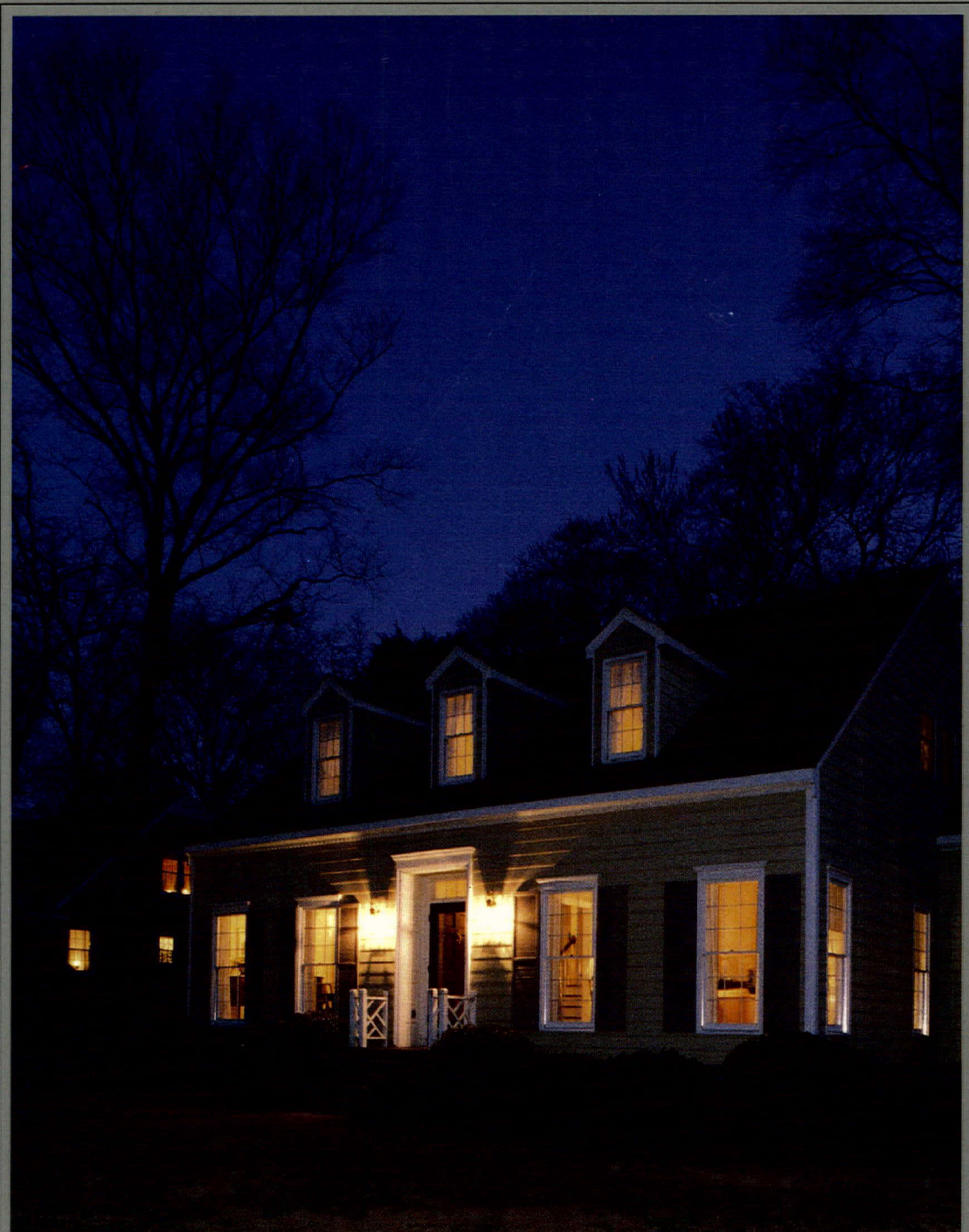


# 1 9 8 7     A N N U A L     R E P O R T



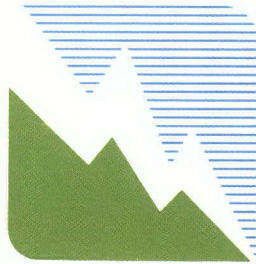
## PIEDMONT MUNICIPAL POWER AGENCY

From the night light in a baby's nursery to the huge demands of a giant industry, electric power is a necessity for which there is no alternative in our time.

8808190176 880808  
PDR ADDCK 05000269  
PNU



# 1 9 8 7    A N N U A L    R E P O R T



## PIEDMONT MUNICIPAL POWER AGENCY

ABBEVILLE

CLINTON

EASLEY

GAFFNEY

GREER

LAURENS

NEWBERRY

ROCK HILL

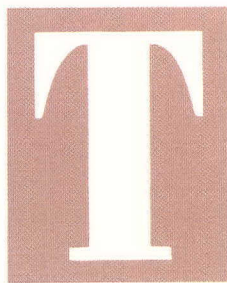
UNION

WESTMINSTER



*PMMA, playing a key role in economic development, is lighting the way to prosperity for residents throughout its ten member cities.*

*PMMA was formed as a joint action agency and first delivered power in 1985. The ten-county region in South Carolina that is home to PMMA's ten participating cities continues to grow beyond the expectations of planners. This is reflected by increasing population and burgeoning industrial development. PMMA is solidly committed to assisting in the growth of all ten member cities.*



*he Piedmont Municipal Power Agency, which was born in 1975, is a joint action agency comprised of ten municipalities in the northwestern section of South Carolina. PMPA is owned by the citizens of Abbeville, Clinton, Easley, Gaffney, Greer, Laurens, Newberry, Rock Hill, Union and Westminster.*

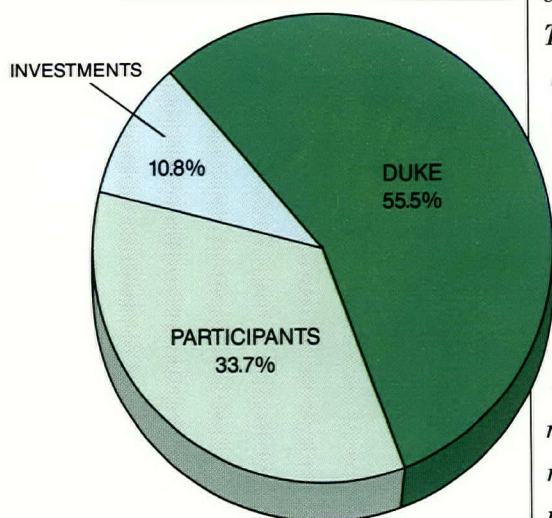
*PMPA is the successful result of the hard work, dedication and vision of a group of professional utility executives who sought to guarantee for their communities a reliable source of abundant, economical electric power under local control. With initial start-up funded by contributions from member cities, PMPA subsequently sold municipal bonds in order to acquire a 25-percent undivided ownership in Unit #2 of Duke Power Company's Catawba Nuclear Station. Today there are approximately \$1.4 billion of these instruments throughout the country.*

*Catawba, located 13 miles northwest of Rock Hill on Lake Wiley, is a two-unit generating facility with a net dependable capacity of 1,129 megawatts for each reactor unit. This is enough electricity to serve more than 12 cities the size of Rock Hill, or almost 40 cities the size of Newberry and Greer. There is abundant power here for all present needs and enough for the region's expanding future.*

*Catawba Unit #2 has set a new Duke record for days of continuous operation of a nuclear plant during its first year. This accomplishment only adds more luster to Duke's distinguished world-wide reputation for expertise in the construction, management and operation of nuclear power plants.*

*PMPA acts as the wholesale supplier of electricity to each of its member cities, which in turn sell this power through locally operated utility systems. Because PMPA is a non-profit municipal corporation, the sums paid to previous suppliers for profits are no longer needed. Member rates are structured to recover actual operational, maintenance and debt service expenses. Member rates are more competitive because they do not have to support*

**SOURCES OF FUNDS**  
**\$169.0 Million**







Catawba Nuclear Station provides PMPA's members with energy security well into the future.

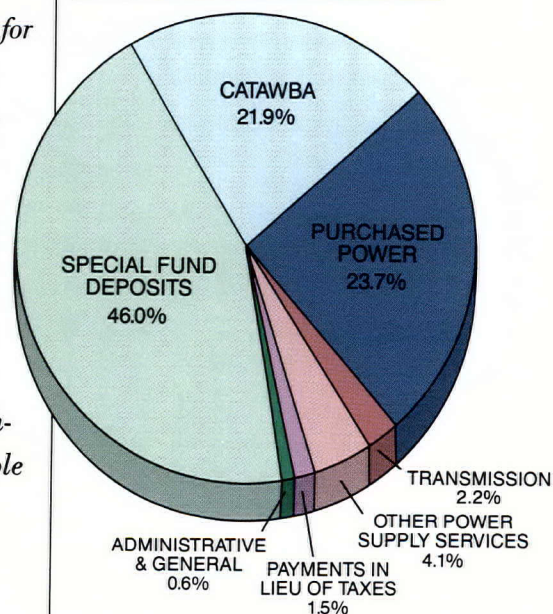
stockholders' dividends or income taxes. Any excess funds generated automatically go back into the member cities and to their residents in the form of lower electric rates or through the reduction in costs of city services. The "profits" don't go out of town; they stay at home where they belong.

PMPA is operationally a highly streamlined agency. In '87, less than three-fourths of one percent of expenditures went to pay administrative costs, compared to the two or three percent traditionally spent by similar organizations. And, in addition to lean and seasoned management, PMPA is also able to provide the long-range planning capabilities that have become a strategic necessity in the increasingly complex and competitive business of energy supply and distribution.

From the night light in a baby's nursery to the huge demands of a giant industry, electric power is a necessity for which there is no alternative in our time. Ownership in a reliable, economical, abundant supplier of electricity empowers each member of the PMPA family with independence, and the PMPA organization provides control over future power supply decisions.

Ownership confers the stability necessary for wholesome growth and frees each community to elect the best path toward realization of its individual potential. Stability allows for gradual transition rather than wrenching change. Stability in a community is attractive to people and to business.

#### USES OF FUNDS \$159.7 Million





## ABBEVILLE

Founded in 1758, Abbeville, one of the oldest settlements in the Upstate, is many things to many people across the United States. To history buffs, the town is both the birthplace and the deathbed of the Confederacy, and the recently restored Courthouse Square exerts considerable magnetism. To travel writers, it is a gold mine of rich topics, ranging from antique malls to Yoder's famous apple fritters. For botanists, Abbeville is the site of the state's oldest and largest redwood. For sportsmen, Abbeville offers superb hunting grounds and surrounding forests. To theatre lovers,



**"Abbeville joined PMPA in order to ensure that the city could receive reliable, low-cost electricity for its residents, businesses and industries. PMPA has a public trust to ensure that these objectives are met."**

— David H. Krumwiede

the town is an ideal destination for lively fare at its Victorian era opera house, restored to jewel-like perfection in 1968. Even the most demanding gourmet palate can be satisfied by the menu at the Belmont Inn, an elegant hostelry with 24 rooms. For those who are zealous about preservation, Abbeville is a national prototype and a living inspiration for small town restoration. Today, the Town Square presents the same charming facade as at the turn of the century, with shops along the way wearing their original colors and styles. Surrounding neighborhoods, characterized by a wide variety of architectural styles, have caught the spirit and polished up.

While Abbeville has a rich history and tradition, it also promotes an excellent business environment for its 6,000 residents. Textiles and small manufacturing make up the bulk of this city's industry and is supported by a strong work ethic from the local population.



*Abbeville's court house bell was last used in the early 1900s and was only rung for town meetings and when danger was present.*

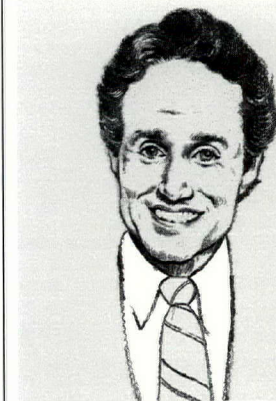
## CLINTON

It is no wonder that the early 19th century settlers of Clinton were moved to found a town in the gently rolling, green clad hills generously dotted with aromatic cedar trees, hardwoods and pine. To their Scotch-Irish and English eyes, these hills likely looked a lot like home. Giant, sheltering trees are still very much a part of the city's character and personality.

Strategically situated midway between two of the state's principal metropolitan centers — Greenville and Columbia — Clinton is home to one of the South's distinguished private colleges. Founded in 1880, Presbyterian College is a serene study in Georgian architecture on a 175-acre oak-shaded campus in the center of the city. The college is a

focal point for community cultural life, with a full program of lectures, concerts and theatre. Open to the public, the Presbyterian College library, comprising some 140,000 volumes, is a complement to the Clinton Public Library, with some 20,000 volumes plus special programs for children.

Clinton, with a population of approximately 10,000, also hosts several other institutions with outstanding reputations for excellence. Whitten Center, founded in 1918, provides programs and services for mentally retarded and handicapped persons of all ages. The Presbyterian Home of South Carolina operates two units in Clinton for several hundred elderly residents as well as a 44-bed infirmary. The Thornwell Home and school for children on Broad Street is listed on the National Register of Historic Places, as is Clinton's uptown area.



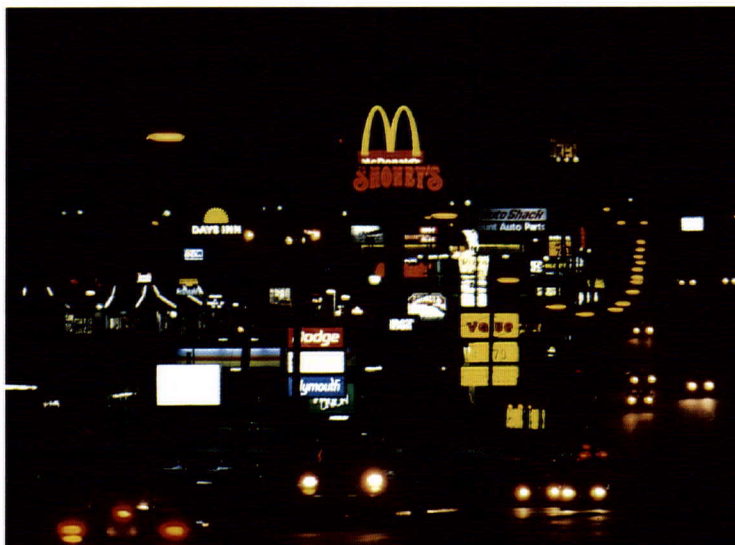
**"I am confident the proven success of the first three years of operation will continue in the future. It is our challenge to constantly monitor and direct our position so as to ensure the benefits PMPA has to offer."**

— J. Russell Allen



*Neville Hall, the focal point of the Presbyterian College campus in Clinton, was built in 1907 in honor of William G. Neville, president of the college from 1904-1907.*





**"By becoming a member of PMPA, we have done everything possible to guarantee Easley an adequate supply of competitively priced electricity in the future."**  
— Steve Hale

## EASLEY

As summer draws to a close in August, Easley struts its stuff and invites the whole state and tourists from all around to the party they call the Annual Foothills Festival. With music, dancing and family entertainment, this is a festival with something for everyone in every age group. The crafts show typically draws entries from Georgia, Tennessee, North Carolina and the Palmetto State.

Named for General William King Easley, who was a major force in bringing railroads to the area in the late 1800s, the Easley of today is a progressive city with a population of some 16,000. Old Market Square in downtown Easley is a landmark in the community and is graced by a beautiful bell tower and two fine examples of contemporary sculpture.

With a wholesome mix of manufacturing that includes textiles, metalworking, plastics and fiberglass balanced by a variety of

*Easley's growth is easily recognized by its boon of restaurants and stores, which account for 41% of the community's economy. Experts predict this community of 30,000 to swell to more than 40,000 by 1990.*

other ventures, Easley has realized continued growth in attractive residential areas. By carefully managing facilities to keep pace with growth, the city has been able to keep taxes and utility costs relatively low, factors that make Easley very attractive to business and to families.

The Easley Progress, founded in 1902, is still in operation as the hometown newspaper.

Two companies based in Easley were listed in the 1987 South Carolina 100™: Engineered Custom Plastics Corporation was ranked 68, and Alice Manufacturing Company, a producer of textile goods, was ranked in the Top 10.



**"Through the planning and cooperation of the ten cities, electricity costs will be held down and this can only be attractive to business and industry locating in this area."**

— Jack Millwood

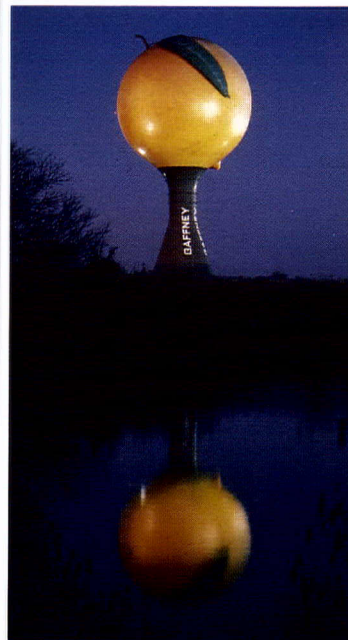
## GAFFNEY

Who can doubt that Gaffney is a peach of a city when confronted

with the Peachoid, a gigantic one million gallon water tank constructed by the Board of Public Works in 1980-81? Vividly visible from I-85, the Peachoid is a dramatic indication of the city's location and a graphic reminder that South Carolina is the biggest peach producer in the South.

The city, with approximately 16,000 residents, takes its name from one Michael Gaffney, who was the proprietor of a tavern in 1804 where the roads once crossed from Rutherfordton to York and from Spartanburg to Charlotte. Modern-day Gaffney still benefits from its strategic location between Greenville/Spartanburg and Charlotte, which puts some 2,250,000 people within a 60-mile radius.

Gaffney is the address for Limestone College, a fully accredited, four-year, liberal arts institution, founded in 1845. Community life is considerably enriched by the presence of Limestone with art



*The Gaffney Peachoid is a reminder that South Carolina is the second leading producer of peaches in the country, trailing only California. In 1987, peach production contributed \$44.7 million to South Carolina's economy.*

exhibits, theatre and concert performances, as well as the arts council and the Gaffney Little Theatre, which presents a full schedule during the year.

As the county seat and hub of Cherokee County, Gaffney thrives on a diversified economy that is well balanced between agriculture and manufacturing. The best time for a good visit to Gaffney is in July, during the Peach Festival.





*The Allen-Bennett Memorial Hospital in Greer is part of an 11-facility network that is committed to providing modern health care affordably.*



**"When we became a member of PMPA, the City of Greer made a commitment to the future growth and development of the community. By offering affordable electric power, we are better able to attract new business and industry into the city."**

— Kenneth Smith

## GREER

Greer citizens are able to enjoy all the good things associated with small town living while making the most of close proximity to the rapidly expanding Greenville/Spartanburg trading area. The local economy is a vigorous mix exemplified by textiles, cutting tools, canned goods, prepared foods, tool and die, furniture manufacturing and a growing list of high-tech firms. The '87 South Carolina Industrial Directory counts some 4,462 manufacturing jobs in Greer. The town, with a population of 10,525, has convenient access for distribution via interstate highways and airports.

In addition to the shopping, cultural and recreational opportunities proffered by Greenville/Spartanburg, the community leadership has been extremely aggressive about creating advantages at home. The Greer civic

auditorium is the focal point for the annual Family Festival, rated as one of the top 20 attractions in the Southeast. Held the first and second weekends in August, the festival features major music entertainment, arts and crafts and nationally known storytellers.

The old Piedmont & Northern Railway Depot is being lovingly renovated according to the standards of the National Historic Register. To be called "Station One," the facility will embrace specialty shops and small offices. It's reasonable to hope that such an innovative use of a prominent old building will stimulate creative ideas for equally visionary projects in the community. Currently, Greer is one of only 16 South Carolina cities working to revitalize its downtown area.

## LAURENS

The 17th President of the United States, Andrew Jackson, once operated a tailor shop with his brother, William, in the city of Laurens, in the vicinity of Courthouse Square. Part of the original "Old 96 District," Laurens County was established by an act of the General Assembly in 1785. Both the county and the city of Laurens take their name from Henry Laurens, President of the Continental Congress during the Revolutionary War.



**"Our association with PMPA has enabled Laurens to acquire an ownership interest in a dependable source of power over which, through board representation, we have control. This ensures an adequate power supply for what we see as a future of rapid growth."**

— Coleman F. Smoak, Jr.

Total industrial employment in Laurens County stands at approximately 7,700 jobs, with the city of Laurens holding some 2,369.

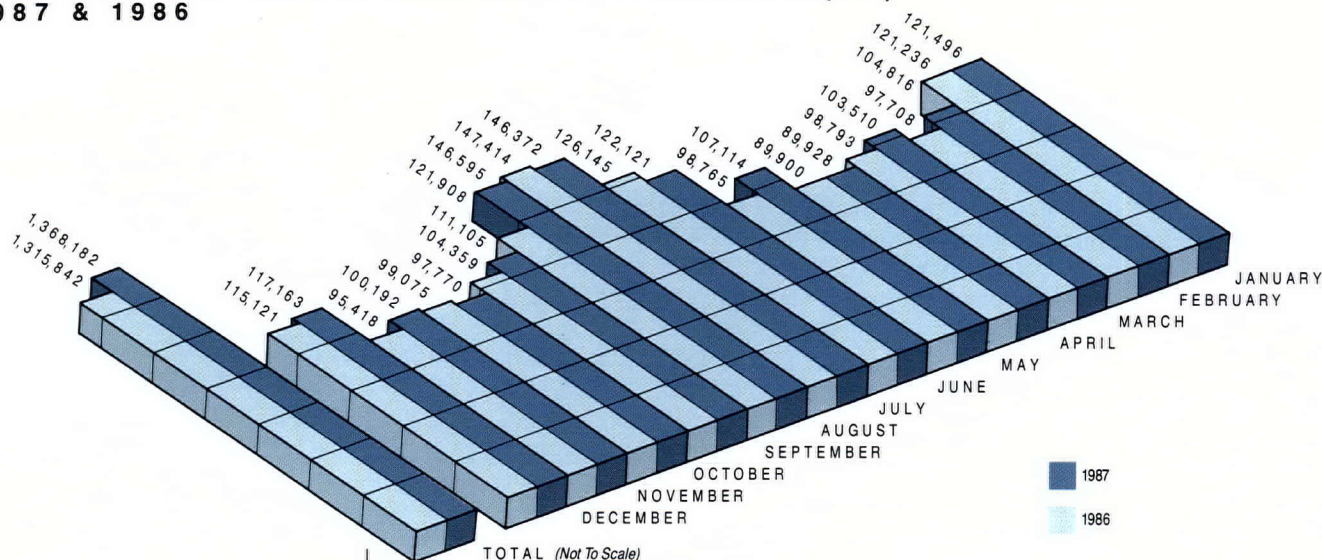
Principal industries include commercial glass, industrial ceramics, textiles, fabrication, furniture and



*Laurens is a community that works hard to instill religious values in her citizens. The city of 11,000 has 17 churches.*



# **PMPA ENERGY REQUIREMENTS FOR MEMBERS (mwh)** **1987 & 1986**



corrugated containers.

The Laurens County Chamber of Commerce is a vigorously active organization with a strong membership base of 600. The Chamber, taking the lead for economic development, has been resoundingly successful in bringing eight new industries to the county over the last five years. The Laurens County Health Care System is expected to begin construction in 1988 of a modern new 90-bed facility.

Additionally, Wal-Mart Stores, Inc., has recently completed construction of a 1.6-million square-foot distribution center, which, when fully operational, is expected to employ around 1,200 persons.

## **NEWBERRY**

"It is such an ideal place to raise children, to give them roots and a

sense of tradition," says Dr. Hubert Setzler about the city of Newberry. Few are better qualified to speak about the city than the President of Newberry College, who returned to his hometown and family roots that stretch across generations.

Just four miles off S.C. I-26 and 45 minutes from the state capital, Newberry has managed to preserve the old world charm and grace of its main street and Courthouse Square, while exhibiting a more contemporary look in its recently developed areas. The Newberry water tower, in the shape of a giant hen egg, is evidence of the community's fierce pride in its agrarian past and of agriculture's continuing contributions to the region. The Annual Egg and Dairy Festival, held each year in the early spring, draws some 30,000 attendees for good food and family fun.



**"As the need for additional energy increases, other communities may face electricity supply shortages while PMPA is prepared to meet our needs well into the future."**

— Steve D. Reeves

Lutheran-supported Newberry College, chartered by the S.C. General Assembly in 1856, is enjoying a revitalized image under the inspired leadership of President Setzler. The college offers collegiate spectator sports, theatre and concert performances and other events to enrich the fabric of community life.

Two public buildings of considerable architectural interest are the antebellum county courthouse and the Opera House, which currently houses some municipal offices on the first floor.

Wells Japanese Gardens on Lindsay Street delights visitors, who wander through pagodas, bridges and ponds to see a brilliant panoply of blooming shrubs and flowers arranged in the Japanese style. Gardeners and orchid enthusiasts are also attracted to the internationally recognized greenhouses of Carter and Holmes just outside the city.



At one time the Newberry Community Hall in Town Square served as the county courthouse. The building, which was erected in 1850, replaced the original courthouse of 1789, which was built on that same spot.



## ROCK HILL

The largest city in the Piedmont Municipal Power Agency community, and the sixth largest city in South Carolina, Rock Hill is a progressive center for business, industry and education. With a population of 42,500 and a trade area population of almost 100,000, Rock Hill is big enough to offer excellent shopping, cultural and entertainment opportunities and still small enough to be friendly, welcoming and uncrowded. From its incorporation in 1852 to the present day, the growth of the city has been steady and wholesome.

Building permits issued for '87 were valued at \$55 million. There are some 85 industrial plants in Rock Hill, employing some 6,600

**"Being able to provide Rock Hill with consistently affordable electrical power not only means a higher quality of life for our customers, but an added boost to this city's economic development efforts as well."**

— Joe Lanford

people. Chief industrial activities include textiles, wood pulp and hardboard, plastics and commercial glass.

York Technical College serves a three-county area and offers a variety of programs to prepare citizens for high-skilled and better paying jobs, to design training programs for existing and prospective industries, and to provide educational programs to assist individuals in fulfilling their potential.

Winthrop College, with an enrollment of 5,000 students, is located in the center of the city and greatly enhances the civic and cultural life of the community.



In 1962 Rock Hill's Winthrop College renamed its administration building Tillman Hall, in honor of Benjamin Ryan Tillman, the governor of South Carolina from 1890-1894.

The Museum of York County boasts the world's largest collection of mounted African animals. Additionally, the Museum operates a planetarium.

Renowned for its beauty, municipally owned Glencairn Gardens is six enchanting acres of azaleas and dogwoods. Glencairn is open year-round and is free to the public, but is most spectacular in mid-April. Rock Hill's annual "Come See Me Festival" is also a mid-April event.

The city's newest facility, Cherry Park, is a 68-acre facility with ballfields; picnic shelters; play areas; walking, jogging and bicycle trails.

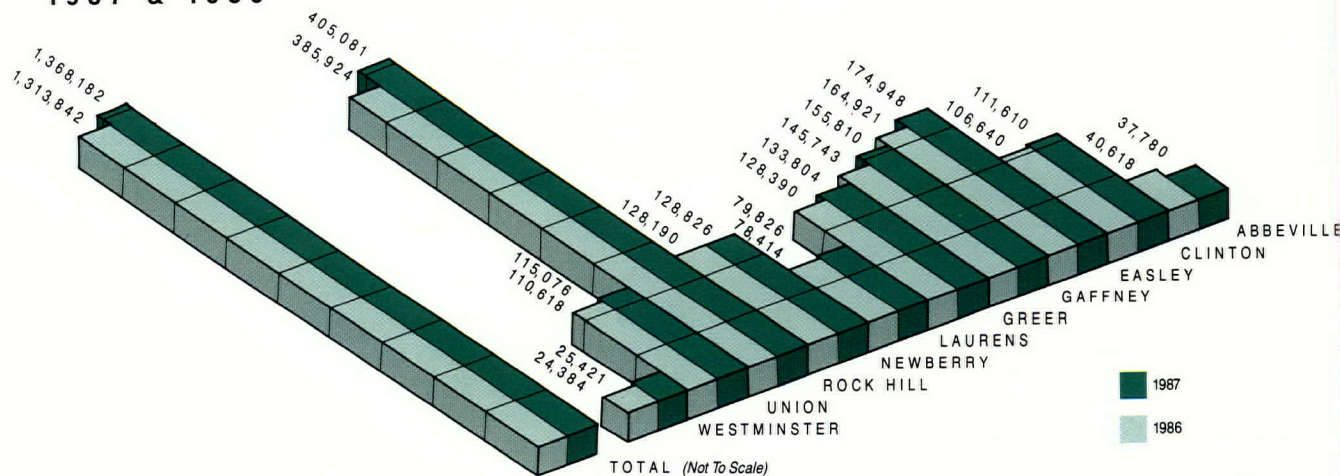
Rock Hill offers a gracious lifestyle in a bountiful and well organized environment, with easy accessibility to national markets.

## UNION

Taking its name from the old Union Church jointly used by Presbyterians, Episcopalians and Quakers, the city of Union was organized in 1791. Popularly known as the "City of Hospitality," Union is at the heart of the county, which is located in the Piedmont Plateau. The city, with a population of 11,000, holds the Governor's Rural Economic Achievement trophy.

The Union Regional Campus of the University of South Carolina provides higher educational opportunities to the community as well as a schedule of cultural activities. The Union County Public Library, at the corner of South and Mountain streets occupies a handsome building, and is very accessible because of its mid-town location.

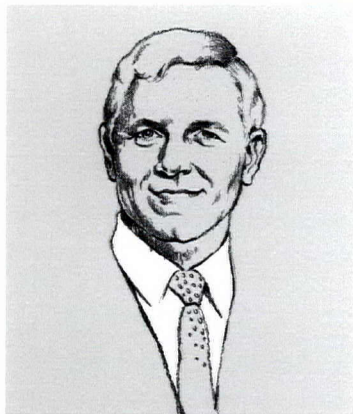
## COMPARATIVE ENERGY SALES TO MEMBERS (mwh) 1987 & 1986





The Union County Museum, above the American Savings and Loan on Main Street, offers a collection of artifacts from the county and other southern states. The collection includes china, furniture and other relics. The Dawkins House, on Dawkins Court, is worthy of note as the provisional capital of the state following Sherman's occupation in 1865.

Rose Hill Plantation State Park, just outside the city, is a federal-style house of great beauty and charm. Home of William H. Gist, South Carolina's Secession Governor, Rose Hill is furnished with period pieces and sits on a rising knoll landscaped with boxwoods and roses.



**"Prior to the establishment of PMPA, the ten member cities were completely dependent on the private power companies for total energy requirements and all related costs. Participation in PMPA and representation on the board allows my community to have a say in electricity rates."**

— Thomas D. Sherbert, Jr.

Traditionally, the textile industry has been the principal employer in Union, but the local economy is expanding and diversifying. DHL, a pharmaceutical company, and the Felters Company, which manufactures industrial felt, have recently announced plans to relocate in Union.

## WESTMINSTER

Located in Oconee County, Westminster is in the extreme north-western section of South Carolina. With a population of 3,114, Westminster is the smallest city in the Piedmont Municipal Power Agency family.

While poultry is the number one agricultural income producer in the Westminster area, with forestry, livestock and other crops being important factors, it is the apple crop that sets the region apart. Just



*The Union High School gymnasium was the site of the 1988 Region 2, Class 4A high school basketball championship between Spartanburg and Gaffney.*

reading off the names of the varieties grown here sets the mouth watering. Red Delicious is the leader and accounts for 75 percent of the total trees planted. Others include the Stayman, Winesap, Yates, Arkansas Black and Rome. Apple lovers make it a point to visit between August and October when the fruit stands are open all along the highway.

The weekend following Labor Day finds the residents of Westminster getting ready for the South Carolina Apple Festival. Staged over two consecutive weekends, festival highlights include a beauty pageant; a parade; an arts, crafts and antique show; road races; and an apple-

grower-of-the-year presentation.

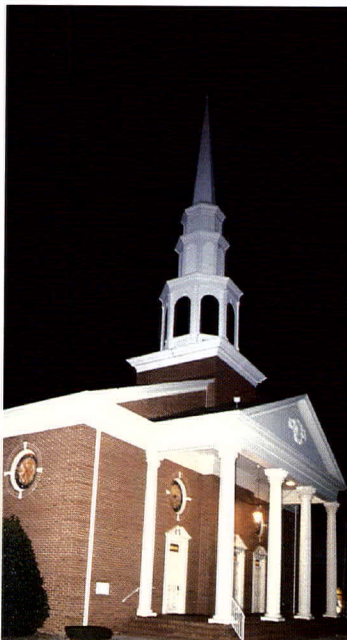
Just three miles west of Westminster is the Chau-Ram Scenic Mountain Park on the Chauga River and Ramsay Creek. Tubing on the Chauga is especially appealing for water enthusiasts, and there is a fine nature trail.

The Cherokee Foothills Scenic Highway (S.C. #11) winds through Westminster and its beautiful mountain terrain. Blooming dogwood and mountain laurel light the forest in the spring. In the autumn, the hills appear to catch fire as the leaves glow orange, red and russet in the cool, crisp air.



**"Quite often, when a company is looking to relocate or expand, they compare power rates in various communities. When that becomes a factor in drawing customers to our area, PMPA is aiding our economic development."**

— Gary Cobb

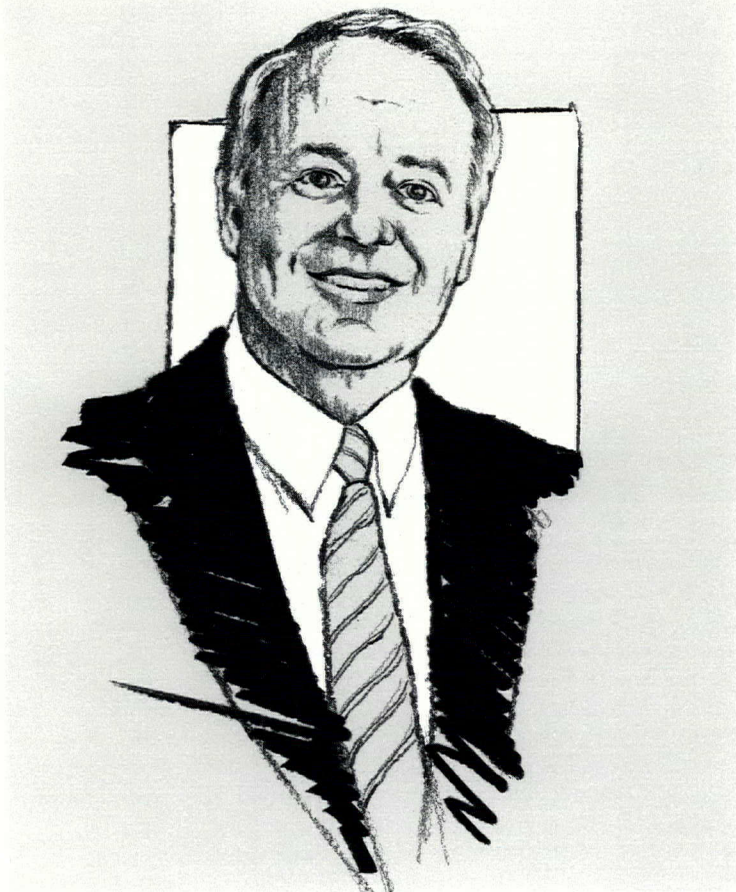


*The Westminster Baptist Church was built in 1978 to replace a sanctuary that had been in service since 1915. The Westminster Baptist Church was organized in 1884.*

Varied industry in Westminster employs 1,769 individuals in the production of golf balls and clubs, textiles, castings, carbides, cutting tools and lumber. As a part of Oconee County, Westminster has participated in the transition from a predominantly agricultural to a highly industrialized economy.



CHAIRMAN'S  
MESSAGE



*Joe B. Sanford*

Immediately after the 1973 oil embargo, a message clearly resounded from shore to shore: The United States must use energy more efficiently and the use of imported oil must be replaced with available and secure American resources.

With experts now predicting a serious shortage of economic electrical power by the mid-1990s, that message rings even louder today. With even moderate growth rates, demand for electricity will exceed existing generating capacity before 1995.

If electricity demands cannot be served, the health and well-being of the economy will be crippled. Industry, business, commerce and citizens all will suffer.

More than ten years ago, when PMPA was in its infancy, utility leaders in Upstate South Carolina had the foresight to realize the importance and value of jointly owning generating facilities. It was this foresight that will ensure PMPA's

members an abundance of competitively priced electricity during the anticipated shortage next decade and through to the next century.

What the members of PMPA believed all along — that nuclear-generated electricity is America's best form of energy security — is an idea that is finally being accepted nationwide. In late 1987, two national polling firms found that a large majority — nearly 80 percent — of Americans think nuclear energy is a good choice as an energy source and that it will be important in meeting the nation's electrical needs in the future.

There are now fewer than 20 nuclear power plants to be completed in the United States. Unfortunately, because of the many varied obstacles that must be overcome to build such a facility, there are no new orders. What this means is that communities having to rely on oil and coal for their

electrical needs will be hardest hit during the anticipated energy crunch of the 1990s.

In light of all this, PMPA's decision to purchase twenty-five percent of Catawba Nuclear Station Unit #2 was a strategic one. Since its formation, PMPA has been committed to fulfilling the entire electricity needs of its ten members. With the capacity and the energy available from the Catawba facility, PMPA is assured that it will be able to live up to that commitment next year, as well as next decade.

For PMPA's ten member cities, nuclear-fueled electricity will light the way to a new age of energy security, economic growth and competitiveness. PMPA's promise to its members is to serve their electricity needs at all times — today as well as tomorrow.

And that is a promise PMPA intends to keep.





*James R. Greer*

After two years of intensive organizational and financial development, 1987 allowed PMPA time to develop a sense of unity and to achieve a measure of solidarity. Although PMPA was incorporated in 1979, the path for wholesale distribution of electricity was not cleared until December 1984.

Essentially, PMPA did not enter the utility marketplace until 1985. By necessity, during the first two years of operations, PMPA focused attention on three areas: 1) obtaining the financing necessary to pay construction costs of PMPA's 25-percent ownership of the Catawba Nuclear Station Unit #2; 2) monitoring construction activities and; 3) with the drop in interest rates that occurred during the period, bond refundings.

With 1987 came the opportunity to take a careful, insightful look into the inner workings of PMPA. The initiation of this self-examination was based on a pledge to make the organization more efficient and productive than had been possible during those hectic, formative years.

One of the initial results of this examination was the realization that PMPA needed to enter the electronic age. With that, the commitment to obtain data processing equipment with specially developed software was made. Countless man-hours have been devoted to assuring that this \$300,000 computer system will allow for the accurate

and rapid manipulation of data when it becomes fully operational in mid-1988. At that time, the processing of PMPA's accounting records, which are currently maintained by hand, will become part of an integrated data management system.

Additionally, PMPA made a significant commitment to its future when it purchased 1.5 acres of land in Greer as the site of its future headquarters. The planned 7,500-square foot building will more than double the current leased office space and will also allow for long-term growth. More important, by building its own offices, PMPA will realize a 20-year savings of almost one-half million dollars. The move into the new building is scheduled for the summer of 1989.

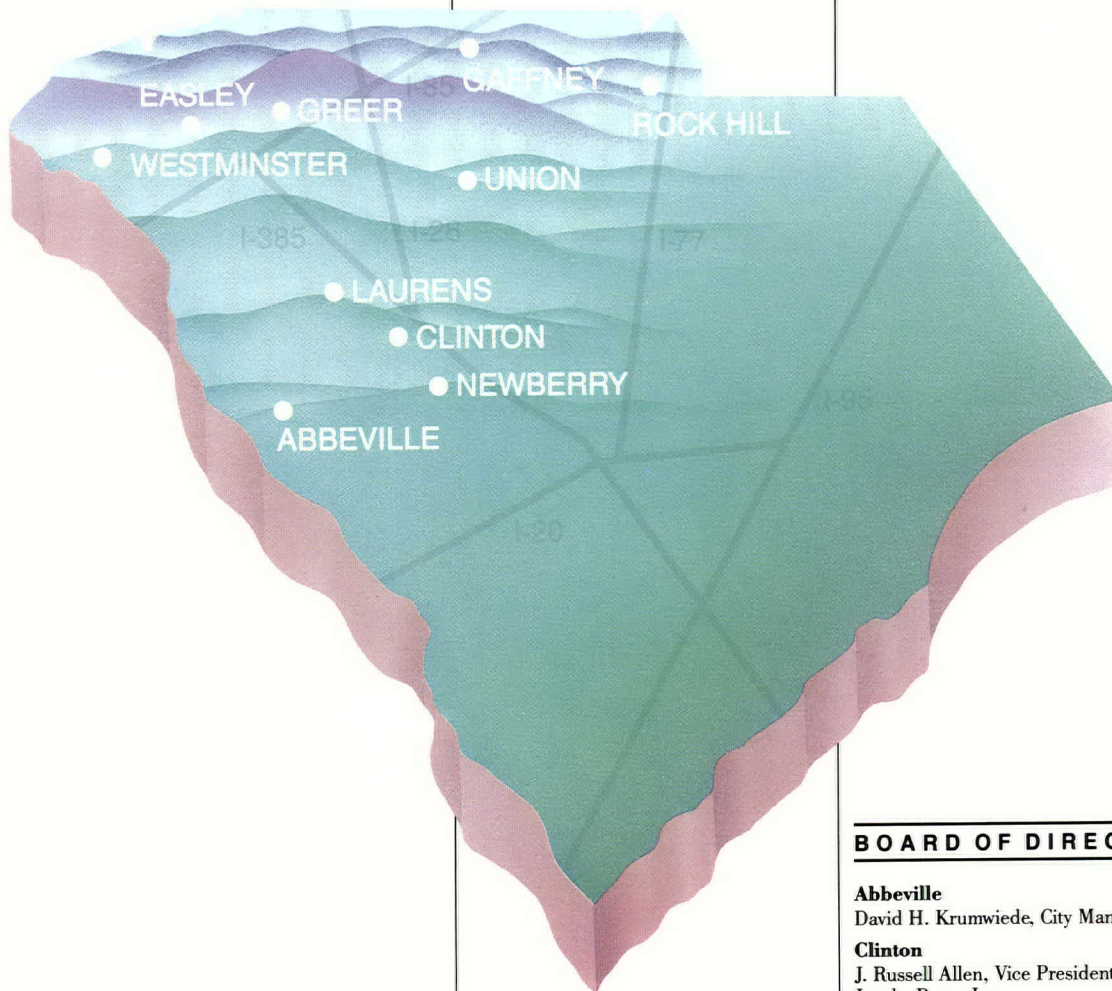
Even the nuclear power plant contributed to the sense of solidarity. In 1987, the unit operated at

levels significantly above national averages. The unit was available for use 80.1 percent of the time during the year and generated 71.5 percent of the power that could have been generated had the plant operated at full capacity. In comparison, national averages through October, 1987, were a 67.1 percent availability and a 61.8 percent capacity factor. This productivity allowed PMPA to easily serve the needs of its members as energy requirements from 1986 to 1987 grew 4.1 percent.

PMPA's efforts to increase the efficiency and unity of the organization will undoubtedly play an important role in its efforts to provide reliable, competitively priced electricity in quantities sufficient to meet its members' needs. Accomplishing that purpose will effectively assist in the economic and industrial development in each of the ten member cities.



**PMPA  
MEMBERS**



**OFFICERS**

**Chairman**  
Joe B. Lanford  
City Manager, City of Rock Hill

**Vice Chairman**  
J. Russell Allen  
Vice President, Jacobs Press, Inc.

**Secretary**  
Kenneth M. Barnett  
Finance Director, City of Union

**Treasurer**  
Neil J. Keane  
Finance Director, PMPA

**STAFF**

**General Manager**  
James A. Bauer

**Finance Director**  
Neil J. Keane

**Investment Manager**  
John N. Glover

**EDP Manager**  
Paul Pochardt

**Accounting Manager**  
Suzanne D. Barbrey

**Accounting Clerk**  
Dorothy N. Carrel

**Executive Secretary**  
Sarah C. Greene

**Secretary**  
Nancy C. Piner

**BOARD OF DIRECTORS**

**Abbeville**  
David H. Krumwiede, City Manager

**Clinton**  
J. Russell Allen, Vice President,  
Jacobs Press, Inc.

**Easley**  
Richard S. Hale, General Manager,  
Combined Public Utilities

**Gaffney**  
Jack E. Millwood, Member,  
Board of Public Works

**Greer**  
Kenneth Smith, Operations Manager,  
Commission of Public Works

**Laurens**  
Coleman F. Smoak, Jr., General Manager,  
Commission of Public Works

**Newberry**  
Steve D. Reeves, Jr., Utilities Director

**Rock Hill**  
Joe B. Lanford, City Manager

**Union**  
T.D. Sherbert, Jr., Utility Director

**Westminster**  
Gary L. Cobb, Superintendent,  
Commission of Public Works

*(Photography — James Swicegood)*





A MEMBER OF ARTHUR YOUNG INTERNATIONAL

## Arthur Young

Daniel Building, Suite 1900  
301 N. Main Street  
Greenville, South Carolina 29601-2178

The Board of Directors  
Piedmont Municipal Power Agency  
Greer, South Carolina

We have examined the accompanying balance sheets of Piedmont Municipal Power Agency at December 31, 1987 and 1986, and the related statements of revenues and expenses and changes in retained earnings (deficit), and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the financial position of Piedmont Municipal Power Agency at December 31, 1987 and 1986, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Our examinations have been made primarily for the purpose of expressing an opinion on the financial statements referred to above taken as a whole. The accompanying additional information on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the examination 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.

April 4, 1988





<b>ASSETS</b>	<u>1987</u>	<u>1986</u>
Utility plant:		
Electric plant in service .....	\$ 533,667	\$ 533,453
Nuclear fuel .....	45,584	39,248
Construction work in progress .....	6,761	627
	<u>586,012</u>	<u>573,328</u>
Less accumulated depreciation and amortization .....	(52,627)	(24,406)
Net utility plant .....	<u>533,385</u>	<u>548,922</u>
Restricted funds .....	490,306	584,430
Current assets:		
Revenue fund .....	165,862	86,516
Operating fund .....	29,591	15,542
Participant accounts receivable .....	4,333	3,911
Other accounts receivable .....	7,327	5,498
Materials and supplies .....	4,007	3,349
Total current assets .....	<u>211,120</u>	<u>114,816</u>
Deferred charges:		
Unamortized debt issuance costs .....	24,136	26,338
Net deferred expenses to be recovered from future revenues .....	76,534	43,649
Excess costs on advance refundings of debt .....	159,850	165,227
Other .....	296	—
	<u>260,816</u>	<u>235,214</u>
Organization costs .....	1,077	1,106
	<u>\$ 1,496,704</u>	<u>\$ 1,484,488</u>
 <b>LIABILITIES AND RETAINED EARNINGS (DEFICIT)</b>		
Long-term debt:		
Bonds .....	\$ 1,306,510	\$ 1,314,230
Unamortized discounts .....	(77,969)	(80,736)
	<u>1,228,541</u>	<u>1,233,494</u>
Notes .....	100,000	200,000
	<u>1,328,541</u>	<u>1,433,494</u>
Restricted fund liabilities:		
Current maturities of notes .....	100,000	—
Accrued interest payable .....	51,808	41,110
Reserve for decommissioning .....	664	294
Deferred compensation .....	75	39
	<u>152,547</u>	<u>41,443</u>
Current liabilities:		
Accounts payable .....	6,408	9,617
Retained earnings (deficit) .....	9,208	(66)
	<u>\$ 1,496,704</u>	<u>\$ 1,484,488</u>
See accompanying notes.		





**STATEMENTS  
OF REVENUES  
AND EXPENSES  
AND CHANGES  
IN RETAINED  
EARNINGS (Deficit)  
FOR THE YEARS  
ENDED DECEMBER 31,  
1987 and 1986**

(dollars in thousands)

	1987	1986
Operating revenues:		
Sales of electricity to participants .....	\$ 56,986	\$ 51,505
Sales of electricity to other utility.....	93,724	63,237
	<u>150,710</u>	<u>114,742</u>
Operating expenses:		
Operation and maintenance.....	24,582	17,694
Nuclear fuel amortization .....	10,459	5,742
Power supply services:		
Purchased power .....	37,798	42,512
Transmission .....	3,465	3,975
Other .....	6,584	6,288
Payments in lieu of property taxes .....	2,433	1,232
Administrative and general .....	3,490	2,579
Depreciation .....	17,762	11,360
Decommissioning.....	370	210
	<u>106,943</u>	<u>91,592</u>
Net operating income .....	<u>43,767</u>	<u>23,150</u>
Other (charges) and credits:		
Interest expense.....	(109,473)	(114,058)
Investment income .....	52,193	54,903
Net interest capitalized .....	—	14,874
Amortization expense .....	(10,098)	(4,530)
	<u>(67,378)</u>	<u>(48,811)</u>
Net deferred expenses to be recovered from future revenues.....	<u>32,885</u>	<u>25,873</u>
Revenues over expenses.....	9,274	212
Retained earnings (deficit), beginning of period .....	<u>(66)</u>	<u>(278)</u>
Retained earnings (deficit), end of period.....	<u>\$ 9,208</u>	<u>\$ (66)</u>

See accompanying notes.



**STATEMENTS  
OF CHANGES  
IN FINANCIAL  
POSITION**  
FOR THE YEARS  
ENDED DECEMBER 31,  
1987 and 1986  
(dollars in thousands)



**PIEDMONT MUNICIPAL POWER AGENCY**

	1987	1986
Funds provided by:		
Funds provided (absorbed) by operations:		
Revenues over expenses .....	\$ 9,274	\$ 212
Items not affecting working capital:		
Depreciation .....	17,762	11,360
Amortization .....	10,098	6,577
Amortization of nuclear fuel .....	10,459	5,742
Net deferred expenses to be recovered from future revenues .....	(32,885)	(25,873)
Working capital provided (absorbed) by operations .....	14,708	(1,982)
Increase in long-term debt .....	—	708,695
Decrease in investments .....	408,429	499,599
Deletion of bond discount .....	—	2,203
Deletion of debt issuance costs .....	—	16,435
Increase in decommissioning fund .....	370	210
Increase in deferred compensation fund .....	36	26
Total funds provided .....	423,543	1,225,186
Funds used for:		
Reductions of long-term debt .....	7,720	564,390
Additions to utility plant .....	12,686	32,911
Purchase of investments .....	314,305	378,734
Increase in debt issuance costs .....	—	11,552
Excess costs on advance refundings of debt .....	—	126,457
Increase in bond discounts .....	—	40,679
Other .....	18	—
Total funds used .....	334,729	1,154,723
Increase in working capital .....	\$ 88,814	\$ 70,463
Changes in components of working capital:		
Increase (decrease) in current assets:		
Revenue fund .....	\$ 79,346	\$ 60,967
Operating fund .....	14,049	6,633
Participant accounts receivable .....	421	(17)
Other accounts receivable .....	1,829	3,632
Materials and supplies .....	658	2,539
Total .....	96,303	73,754
Increase (decrease) in current liabilities:		
Accounts payable .....	(3,209)	7,999
Accrued interest payable .....	10,698	(4,708)
Total .....	7,489	3,291
Increase in working capital .....	\$ 88,814	\$ 70,463

See accompanying notes.





## 1. DESCRIPTION OF THE ENTITY

Piedmont Municipal Power Agency (the Agency) was incorporated in 1979 under the South Carolina Joint Municipal Electric Power and Energy Act. The Act was adopted in April, 1978 to enable municipalities in South Carolina to form a joint agency to plan, finance, develop, own and operate electric generation and transmission facilities. The Agency is comprised of ten member utilities owned by municipalities or municipal commissions of public works located in northwestern South Carolina and represents the member utilities in dealings with Duke Power Company (Duke) and other entities.

In order to secure a reliable source of power for the member utility consumers, the Agency purchased a 25% undivided ownership interest in Duke's Catawba Nuclear Station Unit 2 and its initial nuclear fuel core. The Agency has no legal ownership in Unit 1 or the support facilities used by both units. However, under the exchange agreements, the Agency receives 12 1/2% of the output of Unit 1 and 12 1/2% of the output of Unit 2. Furthermore, the Agency's costs for 25% legal ownership in Unit 2 are based on 12 1/2% of Duke's costs associated with both Unit 1 and Unit 2. Therefore, even though the Agency has no legal ownership rights in Unit 1, for accounting purposes, the Agency does own a revenue producing interest in Unit 1, and when Unit 1 began commercial production on June 29, 1985, the Agency transferred approximately one half of its total expected costs for the Catawba project from construction work in progress to electric plant in service. From June, 1985 to August, 1986, the Agency has received electric output through exchange agreements from Unit 1. On August 19, 1986, Unit 2 began commercial production and substantially all remaining construction work in progress was transferred to electric plant in service. Additionally, the Agency is charged for its pro-rata portion (12 1/2%) of operation and maintenance expenses of Unit 1 and Unit 2.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

Certain items are included or excluded from the rates charged currently to participants for power billings. The Agency's rate structure is generally designed to cover debt service and operating costs, which in turn are sufficient to cover depreciation now being deferred.

**Unamortized debt issuance costs** — Unamortized debt issuance costs at December 31, 1987 and 1986 of \$24,136 and \$26,338, respectively, (net of accumulated amortization of \$5,819 and \$3,739, 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, 1987 and 1986 of \$159,850 and \$165,227, respectively, (net of accumulated amortization of \$7,867 and \$2,490, respectively) are being amortized on the bonds outstanding method.

**Organization costs** — Organization costs at December 31, 1987 and 1986 of \$1,077 and \$1,106, respectively, (net of accumulated amortization of \$90 and \$61, respectively) are being amortized on the straight line method over a period of 40 years.

**Discounts on bonds payable** — The discounts on bonds payable at December 31, 1987 and 1986 of \$77,969 and \$80,736, respectively, (net of accumulated amortization of \$5,314 and \$2,707, 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.

## 3. UTILITY PLANT

Major classes of the Agency's electric plant in service as of December 31, are as follows:

	1987	1986
Land.....	\$ 612	\$ 612
Structures and improvements .....	152,765	152,765
Reactor plant equipment.....	244,412	244,412
Turbo generator units.....	69,311	69,311
Accessory electric equipment .....	50,445	50,445
Miscellaneous plant equipment....	11,120	11,120
Station equipment.....	4,735	4,735
Other.....	267	53
	<u>\$ 533,667</u>	<u>\$ 533,453</u>

Nuclear fuel at December 31, 1987 and 1986 of \$45,584 and \$39,248, respectively, represents the cost of the initial nuclear fuel core, partial cost of reload fuel assemblies, and other nuclear fuel related costs. Nuclear fuel is amortized based on burn rates using a unit of production basis.

The construction work in progress at December 31, 1987 and 1986 of \$6,761 and \$627, respectively, is for the Catawba Nuclear Station as explained in Note 1. Certain direct and indirect expenditures allocable to the Agency's ownership interests in the project are capitalized as part of the cost of acquiring or constructing the utility plant. The Agency also capitalizes net interest costs on borrowings used to finance the construction.

Electric plant in service, excluding nuclear fuel, 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.

Total accumulated depreciation and amortization from these components is as follows:

	1987	1986
Depreciation — electric plant in service.....	\$ 33,201	\$ 15,439
Amortization of nuclear fuel.....	19,426	8,967
	<u>\$ 52,627</u>	<u>\$ 24,406</u>

## 4. RESTRICTED FUNDS

Restricted funds were established by the Agency, in accordance with the respective bond and note resolutions, to account for proceeds of the bond and note issuances. These funds are restricted by the resolutions for payment of construction costs, debt service, and other specified purposes.

The restricted funds at December 31, 1987 and 1986 consist of the following assets stated at cost, which approximates market:

	1987	1986
Construction .....	\$ 33,604	\$ 44,848
Bond .....	205,643	284,834
Note.....	12,569	28,543
Reserve and contingency .....	11,752	11,809
Decommissioning .....	637	278
Special reserve .....	16,677	15,990
Refunding trust .....	209,349	198,089
Deferred compensation .....	75	39
	<u>\$ 490,306</u>	<u>\$ 584,430</u>

Funds are comprised of:

Cash .....	\$ 150,055	\$ 34,771
Marketable debt securities .....	331,316	535,829
Accrued interest receivable .....	8,935	13,830
	<u>\$ 490,306</u>	<u>\$ 584,430</u>



#### 4. RESTRICTED FUNDS (continued)

The Agency is required by the bond resolution to maintain minimum balances in certain restricted funds. At December 31, 1987 and 1986, the amounts in these restricted funds were greater than or equal to the required minimum balances.

#### 5. AGENCY FUNDS

The agency funds were established to account for the operations of the Agency and consist of the following assets stated at cost, which approximates market at December 31, 1987 and 1986:

	1987	1986
Revenue.....	\$ 165,862	\$ 86,516
Operating.....	29,591	15,542
	<u>\$ 195,453</u>	<u>\$ 102,058</u>
Funds are comprised of:		
Cash.....	\$ 11,948	\$ 7,249
Marketable debt securities.....	179,794	92,915
Accrued interest receivable.....	3,711	1,894
	<u>\$ 195,453</u>	<u>\$ 102,058</u>

#### 6. NET DEFERRED EXPENSES TO BE RECOVERED FROM FUTURE REVENUES

As described in Note 1, rates charged to participants are structured to systematically provide for the debt requirements and operating costs of the Agency. Those expenses and revenues which are not included in rates are deferred to such periods as they are intended to be covered by rates.

Net deferred expenses to be recovered from future revenues include the following at December 31, 1987 and 1986:

Expenses incurred, not included in billings to participants:

	1987	1986	Change
Interest expense.....	\$ 206,878	\$ 97,405	\$ 109,473
Depreciation expense .....	33,206	15,444	17,762
Amortization of excess costs on advance refundings of debt .....	7,123	1,746	5,377
Amortization of bond discounts and debt issuance costs.....	8,339	3,652	4,687
Nuclear fuel amortization.....	416	416	—
Letter of credit fees .....	4,422	2,322	2,100
Other .....	1,320	794	526
	<u>261,704</u>	<u>121,779</u>	<u>139,925</u>
Revenues received, not considered in billings to participants:			
Investment income .....	(41,169)	(4,957)	(36,212)
Add: Rate stabilization (revenues received to reduce future billings to participants).....	(144,001)	(73,173)	(70,828)
Net deferred expenses to be recovered from future revenues.....	<u>\$ 76,534</u>	<u>\$ 43,649</u>	<u>\$ 32,885</u>

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

SFAS No. 92 prohibits allowable costs that are deferred for future recovery under a phase-in plan to be capitalized unless certain requirements are met. The Agency's rate-making methodology establishes rates to recover the allowable costs of the project over the life of the bonds and thus, fails to meet all the criteria of SFAS No. 92. If all requirements are not met, any allowable costs deferred under those phase-in plans are to be written off. SFAS No. 92 allows retroactive application of the provisions of this statement. The Agency has elected not to retroactively comply with SFAS No. 92. If the Agency had retroactively applied with the provisions of SFAS No. 92, earnings for 1987 and 1986 would have been decreased by approximately \$28,000 and \$150,000, respectively, and the fund balance at January 1, 1986 would have been decreased by approximately \$59,000.

The Agency's rates are structured to systematically provide for the debt requirements, operating funds, and reserves as specified by the Bond Resolution and power sales agreements. Adoption of SFAS No. 92 will not affect

the Agency's rate-making methodology, cash flow, or ability to recover the Agency's "costs" as defined by the Bond Resolution, the Project Power Sales Agreements, and the Supplemental Power Sales Agreements.

#### 7. LONG-TERM DEBT

Long-term debt of the Agency at December 31, 1987 is as follows:

Bonds	Principal	Unamortized Discount	Total
Series 1984	\$ 59,510	\$ 17,349	\$ 42,161
Series 1985	137,970	7,628	130,342
Series 1985B	248,000	—	248,000
1985 Refunding			
Series	155,155	13,702	141,453
1986 Refunding Series	342,140	18,995	323,145
1986A Refunding Series	363,735	20,295	343,440
	<u>1,306,510</u>	<u>77,969</u>	<u>1,228,541</u>
Notes			
Series 1984	200,000	—	200,000
	<u>\$ 1,506,510</u>	<u>\$ 77,969</u>	<u>\$ 1,428,541</u>

Long-term debt of the Agency at December 31, 1986 is as follows:

Bonds	Principal	Unamortized Discount	Total
Series 1984	\$ 60,000	\$ 18,309	\$ 41,691
Series 1985	139,105	8,026	131,079
Series 1985B	250,000	—	250,000
1985 Refunding Series	156,430	13,984	142,446
1986 Refunding Series	344,960	19,541	325,419
1986A Refunding Series	363,735	20,876	342,859
	<u>1,314,230</u>	<u>80,736</u>	<u>1,233,494</u>
Notes			
Series 1984	200,000	—	200,000
	<u>\$ 1,514,230</u>	<u>\$ 80,736</u>	<u>\$ 1,433,494</u>

#### Electric Revenue Bonds, Series 1984

In December, 1984, the Agency issued \$530,000 of Electric Revenue Bonds, Series 1984 with an original issue discount of \$23,500 for the purpose of financing the Agency's investment in the Catawba Nuclear Station described in Note 1. As described in Note 8, the Agency defeased \$395,400 and \$74,600 of the Electric Revenue Bonds, Series 1984 in December, 1985 and July, 1986, respectively. On July 1, 1987, the Agency redeemed prior to maturity \$490 of the bonds. Thus, \$59,510 and \$60,000 of the bonds were recorded as outstanding at December 31, 1987 and 1986, respectively.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution and other monies and securities pledged under the bond resolution.

The outstanding bonds bear an annual interest rate of 7% and mature on January 1, 2013. The bonds are redeemable at the option of the Agency at prices ranging from 103% of the bond principal amount in 1995 to 100% in 1998 and thereafter.

#### Electric Revenue Bonds, Series 1985

In May, 1985, the Agency issued \$340,000 of Electric Revenue Bonds, Series 1985 with an original issue discount of \$8,355 for the purpose of financing the Agency's investment in the Catawba Nuclear Station described in Note 1. As described in Note 8, in July, 1986, the Agency defeased \$200,895 of the Electric Revenue Bonds, Series 1985. On July 1, 1987 the Agency redeemed prior to maturity \$1,135 of the bonds. Thus, \$137,970 and \$139,105 of the bonds were recorded as outstanding at December 31, 1987 and 1986, respectively.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the \$81,245 bonds maturing on January 1, 2014 is insured.

The bonds bear an annual interest rate ranging from 7.5% to 9.5% with



## LONG-TERM DEBT (continued)

### Electric Revenue Bonds, Series 1985 (continued)

maturity dates ranging from January 1, 2014 to January 1, 2018. The bonds are redeemable at the option of the Agency at prices ranging from 103% of the bond principal amount in 1995 to 100% in 1998 and thereafter.

### Electric Revenue Bonds, Series 1985B

In November, 1985, the Agency issued \$250,000 of Electric Revenue Bonds, Series 1985B due January 1, 2025 to provide the funds necessary to pay the \$100,000 principal amount of the Agency's 8.50% Electric Revenue Bond Anticipation Notes, Series 1984, maturing on January 1, 1988, and the \$100,000 principal plus a portion of the interest on the Agency's 9% Electric Revenue Bond Anticipation Notes, Series 1984, maturing on January 1, 1990. On July 1, 1987 the Agency redeemed prior to maturity \$2,000 of the bonds.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution. The bonds are further secured by an irrevocable letter of credit which is in an amount sufficient to pay the principal and \$11,875 accrued interest on the bonds. No borrowings under the letter of credit have occurred as of December 31, 1987.

The bonds will bear interest at a daily, weekly, monthly, long, or fixed rate as determined from time to time. The Remarketing Agent determines the rate of interest. The Agency's Board of Directors determines the length of time. From the issue date through December 31, 1987, the interest on the bonds has been at a weekly rate. For the years ended December 31, 1987 and 1986, the average weekly interest rate on the bonds was 4.75% and 4.64%, respectively. Also, the bonds may be permanently converted to a fixed rate. Anytime prior to their conversion to a fixed rate, the bonds are redeemable at the option of the Agency at a price equal to 100% of the bond principal amount plus any accrued interest at the date of redemption. If the bonds have been converted to a fixed rate, the bonds are redeemable at the option of the Agency at prices ranging from 103% of the bond principal amount from 1986 to 2013 to 100% in 2024.

### Electric Revenue Bonds, 1985 Refunding Series

In December, 1985, the Agency issued \$445,325 of Electric Revenue Bonds, 1985 Refunding Series at an original issue discount of \$14,457 for the purpose of providing funds necessary to refund \$395,400 of Electric Revenue Bonds, Series 1984 described earlier in this footnote. As described in Note 8, in December, 1986, the Agency defeased \$288,895 of the Electric Revenue Bonds, 1985 Refunding Series. On July 1, 1987, the Agency redeemed prior to maturity \$1,275 of the bonds.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the bonds maturing on January 1, 2019 is insured.

The bonds bear an annual interest rate ranging from 7% to 9.25% with maturity dates ranging from January 1, 2019 to January 1, 2025. The bonds are redeemable at the option of the Agency at prices ranging from 103% of the bond principal amount in 1996 to 100% in 1999 and thereafter.

### Electric Revenue Bonds, 1986 Refunding Series

In July, 1986, the Agency issued \$344,960 of Electric Revenue Bonds, 1986 Refunding Series at an original issue discount of \$19,778 for the purpose of providing funds necessary to refund \$74,600 of Electric Revenue Bonds, Series 1984 and \$200,895 of Electric Revenue Bonds, Series 1985 described earlier in this footnote. On July 1, 1987 the Agency redeemed prior to maturity \$2,820 of the bonds.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution and other monies and securities pledged under the bond resolution.

The bonds bear an annual interest rate ranging from 5% to 8% with maturity dates ranging from January 1, 1996 to January 1, 2025. The bonds are redeemable at the option of the Agency at prices ranging from 101.5% of the bond principal amount in 1996 to 100% in 1999 and thereafter.

### Electric Revenue Bonds, 1986A Refunding Series

In December, 1986, the Agency issued \$363,735 of Electric Revenue Bonds, 1986A Refunding Series at an original issue discount of \$20,900 for the purpose of providing funds necessary to refund \$288,895 of Electric Revenue Bonds, 1985 Refunding Series described earlier in this footnote.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution and other monies and securities pledged under the bond resolution. Under the terms of an existing insurance policy, the payment of principal and interest on the bonds maturing on January 1, 2013 is insured.

The bonds bear an annual interest rate ranging from 5.75% to 7.25% with maturity dates ranging from January 1, 2013 to January 1, 2024. The bonds are redeemable at the option of the Agency at prices ranging from 102% of the bond principal amount in 1996 to 100% in 2000 and thereafter.

### Electric Revenue Notes, Series 1984

In December, 1984, the Agency issued \$200,000 of Electric Revenue Bond Anticipation Notes, Series 1984 for the purpose of financing the Catawba Nuclear Station described in Note 1.

The notes are special obligations of the Agency and are secured by a lien on future revenues as defined under the note resolution.

The lien on revenues securing the notes is subordinate to the lien on revenues securing payments required under the bond resolution. The notes are further secured by irrevocable letters of credit which are in amounts sufficient to pay the principal of the notes plus seven months of accrued interest. No borrowings under the letters of credit have occurred as of December 31, 1986.

The notes consist of two principal amounts of \$100,000 each which bear annual interest rates of 8.5% and 9% and mature on January 1, 1988 and 1990, respectively. These notes are not subject to optional redemption by the Agency prior to maturity. As described above, the Electric Revenue Bonds, Series 1985B were issued in order to provide the funds necessary to pay the notes when they mature.

### Principal debt and sinking fund requirements

The following is a summary of the principal debt and sinking fund requirements for the bonds payable at December 31, 1986:

Year Ended December 31,	Principal	Year Ended December 31,	Principal
1996	\$ 6,555	2011	\$ 38,220
1997	11,950	2012	41,040
1998	12,760	2013	43,665
1999	13,635	2014	46,295
2000	14,570	2015	50,925
2001	15,665	2016	54,585
2002	16,725	2017	58,690
2003	17,965	2018	63,650
2004	19,280	2019	67,420
2005	20,190	2020	76,620
2006	21,860	2021	82,145
2007	28,385	2022	88,035
2008	30,890	2023	91,460
2009	33,215	2024	100,380
2010	35,585	2025	104,150

## 8. IN-SUBSTANCE DEBT DEFEASANCE

In December, 1985, the Agency purchased \$423,024 in U.S. government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric Revenue Bonds, Series 1984: \$27,475 of 11% bonds due 2014, \$100,000 of 10.5% bonds due 2019, and \$267,925 of 11% bonds due 2025. The bonds will be redeemed on January 1, 1995, (the first optional redemption date) at the then applicable redemption price of 103% of their aggregate principal amount. The above described defeasance resulted in an extraordinary loss of \$41,260 which is deferred as excess cost on advance refunding of debt.

In July, 1986, the Agency purchased \$327,338 in U. S. government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric Revenue Bonds; Series 1984: \$44,600 of 10.875% term bonds due 2004 and \$30,000 of 10% term bonds due 2012, Series 1985: \$13,765 of 9-9.7% serial bonds due 1996-2000, \$16,650 of 10% term bonds due 2004, and \$170,480 of 10.25% term bonds due 2025. The bonds will be redeemed on January 1, 1995, (the first optional redemption date) at the redemption price of 103% of their aggregate principal amount. This defeasance resulted in an extraordinary loss of \$62,194 which is deferred as excess cost on advance refunding of debt.



## 8. IN-SUBSTANCE DEBT DEFEASANCE (continued)

In December, 1986, the Agency purchased \$344,871 in U. S. government securities and deposited them in an irrevocable trust. The principal and interest from these securities will be used solely for the purpose of making interest and principal payments on the following Electric Revenue Bonds, 1985 Refunding Series: \$25,175 of 9.625% term bonds due 2013, \$48,150 of 9.7% term bonds due 2016, and \$215,570 of 9.7% term bonds due 2024. The bonds will be redeemed on January 1, 1996, (the first optional redemption date) at the redemption price of 103% of their aggregate principal amount. This defeasance resulted in an extraordinary loss of \$64,263 which is deferred as excess cost on advance refunding of debt.

Each of the above transactions qualify 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. See Note 7.

## 9. RESERVE FOR DECOMMISSIONING

The reserve for decommissioning is an amount that is being accumulated to provide for the expected cost of decommissioning (dismantling) the nuclear facility. The Agency's portion of decommissioning these jointly owned facilities is based on current price levels and assumes decommissioning will occur promptly after the units are taken out of service and is estimated at approximately \$78,000 for the present electric plant in service. This estimate will be adjusted periodically to reflect changing price levels and technology.

The balance in the reserve at December 31, 1987 and 1986 is \$664 and \$294, respectively.

## 10. DEFERRED COMPENSATION PLAN

The Agency has established a deferred compensation plan for all employees. Payments made by the Agency remain as assets of the Agency, subject to its control and right of withdrawal until such time as the funds are distributed to the employees in accordance with the provision of the plan. It is the Agency's

policy to fund the plan based on 10% of payroll cost as incurred. The deferred compensation expense at December 31, 1987 and 1986 was \$36 and \$26, respectively.

## 11. CONTINGENCIES

The Agency, as a partial owner of Catawba, is charged a monthly fee by Duke for purchases of reserve and supplemental power and other items related to Catawba operations. During 1987 and 1986, the Agency challenged certain components of these costs included in the monthly fees paid to Duke in 1987 and 1986. During 1987, the Agency received a \$2,895 refund as a result of a Federal Energy Regulatory Commission (FERC) decision on a portion of the challenged costs in dispute. Although Duke has appealed this judgement, a reversal of the decision is not probable. Thus, the Agency has properly recorded this settlement in 1987 as a reduction of certain operating expenses.

At December 31, 1987, the Agency was continuing negotiations with Duke and other actions for a refund of other challenged costs. The outcome of these negotiations and actions and amount of refunds, if any, cannot be determined at this time. The Agency has not recorded any benefit from these claims.

## 12. SUBSEQUENT EVENTS

As described in Note 7, \$100,000 of the Electric Revenue Notes, Series 1984 matured and were paid on January 1, 1988.

In March, 1988, the Agency issued \$124,502 of Electric Revenue Bonds, 1988 Refunding Series with interest rates ranging from 5% to 7.75%. Proceeds from the bonds were used solely to advance refund the interest and principal payments on the following Electric Revenue Bonds, Series 1985: \$80,110 of 9.375% bonds due 2014 and \$31,155 of 9.5% bonds due 2018. The refunded bonds will be redeemed on January 1, 1995 (the first optional redemption date) at the redemption price of 103% of their aggregate principal amount. This defeasance resulted in an extraordinary loss on advance refunding of debt of approximately \$17,000 in 1988. The Agency defeased the debt primarily to reduce debt service, thereby postponing or reducing future electric rate adjustments.

## ADDITIONAL INFORMATION SCHEDULE OF REVENUES AND EXPENSES PER THE BOND RESOLUTION AND OTHER AGREEMENTS FOR THE YEAR ENDED DECEMBER 31, 1987

(dollars in thousands)



### Revenues:

Sales of electricity to participants .....	\$ 56,986
Sales of electricity to other utility.....	93,724
Interest income.....	18,288
	<hr/> 168,998

### Expenses:

Operation and maintenance.....	35,041
Power supply services:	
Purchased power .....	37,798
Transmission .....	3,465
Other .....	6,584
Payments in lieu of property taxes .....	2,433
Administrative and general.....	898
Special fund deposits:	
Rate stabilization fund .....	70,828
Fuel account .....	1,076
Revenue fund .....	1,231
Decommissioning fund .....	370
	<hr/> 159,724

Revenues over expenses.....	<hr/> <hr/> \$ 9,274
-----------------------------	----------------------

## PIEDMONT MUNICIPAL POWER AGENCY



## **-NOTICE-**

THE ATTACHED FILES ARE OFFICIAL RECORDS OF THE RECORDS & REPORTS MANAGEMENT BRANCH. THEY HAVE BEEN CHARGED TO YOU FOR A LIMITED TIME PERIOD AND MUST BE RETURNED TO THE RECORDS & ARCHIVES SERVICES SECTION P1-122 WHITE FLINT. PLEASE DO NOT SEND DOCUMENTS CHARGED OUT THROUGH THE MAIL. REMOVAL OF ANY PAGE(S) FROM DOCUMENT FOR REPRODUCTION MUST BE REFERRED TO FILE PERSONNEL.

50-269

8/8/88

8802190153

## **-NOTICE-**





100 Memorial Drive  
Greer, South Carolina 29651  
803/877-9632