PIEDMONT MUNICIPAL POWER AGENCY

1989
Annual
Report

Piedmont Municipal Power Agency has experienced another very successful year. Rates have remained competitive, our communities have a secure source of abundant power for the 1990's, and we have improved our financial position. Moreover, each of the ten cities that make up our municipal power agency has experienced economic growth and prosperity during 1989, and that has made PMPA's ten cities strong.

We have all worked hard for this economic success in our individual communities, but one very significant element of our success has been the growing partnership between local government, the business community, and our schools. This partnership is evident in the technical schools that are providing job skill training for thousands in the PMPA region, the colleges and universities whose cultural activities enrich the lives of all our citizens, and perhaps most importantly our public schools.

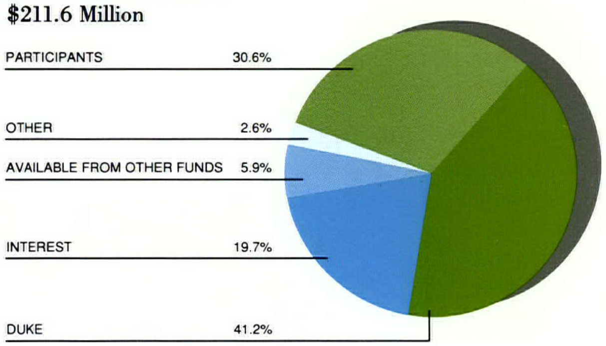
Over the last five years the state of South Carolina has spent over a billion dollars on educational reforms. An estimated $1.7 billion will be spent to improve public education in the nineties. Since 1988, more than $100 million in private research funds have been pledged to our universities and technical schools. Industries, many right here in our region, have helped technical schools set up programs in applied microelectronics and electromechanical maintenance and have developed business start up programs with colleges and universities.

As we support education, we are indirectly fostering economic growth and enriching the quality of life in our communities. It is not enough to be able to offer land for new plants, tax incentives, and a reliable source of power. We must have a highly skilled workforce, competitive public schools, and educational and cultural amenities that compare with those in other parts of the country.

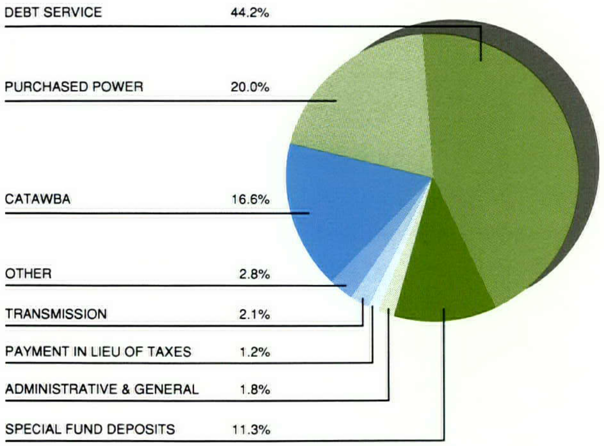
PMPA, public power in the Piedmont, is in a unique position to bring these things together. As we work to improve the services we provide in our communities we make them more attractive to industry. As we grow and prosper, PMPA members can continue supporting the libraries, museums, galleries, and research facilities which make our communities a better place to live.

Coleman F. Smoak, Jr.

SOURCES OF FUNDS
$211.6 Million



USES OF FUNDS
$211.6 Million



The story of the Piedmont Municipal Power Agency is the story of city power. In 1975, ten municipalities in northwestern South Carolina began forming the non-profit agency to provide their communities with a reliable source of economical electric power. Today, fifteen years later, PMPA not only provides affordable and dependable electricity to its member cities, it has also given them a valuable tool for economic development — the promise of abundant electric power in the future.

Economic growth and prosperity require a skilled, willing work force and the basic tools of industrial development — an accessible transportation system, a favorable business climate and reliable, affordable power. Impending power shortages in the mid-1990's pose a serious threat to the local economies of many Eastern states. They are heavily dependent upon fossil fuels, and local government has little or no control over generation resources and transmission access. In one Northeastern state alone last year, power brownouts cost industry $87 million dollars in lost productivity. In short, many of these communities simply cannot guarantee consumers or industry reliable power at the lowest possible cost.

PMPA is owned by the municipalities it serves. Through PMPA, member cities generate their own power. And because the members' distribution systems are publicly controlled, PMPA cities are able to minimize the delivery cost of the power they receive from the agency's 25 percent interest in Unit #2 of Duke Power Company's Catawba Nuclear Station.

Last year, South Carolina's pro-business environment and PMPA's competitive edge helped attract more than $800 million in manufacturing investment to the agency's ten county region. PMPA also initiated an economic development campaign in 1989. Many of the agency's

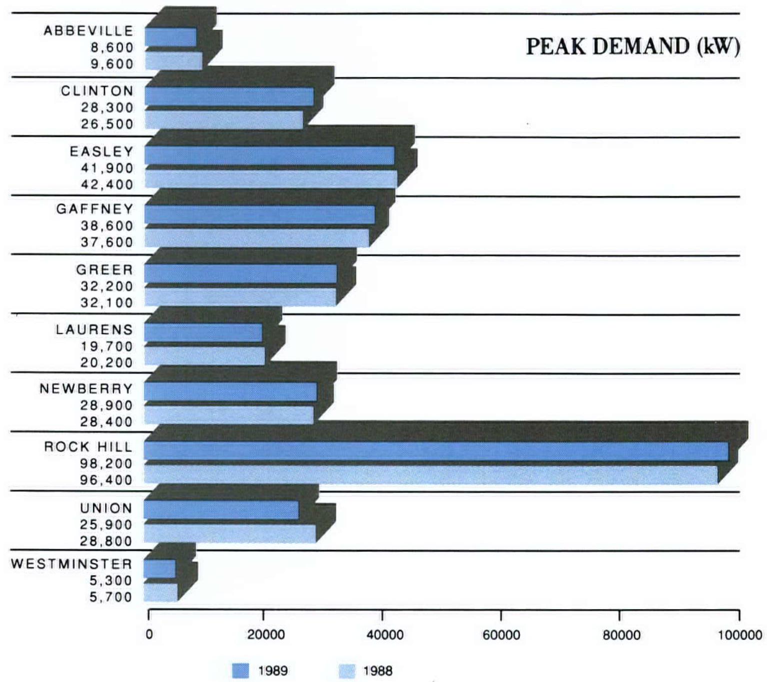
PMPA MEMBERS DEMAND AND ENERGY GROWTH

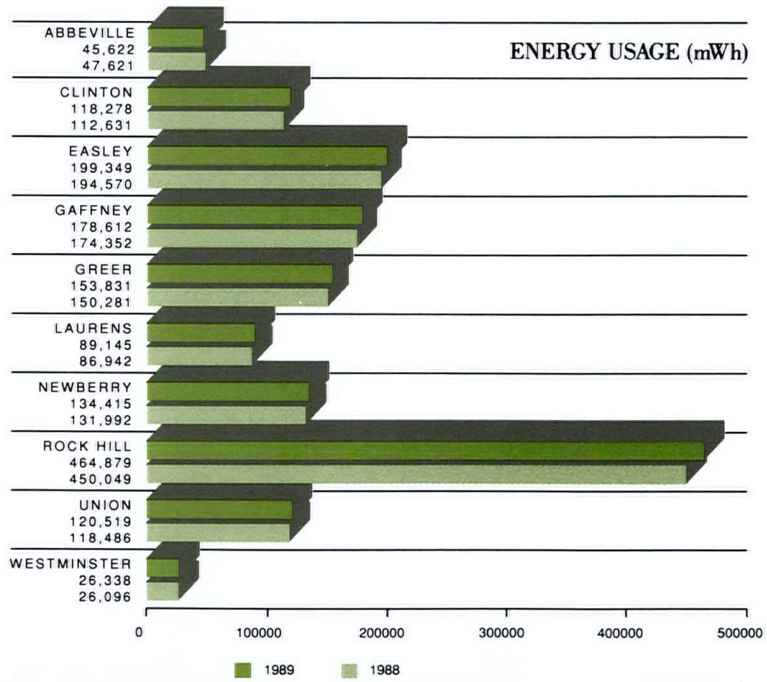
member cities participate in downtown revitalization projects, the direct result of economic prosperity in the region. And millions of dollars have been invested in the region's public school systems.

Close to one half of the states' 47 colleges and technical schools are located in the PMPA region including Clemson University and a satellite campus of the University of South Carolina. Both schools have nationally recognized engineering and computer science programs. The area's roster of technical colleges includes South Carolina's Robotics Resource Center, a state of the art facility developed and funded by a joint partnership between local industry and a regional technical training school. It is considered one of the finest among two-year institutions in the Southeast.

As we head into the new decade, the Piedmont Municipal Power Agency faces the continuing challenge of securing new generating sources for peak power demand and boosting the system's reserve margins. The agency will also continue restructuring its debt to insure fiscally sound financial operations and begin exploring potential markets for sales of excess capacity.

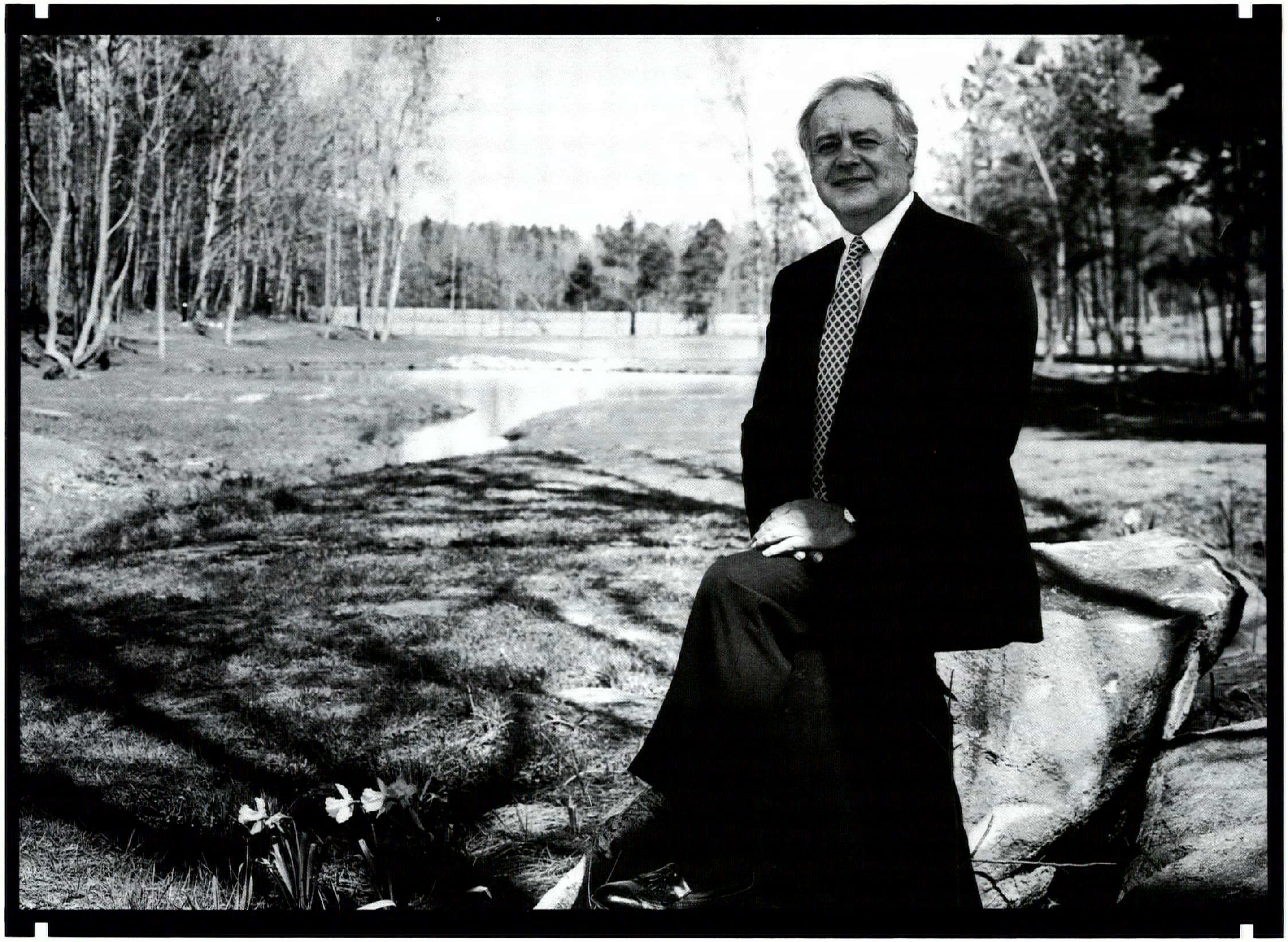
But for the founders and current board members of this public power agency, serving the community's power needs is more than just transmitting and distributing electricity. They believe the social and economic well-being of their region is dependent on the availability of affordable energy. And furthermore, that it is the responsibility of public power to help create and foster a social and business climate which will promote sound growth and continually revitalize the Main Streets of PMPA's cities and towns.





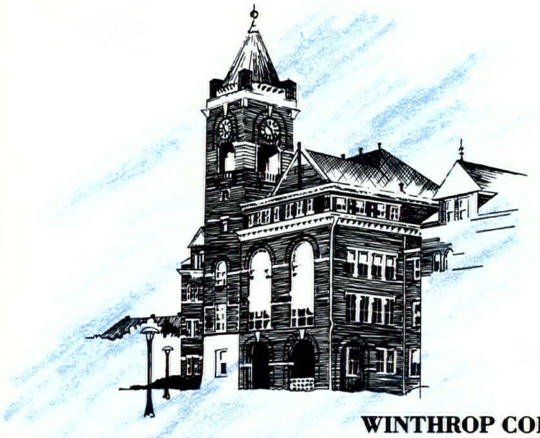
Rock Hill has embarked on one of the boldest downtown redevelopment plans in the country. City officials and the community's leading economic development organizations are preparing for impending growth by developing a ten year strategic planning process entitled "Empowering the Vision."

"Rock Hill is fast becoming what urban planners call exurbia," says City Manager and PMPA Board member Joe Lanford. The city's proximity to the Charlotte, North Carolina metropolitan area and major transportation including a new international airport has made it an attractive place to live and work. Rock Hill's diversified economy, high amenity business parks, state of the art telecommunications and wastewater treatment facility also make it an attractive site for new development.

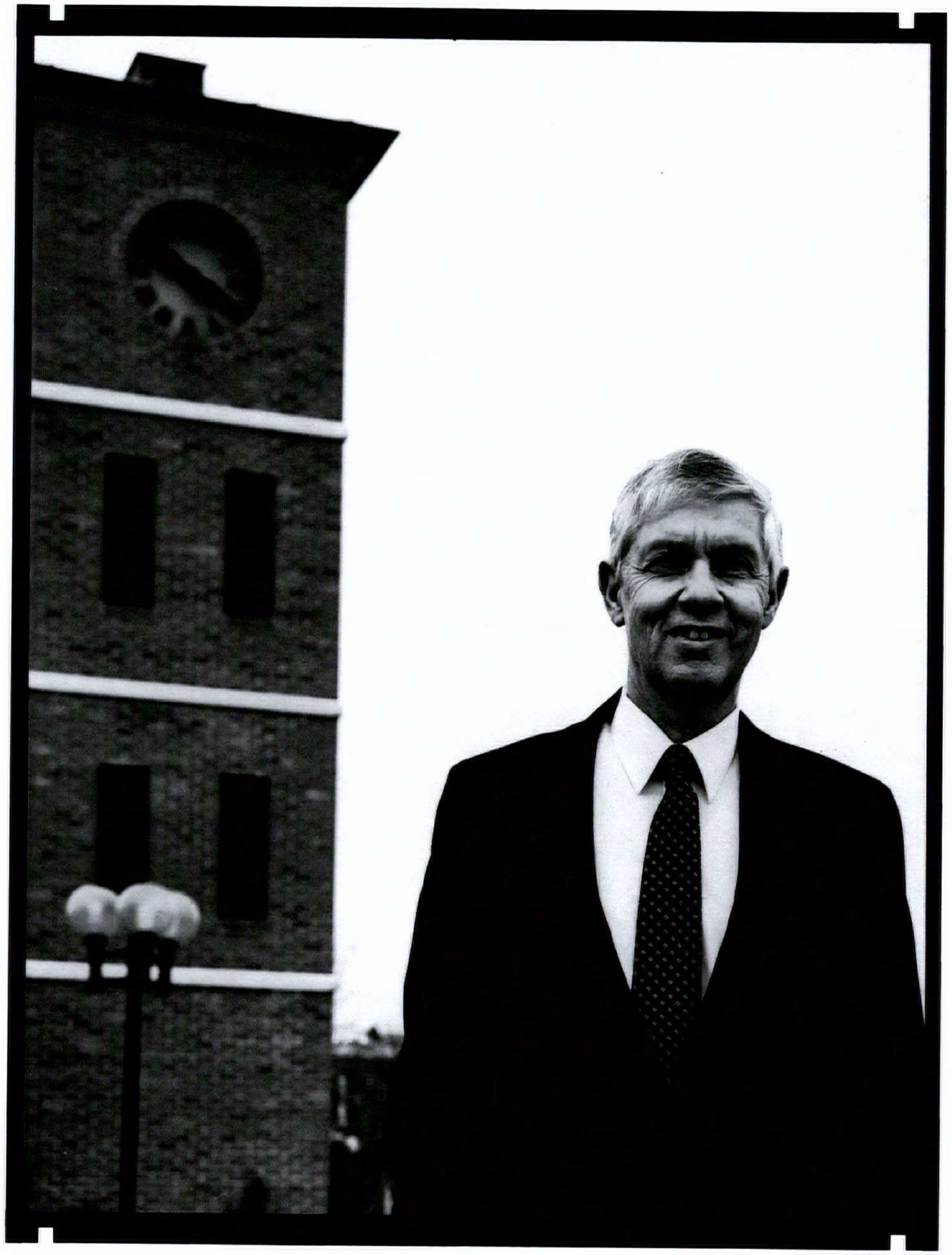


This has also been a good year for the city's new TechPark. The premiere commercial and light industrial park, with its 10 acre chain of lakes, jogging trails and carefully designed aesthetics has garnered 44 million dollars in private investment so far and will provide over 1300 jobs by mid 1990. Directly adjacent to the park is York Technical College which provides customized job training to the three county area surrounding Rock Hill. The college also has the distinction of being the only community college in the country to participate in the Department of Energy's Electric Vehicle Research Program.

"It's more than a suburb," says Rock Hill's Lanford, "this new urban village is re-shaping our social structure and creating the Main Street of tomorrow."



WINTHROP COLLEGE



In September of 1989, when Ahlstrom Corporation, of Helsinki, Finland held a press conference to announce that Easley had been chosen as the site for a new $35 million dollar plant, company officials said they chose the PMPA member city because they knew that nearby Tri-County Tech would be able to provide the technical training plant workers would need.

"It was this partnership between education and industry that attracted Ahlstrom to Easley," says Richard S. Hale the city's Combined Utility Manager and PMPA board member, "and our ability to meet their infrastructure needs sold them. We are the only location in Pickens County that has a sewer system with enough capacity to handle an operation of this size."

Easley has also embarked on an innovative sludge stabilization process that uses ordinary kiln dust and a new drying process to turn sewage sludge into organic matter that can be used by commercial greenhouses.

"This means we will reduce the amount of sludge dumped in the landfill," says Hale. "We're not running out of space as fast as many northern states, but it will be a problem later if we don't do something about it now. We're going ahead with it because it will help us save taxpayers and local industry money and improve our waste handling capability. And I guess it goes without saying, those are the things that will continue to make Easley an attractive site for economic development."

CLEMSON

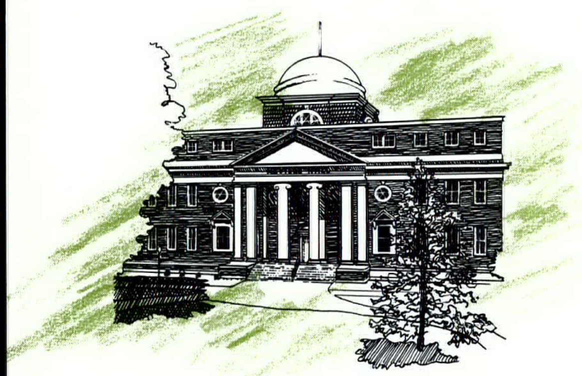
Nestled in the greenery of the rolling hills of Northwestern South Carolina, Clinton offers an enviable quality of life. The city of 10,000 is conveniently located on Interstate I-26 midway between the state's two largest urban centers, Columbia and Greenville/Spartanburg. It is home to Presbyterian College, one of the South's most prestigious four year institutions. In fact, many of the college's students have chosen to stay in Clinton after graduation and can now be found among the city's civic establishment and business community.

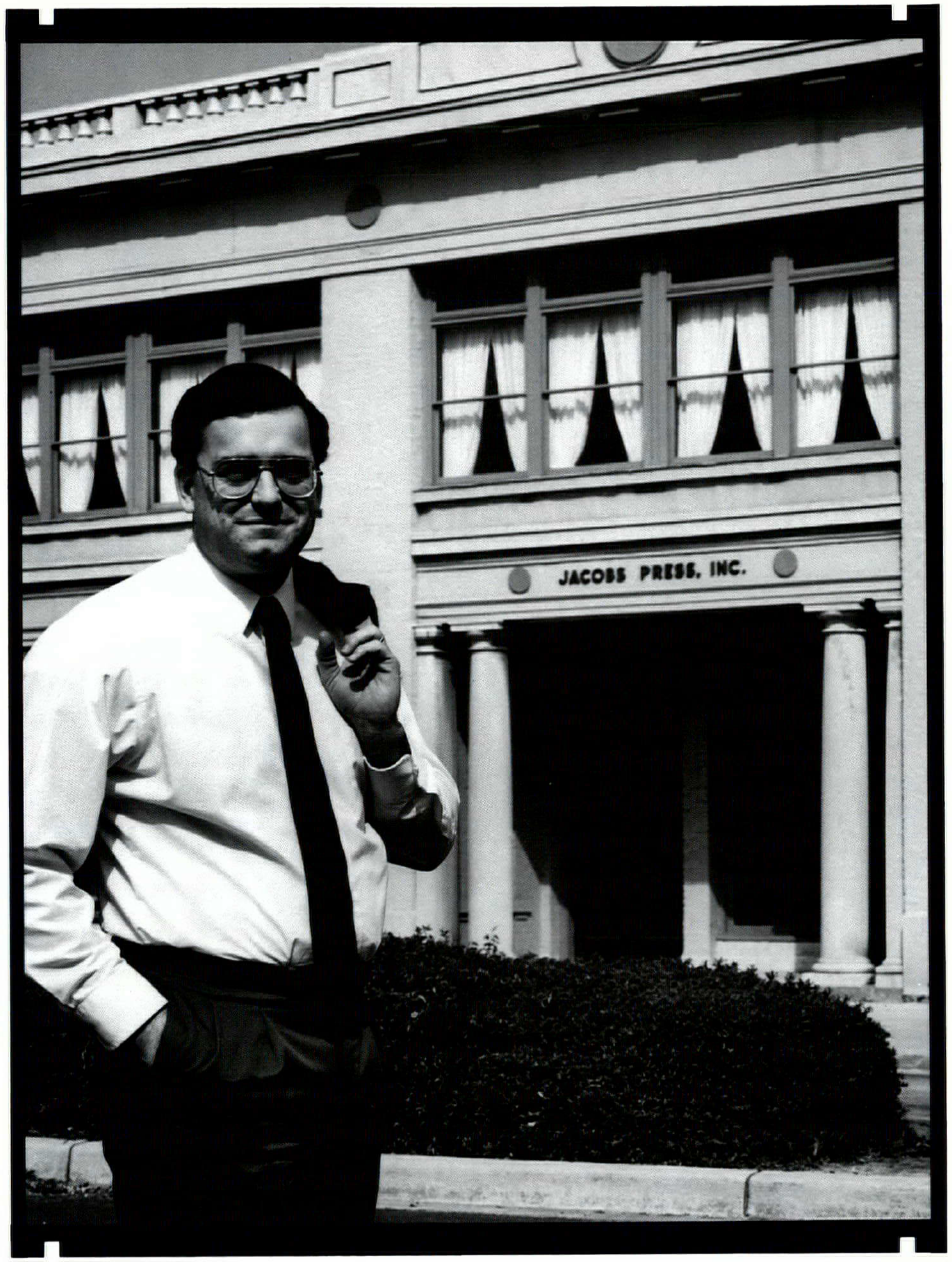
In 1985 Clinton became a South Carolina "Main Street" city and formed a partnership with downtown business owners to refurbish storefronts, restore historic buildings and spruce up the city's green space. "I really believe it is paying off," says City Manager Steve Harrell. "In the last six months alone, four new retail businesses opened downtown, including a branch of Palmetto Bank. People like to come downtown to shop now. This vitality and our steady retail growth has strengthened the community. . . Clinton is very strong."

The city has also formed a new advisory board to make recommendations concerning future beautification plans. "Our city council is deeply involved in maintaining Clinton's unique character and quality of life," says Harrell. "They're even considering a city code that would set minimum standards for the appearance of downtown store fronts."

The city's largest employer, Clinton Mills has made major investments in new equipment in recent years. Newly annexed areas of Clinton continue to grow and prosper, as well. In 1990, the city will begin a $2.5 million upgrade of its water plant which will add the capacity necessary to accommodate predicted economic growth.

"In ten years," says Clinton's Harrell, "I think the quality growth we're going to experience in the 90's will be a shock to people who remembered Clinton as a small mill town."



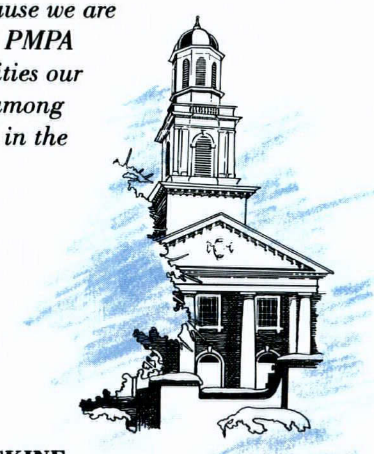


Abbeville was the first community in the country to use historic preservation as a means of restoring its downtown. An elegant Victorian Opera House, a beautifully restored inn and turn-of-the century shops, all perfectly refurbished right down to period furnishings, line the town's charming square. Graciously renovated antebellum homes are scattered throughout the surrounding neighborhoods of afforable, contemporary homes. Abbeville, dubbed by historians as the birthplace and deathbed of the Confederacy, draws tourist from throughout the southeast.

This quaint community is also luring economic investment dollars. "We've got an abundant water supply," says City Manager David Krumwiede, "and Abbeville's state of the art waste treatment facility has enough capacity to handle predicted industrial growth well into the 21st century."

New highway construction, slated for completion in 1990, will make Abbeville easily accessible from the region's major interstate highways. "And nearby Piedmont Tech has one of the most comprehensive robotics programs in the Southeast," adds Krumwiede, "not to mention their job training program that can be tailored to suit any company's needs."

"We think our community has a lot to offer the company looking to expand or relocate. We can offer an abundant power source, right now and in the future," says Krumwiede, "and because we are one of the PMPA member cities our rates are among the lowest in the region."



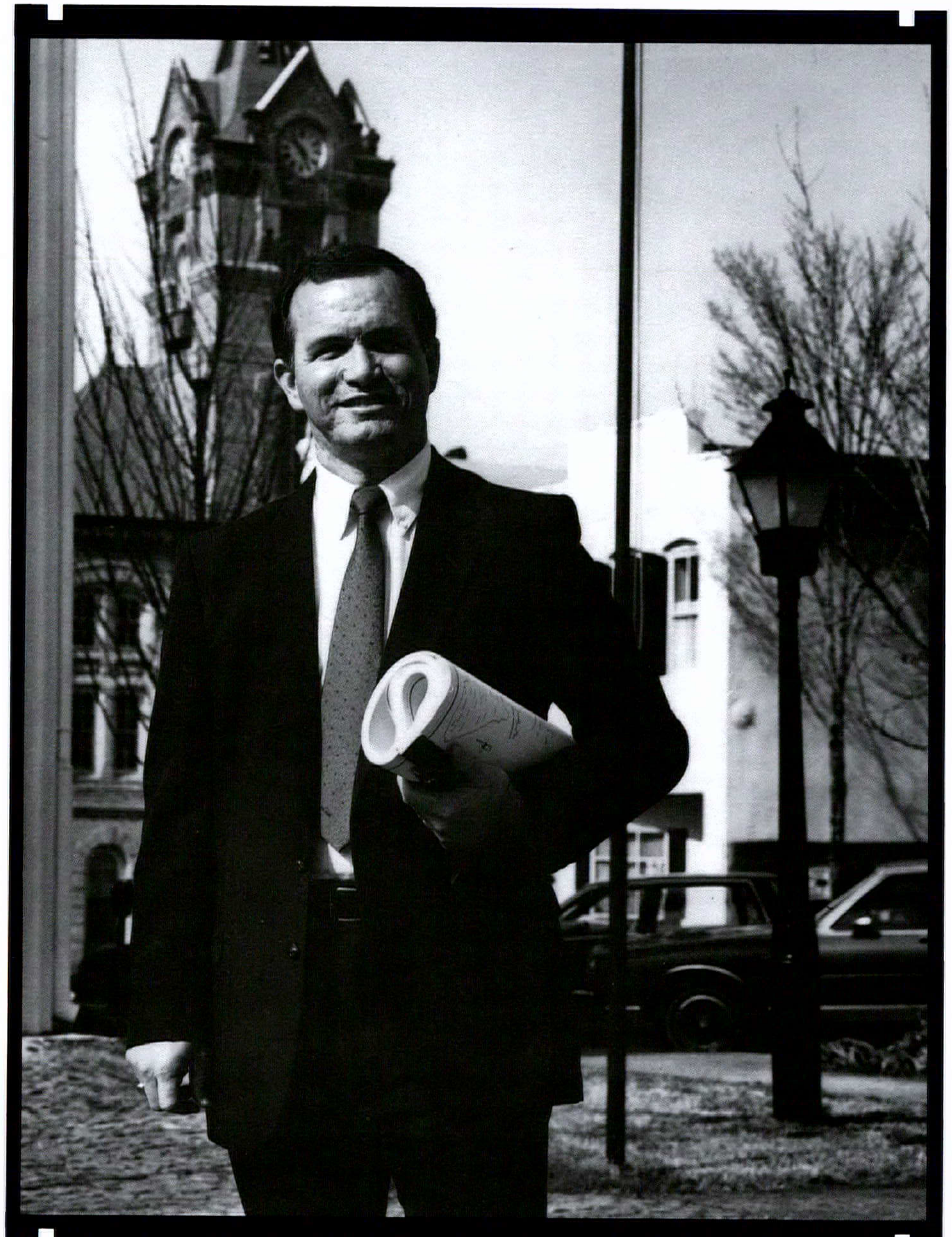
ERSKINE

When city officials in Gaffney decided to get involved in plans for re-developing their downtown they wanted local businessmen and civic leaders to know they meant business. So they purchased a city block and rebuilt it, creating a new complex to house the Board of Public Works offices and operations center. "We wanted to help instill pride in downtown Gaffney," says Board of Public Works Manager Dick Crater, "and I think it worked. Since our new offices went up, nearly a half dozen businesses have refurbished their storefronts."

The Gaffney area has been ranked one of the five most rapidly growing areas in the state in four of the last five years. The city has just completed construction of a new six million gallon a day water plant and improvements on its two wastewater treatment plants. The city is also making major improvements to infrastructure in areas designated for industrial growth in the 1990's. "We're ready for growth," says Crater. "PMPA rates have helped us compete with investor owned utilities for new industrial customers. . . companies, all of whom have become outstanding corporate citizens."

One such partnership, with Timken, Inc., has resulted in a half million dollar grant to study and plan growth in the area's public school system. "I think improvement in education is the most important ingredient when you look at the overall challenge of economic development," says Crater. "We've got to do more than just build water and sewer lines," he adds. "We must educate and continue enriching the entire community to achieve the level of prosperity our citizens deserve. There is no better place to raise a family. . . you can be at a symphony concert in Charlotte in 35 minutes or attend one of the many cultural functions at nearby Limestone and Wofford Colleges almost any night of the week. What's more," he adds, "we've got the best hunting and fishing in the Southeast."

LIMESTONE

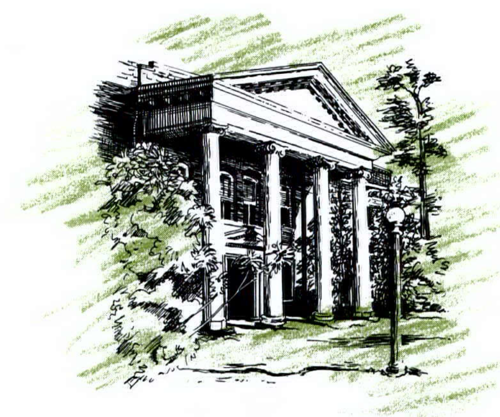


Home of Lutheran supported Newberry College, chartered by the General Assembly in 1856, the City of Newberry has a rich heritage that is evident in its gracious town center and grandly restored antebellum homes. The city enjoys a close relationship with historic Newberry College. . . a partnership that has enriched the community and helped to bring about broad based support of the school's cultural endeavors.

The city is located four miles off Interstate 26 and is only 45 minutes from the state's capital, making it an ideal location for industrial development.

"We've already started working to expand water and sewer service to these prime development areas which are adjacent to the interstate," says Steve Reeves, Utility Director for the City of Newberry. "We're also beginning a two year project in 1990 to expand our water treatment facility by 50 percent to facilitate anticipated economic growth. And as a member of PMPA," adds Reeves, "we can offer industrial prospects the abundant, competitively priced power it's going to take to fuel economic expansion in the 1990's."

"Newberry is experiencing a renewed spirit of commitment and dedication to economic growth and development," says Utility Director Reeves, "and with all this enthusiasm, there's no telling what we will be able to accomplish in the nineties."



NEWBERRY COLLEGE

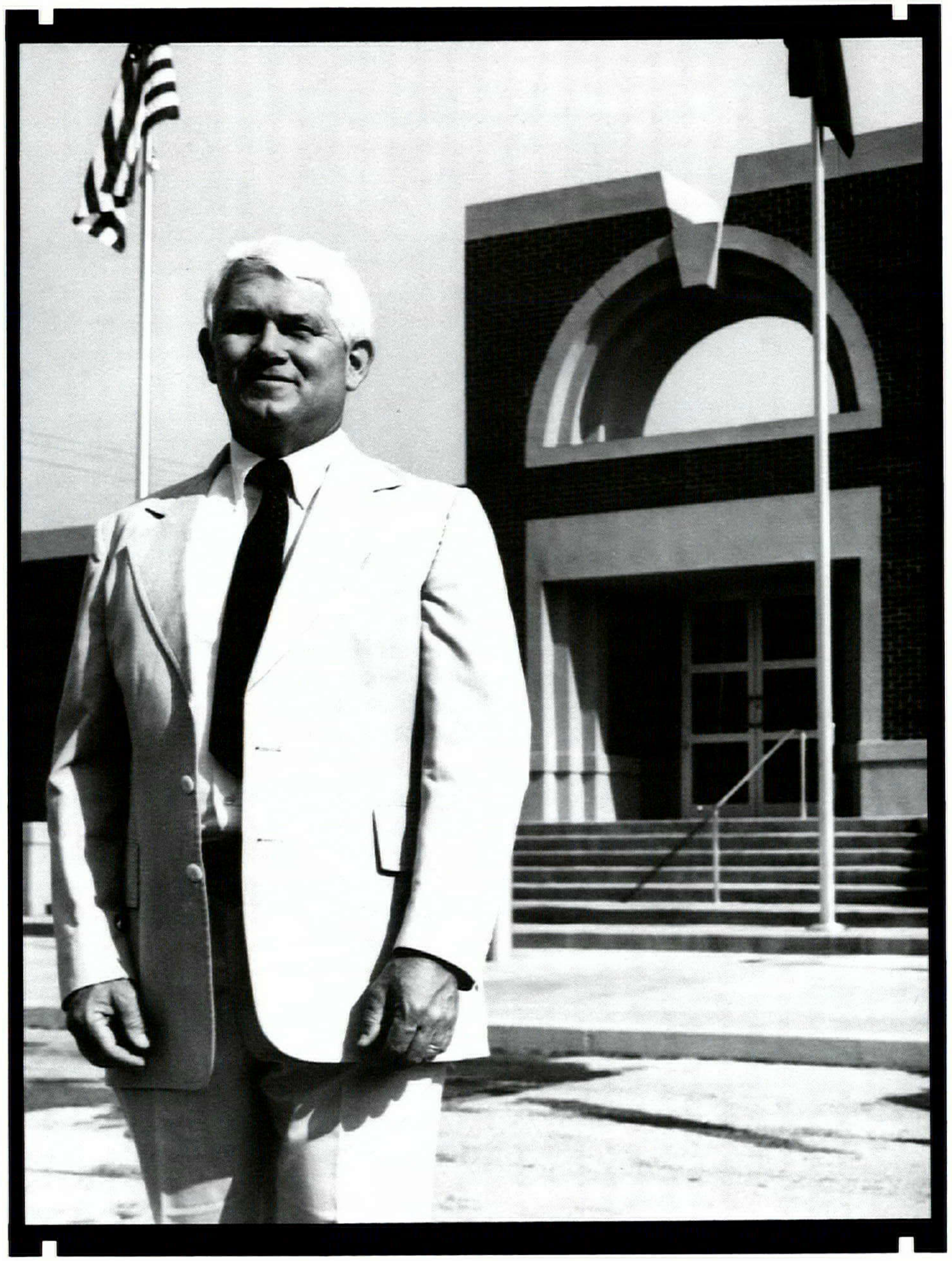
There is a transformation taking place in the city of Union. A methodical, profound change that is diversifying the local economy and revitalizing the community. Located in the heart of Union county, the city is surrounded by rolling hills and lush farm land. The textile industry has been the region's principal employer since the turn of the century. But over the last decade new industries have sought out Union. . . pharmaceuticals, forest products and other light industrials. . . companies looking for a skilled work force and the quality of life that PMPA cities have become known for.

"We have been able to support this economic growth in part because we looked ahead and planned for Union's future," says Combined Utility Director Tom Sherbert. "And in part because of PMPA. Without this ten city alliance, our electric rates might not be competitive and we wouldn't be able to tell prospective employers that we have an abundant source of power in the future."

Union has also begun work on a project that will expand the city's natural gas lines to meet future industrial growth predicted for the region in the 1990's. "It has been a busy year," says Sherbert, "in addition to the gas project, we've improved our water system and added capacity to our waste treatment system. We've also been diligent about updating to meet federal and state environmental requirements so we won't be playing catch up in a couple of years."

Economic growth in Union has spurred development in other areas of the community as well. The Union campus of the University of South Carolina is one of the fastest growing in the state system and in 1989 public school officials announced marked improvements in math and reading assessment scores throughout Union county.

USC/UNION



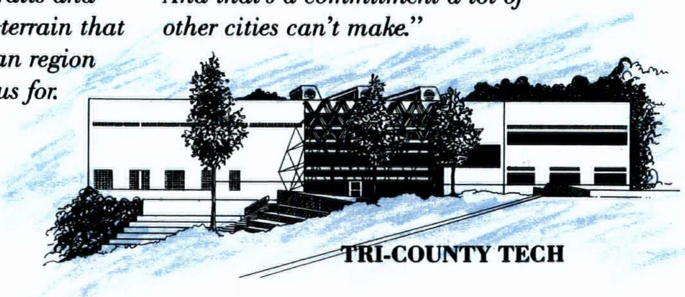
If you listen carefully, you can hear the sound of mountain streams from just about anywhere in Westminster. This modest city, tucked away in the scenic Cherokee Foothills, is surrounded by thundering rivers and mountain fishing streams. . . fine nature trails and the beautiful mountain terrain that the southern Appalachian region has become world famous for.

Westminster is the center of the state's apple producing region and every year the city hosts the South Carolina Apple Festival. Agribusiness is vital to the region's economy, poultry is the number one producer and local forestry resources have attracted considerable economic investment in recent years.

"Because of where we are, agribusiness will always be an important part of our economy," says Public Works Superintendent Gary Cobb, "but we haven't been left out of the regional transition to a highly industrialized economy."

Over 30 million dollars in new plants and equipment was invested in Westminster last year creating over 200 jobs. "And we've had many more inquiries," adds Cobb. "We think there are lots of reasons industry would want to come to Westminster. . . nearby Tri-County Tech can train workers in microelectronics, robotics and electromechanical maintenance and people here know the meaning of an honest day's work. . . but one of our best selling points has been our membership in PMPA."

"Because we're a PMPA city we can provide industry with a reliable source of power at competitive rates, now and for the rest of the decade. And that's a commitment a lot of other cities can't make."



TRI-COUNTY TECH

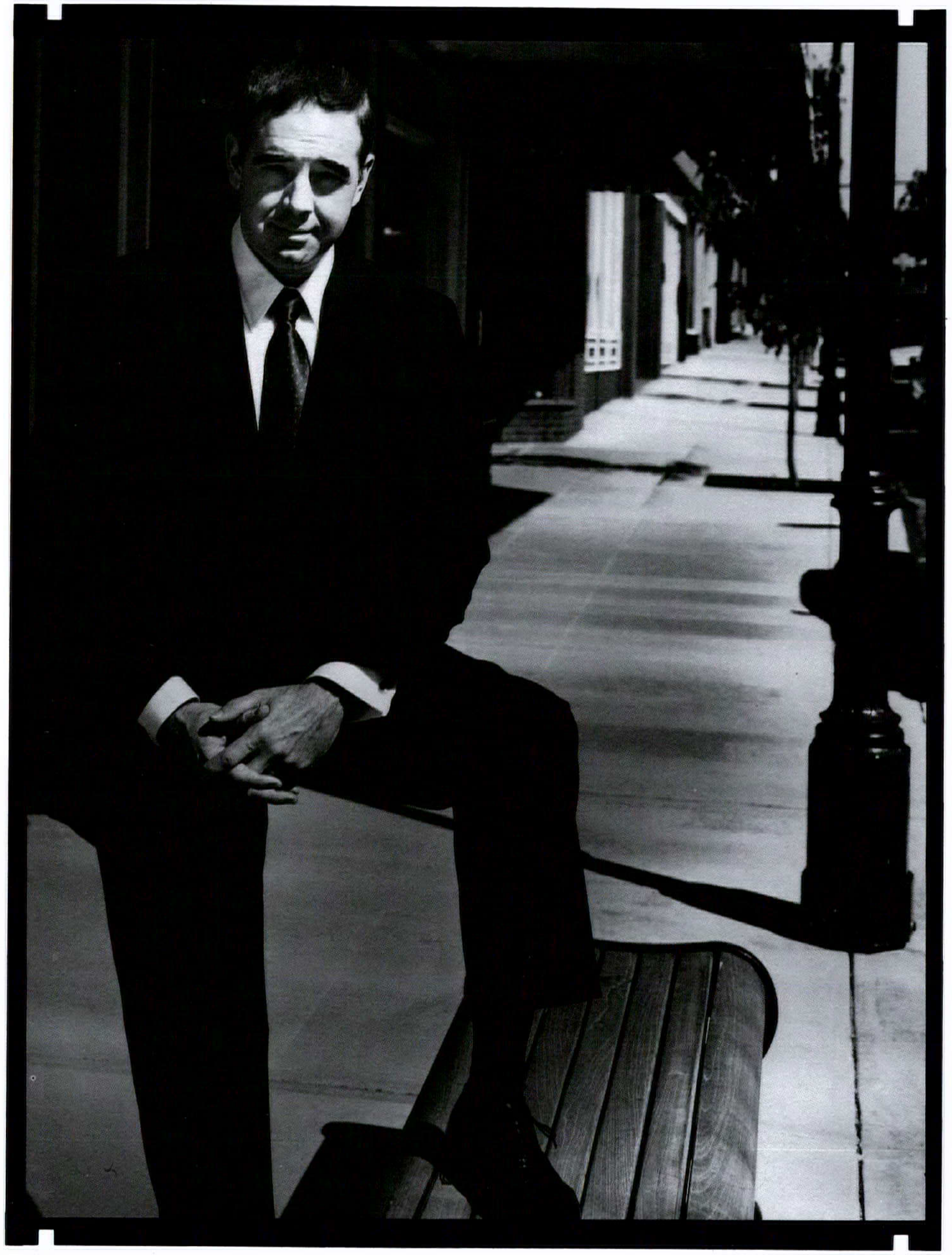
It is hard to rival the quality of life one finds in a community like Laurens. There is a civic heritage, a partnership between local government and industry here, that is rare these days. The city responds to the needs of its citizens in a positive and progressive way.

Laurens has made substantial improvements in public education in the last decade. When there was a need to upgrade medical care, the people of Laurens County came together to construct a 96-bed state-of-the-art facility. The Laurens County Hospital opened in the fall of 1989.

"I believe the city and county of Laurens are poised for economic growth," says CPW General Manager Coleman Smoak, Jr. The Commission of Public Works is developing the Hunter Industrial Park, one of the most strategically located business parks in South Carolina. The city has also begun a 5-year plan to expand natural gas lines and a $6 million expansion of its wastewater treatment plant. "This will triple the facility's capacity and allow us to meet the demands of the industrial growth that has been predicted for Laurens in the 90's," adds Smoak.

"However, economic development is more than building industrial parks and keeping up with infrastructure needs. . . we think our new library and the improvements we've been able to make in public education are fundamental in our pursuit of prosperity and community well-being."

PIEDMONT TECH

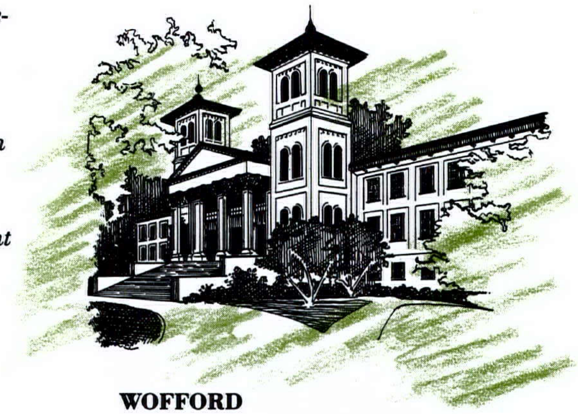


Located between Greenville and Spartanburg, two of the largest and fastest growing cities in South Carolina, Greer has managed to hold on to all the desirable qualities of small town living. . . while gaining the opportunities and excitement of the big city.

"It's wonderful to have the cultural life of these cities so close by," says Public Works Commissioner David Duncan, "but it is also nice to come home to the peace and quiet of our community."

In 1988 the city began "Streetscape", an ambitious program that has changed the look of Greer's business district. "Power lines have been moved underground, we have new street lights, and soon we'll begin creating greenspace downtown," says Commissioner Duncan. "These improvements are exciting but they are only a small part of what is going on in Greer," he adds. "We've made major improvements in our electric transmission lines, extended natural gas lines and added capacity to our waste handling facility. . . improvements that will help us meet the demands of economic growth predicted for the 1990's in Greer."

Greer was one of the first cities in this state to begin revitalization and historic preservation of its downtown. "There is a commitment to maintaining the virtues of small town living here," says Duncan, "but this doesn't mean putting the brakes on economic development. In fact, to continue the progress we have made, we will have to continue to grow and prosper. PMPA has been an invaluable ally in our efforts. Membership in PMPA has helped us keep our electric rates competitive and that has attracted new and expanding industry and helped us maintain a good relationship with our customers."



WOFFORD

The Piedmont Municipal Power Agency emerged from 1989 a solid competitor in the regional power market. The agency maintained a competitive, stable wholesale rate, which in turn has enabled our member cities to keep consumer and industrial rate increases to a minimum. In 1990 we will not raise our wholesale rate and only modest increases are predicted through the mid 90's. Energy growth continues at a good rate. Growth of 2.5% this year compares to 3.0% growth in energy from 1987 to 1988.

Most of our efforts this year have been aimed at the goal of reducing the power costs of member cities in future years. And as we progress with the power supply study, we are beginning to identify ways to more effectively utilize PMPA's large base load nuclear capacity. The long range recommendations of this study will initiate actions that will bring the agency's power supply resources into a more efficient distribution between base load, intermediate load, and peaking generation. Two phases of this task were completed in 1989. A new load forecast was developed and a range of alternative power supply sources were investigated. In 1990 we will work to prioritize this list of alternative power supply sources and open dialogue with others to implement the most promising candidates.

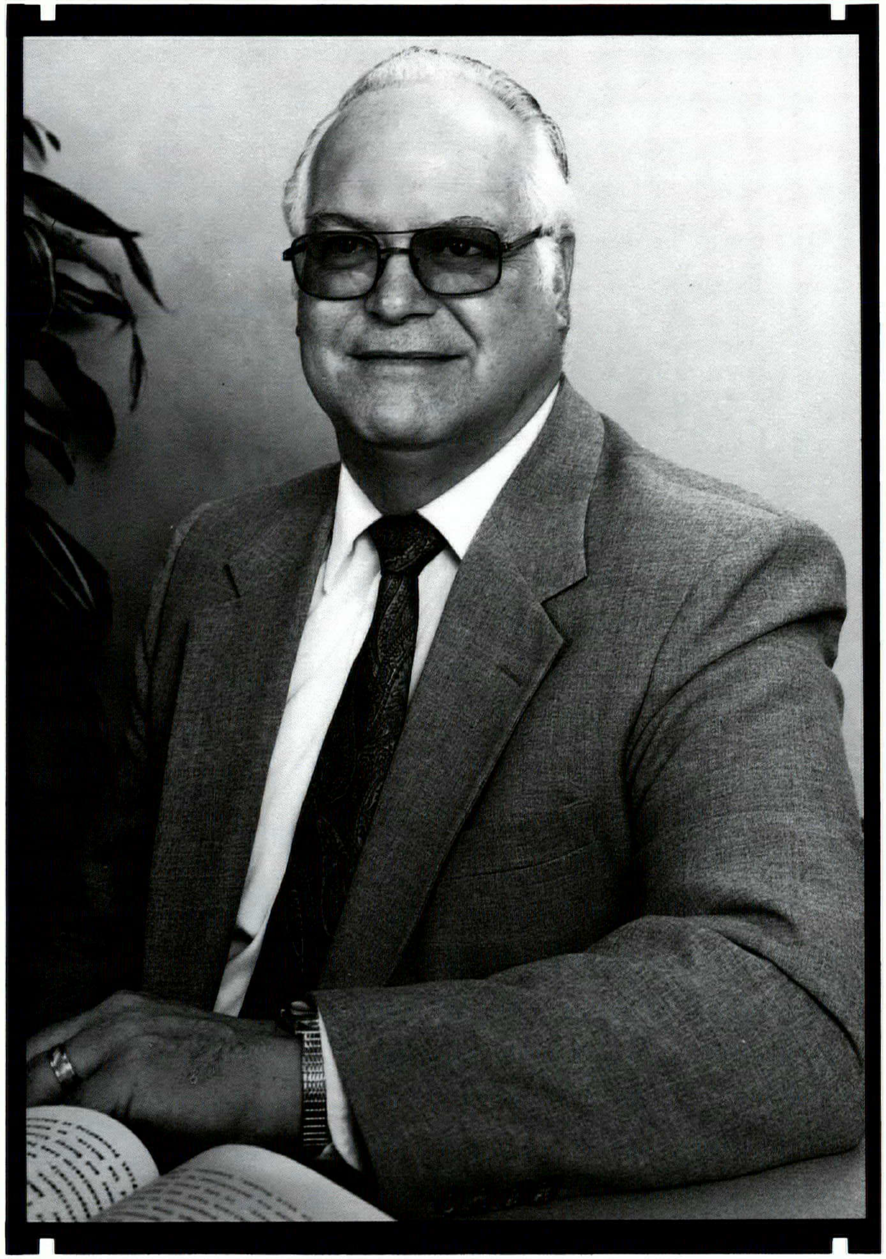
The PMPA staff took a leadership role in designing and implementing a detailed, systematic review of Duke's operating statement and invoices submitted to this agency and the other three Catawba buyers. This multi-faceted procedure will provide audit level assurance that invoices submitted to PMPA by Duke are correct and in accordance with our contract.

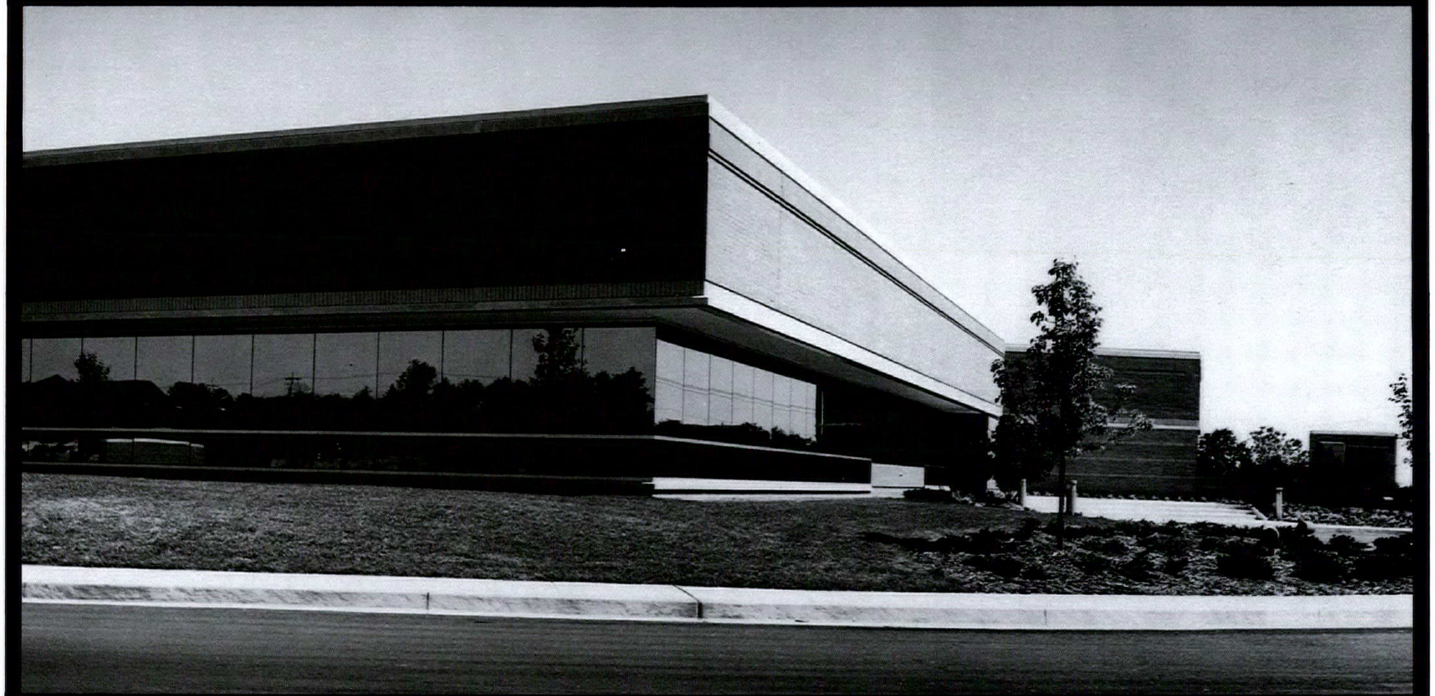
We also saw significant progress in resolving disagreements about Duke's methods of calculating operating bills and have achieved an agreement concerning the amount of refunds to be made by Duke to PMPA and other buyers. We expect the resolution of these issues to have immediate and long range beneficial effects on PMPA's power costs.

PMPA has also stepped into the economic development arena this year. We are finalizing an industrial developer's guide to the PMPA region that will provide more information about each city's infrastructure and services. And we have prepared a national advertising campaign for 1990 to inform corporate planners and site selection consultants about the PMPA region.

The most important contribution public power can make to the community's economic health, is to provide an abundant source of competitively priced power. We have made considerable progress towards this goal in 1989. I look forward to the challenges of the 90's and will continue to make every effort to help PMPA flourish in the future.

James Bauer





PMPA Headquarters in Greer, South Carolina

OFFICERS

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

Vice Chairman
Steve Harrell, Clinton City Manager
City of Clinton

Secretary
James A. Bauer
PMPA

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

Systems Analyst
Linda H. Lilla

Accounting Manager
Suzanne D. Barbrey

Accounting Clerk
Dorothy N. Carrel

Executive Secretary
Sarah C. Greene

Secretary
Tracy M. Barton

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David H. Krumwiede, City Manager

Clinton
Steve Harrell, City Manager

Easley
Richard S. Hale, General Manager
Combined Public Utilities

Gaffney
Larry A. Sossamon, Secretary-Treasurer,
Brookview House, Inc.

Greer
David V. Duncan, Commissioner,
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

Ernst & Young

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

We have audited the accompanying balance sheets of Piedmont Municipal Power Agency at December 31, 1989 and 1988, and the related statements of revenue 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 statements referred to above present fairly, in all material respects, the financial position of Piedmont Municipal Power Agency at December 31, 1989 and 1988, and the results of operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits have been made primarily for the purpose of expressing an opinion on the basic financial statements taken as a whole. The accompanying additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional financial information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young

April 19, 1990

(dollars in thousands)

	DECEMBER 31, 1989	DECEMBER 31, 1988
ASSETS		
Utility plant:		
Electric plant in service	$ 544,800	$ 542,824
Nuclear fuel	39,121	38,747
Construction work-in-progress	1,643	1,274
	585,564	582,845
Less, accumulated depreciation and amortization	(88,781)	(67,109)
Net utility plant	496,783	515,736
Restricted funds	322,946	322,305
Current assets:		
Revenue fund	263,408	256,151
Participant accounts receivable	4,977	4,662
Other accounts receivable	12,873	4,515
Materials and supplies	3,543	3,519
Total current assets	284,801	268,847
Deferred charges:		
Unamortized debt issuance costs	22,046	23,614
Net deferred expenses to be recovered from future revenue	122,574	110,488
Excess costs on advance refundings of debt	177,253	183,958
Other	270	283
	322,143	318,343
Organization costs	1,018	1,048
Total assets	$ 1,427,691	$ 1,426,279
LIABILITIES AND RETAINED EARNINGS		
Long-term debt:		
Bonds	$ 1,335,376	$ 1,335,726
Unamortized discounts	(73,875)	(76,484)
	1,261,501	1,259,242
Notes	100,000	100,000
	1,361,501	1,359,242
Restricted fund liabilities:		
Accrued interest payable	48,729	44,561
Reserve for decommissioning	1,778	1,193
Deferred compensation	183	110
	50,690	45,864
Current liabilities:		
Accounts payable	3,049	4,278
Retained earnings	12,451	16,895
Total liabilities and retained earnings	$ 1,427,691	$ 1,426,279

See accompanying notes.

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN RETAINED EARNINGS

(dollars in thousands)

	YEAR ENDED DECEMBER 31,	
	1989	1988
Operating revenue:		
Sales of electricity to participants	$ 64,791	$ 61,016
Sales of electricity to other utility	87,123	89,191
	151,914	150,207
Operating expenses:		
Operation and maintenance	26,413	27,048
Nuclear fuel amortization	8,667	11,010
Power supply services:		
Purchased power	42,153	44,283
Transmission	4,477	4,441
Payments in lieu of property taxes	2,465	2,376
Administrative and general	3,737	3,348
Depreciation	19,400	17,774
Decommissioning	586	529
	107,898	110,809
Net operating income	44,016	39,398
Other (charges) and credits:		
Interest expense	(103,722)	(101,106)
Investment income	48,476	45,556
Amortization expense	(10,929)	(10,115)
Other income	5,629	0
	(60,546)	(65,665)
Net deferred expenses to be recovered from future revenue	12,086	33,954
Revenue (under) over expenses	(4,444)	7,687
Retained earnings, beginning of period	16,895	9,208
Retained earnings, end of period	$ 12,451	$ 16,895

See accompanying notes.

(dollars in thousands)

	YEAR ENDED DECEMBER 31, 1989	1988
Cash flows from operating activities:		
Revenue over (under) expenses	$ (4,444)	$ 7,687
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,996	38,899
Net deferred expenses to be recovered from future revenue	(12,086)	(33,954)
Changes in assets and liabilities:		
Increase in participant accounts receivable	(315)	(329)
Decrease (increase) in other accounts receivable	(8,358)	2,812
Increase in accrued interest receivable	(4,699)	(3,444)
Decrease (increase) in materials and supplies	(24)	488
Increase in deferred compensation	73	35
Decrease in accounts payable	(1,229)	(2,130)
Increase (decrease) in accrued interest payable	4,168	(7,247)
Net cash provided by operating activities	12,082	2,817
Cash flows from investing activities:		
Net increase in investments	(41,704)	(5,875)
Expenditures for electric plant in service	(2,414)	(3,869)
Disposals of electric plant in service	0	199
Expenditures for nuclear fuel	(6,704)	(7,465)
Net cash used in investing activities	(50,822)	(17,010)
Cash flows from financing activities:		
Addition to reserve for decommissioning	585	529
Payment of bond principal	(350)	0
Issuance of bonds	0	235,361
Payment of notes	0	(100,000)
Refunding of bonds	0	(238,319)
Net cash provided by (used in) financing activities	235	(102,429)
Net decrease in cash	(38,505)	(116,622)
Cash at beginning of year	45,381	162,003
Cash at end of year	$ 6,876	$ 45,381
Supplemental disclosure of cash flow information:		
Cash recevied during the year for:		
Interest	$ 43,777	$ 42,112
Cash paid during the year for:		
Interest	$ 99,554	$ 108,353

Supplemental schedule of noncash investing and financing activities:

During the years ended December 31, 1989 and 1988, the Agency removed $6,393 and $14,302, respectively, of nuclear fuel and related amortization from its books.

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 1989 and 1988

(dollars in thousands)

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 (participants) 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 percent 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 percent of the output of Unit 1 and 12 1/2 percent of the output of Unit 2. Furthermore, the Agency's costs for 25 percent legal ownership in Unit 2 are based on 12 1/2 percent 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. Additionally, the Agency is charged for its pro-rata portion (12 1/2 percent) of operation and maintenance expenses of Unit 1 and Unit 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accounting records of the Agency 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.

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 as required under its General Bond Resolution.

Certain 1988 items have been reclassified to conform to 1989 presentation.

Unamortized Debt Issuance Costs — Unamortized debt issuance costs at December 31, 1989 and 1988 of $22,046 and $23,614, respectively, (net of accumulated amortization of $7,176 and $5,608, 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, 1989 and 1988 of $177,253 and $183,958, respectively, (net of accumulated amortization of $20,387 and $13,682, respectively) are being amortized on the bonds outstanding method.

Organization Costs — Organization costs at December 31, 1989 and 1988 of $1,018 and $1,048, respectively, (net of accumulated amortization of $148 and $119, 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, 1989 and 1988 of $73,875 and $76,484, respectively, (net of accumulated amortization of $8,208 and $5,599, 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 cash to be as it is disclosed in Notes 4 and 5. All highly liquid debt instruments purchased with a maturity of three months or less are considered to be marketable debt securities.

3. UTILITY PLANT

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

	DECEMBER 31,	
	1989	1988
Land	$ 329	$ 329
Structures and improvements	151,527	151,527
Reactor plant equipment	243,656	243,656
Turbo generator units	68,916	68,916
Accessory electric equipment	50,144	50,144
Miscellaneous plant equipment	10,900	10,890
Station equipment	4,718	4,718
Other	1,390	71
Unclassified	13,220	12,573
TOTAL	$ 544,800	$ 542,824

Unclassified assets represent constructed assets in service that have not been classified to specific plant accounts.

Nuclear fuel at December 31, 1989 and 1988 of $39,121 and $38,747, 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, 1989 and 1988 of $1,643 and $1,274, respectively, is for the Catawba Nuclear Station. 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, including unclassified assets, are 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:

	DECEMBER 31,	
	1989	1988
Depreciation — electric plant in service	$ 70,368	$ 50,968
Amortization of nuclear fuel	18,413	16,141
	$ 88,781	$ 67,109

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, 1989 and 1988 consist of the following assets stated at cost, which approximates market:

	DECEMBER 31,	
	1989	1988
Construction	$ 27,667	$ 25,974
Bond	153,901	152,985
Note	0	0
Reserve and contingency	11,174	11,406
Decommissioning	1,778	1,193
Special reserve	15,331	15,230
Refunding trust	112,912	115,407
Deferred compensation	183	110
	$ 322,946	$ 322,305
Funds are comprised of:		
Cash	$ 196	$ 39,348
Marketable debt securities	317,835	280,257
Accrued interest recivable	6,227	2,741
Due to revenue fund	(1,312)	(41)
	$ 322,946	$ 322,305

The Agency is required by the bond resolution to maintain minimum balances in certain restricted funds. At December 31, 1989 and 1988, the amounts in these restricted funds were greater than or equal to the required minimum balances.

(dollars in thousands)

5. REVENUE FUND

The revenue fund was established to account for the operations of the Agency and consists of the following assets stated at cost, which approximates market:

	DECEMBER 31, 1989	DECEMBER 31, 1988
Funds are comprised of:		
Cash	$ 6,680	$ 6,033
Marketable debt securities	240,854	236,728
Accrued interest receivable	14,562	13,349
Due from restricted funds	1,312	41
	$ 263,408	$256,151

6. NET DEFERRED EXPENSES TO BE RECOVERED FROM FUTURE REVENUE

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

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

	DECEMBER 31, 1989	DECEMBER 31, 1988	CHANGE
Items to be recovered in future participant billings:			
Interest expense	$ 312,731	$ 302,285	$ 10,446
Depreciation expense	70,365	51,082	19,283
Amortization of redemption and defeasance losses	19,906	13,189	6,717
Amortization of bond discounts and debt issuance costs	16,546	12,363	4,183
Nuclear fuel expenses	873	873	0
Letter of credit fees	5,649	5,341	308
Other	1,702	994	708
	427,772	386,127	41,645
Items reducing future participant billings:			
Investment income	(83,776)	(73,038)	(10,738)
Rate stabilization (revenue received to reduce future billings to participants)	(248,843)	(214,151)	(34,692)
Reserve and contingency deposits	(1,794)	(1,895)	101
	(334,413)	(289,084)	(45,329)
Deferred revenue (expenses) recognized:			
Deferred interest, depreciation, amortization expense included in participant billings for debt principal payments	(805)	(350)	(455)
Rate stabilization draws applied to expenses	29,838	13,795	16,043
Reserve and contingency revenue applied to expenses	182	0	182
	29,215	13,445	15,770
Net deferred expenses to be recovered from future revenue	$ 122,574	$ 110,488	$ 12,086

Included in the rate stabilization balance at December 31, 1989, is a refund from Duke of $5,623 in settlement of certain challenged costs. See Note 10.

7. LONG-TERM DEBT

Long-term debt of the Agency at December 31, 1989 is as follows:

	Principal	Unamortized Discount	Total
Bonds:			
Series 1984	$ 59,510	$ 15,729	$ 43,781
Series 1985	26,705	5,366	21,339
Series 1985B	248,000	0	248,000
1985 Refunding Series	56,430	12,961	43,469
1986 Refunding Series	342,140	17,931	324,209
1986A Refunding Series	363,735	19,131	344,604
1988 Refunding Series	124,152	548	123,604
1988A Refunding Series	114,704	2,209	112,495
	1,335,376	73,875	1,261,501
Notes:			
Series 1984	100,000	0	100,000
Total	$ 1,435,376	$ 73,875	$ 1,361,501

Long-term debt of the Agency at December 31, 1988 is as follows:

	Principal	Unamortized Discount	Total
Bonds:			
Series 1984	$ 59,510	$ 16,539	$ 42,971
Series 1985	26,705	5,576	21,129
Series 1985B	248,000	0	248,000
1985 Refunding Series	56,430	13,332	43,098
1986 Refunding Series	342,140	18,463	323,677
1986A Refunding Series	363,735	19,713	344,022
1988 Refunding Series	124,502	575	123,927
1988A Refunding Series	114,704	2,286	112,418
	1,335,726	76,484	1,259,242
Notes			
Series 1984	100,000	0	100,000
Total	$ 1,435,726	$ 76,484	$ 1,359,242

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 of the bonds were recorded as outstanding at both December 31, 1989 and 1988.

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

The bonds bear an annual interest rate of 7 percent and mature on January 1, 2013. The bonds are redeemable at the option of the Agency at prices ranging from 103 percent of the bond principal amount in 1995 to 100 percent 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, the Agency defeased $200,895 and $111,265 of the Electric Revenue Bonds, Series 1985 in July 1986 and March 1988, respectively. On July 1, 1987, the Agency redeemed prior to maturity $1,135 of the bonds. Thus, $26,705 of the bonds were recorded as outstanding at December 31, 1989 and 1988.

The bonds are special obligations of the Agency and are secured by future revenue 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.

December 31, 1989 and 1988

(dollars in thousands)

7. LONG-TERM DEBT (continued)

The bonds bear an annual interest rate of 7.5 percent and mature on January 1, 2016. The bonds are redeemable at the option of the Agency on or after January 1, 1995 upon payment of the principal balance.

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 percent 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 percent 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 $3,719 accrued interest on the bonds. No borrowings under the letter of credit have occurred as of December 31, 1989.

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, 1989, the interest on the bonds has been at a weekly rate. For the years ended December 31, 1989 and 1988, the average weekly interest rate on the bonds was 6.42 percent and 5.33 percent, respectively. Also, the bonds may be permanently converted to a fixed rate. Any time prior to their conversion to a fixed rate, the bonds are redeemable at the option of the Agency at a price equal to 100 percent 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 percent of the bond principal amount from 1986 to 2013 to 100 percent 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, the Agency defeased $288,895 and $98,725 of the Electric Revenue Bonds, 1985 Refunding Series in December 1986 and November 1988, respectively. On July 1, 1987, the Agency redeemed prior to maturity $1,275 of the bonds. Thus $56,430 of the bonds were recorded as outstanding at December 31, 1989 and 1988.

The bonds are special obligations of the Agency and are secured by future revenue 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 percent and mature on January 1, 2025. The bonds are redeemable at the option of the Agency on or after January 1, 1996 upon payment of the principal balance.

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 revenue 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 percent to 8 percent 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 percent of the bond principal amount in 1996 to 100 percent 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 revenue 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 percent to 7.25 percent 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 percent of the bond principal amount in 1996 to 100 percent in 2000 and thereafter.

Electric Revenue Bonds, 1988 Refunding Series

In March 1988, the Agency issued $124,502 of Electric Revenue Bonds, 1988 Refunding Series at an original issue discount of $595 for the purpose of providing funds necessary to refund $111,265 of Electric Revenue Bonds, Series 1985 described earlier in this footnote. On January 1, 1989, $350 of the bonds matured and were paid from debt service sinking funds.

The bonds are special obligations of the Agency and are secured by future revenue 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 when due is insured.

The bonds bear an annual interest rate ranging from 5.25 percent to 7.75 percent with maturity dates ranging from January 1, 1990 to January 1, 2018. The bonds are redeemable at the option of the Agency at prices ranging from 102 percent of the bond principal amount in 1998 to 100 percent in 2000 and thereafter.

Electric Revenue Bonds, 1988A Refunding Series

In November 1988, the Agency issued $114,704 of Electric Revenue Bonds, 1988A Refunding Series at an original issue discount of $2,293 for the purpose of providing funds necessary to refund $98,725 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 revenue 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 when due is insured.

The bonds bear an annual interest rate ranging from 6.7 percent to 7.65 percent with maturity dates ranging from January 1, 1998 to January 1, 2019. The bonds are redeemable at the option of the Agency at prices ranging from 102 percent of the bond principal amount in 1998 to 100 percent 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 revenue as defined under the note resolution.

The lien on revenue securing the notes is subordinate to the lien on revenue 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, 1989.

The notes consisted of two principal amounts of $100,000 each which bore annual interest rates of 8.5 percent and 9 percent and maturing 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.

The $100,000 principal amount which matured on January 1, 1988 was paid on that date from the funds provided by the issuance of the Electric Revenue Bonds, Series 1985B.

(dollars in thousands)

7. LONG-TERM DEBT (continued)

Principal debt and sinking fund requirements

The following is a summary of the principal debt and sinking fund requirements for the bonds outstanding at December 31, 1989:

1990	455	2003	23,245	2016	56,665
1991	480	2004	23,890	2017	60,625
1992	1,010	2005	25,060	2018	64,985
1993	1,565	2006	26,918	2019	68,030
1994	1,655	2007	33,642	2020	76,620
1995	2,230	2008	27,058	2021	82,145
1996	8,925	2009	28,521	2022	88,035
1997	14,475	2010	29,972	2023	91,460
1998	15,940	2011	31,649	2024	100,380
1999	17,650	2012	33,449	2025	104,150
2000	18,865	2013	34,985		
2001	20,260	2014	47,132		
2002	21,650	2015	51,600		

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 percent bonds due 2014, $100,000 of 10.5 percent bonds due 2019, and $267,925 of 11 percent 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 percent 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 percent term bonds due 2004 and $30,000 of 10 percent term bonds due 2012; Series 1985: $13,765 of 9-9.7 percent serial bonds due 1996-2000, $16,650 of 10 percent term bonds due 2004, and $170,480 of 10.25 percent term bonds due 2025. The bonds will be redeemed on January 1, 1995, (the first optional redemption date) at the redemption price of 103 percent 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.

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 percent term bonds due 2013, $48,150 of 9.7 percent term bonds due 2016, and $215,570 of 9.7 percent term bonds due 2024. The bonds will be redeemed on January 1, 1996, (the first optional redemption date) at the redemption price of 103 percent 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.

In March 1988, the Agency purchased $117,763 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 1985: $80,110 of 9.375 percent term bonds due 2014 and $31,155 of 9.5 percent term bonds due 2018. The bonds will be redeemed on January 1, 1995, (the first optional redemption date) at the redemption price of 103 percent of their aggregate principal amount. This defeasance resulted in an extraordinary loss of $16,792 which is deferred as excess cost on advance refunding of debt.

In November 1988, the Agency purchased $105,781 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: $98,275 of 9.25 percent term bonds due 2019. The bonds will be redeemed on January 1, 1996, (the first optional redemption date) at the redemption price of 103 percent of their aggregate principal amount. This defeasance resulted in an extraordinary loss of $13,364 which is deferred as excess cost on advance refunding 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. 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 $49,625 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, 1989 and 1988 is $1,778 and $1,193, respectively.

10. 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, the Agency challenged certain components of these costs included in the monthly fees paid to Duke.

In April 1990, Duke refunded the Agency $5,623 in settlement of certain challenged cost existing at December 31, 1989. The benefit of this settlement has been recorded at December 31, 1989. The Agency is continuing negotiations with Duke on 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 other actions.

11. SUBSEQUENT EVENT

As described in Note 7, $455 of the Electric Revenue Bonds, 1988 Refunding Series matured and were paid on January 1, 1990, from debt service sinking funds on hand at December 31, 1989.

As described in Note 7, $100,000 of the Electric Revenue Bond Anticipation Notes, Series 1984, matured and were paid on January 1, 1990, from the Escrow Trust Principal funds on hand at December 31, 1989.

ADDITIONAL INFORMATION

SCHEDULE OF REVENUE AND EXPENSES PER THE BOND RESOLUTION AND OTHER AGREEMENTS

For the year ended December 31, 1989 and 1988

(dollars in thousands)

Revenue:	
Sales of electricity to participants	$ 64,791
Sales of electricity to other utility	87,123
Interest income (1)	41,708
Other income	5,629
Available from other funds	12,339
Total revenue	$ 211,590
Expenses:	
Operation and maintenance	$ 26,413
Fuel deposit	8,667
Power supply services:	
Purchased power	42,153
Transmission	4,477
Payments in lieu of property taxes	2,465
Administrative and general	3,737
Advances for project expenses:	
Inventory	25
Working capital	5,959
Special fund deposits:	
Debt service — principal	455
Debt service — interest	93,136
Rate stabilization fund	18,775
Reserve and contingency fund	977
Decommissioning fund	586
Construction fund	2,392
Supplemental reserve	1,373
Total expenses	$ 211,590

(1) Excludes $6,768 earned in the refunding escrow trust.

PIEDMONT MUNICIPAL POWER AGENCY

121 Village Drive
Greer, South Carolina 29651
803/877-9632

-NOTICE-

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