



North Carolina
Municipal Power Agency
Raleigh, N.C.

1983 Annual Report

8408240239 840816
PDR ADOCK 05000413
I PDR

Contents

	Page
1983: The Year It All Came Together _____	1
A Brief History _____	2
Organization and Management _____	4
Board of Commissioners and Alternates _____	4-5
The Participants _____	6
Operations _____	7
Construction _____	9
Finance _____	10
Financial Statements _____	12
Auditor's Opinion _____	16
Management Staff, Consultants, Trustees, Paying Agents _____	Inside Back Cover

About the Cover:

Construction of Unit 1 at Catawba Nuclear Station was about 99 percent complete at the end of 1983. Unit 2 at Catawba, in which NCMPA 1 has a 75 percent ownership share, was about 64 percent complete.

1983: The Year It All Came Together

Since they pioneered bringing electricity to North Carolina before the turn of the century, the goal of the state's municipalities that own and operate their own electric systems has been to provide an adequate, reliable supply of electric power at the lowest cost possible.

For North Carolina Municipal Power Agency Number 1 (NCMPA 1), 1983 was the year everything came together to bring the desired results — the planning, the preparation, and the investment of time and resources all jelled. On July 1, 1983, NCMPA 1 became the all-requirements power supplier for the 19 towns and cities that are participants in the Catawba Nuclear Station project.

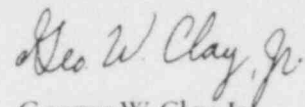
Through December 31, the agency's first six months of operation as a power supplier, revenues exceeded both expenses and estimates.

In addition, despite a year filled with uncertainties in the municipal bond market, NCMPA 1 successfully marketed a \$200 million electric revenue bond issue in February, and for the first time since it closed the Catawba purchase in late 1978, retired its first maturing debt, \$75 million in revolving credit notes. A second planned bond issue had to be postponed twice during the year.*

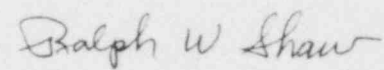
This annual report contains details and background material concerning these and the agency's other 1983 accomplishments. The underlying theme is one of congratulations to our participating municipalities, their officials and citizens. We sincerely thank them for their support.

For all practical purposes, work toward the Catawba project began in 1974, with drafting of legislation to authorize the formation of municipal power agencies in this state. It has been a long, often frustrating, and sometimes

discouraging decade. But the municipalities' support of their agency and its goals and purposes withstood that test of time and trials, and 1983 stands as tangible proof that their judgment was sound.



George W. Clay, Jr.
Chairman
Board of Commissioners



Ralph W. Shaw
General Manager



Ralph W. Shaw (left), George W. Clay, Jr. (right)

*That issue was successfully marketed in January 1984.

A Brief History

NCMPA 1 Chartered—On January 13, 1976, NCMPA 1 was chartered as a municipal corporation under the enabling act passed by the North Carolina General Assembly in May 1975 (the Joint Municipal Electric Power and Energy Act).

Catawba Project Approved—On February 27, 1978, after two and a half years of negotiations between NCMPA 1 and Duke Power Company, the NCMPA 1 Board of Commissioners approved the Catawba project and authorized execution of joint ownership contracts with Duke.

Municipalities Approve Contracts— By July 10, 1978, 19 of the agency's 20 member cities had approved the essential contracts between each city and the agency. The City of Concord, an agency member, did not vote to participate in the project.

Management Services—In October 1978, NCMPA 1 — along with the state's other power agencies — contracted with Electricities of North Carolina to provide the agency, at cost, with staff and professional management services

needed to operate its business. The arrangement avoided the unnecessary, and expensive, duplication that separate agency staffs would have entailed.

First Bonds Sold—On November 16, 1978, NCMPA 1 sold a \$400 million electric revenue bond issue at a net interest cost of 6.812 percent. It was, at the time, the second largest issue of its kind ever offered by a public utility.



Purchase Closed—On November 29, 1978, the agency and Duke closed on the agency's purchase of a 75 percent undivided ownership interest in Unit 2 of Catawba.

Additional Financing—NCMPA 1 has issued electric revenue bonds annually since 1978 (it sold two issues in 1981), and will continue periodically to issue bonds and/or notes to finance its share of the construction of Catawba Unit 2.*

Construction Schedule—In May 1982, Duke issued the third major revision of its Catawba construction schedule. Catawba Unit 1 is now scheduled to begin commercial operation in June 1985, and Catawba Unit 2 in June 1987. At the end of 1983, the project was ahead of that schedule.

McGuire Station—Unit 1 at Duke's William B. McGuire Nuclear Station, a "sister" plant to Catawba, began commercial operation in December 1981. McGuire Unit 2 has operated at 100 percent of power and is

*In January 1984, NCMPA 1 marketed its eighth bond issue. See Finance section of this report.

currently undergoing testing. Commercial operation is scheduled for March 1984.* NCMPA 1 has reliability exchanges with Duke involving the McGuire plant, which enables it to get project power from those units.

NCMPA 1 Power Delivery Begins—On July 1, 1983, by utilizing the reliability exchange involving McGuire, NCMPA 1 replaced Duke as the all-requirements power supplier for the 19 municipalities participating in the Catawba project.

*McGuire Unit 2 began commercial operation March 1.

North Carolina's Eastern Power Agency

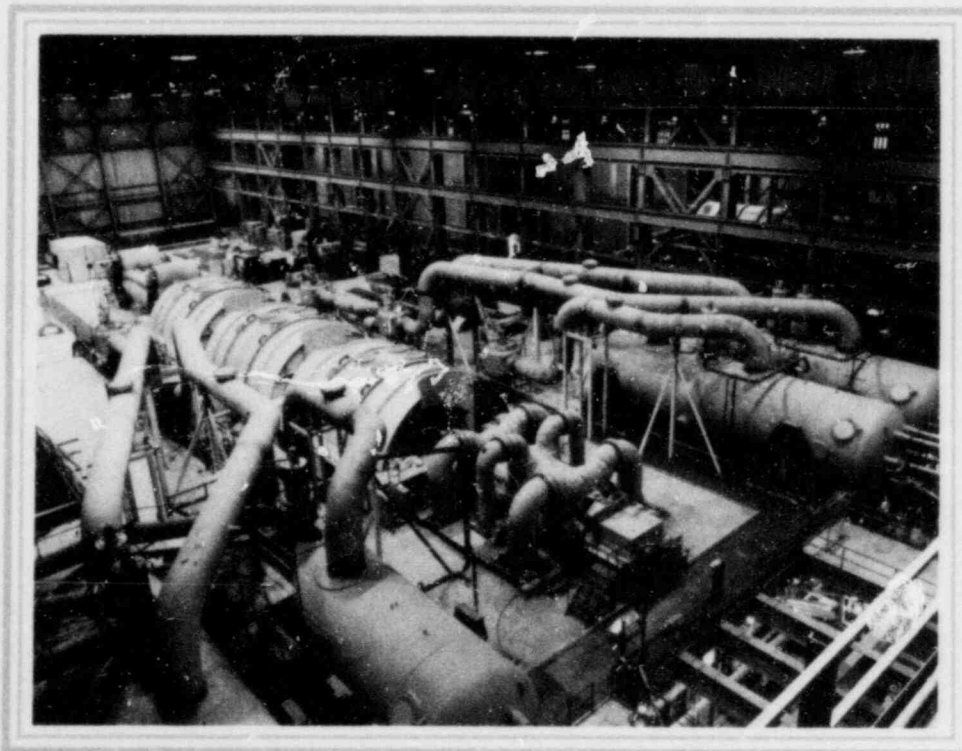
North Carolina Eastern Municipal Power Agency (NCEMPA) was chartered in December 1976, under the state's 1975 enabling act. It has 32 member municipalities, all of which are participants in a joint project involving ownership interests in four generating stations

operated, or under construction, by Carolina Power & Light Company (CP&L).

In order to close its purchase, NCEMPA sold three major issues of electric revenue bonds in 1982, raising \$1.3 billion in capital.

On December 30, 1981, NCEMPA became the all-requirements power supplier for its 11 participating municipalities that had previously been wholesale customers of Virginia Electric and Power Company. On April 22, 1982, the agency became the all-requirements power supplier for its other 21 participants, who had previously been served by CP&L.

Like NCMPA 1, NCEMPA has contracted with Electricities of North Carolina, Inc., to provide it with professional management staff and services.



Organization and Management

NCMPA 1 is a municipal corporation governed by a board of commissioners, one member of which is appointed by each member municipality. Each municipality also appoints an alternate commissioner who represents the city at board meetings when the regular commissioner cannot. The board elects its own officers who, together with four at-large representatives also elected by the board, comprise the agency's executive committee.

At the 1983 elections, held in December, the board re-elected as officers: Chairman George W. Clay, Jr., mayor of Shelby; Vice Chairman Earle E. Riddle, utilities commission chairman of Lexington, and Secretary-Treasurer David E. Lowe, manager of Lincoln.

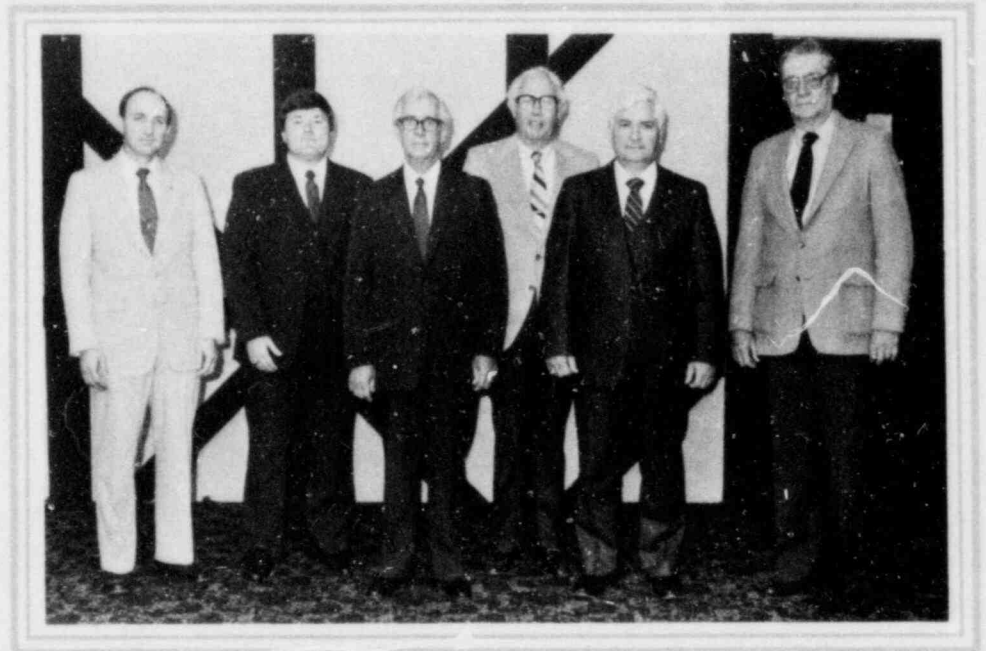
Re-elected as at-large members of the executive committee were: Molly M. Darwin, council member, Morganton; J.E. Hinkel, city manager, Monroe; Jack F. Neel, city manager, Albemarle, and R. Duke Whisenant, city manager, Newton.

Ralph W. Shaw was reappointed as general manager. James T. Bobo, director of finance and administration, and William G. Wemhoff, director of engineering for ElectriCities, were reappointed as the agency's assistant secretary-treasurers.

In October 1983, ElectriCities of North Carolina, which until then had been an unincorporated service association, was incorporated under new legislative authority as a joint municipal assistance agency, with authority to provide a full range of services to its municipal members.

On December 16, 1983, the NCMPA 1 Board adopted a management agreement with ElectriCities to continue to provide the agency with management staff and services needed to run its business.

The management services staff of ElectriCities carries out the agency's daily operations, including its financing and accounting, billing, planning and budgeting programs. In addition, it closely administers the project agreements and monitors the performance of Duke with regard to the utility's fulfillment of obligations in the project.



(Left to Right) Whisenant, Walker, Clay, Huffman, Neel, Hinkel.

Board of Commissioners

- Morris Baker
Manager, Drexel
- George W. Clay, Jr.
Mayor, Shelby
- Molly M. Darwin
Council Member, Morganton
- W.C. Deadmon
*Director of Public Utilities
Landis*
- James L. Dorton
Alderman, Concord
- William M. Edwards
Council Member, Cherryville
- H. Max Gunter
Mayor, Bostic
- J.E. Hinkel
Manager, Monroe
- George Knight
Council Member, Statesville
- David E. Lowe
Manager, Lincolnton
- Judy Mendenhall
Council Member, High Point
- Jack F. Neel
Manager, Albemarle
- Nannie Potts
Commissioner, Cornelius
- Ronnie Ransom
Council Member, Gastonia
- Earle E. Riddle
*Utilities Commission Chairman
Lexington*
- Marion Sparrow
Commissioner, Huntersville
- David R. Walker
Manager, Maiden
- R. Duke Whisenant
Manager, Newton
- Margaret S. Wingate
Council Member, Pineville
- Executive Committee



(Left to Right) Darwin, Edwards, Riddle, Sparrow, Mendenhall, Gunter, Gill.

Alternate Commissioners

- Clyde E. Bagwell
Utility Director, Statesville
 - Joseph E. Baker, Jr.
Manager, Pineville
 - P.E. Bazemore
Councilman, Monroe
 - Belvin B. Beck, Jr.
Manager, Lexington
 - Jack R. Clark
Commissioner, Granite Falls
 - Wayne Dellinger
Mayor, Newton
 - Kenneth Harris
Mayor, Drexel
 - Pauline T. Helms
Council Member, Albemarle
 - Gary D. Hicks
Manager, Gastonia
 - John Hoke
Commissioner, Cornelius
 - Eric L. Jones
Alderman, Landis
 - Andrew M. Kistler, II
Mayor, Morganton
 - John E. McGinnis
Councilman, Cherryville
 - Marcus C. Midgett
Councilman, Maiden
 - H. Lewis Price
Manager, High Point
 - Stephen Royster
Alderman, Shelby
 - Wayne Sheppard
Councilman, Bostic
 - A.E. Tarr
Alderman, Lincolnton
- Concord & Huntersville seats vacant at year end.*

The Participants

The 19 municipalities that are participants in NCMPA 1's Catawba project range in size from High Point, which is North Carolina's sixth largest city with a service area population of more than 66,000, to Bostic, with a service area population of 370 and an electric distribution system that has only 141 meters.

Together, the 19 participants provide electricity in a 14 county area in the state's Piedmont section. That service area is 571 square miles in size and has a population of more than 280,000. In 1983, these 19 "electric cities" provided 2.5 million megawatt-hours of

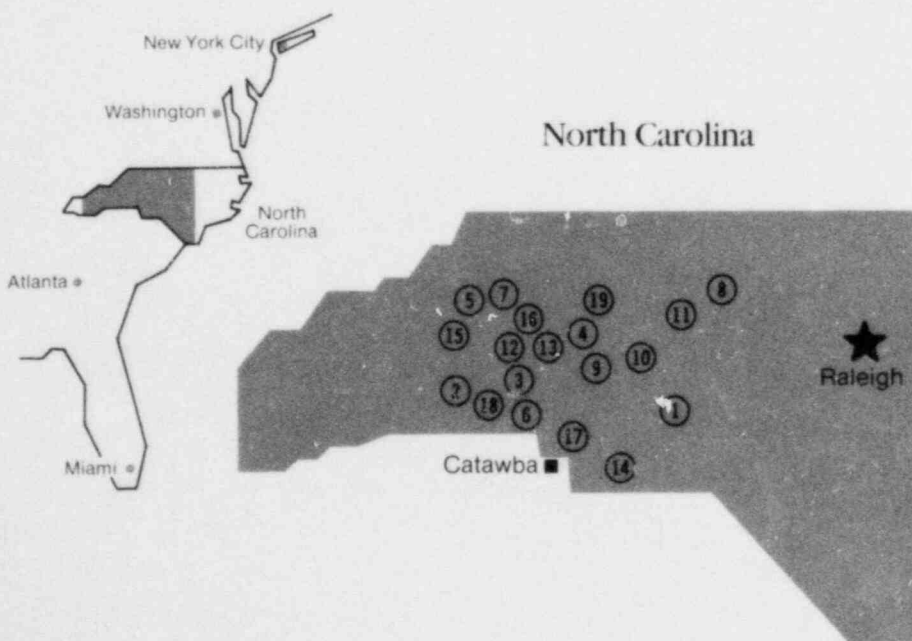
power to their customers, which generated \$133.5 million in electric revenues.

The state's Piedmont section is a 40-county region that stretches from the foothills of the Blue Ridge Mountains east to Raleigh, the state capital. The area, which geographically comprises 45 percent of the state, is North Carolina's leading area in growth, population and wealth. The Piedmont has more residents than the Coastal and Mountain regions combined.

Eight of the participating cities are the county seats of their respective counties. The 19 include some of the state's oldest existing electric utilities. Three of these municipal utilities were established prior to 1900 and eight of them were operating by 1910, although none now owns any independent generation facility.

Through their joint action in creating NCMPA 1 and participating in its Catawba project, the municipalities have returned to their historic role as full partner in the state's electric power supply community.

The participants, and the year their electric systems were established, are:



1. Albemarle (1910)
2. Bostic (1920)
3. Cherryville (1906)
4. Cornelius (1905)
5. Drexel (1926)
6. Gastonia (1919)
7. Granite Falls (1923)
8. High Point (1892)
9. Huntersville (1916)
10. Landis (1919)
11. Lexington (1904)
12. Lincolnton (1900)
13. Maiden (1920)
14. Monroe (1912)
15. Morganton (1916)
16. Newton (1896)
17. Pineville (1939)
18. Shelby (1912)
19. Statesville (1889)

Operations

At 12:01 a.m. on July 1, 1983, NCMPA 1 began supplying the 19 municipalities that are participants in the agency's Catawba project with all-requirements power. In doing so, the agency replaced Duke as the power supplier of those cities and towns.

From July 1 through December 31, 1983, the agency supplied its cities with 1,495,498,000 kilowatt-hours of electric power. Operating revenues of \$51,716,000 for the period represented an excess of revenues over expenses of \$6,855,000. The average monthly power purchases by the cities from the agency were 252,204,160 kilowatt-hours. The average monthly agency billing to the cities was \$8,619,000.

The Reliability Exchanges

NCMPA 1 has a 75 percent ownership interest in Unit 2 of Catawba, which is still under construction.

However, the agency and Duke have also agreed to two reliability exchanges which, together, have the effect of providing the agency's base load ownership resources in essentially equal amounts from each of the four units of the Catawba and McGuire nuclear stations.

The agency was able to begin full operation on July 1, 1983, by getting project power from McGuire through the McGuire reliability exchange.

Unit 1 at McGuire began commercial operation in December 1981 and Unit 2 is scheduled to begin commercial operation in March 1984.*

Construction of McGuire, which is located on Lake Norman in North Carolina, 17 miles north of Charlotte, began in April 1971. The two McGuire units are rated at 1180 megawatts each.

*McGuire Unit 2 began commercial operation March 1.

The Basic Agreements

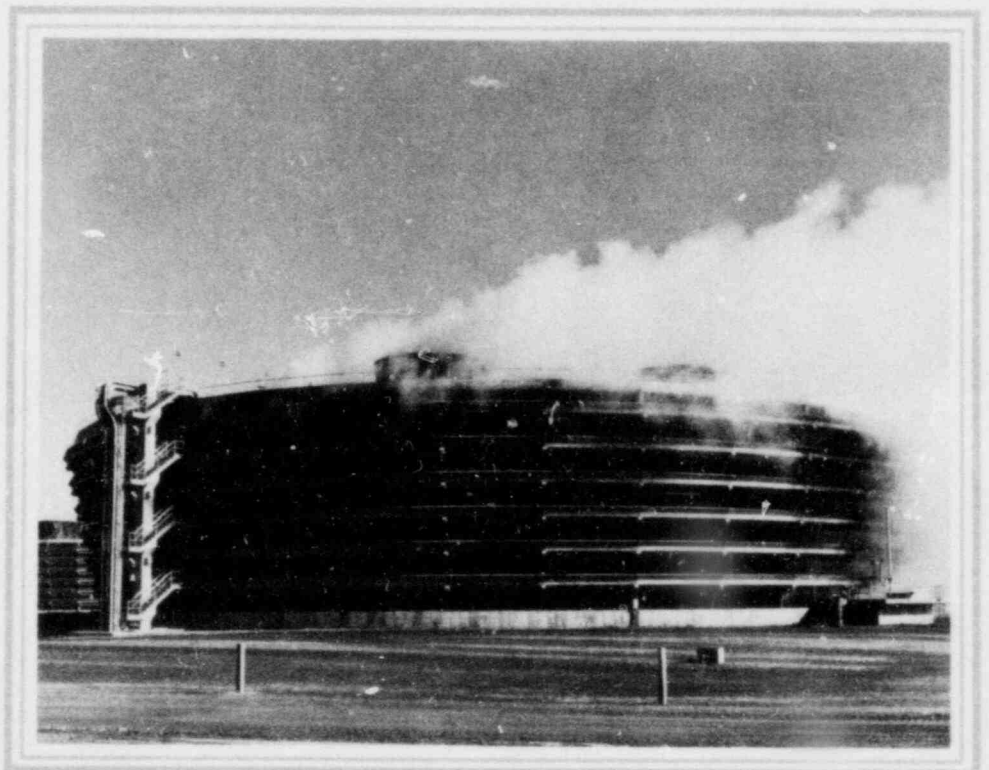
Under the agency's contracts with Duke, the company will build, fuel and operate the Catawba plant, and will supply NCMPA 1 all the additional (supplemental) power

its 19 participants need beyond that generated by the agency's ownership entitlement in the Catawba project.

Each of the 19 municipalities has executed a power sales agreement with the agency. In those contracts, the cities have agreed to pay for an aggregate 100 percent of the cost of the agency's project. Those agreements are "take or pay" contracts and form the security for the agency's bonds.

Each participating municipality has also signed a supplemental power sales agreement with the agency by which it has agreed to purchase all of its electric power and energy

(continues next page)



from the agency, over and above that provided by the agency's ownership entitlement and excluding any power and energy made available by the Southeastern Power Administration, the regional marketing agent for federal hydroelectric power. Those agreements are in the form of "take and pay" contracts.

The McGuire reliability exchange, which the agency initiated effective July 1, 1983, presently provides the agency with approximately 215 megawatts of capacity. An additional exchange, which can be begun by the agency as early as January 1986, would provide an additional 215 megawatts of capacity.

When both Catawba units are operational, the agency's ownership

entitlement in the project will be approximately 860 megawatts of capacity.

Peak Demand

The agency's peak demand during its first six months of operation was approximately 646 megawatts, which exceeded the projected peak demand of 618 megawatts. That demand was met with 214.7 megawatts of capacity from the agency's ownership interest (through the McGuire exchange), and 431.3 megawatts of supplemental capacity purchased by the agency from Duke.

Bulk Power Rates

The bulk power rates the agency bills its participating municipalities are designed to recover agency

costs, including the cost of ownership, operation and maintenance, financing, certain reserve accounts, administrative and general costs, supplemental power costs, and other special obligations.

The rates will be adjusted at least annually to reflect changes in the agency's costs. Effective July 1, 1983, the agency implemented a long-range rate stabilization policy intended to minimize fluctuations in the costs of project power to the participants. That policy involves the collection of revenues to be maintained as reserves to pay a portion of project power costs in future periods. The policy is expected to be continued into the 1990s.

NCMPA 1's bulk power rates are recommended by a six member agency rate committee (all of whom are members of the board) and must be approved by the agency's full board of commissioners, on which board every member city is represented.

The board adopted the agency's first rate schedule on June 16, 1983. On December 16, it adopted a 10.23 percent rate increase, to become effective February 1, 1984. That increase resulted from a rise in the projected cost of supplemental power, and from an increase in monies placed in the rate stabilization fund.

NCMPA 1 Highlights

For the Period July 1, 1983 - December 31, 1983

Kilowatt-Hour Sales (thousands)	1,495,498
Maximum Hourly Load (kilowatts)	645,981
Operating Revenues	\$51,716,000
Excess of Revenues over Expenses	\$6,855,000
Customers served by Participating Municipalities (June 30, 1983)	120,831

Construction

The scheduled operation dates for Catawba are June 1985 for Unit 1, and June 1987 for Unit 2, the unit in which NCMFA 1 has a 75 percent ownership interest. The station's construction was ahead of that schedule at the end of 1983. As of December 1983, Duke estimated construction to be 99 percent complete for Unit 1, 64 percent complete for Unit 2, and 86 percent complete for the station as a whole.

Duke has applied to the Nuclear Regulatory Commission for authorization to operate each unit of the Catawba station for 40 years, which is the unit's intended minimum useful operating life. In October 1983, hearings began on that application, with various parties petitioning to intervene. Additional hearings were scheduled to begin in March 1984, but Duke officials remained hopeful that the company would receive authorization by May to begin to load fuel in Catawba Unit 1.

The Catawba Station

The Catawba station is located on Lake Wylie, in York County, South Carolina, 19 miles southwest of Charlotte, North Carolina. Construction of the Catawba station began in May 1974.

Catawba is a two-unit station, with an expected maximum net dependable capacity of 1145 megawatts for each unit. Each unit contains a Westinghouse pressurized water reactor system

that will provide steam to a General Electric turbine-generator. The nuclear steam supply system is substantially similar in power rating and general design to the system employed in 21 other Westinghouse units with construction permits and six others with operating licenses, including Duke's McGuire Units 1 and 2.

Joint Owners

Subsequent to NCMFA 1's purchase of a 75 percent ownership interest in Catawba Unit 2 (and a 37½ percent interest in the Catawba station's support facilities), Duke has sold or has agreed to sell a 75 percent interest in Catawba Unit 1 to a group of rural electric cooperatives located in North and South Carolina, and the remaining 25 percent of Catawba Unit 2 to a South Carolina power agency

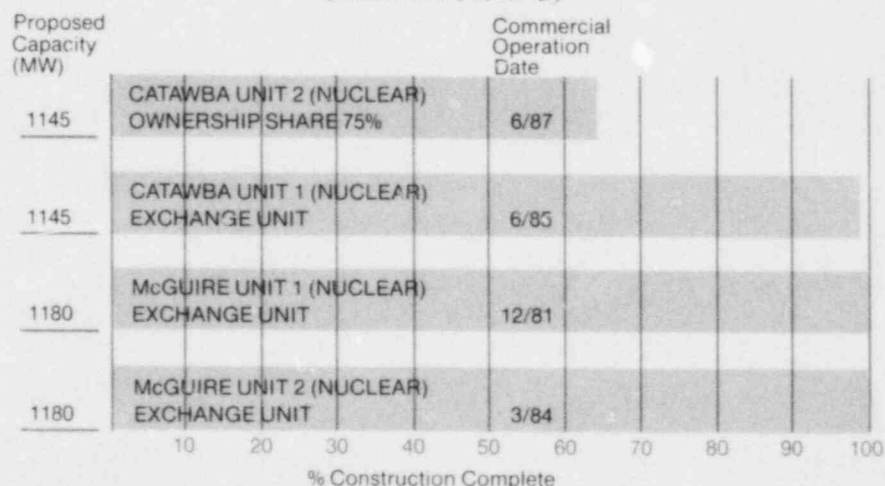
representing 10 municipalities in that state. Duke retains ownership of 25 percent of Catawba Unit 1 and of the station's support facilities.

Duke Power Company

Duke Power Company was established in 1904. It is an investor-owned electric utility serving approximately 1.3 million customers in North and South Carolina. Its power is produced by a balanced generation mix of primarily coal and nuclear plants.

During the 12 months ended September 30, 1983, Duke's electric revenues amounted to approximately \$2.4 billion, of which approximately 70 percent was derived from North Carolina. Among investor-owned utilities, the company ranks eighth in the United States in kilowatt-hour sales.

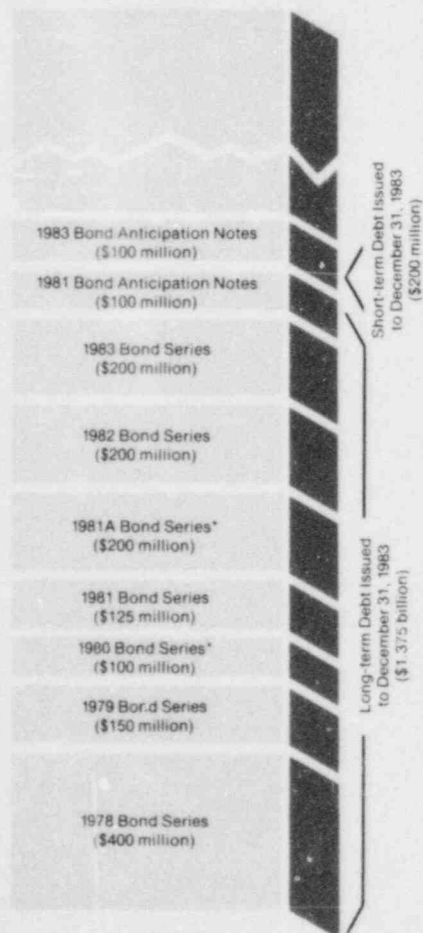
NCMFA 1 Power Supply Program
(December 31, 1983)



Finance

In February 1983, NCMPA 1 sold a \$200 million electric revenue bond issue, plus \$100 million in bond anticipation notes, at a true interest cost of 10.84 percent for the bonds and 6.92 percent for the notes. (The net interest costs were 10.33 percent and 6.86 percent, respectively.)

Estimated Funding Requirements (\$2.39 billion)



*\$175 million of the 1981A Series and all of the 1980 Series were refunded through the sale of Series 1984 Bonds in January 1984.

Some of the proceeds from that sale were used to retire \$75 million in outstanding revolving credit notes. This is the first maturing debt NCMPA 1 has had since it began its joint ownership project in November 1978.

The sale was NCMPA 1's seventh and put the agency in position to be able to choose its next sale time during a bond market year that was marked by more than usual instability. It was a fortunate position, because market conditions dictated that a second major bond issue planned by the agency for 1983 had to be twice postponed.*

It is estimated that a series of additional bonds in the amount of approximately \$350 million will be required in the second half of 1984.

To increase the agency's flexibility in the debt market, the board of commissioners in July 1983 selected The First Boston Corporation, an investment banking firm, as its

*That sale was successfully completed in January 1984 when NCMPA 1 marketed a \$432 million bond issue. Proceeds from the January issue will be used to refund all of the agency's 1980 series bonds, a large portion of its 1981-A series, and to repay bond anticipation notes due July 1, 1984.

Including the January 1984 issue and the refunding it provided, the agency has in outstanding obligations slightly more than \$1.5 billion in long-term debt (bonds) and \$200 million in short-term debt. The agency estimates that it will issue additional bonds in the aggregate principal amount of \$858 million in connection with the Catawba project.

dealer for a tax-exempt commercial paper program involving short-term, unsecured promissory notes. That program is expected to be in place in mid-1984.

In December 1983, the board adopted a 1984 construction and operations budget of \$465,242,000.

Solid Statutory Security

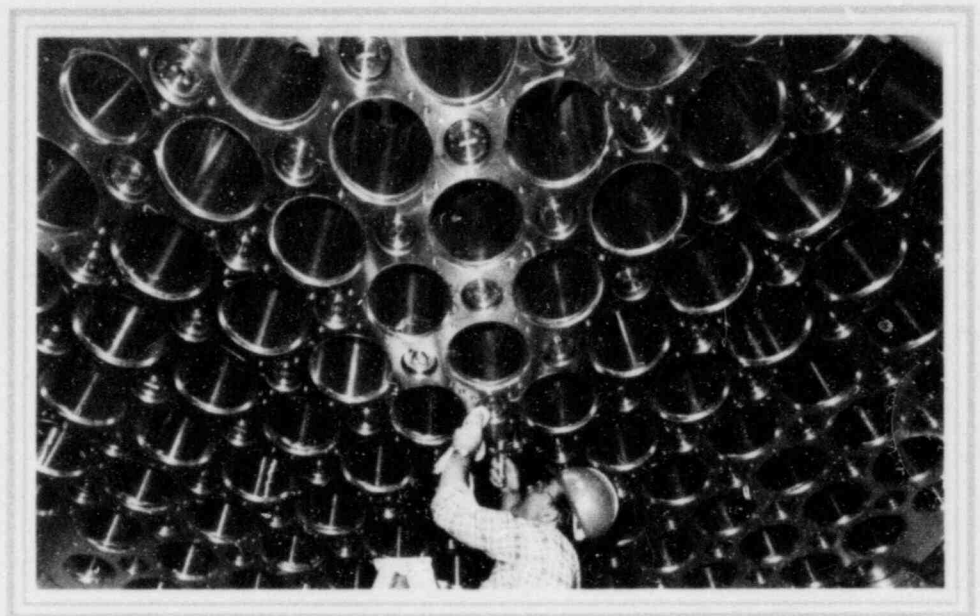
The instability in the electric revenue bond market that marked much of 1983 was due to three principal factors: (1) the continuing large federal budget deficit, (2) an exceptional influx of municipal housing bonds, and (3) a state court decision involving the Washington Public Power Supply System (WPPSS).

In June, the Supreme Court of the State of Washington ruled that the utilities of that state lacked specific statutory authority to enter into the "take or pay" contracts they had executed with WPPSS. The decision disrupted municipal bond market activities across the country, and resulted in slightly higher interest costs for many municipal bonds, including those paid by power agencies whose participants do have specific statutory authority for "take or pay" contracts.

NCMPA 1's bond attorneys and North Carolina counsel have both affirmed that the municipal utilities in this state have explicit statutory authority for the "take or pay" contracts they have with the state's two power agencies, and have said that the Washington State court ruling can have no direct, adverse legal impact on NCMPA 1.

There is also another important factor that makes the North Carolina situation distinct: The North Carolina Local Government Commission (LGC), a division of the Department of the State Treasurer, has been directly involved in the agency's project from its inception and is the organization that sells the agency's bonds.

The commission has statutory authority to assume full control of the financial affairs of any municipality that fails or refuses to meet its obligations under



continuing contracts, such as the "take or pay" contracts the municipalities have with the agency.

Systems

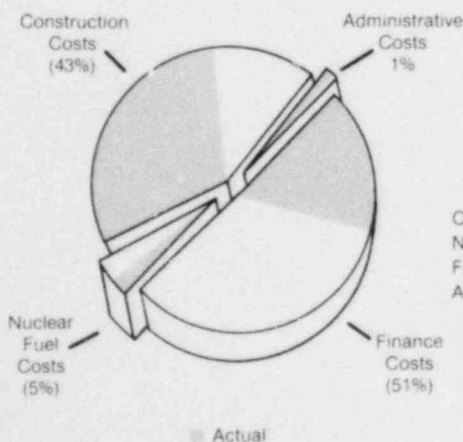
To meet NCMPA 1's expanding role as a power supplier, four major integrated computer systems are

now in place to support the agency's business activities.

The interconnection bill audit system became operational in August 1983. It is used for posting the monthly electric energy bills from Duke to the agency's general ledger system, which began operation in 1982.

The annual planning and budget system was in place in time to produce the agency's 1984 budget. The fourth major system, the power demand and operating statistics system, has been in place since late 1981. It verifies Duke's bills and collects, maintains and reports monthly load statistics.

All the agency's systems will be continually enhanced and refined as its activities require.



Project Estimate (Thousands of Dollars)

	Project Estimate	Actual 12-31-83
Construction Costs	1,023,579	728,902
Nuclear Fuel Costs	127,690	60,348
Finance Costs	1,227,490	386,508
Administrative Costs	11,241	6,328
	<u>\$2,390,000</u>	<u>\$1,182,086</u>

Balance Sheets

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

	December 31,	
ASSETS	1983	1982
ELECTRIC UTILITY PLANT (Notes 2 and 3):		
Construction work in progress	\$ 956,587	\$ 761,151
Nuclear fuel	60,351	35,276
	<u>1,016,938</u>	<u>796,427</u>
SPECIAL FUNDS INVESTED (Notes 2, 4 and 10):		
Construction fund	305,210	272,453
Bond fund	225,824	187,262
Reserve and contingency fund	15,299	12,003
Decommissioning fund	613	
Special reserve fund	1,027	
Revolving credit fund		81,558
	<u>547,973</u>	<u>553,276</u>
CURRENT ASSETS:		
Special funds invested (Notes 2, 4, and 10):		
Operating fund	2,245	5,761
Supplemental fund	27,297	
Revenue fund	3,881	
	<u>33,423</u>	<u>5,761</u>
Participant accounts receivable	8,383	
Prepaid expenses	58	
	<u>41,864</u>	<u>5,761</u>
UNAMORTIZED DEBT ISSUANCE COSTS (Note 2)	33,020	28,410
	<u>\$1,639,795</u>	<u>\$1,383,874</u>

See notes to financial statements.

	December 31,	
LIABILITIES AND FUND BALANCE	1983	1982
LONG TERM DEBT:		
Bonds (Note 4)	\$1,375,000	\$1,175,000
Revolving credit notes (Note 5)		75,000
Bond anticipation notes (Note 6)	100,000	100,000
Less: unamortized discount	(27,384)	(20,068)
	<u>1,447,616</u>	<u>1,329,932</u>
SPECIAL FUNDS LIABILITIES:		
Bond anticipation notes (Note 6)	100,000	
Construction fund payables	4,009	746
Accrued interest on bonds	65,483	46,433
Accrued interest on bond anticipation notes	9,000	5,750
Accrued interest on revolving credit notes		1,013
	<u>178,492</u>	<u>53,942</u>
CURRENT LIABILITIES:		
Accounts payable	6,318	
Accrued taxes	230	
	<u>6,548</u>	
DEFERRED REVENUES (Note 7)	284	
COMMITMENTS AND CONTINGENCIES (Notes 3, 8 and 9)		
FUND BALANCE	6,855	
	<u>\$1,639,795</u>	<u>\$1,383,874</u>

Statement of Revenues and Expenses and Changes in Fund Balance

North Carolina Municipal Power Agency Number 1

(\$000s)

	Period from July 1, 1983 through December 31, 1983
OPERATING REVENUES:	
Sales of electricity to participants	\$ 51,716
OPERATING EXPENSES:	
Interconnection services:	
Purchased power	35,243
Transmission and distribution	5,709
Other	152
	41,104
Administrative and general	498
N.C. gross receipts tax	3,043
	44,645
NET OPERATING INCOME	7,071
INTEREST CHARGES (CREDITS):	
Interest expense	144,867
Amortization of debt issuance costs	2,754
Investment income	(62,521)
Net interest capitalized	(85,168)
	(68)
DEFERRED REVENUES (Note 7)	284
EXCESS REVENUES OVER EXPENSES	6,855
FUND BALANCE, July 1, 1983	—
FUND BALANCE, December 31, 1983	\$ 6,855

See notes to financial statements.

Statements of Changes in Financial Position

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

	Year Ended December 31,	
	1983	1982
SOURCE OF FUNDS:		
Operations:		
Excess revenues over expenses	\$ 6,855	\$
Deferred revenues	284	
Total funds provided by operations	7,139	
Proceeds from sale of bonds	200,000	200,000
Proceeds from sale of bond anticipation notes	100,000	
Decrease in special funds invested	5,303	
Increase in special funds liabilities	124,550	8,045
Decrease in debt discount and issuance costs	2,754	1,738
	439,746	209,783
APPLICATION OF FUNDS:		
Increase in special funds invested		36,433
Additions to electric utility plant	220,511	158,170
Provision for retirement of bond anticipation notes	100,000	
Additions to unamortized debt discount and issuance costs	14,680	14,440
Retirement of revolving credit notes	75,000	
	410,191	209,043
INCREASE IN WORKING CAPITAL	\$ 29,555	\$ 740
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase in current assets:		
Special funds invested	\$ 27,662	\$ 740
Participant accounts receivable	8,383	
Prepaid expenses	58	
	36,103	740
(Increase) in current liabilities:		
Accounts payable	(6,318)	
Accrued taxes	(230)	
	(6,548)	
INCREASE IN WORKING CAPITAL	\$ 29,555	\$ 740

See notes to financial statements.

February 22, 1984

Touche Ross & Co.

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, 1983 and 1982, the related statements of changes in financial position for the years then ended and the statement of revenues and expenses and changes in fund balance for the period from July 1, 1983 (date revenue-producing operations commenced) through December 31, 1983. 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 following financial statements referred to above present fairly the financial position of North Carolina Municipal Power Agency Number 1 at December 31, 1983 and 1982, the changes in its financial position for the years then ended and the results of its operations for the period from July 1, 1983 through December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on page 24 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 examination 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
Raleigh, North Carolina

Notes to Financial Statements

Years Ended December 31, 1983 and 1982

North Carolina Municipal Power Agency Number 1

1. General Matters

North Carolina Municipal Power Agency Number 1 (Agency) was organized on January 13, 1976, pursuant to Chapter 159(B) of the General Statutes of North Carolina (Act), adopted by the General Assembly of North Carolina on May 1, 1975. The Act enables municipalities owning electric distribution systems to create joint agencies with authority to finance, construct, operate and maintain electric generation and transmission facilities. The Agency has twenty members, nineteen (Participants) which receive power through 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 (defined below):

The Purchase, Construction and Ownership Agreement provides, among other things, for the Agency to purchase a 75% undivided ownership interest in Unit 2 and a 37.5% undivided ownership interest in certain support facilities of the Catawba Nuclear Station (Project). This facility is presently under construction by Duke. The acquisition is being financed by the issuance of Catawba Electric Revenue Bonds (Bonds) pursuant to Resolution No. R-16-78, as amended, (Resolution) of the Board of Commissioners of the Agency.

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 Catawba Nuclear 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 Operating and Fuel Agreement provides for Duke to operate, maintain and fuel the facility, to make renewals, replacements and capital additions as approved by the Agency, and for the ultimate decommissioning of the facility at the end of its useful life.

The Agency has entered into a Project Power Sales Agreement and a Supplemental Power Sales Agreement with each of the Participants. These Agreements provide for each Participant to purchase 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) from the Agency. 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.

On July 1, 1983, the Agency's Participants began receiving 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 will be 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 or under construction 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 power 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 to the Agency and the Participants from unscheduled outages of Catawba Unit 2. Correspondingly, the Agency bears risks resulting from unscheduled outages of any of the Catawba or McGuire Units.

2. 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).

Construction Work in Progress

All direct and indirect expenditures, including interest expense net of investment earnings on funds not yet expended, associated with the development and construction of the Project are capitalized as construction work in progress until such time as the plant becomes operational. Depreciation expense will be recognized on the facility when operations commence.

Nuclear Fuel

All direct and indirect expenditures, including interest expense net of investment earnings on funds not yet expended, related to the purchase and construction of nuclear fuel cores, are capitalized until such time as the cores are placed in the reactor and are operational.

Investment Securities

Investment securities included in Special Funds Invested are stated at amortized cost which approximates market value. Investment securities include securities of the U.S. Government and governmental agencies and securities purchased under agreements to resell (securities of the U.S. Government and governmental agencies serve as collateral under such agreements).

Unamortized Debt Issuance Costs

Costs of issuance of bonds, revolving credit notes and bond anticipation notes are deferred and amortized on a straight-line basis over the lives of the related debt instruments.

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, franchise or other privilege taxes. In lieu of a franchise or privilege tax, the Agency pays an amount equal to six percent of the gross receipts from sales of electric power, less such like amounts included in payments to vendors for electric power or related services. In lieu of property taxes, the Agency pays an amount which would otherwise be assessed on the real and personal property of the Agency.

Reclassifications

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

3. Construction Program

The Agency has substantial commitments in connection with the construction of the Catawba facility. The Agency's direct costs of construction, including nuclear fuel, are presently estimated to be \$1,151,269,000. These costs, together with provisions for working capital and debt service costs during the construction period, will require the use of the proceeds from the issuance of up to \$2,390,000,000 of Bonds. Any future changes in the construction schedule affect the cost of such facilities and affect the amount of Bonds to be issued.

4. Bonds

The Agency is authorized to issue Bonds by and 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 by the Resolution) and/or for other purposes set forth in the Resolution. On May 3, 1983, the Local Government Commission (LGC) of the State of North Carolina approved the issuance of such Bonds up to a maximum principal amount of \$2,390,000,000; additional LGC approval must be obtained for the issuance of Bonds in excess of this amount.

As of December 31, 1982, the Agency had issued \$1,175,000,000 of the total authorized Bonds. During 1983, an additional \$200,000,000 was issued (Series 1983) bringing the total outstanding Bonds at December 31, 1983 to \$1,375,000,000 as follows:

SERIES 1978	
5.2% to 6.45% maturing annually from 1986 to 2000	\$ 77,905,000
6.6% maturing in 2003 with annual sinking fund requirements beginning in 2001	25,870,000
6.7% maturing in 2008 with annual sinking fund requirements beginning in 2004	55,935,000
6.875% maturing in 2020 with annual sinking fund requirements beginning in 2009	240,290,000
	<hr/>
	400,000,000

SERIES 1979	
5.75% to 6.9% maturing annually from 1986 to 2000	27,200,000
7.1% maturing in 2004 with annual sinking fund requirements beginning in 2001	12,905,000
7.375% maturing in 2020 with annual sinking fund requirements beginning in 2005	109,895,000
	<u>150,000,000</u>
SERIES 1980 — Refunded in 1984	<u>100,000,000</u>
SERIES 1981	
9.4% to 10.5% maturing annually from 1991 to 1998	11,125,000
10.75% maturing in 2001 with annual sinking fund requirements beginning in 1999	9,875,000
8.5% maturing in 2017 with annual sinking fund requirements beginning in 2011	25,000,000
11.125% maturing in 2020 with annual sinking fund requirements beginning in 2002	79,000,000
	<u>125,000,000</u>
SERIES 1981A	
11% maturing in 2015 with annual sinking fund requirements beginning in 2012	25,000,000
Refunded in 1984	175,000,000
	<u>200,000,000</u>
SERIES 1982	
11% maturing in 2003 with annual sinking fund requirements beginning 1991	14,700,000
7.5% maturing in 2018 with annual sinking fund requirements beginning in 2009	25,000,000
11.25% maturing in 2020 with annual sinking fund requirements beginning in 2004	160,300,000
	<u>200,000,000</u>
SERIES 1983	
8% to 9.25% maturing annually from 1991 to 1996	7,300,000
10.25% maturing in 2003 with annual sinking fund requirements beginning in 2002	10,000,000
7% maturing in 2018 with annual sinking fund requirements beginning in 2009	25,000,000
10.625% maturing in 2020 with annual sinking fund requirements beginning in 2004	157,700,000
	<u>200,000,000</u>
	<u>\$1,375,000,000</u>

On January 26, 1984, the Agency sold \$432,000,000 of Bonds, Series 1984. This series is comprised of the following:

8.5% to 10.25% maturing annually from 1991 to to 1999	\$ 44,185,000
10.375% maturing in 2004 with annual sinking fund requirements beginning in 2000	35,725,000
10% maturing in 2014 with annual sinking fund requirements beginning in 2011	50,000,000
7.5% maturing in 2019 with annual sinking fund requirements beginning in 2017	50,000,000
10.625% maturing in 2020 with annual sinking fund requirements beginning in 2000	252,090,000
	<u>\$432,000,000</u>

Upon issuance of the Series 1984 Bonds, the Agency entered into a Refunding Trust Agreement for the refunding of \$100,000,000 of Series 1980 Bonds and \$175,000,000 of Series 1981A Bonds.

Under the Refunding Trust Agreement, obligations of or guaranteed by the United States of America have been placed in an irrevocable Refunding Trust Fund maintained by the Bond Fund Trustee. These government obligations, along with the interest earnings on such obligations, will be sufficient to pay all interest on the refunded Bonds when due, to redeem the Series 1980 Bonds annually at their maturities from 1986 through 2010 and to redeem the Series 1981A Bonds in 1991 at a redemption price of 103%. The Refunding Trust Fund, including the interest earnings on the government obligations, is pledged solely for the benefit of the holders of the Bonds refunded. After establishment of the Refunding Trust Fund, the Bonds refunded will no longer be considered outstanding obligations of the Agency.

The remaining proceeds of the Series 1984 Bonds will be used to retire a portion of the Bond Anticipation Notes due July 1, 1984.

Interest on the Bonds is payable semi-annually on January 1 and July 1. 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 1981A	January 1, 1991
Series 1982	January 1, 1993
Series 1983	January 1, 1993
Series 1984	January 1, 1994

These Bonds are special obligations of the Agency, payable solely from and secured solely by (1) revenues (as defined by the Resolution) after payment of 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 revenues (as defined by the Resolution) generated as a result of the Power Sales Agreements and Interconnection Agreement. The purpose of the individual funds is specifically defined in the Resolution.

Maturities of outstanding Bonds including the Series 1984 Bonds, through 1988 and thereafter are as follows (in thousands of dollars):

1986	\$ 4,590
1987	4,840
1988	5,100
1989 and thereafter	1,517,470

5. Revolving Credit Notes

In 1980, the Agency and a group of four banks entered into a revolving credit agreement which allowed the Agency to borrow up to \$75,000,000. These notes were retired during 1983 from proceeds of the Series 1983 Bonds.

6. Bond Anticipation Notes

Bond Anticipation Notes in the aggregate principal amount of \$100,000,000 dated October 1, 1981, bearing an interest rate of 11.5% per annum, will mature July 1, 1984. Interest is payable semi-annually on January 1 and July 1.

Bond Anticipation Notes in the aggregate principal amount of \$100,000,000 dated February 1, 1983, bearing an interest rate of 6.5% per annum, will mature January 1, 1986. Interest is payable semi-annually on January 1 and July 1.

The notes are payable from proceeds of subsequently issued Bonds and are additionally secured by a lien on revenues, junior in right of payment to the Bonds (Note 4).

7. Deferred Revenues

Rates for power billings to participants are designed to cover "costs" as defined by (1) the Resolution, (2) the Project Power Sales Agreement, and (3) the Supplemental Power Sales Agreement. 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. Those "expenses" according to GAAP which are not included as "costs" are deferred to such period as they are intended to be covered by rates. Those "revenues" under the Resolution and the Power Sales Agreements which are collected to cover "costs" which are not "expenses" are deferred to such period as they are intended to cover "expenses".

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

Revenues deferred in 1983 to offset future billings to Participants (in thousands of dollars) include the following:

BOND RESOLUTION REQUIREMENTS INCLUDED IN BILLINGS TO THE PARTICIPANTS:	
Special Funds Deposits	\$1,754
GAAP ITEMS NOT INCLUDED IN BILLINGS TO THE PARTICIPANTS:	
Interest Costs	1,470
Deferred Revenues	<u>\$ 284</u>

8. Commitments

The Agency has a contractual agreement with Electricities of North Carolina, Inc. whereby Electricities provides, at cost, general management services to the Agency. This agreement is for three years continuing through December 31, 1986, 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 the contract term.

For the years ended December 31, 1983 and 1982, the Agency paid Electricities \$1,274,000 and \$653,000, respectively.

9. Contingencies

Duke has applied to the Nuclear Regulatory Commission (NRC) for an operating license for the Catawba Nuclear Station. The license is expected to be received prior to the end of the construction period. However, there is no assurance that the NRC will issue such license and the facility cannot be placed into service without it.

The Price-Anderson Act limits the public liability for a nuclear incident at a nuclear generating unit to \$560,000,000, 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 Catawba Nuclear Station. The terms of this coverage require the owners of all licensed facilities to provide up to \$5,000,000 per year per unit 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 after the Catawba Nuclear Station has received its operating license, the Agency would be liable for 37.5% of those payments.

Property damage insurance coverage presently available for the entire Catawba Nuclear Station has a maximum benefit limited to \$460,000,000. Such available coverage has been obtained.

Notes to Financial Statements

Years Ended December 31, 1983 and 1982

10. Changes in Assets of Special Funds (\$000s)

	CONSTRUCTION FUND					BOND FUND	
	Construction Account	Construction Interest Account	Construction Revolving Account	Note Interest Account	Note Interest 1983 Account	Interest Account	Reserve Account
Cash and Investments,							
December 31, 1981 (1)	\$ 112,019	\$ 141,471	\$ 94	\$ 32,801	\$	\$ 40,886	\$ 110,500
Bond proceeds (2)	98,435	67,959					21,372
Investment income	10,697	18,396	8	4,413		225	14,536
Disbursements	(108,042)		(1)	(8,625)		(85,431)	
Transfers	221	(96,717)		(676)		89,032	(3,858)
Cash and Investments,							
December 31, 1982 (1)	113,330	131,109	101	27,913		44,712	142,550
Bond proceeds (3)	18,325	149,447					19,531
Note proceeds (4)	80,705				18,958		
Power billing receipts							
Investment income	15,990	20,569	8	2,306	1,322	290	17,405
Disbursements	(207,799)			(11,500)	(2,708)	(110,235)	
Transfers	100,322	(149,370)	(7)	(3,811)		130,857	(19,286)
Cash and Investments,							
December 31, 1983 (1)	\$ <u>120,873</u>	\$ <u>151,755</u>	\$ <u>102</u>	\$ <u>14,908</u>	\$ <u>17,572</u>	\$ <u>65,624</u>	\$ <u>160,200</u>

1. Cash and investments at December 31, 1981, 1982, and 1983 include accrued interest of \$7,514, \$6,332 and \$9,468, respectively.

2. Net of underwriters fee of \$4,990 and discount on bonds of \$8,978 plus accrued interest of \$1,734.

3. Net of underwriters fee of \$4,834 and discount on bonds of \$8,101 plus accrued interest of \$2,184.

4. Net of underwriters fee of \$1,045 plus accrued interest of \$704.

RESERVE & CONTINGENCY FUND	DECOMMISSIONING FUND	SPECIAL RESERVE FUND	REVOLVING CREDIT FUND	OPERATING FUND	SUPPLEMENTAL FUND	REVENUE FUND		
Reserve and Contingency Account	Decommissioning Account	Special Reserve Account	Revolving Credit Account	Working Capital Account	Supplemental Account	Revenue Fund Account	Rate Stabilization Account	Total
\$	\$	\$	\$ 79,072	\$ 5,021	\$	\$	\$	\$ 521,864
3			10,607	740		2		187,766
12,000			(8,121)			(2)		59,627
								(210,220)
12,003			81,558	5,761				—
1,953								559,037
					39,335	4,048		189,256
1,343	10	52	1,611	425	1,128	52	10	99,663
			(2,024)	(3,032)	(35,166)			43,383
	603	975	(81,145)	(909)	22,000	(882)	653	62,521
								(372,464)
<u>\$ 15,299</u>	<u>\$ 613</u>	<u>\$ 1,027</u>	<u>\$ —</u>	<u>\$ 2,245</u>	<u>\$ 27,297</u>	<u>\$ 3,218</u>	<u>\$ 663</u>	<u>\$ 581,396</u>

Schedule of Revenues and Expenses Per Bond Resolution and Other Agreements For the Period from July 1, 1983

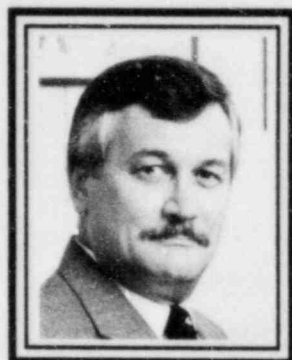
(Date Revenue-Producing Operations Commenced) through December 31, 1983 (\$000s)

	Project	Supplemental and Other	Total
REVENUES:			
Sale of electricity to participants	\$ 4,537	\$47,153	\$51,690
Other operating revenues		26	26
Investment revenues available for operations	410	1,128	1,538
	4,947	48,307	53,254
EXPENSES:			
Interconnection services:			
Purchased power	2,803	32,440	35,243
Transmission and distribution		5,709	5,709
Other		152	152
	2,803	38,301	41,104
Administrative and general	118	380	498
N.C. gross receipts tax	272	2,771	3,043
Special funds deposits:			
Decommissioning fund	604		604
Rate stabilization fund	783		783
Revenue fund	367		367
	1,754		1,754
	4,947	41,452	46,399
EXCESS REVENUES OVER EXPENSES	\$ 0	\$ 6,855	\$ 6,855

Management Staff



General Manager
RALPH W. SHAW



*Director - Finance
and Administration*
JAMES T. BOBO



*Director - Government
Affairs*
FRED M. MILLS, JR.



Director - Engineering
WILLIAM G. WEMHOFF

Consultants, Trustees

North Carolina Counsel
Spruill Lane Carlton McCotter & Jolly
Rocky Mount, North Carolina

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

Bond Fund Trustee
Chemical Bank
New York, New York

Washington Counsel
Spiegel & McDiarmid
Washington, D.C.

Bond Counsel
Wood Dawson Smith & Hellman
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

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

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



North Carolina Municipal Power Agency Number 1
3117 Poplarwood Court, Suite 300
P.O. Box 95162
Raleigh, North Carolina 27625
(919) 876-9170

