1997 ANNUAL REPORT

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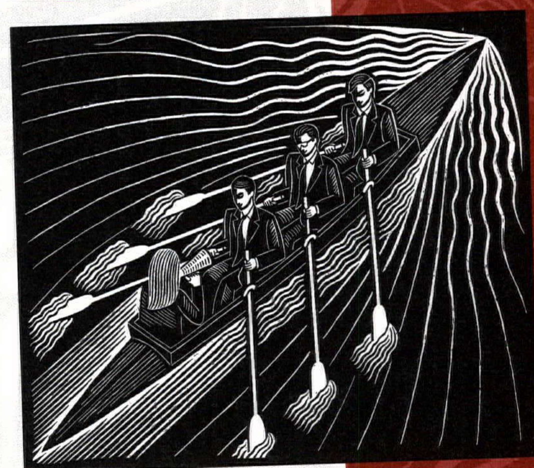
9/15/98

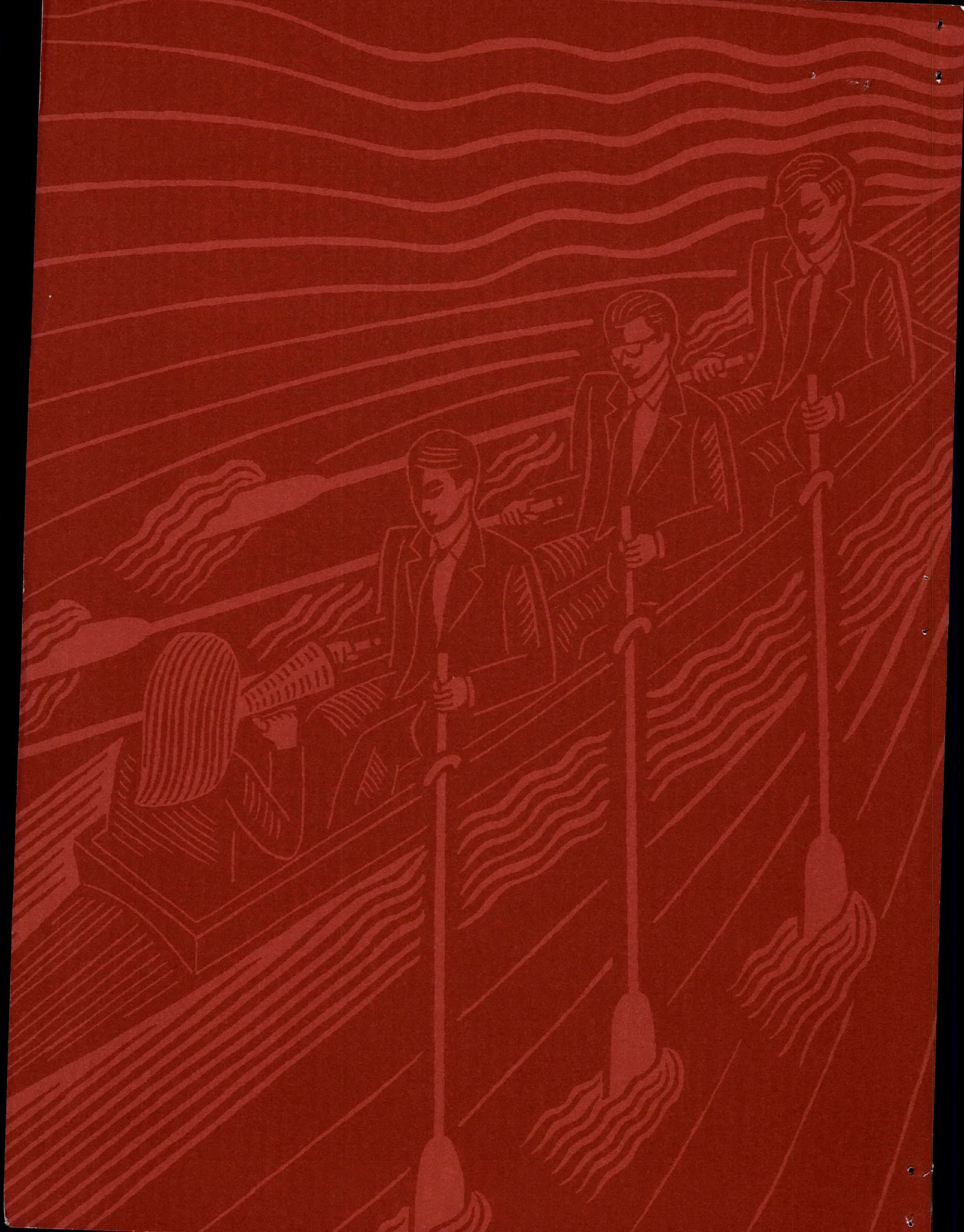
ELECTRICITIES



Navigating the Changing **Currents**

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1 — NCMPA1

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY — NCEMPA



"NO WIND

BLOWS

IN FAVOR

OF THE SHIP

THAT

HAS NO

DESTINATION."

MONTAIGNE

ELECTRICITIES

Public power's first light in North Carolina brightened night skies in Statesville on a chilly February evening in 1889, when a local resident flipped the switch on the state's first municipally owned electric utility. Over the next 50 years, another 80 North Carolina communities saw the service and economic opportunities of running their own electric systems. Local control meant electric revenues stayed in the community, a tenet still true more than a century later. In 1997, public power systems in North Carolina served more than 470,000 customers lighting cities and towns across the state. ElectriCities now represents the interests of 89 public power communities in North Carolina, South Carolina and Virginia, and provides management services to North Carolina Municipal Power Agency Number 1 and North Carolina Eastern Municipal Power Agency.

A LOOK AT THE CURRENTS AND THE FUTURE...

For more than half a decade in North Carolina, the issue of deregulation — or restructuring — of the electric industry has loomed on a distant horizon, more an issue of the high cost markets out West or up North. In 1997, the pace and scope of the movement to transition this last monopolistic industry to a competitive one quickened across the nation and right here in the Tar Heel State. For utilities, for lawmakers, for electric customers, the deregulation tide came rushing in on North Carolina.

With utility laws and regulations entrenched over nearly a century, restructuring of the electric industry poses myriad questions and issues: reliability, technological innovation, renewable resources, research and consumer protections. None, however, will have more impact in North Carolina as the issue of stranded costs. Stranded costs are commonly defined as those costs that cannot be covered in a competitive market. Utilities, by the very nature of the enormous capital investments, are likely to have significant stranded costs for investments in power generating plants. For North Carolina, the impact of stranded costs on power agency communities could be significant. Yet, ElectriCities and the power agencies are determined to stay the course.

The magnitude of anticipated stranded costs for the cities as compared to those of private utilities in the state was brought to light in August, when Moody's Investors Service released its estimate for North Carolina power providers; an early estimate totals more than $6 billion — with the two power agencies shouldering more than half. In November, the Legislative Study Commission on the Future of Electric Service in North Carolina met for the first time, mapping out a work plan and deliberate study of the issue and impacts for North Carolina. After several years of anticipation, electric industry restructuring might soon be a reality.

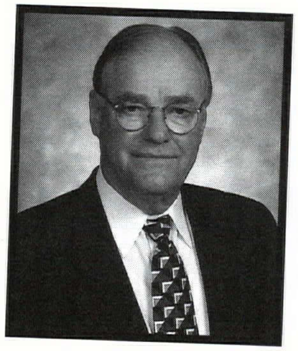
More determined than ever, ElectriCities and the power agencies continue to advocate for a bright and energized future for North Carolina.

TABLE OF CONTENTS...

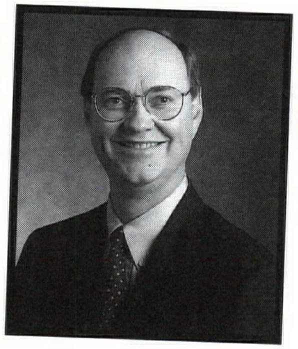
The audit reports of and financial information regarding each North Carolina Municipal Power Agency are included in this report. Each Power Agency is a separate and distinct legal entity and the inclusion of such information regarding both entities should not be construed to indicate any relationship between the two.

MESSAGE TO STAKEHOLDERS...

"VIGILANCE IN WATCHING OPPORTUNITY;
TACT AND DARING IN SEIZING UPON OPPORTUNITY;
FORCE AND PERSISTENCE IN CROWDING OPPORTUNITY
TO ITS UTMOST POSSIBLE ACHIEVEMENT –
THESE ARE THE MARTIAL VIRTUES WHICH MUST COMMAND SUCCESS."
AUSTIN PHELPS



Franz F. Holscher
Chairman, Board of Directors



Jesse C. Tilton, III
Chief Executive Officer

A significant change occurred in 1997. A change that did not escape notice. In 1997, North Carolina's "electric cities" raised their voices. The cities — 51 in total, representing participants in the state's two municipal power agencies — embarked on an aggressive strategy in pursuit of the opportunities to be created by electric utility industry restructuring. For these communities, for our customers, electric utility industry restructuring offers significant opportunity.

Dealing with deregulation moved to top priority for the ElectriCities Board of Directors and management staff and remains the beacon providing us focus.

Early in the year, a targeted education and awareness campaign was launched, geared to elevating the issues and impact of industry restructuring for the cities. The message was taken to the halls of the Legislature, and to council chambers across the state. Efforts proved successful when the state Legislature established the Study Commission on the Future of Electric Service in North Carolina in the Spring. ElectriCities lobbied hard for the formation of the 23-member panel to ensure that a sound public policy solution for the state be achieved. With a seat on the Commission, the voice of public power would be heard in the debate.

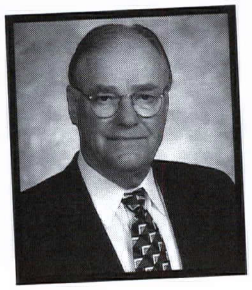
The creation of the Commission, however, did not stall the momentum for the electric cities. In a call for unity and strength, at the Annual Meeting in August member cities were asked to take a singular message to their legislators — a message urging electric industry restructuring legislation which provides uniform recovery of stranded costs for all power providers.

With the most at stake, the cities came out strong taking a position in the debate. And while a minority position at present, the message is a powerful one, one which rests firmly in history. The power agency cities, by securing tax exempt debt nearly 20 years ago, helped the state and the private utilities avert a "critical situation" in electricity supply. Their commitment to help Duke and CP&L complete construction of generating plants provided not only capital — resulting in $6 billion of bonds — but also fuel for the economic growth and prosperity we all now enjoy here in North Carolina. The message is one of fairness, of an equitable solution, of a similar consensus.

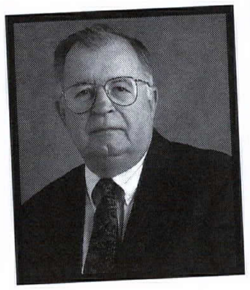
Among the many goals to prepare the cities for the immense financial challenges of deregulation, the most significant in 1997 was that of creating a pervasive awareness of the cities and our issues. As the Study Commission continues its work through 1998, turning that awareness into positive action for the cities will be our critical focus.

ELECTRICITIES LEADERSHIP...

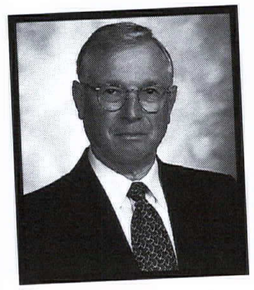
1997 BOARD OF DIRECTORS



Franz F. Holscher
Chairman, Gastonia

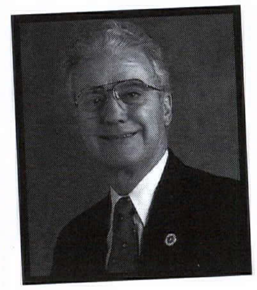


William H. Batchelor
Vice Chairman, Rocky Mount

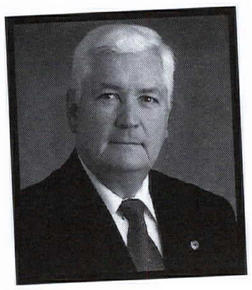


Smith Lingerfelt
Secretary, Shelby

Steven K. Blanchard
Fayetteville

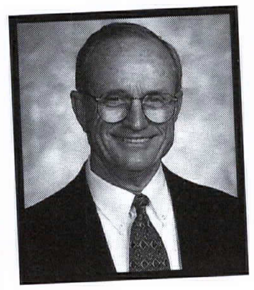


Cyrus L. Brooks
High Point



Jack F. Neel
Albemarle

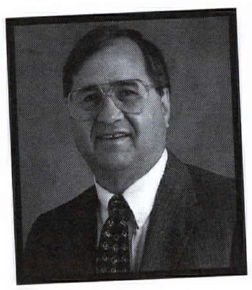
Samuel W. Noble, Jr.
Tarboro



Winton R. Poole
Cornelius

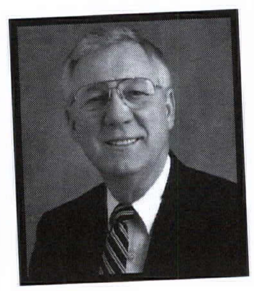
Stephen H. Slough
Concord

William M. Sutton
Apex



John T. Walser, Jr.
Lexington

Carey B. Washburn
Kinston



Claude Wilson
Robersonville

Ed Wyatt
Wilson

ELECTRICITIES MANAGEMENT

• Jesse C. Tilton, III, *Chief Executive Officer* • Arthur L. Hubert, Jr., *Chief Operating Officer*
• Al M. Conyers, *Chief Financial Officer* • Jimmy M. Autry, *Director, Marketing & Regional Services*
• Alice D. Garland, *Director, Public Affairs* • Kenneth M. Raber, *Director, NCEMPA Operations*
• Steve R. Shelton, *Director, NCMPA1 Operations* • William F. Watson, *Director, Planning*

ELECTRICITIES MEMBERSHIP...

ALPHABETICAL LISTING OF MEMBER CITIES AND TOWNS IN 1997

City/Town	*Year Electric System Established*	*Customers*
Albemarle	1910	11,093
Apex	1917	4,841
Ayden	1916	3,297
Bamberg, SC	1905	1,784
Bedford, VA	1911	6,545
Belhaven	1920	1,239
Bennettsville, SC	1903	4,860
Benson	1913	1,778
Black Creek	Unavailable	751*
Blackstone, VA	1888	2,000
Bostic	1920	175
Cherryville	1906	2,446
Clayton	1913	3,365
Concord	1901	18,333
Cornelius	1916	1,625
Culpeper, VA	1934	2,484
Dallas	1925	2,634
Danville, VA	1886	46,900
Drexel	1926	1,166*
Edenton	1908	3,630*
Elizabeth City	1926	10,074*
Elizabeth City State University	1891	University
Elkton, VA	1924	1,151
Enfield	Prior to 1940	1,538
Farmville	1904	3,275
Fayetteville	Chartered 1905	64,407
Forest City	Early 1900s	4,357
Fountain	1903	358
Franklin, VA	1892	4,963
Fremont	1918	886
Gaffney, SC	1907	6,696
Gastonia	1919	24,493
Granite Falls	1923	2,037
Greenville	1905	45,771
Hamilton	1922	275*
Harrisonburg, VA	1957	14,846
Hertford	1915	1,448*
High Point	1893	32,643
Highlands	Unavailable	2,348
Hobgood	1922	349*
Hookerton	1907	398
Huntersville	1916	1,528*
Kings Mountain	1935	4,126
Kinston	1897	12,956*
La Grange	1917	1,506

ELECTRICITIES MEMBERSHIP...

ALPHABETICAL LISTING OF MEMBER CITIES AND TOWNS IN 1997

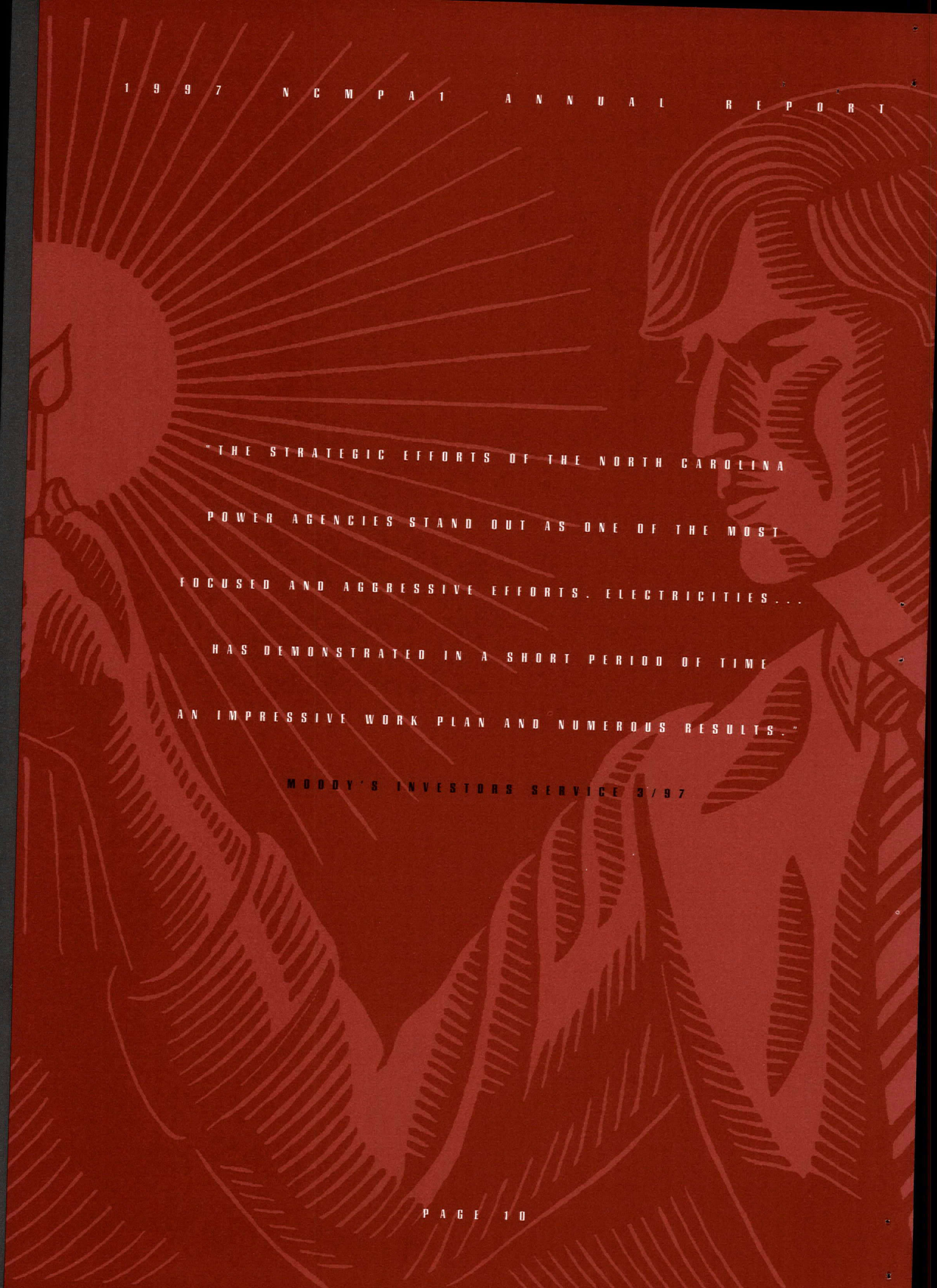
City/Town	*Year Electric System Established*	*Customers*
Landis	1919	2,417*
Laurens, SC	1922	5,168
Laurinburg	1925	5,461
Lexington	1904	17,297
Lincolnton	1900	2,752
Louisburg	1906	1,900*
Lucama	1889	1,100
Lumberton	1915	9,007
Macclesfield	Unavailable	309
Maiden	1920	978
Manassas, VA	1912	13,826
Martinsville, VA	1900	8,173
Monroe	1900	8,399
Morganton	1916	7,710
Murphy	1953	3,700
New Bern	1901	15,081*
New River Light & Power (Boone)	1915	6,646*
Newton	1896	3,832
Pikeville	1918	536*
Pinetops	Unavailable	715
Pineville	1939	2,119*
Red Springs	1910	1,900*
Richlands, VA	1922	3,000
Robersonville	1919	1,211*
Rocky Mount	1902	26,899
Scotland Neck	1903	1,657*
Selma	1913	2,406
Sharpsburg	1920	1,388
Shelby	1912	7,676*
Smithfield	1912	4,202*
Southport	1916	1,939
Stantonsburg	1920	1,042
Statesville	1889	11,971*
Tarboro	1897	5,778
UNC-Chapel Hill	1895	University and 430 campus retail customers
Wakefield, VA	1920	588
Wake Forest	1909	3,612
Walstonburg	1922	132
Washington	1903	11,497
Waynesville	1923	2,830
Western Carolina University	1920	1,890
Wilson	1892	28,322
Windsor	1920	1,718
Winterville	1900	1,400

** Information compiled from city and state reports.*

"AMONG THE STRENGTHS OF THE ORGANIZATION
ARE ITS FOCUS ON PARTICULAR ISSUES
THAT ARE OF GREATEST IMPORTANCE,
THE PERVASIVE AWARENESS OF COST IMPERATIVES,
AND ITS EFFECTIVE UTILIZATION OF STAFF."

THEODORE BARRY & ASSOCIATES 7/97

North Carolina Municipal Power Agency Number1 **NCMPA1**



"THE STRATEGIC EFFORTS OF THE NORTH CAROLINA POWER AGENCIES STAND OUT AS ONE OF THE MOST FOCUSED AND AGGRESSIVE EFFORTS. ELECTRICITIES... HAS DEMONSTRATED IN A SHORT PERIOD OF TIME AN IMPRESSIVE WORK PLAN AND NUMEROUS RESULTS."

MOODY'S INVESTORS SERVICE 3/97

ABOUT NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1...

NCMPA1 FAST FACTS

"We were not able in 1974 to sell any bonds at any price, under any conditions whatsoever. We were desperate for cash to meet the payroll; it was my unhappy duty to personally lay off 2,000 people who reported to me. We converted everything to cash. We converted uranium to cash. We sold our office buildings and leased them back. We sold every vehicle and every piece of construction equipment and leased it back and we immediately started work on a proposal to sell the Catawba plant, and convert it to cash as soon as we could... to our wholesale customers.... Our driving force was financial urgency."

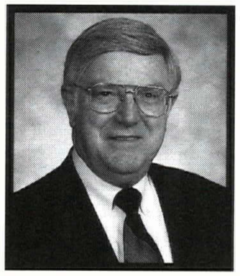
Testimony of Bill Lee, Duke Power Company President, in rate hearing, 7/9/85.

The quote above describes the urgency faced by many utilities in the 1970s. The municipal systems which purchased wholesale electricity from Duke Power at that time were equally concerned about Duke's financial position. Would the company be able to provide the necessary generation for the cities' retail customers in the future? For years the cities had been trying to obtain their own source of electricity to assure themselves a future supply and to get out from under constant rate increases from a utility struggling to meet its financial obligations. In 1975, 19 of those cities formed North Carolina Municipal Power Agency Number 1. In 1978, those cities purchased 75 percent of Catawba Nuclear Station Unit 2. To gain control over their own future power supply, the cities issued bonds to purchase part of the plant and helped financially troubled Duke.

- NCMPA1 is made up of 19 cities in western and piedmont North Carolina which share ownership in Catawba Nuclear Station Unit 2.
- NCMPA1 participant cities served 142,476 customers.
- Participant cities' revenue from power sales were $296,093,701 in 1997, down from $302,700,779 the previous year.
- Peak demand reached 904,000 kW.
- Demand side management programs saved NCMPA1 participants $8.5 million.
- Surplus power sales on the open market from Catawba totaled $4.5 million, $1.5 million more than if those sales had been made to Duke Energy.
- NCMPA1 gained $57 million from investment earnings, with a rate of return of 6.7 percent.

MESSAGE FROM THE CHAIRMAN...

JERRY CAMPBELL



Jerry Campbell
NCMPA1 Chairman

It's so easy to talk about change when you begin a new year and watch another one pass by. And it's always easy to toss around words like "pivotal" and "ground breaking" when you talk about past successes over the years.

I have been involved with NCMPA1 since I became an alternate commissioner in December 1986. And I can say, without being the least bit cliché, that this was a watershed year for NCMPA1 and ElectriCities. The term "watershed" is defined as a crucial dividing point or line. I chose that word because I believe it best describes what 1997 was to the Agency and to ElectriCities.

We have talked for several years about electric industry restructuring and getting ready for the immense changes in the future. In 1997, we crossed that crucial dividing line from present to future, when the North Carolina Legislature began seriously discussing restructuring.

I firmly believe that with our efforts and successes in 1997, NCMPA1 defined itself as a viable player in the electricity industry in North Carolina. Two years ago we started several programs to help us prepare for a restructured environment. And we are just beginning to see the benefits of our hard work.

The Huntersville-Cornelius regions project is something we're quite proud of and hope we can expand upon in 1998. Since the consolidation of these two systems, overall distribution costs have decreased by 15.6%. Huntersville-Cornelius' system experienced a 25% customer growth in a year's time because of strong economic development efforts. We feel that this is just the tip of the iceberg. And the entire concept of regionalization has been proven effective by the Huntersville-Cornelius system merger. We hope more of our cities will consider taking advantage of consolidating services to strengthen their efficiency and save money.

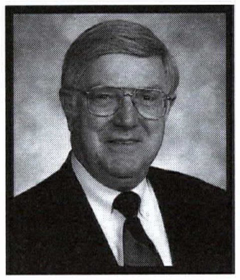
Industrial retention was stressed in 1997. We hired two representatives to work with our largest customers, to build stronger relationships. The workshops and programs held for these customers have been well received. And more importantly, the Agency's load growth reached 13 MW with $119 million in new investments in the participant cities. We feel our economic development efforts greatly contributed to that growth.

The Agency continued its efforts to keep rates stable and completed its rate restructuring program, which puts wholesale costs more in line with seasonal usage and will save the cities money, which in turn will reduce costs for their customers. Load management programs helped cut costs by $8.5 million in 1997, saving more money for the cities in energy expenses.

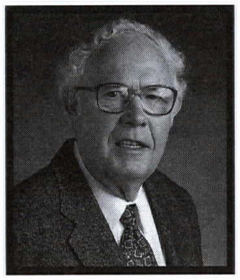
Debt reduction remained a priority for the Agency, which retired $43.2 million in regular payments in 1997. In addition, our surplus sales program brought in $1.5 million in benefits. That money also went towards paying down the debt. And a bond refinancing in 1997 brought $8 million in net present value savings.

Having listed all of these accomplishments, I think it's safe to say that in 1997, NCMPA1 rose to the occasion in a year when the future of the electric industry in North Carolina began to take shape. Our cities showed their strength as power providers, which will allow us to ride the wave to shore as restructuring comes closer to reality. Our cities are a viable and integral part of the utility industry in North Carolina, and we continue to show that with our efforts to improve operations and efficiency year after year.

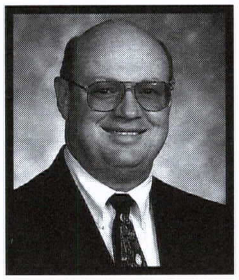
1997 NCMPA1 BOARD OF COMMISSIONERS...



Jerry Campbell
Chairman, Lincolnton



A.W. Huffman, Jr.
Vice Chairman, Granite Falls



Lloyd D. Shank, Jr.
Secretary-Treasurer, High Point

COMMISSIONERS

- ***Raymond I. Allen***
  City Manager
  Albemarle
- ***Ray G. Bailey***
  Council Member
  Bostic
- ***Janice L. Hovis***
  City Manager
  Cherryville
- ***Winton R. Poole***
  Commissioner
  Cornelius
- ***Morris A. Baker***
  Town Manager
  Drexel
- ***Franz F. Holscher***
  Council Member
  Gastonia
- ***A. W. Huffman Jr.***
  Mayor
  Granite Falls
- ***Rebecca R. Smothers***
  Mayor
  High Point
- ***Ed Humphries***
  Town Manager
  Huntersville
- ***Bobby O. Wood***
  Town Clerk
  Landis
- ***L. Klynt Ripple***
  Utilities Commission Member
  Lexington
- ***Stephen H. Peeler***
  Director of Public Works & Utilities
  Lincolnton
- ***Kevin C. Sanders***
  Administrative Assistant
  Maiden
- ***Jerry E. Cox***
  City Manager
  Monroe
- ***David Parks***
  Utility Director
  Pineville
- ***Pete Gilbert***
  Council Member
  Shelby

ALTERNATE COMMISSIONERS

- ***Tidus Stanback***
  Albemarle
- ***Jack F. Neel***
  Council Member
  Albemarle
- ***James Morrow***
  Council Member
  Bostic
- ***Jack D. Davis***
  Mayor
  Cherryville
- ***Thurman Ross Jr.***
  Commissioner
  Cornelius
- ***Benny J. Orders***
  Alderman
  Drexel
- ***Dale F. Becker***
  Electric Director
  Gastonia
- ***Danny Crew***
  City Manager
  Gastonia
- ***Linda K. Story***
  Town Manager
  Granite Falls
- ***Barry Hayes***
  Council Member
  Granite Falls
- ***H. Lewis Price***
  City Manager
  High Point
- ***Lloyd D. Shank Jr.***
  Director of Electric Utilities
  High Point
- ***Kimberley L. Phillips***
  Commissioner
  Huntersville
- ***C. Phillip Head Sr.***
  Council Member
  Lexington
- ***R. Duke Whisenant***
  City Manager
  Lexington
- ***Jerry L. Campbell***
  Mayor
  Lincolnton
- ***Tracy Heffner***
  Council Member
  Maiden
- ***Donald D. Mitchell***
  Director of Electric Utilities
  Monroe
- ***Lewis R. Fisher***
  Mayor
  Monroe
- ***John N. Parker***
  Director of Electric Services
  Morganton
- ***Jay C. Stowe***
  City Engineer
  Newton
- ***Mary Ann Creech***
  Town Administrator
  Pineville
- ***Smith D. Lingerfelt***
  Electric Superintendent
  Shelby
- ***George F. Martin***
  Council Member
  Shelby
- ***Herbert "Jim" Lawton***
  Council Member
  Statesville
- ***Larry M. Cranford***
  Electric Utility Director
  Statesville

NCMPA1 PARTICIPANTS ELECTRIC SYSTEMS...

CITY/TOWN	ESTABLISHED	CUSTOMERS	REVENUES	% OWNERSHIP
• Albemarle	1910	11,903	*1997* - $20,508,131 *1996* - $20,710,433	7.6043
• Bostic	1920	175	*1997* - $207,957 *1996* - $220,215	0.0869
• Cherryville	1906	2,446	*1997* - $4,639,205 *1996* - $4,675,856	1.5788
• Cornelius	1916	1,625	*1997* - $2,200,886 *1996* - $2,117,341	0.3621
• Drexel	1926	1,166	*1997* - $1,450,719 *1996* - $1,476,929	0.5070
• Gastonia	1919	24,493	*1997* - $49,161,775 *1996* - $49,367,306	17.1205
• Granite Falls	1923	2,037	*1997* - $3,993,978 *1996* - $3,973,493	0.9125
• High Point	1893	32,643	*1997* - $67,571,252 *1996* - $69,833,355	18.9600
• Huntersville	1916	1,528	*1997* - $2,627,369 *1996* - $2,327,632	0.6228
• Landis	1919	2,417	*1997* - $2,992,068 *1996* - $3,096,876	1.1298
• Lexington	1904	17,297	*1997* - $37,850,544 *1996* - $38,413,091	12.9345
• Lincolnton	1900	2,752	*1997* - $4,878,517 *1996* - $5,003,646	1.6078
• Maiden	1920	978	*1997* - $4,623,252 *1996* - $4,578,973	1.2891
• Monroe	1900	8,399	*1997* - $30,864,928 *1996* - $31,469,730	10.0377
• Morganton	1916	7,710	*1997* - $20,551,686 *1996* - $20,941,005	6.7352
• Newton	1896	3,832	*1997* - $6,624,447 *1996* - $6,695,424	2.1147
• Pineville	1939	2,119	*1997* - $6,941,845 *1996* - $6,585,354	0.5359
• Shelby	1912	7,676	*1997* - $12,910,085 *1996* - $13,644,263	5.9965
• Statesville	1889	11,971	*1997* - $27,321,842 *1996* - $27,469,336	9.8639

NCMPA1 OPERATIONAL HIGHLIGHTS...

CATAWBA NUCLEAR STATION

Unit Number	Capacity Factor %	Availability Factor %
• Catawba Unit 1	92.8	90.9
• Catawba Unit 2	86.8	87.1

Catawba Unit 1 began a refueling outage on November 29, 1997. Prior to the outage, the Unit had been operating continuously since December 31, 1996. The Unit returned to service on January 5, 1998 after completing the shortest refueling outage ever at a Duke Energy Nuclear Station (37.7 days). The next refueling outage for Unit 1 is scheduled to begin in April 1999.

Catawba Unit 2 began a refueling outage on March 21, 1997, which ended on May 2. The next refueling outage for Unit 2 is scheduled to begin in October 1998.

The Catawba Station received the Systematic Assessment of Licensee Performance (SALP) Report from the NRC on June 4, 1997. The report which covers the period October 8, 1995 through April 26, 1997, was discussed at a public meeting at the site on June 23, 1997.

The ratings are as follows:

Catawba's SALP Scores...

Functional Area	Rating This Period	Rating Last Period
• Plant Operations	1	2
• Maintenance	2	2
• Engineering	1	2
• Plant Support	1	2

McGUIRE NUCLEAR STATION

Unit Number	Capacity Factor %	Availability Factor %
• McGuire Unit 1	70.8	72.6
• McGuire Unit 2	67.2	70.9

On February 14, 1997, McGuire Unit 1 began a steam generator replacement and refueling outage that ended on May 19. The 94.3 day replacement outage was the shortest ever at that time for a four loop nuclear station. The next refueling outage on McGuire Unit 1 is scheduled to begin May 29, 1998.

On October 3, 1997, McGuire Unit 2 began a steam generator replacement and refueling outage that ended on December 18. The 76.8 day outage broke the record for the shortest ever four loop steam generator replacement that was previously established for Unit 1. The next refueling outage for Unit 2 is scheduled to begin on January 26, 1999.

The McGuire Station received the Systematic Assessment of Licensee Performance (SALP) Report from the NRC on May 7, 1997. The Report covered the period August 13, 1995 through March 8, 1997.

The McGuire Station received:

McGuire's SALP Scores...

Functional Area	Rating This Period	Rating Last Period
• Plant Operations	1	2
• Maintenance	2	1
• Engineering	2	2
• Plant Support	1	1

Rating Categories: 1 (Superior), 2 (Good), 3 (Acceptable)

NCMPA1 FINANCIAL INFORMATION...

INVESTMENT PORTFOLIO STATISTICS

*Earnings**

	Income	Rate of Return
• 1997	$56,967,000	6.66%
• 1996	$53,932,000	6.77%

*Market Value as of 12/31**

	Value	Average Maturity
• 1997	$956,035,000	5.2 years
• 1996	$951,107,000	4.9 years

Transactions

	Number	Amount
• 1997	734	$9,870,423,000
• 1996	670	$9,438,445,000

** For Earnings and Market Value, amounts include income from and market value of securities held in the decommissioning trust.*

DEBT STATISTICS

Debt Outstanding 12/31/97

	Balance (Thousands)	Weighted Average Interest Cost
• Fixed Rate Bonds	$2,225,402	6.16%
• Tax-Exempt Commercial Paper	$200,600	4.43%

DEBT STATISTICS, *continued*

Debt Outstanding 12/31/96

	Balance (Thousands)	Weighted Average Interest Cost
• Fixed Rate Bonds	$2,273,082	6.27%
• Tax-Exempt Commercial Paper	$200,600	4.26%

BOND RECONCILIATION

• Bonds Outstanding 12/31/96	$2,273,082,000
• Issued Series 1997A	+ 106,500,000
	2,379,582,000
• Matured 1/1/97	- 43,240,000
• Redeemed	- 1,450,000
• Refunded	- 109,490,000
• Bonds Outstanding 12/31/97	$2,225,402,000

BONDS OUTSTANDING 12/31/97

• Series 1997A	$ 106,500,000
• Series 1995A	79,440,000
• Series 1993	563,865,000
• Series 1992	1,189,690,000
• Series 1990	114,240,000
• Series 1988	46,052,000
• Series 1985B	125,615,000

INDEPENDENT AUDITORS' REPORT...

THE BOARD OF DIRECTORS
NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1

We have audited the accompanying balance sheets of North Carolina Municipal Power Agency Number 1 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 North Carolina Municipal Power Agency Number 1 at 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 the Schedule of Revenues and Expenses per Bond Resolution and Other Agreements and Schedule of Changes in Assets of Funds Invested 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 B, North Carolina Municipal Power Agency Number 1 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

RALEIGH, NORTH CAROLINA
APRIL 2, 1998

BALANCE SHEETS...

[$000s]

ASSETS	December 31, 1997	1996
• Electric Utility Plant		
Electric plant in service, net of accumulated depreciation of $429,935 and $387,582	$ 997,544	$1,039,898
Construction work in progress	22,195	12,875
Nuclear fuel, net of accumulated amortization of $40,494 and $57,994	46,621	38,788
	1,066,360	1,091,561
• Non-Utility Property and Equipment, net	2,305	2,129
• Special Funds Invested (Notes C and E):		
Bond fund	284,354	288,289
Reserve and contingency fund	18,971	19,288
Special reserve fund	1,043	1,020
	304,368	308,597
• Trust for Decommissioning Costs	86,245	71,064
• Operating Assets:		
Funds invested (Notes C and E):		
Revenue fund	374,492	410,694
Operating fund	106,945	114,618
Supplemental fund	91,933	54,623
	573,370	579,935
Participant accounts receivable	19,199	19,417
Operating accounts receivable	2,697	3,356
Prepaid expenses	36,972	40,728
	632,238	643,436
• Deferred Costs:		
Unamortized debt issuance costs	37,997	31,644
Excess costs on advance refundings of debt	315,261	326,798
	$2,444,774	$2,475,229

See notes to financial statements.

BALANCE SHEETS...

(\$000s)

LIABILITIES AND RETAINED EARNINGS	December 31, 1997	1996
• Long-Term Debt:		
Bonds, net of unamortized discount (Note E)	\$2,038,572	\$2,074,426
• Special Funds Liabilities:		
Current maturities of bonds (Note E)	40,015	43,240
Accrued interest on bonds	59,012	62,818
Tax-exempt commercial paper (Note F)	200,600	200,600
Accrued interest on commercial paper	915	1,087
	300,542	307,745
• Liability for Decommissioning Costs	68,811	60,768
• Operating Liabilities:		
Accounts payable	601	677
Accrued taxes	13,704	13,270
	14,305	13,947
• Deferred Revenues, net (Note D)	15,144	10,943
• Commitments and Contingencies (Notes F and G)		
• Retained Earnings	7,400	7,400
	\$2,444,774	\$2,475,229

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS...

(\$000s)

	Year Ended December 31, 1997	1996
• Operating Revenues:		
Sales of electricity to participants	$246,167	$239,309
Sales of electricity to utilities	119,698	134,453
Other revenues (Note H)	1,265	1,815
	367,130	375,577
• Operating Expenses:		
Operation and maintenance	80,818	73,597
Nuclear fuel	25,301	29,763
Interconnection services:		
Purchased power	47,170	59,746
Transmission and distribution	12,934	12,395
Other	134	96
	60,238	72,237
Administrative and general	35,187	28,629
Gross receipts and excise taxes	10,285	9,792
Property tax	12,965	12,434
Depreciation	45,269	47,145
	270,063	273,597
• Net Operating Income	97,067	101,980
• Interest Charges (Credits):		
Interest expense	131,263	134,087
Amortization of debt refunding costs	21,842	22,020
Amortization of debt discount and issuance costs	7,037	6,954
Net (increase) decrease in fair value of investments	(15,022)	16,804
Investment income	(52,255)	(54,703)
	92,865	125,162
• (Deferred Revenues) Net Costs to be Recovered from Future Billings to Participants (Note D)	(4,202)	23,182
• Excess of Revenues Over Expenses	0	0
• Retained Earnings, Beginning of year	7,400	7,400
• Retained Earnings, End of year	$ 7,400	$ 7,400

See notes to financial statements.

STATEMENTS OF CASH FLOWS...

|$000s|

	Year Ended December 31, 1997	1996
• Cash Flows from Operating Activities:		
Receipts from sales of electricity	$ 368,164	$ 377,070
Receipts from other revenues	1,265	1,815
Payments of operating expenses	(195,525)	(222,814)
Net cash provided by operating activities	173,904	156,071
• Cash Flows from Capital and Related Financing Activities:		
Bonds issued	106,500	
Bonds refunded	(110,940)	
Interest paid	(133,253)	(133,155)
Refunding Trust Fund requirement	(4,808)	
Additions to electric utility plant, and non-utility property and equipment	(44,036)	(39,558)
Bonds retired	(43,240)	(40,500)
Debt discount and issuance costs paid	(12,275)	(117)
Net cash used for capital and related financing activities	(242,052)	(213,330)
• Cash Flows from Investing Activities:		
Sales and maturities of investment securities	9,860,050	9,362,126
Purchases of investment securities	(9,842,206)	(9,355,962)
Investment earnings receipts from non-construction funds	50,308	51,052
Net cash provided by investing activities	68,152	57,216
• Net Increase (Decrease) in Operating Cash	4	(43)
• Operating Cash, Beginning of year	1	44
• Operating Cash, End of year	$ 5	$ 1

See notes to financial statements.

STATEMENTS OF CASH FLOWS (continued)...

($000s)

	Year Ended December 31, 1997	1996
• Reconciliation of Net Operating Income To Net Cash Provided by Operating Activities:		
Net Operating Income	$ 97,067	$ 101,980
Adjustments:		
Depreciation	45,269	47,145
Amortization of nuclear fuel	25,301	29,763
Changes in assets and liabilities:		
Decrease (increase) in participant accounts receivable	218	(675)
Decrease (increase) in operating accounts receivable	659	(3,356)
Decrease (increase) in prepaid expenses	3,756	(4,386)
Increase (decrease) in accounts payable	1,200	(13,990)
Increase (decrease) in accrued taxes	434	(410)
Total Adjustments	76,837	54,091
Net Cash Provided by Operating Activities	$173,904	$ 156,071

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS...

YEARS ENDED DECEMBER 31, 1997 AND 1996
NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1

A. General Matters

North Carolina Municipal Power Agency Number 1 (agency) is a joint agency organized and existing pursuant to Chapter 159B of the General Statutes of North Carolina to enable municipalities owning electric distribution systems, through the organization of the agency, to finance, construct, own, operate, and maintain electric generation and transmission facilities. The agency has nineteen members, (participants) with interests ranging from 0.0869% to 18.9600% which receive power from the agency. In May 1997, the twentieth member which receives power from Duke Energy Corporation (Duke) withdrew from the agency.

The agency has entered into several agreements with Duke which govern the purchase, ownership, construction, operation, and maintenance of the project:

> The Purchase, Construction, and Ownership Agreement provides, among other things, for the agency to purchase a 75% undivided ownership interest in Unit 2 of the Catawba Nuclear Station (station) and a 37.5% undivided ownership interest in certain support facilities of the station (project). However, by virtue of various provisions in the Interconnection Agreement and the Operation and Fuel Agreement, the agency (1) bears the costs of acquisition, construction, operation, and maintenance of 37.5% of Unit 1 and 37.5% of Unit 2, and (2) has the same proportionate right to the output of and bears the risks associated with the lack of operation of such units.
>
> The Interconnection Agreement provides for the interconnection between Duke's electric power system and the agency's project and for the exchange of power between Unit 1 and Unit 2 of the station and between the Catawba units and Duke's McGuire Nuclear Station. The agreement also provides for the purchase and sale of capacity and energy, and the transmission of energy to the agency's participants.
>
> As part of the Interconnection Agreement, the agency agrees to sell back to Duke, on a take-or-pay basis, capacity from each Catawba unit in decreasing amounts. In calendar years 1997 and 1996, the agency retained approximately 74 percent and 67 percent, respectively, of the agency's share of the station's aggregate available capacity, and will retain increasing amounts hereafter through December 31, 2000. Thereafter, the agency retains 100 percent of its share and the sell-back arrangement terminates.
>
> The Operation and Fuel Agreement provides for Duke to operate, maintain, and fuel the station; to make renewals, replacements, and capital additions as approved by the agency; and for the ultimate decommissioning of the station at the end of its useful life.

The agency's acquisition of its ownership interest is being financed by the issuance of electric revenue bonds pursuant to Resolution No. R-16-78, as amended, (resolution) of the Board of Commissioners of the agency. The resolution established special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the project, and to establish certain reserves. The resolution also established special funds in which project revenues are deposited and from which project operating costs, debt service, and other specified payments relating to the project are made.

The agency has entered into a Project Power Sales Agreement and a Supplemental Power Sales Agreement with each participant. These agreements provide for each participant to purchase from the agency its all-requirements bulk power supply, in excess of power allotments from the Southeastern Power Administration (SEPA), which includes its total share of project output (as defined by the Project Power Sales Agreement). The agency is obligated to provide all electric power required by each participant at the respective delivery points. Each participant is obligated to pay its share of the operating and debt service costs of the project.

The agency's participants receive their total electric power, exclusive of power allotments from SEPA, from the agency. Such power is provided by project output together with supplemental purchases of power from Duke. Pursuant to two "Reliability Exchanges" contained in the Interconnection Agreement, project output is provided in essentially equal amounts from Catawba Unit 2 and three other nuclear units (Catawba Unit 1, McGuire Unit 1, and McGuire Unit 2) in operation on the Duke system, all of similar size and capacity. The reliability exchanges are intended to make more reliable the supply of capacity and energy to the agency in the amount to which the agency is entitled pursuant to its ownership interest in Catawba Unit 2, and to mitigate potential adverse economic effects on the agency and the participants from unscheduled outages of Catawba Unit 2. Correspondingly, the agency bears risks resulting from unscheduled outages of any Catawba or McGuire Unit.

ElectriCities of North Carolina, Inc. (ElectriCities), organized as a joint municipal assistance agency under the General Statutes of North Carolina, is a public body and body corporate and politic created for the purpose of providing aid and assistance to municipalities in connection with their electric systems and to joint agencies, such as the agency. The agency has entered into a management agreement with ElectriCities. Under the current management agreement, ElectriCities is required to provide all personnel and personnel services necessary for the agency to conduct its business in an economic and efficient manner.

Federal regulations have been passed which encourage wholesale competition among utility and non-utility power producers. Similar regulations are contemplated for retail competition at both the federal and state level. These measures, together with increasing customer demand for lower-priced electricity and other energy services, have accelerated the industry's movement toward more competitive pricing structures. The agency and its Board of Directors are addressing the agency's position relative to deregulation. In addition, the agency periodically reviews its regulatory assets and the impact of recovering such assets on agency rates.

In April 1997, the North Carolina legislature created the "Study Commission on the Future of Electric Service in North Carolina" (Study Commission). The Study Commission is comprised of 23 members, representing lawmakers; the North Carolina municipal, cooperative, and private electric utilities; electric consumers; the environmental community, and electric power marketers. The Study Commission is to examine the cost, adequacy, availability, and pricing of electric rates and service in North Carolina to determine whether legislation is necessary to assure an adequate and reliable source of electricity and economical, fair, and equitable rates for all consumers of electricity in North Carolina. The Study Commission is to issue a final report of the results of its study and its recommendations to the General Assembly of North Carolina in early 1999.

B. Significant Accounting Policies

BASIS OF ACCOUNTING

The accounts of the agency are maintained on the accrual basis, in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, and are in conformity with generally accepted accounting principles (GAAP). The agency has adopted the principles promulgated by the Governmental Accounting Standards Board (GASB) and Financial Accounting Standard (FAS) No. 71 "Accounting for the Effects of Certain Types of Regulation," as amended. This standard allows utilities to capitalize or defer certain costs and/or revenues based upon the agency's ongoing assessment that it is probable that such items will be recovered through future revenues.

ELECTRIC PLANT IN SERVICE

All expenditures associated with the development and construction of the agency's ownership interest in the Catawba station, including interest expense net of investment income on funds not yet expended, have been recorded at original cost and are being depreciated on a straight-line basis over the average composite life of each unit's assets. At December 31, 1997, the remaining composite average life for Catawba's assets was 23 years. Original costs of major classes of the agency's electric plant in service at December 31, 1997 and 1996 are as follows (in thousands of dollars):

	December 31,	
	1997	*1996*
• Land	$ 19,768	$ 19,768
• Structures and improvements	386,861	386,861
• Reactor plant equipment	550,773	550,773
• Turbo generator units	165,145	165,145
• Accessory electric equipment	120,590	120,590
• Miscellaneous plant equipment	47,658	47,658
• Station equipment	10,959	10,959
• Unclassified	125,726	125,726
	$1,427,480	$1,427,480

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

CONSTRUCTION WORK IN PROGRESS

All expenditures related to modifications identified prior to commercial operation and to capital additions, including interest expense net of investment income on funds not yet expended, are capitalized as construction work in progress until such time as they are completed and transferred to Electric Plant in Service. Depreciation expense is recognized on these items after they are transferred.

NUCLEAR FUEL

All expenditures related to the purchase and construction of nuclear fuel cores, including interest expense net of investment income on funds not yet expended, are capitalized until such time as the cores are placed in the reactor. At that time, they are amortized and charged to fuel expense on the units of production method. Amounts are removed from the books upon disposal of the spent nuclear fuel. Nuclear fuel expense includes a provision for estimated spent nuclear fuel disposal costs which is being collected currently from members. Amortization of nuclear fuel costs includes estimated disposal costs of $6,034,000 and $5,369,000 for the years ended December 31, 1997 and 1996, respectively.

NON-UTILITY PROPERTY AND EQUIPMENT

Expenditures related to purchasing and installing an in-house computer, jointly owned with North Carolina Eastern Municipal Power Agency (NCEMPA), have been capitalized and are fully depreciated. In addition, the agency has purchased various computer equipment for its load management and telemetry programs which are being depreciated over the estimated useful life of the equipment. Also included are the land and administrative office building jointly owned with NCEMPA and used by both agencies and ElectriCities. The administrative office building is being depreciated over 37 1/2 years on a straight-line basis. Non-utility property and equipment is shown net of accumulated depreciation of $1,415,000 and $1,297,000 at December 31, 1997 and 1996, respectively.

Non-Utility Property and Equipment original costs at December 31, 1997 and 1996 are as follows (in thousands of dollars):

	December 31,	
	1997	*1996*
• Land	$ 710	$ 710
• Structures and improvements	1,499	1,499
• Computer equipment	1,253	1,217
• Telemetry equipment	259	
	$3,721	$3,426

INVESTMENTS

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 increase net deferred revenues by $32,647,000 at December 31, 1995.

DECOMMISSIONING COSTS

U.S. Nuclear Regulatory Commission (NRC) regulations require that each licensee of a commercial nuclear power reactor furnish to the NRC certification of its financial capability to meet the costs of nuclear decommissioning at the end of the useful life of the licensee's facility. As a co-licensee of Catawba Unit 2, the agency is subject to these requirements and therefore has furnished certification of its financial capability to fund its share of the costs of decommissioning the Catawba Station.

To satisfy the NRC's financial capability regulations, the agency established an external trust fund (the Decommissioning Trust) pursuant to a trust agreement with a bank. The agency's certification of financial capability requires that the agency make annual deposits to the Decommissioning Trust which, together with the investment earnings and amounts previously on deposit in the trust, are anticipated to result in sufficient funds being held in the Decommissioning Trust at the expiration of the current operating licenses for the Catawba Units (currently 2024 for Unit 1 and 2026 for Unit 2) to meet the agency's share of the decommissioning cost figure of $105 million per unit (1986 dollars) set forth in the NRC regulations. The Decommissioning Trust is irrevocable and funds may be withdrawn from the trust solely for the purpose of paying the agency's share of the costs of nuclear decommissioning.

Under the NRC regulations, the Decommissioning Trust is required to be segregated from agency assets and outside the agency's administrative control. The agency is deemed to have incurred and paid decommissioning costs as deposits are made to the Decommissioning Trust.

Estimates of the future costs of decommissioning the units are based on the most recent site specific study. In addition to the Decommissioning Trust, certain reserve assets are anticipated to be available to satisfy the agency's total decommissioning liability.

DEFERRED COSTS

Unamortized debt issuance costs, shown net of accumulated amortization of $6,966,000 and $5,673,000 at December 31, 1997 and 1996, respectively, are being amortized on the interest method over the term of the related debt. Excess costs on advance refundings of debt, shown net of accumulated amortization of $130,089,000 and $117,868,000 at December 31, 1997 and 1996, respectively, are deferred and amortized over the term of the debt issued on refunding. Deferred revenues/net costs to be recovered from future billings to participants are not amortized but will be recovered through future rates (See Note D).

DISCOUNTS ON BONDS

Discounts (net of premiums) on bonds, shown net of accumulated amortization of $25,995,000 and $20,251,000 at December 31, 1997and 1996 respectively, are amortized over the terms of the related bonds in a manner which yields a constant rate of interest.

TAXES

Income of the agency is excludable from federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the agency from property and franchise or other privilege taxes. In lieu of North Carolina property taxes, the agency pays an amount which would otherwise be assessed on the non-utility property and equipment of the agency. In lieu of a franchise or privilege tax, the agency pays to North Carolina an amount equal to 3.22% of the gross receipts from sales of electricity to participants. Electric utility property is located in South Carolina and subject to South Carolina property tax. An electric power excise tax equal to .05% (5/10 mill) for each kilowatt-hour of electric power sold for resale within South Carolina is also paid.

STATEMENTS OF CASH FLOWS

The agency has adopted cash flow reporting as required by Governmental Accounting Standards Board Statement No. 9. For purposes of the statements of cash flows, operating cash consists of unrestricted cash included in the line item on the balance sheets "operating assets: funds invested".

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures 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.

C. Investments

The resolution authorizes the agency to invest in 1) direct obligations of, or obligations of which the principal and interest are unconditionally guaranteed by, the United States (U.S.), 2) obligations of any agency of the U.S. or corporation wholly owned by the U.S., 3) direct and general obligations of the State of North Carolina or any political subdivision thereof whose securities are rated "A" or better, 4) repurchase agreements with the Bond Fund Trustee, Construction Fund Trustee, or any government bond dealer reporting to the Federal Reserve Bank of New York which mature within nine months from the date they were entered into and are collateralized by previously described obligations, and 5) bank time deposits evidenced by certificates of deposit and bankers' acceptances.

Bank time deposits may only be in banks with capital stock, surplus, and undivided profits of $20,000,000 or $50,000,000 for North Carolina banks and out-of-state banks, respectively, and the agency's investments deposited in such banks cannot exceed 50% and 25%, respectively, of such banks' capital stock, surplus, and undivided profits.

The resolution permits the agency to establish official depositories with any bank or trust company qualified under the laws of North Carolina to receive deposits of public moneys and having capital stock, surplus, and undivided profits in excess of $20,000,000.

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The agency's depositories use Option 2, a single financial institution collateral pool. Under Option 2, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. Responsibility for sufficient collateralization of these excess deposits rests with the financial institutions that have chosen Option 2. Because of the inability to measure the exact amount of collateral pledged for the agency under Option 2, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each Option 2 depository, which minimizes any risk of under-collateralization. At December 31, 1997 and 1996 the agency had $9,237 and $3,000, respectively, covered by federal depository insurance.

The agency's investments are categorized in the following table to give an indication of the level of risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the agency's name. All investments except repurchase agreements are considered Category 1. Repurchase agreements are considered Category 3. (*See chart, page 28*).

• INVESTMENTS (\$000s)

	December 31, 1997 Carrying Amount	December 31, 1997 Market Value	December 31, 1996 Carrying Amount	December 31, 1996 Market Value
Repurchase agreements	$196,405	$196,405	$238,673	$238,673
U.S. government securities	88,084	88,755	78,675	78,667
U.S. government agencies	350,339	359,422	345,419	349,607
Municipal bonds	28,104	29,410	30,901	30,360
Collateralized mortgage obligations	193,628	196,000	181,040	182,949
	856,560	869,992	874,708	880,256
Decommissioning Trust securities	68,609	86,043	60,555	70,851
	925,169	$956,035	935,263	$951,107
Operating cash	5		1	
Restricted cash	4		2	
Accrued interest	7,939		8,486	
Total funds invested	$933,117		$943,752	
Consisting of:				
Special funds invested	$300,342		$306,759	
Decommissioning Trust	68,811		60,768	
Operating assets	563,964		576,225	
	$933,117		$943,752	

• DEFERRED REVENUES (\$000s)

	Year Ended December 31, 1997	Year Ended December 31, 1996	Inception to December 31, 1997	Inception to December 31, 1996
GAAP Items Not Included in Billings to Participants:				
Interest expense	$129,621	$ 132,590	$1,960,860	$1,831,239
Depreciation and amortization	64,325	64,274	642,565	578,240
(Increase) decrease in fair value of investments	(15,022)	16,804	(30,866)	(15,844)
Training costs			6,696	6,696
	178,924	213,668	2,579,255	2,400,331
Bond Resolution Requirements Included in Billings to Participants:				
Special funds deposits	6,449	4,514	438,330	431,881
Debt service	162,715	169,360	2,031,717	1,869,002
Investment income not available for operating purposes	23,791	26,865	270,395	246,604
Special funds excess valuations	(9,829)	(10,253)	(146,043)	(136,213)
	183,126	190,486	2,594,399	2,411,274
(Deferred revenues) net costs to be recovered from future billings to participants	$ (4,202)	$ 23,182	$ (15,144)	$ (10,943)

In accordance with the provisions of the resolution, the collateral under the repurchase agreements is segregated and held by the trustee for the agency.

D. Deferred Revenues/Net Costs To Be Recovered From Future Billings To Participants

Rates for power billings to participants are designed to cover the agency's debt requirements, operating funds, and reserves as specified by the resolution and power sales agreements. Straight-line depreciation and amortization are not considered in the cost of service calculation used to design rates. In addition, certain earnings on bond resolution funds are restricted to those funds and not available for operations. The differences between debt principal maturities (adjusted for the effects of premiums, discounts, and amortization of deferred gains and losses) and straight-line depreciation and amortization and interest income recognition are recognized as costs to be recovered from future billings to participants. To the extent that funds collected for reserve accounts exceeds costs to be recovered, the agency has net deferred revenues. The recovery of outstanding amounts associated with costs to be recovered from future billings to participants will coincide with the retirement of the outstanding long-term debt of the agency.

All rates must be approved by the Board of Commissioners. Rates are designed on an annual basis and are reviewed quarterly. If they are determined to be inadequate, rates may be revised.

(Deferred revenues) net costs to be recovered from future billings to participants includes the following. (*See chart, page 28*).

E. Bonds

The agency has been authorized to issue Catawba Electric Revenue Bonds (bonds) in accordance with the terms, conditions, and limitations of the resolution. The total to be issued is to be sufficient to pay the costs of acquisition and construction of the project, as defined, and/or for other purposes set forth in the resolution. Future refundings may result in the issuance of additional bonds.

As of December 31, 1996, the agency had outstanding $2,273,082,000 of bonds. On January 1, 1997, the agency made principal payments of $43,240,000 for maturing bonds. In August 1997, the agency retired $1,200,000 in bonds. In October 1997, an additional $106,500,000 of bonds were issued (Series 1997 A). Proceeds of the Series 1997 A bonds were used to establish a trust for advance refunding a portion of the Series 1988 bonds totalling $109,490,000. In December 1997, the agency retired $250,000 in bonds, bringing the total outstanding bonds at December 31, 1997 to $2,225,402,000 as follows (in thousands of dollars):

	December 31,	
	1997	*1996*
• **SERIES 1985 A**		
8.8% maturing in 1997	$ 0	$ 930
• **SERIES 1985 B**		
8.4% maturing in 1997		6,480
6% maturing in 2020 with annual sinking fund requirements beginning in 2018	125,615	125,615
	125,615	132,095
• **SERIES 1986**		
7.2% maturing in 1997	0	4,045

Bonds, continued

	December 31, 1997	1996
SERIES 1988		
Zero coupon priced to yield 7.3% to 7.6% maturing annually from 2000 to 2003	$ 11,052	$ 11,052
7.75% maturing in 2010 with annual sinking fund requirements beginning in 2009		8,310
7.625% maturing in 2014 with annual sinking fund requirements beginning 2011		16,180
6% maturing in 2015 with annual sinking fund requirements beginning in 2014	35,000	35,000
7% maturing in 2016 with annual sinking fund requirements beginning in 2015		60,000
7.5% maturing in 2017		25,000
	46,052	155,542
SERIES 1990		
Zero coupon priced to yield 6.75% maturing in 2004	3,670	3,670
6.4% to 6.9% maturing annually from 1998 to 2003	8,745	9,640
6.5% maturing in 2010 with annual sinking fund requirements beginning in 2007	91,600	91,600
7% maturing in 2019 with annual sinking fund requirements beginning in 2014	10,225	10,225
	114,240	115,135
SERIES 1992		
5.1% to 8% maturing annually from 1998 to 2011	490,335	508,315
Zero coupon priced to yield 6.55% to 6.7% maturing annually from 2008 to 2012	100,000	100,000
5.75% maturing in 2015 with annual sinking fund requirements beginning in 2013	191,030	191,030
6.25% maturing in 2017 with annual sinking fund requirements beginning in 2016	135,495	135,495
6.2% maturing in 2018	83,540	83,540
5.75% maturing in 2020 with annual sinking fund requirements beginning in 2019	123,990	123,990
6% Indexed Caps Bonds maturing in 2012	65,300	65,300
	1,189,690	1,207,670
SERIES 1993		
4.2% to 5.5% maturing annually from 1998 to 2010	243,995	258,355
PARS/INFLOS maturing in 2012 with annual sinking fund requirements beginning in 2011 with linked interest rate of 5.5%	54,800	54,800
5% maturing in 2015 with annual sinking fund requirements beginning in 2013	103,390	103,390
5% maturing in 2018 with annual sinking fund requirements beginning in 2016	91,680	91,680
PARS/INFLOS maturing in 2020 with annual sinking fund requirements beginning in 2018 with linked interest rate of 5.6%	70,000	70,000
	563,865	578,225

	December 31, 1997	December 31, 1996
• SERIES 1995A		
5.1% to 5.2% maturing annually from 2007 to 2008	$ 15,185	$ 15,185
5.375% maturing in 2020 with annual sinking fund requirements beginning in 2019	64,255	64,255
	79,440	79,440
• SERIES 1997A		
5% maturing annually from 1998 to 2001	8,725	
5% to 5.125% maturing annually from 2009 to 2011	21,115	
5.125% maturing in 2015	19,235	
5.125% maturing in 2017 with annual sinking fund requirements beginning in 2016	57,425	
	106,500	
	2,225,402	2,273,082
Less: Current maturities of bonds	40,015	43,240
Unamortized discount	146,815	155,416
	$2,038,572	$2,074,426

The fair market value of the agency's long-term debt was estimated using a yield curve derived from December 31, 1997 and 1996 market prices for similar securities. Using these yield curves, market prices were estimated to call date, to par call date, and to maturity. The lowest of the three prices was used as the estimated market price for each individual maturity and the individual maturities were summed to arrive at a fair market value of $2,294,189,000 and $2,455,342,000 at December 31, 1997 and 1996, respectively.

Certain proceeds of the Series 1984, 1985A, 1985B, 1988, 1990, 1992, 1993, 1995A, and 1997A bonds and the TECP were used to establish trusts for advance refunding of $3,653,380,000 of previously issued bonds. At December 31, 1997, $3,016,155,000 of these bonds have been redeemed. Under these Refunding Trust Agreements, obligations of, or guaranteed by, the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the respective Refunding Trust Funds along with the interest earnings on such obligations, will be sufficient to pay all interest on the refunded bonds when due and to redeem all refunded bonds at various dates prior to their original maturities, in amounts ranging from par to a maximum redemption price of 103%. The monies on deposit in each Refunding Trust Fund, including the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the agency.

Interest on the bonds is payable semi-annually. The following bonds are subject to redemption prior to maturity at the option of the agency, on or after the following dates at a maximum of 103% of the respective principal amounts:

• Series 1985B	January 1, 1996
• Series 1988	January 1, 1998
• Series 1990	January 1, 2000
• Series 1992 and 1993	January 1, 2003
• Series 1995A	January 1, 2006
• Series 1997A	January 1, 2007

The bonds are special obligations of the agency, payable solely from and secured solely by (1) project revenues (as defined by the resolution) after payment of project operating expenses (as defined by the resolution) and (2) other monies and securities pledged for payment thereof by the resolution.

The resolution requires the agency to deposit into special funds all proceeds of bonds issued and all project revenues (as defined by the resolution) generated as a result of the Project Power Sales Agreements and Interconnection Agreement. The purpose of the individual funds is specifically defined in the resolution.

In 1995, the agency entered into forward swap agreements related to the potential future refunding of portions of the Series 1988 bonds totaling $103,590,000. In October 1997, the agency terminated the swap agreements in conjunction with the issuance of the Series 1997A bonds.

As a result of the 1997 refunding, the agency increased excess costs on advanced refundings of debt by $10,306,000. However, the agency will benefit from reduced debt service costs of $51,771,000 over the life of the Series 1997A bonds.

The table below is a summary of debt service deposit requirements for bonds and TECP outstanding at December 31, 1997 (in thousands of dollars).

This table reflects principal debt service included in the designated year's rates. In accordance with the resolution, these moneys are deposited into the Bond Fund for payment of the following year's current maturities. Current maturities of $40,015,000 at December 31, 1997 were collected through rates during 1997 and deposited monthly into the Bond Fund to make the January 1, 1998 principal payment.

Year	*Principal*	*Interest*	*Total*
1998	$ 50,430	$ 126,905	$ 177,335
1999	54,733	124,529	179,262
2000	59,228	121,914	181,142
2001	59,278	118,918	178,196
2002	64,083	115,785	179,868
2003	68,030	112,294	180,324
2004	70,405	108,600	179,005
2005	86,960	104,685	191,645
2006	93,185	98,980	192,165
2007	99,420	93,088	192,508
2008	103,285	88,833	192,118
2009	108,130	84,406	192,536
2010	112,940	79,741	192,681
2011	118,875	74,202	193,077
2012	126,685	68,211	194,896
2013	134,250	61,385	195,635
2014	138,770	54,020	192,790
2015	146,950	46,627	193,577
2016	159,270	38,658	197,928
2017	170,425	29,865	200,290
2018	176,660	20,021	196,681
2019	183,995	10,131	194,126
Total	$2,385,987	$1,781,798	$4,167,785

F. Tax-Exempt Commercial Paper

The agency authorized the issuance of $200,600,000 of tax-exempt commerical paper (TECP) to provide for the refunding of certain outstanding bonds. The agency has issued $200,600,000 of TECP to accomplish the refunding of $217,055,000 in bonds. As of December 31, 1997 the agency had $200,600,000 of TECP outstanding with an average maturity of 79 days and an average interest cost of 4.429%. The agency maintains a direct-pay letter of credit with two banks for $205,546,000 that is drawn upon to provide funds to pay principal of and interest on the TECP when due, for which the agency paid a fee of approximately $869,000 in 1997. Each draw upon the letter of credit is to be reimbursed from the proceeds of TECP issued on the same day the draw is made. In the event a draw is not reimbursed, it becomes a borrowing which matures four years after the termination date of the letter of credit agreement (currently December 7, 1999). There were no borrowings under the letter of credit agreement at December 31, 1997.

G. Commitments and Contingencies

ELECTRICITIES

The agency has a contractual agreement with ElectriCities whereby ElectriCities provides, at cost, general management services to the agency. This agreement continues through December 31, 2001, and is automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term.

For the years ended December 31, 1997 and 1996, the agency paid ElectriCities $4,517,000 and $4,152,000, respectively.

INSURANCE

The Price-Anderson Act limits the public liability for a nuclear incident at a nuclear generating unit to $8,700,000,000, which amount is to be covered by private insurance and agreements of indemnity with the NRC. Such private insurance and agreements of indemnity are carried by Duke on behalf of all co-owners of the station. The terms of this coverage require the owners of all licensed facilities to provide up to $79,300,000 per year per unit owned (adjusted annually for inflation) in the event of any nuclear incident involving any licensed facility in the nation, with an annual maximum assessment of $10,000,000 per unit owned. If any such payments are required, the agency would be liable for 37.5% of those payments applicable to the station.

Property damage insurance coverage presently available for the station has a maximum benefit limited to $2,750,000,000. Such available coverage has been obtained.

H. Other Revenues

Other revenues include $1,300,000 and $1,791,000 in 1997 and 1996, respectively, which were received from Duke in settlement of arbitration issues.

I. Subsequent Events

On April 1, 1998, the agency issued $128,925,000 of Series1998A bonds. The proceeds of the series, plus other available money in reserve funds, were used to advance refund $45,040,000 of the Series 1985B bonds and to refund $35,000,000 and $48,885,000 of the Series 1988 bonds and Series 1992 bonds, respectively. The series is comprised of $33,710,000 of serial bonds with interest rates ranging from 4.5 percent to 5.5 percent maturing annually from 1999 to 2015, $49,810,000 of 5.125 percent term bonds maturing in 2017 with an annual sinking fund requirement in 2016, and $45,405,000 of 5 percent term bonds maturing in 2020 with annual sinking fund requirements beginning in 2018.

As a result of the refunding, the agency increased excess costs on advanced refundings of debt by $26,003,000, which includes $19,800,000 of original issue discount relating to the refunded bonds. However, the agency will benefit from reduced debt service costs of $24,828,000 over the life of the Series 1998A bonds.

SCHEDULES OF CHANGES IN ASSETS OF FUNDS INVESTED...

(\$000s)

	Funds Invested Jan. 1, 1996	*Power Billing Receipts*	*Investment Income*	*Disbursments*	*Transfers*
Bond fund:					
Interest account	$ 62,885	$ 0	$ 1,534	$(125,410)	$124,099
Reserve account	183,401		12,411		(15,156)
Principal account	41,024		1,110	(40,500)	41,824
	287,310		15,055	(165,910)	150,767
Reserve & contingency fund	18,900		2,005	(7,029)	4,637
Special reserve fund	1,019		72		(67)
Revenue fund:					
Revenue account	18,768	139,899	876	54,699	(172,907)
Rate stabilization account	411,190		26,865	(29,374)	(42,862)
	429,958	139,899	27,741	25,325	(215,769)
Operating fund:					
Working capital account	28,739		7,902	(140,835)	134,532
Fuel account	98,234				(14,098)
	126,973		7,902	(140,835)	120,434
Supplemental fund:					
Supplemental account	26,271	97,591	1,558	(11,281)	(93,667)
Supplemental reserve account			460		33,665
	26,271	97,591	2,018	(11,281)	(60,002)
	$890,431	$237,490	$54,793	$(299,730)	$ 0

Note: 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 and 1996, respectively.

See accompanying Independent Auditors' Report.

SCHEDULES OF CHANGES IN ASSETS OF FUNDS INVESTED...

(\$000s)

Funds Invested Dec. 31, 1996	Bond Proceeds	Power Billing Receipts	Investment Income	Disbursements	Transfers	Funds Invested Dec. 31, 1997
$ 63,108	$ (1,911)	$ 0	$ 1,521	$(124,478)	$ 121,342	$ 59,582
180,656			12,083		(11,906)	180,833
43,458	(1,428)		1,051	(43,240)	40,658	40,499
287,222	(3,339)		14,655	(167,718)	150,094	280,914
18,513			1,849	(5,562)	3,601	18,401
1,024			76		(73)	1,027
41,335	(17,701)		1,424	55,107	(227,915)	36,990
365,819		167,039	23,791	(3,173)	(40,060)	328,676
407,154	(17,701)	167,039	25,215	51,934	(267,975)	365,666
30,338			6,321	(162,646)	162,340	36,353
84,136					(13,879)	70,257
114,474			6,321	(162,646)	148,461	106,610
20,472		78,490	1,416	(11,625)	(63,119)	25,634
34,125			2,918		29,011	66,054
54,597		78,490	4,334	(11,625)	(34,108)	91,688
$882,984	$(21,040)	$245,529	$52,450	$(295,617)	$ 0	$864,306

Note: 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 and 1996, respectively.

See accompanying Independent Auditors' Report.

SCHEDULE OF REVENUES AND EXPENSES...

PER BOND RESOLUTION AND OTHER AGREEMENTS (\$000s)

	Year Ended December 31, 1997 Project	Supplemental	Total	Year Ended December 31, 1996 Project	Supplemental	Total
REVENUES:						
Sales of electricity to participants	$169,321	$76,846	$246,167	$144,585	$94,724	$239,309
Sales of electricity to utilities	119,698		119,698	134,453		134,453
Other revenues	1,265		1,265	1,814	1	1,815
Rate stabilization fund withdrawal	40,897		40,897	46,276		46,276
Fund valuations	9,829		9,829	10,253		10,253
Investment revenue available for operations	24,053	4,411	28,464	25,748	2,091	27,839
	365,063	81,257	446,320	363,129	96,816	459,945
EXPENSES:						
Operation and maintenance	80,818		80,818	73,597		73,597
Nuclear fuel	25,301		25,301	29,763		29,763
Interconnection services:						
Purchased power	17,026	30,144	47,170	16,332	43,414	59,746
Transmission and distribution		12,934	12,934		12,395	12,395
Other		134	134		96	96
	17,026	43,212	60,238	16,332	55,905	72,237
Administrative and general-Duke	28,187		28,187	21,917		21,917
Administrative and general-agency	2,607	2,900	5,507	2,585	3,014	5,599
Miscellaneous agency expense		1,493	1,493		1,113	1,113
Gross receipts and excise taxes	7,838	2,447	10,285	6,782	3,010	9,792
Property tax	12,963	2	12,965	12,434		12,434
Debt service	171,277	117	171,394	177,704	109	177,813
Special funds deposits:						
Decommissioning fund	2,786		2,786	4,891		4,891
Reserve and contingency fund	16,260		16,260	17,124		17,124
Supplemental reserve fund		31,086	31,086		33,665	33,665
	19,046	31,086	50,132	22,015	33,665	55,680
	365,063	81,257	446,320	363,129	96,816	459,945
Excess of Revenues Over Expenses	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Note: 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 and 1996, respectively.

See accompanying Independent Auditors' Report.

STATISTICAL HIGHLIGHTS...

TEN YEARS AT A GLANCE

	1997	1996	1995	1994	1993
• *Megawatt-hour Sales (MWH)*	4,223,699	4,221,890	4,125,029	3,950,370	3,976,104
• *Peak Billing Demand (kW)*	853,384	829,245	803,615	752,717	788,060
• *Operating Revenues*	$367,130,000	$375,577,000	$413,852,000	$540,695,000*	$443,511,000
• *Excess of Revenues over Expenditures*	$0	$0	$0	$0	$3,121,000
• *Sales to Duke (Revenues)*	$119,698,000	$134,453,000	$183,554,000	$237,153,000	$238,954,000
• *Average Monthly Power Purchases by Cities (MWh)*	351,975	351,824	343,752	329,198	331,342
• *Average Monthly Billings by Cities*	$20,514,000	$19,942,000	$19,077,000	$17,711,000	$17,046,000

	1992	1991	1990	1989	1988
• *Megawatt-hour Sales (000)*	3,757,172	3,722,099	3,585,461	3,572,021	3,473,529
• *Peak Billing Demand (kW)*	740,847	742,108	721,247	689,304	723,078
• *Operating Revenues*	$418,234,000	$438,810,000	$432,647,000	$429,098,000	$425,772,000
• *Excess (Deficiency) of Revenues over Expenditures*	$(5,799,000)	$(12,544,000)	$(18,534,000)	$19,167,000	$(6,034,000)
• *Sales to Duke (Revenues)*	$234,625,000	$262,456,000	$266,086,000	$263,034,000	$269,443,000
• *Average Monthly Power Purchases by Cities (MWh)*	313,098	310,175	298,788	297,668	289,461
• *Average Monthly Billings by Cities*	$15,301,000	$14,696,000	$13,880,000	$13,839,000	$13,027,000

** Includes $91,005,000 received in settlement of arbitration issues.*

"ELECTRICITIES' ACTIVE ROLE IN PROMOTING AWARENESS

OF THE MAJOR ISSUES AS THEY RELATE TO THE

TWO POWER AGENCIES AT THE STATE AND FEDERAL LEVEL,

INCLUDING THE NEED FOR A COMPREHENSIVE PLAN

FOR STRANDED COST RECOVERY FOR

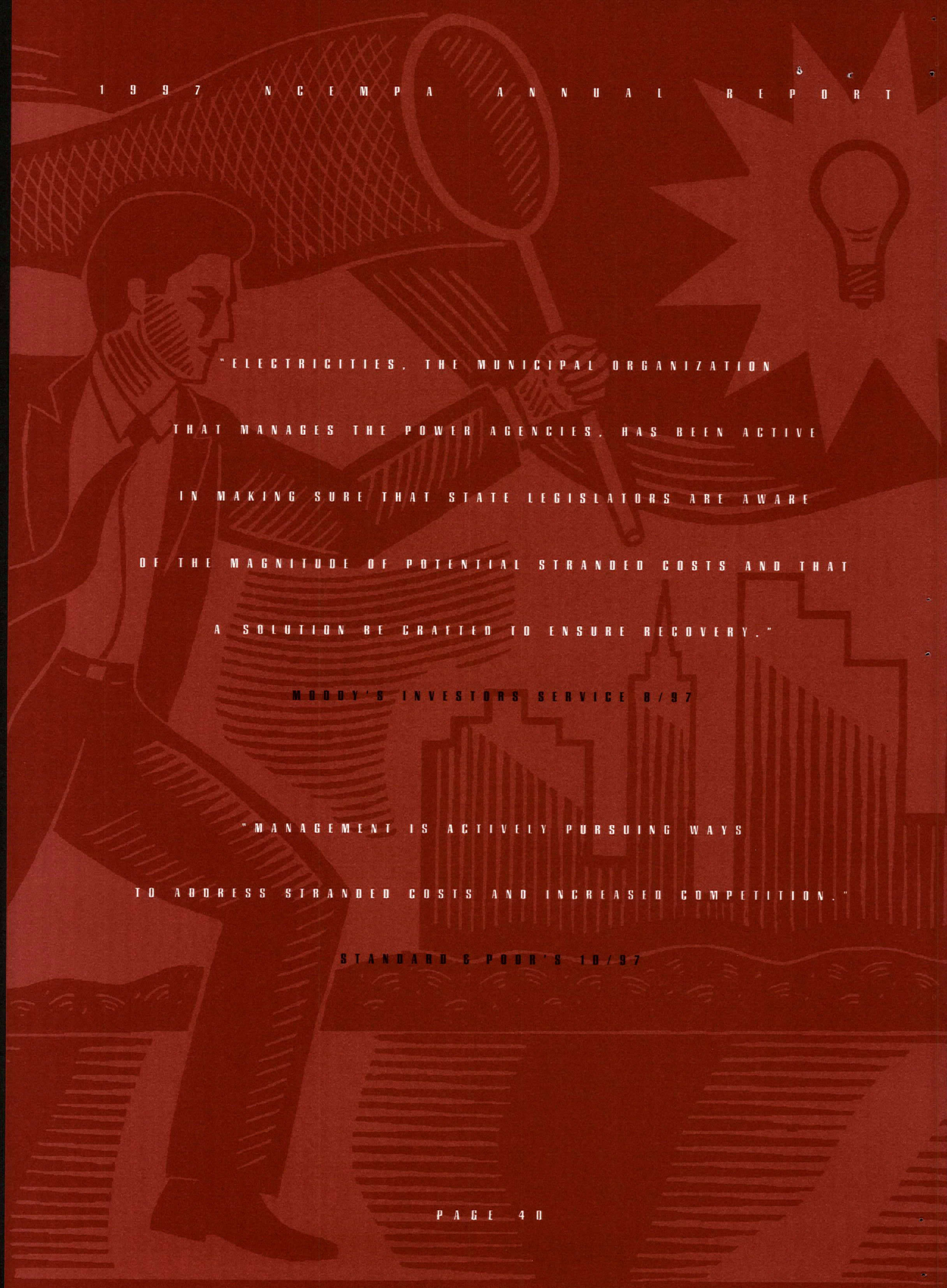
MUNICPAL ELECTRIC UTILITITES

IF RETAIL CHOICE IS PERMITTED,

IS AN IMPORTANT STRENGTH."

MOODY'S INVESTORS SERVICE 8/97

North Carolina Eastern Municipal Power Agency **NCEMPA**



"ELECTRICITIES, THE MUNICIPAL ORGANIZATION THAT MANAGES THE POWER AGENCIES, HAS BEEN ACTIVE IN MAKING SURE THAT STATE LEGISLATORS ARE AWARE OF THE MAGNITUDE OF POTENTIAL STRANDED COSTS AND THAT A SOLUTION BE CRAFTED TO ENSURE RECOVERY."

MOODY'S INVESTORS SERVICE 8/97

"MANAGEMENT IS ACTIVELY PURSUING WAYS TO ADDRESS STRANDED COSTS AND INCREASED COMPETITION."

STANDARD & POOR'S 10/97

ABOUT NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY...

NCEMPA FAST FACTS

The Commission finds and concludes that this sale (of Carolina Power & Light Company – CP&L – assets to the power agency) and acquisition should be approved as it will serve the public interest by reducing CP&L's requirements for external funds to finance its construction program and by lowering the cost of electricity that would otherwise be available to the participants of Power Agency Number 3 or to CP&L's customers. It is apparent from the evidence in this proceeding that the sale and acquisition of the joint unit would promote adequate, reliable and economical utility service in North Carolina.

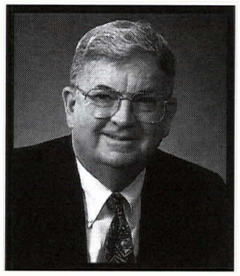
NCUC Findings of Fact, 1981.

Thus North Carolina Eastern Municipal Power Agency became an owner of electric power generation. Throughout the 1970s, the municipal systems in Eastern North Carolina that purchased power from CP&L and Virginia Electric and Power Company faced constant wholesale rate increases and the fear that the companies would not be able to build enough generation to meet the demands of a growing economy. In 1981, 32 of those cities formed North Carolina Eastern Municipal Power Agency and purchased ownership in five power plants from CP&L. While providing a reliable source of electricity to their cities, member investments in NCEMPA helped fuel the state economy.

- NCEMPA is made up of 32 cities in Eastern North Carolina which share ownership in Shearon Harris Nuclear Power Plant; Brunswick Steam Electric Plant, Units 1 and 2; Mayo Electric Generating Plant; and Roxboro Steam Electric Plant, Unit 4.
- NCEMPA participant cities served 217,871 customers.
- Participant cities' revenue from power sales were $501,490,525 in 1997, down from $517,293,468 the previous year.
- Peak demand reached 1,185,129 kW.
- Demand side management programs saved NCEMPA participants $35 million.
- NCEMPA gained $44.4 million from investment earnings, with a rate of return of 6.7 percent.

MESSAGE FROM THE CHAIRMAN...

FRED TURNAGE



Fred Turnage
NCEMPA Chairman

Municipal electric systems have always had a strong presence in Eastern North Carolina. And they have always played a significant role in the economic growth and development in that part of the state.

1997 was a strong year for economic development for the members of North Carolina Eastern Municipal Power Agency. The Agency added 38 MW to its system, which equaled $343,620,000 in new investments. Of course when one of our 32 cities adds new load, it helps all of us and the Agency as a whole.

Economic growth is a recurring theme for Eastern Agency. It was one of the driving forces for our existence. With industry restructuring on the horizon, it is even more important that we show our state leaders how vital our cities are to the economic health of Eastern North Carolina, which still has plenty of room to grow as the 21st Century approaches.

In 1997, Eastern Agency took huge steps in its economic development efforts. A major rate structure change was designed to better track the base and incremental costs of power supply and provide more flexibility for economic development programs.

The Agency helped its cities retain customers by expanding energy services and through the power audit and participant assistance programs. The Agency provided power audits for 26 commercial and industrial customers. Those audits identified 10 MW of potential load reductions, which resulted in $1 million in savings for those customers.

Of course the cities' economic growth efforts are all in vain without efficiency. The Agency continued its cost-saving efforts in 1997. Load management programs resulted in $35 million in savings for participant cities. In addition, a new Load Management Monitoring System was developed, which is a computer-based system that will monitor the participants' load and coordinate load management activities. The staff also developed monitoring and tracking reports for budget, power cost, facilities and participant composite cost of power. These reports have been used by the cities to identify and implement cost savings programs throughout the Agency.

To continue its efforts to cut costs in the future, the Agency continued its work on a new resource for supplemental power purchases for NCEMPA. In August 1996, NCEMPA notified CP&L of its intention to seek a new resource for supplemental power beginning in September 2001. The Agency believes that it will be able to reduce its supplemental power costs by 10 to 15 percent each year through this effort. In 1997, negotiations were underway with CP&L to integrate this new resource into the new power supply plan of NCEMPA.

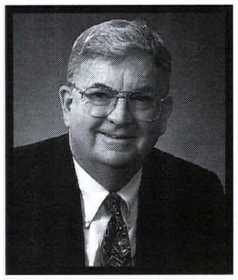
The Agency issued a request for proposals in 1997 for a new resource and gathered responses in December to determine its options. The Agency continued its power supply billing audits through negotiations with CP&L and completed the review of the 1995 true-up, identifying errors which resulted in $1.4 million in additional credits and resolved the potential challenges resulting in $60,000 in present value savings. A Telemetry Services contract under development with CP&L will save more than $200,000 in required capital improvements in 1998. And the Agency negotiated additional transmission related issues that will save the cities more than $4 million over the next four years.

It is good to review the improvements the Agency has made in its programs and the continued hard work of the Agency to help the cities remain a vital part of Eastern North Carolina's health and continued growth. We must not dwell on those, but look to the future. We must not only continue our efforts next year, but also intensify them as we face the challenges of deregulation in a year that will be very pivotal for the electric utility industry in North Carolina.

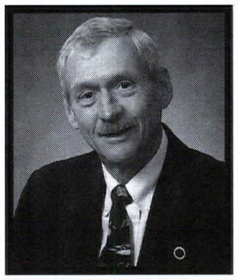
1997 NCEMPA BOARD OF COMMISSIONERS...

COMMISSIONERS

- *William M. Sutton*
  Town Manager, Apex
- *Jimmy G. Westbrook*
  Electrical Engineer
  Ayden
- *Timothy M. Johnson*
  Town Manager
  Belhaven
- *Keith R. Langdon*
  Town Administrator
  Benson
- *A. Cameron Mercer*
  Council Member, Clayton
- *Anne-Marie Knighton*
  Town Manager
  Edenton
- *Steven L. Harrell*
  City Manager
  Elizabeth City
- *Richard N. Hicks*
  Town Manager
  Farmville
- *Kenneth D. Noland*
  Town Administrator
  Fremont
- *Jerry A. Carson*
  GUC Commissioner
  Greenville
- *Herman T. Etheridge*
  Commissioner
  Hamilton
- *John Christensen*
  Town Manager
  Hertford
- *J. W. Bryant Jr.*
  Mayor, Hobgood
- *R. Scott Spence*
  Town Commissioner
  Hookerton
- *Anthony W. Barrett*
  City Manager, Kinston
- *Mr. Mike Taylor*
  Town Manager
  La Grange
- *Peter G. Vandenberg*
  City Manager
  Laurinburg
- *C. L. Gobble*
  Town Administrator
  Louisburg
- *Harry L. Ivey*
  Council Member
  Lumberton
- *Ralph E. Puckett*
  Director of Electrical Utilities
  New Bern
- *Hugh T. Howard*
  Commissioner
  Pikeville
- *John McNeill*
  Commissioner
  Red Springs
- *John Pritchard Jr.*
  Asst. Town Administrator
  Robersonville
- *Frederick E. Turnage*
  Mayor
  Rocky Mount
- *Bruce A. Radford*
  City Manager
  Selma
- *Ronald W. Owens*
  City Manager
  Smithfield
- *Paul D. Fisher*
  Alderman
  Southport
- *Samuel W. Noble Jr.*
  Town Manager
  Tarboro
- *Mark S. Williams*
  Town Manager
  Wake Forest
- *Mr. R. L. Willoughby*
  City Manager
  Washington



Frederick E. Turnage
Chairman, Rocky Mount



Peter G. Vandenberg
Vice Chairman, Laurinburg

Anne-Marie Knighton
Secretary-Treasurer, Edenton

ALTERNATE COMMISSIONERS

- *J. Michael Wilson*
  Asst. Town Manager
  Apex
- *Hugh R. Montgomery*
  Town Manager, Ayden
- *Don H. Johnson*
  Mayor, Benson
- *Douglas A. McCormac*
  Mayor, Clayton
- *William A. Crummey*
  Director of Public Utilities
  Edenton
- *Billy Harvey*
  Alderman, Fremont
- *Nancy M. Jenkins*
  Mayor, Greenville
- *Malcolm A. Green*
  Gen. Mgr, Utilities Comm.
  Greenville
- *D. G. Matthews III*
  Mayor
  Hamilton
- *John G. Beers*
  Mayor, Hertford
- *J. A. Whitehurst Jr.*
  Commissioner
  Hobgood
- *Carey B. Washburn*
  Kinston
- *Ronald D. Wicker*
  Director of Public Utilities
  Kinston
- *Jerry W. Woodall*
  Council Member
  La Grange
- *William R. Purcell*
  Mayor, Laurinburg
- *Lois Brown Wheless*
  Council Member
  Louisburg
- *Ray Patterson*
  Director of Electrical Services
  Louisburg
- *James D. Asbury*
  Utility Director
  Lumberton
- *Robert W. Hites Jr.*
  City Manager
  Lumberton
- *Walter B. Hartman Jr*
  City Manager, New Bern
- *Robert W. Davy*
  Town Administrator
  Pikeville
- *T. Wayne Horne*
  Town Manager
  Red Springs
- *John David Jenkins*
  Commissioner
  Robersonville
- *Stephen W. Raper*
  City Manager
  Rocky Mount
- *Robert E. Tripp III*
  Director of Public Utilities
  Smithfield
- *Robert E. "Ed" Honeycutt*
  Public Services Director
  Southport
- *Ricky C. Page*
  Utility Director
  Tarboro
- *T. G. Allgood Jr*
  Council Member
  Tarboro
- *Al S. Hinton*
  Commissioner
  Wake Forest
- *Keith Hardt*
  Electric Utility Director
  Washington
- *Charles W. Whitley Jr.*
  Director of Public Utilities
  Wilson
- *Charles W. Pittman III*
  Deputy City Manager.-
  Operations & Public Works
  Wilson

NCEMPA PARTICIPANTS ELECTRIC SYSTEMS...

CITY/TOWN	ESTABLISHED	CUSTOMERS	REVENUES	% OWNERSHIP
• Apex	1917	4,841	1997 - $7,207,802 1996 - $6,747,368	0.7056
• Ayden	1916	3,297	1997- $7,560,389 1996 - $7,776,676	1.1340
• Belhaven	1920	1,239	1997 - $2,168,243 1996 - $2,353,100	0.4090
• Benson	1913	1,778	1997 - $3,365,928 1996 - $3,473,112	0.5773
• Clayton	1913	3,365	1997 - $5,889,889 1996 - $6,171,371	0.7448
• Edenton	1908	3,630	1997 - $7,925,392 1996 - $8,238,785	1.5961
• Elizabeth City	1926	10,074	1997 - $22,264,316 1996 - $23,662,397	4.2510
• Farmville	1904	3,275	1997 - $4,781,364 1996 - $5,303,229	1.2901
• Fremont	1918	886	1997 - $1,240,220 1996 - $1,346,268	0.3062
• Greenville (GUC)	1905	45,771	1997 - $102,233,721 1996 - $108,478,396	16.1343
• Hamilton	1922	275	1997 - $398,272 1996 - $428,658	0.0783
• Hertford	1915	1,448	1997 - $2,322,891 1996 - $2,380,188	0.4124
• Hobgood	1922	349	1997 - $434,566 1996 - $486,966	0.0913
• Hookerton	1907	398	1997 - $600,001 1996 - $601,935	0.1550
• Kinston	1897	12,956	1997 - $35,808,929 1996 - $38,620,148	8.6678
• La Grange	1917	1,506	1997 - $2,285,679 1996 - $2,321,557	0.5014
• Laurinburg	1925	5,461	1997 - $11,897,667 1996 - $11,977,997	2.2675
• Louisburg	1906	1,900	1997 - $5,147,955 1996 - $5,141,878	0.8577
• Lumberton	1915	9,007	1997 - $21,564,885 1996 - $22,072,609	5.1568
• New Bern	1901	15,081	1997 - $35,457,773 1996 - $37,724,235	6.3676
• Pikeville	1918	536	1997 - $850,330 1996 - $832,084	0.2046
• Red Springs	1910	1,900	1997 - $2,889,549 1996 - $2,922,879	0.5798
• Robersonville	1919	1,211	1997 - $2,215,589 1996 - $3,111,381	0.5066
• Rocky Mount	1902	26,899	1997 - $63,537,709 1996 - $66,293,647	16.0260
• Scotland Neck	1903	1,657	1997 - $3,056,336 1996 - $3,377,528	0.5762
• Selma	1913	2,406	1997 - $4,931,634 1996 - $5,122,340	0.8102
• Smithfield	1912	4,202	1997 - $11,494,814 1996 - $11,535,498	2.0056
• Southport	1916	1,939	1997 - $3,296,365 1996 - $3,858,713	0.7139
• Tarboro	1897	5,778	1997 - $21,381,822 1996 - $22,050,672	4.7427
• Wake Forest	1909	3,612	1997 - $6,859,693 1996 - $6,879,108	0.7262
• Washington	1903	11,497	1997 - $22,440,132 1996 - $23,212,278	5.8920
• Wilson	1892	28,322	1997 - $88,508,473 1996 - $88,144,255	15.5120

NCEMPA OPERATIONAL HIGHLIGHTS...

BRUNSWICK STEAM ELECTRIC PLANT, UNITS 1 AND 2

Brunswick Unit 2 returned to service on October 22, 1997 following a scheduled refueling outage that began on September 13, 1997.

In August 1997, the Brunswick Plant broke the previous world record for BWR dual unit continuous operation when the plant eclipsed 285 days, 15 hours, and 22 minutes of sustained operation for both units.

The Brunswick Plant was awarded a rating of Excellent in 1997 after an evaluation of plant operations by the World Association of Nuclear Operators (WANO).

In July 1997, the U.S. Nuclear Regulatory Commission presented its Systematic Assessment of Licensee Performance (SALP) Report for the Brunswick Plant. The report covered the period of May 1995 to May 1997. Brunswick was rated Superior in plant operations and maintenence, the highest ratings awarded, and was rated Good in engineering and plant support.

Brunswick Units 1 & 2

- Location: Brunswick County, NC
- Fuel type: Nuclear
- MNDC*: 790 MW
- Commercial operation: Unit 1 – March 18, 1977; Unit 2 – November 3, 1975
- Agency ownership: 18.33 percent

**MNDC refers to maximum net dependable capability, the maximum output that can be depended on from a generating unit when it is operating at full power.*

SHEARON HARRIS NUCLEAR POWER PLANT

Harris Unit 1 returned to service on June 7, 1997, following a scheduled refueling outage that began on April 5, 1997.

In January 1997, the U. S. Nuclear Regulatory Commission recognized the Harris Plant as a Superior Performer for having demonstrated a continued high level of safety performance. Harris was one of only two nuclear plants in the nation to merit this recognition.

Harris Plant

- Location: Wake County, NC
- Fuel type: Nuclear
- MNDC*: 860 MW
- Commercial operation: May 2, 1987
- Agency ownership: 16.17 percent

Mayo Plant

- Location: Person County, NC
- Fuel type: Coal
- MNDC*: 745 MW
- Commercial operation: March 1, 1983
- Agency ownership: 16.17 percent

Roxboro Unit 4

- Location: Person County, NC
- Fuel type: Coal
- MNDC*: 700 MW
- Commercial operation: September 15, 1980
- Agency ownership: 12.94 percent

NCEMPA FINANCIAL INFORMATION...

INVESTMENT PORTFOLIO STATISTICS

*Earnings**

	Income	Rate of Return
• 1997	$44,353,000	6.67%
• 1996	$47,283,000	6.76%

*Market Value as of 12/31**

	Value	Average Maturity
• 1997	$767,258,000	3.8 years
• 1996	$738,452,000	3.7 years

Transactions

	Number	Amount
• 1997	871	$8,086,797,000
• 1996	852	$7,713,605,000

** For Earnings and Market Value, amounts include income from and market value of securities held in the decommissioning trust.*

DEBT STATISTICS

Debt Outstanding 12/31/97

	Balance (Thousands)	Weighted Average Interest Cost
• Fixed Rate Bonds	$3,234,845**	6.19%
• Variable Rate Bonds	$155,000	4.56%
• Tax-Exempt Commercial Paper	$137,000	4.50%

*** Does not include $551,000 accrued on the balance sheet for current maturities of the Series 1988A Capital Appreciation Bonds.*

DEBT STATISTICS, *continued*

Debt Outstanding 12/31/96

	Balance (Thousands)	Weighted Average Interest Cost
• Fixed Rate Bonds	$3,262,035	6.21%
• Variable Rate Bonds	$155,000	4.26%
• Tax-Exempt Commercial Paper	$137,000	4.27%

BOND RECONCILIATION

• Bonds Outstanding 12/31/96	$3,417,035,000
• Issued Series 1997A	+ 31,640,000
	3,448,675,000
• Matured 1/1/97	- 22,325,000
• Redeemed	- 1,505,000
• Refunded	- 35,000,000
• Bonds Outstanding 12/31/97	$3,389,845,000**

BONDS OUTSTANDING 12/31/97

• Series 1997A	$31,640,000
• Series 1996B	136,875,000
• Series 1996A	310,400,000
• Series 1995A	71,105,000
• Series 1993D	80,000,000
• Series 1993C	325,715,000
• Series 1993B	1,489,505,000
• Series 1993A	110,855,000
• Series 1991A	332,866,432
• Series 1989A	215,560,346
• Series 1988B	155,000,000
• Series 1988A	30,263,283**
• Series 1986A	4,495,000
• Series 1985G	95,565,000

INDEPENDENT AUDITORS' REPORT...

THE BOARD OF DIRECTORS
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

We have audited the accompanying balance sheets of North Carolina Eastern Municipal Power 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 North Carolina Eastern Municipal Power Agency at 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 the Schedule of Revenues and Expenses per Bond Resolution and Other Agreements and Schedule of Changes in Assets of Funds Invested 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 B, North Carolina Eastern 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

RALEIGH, NORTH CAROLINA
APRIL 2, 1998

BALANCE SHEETS...

(\$000s)

ASSETS	December 31, 1997	1996
• Electric Utility Plant (Note C):		
Electric plant in service, net of accumulated depreciation of \$493,377 and \$449,602	\$ 921,468	\$ 959,014
Construction work in progress	430	4,342
Nuclear fuel, net of accumulated amortization of \$37,404 and \$35,170	28,781	30,901
	950,679	994,257
• Non-Utility Property and Equipment, net (Note C)	1,921	1,860
• Special Funds Invested (Notes D and H):		
Construction fund	130,740	129,021
Bond fund	360,660	335,124
Reserve and contingency fund	23,463	23,593
Decommissioning fund	3,789	3,164
Special reserve fund	1,043	1,019
	519,695	491,921
• Trust for Decommissioning Costs	57,132	44,939
• Operating Assets:		
Funds invested (Notes D and H):		
Revenue fund	88,170	93,410
Operating fund	51,166	56,191
Supplemental fund	58,855	58,289
	198,191	207,890
Participant accounts receivable	34,712	33,940
Fossil fuel inventory	3,450	2,639
Prepaid expenses	9,329	9,353
	245,682	253,822
• Deferred Costs:		
Unamortized debt issuance costs	44,422	45,950
VEPCO compensation payment (Note E)	9,328	9,717
Development costs	6,622	6,893
Cancelled units (Note F)		101
Excess costs on advance refundings of debt	547,142	578,326
Net costs to be recovered from future billings to participants (Note G)	1,237,121	1,199,497
	1,844,635	1,840,484
	\$3,619,744	\$3,627,283

See notes to financial statements.

BALANCE SHEETS...

(\$000s)

LIABILITIES AND RETAINED EARNINGS	December 31, 1997	1996
• Long-Term Debt:		
Bonds, net of unamortized discount (Note H)	$3,246,402	$3,286,871
• Special Funds Liabilities:		
Construction payables	683	610
Current maturities of bonds (Note H)	41,150	22,325
Accrued interest on bonds	102,852	95,050
Tax-exempt commercial paper (Note I)	137,000	137,000
Accrued interest on commercial paper	834	465
	282,519	255,450
• Liability for Decommissioning Costs	48,526	41,282
• Operating Liabilities:		
Accounts payable	10,837	12,061
Accrued taxes	5,460	5,619
	16,297	17,680
• Commitments and Contingencies (Notes C, F, I, J, K, and L)		
• Retained Earnings	26,000	26,000
	$3,619,744	$3,627,283

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS...

(\$000s)

	Year Ended December 31, 1997	1996
• Operating Revenues:		
Sales of electricity to participants	$408,600	$422,258
Sales of electricity to utilities	38,142	38,416
	446,742	460,674
• Operating Expenses:		
Operation and maintenance	42,660	44,734
Fuel	38,194	33,930
Power coordination services:		
Purchased power	96,680	115,028
Transmission and distribution	16,976	16,287
Other	93	(2)
	113,749	131,313
Administrative and general	28,280	28,601
Amounts in lieu of taxes	4,352	7,241
Gross receipts tax	13,054	13,468
Depreciation and amortization	52,782	52,015
	293,071	311,302
• Net Operating Income	153,671	149,372
• Interest Charges (Credits):		
Interest expense	207,314	214,799
Amortization of debt refunding costs	35,803	31,828
Amortization of debt discount and issuance costs	3,684	3,428
Investment income	(48,321)	(44,745)
Net (increase) decrease in fair value of investments	(7,185)	12,949
Net interest capitalized		(820)
	191,295	217,439
• Net Costs to be Recovered from Future Billings to Participants (Note G)	37,624	68,067
• Excess of Revenues Over Expenses	0	0
• Retained Earnings, Beginning of year	26,000	26,000
• Retained Earnings, End of year	$ 26,000	$ 26,000

See notes to financial statements.

STATEMENTS OF CASH FLOWS...

[$000s]

	Year Ended December 31, 1997	1996
• Cash Flows from Operating Activities:		
Receipts from sales of electricity	$ 446,182	$ 461,797
Payments of operating expenses	(226,338)	(243,047)
Net cash provided by operating activities	219,844	218,750
• Cash Flows from Capital and Related Financing Activities:		
Bonds issued	31,640	447,275
Bonds refunded	(35,000)	(462,145)
Interest paid	(196,895)	(211,494)
Refunding Trust Fund requirement	(1,798)	(22,854)
Debt discount and issuance costs paid	(1,679)	(14,436)
Additions to electric utility plant and non-utility property and equipment	(21,035)	(19,400)
Bonds retired or redeemed	(23,830)	(20,775)
Investment earnings receipts from construction fund	1,652	2,100
Tax-exempt commercial paper issued		137,000
Tax-exempt commercial paper retired		(138,131)
Net cash used for capital and related financing activities	(246,945)	(302,860)
• Cash Flows from Investing Activities:		
Sales and maturities of investment securities	8,047,941	7,675,055
Purchases of investment securities	(8,063,484)	(7,628,638)
Investment earnings receipts from non-construction funds	42,647	37,587
Net cash provided by investing activities	27,104	84,004
• Net Increase (Decrease) in Operating Cash	3	(106)
• Operating Cash, Beginning of year	2	108
• Operating Cash, End of year	$ 5	$ 2

See notes to financial statements.

STATEMENTS OF CASH FLOWS (continued)...

(\$000s)

	Year Ended December 31, 1997	1996
• Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income	$153,671	$149,372
Adjustments:		
Depreciation and amortization	52,782	50,746
Amortization of nuclear fuel	16,480	14,373
Changes in assets and liabilities:		
(Increase) decrease in participant accounts receivable	(772)	1,225
Increase in fossil fuel stock	(811)	(1,236)
Decrease (increase) in prepaid expenses	24	(130)
Decrease in deferred costs	660	658
(Decrease) increase in accounts payable	(2,031)	4,802
(Decrease) in accrued taxes	(159)	(1,060)
Total Adjustments	66,173	69,378
• Net Cash Provided by Operating Activities	$219,844	$218,750

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS...

YEARS ENDED DECEMBER 31, 1997 AND 1996
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

A. General Matters

North Carolina Eastern Municipal Power Agency (agency) is a joint agency organized and existing pursuant to Chapter 159B of the General Statutes of North Carolina to enable municipal electric systems, through the organization of the agency, to finance, build, own, and operate generation and transmission projects. The agency is comprised of 32 municipal electric systems (participants) with interests ranging from 0.0783% to 16.1343%, which receive power from the agency.

INITIAL PROJECT

The initial project is comprised of the agency's undivided ownership interests in three nuclear-fueled and two coal-fired generating units presently in commercial operation by Carolina Power & Light Company (CP&L). The initial project is financed under Power System Revenue Bond Resolution No. R-2-82 (resolution) adopted by the Board of Commissioners (board) of the agency. The resolution established special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the initial project and to establish and maintain certain reserves. The resolution also established special funds into which initial project revenues from participants are to be deposited and from which initial project operating costs, debt service, and other specified payments are to be made.

The agency entered into several agreements with CP&L which govern the purchase, ownership, construction, operation, and maintenance of the generating units in the initial project. Under these agreements, CP&L manages the construction and operation of the generating units in which the agency has undivided ownership interests. Both CP&L and the agency have the right to challenge the allocation of charges for a period extending to April 1 of the second year after which the challenged payment or adjustment was made.

The agency also entered into the Power Coordination Agreement (1981 PCA) with CP&L whereby the agency purchases power in excess of that received through the initial project and the Southeastern Power Administration (SEPA), in order to meet the total requirements of the participants. Certain provisions of the 1981 PCA allow the agency, with appropriate notice, to make alternative arrangements to replace supplemental power purchases. Partial replacements of supplemental purchases have been made as discussed below. On August 6, 1996, the Board of Directors took action to notify CP&L of its intent to seek another supplemental power provider as of September 1, 2001.

The agency also entered into agreements with CP&L and Virginia Electric and Power Company (VEPCO) for the transmission of power to the agency's participants. The 1981 PCA obligates CP&L to purchase power from the agency in specified percentages of the agency's entitlement to such power from Mayo Unit 1 (1983-1997) and Harris Unit 1 (1987-2007).

The agency entered into two power sales agreements with each of its participants for supplying the total electric power requirements of the participants in excess of SEPA allocations. With the power generated from the initial project, together with supplemental purchases of power from CP&L and South Carolina Public Service Authority (Santee Cooper), the agency provides the total electric power requirements of its participants, exclusive of power allotments from SEPA. Under the Initial Project Power Sales Agreements, the agency sells to the participants their respective shares of initial project output.The revenues received relative to the initial project are pledged as security for bonds issued under the resolution, after payment of initial project operating expenses. Each participant is obligated to pay its share of operating costs and debt service for the initial project. Under the Supplemental Power Sales Agreements, the agency supplies each participant the additional power it requires in excess of that provided by output from the initial project and from SEPA.

SANTEE COOPER

The agency has an agreement with Santee Cooper to purchase firm power from Santee Cooper through 1998. These purchases replace supplemental purchases from CP&L. In connection with these purchases, the agency negotiated a separate Power Coordination Agreement with CP&L to accommodate the provisions of the Santee Cooper agreement.

PEAKING PROJECT

The agency authorized the development of the peaking project, currently consisting of two electric generating plants, to provide peaking generation. The peaking project may be expanded to include a third generating plant. The peaking project is intended to displace purchases by the agency of supplemental capacity and energy from CP&L.

Sites for the first two plants have been obtained near Battleboro, North Carolina and in Rocky Mount, North Carolina. The Rocky Mount site is anticipated to be connected with a substation owned and operated by the City of Rocky Mount, a 16.026% participant in the initial project and a 14.409% participant in the peaking project. The agency board approved an agreement which specifies that the City of Rocky Mount will be responsible for the construction, at the agency's expense, of an approximate 9 mile natural gas pipeline extension from a gas company's pipeline to the Rocky Mount site. The City of Rocky Mount will be responsible for all necessary permitting and obtaining land or land rights along the extension route. Following completion of construction, the City of Rocky Mount will own, operate, and maintain the pipeline extension.

The construction of the two approved generating plants is being financed by the Power System Revenue Bonds, Series 1993 A. These plants were scheduled to be placed into commercial operation by June 1998. In March 1996, the agency entered into an agreement with CP&L to delay the commercial operation of the peaking project until January 1, 2004. In return, CP&L will provide capacity and energy equal to the peaking project at a price comparable to what it would have cost to operate the peaking project during the delay period.

Of the 32 agency participants, 27 (representing 94.8% of agency load), executed Peaking Project Power Sales Agreements. These peaking project participants with interests ranging from 0.0857% to 19.6651%, are liable for all costs associated with the construction and operation of the peaking project and have a proportionate right to the output of the project.

ELECTRICITIES OF NORTH CAROLINA, INC.

ElectriCities of North Carolina, Inc. (ElectriCities), organized as a joint municipal assistance agency under the General Statutes of North Carolina, is a public body and body corporate and politic created for the purpose of providing aid and assistance to municipalities in connection with their electric systems and to joint agencies, such as the agency. The agency entered into a management agreement with ElectriCities. Under the current management agreement with the agency, ElectriCities is required to provide all personnel and personnel services necessary for the agency to conduct its business in an economic and efficient manner.

INDUSTRY DEVELOPMENTS

Federal regulations have been passed which encourage wholesale competition among utility and non-utility power producers. Similar regulations are contemplated for retail competition at both the federal and state level. These measures, together with increasing customer demand for lower-priced electricity and other energy services, have accelerated the industry's movement toward more competitive pricing structures. The agency and its Board of Directors are addressing the agency's position relative to deregulation. In addition, the agency periodically reviews its regulatory assets and the impact of recovering such assets on agency rates.

STUDY COMMISSION ON THE FUTURE OF ELECTRIC SERVICE IN NORTH CAROLINA

In April 1997, the North Carolina legislature created the "Study Commission on the Future of Electric Service in North Carolina"

(Study Commission). The Study Commission is comprised of 23 members, representing lawmakers; the North Carolina municipal, cooperative, and private electric utilities; electric consumers; the environmental community, and electric power marketers. The Study Commission is to examine the cost, adequacy, availability, and pricing of electric rates and service in North Carolina to determine whether legislation is necessary to assure an adequate and reliable source of electricity and economical, fair, and equitable rates for all consumers of electricity in North Carolina. The Study Commission is to issue a final report of the results of its study and its recommendations to the General Assembly of North Carolina in early 1999.

B. Significant Accounting Policies

BASIS OF ACCOUNTING

The accounts of the agency are maintained on the accrual basis, in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, and are in conformity with generally accepted accounting principles (GAAP). The agency has adopted the principles promulgated by the Governmental Accounting Standards Board (GASB) and Financial Accounting Standard (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended. This standard allows utilities to capitalize or defer certain costs and/or revenues based upon the agency's ongoing assessment that it is probable that such items will be recovered through future revenues.

ELECTRIC PLANT IN SERVICE

All direct and indirect expenditures associated with the development and construction of the agency's undivided ownership interests in five of CP&L's generating units now in commercial operation, including interest expense net of investment earnings on funds not yet expended, have been recorded at original cost (plus acquisition adjustment) and are being depreciated (or amortized) on a straight-line basis over the composite average life of each unit's assets.

At December 31, 1997, the remaining composite average life for Brunswick Units 1 and 2 was 12 years, Harris Unit 1 was 27 years, Roxboro Unit 4 was 17 years, and Mayo Unit 1 was 19 years.

CONSTRUCTION WORK IN PROGRESS

All expenditures associated with capital additions related to the agency's undivided ownership interests in CP&L's generating units and with the peaking project, including interest expense net of investment earnings on funds not yet expended, are capitalized as construction work in progress until such time as they are complete, at which time they are transferred to Electric Plant in Service. Depreciation expense is recognized on these items after they are transferred.

NUCLEAR FUEL

All expenditures related to the purchase and construction of the agency's undivided ownership interests in nuclear fuel cores at the nuclear units, including interest expense net of investment earnings on funds not yet expended, are capitalized until such time as the cores are placed in the reactor. At that time, they are amortized to fuel expense on the units of production method. Amounts are removed from the books upon disposal of the spent nuclear fuel. Nuclear fuel expense includes a provision for estimated disposal costs, which is being collected currently from participants. Amortization of nuclear fuel costs in 1997 and 1996 includes a provision of $3,359,000 and $3,207,000, respectively, for estimated disposal costs.

NON-UTILITY PROPERTY AND EQUIPMENT

All expenditures related to purchasing and installing an in-house computer, jointly owned with North Carolina Municipal Power Agency Number 1 (NCMPA 1), have been capitalized and are fully depreciated. Also included are the land and administrative office building jointly owned with NCMPA 1 and used by both agencies and ElectriCities. The administrative office building is being depreciated over 37 1/2 years on a straight-line basis.

INVESTMENTS

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 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 costs to be recovered from future billings to participants by $25,633,000 at December 31, 1995.

DECOMMISSIONING COSTS

U.S. Nuclear Regulatory Commission (NRC) regulations require that each licensee of a commercial nuclear power reactor furnish to the NRC certification of its financial capability to meet the costs of nuclear decommissioning at the end of the useful life of the licensee's facility. As a co-licensee of Brunswick Units 1 and 2 and Harris Unit 1, the agency is subject to the NRC's financial capability regulations, and therefore has furnished certification of its financial capability to fund its share of the costs of decommissioning those units.

To satisfy the NRC's financial capability regulations, the agency established an external trust fund (Decommissioning Trust) pursuant to a trust agreement with a bank. The agency's certification of financial capability requires that the agency make annual deposits to the Decommissioning Trust which, together with the investment earnings and amounts previously on deposit in the trust, are anticipated to result in sufficient funds being held in the Decommissioning Trust at the expiration of the current operating licenses for the units (currently 2014 for Brunswick Unit 2, 2016 for Brunswick Unit 1, and 2026 for Harris Unit 1) to meet the agency's share of the decommissioning cost of $105 million per unit (1986 dollars) set forth in the NRC regulations. The Decommissioning Trust is irrevocable, and funds may be withdrawn from the trust solely for the purpose of paying the agency's share of the costs of nuclear decommissioning.

Under the NRC regulations, the Decommissioning Trust is required to be segregated from agency assets and outside the agency's administrative control. The agency is deemed to have incurred and paid decommissioning costs as amounts are deposited to the Decommissioning Trust.

The agency determined that it was necessary to fund decommissioning costs associated with the non-nuclear portion of the Brunswick plant which fell outside the NRC requirements. Therefore, it also deposits to the Decommissioning Fund, separate from deposits required to the Decommissioning Trust.

Estimates of the future costs of decommissioning the units are based on the most recent site specific study. In addition to the Dcommissioning Trust, certain reserve assets are anticipated to be available to satisfy the agency's total decommissioning liability.

FOSSIL FUEL INVENTORY

Fossil fuel inventory includes fossil fuel stock and EPA Clean Air Act Allowances. Fossil fuel stock is stated at average cost. EPA Clean Air Act Allowances are stated at cost.

DEFERRED COSTS

Deferred costs are shown net of accumulated amortization. Unamortized debt issuance costs at December 31, 1997 and 1996, shown net of accumulated amortization of $6,319,000 and $4,275,000, respectively, are being amortized on the interest method over the term of the related debt. Development costs, shown net of accumulated amortization of $4,744,000 and $4,474,000 at December 31, 1997 and 1996, respectively, are being amortized on a straight-line basis over the 40-year life of the initial project. Excess costs on advance refundings of debt at December 31, 1997 and 1996, shown net of accumulated amortization of $153,856,000 and $119,017,000, respectively, are deferred and are amortized over the term of the debt issued on refunding. Net costs to be recovered from future billings to participants are not amortized but will be recovered through future rates (see Note G).

DISCOUNTS ON BONDS

Discounts on bonds (net of premiums) at December 31, 1997 and 1996 shown net of accumulated amortization of $8,950,000 and $7,665,000, respectively, are amortized over the terms of the related bonds in a manner which yields a constant rate of interest.

TAXES

Income of the agency is excludable from income subject to federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the agency from property and franchise or other privilege taxes. In lieu of property taxes, the agency pays an amount which would otherwise be assessed on the real and personal property of the agency. In lieu of a franchise or privilege tax, the agency pays an amount equal to 3.22% of the gross receipts from sales of electricity to participants.

STATEMENTS OF CASH FLOWS

The agency has adopted cash flow reporting as required by GASB Statement No. 9. For purposes of the statements of cash flows, operating cash consists of unrestricted cash included in the line item on the balance sheets "operating assets: funds invested".

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

C. Electric Plant in Service, Non-Utility Property and Equipment, and Acquisition and Construction Program

INITIAL PROJECT

The agency has commitments to CP&L in connection with capital additions for the initial project. Current estimates indicate the agency's portion of these costs for 1998 and 1999 will be approximately $19,528,000.

There were no interest costs capitalized as part of the cost of initial project capital additions under construction during 1997 and 1996.

The agency's agreements with CP&L specify the purchase of undivided ownership interests in nuclear-fueled and coal-fired generating units, which comprise the initial project, presently in commercial operation as follows:

	Commercial Operation	Maximum Net Dependable Capability	Agency Ultimate Ownership	Agency Megawatts
• COAL-FIRED UNITS				
Roxboro Unit 4	1980	700 MW	12.94%	90.6 MW
Mayo Unit 1	1983	745	16.17	120.5
Total Coal-Fired Capability				211.1
• NUCLEAR-FUELED UNITS				
Brunswick Unit 2	1975	790	18.33	144.8
Brunswick Unit 1	1977	790	18.33	144.8
Harris Unit 1	1987	860	16.17	139.0
Total Nuclear-Fueled Capability				428.6
Total of All Units				639.7 MW

PEAKING PROJECT

The agency estimates that direct costs of acquisition and construction associated with the three plant peaking project will be approximately $115,600,000.

Interest costs of $6,894,000 and $6,989,000 were capitalized as part of the cost of the peaking project in 1997 and 1996, respectively, net of investment income on unexpended bond proceeds of $6,894,000 and $6,169,000, respectively.

ELECTRIC PLANT IN SERVICE

Original costs of major classes of the agency's electric plant in service at December 31, 1997 and 1996 are as follows (in thousands of dollars):

	December 31,	
	1997	*1996*
• Land	$ 14,193	$ 14,193
• Structures and improvements	480,560	478,865
• Reactor plant equipment	374,940	370,642
• Turbo generator units	120,631	122,200
• Accessory electric equipment	175,575	175,469
• Miscellaneous plant equipment	51,251	50,342
• Other	27,598	27,500
• Unclassified	170,097	169,405
	$1,414,845	$1,408,616

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

NON-UTILITY PROPERTY AND EQUIPMENT

Non-Utility Property and Equipment original costs at December 31, 1997 and 1996 are as follows (in thousands of dollars):

	December 31,	
	1997	*1996*
• Land	$ 710	$ 710
• Structures and improvements	1,492	1,492
• Computer Equipment	325	173
	$2,527	$2,375

Non-Utility Property and Equipment are shown net of accumulated depreciation of $606,000 and $515,000 at December 31, 1997 and 1996, respectively.

D. Investments

The resolution authorizes the agency to invest in 1) direct obligations of, or obligations of which the principal and interest are unconditionally guaranteed by, the United States (U.S.), 2) obligations of any agency of the U.S. or corporation wholly owned by the U.S., 3) direct and general obligations of the State of North Carolina or any political subdivision thereof whose securities are rated "A" or better, 4) repurchase agreements with a member of the Federal Reserve System which are collateralized by previously described obligations, and 5) bank time deposits evidenced by certificates of deposit and bankers' acceptances.

Bank time deposits may only be in banks with capital stock, surplus, and undivided profits of $20,000,000 or $50,000,000 for North Carolina banks and out-of-state banks, respectively, and the agency's investments deposited in such banks cannot exceed 50% and 25%, respectively, of such banks' capital stock, surplus, and undivided profits.

The resolution permits the agency to establish official depositories with any bank or trust company qualified under the laws of North Carolina to receive deposits of public moneys and having capital stock, surplus, and undivided profits aggregating in excess of $20,000,000.

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The agency's depositories use Option 2, a single financial institution collateral pool. Under Option 2, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. Responsibility for sufficient collateralization of these excess deposits rests with the financial institutions that have chosen Option 2. Because of the inability to measure the exact amount of collateral pledged for the agency under Option 2, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each Option 2 depository, which minimizes any risk of under-collateralization. At December 31, 1997 and 1996, the agency had $33,000 and $13,000, respectively, covered by federal depository insurance.

The agency's investments are categorized in the following table to give an indication of the level of risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the agency's name. All investments except repurchase agreements are considered Category 1. Repurchase agreements are considered Category 3. (*See chart, page 60.*)

In accordance with provisions of the resolution, the collateral under the repurchase agreements is segregated and held by the trustee for the agency.

E. VEPCO Compensation Payment

The VEPCO compensation payment represents compensation to VEPCO for early termination of service for those participants previously served by VEPCO. This payment of $15,515,000 and the related capitalized interest of $33,000 were deferred and are being amortized on a straight-line basis over 40 years, the expected life of the initial project. The balance at December 31, 1997 and 1996 is net of accumulated amortization of $6,220,000 and $5,831,000, respectively.

F. Cancelled Units

Although CP&L's Board of Directors cancelled Mayo Unit 2, the agency remains liable for 12.94% of all cancellation costs, net of salvage values, associated with the unit subsequent to the cancellation date.

Net cancellation costs related to Mayo Unit 2, which will be recovered in future rates, were amortized on a straight-line basis over ten years ending in 1997. The balance is net of accumulated amortization of $15,716,000 and $15,615,000 at December 31, 1997 and 1996, respectively.

G. Net Costs to be Recovered From Future Billings to Participants

Rates for power billings to participants are designed to cover the agency's debt requirements, operating funds, and reserves as specified by the resolution and the power sales agreements. Straight-line depreciation and amortization are not considered in the cost of service calculation used to design rates. In addition, certain earnings on bond resolution funds are restricted to those funds and not available for operations. The differences between debt principal maturities (adjusted for the effects of premiums, discounts, and amortization of deferred gains and losses) and straight-line depreciation and amortization and interest income recognition are recognized as costs to be recovered from future billings to participants. The recovery of outstanding amounts associated with costs to be recovered from future billings to participants will coincide with the retirement of the outstanding long-term debt of the agency.

All rates must be approved by the board. Rates are designed on an annual basis and are reviewed quarterly. If determined to be inadequate, rates may be revised.

Net costs to be recovered from future billings to participants includes the following (*See chart, page 60.*):

INVESTMENTS ($000s)

	December 31, 1997 Carrying Amount	December 31, 1997 Market Value	December 31, 1996 Carrying Amount	December 31, 1996 Market Value
Repurchase agreements	$200,896	$200,896	$211,505	$211,505
U.S. government securities	78,544	79,848	49,796	49,741
U.S. government agencies	267,589	273,074	246,725	252,151
Municipal bonds	22,672	23,845	22,788	23,586
Collateralized mortgage obligations	131,585	132,615	156,101	156,688
	701,286	710,278	686,915	693,671
Decommissioning Trust securities	46,102	56,980	38,853	44,781
		$767,258		$738,452
Operating cash	5		2	
Restricted cash	28		11	
Accrued interest	7,728		6,285	
Total funds invested	$755,149		$732,066	
Consisting of:				
Special funds invested	$511,192		$485,686	
Decommissioning Trust	46,255		39,011	
Operating assets	197,702		207,369	
	$755,149		$732,066	

CTBR ($000s)

	Year Ended December 31 1997	Year Ended December 31 1996	Inception to December 31 1997	Inception to December 31 1996
GAAP Items Not Included in Billings to Participants:				
New project negotiation and Harris Plant litigation costs	$ 0	$ 0	$ 45,086	$ 45,086
(Increase) decrease in fair value of investments	(7,185)	12,949	(19,869)	(12,684)
Depreciation	43,447	42,243	441,820	398,373
Amortization	41,298	37,823	418,505	377,207
Interest expense	196,413	203,970	2,885,112	2,688,699
	273,973	296,985	3,770,654	3,496,681
Bond Resolution Requirements Included in Billings to Participants:				
Debt service	230,787	223,017	2,377,358	2,146,571
Investment income not available for operating purposes	14,884	8,129	195,093	180,209
Special funds deposits	12,946	16,587	176,420	163,474
Special funds valuation	(22,268)	(18,815)	(215,338)	(193,070)
	236,349	228,918	2,533,533	2,297,184
Net costs to be recovered from future billings to participants	$ 37,624	$ 68,067	$1,237,121	$1,199,497

H. Bonds

The agency has been authorized to issue Power System Revenue Bonds (bonds) in accordance with the terms, conditions, and limitations of the resolution. The total to be issued is to be sufficient to pay the costs of acquisition and construction of the initial project and the peaking project, and/or for other purposes as set forth in the resolution. Capital additions and future refundings may result in the issuance of additional bonds.

At December 31, 1996, the agency had outstanding $3,417,035,000 of bonds. On January 1, 1997, the agency made principal payments of $22,325,000 for maturing bonds. In 1997, $940,000 of Series 1993 B bonds and $565,000 of Series 1991 A bonds were retired. In November 1997, an additional $31,640,000 of bonds were issued (Series 1997 A) to establish a trust for advance refunding portions of the Series 1988 A bonds totaling $35,000,000. In addition, $551,000 was transferred from Accrued Interest on Bonds to Current Maturities of Bonds in order to reflect the amount due January 1, 1998 for the Series 1988 A Capital Appreciation serial bonds, bringing the total outstanding bonds at December 31, 1997 to $3,390,396,000 as follows (in thousands of dollars):

	December 31, 1997	December 31, 1996
• **SERIES 1985 G**		
5.75% maturing in 2016 with annual sinking fund requirements beginning in 2012	$95,565	$95,565
• **SERIES 1986 A**		
5% maturing in 2017 with annual sinking fund requirements beginning in 2015	4,495	4,495
• **SERIES 1988 A**		
7.2% to 7.6% capital appreciation serial bonds maturing annually from 1998 to 2002	3,304	2,753
7% maturing in 2024		35,000
6% maturing in 2026 with annual sinking fund requirements beginning in 2025	27,510	27,510
	30,814	65,263
• **SERIES 1988 B**		
Variable rate, not to exceed 15%, Bond Interest Term Series maturing in 2010	5,000	5,000
Variable rate, not to exceed 15%, Bond Interest Term Series maturing in 2026 with annual sinking fund requirements beginning in 2023	150,000	150,000
	155,000	155,000

Bonds, continued

	December 31, 1997	1996
• SERIES 1989 A		
7.2% to 7.4% capital appreciation serial bonds maturing annually from 1999 to 2003	$ 6,670	$ 6,670
7.5% maturing in 2010 with annual sinking fund requirements beginning in 2009	28,890	28,890
5.5% maturing in 2011	50,000	50,000
7% maturing in 2017 with annual sinking fund requirements beginning in 2014	50,000	50,000
6.5% maturing in 2024	80,000	80,000
	215,560	215,560
• SERIES 1991 A		
5.8% to 6.1% maturing annually from 1998 to 2001	9,115	12,375
7.875% maturing in 2002	14,255	14,255
6.25% maturing annually from 2003 to 2006	33,020	33,020
6.3% to 6.4% capital appreciation serial bonds maturing annually from 2004 to 2006	2,377	2,377
6.5% maturing in 2012 with annual sinking fund requirements beginning in 2007	14,910	14,910
6.5% maturing in 2017 with annual sinking fund requirements beginning in 2013	99,755	99,755
6.5% maturing in 2018	28,755	28,755
5.75% maturing in 2019	130,680	130,680
	332,867	336,127
• SERIES 1993 A		
4.85% to 6.2% maturing annually from 1998 to 2013	55,585	57,730
6.4% maturing in 2021 with annual sinking fund requirements beginning in 2014	55,270	55,270
	110,855	113,000
• SERIES 1993 B		
4.85% to 7.25% maturing annually from 1998 to 2009	410,185	414,765
6.25% maturing in 2012 with annual sinking fund requirements beginning in 2010	247,815	248,055
6% maturing in 2013	40,345	40,345
6% structured yield curve notes maturing in 2014	55,800	55,800

	December 31, 1997	December 31, 1996
5.5% maturing in 2017 with annual sinking fund requirements beginning in 2015	$ 146,625	$ 146,625
6% maturing in 2018	97,790	97,790
5.5% maturing in 2021 with annual sinking fund requirements beginning in 2019	194,510	194,510
6% maturing in 2022	157,740	157,740
6.25% maturing in 2023	105,210	105,210
6% maturing annually from 2025 to 2026	33,485	33,485
	1,489,505	1,494,325
• SERIES 1993 C		
4.5% to 7% maturing annually from 1998 to 2007	247,160	260,355
7% maturing in 2013 with annual sinking fund requirements beginning in 2010	20,965	20,965
5% maturing in 2021 with annual sinking fund requirements beginning in 2014	57,590	57,590
	325,715	338,910
• SERIES 1993 D		
5.875% maturing in 2013 with annual sinking fund requirements beginning in 2012	29,305	29,305
5.875% maturing in 2014	15,960	15,960
5.6% maturing in 2016 with annual sinking fund requirements beginning in 2015	34,735	34,735
	80,000	80,000
• SERIES 1995 A		
4.125% to 4.65% maturing annually from 1998 to 2001	57,015	57,425
5.125% maturing in 2012	14,090	14,090
	71,105	71,515
• SERIES 1996 A		
5% to 5.2% maturing annually from 1998 to 2001	57,905	57,905
5.5% to 6% maturing annually from 2004 to 2006	105,805	105,805
5.6% maturing in 2010	1,060	1,060
5.625% to 5.7% maturing annually from 2012 to 2016	83,320	83,320
5.625% maturing in 2024 with annual sinking fund requirements beginning in 2017	62,310	62,310
	310,400	310,400

Bonds, continued

	December 31, 1997	1996
• SERIES 1996 B		
6% maturing in 2006	$ 12,000	$ 12,000
5.8% maturing in 2016	22,920	22,920
5.875% maturing in 2021 with annual sinking fund requirements beginning in 2020	101,955	101,955
	136,875	136,875
• SERIES 1997 B		
4.05% to 4.5% maturing annually from 1998 to 2001	2,455	
5.375% maturing in 2024	29,185	
	31,640	
	3,390,396	3,417,035
Less: Current maturities of bonds	41,150	22,325
Unamortized discount	102,844	107,839
	$3,246,402	$3,286,871

The following is a summary of the debt service deposit requirements by project for bonds and TECP outstanding at December 31, 1997 (in thousands of dollars):

INITIAL PROJECT

Year	*Principal*	*Interest*	*Total*
• 1998	$ 40,258	$ 195,832	$ 236,090
• 1999	58,923	194,863	253,786
• 2000	65,456	192,361	257,817
• 2001	58,747	191,727	250,474
• 2002	77,966	187,812	265,778
• 2003	81,237	180,584	261,821
• 2004	89,206	176,309	265,515
• 2005	97,403	171,321	268,724
• 2006	118,130	164,539	282,669
• 2007	127,105	156,822	283,927
• 2008	133,605	147,971	281,576
• 2009	118,230	139,765	257,995
• 2010	133,315	132,166	265,481
• 2011	$ 140,711	$ 124,226	$ 264,937
• 2012	126,428	115,650	242,078
• 2013	144,484	108,217	252,701
• 2014	148,019	99,566	247,585
• 2015	150,825	90,957	241,782
• 2016	145,688	82,274	227,962
• 2017	144,855	73,657	218,512
• 2018	156,650	65,023	221,673
• 2019	168,735	56,171	224,906
• 2020	178,235	46,738	224,973
• 2021	170,830	36,971	207,801
• 2022	175,625	26,875	202,500
• 2023	171,325	17,180	188,505
• 2024	77,675	7,600	85,275
• 2025	77,970	3,805	81,775
Total	$3,377,636	$3,186,982	$6,564,618

PEAKING PROJECT			
Year	*Principal*	*Interest*	*Total*
• 1998	$ 2,350	$ 6,690	$ 9,040
• 1999	2,470	6,570	9,040
• 2000	2,600	6,441	9,041
• 2001	2,740	6,301	9,041
• 2002	2,895	6,150	9,045
• 2003	3,055	5,987	9,042
• 2004	3,230	5,812	9,042
• 2005	3,425	5,618	9,043
• 2006	3,630	5,412	9,042
• 2007	3,855	5,190	9,045
• 2008	4,090	4,954	9,044
• 2009	4,335	4,709	9,044

PEAKING PROJECT, CONTIUED			
Year	*Principal*	*Interest*	*Total*
• 2010	$ 4,600	$ 4,443	$ 9,043
• 2011	4,880	4,161	9,041
• 2012	5,185	3,859	9,044
• 2013	5,505	3,537	9,042
• 2014	5,855	3,185	9,040
• 2015	6,235	2,810	9,045
• 2016	6,630	2,411	9,041
• 2017	7,055	1,987	9,042
• 2018	7,505	1,535	9,040
• 2019	7,985	1,055	9,040
• 2020	8,500	544	9,044
Total	$108,610	$99,361	$207,971

The above tables reflect principal debt service included in the designated year's rates. In accordance with the resolution, these moneys are deposited into the Bond Fund for payment of the following year's current maturities. Current maturities of $41,150,000 at December 31, 1997 were collected through rates during 1997 and deposited monthly into the Bond Fund to make the January 1, 1998 principal payment.

The fair market value of the agency's long-term debt was estimated using the Dobbins Scale. The individual maturities were priced and summed to arrive at a fair market value of $3,657,608,000 and $3,405,035,000 at December 31, 1997 and 1996, respectively.

Certain proceeds of the Series 1985 D, 1985 E, 1985 F, 1985 G, 1986 A, 1987 A, 1988 A, 1989 A, 1991 A, 1993 B, 1993 C, 1995 A, 1996 A, and 1997 A bonds, along with the proceeds of the 1996 Tax-Exempt Commercial Paper, were used to establish trusts for refunding $5,576,285,000 of previously issued bonds. At December 31, 1997, $4,584,160,000 of these bonds have been redeemed. Under these Refunding Trust Agreements, obligations of, or guaranteed by, the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, will be sufficient to pay all interest when due on the refunded bonds and to redeem all refunded bonds at various dates prior to their original maturities, at par or a redemption price not to exceed 103 1/2%. The monies on deposit in the Refunding Trust Funds, including the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the agency.

Interest on the bonds is payable semi-annually. Certain of the bonds are subject to redemption prior to maturity at the option of the agency, on or after the following dates, at a maximum of 103% of the respective principal amounts:

• Series 1986 A	January 1, 1996
• Series 1988 A	January 1, 1998
• Series 1989 A	January 1, 1999
• Series 1991 A	January 1, 2002
• Series 1993 A, B, C, and D and Series 1985 G	January 1, 2003
• Series 1995 A	January 1, 2006
• Series 1996 A and B	January 1, 2007
• Series 1997 A	January 1, 2008

The Series 1988 B bonds initially bore interest for a short-term interest rate period consisting of consecutive and coincident Bond Interest Terms ranging from 1 to 270 days, during which each bond bore interest at a fixed rate. The bonds will continue to bear interest for a short-term interest rate period unless, at the option of the agency, the bonds are adjusted to bear interest for a weekly interest rate period or a long-term interest rate period.

During a weekly interest rate period, the Series 1988 B bonds will be subject to tender for purchase on any business day at the option of the registered owners on seven days' notice. Each bond will be subject to mandatory tender for purchase upon adjustment to an alternative interest rate period, subject to the right of the registered owner to retain such bond in whole by appropriate written notice. The purchase of the bonds will be made first with the proceeds from the remarketing of such series and then with proceeds of drawings under a letter of credit sufficient to purchase all bonds of the series.

In connection with the Series 1988 B bonds, the agency maintains a direct-pay letter of credit with a bank that is drawn upon to provide funds to pay principal of and interest on the Series 1988 B bonds when due, for which the agency pays a fee of approximately $1,144,000 per year. Each draw upon the letter of credit is to be reimbursed from the proceeds of the Series 1988 B bonds remarketed on the same day the draw is made. In the event a draw is not so reimbursed, it becomes a borrowing which matures on the termination date of the letter of credit agreement (currently June 30, 1998). There were no borrowings under the letter of credit agreement at December 31, 1997.

The bonds are special obligations of the agency, payable solely from and secured solely by (1) revenues (as defined by the resolution) after payment of operating expenses (as defined by the resolution) and (2) other monies and securities pledged for payment thereof by the resolution.

The resolution requires the agency to deposit into special funds all proceeds of bonds issued and all revenues (as defined by the resolution) generated as a result of the Initial Project Power Sales Agreements and the 1981 PCA. The purpose of the individual funds is specifically defined in the resolution.

As a result of the 1997 refunding, the agency increased excess costs on advanced refundings of debt by $5,170,000. However, the agency will benefit from reduced debt service costs of $27,003,000 over the life of the Series 1997 A bonds.

I. Tax-Exempt Commercial Paper

The agency authorized the issuance of tax-exempt commercial paper (TECP) to provide interim financing in an amount not to exceed $147,000,000. As of December 31, 1997 and 1996, the agency had $137,000,000 outstanding which approximates fair market value. The TECP has an average maturity of 104 days and an average interest cost of approximately 4.495%. The agency maintains a direct-pay letter of credit with a bank for $141,405,000 that is drawn upon to provide funds to pay principal of and interest on the TECP when due, for which the agency pays a fee of approximately $839,000 per year. Each draw upon the letter of credit is to be reimbursed from the proceeds of TECP issued on the same day the draw is made. In the event a draw is not so reimbursed, it becomes a borrowing which matures on the termination date of the letter of credit agreement (currently November 24, 1999). There were no borrowings under the letter of credit agreement at December 31, 1997.

J. Letter of Credit

At December 31, 1997, the agency had a $12,900,000 unused letter of credit from a bank payable to CP&L. The letter of credit is required to be maintained, in compliance with the agreements between CP&L and the agency. The agency is required under the terms of the letter of credit agreement to pay quarterly commitment fees, such fees being a percentage of the unused letter of credit (approximately $70,000 annually).

K. Commitments

The agency has a contractual agreement with ElectriCities whereby ElectriCities provides, at cost, general management services to the agency. This agreement continues through December 31, 2001, and is automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of any contract term.

For the years ended December 31, 1997 and 1996, the agency paid ElectriCities $4,696,000 and $4,401,000, respectively, of which $1,000 and $6,000, respectively, have been capitalized as development costs.

L. Contingencies

The Price-Anderson Act limits the public liability for a nuclear incident at a nuclear generating unit to $8,700,000,000, which amount is to be covered by private insurance and agreements of indemnity with the NRC. Such private insurance and agreements of indemnity are carried by CP&L on behalf of all co-owners of the initial project. The terms of this coverage require the owners of all licensed facilities to provide up to $79,300,000 per year per unit (adjusted annually for inflation) in the event of any nuclear incident involving any operating facility in the nation, with a maximum of $10,000,000 per year per unit owned in the event of more than one incident. The joint owners of a unit would be liable for the amount of any such assessment in proportion to their respective ownership interests.

CP&L carries, for the benefit of the owners, property insurance on the various plants of the initial project. All risk coverage for the operating units ranges from $100,000,000 to $500,000,000 with deductibles of $500,000 to $1,000,000. In addition, nuclear liability insurance exists in the form and amount necessary to meet the financial requirements established by the NRC.

SCHEDULES OF CHANGES IN ASSETS OF FUNDS INVESTED...

[$000s]

	Funds Invested Jan. 1, 1996	Bond Proceeds	Power Billing Receipts	Investment Income	Disbursments	Transfers
Construction fund:						
Initial project construction account	$ 38,089	$ 817	$ 0	$ 2,281	$ (9,509)	$ (722)
Peaking construction account	92,929			5,598	(83)	(388)
	131,018	817		7,879	(9,592)	(1,110)
Bond fund:						
Interest account	95,042			2,296	(205,622)	191,330
Reserve account	253,466	(35,341)		18,983		(23,634)
Principal account	18,743			518	(20,774)	21,802
Peaking interest account	3,459			5	(6,899)	6,885
Peaking principal account				1		2,145
Peaking reserve account	7,505			528		(1,045)
	378,215	(35,341)		22,331	(233,295)	197,483
Reserve & contingency fund:						
Initial project account	28,007	(3,534)		3,108	(3,483)	(1,501)
Peaking account	692			37		(24)
	28,699	(3,534)		3,145	(3,483)	(1,525)
Decommissioning fund	2,742			214		
Special reserve fund	1,070			72		(119)
Revenue fund:						
Revenue account	14,975	425	299,919	779	(17,218)	(276,658)
Rate stabilization account - CP&L	64,145			3,416		(5,564)
Rate stabilization account - VEPCO	8,311			510		186
	87,431	425	299,919	4,705	(17,218)	(282,036)
Operating fund:						
Working capital account	21,444			2,443	(108,028)	115,945
Fuel account	28,121					(3,817)
	49,565			2,443	(108,028)	112,128
Supplemental fund:						
Supplemental account	36,972		124,227	1,988	(104,836)	(24,821)
CP&L rate stabilization	22,584			1,921		
	59,556		124,227	3,909	(104,836)	(24,821)
	$738,296	$(37,633)	$424,146	$44,698	$(476,452)	$ 0

Note: 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 and 1996, respectively.

See accompanying Independent Auditors' Report.

SCHEDULES OF CHANGES IN ASSETS OF FUNDS INVESTED...

(\$000s)

Funds Invested Dec. 31, 1996	*Bond Proceeds*	*Power Billing Receipts*	*Investment Income*	*Disbursements*	*Transfers*	*Funds Invested Dec. 31, 1997*
$ 30,956	$ 0	$ 0	$ 1,812	$ (6,655)	$ 361	$ 26,474
98,056			6,504	(10)	(1,054)	103,496
129,012			8,316	(6,665)	(693)	129,970
83,046	(909)		2,416	(177,041)	182,564	90,076
213,474	(792)		15,028		(15,808)	211,902
20,289			1,032	(21,746)	39,805	39,380
3,450			5	(6,849)	6,795	3,401
2,146			1	(2,145)	2,244	2,246
6,988			459		(394)	7,053
329,393	(1,701)		18,941	(207,781)	215,206	354,058
22,597	(79)		2,559	(1,239)	(1,586)	22,252
705			37		(37)	705
23,302	(79)		2,596	(1,239)	(1,623)	22,957
2,956			224			3,180
1,023			77		(73)	1,027
22,222		308,206	724	(16,059)	(287,604)	27,489
61,997	(4,301)		3,478		(11,315)	49,859
9,007	(536)		631		1,315	10,417
93,226	(4,837)	308,206	4,833	(16,059)	(297,604)	87,765
31,804			2,413	(109,894)	104,114	28,437
24,304					(1,651)	22,653
56,108			2,413	(109,894)	102,463	51,091
33,530		100,160	1,906	(85,257)	(17,676)	32,663
24,505			1,679			26,184
58,035		100,160	3,585	(85,257)	(17,676)	58,847
\$693,055	\$(6,617)	\$408,366	\$40,985	\$(426,895)	\$ 0	\$708,895

Note: 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 and 1996, respectively.

See accompanying Independent Auditors' Report.

SCHEDULE OF REVENUES AND EXPENSES...

PER BOND RESOLUTION AND OTHER AGREEMENTS (\$000s)

		Year Ended December 31, 1997			*Year Ended December 31, 1997*	
	Project	*Supplemental*	*Total*	*Project*	*Supplemental*	*Total*
REVENUES:						
Sales of electricity to participants	$299,714	$108,886	$408,600	$297,446	$124,812	$422,258
Sales of electricity to utilities	36,265	1,877	38,142	36,657	1,759	38,416
Rate stabilization fund withdrawal	10,002		10,002	5,367		5,367
Special funds valuations	22,268		22,268	18,747	68	18,815
Investment revenue available for operations	24,536	2,007	26,543	28,369	2,078	30,447
	392,785	112,770	505,555	386,586	128,717	515,303
EXPENSES:						
Operation and maintenance	42,655	5	42,660	44,725	9	44,734
Fuel	38,194		38,194	33,930		33,930
Power coordination services:						
Purchased power	7,623	89,057	96,680	9,736	105,292	115,028
Transmission and distribution		16,976	16,976		16,287	16,287
Other		93	93		(2)	(2)
	7,623	106,126	113,749	9,736	121,577	131,313
Administrative and general-CP&L	22,701		22,701	23,140		23,140
Administrative and general-agency	2,499	3,081	5,580	2,447	3,014	5,461
Amounts in lieu of taxes	4,352		4,352	7,241		7,241
Gross receipts tax	9,613	3,441	13,054	9,459	4,009	13,468
Letters of credit commitment fees and administrative costs	1,679		1,679	1,568		1,568
Debt service	236,682	117	236,799	228,609	108	228,717
Special funds deposits:						
Reserve and contingency fund	22,948		22,948	21,954		21,954
Decommissioning fund	3,839		3,839	3,777		3,777
	26,787		26,787	25,731		25,731
	392,785	112,770	505,555	386,586	128,717	515,303
Excess of Revenues over Expenses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Note: 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 and 1996, respectively.

See accompanying Independent Auditors' Report.

STATISTICAL HIGHLIGHTS...

TEN YEARS AT A GLANCE

	1997	1996	1995	1994	1993
• *Megawatt-hour Sales (MWH)*	6,273,385	6,291,401	6,142,495	5,810,477	5,865,354
• *Peak Billing Demand (kW)*	1,185,129	1,116,786	1,194,209	1,135,450	1,155,200
• *Operating Revenues*	$446,742,000	$460,674,000	$462,664,000	$458,023,000	$444,271,000
• *Excess of Revenues over Expenditures*	$0	$0	$0	$0	$20,830,000
• *Sales to CP&L (Revenues)*	$38,142,000	$38,416,000	$40,901,000*	$61,302,000*	$53,609,000*
• *Average Monthly Power Purchases by Cities (MWh)*	522,782	524,283	511,874	484,206	488,780
• *Average Monthly Billings by Cities*	$34,050,000	$35,188,000	$35,147,000	$33,060,000	$32,555,000

	1992	1991	1990	1989	1988
• *Megawatt-hour Sales (000)*	5,509,338	5,466,779	5,247,861	5,249,890	5,070,300
• *Peak Billing Demand (kW)*	1,112,185	1,108,182	1,083,532	1,039,500	1,069,998
• *Operating Revenues*	$398,585,000	$398,000,000	$370,806,000	$357,893,000	$316,271,000
• *Excess (Deficiency) of Revenues over Expenditures*	$2,000	$0	$(3,462,000)	$(18,701,000)	$(8,378,000)
• *Sales to CP&L (Revenues)*	$39,987,000	$46,139,000	$47,569,000	$53,996,000	$52,506,000
• *Average Monthly Power Purchases by Cities (MWh)*	459,112	455,565	437,322	441,241	422,525
• *Average Monthly Billings by Cities*	$29,883,000	$29,322,000	$26,936,000	$25,325,000	$21,980,000

** The Harris sellback increased from 33 1/3% to 50% as part of the Harris litigation settlement for 1993 and 1994, then reduces to 33 1/3% until the sellback ends.*

"ELECTRICITIES, MANAGER OF THE TWO
JOINT POWER AGENCIES IN THE STATE,
HAS BEEN AGGRESSIVE IN POSITIONING
THE AGENCY AND ITS PARTICIPANTS FOR
INCREASED COMPETITION AND WILL TAKE A LEAD ROLE
ON THE COMMISSION EVALUATING ELECTRIC INDUSTRY
RESTRUCTURING IN THE STATE."

MOODY'S INVESTORS SERVICE 8/97

"HOW EASY 'TIS,

WHEN DESTINY PROVES KIND

WITH FULL-SPREAD SAILS TO

RUN BEFORE THE WIND."

JOHN DRYDEN

ELECTRICITIES

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

1427 Meadowwood Blvd. • Raleigh, North Carolina 27604

P.O. Box 29513 • Raleigh, North Carolina 27626-0513

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