

EASLEY GREER
WESTMINSTER UNION
LAURENS
CLINTON
NEWBERRY
ABBEVILLE

MEMBER CITIES
BOARD MEMBERS



ABBEVILLE
David H. Kramuside, City Manager



CLINTON
Steven L. Harrell, City Manager



EASLEY
*Richard S. Hale, General Manager
Combined Utility System*



PMPA
*James A. Bauer
General Manager*



GAFFNEY
*Jack E. Millwood, Commissioner
Gaffney Board of Public Works*



GREER
*David V. Duncan, Commissioner
Commission of Public Works*



LAURENS
*Coleman F. Smoot, Jr., General Manager
Commission of Public Works*



NEWBERRY
Joel D. Ledbetter, Utilities Director



ROCK HILL
J. Russell Allen, City Manager



UNION
T.D. Sherbert, Jr., Utility Director

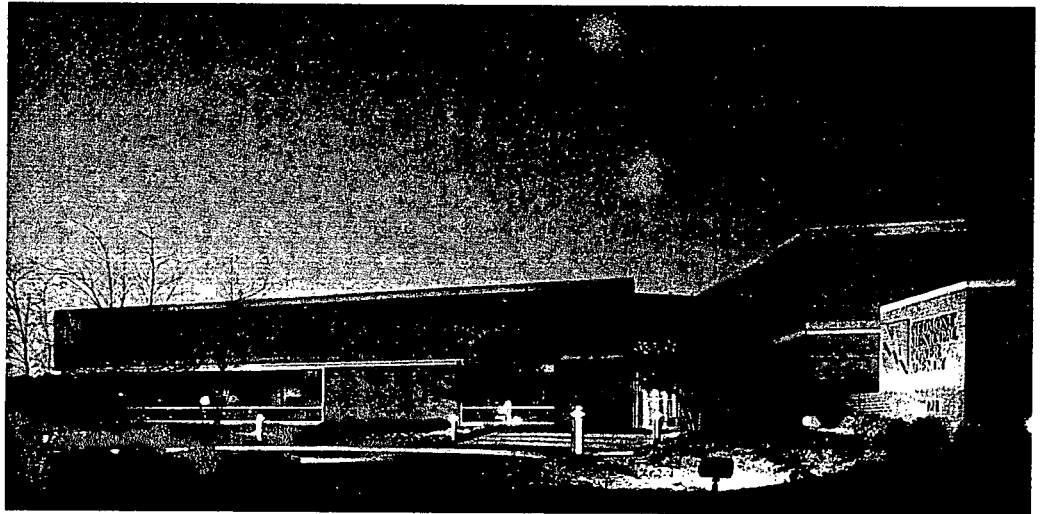


WESTMINSTER
*Cary L. Cobb, Superintendent
Commission of Public Works*

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1993 Quarterly Reflections

1ST QUARTER:

- PowerPartners, PMPA's demand-side management program becomes fully operational.
- Conco Medical Products Corporation announces a \$14 million plant in Rock Hill.
- BML, Inc. invests \$1 million in a manufacturing facility in Westminster.
- Construction begins in Greer on State Farm Insurance Company's regional office.
- The PMPA board of directors reelects all officers from 1992. They are: Chairman, Coleman Smoak, Jr., Laurens; Vice Chairman, Steve Hale, Easley; Treasurer, Neil Keane, PMPA; and Secretary, James Bauer, PMPA.

2ND QUARTER:

- Knight Industries announces plans for a cloth laundering plant in the Bush River Industrial park near Newberry.
- PMPA retains a full-time Community Relations/Economic Development Coordinator.
- PMPA's annual planning meeting is held in Asheville, NC, and is attended by agency management, consultants, and directors.
- Belk, the regional department store, announces plans to open a new store on East Main in Laurens.
- Bond refunding worth \$129,190,000 with a net savings of \$9.3 million is completed.
- Russell Allen is named City Manager of Rock Hill, and is appointed to represent that city on PMPA's board of directors.

**PMPA
Statistical
Highlights**
excluding SEPA

Participants

| | Peak Demand (MW) | Sales (MWH) | Revenues (in thousands) |
|------|---------------------|----------------|----------------------------|
| 1993 | 321.0 | 1,566,300 | 77,787 |
| 1992 | 291.8 | 1,487,315 | \$71,573 |
| 1991 | 302.5 | 1,507,400 | \$70,483 |
| 1990 | 290.7 | 1,440,400 | \$64,883 |

RD QUARTER:

- PMPA reaches an all-time record energy demand of 321 MW (exclusive of SEPA power).
- Ed Grimsley of McNair & Sanford addresses the board of directors on the subject of environmental compliance.
- PMPA hosts its second Economic Development Round Table.
- A load-side generation accounting system is implemented to calculate member credits for peak shaving generation.
- Consolidated Fabricators announces a new manufacturing plant for the city of Clinton.
- PMPA joins the Carolina's Innovation Group.
- Spring City Knitting in Gaffney announces a \$9.5 million expansion to its manufacturing facility.
- PMPA observes Industry Appreciation Week by distributing letters of recognition to industries in its member cities.

TH QUARTER:

- PMPA awards \$22,500 in Economic Development Grants to development groups in its member cities.
- After the first year of operation, PowerPartners reaches approximately 35 percent of its forecasted goal for the year 2001.
- The Milliken Company announces plans to expand its Abbeville plant.
- Easley's Danfoss Fluid Power Inc. announces plans for a \$15 million facility expansion.
- Specialty Shearing and Dyeing Inc. announces plans to open a manufacturing plant in Union's Multi-County Industrial Park.

W

hat actions were taken
by PMPA in 1993 to prepare for 1994 and beyond?

JB: Essentially, we must identify the best course of action for PMPA in this changing climate, and to begin to move in that direction. Even prior to 1993, the staff became aware that the industry was changing and things were happening that might affect PMPA and its members. At our annual planning meeting in 1993, we formed a committee to monitor information about these changes. We're going to devote the 1994 planning meeting specifically to this issue and try to discern what direction PMPA ought to start moving in or whether we need to change our present course at all.

At this point, we don't know. We have to wait for things to fall into place, but through 1993 we have tried to build an awareness of the industry changes among the PMPA board members. It's strictly a board decision whether they want the staff to continue as we're doing or change and do something different.

James A. Bauer
General Manager



B

EARINGS



Coleman F. Smoak, Jr.
Chairman
Board of Directors

CS: The only thing I could add is that it's not the specifics that are important. I believe it was Steven Covey that said, "A compass is more important than a map, and it lasts longer." As long as we can set the general direction in which the agency should travel, that's a good beginning.

How does PMPA's alliance in a member network help the agency and its individual members in addressing industry changes?

JB: Basically, in a small municipal utility, it is very difficult to provide enough personnel to give the manager the flexibility and the freedom to pay attention to what's happening outside his specific community. PMPA is able to provide this service, because we're removed from the daily operations. The people at PMPA can spend more time looking at what's happening and trying to figure out what that means for its members. I think that's a perfect example of joint action in operation.

The manager of a municipal electric utility doesn't have the time to go to Washington to deal with a problem that's going to affect hydropower, for example. Yet something

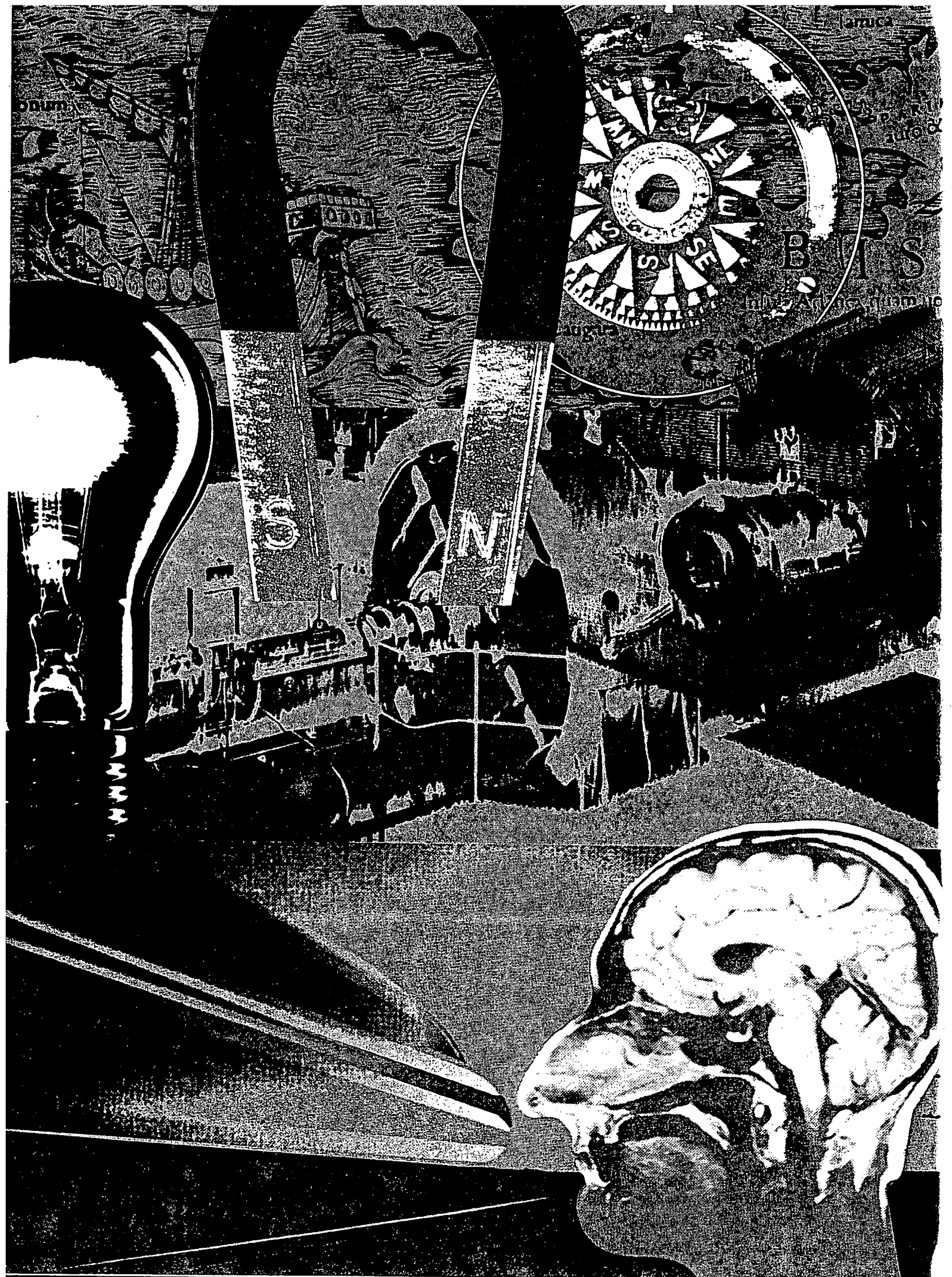
that affects hydropower is going to affect his cost. Also, PMPA's active participation in the American Public Power Association, the Southeastern Federal Power Customer's Group, and other organizations of a similar nature, can call attention to important matters that need attention.

CS: The other limits that the small local systems have are financial. They are not able to put the economic development person or the community relations person, on staff for purely financial reasons. PMPA provides the financial means to do some of the larger scale operations for the cities.

What is the major challenge facing electric utilities, and how will this challenge impact PMPA and its member cities?

JB: The major challenge now is competition. Previously, competition was not part of the industry. Now it is an accepted component, and that means an entirely different way of doing things.

CS: I agree. The biggest change is going to be competition.



Are Joint Action Agencies restricted in any way from engaging in competition?

PARTICIPATING



CS: Joint action agencies must function inside specific state statutes. So it will be legislative restrictions that are going to hamper us in competition. However, they are not insurmountable. There may be some necessary legislative changes, and it may take some time to get those accomplished.

JB: Competition will change the mode of operation significantly. For example, most joint action agencies were formed to participate in a power plant. The change in the competition

within the generation field means that you don't necessarily have to participate in a plant. You can take bids as many utilities are now doing. Let somebody else build the plant. You don't have to tie your capital up in that particular venture.

PMPA was originally formed to develop the contracts and be a participant in a very large project, and it may be that the change of direction makes us more a contract administrator or bidding organization.

Why is competition such a hot topic in the utility business?

JB: Competition entered into the utility industry in 1992 with the approval of the Energy Policy Act. This Act created an environment of competition in electrical generation. It is now up to the industry to determine how to respond and up to each utility to identify and develop a niche for capitalizing on this new environment.

1993 Capital Investments & Jobs Created by County

| County | Capital Investment Total (\$000) | Jobs Created Total |
|-------------|----------------------------------|--------------------|
| Abbeville | \$340 | 15 |
| Cherokee | 11,800 | 111 |
| Greenville | 325,800 | 1,435 |
| Laurens | 11,200 | 224 |
| Newberry | 56,445 | 679 |
| Oconee | 40,048 | 252 |
| Pickens | 12,021 | 314 |
| Spartanburg | 228,406 | 1,250 |
| Union | 9,190 | 134 |
| York | 121,241 | 1,279 |

Are there any legislative issues involved in this new era of competition?

CS: Territory is going to become a problem. In the past, electric utilities were all assigned their territory by the Territorial Assignment Act of South Carolina. Now those territories are going to be restructured. The electric cooperatives are pushing for national and state legislation to keep their territory the same as it is today. The cities, on the other hand, are attempting to annex as much property as they can so that their systems can grow. Territory is bound to be a big legislative issue, especially in the short term.

JB: In South Carolina, the only way a city can expand its service area into a territory that has previously been assigned to another supplier is by annexing that territory into the city. Annexation is going to be a major topic in the state legislature and any change to the annexation laws will affect PMPA's members' ability to grow and to compete with surrounding utilities.

| EMP. NO. | RATE | HOURS | TOTAL |
|------------------|------------------|------------------|------------------|
| 0000000000000000 | 0000000000000000 | 0000000000000000 | 0000000000000000 |
| 1111111111111111 | 1111111111111111 | 1111111111111111 | 1111111111111111 |
| 2222222222222222 | 2222222222222222 | 2222222222222222 | 2222222222222222 |
| 3333333333333333 | 3333333333333333 | 3333333333333333 | 3333333333333333 |
| 4444444444444444 | 4444444444444444 | 4444444444444444 | 4444444444444444 |
| 5555555555555555 | 5555555555555555 | 5555555555555555 | 5555555555555555 |
| 6666666666666666 | 6666666666666666 | 6666666666666666 | 6666666666666666 |
| 7777777777777777 | 7777777777777777 | 7777777777777777 | 7777777777777777 |
| 8888888888888888 | 8888888888888888 | 8888888888888888 | 8888888888888888 |
| 9999999999999999 | 9999999999999999 | 9999999999999999 | 9999999999999999 |

CS: The investor owned utility used to be satisfied with selling power, regardless of whether it was direct to customers or wholesale to other utilities. Now they're having to right-size their companies, laying off employees every day. They're looking for every niche they can find in the market. There's going to be increased pressure from the investor owned utilities to preserve their territory.

And how do the investor owned utilities (IOUs) fit into the picture?

JB: I believe that in the next several years we'll see the number of investor owned utilities in the country diminish significantly, which means that they'll be concerned with taking over other investor owned utilities or worried about being taken over themselves. Will they try to take over municipalities or turn their attention elsewhere? It's hard to tell at this point. There are currently over 250 investor owned utilities in the country. Predictions indicate that there will be only fifty by the year 2000, but whether this will actually occur, nobody knows.

JB: Basically, it has been one of vertical integration. That is, the utility provided generation, transmission and distribution. We're seeing that structure disintegrating at this point. Many investor owned utilities are spinning off generation corporations that are going to do only generation. Then there are independent power producers. There are electric wholesale generators that provide competition within the generation area.

There's a big push to develop regional transmission groups(RTGs) to handle the

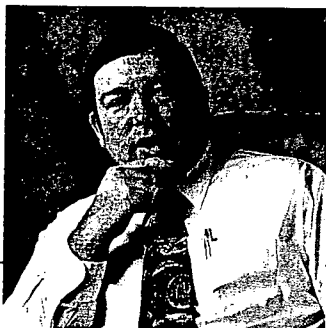
What about the structure of the utility industry?

transmission needs of all comers, all of the generators, all of the purchasers. There's a totally different kind of industry structure being developed, just as there was a totally different kind of industry structure developed when Bell Telephone was broken up into the "Baby Bells."

CS: Regarding infrastructure, I believe the money is going to be spent on transmission and the interconnects between the investor owned utilities and the various power suppliers.

Does PMPA's excess capacity mean the agency might be able to have customers beyond the members' city limits?

JB: The implication is there. The prospect, however, is not immediate. Throughout the entire Southeast there is generally an overabundance of electricity. As time goes on, however, that surplus will diminish. I think the challenge that faces PMPA is to do something with that excess capacity right now, while retaining flexibility for the future.



CS: With regard to competition, PMPA has developed an economic development rate to assist the cities in being competitive. We have recently employed an economic development coordinator to assist the cities in economic development matters.

How does PMPA propose to assist the cities in adapting to the challenges ahead?

We're also going to design programs to retain customers, because I believe that we're honestly going to get into the situation of competing month-to-month. If this is taken to its logical end and we begin to trade electricity futures at the commodities market, it'll be a wide open market for all of us.

Traditionally, municipally owned utilities have put their focus on residential customers. Does this new climate of competition imply the need for building closer partnerships with large industrial companies, and if so, how does PMPA see its role in developing and nurturing such partnerships?

CS: We said earlier that we needed to concentrate more on our residential base, but traditionally, the residential base has been a spinoff from attracting industries. If we do not attract the large industrial customers, the jobs won't be present to retain the residential customer. They're going to move where the jobs are.

I think that we need to shift our focus toward the larger customers. It is something that we have not done well over the years and I think it's one way to address the demands of increased competition.

JB: Retail wheeling, or the purchase of electricity by an industrial customer from a source other than its local utility, will dictate that we do improve relations with industrial customers.

Obviously, if you have a large customer, it will become very important to have that customer loyal to your system so they will be less likely to be "picked off" by somebody with retail wheeling. The development of customer loyalty among the larger customers within a relatively small system is very important and requires a regular contact between utility executives and the management of that business or industry.

It makes sense to reach out to that customer to help him to make the most efficient use of his energy dollar in whatever way that may be. I'd like to see PMPA assisting the individual members in reaching out to these large industrial customers.

Will the changing environment alter your approach to economic development?

JB: Given the climate of change, we may elect a different direction for economic development. Currently, the program is geared towards large industrial prospects. If those industrial prospects are subject to being "picked off," through retail wheeling, then do we really want to continue going after those customers?

Perhaps we should turn our attention towards the small to mid-size commercial customer who isn't quite as likely to be "picked off." A customer like BMW is a great find for

your system, but if you wind up having BMW contracting for power with somebody else three years later, then you really haven't accomplished much as far as the industrial load is concerned. Having them close to your town *does* give you a tremendous commercial load, because many of the employees and satellite industries and the satellite's employees, etc. are going to be on the city system. Securing and retaining that commercial load is essential.

What measures or actions are being considered to position PMPA to compete more effectively?

JB: I think we have already touched on it. Primarily, we're trying to minimize the costs of the operation while trying to maximize the efficiency of the operation, and we're assisting the cities in developing efficiencies. Power-Partners, PMPA's load management program, is an example of a way to spend a little bit of money and get a great deal of efficiency and reduced costs as a result.

CS: And trying to find out what the member cities want us to do. There's basically no limit to how involved PMPA can get in the cities' day-to-day operations. It just depends on how much they want PMPA involved.

What are PMPA's plans for communication programs and how will these programs address the needs created by this changing industry?



CS: I think we need to go back to the basics. The small systems, the local communities, need to be visiting with their largest customers. They can't take customers for granted anymore. They must go at least once or twice a year and visit with those top ten customers, and see how they can help them. Even something as basic as trying to set up energy efficiency programs

for them and making sure they understand how they are billed.

There are many large commercial customers on our systems that really just don't understand the way you calculate the bill and how they can save money. We're going to have to concentrate on retaining our industrial customers. Improved communications will help.

What about the need to communicate to the public and the community as a whole, in addition to the industrial customers?

JB: Well, obviously, support for the utility comes from customers. These are the people who elect the commissioners, who control what the utility does. The best way to have community support is to communicate with the public, tell them what you're doing, tell them why you're doing it, and tell them how it's going to affect them in the future.

Our bimonthly newsletter, *Between The Lines*, is an attempt to reach out to the

decision makers and the leaders within each community. We are planning in April to publish *Upstate Update*, which will reach out to all of our customers. The whole idea is to develop support within the community for the utility and the utility leadership. If that support is there, then the utility is much less likely to have problems with takeover attempts. People will realize that they're getting value for their money.

Household Small Appliances

The examples below illustrate not only the innovation in electrical products over the past 30 years but also our increased reliance on electricity:

1963 & 1993
MULTI-MEDIA AND COMMUNICATIONS

television

PLUS

VCR

radio and stereo

laser disk player
stereo cassette player
compact disk player
portable phone
answering machine
calculator
personal computer
modem and facsimile machine

FOOD PREPARATION

blender and mixer

PLUS

food processor juicer
microwave crock pot
coffee grinder can opener
electric wok bread maker
popcorn popper
electric knife

PERSONAL CARE

electric razor
hair dryer

PLUS

rechargeable razor
hot curlers
curling iron

Do you believe that PMPA can position itself to capitalize on whatever unforeseen changes come about?

JB: The utility business is a long range business. It takes seven to twelve years to build a power plant. It takes three to eight years to build a transmission line. You have to always be looking not at what your needs are today or tomorrow, but at what your needs are going to be five and ten years from now. Hopefully PMPA will continue to be as successful at this forecasting as we have been since our inception.

CS: As Yogi Berra used to say: "The future ain't what it used to be." In years past, when we talked about long term, we were talking twenty or thirty years, and short term was five to ten years. Now it's reached the point that long term is five years at the most. Short term is this month. The race no longer goes only to the swift. It's going to go to the adaptable. Becoming more adaptable is where we need to be headed.



OPERATIONS REPORT

Catawba Nuclear Station

The Catawba Nuclear facility operated above expectations in 1993 and achieved a net capacity factor of 79.6% and a net availability of 80.8%. The targeted capacity factor for the station was 76.1%: Unit 1 - 76.2% and Unit 2 - 76.1%. Actual net capacity for each unit was, Unit 1 - 76.6% and Unit 2 - 82.5%.

| | Unit 1 | Unit 2 | Station |
|---------------------|--------|--------|---------|
| Net Capacity Factor | 76.6% | 82.5% | 79.6% |
| Net Availability | 79.0% | 82.6% | 80.8% |

Plans are underway to replace the Catawba Unit 1 Steam Generators in 1996. This year PMPA finalized the contracts for replacement and paid out approximately \$1,720,000 in project costs. Duke Power Company will serve as the Engineer/Construction Manager for the replacement.

Demand-Side Management

The demand-side management program (PowerPartners), introduced in January 1993, exceeded its first year projection by over 8% and has reached over 35% of its forecasted penetration for the year 2001. At year end, 6,392 Load Control Receivers (LCRs) were connected to the system controlling more than 7,800 appliances. PMPA began operating control in June and has controlled during all but one monthly peak, including the yearly coincident peak of 366,807 KW (including power supplied to members by SEPA). PMPA is currently controlling an average of 2.7 times per month for periods of 2 to 4 hours. During control periods the cooling/heating units of air conditioners and heat pumps are cycled off for seven minutes per 30 minutes of control, and water heaters are cycled off for 23 minutes per 30 minutes of control.

The utility industry is in a period of transition—regulations are changing, new laws are being passed, and technology is advancing, all toward increased competition and the ultimate break-up of the monopolistic environment utilities have enjoyed since inception. In meeting these changes it is essential that utilities understand the options that lie ahead and take action to position themselves in the highly competitive market being forecast.

During the past year, PMPA began the positioning process by building awareness and understanding of the changes taking place, and their potential impacts. We began at the 1993 Planning Meeting by developing the lines of communication for these changes, and continued through the year to focus on service and on understanding the needs of each member city and its diverse customer groups. In addition to studying external factors, PMPA examined its internal structure in 1993 evaluating the services currently provided to its member cities, rate structure and levels, and financial position.

In 1993 we hired a full-time community relations and economic development coordinator to guide the agency through this time of increased communications needs among industry leaders, municipal officials and individual customers. The agency continues to publish a bimonthly newsletter, *Between The Lines*, delivered to city officials and business leaders, and this year laid the ground work for a new newspaper style communique, *Upstate Update*, that will be delivered twice in 1994 to the more than 60,000 residential customers served by PMPA members. These communications are designed to share the agency's vision, and to develop support and understanding, on a grassroots level, for the local municipal utility. Communication is a two way process, and we recognize that ask-

ing for feedback from our members and their customers is a vital part of that process. In 1993 we asked our customers for input by conducting a customer survey and we discovered that approximately 83% of the residential customers feel their utility service is good or excellent, and that approximately 67% know about PowerPartners, our demand-side management program enabling customers to actively take part in reducing future energy demand.

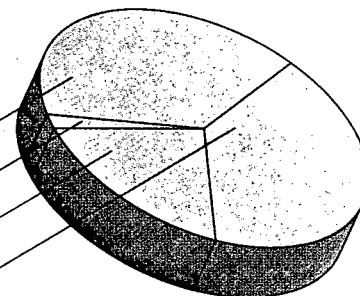
Our communications programs also began to focus more on industrial customers in our member cities, and we increased our involvement in Industry Appreciation Week by distributing letters of recognition to key industrial customers. PMPA hosted its second Economic Development Round Table this year to strengthen the natural alliance among our member cities and enhance cooperation in new business recruitment. The Round Tables have been so successful that next year PMPA will begin hosting two a year. Municipal growth, in the form of new industry and increased population, is a significant component of our development program, and in an effort to support our cities' individual development goals, PMPA again awarded Economic Development Grants in 1993 to area development groups. The grants, totaling \$22,500 in 1993, are used to produce marketing material for PMPA members, to place advertisements in trade publications, and to support the activities of area economic development groups.

PMPA recognizes that in changing with the industry that we must provide services that will help us maintain competitive costs and will build support and loyalty among our cities' customers. PowerPartners is a demand-side management program designed to meet that need. The program became fully operational in June and, by year end, grew to include over 6,300 Load Control Receivers (LCRs), representing 7,845 controlled appliances or approximately 35% of our goal for

OPERATIONS REPORT

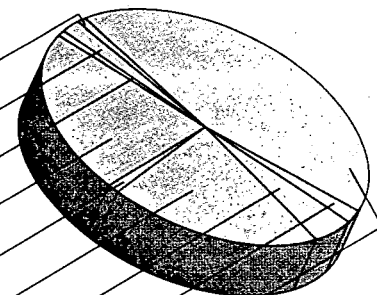
Sources of Funds

| | |
|----------------------------|-------|
| Duke Power | 38.8% |
| Available from Other Funds | 1.9% |
| Interest Income | 19.4% |
| Participants | 39.9% |



Uses of Funds

| | |
|--------------------------|-------|
| General & Administration | 1.1% |
| Transmission | 2.4% |
| Distribution | 1.0% |
| Operations & Maintenance | 22.5% |
| Other | 1.0% |
| Purchased Power | 20.8% |
| Special Fund Deposits | 5.1% |
| Payment in Lieu of Taxes | 2.2% |
| Debt Service | 43.9% |



OPERATIONS REPORT

Energy and Demand

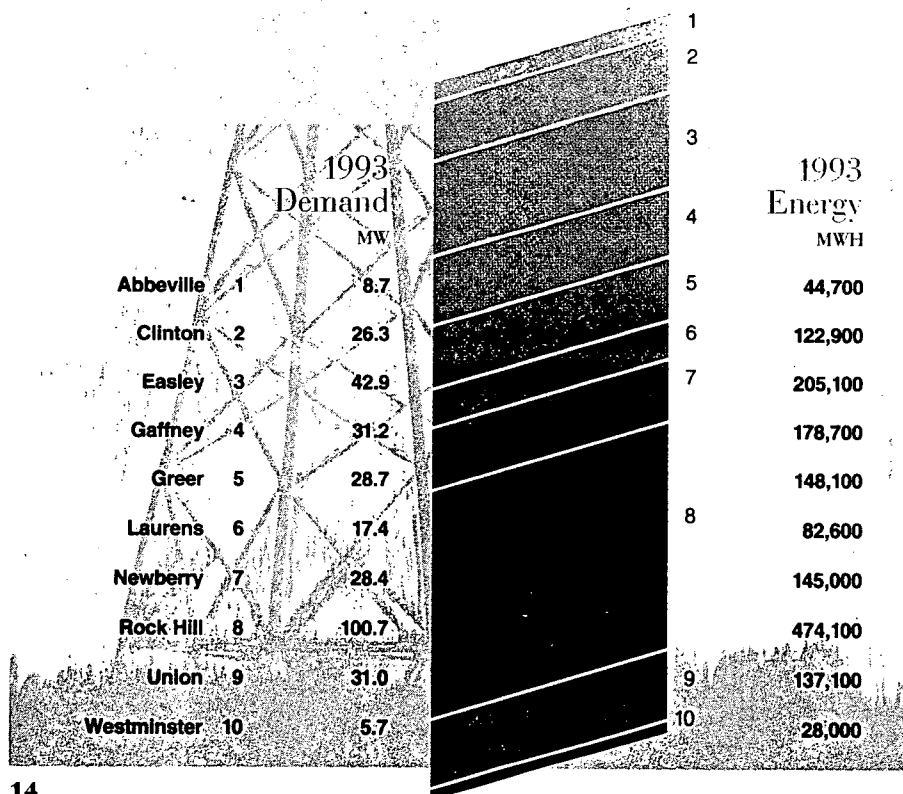
Energy usage and demand were up in 1993 — usage increased by approximately 80,000 MWH and demand rose 29 MW. Much of the increase is due to extreme temperature in the summer months and PMPA hit an all time record high demand of 321 MW, not including power supplied to members by the Southeastern Power Association (SEPA), in July.

| Year | Peak Demand | Peak Energy |
|------|-------------|---------------|
| 1992 | 291.8 MW | 1,487,300 MWH |
| 1993 | 321.0 MW | 1,566,300 MWH |

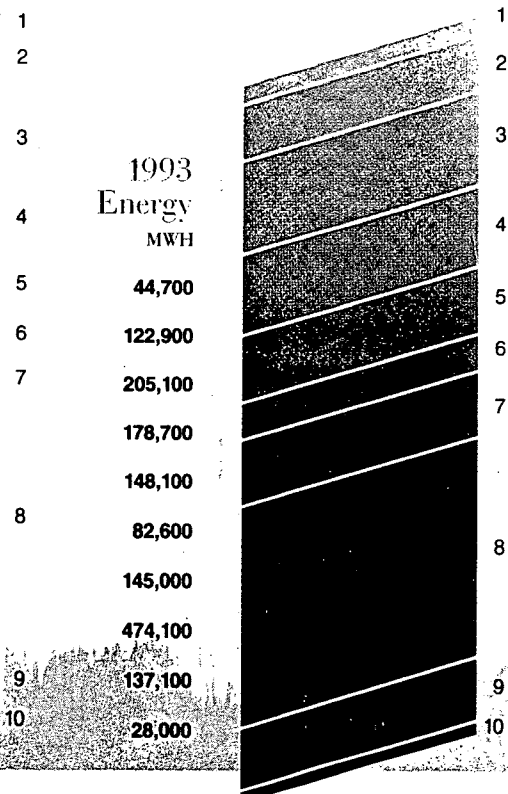
the year 2001. Since we began operating PowerPartners we have initiated control during the monthly peak six out of seven months, including the yearly peak on July 29. This year we also began offering a second peak shaving program that establishes credits to members who, through load side generation, reduce their individual demand peaks. During the third quarter PMPA implemented a Load-Side Generation Accounting System to calculate the credits due to members and began the process of including those credits in monthly bills.

The Catawba Nuclear Facility operated above expectations this year. The station achieved an overall 79.59% net capacity factor, 3.5% higher than its target for the year. More information about plant operations is presented in the Operations Report.

Electric rates are always a controversial subject, and in 1993, during PMPA's yearly rate analysis, the agency decided an increase was needed to maintain a balance between



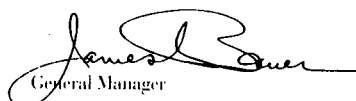
1993 Energy MWH



revenue needs and competitive requirements. The 5.2% increase in the agency's wholesale rate will go into effect in May of 1994 and will help meet inflationary pressures and replace revenues currently obtained from power sales to other utilities. In 1993 no increase was implemented and the modest increase approved for next year is consistent with the long range load growth projections and forecasted changes in the agency's economic condition. In other rate decisions, the board of directors approved a leveled billing plan that will be offered to members on a voluntary basis and implemented in May of 1994. The intent of this plan is to minimize the cash flow impacts of PMPA's bills allowing the members to make better use of their cash resources.

On the financial front, 1993 saw PMPA's finance team refund a series of bonds, including two original Electric Revenue Bonds, with a face value of \$129,190,000 and bearing interest rates between 7.0% and 7.35%. The refunding bonds have a face value of \$142,525,000 and bear interest rates between 4.90% and 5.6%. The refunding provided a net debt service present value savings of \$9.3 million. As usual we continue to study the market and examine tools to diminish the overall cost of capital versus the risk of investment.

PMPA has met the challenges of 1993 and is positioned to lead its members into 1994 and beyond. We are excited about the opportunities the future holds and together with our members we will continue working to assure that our management, programs, and services continue to adapt to the changing utility industry.


General Manager


Chairman of the Board of Directors

During the year, the cost of maintaining the PMPA offices was \$147,000 (or 6.5%) below the approved 1993 budget. One employee was added to the staff bringing the total to 10 full time and 2 part time employees. The agency earned a total of \$38,414,000 in interest on investments with a 7.55% rate of return. In 1993 PMPA sold a series of refunding bonds with a face value of \$142,525,000 and bearing interest between 4.9% and 5.6%. This refunding represents a net debt service present value savings of \$9.3 million.

Bonds Outstanding

(in thousands)
December 31, 1993

Portfolio Statistics

(dollars in thousands)

| Earnings | Income | Rate of Return |
|---------------|------------|-----------------------------|
| 1993..... | \$ 38,414 | 7.55% |
| 1992 | \$ 41,488 | 7.94% |
| Market Value* | Value | Years (average maturity) |
| 1993..... | \$ 509,670 | 4.40% |
| 1992 | \$ 500,083 | 4.94% |

| Transactions | Number | Amount |
|--------------|--------|------------|
| 1993..... | 331 | \$ 442,032 |
| 1992 | 403 | \$ 720,098 |

*Includes accrued interest.

Debt Outstanding

(dollars in thousands) Weighted Average
Interest Cost

| | | |
|-------------------------|--------------|-------|
| December 31, 1993..... | \$ 1,370,470 | 7.11% |
| December 31, 1992 | \$ 1,358,700 | 8.26% |

Bond Reconciliation

Bonds

| | |
|----------------------------------|--------------|
| Outstanding 12/31/92 | \$ 1,358,700 |
| Issued | |
| Series 1993 | 142,525 |
| Matured 1/1/93 | 1,565 |
| Refunded | 129,190 |
| Bonds Outstanding 12/31/93 | \$ 1,370,470 |

OPERATIONS REPORT

Financial

| | |
|--------------------|-------|
| 1993 Series | \$14 |
| 1992 Series | \$23 |
| 1991A Series | \$19 |
| 1991 Series | \$21 |
| 1988A Series | \$11 |
| 1988 Series | \$2 |
| 1986A Series | \$363 |
| 1986 Series | \$76 |

KPMG Peat Marwick

Certified Public Accountants

One Insignia Financial Plaza, Suite 600
P.O. Box 10529
Greenville, SC 29603

The Board of Directors

Piedmont Municipal Power Agency:

We have audited the accompanying balance sheets of Piedmont Municipal Power Agency as of December 31, 1993 and 1992, and the related statements of revenues and expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Piedmont Municipal Power Agency as of December 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick

March 22, 1994

December 31, 1993 and 1992

Independent Auditors' Report

December 31, 1993 and 1992

Balance Sheets

| (Dollars in thousands) | 1993 | 1992 |
|--|----------------------------|----------------------------|
| Assets | | |
| Utility plant: | | |
| Electric plant in service (note 4) | \$ 546,467 | \$ 546,493 |
| Nuclear fuel (note 4) | 49,742 | 39,318 |
| Construction work-in-progress | 5,749 | 3,952 |
| | <u>601,958</u> | <u>589,763</u> |
| Less accumulated depreciation and amortization (note 4) | (168,609) | (142,020) |
| Net utility plant | <u>433,349</u> | <u>447,743</u> |
| Restricted funds (note 5) | <u>177,984</u> | <u>171,839</u> |
| Revenue fund assets (note 6): | | |
| Cash | 7,984 | 7,505 |
| Marketable debt securities | 269,227 | 275,431 |
| Accrued interest receivable | 24,065 | 19,840 |
| Due from restricted funds | 1,326 | 1,681 |
| Participant accounts receivable | 5,788 | 5,482 |
| Other accounts receivable | 5,393 | 3,308 |
| Materials and supplies | 5,283 | 2,603 |
| Prepaid expenses | - | 8 |
| Total revenue fund assets | <u>319,066</u> | <u>315,858</u> |
| Deferred charges: | | |
| Unamortized debt issuance costs | 22,336 | 23,547 |
| Net deferred expenses to be recovered from future revenues (note 7) | 211,989 | 186,468 |
| Excess costs on advance refundings of debt | 213,325 | 186,421 |
| Other | 3,922 | 4,111 |
| | <u>451,572</u> | <u>400,547</u> |
| | <u>\$ 1,381,971</u> | <u>\$ 1,335,987</u> |
| Liabilities and Retained Earnings | | |
| Long-term debt (notes 8 and 9): | | |
| Bonds | \$ 1,370,470 | \$ 1,358,701 |
| Unamortized discounts | (69,881) | (93,425) |
| | <u>1,300,589</u> | <u>1,265,276</u> |
| Restricted fund liabilities: | | |
| Accrued interest payable | 53,597 | 45,584 |
| Reserve for decommissioning (note 10) | 10,079 | 7,761 |
| Deferred compensation (note 11) | 259 | 407 |
| | <u>63,935</u> | <u>53,752</u> |
| Revenue fund liabilities—accounts payable | <u>4,985</u> | <u>4,778</u> |
| Retained earnings | <u>12,462</u> | <u>12,181</u> |
| | <u>\$ 1,381,971</u> | <u>\$ 1,335,987</u> |

See accompanying notes to financial statements.

| (Dollars in thousands) | 1993 | 1992 |
|--|------------------|------------------|
| Operating revenues: | | |
| Sales of electricity to participants | \$ 78,884 | \$ 72,652 |
| Sales of electricity to other utility | 76,746 | 81,608 |
| Total operating revenues | 155,630 | 154,260 |
| Operating expenses: | | |
| Nuclear fuel amortization | 9,083 | 9,110 |
| Purchased power | 41,110 | 49,777 |
| Operation and maintenance | 33,018 | 35,859 |
| Transmission | 4,822 | 4,747 |
| Distribution | 2,061 | 46 |
| Administrative and general | 2,194 | 2,130 |
| Depreciation | 17,518 | 18,245 |
| Decommissioning | 2,318 | 2,158 |
| Payments in lieu of property taxes | 4,378 | 4,114 |
| Total operating expenses | 116,502 | 126,186 |
| Net operating income | 39,128 | 28,074 |
| Other income (expense): | | |
| Interest income | 38,414 | 42,036 |
| Interest expense and letter of credit fees | (87,064) | (82,141) |
| Variable rate demand obligation remarketing fees | - | (275) |
| Amortization expense | (13,735) | (12,997) |
| Other | (1,983) | 603 |
| Total other income (expense) | (64,368) | (52,774) |
| Revenues over (under) expenses before deferred items | (25,240) | (24,700) |
| Deferred items to be recovered from future revenues, net (note 7) | 25,521 | 23,969 |
| Revenues over (under) expenses | 281 | (731) |
| Retained earnings at beginning of year | 12,181 | 12,912 |
| Retained earnings at end of year | \$ 12,462 | \$ 12,181 |

See accompanying notes to financial statements.

Years ended
December 31, 1993 and 1992

**Statements
of
Revenues and
Expenses and
Changes in
Retained Earnings**

Years ended
December 31, 1993 and 1992

Statements of Cash Flows

| (Dollars in thousands) | 1993 | 1992 |
|---|-----------------|-----------------|
| Cash flows from operating activities: | | |
| Revenues over (under) expenses | \$ 281 | \$ (731) |
| Adjustments to reconcile revenues over (under) expenses to net cash provided by operating activities: | | |
| Depreciation and amortization | 40,336 | 40,352 |
| Net deferred expenses to be recovered from future revenue | (25,521) | (23,969) |
| Reserve for decommissioning | 2,318 | 2,158 |
| Decrease (increase) in: | | |
| Participant accounts receivable | (306) | (184) |
| Other accounts receivable | (2,085) | 364 |
| Accrued interest receivable | (4,927) | (3,969) |
| Materials and supplies | 72 | 675 |
| Prepaid expenses | 8 | (8) |
| Increase (decrease) in: | | |
| Deferred compensation | (148) | 36 |
| Accounts payable | 207 | 815 |
| Accrued interest payable | 8,013 | 5,659 |
| Net cash provided by operating activities | 18,248 | 21,198 |
| Cash flows from investing activities: | | |
| Purchase of investment securities | (387,088) | (548,306) |
| Proceeds from sales and maturities of investment securities | 388,056 | 547,208 |
| Expenditures for electric plant in service | (4,534) | (2,529) |
| Expenditures for nuclear fuel | (10,424) | (5,376) |
| Net cash used in investing activities | (13,990) | (9,003) |
| Cash flows from financing activities: | | |
| Payment of bond principal | (1,565) | (1,010) |
| Proceeds from issuance of new debt, net of discounts of \$3,494 and \$3,875 for 1993 and 1992, respectively | 139,030 | 234,055 |
| Refunding of bonds | (129,190) | (240,800) |
| Defeasance losses, net of unamortized debt issuance costs of \$2,902 and unamortized discounts of \$24,034 | (9,378) | - |
| Debt issuance costs | (2,824) | (4,308) |
| Net cash used in financing activities | (3,927) | (12,063) |
| Net increase in cash | 331 | 132 |
| Cash at beginning of year | 7,912 | 7,780 |
| Cash at end of year | \$ 8,243 | \$ 7,912 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | 79,799 | 77,173 |
| Material reclassified from Utility Plant to Inventory | \$ 2,752 | - |

See accompanying notes to financial statements.

(1) Description of the Entity

Piedmont Municipal Power Agency (Agency) was incorporated in 1979 under the South Carolina Joint Municipal Electric Power and Energy Act. The Act, adopted April 1978, enabled the formation, by South Carolina municipalities and municipal commissions of public works, of a joint agency to plan, finance, develop, own and operate electric generation and transmission facilities. Ten municipal utility systems (Participants) comprise the Agency's membership.

The Agency and Duke Power Company (Duke) are parties to agreements giving the Agency a 25% undivided ownership interest in Catawba Nuclear Station Unit 2 (Project). Duke is the operating owner of the Project. The Agency's Project power output entitlements (approximately 286 MW) come from Catawba Nuclear Station Units 1 and 2; subject to the terms of certain Exchange Agreements under which the Agency pays 12.5% of the costs and receives 12.5% of the power output associated with each of these 1,145 MW units. The operating licenses for Catawba Unit 1 and Unit 2 expire on December 6, 2024 and February 24, 2026, respectively.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Agency's accounting records are maintained on an accrual basis in conformity with generally accepted accounting principles and substantially in conformity with the Federal Energy Regulatory Commission's Uniform System of Accounts.

The Agency's General Bond Resolution requires that its rate structure design produce revenues sufficient to pay operating, debt service and other specified costs. The application of a given rate structure to a given period's electricity sales may produce revenues not intended to pay that period's costs, and conversely, that period's costs may not be intended to be recovered in period revenues. The affected revenues and/or costs are, in such cases, deferred for future recognition. The ultimate recognition of deferred items is correlated with specific future events; primarily payment of debt principal.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs at December 31, 1993 and 1992 of \$22,336 and \$23,547, respectively, (net of accumulated amortization of \$11,168 and \$10,034, respectively) are being amortized on the bonds outstanding method.

Excess Costs on Advance Refundings of Debt

Excess costs on advance refundings of debt at December 31, 1993 and 1992 of \$213,325 and \$186,421, respectively, (net of accumulated amortization of \$52,018 and \$42,602, respectively) are being amortized on the bonds outstanding method.

Organization Costs

Organization costs at December 31, 1993 and 1992 of \$902 and \$931, respectively, (net of accumulated amortization of \$265 and \$236, respectively) are being amortized on the straight-line method over 40 years.

Discounts on Bonds Payable

The discounts on bonds payable at December 31, 1993 and 1992 of \$69,881 and \$93,425, respectively, (net of accumulated amortization of \$20,584 and \$17,580, respectively) are being amortized on the bonds outstanding method.

Income Taxes

The Agency is exempt from Federal income taxes under Internal Revenue Code Section 115. South Carolina has adopted Section 115 by reference; therefore, the Agency is also exempt from state income taxes.

Cash Flows

For purposes of the statements of cash flows, the Agency considers interest-bearing deposits with banks and Duke to be cash.

Marketable Debt Securities

As authorized by the bond resolution, investments in marketable debt securities include only direct obligations of the United States government, obligations of United States government agencies and general obligations of the State of South Carolina. These investments are uninsured and unregistered and held by the Agency's trustees or by the Agency, as trustee.

Depreciation Expense

Electric plant in service, including unclassified assets, is depreciated on a straight-line basis at rates calculated to amortize the composite assets over their respective estimated useful lives. Depreciation begins when assets are placed into service.

(3) Project Power Sales Agreements

Catawba Project Power Sales Agreements

The Agency and each Participant are parties to Catawba Project Power Sales Agreements (Sales Agreements). These Sales Agreements oblige the Agency to provide each Participant a share of Project power output and, in turn, each Participant must pay its share of Project costs. Participants make their payments on a "take-or-pay" basis whether or not the Project is operable or operating. Such payments are not subject to reduction or offset and are not conditioned upon performance by the Agency or any given Participant. The Sales Agreements are in effect until the earlier of August 1, 2035, or the completion of payments on the bonds and satisfaction of obligations under the Project agreements.

The Participants' Shares of Catawba Project Output are as follows:

| | |
|---------------------|----------|
| City of Abbeville | 2.68 % |
| City of Clinton | 7.84 |
| City of Easley | 13.24 |
| City of Gaffney | 10.05 |
| City of Greer | 9.34 |
| City of Laurens | 6.49 |
| City of Newberry | 10.47 |
| City of Rock Hill | 28.04 |
| City of Union | 10.01 |
| City of Westminster | 1.84 |
| | <hr/> |
| | 100.00 % |

Supplemental Power Sales Agreements

The Agency and each Participant are also parties to Supplemental Power Sales Agreements (Supplemental Agreements) under which each Participant has agreed to pay, in exchange for supplemental bulk power supply, its share of supplemental bulk power supply costs. A Participant may terminate its Supplemental Agreement with ten years advance notice.

Interconnection Agreement

This agreement, between the Agency and Duke, provides for the interchange of power supply and power supply services. It also defines a fifteen year arrangement whereby the Agency sells a portion of its Project power output entitlement to Duke and, in turn,

(Dollars in thousands)

Notes
to
Financial Statements

(Dollars in thousands)

Notes to Financial Statements

(3) Project Power Sales Agreements, *continued*
purchases a similar quantity of power from Duke. These sales and purchases commenced upon commercial operation of each Catawba Unit and decrease annually over the contract term. The Agency may, with notice, decrease but not increase these sales. Sales to Duke reduce the like amount of power the Agency purchases until, upon expiration of the contract, the Agency retains its full Project power output entitlement and no longer purchases the equivalent amount of power from Duke. From July 1985 until January 1987, the Agency sold Duke 138.36 MW (96.7%) of its Project power output entitlement from Unit 1. From August 1986 until January 1988, the Agency also sold Duke 138.36 MW (96.7%) of its Project power output entitlement from Unit 2. Subsequent to January 1987 for Unit 1 and January 1988 for Unit 2 the Agency's Project power output entitlement sold to Duke has decreased approximately 4.75 MW per year per Unit. Similar annual reductions continue through 1994 for Unit 1 and 1995 for Unit 2.

On January 1, 1995 the Agency's Unit 1 Project power output entitlement sale to Duke decreases approximately 76 MW (from 100.19 MW to 23.86 MW), and beginning January 1, 1996 such sale again diminishes approximately 4.75 MW per year until January 1, 2000 when the Agency retains 100% of its Unit 1 Project power output entitlement. On January 1, 1996 the Agency's Unit 2 Project power output entitlement sale to Duke will likewise decrease approximately 76 MW (from 100.19 MW to 23.86 MW) and beginning January 1, 1997 such sale again diminishes approximately 4.75 MW per year until January 1, 2001 when the Agency will retain 100% of its Unit 2 Project power output entitlement.

From 1985 through 1993 revenues from participants have substantially exceeded costs. Such excess revenues have been set aside in a rate stabilization account. Beginning in 1995, as revenues from sales to Duke diminish in accordance with provisions of the Interconnection Agreement, rate stabilization funds will be utilized, in a scheduled manner, to minimize rate increases and maximize a competitive rate position.

(4) Utility Plant

Original costs of major classes of the Agency's electric plant in service at December 31, 1993 and 1992 are as follows:

| | 1993 | 1992 |
|-------------------------------|-------------------|-------------------|
| Land | \$ 336 | \$ 336 |
| Structures and improvements | 156,619 | 157,475 |
| Reactor plant equipment | 247,032 | 248,216 |
| Turbo generator units | 68,762 | 69,062 |
| Accessory electric equipment | 50,593 | 50,831 |
| Miscellaneous plant equipment | 11,709 | 11,613 |
| Station equipment | 5,187 | 4,857 |
| Other | 1,203 | 1,191 |
| Unclassified | 5,026 | 2,912 |
| | <u>\$ 546,467</u> | <u>\$ 546,493</u> |

Unclassified assets are in service but not yet classified to specific plant accounts.

Nuclear fuel at December 31, 1993 and 1992 of \$49,742 and \$39,318, respectively, represents costs associated with acquiring and processing reload fuel assemblies as well as the cost of nuclear fuel in the reactor. Nuclear fuel is amortized based on burn rates using a unit of production basis. The Agency regularly

removes fully amortized nuclear fuel costs from its books; when fuel batches are replaced during core refueling operations. There were no costs removed in 1993 and \$4,180 removed during the year ended December 31, 1992.

A summary of accumulated depreciation and amortization at December 31, 1993 and 1992 follows:

| | 1993 | 1992 |
|--|-------------------|-------------------|
| Accumulated depreciation— electric plant in service | \$ 141,046 | \$ 123,540 |
| Accumulated amortization of nuclear fuel | 27,563 | 18,480 |
| | <u>\$ 168,609</u> | <u>\$ 142,020</u> |

(5) Restricted Funds

The General Bond Resolution, Project agreements, and Agency policies restrict the use of bond proceeds, Agency revenues, and Agency funds on hand. Certain restrictions define the order in which available funds may be used to pay costs; other restrictions require minimum balances or accumulation of balances for specific purposes. At December 31, 1993 and 1992, the Agency was in compliance with all such restrictions and held the following restricted assets, stated at cost or amortized cost, which approximates market:

| | 1993 | 1992 |
|---------------------------------------|-------------------|-------------------|
| Construction | \$ — | \$ 2,097 |
| Debt service—bond principal | 1,655 | 1,565 |
| Debt service—bond fixed rate interest | 44,295 | 38,240 |
| Debt service—bond retirement | 1,936 | — |
| Debt service reserve | 95,236 | 97,060 |
| Reserve and contingency | 9,524 | 9,706 |
| Decommissioning | 10,079 | 7,761 |
| Special reserve | 15,000 | 15,000 |
| Deferred compensation | 259 | 407 |
| | <u>\$ 177,984</u> | <u>\$ 171,839</u> |
| Funds are comprised of: | | |
| Cash equivalents | \$ 259 | \$ 407 |
| Marketable debt securities | 175,050 | 169,814 |
| Accrued interest receivable | 4,001 | 3,299 |
| Due to revenue fund | (1,326) | (1,681) |
| | <u>\$ 177,984</u> | <u>\$ 171,839</u> |

(6) Revenue Fund Assets and Liabilities

Revenue fund assets and liabilities are used in the Agency's day-to-day operations. The assets, stated at cost, are allocated for the following purposes:

| | 1993 | 1992 |
|--------------------|-------------------|-------------------|
| Working capital | \$ 46,009 | \$ 42,791 |
| Fuel acquisition | 22,032 | 23,374 |
| Rate stabilization | 251,025 | 249,693 |
| | <u>\$ 319,066</u> | <u>\$ 315,858</u> |

Liabilities of \$4,985 and \$4,778 at December 31, 1993 and 1992, respectively, will be paid out of working capital assets.

(7) Net Deferred Expenses to be Recovered from Future Revenues

As described in note 2, rates charged to Participants are structured to systematically provide for debt requirements and operating costs of the Agency. Those expenses and revenues excluded from rates are deferred to such periods as they are intended to be included in rates.

(7) Net Deferred Expenses to be Recovered from Future Revenues, *continued*

The following deferred expenses will be recognized in future periods when rates charged to Participants produce revenues sufficient to retire the debt which funded those costs:

- Interest expense on the Agency's bonds and variable rate demand obligations along with associated letter-of-credit, banking and re-marketing fees (except interest and fees related to Capital Appreciation Bonds) paid from bond proceeds during a defined "Construction Period," (net of income earned on the temporary investment of those bond proceeds);
- Interest expense on Capital Appreciation Bonds accrued but not paid until maturity;
- Amortization of debt issuance expenses, bond discounts, defeasance losses, redemption losses, and organization costs paid from or included in bond proceeds;
- Depreciation on utility plant constructed with bond proceeds and amortization of nuclear fuel acquired with bond proceeds; and
- Certain other project costs paid from bond proceeds.

The Agency has also deferred Participant revenues which, during the Construction Period, were established at levels to cover Project costs not paid from bond proceeds, as well as scheduled deposits to a Rate Stabilization account. The revenue associated with those scheduled deposits and the interest income thereon will be recognized when those funds are drawn upon to pay Project costs. Also, certain settlement revenues and excess revenues in certain funds have been transferred to the Rate Stabilization account and have been deferred for recognition until the time the funds are applied to the payment of Project costs.

(7) Net Deferred Expenses to be Recovered from Future Revenues, *continued*

Net deferred expenses to be recovered from future revenues include the following:

| | 1993 (Cumulative totals) | 1992 | Change |
|--|-----------------------------|-------------------|------------------|
| Items to be recovered in future Participant billings: | | | |
| Interest expense | \$ 319,747 | \$ 317,789 | \$ 1,958 |
| Depreciation expense | 142,006 | 124,672 | 17,334 |
| Amortization of redemption and defeasance losses | 51,882 | 42,313 | 9,569 |
| Amortization of bond discounts and debt issuance costs | 32,916 | 28,780 | 4,136 |
| Nuclear fuel expenses | 873 | 873 | - |
| Letter of credit fees | 5,649 | 5,649 | - |
| Other | 2,356 | 2,130 | 226 |
| | <u>555,429</u> | <u>522,206</u> | <u>33,223</u> |
| Items reducing future Participants billings: | | | |
| Investment income | (76,528) | (76,462) | (66) |
| Rate stabilization (revenue received to reduce future billings to Participants) | (351,961) | (328,286) | (23,675) |
| Reserve and contingency deposits | (10,866) | (6,056) | (4,810) |
| | <u>(439,355)</u> | <u>(410,804)</u> | <u>(28,551)</u> |
| Deferred revenues (expenses) recognized: | | | |
| Deferred interest, depreciation, amortization expense included in Participant billings for debt principal payments | (5,515) | (3,860) | (1,655) |
| Rate stabilization draws applied to expenses | 100,936 | 78,593 | 22,343 |
| Reserve and contingency revenue applied to expenses | 494 | 333 | 161 |
| | <u>95,915</u> | <u>75,066</u> | <u>20,849</u> |
| Net deferred expenses to be recovered from future revenues | <u>\$ 211,989</u> | <u>\$ 186,468</u> | <u>\$ 25,521</u> |

Additionally, the Agency's General Bond Resolution requires Participant revenues to be established at levels sufficient to provide specified deposits into a Reserve and Contingency fund. Monies in that fund are used for the construction or acquisition of utility plant. The recognition of such revenues is deferred until such time as the depreciation is recorded on the assets constructed or acquired with those monies.

(8) Long-term Debt

The bonds are special obligations of the Agency and are secured by future revenue and pledged monies and securities as provided by the bond resolution.

The bonds generally provide for early redemption during the first ten years after issuance at prices ranging from 101.5% to 103% of the bond principal amounts. The Agency has advance refunded certain bond issues as described in note 9.

The following is a summary of the aggregate annual principal maturities and sinking fund requirements for the bonds outstanding at December 31, 1993:

| | | | |
|------------|----------|------------|-----------|
| 1994 | \$ 1,655 | 2010 | \$ 33,308 |
| 1995 | 2,640 | 2011 | 34,970 |
| 1996 | 9,350 | 2012 | 36,724 |
| 1997 | 14,850 | 2013 | 36,485 |
| 1998 | 16,005 | 2014 | 50,362 |
| 1999 | 16,385 | 2015 | 54,830 |
| 2000 | 13,610 | 2016 | 59,115 |
| 2001 | 11,850 | 2017 | 63,815 |
| 2002 | 24,335 | 2018 | 67,870 |
| 2003 | 25,740 | 2019 | 70,555 |
| 2004 | 26,190 | 2020 | 78,995 |
| 2005 | 28,660 | 2021 | 84,335 |
| 2006 | 30,448 | 2022 | 89,870 |
| 2007 | 37,092 | 2023 | 92,520 |
| 2008 | 30,393 | 2024 | 100,380 |
| 2009 | 31,855 | 2025 | 95,280 |

(Dollars in thousands)

Notes to Financial Statements

(8) Long-term Debt, *continued*

Long-term debt at December 31, 1993 and 1992 consists of the following:

| | 1993 | 1992 |
|---|---------------------|---------------------|
| 1984 Series Electric Revenue Bonds, payable during 2013 with interest at 7% | \$ — | \$ 57,805 |
| 1985 Refunding Series Electric Revenue Bonds, payable during 2025 with interest at 7% | — | 54,810 |
| 1986 Refunding Series Electric Revenue Bonds, payable annually from 1996 to 2025 with interest ranging from 5% to 8% | 76,650 | 76,650 |
| 1986A Refunding Series Electric Revenue Bonds, payable annually from 2013 to 2024 with interest ranging from 5.75% to 7.25% | 363,735 | 363,735 |
| 1988 Refunding Series Electric Revenue Bonds, payable annually from 1992 to 2018 with interest ranging from 5.7% to 7.75% | 24,776 | 42,917 |
| 1988A Refunding Series Electric Revenue Bonds, payable annually from 1998 to 2019 with interest ranging from 6.7% to 7.65% | 114,704 | 114,704 |
| 1991 Refunding Series Electric Revenue Bonds, payable annually from 2007 to 2023 with interest ranging from 4% to 6.85% | 213,550 | 213,550 |
| 1991A Refunding Series Electric Revenue Bonds, payable annually from 1998 to 2018 with interest ranging from 5% to 6.5% | 196,600 | 196,600 |
| 1992 Refunding Series Electric Revenue Bonds, payable annually from 1995 to 2025 with interest ranging from 4.2% to 6.375% | 237,930 | 237,930 |
| 1993 Refunding Series Electric Revenue Bonds, payable annually from 2000 to 2025 with interest ranging from 4.9% to 5.6% | 142,525 | — |
| Total long-term debt | 1,370,470 | 1,358,701 |
| Less unamortized discount | (69,881) | (93,425) |
| | \$ 1,300,589 | \$ 1,265,276 |

(Dollars in thousands)

Notes to Financial Statements

(9) In-Substance Debt Defeasance

During the period December 1985 through November 1988, the Agency purchased \$1,318,777 of U.S. Government Securities and deposited them in irrevocable trusts for the advance refunding of certain outstanding bonds. The principal and interest from these securities will be used solely to redeem the following Electric Revenue Bonds, Series 1984: \$470,000; Series 1985: \$312,160, and 1985 Refunding Series: \$387,620. The bonds will be redeemed on January 1, 1995 and 1996 (the first optional redemption dates) at the redemption price of 103% of their aggregate principal amount. These transactions resulted in losses totaling \$197,640 which have been deferred as excess costs on advance refundings of debt.

In January 1991, the Agency purchased \$190,102 of U.S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely to advance refund the outstanding \$178,090 of Electric Revenue Bonds, 1986 Refunding Series, maturing January 1, 2023 and bearing interest at 8%. The Bonds will be redeemed on January 1, 1996 (the first optional redemption date) at the redemption price of 101 1/2% of their aggregate principal amount. This defeasance resulted in a loss of \$12,776 which has been deferred as excess costs on advance refundings of debt.

In November 1991, the Agency purchased \$191,984 of U.S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely to redeem on January 1, 1995, at a redemption price of 100% of principal amount, the \$25,940 outstanding principal amount of its Electric Revenue Bonds, Series 1985, maturing on January 1, 2016 and bearing interest at 7.5%, on January 1, 1996, at a redemption price of 101 1/2% of principal amount, the \$71,605 aggregate outstanding principal amount of its Electric Revenue Bonds, 1986 Refunding Series, maturing on January 1 in each of the years 1998, 1999, 2000 and 2006 and bearing interest at the rate of 7.6%, 7.7%, 7.75% and 7.875%, respectively, and on January 1, 1998, at redemption price of

102% of principal amount, the \$79,290 aggregate outstanding principal amount of its Electric Revenue Bonds, 1988 Refunding Series, maturing on January 1, 2007, and January 1, 2018, and bearing interest at 7.5% and 7.6%, respectively. This defeasance resulted in a loss of \$18,613 which has been deferred as excess costs on advance refundings of debt.

In May 1993, the Agency purchased \$141,594 of U.S. Government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely to redeem on January 1, 1995, at a redemption price of 100% of principal amount, the \$57,805 outstanding principal amount of its Electric Revenue Bonds, Series 1984, maturing on January 1, 2013 and bearing interest at 7.0%, on January 1, 1996, at a redemption price of 100% of principal amount, the \$54,810 outstanding principal amount of its Electric Revenue Bonds, 1985 Refunding Series, maturing on January 1, 2025 and bearing interest at 7.0%, and on January 1, 1998, at a redemption price of 102% of principal amount, the \$16,575 aggregate outstanding principal amount of its Electric Revenue Bonds, 1988 Refunding Series, maturing on January 1, in each of the years 1999, 2000, 2001, 2002 and 2003 and bearing interest at the rates of 7.0%, 7.1%, 7.2%, 7.3% and 7.35%, respectively. This defeasance resulted in a loss of \$36,314 which has been deferred as excess costs on advance refundings of debt.

Each of the above transactions qualifies as an in-substance debt defeasance; therefore, the government securities and applicable defeased bond issues are not recorded on the balance sheet. The Agency defeased the debt primarily to reduce debt service, thereby postponing or reducing future electric rate adjustments.

(10) Reserve for Decommissioning

The Agency and other Catawba Nuclear Station owners are in compliance with Nuclear Regulatory Commission requirements for funding future decommissioning costs. Since 1985, the Agency has been making regular deposits to segregated decommissioning accounts. Deposits pertaining to contaminated portions of the

(10) Reserve for Decommissioning, *continued*
Project are held by a Trustee. The Agency has custody of funds set aside to decommission non-contaminated portions of the Project. The Agency's share of decommissioning costs, based on current price levels, is estimated to be \$60,295. This estimate presumes the Catawba Nuclear Station will be decommissioned as soon as possible following the end of its useful life. The estimate, which is adjusted periodically to reflect changing price levels, interest rates and technology, is based upon the NRC's 1985 minimum funding requirement escalated for inflation over the period until decommissioning occurs and discounted at the agency's investment earning rate. The next estimate adjustment will occur during 1995.

(11) Employee Benefit Plans

The Agency maintains a defined contribution money purchase plan in compliance with Section 401(a) of the Internal Revenue Code. On behalf of all full-time employees, the Agency contributes 10% of base salary into the money purchase plan. Agency contributions totaled \$60 and \$48 in 1993 and 1992, respectively. Employee contributions may also be made to the Plan, providing combined employer and employee annual contributions do not exceed 25% of taxable income, or \$30, whichever is less.

Assets of the money purchase plan are held by ICMA Retirement Corporation, administrator and trustee, for the Agency for the exclusive benefit of the employees.

The Agency also maintains a deferred compensation plan under Section 457 of the Internal Revenue Code. From time to time, on behalf of selected employees, the Agency contributes to the deferred compensation plan. Agency contributions totaled \$5 in 1993 and \$8 in 1992, respectively. Employee contributions may also be made to the deferred compensation plan providing combined employer and employee annual contributions do not exceed 25% of taxable income or \$7.5, whichever is less.

Assets of the deferred compensation plan are held by ICMA Retirement Corporation, administrator and trustee. The Agency is the beneficial owner of the assets held in this plan.

(12) Disclosures Regarding Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, Disclosure About Fair Value of Financial Instruments (Statement 107), issued in December 1991 and effective beginning with the Company's 1992 financial statements, requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, prepayments, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may or may not be realized in an immediate sale of the instrument.

Under Statement 107, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of the assets and liabilities that are not financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Agency.

The following describes the methods and assumptions used by the Agency in determining carrying value and estimated fair value of financial instruments:

(a) Cash

Carrying value equals estimated fair value.

(b) Marketable Debt Securities

Carrying value of marketable coupon debt securities includes par, unamortized premiums, unaccreted discounts, and accrued interest receivable. Carrying value of marketable zero-coupon debt securities includes original cost plus accreted discount.

Estimated fair value of all marketable debt securities is derived from quoted market prices and includes accrued interest receivable.

(c) Participant Accounts Receivable, and Other Accounts Receivable

Carrying amount approximates fair value due to the short-term nature of these instruments.

(d) Long-term Debt

Carrying value of long-term debt coupon securities includes par, unaccreted discounts, and accrued interest payable. Carrying value also includes Capital Appreciation Term Bonds valued at original price plus accreted discount.

Estimated fair value of all long-term marketable debt securities is derived from quoted market prices and includes accrued interest.

The estimated fair values of the Agency's financial instruments with carrying values different from their estimated fair values at December 31, 1993 are as follows:

| | Carrying Amount | Estimated Fair Value |
|--|---------------------|----------------------|
| Marketable debt securities: | | |
| Restricted Funds | \$ 179,051 | \$ 190,512 |
| Revenue Fund | 293,292 | 319,188 |
| | <u>\$ 472,343</u> | <u>\$ 509,700</u> |
| Long-term debt: | | |
| 1986 Electric Revenue Refunding Bonds | 63,869 | 76,990 |
| 1986A Electric Revenue Refunding Bonds | 359,275 | 393,817 |
| 1988 Electric Revenue Refunding Bonds | 11,844 | 12,446 |
| 1988 Electric Revenue Refunding Bonds | 20,638 | 29,689 |
| 1988A Electric Revenue Refunding Bonds | 112,535 | 127,703 |
| 1988A Electric Revenue Refunding Bonds | 6,254 | 8,382 |
| 1991 Electric Revenue Refunding Bonds | 198,976 | 229,860 |
| 1991A Electric Revenue Refunding Bonds | 194,381 | 216,675 |
| 1992 Electric Revenue Refunding Bonds | 241,534 | 262,628 |
| 1993 Electric Revenue Refunding Bonds | 144,880 | 149,558 |
| | <u>\$ 1,354,186</u> | <u>\$ 1,507,748</u> |

(Dollars in thousands)

Notes
to
Financial Statements

(Dollars in thousands)

Notes to Financial Statements

(13) Nuclear Insurance

Duke maintains nuclear insurance coverage in three areas: liability; property, decontamination and decommissioning; and extended accidental outage. Duke is being reimbursed by the other joint owners of the Catawba Nuclear Station for nuclear insurance premiums paid by Duke.

Pursuant to the Price-Anderson Act, Duke is required to insure against public liability claims resulting from nuclear incidents to the full liability of approximately \$9.4 billion. The maximum required private primary insurance of \$200 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently \$9.2 billion, which will be increased by \$75.5 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. The \$9.2 billion could also be reduced by \$75.5 million for certain nuclear reactors that are no longer operational and which may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages exceeding primary insurances. Licensees may be assessed up to \$75.5 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$75.5 million amount is subject to indexing for inflation. This amount is further subject to a surcharge of 5 percent (which is included in the above \$9.4 billion figure) if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the other joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of such assessment.

Duke is a member of Nuclear Mutual Limited (NML), which provides \$500 million in primary property damage coverage for each of Duke's nuclear facilities. If NML's losses ever exceed its reserves, Duke will be liable, on a pro rata basis, for additional assessments of up to \$42 million. This amount represents 5 times Duke's annual premium to NML.

Duke is also a member of Nuclear Electric Insurance Limited (NEIL) and purchases \$1.4 billion of insurance through NEIL's excess property, decontamination and decommissioning liability insurance program. If losses ever exceed the accumulated funds available to NEIL for the excess property, decontamination and decommissioning liability program, Duke will be liable, on a pro rata basis, for additional assessments of up to \$46 million. This amount is limited to 7.5 times Duke's annual premium to NEIL for excess property, decontamination and decommissioning liability insurance. The other joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba. Duke has also purchased an additional \$400 million of excess property damage insurance for its Oconee and McGuire plants and \$800 million for its Catawba plant through a pool of stock and mutual insurance companies.

Duke participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. Each unit of the Oconee, McGuire and Catawba Nuclear Stations is insured for up to approximately \$3.5 million per week, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved in an accidental

outage. Coverages continue at 100 percent for 52 weeks, and 67 percent for the next 104 weeks. If NEIL's losses for this program ever exceed its reserves, Duke will be liable, on a pro rata basis, for additional assessments of up to \$30 million. This amount represents 5 times Duke's annual premium to NEIL for insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The other joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to the joint ownership agreements.

(14) Contingencies

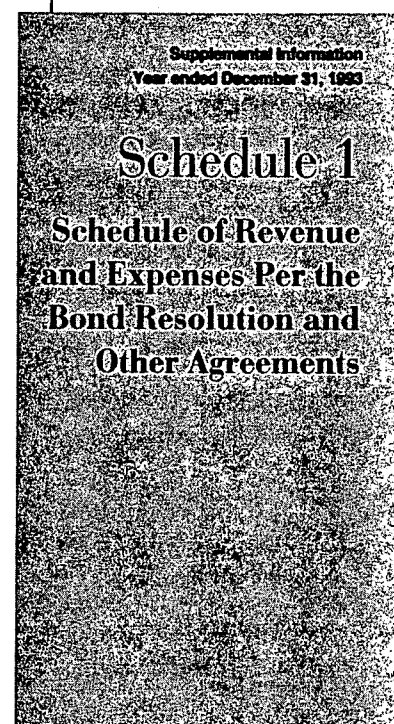
The Agency is routinely engaged in discussions and/or negotiations with Duke related to the appropriateness of charges made under the Project agreements. Such actions continued at December 31, 1993 with certain issues being the subject of continuing arbitration proceedings. The Agency cannot determine, at this time, whether those activities will produce any Project cost refunds. At December 31, 1993 the Agency has not recorded any benefit relating to unresolved issues. Management believes the value of any refunds, or liabilities resulting from these activities, would not materially effect the Agency's financial position.

Tubes in all eight steam generators at the Catawba Nuclear Station and those at the McGuire Nuclear Station have experienced stress corrosion cracking (SCC). Duke has compared the cost of ongoing steam generator tube repairs with the cost of early steam generator replacement and has determined for McGuire Units 1 and 2 and for Catawba Unit 1 that the most cost-effective alternative is to replace the steam generators. Replacement of the steam generators is scheduled during 1995 for McGuire Unit 1, 1996 for Catawba Unit 1 and 1997 for McGuire Unit 2. Catawba Unit 2 steam generator has not been scheduled for replacement. Each of these unit's steam generator replacements is expected to take approximately four months to complete and cost approximately \$150 million, excluding the cost of replacement power. With respect to replacement of the steam generator at Catawba Unit 1, PMPA will incur its 12.5% pro rata share of the capital cost associated with such replacement (\$18,750). This cost will be capitalized to electric plant in service and depreciated over the remaining useful life of the plant. PMPA has concurred with Duke that the replacements are needed and has authorized Duke to act as engineer and/or contractor.

(Dollars in thousands)

| | Actual Revenues and Expenses | Budgeted Revenues and Expenses | Actual Over (Under) Budget |
|---------------------------------------|---------------------------------------|---|-------------------------------------|
| Revenue: | | | |
| Sales of electricity to participants | \$ 78,884 | \$ 84,240 | \$ (5,356) |
| Sales of electricity to Duke | 76,746 | 77,746 | (1,000) |
| Interest income | 38,414 | 34,310 | 4,104 |
| Total revenue | \$ 194,044 | \$ 196,296 | \$ (2,252) |
| Expenses: | | | |
| Catawba operating expenses: | | | |
| Operation and maintenance | \$ 33,435 | \$ 34,295 | \$ (860) |
| McGuire reliability exchange | (417) | 133 | (550) |
| Nuclear fuel | 9,083 | 8,400 | 683 |
| Payments in lieu of taxes | 4,378 | 4,000 | 378 |
| Interconnection services: | | | |
| Purchased power: | | | |
| Duke | 32,882 | 42,512 | (9,630) |
| Participants | 8,228 | 6,165 | 2,063 |
| Transmission: | | | |
| Transmission services | 3,586 | 4,072 | (486) |
| Transmission facilities | 1,236 | 1,217 | 19 |
| Distribution services | 2,061 | - | 2,061 |
| Administrative and general: | | | |
| Agency | 2,109 | 2,254 | (145) |
| Duke | 85 | 84 | 1 |
| Other | 1,983 | - | 1,983 |
| Special funds deposits (withdrawals): | | | |
| Bond fund: | | | |
| Deposits from revenues | 86,762 | 87,804 | (1,042) |
| Deposits from construction funds | 1,936 | - | 1,936 |
| Refundings | (4,106) | - | (4,106) |
| Reserve and Contingency fund: | | | |
| Deposits from revenue | 8,676 | 8,784 | (108) |
| Capital additions | (4,809) | (2,820) | (1,989) |
| Transfer excess funds | (3,867) | (5,964) | 2,097 |
| Refundings | (182) | - | (182) |
| Decommissioning fund: | | | |
| Deposits from revenue | 1,619 | 1,619 | - |
| Interest income (1) | 699 | 687 | 12 |
| Construction fund: | | | |
| Interest income (1) | 65 | 72 | (7) |
| Bond retirement | (1,936) | - | (1,936) |
| Reimbursement from other funds | (226) | (144) | (82) |
| Revenue fund: | | | |
| Working capital | 3,011 | 167 | 2,844 |
| Fuel | (10,425) | (11,483) | 1,058 |
| Rate Stabilization: | | | |
| Interest income (1) | 23,675 | 19,788 | 3,887 |
| Net draws | (22,343) | (22,343) | - |
| Supplemental power reserve: | | | |
| Interest income (1) | 1,194 | 1,176 | 18 |
| Transfer excess funds | (1,194) | (1,176) | (18) |
| Other capital transactions: | | | |
| Plant additions: | | | |
| Reserve and Contingency fund | 4,809 | 2,820 | 1,989 |
| General plant | 23 | 50 | (27) |
| Transmission plant | (17) | 1,344 | (1,361) |
| Distribution plant | (281) | 1,300 | (1,581) |
| Fuel acquisitions | 10,425 | 11,483 | (1,058) |
| Reclassification | (2,752) | - | (2,752) |
| Bondings: | | | |
| Bond proceeds | (143,272) | - | (143,272) |
| Debt issuance costs | 6,610 | - | 6,610 |
| Bond payments | 141,301 | - | 141,301 |
| Total expenses | \$ 194,044 | \$ 196,296 | \$ (2,252) |

(1) Included in "Revenue: Interest Income."
See accompanying independent auditors' report.



Schedule 2: Schedule of Revenue and Expenses Per the Bond Resolution and Other Agreements

Municipal
Power
Agency


Year ended December 31, 1993
(Dollars in thousands)

| Agency | | | | | | | | |
|---|--------------------|--------------|---------------------------|-----------|-------------------------|--------------|--------------|--------------------|
| Funds | | | | | | | | |
| Revenue | | Operating | Bond | | Reserve and Contingency | Decommission | Construction | Supplemental Power |
| Working Capital | Rate Stabilization | Fuel Account | Principal Interest Retire | Reserve | | | | |
| \$ 42,791 (4,778) 38,013 | \$ 249,693 | \$ 23,374 | \$ 39,805 | \$ 97,063 | \$ 9,706 | \$ 7,761 | \$ 2,097 | \$ 15,000 |
| 77,786 1,085 13 76,746 12,781 | 23,675 | | | | | 699 | 65 | 1,194 |
| (33,435) 417 (9,083) (1,619) (1,229) (4,378) (86,762) (8,676) (1,983) | | 9,083 | | | | 1,619 | | |
| (32,882) (8,228) (3,586) (1,236) (2,061) (965) | | | 86,762 | | 8,676 | | | |
| 22,343 | (22,343) | | 1,936 | | | | (1,936) | |
| 5,061 5,035 | | | | | (3,867) (4,809) | | (226) | (1,194) |
| (1,782) | | (10,425) | (78,338) | | | | | |
| 143,272 5,035 (141,301) (6,610) (747) | | | (3,026) 747 | (1,827) | (182) | | | |
| \$ 41,024 | \$ 251,025 | \$ 22,032 | \$ 47,886 | \$ 95,236 | \$ 9,524 | \$ 10,079 | - | \$ 15,000 |
| \$ 46,009 \$ (4,985) | | | | | | | | |

- (1) Deposited in appropriate fund
(2) Paid to third parties
(3) Transfers between funds

See accompanying independent auditors' report.

Note: In accordance with the Bond Resolution, third party payment requirements (except debt service payments) are transferred from Revenue Fund (Working Capital) to the Operating Fund and actual disbursements are made from the Operating Fund.



Power for the Future

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