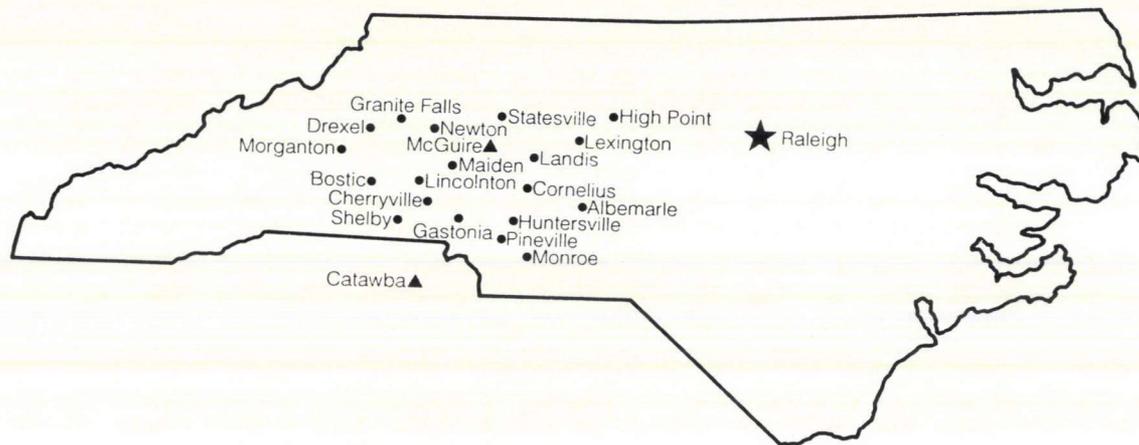


*Annual
Report
1990*

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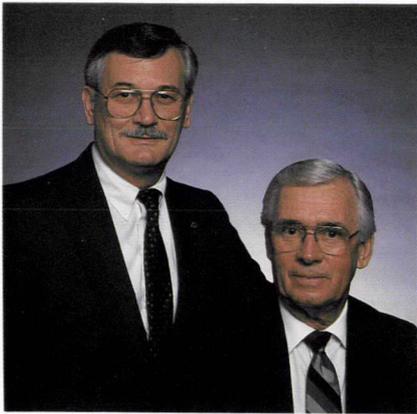
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NCMPA 1 Statistical Highlights

| | 1990 | 1989 | 1988 | 1987 | 1986 |
|--|----------------|---------------|---------------|---------------|---------------|
| Kilowatt-hour sales (thousands) | 3,585,461 | 3,572,021 | 3,473,529 | 3,358,447 | 3,190,842 |
| Peak billing demand (kilowatts) | 721,247 | 689,304 | 723,078 | 666,802 | 653,210 |
| Operating Revenues | \$432,647,000 | \$429,098,000 | \$425,772,000 | \$430,546,000 | \$331,907,000 |
| (Deficiency) Excess of Revenues over Expenses | \$(18,534,000) | \$19,167,000 | \$(6,034,000) | \$8,197,000 | \$6,075,000 |
| Sales to Duke (Revenues) | \$266,086,000 | \$263,034,000 | \$269,443,000 | \$280,810,000 | \$194,986,000 |
| Average Monthly Power Purchases by Cities kWh (thousands) | 298,788 | 297,668 | 289,461 | 279,871 | 265,904 |
| Average Monthly Billings to Cities | \$13,880,000 | \$13,839,000 | \$13,027,000 | \$12,478,000 | \$11,410,000 |

Message from the Chairman and General Manager



James T. Bobo George W. Clay, Jr.

North Carolina plugged into public power more than a century ago—before the dawn of the 20th century.

As we rapidly approach the start of another new century, public power continues to play a vital role in the lives of thousands of North Carolinians who live and work in the growing Piedmont and Appalachian foothills regions.

These public power customers rely on North Carolina Municipal Power Agency Number 1 to provide them with a reliable supply of electricity. In recent years—and, especially, in 1990—we have come to recognize that this mission means more than merely providing an adequate supply of electricity to meet their foreseeable requirements.

It means that as a joint action agency serving 19 independent cities and towns, we have to be concerned with our members' competitive ability. This requires that our power agency be "plugged in" at many places and in many ways.

It means being plugged into load management so that our members and their customers can save on the use of electricity during those peak demand periods when its costs are the highest. During 1990, load management savings for NCMPA 1 added up to more

than \$5.5 million—savings made possible to even the smallest members through a new program called Electric-Save.

It means being plugged into the investments markets so that opportunities for earnings and savings don't elude us. In 1990, we lowered our debt service costs by a total of \$41 million over 15 years (or \$23 million in present value savings) through a \$284.8 million refunding bond issue. Another \$65 million was earned through timely and prudent investment transactions.

It means being plugged into customer service—squarely facing up to the fact that how we treat customers and communicate with them on the local level is just as important as the rate they pay for their electricity. In 1990, customer service and marketing were prominently featured in our regional and annual meetings. We also took steps to establish customer service training and marketing programs at the agencywide level in 1991.

The fulfillment of our agency's mission also means being plugged into the lawmaking and policymaking centers where decisions are made that can drastically affect our business and the interests of public power. In 1990, we participated in successful lobbying efforts to assure fair treatment of minority owners of power plants, such as our power agency, under the Clean Air Act and we developed an effective grassroots lobbying program at the state level.

While getting public power plugged into the right places, we also took steps in 1990 to make sure that more people—especially our customers—were plugged into public power. With the theme "Public Power: Your Hometown Connection," we inaugurated an image advertising program to augment other communications efforts aimed at promoting the benefits and values of public power within our communities and beyond.

At the same time, we worked all the harder to assure that we don't pull

the plug on public power by neglecting to keep our municipal distribution systems in good operating condition. Our members continued to demonstrate their dedication to their community and their belief in public power by their actions to assure reliable service and operational efficiency.

As a new century approaches and another decade unfolds, our power agency is plugged firmly into the future—bound by a commitment to keeping the light of public power burning brightly.

A handwritten signature in cursive script that reads "James T. Bobo".

James T. Bobo
General Manager

A handwritten signature in cursive script that reads "Geo W Clay, Jr.".

George W. Clay, Jr.
Chairman

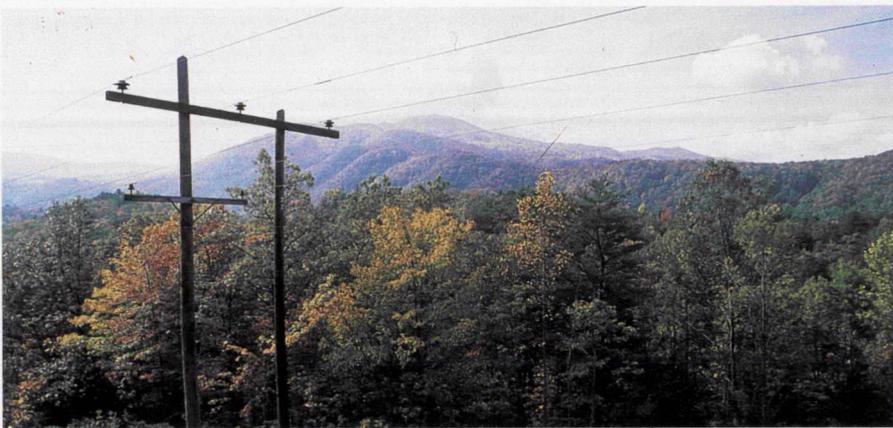
Organization and Management

Decisions on rates, bond financing and power supply for NCMPA 1 are made by participating municipalities. Through their representatives on the Board of Commissioners, the 19 participants control their power supply and related issues.

ElectriCities, a non-profit service organization based in Raleigh, provides management staff and services to the power agency. The staff carries out

the agency's daily operations, which include financing and accounting, billing, planning and budgeting.

It also provides participants with load management, retail rate assistance, communication assistance and other programs. In addition, it closely monitors Duke Power Company's (Duke's) performance with regard to the utility's fulfillment of obligations in the project.



The 19 cities and towns of NCMPA 1 are linked in their shared participation in the agency and their continued commitment to their communities.

Agency highlights for 1990 are:

- The agency saved \$33.4 million this year plus a projected \$27 million throughout the life of the project through cost reviews, settlements and arbitration credits involving contracts with Duke.

- NCMPA 1 reduced its debt service costs by a total of \$41 million over 15 years, or \$23 million in present value savings, with the sale of a \$284.8 million bond issue.

- Load management programs saved the agency \$5.5 million.

- Smaller participants joined together to provide residential load management to their customers through the Electric-\$ave program which cycles appliances with FM radio signals. As a result, 18 of the agency cities now have residential load management programs.

- Retail rate studies were performed for five cities. These technical and economic analyses of members'

electric systems placed additional emphasis on customer service and system quality.

- Continued emphasis was placed on customer service and marketing as well as an overall image campaign for public power.

- A grassroots network of public power advocates was formed to respond to current legislative issues. Successful lobbying efforts amended the Clean Air Act provisions on acid rain to ensure fair treatment of minority owners of power plants, such as NCMPA 1.

- Sixteen cities took advantage of the opportunity afforded by the System Betterment Program to upgrade their electric distribution systems. A \$100,000 grant was obtained from the State Energy Division to help fund the systems efficiency portion of the program.

Operations

NCMPA 1 has a 75 percent ownership interest in Catawba Nuclear Station Unit 2, located at Lake Wylie, South Carolina.

Duke Power Company and NCMPA 1

Under the agency's contract with Duke, the utility company built the Catawba station and is responsible for its fueling and operation. Duke is also contractually required to provide NCMPA 1 with additional (supplemental) power to meet the needs of its 19 participants.

To further ensure that participants have sufficient power to meet their needs, the power agency has two reliability exchange agreements with Duke.

The exchange agreements allow for the agency's ownership resources to be distributed in equal amounts over each of the four units of the Catawba and McGuire nuclear stations. The agreements eliminate dependence on a single unit.

NCMPA 1 and Participants

Each of the 19 participants executed a Project Power Sales Agreement with the agency. In these agreements, the municipalities agreed to pay for 100 percent of the agency's project costs. These are "take or pay" agreements that require payment to be made whether or not the power contracted for is received. The agreements are the security for the agency's bonds.

Each of the participants also signed Supplemental Power Sales Agreements with the agency. These agreements are "take and pay," and require payment to be made only for power actually received. Under these agreements, a participant agrees to purchase all of its electric power from the agency, over and above its ownership entitlement. It excludes any power made available by the Southeastern Power Administration (SEPA). SEPA is the regional marketing agency for federal hydroelectric power.

**Catawba Nuclear Station
Units 1 and 2**

Where:
Lake Wylie, SC—17 miles southwest of
Charlotte, NC

Fuel Type:
Nuclear

MNDC:
1129 mW per unit*

Commercial Operation:
June 1985 (Unit 1)
August 1986 (Unit 2)

Catawba Unit 1 was available for power generation 72 percent of the year and averaged 70 percent of its rated capacity in 1990. Unit 1 completed its fourth refueling outage which began January 27, 1990, and ended April 25, 1990.

Catawba Unit 2 had an availability factor of 68 percent and a capacity factor of 65 percent in 1990. The unit began its third refueling outage on June 9 and returned to service on September 29 after completion of the outage.

**McGuire Nuclear Station
Units 1 and 2**

Where:
Lake Norman—North of Charlotte, NC

Fuel Type:
Nuclear

MNDC:
1129 mW per unit*

Commercial Operation:
December 1981 (Unit 1)
March 1984 (Unit 2)

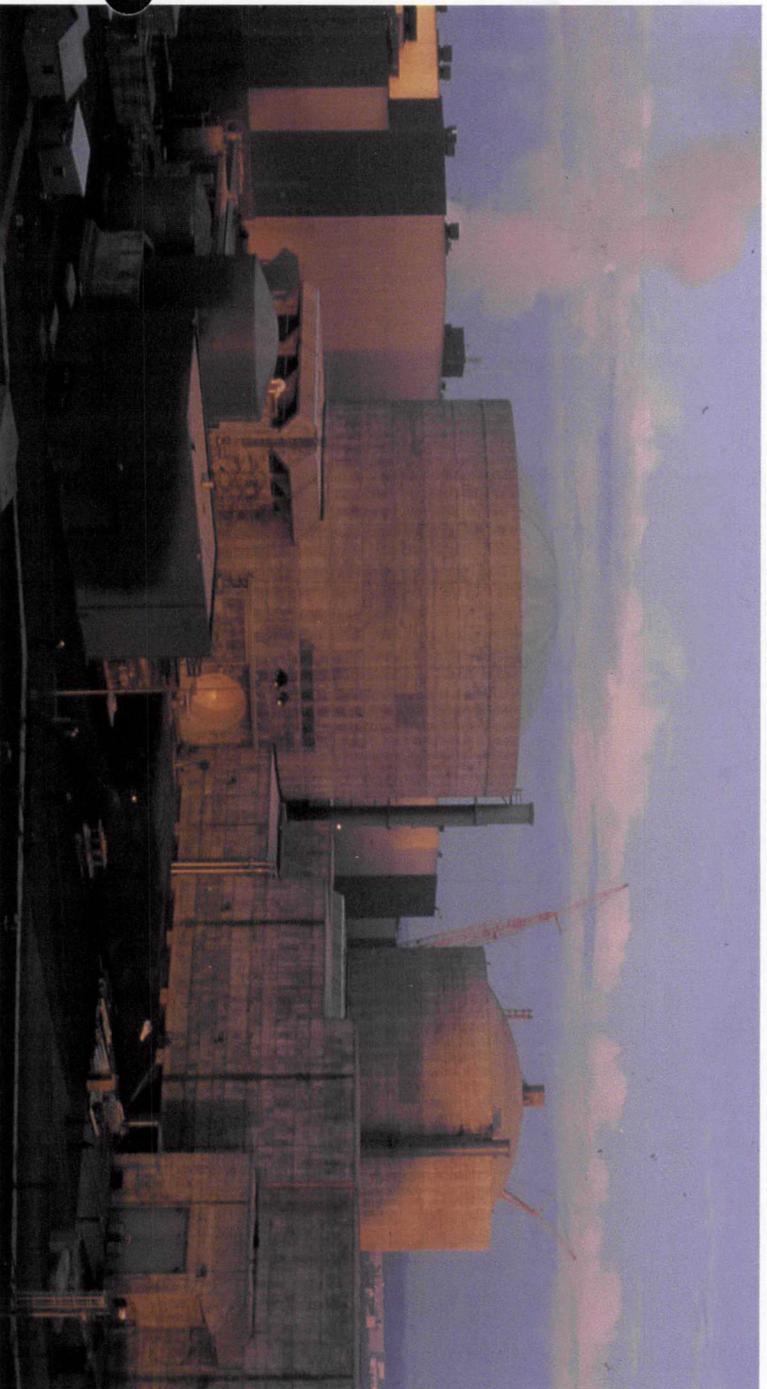
McGuire Unit 1 was available for power generation 54 percent of the year and averaged 48 percent of its rated capacity in 1990. The output of the unit was low due to a refueling outage which began January 8, 1990. This outage began earlier than scheduled because of damage to the main turbine bearings caused by a loss of lube oil flow to these bearings.

Because of extensive work on the main turbine during the outage, Unit 1 did not return to service until May 20, 1990.

McGuire Unit 2 had an availability factor of 67 percent and a capacity factor of 65 percent in 1990. The unit began a refueling outage on September 1 and completed it on December 29, 1990. The outage extended approximately 30 days longer than scheduled due to delays experienced during a modification to the unit's low pressure portion of the main turbine. On August 16, McGuire Unit 2 ended a continuous operation record for a Duke Westinghouse Unit of 330 days, 19 hours and 14 minutes. This record run missed operating continuously from one refueling outage to the next by only two weeks.

*Duke reduced the MNDC rating of each Catawba and McGuire Unit from 1145 mW to 1129 mW effective January 1, 1988. The power agency is challenging this change, and negotiations are continuing.

NCMPA 1 has a 75 percent ownership interest in Catawba Nuclear Station Unit 2, located at Lake Wylie, S.C.



Load Management

The same electricity that normally costs \$.024 per kilowatt hour can cost \$11.30 per kilowatt hour during the peak hour each month. By controlling their electrical load, or "load managing" during the peak hour, power agency participants shift electrical usage to another hour when the cost is 500 times less.

Approximately one-half of participating municipalities' power bills are based on "demand," or the amount of electricity used during the peak hour. Any program that reduces electrical consumption during those peak periods is considered load management.

In 1990, NCMPA 1 reduced its power costs by more than \$5.5 million through load management programs.

As recently as 1983, none of the 19 agency cities had load management programs. But by the end of 1990, 18 communities were implementing some type of load management. The agency has developed marketing materials for the municipalities to use to increase customer knowledge of and participation in load management programs.

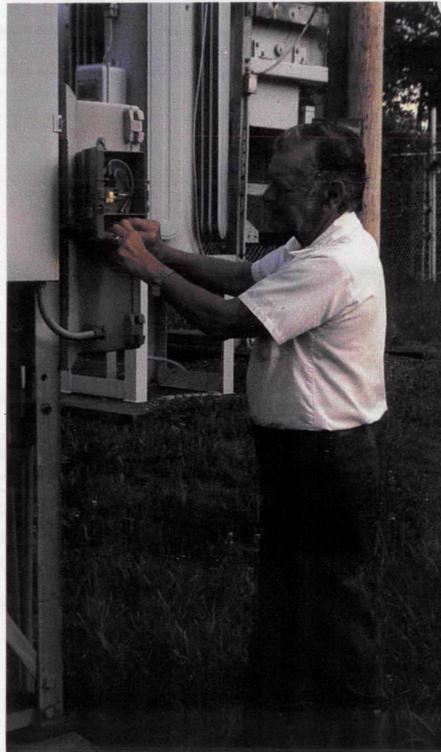
While not all customers of investor-owned utilities have access to the savings afforded by load management, 99.5 percent of the agency's residential customers can participate in load management programs. Sixteen cities have residential programs in place.

FM radio stations are used to send load management signals from the agency control center in Raleigh to nine participating cities to cycle the water heaters and air conditioners of some residential customers. Other municipalities are notified of recommended load management times by agency personnel.

The size of the city doesn't limit its ability to implement load management programs. In one year, Landis has persuaded 340 of its 2,442 customers to participate in its residential load management program. Morganton has been encouraging load management for four years, and now has almost

3,000 of its 7,000 residential customers involved. The city also has encouraged its industries to reduce their costs by more carefully monitoring their power needs.

Both industries and residents save when they can move their power consumption away from the peak hour. Power agency employees predict when the peak hour will occur—based on the load of the Duke Power system, historical information, the predicted weather and a computerized load forecasting system.



A.B. Patterson Jr., an electrician and employee of the Town of Landis, installs load management switches.

Managing the present load also saves for the future. Utilities are required to generate enough power to meet peak demand and must construct new plants to meet any load growth. Although load management systems cost money, they are less expensive than building power plants.

Rates

The NCMPA 1 Board of Commissioners voted to defer any increase in demand and energy rates in 1990, opting instead to decrease the amount budgeted for deposit into the agency's rate stabilization fund. The rate stabilization fund consists of deposits made in years when costs are comparatively low so that withdrawals can be made in later years as costs increase.

At its March meeting, the board had considered adopting an all-requirements rate schedule that included a 3.1 percent increase in the basic demand and energy rates.

While the board rejected an increase in demand and energy rates, it did adopt recommended changes in Delivery and Distribution charges which had a minor effect on participants. The changes became effective May 1, 1990.

Commissioners also re-affirmed their long-standing policy that rates should be set on long-term goals through rate stabilization, and that this policy should continue to govern staff recommendations to the rate committee and the Board about levels and timing of future all-requirements rate changes.

NCMPA 1 is the power supplier for its 19 member participants. The all-requirements rates cover the cost of project power supply ownership and operations, purchases of additional or supplemental power supply needs, administration and general expenses and any taxes levied by state and local governments. Other power needs are supplied for some participants from allocations of hydroelectric generation by the Southeastern Power Administration, a federal agency.

All changes in the power agency's rates are approved by the NCMPA 1 Board of Commissioners after consideration and recommendation from the agency's eight-member rate committee.

Finance

A refunding in November 1990 will reduce debt service by \$40.8 million during the next 15 years. The power agency issued Series 1990 in the amount of \$284,795,000 at a true interest cost of 7.18 percent. This issue accomplished the refunding of \$232,030,000 of 9 percent term bonds. Present value savings resulting from the sale were \$22.7 million.

In July, NCMPA 1 began decommissioning compliance procedures with the Nuclear Regulatory Commission (NRC). This included establishing external trusts and filing with the NRC a report of financial assurance.

The Local Government Commission (LGC) of North Carolina provides the power agency with a valuable credit enhancement not available in other states.

The LGC, a division of the Department of the State Treasury, is involved in all phases of the agency's debt financings, monitors the financial condition of the agency and participants, and has statutory authority to require power agency-served cities to set electric rates sufficient to meet their contractual obligations to the agency.

Bonds Outstanding — 12/31

Portfolio Statistics

Earnings

| | Income | Rate of Return |
|------|--------------|----------------|
| 1990 | \$65,058,129 | 8.94% |
| 1989 | 63,832,165 | 9.45 |

Market Value as of 12/31

| | Value | Years Average Maturity |
|------|---------------|------------------------|
| 1990 | \$811,247,409 | 3.51 |
| 1989 | 764,699,083 | 2.65 |

Transactions

| | Number | Amount |
|------|--------|-----------------|
| 1990 | 768 | \$7,470,791,404 |
| 1989 | 851 | 5,328,921,636 |

Debt Outstanding

| | (Thousands) | Weighted Average Interest Cost |
|-------------------|-------------|--------------------------------|
| December 31, 1990 | \$2,494,242 | 8.02% |
| December 31, 1989 | 2,447,167 | 8.28 |

Bond Reconciliation

Bonds

| | |
|----------------------|------------------------|
| Outstanding 12/31/89 | \$2,447,167,000 |
| Issued | |
| Series 1990 | + 284,795,000 |
| | <u>2,731,962,000</u> |
| Matured 1/1/90 | - 5,690,000 |
| Refunded | - 232,030,000 |
| | <u>\$2,494,242,000</u> |

Series 1990
\$284,795,000

Series 1988
\$401,482,000

Series 1986
\$262,960,000

Series 1985B
\$635,760,000

Series 1985A
\$69,060,000

Series 1985
\$142,445,000

Series 1984
\$86,295,000

Series 1983
\$32,300,000

Series 1982
\$25,000,000

Series 1981
\$29,750,000

Series 1979
\$143,500,000

Series 1978
\$380,895,000

*For Earnings and Market Value, amounts include income from and market value of securities held in the decommissioning trust.

Board of Commissioners

Commissioners^{1,2}

Raymond I. Allen
City Manager
Albemarle

E.M. Shearon
Council Member
Bostic

Janice Hovis
City Manager
Cherryville

James L. Dorton
Alderman
Concord

Nannie Potts
Commissioner
Cornelius

Morris Baker
Town Manager
Drexel

Gary D. Hicks
City Manager
Gastonia

A. W. Huffman, Jr.
Mayor
Granite Falls

Roy B. Culler, Jr.
Mayor
High Point

Bobby O. Wood
Public Works Director
Landis

Klynt Ripple
Utilities Commission
Member, Lexington

Steven H. Peeler
Director of Public
Works and Utilities
Lincolnton

Edna Mae Heffner
Council Member
Maiden

J. E. Hinkel
City Manager
Monroe

Robert H. Choate
Council Member
Morganton

Richard L. French
City Manager
Newton

Mary Ann Creech
Town Administrator
Pineville

George W. Clay, Jr.
Mayor
Shelby

Arthur E. Peterson
Council Member
Statesville

Alternate Commissioners^{1,2,3}

Tidus Stanback
Council Member
Albemarle

Jack F. Neel
Council Member
Albemarle

Jack Rich, Sr.
Council Member
Bostic

John E. McGinnis
Council Member
Cherryville

Ralph Brittain
Mayor
Drexel

Jack R. Clark
Commissioner
Granite Falls

Linda K. Story
Town Manager
Granite Falls

H. Lewis Price
City Manager
High Point

Lloyd D. Shank, Jr.
Director of Electric
Utilities
High Point

Bobbie G. Ross
Commissioner
Huntersville

Steve D. Carpenter
Town Manager
Huntersville

Vernon G. Price, Jr.
Council Member
Lexington

R. Duke Whisenant
City Manager
Lexington

Jerry L. Campbell
Mayor
Lincolnton

Marshall E. Shepherd
Town Manager
Maiden

Don Mitchell
Electrical Engineer
Monroe

Jay Coffey
Director, Public
Utilities
Morganton

T. Jack Matthews
Director, Public
Utilities, Newton

Douglas W. Tyndall
Mayor
Pineville

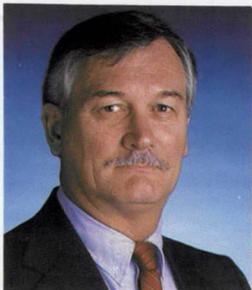
Stephen S. Royster
Council Member
Shelby

Smith D. Lingerfelt
Electrical
Superintendent
Shelby

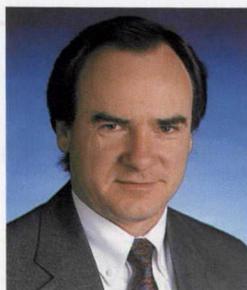
Peter T. Connet
City Manager
Statesville

Larry M. Cranford
Electrical Utility
Director
Statesville

Management Staff



James T. Bobo
General Manager



William G. Wemhoff
Director - Engineering



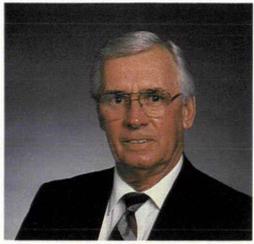
Jack S. Childs
Director
Communications



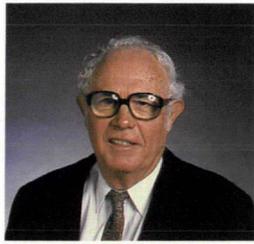
William H. Batt
Director - Finance
and Administration



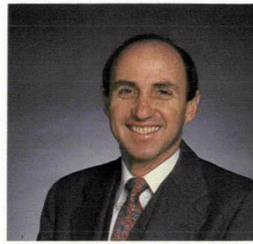
Alice D. Garland
Director
Government Affairs



George W. Clay, Jr.



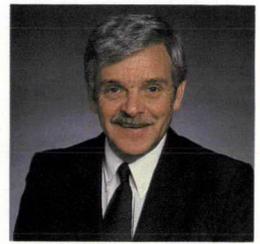
A. W. Huffman, Jr.



R. Duke Whisenant



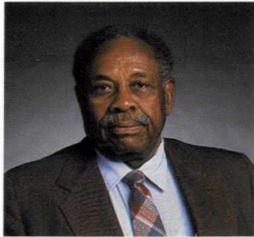
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Gary D. Hicks



J. E. Hinkel



Arthur E. Peterson



Janice Hovis



Raymond I. Allen



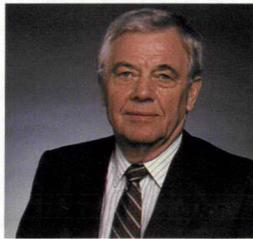
Jerry L. Campbell



Jay Coffey



Mary Ann Creech



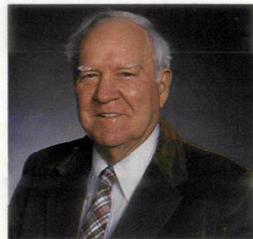
Roy B. Culler, Jr.



Richard L. French



Edna Mae Heffner



Klynt Ripple



Bobbie G. Ross

1990 Officers At-Large Executive Committee Members

Chairman—George W. Clay, Jr., Mayor, Shelby

Vice Chairman—A. W. Huffman, Jr., Mayor, Granite Falls

Secretary-Treasurer—R. Duke Whisenant, City Manager, Lexington

Members At-Large:

Morris Baker, Town Manager, Drexel

Gary D. Hicks, City Manager, Gastonia

J. E. Hinkel, City Manager, Monroe

Janice Hovis, City Manager, Cherryville

Arthur E. Peterson, Council Member, Statesville

¹As of December 31, 1990

²The Commissioner's seat in Huntersville and the Alternate Commissioners' seats in Concord, Cornelius and Gastonia were vacant as of December 31, 1990.

³A city or town may appoint as many as two Alternate Commissioners.

Participant Profile

Public power began its second century of service in North Carolina in 1990.

Located in the heavily populated Piedmont Region, power agency participants serve traditional North Carolina industries such as furniture and textile companies, as well as the unconventional Carolina Chalkboard in Landis and American Roller Bearing in Morganton. Several cities provide power to such retail giants as Wal-Mart and K-Mart. Of the top 100 privately-held companies in North Carolina by fiscal 1990 revenues, 13 are based in participant cities and towns.

Of the 19 participants, 16 are within 20 miles of an interstate highway, making their locale a prime choice for industrial and commercial siting.

In August, a statewide campaign was introduced to draw attention to the benefits of public power. More than 80 billboards across the state displayed the purple and teal logo with the words: "Public Power: North Carolina's Hometown Connection."

The theme continued through Public Power Week in October. Newspaper articles, print and radio announcements, city council resolutions, mall displays and school presentations promoted the value of living in a public power community.

While the power agency's customer base grew slightly, several smaller municipalities noted significant increases. Cornelius posted an increase of 11.4 percent, while Pineville had a customer increase of 7.5 percent, and Huntersville experienced a growth rate of 6.8 percent. The towns are nearby communities of Charlotte, the largest city in both North and South Carolina. Granite Falls, a small town near Hickory, experienced a 4.4 percent increase in 1990.

Overall, the power agency posted a 1 percent increase in customers served from 130,600 in 1989 to 132,000 in 1990. Gross revenue from electric sales by participants rose about 1.9 percent to \$224 million in 1990.

| City | Customers | Gross Revenue From Sales |
|---------------|----------------|--------------------------|
| Albemarle | 10,343 | \$15,187,100 |
| Bostic | 169 | 127,101 |
| Cherryville | 2,341 | 3,834,425 |
| Cornelius | 1,099 | 1,253,370 |
| Drexel | 1,089 | 1,102,109 |
| Gastonia | 21,775 | 35,265,109 |
| Granite Falls | 1,731 | 2,544,346 |
| High Point | 30,389 | 47,695,966 |
| Huntersville | 1,117 | 1,504,210 |
| Landis | 2,443 | 2,315,873 |
| Lexington | 16,116 | 26,026,680 |
| Lincolnton | 2,535 | 3,262,364 |
| Maiden | 916 | 3,242,572 |
| Monroe | 8,248 | 23,209,059 |
| Morganton | 7,232 | 15,115,209 |
| Newton | 3,677 | 4,991,516 |
| Pineville | 2,051 | 2,794,200 |
| Shelby | 7,679 | 10,807,288 |
| Statesville | 11,157 | 23,693,783 |
| Total | 132,107 | \$223,972,280 |



Lexington Industries, Inc. is among the nation's top furniture manufacturers, and is one of Lexington's largest electric customers.

Report of Independent Auditors

Board of Commissioners
North Carolina Municipal Power Agency Number 1

We have audited the accompanying balance sheet of North Carolina Municipal Power Agency Number 1 as of December 31, 1990 and the related statements of revenues and expenses and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of North Carolina Municipal Power Agency Number 1 for the year ended December 31, 1989 were audited by other auditors whose report dated March 22, 1990 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1990 financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Municipal Power Agency Number 1 at December 31, 1990, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules of Revenues and Expenses per Bond Resolution and Other Agreements and the Schedule of Changes in Assets of Funds Invested for the year ended December 31, 1990 are presented for purposes of additional analysis and are not a required part of the basic financial statements of North Carolina Municipal Power Agency Number 1. Such 1990 information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young

April 5, 1991

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1

BALANCE SHEETS

(\$000s)

| | <u>December 31,</u> | |
|---|---------------------|--------------------|
| | <u>1990</u> | <u>1989</u> |
| <u>ASSETS</u> | | |
| ELECTRIC UTILITY PLANT (Notes B and C): | | |
| Electric plant in service, net of accumulated depreciation of \$193,641 and \$154,459 | \$1,205,874 | \$1,246,592 |
| Construction work in progress | 9,601 | 9,062 |
| Nuclear fuel, net of accumulated amortization of \$143,355 and \$118,167 | 71,201 | 67,099 |
| | <u>1,286,676</u> | <u>1,322,753</u> |
| NON-UTILITY PROPERTY AND EQUIPMENT, net (Note B) | 2,096 | 2,134 |
| SPECIAL FUNDS INVESTED (Notes B, D, and F): | | |
| Construction fund | 18,956 | 16,975 |
| Bond fund | 319,898 | 315,664 |
| Reserve and contingency fund | 21,641 | 21,786 |
| Decommissioning fund | | 17,418 |
| Special reserve fund | 1,147 | 1,045 |
| | <u>361,642</u> | <u>372,888</u> |
| TRUST FOR DECOMMISSIONING COSTS (Note B) | 21,725 | |
| OPERATING ASSETS: | | |
| Funds invested (Notes B, D, and F): | | |
| Revenue fund | 296,689 | 280,464 |
| Operating fund | 78,140 | 78,564 |
| Supplemental fund | 50,101 | 34,910 |
| | <u>424,930</u> | <u>393,938</u> |
| Participant accounts receivable | 12,650 | 15,477 |
| Operating accounts receivable | 20,278 | 22,574 |
| Prepaid expenses | 41,875 | 39,422 |
| | <u>499,733</u> | <u>471,411</u> |
| DEFERRED COSTS (Note B): | | |
| Unamortized debt issuance costs | 41,944 | 42,979 |
| Excess costs on advance refundings of debt | 198,928 | 167,950 |
| Net costs to be recovered from future billings to participants (Note E) | 44,126 | 51,599 |
| | <u>499,733</u> | <u>471,411</u> |
| | <u>\$2,456,870</u> | <u>\$2,431,714</u> |

See notes to financial statements.

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
BALANCE SHEETS
(\$000s)

| | <u>December 31,</u> | |
|---|---------------------|--------------------|
| | <u>1990</u> | <u>1989</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| LONG-TERM DEBT: | | |
| Bonds, net of unamortized discount (Notes B and F) | \$2,296,948 | \$2,282,723 |
| SPECIAL FUNDS LIABILITIES: | | |
| Construction payables | 428 | 9 |
| Current maturities of bonds (Note F) | 21,020 | 5,690 |
| Accrued interest on bonds | 84,047 | 93,244 |
| | <u>105,495</u> | <u>98,943</u> |
| LIABILITY FOR DECOMMISSIONING COSTS (Note B) | 21,725 | |
| OPERATING LIABILITIES: | | |
| Accounts payable | 456 | 307 |
| Accrued taxes | 9,624 | 8,585 |
| | <u>10,080</u> | <u>8,892</u> |
| COMMITMENTS AND CONTINGENCIES (Notes G and H) | | |
| | | |
| FUND BALANCE | <u>22,622</u> | <u>41,156</u> |
| | <u>\$2,456,870</u> | <u>\$2,431,714</u> |

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE
(\$000s)

| | Year Ended December 31, | |
|---|----------------------------|------------------|
| | 1990 | 1989 |
| OPERATING REVENUES: | | |
| Sales of electricity to participants | \$166,561 | \$166,064 |
| Sales of electricity to utilities | 266,086 | 263,034 |
| | <u>432,647</u> | <u>429,098</u> |
| OPERATING EXPENSES: | | |
| Operation and maintenance | 68,229 | 57,842 |
| Nuclear fuel | 30,244 | 35,546 |
| Interconnection services: | | |
| Purchased power | 106,903 | 118,940 |
| Transmission and distribution | 11,374 | 10,905 |
| Other | 231 | 231 |
| | <u>118,508</u> | <u>130,076</u> |
| Administrative and general | 18,721 | 16,141 |
| Gross receipts and excise taxes (Note B) | 7,623 | 7,814 |
| Property tax (Note B) | 7,522 | 7,009 |
| Depreciation | 42,264 | 40,167 |
| | <u>293,111</u> | <u>294,595</u> |
| NET OPERATING INCOME | 139,536 | 134,503 |
| INTEREST CHARGES (CREDITS): | | |
| Interest expense | 186,078 | 186,620 |
| Amortization of debt refunding costs | 5,637 | 5,637 |
| Amortization of debt discount and issuance costs | 2,343 | 2,181 |
| Investment income | (64,982) | (63,804) |
| Net interest capitalized (Note C) | 70 | 108 |
| | <u>129,146</u> | <u>130,742</u> |
| (DEFERRED REVENUES) NET COSTS TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS (Note E) | <u>(28,924)</u> | <u>15,406</u> |
| (DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES | (18,534) | 19,167 |
| FUND BALANCE, beginning of year | <u>41,156</u> | <u>21,989</u> |
| FUND BALANCE, end of year | <u>\$ 22,622</u> | <u>\$ 41,156</u> |

See notes to financial statements.

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
STATEMENTS OF CASH FLOWS
(\$000s)

| | Year Ended | |
|--|---------------------|------------------|
| | December 31, | |
| | <u>1990</u> | <u>1989</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from sales of electricity | \$ 436,559 | \$ 425,060 |
| Payments of operating expenses | <u>(218,372)</u> | <u>(226,307)</u> |
| Net cash provided by operating activities | 218,187 | 198,753 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Bonds issued | 284,795 | |
| Bonds refunded | (232,030) | |
| Interest paid | (185,588) | (186,775) |
| Refunding Trust Fund requirement | (30,298) | |
| Additions to electric utility plant and non-utility property and equipment | (38,125) | (37,941) |
| Bonds retired | (5,690) | (5,385) |
| Investment earnings receipts from construction fund | 238 | 28 |
| Note retired | | (445) |
| Debt discount and issuance costs paid | <u>(34,832)</u> | <u>(42)</u> |
| Net cash used for capital and related financing activities | (241,530) | (230,560) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sales of investment securities | 7,217,757 | 4,833,486 |
| Purchases of investment securities | (7,247,253) | (4,846,703) |
| Investment earnings receipts from non-construction funds | <u>52,838</u> | <u>45,026</u> |
| Net cash provided by investing activities | <u>23,342</u> | <u>31,809</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1) | 2 |
| OPERATING CASH, beginning of year | <u>21</u> | <u>19</u> |
| OPERATING CASH, end of year | <u>\$ 20</u> | <u>\$ 21</u> |

See notes to financial statements.

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
STATEMENTS OF CASH FLOWS (continued)
(\$000s)

RECONCILIATION OF NET OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

| | Year Ended | |
|---|-------------------------|-------------------------|
| | December 31, | |
| | <u>1990</u> | <u>1989</u> |
| Net operating income | \$139,536 | \$134,503 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Depreciation | 42,264 | 40,167 |
| Amortization of nuclear fuel | 30,244 | 35,546 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in participant accounts receivable | 2,827 | (2,377) |
| Decrease (increase) in operating accounts receivable | 2,296 | (16,347) |
| (Increase) in prepaid expenses | (2,453) | (2,200) |
| Increase in accounts payable | 2,434 | 9,243 |
| Increase in accrued taxes | <u>1,039</u> | <u>218</u> |
| Total adjustments | <u>78,651</u> | <u>64,250</u> |
| Net cash provided by operating activities | <u><u>\$218,187</u></u> | <u><u>\$198,753</u></u> |

See notes to financial statements.

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

A. GENERAL MATTERS

North Carolina Municipal Power Agency Number 1 (agency) is a joint agency organized and existing pursuant to Chapter 159B of the General Statutes of North Carolina to enable municipalities owning electric distribution systems, through the organization of the agency, to finance, construct, own, operate, and maintain electric generation and transmission facilities. The agency has twenty members, nineteen (participants) which receive power from the agency and one which receives power from Duke Power Company (Duke).

The agency has entered into several agreements with Duke which govern the purchase, ownership, construction, operation, and maintenance of the project:

The Purchase, Construction, and Ownership Agreement provides, among other things, for the agency to purchase a 75% undivided ownership interest in Unit 2 of the Catawba Nuclear Station (station) and a 37.5% undivided ownership interest in certain support facilities of the station. However, by virtue of various provisions in the Interconnection Agreement and the Operation and Fuel Agreement, the agency (1) bears the costs of acquisition, construction, operation, and maintenance of 37.5% of Unit 1 and 37.5% of Unit 2, and (2) has the same proportionate right to the output of and bears the risks associated with the lack of operation of such units.

The Interconnection Agreement provides for the interconnection between Duke's electric power system and the agency's project and for the exchange of power between Unit 1 and Unit 2 of the station and between the Catawba units and Duke's McGuire Nuclear Station. The agreement also provides for the purchase and sale of capacity and energy, and the transmission of energy to the agency's participants.

The Operation and Fuel Agreement provides for Duke to operate, maintain, and fuel the station; to make renewals, replacements, and capital additions as approved by the agency; and for the ultimate decommissioning of the station at the end of its useful life.

The agency's acquisition of its ownership interest is being financed by the issuance of electric revenue bonds pursuant to Resolution No. R-16-78, as amended, (resolution) of the Board of Commissioners of the agency. The resolution established special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the project, and to establish certain reserves. The resolution also established special funds in which project revenues are deposited and from which project operating costs, debt service, and other specified payments relating to the project are made.

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

A. GENERAL MATTERS (continued)

The agency has entered into a Project Power Sales Agreement and a Supplemental Power Sales Agreement with each participant. These agreements provide for each participant to purchase from the agency its all requirements bulk power supply, in excess of power allotments from Southeastern Power Administration (SEPA), which includes its total share of project output (as defined by the Project Power Sales Agreement). The agency is obligated to provide all electric power required by each participant at the respective delivery points. Each participant is obligated to pay its share of the operating and debt service costs of the project.

The agency's participants receive their total electric power, exclusive of power allotments from SEPA, from the agency. Such power is provided by project output together with supplemental purchases of power from Duke. Pursuant to two "Reliability Exchanges" contained in the Interconnection Agreement, project output is provided in essentially equal amounts from Catawba Unit 2 and three other nuclear units (Catawba Unit 1, McGuire Unit 1, and McGuire Unit 2) in operation on the Duke system, all of similar size and capacity. The reliability exchanges are intended to make more reliable the supply of capacity and energy to the agency in the amount to which the agency is entitled pursuant to its ownership interest in Catawba Unit 2, and to mitigate potential adverse economic effects on the agency and the participants from unscheduled outages of Catawba Unit 2. Correspondingly, the agency bears risks resulting from unscheduled outages of any Catawba or McGuire Unit.

ElectriCities of North Carolina, Inc. (ElectriCities), organized as a joint municipal assistance agency under the General Statutes of North Carolina, is a public body and body corporate and politic created for the purpose of providing aid and assistance to municipalities in connection with their electric systems and to joint agencies, such as the agency. The agency has entered into management agreements with ElectriCities. Under the current management agreement with the agency, ElectriCities is required to provide all personnel and personnel services necessary for the agency to conduct its business in an economic and efficient manner.

B. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounts of the agency are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, and are in conformity with generally accepted accounting principles (GAAP).

Reclassifications

Certain amounts have been reclassified to conform to the 1990 presentation.

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

Electric Plant in Service

All expenditures associated with the development and construction of the agency's ownership interest in the Catawba station, including interest expense net of investment income on funds not yet expended, have been recorded at original cost and are being depreciated on a straight-line basis over the average composite life of each unit's assets.

Construction Work in Progress

All expenditures related to modifications identified prior to commercial operation and to capital additions, including interest expense net of investment income on funds not yet expended, are capitalized as construction work in progress until such time as they are completed and transferred to Electric Plant in Service. Depreciation expense is recognized on these items after they are transferred.

Nuclear Fuel

All expenditures related to the purchase and construction of nuclear fuel cores, including interest expense net of investment income on funds not yet expended, are capitalized until such time as the cores are placed in the reactor. At that time, they are amortized and charged to fuel expense on the units of production method. Amortization of nuclear fuel costs includes estimated disposal costs of \$5,056,000 and \$5,407,000 for the years ended December 31, 1990 and 1989, respectively.

Non-Utility Property and Equipment

All expenditures related to purchasing and installing an in-house computer, jointly owned with North Carolina Eastern Municipal Power Agency (NCEMPA), have been capitalized and are fully depreciated. Also included are the land and administrative office building jointly owned with NCEMPA and used by both agencies and Electricities. The administrative office building is being depreciated over 37 1/2 years on a straight-line basis.

Investments

Investments are carried at amortized cost. Discounts and premiums, if any, are amortized over the terms of the related investments in a manner which yields a constant rate of return. In those instances where market values are below amortized cost, no provision for loss has been provided since it is the agency's intention to hold the securities to maturity.

Decommissioning Costs

In June, 1988, the U.S. Nuclear Regulatory Commission (NRC) promulgated regulations requiring that each licensee of a commercial nuclear power reactor furnish to the NRC certification of its financial capability to meet the costs of nuclear decommissioning at the end of the useful life of the licensee's facility. As a co-licensee of Catawba Unit 2, the agency is subject to the requirements of the NRC's financial capability regulations, and therefore has furnished certification of its financial capability to fund its share of the costs of decommissioning the Catawba Station.

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

B. SIGNIFICANT ACCOUNTING POLICIES (continued)

In order to satisfy the NRC's financial capability regulations, in November 1990 the agency established an external trust fund (the "Decommissioning Trust") pursuant to a trust agreement with Wachovia Bank and Trust Company. The agency's certification of financial capability requires that the agency make annual deposits to the Decommissioning Trust which, together with the investment earnings and amounts previously on deposit in the trust, are anticipated to result in sufficient funds being held in the Decommissioning Trust at the expiration of the current operating licenses for the Catawba Units to meet the agency's share of the decommissioning cost figure of \$105 million per unit (1986 dollars) set forth in the NRC regulations. The Decommissioning Trust is irrevocable, and funds may be withdrawn from the trust solely for the purpose of paying the agency's share of the costs of nuclear decommissioning.

Under the NRC regulations, the Decommissioning Trust is required to be segregated from the agency assets and outside the agency's administrative control. The agency is deemed to have incurred and paid decommissioning costs as annual withdrawals are made from the Decommissioning Fund and deposited to the Decommissioning Trust.

Deferred Costs

Unamortized debt issuance costs, shown net of accumulated amortization, are being amortized on the interest method over the term of the related debt. Excess costs on advance refundings of debt are deferred and amortized over the term of the debt issued on refunding. The December 31, 1989 inception to date excess costs on advance refundings have been reclassified to conform with the 1990 presentation. Net costs to be recovered from future billings to participants are not amortized but will be recovered through future rates (See Note E).

Discount on Bonds

Discount on bonds is amortized over the terms of the related bonds in a manner which yields a constant rate of interest.

Taxes

Income of the agency is excludable from federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the agency from property and franchise or other privilege taxes. In lieu of North Carolina property taxes, the agency pays an amount which would otherwise be assessed on the non-utility property and equipment of the agency. In lieu of a franchise or privilege tax, the agency pays to North Carolina an amount equal to 3.22% of the gross receipts from sales of electricity to participants. Electric utility property is located in South Carolina and subject to South Carolina property tax. An electric power excise tax equal to .05% (5/10 mill) for each kilowatt-hour of electric power sold for resale within South Carolina is also paid.

Statements of Cash Flows

The agency has adopted cash flow reporting as required by Governmental Accounting Standards Board Statement No. 9.

For purposes of the statements of cash flows, all restricted cash and highly liquid investments are not considered cash and cash equivalents. Operating cash consists of cash included in the line item on the balance sheets "operating assets: funds invested".

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

C. CONSTRUCTION PROGRAM

Interest costs of \$436,000 and \$456,000 were capitalized as part of the cost of capital additions and power plants under construction during 1990 and 1989, respectively. The capitalized interest costs were offset by \$506,000 and \$564,000 of interest earned on related unexpended bond proceeds for 1990 and 1989, respectively.

D. INVESTMENTS

The resolution authorizes the agency to invest in 1) direct obligations of, or obligations of which the principal and interest are unconditionally guaranteed by, the United States (U.S.), 2) obligations of any agency of the U.S. or corporation wholly owned by the U.S., 3) direct and general obligations of the State of North Carolina or any political subdivision thereof whose securities are rated "A" or better, 4) repurchase agreements with the Bond Fund Trustee, Construction Fund Trustee, or any government bond dealer reporting to the Federal Reserve Bank of New York which mature within nine months from the date they were entered into and are collateralized by previously described obligations, and 5) bank time deposits evidenced by certificates of deposit and bankers' acceptances.

Bank time deposits may only be in banks with capital stock, surplus, and undivided profits of \$20,000,000 or \$50,000,000 for North Carolina banks and out-of-state banks, respectively, and the agency's investments deposited in such banks cannot exceed 50% and 25%, respectively, of such banks' capital stock, surplus, and undivided profits.

The resolution permits the agency to establish official depositories with any bank or trust company qualified under the laws of North Carolina to receive deposits of public moneys and having capital stock, surplus, and undivided profits in excess of \$20,000,000. At December 31, 1990 and 1989, the agency had \$25,000 and \$286,000, respectively, so deposited.

The agency's investments are categorized in the following table to give an indication of the level of risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the agency's name. (In thousands of dollars).

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 1990 AND 1989**

D. INVESTMENTS (continued)

| | Category 1 | Carrying Amount | Market Value |
|----------------------------|------------------|--------------------|------------------|
| Repurchase agreements | \$156,885 | \$156,885 | \$156,883 |
| U.S. government securities | 119,856 | 119,856 | 123,209 |
| U.S. government agencies | 423,178 | 423,178 | 433,138 |
| Bankers' acceptances | 35,914 | 35,914 | 35,945 |
| Commercial paper | 29,537 | 29,537 | 29,551 |
| Certificates of deposit | 10,000 | 10,000 | 10,000 |
| | <u>\$775,370</u> | <u>775,370</u> | <u>\$788,726</u> |
| Operating cash | | 20 | |
| Restricted cash | | 5 | |
| Accrued interest | | 11,177 | |
| Total funds invested | | <u>\$786,572</u> | |
| Consisting of: | | | |
| Special funds invested | | \$361,642 | |
| Operating assets | | 424,930 | |
| | | <u>\$786,572</u> | |

The repurchase agreements are the only collateralized investments. In accordance with the provisions of the resolution, the collateral is segregated and held by the trustee for the agency.

At December 31, 1989, the agency had investments of approximately \$737,374,000, \$1,989,000, and \$14,961,000 under Categories 1, 2, and 3, respectively, and approximately \$12,502,000 representing cash and accrued interest.

E. NET COSTS TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS

Rates for power billings to participants are designed to cover the agency's "costs" as defined by (1) the resolution, (2) the Project Power Sales Agreements, and (3) the Supplemental Power Sales Agreements. The agency's rates are structured to systematically provide for the debt requirements, operating funds, and reserves as specified by the resolution and power sales agreements. Recognition of "expenses" (defined according to GAAP) which are not included as "costs," is deferred to such period as it is intended that such "expenses" be covered by rates. Recognition of those "revenues," which under the resolution and the power sales agreements, are collected to cover "costs" that are not "expenses," is deferred to such period as it is intended that such "revenues" cover "expenses."

All rates must be approved by the Board of Commissioners. Rates are designed on an annual basis and are reviewed quarterly. If determined to be inadequate, rates may be revised.

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

E. NET COSTS TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS (continued)

Net costs to be recovered from future billings to participants includes the following (in thousands of dollars):

| | Year Ended December 31, | | Inception to December 31, | |
|---|----------------------------|-----------------|------------------------------|-----------------|
| | 1990 | 1989 | 1990 | 1989 |
| GAAP Items Not Included in Billings to Participants: | | | | |
| Interest expense not capitalizable | \$192,241 | \$188,105 | \$ 910,614 | \$718,373 |
| Depreciation | 47,695 | 45,804 | 225,658 | 177,963 |
| Training costs | | | 6,696 | 6,696 |
| | <u>239,936</u> | <u>233,909</u> | <u>1,142,968</u> | <u>903,032</u> |
| Bond Resolution Requirements Included in Billings to Participants: | | | | |
| Special funds deposits | 50,739 | 21,685 | 311,899 | 261,160 |
| Debt service | 207,901 | 192,425 | 773,156 | 565,255 |
| Investment income not available for operating purposes | 24,697 | 22,582 | 95,729 | 71,032 |
| Special funds excess valuations | (14,477) | (18,189) | (60,491) | (46,014) |
| | <u>268,860</u> | <u>218,503</u> | <u>1,120,293</u> | <u>851,433</u> |
| | <u>(28,924)</u> | <u>15,406</u> | <u>22,675</u> | <u>51,599</u> |
| Reclassification of decommissioning liability | <u>21,451</u> | | <u>21,451</u> | |
| (Deferred revenues) net costs to be recovered from future billings to participants | <u>\$(7,473)</u> | <u>\$15,406</u> | <u>\$ 44,126</u> | <u>\$51,599</u> |

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 1990 AND 1989**

F. BONDS

The agency has been authorized to issue Catawba Electric Revenue Bonds (bonds) in accordance with the terms, conditions, and limitations of the resolution. The total to be issued is to be sufficient to pay the costs of acquisition and construction of the project, as defined, and/or for other purposes set forth in the resolution. It is currently estimated that these costs will require the issuance of up to \$2,519,847,000 of bonds including bonds presently outstanding. Future refundings may affect the amount of bonds to be issued. On November 14, 1989, the Local Government Commission of the State of North Carolina (LGC) approved the issuance of such bonds up to a maximum principal amount of \$2,535,000,000; additional LGC approval must be obtained for the issuance of bonds in excess of this amount.

As of December 31, 1989, the agency had outstanding \$2,447,167,000 of bonds with an unamortized discount of \$158,754,000. On January 1, 1990, the agency made principal payments of \$5,690,000 for maturing bonds. In December 1990 an additional \$284,795,000 of bonds were issued (Series 1990). Proceeds of this issue were used to establish a trust for advance refunding portions of Series 1985 and 1985A bonds totaling \$232,030,000, bringing the total outstanding bonds at December 31, 1990, to \$2,494,242,000 as follows (in thousands of dollars):

SERIES 1978

| | |
|---|----------------|
| 5.7% to 6.875% maturing annually from 1991 to 2000 | \$ 58,800 |
| 6.6% maturing in 2003 with annual sinking fund requirements beginning in 2001 | 25,870 |
| 6.7% maturing in 2008 with annual sinking fund requirements beginning in 2004 | 55,935 |
| 6.875% maturing in 2020 with annual sinking fund requirements beginning in 2009 | <u>240,290</u> |
| | <u>380,895</u> |

SERIES 1979

| | |
|---|----------------|
| 6.2% to 6.9% maturing annually from 1991 to 2000 | 20,700 |
| 7.1% maturing in 2004 with annual sinking fund requirements beginning in 2001 | 12,905 |
| 7.375% maturing in 2020 with annual sinking fund requirements beginning in 2005 | <u>109,895</u> |
| | <u>143,500</u> |

SERIES 1981

| | |
|---|---------------|
| 9.4% to 10% maturing annually from 1991 to 1995 | 4,750 |
| 8.5% maturing in 2017 with annual sinking fund requirements beginning in 2011 | <u>25,000</u> |
| | <u>29,750</u> |

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 1990 AND 1989**

F. BONDS (continued)

SERIES 1982

| | |
|--|------------------|
| 7.5% maturing in 2018 with annual sinking fund requirements beginning in 2009 | <u>\$ 25,000</u> |
|--|------------------|

SERIES 1983

| | |
|--|---------------|
| 8% to 9.25% maturing annually from 1991 to 1996 | 7,300 |
| 7% maturing in 2018 with annual sinking fund requirements beginning in 2009 | <u>25,000</u> |
| | <u>32,300</u> |

SERIES 1984

| | |
|--|---------------|
| 8.5% to 10.2% maturing annually from 1991 to 1998 | 36,295 |
| 7.5% maturing in 2019 with annual sinking fund requirements beginning in 2017 | <u>50,000</u> |
| | <u>86,295</u> |

SERIES 1985

| | |
|--|----------------|
| 7.25% to 9.1% maturing annually from 1991 to 2000 | 52,445 |
| 9.375% maturing in 2005 with annual sinking fund requirements beginning in 2001 | 40,000 |
| 7% maturing in 2020 with annual sinking fund requirements beginning in 2019 | <u>50,000</u> |
| | <u>142,445</u> |

SERIES 1985A

| | |
|--|---------------|
| 7.3% to 9.2% maturing annually from 1991 to 2000 | 8,510 |
| 9.375% maturing in 2005 with annual sinking fund requirements beginning in 2001 | 21,005 |
| 7% maturing in 2020 | <u>39,545</u> |
| | <u>69,060</u> |

SERIES 1985B

| | |
|---|----------------|
| 7.4% to 8.75% maturing annually from 1991 to 2002 | 109,865 |
| 8.75% maturing in 2005 with annual sinking fund requirements beginning in 2003 | 61,935 |
| 8.5% maturing in 2017 with annual sinking fund requirements beginning in 2006 | 338,345 |
| 6% maturing in 2020 with annual sinking fund requirements beginning in 2018 | <u>125,615</u> |
| | <u>635,760</u> |

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

F. BONDS (continued)

SERIES 1986

| | |
|--|----------------|
| 6% to 7.5% maturing annually from 1991 to 2000 | \$ 37,465 |
| 7.5% maturing in 2006 with annual sinking fund requirements beginning in 2000 | 38,915 |
| 7% maturing in 2018 with annual sinking fund requirements beginning in 2006 | 148,305 |
| 5% maturing in 2020 with annual sinking fund requirements beginning in 2018 | <u>38,275</u> |
| | <u>262,960</u> |

SERIES 1988

| | |
|--|----------------|
| 7.3% to 7.6% zero coupon maturing annually from 2000 to 2003 | 11,052 |
| 7.7% maturing in 2008 with annual sinking fund requirements beginning in 2003 | 16,100 |
| 7.75% maturing in 2010 with annual sinking fund requirements beginning in 2008 | 8,310 |
| 7.625% maturing in 2014 with annual sinking fund requirements beginning in 2010 | 80,000 |
| 6% maturing in 2015 with annual sinking fund requirements beginning in 2013 | 35,000 |
| 7% maturing in 2016 with annual sinking fund requirements beginning in 2014 | 60,000 |
| 7.5% maturing in 2017 with annual sinking fund requirements beginning in 2016 | 25,000 |
| 7.875% maturing in 2019 with annual sinking fund requirements beginning in 2015 | <u>166,020</u> |
| | <u>401,482</u> |

SERIES 1990

| | |
|--|--------------------|
| Zero coupon priced to yield 6.75% maturing annually from 2004 to 2005 | 13,105 |
| 5.7% to 7% maturing annually from 1992 to 2006 except for 2004 and 2005 | 36,635 |
| 6.5% maturing in 2010 with annual sinking fund requirements beginning in 2007 | 111,600 |
| 5.5% maturing in 2013 with annual sinking fund requirements beginning in 2011 | 100,320 |
| 7% maturing in 2019 with annual sinking fund requirements beginning in 2014 | <u>23,135</u> |
| | <u>284,795</u> |
| | 2,494,242 |
| Less: Current maturities of bonds | 21,020 |
| Unamortized discount | <u>176,274</u> |
| | <u>\$2,296,948</u> |

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1990 AND 1989**

F. BONDS (continued)

Certain proceeds of the Series 1984, 1985A, 1985B, 1988 and 1990 bonds were used to establish trusts for advance refunding of \$1,599,840,000 of previously issued bonds. At December 31, 1990, \$6,605,000 of these bonds have been redeemed. Under these Refunding Trust Agreements, obligations of, or guaranteed by, the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the respective Refunding Trust Funds along with the interest earnings on such obligations, will be sufficient to pay all interest on the refunded bonds when due and to redeem all refunded bonds at various dates prior to their original maturities, in amounts ranging from par to a maximum redemption price of 103%. The monies on deposit in each Refunding Trust Fund, including the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the agency.

Excess costs of \$36,615,000 on the 1990 advance refunding have been deferred and are being amortized over the term of the 1990 issue. With the advance refunding the agency decreased its aggregate debt service payments by approximately \$28,800,000 over the next 28 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$22,700,000.

Interest on the bonds is payable semi-annually. The bonds are subject to redemption prior to maturity at the option of the agency, on or after the following dates at a maximum of 103% of the respective principal amounts:

| | |
|-------------------------------|-----------------|
| Series 1978 | January 1, 1989 |
| Series 1979 | January 1, 1990 |
| Series 1981 | January 1, 1991 |
| Series 1982 and 1983 | January 1, 1993 |
| Series 1984 | January 1, 1994 |
| Series 1985 | January 1, 1995 |
| Series 1985A, 1985B, and 1986 | January 1, 1996 |
| Series 1988 | January 1, 1998 |
| Series 1990 | January 1, 2000 |

The bonds are special obligations of the agency, payable solely from and secured solely by (1) project revenues (as defined by the resolution) after payment of project operating expenses (as defined by the resolution) and (2) other monies and securities pledged for payment thereof by the resolution.

The resolution requires the agency to deposit into special funds all proceeds of bonds issued and all project revenues (as defined by the resolution) generated as a result of the Project Power Sales Agreements and Interconnection Agreement. The purpose of the individual funds is specifically defined in the resolution.

**NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 1990 AND 1989**

F. BONDS (continued)

Maturities of outstanding bonds through 1995 and thereafter are as follows (in thousands of dollars):

| | |
|------------|--------------------|
| 1991 | \$ 21,020 |
| 1992 | 23,150 |
| 1993 | 24,810 |
| 1994 | 26,640 |
| 1995 | 28,655 |
| Thereafter | <u>2,369,967</u> |
| | <u>\$2,494,242</u> |

G. COMMITMENTS

The agency has a contractual agreement with ElectriCities whereby ElectriCities provides, at cost, general management services to the agency. This agreement continues through December 31, 1992, and is automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term.

For the years ended December 31, 1990 and 1989, the agency paid ElectriCities \$2,364,000 and \$1,765,000, respectively, of which \$31,000 and \$16,000, respectively, have been capitalized as construction work in progress.

H. CONTINGENCIES

The Price-Anderson Act limits the public liability for a nuclear incident at a nuclear generating unit to \$7,445,000,000, which amount is to be covered by private insurance and agreements of indemnity with the Nuclear Regulatory Commission. Such private insurance and agreements of indemnity are carried by Duke on behalf of all co-owners of the station. The terms of this coverage require the owners of all licensed facilities to provide up to \$63,000,000 per year per unit owned (adjusted annually for inflation) in the event of any nuclear incident involving any licensed facility in the nation, with an annual maximum assessment of \$10,000,000 per unit owned. If any such payments are required, the agency would be liable for 37.5% of those payments applicable to the station.

Property damage insurance coverage presently available for the station has a maximum benefit limited to \$2,035,000,000. Such available coverage has been obtained.

On March 22, 1990, Duke, purporting to act on behalf of all co-owners of the Catawba Nuclear Station, filed suit in U.S. District Court in Charleston, S.C. against the Westinghouse Electric Corporation. The suit alleges that when Westinghouse sold the Catawba and McGuire steam generators to Duke, it represented that the generators would last for the 40-year life of the stations. It also alleges that the steam generators are defective and will have to be replaced well short of their design life. The suit seeks the costs of repair or replacement of the steam generators as well as the cost of replacement power during the repair outages. In November 1990 the agency became a plaintiff in the suit. The agency is not a defendant in this matter and agency management believes that other than legal and consultant's costs to be incurred in pursuing the litigation, no material loss will result.

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
SCHEDULES OF REVENUES AND EXPENSES
PER BOND RESOLUTION AND OTHER AGREEMENTS
(\$000s)

| | Year Ended December 31, 1990 | | | Year Ended December 31, 1989 | | |
|--|------------------------------------|-------------------|-------------------|------------------------------------|------------------|------------------|
| | Project | Supplemental | Total | Project | Supplemental | Total |
| REVENUES: | | | | | | |
| Sales of electricity to participants | \$ 65,915 | \$100,646 | \$166,561 | \$ 16,946 | \$149,118 | \$166,064 |
| Sales of electricity to utilities | 266,086 | | 266,086 | 263,034 | | 263,034 |
| Reserve and contingency fund valuation | 14,477 | | 14,477 | 18,189 | | 18,189 |
| Investment revenue available for operations | <u>35,809</u> | <u>3,970</u> | <u>39,779</u> | <u>36,474</u> | <u>3,268</u> | <u>39,742</u> |
| | 382,287 | 104,616 | 486,903 | 334,643 | 152,386 | 487,029 |
| EXPENSES: | | | | | | |
| Operation and maintenance | 68,229 | | 68,229 | 57,842 | | 57,842 |
| Nuclear fuel | 25,988 | | 25,988 | 34,870 | | 34,870 |
| Interconnection services: | | | | | | |
| Purchased power | 437 | 106,466 | 106,903 | 3,473 | 115,467 | 118,940 |
| Transmission and distribution | | 11,374 | 11,374 | | 10,905 | 10,905 |
| Other | | <u>231</u> | <u>231</u> | | <u>231</u> | <u>231</u> |
| | 437 | 118,071 | 118,508 | 3,473 | 126,603 | 130,076 |
| Administrative and general-Duke | 15,546 | | 15,546 | 13,184 | | 13,184 |
| Administrative and general-agency | 1,337 | 1,701 | 3,038 | 1,220 | 1,639 | 2,859 |
| Miscellaneous agency expense | | 137 | 137 | | 98 | 98 |
| Gross receipts and excise taxes | 4,448 | 3,175 | 7,623 | 3,079 | 4,735 | 7,814 |
| Property tax | 7,522 | | 7,522 | 7,009 | | 7,009 |
| Debt service | 207,835 | 66 | 207,901 | 192,281 | 144 | 192,425 |
| Special funds deposits: | | | | | | |
| Decommissioning fund | 2,467 | | 2,467 | 2,467 | | 2,467 |
| Rate stabilization fund | 27,754 | | 27,754 | | | |
| Reserve and contingency fund | <u>20,724</u> | | <u>20,724</u> | <u>19,218</u> | | <u>19,218</u> |
| | 50,945 | | 50,945 | 21,685 | | 21,685 |
| | <u>382,287</u> | <u>123,150</u> | <u>505,437</u> | <u>334,643</u> | <u>133,219</u> | <u>467,862</u> |
| (DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES | <u>\$</u> | <u>\$(18,534)</u> | <u>\$(18,534)</u> | <u>\$</u> | <u>\$ 19,167</u> | <u>\$ 19,167</u> |

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1
SCHEDULES OF CHANGES IN ASSETS OF FUNDS INVESTED
(\$000s)

| | <u>Funds Invested January 1, 1989</u> | <u>Power Billing Receipts</u> | <u>Investment Income</u> | <u>Disbursements</u> | <u>Transfers</u> |
|------------------------------|---|---------------------------------------|------------------------------|----------------------|------------------|
| Construction fund | \$ 16,011 | \$ | \$ 1,454 | \$ (564) | \$ 74 |
| Bond fund: | | | | | |
| Interest account | 95,145 | | 3,934 | (186,640) | 182,638 |
| Reserve account | 215,334 | | 20,853 | | (21,491) |
| Principal account | 5,566 | | 257 | (5,385) | 5,453 |
| | <u>316,045</u> | | <u>25,044</u> | <u>(192,025)</u> | <u>166,600</u> |
| Reserve and contingency fund | 21,582 | | 3,151 | (5,139) | 2,192 |
| Decommissioning fund | 13,516 | | 1,434 | | 2,468 |
| Special reserve fund | 1,034 | | 100 | | (89) |
| Revenue fund: | | | | | |
| Revenue account | 47,127 | 39,044 | 2,480 | 130,595 | (180,610) |
| Rate stabilization account | 220,681 | | 21,127 | | 20 |
| | <u>267,808</u> | <u>39,044</u> | <u>23,607</u> | <u>130,595</u> | <u>(180,590)</u> |
| Operating fund: | | | | | |
| Working capital account | 25,743 | | 5,820 | (121,978) | 119,698 |
| Fuel account | 50,194 | | | | (913) |
| | <u>75,937</u> | | <u>5,820</u> | <u>(121,978)</u> | <u>118,785</u> |
| Supplemental fund | 22,924 | 124,643 | 3,194 | (6,411) | (109,440) |
| | <u>\$734,857</u> | <u>\$163,687</u> | <u>\$63,804</u> | <u>\$(195,522)</u> | <u>\$</u> |

| Funds Invested December 31, 1989 | Bond and Note Proceeds | Power Billing Receipts | Investment Income | Disbursements | Transfers | Funds Invested December 31, 1990 |
|---|---------------------------------------|---------------------------------------|------------------------------|----------------------|------------------|---|
| \$ 16,975 | \$ 1,828 | \$ | \$ 1,404 | \$ (1,251) | \$ | \$ 18,956 |
| 95,077 | (9,628) | | 3,415 | (186,325) | 183,130 | 85,669 |
| 214,696 | (1,969) | | 20,341 | | (20,472) | 212,596 |
| 5,891 | | | 809 | (5,690) | 20,623 | 21,633 |
| <u>315,664</u> | <u>(11,597)</u> | | <u>24,565</u> | <u>(192,015)</u> | <u>183,281</u> | <u>319,898</u> |
| 21,786 | (197) | | 3,336 | (6,286) | 3,002 | 21,641 |
| 17,418 | | | 1,770 | (21,659) | 2,471 | |
| 1,045 | | | 102 | | | 1,147 |
| 38,636 | | 67,231 | 2,170 | 155,347 | (258,303) | 5,081 |
| 241,828 | | | 22,023 | | 27,757 | 291,608 |
| <u>280,464</u> | | <u>67,231</u> | <u>24,193</u> | <u>155,347</u> | <u>(230,546)</u> | <u>296,689</u> |
| 29,283 | | | 5,744 | (132,934) | 127,814 | 29,907 |
| 49,281 | | | | | (1,048) | 48,233 |
| <u>78,564</u> | | | <u>5,744</u> | <u>(132,934)</u> | <u>126,766</u> | <u>78,140</u> |
| 34,910 | | 102,157 | 3,868 | (5,860) | (84,974) | 50,101 |
| <u>\$766,826</u> | <u>\$(9,966)</u> | <u>\$169,388</u> | <u>\$64,982</u> | <u>\$(204,658)</u> | <u>\$</u> | <u>\$786,572</u> |

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Chemical Bank
New York, New York

Construction Fund Trustee
Wachovia Bank and
Trust Company, N.A.
Winston-Salem, North Carolina

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