092

Accrued low-level waste facility expenses (NOTE 16)

**24,044** 23,935

Accrued employee benefits

**5,926** 6,622

**Total deferred credits**

**287,433** 268,654

**\$ 531,293** \$ 512,142

See accompanying notes to financial statements.

Years ended December 31,

	1995	1994	1993
	(Dollars in thousands)		
<b>Cash flows from operating activities</b>			
Net income	\$ 6,790	\$ 6,588	\$ 7,794
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of nuclear fuel	14,874	17,581	15,410
Depreciation and amortization	14,445	14,404	13,707
Decommissioning expense	12,670	11,860	11,315
Deferred tax expense	(5,500)	(3,225)	(979)
Amortization of deferred investment tax credits	(534)	(431)	(577)
Nuclear fuel disposal fee interest accrual	4,958	3,367	2,450
Interest and dividends on disposal fee defeasance trust	(3,752)	(2,265)	(1,402)
Decrease (Increase) in accounts receivable	1,836	(1,457)	1,365
(Increase) Decrease in prepaid expenses	(367)	(804)	432
Decrease (Increase) in materials and supplies inventory	397	(84)	(219)
(Decrease) Increase in accounts payable and accrued liabilities	(4,177)	2,628	3,729
Increase (Decrease) in interest and taxes payable	120	1,042	(605)
Other	1,385	2,086	(111)
Total adjustments	36,355	44,702	44,515
Net cash provided by operating activities	43,145	51,290	52,309
<b>Cash flows from investing activities</b>			
Electric plant additions and retirements	(2,191)	(2,086)	(7,229)
Nuclear fuel additions	90	(20,083)	(18,303)
Payments to decommissioning trust	(12,818)	(11,925)	(11,250)
Payments to spent fuel disposal fee defeasance trust	(8,190)	(8,190)	(8,190)
Net cash used in investing activities	(23,109)	(42,284)	(44,972)
<b>Cash flows from financing activities</b>			
Dividend payments	(7,320)	(6,279)	(7,905)
Issuance of Series I first mortgage bonds, net	—	—	75,125
Retirement of first mortgage bonds including redemption costs	—	—	(74,629)
Payments of long-term obligations	(19,968)	(133,945)	(137,911)
Borrowings under long-term agreements	19,968	130,154	138,410
Net cash used in financing activities	(7,320)	(10,070)	(6,910)
Net increase (decrease) in cash and cash equivalents	12,716	(1,064)	427
Cash and cash equivalents at beginning of year	1,285	2,349	1,922
Cash and cash equivalents at end of year	\$ 14,001	\$ 1,285	\$ 2,349

See accompanying 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 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 has a gross maximum dependable capacity of approximately 535 megawatts and is licensed by the Nuclear Regulatory Commission to operate until 2012.

**NOTE 2. Summary of Significant Accounting Policies**

(a) Regulations and Operations

Vermont Yankee Nuclear Power Corporation 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. 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 of its Plant, plus an allowed return on equity (12.25% through July 31, 1994 and 11.0% thereafter). 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 3.83%, 3.84%, and 3.74% for the years 1995, 1994 and 1993, respectively.

The cost of additions, including replacements and betterments of units of property are 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 the accumulated provision for depreciation.

*"... the first  
company in the  
world to suc-  
cessfully use a  
personal computer  
to run a  
control room  
simulator"*

(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.

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 NRC operating license in conformity with rates authorized by the FERC.

(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 NRC operating license.

(e) Long-term Funds

Effective January 1, 1994, the Company began accounting for its investments in long-term funds at fair value as required by Statement of Financial Accounting Standard 115. See NOTE 6 for further discussion of this change in 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.

(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 will be recovered in cash over the Plant's service life through higher revenues associated with higher depreciation and amortization expense.

AFUDC was capitalized at overall effective rates of 6.01%, 5.42%, and 5.92% for 1995, 1994 and 1993, 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 11 for a further discussion of the accounting for income taxes.

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

Certain information in the 1994 and 1993 financial statements has been reclassified to conform with the 1995 presentation.

(l) Earnings per Common Share

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.

(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 based on studies by an independent engineering firm that assumes that decommissioning will be accomplished by the prompt removal and dismantling method (DECON). This method requires that radioactive materials be removed from the plant site and that all buildings and facilities be dismantled immediately after shutdown. Studies estimate that approximately seven years would be required to dismantle the Plant at shutdown, remove non-fuel wastes and restore the site. Studies also assume that spent fuel will be stored on-site in a dry fuel storage facility until 2025. The Company implemented rate changes effective January 1, 1995 based on a settlement agreement with the FERC which allowed \$312.7 million, in 1993 dollars, as the estimated decommissioning cost (NOTE 4). This allowed amount is used to compute the Company's liability and billings to the Sponsors. Based on an assumed cost escalation rate of 5.4% per annum and an expiration of the Plant's NRC operating license in 2012, the estimated current cost of decommissioning

sioning is \$347.4 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 \$179.5 million. On December 31, 1995, the fair market value of the Decommissioning Trust was \$141.3 million.

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 fund assets are also deferred. These deferred costs will be amortized to expense as they are funded over the remaining life of the NRC 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). At December 31, 1995, funds held by the Trust were invested in corporate bonds, government securities and equities. As discussed in NOTE 4, in connection with the rate changes effective January 1, 1995, the Company changed its decommissioning investment strategy as authorized by the FERC. Interest earned by the Decommissioning Trust assets is recorded in other income and deductions, with an equal and offsetting amount representing the current period decommissioning cost funded by such earnings reflected as decommissioning expense.

The staff of the Securities and Exchange Commission has questioned certain of the current accounting practices of the electric utility industry, including the Company, 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") has agreed to review the accounting for removal costs, including decommissioning. The FASB has not yet reached any conclusion on this matter. However, the Company does not believe that any changes to the Company's current accounting practices for decommissioning costs, if required, would have an adverse effect on the results of operations due to its current and future ability to recover decommissioning costs from sponsors.

#### ***NOTE 4. FERC Rate Case Matters***

On June 15, 1994, the Company filed an application with the FERC to change its wholesale rates based on a settlement reached in advance with interested parties. The primary changes to the Company's wholesale rates included (1) an increase in the decommissioning cost estimates, a revised decommissioning funding schedule, and a revised decommissioning investment strategy, (2) a reduction in the rate of return on common equity from 12.25% to 11.0%, and (3) various billing changes necessary to reflect the implementation of the requirements of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, to deduct certain reserves from the calculation of net unit investment under

the Power Contracts, and to include in rates certain payments that the Company will be required to make to obtain the use of a low-level waste disposal facility (NOTE 16). On September 2, 1994, the Company received FERC approval. The rate decrease related to the reduction in the rate of return on common equity went into effect on August 1, 1994. All other rate changes were effective on January 1, 1995.

The revised estimate of decommissioning costs approved by FERC is \$312.7 million, in 1993 dollars, and the revised schedule of future annual decommissioning fund collections reflects an annual decommissioning cost escalation rate of 5.4% and a financial inflation rate of 4%. The approved investment strategy for decommissioning funds under which those funds will be invested uses a balanced approach subject to strict guidelines which cover permissible and impermissible investments, diversification criteria, and quality standards. Under the approved investment strategy, no more than 30% of the Decommissioning Trust funds can be invested in common or preferred equities and no more than 35% in corporate bonds.

#### **NOTE 5. Other Deferred Charges and Credits**

In October, 1992, Congress passed the Energy Policy Act of 1992 which requires, among other things, that certain utilities help pay for the cleanup of the DOE's enrichment facilities over a 15-year period. The Company's annual fee is estimated based on its historical share of enrichment services provided by the DOE and is indexed to inflation. These fees will not be adjusted for future business as the DOE's future cost of sales will include 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 1995, the Company paid the fourth of the 15 annual charges. As of December 31, 1995, the Company has recognized a current accrued liability of \$1.1 million for the fee payment expected to be made in 1996, a deferred credit of \$11.4 million for the expected 10 annual fee payments that are due subsequent to 1996 and a corresponding regulatory asset of \$13.3 million which represents the total amount includable in future billings to the purchasers 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 (NOTE 16). In 1994, the Company recorded a deferred credit of \$23.9 million to recognize the \$27.5 million compact fund requirements less amounts on deposit with the Vermont Low Level Radioactive Waste Authority ("VLLR-WA") and a corresponding deferred debit of \$26.5 million which represents the total amount to be included in future billings to the purchasers under the Power Contracts. These amounts have not changed during 1995. On June 30, 1994, the VLLR-WA was eliminated and its responsibilities transferred to the Vermont Department of Natural Resources. Ratification of the compact is still pending in the U.S. Congress.

**NOTE 6. Long-term Funds**

Under generally accepted accounting standards, 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 securities. 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 has two irrevocable trusts which are invested in debt and equity securities. The Company has classified the Decommissioning Trust as available-for-sale securities. This trust had a net unrealized gain of \$6,735,000 as of December 31, 1995 which reduced deferred decommissioning costs because the company will not realize this gain; rather, the gain will be used to reduce future billings to customers. The Spent Fuel Disposal Fee Defeasance Trust is classified entirely as held-to-maturity as the Company has the positive intent and ability to hold all securities in this trust to maturity. These securities require no adjustment to market as of December 31, 1995.

The book value and estimated market value of long-term fund investment securities at December 31, is as follows (Dollars in thousands):

	1995		1994	
	Book value	Market value	Book value	Market value
<b>Decommissioning Trust</b>				
U.S. Treasury obligations	\$ 67,220	\$ 69,787	\$ 29,296	\$ 28,836
Municipal obligations	30,118	32,283	83,530	81,986
Corporate bonds	21,093	21,285	—	—
Stocks	12,345	14,156	—	—
Accrued interest and money market funds	3,819	3,819	2,434	2,434
	<b>134,595</b>	<b>141,330</b>	115,260	113,256
<b>Spent Fuel Disposal Fee Defeasance Trust</b>				
Short-term investments	65,235	65,235	53,176	53,176
Corporate bonds and notes	—	—	—	—
Accrued interest and money market funds	645	645	763	763
	<b>65,880</b>	<b>65,880</b>	53,939	53,939
<b>Total long-term investments</b>	<b>\$ 200,475</b>	<b>\$ 207,210</b>	\$ 169,199	\$ 167,195

Pursuant to the Company's arrangements with its customers, the difference between market value and book value of the Decommissioning Trust has been recorded as a decrease to deferred decommissioning costs. The Company's contracts with its customers 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 customers.



At December 31, 1995 and 1994, gross unrealized gains and losses pertaining to the long-term investment securities in the Decommissioning Trust were as follows (Dollars in thousands):

	1995	1994
Unrealized gains on U.S. Treasury obligations	\$ 2,578	\$ 48
Unrealized losses on U.S. Treasury obligations	(11)	(508)
Unrealized gains on municipal obligations	2,167	728
Unrealized losses on municipal obligations	(2)	(2,272)
Unrealized gains on corporate bonds and notes	215	—
Unrealized losses on corporate bonds and notes	(23)	—
Unrealized gains on stocks	1,820	—
Unrealized losses on stocks	(9)	—
	<b>\$ 6,735</b>	<b>\$ (2,004)</b>

For the two years ended December 31, 1995 and 1994, gross realized gains and losses pertaining to the long-term investment securities were as follows (Dollars in thousands):

	1995		1994	
	Total Sale Proceeds	Gross Realized Gain	Total Sale Proceeds	Gross Realized Loss
Decommissioning	\$158,925,904	\$2,703,333	\$35,826,252	\$210,900
Spent fuel disposal fee defeasance	—	—	\$3,200,000	\$7,500
				\$(2,000)

Maturities of short-term obligations, bonds and notes (face amount) at December 31, 1995 and 1994 are as follows (Dollars in thousands):

	1995	1995	1994	1994
	Decommissioning Trust	Disposal Fee Defeasance Trust	Decommissioning Trust	Disposal Fee Defeasance Trust
Within one year	\$ 2,004	\$ 65,891	\$ 25,335	\$ 52,237
One to five years	51,683	—	42,069	—
Five to ten years	46,410	—	30,210	—
Over ten years	14,990	—	13,638	—
	<b>\$ 115,087</b>	<b>\$ 65,891</b>	<b>\$ 111,252</b>	<b>\$ 52,237</b>

"Vermont  
Yankee was  
able to achieve  
its highest one  
month output  
ever — 389.3  
million kilowatt  
hours"

**NOTE 7. Long-term Obligations**

A summary of long-term obligations at December 31, 1995 and 1994 is as follows (Dollars in thousands):

	1995	1994
First mortgage bonds: Series I — 6.48% due 2009	\$ 75,845	\$ 75,845
Total long-term obligations	\$ 75,845	\$ 75,845

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.

The Company has a \$75.0 million Eurodollar Credit Agreement that expires on December 31, 1996 subject to one optional one-year extension. The Company issued commercial paper under this agreement with weighted average interest rates of 6.08% for 1995 and 4.28% for 1994. 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.

**NOTE 8. 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):

	1995		1994	
	Cost Amount	Estimated Fair Value	Cost Amount	Estimated Fair Value
Decommissioning Trust	\$ 134,595	\$ 141,330	\$ 115,260	\$ 113,256
Spent Fuel Disposal Fee Defeasance Trust	65,880	65,880	53,939	53,939
Long-term debt	75,845	73,493	75,845	63,331
Spent fuel disposal fee and accrued interest	89,014	89,014	84,055	84,055

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 9. Spent Fuel Disposal Fee**

The Company has a contract with the DOE for the permanent disposal of spent nuclear fuel. Under the terms of this contract, in exchange for the one-time fee discussed below and a quarterly fee of 1 mill per kwh of electricity generated and sold, the DOE agrees to provide disposal services when a facility for spent nuclear fuel and other high-level radioactive waste is available, which is required by contract to be prior to January 31, 1998.

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 not later than January 1998; however, this delivery schedule is expected to be delayed significantly. It is not certain when the DOE will accept high-level radioactive waste from the Company and other owners of nuclear power plants. Extended delays or a default by the DOE would lead to consideration of costly alternatives involving serious siting and environmental issues. The contract with the DOE requires the Company to pay the DOE a one-time fee applicable to nuclear generation through April 6, 1983, of approximately \$89 million, with interest to date of payment, and a fee payable quarterly equal to one mill per kilowatt-hour of nuclear-generated and sold electricity after April 6, 1983. The Company has elected to pay the one-time fee, with interest, just prior to the first scheduled delivery of spent nuclear fuel to the DOE. The Company has primary

responsibility for the interim storage of its spent nuclear fuel. Current capability to store spent fuel at the Plant is estimated to be adequate for the next eleven years. Meeting spent fuel storage requirements beyond that period could require new and separate storage facilities, the costs for which have not been determined.

The Company, among others, is involved in legislative actions involving the DOE to establish appropriate relief mechanisms and protection for customers. The outcomes of these actions are uncertain at this time.

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. Although such amount has been collected in rates from the Sponsors, the Company has elected to defer payment of the fee to the DOE as permitted by the DOE contract. The fee must be paid no later than the first delivery of spent nuclear fuel to the DOE. Interest accrues on the unpaid obligation based on the thirteen-week Treasury Bill rate and is compounded quarterly. Through 1995, the Company accumulated \$65.9 million in an irrevocable trust to be used exclusively for defeasing this obligation (\$89.0 million including accrued interest) at some future date, provided the DOE complies with the terms of the aforementioned contract.

#### **NOTE 10. Short-term Borrowings**

The Company had lines of credit from various banks totaling \$6.3 million at December 31, 1995 and 1994. The maximum amount of short-term borrowings outstanding at any month-end during 1995, 1994 and 1993 was approximately \$0.0 million, \$0.2 million and \$0.2 million, respectively. The average daily amount of short-term borrowings outstanding was approximately \$0.1 million for 1995, \$0.2 million for 1994, and \$0.3 million for 1993 with weighted average interest rates of 8.48% in 1995, 6.60% in 1994, and 5.75% in 1993. There were no amounts outstanding under these lines of credit as of December 31, 1995 and 1994.

#### **NOTE 11. 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 customers of \$8.0 million as of December 31, 1995 and \$8.4 million as of December 31, 1994 representing taxes collected from customers in excess of amounts that would have been recorded under the liability method. These amounts will be systematically returned to customers by reducing future power bills.

The components of income tax expense for the years ended December 31, 1995, 1994 and 1993 are as follows (Dollars in thousands):

	1995	1994	1993
<b>Income tax expense</b>			
Current federal income tax	\$ 6,684	\$ 5,111	\$ 4,236
Deferred federal income tax	(4,846)	(2,839)	(1,059)
Current state income tax	1,710	1,376	1,097
Deferred state income tax	(654)	(386)	80
Investment tax credit adjustment	(534)	(432)	(577)
	<b>2,360</b>	<b>2,830</b>	<b>3,777</b>
<b>Income tax benefit</b>			
Current federal income tax	1,376	784	496
Current state income tax	353	202	127
	<b>1,729</b>	<b>986</b>	<b>623</b>
Total income taxes	<b>\$ 4,089</b>	<b>\$ 3,816</b>	<b>\$ 4,400</b>

The Company's effective income tax rates differed from the federal statutory rate of 35% for the years ended December 31, 1995, 1994 and 1993 are as follows:

	1995	1994	1993
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	8.4	7.4	6.9
Investment credit	(4.9)	(4.2)	(4.7)
Book depreciation in excess of tax basis	2.9	2.3	2.0
Flowback of excess deferred taxes	(4.0)	(3.5)	(3.6)
Other	0.2	(0.3)	0.5
	<b>37.6%</b>	<b>36.7%</b>	<b>36.1%</b>

The significant components of deferred tax expense for the years ended December 31, 1995, 1994 and 1993 are as follows (Dollars in thousands):

	1995	1994	1993
Decommissioning expense not currently deductible	\$ (1,643)	\$ (432)	\$ (351)
Tax depreciation over (under) financial statement depreciation	(2,020)	(1,566)	(978)
Tax fuel amortization over (under) financial statement amortization	(994)	(19)	(255)
Tax loss on reacquisition of debt over (under) financial statement expense	(73)	(99)	1,887
Pension expense deduction over (under) financial statement expense	237	(397)	(167)
Postemployment benefits deduction over (under) financial statement expense	(269)	77	67
Materials and supplies deduction over (under) financial statement expense	(36)	(325)	(335)
Low-level waste deduction over (under) financial statement expense	(489)	(211)	(396)
Flowback of excess deferred taxes	(432)	(359)	(432)
Other, net	219	106	191
	<b>\$ (5,500)</b>	<b>\$ (3,225)</b>	<b>\$ (979)</b>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994 are presented below (Dollars in thousands):

	1995	1994
<b>Deferred tax assets</b>		
Accumulated amortization of final nuclear core	\$ 3,431	\$ 3,168
Nuclear decommissioning liability	5,204	3,309
Regulatory liabilities	5,273	5,619
Accumulated deferred investment credit	2,441	2,656
Accumulated amortization of materials and supplies	2,693	2,657
Pension and retiree benefit liabilities	2,705	2,673
Accrued low-level waste disposal costs	1,728	1,162
Other	895	880
Total gross deferred tax assets	24,370	22,124
Less valuation allowance	(1,711)	(1,384)
Net deferred tax assets	22,659	20,740
<b>Deferred tax liabilities</b>		
Plant and equipment	(47,721)	(50,805)
Other	(4,814)	(4,958)
Total gross deferred tax liabilities	(52,535)	(55,763)
Net deferred tax liability	\$ (29,876)	\$ (35,023)

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

### **NOTE 12. Supplemental Cash Flow Information**

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

Amount paid during the year for	1995	1994	1993
Interest (net of amount capitalized)	\$ 5,184	\$ 5,108	\$ 7,632
Income taxes	\$ 7,981	\$ 7,525	\$ 7,070

### **NOTE 13. Pension Plans**

The Company has two noncontributory pension plans covering substantially all of its employees. Benefits are based on age, years of service and the level of compensation during the final five years of employment. The Company's funding policy is to contribute each year, the net periodic pension cost for that year. However, the contribution for any year will not be less than the minimum required contribution under federal law or greater than the maximum tax deductible amount.

The aggregate funded status of the Company's pension plans as of December 31, 1995 and 1994 is as follows (Dollars in thousands):

	1995	1994
Vested benefits	\$ 11,070	\$ 8,718
Nonvested benefits	1,498	1,136
Accumulated benefit obligation	12,568	9,854
Additional benefits related to future compensation levels	6,059	5,126
Projected benefit obligation	18,627	14,980
Fair value of plan assets, invested primarily in equities and bonds	22,199	16,559
Projected benefit obligation in excess (less than) of plan assets	\$ (3,572)	\$ (1,579)

Certain changes in the items shown above are not recognized as they occur, but are amortized systematically over subsequent periods. Unrecognized amounts still to be amortized and the amount that is included in the balance sheet as of December 31, 1995 and 1994 appear below (Dollars in thousands):

	1995	1994
Unrecognized net transition obligation	\$ 876	\$ 936
Unrecognized net gain	(10,102)	(8,559)
Pension liability included in balance sheet	4,869	5,511
Unrecognized prior service costs	785	533
Projected benefit obligation in excess (less than) of plan assets	\$ (3,572)	\$ (1,579)

The increase in the projected benefit obligation from \$15 million in 1994 to \$18.6 million in 1995 is primarily the result of changed plan assumptions.

The following are pension plan assumptions as of December 31, 1995 and 1994:

	1995	1994
Discount rate	7.25%	8.0%
Compensation scale	4.0%	4.5%
Expected return on assets	8.5%	8.5%

Net pension expense for the years ending December 31, included the following components (Dollars in thousands):

	1995	1994	1993
Service cost - benefits earned	\$ 953	\$ 1,282	\$ 1,141
Interest cost on projected benefit obligation	1,275	1,361	1,288
Actual (return) loss on plan assets	(4,868)	(1,530)	(1,792)
Net amortization and deferral	3,120	186	631
Net pension expense	\$ 480	\$ 1,299	\$ 1,268

**NOTE 14. Postretirement Benefits Other Than Pensions**

The Company uses accrual accounting for postretirement benefits other than pensions ("PBOP" or "PBOPs"). The Company accrues PBOP costs determined in accordance with appropriate actuarial assumptions and includes this amount in its monthly power billings to Sponsors. The Company is funding this liability by placing monies in separate trusts. In order to maximize the deductible contributions permitted under IRS regulations, the Company amended its pension plans and established separate VEBA trusts for management and union employees.

Prior to the effective date of the Company's new rates on January 1, 1995, a portion of its PBOPs were collected from customers through inclusion of such costs in decommissioning estimates and related customer billings. The total amount of PBOP costs included in decommissioning billings were \$2.7 million. In the Company's rate order, effective January 1, 1995, FERC provided that the \$2.7 million amount in the decommissioning fund for PBOPs will remain in the decommissioning fund and reduce future decommissioning funding requirements. FERC has further provided that the cost for PBOPs is fully recoverable from customers.

The following table presents the plan's funded status reconciled with amounts recognized in the Company's balance sheets as of December 31, 1995 and 1994 (Dollars in thousands):

Accumulated postretirement benefit obligations	1995	1994
Retirees	\$ 1,454	\$ 1,187
Fully eligible active plan participants	1,225	1,100
Other active participants	8,911	8,209
Total accumulated postretirement benefit obligation	11,590	10,496
Fair value of plan assets, invested primarily in short-term investments	5,334	2,891
Accumulated postretirement benefit obligation in excess of plan assets	\$ 6,256	\$ 7,605
Unrecognized net transition obligation	\$ 6,617	\$ 7,030
Additional unrecognized transition obligation	2,488	2,563
Unrecognized net gain	(2,849)	(1,988)
Accumulated postretirement benefit obligation in excess of plan assets	\$ 6,256	\$ 7,605



The net periodic postretirement benefit cost for 1995 and 1994 includes the following components (Dollars in thousands):

	1995	1994
Service cost	\$ 755	\$ 732
Interest cost	763	691
Actual return on plan assets	(859)	84
Net amortization and deferral	965	54
Net periodic postretirement benefit cost	\$ 1,624	\$ 1,561

For measurement purposes, a 12% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 1995; the rate was assumed to decrease gradually to 6% by the year 2001 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1995 by \$2.4 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 1995 by \$0.3 million. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7% for the years then ended December 31, 1995, and 1994.

**NOTE 15. Lease Commitments**

The Company leases equipment and systems under noncancelable operating leases. Charges against income for leases were approximately \$4.9 million in 1995, \$3.1 million in 1994, and \$3.7 million in 1993.

Minimum future leases as of December 31, 1995 are as follows (Dollars in thousands):

Year	Estimated Lease Cost
1996	\$ 7,245
1997	7,283
1998	7,262
1999	6,742
2000	4,602
Thereafter	20,709

Included in the above lease payments is the cost of a low pressure turbine constructed by General Electric Corporation valued at approximately \$30.8 million including installation costs when installed in 1995. Under the lease agreement, the Company will make 120 monthly payments of approximately \$383,000 each commencing on July 1, 1995.

*"Recognized in 1995 by the National Safety Council as the nation's third best utility of its size for industrial safety"*

## **NOTE 16. Commitments and Contingencies**

### *Low-level Waste*

All efforts to site a low-level radioactive waste facility in Vermont ended during 1994. The Vermont Low Level Radioactive Waste Authority ("VLLRWA") was eliminated and its responsibilities transferred to the Vermont Department of Natural Resources.

During 1994, Vermont joined with the states of Texas and Maine in a tri-state compact to site a facility in Texas for the disposal of low-level radioactive waste. Currently, each participating state has obtained approval from its respective legislature. The compact is expected to be ratified by the U.S. Congress during the 1996 session. Although ratification has been delayed longer than originally anticipated, Vermont Yankee will begin sending its waste to Texas during 1998, if such approval is received and facility development proceeds on schedule. The Company has stored low-level radioactive waste on its plant site since July 1, 1994. The Company has the capacity to store low-level waste on site until 1999. Management anticipates that the Texas facility will open prior to that date or that other arrangements for disposal can be made. The accompanying financial statements include an estimate of the cost to dispose of waste currently stored on site. This 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 customers and would not have a material impact on the Company.

Under the proposed compact, Vermont would pay the State of Texas \$25 million (\$12.5 million when the U.S. Congress ratifies the compact and \$12.5 million when the facility opens). In addition, Vermont must pay \$2.5 million (\$1.25 million when Congress ratifies the compact and \$1.25 million when the facility is licensed) for community assistance projects in Hudspeth County, Texas, where the facility will be located. Vermont would also pay one-third of the Texas Low Level Radioactive Waste Disposal Compact Commission's expenses until the facility opens. The disposal fees for generators in Vermont and Maine would then be set at a level that is the same as charged generators in Texas. During 1994, the Company received approval from FERC to recover the cost of this compact from sponsors over the remaining license life of the Plant.

During 1994, the Company recorded a deferred credit of \$23.9 million to recognize the \$27.5 million compact fund requirements less the remaining fund balance from the VLLRWA and a corresponding deferred debit of \$26.5 million which represents the total amount to be included in future billings to the purchasers under the Power Contracts. These amounts have not changed during 1995.

#### Nuclear Fuel

The Company has approximately \$123.8 million of "requirements based" purchase contracts for nuclear fuel to meet substantially all of its power production requirements through 2002. Under these contracts, any disruption of operating activity would allow the Company to cancel or postpone deliveries until actually needed.

#### Insurance

The Price-Anderson Act currently limits public liability from a single incident at a nuclear power plant to \$8.9 billion. Any damages beyond \$8.9 billion are indemnified under an agreement with the NRC, 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 \$8.7 billion per incident by assessing each of the 110 reactor units that are currently subject to the Program in the United States a total of \$79.3 million, limited to a maximum assessment of \$10 million per incident per nuclear unit in any one year. The maximum assessment is expected to be adjusted at least every five years to reflect inflationary changes.

The above insurance covers all workers employed at nuclear facilities prior to January 1, 1988, for bodily injury claims. The Company has 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's contingent liability for a retrospective premium on the Master Worker policy as of December 1995 is \$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 II and NEIL III) 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 II losses arising during the current policy year is \$14.0 million and the NEIL III maximum retroactive assessment is \$7.0 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.

<b>Frederic E. Greenman</b>	<b>Vice President and General Counsel</b> , <i>New England Power Company, Westborough, MA</i>
<b>R. Edward Hanson</b>	<b>Vice President, Production Operations</b> , <i>Central Maine Power Company, Augusta, ME</i> (1)
<b>Douglas G. Hyde</b>	<b>President and Chief Executive Officer</b> , <i>Green Mountain Power Corporation, South Burlington, VT</i>
<b>John B. Keane</b>	<b>Vice President and Treasurer</b> , <i>Northeast Utilities, Hartford, CT</i>
<b>F. Ray Keyser, JR., Esq.</b>	<b>Attorney</b> , <i>Keyser, Crowley, Meub, Layden, Kulig and Sullivan, P.C.</i> ; <b>Chairman</b> , <i>Central Vermont Public Service Corporation, Rutland, VT</i>
<b>Kevin A. Kirby</b>	<b>Vice President, Power Supply</b> , <i>Eastern Utilities Associates, Boston, MA</i> (2)
<b>John W. Newsham</b>	<b>Vice President</b> , <i>New England Electric System, Westborough, MA</i> (3)
<b>Donald G. Pardus</b>	<b>Chairman and Chief Executive Officer</b> , <i>Eastern Utilities Associates, Boston, MA</i> (4)
<b>James S. Robinson</b>	<b>Manager of Nuclear Investments and Administration</b> , <i>New England Electric System, Westborough, MA</i> (5)
<b>Stephen E. Scace</b>	<b>Vice President, Nuclear Operations Services</b> , <i>Northeast Utilities, Hartford, CT</i>
<b>A Norman Terreri</b>	<b>Senior Vice President and Chief Operating Officer</b> , <i>Green Mountain Power Corporation, South Burlington, VT</i>
<b>Thomas C. Webb</b>	<b>Chairman</b> , <i>Vermont Yankee Nuclear Power Corporation, Brattleboro, VT</i> ; <b>President and Chief Executive Officer</b> , <i>Central Vermont Public Service Corporation, Rutland, VT</i> (6)
<b>J. Gary Weigand</b>	<b>President and Chief Executive Officer</b> , <i>Vermont Yankee Nuclear Power Corporation, Brattleboro, VT</i>
<b>F. Allen Wiley</b>	<b>Director of Hydro Operations</b> , <i>Central Maine Power Company, Augusta, ME</i> (7)
<b>Russell D. Wright</b>	<b>President and Chief Operating Officer</b> , <i>Commonwealth Electric Company, Wareham, MA</i>
<b>Robert H. Young</b>	<b>Chairman</b> , <i>Vermont Yankee Nuclear Power Corporation, Brattleboro, VT</i> ; <b>President and Chief Executive Officer</b> , <i>Central Vermont Public Service Corporation, Rutland, VT</i> (8)

(1) Resigned February 7, 1995

(2) Elected May 10, 1995

(3) Resigned November 8, 1995, effective January 1, 1996

(4) Resigned May 10, 1995

(5) Elected November 8, 1995, effective January 1, 1996

(6) Resigned as Chairman November 8, 1995

(7) Elected May 10, 1995

(8) Elected Chairman November 8, 1995

<b>Robert H. Young</b>	<b>Chairman (1)</b>
<b>Thomas C. Webb</b>	<b>Chairman (2)</b>
<b>J. Gary Weigand</b>	<b>President and Chief Executive Officer</b>
<b>Donald A. Reid</b>	<b>Vice President, Operations</b>
<b>Bruce W. Wiggett</b>	<b>Vice President, Finance and Treasurer</b>
<b>James P. Pelletier</b>	<b>Vice President, Engineering</b>
<b>Jay K. Thayer</b>	<b>Vice President, Engineering (3)</b>
<b>John P. O'Connor</b>	<b>Secretary</b>
<b>Thomas F. Schimelpfenig</b>	<b>Manager of Financial Planning, Assistant Treasurer (4)</b>
<b>Thomas W. Bennet, JR.</b>	<b>Manager of Financial Planning, Assistant Treasurer (5)</b>
<b>John A. Ritsher, Esq.</b>	<b>Assistant Secretary</b>

(1) Elected November 8, 1995

(2) Resigned November 8, 1995

(3) Elected November 8, 1995

(4) Elected April 1, 1995

(5) Resigned March 31, 1995

