

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1

LETTER OF INTENT REGARDING THE SIZING OF PARTICIPANT'S SHARES OF CATAWBA (POST 2032)

THIS LETTER OF INTENT REGARDING THE SIZING OF PARTICIPANT'S SHARES OF CATAWBA (POST 2032) is dated as of the 31st day of July, 2023, and sets forth North Carolina Municipal Power Agency Number 1's ("Power Agency") present intention regarding the basis for establishing Participant's Shares in connection with offering new project power sales agreements ("ppsa") to Power Agency's members to be effective January 1, 2033, upon expiration of Power Agency's existing Project Power Sales Agreements.

Background

Since 1983, Power Agency has sold All Requirements Bulk Power Supply to its nineteen (19) Participants pursuant to two separate power sales agreements, the Project Power Sales Agreement ("PPSA") related to the Catawba Project and the Supplemental Power Sales Agreement ("SPSA"). The PPSA sets forth the "take-or-pay" obligation of each Participant for the purchase of entitlements to output from Power Agency's ownership in the Catawba Project. Each PPSA terminates effective January 1, 2033 (50 years from January 1, 1983, which was the estimated date of commercial operation of Catawba Unit 2). The SPSA provides for the purchase and sale of All Requirements Bulk Power Supply on a "take-and-pay" basis by (i) integrating the Catawba Project with Power Agency's portfolio of supplemental and backstand resources and (ii) making provisions for transmission, load following, and other ancillary services necessary to deliver power to the Participants' delivery points. Such all requirements service is sold pursuant to appropriate "load-based" rates and charges established by Power Agency. The SPSAs are set to terminate on May 1, 2028 (50 years from its May 1, 1978, effective date).

Given that Power Agency's Catawba Project is licensed to operate well beyond 2032¹ and that Power Agency has committed supplemental power resources that extend past May 1, 2028, it has been and continues to be Power Agency's intention to offer to the Participants new power sales agreements (both Catawba Project and Supplemental) beyond their current termination dates. Participants will have the option to enter into new supplemental agreement that would start on May 1, 2028, as well as new Catawba Project agreements (i.e., ppsa) that would commence on January 1, 2033.

Power Agency's Participants' Participant's Shares under their respective existing PPSAs were established in the late 1970s based on the load of each Participant at that time. In a number of cases, those Participant's Shares are not representative of the Participants' relative current load levels (i.e., Load Ratio Shares) that have resulted from a wide range of load growth patterns among the Participants over the last 50 years.

Table 1 below illustrates the disparities between the Participants' Participant's Shares specified in the existing PPSAs and the current "Load Ratio Share" measure. The representative

¹ Catawba's operating license currently extends through December 5, 2043.

load ratio share that Power Agency uses for purposes of the Allocated Demand component of its All Requirements Wholesale Rate Schedule is based on an equal weighting of monthly non-coincident peak demands and billing energies over a historical 5-year period (“Allocated Demand” percentages).

Table 1

Participant	Participant Shares under Existing PPSAs (%)	Current Load Ratio Shares (the basis for Allocated Demands effective 7-1-23) (%)
Albemarle	7.6%	6.1%
Bostic	0.1%	0.0%
Cherryville	1.6%	1.0%
Cornelius	0.4%	1.2%
Drexel	0.5%	0.4%
Gastonia	17.1%	13.4%
Granite Falls	0.9%	1.2%
High Point	19.0%	23.9%
Huntersville	0.6%	4.9%
Landis	1.1%	1.0%
Lexington	12.9%	8.6%
Lincolnton	1.6%	1.3%
Maiden	1.3%	1.5%
Monroe	10.0%	12.4%
Morganton	6.7%	5.7%
Newton	2.1%	3.0%
Pineville	0.5%	2.3%
Shelby	6.0%	3.5%
Statesville	9.9%	8.8%
Agency Total	100.0%	100.0%

The proposed 150 MW sale of Catawba Project output (18%) to Central Electric Power Cooperative, Inc. (“Central”) will effectively limit the aggregate Participants’ entitlement to Power Agency’s Catawba Project output to 82% over the remaining operating life of the Catawba Project. In connection with that sale, the Participants have requested that Power Agency set forth a non-binding commitment relative to the basis for new member entitlements (or shares) of the Catawba Project Output that would be incorporated into the proposed new ppsa, effective on January 1, 2033.

Power Agency Commitment

In order to provide Participants some certainty relative to considering their future power supply options, specifically as it relates to consenting to Power Agency's proposed sale of 18% of its Catawba Project output to Central, Power Agency commits to propose certain principles in connection with the offering of the new ppsa that would replace the existing PPSAs on January 1, 2033.

Power Agency's commitment, regarding the new ppsa, is to propose calculating new Participant's Shares that reflect the actual Load Ratio Shares of the Participants, based on the same methodology used to compute Allocated Demands under Power Agency's All Requirements Wholesale Rate Schedule. The methodology to compute Load Ratio Share, as reflected in Power Agency's Wholesale Rate Schedule, is as follows.

"Load Ratio Share" means, with respect to the Participant, a 50/50 weighting of the following two percentages:

- (1) the percentage that is equal to the sum of the Participant's Monthly Non-Coincident Peak Demand during the previous five (5) years divided by the sum of all Participants' Monthly Non-Coincident Peak Demands during the same five (5) years; and
- (2) the percentage that is equal to the sum of the Participant's Monthly Energy during the previous five (5) years divided by the sum of all Participants' Monthly Energy during the same five (5) years.

For purposes of these percentages, demand and energy values shall be reduced by SEPA allocations.

Power Agency's commitment to propose computing Participant's Shares under the new ppsa also would include the practice of updating each Participant's Load Ratio Share annually (based on the most recent 5 years of historical actual loads), which is consistent with the current Allocated Demand methodology utilized under Power Agency's All Requirements Wholesale Rate Schedule, with one exception. That exception is related to Power Agency's practice of implementing annual changes in Allocated Demand, effective July 1 of each year, utilizing load data from the previous five calendar years. For purposes of assigning Participant's Shares for each calendar year starting in the year 2033, the Load Ratio Share calculation would be based on the 5-year (60 month) period ending July 1 of the prior year.

Table 2 below shows the current Load Ratio Shares (used in the current Allocated Demand calculation that will become effective July 1, 2023) as well as the projected Load Ratio Shares that would form the basis of the proposed Participant Shares in 2033 based on Power Agency's current load forecast.² The Load Ratio Share percentage increases and decreases shown over the 10-year period reflect the relative projected loads of the 19 Participants. Table 2 also shows the allocation

² These projected Load Ratio Shares are shown for illustration only and are based on Power Agency's demands and energy forecasts of each of the Participants. Assuming all 19 Participants execute the new ppsa that would become effective January 1, 2033, actual Load Ratio Shares applicable to the year 2033 under the approach Power Agency commits to propose would be based on actual demands and energy consumption over the prior 5-year period (July 1, 2027 through June 30, 2032).

of Catawba Project capacity (i.e., the Participant Share of output entitlement) after the proposed sale to Central, based upon such projected Load Ratio Shares.

Table 2

Participant	Current Load Ratio Shares (the basis for Allocated Demands effective 7-1-23)	Projected Load Ratio Shares Effective 1-1-2033	Allocated Catawba Capacity After Sale to Central
	(%)	(%)	(MW)
Albemarle	6.1%	5.8%	39.3
Bostic	0.0%	0.0%	0.2
Cherryville	1.0%	0.9%	5.8
Cornelius	1.2%	1.1%	7.5
Drexel	0.4%	0.3%	2.1
Gastonia	13.4%	13.3%	90.5
Granite Falls	1.2%	1.1%	7.4
High Point	23.9%	22.4%	152.4
Huntersville	4.9%	5.9%	39.9
Landis	1.0%	0.9%	6.0
Lexington	8.6%	7.6%	52.1
Lincolnton	1.3%	1.1%	7.6
Maiden	1.5%	1.3%	9.0
Monroe	12.4%	15.9%	108.4
Morganton	5.7%	5.3%	36.0
Newton	3.0%	2.8%	19.2
Pineville	2.3%	3.0%	20.2
Shelby	3.5%	3.1%	21.3
Statesville	8.8%	8.3%	56.7
Agency Total	100.0%	100.0%	681.5

* Based on forecasted loads during prior 5-year period.

By committing to a “rolling” Load Ratio Share based Participant’s Share of the Catawba Project starting in 2033 and continuing over the remaining life of the Catawba Project, Participants can be assured that their entitlement to the Catawba Project baseload output and associated cost responsibilities will continue to be aligned with their baseload needs.

Power Agency Approval

The foregoing commitment by Power Agency was approved and its execution and delivery authorized by Power Agency’s Board of Commissioners and Board of Directors, by resolutions adopted on July 25th, 2023, and July 28th, 2023, respectively.

**Power Agency Letter of Intent
July 31, 2023**

Executed this ____ day of _____, 2023.

**NORTH CAROLINA MUNICIPAL
POWER AGENCY NUMBER 1**

By: _____
Chief Executive Officer

Attest:

Assistant Secretary

(SEAL)