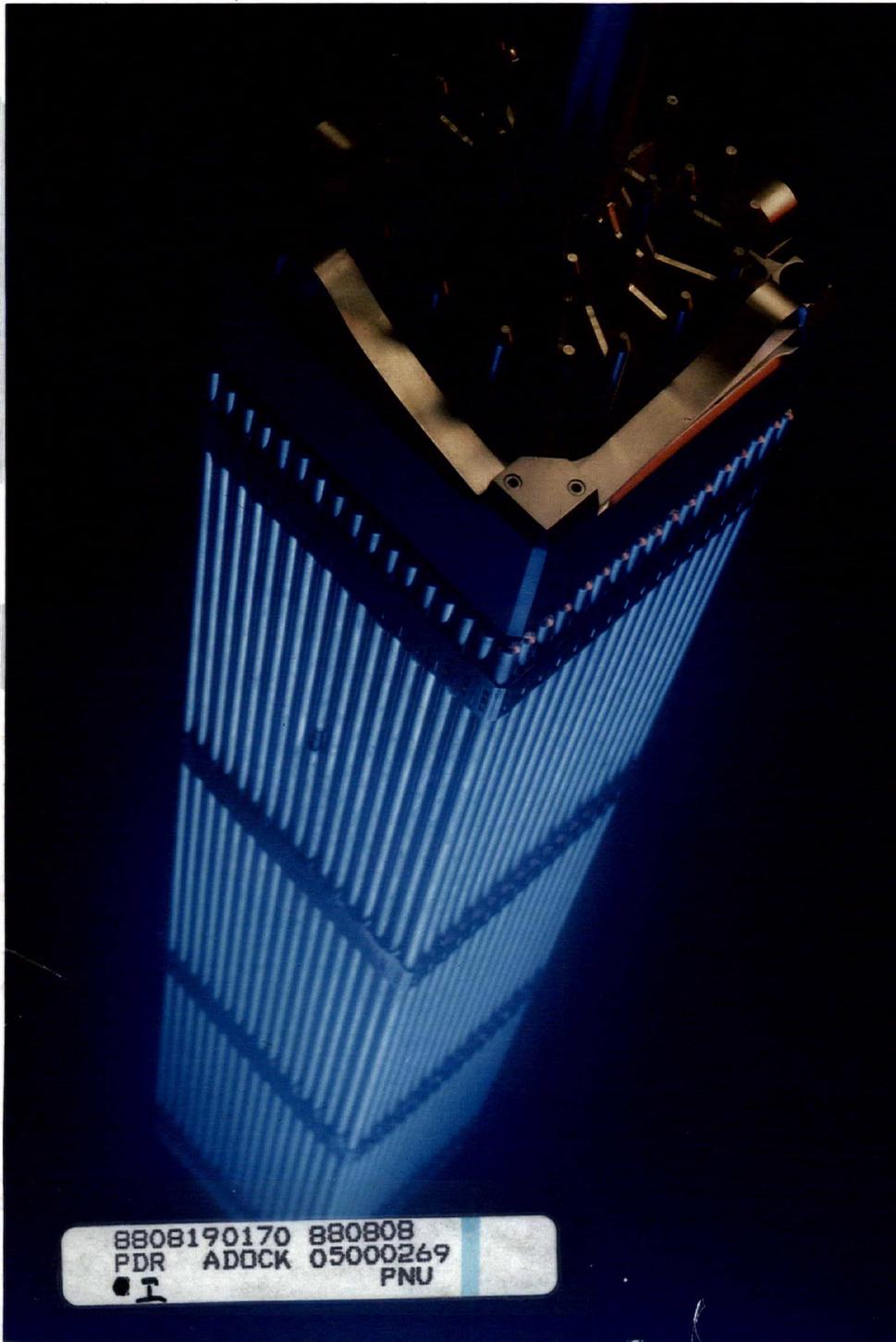

1987 Annual Report

North Carolina Municipal Power Agency Number 1



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North Carolina Municipal Power Agency Number 1 — 1987

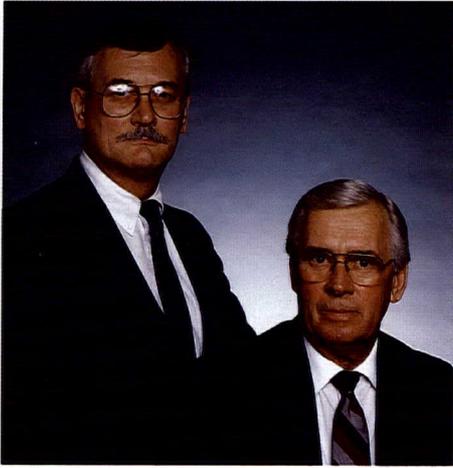
North Carolina Municipal Power Agency Number 1 (NCMPA 1) was chartered in January 1976 under enabling legislation enacted by the 1975 North Carolina General Assembly. It has 20 member municipalities, 19 of which are participants in a joint project involving a 75 percent ownership interest in Unit 2 of Catawba Nuclear Station, constructed and operated by Duke Power Company (Duke).

Since July 1, 1983, NCMPA 1 has been the all-requirements power supplier for its participants, which formerly were wholesale customers of Duke. Both NCMPA 1 and the North Carolina Eastern Municipal Power Agency are provided professional management staff and services by Electricities of North Carolina, Inc.

NCMPA 1 Statistical Highlights

	1987	1986	1985
Kilowatt-hour sales (thousands)	3,358,447	3,190,842	3,020,916
Peak Billing Demand (kilowatts)	666,802	653,210	610,358
Operating Revenues	\$430,546,000	\$331,907,000	\$206,195,000
Excess of Revenues over Expenses	\$ 8,197,000	\$ 6,075,000	\$ 4,497,000
Sales to Duke (Revenues)	\$280,810,000	\$194,986,000	\$ 83,175,000
Average Monthly Power Purchases by Cities — kW (thousands)	279,871	265,904	251,743
Average Monthly Billings to Cities	\$ 12,478,000	\$ 11,410,000	\$ 10,252,000

Message From The Chairman And General Manager



*James T. Bobo, General Manager, and
George W. Clay, Jr., Chairman*

The first nationwide observance of Public Power Week in October 1987 served as a timely reminder of the vital role that municipal electric systems have played in the progress of our country and the lives of its people.

At the same time, we were reminded that the citizen-owned and controlled electric systems that have survived through the years are the ones whose leaders have had the will and the ingenuity to adjust to ever-changing situations and to solve increasingly difficult challenges.

More than a decade ago, a group of public power communities in Piedmont North Carolina saw the need to band together to assume greater control over their power supply. Their ingenuity in responding to that challenge and their commitment to a long-range program of mutual cooperation resulted in the formation of North Carolina's first joint municipal power agency. In 1986, we celebrated an important milestone in our power supply program when Catawba Unit 2 entered commercial operation.

In 1987, we found many new challenges to test our will and ingenuity — from the halls of Congress to the committee rooms of the North Carolina General Assembly to a courtroom in York County, South Carolina. Because we acted in unity in responding to these challenges, our successes again far outweighed any setbacks we sustained.

For 19 municipal electric systems, NCMPA 1 represents a commitment to the future. By maintaining our spirit of unity, we can make Public Power Week an occasion for celebration in our region for many years to come.

James T. Bobo

James T. Bobo
General Manager

George W. Clay, Jr.

George W. Clay, Jr.
Chairman

Profile of Participants

Flanked on its west by the Appalachian and Blue Ridge mountains and on its east by the fertile Coastal Plain, the Piedmont region of North Carolina is home to more than half of the state's population. About 280,000 of its residents are served with electricity by the 19 cities and towns that participate in the NCMPA 1 power supply program.

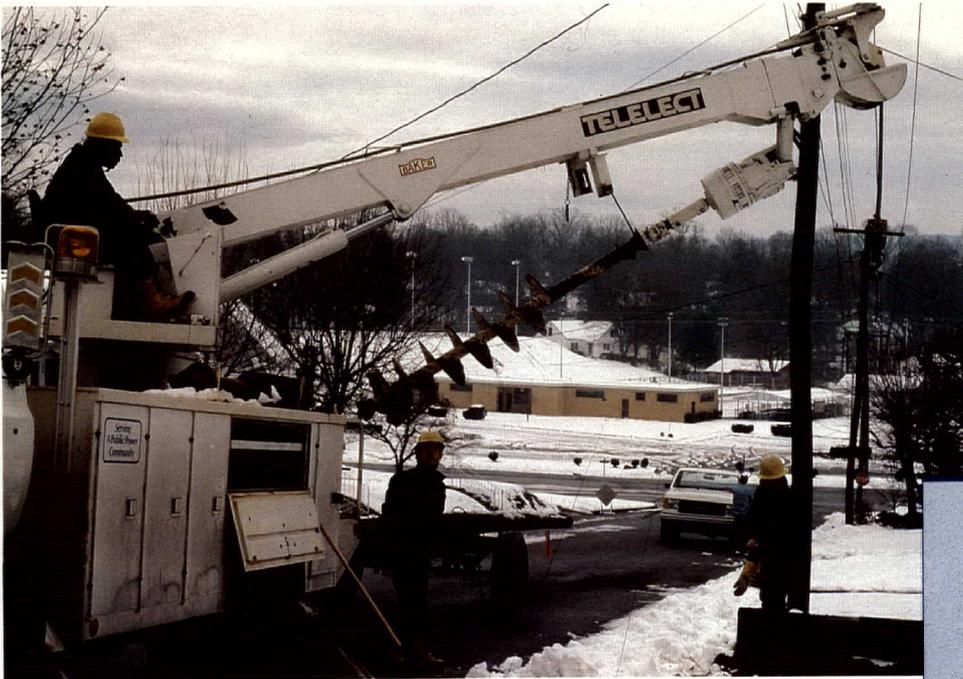
The power agency participants are a diverse group, ranging in population from

475 (Bostic) to 63,000 (High Point).

Collectively, they occupy large portions of 14 of the 40 Piedmont counties. For the year ended June 30, 1987, sales of power from NCMPA 1 participants to their customers generated almost \$202 million in electric revenues.

These customers include segments of the furniture, textile and tobacco industries for which Piedmont North Carolina is well known, as well as various other companies which have contributed to the rapid diversification of the region's industrial base in recent years. Many of the Piedmont's more than 30 colleges, universities and technical institutes are located in or near NCMPA 1 municipalities.

The NCMPA 1 participants and their average number of customers as of June 30, 1987 are listed below.



City	Number of Customers
Albemarle	9,788
Bostic	162
Cherryville	2,253
Cornelius	890
Drexel	1,031
Gastonia	20,884
Granite Falls	1,539
High Point	28,619
Huntersville	796
Landis	2,436
Lexington	15,304
Lincolnton	2,413
Maiden	881
Monroe	7,610
Morganton	6,941
Newton	3,584
Pineville	1,152
Shelby	7,447
Statesville	10,922
Total	124,652

Organization And Management

NCMPA 1 participants guide the agency's affairs through their representatives on the Board of Commissioners. The board consists of one commissioner appointed by each participant's governing body. Each participant may also appoint as many as two alternate commissioners. The agency board elects its own officers.

In December 1986, the board re-elected Shelby Mayor George W. Clay, Jr. as its chairman for 1987. Other officers named included Molly M. Darwin, Morganton City Council member, vice chairman; and R. Duke Whisenant, Lexington city manager, secretary-treasurer.

Serving with the officers on the executive committee were the following at-large members: Morris Baker, Drexel town manager; William M. Edwards, Cherryville City Council member; Gary D. Hicks, Gastonia city manager; J. E. Hinkel, Monroe city manager; A. W. Huffman, Jr., Granite Falls mayor; and Judith P. Mendenhall, High Point mayor.

Management staff and services for NCMPA 1 are provided by Electricities of North Carolina, Inc., a joint municipal assistance agency. The staff carries out the agency's daily operations, including the financing and accounting, billing, planning and budgeting programs. In addition, it closely monitors the performance of Duke with regard to the utility's fulfillment of obligations in the project.

During 1987, the agency achieved through negotiation with Duke a change in the allocation of operation and maintenance expense overhead for Catawba. This resulted in savings for the agency of approximately \$450,000 per year over the life of Catawba.

When the agency and Duke were unable to resolve a contractual disagreement involving costs associated with the cancellation of Duke's Cherokee and Perkins nuclear projects, the agency asked the Federal Energy Regulatory Commission (FERC) to decide the question. FERC in August upheld the agency's contention that the agency was not required to pay the charges under its contract. Under the FERC order, Duke refunded \$15.3 million in charges that had been previously collected from NCMPA 1 and is to reduce future billings by \$14.1 million. Duke has appealed the FERC ruling.

In June, the agency won an important decision in York County (South Carolina) Common Pleas Court when a county ordinance creating a special taxing district was ruled invalid. The ordinance would have allowed the county to impose millions of dollars in new property taxes on the Catawba plant to build a water plant and lines serving 12 communities. NCMPA 1, which already pays more than \$6.8 million to the county in lieu of property taxes for its share of the Catawba plant, was joined by other Catawba owners in opposing the special district ordinance.

Board of Commissioners

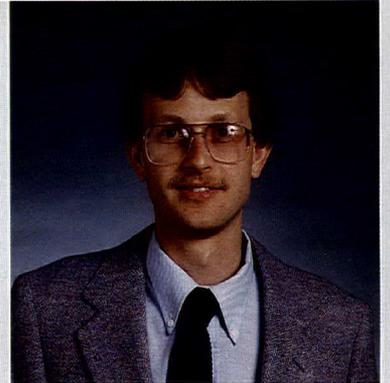


Top Row (Left to Right) — George W. Clay, Jr., *Chairman*; A. W. Huffman, Jr., *Vice Chairman*; R. Duke Whisenant, *Secretary-Treasurer*; Morris Baker, *Executive Committee*

Row 2 — Gary D. Hicks, *Executive Committee*; David E. Lowe, *Executive Committee*; Jack F. Neel; Roy B. Culler, Jr.

Row 3 — Ruth K. Stenhouse; Klynt Ripple; Marcus C. Midgett; Robert H. Gage

Row 4 — Larry M. Cranford



Board of Commissioners¹

Jack F. Neel
Council Member
Albemarle

H. Max Gunter
Mayor
Bostic

William M. Edwards
Council Member
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

Ruth K. Stenhouse
Commissioner
Huntersville

Klynt Ripple
Lexington

David E. Lowe
City Manager
Lincolnton

Marcus C. Midgett
Council Member
Maiden

J. E. Hinkel
City Manager
Monroe

Robert H. Gage
Council Member
Morganton

D. Kelly Almond
City Manager
Newton

George W. Clay, Jr.
Mayor
Shelby

Arthur E. Peterson
Council Member
Statesville

Alternate Commissioners^{1, 2}

Raymond I. Allen
City Manager
Albemarle

Wayne Sheppard
Council Member
Bostic

John E. McGinnis
Council Member
Cherryville

David W. Bailey
Town Administrator
Cornelius

Ralph Brittain
Mayor
Drexel

Robert F. Caldwell, Jr.
Council Member
Gastonia

Jack R. Clark
Commissioner
Granite Falls

Linda K. Story
Town Manager

H. Lewis Price
City Manager
High Point

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

Drew Saunders
Commissioner
Huntersville

Steve D. Carpenter
Town Manager
Huntersville

Gary E. Miller
Director of Public Utilities
Landis

Harold W. Bowen
Mayor
Lexington

R. Duke Whisenant
City Manager
Lexington

Jerry L. Campbell
Mayor
Lincolnton

J. Michael Moore
Town Manager
Maiden

P. E. Bazemore
Council Member
Monroe

Wayne Dellinger
Mayor
Newton

James Wilson
Council Member
Pineville

Stephen Royster
Alderman
Shelby

Peter T. Connet
City Manager
Statesville

Larry M. Cranford
Electric Utility Director
Statesville

¹ As of December 31, 1987.

² A city or town may appoint as many as two Alternate Commissioners.

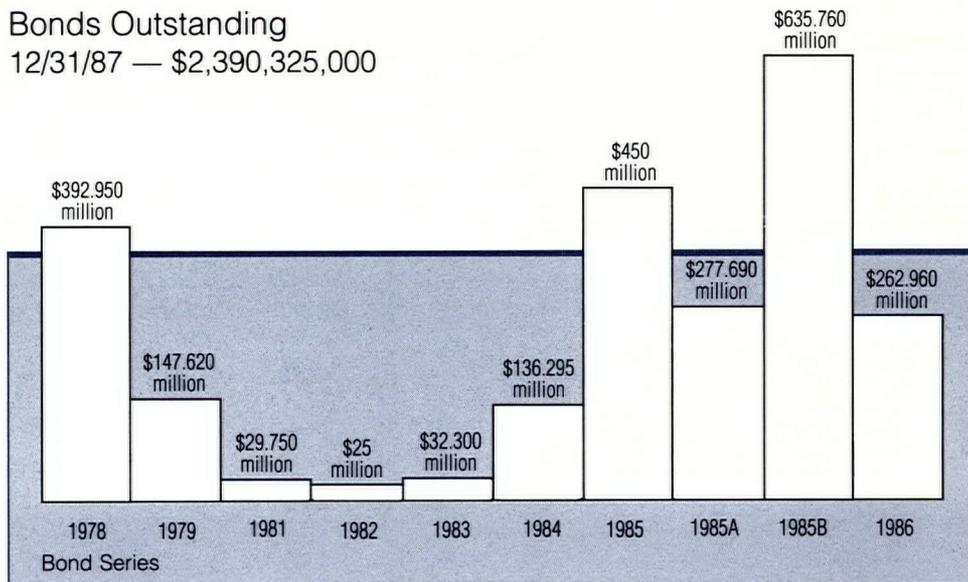
Finance

For the first year since 1978, NCMPA 1 did not enter the municipal bond market in order to raise capital for the Catawba Project. Prior to 1988, NCMPA 1 last went to the bond market in August 1986 at which time it raised the remaining capital needed to complete the funding of the project. Since the 1986 issue was priced on the same day as Catawba Unit 2 was declared in commercial operation, the size of the issue took into consideration the remaining expenditures for the project. The proceeds of any future issues will be used to refund higher cost debt that may be outstanding in order to lower the agency's cost of capital.

Therefore, as of December 31, 1987, NCMPA 1 had \$2,390,325,000 in bonds outstanding with a weighted average interest cost of 8.544 percent.

In February 1988, the agency took advantage of the declining interest rates to issue another refunding issue, Series 1988, in the amount of \$401,482,000 at a true interest cost of 7.97 percent. The proceeds of this issue were used to refund approximately \$334 million of bonds previously issued at a higher interest rate, thereby providing a significant savings in debt service payments. The weighted average interest costs of all outstanding debt after this issue was 8.275 percent. The bonds were sold in increments of \$5,000, except for \$11,052,000 in zero coupon bonds maturing in years 2000

Bonds Outstanding
12/31/87 — \$2,390,325,000



through 2003. The latter bonds were sold in increments of \$1,000. A list of the bonds which have been refunded by the agency to date are included in this report (page 9).

Even with the volatility of the financial markets during 1987, the agency's investment portfolio continued to perform well. During 1987, the agency's portfolio generated investment income of \$53.2 million which was primarily available to offset the cost of power to the participants. The portfolio had an 8.423 percent rate of return for 1987 with an average maturity of just over three years.

The presence and involvement of the Local Government Commission of North Carolina continues to provide the state's two power agencies with an important credit enhancement unique to North Carolina. The commission, a division of the Department of the State Treasurer, is involved in all phases of the agencies' debt financings, monitors the financial conditions of the agencies and their participants, and has statutory authority to require cities served by the power agencies to set electric rates sufficient to meet their obligations to the agencies under the take-or-pay contract.

NCMPA 1 List of Refunded Bonds

Refunded as of December 31, 1987

Series	Par Amount	Coupon	Maturity	Call Date	Call Price
1980	\$100,000,000	Entire Series		Pay off as mature	
1981	79,000,000	11-1/8%	1/1/2020	1/1/1992	102-1/2%
1981	1,250,000	10-1/4%	1/1/1996	1/1/1991	103%
1981	2,435,000	10.4%	1/1/1997	1/1/1991	103%
1981	2,690,000	10-1/2%	1/1/1998	1/1/1991	103%
1981	9,875,000	10-3/4%	1/1/2001	1/1/1991	103%
1981A	17,500,000	14-3/8%	1/1/2001	1/1/1991	103%
1981A	25,000,000	11%	1/1/2015	1/1/1991	par
1981A	157,500,000	14-3/4%	1/1/2020	1/1/1991	103%
1982	14,700,000	11%	1/1/2003	1/1/1993	103%
1982 *	160,300,000	11-1/4%	1/1/2020	1/1/1993	103%
1983	10,000,000	10-1/4%	1/1/2003	1/1/1993	103%
1983	157,700,000	10-5/8%	1/1/2020	1/1/1993	103%
1984	7,890,000	10-1/4%	1/1/1999	1/1/1994	103%
1984	35,725,000	10-3/8%	1/1/2004	1/1/1994	103%
1984	252,090,000	10-5/8%	1/1/2020	1/1/1994	103%

* Mandatory sinking fund amounts on January 1, 1991, 1992 and 1993 at par.

Refunded in February 1988 by Series 1988

Series	Par Amount	Coupon	Maturity	Call Date	Call Price
1984	\$ 50,000,000	10%	1/1/2014	1/1/1994	103%
1985	170,795,000	9-1/2%	1/1/2019	1/1/1995	103%
1985A	113,360,000	9-5/8%	1/1/2019	1/1/1996	103%

Operations



NCMPA 1 has a 75 percent interest in Catawba Nuclear Station Unit 2, which began commercial operation on August 19, 1986. The agency's ownership interest in this project is approximately 860 megawatts of capacity.

Under two reliability exchange agreements with Duke, the agency's ownership resources are essentially distributed in equal amounts over each of the four units of the Catawba and McGuire nuclear stations.

Through the McGuire Reliability Exchange, the agency was able to begin full operation on July 1, 1983, by receiving 215 megawatts of project power from McGuire.

Under the agency's contract with Duke, the utility company built the Catawba station and is responsible for its fueling and operation. Duke also is contractually obligated to provide NCMPA 1 with additional (supplemental) power to meet the needs of its 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 cost of the agency's project. These are "take-or-pay" agreements and form the security for the agency's bonds.

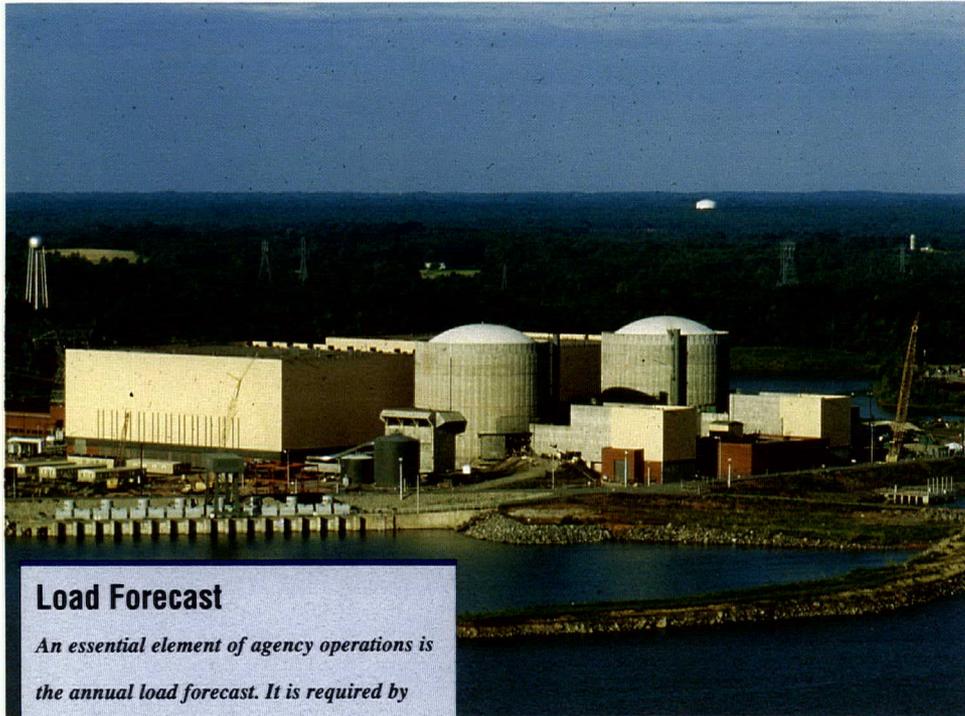
Each of the participants also signed a Supplemental Power Sales Agreement with the agency by which the municipality agreed to purchase all of its electric power and energy from the agency, over and above NCMPA 1's ownership entitlement and excluding any power and

McGuire Nuclear Station

McGuire Units 1 and 2 are nuclear-fueled generating units located on Lake Norman, North Carolina, 17 miles north of Charlotte, North Carolina. Construction began in April 1971 with Unit 1 beginning commercial operation in December 1981 and Unit 2 in March 1984. Each McGuire Unit's maximum net dependable capability rating is 1150 megawatts.

McGuire Unit 1 was available for service 77 percent of the time in 1987 and had a capacity factor of 73 percent. McGuire Unit 1 underwent a refueling outage which began on September 4 and ended on November 13.

McGuire Unit 2 was available for service 79 percent of the time in 1987 and had a capacity factor of 75 percent. McGuire Unit 2 underwent a refueling outage which began on May 1 and ended on July 5.



McGuire Nuclear Station

energy made available by the Southeastern Power Administration (SEPA), the regional marketing agent for federal hydroelectric power. Those agreements are in the form of "take-and-pay."

Project Power Supply

The four nuclear generating units from which NCMPA 1 receives project power are in commercial operation. They are:

Catawba Nuclear Station

This station is located on Lake Wylie in York County, South Carolina, 19 miles southwest of Charlotte. Construction of the station began in May 1974 with Unit 1 beginning commercial operation on June 29, 1985 and Unit 2 on August 19, 1986. Each Catawba Unit's maximum net dependable capability rating is 1145 megawatts.

Catawba Unit 1 began its second refueling outage on October 3. As a result of

Load Forecast

An essential element of agency operations is the annual load forecast. It is required by agency contracts and supports all-requirements rate setting, financing activities, and the annual budgeting process. For example, electric needs detailed in the forecast are used to determine 10-year cost projections used in the Official Statement provided to investors of an agency bond issue.

Each year, long- and short-term projections of each participant's needs as well as NCMPA 1's requirements for demand and energy are calculated. These forecasts not only aid agency functions, but also assist Duke in generation-level planning.

additional work requirements, the end of the refueling outage was delayed from December 2 until December 31. Because of this outage extension, Unit 1 was available 64 percent of the time in 1987 and had a 68 percent capacity factor.

Catawba Unit 2 was available 80 percent of the time in 1987 and had a capacity factor of 71 percent. The unit began its first refueling outage on December 23.

Demand Side Activities

The agency not only pursues least cost alternatives for its power supply program, but also assists the participants with demand side activities. Many of the participants are active in load management programs such as shedding municipal loads, curtailing water heater and air conditioner loads, strategic voltage control, and implementing innovative rate structures. Load management programs alone reduced the participants' cost of power by more than \$4.5 million in 1987.

Most of the participants have installed some type of load management system. For those participants who are still in the decision-making process and for those that are expanding existing programs, the agency conducts cost/benefit analyses and sponsors load management workshops. Once a participant decides to



Catawba Nuclear Station

move forward in load management, the agency provides assistance in marketing and public relations campaigns and in radio frequency coordination with the appropriate federal and state agencies.

In order for the participants to reduce their power costs through load management, they must activate their systems and reduce their demand during the time of the combined system peak each month. Predicting when this peak will occur is also a function of the agency. Through its Load Management Committee, systems have been developed providing state-of-the-art technology to operators. A short-term load forecasting computer has been installed which provides system load forecasts and graphic displays of previous peaks. The latest enhancement to the con-

trol center is the addition of weather radar to track thunderstorms and determine their effect on when the peak will occur.

When the agency determines that a monthly system peak is probable, the operator alerts those participants that have some type of load management program. In 1987, agency staff accurately predicted the hour in which the peak would occur in 11 of the 12 months and averaged a total of nine hours of load management per month. By minimizing load management periods, customer inconvenience is virtually eliminated, and load reductions and cost savings are maximized. The agency focuses its attention on the entire load management spectrum, from feasibility of a program to applications and results.

All-Requirements Rates

Aside from a small amount of power received from the Southeastern Power Administration (SEPA), the NCMPA 1 participants receive all remaining electric power requirements through the agency. The costs of power received from the agency are recovered through the all-requirements rates paid to NCMPA 1. These costs include project ownership, operation and maintenance and finance obligations; administration and general expenses; supplemental power purchases, and other special obligations. The power received from SEPA consists of capacity and energy allocations from federal hydroelectric generating units.

The agency's all-requirements rates also support the rate stabilization fund. This fund consists of deposits made in years when costs are comparatively lower so that withdrawals can be made in later years, thereby providing the agency with flexibility to stabilize its rates. The NCMPA 1 Board of Commissioners approves any changes in the all-requirements rates.

Wholesale power costs (excluding SEPA) essentially remained constant for the agency participants during 1987. The All-Requirements Bulk Power Service schedule RS-5 was in effect for the entire

year. The only change in the RS-5 schedule was a slight adjustment to the distribution charges paid by participants with leased facilities. This change went into effect on November 1 and was the result of a periodic review which indicated that the change was necessary in order to track actual costs. The result of the change was a slight cost reduction for all but a few of the affected delivery points.

Management Staff



James T. Bobo
General Manager



Fred M. Mills, Jr.
Director - Government Affairs



William G. Wemhoff
Director - Engineering



William H. Batt
Director - Finance and Administration



Jack S. Childs
Director - Communications

Consultants

North Carolina Counsel
Poyner & Spruill
Rocky Mount, North Carolina

Washington, D.C. Counsel
Spiegel & McDiarmid
Washington, D.C.

Bond Counsel
Wood Dawson Smith & Hellman
New York, New York

Engineering Consultant
R. W. Beck and Associates
Orlando, Florida

Trustees

Bond Fund Trustee
Chemical Bank
New York, New York

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

Paying Agents

Chemical Bank
New York, New York

**Wachovia Bank and
Trust Company, N.A.**
Winston-Salem, North Carolina

**Continental Illinois National Bank
and Trust Company of Chicago**
Chicago, Illinois

Auditors' Opinion



March 28, 1988

Board of Commissioners
North Carolina Municipal Power Agency Number 1
Raleigh, North Carolina

We have examined the balance sheets of North Carolina Municipal Power Agency Number 1 as of December 31, 1987 and 1986, and the related statements of revenues and expenses and changes in fund balances and changes in financial position for the years then ended. 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 North Carolina Municipal Power Agency Number 1 at December 31, 1987 and 1986, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 25 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Touche Ross + Co.

Certified Public Accountants
Research Triangle Park, North Carolina

Balance Sheets

North Carolina Municipal Power Agency Number 1
(\$000s)

	December 31,	
	1987	1986
Assets		
ELECTRIC UTILITY PLANT (Notes B, C, and F):		
Electric plant in service, net of accumulated depreciation of \$81,337 and \$38,873	\$1,412,351	\$1,440,472
Construction work in progress	10,040	7,617
Nuclear fuel, net of accumulated amortization of \$61,749 and \$26,054	90,886	107,691
	<u>1,513,277</u>	<u>1,555,780</u>
NON-UTILITY PROPERTY AND EQUIPMENT, NET (Note B)	1,490	1,223
SPECIAL FUNDS INVESTED (Notes D and F):		
Construction fund	22,224	126,317
Bond fund	317,529	316,776
Reserve and contingency fund	21,514	21,639
Decommissioning fund	10,081	6,974
Special reserve fund	1,114	1,033
	<u>372,462</u>	<u>472,739</u>
CURRENT ASSETS:		
Funds invested (Notes D and F):		
Revenue fund	225,925	151,722
Operating fund	66,198	38,353
Supplemental fund	52,752	44,285
	<u>344,875</u>	<u>234,360</u>
Participant accounts receivable	12,262	11,660
Operating accounts receivable	5,477	8,519
Prepaid expenses	30,644	36,183
	<u>393,258</u>	<u>290,722</u>
DEFERRED COSTS:		
Unamortized debt issuance costs (Note B)	46,959	47,502
Net costs to be recovered from future billings to participants (Note E)	60,223	34,675
	<u>\$2,387,669</u>	<u>\$2,402,641</u>

See notes to financial statements.

Liabilities and Fund Balance

	December 31,	
	1987	1986
LONG-TERM DEBT:		
Bonds, net of unamortized discount (Notes C and F)	\$2,242,109	\$2,246,354
Notes payable (Note G)	445	823
	2,242,554	2,247,177
 SPECIAL FUNDS LIABILITIES:		
Construction payables	3,715	8,858
Current maturities of bonds (Note F)	5,100	4,840
Accrued interest on bonds	94,988	93,634
	103,803	107,332
 CURRENT LIABILITIES:		
Current maturities of notes payable (Note G)	80	274
Accounts payable	383	23,330
Accrued taxes	12,826	4,702
	13,289	28,306
 COMMITMENTS AND CONTINGENCIES (Notes C, H, and I)		
 FUND BALANCE	 28,023	 19,826
	\$2,387,669	\$2,402,641

Statements of Revenues and Expenses and Changes in Fund Balance

North Carolina Municipal Power Agency Number 1
(\$000s)

	Year Ended December 31,	
	1987	1986
OPERATING REVENUES:		
Sales of electricity to participants	\$149,736	\$136,921
Sales of electricity to utilities	280,810	194,986
	<u>430,546</u>	<u>331,907</u>
OPERATING EXPENSES:		
Operation and maintenance	54,706	38,094
Nuclear fuel	41,088	19,623
Interconnection services:		
Purchased power.....	126,854	117,977
Transmission and distribution.....	11,731	14,416
Other	242	238
	<u>138,827</u>	<u>132,631</u>
Administrative and general	15,886	11,660
Gross receipts tax (Note B)	9,644	4,349
Property tax (Note B)	6,839	3,620
Depreciation.....	43,850	28,643
	<u>310,840</u>	<u>238,620</u>
NET OPERATING INCOME	119,706	93,287
INTEREST CHARGES (CREDITS):		
Interest expense.....	190,147	186,491
Amortization of debt discount and issuance costs	1,452	1,738
Investment income.....	(53,219)	(58,868)
Net interest capitalized (Note C)	(1,323)	(42,423)
	<u>137,057</u>	<u>86,938</u>
NET COSTS TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS (DEFERRED REVENUES) (Note E)	25,548	(274)
EXCESS OF REVENUES OVER EXPENSES.....	8,197	6,075
FUND BALANCE, beginning of year.....	19,826	13,751
FUND BALANCE, end of year.....	<u>\$ 28,023</u>	<u>\$ 19,826</u>

See notes to financial statements.

Statements of Changes in Financial Position

North Carolina Municipal Power Agency Number 1
(\$000s)

	Year Ended December 31,	
	1987	1986
SOURCE OF FUNDS:		
Operations:		
Excess of revenues over expenses	\$ 8,197	\$ 6,075
Depreciation and amortization	45,302	30,381
Amortization of nuclear fuel	41,088	19,623
(Net costs to be recovered from future billings to participants) deferred revenues	(25,548)	274
Funds provided by operations	69,039	56,353
Decrease in special funds invested	100,277	193,856
Proceeds from sale of bonds		262,960
	<u>169,316</u>	<u>513,169</u>
APPLICATION OF FUNDS:		
Additions to electric utility plant	42,236	90,023
Provision for retirement of bonds	5,100	4,840
Decrease in special funds liabilities	3,529	258,810
Additions to non-utility property and equipment	466	67
Provision for retirement of notes payable	378	274
Net additions to unamortized debt discount and issuance costs	54	25,344
	<u>51,763</u>	<u>379,358</u>
INCREASE IN WORKING CAPITAL	<u>\$117,553</u>	<u>\$133,811</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets:		
Funds invested	\$110,515	\$138,011
Participant accounts receivable	602	573
Operating accounts receivable	(3,042)	(2,278)
Prepaid expenses	(5,539)	24,384
	<u>102,536</u>	<u>160,690</u>
Decrease (increase) in current liabilities:		
Current maturities of notes payable	194	(20)
Accounts payable	22,947	(23,134)
Accrued taxes	(8,124)	(3,725)
	<u>15,017</u>	<u>(26,879)</u>
INCREASE IN WORKING CAPITAL	<u>\$117,553</u>	<u>\$133,811</u>

See notes to financial statements.

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1
Years Ended December 31, 1987 and 1986

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.

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 which are 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.

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).

Electric Plant in Service All expenditures associated with the development and construction of the agency's ownership interest in Catawba, 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.

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1
Years Ended December 31, 1987 and 1986

B. Significant Accounting Policies (Continued)

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 will be recognized on these items when 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 \$5,393,000 and \$2,395,000 for the years ended December 31, 1987 and 1986, 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), are capitalized and are being depreciated over four years. Also included are the land and construction costs for administrative offices, jointly owned with NCEMPA, for the future use of both agencies and ElectricCities of North Carolina, Inc. (ElectricCities).

Unamortized Debt Issuance Costs Unamortized debt issuance costs, shown net of accumulated amortization, are deferred and are being amortized on the interest method over the term of the related debt.

Taxes Income of the agency is exempt 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 will pay an amount which would otherwise be assessed on the non-utility property and equipment of the agency. South Carolina does not require the payment of property taxes on generating units until they begin commercial operation. Property taxes were due on Catawba Unit 1 in 1986, while Unit 2 was taxed beginning in 1987. In lieu of a franchise or privilege tax, the agency paid to North Carolina an amount equal to 3.22% of the gross receipts from sales of electricity to participants. The agency paid to South Carolina an electric power excise tax equal to .05% (5/10 mill) for each kilowatt-hour of electric power sold for resale within South Carolina.

Reclassifications Certain reclassifications have been made to the prior year's financial statements to conform to classifications used in the current year.

C. Construction Program

The agency has commitments to Duke in connection with modifications identified prior to commercial operation and capital additions at the station. Current estimates indicate the agency's portion of these costs will be approximately \$24,242,000.

Interest costs of \$2,842,000 and \$74,037,000 were capitalized as part of the cost of power plants under construction during 1987 and 1986, respectively. The capitalized interest costs were offset by \$1,519,000 and \$31,614,000 in interest earned on related unexpended bond proceeds for 1987 and 1986, respectively.

D. Investments

The resolution authorizes the agency to invest in (1) direct obligations of, or obligations the principal of and interest on which 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 bank's 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, 1987 and 1986, the agency had \$98,000 and \$22,000, respectively, so deposited.

Investments included in the funds invested categories are stated at amortized cost, which approximates market value, plus accrued interest.

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1
 Years Ended December 31, 1987 and 1986

D. Investments (Continued)

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 in the agency's name. (In thousands of dollars).

	Category			Carrying Amount	Market Value
	1	2	3		
Repurchase Agreements	\$127,219	\$	\$	\$127,219	\$127,219
U.S. Government Securities.....	131,639	105	11,863	143,607	144,935
U.S. Government Agencies.....	361,768		18,107	379,875	383,915
Bankers' Acceptances	7,188		7,966	15,154	15,155
Commercial Paper	41,059			41,059	41,065
	<u>\$668,873</u>	<u>\$105</u>	<u>\$37,936</u>	706,914	<u>\$712,289</u>
Cash.....				98	
Accrued Interest.....				10,325	
Total Funds Invested.....				<u>\$717,337</u>	
Consisting of:					
Special Funds Invested				\$372,462	
Current Assets				344,875	
				<u>\$717,337</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.

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 the 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.

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1
Years Ended December 31, 1987 and 1986

E. Net Costs to be Recovered from Future Billings to Participants (Continued)

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

	Year Ended December 31,		Inception to December 31,	
	1987	1986	1987	1986
GAAP ITEMS NOT INCLUDED IN BILLINGS TO PARTICIPANTS:				
Interest costs not capitalizable	\$184,331	\$109,093	\$342,008	\$157,677
Depreciation.....	43,850	28,643	83,005	39,155
Loss on bond refundings			39,754	39,754
	<u>228,181</u>	<u>137,736</u>	<u>464,767</u>	<u>236,586</u>
BOND RESOLUTION REQUIREMENTS INCLUDED IN BILLINGS TO PARTICIPANTS:				
Special funds deposits.....	72,182	81,657	210,623	138,441
Debt service.....	124,195	52,120	181,064	56,869
Investment income not available for operating purposes	14,426	8,179	25,578	11,152
Reserve and contingency fund valuation	(8,098)	(3,946)	(12,649)	(4,551)
Bond fund reserve account valuation	(72)		(72)	
	<u>202,633</u>	<u>138,010</u>	<u>404,544</u>	<u>201,911</u>
Net costs to be recovered from future billings to participants (deferred revenues).....	<u>\$ 25,548</u>	<u>\$ (274)</u>	<u>\$ 60,223</u>	<u>\$ 34,675</u>

In August 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 92 (SFAS No. 92), "Regulated Enterprises — Accounting for Phase-in Plans." The agency is required to adopt the provisions of SFAS No. 92 no later than 1988.

SFAS No. 92 prohibits allowable costs that are deferred for future recovery under a phase-in plan to be capitalized unless certain requirements are met. The agency's rate-making methodology establishes rates to recover the allowable costs of the project over the life of the bonds and thus, fails to meet all the criteria of SFAS No. 92. If all requirements are not met, any allowable costs deferred under those phase-in plans are to be written off. SFAS No. 92 allows retroactive application of the provisions of this statement. If the agency had retroactively adopted the provisions of SFAS No. 92 in 1987, earnings for 1987 and 1986 would have been decreased by \$103,986,000 and \$85,616,000, respectively, and the fund balance at January 1, 1986 would have been decreased by \$94,101,000.

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. Adoption of SFAS No. 92 will not affect the agency's rate-making methodology, cash flow, or ability to recover the agency's "costs" as defined by the resolution, the Project Power Sales Agreements, and the Supplemental Power Sales Agreements.

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 \$2,467,082,000 of bonds including bonds presently outstanding. Future refundings may affect the amount of bonds to be issued. On August 5, 1986, the Local Government Commission of the State of North Carolina (LGC) approved the issuance of such bonds up to a maximum principal amount of \$2,490,000,000; additional LGC approval must be obtained for the issuance of bonds in excess of this amount.

As of December 31, 1986, the agency had outstanding \$2,395,165,000 of bonds with an unamortized discount of \$143,971,000. On January 1, 1987, the agency made principal payments of \$4,840,000 for maturing bonds, bringing the total outstanding bonds at December 31, 1987, to \$2,390,325,000 as follows (in thousands of dollars):

Series 1978

5.4% to 6.45% maturing annually from 1988 to 2000.....	\$ 70,855
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	240,290
	<u>392,950</u>

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1
Years Ended December 31, 1987 and 1986

F. Bonds (Continued) Series 1979

5.9% to 6.9% maturing annually from 1988 to 2000.....	\$ 24,820
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	109,895
	<u>147,620</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	25,000
	<u>29,750</u>
Series 1982	
7.5% maturing annually from 2018 with annual sinking fund requirements beginning in 2009....	25,000
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	25,000
	<u>32,300</u>
Series 1984	
8.5% to 10.2% maturing annually from 1991 to 1998.....	36,295
10% maturing in 2014 with annual sinking fund requirements beginning in 2011	50,000
7.5% maturing in 2019 with annual sinking fund requirements beginning in 2017	50,000
	<u>136,295</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
9% maturing in 2013 with annual sinking fund requirements beginning in 2005	136,760
9.5% maturing in 2019 with annual sinking fund requirements beginning in 2014	170,795
7% maturing in 2020 with annual sinking fund requirements beginning in 2019	50,000
	<u>450,000</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
9% maturing in 2014 with annual sinking fund requirements beginning in 2006	95,270
9.625% maturing in 2019 with annual sinking fund requirements beginning in 2015	113,360
7% maturing in 2020.....	39,545
	<u>277,690</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	125,615
	<u>635,760</u>

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1
 Years Ended December 31, 1987 and 1986

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	38,275
	<u>262,960</u>
	2,390,325
Less: Current maturities of bonds	5,100
Unamortized discount.....	143,116
	<u>\$2,242,109</u>

Certain proceeds of the Series 1984, 1985A and 1985B bonds were used to establish trusts for advance refunding of \$1,033,655,000 of previously issued bonds. At December 31, 1987, \$2,305,000 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 establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the agency.

As a result of the refundings, the agency will benefit from reduced debt service costs over the lives of the Series 1984, 1985A, and 1985B Bonds.

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

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.

Maturities of outstanding bonds through 1992 and thereafter are as follows (in thousands of dollars):

1988.....	\$ 5,100
1989.....	5,385
1990.....	5,690
1991.....	21,020
1992.....	22,485
Thereafter.....	<u>2,330,645</u>
	<u>\$2,390,325</u>

On March 17, 1988, the agency issued \$401,482,000 of Series 1988 Bonds, the proceeds of which will be used to advance refund \$334,155,000 of previously issued bonds. The series is comprised of \$11,052,000 of zero coupon bonds maturing annually from 2000 to 2003 and \$390,430,000 of bonds with interest rates ranging from 6% to 7.875%, maturing from 2008 to 2019 with annual sinking fund requirements beginning in 2004.

As a result of the refunding, the agency will recognize a loss on refunding of \$49,872,000 for the Series 1988 Bonds. However, the agency will benefit from reduced debt service costs over the life of the Series 1988 Bonds.

Notes to Financial Statements

North Carolina Municipal Power Agency Number 1
Years Ended December 31, 1987 and 1986

G. Notes Payable

The agency, together with NCEMPA, borrowed \$1,600,000 to finance the acquisition of a computer jointly owned by the agency and NCEMPA. The agency's obligation to repay this borrowing, was limited to \$800,000, plus accrued interest thereon at a rate of 7.85% per annum, and was being repaid in equal monthly installments, including interest, of \$20,000 through June 30, 1987, at which time the note was paid in full.

The agency, together with NCEMPA, borrowed \$1,420,000 to finance the acquisition of real estate jointly owned with NCEMPA, on which the administrative offices for the two agencies and Electricities is currently being constructed. The agency's obligation to repay this borrowing, which is currently not collateralized, is limited to \$710,000, plus accrued interest thereon at the rate of 8.15% per annum, and is being repaid in equal monthly installments, including interest, of \$10,000 through April 1989 with a payment of \$410,000 due in May 1989. At December 31, 1987, the outstanding balance on this note is \$525,000.

H. Commitments

The agency has a contractual agreement with Electricities whereby Electricities provides, at cost, general management services to the agency. This agreement is for three years continuing through December 31, 1989, and shall be automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of any contract term.

For the years ended December 31, 1987 and 1986, the agency paid Electricities \$2,034,000 and \$1,903,000, respectively, of which \$46,000 and \$166,000, respectively, has been capitalized as construction work in progress.

The agency is liable for 50% of the cost of the administrative office building currently under construction for the two agencies and Electricities. Current estimates are that the agency's portion of the costs will be approximately \$1,550,000.

I. Contingencies

The Price-Anderson Act, which limits the public liability for a nuclear incident at a nuclear generating unit to \$720,000,000, 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 \$5,000,000 per year per unit owned in the event of any nuclear incident involving any licensed facility in the nation with a maximum of \$10,000,000 per year per unit owned in the event of more than one incident. 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 \$1,195,000,000. Such available coverage has been obtained.

The agency questioned the inclusion by Duke of Perkins and Cherokee cancellation costs in the calculation of agency rates. When no agreement could be reached, the agency filed a complaint with the Federal Energy Regulatory Commission (FERC), and on July 29, 1987, FERC upheld the complaint that the agreements do not allow the inclusion of these costs. Subsequently, Duke filed for a rehearing which was denied in October. In November, Duke refunded the charges plus interest which together totalled approximately \$15,300,000. These funds were used to reduce purchase power costs in 1987. In December, Duke filed notice of intent to appeal. It is the opinion of the agency's management that Duke will not be successful in their appeal.

Schedules of Revenues and Expenses Per Bond Resolution and Other Agreements

North Carolina Municipal Power Agency Number 1
(\$000s)

	Year Ended December 31, 1987			Year Ended December 31, 1986		
	Project	Supplemental	Total	Project	Supplemental	Total
REVENUES:						
Sales of electricity to participants	\$ 68	\$149,668	\$149,736	\$ 3,574	\$133,347	\$136,921
Sales of electricity to utilities.....	280,810		280,810	194,986		194,986
Investment revenue available for operations	30,068	2,842	32,910	10,954	3,121	14,075
	<u>310,946</u>	<u>152,510</u>	<u>463,456</u>	<u>209,514</u>	<u>136,468</u>	<u>345,982</u>
EXPENSES:						
Operation and maintenance.....	54,706		54,706	38,094		38,094
Nuclear fuel.....	41,088		41,088	19,623		19,623
Interconnection services:						
Purchased power.....	1,623	125,231	126,854	7,911	110,066	117,977
Transmission and distribution.....		11,731	11,731		14,416	14,416
Other		242	242		238	238
	<u>1,623</u>	<u>137,204</u>	<u>138,827</u>	<u>7,911</u>	<u>124,720</u>	<u>132,631</u>
Administrative and general — Duke	12,839		12,839	9,626		9,626
Administrative and general — agency	1,036	1,981	3,017	948	992	1,940
Miscellaneous agency expense.....		30	30		94	94
Gross receipts tax.....	4,887	4,757	9,644	115	4,234	4,349
Property tax.....	6,839		6,839	3,620		3,620
Debt service.....	123,916	341	124,257	51,866	353	52,219
Reserve and contingency fund valuation	(8,098)		(8,098)	(3,946)		(3,946)
Bond fund reserve account valuation	(72)		(72)			
Special funds deposits:						
Decommissioning fund	2,400		2,400	2,224		2,224
Revenue fund	3,080		3,080	1,396		1,396
Rate stabilization fund...	49,961		49,961	72,269		72,269
Reserve and contingency fund	16,741		16,741	5,768		5,768
	<u>310,946</u>	<u>144,313</u>	<u>455,259</u>	<u>209,514</u>	<u>130,393</u>	<u>339,907</u>
EXCESS OF REVENUES OVER EXPENSES	\$	\$ 8,197	\$ 8,197	\$	\$ 6,075	\$ 6,075

Schedule of Changes in Assets of Funds Invested

North Carolina Municipal Power Agency Number 1
(\$000s)

	Funds Invested January 1, 1986	Bond and Note Proceeds	Power Billing Receipts	Investment Income	Disbursements
Construction fund:					
Construction account.....	\$163,612	\$170,353	\$	\$ 5,702	\$(348,333)
Construction interest account.....	162,634	46,881		10,179	
Construction revolving account.....	101			6	
Note interest 1983 account.....	3,883			11	(3,250)
	<u>330,230</u>	<u>217,234</u>		<u>15,898</u>	<u>(351,583)</u>
Bond fund:					
Interest account.....	58,125			1,231	(146,294)
Reserve account.....	213,138	20,504		21,651	
Principal account.....	4,650			156	(4,590)
	<u>275,913</u>	<u>20,504</u>		<u>23,038</u>	<u>(150,884)</u>
Reserve and contingency fund.....	21,322	2,050		2,257	(1,053)
Decommissioning fund.....	4,278			491	
Special reserve fund.....	1,153			89	
Commercial paper account.....	33,699			4,068	(8,113)
Revenue fund:					
Revenue account.....	5,033		22,492	420	87,099
Rate stabilization account.....	48,758			8,179	
	<u>53,791</u>		<u>22,492</u>	<u>8,599</u>	<u>87,099</u>
Operating fund:					
Working capital account.....	6,590			1,397	(50,326)
Fuel account.....	7,185				
	<u>13,775</u>			<u>1,397</u>	<u>(50,326)</u>
Supplemental fund.....	28,783		113,941	3,031	(16,074)
	<u>\$762,944</u>	<u>\$239,788</u>	<u>\$136,433</u>	<u>\$58,868</u>	<u>\$(490,934)</u>

<u>Transfers</u>	<u>Funds Invested December 31, 1986</u>	<u>Power Billing Receipts</u>	<u>Investment Income</u>	<u>Disbursements</u>	<u>Transfers</u>	<u>Funds Invested December 31, 1987</u>
\$ 63,244	\$ 54,578	\$	\$ 2,311	\$ (34,537)	\$ (128)	\$ 22,224
(148,057)	71,637		3,566		(75,203)	
(5)	102		6		(108)	
<u>(644)</u>						
(85,462)	126,317		5,883	(34,537)	(75,439)	22,224
181,367	94,429		1,674	(188,622)	188,356	95,837
(37,853)	217,440		21,280		(22,206)	216,514
4,691	4,907		160	(4,840)	4,951	5,178
<u>148,205</u>	<u>316,776</u>		<u>23,114</u>	<u>(193,462)</u>	<u>171,101</u>	<u>317,529</u>
(2,937)	21,639		2,494	(8,776)	6,157	21,514
2,205	6,974		710		2,397	10,081
(209)	1,033		81			1,114
(29,654)						
(79,184)	35,860	38,970	1,381	130,838	(179,580)	27,469
58,925	115,862		13,715		68,879	198,456
<u>(20,259)</u>	<u>151,722</u>	<u>38,970</u>	<u>15,096</u>	<u>130,838</u>	<u>(110,701)</u>	<u>225,925</u>
60,079	17,740		3,080	(94,550)	97,991	24,261
13,428	20,613				21,324	41,937
<u>73,507</u>	<u>38,353</u>		<u>3,080</u>	<u>(94,550)</u>	<u>119,315</u>	<u>66,198</u>
(85,396)	44,285	110,238	2,761	8,298	(112,830)	52,752
<u>\$</u>	<u>\$707,099</u>	<u>\$149,208</u>	<u>\$53,219</u>	<u>\$(192,189)</u>	<u>\$</u>	<u>\$717,337</u>



North Carolina Municipal Power Agency Number 1

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