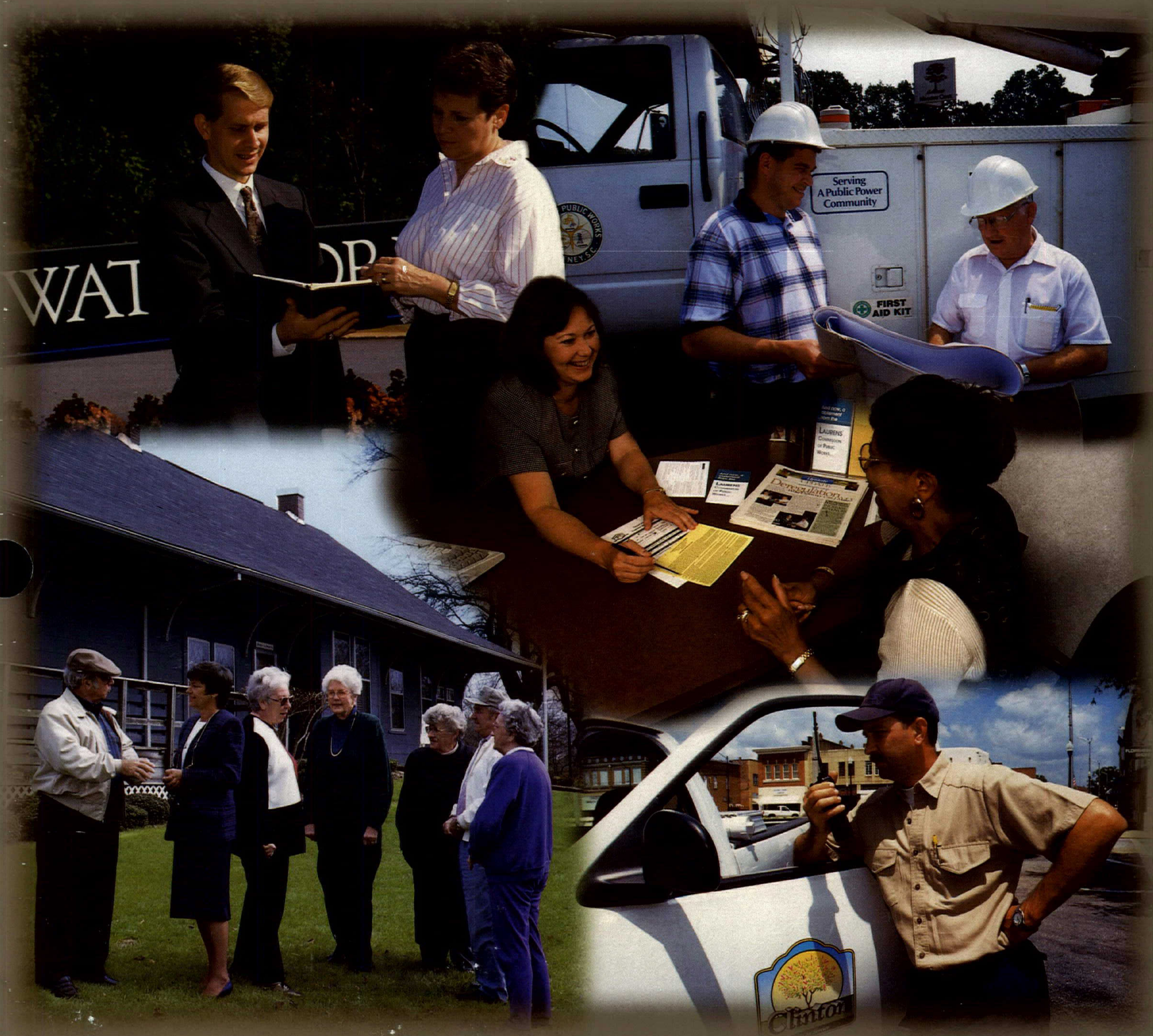
Community Powered



Piedmont Municipal Power Agency

1997 Annual Report

Laurens

Greer

RockHill

Easley

Westminster

Union

Clinton

Abbeville

Gaffney

Newberry

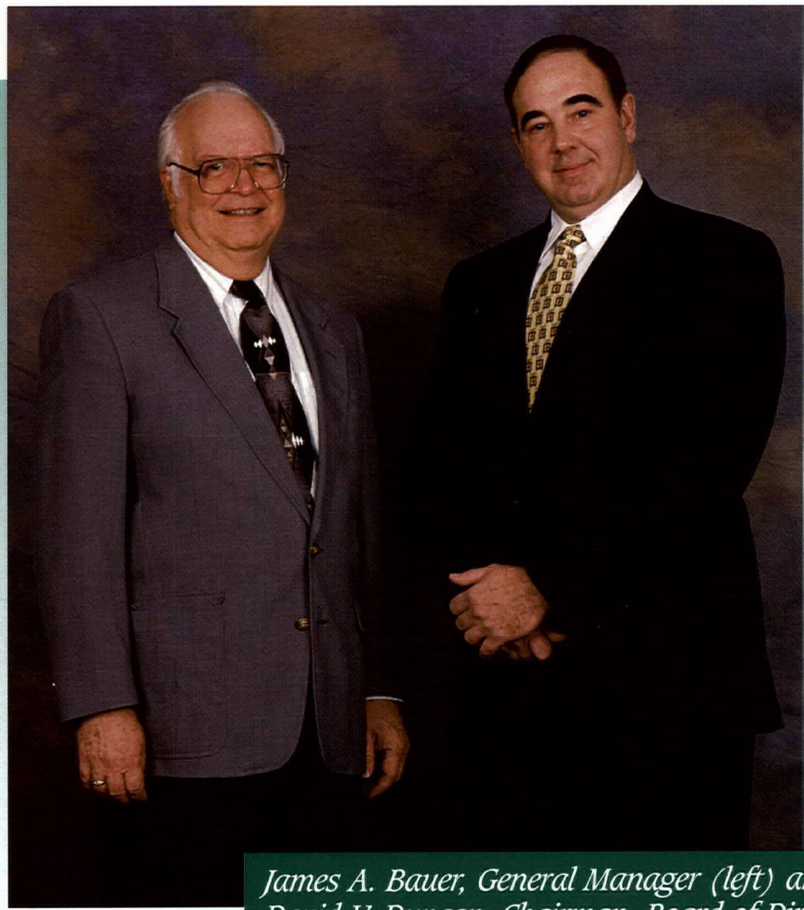
Table of Contents

Agency Profile

The Piedmont Municipal Power Agency is a joint action agency formed by ten municipal electric utilities in the northwest section of South Carolina. Its mission is to assist its members in providing competitive electric energy and related services, and to contribute to the economic vitality of the member cities.

PMPA owns 25 percent of the Catawba Nuclear Plant Unit Number Two and purchases additional power from Duke Energy. The agency's corporate office is located in Greer, South Carolina.

Management Letter



James A. Bauer, General Manager (left) and David V. Duncan, Chairman, Board of Directors

Community Power — it's the driving force behind PMPA and the central focus of each of our ten member utilities. Since our formation in 1979, PMPA has operated to assure reliable electricity for the citizens of our member communities while enabling the local, public power utilities to continue contributing to the economic vitality of their communities. As our industry moves toward a more competitive market place, that focus will not change. It is the customer, each user of electricity in our member communities, that is at the heart of electric deregulation and at the heart of this agency.

Guided by our *Strategy for the Future,* PMPA forged ahead in 1997 with aggressive programs to reduce costs and improve services. As we will highlight throughout this report, our efforts have focused on the electric customer and in helping our member communities best meet the needs of their citizens.

In the summer of 1997, PMPA conducted a customer attitude survey to gauge the customers' perception of the local utility and of deregulation. Two hundred customers were surveyed in each of the agency's ten member communities and the results are being used to implement new programs and enhance existing service efforts by both PMPA and the members.

One program specifically requested by customers in the survey is residential energy audits. Prior to 1997, none of our member utilities provided a regular, residential energy audit program. As a result of the survey, several utilities have developed such a program and PMPA has implemented a training program to help our members better meet this need. At year end, the agency hosted an overview training course to help the member utilities understand what is involved in a residential energy audit program and assist them in trouble shooting with customers. Eight of the ten member utilities participated in the program and four of those have begun developing in-house residential energy audit programs.

Also on the customer level, PMPA provided training during the year to help its members anticipate needs and build relationships with key customer accounts. These customers demand excellent service and affordable rates. Understanding these customers' needs and responding with utility services, aggressive rate designs and solutions that help the customer operate more efficiently will help the local utility further establish a solid relationship with its key customers... a relationship that cannot be taken for granted when deregulation occurs.

Legislative initiatives to deregulate the electric industry in South Carolina picked up in 1997 with the introduction of the Competitive Power Act. Introduced in the House of Representatives by Rep. Doug Smith (R-Spartanburg), the bill called for retail competition beginning as early as January 1, 1998. Obviously, this has not yet happened. Municipal utilities and rural electric cooperatives were given the option not to participate in a competitive market in the 1997 bill. Throughout the year, PMPA and its members worked to educate the state legislators on our position on deregulation and the issues that will affect municipal utilities. At the end of the 1997 legislative session, the bill was still under review by the Public Utilities Subcommittee. 1998 is the second year of a two-year term in the House and debate on the bill will continue during the current session and likely beyond.

In addition to the activity at the General Assembly, the South Carolina Public Service Commission (PSC) began developing a plan for electric deregulation and was asked by House Speaker David Wilkins (R-Greenville) to present its recommendations January 31, 1998 to the House of Representatives. Along with other utilities and interest groups, PMPA submitted a restructuring plan to the PSC in the summer of 1997 and has worked throughout the year to assure the commission understands the unique challenges faced by South Carolina and PMPA in deregulating the electric utility industry.

PMPA recognizes that the forces pushing for deregulation of the electric industry are not going to go away. The potential for retail choice of electric providers is very real. As with any change, deregulation will provide opportunities and challenges that must be acted upon, particularly in the areas of customer service — but service alone will not be enough.

To better prepare the agency and its members for a competitive market, PMPA made significant efforts in 1997 to increase our flexibility regarding power supply. In December, the agency issued notice to cancel its Interconnection Agreement with Duke Energy Company. The Interconnection Agreement was signed in 1980 to provide PMPA with the transmission system access, supplemental power purchases, surplus power sales, reliability and billing needed by the agency. The cancellation will take affect January 1, 2006 and will allow PMPA and its members increased flexibility in securing power supply, allowing costs for supplemental power to more closely match those of a deregulated utility market.

In other power supply areas, the agency continued its off-system sales of surplus power, netting more than $190,000 in additional revenue. Sales through the year were made to the Municipal Electric Authority of Georgia; Alabama Electric Cooperative; LG&E Energy Marketing; SCANA Energy Marketing, Inc.; Southern Co. Services; South Carolina Electric and Gas; and the Energy Authority. In addition to direct utility sales, PMPA participated in an Automated Interchange Matching System which matches buy and sale requests of regional utilities on a real-time basis.

Also important in a changing environment are cost savings, and in 1997 PMPA was able to take advantage of a favorable bond market to generate approximately $78 million in gross debt service savings. In October, the agency refinanced a portion of its 1986 and 1988A Electric Revenue Bonds, which were originally financed at a fixed interest rate between 6.0 and 7.4 percent. The 1997A, B and C refinancing bonds are issued with a variable rate with a beginning average rate of 4.25 percent. With the 1997 refinancing, the agency now holds approximately 18 percent of its total debt at variable interest rates. Over the past two years, our refinancing efforts have generated more than $172 million in gross debt service savings. The majority of these savings have been concentrated in the years between 2002 and 2008 and will result in a savings of approximately $13 million per year during that period.

Throughout the year, PMPA has worked to assure the ability of our members to provide reliable electricity to their citizens while continuing to make contributions to their individual communities. We have focused on customer service initiatives, power supply opportunities and cost reduction measures to better position our agency and its member utilities. Great challenges lie ahead. Through the joint efforts of PMPA and our member utilities, we will meet those challenges head-on and continue the tradition of public power in our area.

David V. Duncan
Chairman, Board of Directors

James A. Bauer
General Manager

Board of Directors

Standing left to right: J. Russell Allen, Rock Hill; Donnie L. Harden, Gaffney; Charles H. Guerry, Newberry; David V. Duncan (Chairman), Greer; Thomas D. Sherbert, Jr. (Vice-Chairman), Union; Richard S. Hale, Easley. *Seated left to right:* R. Buck Marcengill, Westminster; Coleman F. Smoak, Laurens; Charles B. Litchfield, Clinton. *Not pictured:* David H. Krumwiede, Abbeville.

Management Team

Standing left to right: C. Robin Smith, Communications/Development Specialist; John N. Glover, Finance Director; Calvin W. Daniels, Engineering Manager; S. Scott Griffin, Director of Legislative Affairs. *Seated left to right;* Sandy K. Boozer, Data Processing Manager; James A. Bauer, General Manager.

Community Powered

COMMUNITY POWERED—It's the driving force behind your local municipal utility. Being customer-owned by the citizens of our ten member municipalities, PMPA is fueled by the expectations of our customers.

Our central goal is to provide cost-efficient and reliable utility service to our member communities. But PMPA does not stop there. We feel that the empowerment of communities is a primary component of our mission. PMPA is committed to the prosperity of our member cities, and we are dedicated to improving the quality of life of each municipality as well as encouraging and fostering future development and growth.

Whether it's working with our member cities to establish new programs and services, contributing economic grants for downtown revitalization, or assisting with communications, PMPA is there. Being empowered by our communities, customers of our member utilities have the comfort of knowing that we are always just around the corner to help in any and every way we possibly can.

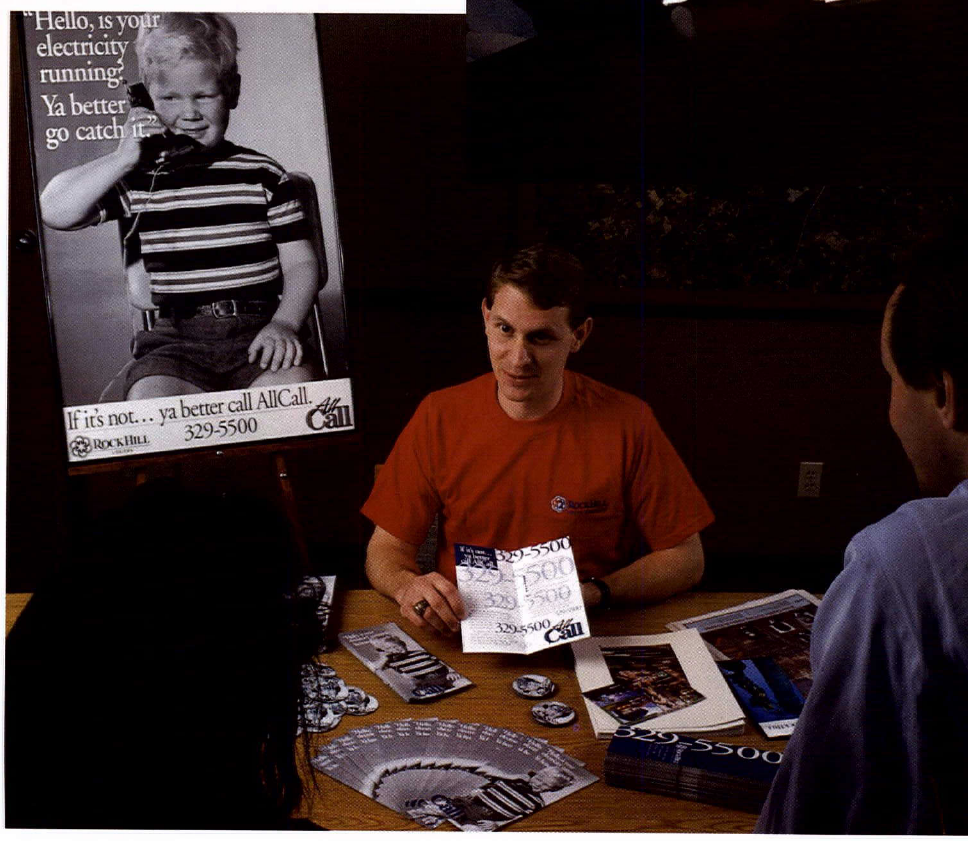
Community involvement is a hallmark of public power. And in PMPA's member cities, utility employees were busy with many different types of projects. (Above) To keep Newberry citizens abreast of his department's activities, Utility Director Charles Guerry appeared regularly on The City Report.

The city of Easley saw record residential development in 1997. Utility General Manager Steve Hale (right) and Assistant Manager Joel Ledbetter (left) worked with developer Robert Medlin to get Fox Den Estates, a new subdivision underway.

During the year, PMPA worked with the member utilities to develop new programs to improve customer service. As deregulation of the electric industry moves toward South Carolina, our member utilities want to offer the best customer service available in the area.

The Gaffney Board of Public Works (GBPW) began conducting Residential Energy Audits. GBPW employees Jeff George (left) and Kevin Coyle (right) give homeowner Stein Keller the results of his audit. In a customer attitude survey conducted in the summer, energy audits were the program that customers most wanted to see their local utilities offer.

In Rock Hill, the Utility Department unveiled AllCall, a fully automated outage reporting system. At its Operations Center Open House in October, City Engineer Jimmy Bagley demonstrated the program to customers. The system greatly expedites response time and has a goal of "never letting a customer hear a busy signal when calling for customer service."



The Greer Commission of Public Works (GCPW) implemented a Key Accounts program. Pictured above are (left to right) Marketing Representative Bruce Yerkes, Energy Manager Tony Cannon, Michael Massey, administrator at Allen Bennett Memorial Hospital, and GCPW General Manager Jerry Balding working together to ensure the hospital's energy needs are met.

Operations Report

Catawba Nuclear Plant

In 1997, the Catawba Nuclear Plant achieved a net capacity factor of 89.85 percent and a net availability of 88.75 percent. Catawba Unit One ran at 92.9 percent capacity and 90.4 percent availability and achieved a unit record for continuous operation of 333 days. Unit One was taken off-line in late November for a regular scheduled refueling outage and returned to operation in December. Catawba Unit Two ran at 86.8 percent capacity and 87.1 percent availability for the year and was off-line during parts of March and April for a regular scheduled refueling outage. Non-fuel operating costs for the Catawba Plant totaled .92 cents per kWh, which places the plant in the top 10 most efficient utilities in the country.

Currently, the Catawba Nuclear Plant holds an INPO rating of two. The last review was conducted in December of 1996. Catawba's goal is to gain an INPO rating of one. The next evaluation is scheduled for July of 1998.

Load Management

In 1997, PMPA reduced peak demand by approximately 50 megawatts through the operation of its demand-side management, load side generation and municipal load management programs.

PowerPartners, the agency's demand-side management program reduced peak demand by approximately five megawatts. At year end, 18,431 customers were participating in the program. PowerPartners was activated an average of four days per month for an average of 1.89 hours each day.

Four of PMPA's members operate load side generation programs that include 19 megawatts of peaking generation. Easley, Gaffney, Greer and Rock Hill operate load side generators equaling six megawatts, eight megawatts, three megawatts and two megawatts, respectively. Municipal load-management programs provided approximately 26 additional megawatts, bringing the total peak reduction for 1997 to 50 megawatts.

In many months of the year, the load of PMPA's members was less than the available Catawba Project capacity. During those months, PMPA did not operate its demand-side management resource nor did the member utilities operate load side generation or municipal load management programs.

Off-System Power Sales

In 1997, PMPA took advantage of the open wholesale power market by selling 106,566 megawatt hours of surplus energy to utilities in the Southeast. Previously, all surplus sales were to Duke Energy Company. The agency's aggressive efforts at surplus sales generated $617,977 in revenue and netted an actual revenue improvement of $190,415. Sales were made to the Municipal Electric Authority of Georgia; Alabama Electric Cooperative; LG&E Energy Marketing; SCANA Energy Marketing, Inc.; Southern Co. Services; South Carolina Electric and Gas; and the Energy Authority as well as through a regional Automated Interchange Matching System.

Energy and Demand

The yearly peak demand occurred in August and equaled 383.8 megawatts, including purchases from the Southeastern Power Administration (SEPA). This is slightly higher than last year's peak demand. Energy usage for the year was 1,809,768 megawatt hours. The members received a total of 48.2 megawatts and 104,353 megawatt hours from SEPA in 1997.

YEAR	ENERGY USAGE	PEAK DEMAND
1997	1,809,768 MWH	383.8 MW
1996	1,809,897 MWH	382.7 MW
1995	1,760,088 MWH	387.8 MW
1994	1,667,343 MWH	340.2 MW

1997 ENERGY USAGE *Megawatt Hours*

Abbeville	53,171
Clinton	116,276
Easley	238,352
Gaffney	213,926
Greer	190,996
Laurens	94,630
Newberry	159,225
Rock Hill	575,881
Union	136,505
Westminster	30,818

1997 COINCIDENT PEAK DEMAND *Megawatts*

Abbeville	10.8
Clinton	23.7
Easley	51.8
Gaffney	41.7
Greer	40.6
Laurens	22.2
Newberry	32.8
Rock Hill	123.8
Union	30.3
Westminster	6.3

Financial Highlights

PMPA's total operating revenue for 1997 was $137 million. Over the year, sales to Duke Energy totaled $39 million. This is a $7 million decrease from 1996 sales to Duke, due primarily to a reduction in the sell-back provisions of the Interconnection Agreement. Sales to participants totaled $96 million, slightly above the 1996 total of $93 million. Purchased power decreased $6 million in 1997, compared to 1996, due in part to the increase in the agency's retained capacity as a result of reductions in the sell-back provisions of the Interconnection Agreement. Also of note is a drop in interest expense of approximately 7 percent, or $6 million from 1996 to 1997. The reduction is due to the agency's increased level of variable rate debt generated from late 1996 and 1997 refinancings.

At year end, the agency's Rate Stabilization Fund totaled $223 million, a net decrease from the previous year of $21 million due to planned withdrawals. PMPA earned $18 million in interest income in 1997 for an average yield of 7.57 percent on the Rate Stabilization Fund.

In 1997, PMPA refinanced a portion of its 1986 and 1988A Electric Revenue Bonds, generating approximately $78 million in gross debt service savings. The three 1997 issues are variable rate bonds, which at year end had a 3.65 percent rate. The savings generated from the 1997 refinancings, coupled with the savings from 1996, will be concentrated in the years 2002 to 2008, the period PMPA believes retail competition will begin in South Carolina. The cumulative savings from the past two years will reduce debt service costs during this time by approximately $13 million annually.

Bonds Outstanding
(dollars in thousands)

$109,000	1997B/C Series
32,300	1997A Series
100,000	1996C/D Series
162,425	1996B Series
163,565	1996A Series
80,150	1993 Series
164,030	1992 Series
169,225	1991A Series
213,550	1991 Series
4,284	1988A Series
10,435	1998 Series
103,815	1996A Series
33,620	1996 Series

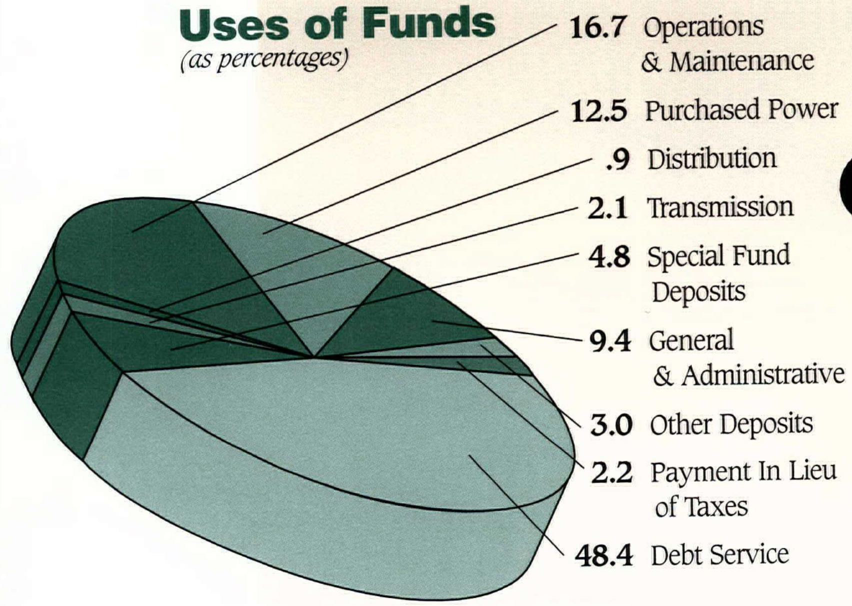
Portfolio Statistics
(dollars in thousands)

Earnings	*Income*	*Rate of Return*
1997	$34,668	7.10%
1996	36,178	7.28%
Market Value as of 12/31	*Value*	*Years (average maturity)*
1997	$476,988	5.11
1996	484,259	4.55
Transactions	*Number*	*Amount*
1997	533	$656,514
1996	312	452,719

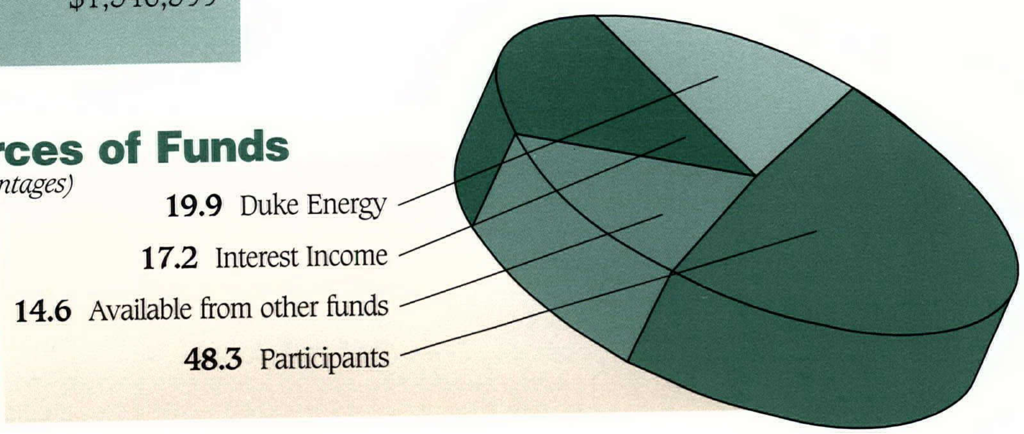
Debt Outstanding
(dollars in thousands)

Bonds Outstanding December 31, 1996	$1,354,584
Issued	
Series 1997A	32,300
Series 1997B/C	109,000
Matured January 1, 1997	7,340
Refunded	142,145
Bonds Outstanding December 31, 1997	$1,346,399

Uses of Funds
(as percentages)



Sources of Funds
(as percentages)



INDEPENDENT
Auditor's Report

KPMG Peat Marwick LLP

Certified Public Accountants

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

The Board of Directors
Piedmont Municipal Power Agency:

We have audited the accompanying balance sheets of Piedmont Municipal Power Agency (the "Agency") as of December 31, 1997 and 1996, and the related statements of revenues and expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Piedmont Municipal Power Agency as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As more fully described in Note 2, Piedmont Municipal Power Agency implemented Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* in 1996.

KPMG Peat Marwick LLP

March 11, 1998

BALANCE *Sheets*

DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

	1997	1996
Assets		
Utility plant (note 5):		
Electric plant in service	$ 551,094	544,256
Nuclear fuel	44,109	39,917
Construction work-in-progress	2,083	17,945
	597,286	602,118
Less accumulated depreciation and amortization	(223,129)	(213,658)
Net utility plant	374,157	388,460
Restricted funds (notes 2 and 6):	188,108	177,197
Revenue fund assets (notes 2 and 7):		
Cash	8,339	6,777
Marketable debt securities	284,636	302,134
Accrued interest receivable	4,124	4,278
Due from restricted funds	120	1,001
Participant accounts receivable	6,941	8,628
Other accounts receivable	1,791	2,892
Materials and supplies	5,158	4,984
Total revenue fund assets	311,109	330,694
Deferred charges:		
Unamortized debt issuance costs	22,134	21,368
Net deferred expenses to be recovered from future revenues (notes 2 and 8)	296,202	266,536
Excess costs on advance refundings of debt	188,213	187,625
Other	3,219	3,398
Total deferred charges	509,768	478,927
	$ 1,383,142	1,375,278
Equity and Liabilities		
Long-term debt (notes 9 and 10):		
Bonds	$ 1,346,399	1,354,584
Unamortized discounts	(52,420)	(61,644)
Unamortized premiums	1,060	1,389
	1,295,039	1,294,329
Restricted fund liabilities:		
Accrued interest payable	45,995	44,552
Reserve for decommissioning (note 11)	23,017	19,037
Other liabilities	-	351
	69,012	63,940
Revenue fund liabilities - accounts payable (note 7):	6,230	5,041
Equity:		
Retained earnings	12,861	11,968
Commitments and contingencies (notes 14, 15 and 16):		
	$ 1,383,142	1,375,278

See accompanying notes to financial statements.

STATEMENTS OF REVENUES
and Expenses and Changes in Retained Earnings

DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

	1997	1996
Operating revenues:		
Sales of electricity to participants	$ 95,968	92,949
Sales of electricity to other utility (note 4)	40,078	46,832
Other	1,220	1,127
Total operating revenues	137,266	140,908
Operating expenses:		
Operation and maintenance	22,627	22,799
Nuclear fuel amortization	6,925	7,362
Purchased power (note 4)	25,242	31,650
Transmission	4,128	3,856
Distribution	1,738	1,684
Administrative and general	13,370	12,293
Depreciation	18,381	18,129
Decommissioning	3,980	3,358
Payments in lieu of property taxes	4,503	4,426
Total operating expenses	100,894	105,557
Net operating income	36,372	35,351
Other income (expense):		
Interest income	34,668	36,178
Net decrease in fair value of investments	(364)	(15,325)
Interest expense	(80,070)	(85,909)
Amortization expense	(13,762)	(13,695)
Other	(5,617)	(5,165)
Total other expense, net	(65,145)	(83,916)
Revenues under expenses before deferred items	(28,773)	(48,565)
Deferred items to be recovered from future revenues, net (notes 2 and 8)	29,666	49,958
Revenues over expenses	893	1,393
Retained earnings at beginning of year	11,968	10,575
Retained earnings at end of year	$ 12,861	11,968

See accompanying notes to financial statements.

STATEMENTS
of Cash Flows

DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

		1997	1996
Cash flows from operating activities:			
Revenues over expenses	$	893	1,393
Adjustments to reconcile revenues over expenses to net cash provided by operating activities:			
Depreciation and amortization		39,068	39,186
Net decrease in fair value of investments		364	15,325
Net deferred expenses to be recovered from future revenue		(29,666)	(49,958)
Reserve for decommissioning		3,980	3,358
Decrease (increase) in:			
Participant accounts receivable		1,687	881
Other accounts receivable		1,101	1,657
Accrued interest receivable		620	1,754
Materials and supplies		(174)	173
Increase (decrease) in:			
Other liabilities		(351)	(7)
Accounts payable		1,189	(31)
Accrued interest payable		1,443	(11,311)
Net cash provided by operating activities		20,154	2,420
Cash flows from investing activities:			
Purchase of investment securities		(609,160)	(449,220)
Proceeds from sales and maturities of investment securities		615,448	478,121
Expenditures for electric plant in service		(1,545)	(11,065)
Expenditures for nuclear fuel		(9,457)	(7,566)
Net cash provided by (used in) investing activities		(4,714)	10,270
Cash flows from financing activities:			
Payment of bond principal		(7,340)	(9,350)
Proceeds from issuance of long-term debt		141,300	424,138
Refunding of bonds		(142,145)	(426,297)
Defeasance (gains) losses		(1,576)	5,039
Increase in debt issuance costs		(4,468)	(7,847)
Net cash used in financing activities		(14,229)	(14,317)
Net increase (decrease) in cash		1,211	(1,627)
Cash at beginning of year		7,128	8,755
Cash at end of year	$	8,339	7,128
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	78,627	97,220

See accompanying notes to financial statements.

NOTES *to Financial Statements*

(DOLLARS IN THOUSANDS)

(1) Description of the Entity and Industry Developments

Piedmont Municipal Power Agency (Agency) was incorporated in 1979 under the South Carolina Joint Municipal Electric Power and Energy Act. The Act, adopted April 1978, enabled the formation, by South Carolina municipalities and municipal commissions of public works, of a joint agency to plan, finance, develop, own and operate electric generation and transmission facilities. Ten municipal utility systems (Participants) comprise the Agency's membership. The participants, located in northwestern South Carolina, are the cities of Abbeville, Clinton, Easley, Gaffney, Greer, Laurens, Newberry, Rock Hill, Union and Westminster.

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

The passage of the National Energy Policy Act of 1992 (Energy Act) is causing the evolution of a traditional rate regulated industry into a competitive market environment. The Energy Act is intended to promote competition among utility and non-utility generators in the wholesale electric generation market. The Energy Act, coupled with increasing customer demands for lower-priced electricity, has accelerated industry restructuring and has intensified interest in increased competition at the retail level.

In 1996, the Federal deregulation debate intensified as several bills were introduced to shape the competitive electric market. Activity in South Carolina also intensified as the legislature and Public Service Commission (PSC) worked to develop a better understanding of deregulation issues. In 1996, the PSC conducted an informal survey of the State's utilities to determine the industry's position on deregulation.

In 1997 a deregulation bill was introduced in both the South Carolina House of Representatives and Senate. Neither bill passed in 1997, and both are pending in 1998. In February of 1998 the PSC, pursuant to the request of the Speaker of the House of Representatives of South Carolina, presented its proposed electric restructuring implementation process. The proposed process provides for the deregulation of electric generation but allows for PSC regulation of distribution services and any portion of transmission services subject to the jurisdiction.

Federal legislation has been passed which encourages competition among utility and non-utility power producers. Together with increasing customer demand for lower-priced electricity and other energy services, these measures have accelerated the industry's movement toward more competitive pricing structures.

PMPA has developed a strategic plan, that was adopted by its Board of Directors in 1996, to help guide it through the impending industry changes. PMPA's strategic plan includes periodic reviews of the recoverability of regulatory assets and the impact of such recovery on the Agency's rates. Also, the Agency has developed a comprehensive position on deregulation. The Agency's management is participating in the deregulation debate, both on the national and state level.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

The Agency follows the accounting practices set forth in Financial Accounting Standard (FAS) Statement No. 71, Accounting for the Effects of Certain Types of Regulation, as amended. This standard allows entities to capitalize or defer certain costs or revenues based on the Agency's ongoing assessment that it is probable that such items will be recovered through future revenues.

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

Unamortized Debt Issuance Costs

Unamortized debt issuance costs at December 31, 1997 and 1996 of $22,134 and $21,368, respectively, (net of accumulated amortization of $15,753 and $14,349, 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, 1997 and 1996 of $188,213 and $187,625, respectively, (net of accumulated amortization of $92,327 and $81,876, respectively) are being amortized on the bonds outstanding method.

Organization Costs

Organization costs at December 31, 1997 and 1996 of $785 and $814, respectively, (net of accumulated amortization of $382 and $352, respectively) are being amortized on the straight-line method over 40 years.

Discounts on Bonds Payable

The discounts on bonds payable at December 31, 1997 and 1996 of $52,420 and $61,644, respectively, (net of accumulated amortization of $31,243 and $28,575, respectively) are being amortized on the bonds outstanding method.

Premiums on Bonds Payable

The premiums on bonds payable at December 31, 1997 and 1996 of $1,060 and $1,389, respectively, (net of accumulated amortization of $384 and $55, respectively) are being amortized on the bonds outstanding method.

Income Taxes

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

Cash Flows

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

Marketable Debt Securities

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

During 1997, the Agency implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, which requires investments in marketable debt securities to be reported at fair value. The effect of the adoption of this pronouncement was to increase investments in marketable debt securities and decrease net deferred expenses to be recovered from future revenues by $25,563 at December 31, 1995.

Depreciation Expense

Electric plant in service, including unclassified assets, is stated at cost and 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. The Agency's annual provision for depreciation expressed as a percentage of the average balance of depreciable utility plant was 3.3% for 1997 and 1996.

Materials and Supplies

Materials and supplies inventories are stated at lower of cost or market using the average cost method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Reporting

Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, the Agency has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict GASB pronouncements.

(3) Power Sales Agreements

Catawba Project Power Sales Agreements

The Agency and each Participant are parties to Catawba Project Power Sales Agreements (Sales Agreements). These Sales Agreements oblige the Agency to provide each Participant a share of Project power output and, in turn, each Participant must pay its share of Project costs. Participants make their

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(3) Power Sales Agreements cont.

payments on a "take-or-pay" basis whether or not the Project is operable or operating. Such payments are not subject to reduction or offset and are not conditioned upon performance by the Agency or any given Participant. The Sales Agreements are in effect until the earlier of August 1, 2035, or the completion of payments on the bonds and satisfaction of obligations under the Project agreements.

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

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

Supplemental Power Sales Agreements

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

(4) Project Agreements

Project Agreements between the Agency and Duke consist of the Catawba Nuclear Station Purchase, Construction and Ownership Agreement (the Purchase Agreement), the Catawba Nuclear Station Operating and Fuel Agreement (the Operating Agreement), and the Catawba Nuclear Station Interconnection Agreement (the Interconnection Agreement).

Purchase Agreement

This agreement between the Agency and Duke provides for the purchase of the Catawba Project by the Agency. It also details Duke's responsibilities, as engineer-contractor, for construction, initial fueling, and placing the Catawba Nuclear Station into commercial operation.

Operating Agreement

This agreement, between the Agency and Duke, provides for Duke, as operator for the Agency, to be responsible for the operation, maintenance, and fueling of Catawba and for making of renewals, replacements and capital additions. In addition, the Operating Agreement provides for decommissioning of Catawba at the end of its useful life through a future decommissioning agreement, separate from the Operating Agreement.

Interconnection Agreement

This agreement, between the Agency and Duke, provides for the interchange of power supply and power supply services. It also defines a fifteen year arrangement, terminating on January 1, 2001, whereby the Agency sells a portion of its Project power output entitlement to Duke. These sales commenced upon commercial operation of each Catawba Unit and decrease annually over the contract term. The Agency may, with notice, decrease but not increase these sales. Sales to Duke reduce the like amount of power the Agency purchases from Duke until, upon expiration of the contract, the Agency retains its full Project power output entitlement and no longer purchases the equivalent amount of power from Duke.

In a separate agreement between Duke and the Agency, Duke has agreed to purchase additional portions of project power output for the period 1996 through 1999. The following schedule reflects historical and future transactions and includes additional megawatt (MW) sales to Duke for the period 1996 through 1999 resulting from the agreements mentioned above.

	Catawba Unit 1				Catawba Unit 2				Total			
Year	Retained MW	Sold MW	Total Owned MW	Annual Incr (Decr) Sold MW	Retained MW	Sold MW	Total Owned MW	Annual Incr (Decr) Sold MW	Retained MW	Sold MW	Total Owned MW	Annual Incr (Decr) Sold MW
1985	4.77	138.36	143.13		0.00	143.13	143.13		4.77	281.49	286.26	
1986	4.77	138.36	143.13	0.00	4.77	138.36	143.13	(4.77)	9.54	276.72	286.26	(4.77)
1987	9.55	133.58	143.13	(4.78)	4.77	138.36	143.13	0.00	14.32	271.94	286.26	(4.78)
1988	14.32	128.81	143.13	(4.77)	9.55	133.58	143.13	(4.78)	23.87	262.39	286.26	(9.55)
1989	19.08	124.05	143.13	(4.76)	14.32	128.81	143.13	(4.77)	33.40	252.86	286.26	(9.53)
1990	23.87	119.26	143.13	(4.79)	19.08	124.05	143.13	(4.76)	42.95	243.31	286.26	(9.55)
1991	28.63	114.50	143.13	(4.76)	23.87	119.26	143.13	(4.79)	52.50	233.76	286.26	(9.55)
1992	33.39	109.74	143.13	(4.76)	28.63	114.50	143.13	(4.76)	62.02	224.24	286.26	(9.52)
1993	38.18	104.95	143.13	(4.79)	33.39	109.74	143.13	(4.76)	71.57	214.69	286.26	(9.55)
1994	42.94	100.19	143.13	(4.76)	38.18	104.95	143.13	(4.79)	81.12	205.14	286.26	(9.55)
1995	119.27	23.86	143.13	(76.33)	42.94	100.19	143.13	(4.76)	162.21	124.05	286.26	(81.09)
1996	94.05	49.08	143.13	25.22	89.27	53.86	143.13	(46.33)	183.32	102.94	286.26	(21.11)
1997	106.32	36.81	143.13	(12.27)	101.55	41.58	143.13	(12.28)	207.87	78.39	286.26	(24.55)
1998	118.58	24.55	143.13	(12.26)	113.82	29.31	143.13	(12.27)	232.40	53.86	286.26	(24.53)
1999	125.87	17.26	143.13	(7.29)	121.08	22.05	143.13	(7.26)	246.95	39.31	286.26	(14.55)
2000	143.13	0.00	143.13	(17.26)	138.37	4.76	143.13	(17.29)	281.50	4.76	286.26	(34.55)
2001	143.13	0.00	143.13	0.00	143.13	0.00	143.13	(4.76)	286.26	0.00	286.26	(4.76)

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(4) Project Agreements cont.

In December 1997, the Agency's Board of Directors voted to issue notice, pursuant to the contract, to cancel the Interconnection Agreement with Duke. The cancellation is effective January 1, 2006.

From 1985 through 1994 revenues from participants substantially exceeded net costs. Such excess revenues have been set aside in a Rate Stabilization account. As revenues from sales to Duke diminish in accordance with provisions of the Interconnection Agreement, Rate Stabilization funds will be utilized, in a scheduled manner, to minimize rate increases and maximize a competitive rate position.

(5) Utility Plant

Original costs of major classes of the Agency's electric plant in service at December 31, 1997 and 1996 are as follows :

	1997	1996
Land	$ 336	336
Structures and improvements	156,400	157,167
Reactor plant equipment	236,895	242,503
Turbo generator units	69,270	69,633
Accessory electric equipment	50,134	50,455
Miscellaneous plant equipment	16,386	15,648
Station equipment	4,777	4,808
Other	1,900	1,796
Unclassified	14,996	1,910
	$ 551,094	544,256

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

Nuclear fuel at December 31, 1997 and 1996 of $44,109 and $39,917, respectively, represents costs associated with acquiring and processing reload fuel assemblies as well as the cost of nuclear fuel in the reactor. Nuclear fuel is amortized based on burn rates using a unit of production basis. The Agency regularly removes fully amortized nuclear fuel costs from its books when fuel batches are replaced during core refueling operations. Costs in 1997 of $5,265 were removed.

A summary of accumulated depreciation and amortization at December 31, 1997 and 1996 follows:

	1997	1996
Accumulated depreciation of electric plant in service	$ 193,715	185,904
Accumulated amortization of nuclear fuel	29,414	27,754
	$ 223,129	213,658

(6) Restricted Funds

The General Bond Resolution, Project agreements, and Agency policies restrict the use of bond proceeds, Agency revenues, and Agency funds on hand. Certain restrictions define the order in which available funds may be used to pay costs; other restrictions require minimum balances or accumulation of balances for specific purposes. At December 31, 1997 and 1996, the Agency was in compliance with all such restrictions and held the following restricted assets:

	1997		1996	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Debt service - bond principal	$ 19,369	19,370	7,340	7,340
Debt service - bond fixed rate interest	33,331	33,331	33,322	33,322
Debt service - bond retirement	1	1	1	1
Debt service reserve	87,649	86,428	91,859	90,496
Reserve and contingency	8,939	8,643	9,190	9,050
Decommissioning	23,683	23,017	19,755	19,037
Special reserve	15,136	15,000	15,379	15,000
Other	-	-	351	351
	$ 188,108	185,790	177,197	174,597
Funds are comprised of:				
Cash	$ -	-	351	351
Marketable debt securities	186,914	184,596	176,067	173,467
Accrued interest receivable	1,314	1,314	1,780	1,780
Due to revenue fund	(120)	(120)	(1,001)	(1,001)
	$ 188,108	185,790	177,197	174,597

(7) Revenue Fund Assets and Liabilities

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

	1997		1996	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Working capital	$ 51,698	51,007	47,162	46,955
Fuel acquisition	29,517	29,517	32,049	32,049
Rate stabilization	229,894	223,029	251,483	244,052
	$ 311,109	303,553	330,694	323,056

Liabilities of $6,230 and $5,041 at December 31, 1997 and 1996, respectively, will be paid out of working capital assets.

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

As described in note 2, rates charged to Participants are structured to systematically provide for debt requirements and operating costs of the Agency. The expenses and revenues 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 revenues include the following:

	1997	1996	Change
	(Cumulative totals)		
Items to be recovered in future Participant billings:			
Interest expense	$ 323,109	326,377	(3,268)
Depreciation expense	212,903	195,373	17,530
Amortization of redemption and defeasance losses	92,800	82,200	10,600
Amortization of bond discounts and debt issuance costs	47,777	44,033	3,744
Nuclear fuel expenses	873	873	-
Letter of credit fees	5,649	5,649	-
Other	2,392	2,392	-
	685,503	656,897	28,606
Items reducing future Participants billings:			
Investment income	(76,528)	(76,528)	-
Increase in fair value of investments	(9,874)	(10,238)	364
Rate stabilization (revenue received to reduce future billings to Participants)	(460,912)	(442,854)	(18,058)
Reserve and contingency deposits	(33,074)	(31,931)	(1,143)
	(580,388)	(561,551)	(18,837)
Deferred revenues (expenses) recognized:			
Deferred interest, depreciation, amortization expense included in Participant billings for debt principal payments	(48,674)	(28,937)	(19,737)
Rate stabilization draws applied to expenses	237,883	198,802	39,081
Reserve and contingency revenue applied to expenses	1,878	1,325	553
	191,087	171,190	19,897
Net deferred expenses to be recovered from future revenues	$ 296,202	266,536	29,666

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

- Interest expense on the Agency's bonds and variable rate demand obligations

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(8) Net Deferred Expenses to be Recovered from Future Revenues cont.
along with associated letter-of-credit, banking and re-marketing fees (except interest and fees related to Capital Appreciation Bonds) paid from bond proceeds during a defined "Construction Period," (net of income earned on the temporary investment of those bond proceeds);

- Interest expense on Capital Appreciation Bonds accrued but not paid until maturity;
- Amortization of debt issuance expenses, bond discounts, defeasance losses, redemption losses, and organization costs paid from or included in bond proceeds;
- Depreciation on utility plant constructed with bond proceeds and amortization of nuclear fuel acquired with bond proceeds; and
- Certain other project costs paid from bond proceeds.

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

Revenues associated with increases in the fair value of investments have been deferred until such time the securities have matured or are sold.

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

(9) Long-term Debt

Long-term debt at December 31, 1997 and 1996 consists of the following:

	1997	1996
1986 Refunding Series Electric Revenue Bonds, payable in 1997, 2024 and 2025 with interest ranging from 5.00% to 7.40%	$ 33,620	70,160
1986A Refunding Series Electric Revenue Bonds, payable in 2023 and 2024 with interest at 5.75%	103,815	103,815
1988 Refunding Series Electric Revenue Bonds, payable annually in 1997, 1998 and from 2010 to 2013 with interest ranging from 6.70% to 7.75%	10,435	12,960
1988A Refunding Series Electric Revenue Bonds, payable annually from 1998 to 2019 with interest ranging from 6.70% to 7.65%	4,284	114,704
1991 Refunding Series Electric Revenue Bonds, payable annually from 2005 to 2023 with interest ranging from 4.00% to 6.85%	213,550	213,550
1991A Refunding Series Electric Revenue Bonds, payable annually from 1998 to 2007 and from 2014 to 2018 with interest ranging from 5.00% to 6.50%	169,225	169,225
1992 Refunding Series Electric Revenue Bonds, payable annually from 2011 to 2025 with interest ranging from 6.30% to 6.375%	164,030	164,030
1993 Refunding Series Electric Revenue Bonds, payable annually from 2000 to 2025 with interest ranging from 4.90% to 5.60%	80,150	80,150
1996A Refunding Series Electric Revenue Bonds, payable annually from 2013 to 2021 with interest ranging from 6.55% to 6.60%	163,565	163,565
1996B Refunding Series Electric Revenue Bonds, payable annually from 1998 to 2013 with interest ranging from 4.80% to 6.00%	162,425	162,425
1996C Refunding Series Electric Revenue Bonds, payable annually in 2021 to 2022 with variable interest rates (3.60% at December 31, 1997)	50,000	50,000
1996D Refunding Series Electric Revenue Bonds, payable annually from 2022 to 2025 with variable interest rates (3.65% at December 31, 1997)	50,000	50,000
1997A Refunding Series Electric Revenue Bonds, payable annually from 1999 to 2024 with variable interest rates (3.73% at December 31, 1997)	32,300	-
1997B Refunding Series Electric Revenue Bonds, payable annually from 1999 to 2019 with variable interest rates (3.60% at December 31, 1997)	70,700	-
1997C Refunding Series Electric Revenue Bonds, payable annually from 1999 to 2019 with variable interest rates (3.65% at December 31, 1997)	38,300	-
Total long-term debt	1,346,399	1,354,584
Less unamortized discount	(52,420)	(61,644)
Plus unamortized premium	1,060	1,389
	$ 1,295,039	1,294,329

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

The bonds generally provide for early redemption beginning ten years after issuance at prices ranging from 100% to 103% of the bond principal amounts.

The Agency has advance refunded certain bond issues as described in note 10.

The following is a summary of total debt service deposit requirements for bonds outstanding at December 31, 1997:

Year	Principal	Interest	Total
1998	$ 23,775	74,458	98,233
1999	21,200	73,218	94,418
2000	16,025	72,128	88,153
2001	19,370	71,320	90,690
2002	20,470	70,249	90,719
2003	20,880	70,149	91,029
2004	23,015	68,945	91,960
2005	24,438	67,658	92,096
2006	30,717	66,211	96,928
2007	32,893	64,379	97,272
2008	41,906	62,593	104,499
2009	36,181	68,153	104,334
2010	36,040	68,205	104,245
2011	37,714	66,412	104,126
2012	37,385	64,515	101,900
2013	50,982	52,194	103,176
2014	55,325	48,931	104,256
2015	59,105	43,999	103,104
2016	63,063	40,539	103,602
2017	66,245	37,208	103,453
2018	67,995	33,706	101,701
2019	79,350	29,792	109,142
2020	84,720	24,557	109,277
2021	89,910	19,670	109,580
2022	92,585	15,223	107,808
2023	100,405	10,301	110,706
2024	95,335	4,853	100,188
	$ 1,327,029	1,389,566	2,716,595

The debt service deposit requirements for principal differ from total long-term debt outstanding at December 31, 1997, because the principal payment of $19,370 which is due January 1, 1998 was deposited during 1997. All principal payments are due on January 1 of the year subsequent to the deposit requirement.

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(10) In-Substance Debt Defeasance

On October 1, 1997 and October 16, 1997, the Agency issued $32,300 and $109,000 of the 1997A and 1997B/C Refunding Series Bonds carrying an average interest rate of 3.73% and 3.70%, respectively. These bonds are variable rate issues and rates will be set weekly. The 1997A proceeds were used to refund a portion of the 1986 Refunding Series Bonds and the 1997B/C proceeds were used to refund a portion of the 1988A Refunding Series Bonds. These proceeds were used to purchase U.S. Government Securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The refundings resulted in a net defeasance loss of $11,039, which is the difference between the acquisition price of the new bonds and the net carrying amount of the refunded bonds.

In prior years, the Agency defeased in-substance certain Electric Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On December 31, 1997, $398,812 of the bonds are considered defeased in-substance.

(11) Reserve for Decommissioning

The Agency is in compliance with Nuclear Regulatory Commission requirements for funding future decommissioning costs. Since 1985, the Agency has been making regular deposits to segregated decommissioning accounts. Deposits pertaining to contaminated portions of the Project are held by a Trustee. The Agency has custody of funds set aside to decommission non-contaminated portions of the Project. The Agency's share of decommissioning costs, based on decommissioning studies completed in 1994, is estimated to be $85,302, which includes an estimate for inflation from 1994 to 1997. This estimate presumes the Catawba Nuclear Station will be decommissioned as soon as possible following the expiration of its operating licenses in 2024 and 2026.

(12) Employee Benefit Plans

The Agency maintains a defined contribution money purchase plan in compliance with Section 401(a) of the Internal Revenue Code. On behalf of all full-time employees, the Agency contributes 10% of base salary into the money purchase plan. Agency contributions totaled $80 and $64 in 1997 and 1996, respectively. Employee contributions may also be made to the Plan, providing combined employer and employee annual contributions do not exceed 25% of taxable income, or $30, whichever is less.

The Agency also maintains a deferred compensation plan under Section 457 of the Internal Revenue Code. From time to time, on behalf of selected employees, the Agency contributes to the deferred compensation plan. Agency contributions totaled $9.4 in 1997 and $7.5 in 1996. Employee contributions may also be made to the deferred compensation plan providing combined employer and employee annual contributions do not exceed certain limitations.

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

(13) Disclosures Regarding Fair Value of Financial Instruments

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

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

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

(a) Cash

Carrying value equals estimated fair value.

(b) Marketable Debt Securities

Estimated fair value, which is the carrying value, of all marketable debt securities is derived from quoted market prices.

(c) Participant Accounts Receivable, and Other Accounts Receivable

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

(d) Long-term Debt

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

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

The estimated fair values of the Agency's long-term debt with carrying values different from their estimated fair values at December 31 are as follows:

		1997		1996	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:					
1986	Electric Revenue Refunding Bonds	$ 26,331	31,956	58,610	67,186
1986A	Electric Revenue Refunding Bonds	93,485	106,862	92,963	102,689
1988	Electric Revenue Refunding Bonds	2,782	2,782	5,392	5,463
1988	Electric Revenue Refunding Bonds	16,283	23,814	15,090	20,677
1988A	Electric Revenue Refunding Bonds	8,410	11,268	120,578	128,742
1991	Electric Revenue Refunding Bonds	202,191	234,904	201,386	224,537
1991A	Electric Revenue Refunding Bonds	168,811	188,582	168,428	183,732
1992	Electric Revenue Refunding Bonds	166,102	184,453	165,951	175,786
1993	Electric Revenue Refunding Bonds	80,688	86,602	80,614	81,881
1996A	Electric Revenue Refunding Bonds	168,276	170,201	166,449	167,697
1996B	Electric Revenue Refunding Bonds	165,390	173,523	163,060	164,269
1996C/D	Electric Revenue Refunding Bonds	100,326	100,326	100,360	100,360
1997A	Electric Revenue Refunding Bonds	32,604	32,604	-	-
1997B/C	Electric Revenue Refunding Bonds	109,355	109,355	-	-
		$1,341,034	1,457,232	1,338,881	1,423,019

(14) Nuclear Insurance

Duke maintains nuclear insurance coverage in three program areas: liability coverage; property, decontamination and decommissioning coverage; and business interruption and/or extra expense coverage. Duke is reimbursed by the other joint owners of Catawba for certain expenses associated with nuclear insurance premiums paid by the Corporation.

Pursuant to the Price-Anderson Act, Duke is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately $8.9 billion.

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(14) Nuclear Insurance, Continued

Primary Liability Insurance. The maximum required private primary liability insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims.

Excess Liability Insurance. This policy currently provides approximately $8.7 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling. The $8.7 billion of coverage is the sum of the current potential cumulative retrospective premium assessments of $79.3 million per licensed commercial nuclear reactor. This $8.7 billion will be increased by $79.3 million as each additional commercial nuclear reactor is licensed, or reduced by $79.3 million for certain nuclear reactors that are no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs and public liability damages exceed primary insurances, licensees may be assessed up to $79.3 million for each of their licensed reactors, payable at a rate not to exceed $10 million a year per licensed reactor for each incident. The $79.3 million amount is subject to indexing for inflation and may be subject to state premium taxes.

Duke is a member of Nuclear Electric Insurance Limited (NEIL), which provides property and business interruption insurance coverages for nuclear facilities under the following three policy programs:

Primary Property Insurance. This policy provides $500 million in primary property damage coverage for each of Duke's nuclear facilities.

Excess Property Insurance. This policy provides excess property, decontamination and decommissioning liability insurance in the following amounts; $2.25 billion for Catawba and $1.5 billion for each of the Oconee and McGuire Nuclear Stations.

Business Interruption Insurance. This policy provides business interruption and/or extra expense coverage resulting from an accidental outage of a nuclear unit. Each unit of the McGuire and Catawba Nuclear Stations is insured for up to approximately $3.5 million per week and the Oconee Nuclear Station units are insured for up to approximately $2.8 million per week. Coverage amounts per unit decline if more than one unit is involved in an accidental outage. Initial coverage begins after a 17-week deductible period and continues at 100 percent for 52 weeks and 80 percent for the next 104 weeks.

If NEIL's losses ever exceed its reserves for any of the above three programs, the Corporation will be liable for assessments of up to five times the Corporation's annual premiums. The current potential maximum assessments are as follows: Primary Property Insurance - $30 million; Excess Property Insurance - $31 million; Business Interruption Insurance - $27 million.

The other joint owners of Catawba are obligated to assume their pro rata share of any liabilities for retrospective premiums and other premium assessments resulting from the Price-Anderson Act's excess secondary insurance program of risk pooling or the NEIL policies.

(15) Contingencies

The Department of Energy (DOE) has been determined to be responsible for storage and disposal of spent fuel from nuclear facilities as of January 1, 1998. Because the DOE does not have adequate facilities to handle the spent fuel, PMPA and Duke have incurred additional costs. PMPA anticipates litigation will be required to resolve this matter. Management is unable to estimate the costs associated with such litigation at this time. Because such liability is not yet probable and reasonably estimable, the accompanying financial statements do not include any provision for such costs.

(16) Forward Delivery Agreement

In order to mitigate its exposure to fluctuations in interest rates, the Agency has entered into a Forward Delivery Agreement which requires certain actions and obligations on the part of the Agency and incurs certain off balance sheet risks through December 25, 1999. This Agreement involves an element of interest rate risk in excess of amounts recognized in the financial statements. This risk arises from the possible unfavorable changes in market interest rates.

In exchange for the Agency receiving a fixed monthly fee of $98, the Agency has given up interest income which will be earned on scheduled monthly deposits into certain debt service principal and interest accounts through December 31, 1999. This Agreement allows the Agency to earn a yield of 6.58% on short-term funds. Because of the decrease in short-term interest rates, if the Agency had terminated the Agreement at December 31, 1997, it would have received an additional payment of $559. However, the Agency has the intent to continue with this Agreement through its contractual maturity.

The future value of the Agreement is not reflected in the Agency's financial statements. The level yield income relating to this agreement is recognized in the statements of revenue and expenses as a component of interest income.

SCHEDULE 1

Schedule of Revenue and Expenses per the Bond Resolution and Other Agreements

DECEMBER 31, 1997
(DOLLARS IN THOUSANDS)

Supplemental Information

	Actual Revenues and Expenses	Budgeted Revenues and Expenses	Actual Over (Under) Budget
Revenue:			
Sales of electricity to participants	$ 95,968	99,572	(3,604)
Sales of electricity to Duke	39,460	39,499	(39)
Sales of electricity to others	618	-	618
Interest income	34,668	32,785	1,883
Other	1,220	1,105	115
Total revenue	$ 171,934	172,961	(1,027)
Expenses:			
Catawba operating expenses:			
Operation and maintenance	$ 22,627	23,487	(860)
Nuclear fuel	6,925	7,143	(218)
Purchased power - Duke	5,851	5,818	33
Payments in lieu of taxes	4,503	4,661	(158)
Interconnection services:			
Purchased power:			
Duke	13,473	14,456	(983)
Participants	5,872	7,554	(1,682)
Other	46	-	46
Transmission	4,128	3,708	420
Distribution	1,738	1,646	92
Administrative and general:			
Agency	2,838	3,986	(1,148)
Duke	10,532	10,140	392
Other	5,617	4,677	940
Special funds deposits (withdrawals):			
Bond fund:			
Deposits from revenues	97,035	98,724	(1,689)
Liquidity facility fees	392	288	104
Refundings	(6,917)	-	(6,917)
Reserve and Contingency fund:			
Deposits from revenue	9,703	9,872	(169)
Capital additions	(1,441)	(3,245)	1,804
Transfer excess funds	(8,262)	(6,627)	(1,635)
Refundings	(407)	-	(407)
Decommissioning fund:			
Deposits from revenue	2,048	2,048	-
Interest income (1)	1,932	1,488	444
Revenue fund:			
Working capital	2,863	1,587	1,276
Fuel	(9,458)	(9,553)	95
Rate stabilization:			
Interest income (1)	18,058	17,331	727
Net deposits (draws)	(39,081)	(39,081)	-
Supplemental power reserve:			
Interest income (1)	1,195	1,140	55
Transfer excess funds	(1,195)	(1,140)	(55)
Other capital transactions:			
Plant additions:			
Reserve and contingency fund	1,441	3,245	(1,804)
General plant	38	55	(17)
Distribution plant	67	-	67
Fuel acquisitions	9,458	9,553	(95)
Bondings:			
Bond proceeds	(141,300)	-	(141,300)
Bond payments	142,145	-	142,145
Debt issuance	6,654	-	6,654
Refunded series interest	2,816	-	2,816
Total expenses	$ 171,934	172,961	(1,027)

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

SCHEDULE 2

Schedule of Revenue and Expenses per the Bond Resolution and Other Agreements

DECEMBER 31, 1997
(DOLLARS IN THOUSANDS)

			Funds							
			Revenue		Operating	Bond		Reserve and Contingency	Decommission	Supplemental Power
			Working Capital	Rate Stabilization	Fuel Account	Principal Interest Retire	Reserve			
Balances at beginning of year:										
Assets		$	46,955	244,052	32,049	40,663	90,496	9,050	19,037	15,000
Liabilities			(5,041)							
Net			41,914							
Project revenues:										
Participants	–Electric	(1)	95,968							
	–Facilities rent	(1)	1,186							
	–Control services	(1)	20							
	–Other	(1)	14							
Duke Power	–Electric	(1)	39,460							
Other	–Surplus Electric	(1)	618							
Interest income		(1)	13,483	18,058					1,932	1,195
Project costs (see note):										
Operations and maintenance		(2)	(22,627)							
Fuel		(3)	(6,925)		6,925					
Purchased power - Duke		(2)	(5,851)							
Decommissioning		(3)	(2,048)						2,048	
General and administration		(2)	(12,413)							
Payments in lieu of taxes		(2)	(4,491)							
Other		(2)	(5,617)							
Debt service		(3)	(97,035)			97,035				
Debt service minimum reserve rqmts		(3)	-							
Liquidity facility fee		(3)	(392)			392				
Reserve and contingency		(3)	(9,703)					9,703		
Supplemental power costs:										
Purchased power	– Duke	(2)	(13,473)							
	– Participants	(2)	(5,872)							
	– Other	(2)	(46)							
Transmission services		(2)	(4,128)							
Distribution services		(2)	(1,738)							
General and administration		(2)	(957)							
Payment in lieu of taxes		(2)	(12)							
Other fund changes:										
Transfers in (out):										
Rate stabilization		(3)	39,081	(39,081)						
Excess funds		(3)	9,457							
Reimbursement		(3)	1,441					(8,262)		(1,195)
Payments:								(1,441)		
Debt retire/interest		(2)	–			(82,539)				
Capital additions		(2)	(1,546)		(9,457)					
Debt refunding:										
New issue proceeds		(1)	141,300							
Excess funds		(3)	7,324							
Old issue retirement		(2)	(142,145)			(2,849)	(4,068)	(407)		
Cost to issue		(2)	(6,654)							
Refunded Series interest		(2)	(2,816)							
Balances at December 31, 1997		$	44,777	223,029	29,517	52,702	86,428	8,643	23,017	15,000
Assets		$	51,007							
Liabilities		$	(6,230)							
		$	44,777							

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

See accompanying independent auditors' report.

Note 1: In accordance with the Bond Resolution, third party payment requirements (except debt service payments) are transferred from Revenue Fund (Working Capital) to the Operating Fund and actual disbursements are made from the Operating Fund.

Note 2: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 1997.

Laurens

Greer

RockHill

Easley

Westminster

Union

Clinton

Abbeville

Gaffney

Newberry

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