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THE STATE OF SOUTH CAROLINA
In The Court of Appeals

APPEAL FROM THE ADMINISTRATIVE LAW COURT

Ralph K. Anderson III, Administrative Law Judge

Case No. 10-ALJ-17-0270-CC

Duke Energy Corporation.....Appellant,

v.

South Carolina Department of Revenue.....Respondent.

RECORD ON APPEAL

VOLUME XIV

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DUKE POWER COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	<u>December 31</u>	
	<u>1983</u>	<u>1982</u>
	(Dollars in thousands)	
CAPITALIZATION		
(See Statements of Capitalization)		
Common stock equity	\$2,616,340	\$2,388,592
Preferred and preference stocks without sinking fund requirements ...	422,148	424,035
Preferred stocks with sinking fund requirements	295,053	304,026
Long-term debt	2,745,889	2,712,372
Total capitalization	<u>6,079,430</u>	<u>5,829,025</u>
CURRENT LIABILITIES		
Accounts payable	116,297	87,664
Interest accrued	89,973	85,453
Taxes accrued	56,063	61,037
Other	26,075	25,360
Total	<u>288,408</u>	<u>259,514</u>
Notes payable for construction (Note 6)	—	57,210
Current maturities of long-term debt and preferred stock	55,993	60,851
Total current liabilities	<u>344,401</u>	<u>377,575</u>
ACCUMULATED DEFERRED INCOME TAXES (Notes 1 and 12)	<u>605,399</u>	<u>486,834</u>
DEFERRED CREDITS:		
Investment tax credit (Notes 1 and 12)	313,139	349,327
Other	37,076	15,019
Total deferred credits	<u>350,215</u>	<u>364,346</u>
COMMITMENTS AND CONTINGENCIES (Notes 3 and 13)		
.....		
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$7,379,445</u>	<u>\$7,057,780</u>

See Notes to Financial Statements.

DUKE POWER COMPANY
STATEMENTS OF CAPITALIZATION
AND RETAINED EARNINGS

CAPITALIZATION

	December 31	
	1983	1982
	(Dollars in thousands)	
COMMON STOCK EQUITY (Notes 4 and 7)		
Common stock, no par, 150,000,000 shares authorized; 99,633,699 and 95,948,783 shares outstanding for 1983 and 1982, respectively	\$1,820,828	\$1,734,611
Retained earnings	795,512	653,981
Total common stock equity	<u>2,616,340</u>	<u>2,388,592</u>
PREFERRED AND PREFERENCE STOCKS WITHOUT SINKING FUND REQUIREMENTS (Note 8)		
Preferred stock	415,000	415,000
Preference stock	7,148	9,035
Total preferred and preference stocks without sinking fund requirements	<u>422,148</u>	<u>424,035</u>
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS (Note 9)	295,053	304,026
LONG-TERM DEBT (Note 10)		
First and refunding mortgage bonds	2,511,370	2,474,598
Promissory note due subsidiary, 16½%—due 1989	58,725	58,725
Term note, floating rate—due 1987	21,000	21,000
Term note, 9.025%—due 1985	4,000	6,000
Pollution control obligations, 75% of prime rate—due 1983	—	2,500
Capitalized leases	93,937	96,738
Nuclear fuel trusts	125,000	125,000
Unamortized debt discount and premium, net	(18,550)	(15,338)
Current maturities of long-term debt	(49,593)	(56,851)
Total long-term debt	<u>2,745,889</u>	<u>2,712,372</u>
TOTAL CAPITALIZATION	<u>\$6,079,430</u>	<u>\$5,829,025</u>

RETAINED EARNINGS

	Year Ended December 31		
	1983	1982	1981
	(Dollars in thousands)		
BALANCE—Beginning of year	\$ 653,981	\$529,842	\$433,245
ADD—Net income	431,277	398,181	336,251
Total	<u>1,085,258</u>	<u>928,023</u>	<u>769,496</u>
DEDUCT			
Dividends			
Common stock	226,964	210,206	181,703
Preferred and preference stocks	62,600	62,164	57,895
Capital stock expense	182	1,672	56
Total deductions	<u>289,746</u>	<u>274,042</u>	<u>239,654</u>
BALANCE—End of year	<u>\$ 795,512</u>	<u>\$653,981</u>	<u>\$529,842</u>

See Notes to Financial Statements.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. *Additions to Electric Plant.* The Company capitalizes all construction-related direct labor and materials, as well as indirect construction costs, including general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized; the cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. *Allowance for Funds Used During Construction (ADC).* ADC is an accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are capitalized in the same manner as construction labor and material costs. ADC, a non-cash, non-operating item, is recognized as a cost of "Electric Plant" with offsetting credits to "Other Income" and "Interest Deductions." Under established regulatory practices, a utility is permitted to capitalize ADC with respect to construction work in progress (CWIP) not included in rate base, but is not permitted to do so with respect to CWIP included in rate base. After construction is completed, a utility is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation. CWIP included in the Company's North Carolina rate base and excluded for purposes of capitalizing ADC was \$282 million and \$276 million as of December 31, 1983 and 1982, respectively.

ADC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.45 percent, 9.38 percent and 8.67 percent for 1983, 1982 and 1981, respectively.

C. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.47 percent for 1983 and 1982 and 3.44 percent for 1981. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a 4.0 percent rate, which includes an allowance for decommissioning costs.

Provisions for amortization of nuclear fuel include estimates for disposal costs. Such provisions, which are included in "Fuel used in electric generation," are recorded using the unit-of-production method. Under the provisions of the Nuclear Waste Policy Act of 1982, the Company began making payments in 1983 to fund development and implementation of nuclear waste repositories to be constructed and maintained by an agency of the United States Government.

D. *Subsidiaries.* The Company accounts for investments in its subsidiaries, all of which are wholly-owned, using the equity method. Retained earnings include \$55,902,347 of undistributed earnings of subsidiaries as of December 31, 1983. Dividends received from subsidiaries were \$2,250,000 in 1983, \$1,600,000 in 1982 and \$981,302 in 1981.

The assets of Eastover Mining Company and the related land leased from Eastover Land Company were sold in 1983. A provision for loss of \$30 million was recorded in 1982 (after the effect of income tax benefits of \$28 million).

E. *Income Taxes.* The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income or loss.

Income taxes are allocated to electric operating expense and to non-electric operations under "Other Income." The "Income taxes—credit" classified under "Other Income" results from tax deductions of interest costs relating to investments in non-utility properties, mainly canceled construction projects and CWIP not included in rate base.

Deferred income taxes are provided for timing differences between book and tax income, principally resulting from loss on canceled construction projects, accelerated tax depreciation, capitalized taxes and employee benefits, and nuclear fuel disposal costs. Investment tax credit is deferred and amortized over the useful lives of the related properties. At December 31, 1983, the Company had unused investment tax credit of approximately \$39 million.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

F. *Fuel Cost Adjustment Procedures.* Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions with provisions for changing such costs in base rates. These jurisdictions allow the Company to reflect in revenues the difference between actual fuel costs incurred and fuel costs recovered through base rates. Fuel costs in base rates in the North Carolina retail jurisdiction are reviewed during general rate case proceedings. Also, an annual fuel hearing to review such costs in base rates is provided.

2. Rate Matters

The North Carolina Utilities Commission and The Public Service Commission of South Carolina must approve the Company's rates for retail sales within the respective states. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales under its wholesale rate schedules. The following table sets forth, as filed, information concerning all rate increases requested or implemented by the Company since January 1, 1981. The revenues shown (in millions of dollars) are annualized on the basis of the filing test year.

Jurisdiction and Date Filed	Requested Revenues	Revenues	% of Request	Approved % of Increase Over Previous Revenues	Rate Order Effective	End of 12-Month Test Period
N. C. Retail						
March 1981	\$211.0	\$166.4	78.9	14.99	December 1981	December 31, 1980
March 1982	197.0	61.7	31.3	4.38	November 1982	December 31, 1981
February 1983	112.9	76.2	67.5	5.18	September 1983	September 30, 1982
November 1983	212.8	—	—	—	Pending	June 30, 1983
S. C. Retail						
December 1980	103.7	57.0	54.9	13.0	January 1982	December 31, 1980
February 1982	99.4	40.7	40.9	7.1	March 1983	June 30, 1982
September 1983	136.0	—	—	—	Pending	April 30, 1983
FERC Wholesale*						
June 1981	46.9	30.7	65.5	11.9	August 1982	September 30, 1982
August 1982	44.1	26.0	59.0	8.7	June 1983	December 31, 1983
December 1983	12.7	—	—	—	Pending	December 31, 1984

* FERC wholesale filings beginning December 1983 do not include certain municipalities and cooperatives that in prior years purchased interests in the Catawba Nuclear Station. Sales to these municipalities and cooperatives previously represented a majority of the Company's wholesale revenues. Effective July 1, 1983 and November 1, 1983, these rates are set through contractual agreements.

3. Canceled Construction Projects

The Board of Directors in 1983 announced the cancellation of Unit 1 of the Cherokee Nuclear Station. Cancellation of Units 2 and 3 of the Cherokee Nuclear Station and the Perkins Nuclear Station was announced in 1982. The incurred costs of Perkins and Cherokee are being amortized principally over a 10-year period beginning October 1983 in accordance with recovery permitted by the North Carolina Utilities Commission. The Public Service Commission of South Carolina has permitted recovery of costs related to Perkins and Cherokee Units 2 and 3. The Federal Energy Regulatory Commission has permitted recovery of costs related to Perkins. The Company is currently seeking recovery of the remaining incurred costs.

As of December 31, 1983 and 1982, the balance for these canceled projects, excluding land and net of amortization, was \$632,127,000 (\$414,633,000 net of income tax benefits—see Note 12) and \$77,794,000, respectively. Additional costs relating to the cancellations are not expected to be significant.

4. Extraordinary Item

On January 7, 1982, the Company issued 3,727,544 shares of common stock with a market value of \$73,489,000 in exchange for portions of several series of outstanding first and refunding mortgage bonds with a face value of \$119,902,000. The transaction resulted in a non-taxable gain of \$48,304,000, or \$0.52 per share, on the retirement of the bonds.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

5. Other Income

In February 1981, the Company sold a 75 percent interest in Unit 1 of the Catawba Nuclear Station and a 37.5 percent interest in the station's support facilities to groups of North Carolina and South Carolina rural electric cooperative customers. At closing, \$521 million and two notes totaling \$76 million were received. At December 31, 1983 and 1982, "Construction work in progress" included \$653,553,000 and \$516,951,000, respectively, representing the Company's investment in its remaining interest in Catawba.

6. Short-Term Borrowings

As of December 31, 1983, the Company had lines of credit with 67 commercial banks. These lines, plus the sale of commercial paper, were used to finance current cash requirements. The lines of credit were on a fee basis and/or a compensating balance basis, with total average balance requirements of \$1,443,000. Bank loans are either at the lending bank's commercial prime or market rate. Certain of the Company's bank line arrangements may require additional balances related to usage.

A summary of short-term borrowings and credit arrangements is as follows (dollars in thousands):

	Year Ended December 31		
	1983	1982	1981
Amount outstanding at year-end—average rates of 10.38% and 11.69% for 1982 and 1981, respectively	\$ —	\$ 57,210	\$171,350
Maximum amount outstanding during the year	\$111,210	\$189,950	\$250,398
Average amount outstanding during the year	\$ 30,951	\$ 74,148	\$ 38,829
Weighted-average interest rate for the year—computed on a daily basis	8.92%	12.38%	15.39%
Lines of credit at year-end	\$385,400	\$385,400	\$305,400

7. Common Stock and Retained Earnings

Common Stock

In 1983, 1982 and 1981, the Company received \$84,326,000, \$119,134,000 and \$35,954,000 from the issuance of 3,605,980 shares, 7,274,724 shares and 1,884,944 shares of common stock, respectively. (See Note 4.)

As of December 31, 1983, certain shares of common stock were reserved for issuance as follows:

	Shares
Stock Purchase-Savings Program for Employees	1,798,024
Conversion of Preference Stock	311,228
Dividend Reinvestment and Stock Purchase Plan	1,263,762
Customer Stock Purchase Plan	1,096,089
Employees' Stock Ownership Plan	1,855,105
Total	<u>6,324,208</u>

Retained Earnings

As of December 31, 1983, none of the Company's retained earnings were restricted with respect to the declaration or payment of dividends.

8. Preferred and Preference Stocks Without Sinking Fund Requirements

At December 31, 1983 and 1982, 10,000,000 shares of preferred stock (\$100 par value), 10,000,000 shares of preferred stock A (\$25 par value) and 1,500,000 shares of preference stock (\$100 par value) were authorized and issuable with or without sinking fund requirements.

The outstanding Preference Stock, 6¾ percent Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at \$100 par for such purpose. The conversion price is subject to certain adjustments designed to protect the

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

conversion privilege against dilution. In 1983, 1982 and 1981, 18,868 shares, 45,759 shares and 72,477 shares were converted into 78,936 shares, 191,463 shares and 303,236 shares of common stock, respectively.

Preferred and preference stocks without sinking fund requirements at December 31, 1983 and 1982 were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1983	1982
4.50% C	1964	350,000	\$ 35,000	\$ 35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
15.40% A	1982	1,600,000	40,000	40,000
6¾%, AA Convertible	1969	71,482	7,148	—
		90,350	—	9,035
Total			<u>\$422,148</u>	<u>\$424,035</u>

9. Preferred Stocks With Sinking Fund Requirements

At December 31, 1983 and 1982, 10,000,000 shares of preferred stock (\$100 par value), 10,000,000 shares of preferred stock A (\$25 par value) and 1,500,000 shares preference stock (\$100 par value) were authorized and issuable with or without sinking fund requirements.

Preferred stocks with sinking fund requirements at December 31, 1983 and 1982 were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1983	1982
7.35 % I	1973	600,000	\$ 60,000	\$ 60,000
8.20 % J	1977	460,000	46,000	—
		480,000	—	48,000
8.375% L	1978	480,000	48,000	—
		500,000	—	50,000
8.84 % N	1979	500,000	50,000	50,000
11.00 % O	1980	500,000	50,000	50,000
10.76 % A	1975	2,160,000	54,000	—
		2,220,000	—	55,500
		<u>Shares</u>		
		<u>Reacquired</u>		
Less: Preferred shares reacquired for current and future sinking fund requirements—at cost				
10.76% A		120,000	(2,899)	—
		83,998	—	(1,826)
8.84% N		32,500	(2,419)	(2,419)
11.00% O		13,750	(1,229)	(1,229)
Less: Current sinking fund requirement				
7.35 % I			(2,400)	—
8.20 % J			(2,000)	(2,000)
8.375% L			(2,000)	(2,000)
Total			<u>\$295,053</u>	<u>\$304,026</u>

The annual sinking fund requirements through 1988, net of amounts reacquired, are \$6,400,000 in 1984, \$6,400,000 in 1985, \$9,525,000 in 1986, \$9,525,000 in 1987 and \$10,900,000 in 1988, with some additional redemptions permitted at the Company's option.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 115 percent of par values, plus accumulated dividends to the redemption date.

10. Long-Term Debt

First and refunding mortgage bonds outstanding at December 31, 1983 and 1982 were as follows (dollars in thousands):

Series	Year Due	1983	1982	Series	Year Due	1983	1982
				(continued)			
3½%	1986	\$ 30,000	\$ 30,000	7¾% B	2001	\$ 38,050	\$ 38,050
14¾%	1987	50,000	50,000	7¾%	2002	78,100	78,100
12%	1990	75,000	75,000	7¾% B	2002	67,900	67,900
15¼%	1991	100,000	100,000	7¾%	2003	94,872	94,872
4½%	1992	50,000	50,000	8¼% B	2003	98,050	98,050
4¼% B	1992	50,000	50,000	9¾%	2004	95,623	95,623
11%	1994	77,750	84,500	9½%	2005	92,800	92,800
4½%	1995	40,000	40,000	8¾%	2006	96,850	96,850
5¾%	1997	72,600	72,600	8¼%	2007	119,500	119,500
6¾%	1998	68,500	68,500	9¾%	2008	120,610	120,610
7%	1999	56,075	56,075	10¼%	2009	145,050	145,050
8% B	1999	64,739	64,739	10¾% B	2009	148,000	148,000
8½%	2000	69,244	69,244	14%	2010	100,000	100,000
8¾% B	2000	95,635	95,635	13¾% B	2010	50,000	50,000
7½%	2001	97,900	97,900	14½%	2012	125,000	125,000
				Pollution Control			
				6¾%	1988	25,000	—
				9¼%	2013	77,000	—
				Less: Funds held in trust		(58,478)	—
						<u>\$2,511,370</u>	<u>\$2,474,598</u>

Substantially all electric plant was mortgaged at December 31, 1983.

The annual maturities of long-term debt (including sinking fund requirements and capitalized lease principal payments) through 1988 are \$49,593,000 in 1984, \$44,046,000 in 1985, \$74,793,000 in 1986, \$102,591,000 in 1987 and \$36,096,000 in 1988.

Included in the annual maturities are amounts relating to \$125,000,000 in outstanding obligations under two nuclear fuel trusts. Such maturities are based on estimated nuclear fuel consumption. The Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

11. Retirement Plan

The Company and two of its subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The Company's policy is to fund pension costs accrued. Total pension expense, including trustee fees, amounted to \$33,137,000 in 1983, \$32,000,000 in 1982 and \$31,896,000 in 1981. In 1983, the plan was amended to provide for certain plan changes, including increased benefits for retired employees and survivor benefits. The effect of these changes did not increase the Company's pension cost for 1983.

A comparison of accumulated plan benefits and plan net assets at December 31, 1982, the date of the latest actuarial report, and December 31, 1981 is as follows (dollars in thousands):

	1982	1981
Actuarial present value of accumulated plan benefits		
Vested	\$251,426	\$229,783
Non-Vested	52,554	71,742
Total	<u>\$303,980</u>	<u>\$301,525</u>
Net assets available for benefits	<u>\$343,430</u>	<u>\$263,241</u>

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

The weighted-average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9.25 percent in 1982 and 9.0 percent in 1981. The actuarial present value of accumulated plan benefits does not consider future salary increases.

12. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	Year Ended December 31		
	1983	1982	1981
Electric Expenses			
Current income taxes			
Federal	\$ 701	\$ 58,118	\$ 30,244(a)
State	(966)	21,694	11,183
	(265)(a)	79,812	41,427
Deferred taxes, net			
Excess tax over book depreciation	79,890	46,985	49,353
Capitalized taxes, employee benefits, etc.	8,999	9,287	16,634
Loss on cancellation of Cherokee Nuclear Station	210,329(b)	—	—
Nuclear fuel disposal costs	51,260(c)	(12,893)	(12,336)
Other	(6,318)	6,456	(8,281)
	344,160	49,835	45,370
Investment tax credit			
Deferred	— (a)	109,596	56,146
Amortization of deferments (credit)	(13,872)	(7,341)	(5,071)
	(13,872)	102,255	51,075
Total electric expenses	330,023	231,902	137,872
Other Income			
Income taxes—other, net (deduction)	3,037	11,687	51,592(d)
Income taxes—credit	(56,184)	(50,934)	(60,747)
Total other income	(53,147)(a)	(39,247)	(9,155)
Total income tax expense	\$276,876	\$192,655	\$128,717

- (a) Current income tax expense for 1983 is a credit principally due to the loss on the cancellation of all units of the Cherokee Nuclear Station and the deduction of the Company's liability to date under the Duke/Department of Energy Spent Nuclear Fuel Disposal Contract. The benefit of this tax loss for 1983 has been recognized as "Refundable Income Taxes" on the Balance Sheets. This loss also eliminated all investment tax credit utilization for 1983.
- (b) Represents deferred income tax expense related to the loss on the cancellation of all units of the Cherokee Nuclear Station. The related deferred income tax credits have been classified as a reduction of "Canceled Construction Projects" on the Balance Sheets.
- (c) Includes reversal of deferred income tax of \$70,296,000 related to the current tax deduction of prior and current period liabilities for the Duke/Department of Energy Spent Nuclear Fuel Disposal Contract.
- (d) Includes \$42,150,000 resulting from the sale of assets in February 1981 and nominal amounts thereafter. (See Note 5.) Such income taxes, which are included in "Other, net" on the Statements of Income, reflect a taxable gain in excess of book gain resulting principally from the treatment of ADC.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

Total current income taxes were \$(56,186,000), \$33,128,000 and \$24,002,000 of which state income taxes were \$(7,981,000), \$15,687,000 and \$11,086,000 for 1983, 1982 and 1981, respectively.

Total deferred income taxes were \$346,934,000, \$57,272,000 and \$53,641,000 of which deferred state income taxes were \$42,773,000, \$7,430,000 and \$7,899,000 for 1983, 1982 and 1981, respectively.

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	Year Ended December 31		
	1983	1982	1981
Income taxes on pretax income at the statutory federal rate of 46%	\$325,751	\$263,365*	\$213,885
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (ADC)	(88,424)	(91,411)	(102,077)
Amortization of electric investment tax credit deferrals	(13,872)	(7,341)	(5,071)
State income taxes, net of federal income tax benefit	18,874	12,132	13,595
Increase in tax expense primarily because of excess of tax gain over book profit on sale of assets	—	—	12,468
Other items, net	34,547	15,910	(4,083)
Total income tax expense (see above)	<u>\$276,876</u>	<u>\$192,655</u>	<u>\$128,717</u>

* Pretax income excludes the provision for loss on disposition of assets of subsidiaries, recorded net of applicable income taxes. (See Note 1.)

13. Commitments and Contingencies

A. Construction Program

The Company is engaged in a construction program for which substantial commitments have been made. Projected construction and nuclear fuel costs are \$1.54 billion and \$531 million, respectively, for the years 1984 through 1986. The program is subject to periodic review and revision, and actual construction costs incurred may vary from such estimates. This is due to various factors including changing levels of inflation, revised load estimates, the cost and availability of capital, and the outcome of licensing and environmental matters.

B. Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to \$580 million under provisions of the Price-Anderson Act, which provides for nuclear liability insurance up to that amount. A portion of this insurance is provided through Nuclear Regulatory Commission regulations pursuant to which the Company could be assessed up to \$5 million for each of its licensed reactors in the event there is a nuclear incident involving any licensed facility in the nation, with a maximum of \$10 million a year for each of its licensed reactors in the event of more than one incident. At December 31, 1983, the Company had five licensed reactors, including McGuire Unit 2, which is licensed but not scheduled to begin commercial operation until early 1984.

Property damage coverage for certain of the Company's nuclear facilities is provided through membership in Nuclear Mutual Limited (NML). If NML's losses were to exceed its reserves, the Company could be liable, on a pro rata basis, for additional assessments of up to \$103 million, representing 14 times the Company's current annual premium to NML.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS—(Concluded)

The Company is a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance for the increased cost of generation and/or purchased power resulting from the accidental outage of a nuclear unit. If losses were to exceed the accumulated funds available to NEIL, the Company would be liable for a retrospective premium adjustment currently estimated to be \$31 million, which is up to five times the regular annual premium.

The Company purchases from NEIL, through its Excess Property Insurance Program, \$425 million of property damage insurance. This is in addition to the \$500 million of coverage provided by the Company's underlying property damage policies issued through NML. If losses were to exceed the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable for a retrospective premium adjustment of up to 7.5 times the regular annual premium. The maximum potential liability per incident currently is estimated to be \$18 million.

SUPPLEMENTAL FINANCIAL DATA—(Unaudited)

Quarterly Financial Data

A summary of quarterly financial data for 1983 and 1982 is as follows (dollars in thousands except per-share data):

	<u>Electric Revenues</u>	<u>Electric Operating Income</u>	<u>Net Income</u>	<u>Earnings Per Share</u>
1983 by Quarter				
Fourth	\$593,064	\$ 91,310	\$ 89,717	\$0.74
Third	677,947	136,525	129,867	1.17
Second	553,388	103,450	96,922	0.83
First	605,853	117,929	114,771	1.03
1982 by Quarter				
Fourth	\$540,925	\$105,358	\$ 71,127	\$0.58
Third	578,902	97,144	97,702	0.87
Second	531,204	86,069	83,027	0.72
First	593,449	101,197	146,325	1.42

Net income and earnings per share for the first quarter of 1982 include an extraordinary item of \$48,304,000, or \$0.52 per share. Net income and earnings per share for the fourth quarter of 1982 include a provision for loss on disposal of certain coal mining assets of \$30,000,000, or \$0.32 per share. Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate increases (including fuel cost adjustment procedures) and maintenance of electric generating units, especially nuclear units.

Effects of Changing Prices

In recent years, the impact of general inflation and changes in specific prices has caused distortions in traditional accounting measurements of income and capital. Although the rates of inflation in recent years have substantially decreased, the replacement of existing plant capacity occurs at a significantly higher cost than recovered through historical cost depreciation because of the high levels of inflation in previous years. In response to this problem, the Financial Accounting Standards Board (FASB) issued Statement No. 33 requiring disclosure of the effects of inflation on a company's operations and financial position.

Because the accompanying supplementary information involves various assumptions and approximations, it should be viewed as an estimate of the effects of inflation, rather than a precise measurement.

Constant Dollar Accounting

Constant dollar accounting reflects the overall decline in the purchasing power of the dollar by restating historical costs in terms of dollars of equal purchasing power.

Constant dollar amounts for electric plant in service were determined by indexing surviving historical costs of plant with the Consumer Price Index for all Urban Consumers (CPI-U). Historical depreciation rates were applied to the restated amounts of plant, thereby trending the provision for depreciation to reflect the impact of general inflation.

Current Cost Accounting

Current cost accounting reflects changes in specific prices of the property used in the Company's operations from the date the property was acquired to the present. This method differs from constant dollar accounting to the extent that costs of specific utility property have increased more or less rapidly than the rate of general inflation. The current cost amounts of plant in service represent the estimated cost for replacing existing plant facilities and were determined by indexing surviving plant costs by internally generated indices or the Handy-Whitman Index of Public Utility Construction Costs. Since plant facilities are not expected to be replaced precisely in kind, "current cost" does not necessarily represent the replacement cost of existing productive capacity. Current cost depreciation is computed by applying the same rates used in the historical cost and constant dollar statements to the current cost plant amounts.

Effects of Rate Regulation

Under the Company's present ratemaking procedures, only the historical cost of plant in service is recoverable in rates as depreciation. Therefore, in times of relatively high inflation, the erosion of plant in service resulting from inflation in the current year may be greater than is reflected in constant dollar or current cost adjustments, and is reflected as a reduction to net recoverable cost. This reduction was not necessary in 1983 as the level of inflation was less than in prior years.

The Company has significant amounts of long-term debt outstanding serving as a partial hedge against inflation, as well as other net monetary liabilities, which will be paid back in dollars of less purchasing power. Thus, the gain from decline in purchasing power of net amounts owed in the accompanying schedules results from inflation's effect on obligations to pay cash at a future date.

Other

Income statement items other than depreciation have not been adjusted. The Company's operation and maintenance expenses already include the average effects of changing prices during the period and, therefore, no adjustments have been made to them. No adjustments to income tax expense have been made in computing the impact of inflation since only historical costs are deductible for income tax purposes.

Supplementary Statement of Earnings for Common Stock Adjusted for Changing Prices

	Year Ended December 31, 1983		
	Historical \$	Constant Dollar	Current Cost
	(Dollars in thousands)		
Electric revenues	\$2,420,252	\$2,420,252	\$2,420,252
Operating expenses	1,070,172	1,070,172	1,070,172
Maintenance of plant facilities	187,267	187,267	187,267
Depreciation	209,750	428,794	442,455
Taxes	503,849	503,849	503,849
Total electric expenses	1,971,038	2,190,082	2,203,743
Electric operating income	449,214	230,170	216,509
Other income	213,001	213,001	213,001
Income before interest	662,215	443,171	429,510
Interest expense	230,938	230,938	230,938
Net Income	431,277	212,233	198,572
Dividends on preferred and preference stocks	62,600	62,600	62,600
Earnings for common stock	\$ 368,677	\$ 149,633	\$ 135,972
Increase in specific prices (current cost) of utility plant held during the year*			\$ 102,265
Reduction to net recoverable cost**		\$ —	—
Effect of increase in general price level			(370,092)
Excess of increase in general price level over increase in specific prices			(267,827)
Gain from decline in purchasing power of net amounts owed		134,310	134,310
Net		\$ 134,310	\$ (133,517)

* At December 31, 1983, current cost of electric plant, net of accumulated depreciation, was \$10,031,270,000.

** Due to the decrease in the rates of inflation in recent years, there is no reduction to the net recoverable cost of plant reflected for 1983 on either a constant dollar or current cost basis.

*Five Year Comparison of Selected Supplementary Financial
Data Adjusted for the Effects of Changing Prices*

	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>
	(In thousands of average 1983 dollars, except per share figures)				
Electric revenues					
In historical dollars	\$2,420,252	\$2,244,480	\$1,908,454	\$1,682,822	\$1,492,557
In constant dollars	2,420,252	2,316,682	2,090,612	2,034,660	2,048,661
Income from continuing operations					
In historical dollars	431,277	349,877	336,251	311,091	274,760
In constant dollars	212,233	148,035	180,719	203,543	223,166
In current cost	198,572	129,723	158,545	183,183	194,965
Earnings per share before extraordinary item					
In historical dollars	3.77	3.07	3.19	3.08	2.88
In constant dollars	1.53	.89	1.35	1.62	1.96
In current cost	1.39	.69	1.08	1.37	1.59
Common stock dividends per share					
In historical dollars	2.32	2.24	2.08	1.95	1.83
In constant dollars	2.32	2.31	2.28	2.36	2.51
Market price per common share at year-end					
In historical dollars	25.125	23.25	20.625	18.125	17.25
In constant dollars	24.70	23.73	21.86	20.93	22.39
Net assets at year-end					
In historical dollars	2,616,340	2,388,592	2,108,935	1,969,140	1,758,016
In constant dollars	2,572,375	2,437,606	2,235,546	2,273,960	2,281,827
In current cost	2,572,375	2,437,606	2,235,546	2,273,960	2,281,827
Purchasing power gain on net monetary items	134,310	150,849	358,119	498,460	531,235
Decrease in the current cost of electric plant in service, net of inflation, after reduction to net recoverable cost	267,827	102,683	289,662	541,214	603,391
Average Consumer Price Index	298.4	289.1	272.4	246.8	217.4

DUKE POWER COMPANY
SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements	Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1983</i>					
Electric Plant in Service—At Original Cost					
Production	\$2,853,291	\$ 38,261	\$ 790	\$ (5,987)	\$2,884,775
Transmission	903,377	56,890	1,621	6,817	965,463
Distribution	1,464,502	128,971	12,567	2,414	1,583,320
General	249,393	28,607	5,719	1,185	273,466
Miscellaneous	20,807	409	13	(3,858)	17,345
Nuclear Fuel	449,571	96,859	—	—	546,430
Total electric plant in service	<u>5,940,941</u>	<u>349,997</u>	<u>20,710</u>	<u>571</u>	<u>6,270,799</u>
Construction Work in Progress	<u>2,551,177</u>	<u>326,826</u>	<u>—</u>	<u>(581,160)(1)</u>	<u>2,296,843</u>
Other Property—At Cost					
Water plant	26,575	1,511	—	2	28,088
Transit plant	2,974	—	40	—	2,934
Non-utility plant	6,510	1,392	42	3,913	11,773
Total other property	<u>36,059</u>	<u>2,903</u>	<u>82</u>	<u>3,915</u>	<u>42,795</u>
Total plant	<u>\$8,528,177</u>	<u>\$ 679,726</u>	<u>\$20,792</u>	<u>\$ (576,674)</u>	<u>\$8,610,437</u>
<i>For the Year Ended December 31, 1982</i>					
Electric Plant in Service—At Original Cost					
Production	\$2,829,823	\$ 23,647	\$ 340	\$ 161	\$2,853,291
Transmission	850,499	51,580	1,928	3,226	903,377
Distribution	1,360,583	114,484	11,887	1,322	1,464,502
General	230,432	23,280	4,920	601	249,393
Miscellaneous	16,923	3,919	—	(35)	20,807
Nuclear Fuel	374,414	75,343	—	(186)	449,571
Total electric plant in service	<u>5,662,674</u>	<u>292,253</u>	<u>19,075</u>	<u>5,089</u>	<u>5,940,941</u>
Construction Work in Progress	<u>2,178,464</u>	<u>440,976</u>	<u>—</u>	<u>(68,263)(2)</u>	<u>2,551,177</u>
Other Property—At Cost					
Water plant	23,711	2,860	—	4	26,575
Transit plant	2,974	—	—	—	2,974
Non-utility plant	6,540	(29)	38	37	6,510
Total other property	<u>33,225</u>	<u>2,831</u>	<u>38</u>	<u>41</u>	<u>36,059</u>
Total plant	<u>\$7,874,363</u>	<u>\$ 736,060</u>	<u>\$19,113</u>	<u>\$ (63,133)</u>	<u>\$8,528,177</u>
<i>For the Year Ended December 31, 1981</i>					
Electric Plant in Service—At Original Cost					
Production	\$1,902,374	\$ 927,983 (3)	\$ 1,058	\$ 524	\$2,829,823
Transmission	794,988	57,769	1,833	(425)	850,499
Distribution	1,262,939	105,714	11,700	3,630	1,360,583
General	207,821	18,898	5,412	9,125	230,432
Miscellaneous	15,622	1,301	—	—	16,923
Nuclear Fuel	235,408	138,820	—	186	374,414
Total electric plant in service	<u>4,419,152</u>	<u>1,250,485</u>	<u>20,003</u>	<u>13,040 (4)</u>	<u>5,662,674</u>
Construction Work in Progress	<u>3,114,807</u>	<u>(450,604)(3)</u>	<u>—</u>	<u>(485,739)(5)</u>	<u>2,178,464</u>
Other Property—At Cost					
Water plant	18,600	5,151	—	(40)	23,711
Transit plant	525	666	—	1,783	2,974
Non-utility plant	7,873	(1,327)	1,077	1,071	6,540
Total other property	<u>26,998</u>	<u>4,490</u>	<u>1,077</u>	<u>2,814 (4)</u>	<u>33,225</u>
Total plant	<u>\$7,560,957</u>	<u>\$ 804,371</u>	<u>\$21,080</u>	<u>\$ (469,885)</u>	<u>\$7,874,363</u>

(1) Principally due to the cancellation of Cherokee Unit 1.

(2) Principally due to the cancellation of Units 2 and 3 of the Cherokee Nuclear Station and the Perkins Nuclear Station.

(3) Principally due to Unit 1 of McGuire Nuclear Station commencing commercial operation on December 1, 1981.

(4) Principally due to the purchase of transportation equipment previously leased.

(5) Represents the book value of a portion of the Catawba Nuclear Station sold in February 1981.

DUKE POWER COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Depreciation	Clearing and Other Accounts	Retirements	Other Changes Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1983</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 868,391	\$104,250	\$ —	\$ 957	\$ 151	\$ 971,835
Transmission	278,995	26,513	—	963	(59)	304,486
Distribution	487,145	51,595	—	9,957	(17)	528,766
General	91,636	5,805	8,218	4,393	(75)	101,191
Miscellaneous	3,659	—	519	—	—	4,178
	<u>1,729,826</u>	<u>188,163</u>	<u>8,737</u>	<u>16,270</u>	<u>—</u>	<u>1,910,456</u>
Accumulated Amortization of Limited Term Plant	479	—	447	—	—	926
Accumulated Amortization of Nuclear Fuel	<u>376,122</u>	<u>—</u>	<u>117,646</u>	<u>—</u>	<u>—</u>	<u>493,768</u>
	2,106,427	188,163	126,830	16,270	—	2,405,150
Accumulated Depreciation of Water Plant	5,039	466	—	(2)	—	5,507
Accumulated Depreciation of Transit Plant	<u>2,345</u>	<u>211</u>	<u>—</u>	<u>40</u>	<u>—</u>	<u>2,516</u>
Total Accumulated Depreciation	<u>\$2,113,811</u>	<u>\$188,840</u>	<u>\$126,830</u>	<u>\$16,308</u>	<u>\$ —</u>	<u>\$2,413,173</u>
<i>For the Year Ended December 31, 1982</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 765,425	\$103,315	\$ —	\$ 349	\$ —	\$ 868,391
Transmission	254,450	24,802	—	557	300	278,995
Distribution	448,680	47,683	—	8,982	(236)	487,145
General	81,668	6,180	7,948	4,096	(64)	91,636
Miscellaneous	3,140	—	519	—	—	3,659
	<u>1,553,363</u>	<u>181,980</u>	<u>8,467</u>	<u>13,984</u>	<u>—</u>	<u>1,729,826</u>
Accumulated Amortization of Limited Term Plant	179	—	300	—	—	479
Accumulated Amortization of Nuclear Fuel	<u>289,289</u>	<u>—</u>	<u>86,833</u>	<u>—</u>	<u>—</u>	<u>376,122</u>
	1,842,831	181,980	95,600	13,984	—	2,106,427
Accumulated Depreciation of Water Plant	4,648	387	—	(4)	—	5,039
Accumulated Depreciation of Transit Plant	<u>2,133</u>	<u>212</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,345</u>
Total Accumulated Depreciation	<u>\$1,849,612</u>	<u>\$182,579</u>	<u>\$ 95,600</u>	<u>\$13,980</u>	<u>\$ —</u>	<u>\$2,113,811</u>
<i>For the Year Ended December 31, 1981</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 699,674	\$ 66,907	\$ —	\$ 1,156	\$ —	\$ 765,425
Transmission	233,096	23,037	—	1,749	66	254,450
Distribution	412,312	44,434	—	8,000	(66)	448,680
General	64,837	4,921	7,977	3,185	7,118	81,668
Miscellaneous	2,621	—	519	—	—	3,140
	<u>1,412,540</u>	<u>139,299</u>	<u>8,496</u>	<u>14,090</u>	<u>7,118</u>	<u>1,553,363</u>
Accumulated Amortization of Limited Term Plant	75	—	104	—	—	179
Accumulated Amortization of Nuclear Fuel	<u>216,494</u>	<u>—</u>	<u>72,795</u>	<u>—</u>	<u>—</u>	<u>289,289</u>
	1,629,109	139,299	81,395	14,090	7,118	1,842,831
Accumulated Depreciation of Water Plant	4,326	360	—	38	—	4,648
Accumulated Depreciation of Transit Plant	<u>225</u>	<u>125</u>	<u>—</u>	<u>—</u>	<u>1,783</u>	<u>2,133</u>
Total Accumulated Depreciation	<u>\$1,633,660</u>	<u>\$139,784</u>	<u>\$ 81,395</u>	<u>\$14,128</u>	<u>\$ 8,901(1)</u>	<u>\$1,849,612</u>

(1) Principally due to the purchase of transportation equipment previously leased.

DUKE POWER COMPANY

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(Dollars in thousands)

Description	Balance Beginning of Year	Charged to Costs and Expenses	Deductions	Balance End of Year
<i>For the Year Ended December 31, 1983</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts	\$ 3,983	\$4,288	\$4,289(1)	\$ 3,982
Other Reserves				
Operating Reserves(3)	\$13,931	\$6,397	\$2,776(2)	\$17,552
<i>For the Year Ended December 31, 1982</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts	\$ 3,998	\$5,254	\$5,269(1)	\$ 3,983
Other Reserves				
Operating Reserves(3)	\$12,269	\$3,374	\$1,712(2)	\$13,931
<i>For the Year Ended December 31, 1981</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts	\$ 4,064	\$4,184	\$4,250(1)	\$ 3,998
Other Reserves				
Operating Reserves(3)	\$11,085	\$3,243	\$2,059(2)	\$12,269

(1) Uncollectible accounts written off, net of recoveries.

(2) Entries represent payments primarily for injuries and damages in North Carolina and South Carolina.

(3) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits," on the Balance Sheets.

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended December 31		
	1983	1982	1981
	(Dollars in thousands)		
Taxes, other than payroll and income taxes:			
Real and personal property	\$ 35,918	\$ 32,746	\$ 34,292
State and city franchise	111,758	101,913	85,296
Other	6,635	6,543	6,399
Total	<u>\$154,311</u>	<u>\$141,202</u>	<u>\$125,987</u>

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE—(Unaudited)

This calculation is submitted in accordance with Release No. 9083 under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

	Year Ended December 31		
	1983	1982	1981
	(Dollars in thousands except per share figures)		
Fully Diluted:			
Earnings applicable to common stock(1)	\$368,677	\$336,017(3)	\$278,356
Add: Dividends on Preference Stock, 6¾% Convertible Series AA	538	747	1,158
Earnings as adjusted for computation ..	<u>\$369,215</u>	<u>\$336,764</u>	<u>\$279,514</u>
Average common shares outstanding— twelve months (thousands)	97,784	93,679	87,313
Add: Common shares required for conversion of Preference Stock, 6¾% Convertible Series AA, \$100 par, 500,000 shares authorized (71,482 shares outstanding as of Decem- ber 31, 1983)(2)	299	378	570
Common shares as adjusted for computation ..	<u>98,083</u>	<u>94,057</u>	<u>87,883</u>
Fully diluted earnings per share	\$3.76	\$3.58	\$3.18

(1) These figures agree with the related amounts in the Statements of Income.

(2) The conversion price used to convert the Preference Stock, 6¾% Convertible Series AA, into shares of common stock was \$23.89.

(3) Earnings applicable to common stock includes an extraordinary item of \$48,304,000, or \$0.52 per share.

Item 9. *Disagreements on Accounting and Financial Disclosure.*

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

Item 10. *Directors and Executive Officers of the Registrant.*

Information for this item concerning directors of the Company is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1984 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth on page 15 of this annual report.

Item 11. *Executive Compensation.*

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1984 annual meeting of shareholders, which is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Security Ownership of Management" in the proxy statement of the Company relating to its 1984 annual meeting of shareholders, which is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions.*

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1984 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K.*

Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Financial Statements

Statements of Income for the Three Years Ended December 31, 1983

Statements of Source of Funds for Plant Construction Costs

for the Three Years Ended December 31, 1983

Balance Sheets—December 31, 1983 and 1982

Statements of Capitalization—December 31, 1983 and 1982

Statements of Retained Earnings for the Three Years Ended December 31, 1983

Notes to Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules

Schedule V—Property, Plant and Equipment for the Years Ended

December 31, 1983, 1982 and 1981

Schedule VI—Accumulated Depreciation and Amortization of Property, Plant

and Equipment for the Years Ended December 31, 1983, 1982 and 1981

Schedule VIII—Valuation and Qualifying Accounts and Reserves

for the Years Ended December 31, 1983, 1982 and 1981

Schedule X—Supplementary Income Statement Information

for the Years Ended December 31, 1983, 1982 and 1981

Exhibit I—Computation of Fully Diluted Earnings Per Share (Unaudited)

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Financial statements and schedules of the Company's subsidiaries are omitted because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Exhibits

- (a) —See Exhibit Index on page 47.
- (b) —Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1983 and the Employees' Stock Ownership Plan for the year ended December 31, 1983.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1983.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Charlotte and State of North Carolina on the 29th day of March, 1984.

DUKE POWER COMPANY
(Registrant)

By: W. S. LEE
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
W. S. LEE	Chairman of the Board (Principal Executive Officer)	March 29, 1984
W. H. GRIGG	Executive Vice President, Finance and Administration (Principal Financial Officer)	March 29, 1984
NORMAN P. MORROW	Controller (Principal Accounting Officer)	March 29, 1984
D. W. BOOTH		
THOMAS H. DAVIS		
ROBERT C. EDWARDS		
JOHN L. FRALEY		
ALESTER G. FURMAN III		
STEVE C. GRIFFITH, JR.		
W. H. GRIGG		
GEORGE R. HERBERT		
JOHN D. HICKS		
JAMES V. JOHNSON	A majority of the Directors	March 29, 1984
W. S. LEE		
REECE A. OVERCASH, JR.		
WARREN H. OWEN		
JAMES C. SELF		
MACEO A. SLOAN		
A. C. THIES		
WILLIAM L. WATKINS		

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

Lewis F. Camp, Jr., Attorney-in-fact

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

Exhibit Number	
3-A	—Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
3-B	—Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
3-C	—Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
3-D	—Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-3).
3-E	—Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
3-F	—By-Laws of registrant, as amended to date (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-F).
4-B-1	—First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).
4-B-2	—Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
4-B-3	—Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
4-B-4	—Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
4-B-5	—Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
4-B-6	—Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
4-B-7	—Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
4-B-8	—Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).
4-B-9	—Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).
4-B-10	—Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).
4-B-11	—Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
4-B-12	—Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
4-B-13	—Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
4-B-14	—Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
4-B-15	—Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
4-B-16	—Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).

Exhibit
Number

- 4-B-17 —Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
- 4-B-18 —Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
- 4-B-19 —Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
- 4-B-20 —Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
- 4-B-21 —Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-20).
- 4-B-22 —Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
- 4-B-23 —Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
- 4-B-24 —Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No. 2-31304, effective January 21, 1969, as Exhibit 2-B-26).
- 4-B-25 —Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).
- 4-B-26 —Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).
- 4-B-27 —Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42).
- 4-B-28 —Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).
- 4-B-29 —Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).
- 4-B-30 —Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).
- 4-B-31 —Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
- 4-B-32 —Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).
- 4-B-33 —Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
- 4-B-34 —Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
- 4-B-35 —Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
- 4-B-36 —Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
- 4-B-37 —Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
- 4-B-38 —Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
- 4-B-39 —Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
- 4-B-40 —Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
- 4-B-41 —Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).

<u>Exhibit Number</u>	
4-B-42	—Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).
4-B-43	—Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).
4-B-44	—Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
4-B-45	—Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).
4-B-46	—Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).
*4-B-47	—Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage.
*4-B-48	—Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage.
10-A	—Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
10-B	—Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
10-C	—Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
10-D	—Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
*12	—Computation of Ratio of Earnings to Fixed Charges.
*24	—Consent of Independent Auditors.

EXHIBIT 24

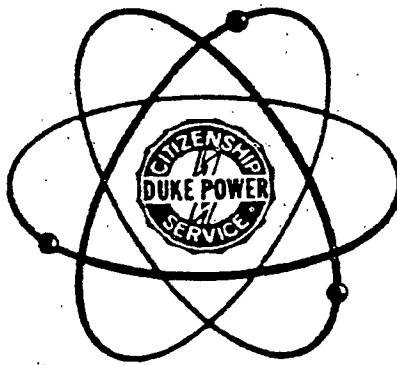
CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statements No. 2-78883, No. 2-81066 and No. 2-84378 on Form S-3, in Post-Effective Amendment No. 1 to Registration Statement No. 2-79057 on Form S-3 and in Post-Effective Amendment No. 2 to Registration Statement No. 2-72172 on Form S-8 of our opinion, dated February 17, 1984, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1983.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
March 29, 1984



WARNING FOR ARCHIVES

Do Not Damage Or Destroy

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1984

Commission File Number: 1-4928

Duke Power Company

(Exact name of registrant as specified in its charter)

North Carolina
(State or other jurisdiction of
incorporation or organization)
422 South Church Street
Charlotte, North Carolina
(Address of principal executive offices)

56-0205520
(IRS Employer
Identification No.)

28242
(Zip Code)

704-373-4011

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange
Preferred Stock, par value \$100	
8.70% Series F	New York Stock Exchange
8.20% Series G	New York Stock Exchange
7.80% Series H	New York Stock Exchange
8.28% Series K	New York Stock Exchange
8.84% Series M	New York Stock Exchange
8.84% Series N	New York Stock Exchange
11% Series O	New York Stock Exchange
Preferred Stock A, par value \$25	
10.76% Series 1975	New York Stock Exchange
15.40% Series 1982	New York Stock Exchange
Preference Stock, par value \$100	
6 1/4% Convertible Series AA	New York Stock Exchange
First and Refunding Mortgage Bonds	
7 1/4% Series B Due 2001	New York Stock Exchange
7 1/4% Series Due 2002	New York Stock Exchange
7 1/4% Series B Due 2002	New York Stock Exchange
7 1/4% Series Due 2003	New York Stock Exchange
8 1/4% Series B Due 2003	New York Stock Exchange
9 1/4% Series Due 2004	New York Stock Exchange
9 1/2% Series Due 2005	New York Stock Exchange
8 1/2% Series Due 2006	New York Stock Exchange
8 1/4% Series Due 2007	New York Stock Exchange
9 1/4% Series Due 2008	New York Stock Exchange
10 1/4% Series Due 2009	New York Stock Exchange
10 1/4% Series B Due 2009	New York Stock Exchange
14 1/4% Series Due 2010	New York Stock Exchange
12% Series Due 1990	New York Stock Exchange
13 1/4% Series B Due 2010	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Preferred Stock, par value \$100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at February 15, 1985..... \$2,512,577,494

Number of shares of Common Stock, without par value, outstanding at February 15, 1985..... 101,170,258

Documents incorporated by reference:

The registrant has incorporated herein by reference certain sections of its proxy statement relating to the 1985 annual meeting of shareholders to provide information required by the following parts of this annual report:

- Part III — Item 10., Directors and Executive Officers of the Registrant
- Item 11., Executive Compensation
- Item 12., Security Ownership of Certain Beneficial Owners and Management
- Item 13., Certain Relationships and Related Transactions



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DUKE POWER COMPANY

PART I.

Item 1. *Business.*

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,400,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1984, the Company's electric revenues amounted to approximately \$2.7 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks eighth in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011).

Service Area

The Company supplies electric service directly to approximately 1,396,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC) and Saluda River Electric Cooperative Inc. (Saluda) and at wholesale to 18 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$410 million of the Company's revenues for 1984, representing 15% of electric revenues and 46% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1984, its generation of electric energy for 1984, and certain corresponding information presently projected for 1985:

Source	Generating Capability — KW(1)		Generation — KWH (millions)	
	Actual December 31, 1984	Projected 1985(2)	Actual 1984	Projected 1985(2)
Coal.....	6,603,000	6,603,000	26,394	25,300
Nuclear.....	4,940,000	6,085,000(2)	32,632	36,600(2)
Hydro and other.....	2,051,000	2,051,000	1,995	1,700
Total.....	<u>13,594,000</u>	<u>14,739,000</u>	61,021	63,600
Purchased power, net, and energy retained by Catawba purchasers.....			(2,908)	(1,200)
Total.....			<u>58,113</u>	<u>62,400</u>

(1) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.

(2) Nuclear capability and related generation projected for 1985 do not reflect the sale of portions of the Catawba Nuclear Station. (See "Construction Program — *Facilities Under Construction.*")

According to industry statistics through 1983, the Company ranked first in the nation for the last ten consecutive years and for 12 of the last 14 years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that three of the four units at the Marshall Steam Station and one of the two units at the Belews Creek Steam Station were the four most efficient in the nation in 1983. A Company station has been ranked first in efficiency in 16 of the last 18 years through 1983. Statistics supplied to the Nuclear Regulatory Commission (NRC) by utilities demonstrate that the Company's Oconee Nuclear Station was the most efficient pressurized water reactor nuclear facility in the nation in 1982. The net capacity factors for the Oconee Nuclear Station were 61% for 1981, 47% for 1982, 79% for 1983 and 83% for 1984. The reduction in the net capacity factor for 1982 was primarily due to planned ten-year inspection outages.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On January 21, 1985, the Company experienced its all-time peak load of 12,687,000 KW during record cold weather. The 1983-1984 winter peak load of 10,863,000 KW occurred on February 8, 1984 and the 1984 summer peak load of 11,043,000 KW occurred on July 11, 1984. The 1982-1983 winter peak load of 10,378,000 KW occurred on January 19, 1983 and the 1983 summer peak load of 11,554,000 KW occurred on August 23, 1983. The Company currently forecasts between 2.1% and 2.9% compound annual growth in peak load through 1999.

After required hearings regarding future growth in the use of electricity and the need for future generating capacity in North Carolina, the North Carolina Utilities Commission (NCUC) issued its order on December 1, 1983, forecasting peak load growth within a range of a high of 3.5% and a low of 1.4%.

Rate Matters

The NCUC and The Public Service Commission of South Carolina (PSC) must approve the Company's rates for retail sales within the respective States. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales under its wholesale rate schedules. Participating members of NCMPSA, effective July 1, 1983, and participating members of NCEMC and Saluda, effective November 1, 1983, are served under contractual arrangements between such entities and the Company (see "Construction Program — Facilities Under Construction").

General Rate Increases. Information concerning rate increases requested or implemented by the Company since January 1, 1981 is set forth in the following table. The revenues shown (in millions of dollars) are annualized on the basis of the filing test year.

Jurisdiction and Date Filed	Requested Revenues	Revenues	% of Request	Approved	Rate Order Effective	End of 12-Month Test Period
				% of Increase over Previous Revenues		
N.C. Retail						
March 1981(1).....	\$211.0	\$166.4	78.9	14.99	December 1981	December 31, 1980
March 1982.....	197.0	61.7	31.3	4.38	November 1982	December 31, 1981
February 1983.....	112.9	76.2	67.5	5.18	September 1983	September 30, 1982
November 1983(2).....	212.3	131.0	61.6	8.40	June 1984	June 30, 1983
February 1985.....	340.0	—	—	—	Pending	June 30, 1984
S.C. Retail						
December 1980.....	103.7	57.0	54.9	13.00	January 1982	December 31, 1980
February 1982.....	99.4	40.7	40.9	7.10	March 1983	June 30, 1982
September 1983.....	136.0	99.7	73.3	17.40	March 1984	April 30, 1983
FERC Wholesale(3)						
June 1981.....	46.9	30.7	65.5	11.90	August 1982	September 30, 1982
August 1982.....	44.1	26.0	59.0	8.70	June 1983	December 31, 1983
December 1983.....	9.5	8.0	84.2	9.60	October 1984	December 31, 1984

- (1) Certain intervenors appealed this order on various grounds, seeking its revision or modification and refunds. The Supreme Court of North Carolina remanded the issue of the reasonableness of fuel costs to the NCUC and ruled that certain allowance for funds used during construction was

not includable in rate base as construction work in progress but may be appropriately capitalized. This decision is not expected to have a materially adverse effect on the Company.

- (2) Certain intervenors appealed this order on various grounds to the Supreme Court of North Carolina, seeking revision or modification and refunds.
- (3) Wholesale revenues from sales subject to FERC jurisdiction were reduced substantially in 1984 and will be further reduced in 1985 as a result of contractual arrangements which became effective during this period between the Company and the municipalities and cooperatives which have purchased portions of the Catawba Nuclear Station.

The rate request filed in February 1985 with the NCUC as set forth in the preceding table, along with comparable rate requests which the Company intends to file with the PSC and FERC in the near future, are principally in anticipation of commercial operation of Catawba Unit 1 and are designed to reflect the Company's investment in such unit and the expenses related to purchased power contracts associated with portions of the Catawba Units that have been sold. Similar rate requests will be necessitated by the commercial operation of Unit 2 currently scheduled for 1987. (See "Construction Program — *Facilities Under Construction*" and Note 14, "Notes to Financial Statements.") Failure to obtain adequate and timely rate relief could have a material adverse effect on the Company's financial position.

In the Company's most recent rate orders, the NCUC allowed a jurisdictional rate of return on common equity of 15.25% and the PSC allowed a jurisdictional rate of return of 14.75%.

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Load Management

The Company currently is engaged in a comprehensive load management program designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area. Such program includes, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers' consent) of residential electric water heaters and air conditioners during peak demand periods and time-of-day pricing to a limited number of customers. The current and planned aspects of such program are designed to reduce the growth in peak demand by approximately 4,257,000 KW in the summer of 1999 (from estimated peak demands at those times without load management) and to enhance generating reserve margins through the ability to interrupt approximately 1,177,000 KW in 1999. The Company has currently documented reductions through accumulated load management of approximately 1,806,000 KW for its summer peak load and approximately 2,347,000 KW for its winter peak load.

Through 1990, the Company estimates a minimum reserve margin, after giving effect to the interruptible load, of approximately 25% of its anticipated peak load requirements. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rate increases), the availability and cost of capital in the financial markets, the availability and cost of labor, materials and equipment, licensing and other regulatory delays occasioned by opposition to nuclear power development or otherwise and changing regulatory and environment standards (see "Regulation — *Environmental Matters*").

In April 1983 the Company announced the cancellation of Unit 1 of the Cherokee Nuclear Station citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation. The

Company believes, however, that alternative sources of energy will be necessary and available to meet the anticipated needs of its customers during the mid-1990s. Cancellation of Units 2 and 3 of the Cherokee Nuclear Station was announced in 1982. As of December 31, 1984, the balance of investment in the canceled Cherokee Nuclear Station, excluding land and net of amortization, was \$607 million. Additional costs relating to the cancellations are not expected to be significant.

The NCUC and PSC authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station incurred through April 1983. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. The Company intends to seek recovery of additional abandonment costs incurred subsequent to April 1983.

Estimated Costs

Cost estimates for the construction program, including the acquisition of nuclear fuel, for each of 1985, 1986 and 1987 and for the three-year period 1985-1987, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1985	1986	1987	Total
Generation	\$218	\$236	\$222	\$ 676
Transmission	36	34	53	123
Distribution	186	207	229	622
Other	106	109	69	284
Total	<u>\$546</u>	<u>\$586</u>	<u>\$573</u>	<u>\$1,705</u>
Nuclear Fuel	<u>\$161</u>	<u>\$185</u>	<u>\$214</u>	<u>\$ 560</u>

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

The Company has experienced higher costs of construction of new facilities as a result of recurring increases in the costs of materials, labor and capital, and increasing capital commitments attributable to more stringent regulatory requirements. However, the Company believes that in recent years it has been able to construct generating units at a lower cost per KW than generally experienced by other utilities for units of comparable type and vintage.

During the three-year period 1982-1984, gross property additions (including nuclear fuel) and net retirements amounted to approximately \$2.1 billion and \$1.1 billion, respectively, resulting in a net increase of approximately \$1.0 billion, or 12%, in gross plant. Net retirements include the portions of the Catawba Nuclear Station sold to Piedmont Municipal Power Agency (PMPA) (see "Facilities Under Construction") and amounts related to the cancellation of several nuclear projects.

Facilities Under Construction

The following table sets forth the major generating facilities of the Company currently under construction which are to be added to its present generating capability of 13,594,000 KW:

Unit and Location	Net KW Capability	Energy Source	Company Ownership (%)	Date of Planned Operation(1)	Estimated Construction Cost per KW	Total Estimated Construction Costs	Amounts Expended Through December 31, 1984
(Dollars in millions)							
Catawba 1	1,145,000 }	Nuclear	25	Spring 1985 }	\$1,703(2)	\$ 488(2)	\$375(2)
Catawba 2	1,145,000 }		—	1987 }			
(Southwest of Charlotte, in South Carolina)							
Bad Creek(3)	500,000 }	Hydro	100	1991 }	1,008	1,008	41
(Oconee County, South Carolina)	500,000 }			1992 }			

- (1) Based on past experience, operational dates may vary due to construction delays, difficulties which may be encountered in obtaining regulatory approvals or in obtaining capital at reasonable costs, changes in load forecasts and other factors (see "Regulation").

- (2) These amounts exclude the costs of initial fuel cores and the interests previously sold to NCMPA in 1978, to NCEMC and Saluda in 1981 and to PMPA in 1984.
- (3) The Bad Creek Hydroelectric Station, a pumped storage facility, will consist of four 250,000 KW units.

In order to reduce its need for external financing, the Company, in 1978, sold to NCMPA, a public body created by a group of the Company's North Carolina municipal customers, a 75% undivided interest in Unit 2 of the Catawba Nuclear Station and a 37½% undivided interest in the support facilities of that Station. In 1981, the Company also sold to NCEMC and Saluda, whose members were, prior to November 1, 1983, cooperative wholesale customers of the Company, a 75% undivided interest in Unit 1 of the Catawba Nuclear Station and a 37½% undivided interest in the support facilities of that Station. On December 20, 1984, the Company sold the remaining 25% interest in Unit 2 of the Catawba Nuclear Station for \$457 million to PMPA on substantially the same terms and conditions as the sale to NCMPA. During 1984 PMPA's participating municipalities accounted for approximately 1.9% of KWH sales and approximately 1.5% of electric revenues. The Company will continue to construct the facility and the purchasers will finance their respective portions of the construction costs by continued monthly progress payments.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also provide for the maintenance of a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company. This reliability exchange provides for an exchange of 50% of each buyer's retained capacity from its ownership interest in Catawba Unit 1 or Unit 2 for like amounts of capability and output from both units of the McGuire Nuclear Station. Although this exchange does not become effective until commercial operation of each Catawba unit, a special provision allows the buyers to invoke the reliability exchange as of a date certain prior to commercial operation with six months' prior notice. NCMPA invoked this provision with regard to Catawba Unit 1 effective July 1, 1983, thereby making NCMPA an operating entity serving its participating members. NCEMC and Saluda also invoked the Catawba Unit 1 reliability provision effective November 1, 1983, thereby making NCEMC and Saluda operating entities serving their participating members. PMPA has given notice of intent to invoke this provision effective June 20, 1985, in the event Catawba Unit 1 is not in commercial operation by that date. In addition, NCEMC and Saluda have given the Company notice of intention to invoke the reliability exchange provisions with respect to Catawba Unit 2 effective May 1, 1985. The implementation of these provisions has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The Company received a full power operating license from the NRC for Unit 1 of the Catawba Nuclear Station on January 17, 1985. This Unit is generating electricity during pre-operational testing and is expected to begin commercial operation in the spring. Intervenors have appealed the decision of the NRC granting such license.

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

	Generation by Source			Average Cost per Million BTU on a Burned Basis		
	Year Ended December 31			Year Ended December 31		
	1984	1983	1982	1984	1983	1982
Coal.....	45.4%	55.4%	70.5%	199.66*	189.55*	190.87*
Nuclear.....	56.2	42.7	27.2	61.40	54.19	55.04
Oil and Gas.....	—	—	—	562.59	530.82	439.40
All Fuels (cost based on weighted average).....	101.6	98.1	97.7	121.24	131.66	149.86
Hydroelectric*	3.4	3.6	2.8			
Purchased Power, Net.....	(5.0)	(1.7)	(.5)			
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>			

* Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains substantially all of its coal under long-term supply contracts with mining operators utilizing both deep and surface mining. On March 14, 1985, the Company had on hand a coal supply of approximately 69 days.

The Company's long-term supply contracts, all of which have price adjustment clauses, have expiration dates ranging from 1986 to 2000. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities (see "Regulation — Environmental Matters").

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

Nuclear Station	Uranium Material	Conversion Service	Enrichment Service	Fabrication Service
Oconee.....	1992	1992	2014	1989
McGuire.....	1992	1992	2014	1989
Catawba.....	1992	1992	2014	1989

Approximately 75% of the Company's commitments for uranium material included in the preceding table is expected to be obtained from Rio Algom, Ltd., a Canadian supplier. Deliveries to the Company by such supplier, which began in 1981, are subject to permits and export licenses from various Canadian governmental agencies, including the Atomic Energy Control Board, the Department of Industry, Trade and Commerce and the Uranium Exports Review Panel.

The Company purchased uranium material during 1984 at an average price of approximately \$33 per pound. However, such price may be greater in future years. The Company's material nuclear supply contracts generally contain *force majeure* provisions and provide for price escalation under certain conditions.

The Company presently has adequate storage capacity for spent fuel at Oconee until 1992, and at Catawba until well after 1998. The Company has received regulatory approvals which will enable it to provide adequate storage capacity at McGuire beyond the year 1998. Consideration is being given to expanding capacity at Oconee adequate for storage until 1998 through transshipment of spent fuel between stations, and through the use of developing storage technologies such as rod consolidation and dry cask storage. The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required contracts with DOE and began making payments in July 1983 for fuel currently being utilized and expects to make a one-time payment of \$122 million by June 29, 1985 for fuel consumed prior to April 7, 1983.

Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities (see "Construction Program").

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1985-1987 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$98 million, including \$36 million in 1985 and \$31 million in 1986. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

AIR QUALITY. In 1971, pursuant to the Clean Air Act of 1970 (the 1970 Act), EPA promulgated primary and secondary ambient air quality standards with respect to certain air pollutants including particulates, sulfur oxides and nitrogen oxides. Pursuant to such regulations, North Carolina and South Carolina have adopted implementation plans, which have been approved by EPA, containing air emission standards which were generally designed to achieve the primary ambient air quality standards by 1975 and the secondary ambient air quality standards within a reasonable time thereafter. The Company believes it is presently in substantial compliance with such implementation plans. The 1977 amendments to the 1970 Act include, among other things, authority for EPA to impose substantial delayed compliance penalties for failure to comply with applicable emission limitations after July 1, 1979 and civil penalties of up to \$25,000 per day for facilities found to be in violation of an applicable implementation plan provision.

The Company operates its coal-fired generating stations in North Carolina under a mass emission standard regulation which includes stringent annual tonnage limits for each boiler unit in addition to mass emission limits for particulates. Such regulation was issued by the North Carolina Environmental Management Commission (EMC) and was submitted to EPA for approval as a revision to the state implementation plan.

In December 1983, EPA published notice of its proposal to approve the new mass emission limits contingent on an additional submission by the State to document compliance with regulations for prevention of significant deterioration of air quality. EPA has proposed no action on annual tonnage limits as a matter of policy. Such new regulation also requires automatic monitoring equipment on each boiler unit to measure continuously the opacity of particulate emissions. The EMC has approved a special order by consent to authorize a delay in the installation of such equipment on 11

older units currently without such equipment pending re-evaluation by the EMC of the new regulation.

Changes in state implementation plan requirements could require the Company to incur substantial capital costs for pollution control equipment. Additionally, if legislation relating to air quality being considered by Congress is enacted, a reduction in sulfur dioxide emission limits for electric utility boilers might be required.

WATER QUALITY. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

In 1974, EPA established guidelines for steam electric generating plant discharges setting effluent limitations for existing sources and standards of performance for new sources. These guidelines imposed a "no discharge" of heat requirement on certain existing generating units and units under construction. Such guidelines were challenged in a suit filed in the United States Court of Appeals for the Fourth Circuit (*Appalachian Power Company, et al. v. Train*). In a decision issued in 1976, the Court set aside and remanded for further consideration portions of the guidelines to EPA.

OTHER ENVIRONMENTAL REGULATIONS. North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act.

GENERAL. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Nuclear Facilities. NRC regulations require consideration of both radiological and environmental issues prior to granting construction permits and operating licenses for nuclear power plants. These regulations currently permit public intervention with respect to issuances of permits and licenses.

The NRC requested the Company to study its Oconee reactor vessels for thermal shock effects of emergency core cooling system operations during a loss of feedwater event, as well as other transients which might induce rapid overcooling of the system. Preliminary analyses of the Oconee units conducted by the Company and the manufacturer, Babcock & Wilcox Company, have indicated that the vessels as constructed are adequate to permit safe operation for the remainder of their projected licensed lives. The present position of the staff of the NRC is that the units can operate safely pending completion of its analysis of the matter. Should modification be warranted upon completion of such analysis, the cost of modification is not expected to be material.

The Company currently has insured against public liability claims resulting from nuclear incidents to the full \$630 million limit on liability under the Price-Anderson Act. The maximum

available private insurance of \$160 million has been purchased and the remaining \$470 million has been provided through a mandatory industry-wide program of self-insurance, under which licensees could be assessed in the event of a nuclear incident involving any licensed facility in the nation up to \$5 million for each of its licensed reactors and up to \$10 million a year for each of its licensed reactors in the event of more than one incident. As of December 31, 1984, the Company had six licensed reactors. Such nuclear insurance coverage does not include coverage of the plant facilities. To cover possible damage to these facilities, the Company maintains property damage insurance with Nuclear Mutual Limited, a Bermuda mutual insurance company of which the Company is a member, in the maximum amount available from such insurer, which is presently \$500 million, or the insurable value of the facilities, whichever is less. The Company has purchased from Nuclear Electric Insurance Limited (NEIL), a Bermuda mutual insurance company of which it is a member, an additional \$500 million of property damage insurance through its Excess Property Insurance Program. The Company also has purchased an additional \$85 million of property damage insurance through a pool of stock and mutual insurance companies. In connection with the sale of a portion of its interest in the Catawba Nuclear Station (see "Construction Program"), the Company placed \$585 million through a pool of stock and mutual insurance companies and \$500 million through NEIL's Excess Property Insurance Program. (For information about possible assessments, see Note 14, "Notes to Financial Statements.")

NEIL also provides insurance against the increased cost of generation or purchased power resulting from the accidental outage of a nuclear unit. The Company's Oconee Nuclear Station and McGuire Nuclear Station are insured for up to \$1.2 million and \$1.8 million, per unit per week, respectively, after a 26-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100% for 52 weeks and at 50% for an additional 52 weeks.

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power Act. Eleven developments on the Catawba-Wataree River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for a term expiring in 2016 covering a power generation development on the upper tributaries of the Savannah River in northwestern South Carolina. Hydroelectric and pumped storage units in such development, with a nameplate rating of 750,000 KW, have been completed. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

Competition

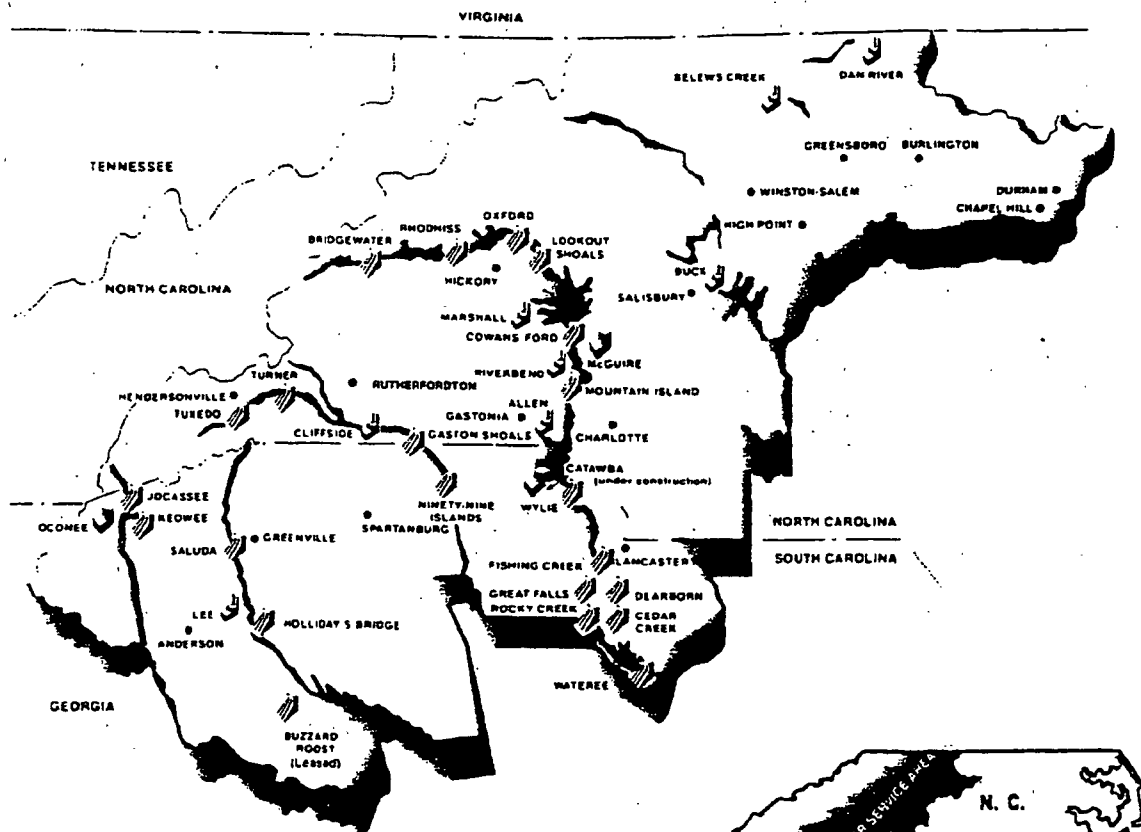
The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems and rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition

between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

Employees

At December 31, 1984, the Company employed approximately 20,300 persons, of whom approximately 6,900 were engaged in generating plant construction including design and engineering. About 1,850 electrical operating employees are represented by the International Brotherhood of Electrical Workers with which the Company has a labor agreement which expires on September 30, 1985.

Duke Power Service Area



LEGEND

- DISTRICT OFFICE
- ▨ STEAM ELECTRIC STATION
- ▨ HYDROELECTRIC STATION
- ▨ NUCLEAR ELECTRIC STATION

OPERATING STATISTICS

	Year Ended December 31				
	1984	1983	1982	1981	1980
Sources of Electric Energy					
Millions of kilowatt-hours:					
Generated — net output:					
Coal.....	26,394	32,466	38,927	42,513	40,984
Nuclear.....	32,632	25,059	15,009	14,229	14,213
Hydro.....	1,995	2,114	1,569	843	1,820
Oil and gas.....	—	8	7	146	203
Total generated.....	61,021	59,647	55,512	57,731	57,220
Net interchange and purchased power.....	(2,908)	(1,003)	(301)	494	(472)
Losses and company use.....	(3,714)	(4,493)	(3,831)	(4,677)	(4,437)
Total energy sales.....	54,399	54,151	51,380	53,548	52,311
Average Cost Per Ton of Coal Burned.....	\$49.58	\$47.24	\$46.80	\$43.24	\$37.85
Electric Energy Sales					
Millions of kilowatt-hours:					
Residential.....	14,493	14,219	13,711	13,861	13,765
General service.....	10,922	10,339	10,087	9,731	9,395
Industrial.....					
Textile.....	10,169	10,115	9,215	10,101	10,152
Other.....	11,652	10,792	10,130	10,566	9,908
Wholesale and other energy sales.....	7,163	8,686	8,237	9,289	9,091
Total energy sales.....	54,399	54,151	51,380	53,548	52,311
Electric Revenue					
Thousands of dollars:					
Residential.....	\$ 886,065	\$ 806,085	\$ 741,255	\$ 624,986	\$ 565,633
General service.....	593,351	521,568	485,064	386,141	340,691
Industrial.....					
Textile.....	409,635	374,138	335,727	293,081	263,024
Other.....	487,604	419,755	384,191	320,838	271,766
Wholesale and other energy sales.....	291,435	324,595	309,241	270,623	232,506
Other electric revenues.....	41,925	(25,889)	(10,998)	12,785	9,202
Total electric revenues.....	\$2,710,015	\$2,420,252	\$2,244,480	\$1,908,454	\$1,682,822
Number of Customers — End of Year					
Residential.....	1,199,718	1,167,846	1,139,248	1,125,371	1,105,035
General service.....	181,590	175,142	168,897	167,282	165,522
Industrial.....					
Textile.....	1,337	1,323	1,302	1,313	1,324
Other.....	6,680	6,588	6,459	6,410	6,264
Wholesale and other energy sales.....	6,385	6,276	6,403	6,326	6,260
Total customers.....	1,395,710	1,357,175	1,322,309	1,306,702	1,284,405
Residential Customer Statistics					
Average number for year.....	1,186,962	1,158,123	1,136,431	1,118,534	1,095,933
Average annual use — KWH.....	12,210	12,278	12,065	12,392	12,560
Average annual billing.....	\$746.50	\$696.03	\$652.27	\$558.75	\$516.12
Average Annual Billed Revenue Per KWH					
Residential.....	6.11*	5.67*	5.41*	4.51*	4.11*
General service.....	5.43*	5.04*	4.81*	3.97*	3.65*
Industrial.....	4.11*	3.80*	3.72*	2.97*	2.67*
Wholesale and other energy sales.....	4.07*	3.74*	3.75*	2.91*	2.56*

EXECUTIVE OFFICERS OF THE COMPANY

<u>Name</u>	<u>Position</u>	<u>Service In Such Capacity Since</u>	<u>Age*</u>
W. S. Lee**	Chairman of the Board and Chief Executive Officer	1982	55
D. W. Booth**	President and Chief Operating Officer and Director	1982	60
W. H. Grigg**	Executive Vice President, Finance and Administration, and Director	1982	52
W. H. Owen**	Executive Vice President, Engineering, Construction and Production Group, and Director	1982	58
A. C. Thies**	Executive Vice President, Transmission, Distribution and Electric Operations Group, and Director	1982	63
Steve C. Griffith, Jr.**	Senior Vice President and General Counsel and Director	1982	51
John D. Hicks**	Senior Vice President, Public Affairs, and Director	1977	61
Henry L. Cranford	Senior Vice President, Division Operations	1982	57
Donald H. Denton, Jr.	Senior Vice President, Marketing and Rates	1982	47
James R. Bavis	Vice President, Human Resources	1984	45
Thomas C. Berry	Vice President, Southern Division	1976	54
S. K. Blackley, Jr.	Vice President, Transmission	1984	52
Ralph W. Bostian	Vice President, Production Support	1982	58
J. Kenneth Clark	Vice President, Corporate Communications	1981	52
W. A. Coley	Vice President, Operation	1984	41
Robert L. Dick	Vice President, Construction	1971	57
George W. Ferguson, Jr.	Vice President and Deputy General Counsel	1982	52
E. O. Ferrell, III	Vice President, Northern Division	1984	40
E. N. Hedgepeth, Jr.	Vice President, Distribution	1982	57
Duncan Lennon	Vice President and Tax Counsel	1984	63
John F. Lomax	Vice President, Western Division	1980	45
Paul G. Martin	Vice President, Eastern Division	1982	52
Dwight B. Moore	Vice President, Central Division	1980	63
William O. Parker, Jr.	Vice President, Fossil Production	1982	60
R. B. Priory	Vice President, Design Engineering	1984	38
William R. Stimart	Vice President, Regulatory Affairs	1979	53
George E. Stubbins	Vice President, Information Systems	1982	44
Hal B. Tucker	Vice President, Nuclear Production	1982	56
Fred E. West, Jr.	Vice President, Charlotte Division	1981	48
James W. White	Vice President, General Services	1979	59
Lewis F. Camp, Jr.	Secretary and Associate General Counsel	1980	56
Norman P. Morrow	Controller	1982	37
Richard J. Osborne	Treasurer	1981	34

*As of February 1985.

**Member of the Executive Committee.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for James R. Bavis, J. Kenneth Clark and Norman P. Morrow. Mr. Bavis served as Vice President, Human Resources, of Gold Bond Building Products, a division of National Gypsum Company, Inc. from January 1980 to March 1984 when he joined the Company as Vice President, Human Resources. Mr. Clark served as Public Affairs Director of Mars, Inc., confectioner, from July 1978 to May 1981 when he joined the Company as Vice President, Corporate Communications. He served as Corporate News Bureau Director of Monsanto Company, a diversified chemical manufacturer, from 1976 to 1978. Mr. Morrow was an accountant with the firm of Deloitte Haskins & Sells from 1970 to 1980, when he joined the Company as Assistant Controller.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Item 2. *Properties.*

The map on page 11 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V — Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. — "Construction Program — *Facilities Under Construction*".

Item 3. *Legal Proceedings.*

Reference is made to Item 1. — "Business — Construction Program" for information relating to licensing proceedings before the NRC with respect to the Company's Catawba Nuclear Station.

Reference is made to Item 1. — "Business — Rate Matters" for information relating to appeals taken from rate orders previously obtained by the Company from the NCUC. Intervenors appealed an order of the PSC issued in August 1980 granting a rate increase of \$23.4 million based on a test year ended June 30, 1979, seeking its reversal or modification and refunds. The Court of Common Pleas, Richland County, upheld the order. On appeal, the South Carolina Supreme Court reversed and remanded the case to the PSC for further proceedings. On remand, the PSC issued two separate orders consistent with the Company's positions, the first of which was appealed to the Court of Common Pleas of Richland County and subsequently remanded to the PSC. Intervenors requested reconsideration of the second order which was denied by the PSC but further appeals of this order are anticipated. Intervenors have also appealed an order of the NCUC issued in February 1982 adjusting rates based on changes in fuel cost, seeking its reversal or modification and refunds. The North Carolina Court of Appeals remanded the order to the NCUC for a redetermination of fuel costs.

Item 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of the Company's security holders during the last quarter of 1984.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1984, there were approximately 120,400 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by *The Wall Street Journal* as composite transactions:

Common Stock	Dividends Per Share	Price Range	
		High	Low
1984 by Quarter			
Fourth.....	\$0.62	30 ¹ / ₈	27 ¹ / ₈
Third.....	0.62	27 ⁷ / ₈	24 ³ / ₈
Second.....	0.59	25	22 ¹ / ₄
First.....	0.59	26 ¹ / ₈	22 ¹ / ₄
1983 by Quarter			
Fourth.....	\$0.59	26 ³ / ₈	24
Third.....	0.59	24 ¹ / ₈	21 ³ / ₄
Second.....	0.57	24	22 ³ / ₈
First.....	0.57	24	22

Item 6. Selected Financial Data.

DUKE POWER COMPANY SELECTED FINANCIAL DATA

	Year Ended December 31				
	1984	1983	1982	1981	1980
	(Dollars in thousands, except per share figures)				
CONDENSED STATEMENTS OF INCOME					
Electric revenues.....	\$2,710,015	\$2,420,252	\$2,244,480	\$1,908,454	\$1,682,822
Electric expenses.....	2,161,914	1,971,038	1,854,712	1,632,104	1,402,722
Electric operating income.....	548,101	449,214	389,768	276,350	280,100
Other income.....	162,795	213,001	175,048	254,043	208,365
Income before interest deductions.....	710,896	662,215	564,816	530,393	488,465
Interest deductions.....	249,565	230,938	214,939	194,142	177,374
Income before extraordinary item.....	461,331	431,277	349,877	336,251	311,091
Extraordinary item.....	—	—	48,304	—	—
Net income.....	461,331	431,277	398,181	336,251	311,091
Dividends on preferred and preference stocks....	61,786	62,600	62,164	57,895	58,612
Earnings for common stock.....	\$ 399,545	\$ 368,677	\$ 336,017	\$ 278,356	\$ 252,479
RATIO OF EARNINGS TO FIXED CHARGES (SEC method).....	4.21	3.46	2.98	2.73	2.65
COMMON STOCK DATA					
Shares of common stock					
— End of year (thousands).....	101,153	99,634	95,949	88,483	86,294
— Average (thousands).....	100,346	97,784	93,679	87,313	81,985
Per share of common stock					
Earnings before extraordinary item.....	\$ 3.98	\$ 3.77	\$ 3.07	\$ 3.19	\$ 3.08
Extraordinary item.....	—	—	0.52	—	—
Earnings.....	\$ 3.98	\$ 3.77	\$ 3.59	\$ 3.19	\$ 3.08
Dividends.....	\$ 2.42	\$ 2.32	\$ 2.24	\$ 2.08	\$ 1.95
Book value — end of year.....	\$ 27.80	\$ 26.26	\$ 24.89	\$ 23.83	\$ 22.82
Market price — high-low.....	\$ 30 ¹ / ₈ -22 ¹ / ₄	\$ 26 ³ / ₈ -21 ¹ / ₄	\$ 24-20 ¹ / ₈	\$ 22 ¹ / ₂ -15 ¹ / ₂	\$ 19 ¹ / ₄ -14 ¹ / ₄
— end of year.....	\$ 29	\$ 25 ¹ / ₄	\$ 23 ¹ / ₄	\$ 20 ¹ / ₄	\$ 18 ¹ / ₄
TOTAL ASSETS.....	\$8,018,818	\$7,379,445	\$7,057,780	\$6,531,044	\$6,328,174
LONG-TERM DEBT.....	\$2,696,795	\$2,745,889	\$2,712,372	\$2,545,694	\$2,594,008
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS.....	\$ 285,426	\$ 295,053	\$ 304,026	\$ 308,674	\$ 316,559

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Resources

The Company demonstrated continued financial improvement in 1984. During the year — and at year-end — the market price of the Company's common stock exceeded book value for the first time since 1978. Credit ratings on first and refunding mortgage bonds, preferred stock, and preference stock were upgraded during the year, reflecting the improved financial condition.

In January 1985 the Board of Directors approved a revised long-term financial plan. The goals established by the plan are designed to maintain the improved financial position the Company has achieved in recent years.

Fixed charges coverage

Coverage of fixed charges, using the Securities and Exchange Commission method, increased to 4.21 times at year-end.

This improvement is the result of earnings increasing while fixed charges remained relatively constant. The near completion of major nuclear construction projects and the sale of a portion of the Catawba Nuclear Station reduced the amount of long-term financing needed and contributed to stable fixed charges.

A revised goal of 4.00 times has been established to maintain the Company's financial position.

Capital structure

The Company's capital structure at year-end was 44 percent long-term debt, 45 percent common equity and 11 percent preferred stock. This composition is in line with the revised goal of maintaining a capital structure with a maximum of 45 percent long-term debt, 45 to 50 percent common equity and the remainder in preferred stock.

In January 1985 the Company began purchasing common stock on the open market for its Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan. For the next several years, the Company expects to issue new shares of common stock only for the conversion of the outstanding 6.75% Convertible Series AA Preference Stock.

Funds from operations

Including the proceeds from the sales of portions of the Catawba Nuclear Station, funds retained in the business accounted for 86 percent of total capital requirements in 1984 and 63 percent for the period 1980 through 1983.

Maintaining this current level of internally generated funds will require timely and adequate recovery of increases in costs. These increases will occur because of the Company's share of the operating expenses, its investment in the Catawba Nuclear Station, and the requirements for the purchased capacity and energy expenses established by the agreements with the Catawba buyers. (See Note 14, "Notes to Financial Statements.")

Additional funds

During the past five years, the Company obtained additional funds from the sale of \$599 million in first and refunding mortgage bonds and \$88 million in preferred stock. Proceeds from the sale of common stock, including the issuance of common stock in a non-cash exchange for bonds, totaled \$462 million. (See Note 4, "Notes to Financial Statements.")

The Company also received \$978 million from the sales of portions of the Catawba Nuclear Station in 1984 and 1981. The December 20, 1984 sale of a 25 percent interest in Catawba Unit 2 to the Piedmont Municipal Power Agency contributed \$457 million of this total amount. The Company

will continue to retain a 12.5 percent ownership interest in the two-unit station. (See Note 3, "Notes to Financial Statements.")

In October 1984 the Company borrowed the proceeds of the sale of \$40 million principal amount of annual tender, pollution-control revenue bonds issued by York County, S.C. The bonds were issued to finance pollution-control and solid waste disposal facilities at the Catawba Nuclear Station. As of year-end the Company had received \$34 million in proceeds, with the remainder to be received as expenditures are made.

On October 2, 1984, the Company transferred certain U.S. government securities to an irrevocable trust for the defeasance of \$32.9 million of its 14 $\frac{3}{8}$ percent first and refunding mortgage bonds. The entire series of the 14 $\frac{3}{8}$ percent bonds will be retired by the Company on March 1, 1985. (See Note 12, "Notes to Financial Statements.")

The short-term obligations of one of the Company's nuclear fuel trusts were reduced by \$40 million in January 1985. This reduction resulted in a total balance of \$85 million in the two nuclear fuel trusts. (See Note 12, "Notes to Financial Statements.")

The Company intends to make a lump-sum payment of \$122 million in mid-1985 to the Department of Energy in accordance with the Nuclear Waste Policy Act of 1982. This payment is for the obligation related to disposal costs for nuclear fuel consumed prior to April 7, 1983. (See Note 1, "Notes to Financial Statements.")

Rate increases

Retail rate increases, allowing approximately 57 percent of requested additional revenues, were granted to the Company from 1980 to 1983. These rate increases sought recovery of the Company's investment in both units of the McGuire Nuclear Station, higher rates of return on common equity, compensation for increased operating expenses, and recovery for the amortization of two canceled nuclear projects. In 1984 the Company was granted 66 percent of the amounts requested from its retail jurisdictions, primarily to recover its investment in McGuire Unit 2. (For rate information by jurisdiction, see Note 2, "Notes to Financial Statements.")

The Company intends to file rate requests with the North Carolina Utilities Commission, The Public Service Commission of South Carolina and the Federal Energy Regulatory Commission by the spring of 1985. These requests for rate increases will reflect the Company's investment in Unit 1 of the Catawba Nuclear Station and the expenses related to purchased power contracts associated with portions of the units that have been sold. (See Note 14, "Notes to Financial Statements.")

Capital Needs

Property additions and retirements

Additions to property and nuclear fuel of \$645 million and retirements of \$410 million have resulted in a net increase in gross plant of \$235 million in 1984.

Since January 1, 1980, additions to property and nuclear fuel of \$3.7 billion and retirements of \$1.5 billion have resulted in a net increase in gross plant of \$2.2 billion. Retirements during the period were unusually large because portions of the Catawba Nuclear Station were sold and the Cherokee and Perkins nuclear projects were canceled. (See Notes 3 and 5, "Notes to Financial Statements.")

Construction and other expenditures

Total plant construction costs declined during the period 1980 through 1984 because the Company placed the McGuire Nuclear Station in commercial operation (Unit 1 in 1981; Unit 2 in 1984), sold portions of the Catawba Nuclear Station and canceled two nuclear projects. As a result, construction work in progress as of December 31, 1984, was less than \$1.0 billion for the first time since 1975.

Expenditures for construction of major generating facilities and for nuclear fuel constituted approximately 61 percent of capital requirements during 1984, compared with 80 percent for 1980.

Additional funds were required for the expansion and replacement of transmission and distribution facilities, the refunding of maturing securities and the requirements of sinking funds.

Future construction program

Major plant construction costs will constitute a lower percentage of the Company's capital requirements from 1985 through 1987, compared with the previous five years. Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station that have been sold, are \$2.3 billion for the three-year period.

An operating license was granted to the Company for the Catawba Nuclear Station on January 17, 1985. Commercial operation of Unit 1 is scheduled for the spring of 1985. Commercial operation of Catawba Unit 2 is planned for 1987, and construction on that unit is currently ahead of schedule.

The Company's portion of the total estimated construction and initial core nuclear fuel costs for both units of Catawba is \$517 million. This amount includes \$405 million spent as of December 31, 1984.

Construction of the Bad Creek Hydroelectric Station continued in 1984. Units 1 and 2 of the 1,000,000-kilowatt pumped-storage facility are scheduled for completion in 1991, with Units 3 and 4 in 1992. The estimated cost of Bad Creek totals \$1.0 billion, with \$41.5 million spent as of December 31, 1984.

Beyond the completion of Catawba and Bad Creek, the Company has no plans to place a new generating plant in service before the mid-1990s.

Results of Operations

Revenues and sales

Electric revenues increased at an annual rate of 13 percent from 1980 to 1984 because of increases in rates and kilowatt-hour sales. Kilowatt-hour sales fluctuated during the five-year period. The factors affecting sales included the economic recession in the early 1980s, unusual weather patterns and the economic growth in the Piedmont Carolinas over the past few years.

Kilowatt-hour sales in 1984, including portions of electricity delivered to certain purchasers of the Catawba Nuclear Station under the terms and conditions of their contracts, were 4 percent higher than in 1983, largely because of continuing economic growth in the Piedmont Carolinas.

Non-textile industrial kilowatt-hour sales rose 8 percent in 1984, while textile industrial sales increased only slightly because of the recent slowdown in the textile industry. While sales to textile customers amounted to approximately 19 percent of total Company sales, fourth quarter textile sales declined 7 percent from the same period in 1983.

Operating expenses

Non-fuel operation and maintenance expense rose at an annual rate of 17 percent from 1980 to 1984. This growth rate was largely the result of placing two nuclear units into commercial operation, additional Nuclear Regulatory Commission requirements and inflation. (See "Supplemental Financial Data — Effects of Changing Prices.")

In the last three years, fuel expense has decreased at an annual rate of 5 percent. Fuel expense decreased in 1984 and 1983 because increased nuclear generation reduced the Company's need for coal, a more expensive source of fuel per kilowatt-hour. The 1982 decrease reflected lower levels of production mainly because of the economic recession. Fuel expense rose from 1980 to 1981 because the unit price of fuel increased.

"Net interchange and purchased power" expense decreased in 1984 and 1983. The decrease resulted from the McGuire Reliability Exchange, an agreement which entitles certain Catawba buyers to a portion of the energy from the McGuire Nuclear Station prior to the commercial operation of Catawba Unit 1. The energy purchased by the Catawba buyers, which was previously recorded as sales to wholesale customers, is now classified as a part of interchange sales.

Other

Allowance for funds used during construction (ADC) was equivalent to 32 percent of earnings for common stock in 1984, a decrease from 67 percent for the period 1980 through 1983. The reduction of construction work in progress resulting from the completion of two nuclear units, the sale of an additional portion of the Catawba Nuclear Station and the cancellation of two nuclear projects caused a decline in ADC from 1981 to 1984. (See Notes 3 and 5, "Notes to Financial Statements.") Increases in construction work in progress and higher embedded costs of funds caused ADC to rise during 1980 and 1981.

Interest and dividend income, subsidiary earnings, merchandise sales, and Management and Technical Services earnings increased from 1983 to 1984. These non-utility earnings represented 10 percent of total earnings for 1984, an increase from 5 percent in 1983.

Earnings and dividends for common stock

Earnings per share increased at an annual rate of 7 percent, to \$3.98 in 1984 from \$3.08 in 1980.

In 1984 the Company's total earned return on average common equity was 14.8 percent, the same percentage earned in 1983.

Dividends paid increased at an annual rate of 6 percent, to \$2.42 in 1984 from \$1.95 in 1980. Indicated annual dividends per share increased to \$2.48 in 1984, up 5 percent from 1983.

Significant trends

Although the Company has experienced several years of solid growth, the next several years present many challenges.

Numerous factors could affect earnings, liquidity and capital resources. The most significant of these is whether the Company will receive timely and adequate rates to cover costs of the Catawba units after they begin commercial operation. Revenues from sales to textile customers could be materially affected if the economic problems caused by foreign imports continue to plague the industry. Factors that could have a positive effect on earnings, liquidity and capital resources include continuing increases in non-utility earnings, a steady growth in non-textile kilowatt-hour sales and maintaining high levels of nuclear generation.

Item 8. *Financial Statements and Supplementary Data.*

DUKE POWER COMPANY

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RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

AUDITORS' OPINION

Duke Power Company:

We have examined the financial statements and supplemental schedules of Duke Power Company listed in the accompanying index on page 20. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Company at December 31, 1984 and 1983, and the results of its operations and the source of its funds for plant construction costs for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
February 15, 1985

DUKE POWER COMPANY
STATEMENTS OF INCOME

	Year Ended December 31		
	1984	1983	1982
	(Dollars in thousands)		
ELECTRIC REVENUES (Notes 1 and 2).....	\$2,710,015	\$2,420,252	\$2,244,480
ELECTRIC EXPENSES			
Operation			
Fuel used in electric generation (Note 1)	683,563	739,829	781,406
Net interchange and purchased power (credit).....	(36,408)	(19,819)	(10,685)
Wages, benefits and materials.....	393,448	350,162	329,954
Maintenance of plant facilities.....	207,951	187,267	177,766
Depreciation and amortization (Notes 1 and 5).....	303,429	209,750	186,080
General taxes.....	194,095	173,826	158,289
Income taxes (Notes 1 and 6).....	415,836	330,023	231,902
Total electric expenses.....	2,161,914	1,971,038	1,854,712
Electric operating income.....	548,101	449,214	389,768
OTHER INCOME (Notes 1 and 6)			
Allowance for equity funds used during construction.....	98,711	144,048	146,214
Earnings of subsidiaries, net.....	17,221	10,415	7,039
Provision for loss on disposal of assets.....	—	—	(30,000)
Other, net.....	33,834	5,391	12,548
Income taxes — other, net.....	(29,180)	(3,037)	(11,687)
Income taxes — credit.....	42,209	56,184	50,934
Total other income.....	162,795	213,001	175,048
Income before interest deductions.....	710,896	662,215	564,816
INTEREST DEDUCTIONS			
Interest on long-term debt.....	276,520	272,349	254,643
Other interest.....	3,075	6,766	12,802
Allowance for borrowed funds used during construction (credit) (Note 1).....	(30,030)	(48,177)	(52,506)
Total interest deductions.....	249,565	230,938	214,939
Income before extraordinary item.....	461,331	431,277	349,877
EXTRAORDINARY ITEM (Note 4).....	—	—	48,304
NET INCOME.....	461,331	431,277	398,181
Dividends on preferred and preference stocks.....	61,786	62,600	62,164
EARNINGS FOR COMMON STOCK.....	\$ 399,545	\$ 368,677	\$ 336,017
COMMON STOCK DATA			
Average shares outstanding (thousands).....	100,346	97,784	93,679
Earnings before extraordinary item.....	\$3.98	\$3.77	\$3.07
Extraordinary item.....	—	—	0.52
Earnings per share.....	\$3.98	\$3.77	\$3.59
Dividends per share.....	\$2.42	\$2.32	\$2.24

See Notes to Financial Statements.

DUKE POWER COMPANY

STATEMENTS OF SOURCE OF FUNDS FOR PLANT CONSTRUCTION COSTS

	Year Ended December 31		
	1984	1983	1982
	(Dollars in thousands)		
FUNDS FROM OPERATIONS			
Income before non-fund extraordinary item.....	\$ 461,331	\$431,277	\$349,877
Non-fund items			
Depreciation and amortization (Notes 1 and 5).....	469,711	324,608	268,651
Deferred income taxes and investment tax credit, net of amortization (Note 6).....	103,800	333,045	159,515
Equity component of the allowance for funds used during construction.....	(98,711)	(144,048)	(146,214)
Other, net.....	(13,137)	(6,073)	25,171
Funds from operations.....	922,994	938,809	657,000
Dividends paid.....	(304,577)	(289,564)	(272,115)
Funds retained in the business.....	618,417	649,245	384,885
FUNDS FROM FINANCINGS AND SALE OF ASSETS — NET PROCEEDS			
Sale of an interest in the Catawba Nuclear Station (Note 3).....	457,086	—	—
Common stock (Note 4).....	37,194	84,326	199,134
Pollution-control series.....	60,720	45,648	—
Nuclear fuel trusts.....	84,461	60,645	33,052
Term notes.....	—	—	79,721
First mortgage bonds.....	—	—	221,521
Preferred stock.....	—	—	38,296
Decrease in notes payable.....	—	(57,210)	(114,140)
Funds from financings and sale of assets.....	639,461	133,409	457,584
Total available funds.....	1,257,878	782,654	842,469
INCREASE IN WORKING CAPITAL (Note 13).....	(303,952)	(170,979)	(20,816)
LONG-TERM DEBT RETIRED/PREFERRED STOCKS REACQUIRED (Note 4).....	(138,652)	(81,097)	(194,555)
OTHER, NET (Notes 1 and 13).....	(269,231)	5,100	(37,252)
PLANT CONSTRUCTION EXPENDITURES.....	546,043	535,678	589,846
EQUITY COMPONENT OF THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....	98,711	144,048	146,214
PLANT CONSTRUCTION COSTS.....	\$ 644,754	\$679,726	\$736,060
SUMMARY OF PLANT CONSTRUCTION COSTS			
Production.....	\$ 253,025	\$376,134	\$405,329
Transmission.....	42,765	32,022	40,599
Distribution.....	156,075	127,989	113,881
General.....	55,558	38,966	23,895
Subtotal.....	507,423	575,111	583,704
Nuclear fuel.....	137,331	104,615	152,356
PLANT CONSTRUCTION COSTS.....	\$ 644,754	\$679,726	\$736,060

See Notes to Financial Statements.

DUKE POWER COMPANY

BALANCE SHEETS

ASSETS

	December 31	
	1984	1983
	(Dollars in thousands)	
ELECTRIC PLANT		
(At original cost — Notes 1, 3, 12 and 14)		
Electric plant in service.....	\$7,810,094	\$6,270,799
Less accumulated depreciation and amortization.....	2,646,266	2,405,150
Electric plant in service, net.....	5,163,828	3,865,649
Construction work in progress.....	988,790	2,296,843
Total electric plant, net.....	6,152,618	6,162,492
OTHER PROPERTY AND INVESTMENTS		
Other property — at cost (less accumulated depreciation: 1984 — \$7,423; 1983 — \$8,022).....	38,774	34,773
Investments in and advances to subsidiaries (Note 1).....	77,785	61,808
Other investments — at cost or less.....	22,596	29,317
Total other property and investments.....	139,155	125,898
CURRENT ASSETS		
Cash (Note 7).....	5,754	596
Short-term investments.....	815,628	125,590
Receivables (less allowance for losses: 1984 — \$4,030; 1983 — \$3,982).....	262,669	232,577
Refundable income taxes (Note 6).....	—	41,209
Materials and supplies — at average cost		
Coal.....	114,787	138,217
Other.....	107,831	105,735
Prepayments.....	8,073	10,316
Total current assets.....	1,314,742	654,240
DEFERRED DEBITS		
Debt expense, being amortized over terms of related debts.....	4,068	4,045
Canceled construction projects (Note 5).....	395,519	414,633
Other.....	12,716	18,137
Total deferred debits.....	412,303	436,815
TOTAL ASSETS	\$8,018,818	\$7,379,445

See Notes to Financial Statements.

DUKE POWER COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31	
	1984	1983
	(Dollars in thousands)	
CAPITALIZATION (See Statements of Capitalization).....	\$6,214,754	\$6,079,430
CURRENT LIABILITIES		
Accounts payable	153,109	116,297
Nuclear fuel disposal cost payable (Note 1)	122,003	—
Taxes accrued	214,064	56,063
Interest accrued	88,114	89,973
Other	67,668	26,075
Total	644,958	288,408
Current maturities of long-term debt and preferred stock	119,819	55,993
Total current liabilities	764,777	344,401
ACCUMULATED DEFERRED INCOME TAXES (Notes 1 and 6)...	683,023	605,399
DEFERRED CREDITS AND OTHER LIABILITIES		
Investment tax credit (Notes 1 and 6)	329,376	313,139
Other	26,888	37,076
Total deferred credits and other liabilities	356,264	350,215
COMMITMENTS AND CONTINGENCIES (Notes 5 and 14)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$8,018,818</u>	<u>\$7,379,445</u>

See Notes to Financial Statements.

DUKE POWER COMPANY
STATEMENTS OF CAPITALIZATION
AND RETAINED EARNINGS

CAPITALIZATION

	December 31	
	1984	1983
	(Dollars in thousands)	
COMMON STOCK EQUITY (Note 9)		
Common stock, no par, 150,000,000 shares authorized; 101,152,724 shares outstanding for 1984 and 99,633,699 shares outstanding for 1983	\$1,859,639	\$1,820,828
Retained earnings	952,360	795,512
Total common stock equity	2,811,999	2,616,340
PREFERRED AND PREFERENCE STOCKS WITHOUT SINKING FUND REQUIREMENTS (Note 10)		
Preferred stock	415,000	415,000
Preference stock	5,534	7,148
Total preferred and preference stocks without sinking fund requirements	420,534	422,148
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS (Note 11)	285,426	295,053
LONG-TERM DEBT (Note 12)		
First and refunding mortgage bonds	2,530,506	2,511,370
Promissory note due subsidiary, 16½% — due 1989	58,725	58,725
Term note, floating rate — due 1987	21,000	21,000
Term note, floating rate — due 1985	2,000	4,000
Capitalized leases	90,877	93,937
Nuclear fuel trusts	125,000	125,000
Unamortized debt discount and premium, net	(17,894)	(18,550)
Current maturities of long-term debt	(113,419)	(49,593)
Total long-term debt	2,696,795	2,745,889
TOTAL CAPITALIZATION	<u>\$6,214,754</u>	<u>\$6,079,430</u>

RETAINED EARNINGS

	Year Ended December 31		
	1984	1983	1982
	(Dollars in thousands)		
BALANCE — Beginning of year	\$ 795,512	\$ 653,981	\$529,842
ADD — Net income	461,331	431,277	398,181
Total	1,256,843	1,085,258	928,023
DEDUCT			
Dividends			
Common stock	242,791	226,964	210,206
Preferred and preference stocks	61,786	62,600	62,164
Capital stock transactions, net	(94)	182	1,672
Total deductions	304,483	289,746	274,042
BALANCE — End of year	<u>\$ 952,360</u>	<u>\$ 795,512</u>	<u>\$653,981</u>

See Notes to Financial Statements.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. *Additions to Electric Plant.* The Company capitalizes all construction related direct labor and materials, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized. The cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. *Allowance for Funds Used During Construction (ADC).* ADC represents the debt and equity costs of capital funds necessary to finance the construction of new facilities. ADC, a non-cash, non-operating item, is recognized as a cost of "Construction work in progress," with offsetting credits to "Other income" and "Interest deductions." After construction is completed, a utility is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

ADC is not capitalized on construction work in progress (CWIP) included in rate base. As of December 31, 1984, no CWIP was included in the Company's rate base. CWIP of approximately \$280 million was included in North Carolina rate base as of December 31, 1983 and 1982.

ADC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.65 percent for 1984, 9.45 percent for 1983 and 9.38 percent for 1982.

C. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.56 percent for 1984 and 3.47 percent for 1983 and 1982. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a 4 percent rate, which includes an allowance for decommissioning costs.

Provisions for amortization of nuclear fuel include amounts for disposal costs. Such provisions, which are included in "Fuel used in electric generation," are recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company began making quarterly payments to the Department of Energy (DOE) in 1983. These payments are based on nuclear fuel consumption after April 7, 1983.

The Company is obligated to pay DOE a one-time fee of \$122,003,000 relating to disposal costs for nuclear fuel consumed before April 7, 1983. The Company intends to make a single payment for this fee before June 30, 1985. Although this amount has been reclassified to current liabilities from accumulated depreciation and amortization, the increase in electric plant has been included in "Other, net" on the Statements of Source of Funds for Plant Construction Costs.

D. *Subsidiaries.* The Company uses the equity method to account for investments in its subsidiaries, all of which are wholly owned. Retained earnings as of December 31, 1984, include \$70,894,000 of undistributed earnings of subsidiaries. Dividends received from subsidiaries were \$2,300,000 in 1984, \$2,250,000 in 1983 and \$1,600,000 in 1982.

The assets of Eastover Mining Company and the related land leased from Eastover Land Company were sold in 1983. A provision for loss of \$30 million (net of income tax benefits of \$28 million) was recorded in 1982.

E. *Income Taxes.* The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income or loss.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

Income taxes are allocated to electric operating expenses and to non-electric operations under "Other income." The "Income taxes-credit" classified under "Other income" results from tax deductions of interest costs relating to investments in non-utility properties, mainly CWIP not included in rate base and canceled construction projects.

Deferred income taxes are provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, capitalized taxes, employee benefits and loss on canceled construction projects. Investment tax credit is deferred and amortized over the useful lives of the related properties. The Company had no unused investment tax credit as of December 31, 1984.

F. Fuel Cost Adjustment Procedures. Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. These jurisdictions allow the Company to reflect in revenues the difference between actual fuel costs incurred and fuel costs recovered through base rates.

In the North Carolina retail jurisdiction, an annual fuel hearing to review fuel costs in base rates is required. In addition, fuel costs must be reviewed during general rate case proceedings.

2. Rate Matters

The North Carolina Utilities Commission and The Public Service Commission of South Carolina must approve rates for retail sales within the respective states. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales to wholesale customers. The revenues shown (in millions of dollars) are annualized on the basis of the filing test year.

A summary of all general rate increases requested or implemented by the Company since January 1, 1982, is as follows:

Jurisdiction and date filed	Requested revenues	Approved			Rate order effective	End of 12-month test period
		Revenues	% of request	% of increase over previous revenues		
N.C. retail						
March 1982.....	\$197.0	\$ 61.7	31.3	4.38	November 1982	December 31, 1981
February 1983.....	112.9	76.2	67.5	5.18	September 1983	September 30, 1982
November 1983.....	212.8	131.0	61.6	8.40	June 1984	June 30, 1983
S.C. retail						
December 1980.....	103.7	57.0	54.9	13.00	January 1982	December 31, 1980
February 1982.....	99.4	40.7	40.9	7.10	March 1983	June 30, 1982
September 1983.....	136.0	99.7	73.3	17.40	March 1984	April 30, 1983
FERC wholesale*						
June 1981.....	46.9	30.7	65.5	11.90	August 1982	September 30, 1982
August 1982.....	44.1	26.0	59.0	8.70	June 1983	December 31, 1983
December 1983.....	9.5	8.0	84.2	9.60	October 1984	December 31, 1984

* FERC wholesale filings beginning December 1983 do not include the North Carolina Municipal Power Agency Number 1, the North Carolina Electric Membership Corporation and the Saluda River Electric Cooperative, Inc. that in previous years purchased interests in the Catawba Nuclear Station. Effective July 1, 1983, and November 1, 1983, these rates are set through contractual agreements. Sales to these municipalities and cooperatives previously represented a majority of the Company's wholesale revenues.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

3. Sale of Assets

The Company sold a 25 percent interest in Unit 2 of the Catawba Nuclear Station on December 20, 1984, to the Piedmont Municipal Power Agency, which represents 10 South Carolina municipalities. The Company received \$457,086,000 at closing. The \$1.8 million net of tax profit from the sale has been deferred.

As of December 31, 1984, "Construction work in progress" included \$404,823,000, representing the Company's investment in its remaining interest in Catawba.

4. Extraordinary Item

The Company issued 3,727,544 shares of common stock with a market value of \$73,489,000 on January 7, 1982, in exchange for portions of several series of outstanding first and refunding mortgage bonds with a face value of \$119,902,000. The transaction resulted in non-taxable gain of \$48,304,000, or \$0.52 per share, on the retirement of the bonds.

5. Canceled Construction Projects

The Cherokee and Perkins Nuclear Stations have been canceled. All jurisdictions have permitted recovery of the costs incurred through April 30, 1983. These costs are being amortized principally over a 10-year period beginning October 1983. The Company intends to seek recovery of the remaining incurred costs.

As of December 31, 1984 and 1983, the balance for these canceled projects, excluding land and net of amortization, was \$611,971,000 and \$632,127,000, respectively (\$395,519,000 and \$414,633,000 net of income tax benefits, respectively). (See Note 6.)

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

6. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	1984	1983	1982
Electric expenses			
Current income taxes			
Federal.....	\$271,960	\$ 701	\$ 58,118
State.....	47,876	(966)	21,694
	<u>319,836</u>	<u>(265)(a)</u>	<u>79,812</u>
Deferred taxes, net			
Excess tax over book depreciation.....	67,107	79,890	46,985
Capitalized taxes, employee benefits, etc.....	10,337	8,999	9,287
Loss on cancellation of Cherokee Nuclear Station (b).....	(2,234)	210,329	—
Nuclear fuel disposal costs (c).....	(6,184)	51,260	(12,893)
Other	8,143	(6,318)	6,456
	<u>77,169</u>	<u>344,160</u>	<u>49,835</u>
Investment tax credit			
Deferred	37,381	— (a)	109,596
Amortization of deferments (credit).....	(18,550)	(13,872)	(7,341)
	<u>18,831</u>	<u>(13,872)</u>	<u>102,255</u>
Total electric expenses	<u>415,836</u>	<u>330,023</u>	<u>231,902</u>
Other income			
Income taxes — other, net	91,497(d)	3,037	11,687
Income taxes — (credit).....	(42,209)	(56,184)	(50,934)
Total other income.....	<u>49,288</u>	<u>(53,147)(a)</u>	<u>(39,247)</u>
Total income tax expense.....	<u>\$465,124</u>	<u>\$276,876</u>	<u>\$192,655</u>

(a) Current income tax expense for 1983 is a credit principally due to the loss on the cancellation of all units of the Cherokee Nuclear Station and the deduction of the Company's liability to date under the Duke/Department of Energy Spent Nuclear Fuel Disposal Contract. The benefit of this tax loss for 1983 has been recognized as "Refundable income taxes" on the Balance Sheets. This loss also eliminated all investment tax credit utilization for 1983.

(b) Represents deferred income tax expense related to the loss on the cancellation of all units of the Cherokee Nuclear Station. The related deferred income tax credits have been classified as a reduction of "Canceled construction projects" on the Balance Sheets. (See Note 5.)

(c) Reflects deferred income tax expense related to the non-deductible portion of nuclear fuel disposal costs. 1983 also includes reversal of deferred income tax expense related to prior period liabilities under the Duke/Department of Energy Spent Nuclear Fuel Disposal Contract.

(d) Includes \$62,317,000 resulting from the sale of assets in December 1984. Such income taxes, which are included in "Other, net" on the Statements of Income, reflect a taxable gain in excess of book gain resulting principally from the treatment of ADC. (See Note 3.)

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

Total current income taxes were \$376,949,000 for 1984, \$(56,186,000) for 1983 and \$33,128,000 for 1982. Of these amounts, state income taxes were \$57,587,000 for 1984, \$(7,981,000) for 1983 and \$15,687,000 for 1982.

Total deferred income taxes were \$69,344,000 for 1984, \$346,934,000 for 1983 and \$57,272,000 for 1982. Of these amounts, deferred state income taxes were \$7,687,000 for 1984, \$42,773,000 for 1983 and \$7,430,000 for 1982.

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1984	1983	1982
Income taxes on pretax income at the statutory federal rate of 46%	\$426,169	\$325,751	\$263,365*
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (ADC)	(59,220)	(88,424)	(91,411)
Amortization of electric investment tax credit deferrals	(18,550)	(13,872)	(7,341)
ADC in book depreciation/amortization	45,298	23,884	12,798
State income taxes, net of federal income tax benefit	35,832	18,874	12,132
Increase in tax expense primarily because of excess of tax gain over book profit on sale of assets	27,280	—	—
Other items, net	8,315	10,663	3,112
Total income tax expense (see above)	<u>\$465,124</u>	<u>\$276,876</u>	<u>\$196,655</u>

* Pretax income excludes provision for loss on disposal of assets of subsidiaries recorded net of income tax benefits. (See Note 1.)

7. Short-Term Borrowings

The Company had short-term credit facilities with 60 commercial banks as of December 31, 1984. These facilities, plus the sale of commercial paper, are normally used to finance current cash requirements. The facilities were on a fee basis and/or a compensating-balance basis, with total average balance requirements of \$1,372,000. Bank loans are at the lending bank's commercial prime or market rate. Certain of the facilities may require additional balances related to usage.

A summary of short-term borrowings and credit arrangements is as follows (dollars in thousands):

	1984	1983	1982
Amount outstanding at year-end (average rate of 10.38% for 1982)	\$ —	\$ —	\$ 57,210
Maximum amount outstanding during the year	—	111,210	189,950
Average amount outstanding during the year	—	30,951	74,148
Weighted-average interest rate for the year (computed on a daily basis)	—	8.92%	12.38%
Credit facilities at year-end	\$319,500*	\$385,400	\$385,400

* Includes \$40,000,000 allocated to the 1984 issue of annual tender, pollution-control revenue bonds.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

8. Retirement Plan

The Company and two of its subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The Company's policy is to fund pension costs accrued. Total pension expense, including trustee fees, amounted to \$32,828,000 in 1984, \$33,137,000 in 1983 and \$32,000,000 in 1982. In 1983 the plan was amended to provide for certain changes, including increased benefits for retired employees and additional survivor benefits. Also, the plan was changed in 1984 to include the Early Retirement Supplement Plan, a one-time early retirement offer to eligible employees. The effect of these changes did not significantly increase the Company's pension cost.

A comparison of accumulated plan benefits and plan net assets as of December 31, 1983, the date of the latest actuarial report, and December 31, 1982, is as follows (dollars in thousands):

	1983	1982
Actuarial present value of accumulated plan benefits		
Vested	\$310,185	\$251,426
Non-Vested	71,011	52,554
Total	\$381,196	\$303,980
Net assets available for benefits	\$421,556	\$343,430

The weighted-average assumed rate of return used to determine the actuarial present value of accumulated plan benefits was 8.6 percent in 1983 and 9.25 percent in 1982. The actuarial present value of accumulated plan benefits does not consider future salary increases.

9. Common Stock and Retained Earnings

Common Stock

A summary of issuances of shares of common stock is as follows (dollars in thousands). (See Note 4.)

Year	Proceeds	Shares Issued
1984	\$ 37,194	1,451,607
1983	84,326	3,605,980
1982	199,134	7,274,724

In 1983 and 1984 the Company began using open-market purchases to satisfy the requirements of certain stock plans. For the next several years, the Company anticipates using open-market purchases to satisfy the requirements of all its stock plans and intends to issue new shares of common stock only for the conversion of preference stock.

As of December 31, 1984, a total of 4,805,091 shares was reserved for the issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1984, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

10. Preferred and Preference Stocks Without Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1984 and 1983:

	Par Value	Shares
Preferred stock	\$100	10,000,000
Preferred stock A	25	10,000,000
Preference stock	100	1,500,000

The outstanding preference stock, 6¾% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at \$100 par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1984, 1983 and 1982, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1984	16,136	67,510
1983	18,868	78,936
1982	45,759	191,463

Preferred and preference stocks without sinking fund requirements as of December 31, 1984 and 1983, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1984	1983
4.50% C	1964	350,000	\$ 35,000	\$ 35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
15.40% A	1982	1,600,000	40,000	40,000
6¾%, AA Convertible	1969	55,346	5,534	—
		71,482	—	7,148
Total			<u>\$420,534</u>	<u>\$422,148</u>

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

11. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1984 and 1983:

	Par Value	Shares
Preferred stock.....	\$100	10,000,000
Preferred stock A.....	25	10,000,000
Preference stock.....	100	1,500,000

Preferred stocks with sinking fund requirements as of December 31, 1984 and 1983, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1984	1983
7.35% I	1973	576,000	\$ 57,600	\$ —
		600,000	—	60,000
8.20% J	1977	440,000	44,000	—
		460,000	—	46,000
8.375% L	1978	460,000	46,000	—
		480,000	—	48,000
8.84% N	1979	483,750	48,375	—
		500,000	—	50,000
11.00% O	1980	500,000	50,000	50,000
10.76% A	1975	2,100,000	52,500	—
		2,160,000	—	54,000
Less: Preferred shares reacquired for current and future sinking fund requirements (at cost)				
		Shares Reacquired		
10.76% A		120,000	(2,891)	(2,899)
8.84% N		32,500	(2,529)	(2,419)
11.00% O		13,750	(1,229)	(1,229)
Less: Current sinking fund requirements				
7.35% I			(2,400)	(2,400)
8.20% J			(2,000)	(2,000)
8.375% L			(2,000)	(2,000)
Total			<u>\$285,426</u>	<u>\$295,053</u>

The annual sinking fund requirements through 1989, net of amounts reacquired, are \$6,400,000 in 1985 and 1986, \$9,525,000 in 1987 and \$10,900,000 in 1988 and 1989, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 115 percent of par values, plus accumulated dividends to the redemption date.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

12. Long-Term Debt

First and refunding mortgage bonds outstanding as of December 31, 1984 and 1983, were as follows (dollars in thousands):

Series	Year Due	1984	1983	Series	Year Due	1984	1983
3 3/4%.....	1986	\$ 30,000	\$ 30,000	(continued)			
14 3/4%.....	1987	17,150	50,000	8 1/4% B.....	2003	\$ 98,050	\$ 98,050
12%.....	1990	75,000	75,000	9 1/4%.....	2004	95,623	95,623
15 1/4%.....	1991	100,000	100,000	9 1/4%.....	2005	92,800	92,800
4 1/2%.....	1992	50,000	50,000	8 1/2%.....	2006	96,850	96,850
4 1/4% B.....	1992	50,000	50,000	8 1/4%.....	2007	119,500	119,500
11%.....	1994	71,000	77,750	9 1/4%.....	2008	120,610	120,610
4 1/2%.....	1995	40,000	40,000	10 1/4%.....	2009	145,050	145,050
5 1/4%.....	1997	72,600	72,600	10 1/4% B.....	2009	148,000	148,000
6 1/4%.....	1998	68,500	68,500	14 1/4%.....	2010	100,000	100,000
7%.....	1999	56,075	56,075	13 1/4% B.....	2010	50,000	50,000
8% B.....	1999	64,739	64,739	14 1/4%.....	2012	125,000	125,000
8 1/2% B.....	2000	69,244	69,244	Pollution Control			
8 1/4% B.....	2000	95,635	95,635	6 1/4%.....	1988	25,000	25,000
7 1/2%.....	2001	97,900	97,900	9 1/4%.....	2013	77,000	77,000
7 1/4% B.....	2001	38,050	38,050	7 1/4%.....	2014	40,000	—
7 1/4%.....	2002	78,100	78,100	Less: Funds held in trust.....		(39,742)	(58,478)
7 1/4% B.....	2002	67,900	67,900	Total.....		<u>\$2,530,506</u>	<u>\$2,511,370</u>
7 1/4%.....	2003	94,872	94,872				

Substantially all electric plant was mortgaged as of December 31, 1984.

On October 2, 1984, the Company transferred certain U.S. government securities to an irrevocable trust for the defeasance of \$32,850,000 of its 14 1/4 percent first and refunding mortgage bonds. The cash flow from this trust will be sufficient to fund the scheduled principal and interest payments on these bonds. Accordingly, in 1984 this amount was removed from the balance sheet. The entire series of 14 1/4 percent bonds will be retired on March 1, 1985.

The annual maturities of long-term debt (including sinking fund requirements and capitalized lease principal payments) through 1989 are \$113,419,000 in 1985, \$80,095,000 in 1986, \$32,844,000 in 1987, \$36,091,000 in 1988 and \$70,216,000 in 1989.

The annual maturities for 1985 include \$40 million related to the reduction of one of the Company's two nuclear fuel trusts. Annual maturities through 1989 include amounts relating to the remaining \$85 million in outstanding obligations under the fuel trusts. The maturities are based on estimated fuel consumption. Instead of making cash payments, the Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

13. Reclassification

On the Statements of Source of Funds for Plant Construction Costs, certain prior year information has been reclassified to conform with 1984 classifications.

14. Commitments and Contingencies

A. Joint Ownership of Plants

The Company, the North Carolina Municipal Power Agency Number 1 (NCMPA No. 1), the North Carolina Electric Membership Corporation (NCEMC), the Saluda River Electric Cooperative, Inc. and the Piedmont Municipal Power Agency (PMPA) are joint owners of the 2,290,000-kilowatt Catawba Nuclear Station. Unit 1 is scheduled to begin commercial operation in 1985; Unit 2 in 1987. The Company owns 12.5 percent of the plant. Each participant has provided its own financing for its share of the plant.

In connection with this joint ownership, the Company has entered into agreements with these buyers to purchase declining percentages of the capacity and energy from the plant. The agreements

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Concluded)

will be effective beginning with the commercial operation of each unit — 15 years for NCMPA No. 1 and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments will be based on the variable operating costs, a function of the generation of the plant. Capacity payments will be based on the fixed costs of the plant. The estimated purchased capacity payments through 1989 are \$225 million in 1985, \$425 million in 1986, \$624 million in 1987, \$583 million in 1988 and \$542 million in 1989. The capacity and energy costs will be reported in "Net interchange and purchased power" in the Statements of Income.

B. Construction Program

For the years 1985 through 1987, projected construction and nuclear fuel costs are \$1.71 billion and \$560 million, respectively. The program is subject to periodic review and revision, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including revised load estimates, the outcome of licensing and environmental matters, and the cost and availability of capital.

C. Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to \$620 million under provisions of the Price-Anderson Act, which provides for nuclear liability insurance up to that amount. Under these provisions the Company could be assessed up to \$5 million for each of its licensed reactors for a nuclear incident involving any licensed facility in the nation. If more than one nuclear incident occurred, the Company could be assessed up to 10 million a year for each of its licensed reactors. As of December 31, 1984, the Company had six licensed reactors, including Catawba Unit 1, which had a low-power license but is not scheduled to begin commercial operation until the spring of 1985.

The Company is a member of Nuclear Mutual Limited (NML), which provides property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceed its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$70 million. This amount represents 10 times the Company's current annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL). This organization provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. If NEIL's losses ever exceed its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$20 million. This amount represents five times the Company's current annual premium to NEIL.

The Company purchases \$450 million of property damage insurance through NEIL's Excess Property Insurance Program. This coverage is in addition to the \$500 million of coverage provided by the Company's underlying property damage policies issued through NML. If losses ever exceed the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable, on a pro rata basis, for additional assessments of up to \$28 million. This amount represents 7.5 times the Company's current annual premium for excess property insurance.

D. Other

The Company is involved in legal and regulatory proceedings before various courts and agencies with respect to matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

DUKE POWER COMPANY
SUPPLEMENTAL FINANCIAL DATA — (Unaudited)

Quarterly Financial Data

A summary of quarterly financial data for 1984 and 1983 is as follows (dollars in thousands except per-share data):

	Electric Revenues	Electric Operating Income	Net Income	Earnings Per Share
1984 by Quarter				
Fourth.....	\$680,177	\$129,979	\$ 97,862	\$0.81
Third.....	729,047	156,746	139,001	1.23
Second.....	629,483	132,990	101,276	0.86
First.....	671,308	128,386	123,192	1.08
1983 by Quarter				
Fourth.....	\$593,064	\$ 91,310	\$ 89,717	\$0.74
Third.....	667,947	136,525	129,867	1.17
Second.....	553,388	103,450	96,922	0.83
First.....	605,853	117,929	114,771	1.03

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate increases (including fuel cost adjustment procedures) and maintenance of electric generating units, especially nuclear units.

Effects of Changing Prices

In recent years, the impact of general inflation and changes in specific prices has caused distortions in traditional accounting measurements of income and capital. Although the rates of inflation in recent years have substantially decreased, the replacement of existing plant capacity occurs at a significantly higher cost than recovered through historical cost depreciation because of the high levels of inflation in previous years. In response to this problem, the Financial Accounting Standards Board requires certain disclosures of the effects of inflation on a company's operations and financial position.

Because the accompanying supplementary information involves various assumptions and approximations, it should be viewed as an estimate of the effects of inflation, rather than a precise measurement.

Constant Dollar Accounting

Constant dollar accounting reflects the overall decline in the purchasing power of the dollar by restating historical costs in terms of dollars of equal purchasing power.

Current Cost Accounting

Current cost accounting reflects changes in specific prices of the property used in the Company's operations from the date the property was acquired to the present. This method differs from constant dollar accounting to the extent that costs of specific utility property have increased more or less rapidly than the rate of general inflation. The current cost amounts of plant in service represent the estimated cost for replacing existing plant facilities and were determined by indexing surviving plant costs by internally generated indices or the Handy-Whitman Index of Public Utility Construction Costs. Since plant facilities are not expected to be replaced precisely in kind, "current cost" does not necessarily represent the replacement cost of existing productive capacity. Current cost depreciation is computed by applying the same rates used in the historical cost statements to the current cost plant amounts.

Effects of Rate Regulation

Under the Company's present ratemaking procedures, only the historical cost of plant in service is recoverable in rates as depreciation. Therefore, in times of relatively high inflation, the erosion of plant in service resulting from inflation in the current year may be greater than is reflected in current cost adjustments, and is reflected as a reduction to net recoverable cost. This reduction was not necessary in 1984 and 1983 because the level of inflation was less than in previous years.

The Company has significant amounts of long-term debt outstanding which serves as a partial hedge against inflation, as well as other net monetary liabilities, which will be paid back in dollars of less purchasing power. In the accompanying schedules, the gain from decline in purchasing power of net amounts owed results from inflation's effect on obligations to pay cash at a future date.

Other

Income statement items other than depreciation have not been adjusted. The Company's operation and maintenance expenses already include the average effects of changing prices during the period. Therefore, no adjustments have been made to them. No adjustments to income tax expense have been made in computing the impact in inflation since only historical costs are deductible for income tax purposes.

Supplementary Statement of Earnings for Common Stock Adjusted for Changing Prices

	Historical \$	Current Cost
	(Dollars in thousands)	(Dollars in thousands)
Electric revenues.....	\$2,710,015	\$2,710,015
Operating expenses.....	1,040,603	1,040,603
Maintenance of plant facilities.....	207,951	207,951
Depreciation	303,429	566,691
Taxes	609,931	609,931
Total electric expenses	2,161,914	2,425,176
Electric operating income	548,101	284,839
Other income	162,795	162,795
Income before interest deductions.....	710,896	447,634
Interest deductions	249,565	249,565
Net Income.....	461,331	198,069
Dividends on preferred and preference stocks.....	61,786	61,786
Earnings for common stock	\$ 399,545	\$ 136,283
Increase in specific prices (current cost) of utility plant held during the year*		\$ 117,903
Reduction to net recoverable cost**		—
Effect of increase in general price level.....		(376,032)
Excess of increase in general price level over increase in specific prices		(258,129)
Gain from decline in purchasing power of net amounts owed		137,912
Net.....		\$ (120,217)

* At December 31, 1984, current cost of electric plant, net of accumulated depreciation, was \$9,673,781,000.

** Due to the decrease in the rates of inflation in recent years, there is no reduction to the net recoverable cost of plant reflected for 1984.

*Five-Year Comparison of Selected Supplementary Financial
Data Adjusted for the Effects of Changing Prices*

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
	(In thousands of average 1984 dollars, except per-share figures)				
Current cost information:					
Income before extraordinary item	\$198,069	\$207,023	\$135,244	\$165,293	\$190,979
Earnings per share before extraordinary item.....	1.36	1.45	0.72	1.13	1.43
Net assets at year-end	2,772,783	2,681,856	2,541,351	2,330,692	2,370,741
Decrease in the current cost of electric plant in service, net of inflation, after reduction to net recoverable cost	258,129	279,226	107,053	301,990	564,248
Constant dollar information:					
Electric revenues	2,710,015	2,523,259	2,415,281	2,179,589	2,121,256
Common stock dividends per share.....	2.42	2.42	2.41	2.38	2.46
Market price per common share at year-end	28.60	25.75	24.74	22.79	21.82
General information:					
Purchasing power gain on net monetary items.....	137,912	140,026	157,269	373,361	519,675
Average consumer price index	311.1	298.4	289.1	272.4	246.8

DUKE POWER COMPANY
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements	Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1984</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$2,884,775	\$1,086,485	\$ 862	\$(135,505)	\$3,834,893
Transmission.....	965,463	45,482	1,964	2,732	1,011,713
Distribution.....	1,583,320	145,219	14,956	(836)	1,712,747
General.....	273,466	40,631	9,610	2,556	307,043
Miscellaneous.....	17,345	680	—	134,984	153,009
Nuclear Fuel.....	546,430	244,260	—	(1)	790,689
Total electric plant in service.....	6,270,799	1,562,757	27,392	3,930	7,810,094
Construction Work in Progress.....	2,296,843	(922,602)(1)	—	(385,451)(2)	988,790
Other Property — At Cost					
Water plant.....	28,088	710	1,333	109	27,574
Transit plant.....	2,934	—	82	—	2,852
Non-utility plant.....	11,773	3,889	321	430	15,771
Total other property.....	42,795	4,599	1,736	539	46,197
Total plant.....	\$8,610,437	\$ 644,754	\$29,128	\$(380,982)	\$8,845,081
<i>For the Year Ended December 31, 1983</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$2,853,291	\$ 38,261	\$ 790	\$ (5,987)	\$2,884,775
Transmission.....	903,377	56,890	1,621	6,817	965,463
Distribution.....	1,464,502	128,971	12,567	2,414	1,583,320
General.....	249,393	28,607	5,719	1,185	273,466
Miscellaneous.....	20,807	409	13	(3,858)	17,345
Nuclear Fuel.....	449,571	96,859	—	—	546,430
Total electric plant in service.....	5,940,941	349,997	20,710	571	6,270,799
Construction Work in Progress.....	2,551,177	326,826	—	(581,160)(3)	2,296,843
Other Property — At Cost					
Water plant.....	26,575	1,511	—	2	28,088
Transit plant.....	2,974	—	40	—	2,934
Non-utility plant.....	6,510	1,392	42	3,913	11,773
Total other property.....	36,059	2,903	82	3,915	42,795
Total plant.....	\$8,528,177	\$ 679,726	\$20,792	\$(576,674)	\$8,610,437
<i>For the Year Ended December 31, 1982</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$2,829,823	\$ 23,647	\$ 340	\$ 161	\$2,853,291
Transmission.....	850,499	51,580	1,928	3,226	903,377
Distribution.....	1,360,583	114,484	11,887	1,322	1,464,502
General.....	230,432	23,280	4,920	601	249,393
Miscellaneous.....	16,923	3,919	—	(35)	20,807
Nuclear Fuel.....	374,414	75,343	—	(186)	449,571
Total electric plant in service.....	5,662,674	292,253	19,075	5,089	5,940,941
Construction Work in Progress.....	2,178,464	440,976	—	(68,263)(4)	2,551,177
Other Property — At Cost					
Water plant.....	23,711	2,860	—	4	26,575
Transit plant.....	2,974	—	—	—	2,974
Non-utility plant.....	6,540	(29)	38	37	6,510
Total other property.....	33,225	2,831	38	41	36,059
Total plant.....	\$7,874,363	\$ 736,060	\$19,113	\$(63,133)	\$8,528,177

(1) Principally due to commercial operation of Unit 2 of the McGuire Nuclear Station on March 1, 1984.

(2) Principally due to the sale of a portion of the Catawba Nuclear Station in December 1984.

(3) Principally due to the cancellation of Cherokee Unit 1.

(4) Principally due to the cancellation of Units 2 and 3 of the Cherokee Nuclear Station and the Perkins Nuclear Station.

DUKE POWER COMPANY

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Depreciation	Clearing and Other Accounts	Retirements	Other Changes Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1984</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 971,835	\$140,603	\$ —	\$ 1,009	\$(135,069)	\$ 976,360
Transmission	304,486	27,971	—	\$ 1,125	(35)	331,297
Distribution	528,766	55,758	—	13,905	35	570,654
General	101,191	7,555	7,994	7,207	(50)	109,483
Miscellaneous	4,178	—	476	—	135,053	139,707
	<u>1,910,456</u>	<u>231,887</u>	<u>8,470</u>	<u>23,246</u>	<u>(66)</u>	<u>2,127,501</u>
Accumulated Amortization of Limited Term Plant	926	—	475	—	—	1,401
Accumulated Amortization of Nuclear Fuel	493,768	—	23,596	—	—	517,364
	<u>2,405,150</u>	<u>231,887</u>	<u>32,541</u>	<u>23,246</u>	<u>(66)</u>	<u>2,646,266</u>
Accumulated Depreciation of Water Plant	5,507	538	—	1,332	64	4,777
Accumulated Depreciation of Transit Plant	2,516	208	—	82	—	2,642
Total Accumulated Depreciation	<u>\$2,413,173</u>	<u>\$232,633</u>	<u>\$ 32,541</u>	<u>\$24,660</u>	<u>(2)</u>	<u>\$2,653,685</u>
<i>For the Year Ended December 31, 1983</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 868,391	\$104,250	\$ —	\$ 957	\$ 151	\$ 971,835
Transmission	278,995	26,513	—	963	(59)	304,486
Distribution	487,145	51,595	—	9,957	(17)	528,766
General	91,636	5,805	8,218	4,393	(75)	101,191
Miscellaneous	3,659	—	519	—	—	4,178
	<u>1,729,826</u>	<u>188,163</u>	<u>8,737</u>	<u>16,270</u>	<u>—</u>	<u>1,910,456</u>
Accumulated Amortization of Limited Term Plant	479	—	447	—	—	926
Accumulated Amortization of Nuclear Fuel	376,122	—	117,646	—	—	493,768
	<u>2,106,427</u>	<u>188,163</u>	<u>126,830</u>	<u>16,270</u>	<u>—</u>	<u>2,405,150</u>
Accumulated Depreciation of Water Plant	5,039	466	—	(2)	—	5,507
Accumulated Depreciation of Transit Plant	2,345	211	—	40	—	2,516
Total Accumulated Depreciation	<u>\$2,113,811</u>	<u>\$188,840</u>	<u>\$126,830</u>	<u>\$16,308</u>	<u>\$ —</u>	<u>\$2,413,173</u>
<i>For the Year Ended December 31, 1982</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 765,425	\$103,315	\$ —	\$ 349	\$ —	\$ 868,391
Transmission	254,450	24,802	—	557	300	278,995
Distribution	448,680	47,683	—	8,982	(236)	487,145
General	81,668	6,180	7,948	4,096	(64)	91,636
Miscellaneous	3,140	—	519	—	—	3,659
	<u>1,553,363</u>	<u>181,980</u>	<u>8,467</u>	<u>13,984</u>	<u>—</u>	<u>1,729,826</u>
Accumulated Amortization of Limited Term Plant	179	—	300	—	—	479
Accumulated Amortization of Nuclear Fuel	289,289	—	86,833	—	—	376,122
	<u>1,842,831</u>	<u>181,980</u>	<u>95,600</u>	<u>13,984</u>	<u>—</u>	<u>2,106,427</u>
Accumulated Depreciation of Water Plant	4,648	387	—	(4)	—	5,039
Accumulated Depreciation of Transit Plant	2,133	212	—	—	—	2,345
Total Accumulated Depreciation	<u>\$1,849,612</u>	<u>\$182,579</u>	<u>\$ 95,600</u>	<u>\$13,980</u>	<u>\$ —</u>	<u>\$2,113,811</u>

DUKE POWER COMPANY

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(Dollars in thousands)

Description	Balance Beginning of Year	Charged to Costs and Expenses	Deductions	Balance End of Year
<i>For the Year Ended December 31, 1984</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 3,982	\$4,312	\$4,264(1)	\$ 4,030
Other Reserves				
Operating Reserves (3).....	\$17,552	\$4,847	\$2,474(2)	\$19,925
<i>For the Year Ended December 31, 1983</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 3,983	\$4,288	\$4,289(1)	\$ 3,982
Other Reserves				
Operating Reserves (3).....	\$13,931	\$6,397	\$2,776(2)	\$17,552
<i>For the Year Ended December 31, 1982</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 3,998	\$5,254	\$5,269(1)	\$ 3,983
Other Reserves				
Operating Reserves (3).....	\$12,269	\$3,374	\$1,712(2)	\$13,931

(1) Uncollectible accounts written off, net of recoveries.

(2) Entries represent payments primarily for injuries and damages in North Carolina and South Carolina.

(3) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits and Other Liabilities," on the Balance Sheets.

SCHEDULE X — SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended December 31.		
	1984	1983	1982
(Dollars in thousands)			
Taxes, other than payroll and income taxes:			
Real and personal property	\$ 40,782	\$ 35,918	\$ 32,746
State and city franchise	123,094	111,758	101,913
Other.....	7,976	6,635	6,543
Total	<u>\$171,852</u>	<u>\$154,311</u>	<u>\$141,202</u>

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE — (Unaudited)

This calculation is submitted in accordance with Release No. 9083 under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

	Year Ended December 31		
	1984	1983	1982
	(Dollars in thousands except per share figures)		
Fully Diluted:			
Earnings applicable to common stock(1).....	\$399,545	\$368,677	\$336,017(3)
Add: Dividends on Preference Stock, 6¼% Convertible Series AA	426	538	747
Earnings as adjusted for computation	<u>\$399,971</u>	<u>\$369,215</u>	<u>\$336,764</u>
Average common shares outstanding — twelve months (thousands)	100,346	97,784	93,679
Add: Common shares required for conversion of Preference Stock, 6¼% Convertible Series AA, \$100 par, 500,000 shares authorized (55,346 shares outstanding as of December 31, 1984)(2).....	232	299	378
Common shares as adjusted for computation	<u>100,578</u>	<u>98,083</u>	<u>94,057</u>
Fully diluted earnings per share.....	\$ 3.98	\$ 3.76	\$ 3.58

- (1) These figures agree with the related amounts in the Statements of Income.
- (2) The conversion price used to convert the Preference Stock, 6¼% Convertible Series AA, into shares of common stock was \$23.89.
- (3) Earnings applicable to common stock includes an extraordinary item of \$48,304,000, or \$0.52 per share.

Item 9. *Disagreements on Accounting and Financial Disclosure.*

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

Item 10. *Directors and Executive Officers of the Registrant.*

Information for this item concerning directors of the Company is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1985 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth on page 13 of this annual report.

Item 11. *Executive Compensation.*

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1985 annual meeting of shareholders, which is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy statement of the Company relating to its 1985 annual meeting of shareholders, which is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions.*

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1985 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K.*

Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Financial Statements

- Statements of Income for the Three Years Ended December 31, 1984
- Statements of Source of Funds for Plant Construction Costs
for the Three Years Ended December 31, 1984
- Balance Sheets — December 31, 1984 and 1983
- Statements of Capitalization — December 31, 1984 and 1983
- Statements of Retained Earnings for the Three Years Ended December 31, 1984
- Notes to Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules

- Schedule V — Property, Plant and Equipment for the Years Ended
December 31, 1984, 1983 and 1982
- Schedule VI — Accumulated Depreciation and Amortization of Property,
Plant and Equipment for the Years Ended December 31, 1984, 1983 and 1982
- Schedule VIII — Valuation and Qualifying Accounts and Reserves
for the Years Ended December 31, 1984, 1983 and 1982
- Schedule X — Supplementary Income Statement Information
for the Years Ended December 31, 1984, 1983 and 1982
- Exhibit I — Computation of Fully Diluted Earnings Per Share (Unaudited)

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Financial statements and schedules of the Company's subsidiaries are omitted because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Exhibits

- (a) — See Exhibit Index on page 47.
- (b) — Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1984 and the Employees' Stock Ownership Plan for the year ended December 31, 1984.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1984.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Charlotte and State of North Carolina on the 29th day of March, 1985.

DUKE POWER COMPANY
(Registrant)

By: W. S. LEE
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
W. S. LEE	Chairman of the Board (Principal Executive Officer)	March 29, 1985
W. H. GRIGG	Executive Vice President, Finance and Administration (Principal Financial Officer)	March 29, 1985
NORMAN P. MORROW	Controller (Principal Accounting Officer)	March 29, 1985
NAOMI G. ALBANESE		
D. W. BOOTH		
THOMAS H. DAVIS		
ROBERT C. EDWARDS		
JOHN L. FRALEY		
ALESTER G. FURMAN III		
STEVE C. GRIFFITH, JR.		
W. H. GRIGG		
JOHN D. HICKS	A majority of the Directors	March 29, 1985
JAMES V. JOHNSON		
W. W. JOHNSON		
W. S. LEE		
BUCK MICKEL		
REECE A. OVERCASH, JR.		
WARREN H. OWEN		
JAMES C. SELF		
MACEO A. SLOAN		
A. C. THIES		

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

/s/ LEWIS F. CAMP, JR.
Lewis F. Camp, Jr., Attorney-in-fact

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

<u>Exhibit Number</u>	
3-A	— Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
3-B	— Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
3-C	— Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
3-D	— Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-3).
3-E	— Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
3-F	— By-Laws of registrant, as amended to date (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-F).
4-B-1	— First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).
4-B-2	— Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
4-B-3	— Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
4-B-4	— Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
4-B-5	— Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
4-B-6	— Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
4-B-7	— Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
4-B-8	— Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).
4-B-9	— Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).
4-B-10	— Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).

Exhibit
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- 4-B-11 — Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
- 4-B-12 — Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
- 4-B-13 — Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
- 4-B-14 — Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
- 4-B-15 — Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
- 4-B-16 — Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
- 4-B-17 — Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
- 4-B-18 — Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
- 4-B-19 — Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
- 4-B-20 — Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
- 4-B-21 — Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-20).
- 4-B-22 — Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
- 4-B-23 — Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
- 4-B-24 — Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No. 2-31304, effective January 21, 1969, as Exhibit 2-B-26).
- 4-B-25 — Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).
- 4-B-26 — Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).
- 4-B-27 — Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42).
- 4-B-28 — Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).

Exhibit
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- 4-B-29 — Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).
- 4-B-30 — Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).
- 4-B-31 — Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
- 4-B-32 — Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).
- 4-B-33 — Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
- 4-B-34 — Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
- 4-B-35 — Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
- 4-B-36 — Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
- 4-B-37 — Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
- 4-B-38 — Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
- 4-B-39 — Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
- 4-B-40 — Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
- 4-B-41 — Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).
- 4-B-42 — Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).
- 4-B-43 — Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).
- 4-B-44 — Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
- 4-B-45 — Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).

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- 4-B-46 — Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).
- 4-B-47 — Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage.
- 4-B-48 — Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage.
- *4-B-49 — Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage.
- 10-A — Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
- 10-B — Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
- 10-C — Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-D — Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- *12 — Computation of Ratio of Earnings to Fixed Charges.
- *24 — Consent of Independent Auditors.

EXHIBIT 24

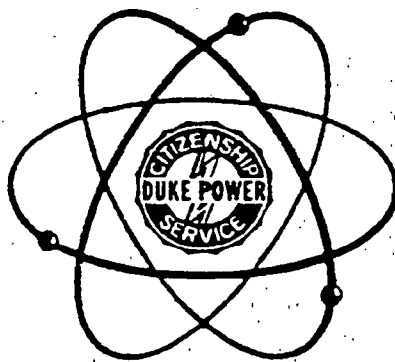
CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statement No. 2-95931 on Form S-3, in Post-Effective Amendment No. 3 to Registration Statement No. 2-79057 on Form S-3, in Post-Effective Amendment No. 2 to Registration Statement No. 2-81066 on Form S-3 and in Post-Effective Amendment No. 3 to Registration Statement No. 2-72172 on Form S-8 of our opinion, dated February 15, 1985, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1984.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
March 29, 1985



WARNING FOR ARCHIVES

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1985

Commission File Number: 1-4928

Duke Power Company

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of
incorporation or organization)422 South Church Street
Charlotte, North Carolina

(Address of principal executive offices)

56-0205520

(IRS Employer
Identification No.)

28242

(Zip Code)

704-373-4011

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange
Preferred Stock, par value \$100	
8.70% Series F	New York Stock Exchange
8.20% Series G	New York Stock Exchange
7.80% Series H	New York Stock Exchange
8.28% Series K	New York Stock Exchange
8.84% Series M	New York Stock Exchange
8.84% Series N	New York Stock Exchange
11% Series O	New York Stock Exchange
Preferred Stock A, par value \$25	
10.76% Series 1975	New York Stock Exchange
15.40% Series 1982	New York Stock Exchange
Preference Stock, par value \$100	
6 3/4% Convertible Series AA	New York Stock Exchange
First and Refunding Mortgage Bonds	
7 1/4% Series B Due 2001	New York Stock Exchange
7 1/4% Series Due 2002	New York Stock Exchange
7 1/4% Series B Due 2002	New York Stock Exchange
7 1/4% Series Due 2003	New York Stock Exchange
8 1/4% Series B Due 2003	New York Stock Exchange
9 1/4% Series Due 2004	New York Stock Exchange
9 1/4% Series Due 2005	New York Stock Exchange
8 3/4% Series Due 2006	New York Stock Exchange
8 3/4% Series Due 2007	New York Stock Exchange
9 1/4% Series Due 2008	New York Stock Exchange
10 1/4% Series Due 2009	New York Stock Exchange
10 1/4% Series B Due 2009	New York Stock Exchange
12% Series Due 1990	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Preferred Stock, par value \$100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at February 21, 1986..... \$3,358,131,365

Number of shares of Common Stock, without par value, outstanding at February 21, 1986..... 101,203,686

Documents incorporated by reference:

The registrant has incorporated herein by reference certain sections of its proxy statement relating to the 1986 annual meeting of shareholders to provide information required by the following parts of this annual report:

- Part III — Item 10., Directors and Executive Officers of the Registrant
- Item 11., Executive Compensation
- Item 12., Security Ownership of Certain Beneficial Owners and Management
- Item 13., Certain Relationships and Related Transactions



DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1985

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DUKE POWER COMPANY

PART I.

Item 1. *Business.*

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,400,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1985, the Company's electric revenues amounted to approximately \$2.9 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011).

Service Area

The Company supplies electric service directly to approximately 1,439,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which have purchased from the Company portions of the Catawba Nuclear Station (collectively, the Catawba Buyers). All participating members of the Catawba Buyers were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$421 million of the Company's revenues for 1985, representing 15% of electric revenues and 45% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1985, its sources of electric energy for 1985, and certain corresponding information presently projected for 1986:

Source	Generating Capability — KW(1)		Generation — KWH (millions)	
	Actual December 31, 1985	Projected December 31, 1986	Actual 1985	Projected 1986
Coal	6,603,000	6,526,000	27,619	23,247
Nuclear (2)	6,085,000	7,170,000	33,700	39,817
Hydro and other	2,051,000	2,051,000	1,175	1,727
Total (2)	<u>14,739,000</u>	<u>15,747,000</u>	62,494	64,791
Less: Catawba Buyers ownership			3,827	8,237
Plus: purchases from Catawba Buyers			3,769	7,863
Purchased power and net interchange			(1,742)	(1,666)
Total			<u>60,694</u>	<u>62,751</u>

- (1) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.
- (2) Nuclear capability and related generation for 1985 and projected for 1986 do not reflect the sale of portions of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")

According to industry statistics through 1984, the Company ranked first in the nation for the last 11 consecutive years and for 13 of the last 15 years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that one of the units at the Marshall Steam Station was the most efficient in the nation in 1984. A Company station has been ranked first in efficiency in 17 of the last 19 years through 1984. Statistics supplied to the Nuclear Regulatory Commission (NRC) by utilities demonstrate that the Company's McGuire and Oconee Nuclear Stations were the most efficient pressurized water reactor nuclear facilities in the nation in 1984.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On January 21, 1985, the Company experienced its all-time peak load of 12,687,000 KW during record cold weather. The 1985-1986 winter peak load of 12,586,000 KW occurred on January 28, 1986. The 1985 summer peak load of 11,204,000 KW occurred on September 10, 1985 during a relatively mild summer. The 1983-1984 winter peak load of 10,863,000 KW occurred on February 8, 1984 and the 1984 summer peak load of 11,043,000 KW occurred on July 11, 1984. The Company currently forecasts between 2.1% and 3.0% compound annual growth in peak load through 2000.

Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSC) must approve the Company's rates for retail sales within the respective States. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales under its wholesale rate schedules. Participating members of NCMPPA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company. For a summary of rate information since January 1, 1983, see Note 2, "Notes to Financial Statements."

Rate requests filed by the Company in 1985 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 1 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba Units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all costs related to Catawba, although certain non-fuel purchased power costs, with associated carrying charges, will be recovered on a levelized basis. Similar rate requests, necessitated by the commercial operation of Unit 2 currently scheduled for the fall of 1986, are planned with such request having been filed with the NCUC on March 27, 1986. Failure to obtain adequate and timely rate relief could have a material adverse effect on the Company's financial position.

In 1985, the NCUC allowed a jurisdictional rate of return on common equity of 14.90% and the PSC allowed a jurisdictional rate of return on common equity of 14.75%.

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Load Management

The Company currently is engaged in a comprehensive load management program designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area. Such program includes, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for

large customers, control by the Company (with customers' consent) of residential electric water heaters and air conditioners during peak demand periods and time-of-day pricing to a limited number of customers. The current and planned aspects of such program are designed to reduce the growth in peak demand by approximately 4,257,000 KW in the summer of 1999 (from estimated peak demands at those times without load management) and to enhance generating reserve margins through the ability to interrupt approximately 1,177,000 KW in 1999. The Company has currently documented reductions through accumulated load management of approximately 2,151,000 KW for its summer peak load and approximately 2,778,000 KW for its winter peak load.

Through 1990, the Company estimates a minimum reserve margin of approximately 20% of its anticipated peak load requirements. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rate increases), changing regulatory and environment standards (see "Regulation — Environmental Matters") and other factors.

In April 1983 the Company announced the cancellation of Unit 1 of the Cherokee Nuclear Station citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation. The Company believes, however, that alternative sources of energy will be necessary and available to meet the anticipated needs of its customers during the mid-1990s. Cancellation of Units 2 and 3 of the Cherokee Nuclear Station was announced in 1982. As of December 31, 1985, the balance of investment in the canceled Cherokee Nuclear Station, net of amortization, was \$540 million. Additional costs relating to the cancellations are not expected to be significant.

The NCUC and PSC authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station incurred through April 1983. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. The Company intends to seek recovery of additional abandonment costs incurred subsequent to April 1983.

The Catawba Buyers have objected to the inclusion of such abandonment costs in the calculation of their rates and have been negotiating with the Company in this respect. The Company does not anticipate that this matter will have a materially adverse effect on its financial position.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station that have been sold, for each of 1986, 1987 and 1988 and for the three-year period 1986-1988, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1986	1987	1988	Total
Generation	\$229	\$286	\$308	\$ 823
Transmission	42	53	52	147
Distribution	195	213	252	660
Other	150	169	71	390
Total	<u>\$616</u>	<u>\$721</u>	<u>\$683</u>	<u>\$2,020</u>
Nuclear Fuel	<u>\$153</u>	<u>\$167</u>	<u>\$201</u>	<u>\$ 521</u>

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

The Company has experienced higher costs of construction of new facilities as a result of recurring increases in the costs of materials, labor and capital, and increasing capital commitments attributable to more stringent regulatory requirements. However, the Company believes that in recent

years it has been able to construct generating units at a lower cost per KW than generally experienced by other utilities for units of comparable type and vintage.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, 1,000,000-kilowatt pumped storage facility in Oconee County, South Carolina. Units 1 and 2 are scheduled for operation in 1991 and Units 3 and 4 in 1992. As of December 31, 1985, the Company had incurred \$78.3 million of the total estimated cost of \$1.0 billion, with construction costs of \$1,008 per installed KW anticipated.

The construction of the Company's most recent nuclear facility, the Catawba Nuclear Station, embracing two nuclear units of which the Company owns only a 12½% interest, has been completed. Catawba Unit 1 began commercial operation in 1985 and Catawba Unit 2 is currently undergoing pre-operational testing, with fuel loading in March and commercial operation anticipated during the fall of this year. The Company estimates that construction costs per installed KW for the Station will be \$1,632. The Company received a full power operating license from the NRC for Catawba Unit 1 on January 17, 1985 and a low power license for Unit 2 was received on February 24, 1986.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87½% undivided interest in the Catawba Nuclear Station to the Catawba Buyers.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange of 50% of each Catawba Buyer's retained capacity from its ownership interest in the Catawba Units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next five years of the costs of purchased power from the Catawba Nuclear Station under contracts with the Catawba Buyers will result in payments by the Company exceeding the amounts collected in rates for such power by approximately \$461 million (see "Rate Matters").

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

	Generation by Source			Average Cost per Million BTU on a Burned Basis		
	Year Ended December 31			Year Ended December 31		
	1985	1984	1983	1985	1984	1983
Coal.....	44.2%	43.3%	54.4%	194.96*	199.06*	189.55*
Nuclear.....	53.9	53.5	42.0	64.71	61.40	54.19
Oil and Gas.....	—	—	—	543.49	562.59	530.82
All Fuels (cost based on weighted average).....	98.1	96.8	96.4	121.39	121.24	131.66
Hydroelectric*.....	1.9	3.2	3.6			
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>			

* Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains substantially all of its coal under long-term supply contracts with mining operators utilizing both deep and surface mining. The Company has on hand an adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment clauses, have expiration dates ranging from 1986 to 2000. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities (see "Regulation — *Environmental Matters*").

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

<u>Nuclear Station</u>	<u>Uranium Material</u>	<u>Conversion Service</u>	<u>Enrichment Service</u>	<u>Fabrication Service</u>
Oconee	1992	1992	2014	1995
McGuire	1992	1992	2014	1995
Catawba	1992	1992	2014	1995

Approximately 75% of the Company's requirements for uranium material is expected to be obtained from Rio Algom, Ltd., a Canadian supplier. Deliveries to the Company by such supplier, which began in 1981, are subject to permits and export licenses from various Canadian governmental agencies, including the Atomic Energy Control Board, the Department of Industry, Trade and Commerce and the Uranium Exports Review Panel.

The Company purchased uranium material during 1985 at an average price of approximately \$26 per pound. The Company's material nuclear supply contracts generally contain *force majeure* provisions and provide for price escalation under certain conditions.

The Company presently has adequate storage capacity for spent fuel at Oconee until 1992, and at Catawba until well after 1998. The Company has received regulatory approvals which will enable it to provide adequate storage capacity at McGuire beyond the year 1998. Consideration is being given to expanding capacity at Oconee to provide adequate storage until 1998 through transshipment of spent fuel between stations, and through the use of developing storage technologies such as rod consolidation and dry cask storage. The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required contracts with DOE and began making payments in July 1983 for fuel currently being utilized. A one-time payment of \$122 million was made on June 28, 1985 for fuel consumed prior to April 7, 1983.

On September 19, 1985, the U.S. District Court for the District of Colorado issued an order which, if affirmed on appeal, would void the contract between the DOE and certain utilities under which the DOE provides enrichment service for nuclear fuel. The order came in a lawsuit filed against the DOE by a group of domestic uranium mining companies. The DOE has assured the Company that it will continue to provide necessary enrichment services on a reliable basis.

Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1986-1988 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$81 million, including \$11 million in 1986 and \$34 million in 1987. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

AIR QUALITY. In 1971, pursuant to the Clean Air Act of 1970 (the 1970 Act), EPA promulgated primary and secondary ambient air quality standards with respect to certain air pollutants including particulates, sulfur oxides and nitrogen oxides. Pursuant to such regulations, North Carolina and South Carolina have adopted implementation plans, which have been approved by EPA, containing air emission standards which were generally designed to achieve the primary ambient air quality standards by 1975 and the secondary ambient air quality standards within a reasonable time thereafter. The Company believes it is presently in substantial compliance with such implementation plans. The 1977 amendments to the 1970 Act include, among other things, authority for EPA to impose substantial delayed compliance penalties for failure to comply with applicable emission limitations after July 1, 1979 and civil penalties of up to \$25,000 per day for facilities found to be in violation of an applicable implementation plan provision.

The Company operates its coal-fired generating stations in North Carolina under a revised regulation which prescribes mass emission limits for particulates for each boiler unit. Such regulation was issued by the North Carolina Environmental Management Commission (EMC) and was submitted to EPA for approval as a revision to the state implementation plan.

In December 1983, EPA published notice of its proposal to approve the new mass emission limits contingent on an additional submission by the State to document compliance with regulations for prevention of significant deterioration of air quality. The Company could incur substantial capital costs for pollution control equipment if EPA fails to approve the mass emission limits. Additionally, if legislation relating to air quality being considered by Congress is enacted, a reduction in sulfur dioxide emission limits for electric utility boilers might be required.

WATER QUALITY. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

In 1974, EPA established guidelines for steam electric generating plant discharges setting effluent limitations for existing sources and standards of performance for new sources. These guidelines imposed a "no discharge" of heat requirement on certain existing generating units and units under construction. Such guidelines were challenged in a suit filed in the United States Court of Appeals for the Fourth Circuit (*Appalachian Power Company, et al. v. Train*). In a decision issued in 1976, the Court set aside and remanded for further consideration portions of the guidelines to EPA.

OTHER ENVIRONMENTAL REGULATIONS. North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental

effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act.

GENERAL. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Nuclear Facilities. NRC regulations require consideration of both radiological and environmental issues prior to granting construction permits and operating licenses for nuclear power plants. These regulations currently permit public intervention with respect to issuances of permits and licenses.

The NRC requested the Company to study its Oconee reactor vessels for thermal shock effects of emergency core cooling system operations during a loss of feedwater event, as well as other transients which might induce rapid overcooling of the system. Preliminary analyses of the Oconee units conducted by the Company and the manufacturer, Babcock & Wilcox Company, have indicated that the vessels as constructed are adequate to permit safe operation for the remainder of their projected licensed lives. The present position of the staff of the NRC is that the units can operate safely pending completion of its analysis of the matter. Should modification be warranted upon completion of such analysis, the cost of modification is not expected to be material.

In addition, the NRC has requested that an owner group consisting of representatives of the owners of reactors manufactured by Babcock & Wilcox Company conduct a study in response to two operational incidents which occurred in 1985. The study will encompass the overall safety of these reactors and is expected to be completed by the end of 1986. The results of the study will then be reviewed by the staff of the NRC. However, the present position of the NRC staff is that the units can operate safely pending completion of the study and its review.

The Company currently has insured against public liability claims resulting from nuclear incidents to the full \$660 million limit on liability under the Price-Anderson Act. The maximum available private insurance of \$160 million has been purchased and the remaining \$500 million has been provided through a mandatory industry-wide program of self-insurance, under which licensees could be assessed in the event of a nuclear incident involving any licensed facility in the nation up to \$5 million for each of its licensed reactors and up to \$10 million a year for each of its licensed reactors in the event of more than one incident. The Company currently has seven licensed reactors. Such nuclear insurance coverage does not include coverage of the plant facilities. To cover possible damage to these facilities, the Company maintains property damage insurance with Nuclear Mutual Limited, a Bermuda mutual insurance company of which the Company is a member, in the maximum amount available from such insurer, which is presently \$500 million, or the insurable value of the facilities, whichever is less. The Company has purchased from Nuclear Electric Insurance Limited (NEIL), a Bermuda mutual insurance company of which it is a member, an additional \$550 million of property damage insurance through its Excess Property Insurance Program. The Company also has purchased an additional \$85 million of property damage insurance through a pool of stock and mutual insurance companies. In connection with the sale of a portion of its interest in the Catawba Nuclear Station (see "Joint Ownership of Facilities"), the Company placed \$585 million through a pool of stock and mutual insurance companies and \$550 million through NEIL's Excess Property

Insurance Program. (For information about possible assessments, see Note 14, "Notes to Financial Statements.")

NEIL also provides insurance against the increased cost of generation or purchased power resulting from the accidental outage of a nuclear unit. The Company's Oconee and McGuire Nuclear Stations and the Catawba Nuclear Station are insured for up to \$2.2 million, \$3.0 million and \$2.8 million, per unit per week, respectively, after a 26-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100% for 52 weeks and at 50% for an additional 52 weeks.

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power Act. Eleven developments on the Catawba-Watersee River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for a term expiring in 2016 covering a power generation development on the upper tributaries of the Savannah River in northwestern South Carolina. Hydroelectric and pumped storage units in such development, with a nameplate rating of 750,000 KW, have been completed. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

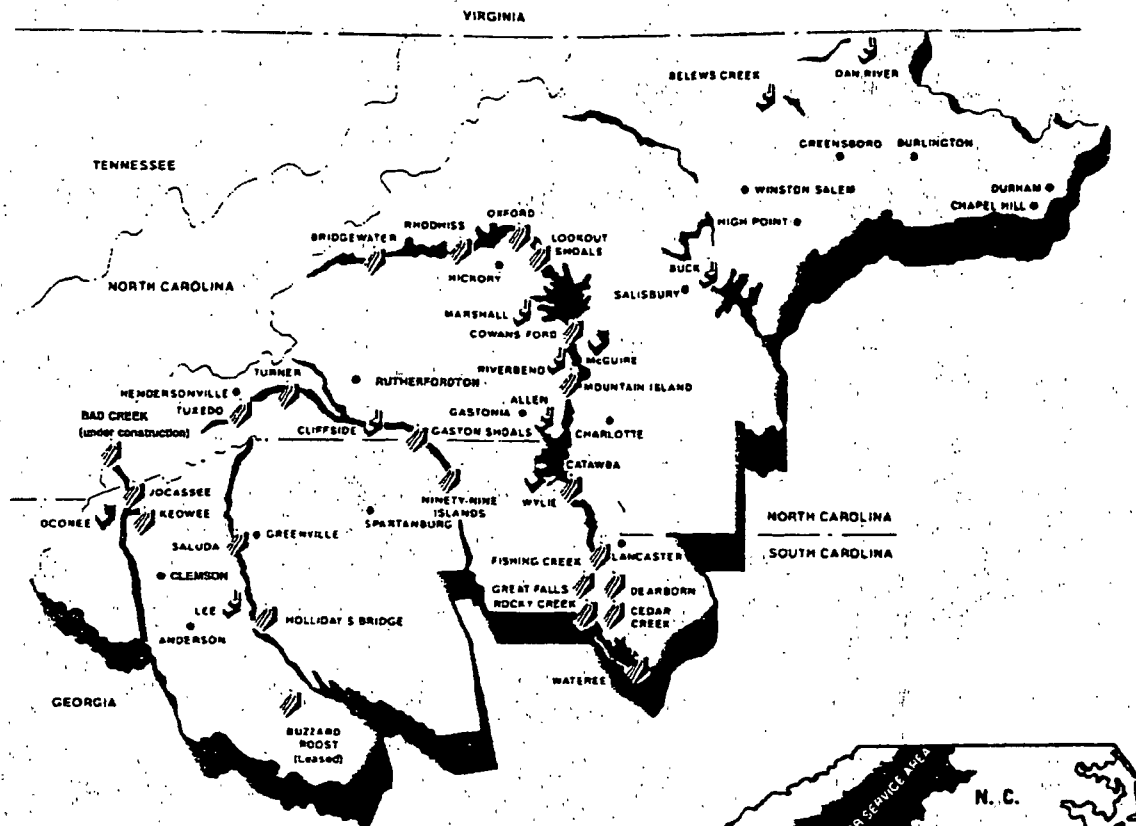
Competition

The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems and rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

Employees

At December 31, 1985, the Company employed approximately 20,450 persons. About 1,850 electrical operating employees are represented by the International Brotherhood of Electrical Workers with which the Company had a labor agreement which expired on September 30, 1985.

Duke Power Service Area



LEGEND

- DISTRICT OFFICE
- ⚡ STEAM ELECTRIC STATION
- ⚡ HYDROELECTRIC STATION
- ⚡ NUCLEAR ELECTRIC STATION

OPERATING STATISTICS

	Year Ended December 31				
	1985	1984	1983	1982	1981
Sources of Electric Energy					
Millions of kilowatt-hours:					
Generated — net output:					
Coal.....	27,619	26,394	32,466	38,927	42,513
Nuclear (A).....	33,700	32,632	25,059	15,009	14,229
Hydro.....	1,162	1,995	2,114	1,569	843
Oil and gas.....	13	—	8	7	146
Total generated.....	62,494	61,021	59,647	55,512	57,731
Purchased power and net interchange.....	(1,742)	(2,908)	(1,003)	(301)	494
Total output.....	60,752	58,113	58,644	55,211	58,225
Less: Catawba buyers' ownership.....	3,827	—	—	—	—
Plus: Purchases from Catawba.....	3,769	—	—	—	—
Total sources of energy.....	60,694	58,113	58,644	55,211	58,225
Losses and company use.....	(4,636)	(3,714)	(4,493)	(3,831)	(4,677)
Total energy sales (B).....	56,058	54,399	54,151	51,380	53,548
Average Cost Per Ton of Coal Burned.....	\$48.66	\$49.58	\$47.24	\$46.80	\$43.24
Electric Energy Sales					
Millions of kilowatt-hours:					
Residential.....	14,241	14,493	14,219	13,711	13,861
General service.....	11,338	10,922	10,339	10,087	9,731
Industrial.....	—	—	—	—	—
Textile.....	9,961	10,169	10,115	9,215	10,101
Other.....	11,876	11,652	10,792	10,130	10,566
Wholesale and other energy sales.....	8,642	7,163	8,686	8,237	9,289
Total energy sales (B).....	56,058	54,399	54,151	51,380	53,548
Electric Revenue					
Thousands of dollars:					
Residential.....	\$ 914,513	\$ 886,065	\$ 806,085	\$ 741,255	\$ 624,986
General service.....	642,006	593,351	521,568	485,064	386,141
Industrial.....	—	—	—	—	—
Textile.....	420,817	409,635	374,138	335,727	293,081
Other.....	523,041	487,604	419,755	384,191	320,838
Wholesale and other energy sales.....	358,385	291,435	324,595	309,241	270,623
Other electric revenues.....	40,149	41,925	(25,889)	(10,998)	12,785
Total electric revenues.....	\$2,898,911	\$2,710,015	\$2,420,252	\$2,244,480	\$1,908,454
Number of Customers — End of Year					
Residential.....	1,236,156	1,199,718	1,167,846	1,139,248	1,125,371
General service.....	188,542	181,590	175,142	168,897	167,282
Industrial.....	—	—	—	—	—
Textile.....	1,349	1,337	1,323	1,302	1,313
Other.....	6,894	6,680	6,588	6,459	6,410
Wholesale and other energy sales.....	6,516	6,385	6,276	6,403	6,326
Total customers.....	1,439,457	1,395,710	1,357,175	1,322,309	1,306,702
Residential Customer Statistics					
Average number for year.....	1,221,419	1,186,962	1,158,123	1,136,431	1,118,534
Average annual use — KWH.....	11,659	12,210	12,278	12,065	12,392
Average annual billing.....	\$748.73	\$746.50	\$696.03	\$652.27	\$558.75
Average Annual Billed Revenue Per KWH					
Residential.....	6.42*	6.11*	5.67*	5.41*	4.51*
General service.....	5.66*	5.43*	5.04*	4.81*	3.97*
Industrial.....	4.32*	4.11*	3.80*	3.72*	2.97*
Wholesale and other energy sales.....	4.15*	4.07*	3.74*	3.75*	2.91*

(A) Includes 100% of Catawba Unit 1 generation.

(B) Excludes a portion of the energy sold to the joint owners of the Catawba Nuclear Station (see "Business — Joint Ownership of Facilities").

EXECUTIVE OFFICERS OF THE COMPANY

<u>Name</u>	<u>Position</u>	<u>Service In Sech Capacity Since</u>	<u>Age*</u>
W. S. Lee**	Chairman of the Board and Chief Executive Officer	1982	56
D. W. Booth**	President and Chief Operating Officer and Director	1982	61
W. H. Grigg**	Executive Vice President, Finance and Administration, and Director	1982	53
W. H. Owen**	Executive Vice President, Engineering, Construction and Production Group, and Director	1982	59
A. C. Thies**	Executive Vice President, Transmission, Distribution and Electric Operations Group, and Director	1982	64
Steve C. Griffith, Jr.**	Senior Vice President and General Counsel and Director	1982	52
John D. Hicks**	Senior Vice President, Public Affairs, and Director	1977	62
Henry L. Cranford	Senior Vice President, Division Operations	1982	58
Donald H. Denton, Jr.	Senior Vice President, Marketing and Rates	1982	48
James R. Bavis	Vice President, Human Resources	1984	46
Thomas C. Berry	Vice President, Southern Division	1976	55
S. K. Blackley, Jr.	Vice President, Transmission	1984	53
Ralph W. Bostian	Vice President, Production Support	1982	59
J. Kenneth Clark	Vice President, Corporate Communications	1981	53
W. A. Coley	Vice President, Operation	1984	42
Robert L. Dick	Vice President, Construction	1971	58
George W. Ferguson, Jr.	Vice President and Deputy General Counsel	1982	53
E. O. Ferrell, III	Vice President, Northern Division	1984	41
E. N. Hedgepeth, Jr.	Vice President, Distribution	1982	58
Duncan Lennon	Vice President and Tax Counsel	1984	64
John F. Lomax	Vice President, Western Division	1980	46
Paul G. Martin	Vice President, Eastern Division	1982	53
Dwight B. Moore	Vice President, Central Division	1980	64
William O. Parker, Jr.	Vice President, Fossil Production	1982	61
R. B. Priory	Vice President, Design Engineering	1984	39
William R. Stimart	Vice President, Regulatory Affairs	1979	54
George E. Stubbins	Vice President, Information Systems	1982	45
Hal B. Tucker	Vice President, Nuclear Production	1982	57
Fred E. West, Jr.	Vice President, Charlotte Division	1981	49
James W. White	Vice President, General Services	1979	60
Lewis F. Camp, Jr.	Secretary and Associate General Counsel	1980	57
Norman P. Morrow	Controller	1982	38
Richard J. Osborne	Treasurer	1981	35

*As of February 1986.

**Member of the Executive Committee.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for James R. Bavis and J. Kenneth Clark. Mr. Bavis served as Vice President, Human Resources, of Gold Bond Building Products, a division of National Gypsum Company, Inc. from January 1980 to March 1984 when he joined the Company as Vice President, Human Resources. Mr. Clark served as Public Affairs Director of Mars, Inc., confectioner, from July 1978 to May 1981 when he joined the Company as Vice President, Corporate Communications.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Item 2. *Properties.*

The map on page 9 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V — Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. — "Construction Program — *Facilities Under Construction*".

Item 3. *Legal Proceedings.*

Reference is made to Note 2 of "Notes to Financial Statements" for information relating to an appeal taken from a rate order previously obtained by the Company from the NCUC. Intervenor appealed an order of the PSC issued in August 1980 granting a rate increase of \$23.4 million based on a test year ended June 30, 1979, seeking its reversal or modification and refunds. The Court of Common Pleas, Richland County, upheld the order. On appeal, the South Carolina Supreme Court reversed and remanded the case to the PSC for further proceedings. On remand, the PSC issued two separate orders consistent with the Company's positions, the first of which was appealed to the Court of Common Pleas of Richland County and subsequently remanded to the PSC. On remand the PSC issued an order requiring a partial refund to ratepayers. Intervenor has appealed this order to the Circuit Court. Intervenor requested reconsideration of the second order which was denied by the PSC and such intervenor then appealed this order to the South Carolina Supreme Court, which has not issued its decision. Intervenor has also appealed an order of the NCUC issued in February 1982 adjusting rates based on changes in fuel cost, seeking its reversal or modification and refunds. The North Carolina Court of Appeals remanded the order to the NCUC for a redetermination of fuel costs. The NCUC has not acted on the remand.

Item 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of the Company's security holders during the last quarter of 1985.

PART II

Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters.*

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1985, there were approximately 116,549 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by *The Wall Street Journal* as composite transactions:

Common Stock	Dividends Per Share	Price Range	
		High	Low
1985 by Quarter			
Fourth.....	\$0.65	36 $\frac{7}{8}$	31 $\frac{1}{2}$
Third.....	0.65	35 $\frac{7}{8}$	30 $\frac{7}{8}$
Second.....	0.62	35 $\frac{3}{4}$	32 $\frac{1}{8}$
First.....	0.62	32 $\frac{7}{8}$	28 $\frac{1}{2}$
1984 by Quarter			
Fourth.....	\$0.62	30 $\frac{1}{8}$	27 $\frac{1}{8}$
Third.....	0.62	27 $\frac{7}{8}$	24 $\frac{7}{8}$
Second.....	0.59	25	22 $\frac{3}{4}$
First.....	0.59	26 $\frac{1}{8}$	22 $\frac{1}{4}$

Item 6. *Selected Financial Data.*

DUKE POWER COMPANY
SELECTED FINANCIAL DATA

	Year Ended December 31				
	1985	1984	1983	1982	1981
	(Dollars in thousands, except per share figures)				
CONDENSED STATEMENTS OF INCOME					
Electric revenues.....	\$2,898,911	\$2,710,015	\$2,420,252	\$2,244,480	\$1,908,454
Electric expenses.....	<u>2,370,876</u>	<u>2,161,914</u>	<u>1,971,038</u>	<u>1,854,712</u>	<u>1,632,104</u>
Electric operating income.....	528,035	548,101	449,214	389,768	276,350
Other income.....	<u>163,821</u>	<u>162,795</u>	<u>213,001</u>	<u>175,048</u>	<u>254,043</u>
Income before interest deductions.....	691,856	710,896	662,215	564,816	530,393
Interest deductions.....	<u>254,263</u>	<u>249,565</u>	<u>230,938</u>	<u>214,939</u>	<u>194,142</u>
Income before extraordinary item.....	437,593	461,331	431,277	349,877	336,251
Extraordinary item.....	—	—	—	48,304	—
Net income.....	437,593	461,331	431,277	398,181	336,251
Dividends on preferred and preference stocks.....	<u>60,912</u>	<u>61,786</u>	<u>62,600</u>	<u>62,164</u>	<u>57,895</u>
Earnings for common stock.....	<u>\$ 376,681</u>	<u>\$ 399,545</u>	<u>\$ 368,677</u>	<u>\$ 336,017</u>	<u>\$ 278,356</u>
RATIO OF EARNINGS TO FIXED CHARGES (SEC method).....					
	3.87	4.21	3.46	2.98	2.73
COMMON STOCK DATA					
Shares of common stock					
— End of year (thousands).....	101,194	101,153	99,634	95,949	88,483
— Average (thousands).....	101,178	100,346	97,784	93,679	87,313
Per share of common stock					
Earnings before extraordinary item.....	\$ 3.72	\$ 3.98	\$ 3.77	\$ 3.07	\$ 3.19
Extraordinary item.....	—	—	—	0.52	—
Earnings.....	<u>\$ 3.72</u>	<u>\$ 3.98</u>	<u>\$ 3.77</u>	<u>\$ 3.59</u>	<u>\$ 3.19</u>
Dividends.....	\$ 2.54	\$ 2.42	\$ 2.32	\$ 2.24	\$ 2.08
Book value — end of year.....	\$ 28.98	\$ 27.80	\$ 26.26	\$ 24.89	\$ 23.83
Market price — high-low.....	\$ 36½-28½	\$ 30½-22½	\$ 26½-21½	\$ 24-20½	\$ 22½-15½
— end of year.....	\$ 35½	\$ 29	\$ 25½	\$ 23½	\$ 20½
TOTAL ASSETS.....	\$8,024,163	\$8,018,818	\$7,379,445	\$7,057,780	\$6,531,044
LONG-TERM DEBT.....	\$2,721,041	\$2,696,795	\$2,745,889	\$2,712,372	\$2,545,694
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS.....	\$ 277,012	\$ 285,426	\$ 295,053	\$ 304,026	\$ 308,674

Item 7. *Management's Discussion and Analysis of Results of Operations and Financial Condition.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Over the past five years, Duke Power Company has achieved significantly greater financial strength and flexibility. However, in 1985 the Company was unable to maintain the steady rate of growth in corporate earnings experienced over the previous four years, as 1985 earnings per share declined by 6.5 percent to \$3.72.

Despite the decline in earnings in 1985, the Company maintained sound credit ratings on its fixed income securities. The Company also continued its practice of increasing the common stock dividend annually.

Earnings and Dividends

Earnings per share for the year 1985 decreased 6.5 percent from 1984, and the earned return on average common equity fell to 13.1 percent from 14.8 percent last year. Earnings declined from 1984 primarily because of lower than projected kilowatt-hour sales, a somewhat lower level of nuclear performance than that experienced in 1984 and higher maintenance costs. In addition, the Company's investments in securities yielded a lower return than investments in utility plant.

Over the five-year period, however, earnings per share increased at an annual rate of 4 percent to \$3.72 in 1985 from \$3.19 in 1981.

Common dividends paid increased at an annual rate of 5 percent, to \$2.54 per share in 1985 from \$2.08 in 1981. Indicated annual dividends per share rose to \$2.60 in 1985, up 5 percent from the level at the end of 1984.

Revenues and Sales

Higher rates and kilowatt-hour sales increased electric revenues at an annual rate of 11 percent from 1981 to 1985. Kilowatt-hour sales, including electricity delivered to joint owners of the Catawba Nuclear Station, have increased at an annual rate of 2 percent over the five-year period primarily because of economic expansion in the Piedmont Carolinas. Sales have fluctuated somewhat from year to year with the economic cycles in the early 1980s and abnormal weather patterns.

In 1985, kilowatt-hour sales, including electricity delivered to joint owners of the Catawba Nuclear Station, were 2 percent higher than in 1984. However, excluding the transactions with the joint owners of Catawba, sales were essentially flat. Sales to residential customers declined 2 percent as a result of unseasonably mild weather. Sales to textile customers were 2 percent below 1984. However, sales to this customer group increased during the last four months of 1985. Kilowatt-hour sales to non-textile industrial customers continued to increase, rising 2 percent above the 1984 level.

Operating Expenses

Over the past five years non-fuel operating and maintenance expenses increased principally because of the addition of three nuclear units, increased maintenance at both nuclear and coal-fired stations, additional Nuclear Regulatory Commission requirements, and inflation. (See "Selected Financial Data — Effects of Changing Prices," page 38.) These factors caused non-fuel operating and maintenance expenses to rise at an annual rate of 15 percent from 1981 to 1985.

Fuel expense has fluctuated during the past five years primarily because of changes in generation mix and fuel prices. After decreasing for three consecutive years, fuel expense in 1985 increased 5 percent over 1984, primarily because refuelings caused the level of nuclear performance during the year to fall short of the record level achieved in 1984. Also, while experiencing outages at some of its more efficient coal-fired units, the Company was forced to rely more on its smaller, less efficient coal units. Decreased fuel expense in 1984 and 1983 resulted from higher nuclear generation, while

decreased levels of production brought about by low demand resulted in a decline in 1982 fuel expense. Fuel expense increased in 1981 because the unit price of fuel rose.

"Net interchange and purchased power" expense increased significantly in 1985. The increase was principally the result of purchased power agreements with the joint owners of the Catawba Nuclear Station. (See Note 3, "Notes to Financial Statements.")

Growth of Financial Assets and Non-Utility Earnings

Non-utility earnings continued to grow in 1985, increasing 23 percent over 1984. The increase is largely because of dividend and interest income earned from the Company's investment in short-term and intermediate-term securities. The Company made these investments with the proceeds from the December 1984 sale of a portion of the Catawba Nuclear Station. The Company will use the invested funds to lessen its anticipated financing requirements over the next several years. The return earned on these low-risk investments is substantially less than the return on the investment in utility property.

Other components of the Company's non-utility earnings are subsidiary earnings, appliance sales, and Management and Technical Services income. In 1985, non-utility earnings were 14 percent of total Company earnings, compared with 11 percent in 1984.

Other

Allowance for funds used during construction (AFUDC) was 21 percent of earnings for common stock in 1985, a decrease from an average of 54 percent for 1981 through 1984. Completion of three nuclear units, sales of portions of the Catawba Nuclear Station and cancellation of two nuclear projects caused AFUDC to decline during 1981 through 1985.

Liquidity and Resources

Rate increases

The North Carolina Utilities Commission issued a rate order in September 1985 granting the Company a 9.1 percent increase in revenues and a rate of return on common equity of 14.9 percent. The Public Service Commission of South Carolina, in an October 1985 rate order, granted the Company a 10.75 percent increase in revenues with a rate of return on common equity of 14.75 percent. An application for a rate increase with respect to the Company's wholesale customers was filed in July 1985. The Company and its wholesale customers have agreed upon a \$5.2 million increase, subject to acceptance by the Federal Energy Regulatory Commission. The Company filed these rate increase requests in all three jurisdictions primarily to recover its investment in Unit 1 of the Catawba Nuclear Station and payments related to the purchased power contracts with the other joint owners of the station.

The rate orders in the Company's retail jurisdictions permitted the Company to recover in current rates its investment in Catawba Unit 1 and the fuel, operating and maintenance costs associated with contractual purchases of energy and capacity from the Catawba buyers. The contracts relating to the sales of portions of the station obligate the Company to make payments on an annually declining percentage basis to the electric cooperatives and municipalities. Regulatory treatment of these contracts provides revenue to cover the capital costs of purchased capacity on a levelized basis. This treatment results in the Company having to fund portions of the payments until these costs, including carrying charges, are recovered at a later date. The Company will begin to recover the accumulated costs and carrying charges when the amount of capacity payments drops below the levelized revenues.

From 1981 to 1985 the Company was granted retail rate increases allowing approximately 56 percent of requested additional revenues. Rate increases during this period included recovery of the Company's investment in Catawba Unit 1 and in both units of the McGuire Nuclear Station, higher rates of return on common equity, compensation for increased purchase power and operating expenses, and recovery for the amortization of two canceled nuclear projects.

(For additional information on rate matters, see Note 2, "Notes to Financial Statements.")

Capital Structure

The Company's capital structure at year end was 46 percent common equity, 43 percent long-term debt, and 11 percent preferred and preference stocks. The capitalization was substantially the same as year-end 1984 and was consistent with the Company's long-term financial goals.

In January 1985 the Company's Customer Stock Purchase Plan and its Dividend Reinvestment and Stock Purchase Plan began purchasing common stock on the stock market to satisfy the requirements of these plans. Consequently, dividends reinvested by shareholders in these plans no longer qualify for tax-deferred treatment. The Company does not plan to issue new common shares in the near future, except to convert outstanding Preference Stock, 6½% Convertible Series AA.

Fixed Charges Coverage

Fixed charges coverage, using the Securities and Exchange Commission method, decreased to 3.87 times at year end from 4.21 times in 1984. For the year ended December 1985, pretax earnings were lower than in 1984 principally due to the effects of the Catawba sale in that year. This decline caused the coverage to fall below the Company's goal of 4.00 times. The Company has refinanced higher cost debt obligations, which will help to increase the coverage.

Funds From Operations

Funds from operations accounted for 62 percent of the total applications of funds in 1985. The percentage of internally generated funds declined from 1984, primarily because the Company refinanced existing higher cost debt and made a lump-sum payment to the Department of Energy for nuclear fuel disposal costs in June 1985. The Company also had to fund the portions of purchased capacity payments not currently collected in rates. In addition, internally generated funds in 1984 included the proceeds from the sale of a portion of the Catawba Nuclear Station. The percentage of internally generated funds is still above the Company's long-term goal of 50 percent.

Additional Funds

The Company obtained additional funds during the past five years from the sale of \$534 million in first and refunding mortgage bonds, \$38 million in preferred stock and \$357 million in common stock. Proceeds from the sale of common stock include funds acquired from the issuance in 1982 of \$73 million of common stock in a non-cash exchange for bonds.

The Company took advantage of opportunities to reduce interest expenses in 1985. In January the Company reduced the obligations of one of its nuclear fuel trusts by \$40 million. Also, the Company refinanced several debt obligations during the year at lower interest rates.

The Company, on December 23, 1985, issued \$50 million principal amount of its First and Refunding Mortgage Bonds, 10½ percent Series B due 2015. The proceeds were applied to the January 13, 1986, redemption of \$50 million principal amount First and Refunding Mortgage Bonds, 13½ percent Series B due 2010. Total funds needed to redeem the 13½ percent Series B bonds were \$55.5 million.

On April 1, 1985, the Company issued \$125 million principal amount of its First and Refunding Mortgage Bonds, 12½ percent Series due 2015. The proceeds were applied to the May 6, 1985, redemption of the \$100 million principal amount First and Refunding Mortgage Bonds, 14½ percent Series due 2010. The total amount required to redeem the 2010 Series bonds was \$115.8 million. Portions of the proceeds were also used in connection with the March 1, 1985, redemption of the First and Refunding Mortgage Bonds, 14½ percent Series due 1987.

The entire Series of the 14½ percent bonds, totaling \$50 million, was retired by the Company on March 1, 1985. The Company had transferred certain U.S. government securities to an irrevocable trust in October 1984 for the defeasance of \$32.9 million of these bonds, with the balance necessary for the retirement provided largely from the proceeds of the issuance of the 12½ percent bonds.

The Company may issue additional debt obligations over the next several years to purchase or redeem existing higher cost debt. Issuance of the debt will depend on favorable market conditions.

The Company received \$978 million from the sales of portions of the Catawba Nuclear Station in 1984 and 1981. The Company retains a 12.5 percent ownership interest in the two-unit station.

In February 1985 the Company formed Church Street Capital Corp., a wholly owned subsidiary, for the purpose of investing the Company's temporary cash funds. The subsidiary is consolidated for financial statement purposes. As of December 31, 1985, the consolidated entity had approximately \$352 million in short-term investments and \$170 million in intermediate-term investments.

In June 1985 the Company made a lump-sum payment of \$122 million to the Department of Energy under the terms of the Nuclear Waste Policy Act of 1982. The payment was for the obligation related to disposal costs for nuclear fuel consumed prior to April 7, 1983.

The levelized recovery of purchased power obligations under contracts with the joint owners of the Catawba Nuclear Station will result in payments by the Company over the next five years exceeding the amounts collected in rates for such power by approximately \$461 million.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$657 million and retirements of \$28 million resulted in a net increase in gross plant of \$629 million in 1985.

Since January 1, 1981, additions to property, including nuclear fuel, of \$3.5 billion and retirements of \$1.6 billion have resulted in a net increase in gross plant of \$1.9 billion. The amount of retirements was unusually large primarily because portions of the Catawba Nuclear Station were sold and the Cherokee and Perkins nuclear projects were canceled.

Construction and Other Expenditures

Plant construction costs declined during the period 1981 through 1985. The primary reasons for this decline were the completion of three generating units in this five-year period (McGuire Unit 1 in 1981; McGuire Unit 2 in 1984; and Catawba Unit 1 in 1985) and the sale of portions of the Catawba Nuclear Station. As of December 31, 1985, construction work in progress (CWIP) was below \$1.0 billion for the second consecutive year. CWIP is expected to exceed \$1.0 billion in the late 1980s primarily because of increased construction expenditures at Bad Creek Hydroelectric Station.

Expenditures for construction of major generating facilities and for nuclear fuel were approximately 21 percent of the total applications of funds during 1985, a decrease from 34 percent for 1984 and 45 percent for 1981. Additional major applications of funds were required for the expansion and replacement of transmission and distribution facilities and for the redemption of maturing and refunded securities.

Future Construction Program

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station that have been sold, are \$2.5 billion for the three-year period 1986 through 1988. Compared with the previous five years, major plant construction costs projected for 1986 through 1988 will constitute a lower percentage of the Company's total applications of funds.

Major generating units still under construction are the four units of the Bad Creek Hydroelectric Station. Catawba Unit 2 is undergoing pre-operational testing and is planned for commercial operation in fall 1986.

The Company's portion of the estimated construction and initial core nuclear fuel costs for Unit 2 of Catawba is \$240 million, and total estimated costs for the station are \$495 million. As of December 31, 1985, \$201 million had been spent on the Company's portion of Unit 2, increasing to \$457 million the total amount incurred to date for the station's construction and initial core nuclear fuel.

Construction of Bad Creek Hydroelectric Station, a 1,000,000-kilowatt pumped-storage facility located in northwestern South Carolina, continued in 1985. Units 1 and 2 are scheduled for completion in 1991 and Units 3 and 4 in 1992. As of December 31, 1985, \$78.3 million of the total estimated cost of \$1.0 billion had been expended on the project.

After completing Catawba Unit 2 and Bad Creek, the Company currently has no plans to place a new generating plant in service before the mid-1990s.

Significant Trends

The Company's financial position and results of operations could be affected by several factors in the coming years. The most significant of these is whether the Company will receive timely and adequate increases in rates to cover the increased expenses associated with the commercial operation of Catawba Unit 2 and the additional costs of capacity the Company is contractually obligated to purchase from the other Catawba owners upon the commercial operation of that unit. Additionally, as operating and maintenance expenses increase, the Company will need timely and adequate recovery in future rates. Continued growth in the Company's non-utility operations, along with further economic expansion throughout the service territory, could have a positive impact on total Company earnings.

Other factors that could have an impact on the Company include the resolution of certain issues being addressed by the Financial Accounting Standards Board (FASB) and the North Carolina Utilities Commission (NCUC). The FASB has proposed accounting which, if implemented, would require the Company to write down to present value its canceled construction projects since the Company's recovery of these canceled projects through rates does not include a return on the unrecovered balance. The resulting write down to present value, if required, could be recorded by restating prior years' financial statements. Also, the resolution by the NCUC of the treatment of over- or under-recovery of fuel costs in the North Carolina retail jurisdiction could have an impact on future results of operations and the financial position of the Company.

Item 8. *Financial Statements and Supplementary Data.*

DUKE POWER COMPANY

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RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

AUDITORS' OPINION

Duke Power Company:

We have examined the financial statements and supplemental schedules of Duke Power Company listed in the accompanying index on page 20. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Company at December 31, 1985 and 1984, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
February 14, 1986

DUKE POWER COMPANY
STATEMENTS OF INCOME

	Year Ended December 31		
	1985	1984	1983
	(Dollars in Thousands)		
ELECTRIC REVENUES (Notes 1 and 2).....	\$2,898,911	\$2,710,015	\$2,420,252
ELECTRIC EXPENSES			
Operation			
Fuel used in electric generation (Note 1).....	719,254	683,563	739,829
Net interchange and purchased power (credit) (Note 3).....	107,145	(36,408)	(19,819)
Wages, benefits and materials.....	435,701	393,448	350,162
Maintenance of plant facilities.....	260,361	207,951	187,267
Depreciation and amortization (Notes 1 and 5).....	319,295	303,429	209,750
General taxes (Note 1).....	141,343	194,095	173,826
Income taxes (Notes 1 and 6).....	387,777	415,836	330,023
Total electric expenses.....	<u>2,370,876</u>	<u>2,161,914</u>	<u>1,971,038</u>
Electric operating income.....	<u>528,035</u>	<u>548,101</u>	<u>449,214</u>
OTHER INCOME (Notes 1, 4 and 6)			
Allowance for equity funds used during construction.....	62,741	98,711	144,048
Earnings of subsidiaries, net.....	12,186	17,221	10,415
Other, net.....	68,965	33,834	5,391
Income taxes — other, net.....	(20,434)	(29,180)	(3,037)
Income taxes — credit.....	40,363	42,209	56,184
Total other income.....	<u>163,821</u>	<u>162,795</u>	<u>213,001</u>
Income before interest deductions.....	<u>691,856</u>	<u>710,896</u>	<u>662,215</u>
INTEREST DEDUCTIONS			
Interest on long-term debt.....	267,345	276,520	272,349
Other interest.....	3,926	3,075	6,766
Allowance for borrowed funds used during construction (credit) (Note 1).....	(17,008)	(30,030)	(48,177)
Total interest deductions.....	<u>254,263</u>	<u>249,565</u>	<u>230,938</u>
NET INCOME.....	<u>437,593</u>	<u>461,331</u>	<u>431,277</u>
Dividends on preferred and preference stocks.....	<u>60,912</u>	<u>61,786</u>	<u>62,600</u>
EARNINGS FOR COMMON STOCK.....	<u>\$ 376,681</u>	<u>\$ 399,545</u>	<u>\$ 368,677</u>
COMMON STOCK DATA			
Average shares outstanding (thousands).....	101,178	100,346	97,784
Earnings per share.....	<u>\$3.72</u>	<u>\$3.98</u>	<u>\$3.77</u>
Dividends per share.....	<u>\$2.54</u>	<u>\$2.42</u>	<u>\$2.32</u>

See Notes to Financial Statements.

DUKE POWER COMPANY

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31		
	1985	1984	1983
	(Dollars in Thousands)		
SOURCES OF FUNDS (See Note 12)			
Operations			
Net income	\$ 437,593	\$ 461,331	\$ 431,277
Non-fund items:			
Depreciation and amortization (Notes 1 and 5)	462,400	469,711	324,608
Deferred income taxes and investment tax credit, net of amortization (Note 6)	141,105	103,800	333,045
Allowance for equity funds used during construction	(62,741)	(98,711)	(144,048)
Other, net	(68,563)	(13,137)	(6,073)
Total funds from operations	909,794	922,994	938,809
Funds from financing and sale of assets			
First and refunding mortgage bonds (Note 1)	172,404	—	—
Proceeds from the sale of an interest in the Catawba Nuclear Station	—	457,086	—
Issuance of common stock	—	37,194	84,326
Issuance of pollution-control bonds	34,114	60,720	45,648
Nuclear fuel trusts	57,638	84,461	60,645
Total funds from financing and sale of assets	264,156	639,461	190,619
Change in short-term position and other marketable securities	294,222	(690,038)	(182,800)
Total sources of funds	<u>\$1,468,172</u>	<u>\$ 872,417</u>	<u>\$ 946,628</u>
APPLICATIONS OF FUNDS			
Construction expenditures	\$ 594,431	\$ 546,043	\$ 535,678
Long-term debt retired, capital stock reacquired	235,292	138,652	81,097
Dividends paid	317,907	304,577	289,564
Change in working capital*	308,500	(386,086)	45,389
Other applications, net	12,042	269,231	(5,100)
Total applications of funds	<u>\$1,468,172</u>	<u>\$ 872,417</u>	<u>\$ 946,628</u>
CHANGE IN WORKING CAPITAL:			
Increase/(Decrease) in current assets			
Cash	\$ (3,011)	\$ 5,158	\$ (3,457)
Receivables	(18,011)	30,092	69,906
Refundable income taxes	—	(41,209)	41,209
Materials and supplies	53,735	(21,334)	(34,850)
Prepayments	6,633	(2,243)	1,475
Decrease/(Increase) in current liabilities			
Accounts payable	(6,016)	(36,812)	(28,633)
Nuclear fuel disposal costs payable	122,003	(122,003)	—
Taxes accrued	161,141	(158,001)	4,974
Interest accrued and other liabilities	(7,974)	(39,734)	(5,235)
Increase/(Decrease) in working capital*	<u>\$ 308,500</u>	<u>\$(386,086)</u>	<u>\$ 45,389</u>

* Excludes change in short-term position and change in current maturities of long-term debt and preferred stock.

See Notes to Financial Statements.

DUKE POWER COMPANY

BALANCE SHEETS

ASSETS

	December 31	
	1985	1984
	(Dollars in Thousands)	
ELECTRIC PLANT		
(At original cost — Notes 1, 3, 11 and 14)		
Electric plant in service.....	\$8,609,284	\$7,810,094
Less accumulated depreciation and amortization.....	<u>3,034,473</u>	<u>2,646,266</u>
Electric plant in service, net.....	5,574,811	5,163,828
Construction work in progress.....	<u>817,350</u>	<u>988,790</u>
Total electric plant, net.....	<u>6,392,161</u>	<u>6,152,618</u>
OTHER PROPERTY AND INVESTMENTS		
Other property — at cost (less accumulated depreciation: 1985 — \$7,790; 1984 — \$7,423).....	39,951	38,774
Investments in and advances to subsidiaries (Note 1).....	88,812	77,785
Other investments (Note 1).....	<u>195,981</u>	<u>22,596</u>
Total other property and investments.....	<u>324,744</u>	<u>139,155</u>
CURRENT ASSETS		
Cash (Note 7).....	2,743	5,754
Short-term investments.....	351,637	815,628
Receivables (less allowance for losses: 1985 — \$4,004; 1984 — \$4,030).....	244,658	262,669
Materials and supplies — at average cost		
Coal.....	150,085	114,787
Other.....	126,268	107,831
Prepayments.....	<u>14,706</u>	<u>8,073</u>
Total current assets.....	<u>890,097</u>	<u>1,314,742</u>
DEFERRED DEBITS		
Canceled construction projects (Notes 5 and 14).....	341,214	395,519
Purchased capacity costs (Note 3).....	41,872	—
Debt expense, being amortized over terms of related debt (Note 1).....	16,946	4,068
Other.....	<u>17,129</u>	<u>12,716</u>
Total deferred debits.....	<u>417,161</u>	<u>412,303</u>
TOTAL ASSETS	<u>\$8,024,163</u>	<u>\$8,018,818</u>

See Notes to Financial Statements.

DUKE POWER COMPANY
BALANCE SHEETS
CAPITALIZATION AND LIABILITIES

	December 31	
	1985	1984
	(Dollars in Thousands)	
CAPITALIZATION (See Statements of Capitalization).....	\$6,350,042	\$6,214,754
CURRENT LIABILITIES		
Accounts payable	159,125	153,109
Nuclear fuel disposal cost payable (Note 1).....	—	122,003
Taxes accrued (Note 1).....	52,923	214,064
Interest accrued.....	86,539	88,114
Other.....	77,217	67,668
Total	375,804	644,958
Current maturities of long-term debt and preferred stocks	133,342	119,819
Total current liabilities	509,146	764,777
ACCUMULATED DEFERRED INCOME TAXES (Notes 1 and 6)...	775,333	683,023
DEFERRED CREDITS AND OTHER LIABILITIES		
Investment tax credit (Notes 1 and 6).....	353,227	329,376
Other.....	36,415	26,888
Total deferred credits and other liabilities	389,642	356,264
COMMITMENTS AND CONTINGENCIES (Notes 5 and 14).....		
TOTAL CAPITALIZATION AND LIABILITIES.....	\$8,024,163	\$8,018,818

See Notes to Financial Statements.

DUKE POWER COMPANY
STATEMENTS OF CAPITALIZATION
AND RETAINED EARNINGS

CAPITALIZATION

	December 31	
	1985	1984
	(Dollars in Thousands)	
COMMON STOCK EQUITY (Note 8)		
Common stock, no par, 150,000,000 shares authorized; 101,193,802 shares outstanding for 1985 and 101,152,724 shares outstanding for 1984	\$1,860,623	\$1,859,639
Retained earnings	1,071,814	952,360
Total common stock equity	<u>2,932,437</u>	<u>2,811,999</u>
PREFERRED AND PREFERENCE STOCKS WITHOUT SINKING FUND REQUIREMENTS (Note 9)		
Preferred stock	415,000	415,000
Preference stock	4,552	5,534
Total preferred and preference stocks without sinking fund requirements	<u>419,552</u>	<u>420,534</u>
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS (Note 10)	<u>277,012</u>	<u>285,426</u>
LONG-TERM DEBT (Note 11)		
First and refunding mortgage bonds	2,614,136	2,530,506
Promissory note due subsidiary, 16 1/2% — due 1989	58,725	58,725
Term note, floating rate — due 1987	21,000	21,000
Term note, floating rate — due 1985	—	2,000
Capitalized leases	87,537	90,877
Nuclear fuel trusts	85,000	125,000
Unamortized debt discount and premium, net	(18,415)	(17,894)
Current maturities of long-term debt	(126,942)	(113,419)
Total long-term debt	<u>2,721,041</u>	<u>2,696,795</u>
TOTAL CAPITALIZATION	<u>\$6,350,042</u>	<u>\$6,214,754</u>

RETAINED EARNINGS

	Year Ended December 31		
	1985	1984	1983
	(Dollars in Thousands)		
BALANCE — Beginning of year	\$ 952,360	\$ 795,512	\$ 653,981
ADD — Net income	437,593	461,331	431,277
Total	<u>1,389,953</u>	<u>1,256,843</u>	<u>1,085,258</u>
DEDUCT			
Dividends			
Common stock	256,995	242,791	226,964
Preferred and preference stocks	60,912	61,786	62,600
Capital stock transactions, net	232	(94)	182
Total deductions	<u>318,139</u>	<u>304,483</u>	<u>289,746</u>
BALANCE — End of year	<u>\$1,071,814</u>	<u>\$ 952,360</u>	<u>\$ 795,512</u>

See Notes to Financial Statements.

DUKE POWER COMPANY
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. *Additions to Electric Plant.* The Company capitalizes all construction-related direct labor and materials as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized. The cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. *Allowance for Funds Used During Construction (AFUDC).* AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. AFUDC, a non-cash, non-operating item, is recognized as a cost of "Construction work in progress," with offsetting credits to "Other income" and "Interest deductions." After construction is completed, a utility is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.9 percent for 1985, 9.65 percent for 1984 and 9.45 percent for 1983.

C. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.58 percent for 1985, 3.56 percent for 1984 and 3.47 percent for 1983. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a rate of 4 percent, which includes an allowance for decommissioning costs.

Amortization of nuclear fuel and disposal costs is included in "Fuel used in electric generation," on the Statements of Income. The amortization is recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company began making payments to the Department of Energy (DOE) in 1983 for the disposal of nuclear fuel. These payments are based on nuclear generation on and after April 7, 1983. The Company has fulfilled its obligation for disposal costs of nuclear fuel consumed prior to April 7, 1983, by a payment in June 1985 of approximately \$122,000,000 to the DOE.

D. *Subsidiaries.* The Company's financial statements reflect consolidation of its wholly owned subsidiary, Church Street Capital Corp., formed in February 1985. All intercompany transactions have been eliminated in consolidation. Investments in other wholly owned subsidiaries have been accounted for by the equity method. Retained earnings as of December 31, 1985, include \$80,058,000 of undistributed earnings of unconsolidated subsidiaries. Dividends received from unconsolidated subsidiaries were \$2,200,000 in 1985, \$2,300,000 in 1984 and \$2,250,000 in 1983.

E. *Income Taxes.* The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its separate company taxable income or loss.

Income taxes are allocated to non-electric operations under "Other income" and to electric operating expense. The "Income taxes-credit" classified under "Other income" results from tax deductions of interest costs relating primarily to investments in CWIP, canceled construction projects, and short-term and intermediate-term investments.

Deferred income taxes are provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, capitalized taxes and employee benefits, levelization of purchased power payments, and canceled construction projects. Investment tax credits are deferred and amortized over the useful lives of the related properties.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

F. *Fuel Cost Adjustment Procedures.* Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. These jurisdictions allow the Company to adjust for past over- or under-recovery of cost. Therefore the Company reflects in revenues the difference between actual fuel costs incurred and fuel costs recovered through base rates.

In the North Carolina retail jurisdiction, the level of fuel costs in rates is revised and set in each general rate case proceeding. A hearing to review fuel costs in base rates is required annually.

G. *Retirement of Bonds.* The Company used the proceeds from the April 1, 1985, issuance of first and refunding mortgage bonds to redeem existing higher cost debt obligations. As a result of the redemption on May 6, 1985, the Company paid a premium of \$13,200,000. The premium is being amortized on a monthly basis over the life of the new bonds, which are due in the year 2015.

H. *Other Investments.* Other investments, which consist primarily of marketable securities as of December 31, 1985, are stated at the lower of cost or market value. At year-end, the cost of these securities approximated market value.

I. *Franchise and Sales Taxes.* The North Carolina state franchise tax rate was changed effective January 1, 1985, in compliance with North Carolina state law. The statute reduced the franchise tax rate from 6 percent to 3.22 percent and imposed a 3-percent sales tax on the sales of electricity in North Carolina. This reduction in the franchise tax rate is reflected in reduced revenues and reduced general taxes in the Statements of Income. The Company is acting as an agent for the state government in the collection of sales tax and is accumulating the amount as a component of "Taxes accrued" in the Balance Sheets. The Company remits both the sales tax and the franchise tax on a quarterly basis.

2. Rate Matters

The North Carolina Utilities Commission and The Public Service Commission of South Carolina must approve rates for retail sales within the respective states. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales to wholesale customers. The revenues shown (in millions of dollars) are annualized on the basis of the filing test year.

A summary of all general rate increases requested or implemented by the Company since January 1, 1983, is as follows:

Jurisdiction and Date Filed	Requested Revenues	Approved			Rate Order Effective	End of 12-Month Test Period
		Revenues	% of Request	% of Increase Over Previous Revenues		
N.C. retail						
February 1983.....	\$112.9	\$ 76.2	67.5	5.18	September 1983	September 30, 1982
November 1983.....	212.8	131.0	61.6	8.40	June 1984	June 30, 1983
February 1985 (a).....	340.0	157.7	46.4	9.10	September 1985	June 30, 1984
S.C. retail						
February 1982.....	99.4	40.7	40.9	7.10	March 1983	June 30, 1982
September 1983.....	136.0	99.7	73.3	17.40	March 1984	April 30, 1983
April 1985.....	143.0	78.4	54.8	10.75	October 1985	June 30, 1984
FERC wholesale (b)						
August 1982.....	44.1	26.0	59.0	8.70	June 1983	December 31, 1983
December 1983.....	9.5	8.0	84.2	9.60	October 1984	December 31, 1984
July 1985.....	9.2	5.2(c)	—	—	Pending	December 31, 1986

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

- (a) Under appeal.
- (b) FERC wholesale filings beginning December 1983 do not include the North Carolina Municipal Power Agency Number 1, the North Carolina Electric Membership Corporation and the Saluda River Electric Cooperative, Inc. Beginning in July 1985, FERC wholesale filings also do not include the Piedmont Municipal Power Agency. These municipalities and electric cooperatives previously purchased interests in the Catawba Nuclear Station. (See Note 3.) Sales to these entities, which previously represented a majority of the Company's wholesale revenues, are now set through contractual agreements.
- (c) This increase has been agreed upon by the Company and its wholesale customers, subject to FERC acceptance.

3. Joint Ownership of Generating Facilities

The Company has sold interests in both units of the Catawba Nuclear Station. The purchasers of portions of the 2,290,000-kilowatt Catawba Nuclear Station and supplemental information regarding their ownership are as follows:

<u>Owner</u>	<u>Ownership Interest in the Station</u>	<u>Date of Sale</u>
North Carolina Municipal Power Agency Number 1 (NCMPA No. 1)	37.5%	November 29, 1978
North Carolina Electric Membership Corporation (NCEMC)	28.125%	February 6, 1981
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%	February 6, 1981
Piedmont Municipal Power Agency (PMPA)	12.5%	December 20, 1984

Each participant has provided its own financing for its ownership interest in the plant.

The Company retained a 12.5 percent ownership interest in Catawba. As of December 31, 1985, \$255,400,000 had been transferred to "Electric plant in service," representing the Company's investment in Unit 1 and initial core nuclear fuel for that unit. Accumulated depreciation and amortization of \$8,800,000 associated with the amount transferred to "Electric plant in service" had been recorded as of year end. "Construction work in progress" as of December 31, 1985, included \$201,300,000, representing the Company's remaining investment in Catawba.

Under the terms of the 1984 sale to PMPA, the Company received \$457,086,000 at closing and a note for \$13,800,000 payable upon commercial operation of Catawba Unit 1, which occurred June 29, 1985.

In connection with the joint ownership, the Company has entered into contractual agreements with the buyers to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements are effective beginning with the commercial operation of each unit. Catawba Unit 2 is scheduled for commercial operation in fall 1986. Such agreements were established for 15 years for NCMPA No. 1 and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments will be based on variable operating costs, a function of the generation of the plant. Capacity payments will be based on the fixed costs of the plant. The estimated purchased capacity obligations through 1990 are \$431,073,000 for 1986, \$612,566,000 for 1987, \$572,149,000 for 1988, \$531,247,000 for 1989 and \$509,236,000 for 1990. These estimates are based on an in-service date of fall 1986 for Catawba Unit 2.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

The Company was granted recovery in current rates for the fuel, operating and maintenance costs associated with the purchases of capacity and energy in its most recent rate orders from the North Carolina Utilities Commission and The Public Service Commission of South Carolina. These rate orders granted recovery on a levelized basis of the capital costs of capacity purchased from the joint owners. The Company will recover the capital costs over a 15-year period in its North Carolina retail jurisdiction and a 7½-year period in its South Carolina retail jurisdiction. The portion of capital costs not recovered through current rates is being accumulated and the Company is recording a carrying charge on the accumulated balance. The Company will begin recovering the accumulated balance when the capacity payments drop below the levelized revenues.

For the year ended 1985 a total of \$224,600,000 was recorded for the purchases of capacity and energy from the joint owners. This amount, net of the cost of capacity purchased not reflected in current rates, is included in "Net interchange and purchased power" in the Statements of Income. As of December 31, 1985, \$22,400,000 (\$11,400,000 net of income taxes) associated with the levelization of capital costs had been accumulated in the Balance Sheets as a component of "Purchased capacity costs."

4. Other Income

For the years ended December 31, 1985 and 1984, the Company recorded investment income of \$51,700,000 and \$36,700,000, respectively (\$34,900,000 and \$18,600,000 net of income taxes, respectively) as a component of "Other, net" in the Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as a component of "Income taxes — other, net" in the Company's Statements of Income.

5. Canceled Construction Projects

The Cherokee and Perkins Nuclear Stations have been canceled. All jurisdictions have permitted recovery of the costs incurred through April 30, 1983. These costs are being amortized principally over a 10-year period beginning October 1983. The Company intends to seek recovery of the remaining incurred costs. (See Note 14.)

As of December 31, 1985 and 1984, the balances for these canceled projects, net of amortization, were \$544,145,000 and \$611,971,000, respectively (\$341,214,000 and \$395,519,000 net of income tax benefits, respectively). (See Note 6.)

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

6. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	1985	1984	1983
Electric Expenses			
Current income taxes			
Federal.....	\$200,884	\$271,960	\$ 701
State.....	36,506	47,876	(966)
	<u>237,390</u>	<u>319,836</u>	<u>(265)(a)</u>
Deferred taxes, net			
Excess tax over book depreciation.....	87,362	67,107	79,890
Capitalized taxes, employee benefits, etc.....	12,487	10,337	8,999
Cancellation of Cherokee Nuclear Station (b).....	(7,422)	(2,234)	210,329
Catawba purchased capacity cost.....	37,700	—	—
Other.....	677	1,959	44,942(c)
	<u>130,804</u>	<u>77,169</u>	<u>344,160</u>
Investment tax credit			
Deferred.....	40,729	37,381	— (a)
Amortization of deferments (credit).....	(21,146)	(18,550)	(13,872)
	<u>19,583</u>	<u>18,831</u>	<u>(13,872)</u>
Total electric expenses.....	<u>387,777</u>	<u>415,836</u>	<u>330,023</u>
Other Income			
Income taxes — other, net.....	20,434	91,497(d)	3,037
Income taxes — (credit).....	(40,363)	(42,209)	(56,184)
Total other income.....	<u>(19,929)</u>	<u>49,288</u>	<u>(53,147)(a)</u>
Total income tax expense.....	<u>\$367,848</u>	<u>\$465,124</u>	<u>\$276,876</u>

(a) Current income tax expense for 1983 is a credit principally due to the cancellation of all units of the Cherokee Nuclear Station and the deduction of the Company's liability under the Duke/Department of Energy Spent Nuclear Fuel Disposal Contract. This tax loss eliminated all investment tax credit utilization for 1983.

(b) Represents deferred income tax expense related to the cancellation of all units of the Cherokee Nuclear Station. The related deferred income tax credits have been classified as a reduction of "Canceled construction projects" in the Balance Sheets. (See Note 5.)

(c) Deferred income tax expense for 1983 includes \$51,260,000, primarily related to the reversal of deferred income tax expense for prior period liabilities under the Duke/Department of Energy Spent Nuclear Fuel Disposal Contract.

(d) Includes \$62,317,000 resulting from the sale of assets in December 1984. Such income taxes, which are included in "Other, net" in the Statements of Income, reflect a taxable gain in excess of book gain resulting principally from the treatment of AFUDC. (See Note 3.)

Total current income taxes were \$226,712,000 for 1985, \$376,949,000 for 1984 and \$(56,186,000) for 1983. Of these amounts, state income taxes were \$34,692,000 for 1985, \$57,587,000 for 1984 and \$(7,981,000) for 1983.

Total deferred income taxes were \$121,553,000 for 1985, \$69,344,000 for 1984 and \$346,934,000 for 1983. Of these amounts, deferred state income taxes were \$13,178,000 for 1985, \$7,687,000 for 1984 and \$42,773,000 for 1983.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1985	1984	1983
Income taxes on pretax income at the statutory federal rate of 46%	\$370,503	\$426,169	\$325,751
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(36,685)	(59,220)	(88,424)
Amortization of electric investment tax credit deferrals	(21,146)	(18,550)	(13,872)
AFUDC in book depreciation/amortization	42,575	45,298	23,884
State income taxes, net of federal income tax benefit	25,320	35,832	18,874
Increase in tax expense primarily because of excess of tax gain over book profit on sale of assets	—	27,280	—
Other items, net	(12,719)	8,315	10,663
Total income tax expense (see page 31)	<u>\$367,848</u>	<u>\$465,124</u>	<u>\$276,876</u>

7. Short-Term Borrowings

The Company had unused short-term credit facilities of \$316,050,000 with 59 commercial banks as of December 31, 1985, and \$319,500,000 with 60 commercial banks as of December 31, 1984. Included in these credit facilities is \$40,000,000 allocated to the 1984 issue of annual tender, pollution-control revenue bonds. The facilities are on a fee basis and/or compensating-balance basis, with total average balance requirements of \$1,362,500 for 1985 and \$1,372,000 for 1984. There were no short-term borrowings during 1985 and 1984.

As of December 31, 1983, the Company had short-term credit facilities of \$385,400,000 with 67 commercial banks. The average amount of short-term debt outstanding during 1983 was \$30,951,000. The maximum amount outstanding during 1983 was \$111,210,000. The weighted-average interest rate for that year was 8.92 percent computed on a daily basis.

8. Common Stock and Retained Earnings

Common Stock

A summary of issuances of shares of common stock is as follows (dollars in thousands),

Year	Proceeds	Shares Issued
1985	\$ —	—
1984	37,194	1,451,607
1983	84,326	3,605,980

During the past three years, the Company began using stock-market purchases to satisfy the requirements of certain stock plans. For the next several years, the Company anticipates using stock-market purchases to satisfy the requirements of all its stock plans and intends to issue new shares of common stock only for the conversion of preference stock. (See Note 9.)

As of December 31, 1985, a total of 4,764,013 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1985, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

9. Preferred and Preference Stocks Without Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1985 and 1984:

	Par Value	Shares
Preferred Stock.....	\$100	10,000,000
Preferred Stock A.....	25	10,000,000
Preference Stock.....	100	1,500,000

The outstanding preference stock, 6¼% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at \$100 par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1985, 1984 and 1983, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1985.....	9,819	41,078
1984.....	16,136	67,510
1983.....	18,868	78,936

Preferred and preference stocks without sinking fund requirements as of December 31, 1985 and 1984, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1985	1984
4.50% C.....	1964	350,000	\$ 35,000	\$ 35,000
5.72% D.....	1966	350,000	35,000	35,000
6.72% E.....	1968	350,000	35,000	35,000
8.70% F.....	1970	600,000	60,000	60,000
8.20% G.....	1971	600,000	60,000	60,000
7.80% H.....	1972	600,000	60,000	60,000
8.28% K.....	1977	500,000	50,000	50,000
8.84% M.....	1978	400,000	40,000	40,000
15.40% A.....	1982	1,600,000	40,000	40,000
6¼%, AA				
Convertible.....	1969	45,527	4,552	—
		55,346	—	5,534
Total.....			<u>\$419,552</u>	<u>\$420,534</u>

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

10. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1985 and 1984:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

Preferred stocks with sinking fund requirements as of December 31, 1985 and 1984, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1985	1984
7.35% I	1973	552,000	\$ 55,200	\$ —
		576,000	—	57,600
8.20% J	1977	420,000	42,000	—
		440,000	—	44,000
8.375% L	1978	440,000	44,000	—
		460,000	—	46,000
8.84% N	1979	467,500	46,750	—
		483,750	—	48,375
11.00% O	1980	500,000	50,000	50,000
10.76% A	1975	2,040,000	51,000	—
		2,100,000	—	52,500
Less: Preferred shares reacquired for current and future sinking fund requirements (at cost)				
		Shares Reacquired		
10.76% A		72,500	(1,702)	—
		120,000	—	(2,891)
8.84% N		30,050	(2,607)	—
		32,500	—	(2,529)
11.00% O		13,750	(1,229)	(1,229)
Less: Current sinking fund requirements				
7.35% I			(2,400)	(2,400)
8.20% J			(2,000)	(2,000)
8.375% L			(2,000)	(2,000)
Total			\$277,012	\$285,426

The annual sinking fund requirements through 1990, net of amounts reacquired, are \$6,400,000 in 1986, \$7,832,000 in 1987, and \$10,900,000 in 1988, 1989 and 1990, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 115 percent of par values, plus accumulated dividends to the redemption date.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

11. Long-Term Debt

First and refunding mortgage bonds outstanding as of December 31, 1985 and 1984, were as follows (dollars in thousands):

Series	Year Due	1985	1984	Series	Year Due	1985	1984
3 3/4%.....	1986	\$ 30,000	\$ 30,000	(continued)			
14 1/4%.....	1987	—	17,150	9 1/2%.....	2005	\$ 92,800	\$ 92,800
12%.....	1990	75,000	75,000	8 3/4%.....	2006	96,850	96,850
15 1/4%.....	1991	100,000	100,000	8 1/4%.....	2007	119,500	119,500
4 1/2%.....	1992	50,000	50,000	9 3/4%.....	2008	120,610	120,610
4 1/4% B.....	1992	50,000	50,000	10 1/4%.....	2009	145,050	145,050
11%.....	1994	64,250	71,000	10 1/4% B.....	2009	148,000	148,000
4 1/2%.....	1995	40,000	40,000	14 1/4%.....	2010	—	100,000
5 3/4%.....	1997	72,600	72,600	13 1/4% B.....	2010	50,000	50,000
6 3/4%.....	1998	68,500	68,500	14 1/4%.....	2012	125,000	125,000
7%.....	1999	56,075	56,075	12 1/4%.....	2015	125,000	—
8% B.....	1999	64,739	64,739	10 1/4% B.....	2015	50,000	—
8 1/2%.....	2000	69,244	69,244	Pollution			
8 3/4% B.....	2000	95,635	95,635	Control			
7 1/4%.....	2001	97,900	97,900	6 1/4%.....	1988	25,000	25,000
7 3/4% B.....	2001	38,050	38,050	9 1/4%.....	2013	77,000	77,000
7 1/4%.....	2002	78,100	78,100	5 1/4% (1985).....	2014	40,000	40,000
7 1/4% B.....	2002	67,900	67,900	7 1/4% (1984).....			
7 1/4%.....	2003	94,872	94,872	Less: Funds held in			
8 1/4% B.....	2003	98,050	98,050	trust.....		(7,212)	(39,742)
9 1/4%.....	2004	95,623	95,623	Total.....		<u>\$2,614,136</u>	<u>\$2,530,506</u>

Substantially all electric plant was mortgaged as of December 31, 1985.

On October 2, 1984, the Company transferred certain U.S. government securities to an irrevocable trust for the defeasance of \$32,850,000 of its 14 1/4 percent first and refunding mortgage bonds. The cash flow from this trust was sufficient to fund the scheduled principal and interest payments on these bonds. Accordingly, in 1984 this amount was removed from the balance sheet. The entire series of 14 1/4 percent bonds was retired on March 1, 1985.

The annual maturities of long-term debt (including sinking fund requirements and capitalized lease principal payments) through 1990 are \$126,942,000 in 1986, \$60,020,000 in 1987, \$56,268,000 in 1988, \$70,227,000 in 1989 and \$86,933,000 in 1990.

Annual maturities through 1990 include amounts relating to the \$85 million in outstanding obligations under the Company's two nuclear fuel trusts. The maturities are based on estimated fuel consumption. Instead of making cash payments, the Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

12. Reclassification

In the Statements of Changes in Financial Position, certain prior year information has been reclassified to conform with 1985 classifications.

13. Retirement Plan

The Company and two of its subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The Company's policy is to fund pension costs accrued. Total pension expense, including trustee fees, amounted to \$31,491,000 in 1985, \$32,828,000 in 1984 and \$33,137,000 in 1983. In 1983 the plan was amended to provide for certain plan changes, including increased benefits for retired employees and survivor benefits. The plan was changed in 1984 to include the Early Retirement Supplement Plan, a one-time early retirement offer to eligible employees. In addition, certain amendments were made to the plan in 1985, including

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

changes in requirements for both creditable service and vesting service. The effect of these changes did not significantly increase the Company's pension cost.

A comparison of accumulated plan benefits and plan net assets as of December 31, 1984, the date of the latest actuarial report, and December 31, 1983, is as follows (dollars in thousands):

	1984	1983
Actuarial present value of accumulated plan benefits		
Vested	\$340,329	\$310,185
Non-Vested	87,400	71,011
Total	<u>\$427,729</u>	<u>\$381,196</u>
Net assets available for benefits	<u>\$447,665</u>	<u>\$421,556</u>

The weighted-average assumed rate of return used to determine the actuarial present value of accumulated plan benefits was 8.8 percent in 1984 and 8.6 percent in 1983. The actuarial present value of accumulated plan benefits does not consider future salary increases.

14. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station that have been sold, are \$2.02 billion and \$521 million respectively, for 1986 through 1988. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including revised load estimates, the outcome of licensing and environmental matters, and the cost and availability of capital.

B. Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to \$650 million under provisions of the Price-Anderson Act, which provides for nuclear liability insurance up to that amount. Under these provisions the Company could be assessed up to \$5 million for each of its licensed reactors for a nuclear incident involving any licensed facility in the nation, and up to \$10 million a year for each if more than one nuclear incident occurred. Legislation is pending in Congress which could increase the limitation liability and the amount the Company could be assessed for each of its licensed reactors. As of December 31, 1985, the Company had six licensed reactors.

The Company is a member of Nuclear Mutual Limited (NML), which provides property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$71 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. If NEIL's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$39 million. This amount represents five times the Company's annual premium to NEIL.

The Company purchases \$525 million of property damage insurance through NEIL's Excess Property Insurance Program. The Company also purchased an additional \$85 million of property damage insurance through a pool of stock and mutual insurance companies. These coverages are in addition to the \$500 million of coverage provided by the Company's underlying property damage policies issued through NML. If losses ever exceeded the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable, on a pro rata basis, for additional

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

assessments of up to \$28 million. This amount represents 7.5 times the Company's annual premium for excess property insurance.

In addition to the coverage through NEIL's excess property program, the Company placed \$585 million through a pool of stock and mutual insurance companies for primary and excess property coverage associated with its interest in the Catawba Nuclear Station.

The joint owners of Catawba will assume their pro rata share of any liability for claims resulting from a nuclear incident. The Company is being reimbursed by the other joint owners for certain expenses associated with nuclear insurance premiums paid by the Company.

C. Other

The Financial Accounting Standards Board in December 1985 issued an Exposure Draft of a proposed statement of Financial Accounting Standards which, if adopted in its current form, would require the Company to write down to present value its canceled construction projects. This write-down would be required because the Company's recovery of these projects through rates does not include a return on the outstanding canceled construction balances. The resulting write-down to present value, if required, could be recorded by restating prior years' financial statements.

The Company is involved in legal, tax and regulatory proceedings before various courts and agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a materially adverse effect on the Company's results of operations or financial position.

DUKE POWER COMPANY

SUPPLEMENTAL FINANCIAL DATA — (Unaudited)

Quarterly Financial Data

A summary of quarterly financial data for 1985 and 1984 is as follows (dollars in thousands except per-share data):

	Electric Revenues	Electric Operating Income	Net Income	Earnings Per Share
1985 by Quarter				
Fourth.....	\$717,893	\$111,848	\$ 89,535	\$0.73
Third.....	751,237	141,416	119,358	1.03
Second.....	678,332	116,996	93,961	0.78
First.....	751,449	157,775	134,739	1.18
1984 by Quarter				
Fourth.....	\$680,177	\$129,979	\$ 97,862	\$0.81
Third.....	729,047	156,746	139,001	1.23
Second.....	629,483	132,990	101,276	0.86
First.....	671,308	128,386	123,192	1.08

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate increases, fuel cost adjustment procedures and maintenance of electric generating units, especially nuclear units.

Effects of Changing Prices

In recent years, the impact of general inflation and changes in specific prices has caused distortions in traditional accounting measurements of income and capital. Although the rates of inflation in recent years have substantially decreased, the replacement of existing plant capacity occurs at a significantly higher cost than recovered through historical cost depreciation because of the high levels of inflation in previous years. In response to this problem, the Financial Accounting Standards Board requires certain disclosures of the effects of inflation on a company's operations and financial position.

Because the accompanying supplementary information involves various assumptions and approximations, it should be viewed as an estimate of the effects of inflation, rather than a precise measurement.

Constant Dollar Accounting

Constant dollar accounting reflects the overall decline in the purchasing power of the dollar by restating historical costs in terms of dollars of equal purchasing power.

Current Cost Accounting

Current cost accounting reflects changes in specific prices of the property used in the Company's operations from the date the property was acquired to the present. This method differs from constant dollar accounting to the extent that costs of specific utility property have increased more or less rapidly than the rate of general inflation. The current cost amounts of plant in service represent the estimated cost for replacing existing plant facilities and were determined by indexing surviving plant costs by internally generated indices or the Handy-Whitman Index of Public Utility Construction Costs. Since plant facilities are not expected to be replaced precisely in kind, "current cost" does not necessarily represent the replacement cost of existing productive capacity. Current cost depreciation is computed by applying the same rates used in the historical cost statements to the current cost plant amounts.

Effects of Rate Regulation

Under the Company's present ratemaking procedures, only the historical cost of plant in service is recoverable in rates as depreciation. Therefore, in times of relatively high inflation, the erosion of plant in service resulting from inflation in the current year may be greater than is reflected in current cost adjustments, and is reflected as a reduction to net recoverable cost. This reduction was not necessary in 1985, 1984 and 1983 because the level of inflation was less than in previous years.

The Company has significant amounts of long-term debt outstanding which serves as a partial hedge against inflation, as well as other net monetary liabilities, which will be paid back in dollars of less purchasing power. In the accompanying schedules, the gain from decline in purchasing power of net amounts owed results from inflation's effect on obligations to pay cash at a future date.

Other

Income statement items other than depreciation have not been adjusted. The Company's operation and maintenance expenses already include the average effects of changing prices during the period. Therefore, no adjustments have been made to them. No adjustments to income tax expense have been made in computing the impact in inflation since only historical costs are deductible for income tax purposes.

Supplementary Statement of Earnings for Common Stock Adjusted for Changing Prices

	<u>Historical \$</u>	<u>Current Cost</u>
	(Dollars in thousands)	
Electric revenues.....	\$2,898,911	\$2,898,911
Operating expenses.....	1,262,100	1,262,100
Maintenance of plant facilities.....	260,361	260,361
Depreciation.....	319,295	571,626
Taxes.....	529,120	529,120
Total electric expenses.....	2,370,876	2,623,207
Electric operating income.....	528,035	275,704
Other income.....	163,821	163,821
Income before interest deductions.....	691,856	439,525
Interest deductions.....	254,263	254,263
Net Income.....	437,593	185,262
Dividends on preferred and preference stocks.....	60,912	60,912
Earnings for common stock.....	<u>\$ 376,681</u>	<u>\$ 124,350</u>
Increase in specific prices (current cost) of utility plant held during the year*.....		\$ 121,450
Reduction to net recoverable cost**.....		—
Effect of increase in general price level.....		(360,804)
Excess of increase in general price level over increase in specific prices.....		(239,354)
Gain from decline in purchasing power of net amounts owed.....		127,494
Net.....		<u>\$ (111,860)</u>

* At December 31, 1985, current cost of electric plant, net of accumulated depreciation, was \$9,782,351,000.

** Due to the decrease in the rates of inflation in recent years, there is no reduction to the net recoverable cost of plant reflected for 1985.

*Five-Year Comparison of Selected Supplementary Financial
Data Adjusted for the Effects of Changing Prices*

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
	(In thousands of average 1985 dollars, except per-share figures)				
Current cost information:					
Income before extraordinary item.....	\$ 185,262	\$ 205,136	\$ 214,410	\$ 140,069	\$ 171,191
Earnings per share before extraordinary item.....	1.23	1.41	1.50	0.75	1.17
Net assets at year-end.....	2,885,862	2,871,715	2,777,544	2,632,026	2,413,850
Decrease in the current cost of electric plant in service, net of inflation, after reduction to net recoverable cost.....	239,354	267,339	289,189	110,873	312,765
Constant dollar information:					
Electric revenues.....	2,898,911	2,806,708	2,613,288	2,501,458	2,257,356
Common stock dividends per share.....	2.54	2.51	2.51	2.50	2.46
Market price per common share at year-end.....	34.81	29.62	26.67	25.62	23.61
General information:					
Purchasing power gain on net monetary items.....	127,494	142,833	145,022	162,880	386,682
Average consumer price index.....	322.2	311.1	298.4	289.1	272.4

DUKE POWER COMPANY
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements	Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1985</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$3,834,893	\$ 373,742(1)	\$ 1,750	\$ (247)	\$4,206,638
Transmission.....	1,011,713	29,925	1,578	241	1,040,301
Distribution.....	1,712,747	180,130	15,750	1,670	1,878,797
General.....	307,043	49,473	17,597	6,913	345,832
Miscellaneous.....	153,009	356	13	(857)	152,495
Nuclear Fuel.....	790,689	194,532	—	—	985,221
Total electric plant in service.....	<u>7,810,094</u>	<u>828,158</u>	<u>36,688</u>	<u>7,720</u>	<u>8,609,284</u>
Construction Work in Progress.....	988,790	(172,851)(1)	—	1,411	817,350
Other Property — At Cost					
Water plant.....	27,574	889	92	(9)	28,362
Transit plant.....	2,852	—	243	—	2,609
Non-utility plant.....	15,771	990	1,255	1,264	16,770
Total other property.....	<u>46,197</u>	<u>1,879</u>	<u>1,590</u>	<u>1,255</u>	<u>47,741</u>
Total plant.....	<u>\$8,845,081</u>	<u>\$ 657,186</u>	<u>\$38,278</u>	<u>\$ 10,386</u>	<u>\$9,474,375</u>
<i>For the Year Ended December 31, 1984</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$2,884,775	\$1,086,485(2)	\$ 862	\$ (135,505)	\$3,834,893
Transmission.....	965,463	45,482	1,964	2,732	1,011,713
Distribution.....	1,583,320	145,219	14,956	(836)	1,712,747
General.....	273,466	40,631	9,610	2,556	307,043
Miscellaneous.....	17,345	680	—	134,984	153,009
Nuclear Fuel.....	546,430	244,260	—	(1)	790,689
Total electric plant in service.....	<u>6,270,799</u>	<u>1,562,757</u>	<u>27,392</u>	<u>3,930</u>	<u>7,810,094</u>
Construction Work in Progress.....	2,296,843	(922,602)(2)	—	(385,451)(3)	988,790
Other Property — At Cost					
Water plant.....	28,088	710	1,333	109	27,574
Transit plant.....	2,934	—	82	—	2,852
Non-utility plant.....	11,773	3,889	321	430	15,771
Total other property.....	<u>42,795</u>	<u>4,599</u>	<u>1,736</u>	<u>539</u>	<u>46,197</u>
Total plant.....	<u>\$8,610,437</u>	<u>\$ 644,754</u>	<u>\$29,128</u>	<u>\$(380,982)</u>	<u>\$8,845,081</u>
<i>For the Year Ended December 31, 1983</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$2,853,291	\$ 38,261	\$ 790	\$ (5,987)	\$2,884,775
Transmission.....	903,377	56,890	1,621	6,817	965,463
Distribution.....	1,464,502	128,971	12,567	2,414	1,583,320
General.....	249,393	28,607	5,719	1,185	273,466
Miscellaneous.....	20,807	409	13	(3,858)	17,345
Nuclear Fuel.....	449,571	96,859	—	—	546,430
Total electric plant in service.....	<u>5,940,941</u>	<u>349,997</u>	<u>20,710</u>	<u>571</u>	<u>6,270,799</u>
Construction Work in Progress.....	2,551,177	326,826	—	(581,160)(4)	2,296,843
Other Property — At Cost					
Water plant.....	26,575	1,511	—	2	28,088
Transit plant.....	2,974	—	40	—	2,934
Non-utility plant.....	6,510	1,392	42	3,913	11,773
Total other property.....	<u>36,059</u>	<u>2,903</u>	<u>82</u>	<u>3,915</u>	<u>42,795</u>
Total plant.....	<u>\$8,528,177</u>	<u>\$ 679,726</u>	<u>\$20,792</u>	<u>\$(576,674)</u>	<u>\$8,610,437</u>

- (1) Principally due to commercial operation of Unit 1 of the Catawba Nuclear Station on June 29, 1985.
(2) Principally due to commercial operation of Unit 2 of the McGuire Nuclear Station on March 1, 1984.
(3) Principally due to the sale of a portion of the Catawba Nuclear Station in December 1984.
(4) Principally due to the cancellation of Cherokee Unit 1.

DUKE POWER COMPANY

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Depreciation	Clearing and Other Accounts	Retirements	Other Changes Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1985</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 976,360	\$150,505	\$ —	\$ 2,005	\$ (126)	\$1,124,734
Transmission	331,297	29,164	—	598	32	359,895
Distribution	570,654	60,769	—	15,067	(116)	616,240
General	109,483	8,977	9,010	10,823	224	116,871
Miscellaneous	139,707	—	587	—	(476)	139,818
	<u>2,127,501</u>	<u>249,415</u>	<u>9,597</u>	<u>28,493</u>	<u>(462)</u>	<u>2,357,558</u>
Accumulated Amortization of Limited Term Plant	1,401	—	486	—	—	1,887
Accumulated Amortization of Nuclear Fuel	517,364	—	157,664	—	—	675,028
	<u>2,646,266</u>	<u>249,415</u>	<u>167,747</u>	<u>28,493</u>	<u>(462)</u>	<u>3,034,473</u>
Accumulated Depreciation of Water Plant	4,777	540	—	91	—	5,226
Accumulated Depreciation of Transit Plant	2,642	157	—	241	—	2,558
Total Accumulated Depreciation	<u>\$2,653,685</u>	<u>\$250,112</u>	<u>\$167,747</u>	<u>\$28,825</u>	<u>\$ (462)</u>	<u>\$3,042,257</u>
<i>For the Year Ended December 31, 1984</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 971,835	\$140,603	\$ —	\$ 1,009	\$(135,069)	\$ 976,360
Transmission	304,486	27,971	—	1,125	(35)	331,297
Distribution	528,766	55,758	—	13,905	35	570,654
General	101,191	7,555	7,994	7,207	(50)	109,483
Miscellaneous	4,178	—	476	—	135,053	139,707
	<u>1,910,456</u>	<u>231,887</u>	<u>8,470</u>	<u>23,246</u>	<u>(66)</u>	<u>2,127,501</u>
Accumulated Amortization of Limited Term Plant	926	—	475	—	—	1,401
Accumulated Amortization of Nuclear Fuel	493,768	—	23,596	—	—	517,364
	<u>2,405,150</u>	<u>231,887</u>	<u>32,541</u>	<u>23,246</u>	<u>(66)</u>	<u>2,646,266</u>
Accumulated Depreciation of Water Plant	5,507	538	—	1,332	64	4,777
Accumulated Depreciation of Transit Plant	2,516	208	—	82	—	2,642
Total Accumulated Depreciation	<u>\$2,413,173</u>	<u>\$232,633</u>	<u>\$ 32,541</u>	<u>\$24,660</u>	<u>\$ (2)</u>	<u>\$2,653,685</u>
<i>For the Year Ended December 31, 1983</i>						
Accumulated Depreciation of Electric Plant						
Production	\$ 868,391	\$104,250	\$ —	\$ 957	\$ 151	\$ 971,835
Transmission	278,995	26,513	—	963	(59)	304,486
Distribution	487,145	51,595	—	9,957	(17)	528,766
General	91,636	5,805	8,218	4,393	(75)	101,191
Miscellaneous	3,659	—	519	—	—	4,178
	<u>1,729,826</u>	<u>188,163</u>	<u>8,737</u>	<u>16,270</u>	<u>—</u>	<u>1,910,456</u>
Accumulated Amortization of Limited Term Plant	479	—	447	—	—	926
Accumulated Amortization of Nuclear Fuel	376,122	—	117,646	—	—	493,768
	<u>2,106,427</u>	<u>188,163</u>	<u>126,830</u>	<u>16,270</u>	<u>—</u>	<u>2,405,150</u>
Accumulated Depreciation of Water Plant	5,039	466	—	(2)	—	5,507
Accumulated Depreciation of Transit Plant	2,345	211	—	40	—	2,516
Total Accumulated Depreciation	<u>\$2,113,811</u>	<u>\$188,840</u>	<u>\$126,830</u>	<u>\$16,308</u>	<u>\$ —</u>	<u>\$2,413,173</u>

DUKE POWER COMPANY

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(Dollars in thousands)

Description	Balance Beginning of Year	Charged to Costs and Expenses	Deductions	Balance End of Year
<i>For the Year Ended December 31, 1985</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 4,030	\$5,098	\$5,124(1)	\$ 4,004
Other Reserves				
Operating Reserves (3).....	\$19,925	\$6,580	\$2,078(2)	\$24,427
<i>For the Year Ended December 31, 1984</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 3,982	\$4,312	\$4,264(1)	\$ 4,030
Other Reserves				
Operating Reserves (3).....	\$17,552	\$4,847	\$2,474(2)	\$19,925
<i>For the Year Ended December 31, 1983</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 3,983	\$4,288	\$4,289(1)	\$ 3,982
Other Reserves				
Operating Reserves (3).....	\$13,931	\$6,397	\$2,776(2)	\$17,552

(1) Uncollectible accounts written off, net of recoveries.

(2) Entries represent payments primarily for injuries and damages in North Carolina and South Carolina.

(3) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits and Other Liabilities," in the Balance Sheets.

SCHEDULE X — SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended December 31		
	1985	1984	1983
(Dollars in thousands)			
Taxes, other than payroll and income taxes:			
Real and personal property	\$ 41,606	\$ 40,782	\$ 35,918
State and city franchise*	67,058	123,094	111,758
Other.....	6,504	7,976	6,635
Total	<u>\$115,168</u>	<u>\$171,852</u>	<u>\$154,311</u>

* For information relating to the decrease in state and city franchise taxes for 1985, see Note 1, "Notes to Financial Statements."

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE — (Unaudited)

This calculation is submitted in accordance with Regulation S-K under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

	Year Ended December 31		
	1985	1984	1983
	(Dollars in thousands except per share figures)		
Fully Diluted:			
Earnings applicable to common stock(1)	\$376,681	\$399,545	\$368,677
Add: Dividends on Preference Stock, 6¼% Convertible Series AA	331	426	538
Earnings as adjusted for computation	<u>\$377,012</u>	<u>\$399,971</u>	<u>\$369,215</u>
Average common shares outstanding — twelve months (thousands)	101,178	100,346	97,784
Add: Common shares required for conversion of Preference Stock, 6¼% Convertible Series AA, \$100 par, 500,000 shares authorized (45,527 shares outstanding as of December 31, 1985)(2)	191	232	299
Common shares as adjusted for computation	<u>101,369</u>	<u>100,578</u>	<u>98,083</u>
Fully diluted earnings per share	\$ 3.72	\$ 3.98	\$ 3.76

(1) These figures agree with the related amounts in the Statements of Income.

(2) The conversion price used to convert the Preference Stock, 6¼% Convertible Series AA, into shares of common stock was \$23.89.

Item 9. *Disagreements on Accounting and Financial Disclosure.*

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

Item 10. *Directors and Executive Officers of the Registrant.*

Information for this item concerning directors of the Company is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1986 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth on page 11 of this annual report.

Item 11. *Executive Compensation.*

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1986 annual meeting of shareholders, which is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy statement of the Company relating to its 1986 annual meeting of shareholders, which is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions.*

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1986 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K.*

Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Financial Statements

Statements of Income for the Three Years Ended December 31, 1985

Statements of Changes in Financial Position

for the Three Years Ended December 31, 1985

Balance Sheets — December 31, 1985 and 1984

Statements of Capitalization — December 31, 1985 and 1984

Statements of Retained Earnings for the Three Years Ended December 31, 1985

Notes to Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules

Schedule V — Property, Plant and Equipment for the Years Ended
December 31, 1985, 1984 and 1983

Schedule VI — Accumulated Depreciation and Amortization of Property,
Plant and Equipment for the Years Ended December 31, 1985, 1984 and 1983

Schedule VIII — Valuation and Qualifying Accounts and Reserves
for the Years Ended December 31, 1985, 1984 and 1983

Schedule X — Supplementary Income Statement Information
for the Years Ended December 31, 1985, 1984 and 1983

Exhibit I — Computation of Fully Diluted Earnings Per Share (Unaudited)

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Financial statements and schedules of the Company's subsidiaries are omitted because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Exhibits

- (a) — See Exhibit Index on page 48.
- (b) — Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1985 and the Employees' Stock Ownership Plan for the year ended December 31, 1985.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1985.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Charlotte and State of North Carolina on the 28th day of March, 1986.

DUKE POWER COMPANY
(Registrant)

By: W. S. LEE
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
W. S. LEE	Chairman of the Board (Principal Executive Officer)	March 28, 1986
W. H. GRIGG	Executive Vice President, Finance and Administration (Principal Financial Officer)	March 28, 1986
NORMAN P. MORROW	Controller (Principal Accounting Officer)	March 28, 1986
NAOMI G. ALBANESE		
ROBERT L. ALBRIGHT		
D. W. BOOTH		
THOMAS H. DAVIS		
ROBERT C. EDWARDS		
ALESTER G. FURMAN III		
STEVE C. GRIFFITH, JR.		
W. H. GRIGG		
PAUL H. HENSON		
GEORGE R. HERBERT		
JOHN D. HICKS	A majority of the Directors	March 28, 1986
JAMES V. JOHNSON		
W. W. JOHNSON		
W. S. LEE		
BUCK MICKEL		
REECE A. OVERCASH, JR.		
WARREN H. OWEN		
JAMES C. SELF		
MACEO A. SLOAN		
A. C. THIES		

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

/s/ LEWIS F. CAMP, JR.
Lewis F. Camp, Jr., Attorney-in-fact

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

<u>Exhibit Number</u>	
3-A	— Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
3-B	— Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
3-C	— Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
3-D	— Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-3).
3-E	— Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
3-F	— By-Laws of registrant, as amended to date (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-F).
4-B-1	— First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).
4-B-2	— Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
4-B-3	— Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
4-B-4	— Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
4-B-5	— Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
4-B-6	— Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
4-B-7	— Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
4-B-8	— Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).
4-B-9	— Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).
4-B-10	— Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).

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- 4-B-11 — Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
- 4-B-12 — Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
- 4-B-13 — Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
- 4-B-14 — Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
- 4-B-15 — Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
- 4-B-16 — Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
- 4-B-17 — Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
- 4-B-18 — Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
- 4-B-19 — Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
- 4-B-20 — Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
- 4-B-21 — Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-20).
- 4-B-22 — Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
- 4-B-23 — Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
- 4-B-24 — Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No. 2-31304, effective January 21, 1969, as Exhibit 2-B-26).
- 4-B-25 — Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).
- 4-B-26 — Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).
- 4-B-27 — Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42).
- 4-B-28 — Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).

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- 4-B-29 — Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).
- 4-B-30 — Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).
- 4-B-31 — Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
- 4-B-32 — Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).
- 4-B-33 — Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
- 4-B-34 — Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
- 4-B-35 — Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
- 4-B-36 — Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
- 4-B-37 — Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
- 4-B-38 — Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
- 4-B-39 — Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
- 4-B-40 — Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
- 4-B-41 — Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).
- 4-B-42 — Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).
- 4-B-43 — Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).
- 4-B-44 — Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
- 4-B-45 — Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).

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- 4-B-46 — Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).
- 4-B-47 — Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage.
- 4-B-48 — Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage.
- 4-B-49 — Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage.
- *4-B-50 — Supplemental Indenture, dated as of March 1, 1985, supplementing said Mortgage.
- *4-B-51 — Supplemental Indenture, dated as of December 1, 1985, supplementing said Mortgage.
- 10-A — Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
- 10-B — Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
- 10-C — Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-D — Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- *12 — Computation of Ratio of Earnings to Fixed Charges.
- *24 — Consent of Independent Auditors.

EXHIBIT 24

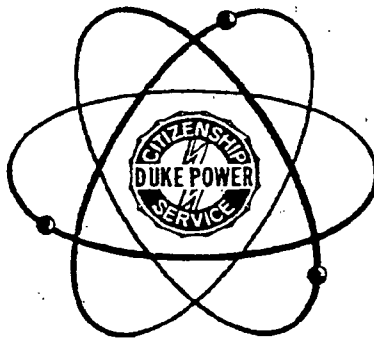
CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statement No. 33-1681 on Form S-3, in Post-Effective Amendment No. 3 to Registration Statement No. 2-79057 on Form S-3, in Post-Effective Amendment No. 3 to Registration Statement No. 2-81066 on Form S-3 and in Post-Effective Amendment No. 4 to Registration Statement No. 2-72172 on Form S-8 of our opinion, dated February 14, 1986, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1985.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
March 28, 1986



WARNING FOR ARCHIVES

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1986

Commission File Number: 1-4928

Duke Power Company

(Exact name of registrant as specified in its charter)

North Carolina
(State or other jurisdiction of
incorporation or organization)
422 South Church Street
Charlotte, North Carolina
(Address of principal executive offices)

56-0205520
(IRS Employer
Identification No.)

28242
(Zip Code)

704-373-4011

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange
Preferred Stock, par value \$100	
8.70% Series F	New York Stock Exchange
8.20% Series G	New York Stock Exchange
7.80% Series H	New York Stock Exchange
8.28% Series K	New York Stock Exchange
8.84% Series M	New York Stock Exchange
8.84% Series N	New York Stock Exchange
Preference Stock, par value \$100	
6 3/4% Convertible Series AA	New York Stock Exchange
First and Refunding Mortgage Bonds	
7 1/4% Series B Due 2001	New York Stock Exchange
7 1/4% Series Due 2002	New York Stock Exchange
7 1/4% Series B Due 2002	New York Stock Exchange
7 1/4% Series Due 2003	New York Stock Exchange
8 1/4% Series B Due 2003	New York Stock Exchange
9 1/4% Series Due 2004	New York Stock Exchange
9 1/4% Series Due 2005	New York Stock Exchange
8 1/4% Series Due 2006	New York Stock Exchange
8 1/4% Series Due 2007	New York Stock Exchange
9 1/4% Series Due 2008	New York Stock Exchange
10 1/4% Series Due 2009	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Preferred Stock, par value \$100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at February 27, 1987..... \$4,685,355,938

Number of shares of Common Stock, without par value, outstanding at February 27, 1987..... 101,245,571

Documents incorporated by reference:

The registrant has incorporated herein by reference certain sections of its proxy statement relating to the 1987 annual meeting of shareholders to provide information required by the following parts of this annual report:

- Part III — Item 10., Directors and Executive Officers of the Registrant
- Item 11., Executive Compensation
- Item 12., Security Ownership of Certain Beneficial Owners and Management
- Item 13., Certain Relationships and Related Transactions



DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1986

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DUKE POWER COMPANY

PART I.

Item 1. Business.

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,400,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1986, the Company's electric revenues amounted to approximately \$3.4 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011).

Service Area

The Company supplies electric service directly to approximately 1,483,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Catawba Joint Owners). All constituent entities of the Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$472 million of the Company's revenues for 1986, representing 14% of electric revenues and 44% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1986, its sources of electric energy for 1986, and certain corresponding information presently projected for 1987:

Source	Generating Capability — KW(a)		Generation — KWH (millions)	
	Actual December 31, 1986	Projected December 31, 1987	Actual 1986	Projected 1987
Coal	6,393,000	6,522,000	30,249	19,977
Nuclear (b)	7,170,000	7,170,000	35,044	45,461
Hydro and other	2,051,000	2,051,000	785	1,701
Total (b)	<u>15,614,000</u>	<u>15,743,000</u>	66,078	67,139
Less: Catawba Joint Owners' share			6,261	12,579
Plus: purchases from Catawba Joint Owners			5,953	11,421
Purchased power and net interchange			(822)	(528)
Total			<u>64,948</u>	<u>65,453</u>

(footnotes on next page)

- (a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.
- (b) Nuclear capability and related generation for 1986 and projected for 1987 give no effect to the sale of portions of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")

According to industry statistics through 1985, the Company ranked first in the nation for the last 12 consecutive years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that one of the units at the Belews Creek Steam Station was the most efficient in the nation in 1985. A Company station has been ranked first in efficiency in 18 of the last 20 years through 1985. Statistics supplied to the Nuclear Regulatory Commission (NRC) by utilities demonstrate that the Company's McGuire and Oconee Nuclear Stations were the most efficient pressurized water reactor nuclear facilities in the nation in 1984 and ranked first and third in 1985.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On January 21, 1985, the Company experienced its all-time peak load of 12,687,000 KW during record cold weather. The 1986-1987 winter peak load of 11,451,000 KW occurred on January 27, 1987. The 1986 summer peak load of 12,471,000 KW occurred on July 21, 1986 during a relatively hot summer. The 1985-1986 winter peak load of 12,586,000 KW occurred on January 28, 1986 and the 1985 summer peak load of 11,204,000 KW occurred on September 10, 1985. The Company currently forecasts between 2.1% and 3.0% compound annual growth in peak load through 2000.

Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSC) must approve the Company's rates for retail sales within the respective States. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales under its wholesale rate schedules. Constituent entities of NCMPPA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company. For a summary of rate information since January 1, 1984, see Note 2, "Notes to Financial Statements."

Rate requests filed by the Company in 1986 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 2 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba Units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all costs related to Catawba, although certain non-fuel purchased power costs, with associated carrying charges, will be recovered on a levelized basis.

In 1986, the NCUC allowed a jurisdictional rate of return on common equity of 13.40% and the PSC allowed a jurisdictional rate of return on common equity of 13.00%.

On January 1, 1987, the Company implemented a 2.3% rate reduction in its retail jurisdictions. The decrease reflects the lower corporate tax rates due to the Tax Reform Act of 1986 and has been approved by the NCUC and PSC.

The Company canceled certain nuclear projects in prior years, including the Cherokee Nuclear Station, citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation. The NCUC and the PSC have authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station in recent rate proceedings. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. (See Note 11, "Notes to Financial Statements.")

Certain intervenors, including the Attorney General of North Carolina, have appealed the rate orders of the NCUC in recent rate proceedings. The appellants seek revision or modification of such

orders in addition to refunds and have raised a number of issues, including the authority of the NCUC to permit recovery by the Company of costs incurred with respect to canceled construction projects and the prudence and reasonableness of pricing amendments to agreements relating to the sale of the Catawba Nuclear Station to the Catawba Joint Owners. While the Company believes that there is an adequate legal and factual basis for each aspect of the decisions of the NCUC, the ultimate resolution of the appeals cannot be predicted.

The Catawba Joint Owners have objected to the inclusion of the abandonment costs of nuclear projects in the calculation of their rates and have been negotiating with the Company in this respect. The Company does not anticipate that this matter will have a materially adverse effect on its financial position.

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The NCUC order issued in August 1986 revising its fuel adjustment methodology to include a factor that effectively allows recovery of all prudently incurred fuel costs was reversed in an appeal involving another utility, which remains pending. The ultimate outcome cannot be ascertained at this time.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Energy Management

The Company currently is engaged in a comprehensive energy management program designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area and increase off-peak sales. Peak reduction programs include, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers' consent) of residential electric water heaters and air conditioners during peak demand periods and time-of-day pricing to a limited number of customers. The current and planned aspects of such programs are designed to reduce the growth in peak demand by approximately 4,257,000 KW in the summer of 1999 (from estimated peak demands at those times without energy management) and to enhance generating reserve margins through the ability to interrupt approximately 1,177,000 KW in 1999. Off-peak sales programs include promotion of electric end uses such as high efficiency electric heat pumps and outdoor lighting to increase seasonal and daily off-peak sales.

Through 1990, the Company estimates a minimum reserve margin of approximately 20% of its anticipated peak load requirements. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rate increases), changing regulatory and environmental standards (see "Regulation — *Environmental Matters*") and other factors.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station that have been sold, for each of 1987, 1988 and 1989 and for the three-year period 1987-1989, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1987	1988	1989	Total
Generation	\$265	\$299	\$293	\$ 857
Transmission	50	46	41	137
Distribution	233	233	253	719
Other	163	142	119	424
Total	<u>\$711</u>	<u>\$720</u>	<u>\$706</u>	<u>\$2,137</u>
Nuclear Fuel	<u>\$143</u>	<u>\$156</u>	<u>\$193</u>	<u>\$ 492</u>

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

The Company has experienced higher costs of construction of new facilities as a result of recurring increases in the costs of materials and labor, and increasing capital commitments attributable to more stringent regulatory requirements. However, the Company believes that in recent years it has been able to construct generating units at a lower cost per KW than generally experienced by other utilities for units of comparable type and vintage. The construction cost per installed KW for the Catawba Nuclear Station, Unit 2 of which began commercial operation in August 1986, was \$1,560 at the date of commercial operation.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, 1,000,000-kilowatt pumped storage facility in Oconee County, South Carolina. Units 1 and 2 are scheduled for operation in 1991 and Units 3 and 4 in 1992. As of December 31, 1986, the Company had incurred \$158.4 million of the total estimated cost of \$1.0 billion, with construction costs of \$1,008 per installed KW anticipated for this facility.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87½% undivided interest in the Catawba Nuclear Station to the Catawba Joint Owners.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange of 50% of each Catawba Joint Owner's retained capacity from its ownership interest in the Catawba Units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next five years of the costs of purchased power from the Catawba Nuclear Station under contracts with the Catawba Joint Owners permitted by regulatory authorities will result in payments by the Company exceeding the amounts collected in rates for such power by approximately \$340 million (see "Rate Matters").

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

	Generation by Source			Average Cost per Million BTU on a Burned Basis		
	Year Ended December 31			Year Ended December 31		
	1986	1985	1984	1986	1985	1984
Coal.....	45.8%	44.2%	43.3%	189.64*	194.96*	199.06*
Nuclear.....	53.0	53.9	53.5	65.57	64.71	61.40
Oil and Gas.....	—	—	—	410.74	543.49	562.59
All Fuels (cost based on weighted average).....	98.8	98.1	96.8	120.32	121.39	121.24
Hydroelectric*	1.2	1.9	3.2			
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>			

* Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains substantially all of its coal under long-term supply contracts with mining operators utilizing both deep and surface mining. The Company has on hand an adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment clauses, have expiration dates ranging from 1993 to 2003. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities (see "Regulation — Environmental Matters").

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

Nuclear Station	Uranium Material	Conversion Service	Enrichment Service	Fabrication Service
Oconee.....	1992	1992	2014	1995
McGuire.....	1992	1992	2014	1995
Catawba.....	1992	1992	2014	1995

Approximately 75% of the Company's requirements for uranium material is expected to be obtained from Rio Algom, Ltd., a Canadian supplier. Deliveries to the Company by such supplier, which began in 1981, are subject to permits and export licenses from various Canadian governmental agencies, including the Atomic Energy Control Board, the Department of Industry, Trade and Commerce and the Uranium Exports Review Panel.

The Company purchased uranium material during 1986 at an average price of approximately \$29 per pound. The Company's material nuclear supply contracts generally contain *force majeure* provisions and provide for price escalation under certain conditions.

The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company presently has adequate storage capacity for spent fuel at Oconee until 1992 and at Catawba until well after 1998. The Company has received regulatory approvals which will enable it to provide adequate storage capacity at McGuire beyond 1998. Consideration is being given to expanding capacity at Oconee to provide adequate storage until 1998 through transshipment of spent fuel between stations and through the use of developing storage technologies such as rod consolidation and dry cask storage. The Company has entered into the required contracts with DOE for the disposal of nuclear fuel and began making payments in July 1983 for disposal costs of fuel currently being utilized. A one-time payment of \$122 million was made on June 28, 1985 for disposal costs of fuel consumed prior to April 7, 1983.

The U.S. District Court for the District of Colorado issued orders in a case not involving the Company prohibiting enrichment by DOE of uranium of foreign origin, which orders, if they become final, would void enrichment contracts between DOE and certain utilities, including the Company. Such orders have been appealed to the U.S. Court of Appeals for the Tenth Circuit where the prohibition against enrichment was stayed pending further order of the Court. The Company believes that regardless of the outcome of the litigation it can continue to obtain necessary enrichment services for its uranium of foreign origin on a reliable and economical basis.

Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1987-1989 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$75 million, including \$32 million in 1987 and \$28 million in 1988. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

AIR QUALITY. In 1971, pursuant to the Clean Air Act of 1970 (the 1970 Act), EPA promulgated primary and secondary ambient air quality standards with respect to certain air pollutants including particulates, sulfur oxides and nitrogen oxides. Pursuant to such regulations, North Carolina and South Carolina have adopted implementation plans, which have been approved by EPA, containing air emission standards which were generally designed to achieve the primary ambient air quality standards by 1975 and the secondary ambient air quality standards within a reasonable time thereafter. The Company believes it is presently in substantial compliance with such implementation plans. The 1977 amendments to the 1970 Act include, among other things, authority for EPA to impose substantial delayed compliance penalties for failure to comply with applicable emission limitations after July 1, 1979 and civil penalties of up to \$25,000 per day for facilities found to be in violation of an applicable implementation plan provision.

The Company operates its coal-fired generating stations in North Carolina under a revised regulation which prescribes mass emission limits for particulates for each boiler unit. Such regulation was issued by the North Carolina Environmental Management Commission (EMC) and was submitted to EPA for approval as a revision to the state implementation plan. In 1983, EPA published notice of its proposal to approve the new mass emission limits contingent on an additional submission by the State to document compliance with regulations for prevention of significant deterioration

of air quality. The Company completed in 1986 extensive air quality modeling studies which demonstrated that the proposed mass emission limits for the Company's plants would comply with these regulations as well as the National Ambient Air Quality Standards. The Company could incur substantial capital costs for pollution control equipment if EPA fails to approve the mass emission limits. Additionally, if legislation relating to air quality being considered by Congress is enacted, a reduction in sulfur dioxide emission limits for electric utility boilers might be required.

WATER QUALITY. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

OTHER ENVIRONMENTAL REGULATIONS. North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act.

Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA) establishes the Emergency Planning and Community Right-To-Know Act. Title III imposes requirements on a wide range of facilities to report information regarding the presence and release of specific chemicals to state and local emergency planning authorities. The Company is presently implementing procedures to comply with SARA.

GENERAL. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Nuclear Facilities. The Company's nuclear facilities are subject to continuing regulation by the NRC.

The NRC requested the Company to study its Oconee reactor vessels for thermal shock effects of emergency core cooling system operations during a loss of feedwater event, as well as other transients which might induce rapid overcooling of the system. An analysis of the Oconee units conducted by the Company and the manufacturer, Babcock & Wilcox Company, have indicated that the vessels as constructed are adequate to permit safe operation for the remainder of their projected licensed lives.

In addition, the NRC has requested that an owner group consisting of representatives of the owners of reactors manufactured by Babcock & Wilcox Company conduct a study in response to two operational incidents, unrelated to the Company, which occurred in 1985. The study will encompass the overall safety of these reactors and is expected to be completed by mid-1987. The results of the study will then be reviewed by the staff of the NRC. The present position of the NRC staff is that the units can operate safely pending completion of the study and its review.

The Company currently has insured against public liability claims resulting from nuclear incidents to the full \$695 million limit on liability under the Price-Anderson Act. The maximum available private insurance of \$160 million has been purchased and the remaining \$535 million has been provided through a mandatory industry-wide program of self-insurance, under which licensees

could be assessed in the event of a nuclear incident involving any licensed facility in the nation up to \$5 million for each of its licensed reactors and up to \$10 million a year for each of its licensed reactors in the event of more than one incident. The Company currently has seven licensed reactors. Such nuclear insurance coverage does not include coverage of the plant facilities. The Price-Anderson Act is scheduled to expire on August 1, 1987 for nuclear reactors coming into service after that date. While Price-Anderson has historically been extended by Congress every ten years since its enactment in 1957, recent legislative proposals for extension have been coupled with numerous amendments containing more burdensome provisions for utilities than exist at present.

To cover possible damage to certain of its nuclear facilities, the Company maintains property damage insurance with Nuclear Mutual Limited, a Bermuda mutual insurance company of which the Company is a member, in the maximum amount available from such insurer, which is presently \$500 million, or the insurable value of the facilities, whichever is less. The Company has purchased from Nuclear Electric Insurance Limited (NEIL), a Bermuda mutual insurance company of which it is a member, an additional \$575 million of property damage insurance through its Excess Property Insurance Program. The Company also has purchased an additional \$85 million of property damage insurance through a pool of stock and mutual insurance companies. In connection with the sale of a portion of its interest in the Catawba Nuclear Station (see "Joint Ownership of Facilities"), the Company placed \$585 million through a pool of stock and mutual insurance companies and \$575 million through NEIL's Excess Property Insurance Program.

NEIL also provides insurance against the increased cost of generation or purchased power resulting from the accidental outage of a nuclear unit. The Company's Oconee and McGuire Nuclear Stations and Unit 1 of the Catawba Nuclear Station are insured for up to \$1.4 million, \$2.4 million and \$2.2 million per unit per week, respectively, after a 26-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100% for 52 weeks and at 50% for an additional 52 weeks.

For information about possible assessments, see Note 14, "Notes to Financial Statements."

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power Act. Eleven developments on the Catawba-Wataree River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for a term expiring in 2016 covering a power generation development on the upper tributaries of the Savannah River in northwestern South Carolina. Hydroelectric and pumped storage units in such development, with a nameplate rating of 750,000 KW, have been completed. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

Competition

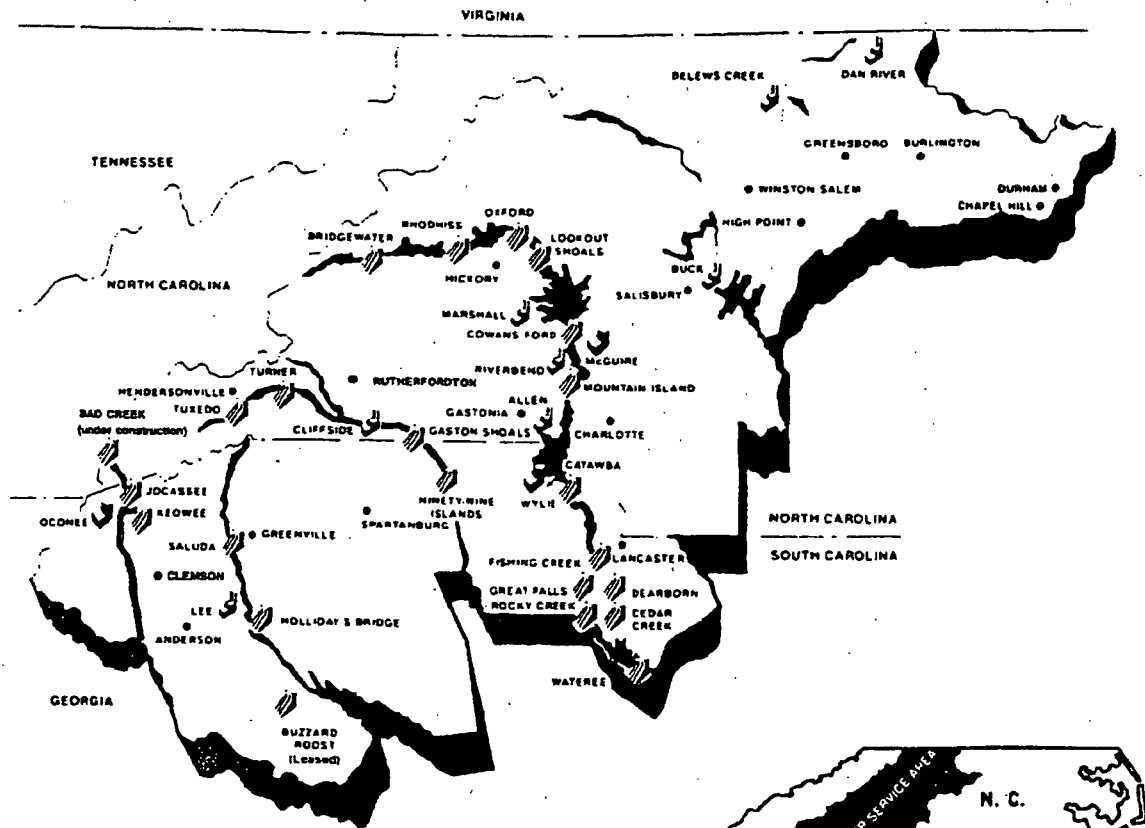
The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems and rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North

Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

Employees

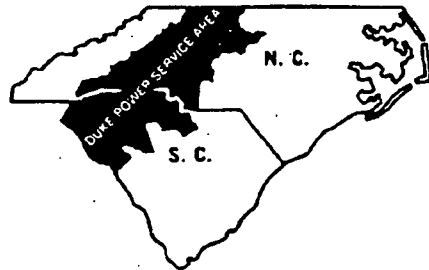
At December 31, 1986, the Company employed approximately 20,300 persons. About 1,850 electrical operating employees are represented by the International Brotherhood of Electrical Workers with which the Company has a labor agreement which expires on October 1, 1987.

Duke Power Service Area



LEGEND

- DISTRICT OFFICE
- ☞ STEAM ELECTRIC STATION
- ☞ HYDROELECTRIC STATION
- ☞ NUCLEAR ELECTRIC STATION



OPERATING STATISTICS

	Year Ended December 31				
	1986	1985	1984	1983	1982
Sources of Electric Energy					
Millions of kilowatt-hours:					
Generated — net output:					
Coal.....	30,249	27,619	26,394	32,466	38,927
Nuclear (A).....	35,044	33,700	32,632	25,059	15,009
Hydro.....	771	1,162	1,995	2,114	1,569
Oil and gas.....	14	13	—	8	7
Total generated.....	66,078	62,494	61,021	59,647	55,512
Purchased power and net interchange.....	(822)	(1,742)	(2,908)	(1,003)	(301)
Total output.....	65,256	60,752	58,113	58,644	55,211
Less: Catawba Joint Owners' share.....	6,261	3,827	—	—	—
Plus: Purchases from Catawba.....	5,953	3,769	—	—	—
Total sources of energy.....	64,948	60,694	58,113	58,644	55,211
Losses and company use.....	(4,435)	(4,636)	(3,714)	(4,493)	(3,831)
Total energy sales (B).....	60,513	56,058	54,399	54,151	51,380
Average Cost Per Ton of Coal Burned.....	\$47.59	\$48.66	\$49.58	\$47.24	\$46.80
Electric Energy Sales					
Millions of kilowatt-hours:					
Residential.....	15,636	14,241	14,493	14,219	13,711
General service.....	12,312	11,338	10,922	10,339	10,087
Industrial.....					
Textile.....	10,595	9,961	10,169	10,115	9,215
Other.....	12,617	11,876	11,652	10,792	10,130
Wholesale and other energy sales.....	9,353	8,642	7,163	8,686	8,237
Total energy sales (B).....	60,513	56,058	54,399	54,151	51,380
Electric Revenue					
Thousands of dollars:					
Residential.....	\$1,088,886	\$ 914,513	\$ 886,065	\$ 806,085	\$ 741,255
General service.....	748,722	642,006	593,351	521,568	485,064
Industrial.....					
Textile.....	471,718	420,817	409,635	374,138	335,727
Other.....	593,407	523,041	487,604	419,755	384,191
Wholesale and other energy sales.....	426,882	358,385	291,435	324,595	309,241
Other electric revenues.....	71,318	40,149	41,925	(25,889)	(10,998)
Total electric revenues.....	\$3,400,933	\$2,898,911	\$2,710,015	\$2,420,252	\$2,244,480
Number of Customers — End of Year					
Residential.....	1,272,888	1,236,156	1,199,718	1,167,846	1,139,248
General service.....	195,248	188,542	181,590	175,142	168,897
Industrial.....					
Textile.....	1,355	1,349	1,337	1,323	1,302
Other.....	6,964	6,894	6,680	6,588	6,459
Wholesale and other energy sales.....	6,635	6,516	6,385	6,276	6,403
Total customers.....	1,483,090	1,439,457	1,395,710	1,357,175	1,322,309
Residential Customer Statistics					
Average number for year.....	1,259,655	1,221,419	1,186,962	1,158,123	1,136,431
Average annual use — KWH.....	12,413	11,659	12,210	12,278	12,065
Average annual billing.....	\$864.43	\$748.73	\$746.50	\$696.03	\$652.27
Average Annual Billed Revenue Per KWH					
Residential.....	6.96*	6.42*	6.11*	5.67*	5.41*
General service.....	6.08*	5.66*	5.43*	5.04*	4.81*
Industrial.....	4.59*	4.32*	4.11*	3.80*	3.72*
Wholesale and other energy sales.....	4.56*	4.15*	4.07*	3.74*	3.75*

(A) Includes 100% of Catawba generation.

(B) Excludes a portion of the energy sold to the Catawba Joint Owners (see "Business — Joint Ownership of Facilities").

EXECUTIVE OFFICERS OF THE COMPANY

<u>Name</u>	<u>Position</u>	<u>Service In Such Capacity Since</u>	<u>Age*</u>
W. S. Lee**	Chairman of the Board and Chief Executive Officer	1982	57
D. W. Booth**	President and Chief Operating Officer and Director	1982	62
W. H. Grigg**	Executive Vice President, Finance and Administration, and Director	1982	54
W. H. Owen**	Executive Vice President, Engineering, Construction and Production Group, and Director	1982	60
Steve C. Griffith, Jr.**	Senior Vice President and General Counsel and Director	1982	53
John D. Hicks**	Senior Vice President, Public Affairs, and Director	1977	63
Henry L. Cranford.....	Senior Vice President, Division Operations	1982	59
Donald H. Denton, Jr.	Senior Vice President, Marketing and Rates	1982	49
James R. Bavis	Vice President, Human Resources	1984	47
Thomas C. Berry	Vice President, Southern Division	1976	56
S. K. Blackley, Jr.	Vice President, Transmission	1984	54
Ralph W. Bostian	Vice President, Production Support	1982	60
J. Kenneth Clark.....	Vice President, Corporate Communications	1981	54
W. A. Coley.....	Vice President, Central Division	1986	43
Robert L. Dick.....	Vice President, Construction and Maintenance	1971	59
George W. Ferguson, Jr.....	Vice President and Deputy General Counsel	1982	54
E. O. Ferrell, III.....	Vice President, Northern Division	1984	42
James W. Foster	Vice President, Distribution	1986	64
E. N. Hedgepeth, Jr.	Vice President, Operation	1986	59
John F. Lomax.....	Vice President, Western Division	1980	47
Paul G. Martin	Vice President, Eastern Division	1982	54
John P. O'Keefe.....	Vice President, Taxes	1986	55
William O. Parker, Jr.....	Vice President, Fossil Production	1982	62
R. B. Priory.....	Vice President, Design Engineering	1984	40
William R. Stimart.....	Vice President, Regulatory Affairs	1979	55
George E. Stubbins.....	Vice President, Information Systems	1982	46
Hal B. Tucker	Vice President, Nuclear Production	1982	58
Fred E. West, Jr.....	Vice President, Charlotte Division	1981	50
James W. White.....	Vice President, General Services	1979	61
Lewis F. Camp, Jr.	Secretary and Associate General Counsel	1980	58
Norman P. Morrow.....	Controller	1982	39
Richard J. Osborne.....	Treasurer	1981	36

*As of February 1987.

**Member of the Executive Committee.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for James R. Bavis and John P. O'Keefe. Mr. Bavis served as Vice President, Human Resources, of Gold Bond Building Products, a division of National Gypsum Company, Inc. from January 1980 to March 1984 when he joined the Company as Vice President, Human Resources. Mr. O'Keefe was a partner of Deloitte Haskins & Sells serving as its National Director, Public Utility Tax Practice, for approximately ten years immediately prior to joining the Company as Vice President, Taxes, on July 1, 1986.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Item 2. *Properties.*

The map on page 10 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V — Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. — "Construction Program — *Facilities Under Construction*".

Item 3. *Legal Proceedings.*

Reference is made to Note 2 of "Notes to Financial Statements" for information relating to appeals taken from rate orders previously obtained by the Company from the NCUC. Intervenor's have also appealed an order of the NCUC issued in February 1982 adjusting rates based on changes in fuel cost, seeking its reversal or modification and refunds. The North Carolina Court of Appeals remanded the order to the NCUC for a redetermination of fuel costs. The NCUC has not acted on the remand.

Item 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of the Company's security holders during the last quarter of 1986.

PART II

Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters.*

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1986, there were approximately 108,045 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by the New York Stock Exchange Composite Transactions:

Common Stock	Dividends Per Share	Price Range	
		High	Low
1986 by Quarter			
Fourth.....	\$0.67	49 $\frac{3}{8}$	44
Third.....	0.67	52	41 $\frac{1}{4}$
Second.....	0.65	45 $\frac{1}{8}$	39 $\frac{1}{8}$
First.....	0.65	41 $\frac{1}{8}$	34 $\frac{7}{8}$
1985 by Quarter			
Fourth.....	\$0.65	36 $\frac{3}{8}$	31 $\frac{3}{8}$
Third.....	0.65	35 $\frac{3}{8}$	30
Second.....	0.62	35 $\frac{3}{8}$	32
First.....	0.62	32 $\frac{1}{4}$	28 $\frac{1}{2}$

Item 6. *Selected Financial Data.*

DUKE POWER COMPANY
SELECTED FINANCIAL DATA

	Year Ended December 31				
	1986	1985	1984	1983	1982
	(Dollars in thousands, except per share figures)				
CONDENSED STATEMENTS OF INCOME					
Electric revenues	\$3,400,933	\$2,898,911	\$2,710,015	\$2,420,252	\$2,244,480
Electric expenses	2,816,157	2,370,876	2,161,914	1,971,038	1,854,712
Electric operating income	584,776	528,035	548,101	449,214	389,768
Other income	127,880	163,821	162,795	213,001	175,048
Income before interest deductions	712,656	691,856	710,896	662,215	564,816
Interest deductions	244,822	254,263	249,565	230,938	214,939
Income before extraordinary item	467,834	437,593	461,331	431,277	349,877
Extraordinary item	—	—	—	—	48,304
Net income	467,834	437,593	461,331	431,277	398,181
Dividends on preferred and preference stocks	58,767	60,912	61,786	62,600	62,164
Earnings for common stock	<u>\$ 409,067</u>	<u>\$ 376,681</u>	<u>\$ 399,545</u>	<u>\$ 368,677</u>	<u>\$ 336,017</u>
RATIO OF EARNINGS TO FIXED CHARGES (SEC method)					
	4.26	3.87	4.21	3.46	2.98
COMMON STOCK DATA					
Shares of common stock					
— End of year (thousands)	101,236	101,194	101,153	99,634	95,949
— Average (thousands)	101,220	101,178	100,346	97,784	93,679
Per share of common stock					
Earnings before extraordinary item	\$ 4.04	\$ 3.72	\$ 3.98	\$ 3.77	\$ 3.07
Extraordinary item	—	—	—	—	0.52
Earnings	<u>\$ 4.04</u>	<u>\$ 3.72</u>	<u>\$ 3.98</u>	<u>\$ 3.77</u>	<u>\$ 3.59</u>
Dividends	\$ 2.64	\$ 2.54	\$ 2.42	\$ 2.32	\$ 2.24
Book value — end of year	\$ 30.34	\$ 28.98	\$ 27.80	\$ 26.26	\$ 24.89
Market price — high-low	\$ 52-34 3/4	\$ 36 3/4-28 1/2	\$ 30 3/4-22 1/4	\$ 26 3/4-21 1/4	\$ 24-20 3/4
— end of year	\$ 45 1/4	\$ 35 3/4	\$ 29	\$ 25 1/4	\$ 23 1/4
TOTAL ASSETS	\$8,226,729	\$8,024,163	\$8,018,818	\$7,379,445	\$7,057,780
LONG-TERM DEBT	\$2,752,302	\$2,721,041	\$2,696,795	\$2,745,889	\$2,712,372
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS	\$ 221,991	\$ 277,012	\$ 285,426	\$ 295,053	\$ 304,026

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Earnings and Dividends

Earnings per share increased to \$4.04 in 1986 compared to \$3.72 in 1985. The 9 percent increase primarily resulted from higher kilowatt-hour sales related to unusual weather patterns. These higher sales also caused the earned return on common equity to rise to 13.7 percent from 13.1 percent in 1985.

Over the past five years, earnings per share increased at an annual rate of 3 percent, from \$3.59 in 1982 to \$4.04 in 1986. Earnings for 1982 included an extraordinary gain of \$.52 per share from the exchange of common stock for outstanding bonds.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share paid over the past five years increased to \$2.64 in 1986 from \$2.24 in 1982, increasing at an annual rate of 4 percent. Indicated annual dividends per share increased to \$2.68 in 1986, up 3 percent from 1985.

Revenues and Sales

Electric revenues increased at an annual rate of 11 percent from 1982 to 1986 primarily because of increases in rates and kilowatt-hour sales. Economic expansion in the Piedmont Carolinas and abnormal weather conditions have caused kilowatt-hour sales, including electricity delivered to joint owners of the Catawba Nuclear Station, to increase at an annual rate of 5 percent.

Kilowatt-hour sales for 1986, including deliveries to the Catawba joint owners, increased 7 percent over 1985. Sales to residential customers rose 10 percent from 1985. Sales to textile customers were 6 percent higher in 1986, reflecting the continued recovery in the textile industry. New industries and expansion of existing industries in our service area caused sales to other industrial customers to rise 6 percent above 1985.

Operating Expenses

Increased production requirements to meet higher kilowatt-hour sales have caused operating expenses to rise over the past five years. The addition of three nuclear units, increased maintenance at both nuclear and coal-fired stations, additional Nuclear Regulatory Commission requirements and inflation have caused non-fuel operating and maintenance expenses to rise at an annual rate of 11 percent since 1982.

Over the past five years, fuel expense has fluctuated primarily because of changes in the generation mix. During this period, the Company placed three nuclear units in service. In 1986, fuel expense increased 1 percent over 1985 primarily because maintenance outages at the nuclear stations resulted in the Company relying more heavily on its coal-fired units. Fuel expense increased in 1985 because of refuelings at the nuclear stations that resulted from a record level of nuclear performance in 1984.

"Net interchange and purchased power" expense increased significantly in 1986 because of the purchased power agreements with the joint owners of the Catawba Nuclear Station. (See Note 3, "Notes to Financial Statements.")

Other

Allowance for funds used during construction (AFUDC) represented 16 percent of earnings for common stock in 1986, decreasing from an average of 40 percent for 1982 through 1985. The decline in AFUDC over the past five years is a result of the completion of three nuclear units, the sale of a portion of Catawba Nuclear Station and the cancellation of two nuclear projects. Because the Bad Creek Hydroelectric Station is the only generating facility under construction, AFUDC will continue to be a relatively small percentage of earnings for common stock over the next several years.

In 1986, earnings from non-utility operations were 10 percent of total Company earnings, compared to 14 percent in 1985. In total, these earnings decreased 17 percent from 1985. Components of non-utility earnings include interest and dividend income, subsidiary earnings, appliance sales and service, and Management and Technical Services income. The decline in non-utility earnings is primarily a result of a decrease in interest and dividend income because the Company had fewer investments in 1986. The Company reduced its investments to fund construction expenditures and deferred purchased power expenses associated with Catawba Nuclear Station.

Through ratemaking procedures, revenues that the Company is allowed to collect from its customers are based on historical information that does not include recovery for the costs of current and future inflation. In past years, earnings have been negatively impacted to the extent that the Company did not receive revenues to recover these current costs. Because the rates of inflation in recent years have decreased, the negative impact on revenues and earnings has not been as significant as in prior years.

Liquidity and Resources

Rate Matters

The North Carolina Utilities Commission issued a rate order in October 1986 granting the Company a 6.73 percent increase in revenues and a 13.4 percent rate of return on common equity. The Public Service Commission of South Carolina, in a November 1986 rate order, granted the Company a 9.55 percent increase in revenues and a 13.0 percent rate of return on common equity. In August 1986 the Company filed an application for a rate increase for its wholesale customers. The Federal Energy Regulatory Commission issued an interim rate order in November 1986 allowing the Company to implement an 8.3 percent increase, subject to refund and approval. The rate increases were requested in all three jurisdictions primarily to recover the Company's investment in Unit 2 of Catawba Nuclear Station and payments related to the purchased power contracts with the joint owners of the station.

The rate orders in the Company's retail jurisdictions permitted the Company to recover in rates its investment in Catawba Unit 2 and the costs associated with contractual purchases of energy and capacity from the Catawba joint owners. The contracts relating to the sales of portions of the station obligate the Company to purchase power from the joint owners on an annually declining basis. In the North Carolina retail jurisdiction, regulatory treatment of these contracts provides revenue for the recovery of the capital costs and the fixed operating and maintenance costs of purchased capacity on a levelized basis. In the South Carolina retail jurisdiction, revenues are provided for the recovery of the capital costs of purchased capacity on a levelized basis, while the fixed operating and maintenance costs are recovered in current rates. The purchased energy costs are recovered through current rates in both retail jurisdictions.

These rate treatments require the Company to fund portions of the purchased power payments until these costs, including carrying charges, are recovered at a later date. The Company will begin to recover the accumulated costs and carrying charges when the purchased capacity payments drop below the levelized revenues.

The Tax Reform Act of 1986 lowers the corporate tax rate over the next two years. To reflect the lower federal income tax rates, the Company implemented a 2.3 percent rate reduction on January 1, 1987, in its retail jurisdictions. The rate reduction was approved by both the North Carolina Utilities Commission and The Public Service Commission of South Carolina.

In August 1986 the North Carolina Utilities Commission issued an order revising its fuel adjustment methodology, including a factor that effectively allows all prudently incurred fuel costs to be recovered. The order requires the Company to follow deferred accounting for the difference between fuel costs incurred and fuel costs collected through rates.

Retail rate increases, allowing approximately 52 percent of requested additional revenues, were granted to the Company from 1982 through 1986. These rate increases included recovery of the

Company's investment in McGuire Unit 2 and in both units of Catawba Nuclear Station, compensation for increased purchased power and operating expenses, and recovery for the amortization of two canceled nuclear projects.

(For additional information on rate matters, see Note 2, "Notes to Financial Statements.")

Capital Structure

The Company's capital structure at year-end was 47 percent common equity, 42 percent long-term debt and 11 percent preferred and preference stocks. The year-end capitalization is consistent with the Company's long-term financial goals.

To satisfy the requirements of various stock purchase plans, the Company purchases common stock on the stock market. The Company has no plans for the public issuance of common stock for the next several years.

Fixed Charges Coverage

Coverage of fixed charges, using the Securities and Exchange Commission method, increased to 4.26 times for 1986 compared with 3.87 times in 1985 and is above the Company's goal of 4.00 times. Higher pre-tax earnings and lower interest expense as a result of refinancings in 1986 contributed to the increased coverage.

Funds From Operations

In 1986, funds from operations accounted for 57 percent of the total applications of funds. The percentage of internally generated funds would have been significantly higher if refinancing activities had been excluded. Also, the Company is funding the portions of purchased capacity payments not currently collected in rates. The percentage of internally generated funds still remains above the Company's goal of 50 percent.

Additional Funds

Over the past five years, the Company obtained additional funds from the sale of \$936 million in first and refunding mortgage bonds and \$137 million in preferred stock. Proceeds from the sale of common stock, including the 1982 issuance of common stock in a non-cash exchange for bonds, totaled \$321 million.

Continued favorable market conditions in 1986 prompted the Company to refund several issues of higher cost securities with lower cost securities, reducing financing costs and providing substantial savings to the Company's customers in the years ahead. Refinancing activities lowered the Company's embedded cost of long-term debt from 9.59 percent at the end of 1984 to 8.87 percent at the close of 1986. The Company's embedded cost of preferred stock declined from 8.75 percent at the end of 1984 to 8.21 percent at the end of 1986.

During 1986 the Company redeemed or retired \$385 million of long-term debt and issued \$401 million in long-term debt in its place. The Company also retired \$101 million of preferred stock and issued \$99 million in preferred stock. The Company plans to continue its refinancing activities during 1987.

(For additional information on the Company's capitalization, see Notes 7, 8, 9 and 10, "Notes to Financial Statements.")

In 1984 the Company received \$457 million from the sale of a portion of Catawba Nuclear Station to the Piedmont Municipal Power Agency.

In 1985 the Company formed Church Street Capital Corp., a wholly owned subsidiary, to invest the Company's discretionary cash. As of December 31, 1986, the consolidated entity had approximately \$113 million in short-term investments and \$262 million in intermediate-term investments.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$690 million and retirements of \$70 million resulted in a net increase in gross plant of \$620 million in 1986.

Since January 1, 1982, additions to property and nuclear fuel of \$3.4 billion and retirements of \$1.2 billion have resulted in a net increase in gross plant of \$2.2 billion. Retirements during the period were unusually large because the Company canceled two nuclear projects and sold a portion of Catawba Nuclear Station.

Construction Expenditures

Construction costs for major generating facilities and for nuclear fuel, including AFUDC, declined from \$558 million in 1982 to \$341 million in 1986. These costs declined because the Company placed three nuclear units in commercial operation (McGuire Unit 2 in 1984; Catawba Unit 1 in 1985; and Catawba Unit 2 in 1986), canceled two nuclear projects and sold a portion of Catawba Nuclear Station. Continuing construction expenditures at Bad Creek Hydroelectric Station will cause construction work in progress to rise and exceed \$1 billion in the late 1980s.

During 1986 funds also were required to expand and replace transmission and distribution facilities. These additional facilities provided service to 43,600 new customers which represents a 3 percent increase over 1985.

Other Expenditures

In addition to construction expenditures, the Company has applied its funds to redeem maturing and refunded securities over the past five years. (See "Liquidity and Resources.")

In June 1985 the Company paid a lump-sum amount of \$122 million to the Department of Energy under the terms of the Nuclear Waste Policy Act of 1982. The payment was for the obligation related to disposal costs for nuclear fuel consumed prior to April 7, 1983.

Over the next five years, payments by the Company to the Catawba joint owners for purchased power will exceed the levelized recovery of those costs in rates by approximately \$340 million.

Future Construction Program

Because the Company has completed its nuclear construction program, construction costs for major generating facilities for 1987 through 1989 will constitute a lower portion of the Company's total applications of funds compared to the past five years. Projected construction and nuclear fuel costs are \$2.6 billion for the next three years.

Construction of Bad Creek Hydroelectric Station continued in 1986. Units 1 and 2 of the 1,000,000-kilowatt pumped-storage facility are scheduled for completion in 1991, with Units 3 and 4 in 1992. The estimated cost of Bad Creek is \$1.0 billion, with \$158.4 million spent at year-end.

Beyond the completion of Bad Creek, the Company has no commitments to place a new generating plant in service in the near future. Studies indicate a need for peak generating facilities in the 1990s. The Company is currently reviewing its options for meeting that need.

Significant Trends

While the Company's financial performance for 1986 improved over 1985, the ability to maintain and improve this level of financial strength will depend on several factors. Further economic expansion in the Piedmont Carolinas and growth in non-utility operations could have a positive effect on total Company earnings. Moving from a construction program to an operating program, the Company will continue to focus on reducing costs while operating its system as efficiently as it has in the past.

Changes in tax legislation through the Tax Reform Act of 1986 lower the tax rate from 46 percent to 34 percent over the next two years. Initially, these lower tax rates reduce the cost of service to the

Company's customers. However, it is premature to say how the Tax Reform Act, when fully implemented, will affect future customer rates. Any adjustments in rates will reflect the full impact of the Tax Reform Act and may include the impact of other expenses related to the cost of service.

In a move aimed at increasing its non-utility earnings, the Company has turned the operations of the Management and Technical Services division into a wholly owned subsidiary called Duke Engineering & Services, Inc. This subsidiary became active in January 1987.

The Financial Accounting Standards Board has implemented accounting procedures that may cause the Company to write down to present value its canceled construction projects since the Company's recovery of those projects through rates does not include a return on the unrecovered balance. The Company is not required to implement these procedures until 1988. The Company is currently evaluating the impact of this requirement and does not anticipate that the accounting procedures will have a significant effect on the results of its operations or financial position.

Certain parties have appealed the 1985 and 1986 rate orders of the North Carolina Utilities Commission to the North Carolina Supreme Court. The appellants have raised numerous issues in these appeals, including the Commission's findings and conclusions related to the treatment of nuclear plant abandonments. An adverse ruling in these cases could have a significant impact on the Company's results of operations and financial position. While the Company is of the opinion that there is an adequate legal and factual basis for each aspect of the North Carolina Utilities Commission's decisions in the two cases, the Company cannot presently determine the ultimate resolution of the appeals.

Item 8. *Financial Statements and Supplementary Data.*

DUKE POWER COMPANY

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RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

AUDITORS' OPINION

Duke Power Company:

We have examined the financial statements and supplemental schedules of Duke Power Company listed in the accompanying index on page 20. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed more fully in Note 14, certain parties have appealed the decision of the North Carolina Utilities Commission in the Company's 1985 and 1986 general rate increases. The ultimate outcome of the appeals is uncertain at this time. In our report dated February 14, 1986, our opinion on the 1985 and 1984 financial statements referred to above was unqualified; however, in view of the uncertainty referred to above, our present opinion on such financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of the Company at December 31, 1986 and 1985, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, subject to the effects on the supplemental schedules of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
February 13, 1987

DUKE POWER COMPANY
STATEMENTS OF INCOME

	Year Ended December 31		
	1986	1985	1984
	(Dollars in Thousands)		
ELECTRIC REVENUES (Notes 1 and 2).....	\$3,400,933	\$2,898,911	\$2,710,015
ELECTRIC EXPENSES			
Operation			
Fuel used in electric generation (Note 1).....	726,151	719,254	683,563
Net interchange and purchased power (credit) (Note 3).....	378,377	107,145	(36,408)
Wages, benefits and materials.....	488,631	435,701	393,448
Maintenance of plant facilities.....	291,164	260,361	207,951
Depreciation and amortization (Notes 1 and 11).....	327,844	319,295	303,429
General taxes (Note 1).....	166,385	141,343	194,095
Income taxes (Notes 1 and 5).....	437,605	387,777	415,836
Total electric expenses.....	2,816,157	2,370,876	2,161,914
Electric operating income.....	584,776	528,035	548,101
OTHER INCOME (Notes 1, 4 and 5)			
Allowance for equity funds used during construction.....	52,444	62,741	98,711
Earnings of subsidiaries, net.....	9,736	10,101	14,706
Other, net.....	38,059	71,050	36,349
Income taxes — other, net.....	(4,522)	(20,434)	(29,180)
Income taxes — credit.....	32,163	40,363	42,209
Total other income.....	127,880	163,821	162,795
Income before interest deductions.....	712,656	691,856	710,896
INTEREST DEDUCTIONS			
Interest on long-term debt.....	252,503	267,345	276,520
Other interest.....	5,764	3,926	3,075
Allowance for borrowed funds used during construction (credit) (Note 1).....	(13,445)	(17,008)	(30,030)
Total interest deductions.....	244,822	254,263	249,565
NET INCOME.....	467,834	437,593	461,331
Dividends on preferred and preference stocks.....	58,767	60,912	61,786
EARNINGS FOR COMMON STOCK.....	\$ 409,067	\$ 376,681	\$ 399,545
COMMON STOCK DATA			
Average shares outstanding (thousands).....	101,220	101,178	100,346
Earnings per share.....	\$4.04	\$3.72	\$3.98
Dividends per share.....	\$2.64	\$2.54	\$2.42

See Notes to Financial Statements.

DUKE POWER COMPANY

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31		
	1986	1985	1984
	(Dollars in Thousands)		
SOURCES OF FUNDS			
Operations			
Net income	\$ 467,834	\$ 437,593	\$ 461,331
Non-fund items:			
Depreciation and amortization (Notes 1 and 11)	502,151	484,527	469,711
Deferred income taxes and investment tax credit, net of amortization (Note 5)	161,596	141,105	103,800
Allowance for equity funds used during construction	(52,444)	(62,741)	(98,711)
Purchased capacity levelization (Note 3)	(77,258)	(22,440)	—
Other, net	(71,963)	(68,250)	(13,137)
Total funds from operations	929,916	909,794	922,994
Funds from financing and sale of assets			
Issuance of first and refunding mortgage bonds	394,006	172,404	—
Issuance of preferred stock	98,612	—	—
Nuclear fuel trusts	57,597	57,638	84,461
Issuance of pollution-control bonds	7,251	34,114	60,720
Proceeds from the sale of an interest in the Catawba Nuclear Station	—	—	457,086
Issuance of common stock	—	—	37,194
Total funds from financing and sale of assets	557,466	264,156	639,461
Change in short-term position and other marketable securities	149,866	294,222	(690,038)
Total sources of funds	\$1,637,248	\$1,468,172	\$ 872,417
APPLICATIONS OF FUNDS			
Construction expenditures	\$ 637,908	\$ 594,431	\$ 546,043
Long-term debt, capital stock retired or reacquired	672,239	247,192	138,652
Dividends paid	325,991	317,907	304,577
Change in working capital*	49,356	308,500	(386,086)
Other applications, net	(48,246)	142	269,231
Total applications of funds	\$1,637,248	\$1,468,172	\$ 872,417
CHANGE IN WORKING CAPITAL:			
Increase/(Decrease) in current assets			
Cash	\$ 871	\$ (3,011)	\$ 5,158
Receivables	81,257	(18,011)	30,092
Refundable income taxes	—	—	(41,209)
Materials and supplies	(43,366)	53,735	(21,334)
Prepayments	371	6,633	(2,243)
Decrease/(Increase) in current liabilities			
Accounts payable	16,086	(6,016)	(36,812)
Nuclear fuel disposal costs payable	—	122,003	(122,003)
Taxes accrued	(51,359)	161,141	(158,001)
Interest accrued and other liabilities	45,496	(7,974)	(39,734)
Change in working capital*	\$ 49,356	\$ 308,500	\$(386,086)

* Excludes change in short-term position and change in current maturities of long-term debt and preferred stock.

See Notes to Financial Statements.

DUKE POWER COMPANY

BALANCE SHEETS

ASSETS

	December 31	
	1986	1985
	(Dollars in Thousands)	
ELECTRIC PLANT		
(At original cost — Notes 1, 3, 10 and 14)		
Electric plant in service.....	\$9,445,032	\$8,609,284
Less accumulated depreciation and amortization.....	3,407,345	3,034,473
Electric plant in service, net.....	6,037,687	5,574,811
Construction work in progress.....	601,064	817,350
Total electric plant, net.....	6,638,751	6,392,161
OTHER PROPERTY AND INVESTMENTS		
Other property — at cost (less accumulated depreciation: 1986 — \$8,248; 1985 — \$7,790).....	40,100	39,951
Investments in and advances to subsidiaries (Note 1).....	85,153	88,812
Other investments, primarily marketable securities — at cost or less (Note 1).....	289,721	254,356
Total other property and investments.....	414,974	383,119
CURRENT ASSETS		
Cash (Note 6).....	3,614	2,743
Short-term investments.....	113,129	293,262
Receivables (less allowance for losses: 1986 — \$3,867; 1985 — \$4,004).....	325,915	244,658
Materials and supplies — at average cost		
Coal.....	84,137	150,085
Other.....	148,850	126,268
Prepayments.....	15,077	14,706
Total current assets.....	690,722	831,722
DEFERRED DEBITS		
Canceled construction projects (Notes 11 and 14).....	296,016	341,214
Purchased capacity costs (Note 3).....	101,160	41,872
Debt expense, primarily refinancing costs, being amortized over terms of related debt (Note 1).....	62,106	16,946
Other.....	23,000	17,129
Total deferred debits.....	482,282	417,161
TOTAL ASSETS	\$8,226,729	\$8,024,163

See Notes to Financial Statements.

DUKE POWER COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31	
	1986	1985
	(Dollars in Thousands)	
CAPITALIZATION (See Statements of Capitalization).....	\$6,514,700	\$6,350,042
CURRENT LIABILITIES		
Accounts payable	143,039	159,125
Taxes accrued (Note 1).....	104,282	52,923
Interest accrued.....	68,542	86,539
Other.....	49,718	77,217
Total.....	365,581	375,804
Current maturities of long-term debt and preferred stocks	38,911	133,342
Total current liabilities.....	404,492	509,146
ACCUMULATED DEFERRED INCOME TAXES (Notes 1 and 5)...	913,426	775,333
DEFERRED CREDITS AND OTHER LIABILITIES		
Investment tax credit (Notes 1 and 5).....	341,124	353,227
Other.....	52,987	36,415
Total deferred credits and other liabilities	394,111	389,642
COMMITMENTS AND CONTINGENCIES (Note 14).....		
TOTAL CAPITALIZATION AND LIABILITIES.....	\$8,226,729	\$8,024,163

See Notes to Financial Statements.

DUKE POWER COMPANY
STATEMENTS OF CAPITALIZATION
AND RETAINED EARNINGS

CAPITALIZATION

	December 31	
	1986	1985
	(Dollars in Thousands)	
COMMON STOCK EQUITY (Note 7)		
Common stock, no par, 150,000,000 shares authorized; 101,235,772 shares outstanding for 1986 and 101,193,802 shares outstanding for 1985	\$1,861,628	\$1,860,623
Retained earnings	1,210,229	1,071,814
Total common stock equity	3,071,857	2,932,437
PREFERRED AND PREFERENCE STOCKS WITHOUT SINKING FUND REQUIREMENTS (Note 8)		
Preferred stock	465,000	415,000
Preference stock	3,550	4,552
Total preferred and preference stocks without sinking fund requirements	468,550	419,552
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS (Note 9)	221,991	277,012
LONG-TERM DEBT (Note 10)		
First and refunding mortgage bonds	2,635,790	2,614,136
Promissory note due subsidiary, 16½%	—	58,725
Term note, floating rate	—	21,000
Capitalized leases	83,890	87,537
Nuclear fuel trusts	85,000	85,000
Unamortized debt discount and premium, net (Note 1)	(20,112)	(18,415)
Current maturities of long-term debt	(32,266)	(126,942)
Total long-term debt	2,752,302	2,721,041
TOTAL CAPITALIZATION	<u>\$6,514,700</u>	<u>\$6,350,042</u>

RETAINED EARNINGS

	Year Ended December 31		
	1986	1985	1984
	(Dollars in Thousands)		
BALANCE — Beginning of year	\$1,071,814	\$ 952,360	\$ 795,512
ADD — Net income	467,834	437,593	461,331
Total	1,539,648	1,389,953	1,256,843
DEDUCT			
Dividends			
Common stock	267,224	256,995	242,791
Preferred and preference stocks	58,767	60,912	61,786
Capital stock transactions, net	3,428	232	(94)
Total deductions	329,419	318,139	304,483
BALANCE — End of year	<u>\$1,210,229</u>	<u>\$1,071,814</u>	<u>\$ 952,360</u>

See Notes to Financial Statements.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. *Additions to Electric Plant.* The Company capitalizes all construction-related direct labor and materials as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized. The cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. *Allowance for Funds Used During Construction (AFUDC).* AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. AFUDC, a non-cash, non-operating item, is recognized as a cost of "Construction work in progress," with offsetting credits to "Other income" and "Interest deductions." After construction is completed, a utility is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.63 percent for 1986, 9.90 percent for 1985 and 9.65 percent for 1984.

C. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.60 percent for 1986, 3.58 percent for 1985 and 3.56 percent for 1984. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a rate of 4 percent, which includes an allowance for decommissioning costs.

Amortization of nuclear fuel is included in "Fuel used in electric generation" in the Statements of Income. The amortization is recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company has entered into contracts with the Department of Energy (DOE) for the disposal of nuclear fuel. Payments made to the DOE for disposal costs are based on nuclear generation and are included in "Fuel used in electric generation" in the Statements of Income. The Company fulfilled its obligation for disposal costs of nuclear fuel consumed prior to April 7, 1983, by a payment in June 1985 of approximately \$122,000,000 to the DOE.

D. *Subsidiaries.* The Company's financial statements reflect consolidation of its wholly owned subsidiary, Church Street Capital Corp., formed in February 1985. All intercompany transactions have been eliminated in consolidation. Investments in other wholly owned subsidiaries have been accounted for by the equity method. Retained earnings as of December 31, 1986, include \$89,118,000 of undistributed earnings of unconsolidated subsidiaries. Dividends received from unconsolidated subsidiaries were \$1,000,000 in 1986, \$2,200,000 in 1985 and \$2,300,000 in 1984.

E. *Income Taxes.* The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its separate company taxable income or loss.

Income taxes are allocated to non-electric operations under "Other income" and to electric operating expense. The "Income taxes-credit" classified under "Other income" results from tax deductions of interest costs relating primarily to investments in CWIP, canceled construction projects, and short-term and intermediate-term investments.

Deferred income taxes are provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, levelization of purchased power payments, and capitalized taxes and employee benefits. Investment tax credits are deferred and amortized over the useful lives of the related properties.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

F. *Unamortized Debt Premium, Discount and Expense.* Expenses incurred in connection with the issuance of presently outstanding long-term debt, and premiums and discounts relating to such debt, are being amortized over the lives of the respective issues. Also, any expenses or call premiums associated with refinancing higher cost debt obligations are being amortized over the lives of the new issues of long-term debt.

G. *Fuel Cost Adjustment Procedures.* Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings.

All jurisdictions allow the Company to adjust for past over- or under-recovery of fuel costs. Therefore, the Company reflects in revenues the difference between actual fuel costs incurred and fuel costs recovered through base rates. The North Carolina Utilities Commission ordered the Company to follow these deferred accounting procedures in its August 1986 order, which was effective for periods beginning January 1, 1986.

H. *Other Investments.* Other investments, which consist primarily of marketable securities, are stated at the lower of cost or market value. At year-end, the cost of these securities approximated market value.

I. *Franchise and Sales Taxes.* The North Carolina state franchise tax rate was changed effective January 1, 1985, in compliance with North Carolina state law. The statute reduced the franchise tax rate from 6 percent to 3.22 percent and imposed a 3 percent sales tax on the sales of electricity in North Carolina. This reduction in the franchise tax rate is reflected in reduced revenues and reduced general taxes in the Statements of Income. The Company is acting as an agent for the state government in the collection of sales tax and is accumulating the amount as a component of "Taxes accrued" in the Balance Sheets. The Company remits both the sales tax and the franchise tax quarterly.

2. Rate Matters

The North Carolina Utilities Commission and The Public Service Commission of South Carolina must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales to wholesale customers. The revenues shown below (in millions of dollars) are annualized on the basis of the filing test year.

A summary of all general rate increases requested or implemented by the Company since January 1, 1984, is as follows:

Jurisdiction and Date Filed	Requested Revenues	Approved			Rate Order Effective	End of 12-Month Test Period
		Revenues	% of Request	% of Increase (Over Previous Revenues)		
N.C. retail						
November 1983.....	\$212.8	\$131.0	61.6	8.40	June 1984	June 30, 1983
February 1985 (a).....	340.0	157.7	46.4	9.10	September 1985	June 30, 1984
March 1986 (a).....	289.3	133.1	46.0	6.73	October 1986	December 31, 1985
S.C. retail						
September 1983.....	136.0	99.7	73.3	17.40	March 1984	April 30, 1983
April 1985	143.0	78.4	54.8	10.75	October 1985	June 30, 1984
May 1986	137.8	79.1	57.4	9.55	November 1986	December 31, 1985
FERC wholesale (b)						
December 1983.....	9.5	8.0	84.2	9.60	October 1984	December 31, 1984
July 1985.....	9.2	5.2	56.5	10.50	March 1986	December 31, 1986
August 1986 (c).....	6.4	4.5	71.0	8.30	Pending	December 31, 1987

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

- (a) Under appeal. (See Note 14.)
- (b) FERC wholesale filings do not include the North Carolina Municipal Power Agency Number 1, the North Carolina Electric Membership Corporation and the Saluda River Electric Cooperative, Inc. Beginning in July 1985, FERC wholesale filings also do not include the Piedmont Municipal Power Agency. These municipalities and electric cooperatives previously purchased interests in the Catawba Nuclear Station. (See Note 3.) Sales to these entities, which previously represented a majority of the Company's wholesale revenues, are now set through contractual agreements.
- (c) This increase was implemented in November 1986 through an interim rate order from FERC. This increase is subject to refund and approval.

3. Joint Ownership of Generating Facilities

The Company has sold interests in both units of the Catawba Nuclear Station. The owners of portions of the 2,290,000-kilowatt Catawba Nuclear Station and supplemental information regarding their ownership are as follows:

<u>Owner</u>	<u>Ownership Interest in the Station</u>	<u>Date of Sale</u>
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%	November 29, 1978
North Carolina Electric Membership Corporation (NCEMC)	28.125%	February 6, 1981
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%	February 6, 1981
Piedmont Municipal Power Agency (PMPA)	12.5%	December 20, 1984

Each participant has provided its own financing for its ownership interest in the plant.

The Company retains a 12.5 percent ownership interest in Catawba. As of December 31, 1986, \$478,800,000 of "Electric plant in service" represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of \$25,100,000 associated with Catawba had been recorded as of year-end.

Under the terms of the 1984 sale to PMPA, the Company received \$457,086,000 at closing and a note for \$13,800,000 which was paid during 1985 after the commercial operation of Catawba Unit 1.

In connection with the joint ownership, the Company has entered into contractual agreements with the other joint owners to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements were effective beginning with the commercial operation of each unit. Unit 1 and Unit 2 began commercial operation in June 1985 and August 1986, respectively. Such agreements were established for 15 years for NCMPA and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments are based on variable operating costs, a function of the generation of the plant. Capacity payments are based on the fixed costs of the plant. The estimated purchased capacity obligations through 1991 are \$549,961,000 for 1987, \$493,674,000 for 1988, \$457,532,000 for 1989, \$439,655,000 for 1990 and \$424,428,000 for 1991.

The North Carolina Utilities Commission granted the Company recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the joint

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

owners over a 15-year period. The Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over a 7½-year period. The Federal Energy Regulatory Commission granted the Company recovery on a levelized basis of the capital costs of capacity purchased from the joint owners over a 15-year period for Unit 1. Recovery for Unit 2 has been requested. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized. The portion of costs not recovered through current rates is being accumulated and the Company is recording a carrying charge on the accumulated balance. The Company will start to recover the accumulated balance when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1986 and 1985, the Company recorded purchased capacity and energy costs from the joint owners of \$515,800,000 and \$224,600,000, respectively. These amounts, net of the cost of capacity purchased not reflected in current rates, are included in "Net interchange and purchased power" in the Statements of Income. As of December 31, 1986 and 1985, \$101,160,000 and \$41,872,000 net of income taxes, respectively, associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Balance Sheets as "Purchased capacity costs."

4. Other Income

For the years ended December 31, 1986 and 1985, the Company recorded investment income of \$34,000,000 and \$58,000,000, respectively (\$29,900,000 and \$38,700,000 net of income taxes, respectively) as a component of "Other, net" in the Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes — other, net" in the Statements of Income.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

5. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	1986	1985	1984
Income taxes related to electric expenses			
Current income taxes			
Federal.....	\$241,150	\$200,884	\$271,960
State.....	37,862	36,506	47,876
	<u>279,012</u>	<u>237,390</u>	<u>319,836</u>
Deferred taxes, net			
Excess tax over book depreciation.....	89,325	87,362	67,107
Capitalized taxes, employee benefits, etc.....	17,023	12,487	10,337
Catawba purchased capacity cost.....	52,942	37,700	—
Other	6,691	(6,745)	(275)
	<u>165,981</u>	<u>130,804</u>	<u>77,169</u>
Investment tax credit			
Deferred	16,801	40,729	37,381
Amortization of deferments (credit)	(24,189)	(21,146)	(18,550)
	<u>(7,388)</u>	<u>19,583</u>	<u>18,831</u>
Total income taxes related to electric expenses.....	<u>437,605</u>	<u>387,777</u>	<u>415,836</u>
Income taxes related to other income			
Income taxes — other, net	4,522	20,434	91,497*
Income taxes — (credit)	(32,163)	(40,363)	(42,209)
Total income taxes related to other income.....	<u>(27,641)</u>	<u>(19,929)</u>	<u>49,288</u>
Total income tax expense.....	<u>\$409,964</u>	<u>\$367,848</u>	<u>\$465,124</u>

* Includes \$62,317,000 resulting from the sale of assets in December 1984. Such income taxes, which are included in "Other, net" in the Statements of Income, reflect a taxable gain in excess of book gain resulting principally from the treatment of AFUDC. (See Note 3.)

Total current income taxes were \$248,368,000 for 1986, \$226,712,000 for 1985 and \$376,949,000 for 1984. Of these amounts, state income taxes were \$33,876,000 for 1986, \$34,692,000 for 1985 and \$57,587,000 for 1984.

Total deferred income taxes were \$168,984,000 for 1986, \$121,553,000 for 1985 and \$69,344,000 for 1984. Of these amounts, deferred state income taxes were \$20,060,000 for 1986, \$13,178,000 for 1985 and \$7,687,000 for 1984.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1986	1985	1984
Income taxes on pretax income at the statutory federal rate of 46%.....	\$403,787	\$370,503	\$426,169
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC).....	(30,309)	(36,685)	(59,220)
Amortization of electric investment tax credit deferrals.....	(24,189)	(21,146)	(18,550)
AFUDC in book depreciation/amortization	43,679	42,575	45,298
State income taxes, net of federal income tax benefit.....	28,848	25,320	35,832
Increase in tax expense primarily because of excess of tax gain over book profit on sale of assets.....	—	—	27,280
Other items, net.....	(11,852)	(12,719)	8,315
Total income tax expense (see page 31).....	<u>\$409,964</u>	<u>\$367,848</u>	<u>\$465,124</u>

6. Short-Term Borrowings

The Company had unused short-term credit facilities of \$306,150,000 with 56 commercial banks as of December 31, 1986, \$316,050,000 with 59 commercial banks as of December 31, 1985, and \$319,500,000 with 60 commercial banks as of December 31, 1984. Included in these credit facilities is \$40,000,000 allocated to the 1984 issue of annual tender, pollution-control revenue bonds. The facilities are on a fee basis and/or a compensating-balance basis, with total average balance requirements of \$1,351,500 for 1986, \$1,362,500 for 1985, and \$1,372,000 for 1984. There were no short-term borrowings during 1986, 1985 and 1984.

7. Common Stock and Retained Earnings

Common Stock

During the past two years, the Company used stock market purchases to satisfy the requirements of its stock plans. The only issuance of common stock, other than conversions, in the past three years was in 1984 when 1,451,607 shares were issued with proceeds of \$37,194,000. For the next several years, the Company anticipates using stock market purchases to satisfy the requirements of all its stock plans and intends to issue new shares of common stock only for the conversion of preference stock. (See Note 8.)

As of December 31, 1986, a total of 4,722,043 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1986, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

8. Preferred and Preference Stocks Without Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1986 and 1985:

	Par Value	Shares
Preferred Stock.....	\$100	10,000,000
Preferred Stock A.....	25	10,000,000
Preference Stock.....	100	1,500,000

The outstanding Preference Stock, 6¼% Convertible Series-AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at \$100 par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1986, 1985 and 1984, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1986	10,032	41,970
1985	9,819	41,078
1984	16,136	67,510

The Company has issued 500,000 shares of Adjustable Rate Preferred Stock, Series A, with a par value of \$100 per share. The dividend rate is adjusted quarterly based on a percentage of the highest rate among certain U.S. Treasury rates. However, in no event will the dividend rate for any dividend period be less than 5.50 percent per annum or greater than 10.50 percent per annum. This rate was 5.73 percent per annum at December 31, 1986.

Preferred and preference stocks without sinking fund requirements as of December 31, 1986 and 1985, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1986	1985
4.50% C	1964	350,000	\$ 35,000	\$ 35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
15.40% A	1982	1,600,000	40,000	40,000
Adjustable Rate A	1986	500,000	50,000	—
6¼%, AA				
Convertible	1969	35,495	3,550	—
		45,527	—	4,552
Total			\$468,550	\$419,552

In January 1987, the Company announced plans to call for redemption its 15.40% Series A. The Company plans to issue additional preferred stock in early 1987 to fund this redemption.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

9. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1986 and 1985:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

Preferred stocks with sinking fund requirements as of December 31, 1986 and 1985, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1986	1985
7.35% I	1973	528,000	\$ 52,800	\$ —
		552,000	—	55,200
8.20% J	1977	400,000	40,000	—
		420,000	—	42,000
8.375% L	1978	420,000	42,000	—
		440,000	—	44,000
8.84% N	1979	451,250	45,125	—
		467,500	—	46,750
11.00% O	1980	500,000	—	50,000
10.76% A	1975	2,040,000	—	51,000
7.875% P	1986	500,000	50,000	—
Less: Preferred shares reacquired for current and future sinking fund requirements (at cost)				
		Shares Reacquired		
10.76% A		72,500	—	(1,702)
8.84% N		13,800	(1,289)	—
		30,050	—	(2,607)
11.00% O		13,750	—	(1,229)
Less: Current sinking fund requirements:				
7.35% I			(2,400)	(2,400)
8.20% J			(2,000)	(2,000)
8.375% L			(2,000)	(2,000)
8.84% N			(245)	—
Total			<u>\$221,991</u>	<u>\$277,012</u>

The annual sinking fund requirements through 1991, net of amounts reacquired, are \$6,645,000 in 1987 and \$8,025,000 in 1988, 1989, 1990 and 1991, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 115 percent of par values, plus accumulated dividends to the redemption date.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

10. Long-Term Debt

First and refunding mortgage bonds outstanding as of December 31, 1986 and 1985, were as follows (dollars in thousands):

Series	Year Due	1986	1985	Series	Year Due	1986	1985
3 3/4%.....	1986	\$ —	\$ 30,000	(continued)			
12%.....	1990	—	75,000	9 1/2%.....	2005	\$ 92,800	\$ 92,800
15 1/4%.....	1991	100,000	100,000	8 3/4%.....	2006	96,850	96,850
4 1/2%.....	1992	50,000	50,000	8 1/4%.....	2007	119,500	119,500
4 1/4% B.....	1992	50,000	50,000	9 1/4%.....	2008	120,610	120,610
11%.....	1994	—	64,250	10 1/2%.....	2009	145,050	145,050
4 1/2%.....	1995	40,000	40,000	10 1/2% B.....	2009	148,000	148,000
8 1/2% B.....	1995	125,000	—	13 1/4% B.....	2010	—	50,000
7 1/2%.....	1996	100,000	—	14 1/2%.....	2012	16,282	125,000
5 7/8%.....	1997	72,600	72,600	12 3/4%.....	2015	67,517	125,000
6 3/4%.....	1998	68,500	68,500	10 1/4% B.....	2015	50,000	50,000
7%.....	1999	56,075	56,075	9%.....	2016	175,000	—
8% B.....	1999	64,739	64,739	Pollution Control			
8 1/2%.....	2000	69,244	69,244	6%.....	1988	25,000	25,000
8 3/4% B.....	2000	95,635	95,635	9 1/2%.....	2013	77,000	77,000
7 1/2%.....	2001	97,900	97,900	4 3/4% (1986).....	2014	40,000	40,000
7 1/4% B.....	2001	38,050	38,050	5 1/4% (1985).....			
7 3/4%.....	2002	78,100	78,100	Less: Funds held in trust.....		(107)	(7,212)
7 3/4% B.....	2002	67,900	67,900	Total.....		<u>\$2,635,790</u>	<u>\$2,614,136</u>
7 3/4%.....	2003	94,872	94,872				
8 1/4% B.....	2003	98,050	98,050				
9 3/4%.....	2004	95,623	95,623				

Substantially all electric plant was mortgaged as of December 31, 1986.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1991 are \$32,266,000 in 1987, \$64,063,000 in 1988, \$26,753,000 in 1989, \$5,182,000 in 1990 and \$5,664,000 in 1991.

Annual maturities through 1991 include amounts relating to the \$85 million in outstanding obligations under the Company's two nuclear fuel trusts. The maturities are based on estimated fuel consumption. Instead of making cash payments, the Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

In early 1987, the Company announced plans to call for redemption its 15 1/4% Series due 1991 and its 10 1/2% Series B due 2009. The Company plans to issue additional long-term debt in early 1987 to fund these redemptions. Accordingly, the 15 1/4% Series is not included in the annual maturities listed above.

11. Canceled Construction Projects

The Cherokee and Perkins Nuclear Stations were canceled. All jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 14.)

As of December 31, 1986 and 1985, the balances for these canceled projects, net of amortization, were \$472,339,000 and \$544,145,000, respectively (\$296,016,000 and \$341,214,000 net of income tax benefits, respectively).

The Financial Accounting Standards Board in December 1986 issued a statement in Financial Accounting Standards that may cause the Company to write down to present value its canceled construction projects. This write-down would be required because the Company's recovery of these projects through rates does not include a return on the outstanding canceled construction balances. Implementation of this statement is not required until 1988. The Company is currently evaluating the impact of this statement and does not anticipate that the new accounting requirements will have a significant effect on its results of operations or financial position.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

12. Reclassification

In the Statements of Income, Statements of Changes in Financial Position, and Balance Sheets, certain prior year information has been reclassified to conform with 1986 classifications.

13. Retirement Plan

The Company and its operating subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The Company's policy is to fund pension costs accrued. Total pension expense, including trustee fees, amounted to \$28,815,000 in 1986, \$31,491,000 in 1985 and \$32,828,000 in 1984. The plan was changed in 1984 to include the Early Retirement Supplement Plan, a one-time early retirement offer to eligible employees. In addition, certain amendments were made to the plan in 1985, including changes in requirements for both creditable service and vesting service. The effect of these changes did not significantly increase the Company's pension cost.

A comparison of accumulated plan benefits and plan net assets as of December 31, 1985, the date of the latest actuarial report, and December 31, 1984, is as follows (dollars in thousands):

	1985	1984
Actuarial present value of accumulated plan benefits		
Vested	\$407,467	\$340,329
Non-Vested	<u>121,510</u>	<u>87,400</u>
Total	<u>\$528,977</u>	<u>\$427,729</u>
Net assets available for benefits	<u>\$557,922</u>	<u>\$447,665</u>

The weighted-average assumed rate of return used to determine the actuarial present value of accumulated plan benefits was 7.5 percent in 1985 and 8.8 percent in 1984. The actuarial present value of accumulated plan benefits does not consider future salary increases.

The Financial Accounting Standards Board issued a statement in 1985 which will require the Company to change its method of determining pension expense. The Company will begin implementation of this statement in 1987 and does not anticipate that the accounting requirements will have a significant effect on its results of operations or financial position.

14. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs are \$2.14 billion and \$491 million, respectively, for 1987 through 1989. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

B. Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to \$695 million under provisions of the Price-Anderson Act, which provides for nuclear liability insurance up to that amount. Under these provisions the Company could be assessed up to \$5 million for each of its licensed reactors for a nuclear incident involving any licensed facility in the nation, and up to \$10 million a year for each, if more than one nuclear incident occurred. Legislation is pending in Congress that could increase the limitation liability and the amount the Company could be assessed for each of its licensed reactors. As of December 31, 1986, the Company had seven licensed reactors.

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

The Company is a member of Nuclear Mutual Limited (NML), which provides property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$70 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. If NEIL's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$21 million. This amount represents five times the Company's annual premium to NEIL.

The Company purchases \$575 million of property damage insurance through NEIL's Excess Property Insurance Program. The Company also purchased an additional \$85 million of property damage insurance through a pool of stock and mutual insurance companies. These coverages are in addition to the \$500 million of coverage provided by the Company's underlying property damage policies issued through NML. If losses ever exceeded the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable, on a pro rata basis, for additional assessments of up to \$28 million. This amount represents 7.5 times the Company's annual premium for \$500 million of excess property insurance.

In addition to the coverage through NEIL's Excess Property Insurance Program, the Company placed \$585 million through a pool of stock and mutual insurance companies for primary and excess property insurance coverage associated with its interest in the Catawba Nuclear Station.

The joint owners of Catawba will assume their pro rata share of any liability for claims resulting from a nuclear incident. The Company is being reimbursed by the other joint owners for certain expenses associated with nuclear insurance premiums paid by the Company.

C. Other

The Company is involved in legal, tax and regulatory proceedings before various courts and agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Except as discussed below, management is of the opinion that the final disposition of these proceedings will not have a materially adverse effect on the Company's results of operations or financial position.

Certain parties have appealed the 1985 and 1986 rate orders of the North Carolina Utilities Commission to the North Carolina Supreme Court. The appellants have raised numerous issues in these appeals, including the Commission's findings and conclusions related to the treatment of nuclear plant abandonments. An adverse ruling in these cases could have a significant impact on the Company's results of operations and financial position. While the Company is of the opinion that there is an adequate legal and factual basis for each aspect of the North Carolina Utilities Commission's decisions in the two cases, the Company cannot presently determine the ultimate resolution of the appeals.

DUKE POWER COMPANY

SUPPLEMENTAL FINANCIAL DATA — (Unaudited)

Quarterly Financial Data

A summary of quarterly financial data for 1986 and 1985 is as follows (dollars in thousands, except per-share data):

	<u>Electric Revenues</u>	<u>Electric Operating Income</u>	<u>Net Income</u>	<u>Earnings Per Share</u>
1986 by Quarter				
Fourth.....	\$842,959	\$124,025	\$ 92,077	\$0.77
Third.....	940,551	181,979	152,530	1.37
Second.....	784,016	119,208	89,820	0.73
First.....	833,407	159,564	133,407	1.17
1985 by Quarter				
Fourth.....	\$717,893	\$111,848	\$ 89,535	\$0.73
Third.....	751,237	141,416	119,358	1.03
Second.....	678,332	116,996	93,961	0.78
First.....	751,449	157,775	134,739	1.18

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate increases, fuel cost adjustment procedures and maintenance of electric generating units, especially nuclear units.

DUKE POWER COMPANY
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements	Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1986</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$4,206,638	\$ 415,387(1)	\$33,980	\$ (24,230)	\$ 4,563,815
Transmission.....	1,040,301	36,226	3,127	1,943	1,075,343
Distribution.....	1,878,797	186,884	22,779	693	2,043,595
General.....	345,832	75,217	10,434	666	411,281
Miscellaneous.....	152,495	2,018	—	21,087	175,600
Nuclear Fuel.....	985,221	190,177	—	—	1,175,398
Total electric plant in service.....	8,609,284	905,909	70,320	159	9,445,032
Construction Work in Progress.....	817,350	(216,286)(1)	—	—	601,064
Other Property — At Cost					
Water plant.....	28,362	1,841	90	—	30,113
Transit plant.....	2,609	—	61	—	2,548
Non-utility plant.....	16,770	(1,112)	21	50	15,687
Total other property.....	47,741	729	172	50	48,348
Total plant.....	<u>\$9,474,375</u>	<u>\$ 690,352</u>	<u>\$70,492</u>	<u>\$ 209</u>	<u>\$10,094,444</u>
<i>For the Year Ended December 31, 1985</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$3,834,893	\$ 373,742(2)	\$ 1,750	\$ (247)	\$ 4,206,638
Transmission.....	1,011,713	29,925	1,578	241	1,040,301
Distribution.....	1,712,747	180,130	15,750	1,670	1,878,797
General.....	307,043	49,473	17,597	6,913	345,832
Miscellaneous.....	153,009	356	13	(857)	152,495
Nuclear Fuel.....	790,689	194,532	—	—	985,221
Total electric plant in service.....	7,810,094	828,158	36,688	7,720	8,609,284
Construction Work in Progress.....	988,790	(172,851)(2)	—	1,411	817,350
Other Property — At Cost					
Water plant.....	27,574	889	92	(9)	28,362
Transit plant.....	2,852	—	243	—	2,609
Non-utility plant.....	15,771	990	1,255	1,264	16,770
Total other property.....	46,197	1,879	1,590	1,255	47,741
Total plant.....	<u>\$8,845,081</u>	<u>\$ 657,186</u>	<u>\$38,278</u>	<u>\$ 10,386</u>	<u>\$ 9,474,375</u>
<i>For the Year Ended December 31, 1984</i>					
Electric Plant in Service — At Original Cost					
Production.....	\$2,884,775	\$1,086,485(3)	\$ 862	\$(135,505)	\$ 3,834,893
Transmission.....	965,463	45,482	1,964	2,732	1,011,713
Distribution.....	1,583,320	145,219	14,956	(836)	1,712,747
General.....	273,466	40,631	9,610	2,556	307,043
Miscellaneous.....	17,345	680	—	134,984	153,009
Nuclear Fuel.....	546,430	244,260	—	(1)	790,689
Total electric plant in service.....	6,270,799	1,562,757	27,392	3,930	7,810,094
Construction Work in Progress.....	2,296,843	(922,602)(3)	—	(385,451)(4)	988,790
Other Property — At Cost					
Water plant.....	28,088	710	1,333	109	27,574
Transit plant.....	2,934	—	82	—	2,852
Non-utility plant.....	11,773	3,889	321	430	15,771
Total other property.....	42,795	4,599	1,736	539	46,197
Total plant.....	<u>\$8,610,437</u>	<u>\$ 644,754</u>	<u>\$29,128</u>	<u>\$(380,982)</u>	<u>\$ 8,845,081</u>

- (1) Principally due to commercial operation of Unit 2 of Catawba Nuclear Station on August 19, 1986.
(2) Principally due to commercial operation of Unit 1 of the Catawba Nuclear Station on June 29, 1985.
(3) Principally due to commercial operation of Unit 2 of the McGuire Nuclear Station on March 1, 1984.
(4) Principally due to the sale of a portion of the Catawba Nuclear Station in December 1984.

DUKE POWER COMPANY

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Depreciation	Clearing and Other Accounts	Retirements	Other Changes Add (Deduct)	Balance End of Year
<i>For the Year Ended December 31, 1986</i>						
Accumulated Depreciation of						
Electric Plant						
Production	\$1,124,734	\$162,731	\$ —	\$36,262	\$ (21,811)	\$1,229,392
Transmission	359,895	30,137	—	1,747	116	388,401
Distribution	616,240	66,438	—	21,548	(134)	660,996
General	116,871	11,758	10,240	9,596	(230)	129,043
Miscellaneous	139,818	—	872	—	21,065	161,755
	<u>2,357,558</u>	<u>271,064</u>	<u>11,112</u>	<u>69,153</u>	<u>(994)</u>	<u>2,569,587</u>
Accumulated Amortization of Limited						
Term Plant	1,887	—	486	—	—	2,373
Accumulated Amortization of						
Nuclear Fuel	675,028	—	160,357	—	—	835,385
	<u>3,034,473</u>	<u>271,064</u>	<u>171,955</u>	<u>69,153</u>	<u>(994)</u>	<u>3,407,345</u>
Accumulated Depreciation of						
Water Plant	5,226	550	—	86	—	5,690
Accumulated Depreciation of						
Transit Plant	2,558	42	—	60	—	2,540
Total Accumulated Depreciation	<u>\$3,042,257</u>	<u>\$271,656</u>	<u>\$171,955</u>	<u>\$69,299</u>	<u>\$ (994)</u>	<u>\$3,415,575</u>
<i>For the Year Ended December 31, 1985</i>						
Accumulated Depreciation of						
Electric Plant						
Production	\$ 976,360	\$150,505	\$ —	\$ 2,005	\$ (126)	\$1,124,734
Transmission	331,297	29,164	—	598	32	359,895
Distribution	570,654	60,769	—	15,067	(116)	616,240
General	109,483	8,977	9,010	10,823	224	116,871
Miscellaneous	139,707	—	587	—	(476)	139,818
	<u>2,127,501</u>	<u>249,415</u>	<u>9,597</u>	<u>28,493</u>	<u>(462)</u>	<u>2,357,558</u>
Accumulated Amortization of Limited						
Term Plant	1,401	—	486	—	—	1,887
Accumulated Amortization of						
Nuclear Fuel	517,364	—	157,664	—	—	675,028
	<u>2,646,266</u>	<u>249,415</u>	<u>167,747</u>	<u>28,493</u>	<u>(462)</u>	<u>3,034,473</u>
Accumulated Depreciation of						
Water Plant	4,777	540	—	91	—	5,226
Accumulated Depreciation of						
Transit Plant	2,642	157	—	241	—	2,558
Total Accumulated Depreciation	<u>\$2,653,685</u>	<u>\$250,112</u>	<u>\$167,747</u>	<u>\$28,825</u>	<u>\$ (462)</u>	<u>\$3,042,257</u>
<i>For the Year Ended December 31, 1984</i>						
Accumulated Depreciation of						
Electric Plant						
Production	\$ 971,835	\$140,603	\$ —	\$ 1,009	\$(135,069)	\$ 976,360
Transmission	304,486	27,971	—	1,125	(35)	331,297
Distribution	528,766	55,758	—	13,905	35	570,654
General	101,191	7,555	7,994	7,207	(50)	109,483
Miscellaneous	4,178	—	476	—	135,053	139,707
	<u>1,910,456</u>	<u>231,887</u>	<u>8,470</u>	<u>23,246</u>	<u>(66)</u>	<u>2,127,501</u>
Accumulated Amortization of Limited						
Term Plant	926	—	475	—	—	1,401
Accumulated Amortization of						
Nuclear Fuel	493,768	—	23,596	—	—	517,364
	<u>2,405,150</u>	<u>231,887</u>	<u>32,541</u>	<u>23,246</u>	<u>(66)</u>	<u>2,646,266</u>
Accumulated Depreciation of						
Water Plant	5,507	538	—	1,332	64	4,777
Accumulated Depreciation of						
Transit Plant	2,516	208	—	82	—	2,642
Total Accumulated Depreciation	<u>\$2,413,173</u>	<u>\$232,633</u>	<u>\$ 32,541</u>	<u>\$24,660</u>	<u>\$ (2)</u>	<u>\$2,653,685</u>

DUKE POWER COMPANY

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(Dollars in thousands)

Description	Balance Beginning of Year	Charged to Costs and Expenses	Deductions	Balance End of Year
<i>For the Year Ended December 31, 1986</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 4,004	\$ 6,074	\$6,211(1)	\$ 3,867
Other Reserves				
Operating Reserves (3).....	\$24,427	\$13,579	\$6,318(2)	\$31,688
<i>For the Year Ended December 31, 1985</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 4,030	\$ 5,098	\$5,124(1)	\$ 4,004
Other Reserves				
Operating Reserves (3).....	\$19,925	\$ 6,580	\$2,078(2)	\$24,427
<i>For the Year Ended December 31, 1984</i>				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts.....	\$ 3,982	\$ 4,312	\$4,264(1)	\$ 4,030
Other Reserves				
Operating Reserves (3).....	\$17,552	\$ 4,847	\$2,474(2)	\$19,925

- (1) Uncollectible accounts written off, net of recoveries.
- (2) Entries represent payments primarily for injuries and damages in North Carolina and South Carolina.
- (3) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits and Other Liabilities," in the Balance Sheets.

SCHEDULE X — SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended December 31		
	1986	1985	1984
	(Dollars in thousands)		
Taxes, other than payroll and income taxes:			
Real and personal property	\$ 53,348	\$ 41,606	\$ 40,782
State and city franchise*	76,647	67,058	123,094
Other.....	6,289	6,504	7,976
Total	<u>\$136,284</u>	<u>\$115,168</u>	<u>\$171,852</u>

* For information relating to the decrease in state and city franchise taxes for 1986 and 1985, see Note 1, "Notes to Financial Statements."

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE — (Unaudited)

This calculation is submitted in accordance with Regulation S-K under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

	Year Ended December 31		
	1986	1985	1984
	(Dollars in thousands except per share figures)		
Fully Diluted:			
Earnings applicable to common stock(1).....	\$409,067	\$376,681	\$399,545
Add: Dividends on Preference Stock, 6¾% Convertible Series AA	263	331	426
Earnings as adjusted for computation	<u>\$409,330</u>	<u>\$377,012</u>	<u>\$399,971</u>
Average common shares outstanding — twelve months (thousands)	101,220	101,178	100,346
Add: Common shares required for conversion of Preference Stock, 6¾% Convertible Series AA, \$100 par, 500,000 shares authorized (35,495 shares outstanding as of December 31, 1986)(2).....	149	191	232
Common shares as adjusted for computation.....	<u>101,369</u>	<u>101,369</u>	<u>100,578</u>
Fully diluted earnings per share.....	\$ 4.04	\$ 3.72	\$ 3.98

(1) These figures agree with the related amounts in the Statements of Income.

(2) The conversion price used to convert the Preference Stock, 6¾% Convertible Series AA, into shares of common stock was \$23.89.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

Item 10. *Directors and Executive Officers of the Registrant.*

Information for this item concerning directors of the Company is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1987 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth under the section entitled "Executive Officers of the Company" in this annual report.

Item 11. *Executive Compensation.*

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1987 annual meeting of shareholders, which is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy statement of the Company relating to its 1987 annual meeting of shareholders, which is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions.*

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1987 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K.*

Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Financial Statements

Statements of Income for the Three Years Ended December 31, 1986

Statements of Changes in Financial Position
for the Three Years Ended December 31, 1986

Balance Sheets — December 31, 1986 and 1985

Statements of Capitalization — December 31, 1986 and 1985

Statements of Retained Earnings for the Three Years Ended December 31, 1986

Notes to Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules

Schedule V — Property, Plant and Equipment for the Years Ended
December 31, 1986, 1985 and 1984

Schedule VI — Accumulated Depreciation and Amortization of Property,
Plant and Equipment for the Years Ended December 31, 1986, 1985 and 1984

Schedule VIII — Valuation and Qualifying Accounts and Reserves
for the Years Ended December 31, 1986, 1985 and 1984

Schedule X — Supplementary Income Statement Information
for the Years Ended December 31, 1986, 1985 and 1984

Exhibit I — Computation of Fully Diluted Earnings Per Share (Unaudited)

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Financial statements and schedules of the Company's subsidiaries are omitted because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Exhibits

- (a) — See Exhibit Index on page 46.
- (b) — Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1986 and the Employees' Stock Ownership Plan for the year ended December 31, 1986.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1986.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Charlotte and State of North Carolina on the 27th day of March, 1987.

DUKE POWER COMPANY
(Registrant)

By: W. S. LEE
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
W. S. LEE	Chairman of the Board (Principal Executive Officer)	March 27, 1987
W. H. GRIGG	Executive Vice President, Finance and Administration (Principal Financial Officer)	March 27, 1987
NORMAN P. MORROW	Controller (Principal Accounting Officer)	March 27, 1987
NAOMI G. ALBANESE		
ROBERT L. ALBRIGHT		
D. W. BOOTH		
THOMAS H. DAVIS		
JOHN L. FRALEY		
ALESTER G. FURMAN III		
STEVE C. GRIFFITH, JR.		
W. H. GRIGG		
PAUL H. HENSON		
GEORGE R. HERBERT		
GEORGE DEAN JOHNSON, JR.	A majority of the Directors	March 27, 1987
JAMES V. JOHNSON		
W. W. JOHNSON		
W. S. LEE		
BUCK MICKEL		
REECE A. OVERCASH, JR.		
WARREN H. OWEN		
JAMES C. SELF		

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

/s/ LEWIS F. CAMP, JR.
Lewis F. Camp, Jr., Attorney-in-fact

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

<u>Exhibit Number</u>	
3-A	— Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
3-B	— Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
3-C	— Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
3-D	— Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-4).
3-E	— Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
*3-F	— Statement of Classification of Shares relating to the 7.875% Cumulative Preferred Stock, Series P.
*3-G	— Statement of Classification of Shares relating to the Adjustable Rate Cumulative Preferred Stock, Series A.
*3-H	— Statement of Classification of Shares relating to the 7.12% Cumulative Preferred Stock, Series Q.
*3-I	— By-Laws of registrant, as amended to date.
4-B-1	— First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).
4-B-2	— Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
4-B-3	— Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
4-B-4	— Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
4-B-5	— Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
4-B-6	— Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
4-B-7	— Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
4-B-8	— Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).

Exhibit
Number

- 4-B-9 — Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).
- 4-B-10 — Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).
- 4-B-11 — Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
- 4-B-12 — Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
- 4-B-13 — Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
- 4-B-14 — Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
- 4-B-15 — Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
- 4-B-16 — Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
- 4-B-17 — Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
- 4-B-18 — Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
- 4-B-19 — Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
- 4-B-20 — Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
- 4-B-21 — Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-20).
- 4-B-22 — Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
- 4-B-23 — Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
- 4-B-24 — Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No. 2-31304, effective January 21, 1969, as Exhibit 2-B-26).
- 4-B-25 — Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).
- 4-B-26 — Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).

Exhibit
Number

- 4-B-27 — Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42).
- 4-B-28 — Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).
- 4-B-29 — Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).
- 4-B-30 — Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).
- 4-B-31 — Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
- 4-B-32 — Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).
- 4-B-33 — Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
- 4-B-34 — Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
- 4-B-35 — Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
- 4-B-36 — Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
- 4-B-37 — Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
- 4-B-38 — Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
- 4-B-39 — Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
- 4-B-40 — Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
- 4-B-41 — Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).
- 4-B-42 — Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).
- 4-B-43 — Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).

<u>Exhibit Number</u>	
4-B-44	— Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
4-B-45	— Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).
4-B-46	— Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).
4-B-47	— Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-47).
4-B-48	— Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-48).
4-B-49	— Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-49).
4-B-50	— Supplemental Indenture, dated as of March 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-50).
4-B-51	— Supplemental Indenture, dated as of December 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-51).
4-B-52	— Supplemental Indenture, dated as of April 1, 1986, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-52).
*4-B-53	— Supplemental Indenture, dated as of May 1, 1986, supplementing said Mortgage.
*4-B-54	— Supplemental Indenture, dated as of June 1, 1986, supplementing said Mortgage.
*4-B-55	— Supplemental Indenture, dated as of February 1, 1987, supplementing said Mortgage.
*4-B-56	— Supplemental Indenture, dated as of February 15, 1987, supplementing said Mortgage.
*4-B-57	— Supplemental Indenture, dated as of March 1, 1987, supplementing said Mortgage.
10-A	— Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
10-B	— Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
10-C	— Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
10-D	— Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
*12	— Computation of Ratio of Earnings to Fixed Charges.
*24	— Consent of Independent Auditors.

CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statement No. 33-5163 on Form S-3, in Post-Effective Amendment No. 5 to Registration Statement No. 2-79057 on Form S-3, in Post-Effective Amendment No. 4 to Registration Statement No. 2-81066 on Form S-3 and in Post-Effective Amendment No. 5 to Registration Statement No. 2-72172 on Form S-8 of our opinion (which is qualified as set forth therein), dated February 13, 1987, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1986.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
March 27, 1987

Return to List

8 of 8 DOCUMENTS

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10-K

FILING-DATE: 04/01/88

DOCUMENT-DATE: 12/31/87

DUKE POWER CO
TICKER-SYMBOL: DUK EXCHANGE: NYS

422 SOUTH CHURCH STREET
CHARLOTTE, NC 28242
704-373-4011

INCORPORATION: NC

COMPANY-NUMBER: FORTUNE NUMBER: U024
FORBES NUMBER: SA199
CUSIP NUMBER: 264399106
DUNS NUMBER: 00-699-6052
COMMISSION FILE NO.: 1-4928
IRS-ID: 56-0205520

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AUDITOR: DELOITTE HASKINS & SELLS (SOURCE: 10-K)

STOCK-AGENT: MORGAN SHAREHOLDER SERVICES TRUST COMPANY

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

DUKE POWER COMPANY
422 SOUTH CHURCH STREET
CHARLOTTE, NORTH CAROLINA 28242
704-373-4011

FOR FISCAL YEAR ENDED: 12/31/87
COMMISSION FILE NUMBER: 1-4928

STATE OF INCORPORATION: NC
IRS EMPLOYER I.D.: 56-0205520

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NAME OF EACH EXCHANGE	TITLE OF EACH CLASS	ON WHICH REGISTERED

	COMMON STOCK, WITHOUT PAR VALUE	NEW YORK STOCK EXCHANGE

PREFERRED STOCK, PAR VALUE \$100

8.70% SERIES F	NEW YORK STOCK EXCHANGE
8.20% SERIES G	NEW YORK STOCK EXCHANGE
7.80% SERIES H	NEW YORK STOCK EXCHANGE
8.28% SERIES K	NEW YORK STOCK EXCHANGE
8.84% SERIES M	NEW YORK STOCK EXCHANGE
8.84% SERIES N	NEW YORK STOCK EXCHANGE

PREFERENCE STOCK, PAR VALUE \$
\$100

6 3/4% CONVERTIBLE SERIES AA	NEW YORK STOCK EXCHANGE

FIRST AND REFUNDING MORTGAGE
BONDS

7 3/8% SERIES B DUE 2001	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2002	NEW YORK STOCK EXCHANGE
7 3/8% SERIES B DUE 2002	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2003	NEW YORK STOCK EXCHANGE
8 1/8% SERIES B DUE 2003	NEW YORK STOCK EXCHANGE
9 3/4% SERIES DUE 2004	NEW YORK STOCK EXCHANGE
9 1/2% SERIES DUE 2005	NEW YORK STOCK EXCHANGE
8 3/8% SERIES DUE 2006	NEW YORK STOCK EXCHANGE
8 1/8% SERIES DUE 2007	NEW YORK STOCK EXCHANGE
9 3/8% SERIES DUE 2008	NEW YORK STOCK EXCHANGE
10 1/8% SERIES DUE 2009	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NAME OF EACH EXCHANGE
TITLE OF EACH CLASS ON WHICH REGISTERED

PREFERRED STOCK, PAR VALUE \$100 NONE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at March 4, 1988 \$4,598,932,408

Number of shares of Common Stock, without par value, outstanding at March 4, 1988 101,261,446

"Note: The following index is part of the original document. Page numbers have been kept for your convenience in locating data referred to within text and are identified as [HARDCOPY PAGE #] in the upper left-hand corner of each page. To access these pages, refer to SEC Online's Table of Contents".

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1987

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DUKE POWER COMPANY

PART I.

ITEM 1. Business.

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina,

comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,500,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1987, the Company's electric revenues amounted to approximately \$3.7 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011).

Service Area

The Company supplies electric service directly to approximately 1,521,00 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Catawba Joint Owners). All constituent entities of the Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$511 million of the Company's revenues for 1987, representing 14% of electric revenues and 44% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1987, its sources of electric energy for 1987, and certain information presently projected for 1988:

Generation-KWH
Generating Capability-KW(a) (millions)

Source	Projected		Actual
	Actual December 31, December 31, 1987	December 31, 1988	
Coal	6,428,000	6,428,000	23,617
Nuclear (b)	7,170,000	7,054,000	44,810
Hydro and other	2,051,000	2,051,000	1,453
Total (b)	15,649,000	15,533,000	69,880
Less: Catawba Joint Owners' share		11,961	
Plus: Purchases from Catawba Joint Owners		10,872	
Purchased power and net interchange		5	
Total		68,796	

(footnotes on next page)
[HARDCOPY PAGE 2]

(a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.

(b) Nuclear capability and related generation for 1987 and projected for 1988 give no effect to the sale of portions of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")

In order to make more efficient use of its baseload capacity, the Company entered into a bulk power sale agreement during 1987 to provide a neighboring utility with 400 megawatts of capacity for a six-year period beginning in 1992. This agreement is subject to regulatory approval.

During the fourth quarter of 1987, the Company executed an agreement with the Aluminum Company of America (ALCOA) providing for the purchase of the common stock of Nantahala Power & Light Company (NP&L), a wholly owned subsidiary of ALCOA, at its net book value at closing. The net book value was \$26 million on December 31, 1987. NP&L operates 11 hydroelectric stations and buys supplemental power to provide service to its 43,000 mostly residential customers located in five counties in western North Carolina. Upon completion of a transmission line between the two systems, the Company will supply

supplemental power to NP&L under the terms of an interconnection agreement. The agreements are subject to approval by regulatory authorities.

According to industry statistics through 1986, the Company ranked first in the nation for the last 13 consecutive years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that one of the units at the Belews Creek Steam Station was the most efficient in the nation in 1986, while two units at the Marshall Steam Station and the other Belews Creek unit ranked second, third and fourth, respectively. A Company station has been ranked first in efficiency in 19 of the last 21 years through 1986. Statistics compiled by the Nuclear Regulatory Commission (NRC) on multi-unit nuclear plants indicate that the McGuire, Catawba and Oconee Nuclear Stations were ranked first, second and fourth, respectively, in efficiency in the nation among pressurized water reactor nuclear facilities. The Company's McGuire and Oconee Nuclear Stations were the most efficient pressurized water reactor nuclear facilities in 1984 and ranked first and third in 1985.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On January 27, 1988, the Company experienced its all-time peak load of 12,728,000 KW. The 1987 summer peak load of 12,691,000 KW occurred on July 23, 1987 during a relatively hot summer. The 1986-1987 winter peak load of 11,451,000 KW occurred on January 27, 1987. The 1986 summer peak load of 12,471,000 KW occurred on July 21, 1986, and the 1985-1986 winter peak load of 12,586,000 KW occurred on January 28, 1986. The Company currently forecasts a 2.6% compound annual growth in peak load through 2001.

Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSC) must approve the Company's rates for all retail sales within the respective States. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales under its wholesale rate schedules. Constituent entities of NCPMA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company. For a summary of rate information since January 1, 1985, see Note 2, "Notes to Financial Statements."

Rate requests filed by the Company in 1986 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 2 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all costs related to Catawba,

although certain non-fuel purchased power costs, with associated carrying charges, will be recovered on a levelized basis.

In 1986, the NCUC allowed a jurisdictional rate of return on common equity of 13.40% and the PSC allowed a jurisdictional rate of return on common equity of 13.00%.

[HARDCOPY PAGE 3]

The Company reduced retail rates by 2.3% on January 1, 1987, and by an additional 3% on January 1, 1988. These reductions are due to the impact of the lower corporate income tax rates included in the Tax Reform Act of 1986. These decreases have been approved by the NCUC and PSC.

In July 1987 FERC approved a 3.56% increase in the Company's wholesale jurisdiction, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A rate reduction was granted in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

The Company canceled certain nuclear projects in prior years, including the Cherokee Nuclear Station, citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation.

The NCUC and the PSC have authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station in recent rate proceedings. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. (See Note 11, "Notes to Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the NCUC to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the NCUC's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue is being contested in the appeal of the 1986 rate case. While the Company is of the opinion that there are adequate legal and factual bases for the Company to prevail on this issue, the Company cannot presently determine the ultimate resolution of this matter.

On July 28, 1987, FERC granted without a hearing a motion made by the Catawba Joint Owners to exclude plant abandonment costs from their supplemental power rates. The Company requested a reconsideration of the order, which FERC denied. The Company appealed the order to the courts. The Company estimates that the order, if it becomes final, would have a one-time impact on earnings of approximately \$40 million. While the Company is of the opinion

that there are adequate legal and factual bases for its position, the Company cannot presently determine the ultimate resolution of this matter.

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The NCUC ordered the Company to follow these procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over-or under-recovery of fuel costs was challenged in the North Carolina courts. The North Carolina legislature ratified a bill in July 1987 assuring the legality of such adjustments in rates and required a study of the appropriateness of such adjustments. The bill also provides that the fuel adjustment statute will be repealed effective July, 1989.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Energy Management

The Company currently is engaged in a comprehensive energy management program designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area and increase off-peak sales. Peak reduction programs include, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers' consent) of residential electric water heaters and air conditioners during peak demand periods and time-of-day pricing to a limited number of customers. The current and planned aspects of such programs are designed to reduce the growth in peak demand by approximately 4,257,000 KW in the summer of 1999 (from estimated peak demands at those times without energy management) and to
[HARDCOPY PAGE 4]

enhance generating reserve margins through the ability to interrupt approximately 1,177,000 KW in 1999.

To make maximum use of existing production capacity while minimizing the need to add new capacity, the Company is promoting off-peak sales programs. These programs include promotion of all-electric homes using high efficiency electric heat pumps and outdoor lighting as well as commercial heating and heat recovery systems all designed to increase seasonal and daily off-peak sales.

Through 1991, the Company estimates a minimum reserve margin of approximately 15% of its anticipated peak load requirements. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rates), changing regulatory and environmental standards (see "Regulation - Environmental Matters") and other factors.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station that have been sold, for each of 1988, 1989 and 1990 and for the three-year period 1988-1990, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1988	1989	1990	Total
Generation	\$333	\$357	\$445	\$1,135
Transmission	59	61	65	185
Distribution	219	225	230	674
Other	123	127	115	365
Total	\$734	\$770	\$855	\$2,359
Nuclear Fuel	\$157	\$195	\$195	\$547

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

The Company has experienced higher costs of construction of new facilities as a result of recurring increases in the costs of materials and labor, and increasing capital commitments attributable to more stringent regulatory requirements. However, the Company believes that in recent years it has been able to construct generating units at a lower cost per KW than generally experienced by other utilities for units of comparable type and vintage. The construction cost per installed KW for the Catawba Nuclear Station, Unit 2 of which began commercial operation in August 1986, was \$1,560 at the date of commercial operation.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, 1,000,000-kilowatt pumped storage facility in Oconee County, South Carolina. Units 1 and 2 are scheduled for operation in 1991 and Units 3 and 4 in 1992. As of December 31, 1987, the Company had incurred \$277 million of the total estimated cost of \$967 million, with construction costs of 967 per installed KW anticipated for this facility.

The Company has no commitment to construct new generating facilities beyond the completion of Bad Creek. However, to keep its options open, the Company began the licensing process for a new pumped-storage hydroelectric plant in Colcy Creek near the North Carolina-South Carolina border. No decision has yet been made to construct a plant at this site.

[HARDCOPY PAGE 5]

A Plant Modernization Program has been instituted by the Company under which 15 older coal-fired generating units, involving about 1,400,000 KW of generating capacity, will be completely remodeled, thereby extending their useful lives by at least 20 years. The cost of this Program is estimated to be approximately \$200 per installed KW, a fraction of the cost of building new plants.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87 1/2% undivided interest in the Catawba Nuclear Station to the Catawba Joint Owners.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy its own use (whether or not the facility is generating electricity) that portion of the capacity not then required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange of 50% of each Catawba Joint Owner's retained capacity from its ownership interest in the Catawba units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next three years of the costs of purchased power from the Catawba Nuclear Station under contracts with the Catawba Joint Owners permitted by regulatory authorities will result in payments by the Company exceeding the amounts collected in rates for such power by approximately \$199 million (see "Rate Matters").

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

Generation by Source			
Year Ended December 31			
	1987	1986	1985
Coal	33.8%	45.8%	44.2%
Nuclear	64.1	53.0	53.9
Oil and Gas	-	-	-
All Fuels (cost based on weighted average)	97.9	98.8	98.1
Hydroelectric(*)	2.1	1.2	1.9
	100.0%	100.0%	100.0%

(TABLE CONTINUED)

Average Cost per Million BTU on a Burned Basis		
Year Ended December 31		
	1987	1986
Coal	181.18(cents)	189.64(cents)
Nuclear	64.40	65.57
Oil and Gas	381.48	410.74
All Fuels (cost based on weighted average)	105.10	120.32
Hydroelectric(*)		

(TABLE CONTINUED)

1985

Coal	194.96(cents)
Nuclear	64.71
Oil and Gas	543.49
All Fuels (cost based on weighted average)	121.39
Hydroelectric(*)	

(*) Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains substantially all of its coal under long-term contracts supply contracts with mining operations utilizing both deep and surface mining. The Company has on hand adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment clauses, have expiration dates ranging from 1993 to 2003. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. The coal covered by the Company's long-term supply is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

[HARDCOPY PAGE 6]

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities (see "Regulation - Environmental Matters").

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched

uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

Nuclear Station	Uranium Conversion Material	Enrichment Service	Fabrication Service
Oconee	1992	1992	2014
McGuire	1992	1992	2014
Catawba	1992	1992	2014

	1995	1995	1995

Approximately 75% of the Company's requirements for uranium material is expected to be obtained from Rio Algom, Ltd., a Canadian supplier. Deliveries to the Company by such supplier, which began in 1981, are subject to permits and export licenses from various Canadian governmental agencies, including the Atomic Energy Control Board, the Department of Industry, Trade and Commerce and the Uranium Exports Review Panel.

The Company purchased uranium material during 1987 at an average price of approximately \$26 per pound. The Company's material nuclear supply contracts generally contain force majeure provisions and provide for price escalation under certain conditions.

The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required contracts with DOE for the disposal of nuclear fuel and began making payments in July 1983 for disposal costs of fuel currently being utilized. These payments combined with a one time payment for disposal costs of fuel consumed prior to April 7, 1983 have totaled about \$300 million through 1987. The Company is of the opinion that it will have adequate storage capacity for spent fuel on its reactor sites until such time as DOE begins receiving spent fuel.

In 1986, the U.S. District Court for the District of Colorado issued orders in a case not involving the Company prohibiting enrichment by DOE of uranium of foreign origin, which orders, if they become final, would void enrichment contracts between DOE and certain utilities, including the Company. Such orders were appealed to the U.S. Court of Appeals for the Tenth Circuit which upheld the District Court order in July, 1987. The Supreme Court of the United States has granted a Petition for Writ of Certiorari filed by DOE. The prohibition against enrichment of uranium of foreign origin was stayed pending further order of the Court. The Company believes

that regardless of the outcome of the litigation it can continue to obtain necessary enrichment services for its uranium of foreign origin on a reliable and economical basis.

Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable

[HARDCOPY PAGE 7]

environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities.

The Company's 1988-1989 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$51 million, including \$26 million in 1988 and \$25 million in 1989. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

AIR QUALITY. In 1971, pursuant to the Clean Air Act of 1970 (the 1970 Act), EPA promulgated primary and secondary ambient air quality standards with respect to certain air pollutants including particulates, sulfur oxides and nitrogen oxides. Pursuant to such regulations, North Carolina and South Carolina have adopted implementation plans, which have been approved by EPA, containing air emission standards which were generally designed to achieve the primary ambient air quality standards by 1975 and the secondary ambient air quality standards within a reasonable time thereafter. The Company believes it is presently in substantial compliance with such implementation plans. The 1977 amendments to the 1970 Act include, among other things, authority for EPA to impose substantial delayed compliance penalties for failure to comply with applicable emission limitations after July 1, 1979 and civil penalties

of up to \$25,000 per day for facilities found to be in violation of an applicable implementation plan provision.

The Company operates its coal-fired generating stations in North Carolina under a revised regulation which prescribes mass emission limits for particulates for each boiler unit. Such regulation was issued by the North Carolina Environmental Management Commission (EMC) and was submitted to EPA for approval as a revision to the state implementation plan. On May 26, 1987, EPA published notice of its proposal to approve the new mass emission limits contingent on an additional submission by the State to document as to two of the Company's plants compliance with regulations for prevention of significant deterioration of air quality. The Company could incur substantial capital costs for pollution control equipment if EPA fails to approve the mass emission limits. Additionally, if legislation relating to air quality being considered by Congress is enacted, a substantial reduction in sulfur dioxide and nitrogen oxide emission limits for electric utility boilers might be required.

WATER QUALITY. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

OTHER ENVIRONMENTAL REGULATIONS: North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act.

Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA) establishes the Emergency Planning and Community Right-To-Know Act. Title III imposes requirements on a wide range

of facilities to report information regarding the presence and release of specific chemicals to state and local emergency planning authorities. The Company is presently implementing procedures to comply with SARA.

[HARDCOPY PAGE 8]

GENERAL. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Nuclear Facilities. The Company's nuclear facilities are subject to continuing regulation by the NRC.

The NRC requested the Company to study its Oconee reactor vessels for thermal shock effects of emergency core cooling system operations during a loss of feedwater event, as well as other transients which might induce rapid overcooling of the system. An analysis of the Oconee units conducted by the Company and the manufacturer, Babcock & Wilcox Company, has indicated that the vessels as constructed are adequate to permit safe operation for the remainder of their projected licensed lives.

In addition, the NRC requested that an owner group consisting of representatives of the owners of reactors manufactured by Babcock & Wilcox Company conduct a study in response to two operational incidents, unrelated to the Company, which occurred in 1985. The study, encompassing the overall safety of these reactors, has been completed and results have been compiled. The results of the study currently are being reviewed by the staff of the NRC. The present position of the NRC staff is that the units can operate safely pending completion of its review.

In February 1987, a petition was filed by the Union of Concerned Scientists (UCS) which requested the NRC to order the shutdown of all Babcock & Wilcox reactors in the United States on the grounds that the operation of these reactors poses an undue risk to the public health and safety. The owners of such reactors filed a response with the NRC opposing the UCS petition. In October 1987, the NRC denied the UCS petition and reaffirmed its position that the Babcock & Wilcox units could operate safely. The UCS did not appeal the NRC decision.

The Company currently has insured against public liability claims resulting from nuclear incidents to the full \$720 million limit on liability under the Price-Anderson Act. The maximum available private insurance of \$160 million has been purchased and the remaining \$560

million has been provided through a mandatory industry-wide program of self-insurance, under which licensees could be assessed in the event of a nuclear incident involving any licensed facility in the nation up to \$5 million for each of its licensed reactors and up to \$10 million a year for each of its licensed reactors in the event of more than one incident. Such nuclear insurance coverage does not include coverage of the plant facilities. The Price-Anderson Act expired on August 1, 1987 for those facilities receiving NRC construction permits after that date. Expiration of the Price-Anderson Act does not affect coverage of the Company's seven licensed reactors. Recent legislative proposals for extension of the Price-Anderson Act have been coupled with numerous amendments containing more burdensome provisions for utilities than exist at present.

To cover possible damage to certain of its nuclear facilities, the Company maintains property damage insurance with Nuclear Mutual Limited, a Bermuda mutual insurance company of which the Company is a member, in the maximum amount available from such insurer, which is presently \$500 million, or the insurable value of the facilities, whichever is less. The Company has purchased from Nuclear Electric Insurance Limited (NEIL), a Bermuda mutual insurance company of which it is a member, an additional \$775 million of property damage insurance through its Excess Property Insurance Program. The Company also has purchased an additional \$120 million of property damage insurance through a pool of stock and mutual insurance companies. In connection with the sale of a portion of its interest in the Catawba Nuclear Station (see "Joint Ownership of Facilities"), the Company placed \$620 million through a pool of stock and mutual insurance companies and \$775 million through NEIL's Excess Property Insurance Program. Current NRC regulations require that \$1.06 billion of available property insurance coverage be dedicated to post-accident cleanup.

NEIL also provides insurance against the increased cost of generation or purchased power resulting from the accidental outage of a nuclear unit. The Company's Oconee, McGuire and Catawba Nuclear Stations are insured for up to \$1.1 million, \$1.8 million and \$1.7 million per unit.

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per week, respectively, after a 26-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100% for 52 weeks and at 50% for an additional 52 weeks.

For information about possible assessments, see Note 14, "Notes to Financial Statements."

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power

Act. Eleven developments on the Catawba-Wataree River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for a term expiring in 2016 covering a power generation development on the upper tributaries of the Savannah River in northwestern South Carolina. Hydroelectric and pumped storage units in such development, with a nameplate rating of 750,000 KW, have been completed. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

Competition

The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems, rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

Employees

At December 31, 1987, the Company employed approximately 20,500 persons. About 2,050 electrical operating employees are represented by the International Brotherhood of Electrical Workers with which the Company has a labor agreement expiring on October 1, 1988.

Recent Developments

On February 25, 1988, a ruptured hydraulic oil line caused a fire in the electric and control cables of Units 3 and 4 of the Company's Marshall Steam Station resulting in damage to the cables thus causing further damage to the turbines of both units. Repairs to these units, which have a generating capability of 660 MW each, will require an extended outage. The Company currently estimates that Unit 4 will return to service in mid-May with Unit 3 returning to service in mid-June, both in sufficient time to be available for the summer peak load requirements. The damage or the results thereof are not expected to have a materially adverse effect on the financial condition of the Company.

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[MAP OMITTED: "DUKE POWER SERVICE AREA"]

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OPERATING STATISTICS

Year Ended December 31

	1987	1986	1985
Sources of Electric Energy			
Millions of kilowatt-hours:			
Generated - net output:			
Coal	23,617	30,249	27,619
Nuclear (A)	44,810	35,044	33,700
Hydro	1,454	771	1,162
Oil and gas	(1)	14	13
Total generated	69,880	66,078	62,494
Purchased power and net interchange	5	(822)	(1,742)
Total output	69,885	65,256	60,752
Less: Catawba Joint Owners' share	11,961	6,261	3,827
Plus: Purchases from Catawba	10,872	5,953	3,769
Total sources of energy	68,796	64,948	60,694
Losses and company use	(4,045)	(4,435)	(4,636)
Total energy sales (B)	64,751	60,513	56,058
Average Cost Per Ton of Coal Burned	\$45.42	\$47.59	\$48.66
Electric Energy Sales			

Millions of kilowatt-hours:

Residential	16,580	15,636	14,241
General service	13,026	12,312	11,338
Industrial			
Textile	11,236	10,595	9,961
Other	13,738	12,617	11,876
Wholesale and other energy sales	10,171	9,353	8,642

Total energy sales (B) 64,751 60,513 56,058

Electric Revenue

Thousands of dollars:

Residential	\$1,226,529	\$1,088,886	\$914,513
General service	829,466	748,722	642,006
Industrial			
Textile	511,026	471,718	420,817
Other	661,736	593,407	523,041
Wholesale and other energy sales	459,182	426,882	358,385
Other electric revenues	17,845	71,318	40,149

Total electric revenues \$3,705,784 \$3,400,933 \$2,898,911

Number of Customers - End of Year

Residential	1,302,819	1,272,888	1,236,156
General service	202,482	195,248	188,542
Industrial			
Textile	1,408	1,355	1,349
Other	7,119	6,964	6,894
Wholesale and other energy sales	6,881	6,635	6,516

Total customers 1,520,709 1,483,090 1,439,457

Residential Customer Statistics

Average number for year	1,292,293	1,259,655	1,221,419
Average annual use - KWH	12,830	12,413	11,659
Average annual billing	\$949.11	\$864.43	\$748.73

Average Annual Billed Revenue Per KWH

Residential	7.40c	6.96c	6.42c
General service	6.37c	6.08c	5.66c
Industrial	4.70c	4.59c	4.32c
Wholesale and other energy sales	4.51c	4.56c	4.15c

(TABLE CONTINUED)

Year Ended December 31

	1984	1983
Sources of Electric Energy		
Millions of kilowatt-hours:		
Generated - net output:		
Coal	26,394	32,466
Nuclear (A)	32,632	25,059
Hydro	1,995	2,114
Oil and gas	-	8
Total generated	61,021	59,647
Purchased power and net interchange	(2,908)	(1,003)
Total output	58,113	58,644
Less: Catawba Joint Owners' share	-	-
Plus: Purchases from Catawba	-	-
Total sources of energy	58,113	58,644
Losses and company use	(3,714)	(4,493)
Total energy sales (B)	54,399	54,151
Average Cost Per Ton of Coal		
Burned	\$49.58	\$47.24
Electric Energy Sales		
Millions of kilowatt-hours:		
Residential	14,493	14,219
General service	10,922	10,339
Industrial		
Textile	10,169	10,115
Other	11,652	10,792
Wholesale and other energy sales	7,163	8,686
Total energy sales (B)	54,399	54,151
Electric Revenue		
Thousands of dollars:		
Residential	\$886,065	\$806,085
General service	593,351	521,568
Industrial		
Textile	409,635	374,138
Other	487,604	419,755

Wholesale and other energy sales	291,435	324,595
Other electric revenues	41,925	(25,889)
Total electric revenues	\$2,710,015	\$2,420,252

Number of Customers - End of Year		
Residential	1,199,718	1,167,846
General service	181,590	175,142
Industrial		
Textile	1,337	1,323
Other	6,680	6,588
Wholesale and other energy sales	6,385	6,276
Total customers	1,395,710	1,357,175

Residential Customer Statistics		
Average number for year	1,186,962	1,158,123
Average annual use - KWH	12,210	12,278
Average annual billing	\$746.50	\$696.03

Average Annual Billed Revenue Per KWH		
Residential	6.11c	5.67c
General service	5.43c	5.04c
Industrial	4.11c	3.80c
Wholesale and other energy sales	4.07c	3.74c

(A) Includes 100% of Catawba generation.
 (B) Excludes a portion of the energy sold to the Catawba Joint Owners (see "Business - Joint Ownership of Facilities").
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EXECUTIVE OFFICERS OF THE COMPANY

Name	Position	Service In Such Capacity Age(*)	Since
W. S. Lee(**)	Chairman of the Board and Chief Executive Officer	58	1982
D. W. Booth(**)	President and Chief Operating Officer	63	1982

	and Director		
W. H. Grigg(**)	Executive Vice President, Finance and Administration, and Director	55	1982
W. H. Owen(**)	Executive Vice President, Engineering, Construction and Production Group, and Director	61	1982
Steve C. Griffith, Jr. (**)	Senior Vice President and General Counsel and Director	54	1982
(+) John D. Hicks(**)	Senior Vice President, Public Affairs, and Director	64	1977
Henry L. Cranford	Senior Vice President, Division Operations	60	1982
Donald H. Denton, Jr.	Senior Vice President, Marketing and Rates	50	1982
James R. Bavis	Vice President, Human Resources	48	1984
Thomas C. Berry	Vice President, Southern Division	57	1976
S. K. Blackley, Jr.	Vice President, Transmission	55	1984
Ralph W. Bostian	Vice President, Production Support	61	1982
J. Kenneth Clark	Vice President, Corporate Communications	55	1981
W. A. Coley	Vice President, Central Division	44	1986

Robert L. Dick	Vice President, Construction and Maintenance	60	1971
George W. Ferguson, Jr.	Vice President and Deputy General Counsel	55	1982
E. O. Ferrell, III	Vice President, Northern Division	43	1984
James W. Foster	Vice President, Distribution	65	1986
E. N. Hedgepeth, Jr.	Vice President, Operation	60	1986
John F. Lomax	Vice President, Western Division	48	1980
Paul G. Martin	Vice President, Eastern Division	55	1982
John P. O'Keefe	Vice President, Taxes	56	1986
William O. Parker, Jr.	Vice President, Fossil Production	63	1982
R. B. Priory	Vice President, Design Engineering	41	1984
William R. Stimart	Vice President, Regulatory Affairs	56	1979
George E. Stubbins	Vice President, Information Systems	47	1982
Hal B. Tucker	Vice President, Nuclear Production	59	1982
Fred E. West, Jr.	Vice President, Charlotte Division	51	1981
James W. White	Vice President, General Services	62	1979
Lewis F. Camp, Jr.	Secretary and Associate General Counsel	59	1980
David L. Hauser	Controller	36	1987

Richard J. Osborne Treasurer 37 1981

(*) As of February 1988.

(**) Member of the Executive Committee.

(+) Mr. Hicks retired effective January 31, 1988 and Donald E. Hatley was elected Vice President, Public Affairs effective February 1, 1988.

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Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for James R. Bavis and John P. O'Keefe. Mr. Bavis served as Vice President, Human Resources, of Gold Bond Building Products, a division of National Gypsum Company, Inc. from January 1980 to March 1984 when he joined the Company as Vice President, Human Resources. Mr. O'Keefe was a partner of Deloitte Haskins & Sells serving as its National Director, Public Utility Tax Practice, for approximately ten years immediately prior to joining the Company as Vice President, Taxes, on July 1, 1986.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

ITEM 2. Properties.

The map on page 10 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V - Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. - "Construction Program - Facilities Under Construction".

ITEM 3. Legal Proceedings.

Reference is made to Notes 2 and 14 of "Notes to Financial Statements" for information relating to an appeal taken from a rate order previously obtained by the Company from the NCUC.

ITEM 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the Company's security holders during the last quarter of 1987.

PART II

ITEM 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1987, there were approximately 105,107 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by the New York Stock Exchange Composite Transactions:

Common Stock	Dividends		Price Range	
	Per Share	High	Low	
1987 by Quarter				
Fourth	\$0.70	50 1/4	40 1/8	
Third	0.70	48 1/4	43 3/8	
Second	0.67	46 3/8	39 3/8	
First	0.67	51 3/4	45 1/4	
1986 by Quarter				
Fourth	\$0.67	49 3/8	44	
Third	0.67	52	41 1/4	
Second	0.65	45 1/8	39 1/8	
First	0.65	41 7/8	34 7/8	

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ITEM 6. Selected Financial Data.
DUKE POWER COMPANY

SELECTED FINANCIAL DATA

Year Ended December 31

1987 1986 1985

(Dollars in thousands, except
per share figures)

CONDENSED STATEMENTS OF INCOME

Electric revenues	\$3,705,784	\$3,400,933	\$2,898,911
Electric expenses	3,047,827	2,816,157	2,370,876

Electric operating income	657,957	584,776	528,035
Other income	72,902	127,880	163,821

Income before interest deductions	730,859	712,656	691,856
Interest deductions	230,661	244,822	254,263

Net income	500,198	467,834	437,593

Dividends on preferred and preference stocks	54,264	58,767	60,912

Earnings for common stock	\$445,934	\$409,067	\$376,681

RATIO OF EARNINGS TO FIXED CHARGES

(SEC method)	4.49	4.26	3.87

COMMON STOCK DATA

Shares of common stock			
-End of year (thousands)	101,259	101,236	101,194
-Average (thousands)	101,250	101,220	101,178

Per share of common stock

Earnings	\$4.40	\$4.04	\$3.72
Dividends	\$2.74	\$2.64	\$2.54
Book value - end of year	\$31.96	\$30.34	\$28.98
Market price - high-low	\$51 3/4-39 3/8	\$52-34 7/8	\$36 7/8-28 1/2
- end of year	\$42 7/8	\$45 1/4	\$35 3/8

TOTAL ASSETS	\$8,511,794	\$8,226,729	\$8,024,163

LONG-TERM DEBT	\$2,723,382	\$2,752,302	\$2,721,041

PREFERRED STOCKS WITH SINKING

FUND REQUIREMENTS	\$263,875	\$221,991	\$277,012

(TABLE CONTINUED)

Year Ended December 31

1984 1983

(Dollars in thousands, except
per share figures)

CONDENSED STATEMENTS OF INCOME

Electric revenues	\$2,710,015	\$2,420,252
Electric expenses	2,161,914	1,971,038

Electric operating income	548,101	449,214
Other income	162,795	213,001

Income before interest deductions	710,896	662,215
Interest deductions	249,565	230,938

Net income	461,331	431,277
Dividends on preferred and preference stocks	61,786	62,600

Earnings for common stock	\$399,545	\$368,677

RATIO OF EARNINGS TO FIXED CHARGES

(SEC method)	4.21	3.46

COMMON STOCK DATA

Shares of common stock		
-End of year (thousands)	101,153	99,634
-Average (thousands)	100,346	97,784

Per share of common stock

Earnings	\$3.98	\$3.77
Dividends	\$2.42	\$2.32
Book value - end of year	\$27.80	\$26.26
Market price - high-low	\$301/8-221/4	\$263/8-213/4
- end of year	\$29	\$25 1/8
TOTAL ASSETS	\$8,018,818	\$7,379,445
LONG-TERM DEBT	\$2,696,795	\$2,745,889
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS	\$285,426	\$295,053

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ITEM 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

Results of Operations

Earnings and Dividends

Earnings per share increased 9 percent from \$4.04 in 1986 to \$4.40 in 1987. The increase was primarily the result of higher kilowatt-hour

sales due to increased economic activity and to weather conditions. Consequently, the earned return on common equity rose to 14.2 percent from 13.7 percent in 1986.

Earnings per share increased over the past five years at an annual rate of 4 percent, from \$3.77 in 1983 to \$4.40 in 1987.

The Company continued its practice of increasing the common stock dividend annually. Over the past five years, common stock dividends rose at an annual rate of 4 percent, from \$2.32 in 1983 to \$2.74 in 1987. Indicated annual dividends per share were \$2.80 in 1987, up 4 percent from 1986.

Revenues and Sales

Revenues increased at an annual rate of 11 percent from 1983 to 1987 primarily because of rate increases and higher kilowatt-hour sales. During this period, both growth in economic activity in the Piedmont Carolinas and the weather conditions have caused kilowatt-hour sales, including electricity delivered to the other joint owners of the Catawba Nuclear Station, to increase at a 5 percent annual rate.

Kilowatt-hour sales for 1987, including deliveries to the other Catawba joint owners, rose 6 percent from 1986. Sales to all customer classes increased over 1986, with sales to residential customers increasing 6 percent. Textile and other industrial sales were 6 and 9 percent higher, respectively, reflecting continued economic growth in our service area.

Operating Expenses

Increased production requirements to support higher kilowatt-hour sales have caused operating expenses to rise at an annual rate of 12 percent over the past five years. Factors contributing to this increase include the addition of three nuclear units, increased maintenance at both nuclear and coal-fired stations, additional Nuclear Regulatory Commission requirements and inflation.

In 1987 purchased power agreements with the other Catawba joint owners resulted in a significant increase in "Net Interchange and Purchased Power." This increase was primarily due to additional capacity and energy costs associated with the in-service operation of Catawba Unit 2 for the entire year. (See Note 3, "Notes to Financial Statements.")

Fuel expenses were relatively stable from 1983 through 1986. Higher production requirements were offset by a change in the generation mix and by increased energy needs being satisfied through purchased power agreements with the other Catawba joint owners. During this period, the three nuclear units that were placed in service reduced

the cost per kilowatt-hour for fuel. Fuel expense decreased in 1987 by 14 percent from 1986. This decrease was primarily due to an improved generation mix coupled with a more significant portion of energy requirements being satisfied through power purchased from the other Catawba joint owners.

Other Income

Allowance for funds used during construction (AFUDC) was 11 percent of earnings for common stock in 1987, decreasing from an average of 30 percent for 1983 through 1986. Completion of three nuclear units, the sale of a portion of Catawba Nuclear Station and cancellation of Cherokee Unit 1 caused AFUDC to decline over the past five years. AFUDC will continue to be a relatively small percentage of earnings for common stock for the next several years.

Total non-utility earnings during 1987 were 4 percent of total Company earnings, compared to 10 percent in 1986. These earnings decreased 57 percent from 1986 primarily because of the 1987 stock market losses. Major components of non-utility earnings include interest and dividend income, appliance sales and service, and subsidiary earnings. Over the next few years, the Company expects

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the portion of earnings attributable to non-utility activities to decline as temporary financial investments are reinvested in utility plant.

Liquidity and Resources

Rate Matters

In late 1986 the Company was granted rate increases in both North Carolina and South Carolina retail jurisdictions to recover its investment in Catawba Unit 2 and payments related to purchased power contracts with the plant's other joint owners. The Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988. These reductions are due to the impact of the lower corporate income tax rates included in the Tax Reform Act of 1986.

In July 1987 the Federal Energy Regulatory Commission approved a 3.56 percent increase in the Company's wholesale jurisdiction, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A rate reduction was requested in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

The Company was granted approximately 52 percent of retail

rate requests from 1983 through 1987. These rate changes included recovery of the Company's investment in McGuire Unit 2 and in both units of the Catawba Nuclear Station; recovery of increased purchased power and operating expenses, and recovery of the investment in the canceled Cherokee Nuclear Station. Rate increases from 1983 through 1986 were partially offset by the rate reduction in 1987 resulting from the lower federal tax rate. (For additional information on rate matters, see Note 2, "Notes to Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the North Carolina Utilities Commission to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the North Carolina Utilities Commission's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue is being contested in the appeal of the 1986 rate case. While the Company is of the opinion that there are adequate legal and factual bases for the Company to prevail on this issue, the Company cannot presently determine the ultimate resolution of this matter.

The Federal Energy Regulatory Commission (FERC), on July 28, 1987, granted without a hearing a motion made by the other joint owners of the Catawba Nuclear Station to exclude plant abandonment costs from their supplemental power rates. The Company requested a reconsideration of the order, which FERC denied. The Company appealed the order to the courts. The Company estimates that the order, if it becomes final, would have a one-time impact on earnings of approximately \$40 million. While the Company is of the opinion that there are adequate legal and factual bases for its position, the Company cannot presently determine the ultimate resolution of this matter.

Capital Structure

The Company's capital structure at year-end was 49 percent common equity, 41 percent long-term debt and 10 percent preferred and preference stocks. This capitalization structure is consistent with the Company's long-term financial goals.

The Company's stock plans purchase common stock on the stock market to satisfy plan requirements. For the next several years, the Company does not anticipate issuing common stock other than for preference stock conversion.

Additional Funds

During the past five years, the Company obtained additional funds of \$999 million from the sale of first and refunding mortgage bonds and \$148 million from the sale of preferred stock. The Company has not issued any common stock for the past five years except to satisfy

the requirements of its stock purchase plans and the conversion rights of preference stock.

During 1987 the Company continued its refinancing activities, which began in 1984, by refunding issues of higher-cost securities with lower-cost securities, thus reducing financing costs and providing substantial cost savings in the years ahead. The Company's embedded cost of long-term

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debt was lowered from 9.59 percent at year-end 1984 to 8.64 percent at year-end 1987. The embedded cost of preferred stock declined from 8.75 percent at the end of 1984 to 7.93 percent at the end of 1987.

During 1987 the Company redeemed or retired \$294 million of long-term debt and issued \$305 million in long-term debt. The Company issued \$50 million of preferred stock in 1987 to replace \$40 million of higher-cost preferred stock. Future refinancing activities will depend on market conditions and prevailing interest rates. (For additional information on the Company's capitalization, see Notes 7, 8, 9 and 10, "Notes to Financial Statements.")

In 1984 the Company received \$457 million from the sale of a portion of the Catawba Nuclear Station to the Piedmont Municipal Power Agency.

Church Street Capital Corp., a wholly owned subsidiary, was formed in 1985 to invest the Company's discretionary cash. As of December 31, 1987, Duke Power Company and Church Street has approximately \$185 million in short-term investments and \$161 million in intermediate-term investments.

Fixed Charges Coverage

Fixed charges coverage, using the Securities and Exchange Commission method, increased to 4.49 times for 1987 compared to 4.26 times in 1986. This coverage is above the Company's goal of 4.00 times. The increase coverage in 1987 results from lower interest expense due to refinancings.

Funds From Operations

Funds from operations accounted for 67 percent of total sources of funds in 1987. The percentage of internally generated funds would have been significantly higher if refinancing activities had been excluded. The Company is funding the portions of purchased capacity payments not currently collected in rates. These payments represent an 8 percent reduction in total sources of funds. (For additional information, see "Purchased Capacity Levelization.") Also,

approximately 8 percent of total applications of funds is being used for construction of the Bad Creek Hydroelectric Station.

The percentage of internally generated funds still remains above the Company's goal of 50 percent.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$790 million and retirements of \$62 million resulted in a net increase in gross plant of \$728 million in 1987.

Since January 1, 1983, additions to property and nuclear fuel of \$3.5 billion and retirements of \$1.2 billion have resulted in a net increase in gross plant of \$2.3 billion. Unusually large retirements occurred during the period because the Company canceled Cherokee Unit 1 and sold a portion of the Catawba Nuclear Station.

Construction Expenditures

Plant construction costs for generating facilities and for nuclear fuel, including AFUDC, declined from \$481 million in 1983 to \$400 million in 1987. These costs declined primarily because the Company completed three generating units (McGuire Unit 2 in 1984; Catawba Unit 1 in 1985; and Catawba Unit 2 in 1986), canceled Cherokee Unit 1 and sold a portion of the Catawba Nuclear Station. Construction work in progress is expected to increase over the next few years because of construction expenditures at the Bad Creek Hydroelectric Station.

Purchased Capacity Levelization

The rates established in the Company's retail jurisdictions permit the Company to recover its investment in both units of the Catawba Nuclear Station and the costs associated with the contractual purchases of capacity from the other Catawba joint owners. The contracts relating to the sales of portions of the station obligate the Company to purchase power from the other joint owners on an annually declining basis. In the North Carolina retail jurisdiction, regulatory treatment of these

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contracts provides revenue for the recovery of the capital cost and the fixed operating and maintenance costs of purchased capacity on a levelized basis. In the South Carolina retail jurisdiction, revenues are provided for the recovery of the capital costs of purchased capacity on a levelized basis, while the fixed operating

and maintenance costs are recovered in current rates.

These rate treatments require the Company to fund portions of the purchased power payments until these costs, including carrying charges, are recovered at a later date. The Company will begin to recover the accumulated costs and carrying charges when the purchased capacity payments drop below the levelized revenues.

The levelized recovery of purchased power obligations under contracts with the other joint owners of the Catawaba Nuclear Station will result in payments by the Company over the next three years exceeding the amounts collected in rates for such power by approximately \$199 million.

Other Expenditures

In the past five years, the Company has applied its funds to maturing and refunded securities and to construction expenditures (See "Liquidity and Resources.")

In June 1985 the Company paid a lump-sum amount of \$122 million to the Department of Energy under the terms of the Nuclear Waste Policy Act of 1982. The payment was for the obligation related to disposal costs for nuclear fuel consumed prior to April 7, 1983.

Future Construction Program

Because the Company has completed its nuclear construction program, construction costs for major generating facilities for 1988 through 1990 will constitute a lower portion of the Company's total applications of funds than in the past five years. Projected construction and nuclear fuel costs for the next three years are \$2.9 billion.

Construction of the Bad Creek Hydroelectric Station continued in 1987. Units 1 and 2 of the 1,000-megawatt pumped-storage facility are scheduled for completion in 1991, with Units 3 and 4 in 1992. By year-end, \$277 million was spent. The estimated cost of Bad Creek is \$967 million.

Beyond the completion of Bad Creek, the Company has no commitment to place a new generating plant in service. The Company is currently reviewing its options for meeting the need for future peak generating facilities. To keep its options open, the Company began the licensing process for a new pumped-storage hydroelectric plant on Coley Creek near the North Carolina-South Carolina border. No decision has yet been made to construct a plant at this site.

Significant Trends

While the Company's financial position improved over 1986, the ability to maintain financial strength will depend on several factors. Future trends in the Company's earnings depend on economic conditions in the Piedmont Carolinas. With an emphasis on operations, the Company will continue to stress system efficiencies and cost reductions in preparation for a competitive environment.

Subject to regulatory approval, the Company entered into a bulk power sale agreement to provide Carolina Power & Light Company (CP&L) with 400 megawatts of capacity for a six-year period beginning in 1992. The customers of both utilities will benefit from a split-the-savings rate charged for service.

An agreement was executed by the Company and the Aluminum Company of America (ALCOA) providing for the purchase of the common stock of Nantahala Power & Light Company (NP&L), a wholly owned subsidiary of ALCOA, at its net book value at closing. The net book value was \$26 million on December 31, 1987. It is expected that NP&L will operate as a separate subsidiary of the Company. Upon completion of a transmission line between the two systems, the Company will supply supplemental power to NP&L under the terms of an interconnection agreement. The agreements are subject to approval by regulatory authorities.

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ITEM 8. Financial Statements and Supplementary Data.

DUKE POWER COMPANY

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DUKE POWER COMPANY

STATEMENTS OF INCOME

Year Ended December 31

	1987	1986	1985
	(Dollars in Thousands)		

ELECTRIC REVENUES (Notes 1 and
2)

	\$3,705,784	\$3,400,933	\$2,898,911

ELECTRIC EXPENSES

Operation

Fuel used in electric

generation (Note 1)	624,814	726,151	719,254

Net interchange and purchased
power

(Note 3)	581,175	378,377	107,145

Wages, benefits and materials	485,192	488,631	435,701

Maintenance of plant

facilities	375,085	291,164	260,361

Depreciation and amortization

(Notes 1 and 11)	411,182	327,844	319,295

General taxes (Note 1)	173,897	166,385	141,343

Income taxes (Notes 1 and 4)	396,482	437,605	387,777

Total electric expenses	3,047,827	2,816,157	2,370,876

Electric operating income	657,957	584,776	528,035

OTHER INCOME (Notes 1, 4 and
5)

Allowance for equity funds

used during construction	36,742	52,444	62,741

Earnings of subsidiaries, net	1,183	11,181	11,156
Other, net	12,947	35,203	68,966
Income taxes - other, net	(525)	(3,111)	(19,405)
Income taxes - credit	22,555	32,163	40,363
Total other income	72,902	127,880	163,821

Income before interest deductions	730,859	712,656	691,856

INTEREST DEDUCTIONS

Interest on long-term debt	237,367	252,503	267,345
Other interest	3,853	5,764	3,926
Allowance for borrowed funds used during construction (credit) (Note 1)	(10,559)	(13,445)	(17,008)

Total interest deductions	230,661	244,822	254,263

NET INCOME	500,198	467,834	437,593
Dividends on preferred and preference stocks	54,264	58,767	60,912

EARNINGS FOR COMMON STOCK	\$445,934	\$409,067	\$376,681

COMMON STOCK DATA

Average shares outstanding (thousands)	101,250	101,220	101,178
Earnings per share	\$4.40	\$4.04	\$3.72
Dividends per share	\$2.74	\$2.64	\$2.54

See Notes to Financial Statements:
[HARDCOPY PAGE 21]

DUKE POWER COMPANY

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year Ended December 31

	1987	1986	1985
SOURCES OF FUNDS			
Operations			
Net income	\$500,198	\$467,834	\$437,593
Non-fund items			
Depreciation and amortization (Notes 1 and 11)	614,835	502,151	484,527

Deferred income taxes and investment tax credit net of amortization (Note 4)	82,623	161,596	141,105
Allowance for equity funds used during construction	(36,742)	(52,444)	(62,741)
Purchased capacity levelization (Note 3)	(134,452)	(77,258)	(22,440)
Other, net	8,136	(72,657)	(67,219)

Total funds from operations	1,034,598	929,222	910,825

Funds from financing and sale of assets

Issuance of first and refunding mortgage bonds	245,866	394,006	172,404
Issuance of preferred stock	49,563	98,612	-
Nuclear fuel trusts	77,388	57,597	57,638
Issuance of pollution-control bonds	38,734	7,251	34,114
Sale of assets	23,496	-	-

Total funds from financing and sale of assets	435,047	557,466	264,156

Change in short-term position and other marketable securities

	65,162	149,866	294,222

Total sources of funds	\$1,534,807	\$1,636,554	\$1,469,203

APPLICATIONS OF FUNDS

Construction expenditures	\$753,461	\$637,908	\$594,431
Long-term debt, capital stocks retired or reacquired	441,970	672,239	247,192
Dividends paid	331,691	325,991	317,907
Change in working capital(*)	40,367	49,356	308,500
Other applications, net	(32,682)	(48,940)	1,173
Total applications of funds	\$1,534,807	\$1,636,554	\$1,469,203

CHANGE IN WORKING CAPITAL:

Increase/(Decrease) in current assets

Cash	\$17,895	\$871	\$ (3,011)
Receivables	8,196	81,257	(18,011)
Materials and supplies	15,837	(43,366)	53,735
Prepayments	(1,323)	371	6,633

Decrease/(increase) in current liabilities

Accounts payable	(54,972)	16,086	(6,016)
Nuclear fuel disposal costs			

payable	-	-	122,003
Taxes accrued	54,692	(51,359)	161,141
Interest accrued and other liabilities	42	45,496	(7,974)
Change in working capital(*)	\$40,367	\$49,356	\$308,500

(*) Excludes change in short-term position and change in current maturities of long-term debt and preferred stock.

See Notes to Financial Statements.
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DUKE POWER COMPANY

BALANCE SHEETS

ASSETS

December 31

1987 1986
(Dollars in Thousands)

ELECTRIC PLANT

(At original cost - Notes 1, 3, 10 and 14)

Electric plant in service	\$10,072,552	\$9,445,032
Less accumulated depreciation and amortization	3,859,917	3,407,345

Electric plant in service, net	6,212,635	6,037,687
Construction work in progress	704,610	601,064

Total electric plant, net	6,917,245	6,638,751

OTHER PROPERTY AND INVESTMENTS

Other property - at cost (less accumulated depreciation:

1987 - \$8,832; 1986 - \$8,248)	36,052	40,100

Investments in and advances to subsidiaries (Note 1)	93,633	85,153

Other investments, primarily

marketable securities - at cost or less (Note 1)	161,454	289,721

Total other property and investments	291,139	414,974

CURRENT ASSETS

Cash (Note 6)	21,509	3,614
Short-term investments	184,779	113,129
Receivables (less allowance for losses: 1987 - \$3,710; 1986 - \$3,867)	334,111	325,915
Materials and supplies - at average cost		
Coal	86,923	84,137
Other	161,901	148,850
Prepayments	13,754	15,077
Total current assets	802,977	690,722

DEFERRED DEBITS

Canceled construction projects (Notes 11 and 14)	251,085	296,016
Purchased capacity costs (Note 3)	153,793	101,160
Debt expense, primarily refinancing costs, being amortized over terms of related debt (Note 1)	78,978	62,106
Other	16,577	23,000
Total deferred debits	500,433	482,282

TOTAL ASSETS	\$8,511,794	\$8,226,729

See Noted to Financial Statements.
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DUKE POWER COMPANY

BALANCE SHEETS (CONT'D)

CAPITALIZATION AND LIABILITIES

December 31

1987 1986

(Dollars in Thousands)

CAPITALIZATION (See Statements)

of Capitalization) \$6,651,528 \$6,514,700

CURRENT LIABILITIES

Accounts payable	198,011	143,039
Taxes accrued (Note 1)	49,590	104,282
Interest accrued	67,075	68,542
Other	51,143	49,718
Total	365,819	365,581
Current maturities of long-term debt and preferred stocks	59,579	38,911
Total current liabilities	425,398	404,492

ACCUMULATED DEFERRED INCOME

TAXES (Notes 1 and 4)	1,028,427	913,426

DEFERRED CREDITS AND OTHER LIABILITIES

Investment tax credit (Notes 1 and 4)	335,647	341,124
Other	70,794	52,987
Total deferred credits and other liabilities	406,441	394,111

COMMITMENTS AND CONTINGENCIES (Note 14)

TOTAL CAPITALIZATION AND LIABILITIES	\$8,511,794	\$8,226,729

See Notes to Financial Statements.
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DUKE POWER COMPANY

STATEMENTS OF CAPITALIZATION AND RETAINED EARNINGS

CAPITALIZATION

December 31
1987 1986

(Dollars in Thousands)
COMMON STOCK EQUITY (Note 7)

Common stock, no par, 150,000,000 shares authorized; 101,258,731 shares outstanding for 1987 and 101,235,772 shares outstanding for 1986	\$1,862,177	\$1,861,628
Retained earnings	1,374,093	1,210,229

Total common stock equity	3,236,270	3,071,857

PREFERRED AND PREFERENCE
STOCKS WITHOUT SINKING FUND
REQUIREMENTS (Note 8)

Preferred stock	425,000	465,000
Preference stock	3,001	3,550

Total preferred and preference stocks without sinking fund requirements	428,001	468,550

PREFERRED STOCKS WITH SINKING
FUND REQUIREMENTS (Note 9)

263,875	221,991

LONG-TERM DEBT (Note 10)

First and refunding mortgage bonds	2,630,506	2,635,790
Capitalized leases	79,908	83,890
Nuclear fuel trusts	86,000	85,000
Unamortized debt discount and premium, net (Note 1)	(21,478)	(20,112)
Current maturities of long- term debt	(51,554)	(32,266)

Total long-term debt	2,723,382	2,752,302

TOTAL CAPITALIZATION	\$6,651,528	\$6,514,700

RETAINED EARNINGS

Year Ended December 31		
1987	1986	1985

(Dollars in Thousands)

BALANCE-Beginning of year	\$1,210,229	\$1,071,814	\$952,360
ADD - Net income	500,198	467,834	437,593

Total	1,710,427	1,539,648	1,389,953

DEDUCT
Dividends

Common stock	277,427	267,224	256,995
Preferred and preference stocks	54,264	58,767	60,912
Capital stock transactions, net	4,643	3,428	232
Total deductions	336,334	329,419	318,139
BALANCE - End of year	\$1,374,093	\$1,210,229	\$1,071,814

See Notes to Financial Statements.

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Additions to Electric Plant. The Company capitalizes all construction-related direct labor and materials as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized. The cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. Allowance for Funds Used During Construction (AFUDC). AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. AFUDC, a non-cash, non-operating item, is recognized as a cost of "Construction work in progress," (CWIP) with offsetting credits to "Other income" and "Interest deductions." After construction is completed, a utility is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.15 percent for 1987, 9.63 percent for 1986 and 9.90 percent for 1985.

C. Depreciation and Amortization. Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.60 percent for 1987 and 1986 and 3.58 percent for 1985. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units

are depreciated at a rate of 4 percent, which includes an allowance for decommissioning costs.

Amortization of nuclear fuel is included in "Fuel used in electric generation" in the Statements of Income. The amortization is recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company has entered into contracts with the Department of Energy (DOE) for the disposal of nuclear fuel. Payments made to the DOE for disposal costs are based on nuclear generation and are included in "Fuel used in electric generation" in the Statements of Income. The Company fulfilled its obligation for disposal costs of nuclear fuel consumed prior to April 7, 1983, by a payment in June 1985 of approximately \$122,000,000 to the DOE.

D. Subsidiaries. The Company's financial statements reflect consolidation of its wholly owned subsidiary, Church Street Capital Corp., formed in February 1985. All intercompany transactions have been eliminated in consolidation. Investments in other wholly owned subsidiaries have been accounted for by the equity method. Retained earnings as of December 31, 1987, include \$90,780,000 of undistributed earnings of unconsolidated subsidiaries. No dividends were received from unconsolidated subsidiaries in 1987. Dividends received from such subsidiaries were \$1,000,000 in 1986 and \$2,200,000 in 1985.

E. Income Taxes. The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its separate company taxable income or loss.

Income taxes are allocated to non-electric operations under "Other income" and to electric operating expense. The "Income taxes-credit" classified under "Other income" results from tax deductions of interest costs relating primarily to investments in CWIP, canceled construction projects, and short-term and intermediate-term investments.

Deferred income taxes have been provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, levelization of purchased power costs, canceled construction projects, and capitalized taxes and employee benefits. Investment tax credits are deferred and amortized over the useful lives of the related properties.

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (Continued)

F. Unamortized Debt Premium, Discount and Expense. Expenses incurred

in connection with the issuance of presently outstanding long-term debt, and premiums and discounts relating to such debt, are being amortized over the terms of the respective issues. Also, any expenses or call premiums associated with refinancing higher-cost debt obligations are being amortized over the lives of the new issues of long-term debt.

G. Fuel Cost Adjustment Procedures. Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings.

All jurisdictions allow the Company to adjust for past over- or under-recovery of fuels costs. Therefore, the Company reflects in revenues the difference between actual fuel costs incurred and fuel costs recovered through rates. The North Carolina Utilities Commission ordered the Company to follow these deferred accounting procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over- or under-recovery of fuel costs was challenged in the North Carolina courts. The North Carolina legislature ratified a bill in July 1987 assuring the legality of such adjustments in rates and required a study of the appropriateness of such adjustments. The bill also provides that the fuel adjustment statute will be repealed effective July 1, 1989.

H. Other Investments. Other investments, which consist primarily of marketable securities, are stated at the lower of cost or market value. At year-end, the cost of these securities approximated market value.

2. Rate Matters

The North Carolina Utilities Commission and The Public Service Commission of South Carolina must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales to wholesale customers. The revenues shown below (in millions of dollars) are annualized on the basis of the filing test year.

A summary of all changes in general rates requested or implemented by the Company since January 1, 1985, is as follows:

Jurisdiction and Date Filed	Requested Revenues	% of Revenues	% of Request

N.C. retail			
February 1985	340.0	157.7	46.4
March 1986 (a)	289.3	133.1	46.0
December 1986 (b)	(48.6)	(48.6)	100.0
November 1987 (b)	(63.3)	(63.3)	100.0
S.C. retail			
April 1985	143.0	78.4	54.8
May 1986	137.8	79.1	57.4
December 1986 (b)	(20.9)	(20.9)	100.0
October 1987 (b)	(26.4)	(26.4)	100.0
FERC wholesale (c)			
July 1985	9.2	5.2	56.5
August 1986 (b)	6.4	1.9	30.4
January 1988 (b)	(1.4)	-	-

(TABLE CONTINUED)

Jurisdiction and Date Filed	Approved % of Increase/ (Decrease)	End of from Previous Rate Order 12-Month Test Revenues Effective Period
N.C. retail		
February 1985	9.10	September 1984 June 30, 1985
March 1986 (a)	6.73	October 1986 December 31, 1985
December 1986 (b)	(2.30)	January 1987 December 31, 1985
November 1987 (b)	(3.00)	January 1988 December 31, 1985
S.C. retail		
April 1985	10.75	October 1985 June 30, 1984
May 1986	9.55	November 1986 December 31, 1985
December 1986 (b)	(2.30)	January 1987 December 31,

October 1987 (b)	1985	(3.00) January 1988 December 31,
FERC wholesale (c)	1986	
July 1985	10.50	March 1986 December 31,
August 1986 (b)	3.56	July 1987 December 31,
January 1988 (b)	-	Pending December 31,
		1987

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS-(Continued)

(a) Under appeal. (See Note 14.)

(b) Reflects the impact of the lower federal income tax rate.

(c) FERC wholesale filings do not include the sales to municipalities and electric cooperatives that purchased interests in the Catawba Nuclear Station. Sales to these entities, which previously represented a majority of the Company's wholesale revenues, are now set through contractual agreements. (see Note 3.)

3. Joint Ownership of Generating Facilities

The Company has sold interests in both units of the Catawba Nuclear Station. The other owners of portions of the Catawba Nuclear Station and supplemental information regarding their ownership are as follows:

Owner	Ownership Interest in the Station	Date of Sale
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%	November 29, 1978
North Carolina Electric Membership Corporation (NCEMC)	28.125%	February 6, 1981
Saluda River Electric Cooperative, Inc.		

(Saluda River) 9.375% February 6,
1981

Piedmont Municipal Power
Agency (PMPA) 12.5% December 20,
1984

Each participant has provided its own financing for its ownership interest in the plant.

The Company retains a 12.5 percent ownership interest in Catawba. As of December 31, 1987, \$487,900,000 of "Electric plant in service" represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of \$57,100,000 associated with Catawba had been recorded as of year-end.

In connection with the joint ownership, the Company has entered into contractual agreements with the other joint owners to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements were effective beginning with the commercial operation of each unit. Unit 1 and Unit 2 began commercial operation in June 1985 and in August 1986, respectively. Such agreements were established for 15 years for NCMFA and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments are based on variable operating costs, a function of the generation output. Capacity payments are based on the fixed costs of the plant. The estimated purchased capacity obligations through 1992 are \$487,000,000 for 1988, \$454,000,000 for 1989, \$434,000,000 for 1990, \$416,000,000 for 1991 and \$402,000,000 for 1992.

The North Carolina Utilities Commission and the Federal Energy Regulatory Commission granted the Company recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners over a 15-year period. The Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over a 7 1/2-year period. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized. The portion of costs not recovered through current rates is being accumulated, and the Company is recording a carrying charge on the accumulated balance. The
[HARDCOPY PAGE 28]

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS-(Continued)

Company will start to recover the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1987 and 1986, the Company recorded purchased capacity and energy costs from the other joint owners of \$693,500,000 and \$515,800,000, respectively. These amounts, reduced by the cost of capacity purchased not reflected in current rates, are included in "Net interchange and purchased power" in the Statements of Income. As of December 31, 1987 and 1986, \$153,793,000 and \$101,160,000 net of income taxes, respectively, associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Balance Sheets as "Purchased capacity costs."

4. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	1987	1986	1985
Income taxes related to electric expenses			
Current income taxes			
Federal	\$264,276	\$241,150	\$200,884
State	50,001	37,862	36,506
	314,277	279,012	237,390
Deferred taxes, net			
Excess tax over book depreciation	78,017	89,325	87,362
Catawba purchased capacity cost, net of amounts reflected in current rates	29,209	52,942	37,700
Amortization of canceled construction costs	(26,503)	(26,607)	(7,584)
Cost of bond redemption	7,319	21,560	6,358
Capitalized taxes, employee benefits, etc.	3,110	17,023	12,487
Other	4,558	11,738	(5,519)
	95,710	165,981	130,804
Investment tax credit			
Deferred	10,604	16,801	40,729
Amortization of deferments (credit)	(24,109)	(24,189)	(21,146)

	(13,505)	(7,388)	(19,583)
Total income taxes related to electric expenses	396,482	437,605	387,777
Income taxes related to other income			
Income taxes - other, net	525	3,111	19,405
Income taxes - (credit)	(22,555)	(32,163)	(40,363)
Total income taxes related to other income	(22,030)	(29,052)	(20,958)
Total income tax expense	\$374,452	\$408,553	\$366,819
Total current income taxes were \$291,829,000 for 1987, \$246,957,000 for 1986 and \$225,683,000 for 1985. Of these amounts, state income taxes were \$46,073,000 for 1987, \$33,779,000 for 1986 and \$34,621,000 for 1985.			

Total deferred income taxes were \$96,128,000 for 1987, \$168,984,000 for 1986 and \$121,553,000 for 1985. Of these amounts, deferred state income taxes were \$15,585,000 for 1987, \$20,033,000 for 1986 and \$13,178,000 for 1985.

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS-(Continued)

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1987	1986	1985
Income taxes on pretax income at the statutory federal rate of 39.95% - 1987, 46% - 1986 and 1985	\$349,423	\$403,138	\$370,030
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(18,897)	(30,309)	(36,685)
Amortization of electric investment tax credit deferrals	(24,109)	(24,189)	(21,146)
AFUDC in book depreciation/amortization	37,623	43,679	42,575
State income taxes, net of			

federal income tax benefits	38,142	28,751	25,284
Other items, net	(7,730)	(12,517)	(13,239)

Total income tax expense (see page 28)	\$374,452	\$408,553	\$366,819

The Financial Accounting Standards Board has issued a statement that will require the Company to change its accounting for income taxes. While classification of certain items on the Balance Sheets will change, there will be no material effect on the Company's results of operations. The Company is not required to implement this accounting procedure until 1989.

5. Other Income

For the years ended December 31, 1987, 1986 and 1985, the Company recorded investment income of \$20,000,000, \$34,000,000 and \$58,000,000, respectively (\$17,800,000, \$29,900,000 and \$38,700,000, net of income taxes, respectively), as a component of "Other, net" in the Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes-other, net" in the Company's Statements of Income.

6. Short-Term Borrowings and Compensating-Balance Arrangements

The Company had unused short-term credit facilities of \$360,700,000 with 54 commercial banks as of December 31, 1987, \$306,150,000 with 56 commercial banks as of December 31, 1986, and \$316,050,000 with 59 commercial banks as of December 31, 1985. Included in these credit facilities is \$95,000,000 of which \$40,000,000 is allocated to the 1984 issue and \$55,000,000 is allocated to the 1987 issues of annual tender, pollution-control revenue bonds. These facilities are on a fee basis and/or compensating-balance basis. There were no short-term borrowings during 1987, 1986 and 1985.

In 1987, the Company maintained cash balances with 54 banks. As of December 31, 1987, the Company had \$18,120,730 on deposit with these banks. Substantially all of the Company's cash balances are maintained to compensate banks for their services, even though the Company has no formal compensating-balance arrangements. To compensate banks for credit facilities, the Company had average balance requirements of \$1,305,500 for 1987, \$1,351,500 for 1986 and \$1,362,500 for 1985. The Company retains the right of withdrawal regarding the funds used for compensating-balance arrangements.

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (Continued)

7. Common Stock and Retained Earnings

Common Stock

During the past three years, stock market purchases were used to satisfy the requirements of the Company's stock plans. For the next several years, the Company anticipates issuing new shares of common stock only for the conversion of preference stock. (See Note 8.)

As of December 31, 1987, a total of 4,690,084 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1987, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

8. Preferred and Preference Stocks Without Sinking Found Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1987 and 1986:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

The outstanding Preference Stock, 6 3/4% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1987, 1986 and 1985, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1987	5,489	22,959
1986	10,032	41,970
1985	9,819	41,078

In 1986 the Company issued 500,000 shares of Adjustable Rate Preferred Stock, Series A, with a par value of \$100 per share. The dividend rate is adjusted quarterly based on a percentage of the highest rate among certain U.S. Treasury rates. However, in no event will the dividend rate for any dividend period be less than 5.50 percent per

annum or greater than 10.50 percent per annum. This rate was 6.91 percent per annum at December 31, 1987.

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (Continued)

Preferred and preference stocks without sinking fund requirements as of December 31, 1987 and 1986, were as follows (dollars in thousands):

Rate/Series	Year Shares		1987	1986
	Issued	Outstanding		
4.50% C	1964	350,000	\$35,000	\$35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
15.40% A	1982	1,600,000	-	40,000
Adjustable Rate A	1986	500,000	50,000	50,000
6 3/4%, AA				
Convertible	1969	30,006	3,001	-
		35,495	-	3,550
Total			\$428,001	\$468,550

9. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1987 and 1986:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

[HARDCOPY PAGE 32]

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (Continued)

Preferred stocks with sinking fund requirements as of December 31, 1987 and 1986, were as follows (dollars in thousands):

Rate/Series	Year Shares		1987	1986
	Issued	Outstanding		
7.35% I	1973 504,000	\$50,400	\$ -	
	528,000	-	52,800	
8.20% J	1977 380,000	38,000	-	
	400,000	-	40,000	
8.375% L	1978 400,000	40,000	-	
	420,000	-	42,000	
8.84% N	1979 435,000	43,500	-	
	451,250	-	45,125	
7.875% P	1986 500,000	50,000	50,000	
7.12% Q	1987 500,000	50,000	-	

Less: Preferred shares reacquired for current and future sinking fund requirements (at cost)

	Shares Reacquired		
8.84% N	13,800	-	(1,289)

Less: Current Sinking fund requirements

7.35% I	(2,400)	(2,400)
8.20% J	(2,000)	(2,000)
8.375% L	(2,000)	(2,000)
8.84% N	(1,625)	(245)

Total	\$263,875	\$221,991

The annual sinking fund requirements through 1992 are \$8,025,000 in 1988, 1989, 1990 and 1991 and \$9,525,000 in 1992, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 108 percent of par values, plus accumulated dividends to the redemption date.
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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

10. LONG-TERM DEBT

FIRST AND REFUNDING MORTGAGE BONDS OUTSTANDING AS OF DECEMBER 31, 1987
AND 1986, WERE AS FOLLOWS (DOLLARS IN THOUSANDS):

Series	Year Due	1987	1986
15 1/8%	1991	\$ -	\$100,000
4 1/2%	1992	50,000	50,000
4 1/4% B	1992	50,000	50,000
4 1/2%	1995	40,000	40,000
8 1/2% B	1995	125,000	125,000
7 7/8%	1996	100,000	100,000
5 3/8%	1997	72,600	72,600
7 1/2%	1997	100,000	-
6 3/8%	1998	68,500	68,500
7%	1999	56,075	56,075
8% B	1999	64,739	64,739
8 1/2%	2000	69,244	69,244
8 5/8% B	2000	95,635	95,635
7 1/2%	2001	97,900	97,900
7 3/8% B	2001	38,050	38,050
7 3/4%	2002	78,100	78,100
7 3/8% B	2002	67,900	67,900
7 3/4%	2003	94,872	94,872
8 1/8% B	2003	98,050	98,050
9 3/4%	2004	95,623	95,623
9 1/2%	2005	92,800	92,800
8 3/8%	2006	96,850	96,850
8 1/8%	2007	\$119,500	\$119,500
9 3/8%	2008	120,610	120,610
10 1/8%	2009	145,050	145,050
10 7/8% B	2009	-	148,000
14 1/2%	2012	-	16,282
12 5/8%	2015	62,916	67,517
10 1/8% B	2015	50,000	50,000
9%	2016	175,000	175,000
8 1/2%	2017	150,000	-
Pollution-Control			
6 5/8%	1988	-	25,000
9 1/8%	2013	77,000	77,000
4.70% (1987)	2014	40,000	40,000
4 3/4% (1986)			
6 1/2%	2012	20,000	-
4.10%	2017	10,000	-
3.95%	2017	25,000	-
Less: Funds held in trust		(16,508)	(107)
Total		\$2,630,506	\$2,635,790

Substantially all electric plant was mortgaged as of December 31.

1987.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1992 are \$51,554,000 in 1988, \$35,796,000 in 1989, \$12,942,000 in 1990, \$5,667,000 in 1991 and \$106,187,000 in 1992.

Annual maturities through 1992 include amounts relating to the \$86 million in outstanding obligations under the Company's two nuclear fuel trusts. The maturities are based on estimated fuel consumption. Instead of making cash payments, the Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

11. Canceled Construction Projects

The construction of the Cherokee and Perkins Nuclear Stations was canceled. All jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 14.)

As of December 31, 1987 and 1986, the balances for these canceled projects, net of amortization, were \$400,905,000 and \$472,339,000, respectively (\$251,085,000 and \$296,016,000 net of income tax benefits, respectively).

12. Reclassification

In the Statements of Income and Statements of Changes in Financial Position, certain prior-year information has been reclassified to conform with 1987 classifications.

13. Retirement Plan

The Company and its operating subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The benefits are based on years of creditable service and the employees' average compensation based on the highest compensation during a consecutive sixty-month period. The benefits are reduced by a Social Security adjustment for employees age sixty-five and over and for early retirees with no creditable service prior to September 1, 1980. The Company's policy for the plan is to fund pension costs accrued.

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (Continued)

The Company adopted the provisions of Financial Accounting Standards

Board Statement No. 87 (SFAS 87), "Employers' Accounting for Pensions," as of January 1, 1987. The adoption of the new standards did not result in a material change in pension costs for 1987. The new standards have been adopted prospectively, and related disclosures for previous years have not been restated.

A reconciliation of the funded status of the plan to the amounts recognized in the Balance Sheets as of December 31, 1987, is as follows:

(Dollars in
Thousands)

Projected benefit obligation	\$ (589,397)
Fair market value of plan assets, consisting primarily of short-term investments and cash equivalents, common stocks, real estate investments, and government and industrial bonds	649,261
Unrecognized net experience gain	(61,734)
Remaining unrecognized SFAS 87 transitional obligation	1,870
Accrued pension cost	\$0

As of December 31, 1987, the portion of the projected benefit obligation representing the accumulated benefit obligation was \$460,923,000, of which \$424,630,000 represents the vested benefit obligation. The effect of future compensation increases included in the projected benefit obligation amounted to \$128,474,000.

Net periodic pension cost for the year ended December 31, 1987, included the following components:

(Dollars in Thousands)

Service cost benefits earned during the year	\$26,707
Interest cost on projected benefit obligation	52,212
Actual return on plan assets	(43,000)
Amount deferred for recognition	(9,042)
Expected return on plan assets	(52,042)
Amortization of transitional obligation over 15 years	134

Net periodic pension cost \$27,011

The weighted-average assumed discount rate and the assumed increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation as of December 31, 1987, were 9.5 percent and 6.5 percent, respectively. The expected long-term rate of return on plan assets used in determining pension cost for 1987 was 8.5 percent.

Total pension expense, including trustee fees, amounted to \$28,815,000 in 1986 and \$31,491,000 in 1985. As of December 31, 1985, the accumulated benefit obligation was \$528,977,000, with \$407,467,000 representing the vested benefit portion. The weighted-average assumed rate of return used to determine the actuarial present value of accumulated plan benefits was 7.5 percent in 1985. The actuarial present value of accumulated plan benefits for this calculation does not consider future salary increases.

Net assets available for accumulated plan benefits as of December 31, 1985, were \$557,922,000.

14. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs are \$2.36 billion and \$547 million, respectively, for 1988 through 1990. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including

[HARDCOPY PAGE 35]

DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (Continued)

revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

B. Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to \$720 million under provisions of the Price-Anderson Act, which provides for nuclear liability insurance up to that amount. Under these provisions the Company could be assessed up to \$5 million for each of its licensed reactors for a nuclear incident involving any licensed facility in the nation, and up to \$10 million a year for each, if more than one nuclear incident occurred. Legislation is pending in Congress that could

increase the limit on the Company's liability and the amount the Company could be assessed for each of its licensed reactors. As of December 31, 1987, the Company had seven licensed reactors.

The Company is a member of Nuclear Mutual Limited (NML), which provides property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$67 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. If NEIL's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$19 million. This amount represents five times the Company's annual premium to NEIL.

The Company purchases \$775 million of property damage insurance through NEIL's Excess Property Insurance Program. The Company has also purchased an additional \$120 million of property damage insurance through a pool of stock and mutual insurance companies. These coverages are in addition to the \$500 million of coverage provided by the Company's underlying property damage policies issued through NML. If losses ever exceeded the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable, on a pro rata basis, for additional assessments of up to \$28 million. This amount represents 7.5 times the Company's annual premium for \$500 million of excess property insurance.

In addition to the coverage through NEIL's Excess Property Insurance Program, the Company placed \$620 million through a pool of stock and mutual insurance companies for primary and excess property insurance coverage associated with its interest in the Catawba Nuclear Station.

The joint owners of Catawba will assume their pro rata share of any liability for claims resulting from a nuclear incident. The Company is being reimbursed by the other joint owners for certain expenses associated with nuclear insurance premiums paid by the Company.

C. Other

The Company is currently involved in contractual disputes with the other joint owners of the Catawba Nuclear Station. The Company cannot presently determine the ultimate resolution of these matters, but is of the opinion that there are adequate legal and factual bases for the Company's positions in these disputes.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a motion made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates. The Company requested a reconsideration of the order, which FERC denied. The Company appealed the order to the courts. The Company estimates that the order, if it becomes final, would have a one-time impact on earnings of approximately \$40 million.

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DUKE POWER COMPANY

NOTES TO FINANCIAL STATEMENTS - (Continued)

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Except as discussed below, management is of the opinion that the final disposition of the above matters individually will not have a material, adverse effect on the results of operations or the financial position of the Company.

Certain parties appealed the 1985 and 1986 rate orders of the North Carolina Utilities Commission to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the North Carolina Utilities Commission's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue is being contested in the appeal of the 1986 rate case. While the Company is of the opinion that there are adequate legal and factual bases for the Company to prevail on this issue, the Company cannot presently determine the ultimate resolution of this matter.

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AUDITORS' OPINION

Duke Power Company:

We have examined the financial statements and supplemental schedules of Duke Power Company listed in the accompanying index on page 19. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described more fully in Note 14(C), there are uncertainties with respect to the Company's recovery of certain costs related to plant abandonments. The ultimate outcome of these matters cannot be determined at this time.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of the Company at December 31, 1987 and 1986, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, subject to the effects on the supplemental schedules of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
February 12, 1988

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgements and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

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DUKE POWER COMPANY

SUPPLEMENTAL FINANCIAL DATA - (Unaudited)

Quarterly Financial Data

A summary of quarterly financial data for 1987 and 1986 is as follows (dollars in thousands, except per-share data):

Electric				
	Electric Operating Revenues	Income	Net Earnings Income Per Share	
1987 by Quarter				
Fourth	\$898,769	\$144,047	\$92,740	\$0.78
Third	1,036,685	202,641	165,013	1.50
Second	857,750	133,254	102,763	0.88
First	912,580	178,015	139,682	1.24
1986 by Quarter				
Fourth	\$842,959	\$124,025	\$92,077	\$0.77
Third	940,551	181,979	152,530	1.37
Second	784,016	119,208	89,820	0.73
First	833,407	159,564	133,407	1.17

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate changes, and maintenance of electric generating units, especially nuclear units.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

ITEM 10. Directors and Executive Officers of the Registrant.

Information for this item concerning directors of the Company is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1988 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth under the section entitled "Executive Officers of the Company" in this annual report.

ITEM 11. Executive Compensation

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1988 annual meeting of shareholders, which is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy statement of the Company relating to its 1988 annual meeting of shareholders, which is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions.

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1988 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Financial Statements

Statements of Income for the Three Years Ended December 31, 1987
Statements of Changes in Financial Position for the Three Years Ended December 31, 1987
Balance Sheets - December 31, 1987 and 1986
Statements of Capitalization - December 31, 1987 and 1986
Statements of Retained Earnings for the Three Years Ended December

31, 1987
 Notes to Financial Statements
 Supplemental Financial Data (Unaudited)
 Supplemental Schedules
 Schedule V - Property, Plant and Equipment for the Years Ended December 31, 1987, 1986 and 1985
 Schedule VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1987, 1986 and 1985
 Schedule VIII - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1987, 1986 and 1985
 Schedule X - Supplementary Income Statement Information for the Years Ended December 31, 1987, 1986 and 1985
 Exhibit I - Computation of Fully Diluted Earnings Per Share (Unaudited)

ITEM 14 (CONT'D)

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Financial statements and schedules of the Company's subsidiaries are omitted because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Exhibits

- (a) - See Exhibit Index.
- (b) - Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1987 and the Employees' Stock Ownership Plan for the year ended December 31, 1987.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1987.
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ITEM 14 (CONT'D)

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

Exhibit

Number

- 3-A - Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
- 3-B - Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
- 3-C - Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
- 3-D - Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-4).
- 3-E - Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
- 3-F - Statement of Classification of Shares relating to the 7.875% Cumulative Preferred Stock, Series P (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-F).
- 3-G - Statement of Classification of Shares relating to the Adjustable Rate Cumulative Preferred Stock, Series A (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-G).
- 3-H - Statement of Classification of Shares relating to the 7.12% Cumulative Preferred Stock, Series Q (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-H).
- 3-I - By-Laws of registrant, as amended to date (filed with Form 10-K for the year ended December 31, 1986, as File No. 1-4928, as Exhibit 3-I).
- 4-B-1 - First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated

as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).

4-B-2 - Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).

4-B-3 - Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).

4-B-4 - Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).

4-B-5 - Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).

4-B-6 - Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).

4-B-7 - Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).

4-B-8 - Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).

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ITEM 14 (CONT'D)

Exhibit
Number

4-B-9 - Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).

- 4-B-10 -Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).
- 4-B-11 -Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
- 4-B-12 -Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
- 4-B-13 -Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
- 4-B-14 -Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
- 4-B-15 -Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
- 4-B-16 -Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
- 4-B-17 -Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
- 4-B-18 -Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
- 4-B-19 -Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
- 4-B-20 -Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form

S-1, File No. 2-25367, effective August 23, 1966,
as Exhibit 4-B-19).

4-B-21 -Supplemental Indenture, dated as of June 15,
1964, supplementing said Mortgage (filed with Form
S-1, File No. 2-25367, effective August 23, 1966,
as Exhibit 4-B-20).

4-B-22 -Supplemental Indenture, dated as of February 1,
1965, supplementing said Mortgage (filed with Form
S-1, File No. 2-25367, effective August 23, 1966,
as Exhibit 4-B-21).

4-B-23 -Supplemental Indenture, dated as of April 1,
1967, supplementing said Mortgage (filed with Form
S-9, File No. 2-28023, effective February 15,
1968, as Exhibit 2-B-25).

4-B-24 -Supplemental Indenture, dated as of February 1,
1968, supplementing said Mortgage (filed with Form
S-9, File No. 2-31304, effective January 21, 1969,
as Exhibit 2-B-26).

4-B-25 -Supplemental Indenture, dated as of February 1,
1969, supplementing said Mortgage (filed with Form
S-7, File No. 2-34289, effective August 27, 1969,
as Exhibit 2-B-27).

4-B-26 -Supplemental Indenture, dated as of September 1,
1969, supplementing said Mortgage (filed with Form
S-7, File No. 2-36095, effective February 16,
1970, as Exhibit 2-B-39.).

4-B-27 -Supplemental Indenture, dated as of March 1,
1970, supplementing said Mortgage (filed with Form
S-7, File No. 2-37953, effective July 28, 1970, as
Exhibit 2-B-42).

[HARDCOPY PAGE 48]

ITEM 14 (CONT'D)

Exhibit
Number

4-B-28 -Supplemental Indenture, dated as of August 1,
1970, supplementing said Mortgage (filed with Form
S-7, File No. 2-39451, effective March 4, 1971, as
Exhibit 2-B-28).

4-B-29 -Supplemental Indenture, dated as of March 1,

- 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).
- 4-B-30 -Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).
- 4-B-31 -Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
- 4-B-32 -Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).
- 4-B-33 -Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
- 4-B-34 -Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
- 4-B-35 -Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
- 4-B-36 -Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
- 4-B-37 -Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
- 4-B-38 -Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
- 4-B-39 -Supplemental Indenture, dated as of September 1,

1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).

4-B-40 -Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).

4-B-41 -Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).

4-B-42 -Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).

4-B-43 -Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).

4-B-44 -Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).

4-B-45 -Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).

[HARDCOPY PAGE 49]

ITEM 14 (CONT'D)

Exhibit
Number

4-B-46 -Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).

4-B-47 -Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-47).

4-B-48 -Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-48).

4-B-49 -Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-49).

4-B-50 -Supplemental Indenture, dated as of March 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-50).

4-B-51 -Supplemental Indenture, dated as of December 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-51).

4-B-52 -Supplemental Indenture, dated as of April 1, 1986, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-52).

4-B-53 -Supplemental Indenture, dated as of May 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-53).

4-B-54 -Supplemental Indenture, dated as of June 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-54).

4-B-55 -Supplemental Indenture, dated as of February 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-55).

4-B-56 -Supplemental Indenture, dated as of February 15, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-56).

4-B-57 -Supplemental Indenture, dated as of March 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-57).

(*4-B-58 -Supplemental Indenture, dated as of October 1, 1987, supplementing said Mortgage.

10-A -Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).

10-B -Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).

10-C -Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).

10-D -Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).

(*12 -Computation of Ratio of Earnings to Fixed Charges.

(*24 -Consent of Independent Auditors.
[HARDCOPY PAGE 45]

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Charlotte and State of North Carolina on the 28th day of March, 1988.

DUKE POWER COMPANY
(REGISTRANT)

BY: W.S. LEE
CHAIRMAN OF THE BOARD

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

W.S. LEE
CHAIRMAN OF THE
BOARD (PRINCIPAL
EXECUTIVE OFFICER)
MARCH 28, 1988

W.H. GRIGG
EXECUTIVE VICE PRESIDENT,
FINANCE AND ADMINISTRATION
(PRINCIPAL FINANCIAL OFFICER)
MARCH 28, 1988

DAVID L. HAUSER
CONTROLLER (PRINCIPAL
ACCOUNTING OFFICER)
MARCH 28, 1988

NAOMI G. ALBANESE
DIRECTOR
MARCH 28, 1988

ROBERT L. ALBRIGHT
DIRECTOR
MARCH 28, 1988

D.W. BOOTH
DIRECTOR
MARCH 28, 1988

THOMAS H. DAVIS
DIRECTOR
MARCH 28, 1988

JOHN L. FRALEY
DIRECTOR
MARCH 28, 1988

ALESTER G. FURMAN III
DIRECTOR
MARCH 28, 1988

STEVE C. GRIFFITH, JR.
DIRECTOR
MARCH 28, 1988

W.H. GRIGG
DIRECTOR
MARCH 28, 1988

PAUL H. HENSON
DIRECTOR
MARCH 28, 1988

GEORGE R. HERBERT
DIRECTOR
MARCH 28, 1988

GEORGE DEAN JOHNSON, JR
DIRECTOR
MARCH 28, 1988

JAMES V. JOHNSON
DIRECTOR
MARCH 28, 1988

W.W. JOHNSON
DIRECTOR
MARCH 28, 1988

W.S. LEE
DIRECTOR
MARCH 28, 1988

REECE A. OVERCASH, JR.
DIRECTOR
MARCH 28, 1988

WARREN H. OWEN
DIRECTOR
MARCH 28, 1988

JAMES C. SELF
DIRECTOR
MARCH 28, 1988

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

LEWIS F. CAMP, JR., ATTORNEY-IN-FACT

SCHEDULE INDEX

NUMBER	DESCRIPTION	PAGE

V	PROPERTY PLANT AND EQUIPMENT	49
VI	ACCUMULATED DEPRECIATION/AMORTIZATION	50
VIII	VALUATION/QUALIFYING ACCOUNTS	51
X	SUPPLEMENTAL INCOME	51

[HARDCOPY PAGE 39]

DUKE POWER COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions
For the Year Ended December 31, 1987		
Electric Plant in Service - At Original Cost		
Production	\$4,563,815	\$80,827
Transmission	1,075,343	22,561
Distribution	2,043,595	194,991
General	411,281	130,265
Miscellaneous	175,600	3,056
Nuclear Fuel	1,175,398	234,917
Total electric plant in service	9,445,032	666,617
Construction Work in Progress	601,064	127,042
Other Property - At Cost		
Water plant	30,113	690
Transit plant	2,548	674
Non-utility plant	15,687	(4,814)
Total other property	48,348	(3,450)
Total plant	\$10,094,444	\$790,209
For the Year Ended December 31, 1986		
Electric Plant in Service -		

At Original Cost

Production	\$4,206,638	\$415,387 (1)
Transmission	1,040,301	36,226
Distribution	1,878,797	186,884
General	345,832	75,217
Miscellaneous	152,495	2,018
Nuclear Fuel	985,221	190,177

Total electric plant in service

8,609,284 905,909

Construction Work in Progress 817,350 (216,286)(1)

Other Property - At Cost

Water plant	28,362	1,841
Transit plant	2,609	-
Non-utility plant	16,770	(1,112)

Total other property 47,741 729

Total plant \$9,474,375 \$690,352

For the Year Ended December

31, 1985

Electric Plant in Service -

At Original Cost

Production	\$3,834,893	\$373,742 (2)
Transmission	1,011,713	29,925
Distribution	1,712,747	180,130
General	307,043	49,473
Miscellaneous	153,009	356
Nuclear Fuel	790,689	194,532

Total electric plant in service

7,810,094 828,158

Construction Work in Progress 988,790 (172,851)(2)

Other Property - At Cost

Water plant	27,574	889
Transit plant	2,852	-
Non-utility plant	15,771	990

Total other property 46,197 1,879

Total plant \$8,845,081 \$657,186

(TABLE CONTINUED)

Description	Retirements	Add (Deduct)
For the Year Ended December		
31, 1987		
Electric Plant in Service -		
At Original Cost		
Production	\$1,593	\$ (11,088)
Transmission	2,013	(3,307)
Distribution	17,314	2,317
General	12,145	1,766
Miscellaneous	-	4,280
Nuclear Fuel	-	-
Total electric plant in service	33,065	(6,032)
Construction Work in Progress	-	(23,496)(3)
Other Property - At Cost		
Water plant	225	2
Transit plant	62	-
Non-utility plant	174	445
Total other property	461	447
Total plant	\$33,526	\$ (29,081)
For the Year Ended December		
31, 1986		
Electric Plant in Service -		
At Original Cost		
Production	\$33,980	\$ (24,230)
Transmission	3,127	1,943
Distribution	22,779	693
General	10,434	666
Miscellaneous	-	21,087
Nuclear Fuel	-	-
Total electric plant in service	70,320	159
Construction Work in Progress	-	-
Other Property - At Cost		
Water plant	90	-
Transit plant	61	-
Non-utility plant	21	50

Total other property	172	50

Total plant	\$70,492	\$209

For the Year Ended December
31, 1985

Electric Plant in Service -

At Original Cost

Production	\$1,750	\$ (247)
Transmission	1,578	241
Distribution	15,750	1,670
General	17,597	6,913
Miscellaneous	13	(857)
Nuclear Fuel	-	-

Total electric plant in service	36,688	7,720

Construction Work in Progress	-	1,411

Other Property - At Cost

Water plant	92	(9)
Transit plant	243	-
Non-utility plant	1,255	1,264

Total other property	1,590	1,255

Total plant	\$38,278	\$10,386

(TABLE CONTINUED)

	Balance	
	End	
Description	of Year	

For the Year Ended December
31, 1987

Electric Plant in Service -

At Original Cost

Production	\$4,631,961
Transmission	1,092,584
Distribution	2,223,589
General	531,167
Miscellaneous	182,936
Nuclear Fuel	1,410,315

Total electric plant in

service 10,072,552
Construction Work in Progress 704,610

Other Property - At Cost
Water plant 30,580
Transit plant 3,160
Non-utility plant 11,144

Total other property 44,884

Total plant \$10,822,046

For the Year Ended December
31, 1986

Electric Plant in Service -
At Original Cost
Production \$4,563,815
Transmission 1,075,343
Distribution 2,043,595
General 411,281
Miscellaneous 175,600
Nuclear Fuel 1,175,398

Total electric plant in
service 9,445,032

Construction Work in Progress 601,064

Other Property - At Cost
Water plant 30,113
Transit plant 2,548
Non-utility plant 15,687

Total other property 48,348

Total plant \$10,094,444

For the Year Ended December
31, 1985

Electric Plant in Service -
At Original Cost
Production \$4,206,638
Transmission 1,040,301
Distribution 1,878,797
General 345,832
Miscellaneous 152,495
Nuclear Fuel 985,221

Total electric plant in

service	8,609,284
Construction Work in Progress	817,350
Other Property - At Cost	
Water plant	28,362
Transit plant	2,609
Non-utility plant	16,770
Total other property	47,741
Total plant	\$9,474,375

- (1) Principally due to commercial operation of Unit 2 of Catawba Nuclear Station on August 19, 1986.
 (2) Principally due to commercial operation of Unit 1 of the Catawba Nuclear Station on June 29, 1985.
 (3) Sale of assets.
 [HARDCOPY PAGE 40]

DUKE POWER COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Clearing and Other Depreciation	Accounts
For the Year Ended December 31, 1987			
Accumulated Depreciation of			
Electric Plant			
Production	\$1,229,392	\$173,801	\$ -
Transmission	388,401	30,720	-
Distribution	660,996	72,379	-
General	129,043	13,299	11,327
Miscellaneous	161,755	-	900
	2,569,587	290,199	12,227
Accumulated Amortization of			
Limited Term Plant	2,373	-	415
Accumulated Amortization of			
Nuclear Fuel	835,385	-	188,714

	3,407,345	290,199	201,356
Accumulated Depreciation of			
Water Plant	5,690	576	-
Accumulated Depreciation of			
Transit Plant	2,539	131	-
Accumulated Depreciation of			
Non-Utility Plant	19	63	-
Total Accumulated Depreciation	\$3,415,593	\$290,969	\$201,356

For the Year Ended December
31, 1986

Accumulated Depreciation of			
Electric Plant			
Production	\$1,124,734	\$162,731	\$-
Transmission	359,895	30,137	-
Distribution	616,240	66,438	-
General	116,871	11,758	10,240
Miscellaneous	139,818	-	872
	2,357,558	271,064	11,112

Accumulated Amortization of			
Limited Term Plant	1,887	-	486
Accumulated Amortization of			
Nuclear Fuel	675,028	-	160,357
	3,034,473	271,064	171,955

Accumulated Depreciation of			
Water Plant	5,226	550	-
Accumulated Depreciation of			
Transit Plant	2,557	42	-
Accumulated Depreciation of			
Non-Utility Plant	7	3	-
Total Accumulated Depreciation	\$3,042,263	\$271,659	\$171,955

For the Year Ended December
31, 1985

Accumulated Depreciation of			
Electric Plant			
Production	\$976,360	\$150,505	\$-
Transmission	331,297	29,164	-
Distribution	570,654	60,769	-
General	109,483	8,977	9,010
Miscellaneous	139,707	-	587
	2,127,501	249,415	9,597

Accumulated Amortization of			
Limited Term Plant	1,401	-	486
Accumulated Amortization of			
Nuclear Fuel	517,364	-	157,664
	2,646,266	249,415	167,747

Accumulated Depreciation of			
Water Plant	4,777	540	-
Accumulated Depreciation of			
Transit Plant	2,641	157	-
Accumulated Depreciation of			
Non-Utility Plant	5	-	2
Total Accumulated Depreciation	\$2,653,689	\$250,112	\$167,749

(TABLE CONTINUED)

Description	Other Changes Add Retirements	Balance End of (Deduct)	Year
For the Year Ended December 31, 1987			
Accumulated Depreciation of			
Electric Plant			
Production	\$7,787	\$ (4,829)	\$1,390,577
Transmission	2,918	(766)	415,437
Distribution	17,332	880	716,923
General	10,200	(324)	143,145
Miscellaneous	-	4,293	166,948
	38,237	(746)	2,833,030

Accumulated Amortization of			
Limited Term Plant	-	-	2,788
Accumulated Amortization of			
Nuclear Fuel	-	-	1,024,099
	38,237	(746)	3,859,917

Accumulated Depreciation of			
Water Plant	223	-	6,043
Accumulated Depreciation of			
Transit Plant	62	-	2,608

Accumulated Depreciation of Non-Utility Plant	78	177	181
Total Accumulated Depreciation	\$38,600	\$ (569)	\$3,868,749

For the Year Ended December
31, 1986

Accumulated Depreciation of Electric Plant			
Production	\$36,262	\$ (21,811)	\$1,229,392
Transmission	1,747	116	388,401
Distribution	21,548	(134)	660,996
General	9,596	(230)	129,043
Miscellaneous	-	21,065	161,755
	69,153	(994)	2,569,587

Accumulated Amortization of Limited Term Plant	-	-	2,373
Accumulated Amortization of Nuclear Fuel	-	-	835,385
	69,153	(994)	3,407,345

Accumulated Depreciation of Water Plant	86	-	5,690
Accumulated Depreciation of Transit Plant	60	-	2,539
Accumulated Depreciation of Non-Utility Plant	-	9	19
Total Accumulated Depreciation	\$69,299	\$ (985)	\$3,415,593

For the Year Ended December
31, 1985

Accumulated Depreciation of Electric Plant			
Production	\$2,005	\$ (126)	\$1,124,734
Transmission	598	32	359,895
Distribution	15,067	(116)	616,240
General	10,823	224	116,871
Miscellaneous	-	(476)	139,818
	28,493	(462)	2,357,558

Accumulated Amortization of Limited Term Plant	-	-	1,887
Accumulated Amortization of Nuclear Fuel	-	-	675,028

28,493 (462) 3,034,473

Accumulated Depreciation of			
Water Plant	91	-	5,226
Accumulated Depreciation of			
Transit Plant	241	-	2,557
Accumulated Depreciation of			
Non-Utility Plant	-	-	7

Total Accumulated Depreciation \$28,825 \$ (462) \$3,042,263

[HARDCOPY PAGE 41]

DUKE POWER COMPANY

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(DOLLARS IN THOUSANDS)

Description	Charged Balance to Costs Beginning and of Year	Expenses	Deductions	Balance End of Year
For the Year Ended December 31, 1987				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts	\$3,867	\$8,172	\$8,329 (1)	\$3,710
Other Reserves				
Operating Reserves (3)	\$31,688	\$10,844	\$4,972 (2)	\$37,560
For the Year Ended December 31, 1986				
Reserves Deducted from Assets on Balance Sheet				
Provision for Uncollectible Accounts	\$4,004	\$6,074	\$6,211 (1)	\$3,867
Other Reserves				
Operating Reserves (3)	\$24,427	\$13,579	\$6,318 (2)	\$31,688
For the Year Ended December 31, 1985				
Reserves Deducted from Assets on Balance				

Sheet				
Provision for				
Uncollectible				
Accounts	\$4,030	\$5,098	\$5,124 (1)	\$4,004
Other Reserves				
Operating Reserves (3)	\$19,925	\$6,580	\$2,078 (2)	\$24,427

(1) Uncollectible accounts written off, net of recoveries.

(2) Entries represent payments primarily for injuries and damages in North Carolina and South Carolina.

(3) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits and Other Liabilities," in the Balance Sheets.

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Year Ended December 31

1987 1986 1985

(Dollars in Thousands)

Taxes, other than payroll and income taxes:			
Real and personal property	\$50,269	\$53,348	\$41,606
State and city franchise	85,137	76,647	67,058
Other	6,589	6,289	6,504
Total	\$141,995	\$136,284	\$115,168

SEC ONLINE, INC.

EXHIBIT INDEX

NUMBER	DESCRIPTION	PAGE
4-B-58	-Supplemental Indenture, dated as of October 1, 1987, supplementing said Mortgage.	(*)
11	-COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE	53
12	-Computation of Ratio of Earnings to Fixed Charges.	54
24	-Consent of Independent Auditors.	55

(*) SEC ONLINE NOTE: IN ORDER TO PROVIDE FASTER TURNAROUND OF THE PRIMARY DOCUMENTS, EXHIBITS (OTHER THAN THE COMPUTATIONS OF EARNINGS PER SHARE, LIST OF SUBSIDIARIES, AND CONSENT OF INDEPENDENT PUBLIC ACCOUNTS) ARE ENTERED ON A SEPARATE REPORT. REFER TO MAIN MENU (LIST OF REPORTS) TO ACCESS THESE EXHIBITS.

[HARDCOPY PAGE 42]

EXHIBIT 11

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE-(Unaudited)

This calculation is submitted in accordance with Regulation S-K under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

Year Ended December 31

1987	1986	1985

(Dollars in Thousands)
except per share figures)

Fully Diluted:

Earnings applicable to common

stock(1)	\$445,934	\$409,067	\$376,681

Add: Dividends on Preference

Stock, 6 3/4%

Convertible Series AA	216	263	331

Earnings as adjusted for

computation	\$446,150	\$409,330	\$377,012

Average common shares

outstanding - twelve months

(thousands)	101,250	101,220	101,178

Add: Common shares required

for conversion of Preference

Stock, 6 3/4% Convertible
Series AA, \$100 par, 500,000

shares authorized (30,006

shares outstanding as of

December 31, 1987)(2)	126	149	191

Common shares as adjusted for

computation	101,376	101,369	101,369

Fully diluted earnings per share	\$4.40	\$4.04	\$3.72

- (1) These figures agree with the related amounts in the Statements of Income.
- (2) The conversion price used to convert the Preference Stock, 6 3/4% Convertible Series AA, into shares of common stock was \$23.89.

EXHIBIT 12

DUKE POWER COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(DOLLARS IN THOUSANDS)

Year Ended December 31

	1983	1984	1985
Earnings Before Income Taxes	\$710,538	\$927,645	\$807,397
Fixed Charges	288,992	288,739	281,195
Total	\$999,530	\$1,216,384	\$1,088,592

Fixed Charges			
Interest on long-term debt	\$271,115	\$275,193	\$265,720
Interest on short-term loans	2,896	-0-	-0-
Other interest	7,120	3,075	3,927
Amortization of debt discount, premium, and expense	1,234	1,327	1,625
Interest component of rentals	6,627	9,144	9,923

Fixed Charges	\$288,992	\$288,739	\$281,195

Ratio of Earnings to Fixed Charges	3.46	4.21	3.87

(TABLE CONTINUED)

Year Ended December 31

	1986	1987
Earnings Before Income Taxes	\$880,284	\$878,886
Fixed Charges	269,991	252,129

Total	\$1,150,275	\$1,131,015
Fixed Charges		
Interest on long-term debt	\$249,313	\$232,795
Interest on short-term loans	-0-	-0-
Other interest	5,766	3,855
Amortization of debt discount, premium, and expense	3,191	4,572
Interest component of rentals	11,721	10,907
Fixed Charges	\$269,991	\$252,129
Ratio of Earnings to Fixed Charges		
	4.26	4.49

[HARDCOPY PAGE 44]

EXHIBIT 24

CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statement Nos. 33-15183, 33-15184 and 33-19274 on Form S-3 and in Post-Effective Amendment No. 6 to Registration Statement No. 2-72172 on Form S-8 of our opinion (which is qualified as set forth therein), dated February 12, 1988, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1987.

DELOITTE HASKINS & SELLS

Charlotte, North Carolina
March 28, 1988

LENGTH: 29796 words

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LANGUAGE: ENGLISH

Return to List

7 of 8 DOCUMENTS

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10-K

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DOCUMENT-DATE: 12/31/88

DUKE POWER CO
TICKER-SYMBOL: DUK EXCHANGE: NYS

422 SOUTH CHURCH STREET
CHARLOTTE, NC 28242
704-373-4011

INCORPORATION: NC

COMPANY-NUMBER: FORTUNE NUMBER: U024
FORBES NUMBER: SA199
CUSIP NUMBER: 264399106
DUNS NUMBER: 00-699-6052
COMMISSION FILE NO.: 1-4928
IRS-ID: 56-0205520

SIC: SIC-CODES: 4911
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INDUSTRY-CLASS: ELECTRIC SERVICES

FYE: 12/31

AUDITOR: DELOITTE HASKINS & SELLS

STOCK-AGENT: MORGAN SHAREHOLDER SERVICES TRUST COMPANY

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SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-K
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
 OF THE SECURITIES EXCHANGE ACT OF 1934

DUKE POWER COMPANY
 422 SOUTH CHURCH STREET
 CHARLOTTE, NC 28242
 (704) 3734011

FOR FISCAL YEAR ENDED: 12/31/88
 COMMISSION FILE NUMBER: 1-4928

STATE OF INCORPORATION: NC
 IRS EMPLOYER I.D.: 56-0205520

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NAME OF EACH EXCHANGE	
TITLE OF EACH CLASS	ON WHICH REGISTERED
COMMON STOCK, WITHOUT PAR VALUE	NEW YORK STOCK EXCHANGE
PREFERRED STOCK, PAR VALUE \$100	NEW YORK STOCK EXCHANGE
8.70% SERIES F	NEW YORK STOCK EXCHANGE
8.20% SERIES G	NEW YORK STOCK EXCHANGE
7.80% SERIES H	NEW YORK STOCK EXCHANGE
8.28% SERIES K	NEW YORK STOCK EXCHANGE
8.84% SERIES M	NEW YORK STOCK EXCHANGE
8.84% SERIES N	NEW YORK STOCK EXCHANGE
PREFERENCE STOCK, PAR VALUE \$100	NEW YORK STOCK EXCHANGE
6 3/4% CONVERTIBLE SERIES AA	NEW YORK STOCK EXCHANGE
FIRST AND REFUNDING MORTGAGE BONDS	NEW YORK STOCK EXCHANGE
7 3/8% SERIES B DUE 2001	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2002	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2003	NEW YORK STOCK EXCHANGE
8 1/8% SERIES B DUE 2003	NEW YORK STOCK EXCHANGE
9 3/4% SERIES DUE 2004	NEW YORK STOCK EXCHANGE
9 1/2% SERIES DUE 2005	NEW YORK STOCK EXCHANGE
8 3/4% SERIES DUE 2006	NEW YORK STOCK EXCHANGE
8 1/8% SERIES DUE 2007	NEW YORK STOCK EXCHANGE
9 3/8% SERIES DUE 2008	NEW YORK STOCK EXCHANGE
10 1/8% SERIES DUE 2009	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NAME OF EACH EXCHANGE
TITLE OF EACH CLASS ON WHICH REGISTERED
PREFERRED STOCK, PAR VALUE
\$100

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL
REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH
SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS);
AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90
DAYS.

YES X. NO .

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1988

: The following index is part of the original document. Page
numbers have been kept for your convenience in locating data referred
to within text and are identified as [HARDCOPY PAGE #] in the upper
left-hand corner of each page. To access these pages, refer to SEC
Online's Table of Contents

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[HARDCOPY PAGE 1]

DUKE POWER COMPANY

PART I.

ITEM 1. BUSINESS.

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,500,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1988,

the Company's electric revenues amounted to approximately \$3.6 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011). In November 1988, the Company purchased all of the stock of Nantahala Power and Light Company. The statistics presented herein do not include this subsidiary. (See "Energy Requirements and Capability.")

Service Area

The Company supplies electric service directly to approximately 1,565,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Other Catawba Joint Owners). All constituent entities of the Other Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$495 million of the Company's revenues for 1988, representing 14% of electric revenues and 43% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1988, its sources of electric energy for 1988, and certain information presently projected for 1989:

Generation	
Generating Capability-	KWH
KW (a)	(millions)
Actual	Projected

Source	December 31, 1988	December 31, 1989	Actual 1988
Coal	6,428,000	6,720,000	23,930
Nuclear (b)	7,054,000	7,054,000	47,934
Hydro and other	2,051,000	2,051,000	434
Total (b)	15,533,000	15,825,000	72,298
Less: Other Catawba Joint Owners' share		12,166	
Plus: Purchases from Other Catawba Joint Owners		10,244	
Purchased power and net interchange		437	
Total		70,813	

(footnotes on next page)

[HARDCOPY PAGE 2]

(a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.

(b) Nuclear capability and related generation for 1988 and projected for 1989 give no effect to the joint ownership of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")

In 1987 the Company entered into a bulk power sale agreement to provide Carolina Power & Light Company with 400 megawatts of capacity for a six year period beginning in 1992. This agreement is subject to regulatory approval.

The Company's purchase of Nantahala Power and Light Company (NP&L) from the Aluminum Company of America was closed on November 17, 1988, following approval by both the North Carolina Utilities Commission (NCUC) and the Federal Energy Regulatory Commission (FERC) earlier in the year. The purchase price, determined by the net book value of NP&L stock at the time of closing, was \$30 million. NP&L, which operates 11 hydroelectric stations and buys supplemental power to provide service to its 43,000 mostly residential customers located in five counties in western North Carolina, will operate as a separate subsidiary of the Company. Upon completion of a transmission line between the two systems, the Company will supply supplemental power to NP&L under the

terms of an interconnect agreement which has been approved by FERC. The Company has received approval from The Public Service Commission of South Carolina (PSC) to build such transmission line. Certain intervenors have filed complaints, which are still pending, concerning the transmission line with the NCUC.

According to industry statistics through 1987, the Company ranked first in the nation for the last 14 consecutive years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that individual units at Belevs Creek Steam Station and Marshall Steam Station ranked as fourth, fifth, sixth and seventh most efficient in the nation in 1987. Statistics compiled by the Nuclear Regulatory Commission (NRC) on multi-unit nuclear plants indicate that the McGuire, Catawba and Oconee Nuclear Stations were ranked first, second and fifth, respectively, in efficiency in the nation among pressurized water reactor nuclear facilities.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On August 18, 1988, the Company experienced its all-time peak load of 13,618,000 KW during unusually hot weather. The 1988-1989 winter peak load of 12,560,000 KW occurred on February 10, 1989 during a relatively mild winter. The 1987-1988 winter peak load of 12,728,000 KW occurred on January 27, 1988. The 1987 summer peak load of 12,691,000 KW occurred on July 23, 1987. The 1986-1987 winter peak load of 11,451,000 KW occurred on January 27, 1987. The Company currently forecasts a 2.6% compound annual growth in peak load through 2002.

Rate Matters

The NCUC and PSC must approve the Company's rates for retail sales within the respective States. FERC must approve the Company's rates for sales to wholesale customers. Constituent entities of NCMPSA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company.

Rate requests filed by the Company in 1986 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 2 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all cost related to Catawba, although certain non-fuel purchased power costs with associated carrying charges will be recovered on a levelized basis. (See Note 3, "Notes to Consolidated Financial Statements.")

In the Company's most recent general rate case, the NCUC allowed a jurisdictional rate of return on common equity of 13.20% and the PSC allowed a jurisdictional rate of return on common equity of 13.00%.

[HARDCOPY PAGE 3]

The Company reduced retail rates by 2.3% on January 1, 1987, and by an additional 3% on January 1, 1988. These reductions recognize the lower corporate income tax rate included in the Tax Reform Act of 1986. These decreases have been approved by the NCUC and PSC.

In July 1987 FERC approved a 3.56% increase in the Company's wholesale jurisdiction, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A rate reduction was granted in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

The Company canceled certain nuclear projects in prior years, including the Cherokee Nuclear Station, citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation. The NCUC and the PSC have authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station in recent rate proceedings. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. (See Note 11, "Notes to Consolidated Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the NCUC to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the NCUC's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue was again contested in the appeal of the 1986 rate case. The parties also challenged the NCUC's decision on the rate of return allowed on the Company's common equity, the adoption of the Company's actual capital structure for ratemaking purposes, and inclusion of subsidiary investments in the Company's capital structure for ratemaking purposes. The Court affirmed the NCUC's decision on all questions raised with the exception of the allowed rate of return. The Court held that the NCUC's conclusion regarding the appropriate rate of return on common equity was not supported by adequate factual findings and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40% to 13.20%, required refunds of approximately \$18 million, plus interest, and reduced rates to reflect the lower rate of return on common equity. The order is subject to further appeal.

On July 28, 1987, FERC granted a petition made by the Other Catawba Joint Owners to exclude costs of abandoned plants from their supplemental power rates affirming their contention that these costs were not a part of the Catawba contracts. The Company appealed the

order to the courts which upheld the FERC order in January 1989. The order had a one-time impact on 1988 earnings of \$4.6 per share.

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The NCUC ordered the Company to follow these procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over-or under-recovery of fuel costs was challenged in the North Carolina courts. In 1987 North Carolina adopted legislation assuring the legality of such adjustments, which currently contains a sunset provision effective July 1, 1991.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Energy Management

The Company currently is engaged in a comprehensive energy management program designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area and increase off-peak sales. Peak reduction programs include, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers' consent) of residential electric water heaters and air conditioners during peak demand periods and

[HARDCOPY PAGE 4]

time of-day pricing to a limited number of customers. The current and planned aspects of such programs are designed to reduce the growth in peak demand by approximately 5,434,000 KW in the summer on 1999. Of this amount, 913,500 KW will be available to enhance generating reserve margins through the ability to interrupt end-use loads on an emergency basis.

To make maximum use existing production capacity while minimizing the need to add new capacity, the Company is promoting off-peak sales programs. These programs include promotion of all-electric homes using high efficiency electric heat pumps and outdoor lighting as well as commercial and industrial heating and heat recovery systems, all designed to contribute high load factor sales and/or increase seasonal and daily off-peak sales.

Through 1992, the Company estimates a minimum reserve margin of

approximately 15% of its anticipated peak load requirements. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rates), changing regulatory and environmental standards (see "Regulation - Environmental Matters") and other factors.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station owned by the Other Catawba Joint Owners, for each of 1989, 1990 and 1991 and for the three-year period 1989-1991, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1989	1990	1991	Total
Generation	\$396	\$425	\$360	\$1,181
Transmission	63	48	55	166
Distribution	279	298	311	888
Other	130	144	125	399
Total	\$868	\$915	\$851	\$2,634
Nuclear Fuel	\$189	\$165	\$180	\$534

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

The Company has experienced higher costs of construction of new facilities as a result of recurring increases in the costs of materials and labor, and increasing capital commitments attributable to more stringent regulatory requirements. However, the Company believes that in recent years it has been able to construct generating units at a lower cost per KW than generally experienced by other utilities for units of comparable type and vintage. The construction cost per installed KW for the Catawba Nuclear Station, Unit 2 of which began commercial operation in August 1986, was \$1,560 at the date of

commercial operation.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, 1,065 MW pumped-storage facility in Oconee County, South Carolina. Units 1 and 2 are scheduled for operation in 1992 and Units 3 and 4 are to be completed in 1993. As of December 31, 1988, the Company had incurred \$461 million of the total estimated cost of \$1.1 billion, with construction costs of \$1,045 per installed KW anticipated for this facility.

[HARDCOPY PAGE 5]

The Company has no commitment to construct new generating facilities beyond the completion of Bad Creek. To assure a reliable supply of power at a competitive price, the Company's options include the continued promotion of programs such as residential load control and interruptible industrial contracts, purchased power, construction of combustion turbine generators and a future pumped-storage plant.

The Company has undertaken a Plant Modernization Program to improve the efficiency and reliability of 15 older coal-fired generating units. These units represent 1,400,000 KW of generation, and once modernized, will help the Company meet anticipated future demand. The cost of this program is estimated to be approximately \$200-\$300 per installed KW, a fraction of the cost of building new plants. In 1989 two coal-fired generating units with generating capability of 292,000 KW will be returned to the system.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87 1/2% undivided interest in the Catawba Nuclear Station to the Other Catawba Joint Owners.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then contractually required by the respective participants and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange 50% of each Other Catawba Joint Owner's

retained capacity from its ownership interest in the Catawba units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next three years of the cost of purchased power from the Catawba Nuclear Station under contracts with the Other Catawba Joint Owners permitted by regulatory authorities will result in payments by the Company exceeding the amounts collected rates for such power by approximately \$205 million.

The Other Catawba Joint Owners and the Company are involved in various arbitration proceedings involving disputes under the interconnection agreements between such joint owners and the Company. (See Note 13 of "Notes to Consolidated Financial Statements.")

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

Generation by Source			
Year Ended December 31			
	1988	1987	1986
Coal	33.1%	33.8%	45.8%
Nuclear	66.3	64.1	53.0
Oil and Gas	-	-	-
All Fuels (cost based on weighted average)	99.4	97.9	98.8
Hydroelectric (*)	.6	2.1	1.2
	100.0%	100.0%	100.0%

(TABLE CONTINUED)

Average Cost per Million BTU on a Burned Basis

Year Ended December 31

	1988	1987	1986
Coal	175.79c	181.18c	189.64c
Nuclear	63.55	68.40	65.57
Oil and Gas	-	-	-
All Fuels (cost based on weighted average)	98.75	105.10	120.32
Hydroelectric (*)			

(*) Generating figures are net of that output required to replenish pumped storage units during off peak periods.

[HARDCOPY PAGE 6]

Coal. The Company obtains a large amount of its coal under long-term supply contracts with mining operators utilizing both underground and surface mining. The Company has on hand an adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment and price renegotiation provisions, have expiration dates ranging from 1993 to 2003. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities.

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

Uranium	Conver-	Enrich-	Fabrica-
Material	Material	Material	Material
Nuclear Station	Material	Service	Service

Oconee	1992	1992	1995	1995
McGuire	1992	1992	1995	1995
Catawba	1992	1992	1995	1995

Approximately two-thirds of the Company's requirements for uranium material is obtained from Rio Algom, Ltd., a Canadian supplier. Deliveries to the Company by such supplier, which began in 1981, are subject to permits and export licenses from various Canadian governmental agencies, including the Atomic Energy Control Board, the Department of Industry, Trade and Commerce and the Uranium Exports Review Panel.

The Company purchased uranium material during 1988 at an average price of approximately \$33 per pound. The Company's material nuclear supply contracts generally contain force majeure provisions and provide for price escalation under certain conditions.

The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required contracts with DOE for the disposal of nuclear fuel and began making payments in July 1983 for disposal costs of fuel currently being utilized. These payments combined with a one-time payment for disposal costs of fuel consumed prior to April 7, 1983 have totaled about \$340 million through 1988. The Company is of the opinion that it will have adequate storage capacity for spent fuel on its reactor sites until such time as DOE begins spent fuel.

In 1986 the U.S. District Court for the District of Colorado issued orders in a case, not involving the Company, prohibiting enrichment by DOE of uranium of foreign origin. The U.S. Court of Appeals for the Tenth Circuit stayed the prohibition while the District Court's orders were appealed to the Tenth Circuit. In July 1987, the Tenth Circuit issued a decision upholding the District Court orders, though the stay remained in effect pending an appeal to the U.S. Supreme Court. In 1988 the Supreme Court issued a decision which reversed the District Court's orders and remanded to the District Court several issues, including whether restrictions on enrichment by DOE of uranium of foreign origin are necessary to restore the viability of the U.S. uranium industry under the Atomic Energy Act. The plaintiffs in this case have since petitioned the District Court to dismiss the complaint, and the District Court has granted the petition.

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Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC

which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities. The Company is exempt from regulation as a holding company under the Public Utility Holding Company Act of 1935, except with respect to the acquisition of the securities of other public utilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1989-1990 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$32.5 million, including \$22 million in 1989 and \$10.5 million in 1990. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

AIR QUALITY. The Company operates its coal-fired generating stations in North Carolina under a revised regulation which prescribes mass emission limits for particulates for each boiler unit. Such regulation was issued by the North Carolina Environmental Management Commission (EMC) and was submitted to EPA for approval as a revision to the state implementation plan which approval was granted.

Presently, legislation relating to acid rain and air quality is being considered by Congress. If a bill is introduced and enacted, a substantial reduction in sulfur dioxide and nitrogen oxide emission limits for electric utility boilers might be required, resulting in substantial capital costs which the Company is unable to quantify at this time.

EPA has recently issued a decision involving Wisconsin Electric Power Company (Wisconsin) regarding the applicability of new source performance standards (NSPS) and prevention of significant deterioration (PSD) requirements to utility boilers undergoing major renovation projects. Wisconsin has appealed the decision to the United States Court of Appeals for the Seventh Circuit. The Company is performing maintenance and work on 15 units to which the Wisconsin decision may be applicable. While the Company believes that its units will not be subject to those requirements, it could incur substantial capital costs for installation of additional equipment for air quality control.

WATER QUALITY. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

OTHER ENVIRONMENTAL REGULATIONS. North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into

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the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act. The Company is a Potentially Responsible Party (PRP) at a Superfund site. The Company believes that it is a de minimis contributor and that its involvement will not be material.

Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA) establishes the Emergency Planning and Community Right-To-Know Act. Title III imposes requirements on a wide range of facilities to report information regarding the presence and release of specific chemicals to state and local emergency planning authorities. The Company has implemented procedures to comply with SARA.

GENERAL. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Nuclear Facilities. The Company's nuclear facilities are subject to continuing regulation by the NRC.

The Company maintains nuclear insurance coverage in three areas; liability coverage, property and decontamination coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the Other Catawba Joint Owners for certain expenses associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act as recently amended, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$7.2 billion. The maximum required private primary insurance of \$160 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently \$7.1 billion, which will be increased by \$63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to \$63 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$63 million amount is subject to indexing for inflation and is further subject to a surcharge of 5 percent if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the Other Catawba Joint Owners are obligated to assume their pro rata share assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides \$500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$62 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL) and purchases \$825 million of insurance through NEIL's excess property and decontamination liability insurance program. The Company has also purchased an additional \$400 million of excess property damage insurance through a pool of stock and mutual insurance companies. If losses ever exceed the accumulated funds available to NEIL for the excess property and decontamination liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to \$28 million. This amount is limited 7.5 times the Company's annual premium for \$500 million of excess property and decontamination liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other

premium assessments resulting from the NEIL policies applicable to Catawba.

In addition to the \$825 million in coverage through NEIL's excess property program and the \$400 million in excess coverage mentioned above, and in lieu of primary property coverage through

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NML, the Company has placed \$500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately \$1.2 million, \$2 million and \$1.9 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100 percent for 52 weeks and at 50 percent for an additional 52 weeks. If NEIL's losses for this program ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$21 million. This amount represents five times the Company's annual premium to NEIL.

The NRC promulgated a regulation in 1988 which will require an external mechanism to fund the liability to decommission the components of a nuclear unit subject to radioactive contamination. The minimum funding level mandated by the NRC is approximately \$100 million per unit in 1986 dollars to be funded by the end of the licensed life of the plant. The Company is required to submit a funding plan to the NRC by July 1990.

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power Act. Eleven developments on the Catawba-Watauga River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for the Keowee-Toxaway Project for a term expiring in 2016, covering the Keowee Hydro Station and the Jocassee Pumped Storage Station for a combined total of 769,500 KW, on the upper tributaries of the Savannah River in northwestern South Carolina. Additionally, the Company is the licensee for the Bad Creek Pumped Storage Project which is under construction. Bad Creek will use Lake Jocassee as its lower reservoir. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a

license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

Competition

The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems, rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

Non-Utility Activities

The Company is engaged in a wide variety of non-utility activities, most of which are organized in separate subsidiaries, including real estate development and forestry operations, marketing of electrical appliances, management of passive financial investments, developing and investing in

[HARDCOPY PAGE 10,11]

electric generation facilities outside the Company's service area, providing engineering and technical services, wholesale distribution of electrical supplies and equipment, and the marketing of computer products.

Employees

At December 31, 1988, the Company employed approximately 19,600 persons. About 2,100 electrical employees are represented by the International Brotherhood of Electrical Workers with which the Company has a labor agreement expiring on October 1, 1989.

In September 1988, the Company announced plans to conduct work activity reviews to identify changes in the organization which could be implemented to make the Company more efficient without compromising safety or service. In November the findings of the review were implemented and, as a result, the work force was reduced by approximately 6 percent.

Recent Developments

Certain parties appealed the 1986 NCUC rate order to the North Carolina Supreme Court which affirmed the order in all respects with the exception of the allowed rate of return on common equity that was remanded for further proceedings. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40% to 13.20%, required refunds of approximately \$18 million, plus interest, and reduced rates to reflect the lower return on equity. The order is subject to further appeal.

On March 7, 1989, Unit 2 of the Company's McGuire Nuclear Station experienced a steam generator tube failure. The generator was immediately isolated and brought under control without additional damage. The Company is conducting an inquiry to determine the cause of the tube failure and is removing the damaged tube for metallurgical analysis. It is anticipated that this 1,129 MW unit will be returned to service in late April and that no material adverse impact on the financial condition of the Company is expected as a result of this incident.

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[PHOTO OMITTED: "Duke Power Service Area"]

[HARDCOPY PAGE 12]

DUKE POWER COMPANY

OPERATING STATISTICS

Year Ended December 31

	1988	1987	1986

Sources of Electric Energy

Millions of kilowatt-hours:

Generated - net output:

Coal	23,930	23,617	30,249
Nuclear (A)	47,934	44,810	35,044

Hydro	402	1,454	771
Oil and gas	32	(1)	14
Total generation	72,298	69,880	66,078
Purchased power and net interchange	437	5	(822)
Total output	72,735	69,885	65,256
Less: Other Catawba Joint Owners' share	12,166	11,961	6,261
Plus: Purchases from Other Catawba Joint Owners	10,244	10,872	5,953
Total sources of energy	70,813	68,796	64,948
Line loss and company usage	(4,614)	(4,045)	(4,435)
Total energy sales (B)	66,199	64,751	60,513

Average Cost Per Ton of Coal Burned	\$44.27	\$45.42	\$47.59
Electric Energy Sales Millions of kilowatt-hours:			
Residential	16,744	16,580	15,636
General service	13,634	13,026	12,312
Industrial			
Textile	11,134	11,236	10,595
Other	14,020	13,738	12,617
Wholesale and other energy sales	10,667	10,171	9,353
Total energy sales (B)(C)	66,199	64,751	60,513

Electric Revenue Thousands of dollars:			
Residential	\$1,205,471	\$1,226,529	\$1,088,886
General service	833,709	829,466	748,722
Industrial			
Textile	495,100	511,026	471,718
Other	651,420	661,736	593,407
Wholesale and other energy sales	446,368	459,182	426,882
Other electric revenues	(5,083)	17,845	71,318
Total electric revenues (C)	\$3,626,985	\$3,705,784	\$3,400,933

Number of Customers-End of Year

Residential	1,339,206	1,302,819	1,272,888
General service	210,122	202,482	195,248
Industrial			
Textile	1,424	1,408	1,355
Other	7,232	7,119	6,964
Wholesale and other energy sales	7,126	6,881	6,635
Total customers	1,565,110	1,520,709	1,483,090

Residential Customer

Statistics

Average number for year	1,327,452	1,292,293	1,259,655
Average annual use - KWH	12,614	12,830	12,413
Average annual billing	\$908.11	\$949.11	\$864.43

Average Annual Billed Revenue

Per KWH

Residential	\$.0720	\$.0740	\$.0696
General service	\$.0611	\$.0637	\$.0608
Industrial	\$.0456	\$.0470	\$.0459
Wholesale and other energy sales	\$.0418	\$.0451	\$.0456

(TABLE CONTINUED)

Year Ended December 31

1985 1984

Sources of Electric Energy

Millions of kilowatt-hours:

Generated - net output:

Coal	27,619	26,394
Nuclear (A)	33,700	32,632
Hydro	1,162	1,995
Oil and gas	13	-

Total generation 62,494 61,021

Purchased power and net interchange (1,742) (2,908)

Total output 60,752 58,113

Less: Other Catawba Joint Owners' share 3,827 -

Plus: Purchases from Other Catawba Joint Owners 3,769 -

Total sources of energy	60,694	58,113
Line loss and company usage	(4,636)	(3,714)

Total energy sales (B)	56,058	54,399

Average Cost Per Ton of Coal

Burned	\$48.66	\$49.58

Electric Energy Sales

Millions of kilowatt-hours:

Residential	14,241	14,493
General service	11,338	10,922
Industrial		
Textile	9,961	10,169
Other	11,876	11,652
Wholesale and other energy sales	8,642	7,163

Total energy sales (B)(C)	56,058	54,399

Electric Revenue

Thousands of dollars:

Residential	\$914,513	\$886,065
General service	642,006	593,351
Industrial		
Textile	420,817	409,635
Other	523,041	487,604
Wholesale and other energy sales	358,385	291,435
Other electric revenues	40,149	41,925

Total electric revenues (C)	\$2,898,911	\$2,710,015

Number of Customers-End of Year

Residential	1,236,156	1,199,718
General service	188,542	181,590
Industrial		
Textile	1,349	1,337
Other	6,894	6,680
Wholesale and other energy sales	6,516	6,385

Total customers	1,439,457	1,395,710

Residential Customer

Statistics

Average number for year	1,221,419	1,186,962
Average annual use - KWH	11,659	12,210
Average annual billing	\$748.73	\$746.50

Average Annual Billed Revenue

Per KWH

Residential	\$.0642	\$.0611
General service	\$.0566	\$.0543
Industrial	\$.0432	\$.0411
Wholesale and other energy sales	\$.0415	\$.0407

(A) Includes 100% of Catawba generation

(B) Excludes a portion of the energy sold to the Other Catawba Joint Owners (see "Business - Joint Ownership of Facilities").

(C) Does not reflect Nantahala Power and Light Company.

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EXECUTIVE OFFICERS OF THE COMPANY

NAME	POSITION	AGE	DATE
W. S. Lee (**)	Chairman of the Board and Chief Executive Officer	59	1982
D. W. Booth (**)	President and Chief Operating Officer and Director	64	1982
W. H. Grigg (**)	Executive Vice President, Customer Group and Director	56	1988
W. H. Owen (**)	Executive Vice President, Power Group and Director	62	1988
Steve C. Griffith, Jr. (**)	Senior Vice President and General Counsel and Director	55	1982
W. A. Coley	Senior Vice President, Power Delivery	45	1988
Henry L. Cranford	Senior Vice President, Customer Services	61	1988
Donald H. Denton, Jr.	Senior Vice President, Marketing and Rates	51	1982
R. B. Priory	Senior Vice President, General and Information Services	42	1988
James R. Bavis	Vice President, Human	49	1984

Resources

S. K. Blackley, Jr.	Vice President, Transmission and Distribution	56	1988
J. Kenneth Clark	Vice President, Corporate Communications	56	1981
Robert L. Dick	Vice President, Construction and Maintenance	61	1971
E. O. Ferrell, III	Vice President, Operation	44	1988
Donald E. Hatley	Vice President, Public Affairs	44	1988
John P. Holland	Vice President, Central Division	51	1988
F. Alfred Jenkins	Vice President, Western Division	44	1988
James C. Leathers	Vice President, Production Support	54	1988
John F. Lomax	Vice President, Northern Division	49	1980
Paul G. Martin	Vice President, Eastern Division	56	1982
Ted C. McMeekin	Vice President, Design Engineering	45	1988
John P. O'Keefe	Vice President, Taxes	57	1986
Richard J. Osborne	Vice President, Finance	38	1988
William O. Parker, Jr.	Vice President, Fossil Production	64	1982
William T. Robertson	Vice President, Procurement, Services and Materials	57	1988
William R. Stimart	Vice President, Regulatory Affairs	57	1979
George E. Stubbins	Vice President, Information Systems	48	1982
Hal B. Tucker	Vice President, Nuclear Production	60	1982
Fred E. West, Jr.	Vice President, Charlotte Division	52	1981
Sue A. Becht	Treasurer	46	1988
Lewis F. Camp, Jr.	Secretary and Associate General Counsel	60	1980
David L. Hauser	Controller	37	1987

(*) As of February 1989.

(**) Member of the Executive Committee.

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Executive officers are elected annually by the Board of Directors and

serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for John P. O'Keefe. Mr. O'Keefe was a partner of Deloitte Haskins & Sells serving as its National Director, Public Utility Tax Practice, for approximately ten years immediately prior to joining the Company as Vice President, Taxes, on July 1, 1986.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

ITEM 2. PROPERTIES.

The map on page 11 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V - Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. - "Construction Program - Facilities Under Construction".

ITEM 3. LEGAL PROCEEDINGS.

Reference is made to Note 13 of "Notes to Consolidated Financial Statements" for information relating to an appeal taken from a rate order previously obtained by the Company from the NCUC and arbitration proceedings with the Other Catawba Joint Owners.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the Company's security holders during the last quarter of 1988.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1988, there were approximately 120,277 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by the New York Stock Exchange Composite Transactions:

Common Stock	Dividends Per Share	Price Range	
		High	Low
1988 by Quarter			
Fourth	\$0.74	\$47 5/8	\$44 5/8
Third	0.74	46 1/4	42 5/8
Second	0.70	47 7/8	42 1/4
First	0.70	49	43
1987 by Quarter			
Fourth	\$0.70	\$50 1/4	\$40 1/8
Third	0.70	48 1/4	43 3/8
Second	0.67	46 3/8	39 3/8
First	0.67	51 3/4	45 1/4

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ITEM 6. SELECTED FINANCIAL DATA.

DUKE POWER COMPANY

SELECTED FINANCIAL DATA

Year Ended December 31

1988 1987 1986

(Dollars in thousands, except per share figures)

CONDENSED STATEMENTS OF INCOME

Electric revenues	\$3,626,985	\$3,705,784	\$3,400,933
Electric expenses	2,997,434	3,047,827	2,816,157
Electric operating income	629,551	657,957	584,776
Other income	46,211	72,902	127,880
Income before interest			

deductions	675,762	730,859	712,656
Interest deductions	227,631	230,661	244,822

Income before cumulative effect of change in accounting method	448,131	500,198	467,834

Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes	102,255		

Net income	550,386	500,198	467,834
Dividends on preferred and preference stocks	53,329	54,264	58,767

Earnings for Common Stock	\$497,057	\$445,934	\$409,067

RATIO OF EARNINGS TO FIXED CHARGES (SEC method) (a)	4.25	4.49	4.26

COMMON STOCK DATA

Shares of common stock			
-End of year (thousands)	101,272	101,259	101,236
-Average (thousands)	101,266	101,250	101,220
Per share of common stock			
Earnings (a)	\$4.91	\$4.40	\$4.04
Dividends	\$2.88	\$2.74	\$2.64
Book value-end of year	\$34.01	\$31.96	\$30.34
Market price - high-low	\$49-42 1/4	\$51 3/4-39 3/8	\$52-34 7/8
-end of year	\$46 1/4	\$42 7/8	\$45 1/4

TOTAL ASSETS	\$8,890,605	\$8,511,794	\$8,226,729

LONG-TERM DEBT	\$2,728,794	\$2,723,382	2,752,302

PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS	\$255,850	\$263,875	\$221,991

(TABLE CONTINUED)

Year Ended December 31

1985 1984

(Dollars in thousands,
except per share figures)

CONDENSED STATEMENTS OF INCOME

Electric revenues	\$2,898,911	\$2,710,015
Electric expenses	2,370,876	2,161,914
Electric operating income	528,035	548,101
Other income	163,821	162,795
Income before interest deductions	691,856	710,896
Interest deductions	254,263	249,565
Income before cumulative effect of change in accounting method	437,593	461,331
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes	-	-
Net income	437,593	461,331
Dividends on preferred and preference stocks	60,912	61,786
Earnings for Common Stock	\$376,681	\$399,545

RATIO OF EARNINGS TO FIXED CHARGES (SEC method) (a)

3.87 4.21

COMMON STOCK DATA

Shares of common stock		
-End of year (thousands)	101,194	101,153
-Average (thousands)	101,178	100,346
Per share of common stock		
Earnings (a)	\$3.72	\$3.98
Dividends	\$2.54	2.42
Book value-end of year	\$28.98	\$27.80
Market price-high-low	\$36 7/8-28 1/2	\$30 1/8-22 1/4
-end of year	\$35 3/8	\$29

TOTAL ASSETS \$8,024,163 \$8,018,818

LONG-TERM DEBT \$2,721,041 \$2,696,795

PREFERRED STOCKS WITH SINKING

FUND REQUIREMENTS \$277,012 \$285,426

(a) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS FINANCIAL CONDITION

Results of Operations

Earnings and Dividends

Earnings per share increased to \$4.91 in 1988 compared to \$4.40 in 1987.

Earnings per share for 1988 include \$1.01 per share for the effect of accruing unbilled revenues and a provision for the loss of \$.46 per share because of the court order excluding costs of abandoned plants from the other Catawba joint owners' supplemental power rates. (See s 1 and 13, "Notes to Consolidated Financial Statements.") The

total Company's earned return on average common equity, excluding these items, decreased from 14.2 percent in 1987 to 13.4 percent in 1988.

Higher kilowatt-hour sales billed, especially sales billed to general service customers, contributed to the increase in earnings per share. Comparative earnings per share were affected by stock market losses incurred in the fourth quarter of 1987. However, benefits for employees laid off after a work activity review completed in late 1988 reduced earnings approximately \$.15 per share. (See Note 12, "Notes to Consolidated Financial Statements.") Earnings were also reduced by an increase in nuclear and coal-fired operating and maintenance costs and inflation. Earnings per share increased over the past five years at an annual rate of 5 percent, to \$4.91 in 1988 from \$3.98 in 1984.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from \$2.42 in 1984 to \$2.88 in 1988, rising at an annual rate of 4 percent. Indicated annual dividends per share were \$2.96 in 1988, up 6 percent from 1987.

Revenues and Sales

Revenues billed to customers increased at an annual rate of 8 percent from 1984 to 1988 primarily because of higher kilowatt-hour sales and rate increases. Growth in economic activity in the Piedmont Carolinas has caused kilowatt-hour sales billed, including electricity delivered to the other joint owners of the Catawba Nuclear Station, to increase at a 6 percent annual rate from 1984 to 1988.

Kilowatt-hour sales billed for 1988, including deliveries to the other Catawba joint owners, increased 4 percent over 1987. Sales to general service customers, non-textile industrial customers and residential customers increased over 1987. Sales to general service and non-textile

industrial customers increased 5 and 2 percent, respectively, reflecting economic growth in the service area, while textile sales were relatively flat in 1988.

Operating Expenses

Non-fuel operating and maintenance expenses rose at an annual rate of 11 percent from 1984 to 1988. Factors contributing to this rise include increased maintenance at both nuclear and coal-fired stations, additional Nuclear Regulatory Commission requirements, inflation and the addition of nuclear units.

In 1988 "Net interchange and purchased power" was relatively stable when compared to 1987 primarily because there has been no change in the leveled amount of purchased capacity costs recorded associated with the Catawba Nuclear Station. Purchased power agreements with the other Catawba joint owners resulted in a significant increase in 1987 from 1986 primarily because of additional capacity and energy costs associated with the in-service operation of Catawba Unit 2 for the entire year of 1987. (See Note 3, "Notes to Consolidated Financial Statements.")

Fuel expense was relatively stable from 1984 through 1986. Higher production requirements were offset by a change in the generation mix because of the addition of nuclear units, primarily McGuire Unit 2, and by satisfying increased energy needs through purchased power agreements with the other Catawba joint owners.

Fuel expense decreased in 1987, primarily because of an improved generation mix coupled with satisfying a more significant portion of energy requirements through power purchased from the other Catawba joint owners. Fuel expense was relatively flat in 1988 when compared to 1987 primarily

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because of declining fuel prices which were partially offset by increased production, primarily coal-fired generation, required to meet a higher level of demand.

In September 1988 the Company announced plans to conduct work activity reviews to identify changes in the organization which could be implemented to make the Company more efficient without compromising safety or service. In November the findings of the review were implemented and, as a result, the work force was reduced approximately 6 percent, and other organizational changes were made. There was a one-time impact on earnings of approximately \$15 million which was the result of special termination benefits for affected employees.

Other Income

Allowance for funds used during construction (AFUDC) represented 14 percent of earnings for common stock in 1988, decreasing from an average of 20 percent for 1984 through 1987. The decline in AFUDC over the past five years is a result of the completion of three nuclear units and the sale of a portion of Catawba Nuclear Station. AFUDC is expected to rise moderately over the next few years due to the growing investment in the Bad Creek Hydroelectric Station.

Included in "Other, net," the return on purchased capacity levelization represented 5 percent of total earnings compared to 3 percent in 1987. This change is due to the increasing cumulative effect of the Company's funding purchased power costs not currently collected in rates. (See Note 3, "Notes to Consolidated Financial Statements.")

Subsidiary and non-utility earnings were 6 percent of total Company earnings in 1988, compared to 4 percent in 1987. These earnings increased 55 percent from 1987 primarily because subsidiary earnings were depressed in 1987 due to stock market losses. Major components of non-utility earnings include appliance sales and service, and interest income.

Liquidity and Resources

Rate Matters

The Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988. These reductions recognized the lower corporate income tax rate included in the Tax Reform Act of 1986.

In July 1987 the Federal Energy Regulatory Commission approved a 3.56 percent increase in the Company's wholesale rates, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A 2.4 percent rate reduction was implemented in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

From 1984 through 1988, the Company was involved in various retail rate activities. During this period, rate changes included recovery of the Company's investment in McGuire Unit 2 and in both units of the Catawba Nuclear Station, and recovery of increased purchased power and operating expenses. Rate increases from 1984 through 1986 were partially offset by the rate rate reductions in 1987 and 1988 resulting from the lower corporate income tax rate. (For additional information on rate matters, see Note 2, "Notes to Consolidated Financial Statements.")

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies

regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a petition made by the other Catawba joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on 1988 earnings of \$.46 per share.

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Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission to the North Carolina Supreme Court on various grounds seeking revision of modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts. This issue was remanded to the Commission for further consideration and the Company cannot presently determine the ultimate resolution of this matter.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various arbitration proceedings pursuant to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters in arbitration may be material, they are items covered by the Agreements between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined; however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a materially adverse effect on its results of operations or financial position.

Capital Structure

The Company's capital structure at year-end was 50 percent common equity, 40 percent long-term debt, and 10 percent preferred and preference stocks. This capitalization structure is consistent with the Company's long-term financial goals.

To satisfy the requirements of various stock purchase plans, the Company purchases common stock market. The Company does not anticipate issuing common stock, other than for preference stock conversions, in the near term.

Additional Funds

During the years 1984-1987, the Company obtained additional funds of \$953 million from the sale of first and refunding mortgage bonds and \$148 million from the sale of preferred stock. These funds were obtained primarily for refinancing activities. In 1988 no additional funds were obtained from the sale of first and refunding mortgage bonds or preferred stock. However, the Company does anticipate issuing short-term debt either in 1989 or 1990. The Company has not issued any common stock for the past five years except to satisfy the requirements of its stock purchase plans and the conversion rights of preference stock.

Because of refinancings, the Company's embedded cost of long-term debt was lowered from 9.59 percent at year-end 1984 to 8.67 percent at year-end 1988. The embedded cost preferred stock declined from 8.75 percent at end of 1984 to 7.94 percent at end of 1988. The possibility of future refinancing activities will depend on market conditions and prevailing interest rates. (For additional information on the Company's capitalization, see Notes 7,8,9 and 10, "Notes to Consolidated Financial Statements.")

Mint Street Capital Associates, a general partnership of certain subsidiaries of Duke Power Company, was formed January 21, 1988, to provide central management for the investment of their funds. As of December 31, 1988, Duke Power Company and consolidated subsidiaries had approximately \$66 million in intermediate-term investments and \$90 million in short-term investments.

Fixed Charged Coverage

Fixed charges coverage, including the effect of the accounting change for unbilled revenues, decreased to 4.25 times for 1988 compared to 4.49 times in 1987 using the Securities and Exchange Commission method. This coverage is above the Company's goal of 4.00 times. The decreased coverage in 1988 is the result of reducing electric rates because of the lower corporate tax rate.

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Cash From Operations

In 1988 net provided by operating activities accounted for 79 percent of total cash from operating, financing and investing activities.

Approximately 12 percent of total cash from operating, financing and investing activities is being used for construction of the Bad Creek Hydroelectric Station.

The percentage of internally generated cash remains above the Company's goal of 50 percent.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$974 million and retirements of \$50 million resulted in a net increase in gross plant of \$924 million in 1988.

Since January 1, 1984, additions to property and nuclear fuel of \$3.7 billion and retirements of \$622 million have resulted in a net increase in gross plant of \$3.1 billion. Retirements during the period were unusually large because the Company sold a portion of the Catawba Nuclear Station.

Construction Expenditures

Plant construction costs for generating facilities and for nuclear fuel, including AFUDC, increased from \$390 million in 1984 to \$482 million in 1988. This increase is primarily the result of construction expenditures at the Bad Creek hydroelectric Station. It is expected that construction work in progress will continue to increase as the Bad Creek Hydroelectric Station nears completion.

Purchased Capacity Levelization

The rates established in the Company's retail jurisdictions permit the Company to recover its investment in both units of the Catawba Nuclear Station and the costs associated with the contractual purchases of capacity from the other Catawba joint owners. The contracts relating to the sales of portions of the station obligate the Company to purchase power from the other joint owners on an annually declining basis. In the North Carolina retail jurisdiction, regulatory treatment of these contracts provides revenue for the recovery of the capital costs and the fixed operating and maintenance costs of purchased capacity on a levelized basis. In the South Carolina retail jurisdiction, revenues are provided for the recovery of the capital costs and the fixed operating and maintenance costs are recovered in current rates.

These rate treatments require the Company to fund portions of the purchased power payments until these costs, including carrying charges, are recovered at a later date. The Company recovers the accumulated costs and carrying charges when the declining purchased capacity payments drop below the levelized revenues.

The levelized recovery of purchased power obligations under contracts with the other joint owners of the Catawba Nuclear Station will result in payments by the Company over the next three years exceeding the amounts collected in rates for such power by approximately \$205 million.

Future Construction Program

Because the Company has completed its nuclear construction program, construction costs for major generating facilities for 1989 through 1991 will constitute a smaller portion of the Company's total applications of cash than in the past five years. Projected construction costs and nuclear fuel costs for the next three years are \$2.63 billion and \$534 million, respectively.

Construction continued at Bad Creek Hydroelectric Station in 1988. Units 1 and 2 of the 1,065-megawatt pumped-storage facility are scheduled for completion in 1992, with Units 3 and 4 in 1993. By year-end \$461 million of an estimated \$1.1 billion had been spent.

Beyond the completion of Bad Creek, the Company has no commitment to place a new generating plant in service. The Company is currently reviewing its options for meeting the need for future peak energy demands.

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Significant Trends

While the Company maintained solid financial performance in 1988, the ability to maintain and improve this level of financial strength will depend on several factors. Future trends in the Company's earnings depend to a large extent on economic conditions in the Piedmont Carolinas and on the ability of the Company to maintain and further pursue efficiencies and cost reductions.

Duke Power Company's purchase of Nantahala Power and Light Company (NP&L) from the Aluminum Company of America (Alcoa) was closed on November 17, 1988, following the approval by both the North Carolina Utilities Commission and the Federal Energy Regulatory Commission earlier in the year. The purchase price, determined by the current net book value of NP&L stock, was \$30 million. NP&L will operate as a separate subsidiary of the Company. Upon completion of a transmission line between the two systems, the Company will supply supplemental power to NP&L under the terms of an interconnect agreement which has been approved by the Federal Energy Regulatory Commission. The Company has received approval from the Public Service Commission of South Carolina to build the transmission line. Certain intervenors have filed complaints, which are still pending, concerning the transmission line.

with the North Carolina Utilities Commission.

In 1987 the Company entered into a bulk power sale agreement to provide Carolina Power & Light Company (CP&L) with 400 megawatts of capacity for a six-year period beginning in 1992. This agreement is subject to regulatory approval.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

DUKE POWER COMPANY

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Financial Statements:

Consolidated Statements of Income for the Three Years Ended December 31, 1988.

Consolidated Statements of Cash Flows for the Three Years Ended December 31, 1988

Consolidated Balance Sheets - December 31, 1988 and 1987

Consolidated Statements of Capitalization - December 31, 1988 and 1987

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s to Consolidated Financial Statements

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Supplemental Financial Data (Unaudited)

Supplemental Schedules:

Schedule V - Property, Plant and Equipment for the Years Ended December 31, 1988, 1987 and 1986

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Schedule VIII - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1988, 1987 and 1986

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the Years Ended December 31, 1988, 1987 and 1986

Exhibit I - Computation of Fully Diluted Earnings Per Share (Unaudited)

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DUKE POWER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31

1988 1987 1986

(Dollars in Thousands)

ELECTRIC REVENUES (Notes 1
and 2)

\$3,626,985 \$3,705,784 \$3,400,933

ELECTRIC EXPENSES

Operation

Fuel used in electric
generation (Note 1) 626,191 624,814 726,151

Net interchange and purchased
power (Note 3) 587,145 581,175 378,377

Wages, benefits and materials 529,129 485,192 488,631

Maintenance of plant
facilities 383,307 375,085 291,164

Depreciation and amortization
(Notes 1 and 11) 417,503 411,182 327,844

General taxes 182,000 173,897 166,385

Income taxes (Notes 1 and 4) 272,159 396,482 437,605

Total electric expenses 2,997,434 3,047,827 2,816,257

Electric operating income 629,551 657,957 584,776

OTHER INCOME (Notes 1, 4 and
5)

Allowance for equity funds
used during construction 52,616 36,742 52,444

Other, net 16,978 18,002 50,689

Provision for abandonment
loss (Note 13) (18,999) - -

Income taxes - abandonment loss
(Note 4) 34,967 - -

Income taxes - other, net 3,547 (4,397) (7,416)

Income taxes - credit 20,102 22,555 32,163

Total other income	46,211	72,902	127,880

Income before interest deductions	675,762	730,859	712,656

INTEREST DEDUCTIONS

Interest on long-term debt	235,061	237,367	252,503
Other interest	7,979	3,853	5,764
Allowance for borrowed funds used during construction (credit) (Note 1)	(15,409)	(10,559)	(13,445)

Total interest deductions	227,631	230,661	244,822

INCOME BEFORE CUMULATIVE

EFFECT OF CHANGE IN ACCOUNTING METHOD	448,131	500,198	467,834

Cumulative effect of change in method of accounting for unbilled revenues, net of income taxes (Note 1)	102,255	-	-

NET INCOME	550,386	500,198	467,834

Dividends on preferred and preference stocks	53,329	54,264	58,767

EARNINGS FOR COMMON STOCK	\$497,057	\$445,934	\$409,067

COMMON STOCK DATA

Average shares outstanding (thousands)	101,266	101,250	101,220

Earnings per share before cumulative effect of change in accounting method	\$3.90	\$4.40	\$4.04

Cumulative effect of a change in method of accounting for unbilled revenues	1.01	-	-

Total earnings per share	\$4.91	\$4.40	\$4.04

Dividends per share	\$2.88	\$2.74	\$2.64

See Notes to Consolidated Financial Statements.

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DUKE POWER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31

1988 1987 1986

(Dollars in Thousands)

CASH FLOWS FROM OPERATING
ACTIVITIES

Net income \$ 550,386 \$ 500,198 \$ 467,834

Adjustments to reconcile net
income to net cash provided
by operating activities:

Non-cash items

Depreciation and amortization
(Notes 1 and 11) 632,866 616,956 477,423Deferred income taxes and
investment tax credit, net
of amortization (Note 4) (16,699) 82,623 161,596Allowance for equity funds
used during construction (52,616) (36,742) (52,444)Purchased capacity
levelization (Note 3) (95,738) (134,452) (77,258)Provision for abandonment
loss (Note 13) 81,999 - -Cumulative effect of a change
in method of accounting for
unbilled revenues, net of
income taxes (Note 1) (102,255) - -

Other net 62,970 46,367 (2,837)

(Increase) Decrease in

Accounts receivable (5,464) (6,360) (81,162)

Materials and supplies (4,203) (15,837) 43,366

Prepayments 1,630 1,323 (371)

Increase (Decrease) in

Accounts payable 41,935 42,396 (11,606)

Taxes accrued (19,010) (54,692) 51,359

Interest accrued and other
liabilities 7,061 (43) (45,496)

Total adjustments 532,476 541,539 462,570

Net cash provided by

operating activities	1,082,862	1,041,737	930,404

CASH FLOWS FROM INVESTING ACTIVITIES

Construction expenditures and in investment in nuclear fuel	(896,651)	(740,884)	(642,388)
Purchase of Nantahala Power and Light	(29,576)	-	-
Proceeds from sale of assets	-	23,496	-
Net change in investment securities	198,586	55,656	153,619

Net cash used in investing activities	(727,641)	(66,732)	(488,769)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from the issuance of First and refunding mortgage bonds	-	245,866	394,006
Pollution-control bonds	1,283	38,734	7,251
Nuclear fuel trusts	85,612	77,388	57,597
Preferred stock	-	49,563	98,612
Payments for the redemption of First and refunding mortgage bonds	-	(285,752)	(426,495)
Pollution-control bonds	-	(25,000)	-
Nuclear fuel trusts	(85,612)	(76,388)	(57,597)
Preferred stock	(8,025)	(50,848)	(104,775)
Term notes	-	-	(79,725)
Payments under capital lease obligation	(4,348)	(3,982)	(3,647)
Dividends paid	(344,964)	(331,691)	(325,991)

Net cash used in financing activities	(356,054)	(362,110)	(440,764)

NET INCREASE (DECREASE) IN

CASH	(833)	17,895	871
CASH AT BEGINNING OF YEAR		21,509	3,614
CASH AT END OF YEAR	\$ 20,676	\$ 21,509	\$ 3,614

See Notes to Consolidated Financial statements.

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DUKE POWER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

December 31

1988 1987

(Dollars in Thousands)

ELECTRIC PLANT

(At original cost - Notes 1,
3, and 13)

Electric plant in service \$10,659,521 \$10,072,552

Less accumulated depreciation
and amortization 4,323,916 3,859,917

Electric plant in service,

net 6,335,605 6,212,635

Construction work in progress 1,038,091 704,610

Total electric plant, net 7,373,696 6,917,245

OTHER PROPERTY AND
INVESTMENTSOther property-at cost (less
accumulated depreciation:1988-\$64,677; 1987 -
\$12,199) 106,843 73,657Other investments, primarily
marketable securities (Note

1) 115,957 166,594

Total other property and
investments 222,800 240,251

CURRENT ASSETS

Cash (Note 6) 20,676 21,509

Short-term investments 89,711 237,658

Receivables (less allowances
for losses 1988-\$3,690;

1987 - \$ 3,710) (Note 1) 456,554 332,120

Materials and supplies - at
average cost

Coal 83,405 86,923

Other 169,622 161,901

Prepayments 12,124 13,754

Total current assets	832,092	853,865
DEFERRED DEBITS		
Cancelled construction projects (Notes 11 and 13)	182,542	251,085
Purchased capacity costs (Note 3)	192,084	153,793
Debt expense (Note 1)	75,835	78,978
Other	11,556	16,577
Total deferred debits	462,017	500,433
TOTAL ASSETS	\$ 8,890,605	\$ 8,511,794

See Notes to Consolidated Financial Statements.

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DUKE POWER COMPANY

CONSOLIDATED BALANCE SHEETS (CONTD)

CAPITALIZATION AND LIABILITIES

December 31

1988 1987

(Dollars in Thousands)

CAPITALIZATION (See Consolidated Statements of Capitalization) \$6,856,723 \$6,651,528

CURRENT LIABILITIES

Accounts payable	264,988	198,011
Taxes accrued (Note 1)	26,652	49,590
Interest accrued	67,945	67,075
Other	57,334	51,143
Total	416,919	365,819
Current maturities of long-term debt and preferred stocks	51,343	59,579
Total current liabilities	468,262	425,398

ACCUMULATED DEFERRED INCOME

TAXES (Note 1 and 4)	1,117,383	1,028,427

DEFERRED CREDITS AND OTHER
LIABILITIES

Investment tax credit (Notes

1 and 4)	331,644	335,647

Other	116,593	70,794

Total deferred credits and

other liabilities	448,237	406,441

COMMITMENTS AND CONTINGENCIES

(Note 13)

TOTAL CAPITALIZATION AND

LIABILITIES	\$8,890,605	\$8,511,794

See Notes to Consolidated Financial Statements.

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DUKE POWER COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION

December 31

1988	1987

(Dollars in Thousands)

COMMON STOCK EQUITY (Note 7)

Common stock, no par,

150,000,000 shares

authorized; 101,272,023

shares outstanding for 1988

and 101,258,731 shares

outstanding for 1987	\$1,862,495	\$1,862,177

Retained earnings	1,581,901	1,374,093

Total common stock equity	3,444,396	3,236,270

PREFERRED AND PREFERENCE
STOCKS WITHOUT SINKING FUND

REQUIREMENTS (Note 8)	427,683	428,001

PREFERRED STOCK WITH SINKING

FUND REQUIREMENTS (Note 9)	255,850	263,875

LONG-TERM DEBT (Note 10)

First and refunding mortgage bonds	2,630,803	2,630,506
Capitalized leases	75,560	79,908
Nuclear fuel trusts	86,000	86,000
Unamortized debt discount and premium, net (Note 1)	(20,251)	(21,478)
Current maturities of long-term debt	(43,318)	(51,554)

Total long-term debt 2,728,794 2,723,382

TOTAL CAPITALIZATION \$6,856,723 \$6,651,528

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year Ended December 31

1988 1987 1986

(Dollars in Thousands)

BALANCE - Beginning of year \$1,374,093 \$1,210,229 \$1,071,814
ADD - Net income 550,386 500,198 467,834

Total 1,924,479 1,710,427 1,539,648

DEDUCT

Dividends
Common stock 291,635 277,427 267,224
Preferred and preference stocks 53,329 54,264 58,767
Capital stock transactions, net (2,386) 4,643 3,428

Total deductions 342,578 336,334 329,419

BALANCE - End of year \$1,581,901 \$1,374,093 \$1,210,229

See Notes to Consolidated Financial Statements.

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Revenues. To provide a better matching of revenues and expenses, the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues effective January 1, 1988. Prior to 1988, the Company recognized revenues concurrent with billings to customers. The cumulative effect of this accounting change, less income taxes of \$63,803,000, amounted to \$102,255,000 and included in 1988 income. Other than the recording of cumulative effect adjustment, the new accounting method had no material effect on net income for 1988. Had this new accounting method been in effect during 1987 or 1986, net income would not have been materially different from that shown in the accompanying financial statements. Unbilled revenues of \$166,767,000 are recorded as a component of "Receivables" on the Consolidated Balance Sheets as of December 31, 1988.

B. Additions to Electric Plant. The Company capitalizes all construction-related direct labor and materials as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized. The cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

C. Allowance for Funds Used During Construction (AFUDC). AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. AFUDC, a non-cash, non-operating item, is recognized as a cost of "Construction work in progress" (CWIP), with offsetting credits to "Other income" and "Interest deductions." After construction is completed, the Company is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.40 percent for 1988, 9.15 percent for 1987 and 9.63 percent for 1986.

D. Depreciation and Amortization. Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.61 percent for 1988 and 3.60 percent for 1987 and 1986. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a rate of 4 percent, which includes an allowance for decommissioning costs.

The Nuclear Regulatory Commission (NRC) issued a rulemaking in 1988 which will require an external mechanism to fund the liability to decommission the components of a nuclear unit subject to radioactive contamination. The minimum funding level mandated by the NRC is approximately \$100 million per unit in 1986 dollars to be funded by the end of the licensed life of the plant. The Company is required to submit a funding plan to the NRC by July 1990.

Amortization of nuclear fuel is included in "fuel used in electric generation" in the Consolidated Statements of Income. The amortization is recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company has entered into contracts with the Department of Energy (DOE) for the disposal of nuclear fuel. Payments made to the DOE for disposal costs are based on nuclear generation and are included in "Fuel used in electric generation" in the Consolidated Statements of Income.

E. Subsidiaries. The Company's consolidated financial statements reflect consolidation of all of its wholly owned subsidiaries, in accordance with a statement issued by the Financial Accounting Standards Board. All significant intercompany transactions have been eliminated in consolidation. Information for 1987 and 1986 has been restated to conform to the new presentation.

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

F. Income Taxes. The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its separate company taxable income or loss.

Income taxes are allocated to non-electric operations under "Other income" and to electric operating expense. The "Income taxes-credit" classified under "Other income" results from tax deductions of interest costs relating primarily to investments in CWIP, canceled construction projects, and short- and intermediate-term investments.

Deferred income taxes have been provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, levelization of purchased power costs, canceled construction projects and unbilled revenues. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

G. Unamortized Debt Premium, Discount and Expense. Expenses incurred

in connection with the issuance of presently outstanding long-term debt, and premiums and discounts relating to such debt, are being amortized over the terms of the respective issues. Also, any expenses or call premiums associated with refinancing higher-cost debt obligations are being amortized over the lives of the new issues of long-term debt.

H. Fuel Cost Adjustment Procedures. Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings.

All jurisdictions allow the Company to adjust for past over- or under-recovery of fuel costs. Therefore, the Company reflects in revenues the difference between actual fuel costs incurred and fuel costs recovered through rates.

The North Carolina Utilities Commission ordered the Company to follow these deferred accounting procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over- or under-recovery of fuel costs was challenged in the North Carolina courts. The North Carolina legislature ratified a bill in July 1987 assuring the legality of such adjustments in rates and required a study of the appropriateness of such adjustments. The bill has a sunset provision effective July 1, 1989.

I. Other Investments. Other investments, which consist primarily of marketable securities, are stated at the lower of cost or market value. At year-end, the cost of these securities approximated market value.

J. Consolidated Statements of Cash Flows. The Financial Accounting Standards Board issued a statement requiring the implementation of the Consolidated Statements of Cash Flows in 1988. The Consolidated Statements of Cash Flows replaces the Statements of Changes in Financial Position provided in previous years. Information for 1987 and 1986 has been restated to conform to the new presentation. For purposes of the Consolidated Statements of Cash Flows, the Company's investments in highly liquid debt instruments with a maturity of three months or less are included in cash flows from investing activities.

2. Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission must approve the Company's rates for sales to wholesale customers. However, sales to the other joint owners of the Catawba Nuclear Station, which previously represented a substantial

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

majority of the Company's wholesale revenues, are now set through contractual agreements (see Note 3).

Changes in retail rates implemented by the Company since January 1, 1986, include rate increases of 6.73 percent, effective October 1986, and 9.55 percent, effective November 1986, in the North Carolina and South Carolina retail jurisdictions, respectively. These increases provided for recovery of the Company's investment in Catawba Unit 2 and payments related to the purchased power contracts with the plant's other joint owners. The NCUC order has been remanded to the Commission (see 13).

The Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988. These reductions recognize the lower corporate income tax rate included in the Tax Reform Act of 1986.

3. Joint Ownership of Generating Facilities

The Company has sold interests in both units of the Catawba Nuclear Station. The other owners of portions of the Catawba Nuclear Station and supplemental information regarding their ownership are as follows:

Owner	Ownership Interest in the Station
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.125%
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%

Each participant has provided its own financing for its ownership interest in the plant.

The Company retains a 12.5 percent ownership interest in Catawba. As of December 31, 1988, \$497,700,000 of "Electric plant in service"

represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of \$86,100,000 associated with Catawba has been recorded as of year-end. The Company's share of operating costs of Catawba are included in the corresponding electric expenses in the Consolidated Statements of Income.

In connection with the joint ownership, the Company has entered into contractual agreements with the other joint owners to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements were effective beginning with the commercial operation of each unit. Unit 1 and Unit 2 began commercial operation in June 1985 and in August 1986, respectively. Such agreements were established for 15 years for NCMPA and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments are based on variable operating costs, a function of the generation output. Capacity payments are based on the fixed costs of the plant. The estimated purchased capacity obligations through 1993 are \$465,000,000 for 1989, \$445,000,000 for 1990, \$432,000,000 for 1991, \$426,000,000 for 1992 and \$413,000,000 for 1993.

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The North Carolina Utilities Commission and the Federal Energy Regulatory Commission granted the Company recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners over their contractual purchased power buyback periods. The Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over one-half their contractual purchased power buyback periods. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized. The portion of costs not recovered through current rates is being accumulated, and the Company is recording a carrying charge on the accumulated balance. The Company will start to recover the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1988, 1987 and 1986, the Company recorded purchased capacity and energy costs from the other joint owners of \$632,200,000, \$693,500,000 and \$515,800,000, respectively. These amounts, reduced by the cost of capacity purchased not reflected in

current rates, are included in "Net interchange and purchased power" in the Consolidated Statements of Income. As of December 31, 1988 and 1987, \$192,084,000 and \$153,793,000 net of income taxes, respectively, associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Consolidated Balance Sheets as "Purchased capacity costs".

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

4. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	1988	1987	1986
Income taxes related to electric expenses			
Current income taxes			
Federal	\$207,354	\$264,276	\$241,150
State	45,606	50,001	37,862
	252,960	314,277	279,012
Deferred taxes, net			
Excess tax over book depreciation	71,102	78,017	89,325
Catawba purchased a capacity cost net of amounts reflected in current rates	6,808	29,209	52,942
Amortization of canceled construction costs	(26,116)	(26,503)	(26,607)
Unbilled revenues	(13,965)	(6,133)	(889)
Cost of bond redemption	(2,075)	7,319	21,560
Capitalized taxes, employee benefits, etc.	(3,957)	3,110	17,023
Other	(5,699)	10,691	12,627
	26,098	95,710	165,981
Investment tax credit			
Deferred	11,812	10,604	16,801
Amortization of deferments (credit)	(18,711)	(24,109)	24,189

	(6,899)	(13,505)	(7,388)
Total income taxes related to electric expenses	272,159	396,482	437,605
Income taxes related to other income			
Income taxes - abandonment loss	(34,967)	-	-
Income taxes - other, net	(3,547)	4,397	7,416
Income taxes - credit	(20,102)	(22,555)	(32,163)
Total income taxes related to other income	(58,616)	(18,158)	(24,747)
Total income tax expense	\$213,543 (*)	\$378,324	\$412,858

Total current income taxes were \$230,242,000 for 1988, \$295,701,000 for 1987 and \$251,262,000 for 1986. Of these amounts, state income taxes were \$42,262,000 for 1988, \$46,073,000 for 1987 and \$33,779,000 for 1986. Total income taxes paid were \$226,400,000 for 1988, \$294,365,000 for 1987 and \$203,963,000 for 1986.

Total deferred income taxes were \$ (9,800,000) for 1988, \$96,128,000 for 1987, \$168,984,000 for 1986. Of these amounts, deferred state income taxes were \$4,070,000 for 1988, \$17,311,000 for 1987 and \$20,033,000 for 1986.

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1988	1987	1986
Income taxes on pretax income at the statutory federal rate of 34% - 1988, 39.95% - 1987, 46% - 1986	\$224,967	\$350,970	\$404,469
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(23,128)	(18,897)	(30,309)

Amortization of electric investment tax credit deferrals	(18,711)	(24,109)	(24,189)
AFUDC in book depreciation/amortization	31,883	36,520	43,679
Deferred income tax flowback at rates higher than statutory	(27,989)	(7,268)	(226)
State income taxes, net of federal income tax benefits	30,928	38,110	28,737
Other items, net	(4,407)	2,998	(9,303)
Total income tax expense	\$213,543 (*)	\$378,324	\$412,858

(*) Excludes income taxes of \$63,803,000 related to unbilled revenues. Such income taxes are included in "Cumulative effect of a change in method of accounting for unbilled revenues" on the Consolidated Statements of Income.

The Financial Accounting Standards Board has issued a statement that will require a change in the method of accounting for income taxes. While classification of certain items on the Consolidated Balance Sheets will change, there will be no material effect on the Company's results of operations. The Company is required to implement this accounting standard by 1990.

5. Other Income

For the years ended December 31, 1988, 1987 and 1986, the Company recorded investment income of \$19,397,000, \$6,850,000 and \$40,707,000, respectively (\$20,098,000, \$9,020,000 and \$35,453,000, net income taxes, respectively), as a component of "Other, net" in the Consolidated Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes - other, net" in the Company's Consolidated Statements of Income.

6. Short-Term Borrowings and Compensating-Balance Arrangements

The Company had unused short-term credit facilities of \$360,700,000 with 54 commercial banks as of December 31, 1988, and December 31, 1987, and \$306,150,000 with 56 commercial banks as of December 31, 1986. These facilities are on a fee basis and/or compensating-balance basis. Included in these credit facilities is \$95,000,000, of which \$40,000,000 is allocated to the 1984 issue and \$55,000,000 is allocated to the 1987 issues of annual tender, pollution-control revenue bonds. There were no short-term borrowings during 1988, 1987, or 1986.

In 1988 the Company maintained cash balance with 54 banks. As of

December 31, 1988, the Company had \$16,938,397 on deposit with these banks. Substantially all of the Company's cash balances are maintained to compensate banks for their services, even though the Company has no formal compensating-balance arrangements. To compensate banks for credit facilities, the Company had average balance requirements of \$1,305,500 for 1988 and 1987, and \$1,351,500 for 1986. The

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

Company retains the right of withdrawal with respect to the funds used for compensating-balance arrangements.

7. Common Stock and Retained Earnings

Common Stock

During the past three years, stock market purchases were used to satisfy the requirements of the Company's stock plans. For the next several years, the Company anticipates issuing new shares of common stock only for the conversion of preference stock. (See Note 8.)

As of December 31, 1988, a total of 4,676,792 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1988, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

8. Preferred and Preference Stocks Without Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1988 and 1987:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

The outstanding Preference Stock, 6 3/4% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at par.

The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1988, 1987 and 1986, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1988	3,176	13,292
1987	5,489	22,959
1986	10,032	41,970

In 1986 the Company issued 500,000 shares of Adjustable Rate Preferred Stock, Series A with a par value of \$100 per share. The dividend rate is adjusted quarterly based on a percentage of the highest rate among certain U.S. Treasury rates. However, in no event will the dividend rate for any dividend period be less than 5.50 percent per annum or greater than 10.50 percent per annum. This rate was 7.25 percent per annum at December 31, 1988.

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Preferred and preference stocks without sinking fund requirements as of December 31, 1988 and 1987, were as follows (dollars in thousands):

Rate/Series	Shares		1988	1987
	Year	Outstan- ding		
4.50%C	1964	350,000	\$35,000	\$35,000
5.72%D	1966	350,000	35,000	35,000
6.72%E	1968	350,000	35,000	35,000
8.70%F	1970	600,000	60,000	60,000
8.20%G	1971	600,000	60,000	60,000
7.80%H	1972	600,000	60,000	60,000
8.28%K	1977	500,000	50,000	50,000
8.84%M	1978	400,000	40,000	40,000
Adjustable Rate A	1986	500,000	50,000	50,000
6 3/4%, AA				
Convertible	1969	26,830	2,683	-
		30,006	-	3,001
Total			\$427,683	\$428,001

9. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1988 and 1987.

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

Preferred stocks with sinking fund requirements as of December 31, 1988 and 1987, were as follows (dollars in thousands):

Rate/Series	Shares		1988	1987
	Year Issued	Outstanding		
7.35% I	1973	480,000	\$48,000	\$ -
		504,000	-	50,400
8.20% J	1977	360,000	36,000	-
		380,000	-	38,000
8.375% L	1978	380,000	38,000	-
		400,000	-	40,000
8.84% N	1979	418,750	41,875	-
		435,000	-	43,500
7.875% P	1986	500,000	50,000	50,000
7.12% Q	1987	500,000	50,000	50,000

Less: Current
sinking fund
requirements

7.35% I	(2,400)	(2,400)
8.20% J	(2,000)	(2,000)
8.375% L	(2,000)	2,000
8.84% N	(1,625)	1,625

Total	\$255,850	\$263,875

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

The annual sinking fund requirements through 1993 are \$8,025,000 in 1989, 1990 and 1991 and \$9,525,000 in 1992; and \$11,025,000 in 1993. Some additional redemptions are permitted at the Company's options.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 108 percent of par values, plus accumulated dividends to the redemption date.

10. Long-Term Debt

First and refunding mortgage bonds outstanding as of December 31, 1988 and 1987, were as follows (dollars in thousands):

Series	Year Due	1988	1987
4 1/2%	1992	\$50,000	\$50,000
4 1/4% B	1992	50,000	50,000
4 1/2%	1995	40,000	40,000
8 1/2% B	1995	125,000	125,000
7 7/8%	1996	100,000	100,000
7 1/2% B	1997	100,000	100,000
5 3/8%	1997	72,600	72,600
6 3/8%	1998	68,500	68,500
7%	1999	56,075	56,075
8%	1999	64,739	64,739
8 1/2%	2000	69,244	69,244
8 5/8% B	2000	95,635	95,635
7 1/2%	2001	97,900	97,900
7 3/8% B	2001	38,050	38,050
7 3/4%	2002	78,100	78,100
7 3/8% B	2002	67,900	67,900
7 3/4%	2003	94,872	94,872
8 1/8% B	2003	98,050	98,050
9 3/4%	2004	95,623	95,623
9 1/2%	2005	\$92,800	\$92,800
8 3/8%	2006	96,850	96,850
8 1/8%	2007	119,500	119,500
9 3/8%	2008	120,610	120,610
10 1/8%	2009	145,050	145,050
12 5/8%	2015	62,916	62,916
10 1/8% B	2015	50,000	50,000
9%	2016	175,000	175,000
8 1/2%	2017	150,000	150,000

Pollution Control

9 1/8%	2013	77,000	77,000

1988 COPYRIGHT SEC ONLINE, INC., I

6.125% (1988)	2014	40,000	40,000
4.70% (1987)			
6.25% (1988)	2012	20,000	20,000
6 1/2% (1987)			
5.85% (1988)	2017	10,000	10,000
4.10% (1987)			
5.45% (1988)	2017	25,000	25,000
3.95% (1987)			
Less: Funds held in trust		(16,211)	(16,508)
Total		\$2,630,803	\$2,630,506

Substantially all electric plant was mortgaged of December 31, 1988.

Interest paid, net of amount capitalized, was \$222,102,000, \$227,557,000 and \$259,682,000 for the years ended December 31, 1988, 1987 and 1986, respectively.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1993 are \$43,318,000 in 1989, \$30,176,000 in 1990, \$28,184,000 in 1991, \$106,237,000 in 1992 and \$6,813,000 in 1993.

Annual maturities through 1993 include amounts relating to the \$86 million in outstanding obligations under the Company's two nuclear fuel trusts. The maturities are based on estimated fuel consumption. Instead of making cash payments, the Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

11. Canceled Construction Projects

The construction of the Cherokee and Perkins Nuclear Stations was canceled. All retail jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 13.)

As of December 31, 1988 and the 1987, the balances for these canceled projects, net of amortization, were \$296,269,000 and \$400,905,000, respectively (\$182,542,000 and \$251,085,000 net of income tax benefits, respectively).

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

12. Retirement Plan

The Company and its operating subsidiaries, with the exception of Nantahala Power and light Company which maintains its own retirement plans, have a non-contributory, defined benefit retirement plan covering substantially all their employees. The benefits are based on years of creditable service and the employees' average compensation based on the highest compensation during a consecutive sixty-month period. The benefits are reduced by a Social Security adjustment for employees age sixty-five and over and for early retirees with no creditable service prior to September 1, 1980. The Company's policy is to fund pension costs accrued.

The Company adopted the provisions of Financial Accounting Standards Board Statement No. 87 (SFAS 87), "Employers' Accounting for Pensions," as of January 1, 1987. The adoption of the new standards did not result in a material change in pension expense in that year. The new standards have been adopted prospectively, and related disclosures for previous years have not been restated.

A reconciliation of the funded status of the plan to the amounts recognized in the Consolidated Balance Sheets as of December 31, 1988 and 1987 is as follows (dollars in thousands):

	1988	1987
Projected benefit obligation:		
Vested benefits	\$ (528,776)	\$ (424,630)
Nonvested benefits	(30,852)	(36,293)
Accumulated benefit obligation	(559,628)	(460,923)
Effect of projected future compensation levels	(99,201)	129,474
Projected benefit obligation	(658,829)	(589,397)
Fair market value of plan assets, consisting primarily of short-term investments and cash equivalents, common stocks, real estate investments, and government and industrial bonds	703,269	649,261
Unrecognized net experience gain	(50,677)	(61,734)
Remaining unrecognized SFAS 87 transitional obligation	1,736	1,870
Accrued pension cost	\$ (4,501)	\$0

Net periodic pension cost for the years ended December 31, 1988 and 1987, included the following components (dollars in thousands):

	1988	1987
Service cost benefits earned during the year	\$25,442	\$26,707
Interest cost on projected benefit obligation	55,993	52,212
Actual return on plan assets	(72,465)	(43,000)
Amount deferred for recognition	6,815	(9,042)
Expected return on plan assets	(65,650)	(52,042)
Net amortization	(199)	(134)
Net periodic pension cost	\$15,586	\$27,011

Total Pension expense, including trustee fees, amounted to \$28,815,000 in 1986.

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 9.5 percent in 1988 and 1987, while the assumed increase in future compensation levels was 6.5 percent in 1988 and 1987. The expected long-term rate of return on plan assets used in determining pension cost for 1988 and 1987 was 10.0 percent and 8.5 percent, respectively.

During 1988, the Company conducted a work activity review which resulted in the elimination of approximately 1,200 positions. Special termination benefits and severance benefits, which amounted to approximately \$24,000,000 of non-plan costs, were provided to those employees that

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

were terminated. Also, as a result of the work activity review, the Company recorded a one-time net loss from terminations associated with

its retirement plan of \$4,501,000.

13. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs are \$2.63 billion and \$534 million, respectively, for 1989 through 1991. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

B. Nuclear Insurance

The Company maintains nuclear insurance coverage in three areas; liability coverage, property and decontamination coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the other joint owners of the Catawba Nuclear Station for certain expenses associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act as recently amended, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$7.2 billion. The maximum required private primary insurance of \$160 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently \$7.1 billion, which will be increased by \$63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to \$63 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$63 million amount is subject to indexing for inflation and is further subject to a surcharge of 5 percent if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of such assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides \$500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceeded its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$62 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL), and purchases \$825 million of insurance through NEIL's excess property and decontamination liability insurance program. The Company has also purchased an additional \$400 million of excess property damage insurance through a pool of stock and mutual insurance companies. If losses ever exceed the accumulated funds available to NEIL for the excess property and decontamination liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to \$28 million. This amount is limited to 7.5 times the Company's annual premium for \$500 million of excess property and decontamination liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba.

In addition to the \$825 million in coverage through Neil's property program and the \$400 million in excess coverage mentioned above, and in lieu of primary property coverage through

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DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

NML, the Company has placed \$500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately \$1.2 million, \$2 million and \$1.9 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100 percent for 52 weeks and at 50 percent for an additional 52 weeks. If NEIL's losses for this program ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$21 million. This amount represents five times the Company's annual premium to NEIL.

C. Other

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material

adverse effects on the results of operations or the financial position of the Company.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a petition made by other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of \$.46 per share.

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts. This issue was remanded to the Commission for further consideration and the Company cannot presently determine the ultimate resolution of this matter.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various arbitration proceedings pursuant to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters in arbitration may be material, they are items covered by the Agreements between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined, however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a materially adverse effect on its results of operations or financial position.

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INDEPENDENT AUDITORS' REPORT

Duke Power Company:

We have audited the accompanying consolidated financial statements of Duke Power Company and subsidiaries listed in the accompanying index on page 21. Our audit also comprehended the supplemental schedules of Duke Power Company and subsidiaries listed in the accompanying index on page 21. These financial statements and supplemental schedules are the

responsibility of the Company's management. Our responsibility is to express an opinion on the 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, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles. Also, in our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

As discussed in Note 1 to the consolidated financial statements, in 1988 the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues.

DELOITTE HASKINS & SELLS
Certified Public Accountants

Charlotte, North Carolina
February 10, 1989

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be

prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

DAVID L. HAUSER
Controller

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DUKE POWER COMPANY

SUPPLEMENTAL FINANCIAL DATA - (UNAUDITED)

Quarterly Financial Data

A summary of quarterly financial data for 1988 and 1987 is as follows (dollars in thousands, except per-share data):

	Second		
	First Quarter	Quarter	Third Quarter
1988 by quarter (a)			
Electric Revenues	\$917,358	\$829,999	\$1,029,452
Electric Operating Income	167,726	124,483	219,017
Income Before Cumulative			
Effect of Accrual of			
Unbilled Revenues	135,190	95,777	192,914
Cumulative Effect of Accrual			
of Unbilled Revenues-Net	102,255	-	-
Net Income	\$237,445	\$95,777	\$192,914

Earnings Per Share			
Before Cumulative Effect of			
Accrual of Unbilled			
Revenues	\$1.20	\$0.82	\$1.77
Cumulative Effect of Accrual			
of Unbilled Revenues-Net			
	1.01	-	-
Total	\$2.21	\$0.82	\$1.77

1987 by quarter			
Electric Revenues	\$912,580	\$857,750	\$1,036,685
Electric Operating Income	187,015	133,254	202,641
Net Income	139,682	102,763	165,013
Earnings Per Share	\$1.24	\$0.88	\$1.50

(TABLE CONTINUED)

	Fourth Quarter (b)	Total
1988 by quarter (a)		
Electric Revenues	\$850,176	\$3,626,985
Electric Operating Income	118,325	629,551
Income Before Cumulative		
Effect of Accrual of		
Unbilled Revenues	24,250	448,131
Cumulative Effect of Accrual		
of Unbilled Revenues-Net		
	-	102,255
Net Income	\$24,250	\$550,386

Earnings Per Share		
Before Cumulative Effect of		
Accrual of Unbilled		
Revenues	\$0.11	\$3.90
Cumulative Effect of Accrual		
of Unbilled Revenues-Net		
	-	1.01
Total	\$0.11	\$4.91

1987 by quarter		
Electric Revenues	\$898,769	\$3,705,758
Electric Operating Income	144,047	657,957
Net Income	92,740	500,198

Earnings Per Share \$0.78 \$4.40

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate changes and maintenance of electric generating units, especially nuclear units.

(a) Quarterly information for 1988 has been restated to reflect the accrual of unbilled revenues. (See Note 1, "Notes to Consolidated Financial Statements").

(b) The fourth quarter of 1988 includes the provision for abandonment loss and the cost of benefits for employees laid off after the work activity review. (See Notes 12 and 13, "Notes to Consolidated Financial Statements.")

[HARDCOPY PAGE 45]

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information for this item concerning directors of the Company is set forth in the sections entitled "Election of Directors" and "Information Regarding the Board of Directors" in the proxy statement of the Company relating to its 1989 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth under the section entitled "Executive Officers of the Company" in this annual report.

ITEM 11. EXECUTIVE COMPENSATION.

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1989 annual meeting of shareholders, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy

statement of the Company relating to its 1989 annual meeting of shareholders, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1989 annual meeting of shareholders, which is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

Consolidated Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Financial Statements

Consolidated Statements of Income for the Three Years Ended December 31, 1988

Consolidated Statements of Cash Flows for the Three Years Ended December 31, 1988

Consolidated Balance Sheets - December 31, 1988 and 1987

Consolidated Statements of Capitalization - December 31, 1988 and 1987

Consolidated Statements of Retained Earnings for the Three Years Ended December 31, 1988
s to Consolidated Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules

Schedule V - Property, Plant and Equipment for the Years Ended December 31, 1988, 1987 and 1986

Schedule VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1988, 1987 and 1986

Schedule VIII - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1988, 1987 and 1986

Schedule X - Supplementary Consolidated Income Statement Information for the Years Ended December 31, 1988, 1987 and 1986

Exhibit I - Computation of Fully Diluted Earnings Per Share (Unaudited)

[HARDCOPY PAGE 46]

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Exhibits

(a) - See Exhibit Index

(b) - Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1988 and the Employees' Stock Ownership Plan for the year ended December 31, 1988

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1988.

EXHIBIT 24

CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statement Nos. 33-15183, 33-15184 and 33-19274 on Form S-3 and in Post-Effective Amendment No. 7 to Registration Statement No. 2-72172 on Form S-8 of our report, dated February 10, 1989, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1988.

DELOITTE HASKINS & SELLS

Charlotte, North California
March 28, 1989

[HARDCOPY PAGE 48]

ITEM 14 (CONT'D)

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit

number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

Exhibit
Number

- 3-B -Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
- 3-B -Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
- 3-C -Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
- 3-D -Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock, Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-4).
- 3-E -Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).
- 3-F -Statement of Classification of Shares relating to the 7.875% Cumulative Preferred Stock, Series P (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-F).
- 3-G -Statement of Classification of Shares relating to the Adjustable Rate Cumulative Preferred Stock, Series A (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-G).
- 3-H -Statement of Classification of Shares relating to the 7.12% Cumulative Preferred Stock, Series Q (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-H).
- 3-I -By-Laws of registrant, as amended to date (filed with Form 10-K for the year ended December 31, 1986, as File No. 1-4928, as Exhibit 3-I).
- 4-B-1 -First and Refunding Mortgage from registrant to Guaranty

Trust Company of New York, Trustee, dated as of December 15, 1927, (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7 (a)).

- 4-B-2 -Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
- 4-B-3 -Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
- 4-B-4 -Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
- 4-B-5 -Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
- 4-B-6 -Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
- 4-B-7 -Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
- 4-B-8 -Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).
- 4-B-9 -Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).

[HARDCOPY PAGE 49]

Exhibit
Number

- 4-B-10 -Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).
- 4-B-11 -Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).

- 4-B-12 -Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(i)).
- 4-B-13 -Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-13).
- 4-B-14 -Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
- 4-B-15 -Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 31, 1954, as Exhibit 2-B-15).
- 4-B-16 -Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
- 4-B-17 -Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
- 4-B-18 -Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
- 4-B-19 -Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
- 4-B-20 -Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
- 4-B-21 -Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-20).
- 4-B-22 -Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
- 4-B-23 -Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
- 4-B-24 -Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No.

2-31304, effective January 21, 1969, as Exhibit 2-B-26).

4-B-25 -Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).

4-B-26 -Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).

4-B-27 -Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42).

4-B-28 -Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).

4-B-29 -Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).

[HARDCOPY PAGE 50]

Exhibit
Number

4-B-30 -Supplemental Indenture, dated as of December 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30).

4-B-31 -Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).

4-B-32 -Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32).

4-B-33 -Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).

4-B-34 -Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).

4-B-35 -Supplemental Indenture, dated as of May 1, 1974,

- supplementing said Mortgage (filed with Form S-7, File No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
- 4-B-36 -Supplemental Indenture, date as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
- 4-B-37 -Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
- 4-B-38 -Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
- 4-B-39 -Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
- 4-B-40 -Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
- 4-B-41 -Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).
- 4-B-42 -Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).
- 4-B-43 -Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-7, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).
- 4-B-44 -Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
- 4-B-45 -Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).
- 4-B-46 -Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 2-B-46).
- 4-B-47 -Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 2-B-47).

- 4-B-48 -Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-48).

[HARDCOPY PAGE 51]

Exhibit
Number

- 4-B-49 -Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-49).
- 4-B-50 -Supplemental Indenture, dated as of March 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-50).
- 4-B-51 -Supplemental Indenture, dated as of December 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-51).
- 4-B-52 -Supplemental Indenture, dated as of April 1, 1986, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-52).
- 4-B-53 -Supplemental Indenture, dated as of May 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-53).
- 4-B-54 -Supplemental Indenture, dated as of June 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-54).
- 4-B-55 -Supplemental Indenture, dated as of February 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-55).
- 4-B-56 -Supplemental Indenture, dated as of February 15, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-56).
- 4-B-57 -Supplemental Indenture, dated as of March 1, 1987, supplementing said Mortgage (filed with Form 10-K for the

year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-57).

- 4-B-58 -Supplemental Indenture, dated as of October 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1987, File No. 1-4928, as Exhibit 4-B-58).
- 10-A -Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
- 10-B -Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
- 10-C -Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-D -Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- (*) 12 -Computation of Ratio of Earnings to Fixed Charges.
- (*) 24 -Consent of Independent Auditors.
- (*) 25 -Auditor's letter regarding changing in accounting policy.

[HARDCOPY PAGE 47]

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte and State of North Carolina on the 28th day of March, 1989.

DUKE POWER COMPANY
(REGISTRANT)

BY: W. S. LEE
CHAIRMAN OF THE BOARD

Pursuant to the requirements of the Securities Exchange Act of 1934,

this report has been signed below by the following persons on behalf of
the registrant and in the capacities and on the date indicated.

SIGNATURE

W. S. LEE
CHAIRMAN OF THE BOARD
(PRINCIPAL EXECUTIVE OFFICER)
MARCH 28, 1989

R. J. OSBORNE
VICE PRESIDENT, FINANCE
(PRINCIPAL FINANCIAL OFFICER)
MARCH 28, 1989

DAVID L. HAUSER
CONTROLLER (PRINCIPAL
ACCOUNTING OFFICER)
MARCH 28, 1989

NAOMI G. ALBANESE
DIRECTOR
MARCH 28, 1989

ROBERT L. ALBRIGHT
DIRECTOR
MARCH 28, 1989

D. W. BOOTH
DIRECTOR
MARCH 28, 1989

CRANDALL C. BOWLES
DIRECTOR
MARCH 28, 1989

THOMAS H. DAVIS
DIRECTOR
MARCH 28, 1989

JOHN L. FRALEY
DIRECTOR
MARCH 28, 1989

ALESTER G. FURMAN III
DIRECTOR
MARCH 28, 1989

STEVE C. GRIFFITH, JR.
DIRECTOR

MARCH 28, 1989

W. H. GRIGG
DIRECTOR
MARCH 28, 1989

PAUL H. HENSON
DIRECTOR
MARCH 28, 1989

GEORGE R. HERBERT
DIRECTOR
MARCH 28, 1989

GEORGE DEAN JOHNSON JR.
DIRECTOR
MARCH 28, 1989

JAMES V. JOHNSON
DIRECTOR
MARCH 28, 1989

W. W. JOHNSON
DIRECTOR
MARCH 28, 1989

W. S. LEE
DIRECTOR
MARCH 28, 1989

MAX LENNON
DIRECTOR
MARCH 28, 1989

BUCK MICKEL
DIRECTOR
MARCH 28, 1989

REECE A. OVERCASH, JR.
DIRECTOR
MARCH 28, 1989

WARREN H. OWEN
DIRECTOR
MARCH 28, 1989

JAMES C. SELF
DIRECTOR
MARCH 28, 1989

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

LEWIS F. CAMP, JR.,
ATTORNEY-IN-FACT

SEC ONLINE INC.
SCHEDULE INDEX

NUMBER	DESCRIPTION	PAGE
V	PROPERTY, PLANT AND EQUIPMENT	50
VI	ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT	51
VIII	VALUATION AND QUALIFYING ACCOUNTS AND RESERVES	52
X	SUPPLEMENTARY CONSOLIDATED INCOME STATEMENT INFORMATION	52
[HARDCOPY PAGE 41]		

DUKE POWER COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements
For the Year Ended December 31, 1988			
Electric Plant in Service - At Original Cost			
Production	\$4,631,961	\$93,996	\$307
Transmission	1,092,584	27,882	2,536
Distribution	2,223,589	278,664	25,868
General	531,167	109,003	16,900
Miscellaneous	182,936	480	-

Nuclear Fuel	1,410,315	127,218	-
Total electric plant in service	10,072,552	637,243	45,611
Construction Work in Progress	704,610	333,481	-
Other Property - At Cost			
Water Plant	30,580	1,153	240
Transit plant	3,160	(15)	106
Total other property	33,740	1,138	346
Total plant	\$10,810,902	\$971,862	\$45,957

For the Year Ended December
31, 1987

Electric Plant in Service -
At Original Cost

Production	\$4,563,815	\$80,827	\$1,593
Transmission	1,075,343	22,561	2,013
Distribution	2,043,595	194,991	17,314
General	411,281	130,265	12,145
Miscellaneous	175,600	3,056	-
Nuclear Fuel	1,175,398	234,917	-

Total electric plant in service	9,445,032	666,617	33,065

Construction Work in Progress	601,064	127,042	-

Other Property - At Cost

Water plant	30,113	690	225
Transit plant	2,548	674	62

Total other property	32,661	1,364	287

Total plant	\$10,078,757	\$795,023	\$33,352

For the Year Ended December
31, 1986

Electric Plant in Service -
At Original Cost

Production	\$4,206,638	\$415,387 (1)	\$33,980
Transmission	1,040,301	36,226	3,127
Distribution	1,878,797	186,884	22,779
General	345,832	75,217	10,434
Miscellaneous	152,495	2,018	-

Nuclear Fuel	985,221	190,177	-
Total electric plant in service	8,609,284	905,909	70,320
Construction Work in Progress	817,350	(216,286)	(1)
Other Property - At Cost			
Water plant	28,362	1,841	90
Transit plant	2,609	-	61
Total other property	30,971	1,841	151
Total plant	\$9,457,605	\$691,464	\$70,471

(TABLE CONTINUED)

Description	Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1988		
Electric Plant in Service - At Original Cost		
Production	\$ (3,106)	\$4,722,544
Transmission	(3,169)	1,114,761
Distribution	1,183	2,477,568
General	(456)	622,814
Miscellaneous	885	184,301
Nuclear Fuel	-	1,537,533
Total electric plant in service	(4,663)	10,659,521
Construction Work in Progress	-	1,038,091
Other Property - At Cost		
Water Plant	(7)	31,486
Transit plant	-	3,039
Total other property	(7)	34,525
Total plant	\$ (4,670)	\$11,732,137

For the Year Ended December
31, 1987

Electric Plant in Service -

At Original Cost

Production	\$ (11,088)	\$4,631,961
Transmission	(3,307)	1,092,584
Distribution	2,317	2,223,589
General	1,766	531,167
Miscellaneous	4,280	182,936
Nuclear Fuel	-	1,410,315

Total electric plant in
service (6,032) 10,072,552

Construction Work in Progress (23,496) (2) 704,610

Other Property - At Cost

Water plant	2	30,580
Transit plant	-	3,160

Total other property 2 33,740

Total plant \$ (29,526) \$10,810,902

For the Year Ended December
31, 1986

Electric Plant in Service -

At Original Cost

Production	\$ (24,230)	\$4,563,815
Transmission	1,943	1,075,343
Distribution	693	2,043,595
General	666	411,281
Miscellaneous	21,087	175,600
Nuclear Fuel	-	1,175,398

Total electric plant in
service 159 9,445,032

Construction Work in Progress - 601,064

Other Property - At Cost

Water plant	-	30,113
Transit plant	-	2,548

Total other property - 32,661

Total plant \$159 \$10,078,757

(1) Principally due to commercial operation of Unit 2 of Catawba
Nuclear Station on August 19, 1986.

(2) Sale of assets.

[HARDCOPY PAGE 42]

DUKE POWER COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY,
PLANT AND EQUIPMENT

(Dollars in thousands)

Description	Beginning of Year	Clearing and Other Depreciation	Accounts
For the Year Ended December			
31, 1988			
Accumulated Depreciation of			
Electric Plant			
Production	\$1,390,577	\$177,037	\$ -
Transmission	415,437	31,022	-
Distribution	716,923	79,603	-
General	143,145	18,078	12,229
Miscellaneous	165,976	-	377
	2,832,058	305,740	12,606
Accumulated Amortization of			
Limited Term Plant			
	3,760	-	389
Accumulated Amortization of			
Nuclear Fuel			
	1,024,099	-	195,729
	3,859,917	305,740	208,724
Accumulated Depreciation of			
Water Plant			
	6,043	610	-
Accumulated Depreciation of			
Transit Plant			
	2,608	189	-
Total Accumulated			
Depreciation	\$3,868,568	\$306,539	\$208,724

For the Year Ended December

31, 1987

Accumulated Depreciation of

Electric Plant

Production	\$1,229,392	\$173,801	\$ -
Transmission	388,401	30,720	-

Distribution	660,996	72,379	-
General	129,043	13,299	11,327
Miscellaneous	161,268	-	415
	2,569,100	290,199	11,742
Accumulated Amortization of			
Limited Term Plant	2,860	-	900
Accumulated Amortization of			
Nuclear Fuel	835,385	-	188,714
	3,407,345	290,199	201,356
Accumulated Depreciation of			
Water Plant	5,690	576	-
Accumulated Depreciation of			
Transit Plant	2,539	131	-
Total Accumulated			
Depreciation	\$3,415,574	\$290,906	\$201,356

For the Year Ended December
31, 1986

Accumulated Depreciation of			
Electric Plant			
Production	\$1,124,734	\$162,731	\$-
Transmission	359,895	30,137	-
Distribution	616,240	66,438	-
General	116,871	11,758	10,240
Miscellaneous	139,717	-	486
	2,357,457	271,064	10,726
Accumulated Amortization of			
Limited Term Plant	1,988	-	872
Accumulated Amortization of			
Nuclear Fuel	675,028	-	160,357
	3,034,473	271,064	171,955
Accumulated Depreciation of			
Water Plant	5,226	550	-
Accumulated Depreciation of			
Transit Plant	2,557	42	-
Total Accumulated			
Depreciation	\$3,042,256	\$271,656	\$171,955

(TABLE CONTINUED)

Other

Description	Changes Add Retirements	Balance End of (Deduct)	Year
For the Year Ended December 31, 1988			
Accumulated Depreciation of Electric Plant			
Production	\$6,875	\$2,506	\$1,563,245
Transmission	1,528	(1,103)	443,828
Distribution	27,954	1,029	769,601
General	14,385	(2,155)	156,912
Miscellaneous	-	-	166,353
	50,742	277	3,099,939
Accumulated Amortization of Limited Term Plant			
	-	-	4,149
Accumulated Amortization of Nuclear Fuel			
	-	-	1,219,828
	50,742	277	4,323,916
Accumulated Depreciation of Water Plant			
	247	-	6,406
Accumulated Depreciation of Transit Plant			
	105	-	2,692
Total Accumulated Depreciation	\$51,094	\$277	\$4,333,014

For the Year Ended December 31, 1987			
Accumulated Depreciation of Electric Plant			
Production	\$7,787	\$ (4,829)	\$1,390,577
Transmission	2,918	(766)	415,437
Distribution	17,332	880	716,923
General	10,200	(324)	143,145
Miscellaneous	-	4,293	165,976
	38,237	(746)	2,832,058
Accumulated Amortization of Limited Term Plant			
	-	-	3,760
Accumulated Amortization of Nuclear Fuel			
	-	-	1,024,099
	38,237	(746)	3,859,917
Accumulated Depreciation of Water Plant			
	223	-	6,043
Accumulated Depreciation of			

Transit Plant	62	-	2,608
Total Accumulated Depreciation	\$38,522	\$ (746)	\$3,868,568

For the Year Ended December
31, 1986

Accumulated Depreciation of Electric Plant			
Production	\$36,262	\$ (21,811)	\$1,229,392
Transmission	1,747	116	388,401
Distribution	21,548	(134)	660,996
General	9,596	(230)	129,043
Miscellaneous	-	21,065	161,268

	69,153	(994)	2,569,100
Accumulated Amortization of Limited Term Plant	-	-	2,860
Accumulated Amortization of Nuclear-Fuel	-	-	835,385

	69,153	(994)	3,407,345
Accumulated Depreciation of Water Plant	86	-	5,690
Accumulated Depreciation of Transit Plant	60	-	2,539

Total Accumulated Depreciation	\$69,299	\$ (994)	\$3,415,574

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DUKE POWER COMPANY
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(Dollars in thousands)

Description	Balance Beginning of Year	Balance End of Year
For the Year Ended December 31, 1988		
Reserves Related to Assets on		
Balance Sheet	\$3,710	\$27,335
Other Reserves		
Operating Reserves (1)	\$37,560	\$51,890

For the Year Ended December
31, 1987

Reserves Related to Assets on Balance Sheet	\$3,867	\$3,710
Other Reserves		
Operating Reserves (1)	\$31,688	\$37,560

For the Year Ended December
31, 1986

Reserves Related to Assets on Balance Sheet	\$4,004	\$3,867
Other Reserves		
Operating Reserves (1)	\$24,427	\$31,688

(1) Principally consists of Injuries and Damages reserves and Property Insurance reserve which are included in "Deferred Credits and Other Liabilities," in the Balance Sheets.

SCHEDULE X - SUPPLEMENTAL CONSOLIDATED INCOME STATEMENT INFORMATION

Year Ended December 31

1988	1987	1986

(Dollars in thousands)

Taxes, other than payroll and
income taxes:

Real and personal property	\$52,382	\$50,269	\$53,348
State and city franchise	85,355	85,137	76,647
Other	6,566	6,589	6,289
Total	\$144,303	\$141,995	\$136,284

SEC ONLINE INC.
EXHIBIT INDEX

NUMBER	DESCRIPTION	PAGE
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12	COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES	55
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(*) SEC ONLINE NOTE: EXHIBIT 24 CAN BE FOUND IN PART IV ITEM 14 OF THIS DOCUMENT.

[HARDCOPY PAGE 44]

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE - (UNAUDITED)

This calculation is submitted in accordance with Regulation S-K under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%.

Year Ended December 31

1988 1987 1986

(Dollars in Thousands except
per share figures)

Fully Diluted:

Earnings applicable to common
stock (1) \$497,057 \$445,934 \$409,067

Add: Dividends on Preference

Stock, 6 3/4% Convertible
Series AA 191 216 263

Earnings as adjusted

for computation \$497,248 \$446,150 \$409,330

Average common shares

outstanding - twelve months
(thousands) 101,266 101,250 101,220

Add: Common shares required

for conversion of
Preference Stock, 6 3/4%
Convertible Series AA, \$100
par, 500,000 shares
authorized (26,830 shares
outstanding as of December
31, 1988) (2) 112 126 149

Common Shares as adjusted for
computation 101,378 101,376 101,369

Fully diluted earnings per
share \$4.90 \$4.40 \$4.04

(1) These figures agree with the related amounts in the Consolidated
Statements of Income.

(2) The conversion price used to convert the Preference Stock, 6 3/4%
Convertible Series AA, into shares of common stock was \$23.89.

EXHIBIT 12

DUKE POWER COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in Thousands)

	Year Ended December 31		
	1984	1985	1986
Earnings Before Income Taxes			
(1)	\$927,645	\$807,397	\$880,692
Fixed Charges	288,739	281,195	269,991
Total	\$1,216,384	\$1,088,592	\$1,150,683
Fixed Charges			
Interest on long-term debt	\$275,193	\$265,720	\$249,313
Other interest	3,075	3,926	5,764
Amortization of debt discount, premium, and expense	1,327	1,625	3,190
Interest component of rentals	9,144	9,924	11,724
Fixed Charges	\$288,739	\$281,195	\$269,991
Ratio of Earnings to Fixed Charges	4.21	3.87	4.26

(TABLE CONTINUED)

Year Ended December 31

1987 1988

Earnings Before Income Taxes

(1)	\$878,522	\$827,732
Fixed Charges	251,812	254,622
Total	\$1,130,334	\$1,082,354

Fixed Charges

Interest on long-term debt	\$232,795	\$230,403
Other interest	3,853	7,979
Amortization of debt discount, premium, and expense	4,572	4,658
Interest component of rentals	10,592	11,582

Fixed Charges	\$251,812	\$254,622

Ratio of Earnings to Fixed Charges

4.49 4.25

(1) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

EXHIBIT 25

DELOITTE HASKINS & SELLS

2000 First Citizens Bank Plaza
128 South Tryon Street
Charlotte, North Carolina 28202-5001
(704) 372-3560
ITT Telex: 4995621

February 10, 1989

Duke Power Company
422 South Church Street
Charlotte, North Carolina 28242

Dear Sirs:

We have audited the consolidated financial statements for each of the three years in the period ended December 31, 1988 included in your Annual Report on Form 10-K to the Securities and Exchange Commission and have issued our report thereon dated February 10, 1989. Note 1 to such consolidated financial statements contains a description of your adoption during the year ended December 31, 1988 of a change in the accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues. In our judgment, such change is to an alternative accounting principle that is preferable under the circumstances.

Yours truly,

DELOITTE HASKINS & SELLS

LENGTH: 31289 words

LOAD-DATE: April 27, 1989

LANGUAGE: ENGLISH

Return to List

6 of 8 DOCUMENTS

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10-K

FILING-DATE: 05/15/90 DOCUMENT-DATE: 12/31/89

DUKE POWER CO
TICKER-SYMBOL: DUK EXCHANGE: NYS

422 SOUTH CHURCH STREET
CHARLOTTE, NC 28242
704-373-4011

INCORPORATION: NC

COMPANY-NUMBER: FORBES NUMBER: SA182
CUSIP NUMBER: 26439910
DUNS NUMBER: 00-699-6052
COMMISSION FILE NO.: 1-4928
IRS-ID: 56-0205520

SIC: SIC-CODES: 4911
PRIMARY SIC: 4911

INDUSTRY-CLASS: ELECTRIC SERVICES

FYE: 12/31

AUDITOR: DELOITTE AND TOUCHE

STOCK-AGENT: FIRST CHICAGO TRUST COMPANY OF NEW YORK

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

DUKE POWER COMPANY
422 SOUTH CHURCH STREET
CHARLOTTE NORTH CAROLINA 28242
704-373-4011

FOR FISCAL YEAR ENDED: 12/31/89
COMMISSION FILE NUMBER: 1-4928

STATE OF INCORPORATION: NC
IRS EMPLOYER I.D.: 56-0205520

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NAME OF EACH EXCHANGE	TITLE OF EACH CLASS	ON WHICH REGISTERED

COMMON STOCK, WITHOUT PAR VALUE NEW YORK STOCK EXCHANGE

PREFERRED STOCK, PAR VALUE \$100

8.70% SERIES F	NEW YORK STOCK EXCHANGE
8.20% SERIES G	NEW YORK STOCK EXCHANGE
7.80% SERIES H	NEW YORK STOCK EXCHANGE
8.28% SERIES K	NEW YORK STOCK EXCHANGE
8.84% SERIES M	NEW YORK STOCK EXCHANGE
8.84% SERIES N	NEW YORK STOCK EXCHANGE

PREFERENCE STOCK, PAR VALUE \$100

6 3/4% CONVERTIBLE SERIES AA NEW YORK STOCK EXCHANGE

FIRST AND REFUNDING MORTGAGE
BONDS

7 3/8% SERIES B DUE 2001	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2002	NEW YORK STOCK EXCHANGE
7 3/8% SERIES B DUE 2002	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2003	NEW YORK STOCK EXCHANGE
8 1/8% SERIES B DUE 2003	NEW YORK STOCK EXCHANGE
9 3/4% SERIES DUE 2004	NEW YORK STOCK EXCHANGE
9 1/2% SERIES DUE 2005	NEW YORK STOCK EXCHANGE
8 3/8% SERIES DUE 2006	NEW YORK STOCK EXCHANGE
8 1/8% SERIES DUE 2007	NEW YORK STOCK EXCHANGE
9 3/8% SERIES DUE 2008	NEW YORK STOCK EXCHANGE
10 1/8% SERIES DUE 2009	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE
PREFERRED STOCK, PAR VALUE ON WHICH REGISTERED

\$100 NONE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO

ESTIMATED AGGREGATE MARKET VALUE
OF THE VOTING STOCK HELD BY
NONAFFILIATES OF THE REGISTRANT
AT MARCH 2, 1990 \$5,441,324,915

NUMBER OF SHARES OF COMMON
STOCK, WITHOUT PAR VALUE,
OUTSTANDING AT MARCH 2, 1990 101,281,445

SEC ONLINE NOTE: The following index is part of the original document. These page numbers are displayed as the first line of text on each page as [HARDCOPY PAGE #]. For online access, however, refer to SEC ONLINE'S table of contents.

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1989

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[HARDCOPY PAGE 1]

DUKE POWER COMPANY

PART I.

ITEM 1. BUSINESS.

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,500,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1989, the Company's electric revenues amounted to approximately \$3.6 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices

are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011). The Company purchased Nantahala Power and Light Company in November 1988. However, the statistics presented herein do not include this subsidiary unless otherwise indicated. (See "Energy Requirements and Capability.")

Service Area

The Company supplies electric service directly to approximately 1,595,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Other Catawba Joint Owners). All constituent entities of the Other Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$494 million of the Company's revenues for 1989, representing 14% of electric revenues and 43% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1989, its sources of electric energy for 1989, and certain information presently projected for 1990:

Source	Generation		
	Generating Capability - KW (a) - KWH		
	Actual Projected (millions)		
	December 31, 1989	December 31, 1990	Actual 1989
Coal	6,735,000	6,979,000	26,175
Nuclear (b)	7,054,000	7,054,000	47,773
Hydro and other	2,051,000	2,246,000	1,547

(c)

Total (b)	15,840,000	16,279,000	75,495
Less: Other Catawba Joint Owners' share		12,566	
Plus: Purchases from Other Catawba Joint Owners		9,809	
Purchased power and net interchange		(1,218)	
Total		71,520	

[HARDCOPY PAGE 2]

- (a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.
- (b) Nuclear capability and related generation for 1989 and projected for 1990 give no effect to the joint ownership of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")
- (c) Reflects the rerating of the Company's hydro system.

In 1987 the Company entered into a bulk power sale agreement to provide Carolina Power & Light Company with 400 megawatts of capacity for a six-year period beginning in 1992. This agreement is subject to regulatory approval.

The Company's purchase of Nantahala Power and Light Company (NP&L) from the Aluminum Company of America was closed in November 1988, following approval by both the North Carolina Utilities Commission (NCUC) and the Federal Energy Regulatory Commission (FERC). The purchase price, determined by the net book value of NP&L stock at the time of closing, was \$30 million. NP&L, which operates 11 hydroelectric stations and buys supplemental power to provide service to its 47,000 mostly residential customers located in five counties in western North Carolina, will operate as a separate subsidiary of the Company. Upon completion of a transmission line between the two systems, the Company will supply supplemental power to NP&L under the terms of an interconnect agreement which has been approved by FERC. Construction has begun and is expected to be completed by mid-to-late 1990.

According to industry statistics through 1988, the Company ranked first in the nation for the last 15 consecutive years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that individual units at Belevs Creek Steam Station and Marshall Steam Station ranked as second, fourth, fifth and ninth most efficient in the nation in 1988. Statistics compiled by the Nuclear Regulatory

Commission (NRC) on multi-unit nuclear plants indicate that the McGuire, Catawba and Oconee Nuclear Stations were ranked first, second and sixth, respectively, in efficiency in the nation among pressurized water reactor nuclear facilities.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On August 18, 1988, the Company experienced its all-time peak load of 13,618,000 KW during unusually hot weather. The 1989-1990 winter peak load of 13,126,000 KW occurred on December 22, 1989. The 1989 summer peak load of 13,611,000 KW occurred on August 23, 1989. The 1988-1989 winter peak load of 12,560,000 KW occurred on February 10, 1989. The Company currently forecasts a 2.4% compound annual growth in peak load through 2004.

Rate Matters

The NCUC and PSC must approve the Company's rates for retail sales within the respective States. FERC must approve the Company's rates for sales to wholesale customers. Constituent entities of NCMPA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company.

Rate requested filed by the Company in 1986 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 2 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all costs related to Catawba, although certain non-fuel purchased power costs with associated carrying charges will be recovered on a levelized basis. (See Note 3, "Notes to Consolidated Financial Statements.")

In the Company's most recent general rate case, the NCUC allowed a jurisdictional rate of return on common equity of 13.20% and the PSC allowed a jurisdictional rate of return on common equity of 13.00%.

[HARDCOPY PAGE 3]

The Company reduced retail rates by 2.3% on January 1, 1987, and by an additional 3% on January 1, 1988. These reductions recognize the lower corporate income tax rate included in the Tax Reform Act of 1986. These decreases have been approved by the NCUC and PSC.

In July 1987 FERC approved a 3.56% increase in the Company's wholesale jurisdiction, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A rate reduction was granted in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

The Company canceled certain nuclear projects in prior years, including

the Cherokee Nuclear Station, citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation. The NCUC and the PSC have authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station in recent rate proceedings. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. (See Note 10, "Notes to Consolidated Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the NCUC to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the NCUC's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue was again contested in the appeal of the 1986 rate case. The parties also challenged the NCUC's decision on the rate of return allowed on the Company's common equity, the adoption of the Company's actual capital structure for ratemaking purposes, and inclusion of subsidiary investments in the Company's capital structure for ratemaking purposes. The Court affirmed the NCUC's decision on all questions raised with the exception of the allowed rate of return. The Court held that the NCUC's conclusion regarding the appropriate rate of return on common equity was not supported by adequate factual findings and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40% to 13.20%, required refunds plus interest, and reduced rates to reflect the lower rate of return on common equity. The refund, approximately \$24 million, has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order.

On July 28, 1987, FERC granted a petition made by the Other Catawba Joint Owners to exclude costs of abandoned plants from their supplemental power rates affirming their contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts which upheld the FERC order in January 1989. The order had a one-time impact on 1988 earnings of \$.46 per share.

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The NCUC ordered the Company to follow these procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over- or under-recovery of fuel costs was challenged in the North Carolina courts. In 1987 North Carolina adopted legislation assuring the legality of such adjustments, which currently contains a sunset provision effective July 1, 1991.

Construction Work in Progress (CWIP). The NCUC is permitted in its

discretion to include construction work in process in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Energy Management

The Company currently is engaged in a comprehensive energy management program designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area and increase off-peak sales. Peak reduction programs include, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers'

[HARDCOPY PAGE 4]

consent) of residential electric water heaters and air conditioners during peak demand periods and time-of-day pricing to a limited number of customers. The current and planned aspects of such programs are designed to reduce the growth in peak demand by approximately 5,468,000 KW in the summer of 2000. Of this amount, 975,500 KW will be available to satisfy a portion of reserve margin requirements through the ability to interrupt end-use loads on an emergency basis.

To make maximum use of existing production capacity while minimizing the need to add new capacity, the Company is promoting off-peak sales programs. These programs include promotion of all-electric homes using high efficiency electric heat pumps and outdoor lighting as well as commercial and industrial heating and heat recovery systems, all designed to contribute high load factor sales and/or increase seasonal and daily off-peak sales.

Through 1992, the Company estimates a minimum reserve margin of approximately 16% to 19% of its anticipated peak load requirements during this three-year period. However, the Company believes that additional capacity may be purchased if needed. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rates), changing regulatory and environmental standards (see "Regulation - Environmental Matters") and other factors.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station owned by the Other Catawba Joint Owners, for each of 1990, 1991 and 1992 and for the three-year period 1990-1992, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1990	1991	1992	Total
Generation	\$448	\$321	\$242	\$1,011
Transmission	53	55	84	192
Distribution	301	300	323	924
Other	109	113	119	341
Total	\$911	\$789	\$768	\$2,468
Nuclear Fuel	\$163	\$205	\$198	\$566

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

The Company has experienced higher costs of construction of new facilities as a result of recurring increases in the costs of materials and labor, and increasing capital commitments attributable to more stringent regulatory requirements. However, the Company believes that in recent years it has been able to construct generating units at a lower cost per KW than generally experienced by other utilities for units of comparable type and vintage. The construction cost per installed KW for the Catawba Nuclear Station, Unit 2 of which began commercial operation in August 1986, was \$1,560 at the date of commercial operation.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, 1,065 MW pumped-storage facility in Oconee County, South Carolina. Units 1 and 2 are scheduled for operation in 1992 and Units 3 and 4 are to be completed in 1993. However, construction is currently ahead of schedule. As of December 31, 1989, the Company had incurred \$694 million of the
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total estimated cost of \$1.1 billion, with construction costs of \$1,045 per installed KW anticipated for this facility.

A site in Lincoln County, North Carolina, has been selected for a new combustion turbine (CT) facility to meet customer demand in the

mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200 MW of electricity. Current plans are for the first CT to be operational as early as 1994. The Company has notified the appropriate state regulatory agencies of its intent to begin procedures to obtain required permits for construction and operation of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power in the 1990s and beyond.

The Company has undertaken a Plant Modernization Program to improve the efficiency and reliability of 15 older coal-fired generating units.

These units represents 1,370,000 KW of generation, and once modernized, will help the Company meet anticipated future demand. The cost of this program is estimated to be approximately \$200-\$300 per installed KW, a fraction of the cost of building new plants. As of December 31, 1989, four coal-fired units with a generating capability of 428,400 KW had been returned to the system and during 1990, it is anticipated that two additional coal-fired generating units with generating capability of 244,000 KW will be returned to the system.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87 1/2% undivided interest in the Catawba Nuclear Station to the Other Catawba Joint Owners.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then contractually required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange of 50% of each Other Catawba Joint Owner's retained capacity from its ownership interest in the Catawba units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next three years of the costs of

purchased power from the Catawba Nuclear Station under contracts with the Other Catawba Joint Owners permitted by regulatory authorities will result in payments by the Company exceeding the amounts collected in rates for such power by approximately \$231 million.

The Other Catawba Joint Owners and the Company are involved in various arbitration proceedings involving disputes under the interconnection agreements between such joint owners and the Company. (See Note 12 of "Notes to Consolidated Financial Statements.")

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

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Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

Generation by Source Year Ended December 31			
	1989	1988	1987
Coal	34.7%	33.1%	33.8%
Nuclear	63.3	66.3	64.1
Oil and Gas	-	-	-
All Fuels (cost based on weighted average)	98.0	99.4	97.9
Hydroelectric (*)	2.0	.6	2.1
	100.0%	100.0%	100.0%

(TABLE CONTINUED)

Average Cost per Million BTU on a Burned Basis Year Ended December 31			
	1989	1988	1987
Coal	\$1.8024	\$1.7579	\$1.8118
Nuclear	59.56	63.55	68.40
Oil and Gas	-	-	-
All Fuels (cost based on weighted average)	100.11	98.75	105.10
Hydroelectric (*)	-	-	-

(*) Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains a large amount of its coal under long-term supply contracts with mining operators utilizing both underground and surface mining. The Company has on hand an adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment and price renegotiation provisions, have expiration dates ranging from 1993 to 2003. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities.

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

	Uranium Conversion Enrichment Fabrication			
Nuclear Station	Material	Service	Service	Service
Oconee	1994	1994	1995	1997
McGuire	1994	1994	1995	1998
Catawba	1994	1994	1995	1998

Approximately two-thirds of the Company's requirements for uranium material is obtained from Rio Algom, Ltd., a Canadian supplier. The remainder of the requirements will be obtained from various supplier contracts, with uranium material produced in the U.S., Canada and Australia. Short-term requirements have been and will be fulfilled with uranium spot market purchases.

The Company purchased uranium material during 1989 at an average price of approximately \$23 per pound. The Company's material nuclear supply contracts generally contain force majeure provisions which provide protection from supply disruptions.

The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required contracts with DOE for the disposal of nuclear fuel and began making payments in July 1983 for disposal costs of fuel currently being utilized. These payments combined with a one-time payment for disposal costs of fuel consumed prior to April 7, 1983 have totaled about \$380 million through 1989. In November 1989, DOE released a report which indicated that it now expects that a facility for spent fuel disposal will not be available until the year 2010. DOE stated further that it planned an initiative [HARDCOPY PAGE 7]

to establish a monitored retrievable storage (MRS) facility, with a target operation date of 1998, for earlier acceptance of spent fuel from utilities. The Company believes that it will be able to provide adequate on-system storage capacity until such time as DOE begins receiving spent fuel.

Regulation

The Company is subject to the jurisdiction of the NCUC and PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities. The Company is exempt from regulation as a holding company under the Public Utility Holding Company Act of 1935, except with respect to the acquisition of the securities of other public utilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1990-1991 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$19.6 million, including \$11.5 million in 1990 and \$8.1 million in 1991. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

Air Quality. The Company operates its coal-fired generating stations in North Carolina under a revised regulation which prescribes mass

emission limits for particulates for each boiler unit. Such regulation was issued by the North Carolina Environmental Management Commission (EMC) and was submitted to EPA for approval as a revision to the state implementation plan which approval was granted.

Presently, legislation relating to acid rain and air quality is being considered by Congress. If a bill is introduced and enacted, a substantial reduction in sulfur dioxide and nitrogen oxide emission limits for electric utility boilers might be required, resulting in substantial capital costs.

The U.S. Seventh Circuit Court of Appeals recently issued a decision involving Wisconsin Electric Power Company (Wisconsin) regarding the applicability of New Source Performance Standards (NSPS) and Prevention of Significant Deterioration (PSD) requirements to utility boilers undergoing major maintenance. The decision affirmed EPA's position with regard to NSPS requiring strict emission control upgrades due to increased emissions resulting from the maintenance work. However, the Court of Appeals reversed EPA's decision on PSD. The Company is performing maintenance work on 15 units to which this decision may apply, but the differences between the Company's project and the Wisconsin project as well as the favorable ruling on PSD lead the Company to believe that its program will not result in substantial capital costs for installation of additional equipment for air quality control.

Water Quality. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The Company has received such permits.

Other Environmental Regulations. North Carolina has enacted a declaration of environmental policy requiring all State agencies to administer their responsibilities in accordance with such policy. The NCUC has adopted rules requiring consideration of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation facilities. Legislation in South Carolina also requires consideration by the PSC of environmental effects in determining whether certificates of public convenience and necessity will be granted for proposed generation and certain transmission facilities. North Carolina and South Carolina have
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adopted regulations implementing the Resources Conservation and Recovery Act which are in compliance with such Act.

Polychlorinated biphenyls are regulated by provisions of the Toxic Substances Control Act. The Company has implemented procedures to comply with the Act.

The Comprehensive Environmental Response, Compensation and Liability

Act of 1980, known as "Superfund", became law in 1980. It requires the reporting of releases of hazardous substances into the environment and the notification to EPA of hazardous waste facilities that are not subject to other regulations. The Company has implemented reporting procedures in order to comply with the Act. The Company is a Potentially Responsible Party (PRP) at a Superfund site. The Company believes that it is a de minimis contributor and that its involvement will not be material.

Title III of the Superfund Amendments and Reauthorization Act of 1986 (SARA) establishes the Emergency Planning and Community Right-To-Know Act. Title III imposes requirements on a wide range of facilities to report information regarding the presence and release of specific chemicals to state and local emergency planning authorities. The Company has implemented procedures to comply with SARA.

General. The Company cannot estimate the effect of existing and potential regulations upon any of its existing and proposed facilities. However, developments in these and other areas of regulation have in the past required the Company to modify or replace equipment and may in the future delay construction and operation of new or existing facilities at costs which could be substantial.

Nuclear Facilities. The Company's nuclear facilities are subject to continuing regulation by the NRC.

In March 1989, Unit 1 of the McGuire Nuclear Station developed a leak inside one of its four steam generators caused by a rupture in a tube located near the bottom of the steam generator. Laboratory examination of the ruptured tube revealed that the split was caused by a phenomenon known as stress corrosion cracking. Primary water stress corrosion cracking (PWSCC), which typically occurs in tight U-bends and where tubes are attached to the tube sheets, has been identified as a problem in steam generators of a certain design including those at the McGuire and Catawba Nuclear Stations. Because the March 1989 rupture occurred near the bottom of the steam generator and not in a U-bend or where a tube was attached to a tube sheet, that occurrence was considered to be a unique event. All other tubes in Unit 1 of the McGuire Nuclear Station were examined and no other abnormalities of that type were detected. The Company's analysis of the cause of this tube rupture was accepted by the NRC which gave its permission to return Unit 1 of the McGuire Nuclear Station to service in May 1989. However, the steam generators at the McGuire and Catawba Stations have also experienced PWSCC similar to that experienced by other steam generators of similar design.

The Company examines the steam generator tubes at the McGuire and Catawba Nuclear Stations at each refueling outage. In addition to the inspections of the steam generator tubes, the Company has taken other steps to mitigate the effects of PWSCC that have occurred in the more

typical locations of the McGuire and Catawba steam generator tubes, including tube plugging/tube sleeving, more stringent water chemistry control, shot peening and tight U-bend heat treatment. Despite these efforts, the inherent potential for future PWSCC in the McGuire and Catawba steam generators still exists. Future cracking could result in more tube plugging/tube sleeving, additional water chemistry control, reductions in plant output and eventual replacement of the steam generators at the McGuire and Catawba Nuclear Stations before the end of their 40-year design life.

The Company, on its own behalf and, in connection with its Catawba Nuclear Station, on behalf of NCEMC, NCMPA, PMPA and Saluda, commenced an action on March 22, 1990, in the United States District Court for the District of South Carolina (Charleston Division) seeking damages from Westinghouse Electric Corporation (Westinghouse) for supplying to the McGuire Nuclear Station and Catawba Nuclear Station steam generators that are alleged to be defective in design, workmanship and materials, and that will require replacement well short of their stated design life. The complaint alleges that at the time the contracts for the nuclear steam supply systems for the McGuire and

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Catawba, Nuclear Stations were negotiated and executed in the early and mid 1970s, and continuing thereafter, Westinghouse knew, or recklessly disregarded information in its possession, that the steam generators would be susceptible to corrosion and cracking that would cause deterioration and require premature replacement. The complaint further alleges that Westinghouse deliberately concealed such information from the Company and defrauded the Company by falsely representing that the steam generators were designed to last for 40 years.

The complaint further alleges that Westinghouse engaged in deceptive acts that were intended to prevent the Company from exercising its rights Westinghouse, and also engaged in pattern of deceptive acts throughout the domestic and worldwide electric generating industry to the detriment of the Company and others. The complaint contains counts for fraud, negligence, violations of the South Carolina and North Carolina Unfair Trade Practices Acts, promissory estoppel and patterns of racketeering activities prohibited by the Racketeer Influenced and Corrupt Organizations Act (civil RICO). In the action, the Company is seeking a judgment that Westinghouse is obligated to correct the defects in the steam generators at no cost to the Company, for money damages, plus interest, in an amount to be determined, for treble damages, for punitive damages and for attorneys' fees.

The Company maintains nuclear insurance coverage in three areas: liability coverage, property and decontamination coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the Other Joint Owners of the Catawba Nuclear Station for certain expenses

associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act as recently amended, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$7.8 billion. The maximum required private primary insurance of \$200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently \$7.6 billion, which will be increased by \$63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to \$63 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$63 million amount is subject to indexing for inflation and is further subject to a surcharge of 5 percent if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of such assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides \$500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$65 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL) and purchases \$975 million of insurance through NEIL's excess property and decontamination liability insurance program. The Company has also purchased an additional \$400 million of excess property damage insurance for its Oconee and McGuire plants and \$560 million for its Catawba plant through a pool of stock and mutual insurance companies. If losses ever exceed the accumulated funds available to NEIL for the excess property and decontamination liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to \$25 million. This amount is limited to 7.5 times the Company's annual premium for \$500 million of excess property and decontamination liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba.

In addition to the \$975 million in coverage through NEIL's excess property program and the \$560 million in excess coverage mentioned above, and in lieu of primary property coverage through

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NML, the Company has placed \$500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increase cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately \$1.8 million, \$2.8 million and \$2.8 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100 percent for 52 weeks, 67 percent for a second 52 weeks, and 33 percent for a third 52 weeks. If NEIL's losses for this program ever exceeded its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$25 million. This amount represents five times the Company's annual premium to NEIL. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba.

The NRC promulgated a regulation in 1988 which will require an external mechanism to fund the liability to decommission the components of a nuclear unit subject to radioactive contamination. The minimum funding level mandated by the NRC is approximately \$100 million per unit in 1986 dollars to be funded by the end of the licensed life of the plant. The other joint owners of the Catawba Nuclear Station are liable for funding decommissioning activities related to their ownership interest in the station. The Company is required to submit a funding plan to the NRC by July 1990.

Hydroelectric Licenses. The principal hydroelectric projects of the Company are licensed by FERC under Part I of the Federal Power Act. Eleven developments on the Catawba-Watauga River in North Carolina and South Carolina, with a nameplate rating of 804,940 KW, are licensed for a term expiring in 2008. The Company also holds a license for the Keowee-Toxaway Project for a term expiring in 2016, covering the Keowee Hydro Station and the Jocassee Pumped Storage Station for a combined total of 769,500 KW, on the upper tributaries of the Savannah River in northwestern South Carolina. Additionally, the Company is the licensee for the Bad Creek Pumped Storage Project which is under construction. Bad Creek will use Lake Jocassee as its lower reservoir. The Federal Power Act provides, among other things, that, upon the expiration of any license issued thereunder, the United States may (a) grant a new license to the licensee for the project, (b) take over the project upon payment to the licensee of its "net investment" in the project (but not in excess of the fair value thereof) plus severance damages, or (c) grant a license for the project to a new licensee subject to payment to the former licensee of the amount specified in (b) above.

Interconnections

The Company has major interconnections and arrangements with its neighboring utilities which it considers adequate for coordinated planning, emergency assistance, exchange of capacity and energy, and reliability of power supply.

Competition

The Company currently is subject to competition in some areas from government-owned power systems, municipally-owned electric systems, rural electric cooperatives and, in certain instances, from other private utilities. Statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSC, respectively, of all areas outside municipalities in such States to power companies and rural electric cooperatives. Substantially all of the territory comprising the Company's service area has been so assigned. The remaining areas have been designated as unassigned and in such areas the Company remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSC.

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Non-Utility Activities

The Company is engaged in a wide variety of non-utility activities, most of which are organized in separate subsidiaries, including real estate development and forestry operations, marketing of electrical appliances, management of passive financial investments, developing and investing in electric generation facilities outside the Company's service area, providing engineering and technical services and the marketing of computer software.

In June 1989, the Company and four other corporations created Louisiana Energy Services which plans to establish the nation's first privately owned uranium enrichment facility. In September 1989, the Company and Fluor Corporation of Irvine, California entered into a partnership to create Duke/Fluor Daniel. The partnership will offer total design, engineering, construction and operation services for new coal-fired power plants as well as for repowering, upgrading or modifying existing coal-fired plants. In October 1989, the Company offered for sale Mill-Power Supply Company, its electrical equipment and high-tech electronics control supply subsidiary. Also in 1989, the Company entered into an agreement with the city of Anderson, South Carolina,

which relieved the Company of its obligation to operate the transit system. The Company has also entered into a similar agreement with the city of Durham, North Carolina, subject to certain contingencies. The operating results of Mill-Power and the transit systems are not material to consolidated earnings.

Employees

At December 31, 1989, the Company employed approximately 19,400 persons, excluding approximately 600 employees of subsidiaries. About 2,250 electrical operating employees are represented by the International Brotherhood of Electrical Workers with which the Company has a labor agreement expiring on October 1, 1990.

In September 1988, the Company announced plans to conduct work activity reviews to identify changes in the organization which could be implemented to make the Company more efficient without compromising safety or service. In November 1988, the findings of the review were implemented and, as a result, the work force was reduced by approximately 6 percent.

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[MAP OMITTED: "Duke Power Service Area"]

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DUKE POWER COMPANY

OPERATING STATISTICS

	Year Ended December 31		
	1989	1988	1987
Sources of Electric Energy			
Millions of kilowatt-hours:			
Generated - net output:			
Coal	26,175	23,930	23,617
Nuclear (A)	47,773	47,934	44,810
Hydro	1,520	402	1,454
Oil and gas	27	32	(1)
Total generation	75,495	72,298	69,880
Purchased power and net interchange	(1,218)	437	5
Total output	74,277	72,735	69,885
Less: Other Catawba Joint Owners' share	12,566	12,166	11,961

Plus: Purchases from Other Catawba Joint Owners	9,809	10,244	10,872
Total sources of energy	71,520	70,813	68,796
Line loss and company usage	(4,892)	(4,614)	(4,045)
Total energy sales (B)	66,628	66,199	64,751
Average Cost Per Ton of Coal Burned	\$45.13	\$44.27	\$45.42
Electric Energy Sales Millions of kilowatt-hours:			
Residential	16,895	16,744	16,580
General service	14,206	13,634	13,026
Industrial			
Textile	11,443	11,134	11,236
Other	14,491	14,020	13,738
Wholesale and other energy sales	9,593	10,667	10,171
Total energy sales billed	66,628	66,199	64,751
Unbilled energy sales	370	165	-
Total energy sales (B)(C)	66,998	66,364	64,751
Electric Revenue Thousands of dollars:			
Residential	\$1,198,705	\$1,205,471	\$1,226,529
General service	851,422	833,709	829,466
Industrial			
Textile	493,933	495,100	511,026
Other	653,830	651,420	661,736
Wholesale and other energy sales	395,929	446,368	459,182
Other electric revenues	45,520	(5,083)	17,845
Total electric revenues (C)	\$3,639,339	\$3,626,985	\$3,705,784
Number of Customers - End of Year			
Residential	1,362,118	1,339,206	1,302,819
General service	216,960	210,122	202,482
Industrial			
Textile	1,408	1,424	1,408
Other	7,310	7,232	7,119
Wholesale and other energy sales	7,241	7,126	6,881
Total customers	1,595,037	1,565,110	1,520,709

Residential Customer
Statistics

Average number for year	1,356,088	1,327,452	1,292,293
Average annual use - KWH	12,459	12,614	12,830
Average annual billing	\$883.94	\$908.11	\$949.11

Average Annual Billed Revenue
Per KWH

Residential	\$0.0709	\$0.0720	\$0.0740
General service	\$0.0599	\$0.0611	\$0.0637
Industrial	\$0.0443	\$0.0456	\$0.0470
Wholesale and other energy sales	\$0.0413	\$0.0418	\$0.0451

(TABLE CONTINUED)

Year Ended December 31
1986 1985

Sources of Electric Energy

Millions of kilowatt-hours:

Generated - net output:

Coal	30,249	27,619
Nuclear (A)	35,044	33,700
Hydro	771	1,162
Oil and gas	14	13

Total generation 66,078 62,494

Purchased power and net interchange (822) (1,742)

Total output 65,256 60,752

Less: Other Catawba Joint

Owners' share 6,261 3,827

Plus: Purchases from Other

Catawba Joint Owners 5,953 3,769

Total sources of energy 64,948 60,694

Line loss and company usage (4,435) (4,636)

Total energy sales (B) 60,513 56,058

Average Cost Per Ton of Coal

Burned \$47.59 \$48.66

Electric Energy Sales

Millions of kilowatt-hours:

Residential	15,636	14,241
General service	12,312	11,338
Industrial		

Textile	10,595	9,961
Other	12,617	11,876
Wholesale and other energy sales	9,353	8,642

Total energy sales billed	60,513	56,058
Unbilled energy sales		

Total energy sales (B)(C)	60,513	56,058

Electric Revenue

Thousands of dollars:

Residential	\$1,088,886	\$914,513
General service	748,722	642,006

Industrial

Textile	471,718	420,817

Other	593,407	523,041

Wholesale and other energy

sales	426,882	358,385

Other electric revenues	71,318	40,149

Total electric revenues (C)	\$3,400,933	\$2,898,911

Number of Customers - End of Year

Residential	1,272,888	1,236,156

General service	195,248	188,542

Industrial

Textile	1,355	1,349

Other	6,964	6,894

Wholesale and other energy

sales	6,635	6,516

Total customers	1,483,090	1,439,457

Residential Customer Statistics

Average number for year	1,259,655	1,221,419

Average annual use - KWH	12,413	11,659

Average annual billing	\$864.43	\$748.73

Average Annual Billed Revenue

Per KWH

Residential	\$0.0696	\$0.0642

General service	\$0.0608	\$0.0566

Industrial	\$0.0459	\$0.0432

Wholesale and other energy

sales	\$0.0456	\$0.0415

(A) Includes 100% of Catawba generation.

(B) Excludes a portion of the energy sold to the Other Catawba Joint Owners (see "Business - Joint Ownership of Facilities").
 (C) Does not reflect Nantahala Power and Light Company.

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EXECUTIVE OFFICERS OF THE COMPANY

Name	Position	Service In Such Capacity Since	Age (*)
W.S. Lee (**)	Chairman of the Board and President	1982	60
W.H. Grigg (**)	Executive Vice President, Customer Group and Director	1988	57
W.H. Owen (**)	Executive Vice President, Power Group and Director	1988	63
Steve C. Griffith, Jr. (**)	Senior Vice President and General Counsel and Director	1982	56
W.A. Coley	Senior Vice President, Power Delivery	1988	46
Henry L. Cranford	Senior Vice President, Customer Services	1988	62
Donald H. Denton, Jr.	Senior Vice President, Marketing and Rates	1982	52
R.B. Priory	Senior Vice President, Generation and Information Services	1988	43
James R. Bavis	Vice President, Human Resources	1984	50
Paul F. Briggs, Jr.	Vice President, Winston-Salem Division	1989	46
J. Kenneth Clark	Vice President, Corporate Communications	1981	57
Robert L. Dick	Vice President, Corporate	1989	62

E.O. Ferrell, III	Excellence Vice President, Operation	1988	45
George W. Grier, III	Vice President, Quality Assurance	1989	47
James E. Grogan	Vice President, Construction and Maintenance	1989	57
Donald E. Hatley	Vice President, Public Affairs	1988	45
Jim R. Hicks	Vice President, Transmission and Distribution	1989	44
John P. Holland	Vice President, Central Division	1988	52
F. Alfred Jenkins	Vice President, Western Division	1988	45
John P. Kincaid	Vice President, Greenville Division	1989	44
James C. Leathers	Vice President, Production Support	1988	55
John F. Lomax	Vice President, Southern Division	1989	50
Paul G. Martin	Vice President, Eastern Division	1982	57
Maurice D. McIntosh	Vice President, Fossil Production	1989	49
Ted C. McMeekin	Vice President, Design Engineering	1988	46
John P. O'Keefe	Vice President, Taxes	1986	58
Richard J. Osborne	Vice President, Finance	1988	38
William T. Robertson	Vice President, Procurement, Services and Materials	1988	58
William R. Stumart	Vice President, Regulatory Affairs	1979	58
George E. Stubbins	Vice President, Information Systems	1982	49
Hal B. Tucker	Vice President, Nuclear Production	1982	61
Joseph H. Welch, Jr.	Vice President, Greensboro Division	1989	64
Fred E. West, Jr.	Vice President, Charlotte Division	1981	53
Sue A. Becht	Treasurer	1988	47
Lewis F. Camp, Jr.	Secretary and Associate General	1980	61

Counsel
David L. Hauser Controller 1987 38

(*) As of February 1, 1990.

(**) Member of the Management Committee.

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Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the next annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

All of the above executive officers have held responsible positions with the Company for the past five years except for John P. O'Keefe. Mr. O'Keefe was a partner of Deloitte Haskins & Sells serving as its National Director, Public Utility Tax Practice, for approximately ten years immediately prior to joining the Company as Vice President, Taxes, on July 1, 1986.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

ITEM 2. PROPERTIES

The map on page 12 shows the location of the Company's service area and generating stations.

Reference is made to Schedule V - Property, Plant and Equipment for information concerning the Company's investment in utility plant. Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Company.

For additional information concerning the properties of the Company, see Item 1. - "Construction Program - Facilities Under Construction".

ITEM 3. LEGAL PROCEEDINGS.

Reference is made to "Business - Regulation - Nuclear Facilities" and Note 12 of "Notes to Consolidated Financial Statements".

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the Company's security holders during the last quarter of 1989.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Common Stock of the Company is traded on the New York Stock Exchange. At December 31, 1989, there were approximately 115,734 holders of shares of such Common Stock.

The following table sets forth for the periods indicated the dividends paid per share of Common Stock and the high and low sales prices of such shares reported by the New York Stock Exchange Composite Transactions:

Common Stock	Dividends Price Range		
	Per Share	High	Low
1989 by Quarter			
Fourth	\$0.78	\$56 1/2	\$50 1/2
Third	0.78	53 1/4	49 1/2
Second	0.74	50 1/2	44 1/4
First	0.74	46 3/4	42 3/4
1988 by Quarter			
Fourth	\$0.74	\$47 5/8	\$44 5/8
Third	0.74	46 1/4	42 5/8
Second	0.70	47 7/8	42 1/4
First	0.70	49	43

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ITEM 6. SELECTED FINANCIAL DATA.

DUKE POWER COMPANY SELECTED FINANCIAL DATA

Year Ended December 31
1989 1988 1987
(Dollars in thousands,
except per share figures)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Electric revenues	\$3,639,339	\$3,626,985	\$3,705,784
Electric expenses	2,934,739	2,997,434	3,047,827

1989 COPYRIGHT SEC ONLINE, INC., 1

Electric operating income	704,600	629,551	657,957
Other income	101,826	46,211	72,902
Income before interest deductions	806,426	675,762	730,859
Interest deductions	234,815	227,631	230,661
Cumulative effect of accrual of unbilled revenues	-	102,255	-
Net income	571,611	550,386	500,198
Dividends on preferred and preference stocks	52,477	53,329	54,264
Earnings for Common Stock	\$519,134	\$497,057	\$445,934

RATIO OF EARNINGS TO FIXED CHARGES

(SEC method) (a) 4.26 4.25 4.49

COMMON STOCK DATA

Shares of common stock

- End of year (thousands)	101,281	101,272	101,259
- Average (thousands)	101,277	101,266	101,250

Per share of common stock

Earnings (a)	\$5.13	\$4.91	\$4.40
Dividends	\$3.04	\$2.88	\$2.74
Book value			
- end of year	\$36.10	\$34.01	\$31.96
Market price			
- high-low	\$56 1/2	\$49	\$51 3/4
	-42 3/4	-42 1/4	-39 3/8
- end of year	\$56 1/8	\$46 1/4	\$42 7/8

TOTAL ASSETS	\$9,542,398	\$8,890,605	\$8,511,794
LONG-TERM DEBT	\$2,822,442	\$2,728,794	\$2,723,382
PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS	\$247,825	\$255,850	\$263,875

(TABLE CONTINUED)

Year Ended December 31

1986 1985

(Dollars in thousands,
except per share figures)CONDENSED CONSOLIDATED
STATEMENTS OF INCOME

Electric revenues	\$3,400,933	\$3,898,911
Electric expenses	2,816,157	2,370,876

Electric operating income	584,776	528,035
Other income	127,880	163,821
Income before interest deductions	712,656	691,856
Interest deductions	244,822	254,263
Cumulative effect of accrual of unbilled revenues	-	-
Net income	467,834	437,593
Dividends on preferred and preference stocks	58,767	60,912
Earnings for Common Stock	\$409,067	\$376,681

RATIO OF EARNINGS TO FIXED CHARGES

(SEC method) (a) 4.26 3.87

COMMON STOCK DATA

Shares of common stock

- End of year (thousands)	101,236	101,194
- Average (thousands)	101,220	101,178

Per share of common stock

Earnings (a)	\$4.04	\$3.72
Dividends	\$2.64	\$2.54
Book value		
- end of year	\$30.34	\$28.98
Market price		
- high-low	\$52	\$36 7/8
	-34 7/8	-28 1/2
- end of year	\$45 1/4	\$35 3/8

TOTAL ASSETS	\$8,226,729	\$8,024,163
LONG-TERM DEBT	\$2,752,302	\$2,721,041

PREFERRED STOCKS WITH SINKING FUND REQUIREMENTS	\$221,991	\$277,012

(A) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Results of Operations

Earnings and Dividends

Earnings per share increased to \$5.13 in 1989 compared to \$4.91 in 1988. The increase in the current year was primarily due to higher sales and lower maintenance expenses at fossil and nuclear plants. These increases were partially offset by a decrease of \$.11 per share due to the refund resulting from the North Carolina Utilities Commission (NCUC) order which lowered the Company's rate of return on common equity in response to a decision of the North Carolina Supreme Court. Earnings per share for 1988 included an increase of \$1.01 per share for the effect of accruing unbilled revenues, a provision for the loss of \$.46 per share because of a court order excluding costs of abandoned plants from the other Catawba joint owners' supplemental power rates and \$.15 per share related to benefits for employees laid off after a work activity review completed late in 1988.

Earnings per share increased over the past five years at an annual rate of 8 percent, to \$5.13 in 1989 from \$3.72 in 1985. The total Company's earned return on average common equity increased from 13.4 percent in 1988 to 14.7 percent in 1989. The return on average common equity in 1988 excludes the effect of accruing for unbilled revenues and the provision for the abandonment loss.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from \$2.54 in 1985 to \$3.04 in 1989, rising at an annual rate of 5 percent. Consistent with the five-year trend, indicated annual dividends per share increased to \$3.12.

Revenues and Sales

Revenues billed to customers decreased slightly from 1987 to 1989. Higher kilowatt-hour sales were offset by decreases in prices. Growth in economic activity in the Piedmont Carolinas has caused kilowatt-hour sales billed to increase at a 1 percent annual rate from 1987 to 1989.

Kilowatt-hour sales billed for 1989 were essentially flat when compared to 1988. An increase in sales to the retail sector was partially offset by a decrease in special sales to other utilities. Sales to general service customers increased 4 percent reflecting an overall increase in the customer base. Industrial sales (both textile and other industries) increased 3 percent reflecting economic growth in the service area.

Operating Expenses

Non-fuel operating and maintenance expense rose at an annual rate of 5 percent from 1985 to 1989. Factors contributing to this rise include increased maintenance at the nuclear stations, additional Nuclear Regulatory Commission requirements and inflation.

"Net interchange and purchased power" decreased 12 percent from \$587 million in 1988 to \$514 million in 1989. The decrease is primarily due to an increase in sales of interchange power.

Fuel expense increased slightly from \$625 million in 1987 to \$660 million in 1989. Higher production required to meet a higher level of demand was partially offset by declining fuel prices. Fuel expense for 1989 increased 5 percent over 1988. This increase reflected the need for additional fossil generation in response to the growth in sales.

Damage from Hurricane Hugo will cost approximately \$64 million. The capital portion of these costs, about \$44 million, will be capitalized and depreciated over approximately 30 years. The Company has received approval from the appropriate regulatory commissions to defer and amortize the remaining \$20 million over a five-year period. Regulatory approval has also been received to defer and amortize over a five-year period another \$3.5 million, of a total \$9.7 million, in damages from tornadoes that struck the Piedmont in May.

Other Income

Allowance for funds used during construction (AFUDC) represented 15 percent of earnings for common stock in 1989, increasing from 14 percent in 1988 and 11 percent in 1987. The moderate
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increase in AFUDC over the past three years is a result of construction of the Bad Creek Hydroelectric Station. AFUDC is expected to continue to rise moderately as the Bad Creek Hydroelectric Station nears completion.

Included in "Other, net," the carrying charge on purchased capacity levelization represented 7 percent of total earnings compared to 5 percent in 1988. This change is due to the increasing cumulative effect of the Company's funding purchased power costs not currently collected in rates. (See Note 3, "Notes to Consolidated Financial Statements.")

Subsidiary and non-utility earnings, of which major components are investing income, Crescent Resources, Inc. and merchandising, were 7 percent of total Company earnings in 1989, compared to 6 percent in 1988. The slight increase in these earnings from 1988 is due to an increase in earnings from subsidiary operations which was partially offset by a decrease in investment income as a result of the reduction in the overall investment base of certain subsidiaries.

Liquidity and Resources

Rate Matters

From 1985 through 1989, the Company was involved in various retail rate

activities. In 1985 and 1986, rate increases provided for the recovery of the Company's investment in both units of the Catawba Nuclear Station and recovery of increased purchased power and operating expenses. These increases were partially offset when the Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988, to recognize the lower corporate income tax rates included in the Tax Reform Act of 1986. The Company does not anticipate the need for any general rate activity until it is necessary to recover the investment in the Bad Creek Hydroelectric Station. (For additional information on rate matters, see Note 2, "Notes to Consolidated Financial Statements.")

In July 1987 the Federal Energy Regulatory Commission (FERC) approved a 3.56 percent increase in the Company's wholesale rates, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A 2.4 percent rate reduction was implemented in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting a reduction in the corporate income tax rate.

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

Certain parties appealed the Company's 1986 rate order of the NCUC to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts, and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During the first quarter of 1989, the Company accrued approximately \$24 million for the refund. The refund has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that the Commission acted properly and the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related to the Interconnection Agreements (the Agreements). The basic contention in each proceedings

is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters may be material, they are items covered by the Agreements
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between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined; however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

On July 28, 1987, the FERC granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates, affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of \$.46 per share, reflected in the fourth quarter of 1988.

Capital Structure

The Company's capital structure at year-end was 51 percent common equity, 40 percent long-term debt, and 9 percent preferred and preference stocks. This capital structure is consistent with the Company's long-term financial goals.

To satisfy the requirements of various stock purchase plans, the Company purchases common stock on the stock market. The Company does not anticipate issuing common stock, other than for preference stock conversions, in the near term. However, the Company issued new long-term debt in early 1990 and intends to issue additional long-term debt during the year.

Cash From Operations

In 1989 net cash provided by operating activities accounted for 73 percent of total cash from operating, financing and investing activities. Approximately 13 percent of total cash from operating, financing and investing activities is being used for construction of the Bad Creek Hydroelectric Station.

Cash From Financing and Investing Activities

During the years 1985-1987, the Company obtained additional funds of \$892 million from the sale of first and refunding mortgage bonds and \$148 million from the sale of preferred stock. These funds were obtained primarily for refinancing activities. In 1988 no additional funds were obtained from the sale of first and refunding mortgage bonds

or preferred stock. In 1989 the Company received approval from the NCUC and The South Carolina Public Service Commission to enter into a financing arrangement involving the issuance and sale of a maximum of \$130 million principal amount of its commercial paper backed by long-term bank credit agreements. In accordance with this arrangement, the Company then issued and sold \$130 million principal amount of its commercial paper included in the Consolidated Statements of Capitalization as "Other long-term debt." The proceeds from the issuance of this commercial paper were used primarily to terminate the Nuclear Fuel Trust financings of \$86 million.

The Company also plans to file a registration statement with the Securities and Exchange Commission (SEC) to issue up to \$250 million in First and Refunding Mortgage bonds to be designated as "Medium Term Notes." Approval for the issuance of these Medium Term Notes has been received by the Company from the appropriate state regulatory agencies. The Company amended a registration statement previously filed with the SEC to issue up to a maximum of \$300 million First and Refunding Mortgage bonds. The amendment will permit the Company to obtain necessary funds for construction purposes. Also in early 1990, the Company issued \$200 million in new long-term debt and intends to utilize a portion of the proceeds to redeem the 12 5/8% First and Refunding Mortgage bonds. The Company intends to issue additional long-term debt during the year. The Company has not issued any common stock for the past five years except to satisfy the requirements of its stock purchase plans and the conversion rights of preference stock.

Because of refinancings, the Company's embedded cost of long-term debt was lowered from 9.47 percent at year-end 1985 to 8.71 percent at year-end 1989. The embedded cost of preferred stock declined from 8.75 percent at the end of 1985 to 7.86 percent at the end of 1989. (For additional

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information on the Company's capitalization, see Notes 6, 7, 8 and 9, "Notes to Consolidated Financial Statements.")

Church Street Capital Corp., a wholly owned subsidiary of Duke Power Company, was formed in 1985. During the 1989 the Company reorganized its subsidiary structure by contributing the stock of its non-utility subsidiaries to Church Street Capital. In addition, the non-utility subsidiaries transferred their investment funds to their new parent. Church Street Capital will provide for central management of funds intended for future non-utility operations. Mint Street Capital Associates, a general partnership of certain subsidiaries of the Company, was dissolved and its assets were ultimately passed to Church Street Capital as a result of the reorganization. As of December 31, 1989, Duke Power Company and consolidated subsidiaries had approximately \$56 million in intermediate-term investments and \$58 million in short-term investments.

Fixed Charges Coverage

Fixed charges coverage increased slightly to 4.26 times for 1989 compared to 4.25 times in 1988 using the SEC method. Fixed charges coverage, excluding AFUDC and the return on purchased capacity levelization, was 3.83 times in 1989 compared to 3.88 times in 1988 and the Company's goal of 3.5 times.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$1.1 billion and retirements of \$.1 billion resulted in a net increase in gross plant of \$1.0 billion in 1989.

Since January 1, 1985, additions to property and nuclear fuel of \$4.2 billion and retirements of \$282 million have resulted in a net increase in gross plant of \$3.9 billion.

Construction Expenditures

Plant construction costs for generating facilities, including AFUDC, increased from \$204 million in 1985 to \$388 million in 1989. This increase is primarily the result of construction expenditures at the Bad Creek Hydroelectric Station. Construction costs for distribution plant, including AFUDC, increased from \$178 million in 1985 to \$310 million in 1989, primarily reflecting customer growth in the service area.

Purchased Capacity Levelization

The rates established in the Company's retail jurisdictions permit the Company to recover its investments in both units of the Catawba Nuclear Station and the costs associated with the contractual purchases of capacity from the other Catawba joint owners. The contracts relating to the sales of portions of the station obligate the Company to purchase power from the other joint owners on an annually declining basis. In the North Carolina retail jurisdiction, regulatory treatment of these contracts provides revenue for the recovery of the capital costs and the fixed operating and maintenance costs of purchased capacity on a levelized basis. In the South Carolina retail jurisdiction, revenues are provided for the recovery of the capital costs of purchased capacity on a levelized basis, while the fixed operating and maintenance costs are recovered in current rates.

The rate treatments require the Company to fund portions of the purchased power payments until the costs, including carrying charges, are recovered at a later date. The Company recovers the accumulated

costs and carrying charges when the declining purchased capacity payments drop below the levelized revenues.

The levelized recovery of purchased power obligations under contracts with the other joint owners of the Catawba Nuclear Station will result in payments by the Company over the next three years exceeding the amounts collected in rates for such power by approximately \$231 million. (For additional information on purchased capacity levelization, see Note 3, "Notes to Consolidated Financial Statements.")

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Future Construction Program

Construction costs for major generating facilities for 1990 through 1992 will reflect continued progress at the Bad Creek Hydroelectric Station and the new Lincoln Combustion Turbine Station as discussed below. Projected construction costs and nuclear fuel costs cumulatively for the next three years are \$2.47 billion and \$566 million, respectively.

Construction continued at the Bad Creek Hydroelectric Station in 1989. Units 1 and 2 of the 1,065-megawatt pumped-storage facility are officially scheduled for completion in 1992, with Units 3 and 4 in 1993. However, construction is currently ahead of schedule. By year-end, \$694 million of an estimated \$1.1 billion had been spent.

In 1989 the Company announced that a site in Lincoln County, North Carolina, had been selected for a new combustion turbine (CT) facility to meet customer demand in the mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200 MW of electricity. Current plans are for the first CT to be operational as early as 1994. Duke has notified the appropriate state regulatory agencies of its intent to begin procedures to obtain required permits for construction and operation of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power needs in the 1990s and beyond.

Significant Trends

While the Company maintained solid financial performance in 1989, the ability to maintain and improve this level of financial strength will depend on several factors. Future trends in the Company's earnings depend to a large extent economic conditions in the Piedmont Carolinas

and on the ability of the Company to maintain and further pursue efficiencies.

During 1989 the Company offered for sale Mill-Power Supply Company, one of Duke's subsidiaries. The Company entered into an agreement with the city of Anderson, South Carolina, which relieved Duke of its obligation to operate the transit system. The Company also has entered into a similar agreement with the city of Durham, North Carolina, subject to certain contingencies. Management is of the opinion that these transactions will not have a material impact on the results of operations or the financial position of the Company.

In 1989 the Company along with the Fluor Corporation of Irvine, California, announced the formation of a new entity named Duke/Fluor Daniel, Duke/Fluor Daniel, specializing in coal-fired projects, will offer total design, engineering, construction and operating services of new power plants or repowering, upgrading or modifying existing plants.

The Company is currently monitoring proposed legislation to amend the Clean Air Act. Duke supports the national objective of clean air and has reduced emissions through the use of low-sulfur coal in its fossil plants, through efficient operations and by utilizing nuclear generation. While the Company supports action on this issue, it is concerned that the currently proposed legislation disregards the efforts of utilities, such as Duke, that have already established low emission standards. Without amendments that credit Duke with clean-air actions already taken, the proposed legislation would be very costly to implement.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

DUKE POWER COMPANY

LIST

Financial Statements:

Consolidated Statements of Income for the Three Years Ended December 31, 1989

Consolidated Statements of Cash Flows for the Three Years Ended December 31, 1989

Consolidated Balance Sheets - December 31, 1989 and 1988

Consolidated Statements of Capitalization - December 31, 1989 and 1988

Consolidated Statements of Retained Earnings for the Three Years Ended December 31, 1989

Notes to Consolidated Financial Statements

Independent Auditors' Report

Responsibility for Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules:

Schedule V - Property, Plant and Equipment for the Years Ended December 31, 1989, 1988 and 1987

Schedule VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1989, 1988 and 1987

Schedule VIII - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1989, 1988 and 1987

Schedule X - Supplementary Consolidated Income Statement Information for the Years Ended December 31, 1989, 1988 and 1987

Exhibit I - Computation of Fully Diluted Earnings Per Share (Unaudited)

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DUKE POWER COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	1989	1988	1987
	(Dollars in Thousands)		
ELECTRIC REVENUES (Notes 1 and 2)	\$3,639,339	\$3,626,985	\$3,705,784
ELECTRIC EXPENSES			
Operation			
Fuel used in electric generation (Note 1)	660,212	626,191	624,814
Net interchange and purchased power (Note 3)	514,189	587,145	581,175
Wages, benefits and materials	508,743	529,129	485,192
Maintenance of plant facilities	348,944	383,307	375,085
Depreciation and amortization (Notes 1 and 10)	410,938	417,503	411,182
General taxes	184,134	182,000	173,897
Income taxes (Notes 1 and 4)	307,579	272,159	396,482
Total electric expenses	2,934,739	2,997,434	3,047,827
Electric operating income	704,600	629,551	657,957
OTHER INCOME (Notes 1, 4 and 13)			

Allowance for equity funds used during construction	61,347	52,616	36,742
Other, net	28,930	16,978	18,002
Provision for abandonment loss (Note 12)	-	(81,999)	-
Income taxes - abandonment loss (Note 4)	-	34,967	-
Income taxes - other, net	(9,053)	3,547	(4,397)
Income taxes - credit	20,602	20,102	22,555
Total other income	101,826	46,211	72,902

Income before interest deductions	806,426	675,762	730,859

INTEREST DEDUCTIONS

Interest on long-term debt	237,187	235,061	237,367
Other interest	16,505	7,979	3,853
Allowance for borrowed funds used during construction (credit) (Note 1)	(18,877)	(15,409)	(10,559)

Total interest deductions	234,815	227,631	230,661

INCOME BEFORE CUMULATIVE

EFFECT OF CHANGE IN ACCOUNTING METHOD	571,611	448,131	500,198

Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)	-	102,255	-

NET INCOME	571,611	550,386	500,198
Dividends on preferred and preference stocks	52,477	53,329	54,264

EARNINGS FOR COMMON STOCK	\$519,134	\$497,057	\$445,934

COMMON STOCK DATA

Average shares outstanding (thousands)	101,277	101,266	101,250

Earnings per share before cumulative effect of change in accounting method	\$5.13	\$3.90	\$4.40

Cumulative effect of a change in method of accounting for unbilled revenues	-	1.01	-

Total earnings per share	\$5.13	\$4.91	\$4.40

Dividends per share \$3.04 \$2.88 \$2.74

See Notes to Consolidated Financial Statements.

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DUKE POWER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31
1989 1988 1987
(Dollars in Thousands)

CASH FLOWS FROM OPERATING

ACTIVITIES

Net income	\$571,611	\$550,386	\$500,198
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash items			
Depreciation and amortization (Notes 1 and 10)	605,105	632,866	616,956
Deferred income taxes and investment tax credit, net of amortization (Note 4)	61,063	(16,699)	82,623
Allowance for equity funds used during construction	(61,347)	(52,616)	(36,742)
Purchased capacity levelization (Note 3)	(95,216)	(95,738)	(134,452)
Provision for abandonment loss (Note 12)	-	81,999	-
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)	-	(102,255)	-
Other, net	21,154	62,970	46,367
(Increase) Decrease in			
Accounts receivable	(63,285)	(5,464)	(6,360)
Materials and supplies	(13,960)	(4,203)	(15,837)
Prepayments	915	1,630	1,323
Increase (Decrease) in			
Accounts payable	29,249	41,935	42,396
Taxes accrued (Note 4)	49,961	(19,010)	(54,692)
Interest accrued and other liabilities (Note 9)	3,628	7,061	(43)
Total adjustments	537,267	532,476	541,539
Net cash provided by operating			

activities 1,108,878 1,082,862 1,041,737

**CASH FLOWS FROM INVESTING
ACTIVITIES**

Construction expenditures	(819,799)	(754,076)	(611,374)
Investment in nuclear fuel	(179,093)	(142,575)	(129,510)
Purchase of Nantahala Power and Light	(29,576)	-	-
Proceeds from sale of assets	-	-	23,496
Net change in investment securities (Note 1)	26,515	198,586	55,656

Net cash used in investing
activities (972,377) (727,641) (661,732)

**CASH FLOWS FROM FINANCING
ACTIVITIES**

Proceeds from the issuance of First and refunding mortgage bonds	-	245,866	-
Pollution-control bonds	15,906	1,283	38,734
Nuclear fuel trusts	50,945	85,612	77,388
Preferred stock	-	49,563	-
Short-term notes payable (Note 5)	170,000	-	-
Other long-term debt	130,000	-	-
Payments for the redemption of First and refunding mortgage bonds	-	(285,752)	-
Pollution-control bonds	-	(25,000)	-
Nuclear fuel trusts	(136,945)	(85,612)	(76,388)
Preferred stock	(8,025)	(8,025)	(50,848)
Payments under capital lease obligation	(4,748)	(4,348)	(3,982)
Dividends paid	(360,352)	(344,964)	(331,691)

Net cash used in financing
activities (143,219) (356,054) (362,110)

NET INCREASE (DECREASE) IN

CASH	(6,718)	(833)	17,895
CASH AT BEGINNING OF YEAR	20,676	21,509	3,614
CASH AT END OF YEAR	\$13,958	\$20,676	\$21,509

See Notes to Consolidated Financial Statements.

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DUKE POWER COMPANY

CONSOLIDATED BALANCE SHEETS

December 31
1989 1988
(Dollars in Thousands)

ASSETS

ELECTRIC PLANT

(At original cost - Notes 1,
3, 9 and 12)

Electric plant in service	\$9,738,983	\$9,121,987
Less accumulated depreciation and amortization	3,374,412	3,104,088

Electric plant in service, net	6,364,571	6,017,899

Nuclear fuel	1,694,967	1,537,534
Less accumulated amortization	1,397,475	1,219,828

Nuclear fuel, net	297,492	317,706

Construction work in progress (including nuclear fuel in process: 1989 - \$159,034; 1988 - \$125,194)	1,255,232	1,038,091

Total electric plant, net	7,917,295	7,373,696

OTHER PROPERTY AND INVESTMENTS

Other property - at cost (less accumulated depreciation: 1989 - \$68,391; 1988 - \$64,677)	144,513	106,843

Other investments, at cost or less	121,103	115,957

Total other property and investments	265,616	222,800

CURRENT ASSETS

Cash (Note 5)	13,958	20,676
Short-term investments	58,050	89,711
Receivables (less allowance for losses: 1989 - \$3,837; 1988 - \$3,690) Note 1)	519,839	456,554

Materials and supplies - at average cost		
Coal	84,036	83,405
Other	182,951	169,622
Prepayments	11,209	12,524

Total current assets	870,043	832,092

DEFERRED DEBITS

Purchased capacity costs (Note 3)	239,671	192,084
Cancelled construction projects (Notes 10 and 12)	144,128	182,542
Debt expense (Note 1)	73,191	75,835
Other	32,454	11,556

Total deferred debits	489,444	462,017

TOTAL ASSETS	\$9,542,398	\$8,890,605

CAPITALIZATION AND LIABILITIES

CAPITALIZATION (See Consolidated Statements of Capitalization)	\$7,154,274	\$6,856,723

CURRENT LIABILITIES

Accounts payable	306,232	264,988
Taxes accrued (Note 1)	76,613	26,652
Interest accrued	67,992	67,945
Other	60,915	57,334

Total	511,752	416,919

Notes payable (Note 5)	170,000	

Current maturities of long-term debt and preferred stocks	13,210	51,343

Total current liabilities	694,962	468,262

ACCUMULATED DEFERRED INCOME

TAXES (Notes 1 and 4)	1,206,730	1,117,383

DEFERRED CREDITS AND OTHER

LIABILITIES

Investment tax credit (Notes 1 and 4)	324,466	331,644
Other	161,966	116,593

Total deferred credits and other liabilities	486,432	448,237

COMMITMENTS AND CONTINGENCIES

(Note 12)

TOTAL CAPITALIZATION AND LIABILITIES	\$9,542,398	\$8,890,605

See Notes to Consolidated Financial Statements.

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DUKE POWER COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION

December 31
1989 1988
(Dollars in Thousands)

COMMON STOCK EQUITY (Notes 6
and 7)

Common stock, no par, 150,000,000 shares authorized; 101,281,445 shares outstanding for 1989 and 101,272,023 shares outstanding for 1988	\$1,862,721	\$1,862,495
Retained earnings	1,793,829	1,581,901

Total common stock equity	3,656,550	3,444,396

PREFERRED AND PREFERENCE
STOCKS WITHOUT SINKING FUND

REQUIREMENTS (Note 7)	427,457	427,683

PREFERRED STOCK WITH SINKING

FUND REQUIREMENTS (Note 8)	247,825	255,850

LONG-TERM DEBT (Note 9)

First and refunding mortgage bonds	2,645,838	2,630,803
Capitalized leases	70,812	75,560
Other long-term debt	130,000	-
Nuclear fuel trusts	-	86,000
Unamortized debt discount and premium, net (Note 1)	(19,023)	(20,251)
Current maturities of long-term debt	(5,185)	(43,318)

Total long-term debt	2,822,442	2,728,794

TOTAL CAPITALIZATION	\$7,154,274	\$6,856,723

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year Ended December 31
1989 1988 1987
(Dollars in Thousands)

BALANCE - Beginning of year	\$1,581,901	\$1,374,093	\$1,210,229
ADD - Net income	571,611	550,386	500,198

Total	2,153,512	1,924,479	1,710,427

DEDUCT

Dividends

Common stock	307,875	291,635	277,427

Preferred and preference

stocks	52,477	53,329	54,264

Capital stock transactions,

net	(669)	(2,386)	4,643

Total deductions	359,683	342,578	336,334

BALANCE - End of year	\$1,793,829	\$1,581,901	\$1,374,093

See Notes to Consolidated Financial Statements.

[HARDCOPY PAGE 27]

DUKE POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Revenues. To provide a better matching of revenues and expenses, the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues effective January 1, 1988. Prior to 1988, the Company recognized revenues concurrent with billings to customers. The cumulative effect of this accounting change, less income taxes of \$63,803,000, amounted to \$102,255,000 and was included in 1988 income. Other than the recording of the cumulative effect adjustment, the new accounting method had no material effect on net income for 1988. Had this new accounting method been in effect during 1987, net income would not have been materially different from that shown in the accompanying financial statements. Unbilled revenues of \$195,867,000 and \$166,767,000 are recorded as a component of "Receivables" on the Consolidated Balance Sheets as of December 31, 1989 and 1988, respectively.

B. Additions to Electric Plant. The Company capitalizes all construction-related direct labor and materials as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized. The cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs, less salvage

value, is charged to accumulated depreciation.

C. Allowance for Funds Used During Construction (AFUDC). AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. AFUDC, a non-cash, non-operating item, is recognized as a cost of "Construction work in progress" (CWIP), with offsetting credits to "Other income" and "Interest deductions." After construction is completed, the Company is permitted to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.35 percent for 1989, 9.34 percent for 1988 and 9.11 percent for 1987.

D. Depreciation and Amortization. Provisions for depreciation are recorded using the straightline method. The year-end composite weighted-average depreciation rates were 3.58 percent for 1989, 3.61 percent for 1988 and 3.60 percent for 1987. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a rate of 4 percent, which includes an allowance for decommissioning costs.

The Nuclear Regulatory Commission (NRC) issued a rulemaking in 1988 which will require an external mechanism to fund the liability to decommission the components of a nuclear unit subject to radioactive contamination. The minimum funding level mandated by the NRC is approximately \$100 million per unit in 1986 dollars to be funded by the end of the licensed life of the plant. The other joint owners of the Catawba Nuclear Station are liable for funding decommissioning activities related to their ownership interest in the station. The Company is required to submit a funding plan to the NRC by July 1990.

Amortization of nuclear fuel is included in "Fuel used in electric generation" in the Consolidated Statements of Income. The amortization is recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company has entered into contracts with the Department of Energy (DOE) for the disposal of nuclear fuel. Payments made to the DOE for disposal costs are based on nuclear generation and are included in "Fuel used in electric generation" in the Consolidated Statements of Income.

E. Subsidiaries. The Company's consolidated financial statements reflect consolidation of all of its wholly owned subsidiaries, in accordance with a statement issued by the Financial Accounting [HARDCOPY PAGE 28]

Standards Board (FASB). All significant intercompany transactions have

been eliminated in consolidation. Information for 1987 has been restated to conform to the new presentation.

F. Income Taxes. The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its separate company taxable income or loss.

Income taxes are allocated to non-electric operations under "Other income" and to electric operating expense. The "Income taxes-credit" classified under "Other income" results from tax deductions of interest costs relating primarily to investments in CWIP, canceled construction projects, and short-and intermediate-term investments.

Deferred income taxes have been provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, levelization of purchased power costs, canceled construction projects and unbilled revenues. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

G. Unamortized Debt Premium, Discount and Expense. Expenses incurred in connection with the issuance of presently outstanding long-term debt, and premiums and discounts relating to such debt, are being amortized over the terms of the respective issues. Also, any expenses or call premiums associated with refinancing higher-cost debt obligations are being amortized over the lives of the new issues of long-term debt.

H. Fuel Cost Adjustment Procedures. Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings.

All jurisdictions allow the Company to adjust for past over- or under-recovery of fuel costs. Therefore, the Company reflects in revenues the difference between actual fuel costs incurred and fuel costs recovered through rates.

The North Carolina legislature ratified a bill in July 1987 assuring the legality of such adjustments in rates. The bill has a sunset provision which has been extended to July 1, 1991.

I. Consolidated Statements of Cash Flows. The FASB issued a statement requiring the implementation of the Consolidated Statements of Cash Flows in 1988. The Consolidated Statements of Cash Flows replaces the Statements of Changes in Financial Position provided in previous years. Information for 1987 has been restated to conform to the new presentation. For purposes of the Consolidated Statements of Cash Flows, the Company's investments in highly liquid debt instruments with a maturity of three months or less are included in cash flows from

investing activities, and thus are not considered cash equivalents.

2. Rates Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina must approve rates for retail sales within their respective state. The Federal Energy Regulatory Commission must approve the Company's rates for sales to wholesale customers. Sales to the other joint owners of the Catawba Nuclear Station, which represent a substantial majority of the Company's wholesale revenues, are now set through contractual agreements (see Note 3).

Changes in retail rates implemented by the Company since January 1, 1986, include rate increases of 6.73 percent, effective October 1986, and 9.55 percent, effective November 1986, in the North Carolina and South Carolina retail jurisdictions, respectively. These increases provided for recovery of the Company's investment in Catawba Unit 2 and payments related to the purchased power contracts with the plant's other joint owners. As a result of an appeal by certain parties of the [HARDCOPY PAGE 29]

Company's 1986 rate order of the NCUC, the Company's authorized return on common equity was reduced in 1989 from 13.40 percent to 13.20 percent (see Note 12).

The Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988. These reduction recognize the lower corporate income tax rate included in the Tax Reform Act of 1986.

3. Joint Ownership of Generating Facilities

The Company has sold interests in both units of the Catawba Nuclear Station. The other owners of portions of the Catawba Nuclear Station and supplemental information regarding their ownership are as follows:

Owner	Ownership Interest in the Station
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.125%
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%

Each participant has provided its own financing for its ownership interest in the plant.

The Company retains a 12.5 percent ownership interest in Catawba. As of December 31, 1989, \$492,900,000 of "Electric plant in service" represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of \$114,000,000 associated with Catawba had been recorded as of year-end. The Company's share of operating costs of Catawba are included in the corresponding electric expenses in the Consolidated Statements of Income.

In connection with the joint ownership, the Company has entered into contractual agreements with the other joint owners to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements were effective beginning with the commercial operation of each unit. Unit 1 and 2 began commercial operation in June 1985 and in August 1986, respectively. Such agreements were established for 15 years for NCMPA and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments are based on variable operating costs, a function of the generation output. Capacity payments are based on the fixed costs of the plant. The estimated purchased capacity obligations through 1994 are \$477,000,000 for 1990, \$413,000,000 for 1991, \$400,000,000 for 1992 and \$387,000,000 for 1993 and \$376,000,000 for 1994.

The North Carolina Utilities Commission and the Federal Energy Regulatory Commission granted the Company recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners over their contractual purchased power buyback periods. The Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over one-half their contractual purchased power buyback periods. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized.

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The portion of costs not recovered through current rates is being accumulated, and the Company is recording a net of tax carrying charge on the accumulated balance. The Company will start to recover the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1989, 1988 and 1987, the Company

recorded purchased capacity and energy costs from the other joint owners of \$598,100,000, \$632,200,000 and \$693,500,000, respectively. These amounts, reduced by the cost of capacity purchased not reflected in current rates, are included in "Net interchange and purchased power" in the Consolidated Statements of Income. As of December 31, 1989 and 1988, \$239,671,000 and \$192,084,000 net of income taxes, respectively, (\$425,103,000 and \$348,282,000, pretax, respectively), associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Consolidated Balance Sheets as "Purchased capacity costs."

4. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	1989	1988	1987
Income taxes related to electric expenses			
Current income taxes			
Federal	\$203,899	\$207,354	\$264,276
State	44,784	45,606	50,001
	248,683	252,960	314,277
Deferred taxes, net			
Excess tax over book depreciation	76,950	71,102	78,017
Catawba purchased capacity cost, net of amounts reflected in current rates	13,620	6,808	29,209
Amortization of canceled construction costs	(23,959)	(26,116)	(26,503)
Unbilled revenues	(15,716)	(13,965)	(6,133)
Storm damage	24,397	-	-
Other	(9,481)	(11,731)	21,120
	65,811	26,098	95,710
Investment tax credit			
Deferred	11,394	11,812	10,604
Amortization of deferments (credit)	(18,309)	(18,711)	(24,109)
	(6,915)	(6,899)	(13,505)
Total income taxes related to electric expenses	307,579	272,159	396,482
Income taxes related to other income			

Income taxes-abandonment loss	-	(34,967)	-
Income taxes-other, net	9,053	(3,547)	4,397
Income taxes-credit	(20,602)	(20,102)	(22,555)

Total income taxes related to other income	(11,549)	(58,616)	(18,158)

Total income tax expense	\$296,030	\$213,543 (*)	\$378,324

Total current income taxes were \$234,967,000 for 1989, \$230,242,000 for 1988 and \$295,701,000 for 1987. Of these amounts, state income taxes were \$40,877,000 for 1989, \$42,262,000 for 1988 and \$46,073,000 for 1987. Total income taxes paid were \$188,125,000 in 1989, \$226,400,000 in 1988 and \$294,365,000 in 1987.

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Total deferred income taxes were \$67,978,000 for 1989, \$ (9,800,000) for 1988 and \$96,128,000 for 1987. Of these amounts, deferred state income taxes were \$13,960,000 for 1989, \$4,070,000 for 1988 and \$17,311,000 for 1987.

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1989	1988	1987
Income taxes on pretax income at the statutory federal rate of 34%-1989 and 1988, 39.95%-1987	\$294,998	\$224,967	\$350,970
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(27,276)	(23,128)	(18,897)
Amortization of electric investment tax credit deferrals	(18,309)	(18,711)	(24,109)
AFUDC in book depreciation/amortization	29,372	31,883	36,520
Deferred income tax flowback at rates higher than statutory	(22,761)	(27,989)	(7,268)
State income taxes, net of federal income tax benefits	36,852	30,928	38,110
Other items, net	3,154	(4,407)	2,998
Total income tax expense	\$296,030	\$213,543 (*)	\$378,324

(*) Excludes income taxes of \$63,803,000 related to unbilled revenues.

Such income taxes are included in "Cumulative effect of a change in method of accounting for unbilled revenues" on the Consolidated Statements of Income.

The Financial Accounting Standards Board has issued a statement that will require a change in the method of accounting for income taxes. While classification of certain items on the Consolidated Balance Sheets will change, there will be no material effect on the Company's results of operations. The Company is required to implement this accounting standard by 1992.

5. Short-Term Borrowings and Compensating-Balance Arrangements

The Company had unused short-term credit facilities of \$380,285,000 as of December 31, 1989, and \$360,700,000 as of December 31, 1988, and December 31, 1987, with 52 and 54 commercial banks, respectively. Included in these credit facilities are \$40,000,000 and \$95,000,000, respectively, allocated to annual tender, pollution-control revenue bonds. These facilities are on a fee basis and/or compensating-balance basis. There were no short-term borrowings during 1988 or 1987.

Cash balances maintained at the banks on deposit were \$8,649,000 as of December 31, 1989 and \$16,938,000 as of December 31, 1988. Substantially all of the Company's cash balances are maintained to compensate banks for their services, even though the Company has no formal compensating-balance arrangements. To compensate certain banks for credit facilities, the Company has average balance requirements. Amounts maintained were \$498,500 as of December 31, 1989 and \$1,303,500 as of December 31, 1988 and 1987. The Company retains the right of withdrawal with respect to the funds used for compensating-balance arrangements.

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A summary of short-term borrowings is as follows (dollars in thousands):

December 31,
1989

Amount outstanding at end of	
period-average rate of 8.68%	\$170,000
Maximum amount outstanding	
during the period	\$180,000
Average amount outstanding	
during the period	\$34,538
Weighted average interest	
rate for the period-computed	

on a daily basis 8.93%

6. Common Stock and Retained Earnings

Common Stock

During the past three years, stock market purchases were used to satisfy the requirements of the Company's stock plans. The Company currently issues new shares of common stock only for the conversion of preference stock. (See Note 7.)

As of December 31, 1989, a total of 4,667,370 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1989, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

7. Preferred and Preference Stocks Without Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1989 and 1988:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

The outstanding Preference Stock, 6 3/4% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1989, 1988 and 1987, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1989	2,256	9,422
1988	3,176	13,292
1987	5,489	22,959

In 1986 the Company issued 500,000 shares of Adjustable Rate Preferred Stock, Series A, with a par value of \$100 per share. The dividend rate is adjusted quarterly based on a percentage of the highest rate among certain U.S. Treasury rates. However, in no event will the dividend

rate for any dividend period be less than 5.50 percent per annum or greater than 10.50 percent per annum. This rate was 6.35 percent per annum at December 31, 1989.

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PREFERRED/PREFERENCE STOCKS W/OUT SINKING FUND REQUIREMENT 9-88

Preferred and preference stocks without sinking fund requirements as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Rate/Series	Shares		1989	1988
	Year	Out- Issued standing		
4.50% C	1964	350,000	\$35,000	\$35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
Adjustable Rate A	1986	500,000	50,000	50,000
6 3/4%, AA Convertible	1969	24,574	2,457	-
		26,830	-	2,683
Total			\$427,457	\$427,683

8. Preferred Stocks With Sinking Fund Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1989 and 1988:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

Preferred stocks with sinking fund requirements as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Rate/Series	Shares		1989	1988
	Year	Out- Issued standing		
7.35% I	1973	456,000	\$45,600	\$-
		480,000	-	48,000

8.20% J	1977	340,000	34,000	
		360,000	-	36,000
8.375% L	1978	360,000	36,000	
		380,000	-	38,000
8.84% N	1979	402,500	40,250	
		418,750	-	41,875
7.875% P	1986	500,000	50,000	50,000
7.12% Q	1987	500,000	50,000	50,000

Less: Current sinking fund requirements

7.35% I	(2,400)	(2,400)		
8.20% J	(2,000)	(2,000)		
8.375% L	(2,000)	(2,000)		
8.84% N	(1,625)	(1,625)		

Total \$247,825 \$255,850

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The annual sinking fund requirements through 1994 are \$8,025,000 in 1990 and 1991; \$9,525,000 in 1992; and \$11,025,000 in 1993 and 1994. Some additional redemptions are permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 108 percent of par values, plus accumulated dividends to the redemption date.

9. Long-Term Debt

First and refunding mortgage bonds outstanding as of December 31, 1989 and 1988, were as follows (dollars in thousands):

Series	Year Due	1989	1988
4 1/2%	1992	\$50,000	\$50,000
4 1/4% B	1992	50,000	50,000
4 1/2%	1995	40,000	40,000
8 1/2% B	1995	125,000	125,000
7 7/8%	1996	100,000	100,000
7 1/2% B	1997	100,000	100,000
5 3/8%	1997	72,600	72,600
6 3/8%	1998	68,500	68,500
7%	1999	56,075	56,075

8% B	1999	64,739	64,739
8 1/2%	2000	69,244	69,244
8 5/8% B	2000	95,635	95,635
7 1/2%	2001	97,900	97,900
7 3/8% B	2001	38,050	38,050
7 3/4%	2002	78,100	78,100
7 3/8%B	2002	67,900	67,900
7 3/4%	2003	94,872	94,872
8 1/8% B	2003	98,050	98,050
9 3/4%	2004	95,623	95,623
9 1/2%	2005	92,800	92,800
8 3/8%	2006	96,850	96,850
8 1/8%	2007	119,500	119,500
9 3/8%	2008	120,610	120,610
10 1/8%	2009	145,050	145,050
12 5/8%	2015	62,916	62,916
10 1/8% B	2015	50,000	50,000
9%	2016	175,000	175,000
8 1/2%	2017	150,000	150,000

Pollution-Control

9 1/8%	2013	77,000	77,000
6.10% (1989)	2014	40,000	40,000
6.125% (1988)			
7.70% (1989)	2012	20,000	20,000
6.25% (1988)			
7.75% (1989)	2017	10,000	10,000
5.85% (1988)			
7.50% (1989)	2017	25,000	25,000
5.45% (1988)			

Less: Funds held in trust (1,176) (16,211)

Total \$2,645,838 \$2,630,803

Substantially all electric plant was mortgaged as of December 31, 1989.

Interest paid, net of amount capitalized, was \$230,091,000, \$222,102,000 and \$227,557,000 for the years ended December 31, 1989, 1988 and 1987, respectively.

As of December 31, 1989, the Company had \$130,000,000 in commercial paper backed by an unused long-term credit facility of \$130,000,000. The \$130,000,000 principal amount of commercial paper is included in other long-term debt.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1994 are \$5,185,000 in 1990; \$5,702,000 in 1991; \$106,226,000 in 1992; \$6,804,000 in 1993 and \$21,049,000 in 1994.

10. Canceled Construction Projects

The construction of the Cherokee and Perkins Nuclear Stations was canceled. All retail jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 12.)

As of December 31, 1989 and 1988, the balances for these canceled projects, net of amortization, were \$233,896,000 and \$296,269,000, respectively (\$144,128,000 and \$182,542,000 net of income tax benefits, respectively).

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11. Retirement Benefits

A. Retirement Plan

The Company and its operating subsidiaries, with the exception of Nantahala Power and Light Company which maintains its own retirement plans, have a non-contributory, defined benefit retirement plan covering substantially all their employees. The benefits are based on years of creditable service and the employees' average compensation based on the highest compensation during a consecutive sixty-month period. The benefits are reduced by a Social Security adjustment for employees age sixty-five and over and for early retirees with no creditable service prior to September 1, 1980. The Company's policy is to fund pension costs accrued.

The Company adopted the provisions of Financial Accounting Standards Board Statement No. 87 (SFAS 87), "Employers' Accounting for Pensions," as of January 1, 1987. The adoption of the new standards did not result in a material change in pension expense in that year. The new standards were adopted prospectively, and related disclosures for previous years have not been restated.

A reconciliation of the funded status of the plan to the amounts recognized in the Consolidated Balance Sheets as of December 31, 1989 and 1988 is as follows (dollars in thousands):

	1989	1988
Accumulated benefit obligation:		
Vested benefits	\$ (582,142)	\$ (528,776)
Nonvested benefits	(22,623)	(30,852)
Accumulated benefit obligation	\$ (604,765)	\$ (559,628)

Fair market value of plan assets, consisting primarily of short-term investments and cash equivalents, common stocks, real estate investments, and government and industrial bonds 785,435 703,269
 Projected benefit obligation (755,353) (658,829)
 Unrecognized net experience gain (20,352) (50,677)
 Unrecognized prior service cost (14,232) -
 Remaining unrecognized SFAS 87 transitional obligation 1,602 1,736

Accrued pension costs \$ (2,900) \$ (4,501)

Net periodic pension cost for the years ended December 31, 1989, 1988 and 1987, included the following components (dollars in thousands):

	1989	1988
Service cost benefits earned during the year	\$24,809	\$25,442
Interest cost on projected benefit obligation	64,735	55,993
Actual return on plan assets	(104,226)	(72,465)
Amount deferred for recognition	34,532	6,815
Expected return on plan assets	(69,694)	(65,650)
Net amortization	(1,161)	(199)
Net periodic pension cost	\$18,689	\$15,586

(TABLE CONTINUED)

	1987
Service cost benefits earned during the year	\$26,707
Interest cost on projected benefit	

obligation	52,212
Actual return on plan assets	(43,000)
Amount deferred for recognition	(9,042)
Expected return on plan assets	(52,042)
Net amortization	134
Net periodic pension cost	\$27,011

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 9.5 percent in 1989, 1988 and 1987, while the assumed increase in future compensation levels was 6.5 percent in 1989, 1988 and 1987. The expected long-term rate of return on plan assets used in determining pension cost was 10.0 percent for 1989 and 1988 and 8.5 percent for 1987.

[HARDCOPY PAGE 36]

During 1988, the Company conducted a work activity review which resulted in the elimination of approximately 1,200 positions. Special termination benefits and severance benefits, which amounted to approximately \$24,000,000 of non-plan costs, were provided to those employees that were terminated. Also, as a result of the work activity review, the Company recorded a one-time net loss from terminations associated with its retirement plan of \$4,501,000.

B. Postretirement Benefits

The Company currently provides certain health care benefits for retired employees. Substantially all of the Company's employees become eligible for these benefits if they elect early retirement at age fifty-five with ten years of service or if they retire at sixty-five while working for the Company. The cost of retire health care benefits is recognized as expense as the benefits are paid. The cost to the Company for 1989, 1988 and 1987 amounted to \$6,700,000, \$6,600,000 and \$4,800,000, respectively. The Company reserves the right to terminate, suspend, withdraw, amend or modify the Plans in whole or in part at any time.

12. Commitments and Contingencies

A. Construction Program

Projected construction and nuclear fuel costs are \$2.47 billion and \$566 million, respectively, for 1990 through 1992. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to

various factors, including revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

B. Nuclear Insurance

The Company maintains nuclear insurance coverage in three areas; liability coverage, property and decontamination coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the other joint owners of the Catawba Nuclear Station for certain expenses associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act as recently amended, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$7.8 billion. The maximum required private primary insurance of \$200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently \$7.6 billion, which will be increased by \$63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to \$63 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$63 million amount is subject to indexing for inflation and is further subject to a surcharge of 5 percent if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of such assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides \$500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceeded its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$65 million. This amount represents 10 times the Company's annual premium to NML.

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The Company is also a member of Nuclear Electric Insurance Limited (NEIL) and purchases \$975 million of insurance through NEIL's excess property and decontamination liability insurance program. The company has also purchased an additional \$400 million of excess property damage insurance for its Oconee and McGuire plants and \$560 million for its Catawba plant through a pool of stock and mutual insurance companies. If losses ever exceed the accumulated funds available to NEIL for the

excess property and decontamination liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to \$25 million. This amount is limited to 7.5 times the Company's annual premium for \$500 million of excess property and decontamination liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba.

In addition to the \$975 million in coverage through NEIL's excess property program and the \$560 million in excess coverage mentioned above and in lieu of primary property coverage through NML, the company has placed \$500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately \$1.8 million, \$2.8 million and \$2.8 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100 percent for 52 weeks, 67 percent for a second 52 weeks, and 33 percent for a third 52 weeks. If NEIL's losses for this program ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$25 million. This amount represents 5 times the Company's annual premium to NEIL. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and others premium assessments resulting from the NEIL policies applicable to Catawba.

C. Other

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effects on the results of operations or the financial position of the Company.

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission (NCUC) to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of

material facts, and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40 percent to 13.20 percent, required refunds plus interest and reduced rates to reflect the lower rate of return on common equity. During the first quarter of 1989, the Company accrued approximately \$24 million for the refund. The refund has been paid. The Public Staff of the NCUC, joined by two other parties, has appealed this order. The Company is of the opinion that the Commission acted properly and the final disposition of this matter should not have a material adverse effect on its results of operations or financial position.

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The other joint owners of the Catawba Nuclear Station and the Company are involved in various proceedings related to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters may be material, they are items covered by the Agreements between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined; however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a material adverse effect on its results of operations or financial position.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of \$.46 per share, reflected in the fourth quarter of 1988.

13. Other Income

For the years ended December 31, 1989, 1988 and 1987, the Company recorded investment income of \$15,167,000, \$19,397,000, and \$6,850,000, respectively (\$13,532,000, \$20,098,000, and \$9,020,000, net of income taxes, respectively), as a component of "Other net" in the Consolidated Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes-other, net" in the Company's Consolidated Statements of Income.

14. Reclassification

In the Consolidated Balance Sheets and the Consolidated Statements of

Cash Flows, certain prior-year information has been reclassified to conform with 1989 classifications.

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INDEPENDENT AUDITORS' REPORT

Duke Power Company:

We have audited the consolidated financial statements of Duke Power Company and subsidiaries listed in the accompanying index on page 22. Our audit also comprehended the supplemental schedules of Duke Power Company and subsidiaries listed in the accompanying index on page 22. These financial statements and supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1989 and 1988 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles. Also, in our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

As discussed in Note 1 to the consolidated financial statements, in 1988 the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues.

DELOITTE & TOUCHE
Certified Public Accountants
CHARLOTTE, NORTH CAROLINA
FEBRUARY 9, 1990

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted

accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte & Touche. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

DAVID L. HAUSER
Controller

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DUKE POWER COMPANY
SUPPLEMENTAL FINANCIAL DATA-(Unaudited)

Quarterly Financial Data

A summary of quarterly financial data for 1989 and 1988 is as follows
(dollars in thousands, except per-share data):

First Quarter	Second Quarter	Third Quarter

1989 by quarter

Electric Revenues	\$863,235	\$877,304	\$1,011,294
Electric Operating Income	152,365	153,850	230,420
Net Income	127,280	127,270	194,812
Earnings Per Share	\$1.13	\$1.12	\$1.80

1988 by quarter (a)

Electric Revenues	\$917,358	\$829,999	\$1,029,452
Electric Operating Income	167,726	124,483	219,017
Income Before Cumulative Effect of Accrual of Unbilled Revenues	135,190	95,777	192,914
Cumulative Effect of Accrual of Unbilled Revenues-Net	102,255	-	-

Net Income	\$237,445	\$95,777	\$192,914

Earnings Per Share

Before Cumulative Effect of Accrual of Unbilled Revenues	\$1.20	\$0.82	\$1.77
Cumulative Effect of Accrual of Unbilled Revenues-Net	1.01	-	-

Total	\$2.21	\$0.82	\$1.77

(TABLE CONTINUED)

	Fourth Quarter (b)	Total

1989 by quarter

Electric Revenues	\$887,506	\$3,639,339
Electric Operating Income	167,965	704,600
Net Income	122,249	571,611
Earnings Per Share	\$1.08	\$5.13

1988 by quarter (a)

Electric Revenues	\$850,176	\$3,626,985
Electric Operating Income	118,325	629,551
Income Before Cumulative Effect of Accrual of Unbilled Revenues	24,250	448,131
Cumulative Effect of Accrual of Unbilled Revenues-Net	-	102,255

Net Income	\$24,250	\$550,386

Earnings Per Share

Before Cumulative Effect of

Accrual of Unbilled Revenues	\$0.11	\$3.90
Cumulative Effect of Accrual of Unbilled Revenues-Net	-	1.01
Total	\$0.11	\$4.91

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate changes and maintenance of electric generating units, especially nuclear units.

- (a) Quarterly information for 1988 has been restated to reflect the accrual of unbilled revenues. (See Note 1, "Notes to Consolidated Financial Statements").
- (b) The fourth quarter of 1988 includes the provision for abandonment loss and the cost of benefits for employees laid off after the work activity review. (See Notes 11 and 12, "Notes to Consolidated Financial Statements.")

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

No events necessary to be disclosed by the Company under this item have occurred.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information for this item concerning directors of the Company is set forth in the sections entitled "Election of Directors" and "Information Regarding the Board of Directors" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

Information concerning the executive officers of the Company is set forth under the section entitled "Executive Officers of the Company" in this annual report.

ITEM 11. EXECUTIVE COMPENSATION.

Information for this item is set forth in the section entitled "Executive Compensation" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information for this item is set forth in the sections entitled "Voting Securities Outstanding" and "Election of Directors" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information for this item is set forth in the section entitled "Election of Directors" in the proxy statement of the Company relating to its 1990 annual meeting of shareholders, which is incorporated herein by reference.

PART IV.

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

Consolidated Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Financial Statements

Consolidated Statements of Income for the Three Years Ended December 31, 1989

Consolidated Statements of Cash Flows for the Three Years Ended December 31, 1989

Consolidated Balance Sheets - December 31, 1989 and 1988

Consolidated Statements of Capitalization - December 31, 1989 and 1988

Consolidated Statements of Retained Earnings for the Three Years Ended December 31, 1989

Notes to Consolidated Financial Statements

Supplemental Financial Data (Unaudited)

Supplemental Schedules

Schedule V - Property, Plant and Equipment for the Years Ended December 31, 1989, 1988 and 1987

Schedule VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Years Ended December 31, 1989, 1988 and 1987

Schedule VIII - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1989, 1988 and 1987

Schedule X - Supplementary Consolidated Income Statement Information for the Years Ended December 31, 1989, 1988 and 1987

Exhibit I - Computation of Fully Diluted Earnings Per Share (Unaudited)

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All other schedules are omitted because of the absence of the

conditions under which they are required or because the required information is included in the financial statements or notes thereto.

Exhibits

(a) - See Exhibit List on page 48.

(b) - Annual Report on Form 11-K with respect to the Stock Purchase-Savings Program for Employees of the Company for the fiscal year ended October 31, 1989 and the Employees' Stock Ownership Plan for the year ended December 31, 1989.

Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1989.

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[PART IV ITEM 14]

EXHIBIT LIST

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Securities and Exchange Commission and pursuant to Rule 12b-32 are incorporated herein by reference.

Exhibit Number

- 3-A - Restated Charter of registrant, dated as of January 1, 1979 (filed with Form S-7, File No. 2-63592, effective March 14, 1979, as Exhibit 2-B-1).
- 3-B - Articles of Amendment to the Articles of Incorporation dated May 4, 1981 (filed with Form 10-K for the year ended December 31, 1981, File No. 1-4928, as Exhibit 3-B).
- 3-C - Statement of Classification of Shares relating to the 8.84% Cumulative Preferred Stock, Series N (filed with Form S-16, File No. 2-66561, effective February 6, 1980, as Exhibit 2-B-3).
- 3-D - Statement of Classification of Shares relating to the 11% Cumulative Preferred Stock Series O (filed with Form S-16, File No. 2-68582, effective August 19, 1980, as Exhibit 2-B-4).
- 3-E - Statement of Classification of Shares relating to the 15.40% Preferred Stock A, 1982 Series (filed with Form S-16, File No. 2-75953, effective February 23, 1982, as Exhibit 2-B-5).

- 3-F - Statement of Classification of Shares relating to the 7.875% Cumulative Preferred Stock, Series P (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-F).
- 3-G - Statement of Classification of Shares relating to the Adjustable Rate Cumulative Preferred Stock, Series A (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-G).
- 3-H - Statement of Classification of Shares relating to the 7.12% Cumulative Preferred Stock, Series Q (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 3-H).
- 3-I - By-Laws of registrant, as amended to date (filed with Form 10-K for the year ended December 31, 1986, as File No. 1-4928, as Exhibit 3-I).
- 4-B-1 - First and Refunding Mortgage from registrant to Guaranty Trust Company of New York, Trustee, dated as of December 1, 1927 (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(a)).
- 4-B-2 - Supplemental Indenture, dated as of March 12, 1930, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(b)).
- 4-B-3 - Supplemental Indenture, dated as of July 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(c)).
- 4-B-4 - Supplemental Indenture, dated as of December 1, 1935, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(d)).
- 4-B-5 - Supplemental Indenture, dated as of September 1, 1936, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(e)).
- 4-B-6 - Supplemental Indenture, dated as of January 1, 1941, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(f)).
- 4-B-7 - Supplemental Indenture, dated as of April 1, 1944, supplementing said Mortgage (filed with Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(g)).
- 4-B-8 - Supplemental Indenture, dated as of September 1, 1947, supplementing said Mortgage (filed with

- Form S-1, File No. 2-7224, effective October 15, 1947, as Exhibit 7(h)).
- 4-B-9 - Supplemental Indenture, dated as of September 8, 1947, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953, as Exhibit 4-B-9).

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Exhibit
Number

- 4-B-10 - Supplemental Indenture, dated as of February 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-7808, effective February 3, 1949, as Exhibit 7(j)).
- 4-B-11 - Supplemental Indenture, dated as of March 1, 1949, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(k)).
- 4-B-12 - Supplemental Indenture, dated as of April 1, 1951, supplementing said Mortgage (filed with Form S-1, File No. 2-8877, effective April 6, 1951, as Exhibit 7(l)).
- 4-B-13 - Supplemental Indenture, dated as of September 1, 1953, supplementing said Mortgage (filed with Form S-1, File No. 2-10401, effective August 21, 1953 as Exhibit 4-B-13).
- 4-B-14 - Supplemental Indenture, dated as of October 1, 1954, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-14).
- 4-B-15 - Supplemental Indenture, dated as of January 1, 1955, supplementing said Mortgage (filed with Form S-9, File No. 2-11297, effective December 30, 1954, as Exhibit 2-B-15).
- 4-B-16 - Supplemental Indenture, dated as of May 1, 1956, supplementing said Mortgage (filed with Form S-9, File No. 2-12402, effective April 26, 1956, as Exhibit 2-B-16).
- 4-B-17 - Supplemental Indenture, dated as of January 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-18).
- 4-B-18 - Supplemental Indenture, dated as of February 1, 1960, supplementing said Mortgage (filed with Form 10, effective June 29, 1961, as Exhibit 3-B-19).
- 4-B-19 - Supplemental Indenture, dated as of February 1, 1962, supplementing said Mortgage (filed with

- Form S-9, File No. 2-20577, effective August 16, 1962, as Exhibit 2-B-20).
- 4-B-20 - Supplemental Indenture, dated as of August 1, 1962, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-19).
- 4-B-21 - Supplemental Indenture, dated as of June 15, 1964, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966 as Exhibit 4-B-20).
- 4-B-22 - Supplemental Indenture, dated as of February 1, 1965, supplementing said Mortgage (filed with Form S-1, File No. 2-25367, effective August 23, 1966, as Exhibit 4-B-21).
- 4-B-23 - Supplemental Indenture, dated as of April 1, 1967, supplementing said Mortgage (filed with Form S-9, File No. 2-28023, effective February 15, 1968, as Exhibit 2-B-25).
- 4-B-24 - Supplemental Indenture, dated as of February 1, 1968, supplementing said Mortgage (filed with Form S-9, File No. 2-31304, effective January 21, 1969 as Exhibit 2-B-26).
- 4-B-25 - Supplemental Indenture, dated as of February 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-34289, effective August 27, 1969, as Exhibit 2-B-27).
- 4-B-26 - Supplemental Indenture, dated as of September 1, 1969, supplementing said Mortgage (filed with Form S-7, File No. 2-36095, effective February 16, 1970, as Exhibit 2-B-39).
- 4-B-27 - Supplemental Indenture, dated as of March 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-37953, effective July 28, 1970, as Exhibit 2-B-42.)
- 4-B-28 - Supplemental Indenture, dated as of August 1, 1970, supplementing said Mortgage (filed with Form S-7, File No. 2-39451, effective March 4, 1971, as Exhibit 2-B-28).
- 4-B-29 - Supplemental Indenture, dated as of March 1, 1971, supplementing said Mortgage (filed with Form S-7, File No. 2-42404, effective December 7, 1971, as Exhibit 2-B-29).

[HARDCOPY PAGE 50]

Exhibit
Number

- 4-B-30 - Supplemental Indenture, dated as December 1, 1971, supplementing said Mortgage (filed with

- Form S-7, File No. 2-43122, effective March 7, 1972, as Exhibit 2-B-30.)
- 4-B-31 - Supplemental Indenture, dated as of April 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-46208, effective November 20, 1972, as Exhibit 2-B-31).
- 4-B-32 - Supplemental Indenture, dated as of December 1, 1972, supplementing said Mortgage (filed with Form S-7, File No. 2-48058, effective June 5, 1973, as Exhibit 2-B-32.)
- 4-B-33 - Supplemental Indenture, dated as of June 1, 1973, supplementing said Mortgage (filed with Form S-7, File No. 2-49333, effective November 5, 1973, as Exhibit 2-B-33).
- 4-B-34 - Supplemental Indenture, dated as of November 1, 1973, supplementing said Mortgage (filed with Form S-7, Form No. 2-50493, effective April 25, 1974, as Exhibit 2-B-34).
- 4-B-35 - Supplemental Indenture, dated as of May 1, 1974, supplementing said Mortgage (filed with Form S-7, Form No. 2-52669, effective February 11, 1975, as Exhibit 2-B-35).
- 4-B-36 - Supplemental Indenture, dated as of February 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-36).
- 4-B-37 - Supplemental Indenture, dated as of July 1, 1975, supplementing said Mortgage (filed with Form S-7, File No. 2-57118, effective October 5, 1976, as Exhibit 2-B-37).
- 4-B-38 - Supplemental Indenture, dated as of October 1, 1976, supplementing said Mortgage (filed with Form S-7, File No. 2-59494, effective August 10, 1977, as Exhibit 2-B-38).
- 4-B-39 - Supplemental Indenture, dated as of September 1, 1977, supplementing said Mortgage (filed with Form S-7, File No. 2-61995, effective July 26, 1978, as Exhibit 2-B-39).
- 4-B-40 - Supplemental Indenture, dated as of August 1, 1978, supplementing said Mortgage (filed with Form S-7, File No. 2-64541, effective June 7, 1979, as Exhibit 2-B-40).
- 4-B-41 - Supplemental Indenture, dated as of June 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-65371, effective October 2, 1979, as Exhibit 2-B-41).
- 4-B-42 - Supplemental Indenture, dated as of October 1, 1979, supplementing said Mortgage (filed with Form S-7, File No. 2-66659, effective March 12, 1980, as Exhibit 2-B-42).

- 4-B-43 - Supplemental Indenture, dated as of March 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-68571, effective August 19, 1980, as Exhibit 2-B-43).
- 4-B-44 - Supplemental Indenture, dated as of August 1, 1980, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-44).
- 4-B-45 - Supplemental Indenture, dated as of March 1, 1982, supplementing said Mortgage (filed with Form S-16, File No. 2-75951, effective February 23, 1982, as Exhibit 2-B-45).
- 4-B-46 - Supplemental Indenture, dated as of September 1, 1982, supplementing said Mortgage (filed with Form S-3, File No. 2-78882, effective August 30, 1982, as Exhibit 4-B-46).
- 4-B-47 - Supplemental Indenture, dated as of May 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-47).
- 4-B-48 - Supplemental Indenture, dated as of September 1, 1983, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-48).

[HARDCOPY PAGE 51]

Exhibit
Number

- 4-B-49 - Supplemental Indenture, dated as of September 1, 1984, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-49).
- 4-B-50 - Supplemental Indenture, dated as of March 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 2-95931, effective April 1, 1985, as Exhibit 4-B-50).
- 4-B-51 - Supplemental Indenture, dated as of December 1, 1985, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-51).
- 4-B-52 - Supplementing Indenture, dated as of April 1, 1986, supplementing said Mortgage (filed with Form S-3, File No. 33-5163, effective May 2, 1986, as Exhibit 4-B-52).
- 4-B-53 - Supplemental Indenture, dated as of May 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-53).

- 4-B-54 - Supplemental Indenture, dated as of June 1, 1986, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-54).
- 4-B-55 - Supplemental Indenture, dated as of February 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-55).
- 4-B-56 - Supplemental Indenture, dated as of February 15, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-56).
- 4-B-57 - Supplemental Indenture, dated as of March 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1986, File No. 1-4928, as Exhibit 4-B-57).
- 4-B-58 - Supplemental Indenture, dated as of October 1, 1987, supplementing said Mortgage (filed with Form 10-K for the year ended December 31, 1987, File No. 1-4928, as Exhibit 4-B-58).
- (*)4-B-59 - Supplemental Indenture, dated as of February 1, 1990, supplementing said Mortgage.
- 10-A - Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
- 10-B - Agreement, dated as of August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
- 10-C - Agreement, dated as of October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-D - Agreement, dated as of October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- (*)12 - Computation of Ratio of Earnings to Fixed Charges.
- (*)24 - Consent of Independent Auditors.

[HARDCOPY PAGE 47]

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be

signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte and State of North Carolina on the 28th day of March, 1990.

DUKE POWER COMPANY
(Registrant)

By W.S. LEE
CHAIRMAN OF THE BOARD
MARCH 28, 1990

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below the following persons on behalf of the registrant and in capacities and on the date indicated.

W.S. LEE
CHAIRMAN OF THE BOARD AND PRESIDENT (PRINCIPAL EXECUTIVE OFFICER)
MARCH 28, 1990

R.J. OSBORNE
VICE PRESIDENT, FINANCE
(PRINCIPAL FINANCIAL OFFICER)
MARCH 28, 1990

DAVID L. HAUSER
CONTROLLER
(PRINCIPAL ACCOUNTING OFFICER)
MARCH 28, 1990

ROBERT L. ALBRIGHT
DIRECTOR
MARCH 28, 1990

CRANDALL C. BOWLES
DIRECTOR
MARCH 28, 1990

THOMAS H. DAVIS
DIRECTOR
MARCH 28, 1990

JOHN L. FRALEY
DIRECTOR
MARCH 28, 1990

ALESTER G. FURMAN III
DIRECTOR
MARCH 28, 1990

STEVE C. GRIFFITH, JR.

DIRECTOR
MARCH 28, 1990

W.H. GRIGG
DIRECTOR
MARCH 28, 1990

PAUL H. HENSON
DIRECTOR
MARCH 28, 1990

GEORGE R. HERBERT
DIRECTOR
MARCH 28, 1990

GEORGE DEAN JOHNSON, JR.
DIRECTOR
MARCH 28, 1990

JAMES V. JOHNSON
DIRECTOR
MARCH 28, 1990

W.W. JOHNSON
DIRECTOR
MARCH 28, 1990

W.S. LEE
DIRECTOR
MARCH 28, 1990

MAX LENNON
DIRECTOR
MARCH 28, 1990

BUCK MICKEL
DIRECTOR
MARCH 28, 1990

REECE A. OVERCASH, JR.
DIRECTOR
MARCH 28, 1990

WARREN H. OWEN
DIRECTOR
MARCH 28, 1990

JAMES C. SELF
DIRECTOR
MARCH 28, 1990

LEWIS F. CAMP, JR., by signing his name hereto, does hereby sign this document on behalf of the issuer and on behalf of each of the above-named persons pursuant to powers of attorney duly executed by the issuer and such persons, filed with the Securities and Exchange Commission as supplemental information.

LEWIS F. CAMP, JR.
ATTORNEY-IN-FACT
MARCH 28, 1990

SEC ONLINE INC.
SCHEDULE INDEX

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VIII	VALUATION/QUALIFYING ACCOUNTS	53
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[HARDCOPY PAGE 41]

SCHEDULE V

DUKE POWER COMPANY
SCHEDULE V-PROPERTY, PLANT AND EQUIPMENT
(Dollars in thousands)

Description	Balance Beginning of Year	Additions	Retirements
For the Year Ended December 31, 1989			
Electric Plant in Service - At Original Cost			
Production	\$4,722,544	\$145,377	\$19,287
Transmission	1,114,761	46,564	3,032
Distribution	2,477,568	323,858	22,198
General	622,814	168,358	8,020
Miscellaneous	184,301	2,764	-

Nuclear Fuel	1,537,533	157,434	-

Total electric plant in service	10,659,521	844,355	52,537

Construction Work in Progress	1,038,091	217,141	-

Other Property-At Cost

Water plant	31,486	1,624	68
Transit plant	3,039	-	215

Total other property	34,525	1,624	283

Total plant	\$11,732,137	\$1,063,120	\$52,820

For the Year Ended December

31, 1988

Electric Plant in Service -

At Original Cost

Production	\$4,631,961	\$93,996	\$307
Transmission	1,092,584	27,882	2,536
Distribution	2,223,589	278,664	25,868
General	531,167	109,003	16,900
Miscellaneous	182,936	480	-
Nuclear Fuel	1,410,315	127,218	-

Total electric plant in service	10,072,552	637,243	45,611

Construction Work in Progress	704,610	333,481	-

Other Property-At Cost

Water plant	30,580	1,153	240
Transit plant	3,160	(15)	106

Total other property	33,740	1,138	346

Total plant	\$10,810,902	\$971,862	\$45,957

For the Year Ended December

31, 1987

Electric Plant in Service -

At Original Cost

Production	\$4,563,815	\$80,827	\$1,593
Transmission	1,075,343	22,561	2,013
Distribution	2,043,595	194,991	17,314
General	411,281	130,265	12,145
Miscellaneous	175,600	3,056	-
Nuclear Fuel	1,175,398	234,917	-

Total electric plant in			

service	9,445,032	666,617	33,065
Construction Work in Progress	601,064	127,042	-
Other Property-At Cost			
Water plant	30,113	690	225
Transit plant	2,548	674	62
Total other property	32,661	1,364	287
Total plant	\$10,078,757	\$795,023	\$33,352

(TABLE CONTINUED)

Description	Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1989		
Electric Plant in Service - At Original Cost		
Production	\$31,650	\$4,880,284
Transmission	(5,705)	1,152,588
Distribution	(6,210)	2,773,018
General	5,008	788,160
Miscellaneous	(42,132)	144,933
Nuclear Fuel	-	1,694,967
Total electric plant in service	(17,389)	11,433,950
Construction Work in Progress	-	1,255,232
Other Property-At Cost		
Water plant	(36)	33,006
Transit plant	-	2,824
Total other property	(36)	35,830
Total plant	\$ (17,425)	\$12,725,012
For the Year Ended December 31, 1988		
Electric Plant in Service - At Original Cost		
Production	\$ (3,106)	\$4,722,544
Transmission	(3,169)	1,114,761
Distribution	1,183	2,477,568

General	(456)	622,814
Miscellaneous	885	184,301
Nuclear Fuel	-	1,537,533

Total electric plant in service	(4,663)	10,659,521

Construction Work in Progress	-	1,038,091
Other Property-At Cost		
Water plant	(7)	31,486
Transit plant	-	3,039

Total other property	(7)	34,525

Total plant	\$ (4,670)	\$11,732,137

For the Year Ended December
31, 1987

Electric Plant in Service -
At Original Cost

Production	\$ (11,088)	\$4,631,961
Transmission	(3,307)	1,092,584
Distribution	2,317	2,223,589
General	1,766	531,167
Miscellaneous	4,280	182,936
Nuclear Fuel	-	1,410,315

Total electric plant in service	(6,032)	10,072,552

Construction Work in Progress	(23,496)	704,610
(1)		

Other Property-At Cost

Water plant	2	30,580
Transit plant	-	3,160

Total other property	2	33,740

Total plant	\$ (29,526)	\$10,810,902

(1) Sale of assets.

[HARDCOPY PAGE 42]

SCHEDULE VI

DUKE POWER COMPANY

SCHEDULE VI-ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY,

PLANT AND EQUIPMENT
(Dollars in thousands)

Description	Beginning of Year	Clearing and Depreciation	Other Accounts
For the Year Ended December			
31, 1989			
Accumulated Depreciation of Electric Plant			
Production	\$1,563,245	\$178,034	\$ -
Transmission	443,828	32,721	-
Distribution	769,601	89,192	-
General	156,912	26,033	13,280
Miscellaneous	166,353	-	372
	3,099,939	325,980	13,652
Accumulated Amortization of Limited Term Plant			
	4,149	-	447
Accumulated Amortization of Nuclear Fuel			
	1,219,828	-	177,647
	4,323,916	325,980	191,746
Accumulated Depreciation of Water Plant			
	6,406	636	-
Accumulated Depreciation of Transit Plant			
	2,692	125	-
Total Accumulated Depreciation	\$4,333,014	\$326,741	\$191,746
For the Year Ended December			
31, 1988			
Accumulated Depreciation of Electric Plant			
Production	\$1,390,577	\$177,037	\$ -
Transmission	415,437	31,022	-
Distribution	716,923	79,603	-
General	143,145	18,078	12,229
Miscellaneous	165,976	-	377
	2,832,058	305,740	12,606
Accumulated Amortization of Limited Term Plant			
	3,760	-	389
Accumulated Amortization of Nuclear Fuel			
	1,024,099	-	195,729

3,859,917 305,740 208,724

Accumulated Depreciation of

Water Plant 6,043 610 -

Accumulated Depreciation of

Transit Plant 2,608 189 -

Total Accumulated Depreciation \$3,868,568 \$306,539 \$208,724.

For the Year Ended December

31, 1987

Accumulated Depreciation

of Electric Plant

Production \$1,229,392 \$173,801 \$-

Transmission 388,401 30,720 -

Distribution 660,996 72,379 -

General 129,043 13,299 11,327

Miscellaneous 161,268 - 415

2,569,100 290,199 11,742

Accumulated Amortization of

Limited Term Plant 2,860 - 900

Accumulated Amortization of

Nuclear Fuel 835,385 - 188,714

3,407,345 290,199 201,356

Accumulated Depreciation of

Water Plant 5,690 576 -

Accumulated Depreciation of

Transit Plant 2,539 131 -

Total Accumulated Depreciation \$3,415,574 \$290,906 \$201,356

(TABLE CONTINUED)

Description	Other Changes Add Retirements	Balance End of (Deduct)	Year

For the Year Ended December

31, 1989

Accumulated Depreciation

of Electric Plant

Production \$29,239 \$41,666 \$1,753,706

Transmission 3,685 (\$1,110) 471,754

Distribution	33,661	1,056	826,188
General	2,861	23	193,387
Miscellaneous	-	(41,933)	124,792
	69,446	(298)	3,369,827

Accumulated Amortization of Limited Term Plant	-	(11)	4,585
Accumulated Amortization of Nuclear Fuel	-	-	1,397,475
	69,446	(309)	4,771,887

Accumulated Depreciation of Water Plant	75	-	6,967
Accumulated Depreciation of Transit Plant	215	-	2,602

Total Accumulated Depreciation	\$69,736	\$ (309)	\$4,781,456

For the Year Ended December
31, 1988

Accumulated Depreciation of Electric Plant			
Production	\$6,875	\$2,506	\$1,563,245
Transmission	1,528	(1,103)	443,828
Distribution	27,954	1,029	769,601
General	14,385	(2,155)	156,912
Miscellaneous	-	-	166,353
	50,742	277	3,099,939

Accumulated Amortization of Limited Term Plant	-	-	4,149
Accumulated Amortization of Nuclear Fuel	-	-	1,219,828
	50,742	277	4,323,916

Accumulated Depreciation of Water Plant	247	-	6,406
Accumulated Depreciation of Transit Plant	105	-	2,692

Total Accumulated Depreciation	\$51,094	\$277	\$4,333,014

For the Year Ended December
31, 1987

Accumulated Depreciation
of Electric Plant

Production	\$7,787	\$ (4,829)	\$1,390,577
Transmission	2,918	(766)	415,437
Distribution	17,332	880	716,923
General	10,200	(324)	143,145
Miscellaneous	-	4,293	165,976

38,237 (746) 2,832,058

Accumulated Amortization of Limited Term Plant	-	-	3,760
Accumulated Amortization of Nuclear Fuel	-	-	1,024,099

38,237 (746) 3,859,917

Accumulated Depreciation of Water Plant	223	-	6,043
Accumulated Depreciation of Transit Plant	62	-	2,608

Total Accumulated Depreciation \$38,522 \$ (746) \$3,868,568

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SCHEDULE VIII

DUKE POWER COMPANY SCHEDULE VIII-VALUATION AND QUALIFYING ACCOUNTS AND RESERVES (Dollars in thousands)

Description	Balance Beginning of Year	Balance End of Year
For the Year Ended December 31, 1989		
Reserves Related to Assets on Balance Sheet	\$27,335	\$24,352
Other Reserves		
Operating Reserves (1)	\$51,890	\$85,703
For the Year Ended December 31, 1988		
Reserves Related to Assets on Balance Sheet	\$3,710	\$27,335
Other Reserves		
Operating Reserves (1)	\$37,560	\$51,890
For the Year Ended December		

31, 1987
 Reserves Related to Assets on
 Balance Sheet \$3,867 \$3,710
 Other Reserves
 Operating Reserves (1) \$31,688 \$37,560

(1) Principally consists of Injuries and Damages reserves and Property
 Insurance reserve which are included in "Deferred Credits and Other
 Liabilities," in the Balance Sheets.

SCHEDULE X

SCHEDULE X-SUPPLEMENTARY CONSOLIDATED INCOME STATEMENT INFORMATION

	Year Ended December 31		
	1989	1988	1987
	(Dollars in thousands)		
Taxes, other than payroll and income taxes:			
Real and personal property	\$60,000	\$52,382	\$50,269
State and city franchise	\$84,913	85,355	85,137
Other	6,244	6,566	6,589
Total	\$151,157	\$144,303	\$141,995

SEC ONLINE INC.
EXHIBIT INDEX

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[HARDCOPY PAGE 44]

EXHIBIT I

DUKE POWER COMPANY

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE-(Unaudited)

This calculation is submitted in accordance with Regulation S-K under the Securities Exchange Act of 1934, although not required by footnote 2 to paragraph 14 of Opinion No. 15 of the Accounting Principles Board because it results in dilution of less than 3%

Year Ended December 31
1989 1988 1987
(Dollars in thousands
except per share figures)

Fully Diluted:

Earnings applicable to common stock (1)	\$519.134	\$497.057	\$445.934
Add: Dividends on Preference Stock, 6 3/4%			
Convertible Series AA	172	191	216
Earnings as adjusted for computations	\$519.306	\$497.248	\$446.150
Average common shares outstanding-twelve months (thousands)	101.277	101.266	101.250
Add: Common shares required for conversion of Preferred Stock, 6 3/4% Convertible Series AA. \$100 par. 500,000 shares authorized (24,574 shares outstanding as of December 31, 1989) (2)	103	112	126
Common shares as adjusted for computation	101.380	101.378	101.376
Fully diluted earnings per share	\$5.12	\$4.90	\$4.40

(1) These figures agree with the related amounts in the Consolidated Statements of Income.

(2) The conversion price used to convert the Preference Stock, 6 3/4% Convertible Series AA, into shares of common stock was \$23.89.

EXHIBIT 12

DUKE POWER COMPANY

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in Thousands)

	Year Ended December 31		
	1985	1986	1987
Earnings Before Income Taxes			
(1)	\$807,397	\$880,692	\$878,522
Fixed Charges	281,195	269,991	251,812
Total	\$1,088,592	\$1,150,683	\$1,130,334
Fixed Charges			
Interest on long-term debt	\$265,720	\$249,313	\$232,795
Other interest	3,926	5,764	3,853
Amortization of debt discount, premium and expense	1,625	3,190	4,572
Interest component of rentals	9,924	11,724	10,592
Fixed Charges	\$281,195	\$269,991	\$251,812
Ratio of Earnings to Fixed Charges	3.87	4.26	4.49

(TABLE CONTINUED)

	Year Ended December 31	
	1988	1989
Earnings Before Income Taxes		
(1)	\$827,732	\$867,641
Fixed Charges	254,622	266,497
Total	\$1,082,354	\$1,134,138
Fixed Charges		
Interest on long-term debt	\$230,403	\$232,510
Other interest	7,979	18,203
Amortization of debt discount, premium and expense	4,658	4,677
Interest component of rentals	11,582	11,107
Fixed Charges	\$254,622	\$266,497
Ratio of Earnings to Fixed Charges	4.25	4.26

(1) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

EXHIBIT 24

CONSENT OF INDEPENDENT AUDITORS

Duke Power Company:

We hereby consent to the incorporation by reference in Registration Statement Nos. 33-15183, 33-15184 and 33-19274 on Form S-3 and in Post-Effective Amendment No. 8 to Registration Statement No. 2-72172 on Form S-8 of our report, dated February 9, 1990, appearing in this annual report on Form 10-K of Duke Power Company for the year ended December 31, 1989.

DELOITTE & TOUCHE
CHARLOTTE, NORTH CAROLINA
MARCH 28, 1990

LENGTH: 35782 words

LOAD-DATE: June 22, 1990

LANGUAGE: ENGLISH

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[*1] [HARDCOPY PAGE H1]

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-K
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
 OF THE SECURITIES EXCHANGE ACT OF 1934



DUKE POWER COMPANY
422 SOUTH CHURCH STREET
CHARLOTTE, NC 28242
(704) 373-4011

FOR FISCAL YEAR ENDED: 12/31/90
COMMISSION FILE NUMBER: 1-4928

STATE OF INCORPORATION: NC
IRS EMPLOYER I.D.: 56-0205520

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NAME OF EACH EXCHANGE TITLE OF EACH CLASS	ON WHICH REGISTERED
COMMON STOCK, WITHOUT PAR VALUE	NEW YORK STOCK EXCHANGE
PREFERRED STOCK, PAR VALUE \$100	NEW YORK STOCK EXCHANGE
8.70% SERIES F	NEW YORK STOCK EXCHANGE
8.20% SERIES G	NEW YORK STOCK EXCHANGE
7.80% SERIES H	NEW YORK STOCK EXCHANGE
8.28% SERIES K	NEW YORK STOCK EXCHANGE
8.84% SERIES M	NEW YORK STOCK EXCHANGE
8.84% SERIES N	NEW YORK STOCK EXCHANGE
PREFERENCE STOCK, PAR VALUE \$100	NONE
6 3/4% CONVERTIBLE SERIES AA	NEW YORK STOCK EXCHANGE
FIRST AND REFUNDING MORTGAGE BONDS	NONE
7 3/8% SERIES B DUE 2001	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2002	NEW YORK STOCK EXCHANGE
7 3/8% SERIES B DUE 2002	NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2003	NEW YORK STOCK EXCHANGE

8 1/8% SERIES B DUE 2003	NEW YORK STOCK EXCHANGE
9 3/4% SERIES DUE 2004	NEW YORK STOCK EXCHANGE
9 1/2% SERIES DUE 2005	NEW YORK STOCK EXCHANGE
8 3/8% SERIES DUE 2006	NEW YORK STOCK EXCHANGE
8 1/8% SERIES DUE 2007	NEW YORK STOCK EXCHANGE
9 3/8% SERIES DUE 2008	NEW YORK STOCK EXCHANGE
10 1/8% SERIES DUE 2009	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NAME OF EACH EXCHANGE	TITLE OF EACH CLASS	ON WHICH REGISTERED

PREFERRED STOCK, PAR VALUE \$100 NONE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES [X]. NO [].

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at March 1, 1991

\$5,528,241,124

Number of shares of Common Stock, without par value, outstanding at March 1, 1991

202,587,201

[*2] [HARDCOPY PAGE H2]

The following index is part of the original document. Page numbers have been kept for your convenience in locating data referred to within text and are identified as [HARDCOPY PAGE #] in the upper left-hand corner of each page. To access these pages, refer to SEC Online's Table of Contents.

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1990

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[*3] [HARDCOPY PAGE 3]

DUKE POWER COMPANY

PART I.

ITEM I. Business

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 4,500,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville, Spartanburg and Anderson in South Carolina. During 1990, the Company's electric revenues amounted to approximately \$3.7 billion, of which about 70% was derived from North Carolina and 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 422 South Church Street, Charlotte, North Carolina 28242 (Telephone No. 704-373-4011). The statistics presented herein do not include information relating to the Company's utility subsidiary, Nantahala Power and Light Company, unless otherwise indicated. (See "Energy Requirements and Capability.")

Service Area

The Company supplies electric service directly to approximately 1,632,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Other Catawba Joint Owners). All constituent entities of the Other Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several private utilities. The Company renders electric service in a total of 56 counties and is the principal supplier of electric energy in 44 of these counties.

The Company's service area is undergoing increasingly diversified industrial development. The textile, tobacco, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper and allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$476 million of the Company's revenues for 1990, representing 13% of electric revenues and 42% of electric industrial revenues.

Energy Requirements and Capability

The following table sets forth the Company's generating capability at December 31, 1990, its sources of electric energy for 1990, and certain information presently projected for 1991:

Source	Generation--KWH		
	Generating Capability--KW(a) (millions)		Actual 1990
	Actual December 31, 1990	Projected December 31, 1991	
Coal	6,994,000	7,316,000	27,262
Nuclear(b)	7,054,000	7,054,000	44,649
Hydro and other	2,246,000	3,311,000(c)	1,932
Total(b)	16,294,000	17,681,000	73,843

Less: Other Catawba Joint Owners' share	11,735
Plus: Purchases from Other Catawba Joint Owners	8,658
Purchased power and net interchange	438
Total	71,204

(footnotes on next page)

[*4] [HARDCOPY PAGE 2]

(a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.

(b) Nuclear capability and related generation for 1990 and projected for 1991 give no effect to the joint ownership of the Catawba Nuclear Station. (See "Joint Ownership of Facilities.")

(c) Reflects full operation of Bad Creek Hydroelectric Station.

Nantahala Power and Light Company (NP&L), which operates 11 hydroelectric stations and buys supplemental power to provide service to its 47,000 mostly residential customers located in five counties in western North Carolina, operates as a separate subsidiary of the

Company. The Company is supplying supplemental power to NP&L under the terms of an interconnect agreement approved by the Federal Energy Regulatory Commission (FERC) through a transmission line between the two systems completed during 1990.

NP&L has entered into a new interconnection agreement with the Tennessee Valley Authority. The agreement provides for interconnected operations and transactions between the two systems including the purchase of 200 MW of electricity for a four-year period beginning in 1991. The Company and NP&L have entered into an agreement whereby the latter will sell the 200 MW of electricity to the Company at cost. The Company also reached a bulk power sale agreement in 1987 to provide Carolina Power & Light Company 400 MW of electricity for a six-year period beginning in 1992. These agreements are subject to regulatory approval.

According to industry statistics through 1989, the Company ranked first in the nation for the last 16 consecutive years in terms of efficiency of its steam-fossil generating system as measured by the conversion of fuel energy to electric energy. Published rankings indicate that individual units at Marshall Steam Station and Belews Creek Steam Station ranked as second, fourth, sixth and eighth most efficient in the nation in 1989. Statistics compiled by the Nuclear Regulatory Commission (NRC) on multi-unit nuclear plants indicate that the McGuire, Catawba and Oconee Nuclear Stations were ranked first, second and fourth, respectively, in efficiency in the nation among pressurized water reactor nuclear facilities.

The Company normally experiences seasonal peak loads in summer and winter which are relatively in balance. On July 11, 1990, the Company experienced its all-time peak load of 14,046,000 KW during unusually hot weather. The 1990-1991 winter peak load of 12,778,000 KW occurred on January 23, 1991. The 1989-1990 winter peak load of 13,126,000 KW occurred on December 22, 1989. The Company currently forecasts a 2.4% compound annual growth in peak load through 2004.

Rate Matters

The North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSC) must approve the Company's rates for retail sales within the respective States. FERC must approve the Company's rates for sales to wholesale customers. Constituent entities of NCMPPA, NCEMC, Saluda and PMPA are served under contractual arrangements between such entities and the Company.

Rate requests filed by the Company in 1986 with the NCUC, PSC and FERC were principally designed to reflect the Company's investment in Unit 2 of the Catawba Nuclear Station and the costs related to purchased power contracts associated with portions of the Catawba units that have been sold. Rate orders issued by the NCUC and the PSC allowed the Company to recover all costs related to Catawba, although certain non-fuel

purchased power costs with associated carrying charges will be recovered on a leverized basis. (See Note 3, "Notes to Consolidated Financial Statements.")

In the Company's most recent general rate case, the NCUC allowed a jurisdictional rate of return on common equity of 13.20% and the PSC allowed a jurisdictional rate of return on common equity of 13.00%.

[*5] [HARDCOPY PAGE 3]

The Company reduced retail rates by 2.3% on January 1, 1987, and by an additional 3% on January 1, 1988. These reductions recognize the lower corporate income tax rate included in the Tax Reform Act of 1986. These decreases have been approved by the NCUC and PSC.

In July 1987 FERC approved a 3.56% rate increase in the Company's wholesale jurisdiction, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A rate reduction was granted in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

The Company canceled certain nuclear projects in prior years, including the Cherokee Nuclear Station, citing a slower growth in the demand for electricity, a changing pattern in that growth and more economical means of meeting such changed pattern as reasons for such cancellation. The NCUC and the PSC have authorized the Company to recover over a 10-year period the costs of abandonment of the Cherokee Nuclear Station in recent rate proceedings. Similarly, rates including such abandonment costs are also in effect in the Company's wholesale jurisdiction. However, no return was allowed on the unamortized portion of such costs. (See Note 10, "Notes to Consolidated Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the NCUC to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the NCUC's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue was again contested in the appeal of the 1986 rate case. The parties also challenged the NCUC's decision on the rate of return allowed on the Company's common equity, the adoption of the Company's actual capital structure for ratemaking purposes, and inclusion of subsidiary investments in the Company's capital structure for ratemaking purposes. The Court affirmed the NCUC's decision on all questions raised with the exception of the allowed rate of return. The Court held that the NCUC's conclusion regarding the appropriate rate of return on common equity was not supported by adequate factual findings and remanded the case for further proceedings on this question. On March 10, 1989, the NCUC issued its order on remand which lowered the Company's rate of return on common equity from 13.40% to 13.20%, required refunds plus interest, and

reduced rates to reflect the lower rate of return on common equity. During 1989 the Company paid \$24 million as a result of this order. The Public Staff of the NCUC, joined by two other parties, has appealed this order.

On July 28, 1987, FERC granted a petition made by the Other Catawba Joint Owners to exclude costs of abandoned plants from their supplemental power rates, affirming their contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts which upheld the FERC order in January 1989. The order had a one-time impact on 1988 earnings of \$.23 per share.

The Company anticipates filing for an increase in rates in all jurisdictions in 1991 primarily associated with its investment in Bad Creek Hydroelectric Station (see "Construction Program, Facilities Under Construction").

Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel expense. The NCUC ordered the Company to follow these procedures in its August 1986 order, which was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over- or under-recovery of fuel costs was challenged in the North Carolina courts. In 1987 North Carolina adopted legislation assuring the legality of such adjustments, which currently contains a sunset provision effective July 1, 1991.

Construction Work in Progress (CWIP). The NCUC is permitted in its discretion to include construction work in progress in rate base after giving consideration to the public interest and the Company's financial stability. The PSC may include CWIP in rate base in its discretion.

Energy Management

The Company continues to engage in a comprehensive energy management program as part of its Least Cost Integrated Resource Plan. Least Cost Integrated Resource Planning is the process used by

[*6] [HARDCOPY PAGE 4]

utilities to evaluate a variety of resources to cost effectively meet customer energy-service needs. The process evaluates a broad range of demand-side and supply-side options on an equal basis. Demand-side programs are designed to reduce the growth in peak demand without restricting the continued economic development of the Company's service area. Peak reduction programs include, among other things, promotion of energy-efficient building structures and appliances, use of residential conservation rates, use of interruptible rates for large customers, control by the Company (with customers' consent) of residential electric

water heaters and air conditioners during peak demand periods and time-of-day pricing. The current plan calls for a total system capacity of almost 1,200 MW of equivalent demand-side programs by the year 2000 that would otherwise have been new supply-side generation.

To make maximum use of existing production capacity while minimizing the need to add new capacity, the Company is promoting off-peak sales programs. These programs include promotion of all-electric homes using high efficiency electric heat pumps and outdoor lighting as well as commercial and industrial heating and heat recovery systems, all designed to contribute high load factor sales and/or increase seasonal and daily off-peak sales.

Through 1993, the Company expects to maintain a summer reserve margin of approximately 17% to 23% of its anticipated peak load requirements. The Company believes that additional capacity may be purchased if needed. (For information about the Company's peak loads, see "Energy Requirements and Capability.")

Construction Program

The Company, utilizing its own construction and engineering force, carries on a continuous construction program. Such construction program and the estimated construction costs set forth below (a substantial portion of which has already been committed) are subject to continuing review and are revised from time to time in light of changes in load forecasts, the Company's financial condition (including cash flow, earnings and levels of rates), changing regulatory and environmental standards (see "Regulation - Environmental Matters") and other factors.

Estimated Costs

Projected construction and nuclear fuel costs, excluding costs related to portions of the Catawba Nuclear Station owned by the Other Catawba Joint Owners, for each of 1991, 1992 and 1993 and for the three-year period 1991-1993, as now scheduled, are as follows (in millions of dollars):

Type of Facilities	1991	1992	1993	Total
Generation	\$313	\$341	\$445	\$1,099
Transmission	55	71	96	222
Distribution	304	320	335	959
Other	101	93	118	312
Total	\$773	\$825	\$994	\$2,592
Nuclear Fuel	\$189	\$180	\$182	\$ 551

The Company's procedures for estimating construction costs (which include allowance for funds used during construction) utilize, among other things, past construction experience, current construction costs and allowances for inflation.

Facilities Under Construction

The Company currently has under construction the Bad Creek Hydroelectric Station, a four-unit, pumped-storage facility in Oconee County, South Carolina with a nameplate rating of 1,065 MW. Units 1 and 2 are officially scheduled for completion in the fall of 1991, with Units 3 and 4 in early 1992. However, construction is currently ahead of schedule. As of December 31, 1990, the Company had incurred \$933 million of the total estimated cost of \$1.1 billion, with construction costs of \$1,045 per installed KW anticipated for this facility.

[*7] [HARDCOPY PAGE 5]

A site in Lincoln County, North Carolina, has been selected for a new combustion turbine (CT) facility to meet customer demand in the mid-to-late 1990s. The Lincoln Combustion Turbine Station will be able to accommodate up to 16 combustion turbines with a total generating capacity of approximately 1,200 MW of electricity. Current plans are for the first CT to be operational as early as 1994. The Company has applied for a Certificate of Public Convenience and Necessity and the required air permit which are necessary to begin construction of the facility.

The Company is evaluating options for meeting additional future power needs under its "least cost" plan. These options include further energy conservation or load management, bulk power purchases and conventional supply side alternatives for meeting power needs in the 1990s and beyond.

The Company has undertaken a Plant Modernization Program (PMP) to improve the efficiency and reliability of 15 older coal-fired generating units. These units, once modernized, will help the Company meet anticipated future demand. The cost of this program is estimated to be approximately \$200-\$300 per installed KW, a fraction of the cost of building new plants. As of December 31, 1990, six coal-fired units with a generating capability of 700,000 KW had been returned to the system and during 1991, it is anticipated that three additional coal-fired generating units with generating capability of 322,000 KW will be returned to the system. The six units remaining in the PMP represent 378,000 KW of generating capability.

Joint Ownership of Facilities

In order to reduce its need for external financing, the Company, through several transactions beginning in 1978, sold an 87 1/2% undivided interest in the Catawba Nuclear Station to the Other Catawba Joint Owners.

These transactions contemplate that the Company will operate the facility, interconnect its transmission system, wheel a certain portion of the capacity and energy of such facility to the respective participants, provide back-up services for such capacity, buy for its own use (whether or not the facility is generating electricity) that portion of the capacity not then contractually required by the respective participants, and provide supplemental power as required by the purchasers to enable them to provide service on a firm basis. The transactions also include a reliability exchange between the Catawba Nuclear Station and the McGuire Nuclear Station of the Company, which provides for an exchange of 50% of each Other Catawba Joint Owner's retained capacity from its ownership interest in the Catawba units for like amounts of capability and output from units of the McGuire Nuclear Station. The implementation of the reliability exchange has not had nor does the Company anticipate that such implementation will have a material effect on earnings.

The levelized recovery over the next three years of the costs of purchased power from the Catawba Nuclear Station under contracts with the Other Catawba Joint Owners permitted by regulatory authorities will result in payments by the Company exceeding the amounts collected in rates for such power by approximately \$252 million.

The Other Catawba Joint Owners and the Company are involved in various arbitration proceedings involving disputes under the interconnection agreements between such joint owners and the Company. (See Note 12 of "Notes to Consolidated Financial Statements.")

Fuel Supply

The Company presently relies principally on nuclear and coal for the generation of electric energy. The Company's reliance on oil and gas is minimal.

[*8] [HARDCOPY PAGE 6]

Information regarding the utilization of sources of power and cost of fuels is set forth in the following table:

	Generation by Source		
	Year Ended December 31		
	1990	1989	1988
Coal	36.9%	34.7%	33.1%

Nuclear	60.5	63.3	66.3
Oil and Gas	-	-	-
All Fuels (cost based on weighted average)	97.4	98.0	99.4
Hydroelectric(*)	2.6	2.0	.6
	100.0%	100.0%	100.0%

(TABLE CONTINUED)

	Average Cost per Million BTU on a Burned Basis Year Ended December 31		
	1990	1989	1988
Coal	1.8061	1.8024	1.7579
Nuclear	55.65	59.56	63.55
Oil and Gas	-	-	-
All Fuels (cost based on weighted average)	101.14	100.11	98.75
Hydroelectric(*)			

(*) Generating figures are net of that output required to replenish pumped storage units during off-peak periods.

Coal. The Company obtains a large amount of its coal under long-term supply contracts with mining operators utilizing both underground and surface mining. The Company has on hand an adequate supply of coal.

The Company's long-term supply contracts, all of which have price adjustment and price renegotiation provisions, have expiration dates ranging from 1993 to 2003. The Company believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers. However, due to the Clean Air Act Amendments of 1990, fuel premiums may be required as contracts are renewed. The coal covered by the Company's long-term supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and south-western Virginia.

The average sulfur content of coal being purchased by the Company is approximately 1%. Such coal meets the emission limitation for sulfur dioxide for existing facilities. (See Regulation, Environmental Matters, Air Quality.)

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrate, the conversion of uranium concentrate to uranium

hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. The Company has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet the Company's requirements through the following years:

Nuclear Station	Uranium Conversion Enrichment Fabrication			
	Material	Service	Service	Service
Oconee	1994	1994	1995	1997
McGuire	1994	1994	1995	1998
Catawba	1994	1994	1995	1998

Approximately one-half of the Company's requirements for uranium material is obtained from Rio Algom, Ltd., a Canadian supplier. The remainder of the requirements will be obtained from various supplier contracts, with uranium material produced in the U.S., Canada and Australia. The Company believes that it will be able to renew contracts as they expire or to enter into similar contractual arrangements with other nuclear fuel materials and services suppliers. Short-term requirements have been and will be fulfilled with uranium spot market purchases.

The Company purchased uranium material during 1990 at an average price of approximately \$33 per pound. The Company's material nuclear supply contracts generally contain force majeure provisions.

The Nuclear Waste Policy Act of 1982 requires that the Department of Energy (DOE) begin disposing of spent fuel not later than January 31, 1998. The Company has entered into the required

[*9] [HARDCOPY PAGE 7]

contracts with DOE for the disposal of nuclear fuel and began making payments in July 1983 for disposal costs of fuel currently being utilized. These payments combined with a one-time payment for disposal costs of fuel consumed prior to April 7, 1983 have totaled about \$425 million through 1990. In November 1989, DOE released a report which indicated that it now expects that a facility for spent fuel disposal will not be available until the year 2010. DOE stated further that it planned an initiative to establish a monitored retrievable storage (MRS) facility, with a target operation date of 1998, for earlier acceptance of spent fuel from utilities. The Company believes that it will be able to provide adequate on-system storage capacity until such time as DOE begins receiving spent fuel.

Regulation

The Company is subject to the jurisdiction of the NCUC and the PSC which, among other things, must approve the issuance of securities. The Company also is subject, as to some phases of its business, to the jurisdiction of FERC, the Environmental Protection Agency (EPA) and state environmental agencies and to the jurisdiction of the NRC as to design, construction and operation of its nuclear power facilities. The Company is exempt from regulation as a holding company under the Public Utility Holding Company Act of 1935, except with respect to the acquisition of the securities of other public utilities.

Environmental Matters. The Company is subject to Federal, state and local regulation with respect to environmental matters, including air and water quality. All of the Company's facilities which are currently under construction have been designed to comply with presently applicable environmental regulations. Such compliance has, however, increased the cost of electric service by requiring changes in the design and operation of existing facilities, as well as changes or delays in the design, construction and operation of new facilities. The Company's 1991-1992 construction program includes costs for environmental protection (as now defined by FERC) which are estimated to be approximately \$40.8 million, including \$13.8 million in 1991 and \$27 million in 1992. These costs include expenditures to begin compliance with the Clean Air Act Amendments of 1990. However, governmental regulations establishing environmental protection standards are continually evolving and have not, in some cases, been fully established. Therefore, the Company may have to revise these estimates in response to developments in these and other areas.

Air Quality. The Clean Air Act Amendments of 1990 require electric utilities to reduce emissions from 1980 levels of sulfur dioxide by 10 million tons and of nitrogen oxide by 2 million tons by the year 2000. These requirements are being phased in over two periods. The first phase begins January 1, 1995 and the second January 1, 2000. The Company currently meets all requirements of phase one and therefore will not have to implement changes until compliance with phase two requirements is necessary. The Company supports the national objective of clean air and has already reduced emissions through the use of low-sulfur coal in its fossil plants, through efficient operations and by utilizing nuclear generation. A compliance plan that must be filed by January 1, 1996, and approved by the permitting authority by 1998 is currently being planned. Estimated costs to implement phase two of the requirements are expected to be approximately \$1 billion in capital expenditures and approximately \$200 million annually in operations and maintenance expenses stated in year 2000 dollars.

Water Quality. The Federal Water Pollution Control Act Amendments of 1972 require permits to ensure compliance with its provisions. The

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10-K

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DOCUMENT-DATE: 12/31/91

DUKE POWER CO
TICKER-SYMBOL: DUK EXCHANGE: NYS

422 SOUTH CHURCH STREET
CHARLOTTE, NC 28242
704-373-4011

INCORPORATION: NC

COMPANY-NUMBER: FORBES NUMBER: SA228
CUSIP NUMBER: 26439910
DUNS NUMBER: 00-699-6052
COMMISSION FILE NO.: 1-4928
IRS-ID: 56-0205520

SIC: SIC-CODES: 4911,4941
PRIMARY SIC: 4910

INDUSTRY-CLASS: ELECTRIC SERVICES

FYE: 12/31

AUDITOR: DELOITTE & TOUCHE

STOCK-AGENT: FIRST UNION NATIONAL BANK

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SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-K
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
 OF THE SECURITIES EXCHANGE ACT OF 1934

DUKE POWER COMPANY
 422 SOUTH CHURCH STREET

CHARLOTTE,(NC), 2842-0001
704-594-0887

FOR FISCAL YEAR ENDED : 12/31/92
COMMISSION FILE NUMBER: 1-4928

STATE OF INCORPORATION: NORTH CAROLINA
IRS EMPLOYERS I.D.: 56-0205520

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NAME OF EACH EXCHANGE	TITLE OF EACH CLASS	ON WHICH REGISTERED
	COMMON STOCK, WITHOUT PAR VALUE	NEW YORK STOCK EXCHANGE
	PREFERRED STOCK, PAR VALUE \$100	
8.20 % SERIES G		NEW YORK STOCK EXCHANGE
7.80 % SERIES H		NEW YORK STOCK EXCHANGE
8.28 % SERIES K		NEW YORK STOCK EXCHANGE
	PREFERRED STOCK A, PAR VALUE \$25	
7.72 %, 1992 SERIES		NEW YORK STOCK EXCHANGE
	FIRST AND REFUNDING MORTGAGE	
BONDS 7 3/8% SERIES B DUE 2001		NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2002		NEW YORK STOCK EXCHANGE
7 3/8% SERIES B DUE 2002		NEW YORK STOCK EXCHANGE
7 3/4% SERIES DUE 2003		NEW YORK STOCK EXCHANGE
8 1/8% SERIES DUE 2007		NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NAME OF EACH EXCHANGE	TITLE OF CLASS	ON WHICH REGISTERED
	PREFERRED STOCK, PAR VALUE \$100	

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.
YES ☒ NO ☐

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S, KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. ☒

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at February 23, 1993 \$7,735,537,493
Number of shares of Common Stock, without par value, outstanding at

February 23, 1993 204,859,339

[HARDCOPY PAGE H2]

The following index is part of the original document. Page numbers have been kept for your convenience in locating data referred to within the text and are identified as [HARDCOPY PAGE #] in the upper left-hand corner of each page. To access these pages, refer to SEC ONLINE'S Table of Contents.

DUKE POWER COMPANY

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1992

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DUKE POWER COMPANY

PART I

ITEM 1. BUSINESS.

Duke Power Company (the Company) is engaged in the generation, transmission, distribution and sale of electric energy in the central portion of North Carolina and the western portion of South Carolina, comprising the area in both States known as the Piedmont Carolinas. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population 4,800,000 and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina And Greenville, Spartanburg and Anderson in South Carolina. During 1992, the Company's electric revenues amounted to approximately \$4.0 billion, of which about 70% was derived from North Carolina and about 30% from South Carolina. The Company ranks seventh in the United States among investor-owned utilities in kilowatt-hour sales. Its executive offices are located in the Power Building, 442 South Church Street, Charlotte, North Carolina 28242-0001 (Telephone No. 704-594-0887). The statistics presented herein do not include information relating to the Company's utility subsidiary, Nantahala Power and Light Company, unless otherwise indicated. (See "Energy Requirements and Capability.")

SERVICE AREA

The Company supplies electric service directly to approximately 1,684,000 retail customers in more than 200 cities, towns and unincorporated communities in North Carolina and South Carolina. Electricity is sold through contractual arrangements to North Carolina Municipal Power Agency Number 1 (NCMPA), North Carolina Electric Membership Corporation (NCEMC), Saluda River Electric Cooperative Inc. (Saluda) and Piedmont Municipal Power Agency (PMPA), each of which has purchased from the Company portions of the Catawba Nuclear Station (collectively, the Other Catawba Joint Owners). All constituent entities of the Other Catawba Joint Owners were formerly wholesale municipal or cooperative customers of the Company. Electricity is also sold at wholesale to 9 other incorporated municipalities and to several

private utilities. The Company renders electric service in a total of 56 countries and is the principal supplier of electric energy in 44 of these countries.

The Company's service area is undergoing increasingly diversified industrial development. The textile, furniture and chemical industries are of major significance to the economy of the area, and other industrial activity includes the manufacture of metal products, paper allied products, food products and various other light and heavy manufacturing and service businesses. The largest industry served by the Company is the textile industry, which accounted for approximately \$482 million of the Company's revenues for 1992, representing 12% of electric revenues and 41% of electric industrial revenues.

ENERGY REQUIREMENTS AND CAPABILITY

The following table sets forth the Company's generating capability at December 31, 1992, its sources of electric energy for 1992, and certain information presently projected for 1993:

Source	Generation --KWH		
	Generating Capability--KW(a)		(millions) (d)
	Actual December 31, 1992	Projected December 31, 1993	Actual 1992
Coal	7,377,000	7,548,000	28,999
Nuclear (b)	7,054,000	7,054,000	48,238
Hydro and other	3,281,000(c)	3,281,000(c)	1,839
Total (b)	17,712,000	17,883,000	79,076
Less: Other Catawba Joint Owner's share			14,313
Plus: Purchases from Other Catawba Joint Owners		9,466	
Purchased power and net interchange			1,403
Total		75,632	

(footnotes on next page)
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(a) The data relating to capability does not reflect the possible unavailability or reduction of capability of facilities at any given time because of scheduled maintenance, repair requirements or regulatory restrictions.