

Piedmont MUNICIPAL POWER AGENCY

# CHARTING A NEW COURSE

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1998 ANNUAL REPORT

Gaffney •  
Greer •      Rock Hill •  
• Easley      • Union  
• Westminster  
Laurens •      • Clinton  
• Abbeville      • Newberry

The Piedmont Municipal Power Agency is a joint action agency formed by 10 municipal electric utilities in northwestern South Carolina. Its mission is to assist its members in providing competitive electric energy and related services, as well as to contribute to the economic vitality of each member community.

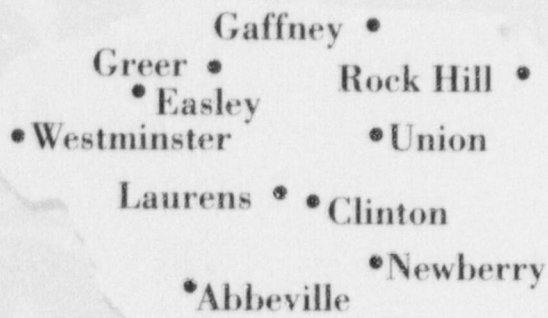
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A map of the Piedmont region in South Carolina, showing the locations of ten member communities of the Piedmont Municipal Power Agency. The communities are marked with dots and labeled: Gaffney, Greer, Easley, Westminster, Laurens, Abbeville, Rock Hill, Union, Clinton, and Newberry. The map shows the geographical layout of these communities in the northwestern part of the state.

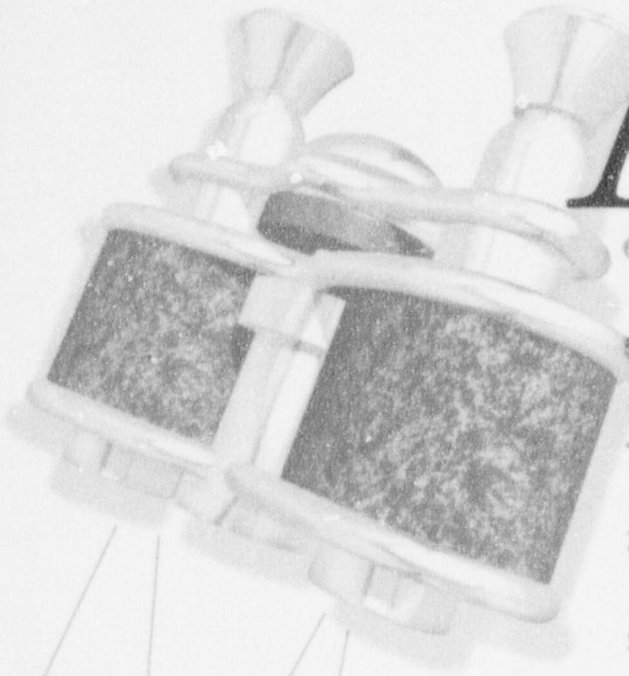
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As we approach the 21st century, South Carolina's electric utilities are poised to enter a new world of customer choice and competition. The deregulation of the state's electric utilities presents unique opportunities and challenges for the Piedmont Municipal Power Agency and its 10 member communities.

Recognizing that the power industry is entering a period of unprecedented change, PMPA has begun charting a new course as part of its ongoing quest to provide value to the communities it serves. With new leadership, a renewed sense of optimism and a willingness to form new partnerships and alliances, PMPA remains committed to ensuring that our member utilities and our customers are successful in any future regulatory environment and that changes are fair to all consumers.



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# Management Letter

**I**t is our pleasure to present PMPA's 1998 annual report. This year, we began charting a new course that we believe will strengthen both our internal alliances among our members and their communities, and our external relationships with other utilities, businesses, legislators and regulators. Leading us in this new course is Don A. Ouchley, who joined PMPA as General Manager in the summer of 1998. Don replaced James A. Bauer, who retired in September, after serving 14 years as General Manager.

Over the year, our primary focus has been on preparing our agency and its members for deregulation of the electric industry. Our efforts have, and will continue to be, focused in four primary areas: legislative involvement, customer service, power supply and finance.

In 1998, the S.C. House of Representatives Public Utilities Subcommittee continued to debate the Competitive Power Act, which was introduced in 1997 by Rep. Doug Smith. At the end of the legislative session, no action was taken on the bill and new legislation must be introduced in 1999 for debate to continue. The PSC presented a plan, in early 1998 to the House of



**Don A. Ouchley, General Manager (left), and David V. Duncan, Chairman, Board of Directors**

Representatives, on how South Carolina should proceed with deregulation. The plan does not address whether deregulation would be beneficial to South Carolina; instead, it identified the issues that must be addressed if deregulation is to occur here. The plan does not specifically address public power utilities; however, it does recognize that special consideration is needed to

include all utilities — municipal, cooperative and investor owned — in deregulation. Also, the plan recognizes that a system for recovering stranded costs is critical to the successful deregulation of the electric industry and that this system must be understood prior to legislative action. The plan is being used by legislators to develop legislation for 1999.

In the S.C. Senate, Senator Donald Holland, Chairman of the Senate Judiciary Committee, created a Task Force on Electric Deregulation to evaluate if, when and how South Carolina's electric industry should be deregulated. The Task Force is chaired by Senator Thomas Moore and is comprised of State Senators, members of the PSC, and utility and industry representatives. PMPA is fortunate to be represented on the Task Force by General Manager, Don Ouchley.

As a part of our legislative and regulatory involvement, PMPA has worked to educate its members and their governing bodies about electric deregulation and the legislative process. In February, we hosted a power conference for our directors and the elected officials from our member utilities. The conference focused on the current legislative and regulatory process and on ways each individual member and the agency as a whole could best prepare for the challenges ahead. Representative Harry Cato,

Chairman of the House Labor, Commerce and Industry Committee, participated in the conference and discussed how his committee will proceed with the deregulation debate. Participants also heard from other public power utilities and learned about programs and services that could help position them for competition. Of particular interest to the member utilities were programs to help build stronger relationships with their existing customers.

Following the conference, the Board of Directors authorized PMPA to hire a Key Accounts Coordinator to work with the member utilities and their customers. Todd Kilsdonk joined PMPA in October and is working with each member to develop a key accounts program that meets their needs. He is also exploring various rate options and service programs that may be offered through PMPA.

PMPA has worked throughout the year to keep its members informed of and active in the deregulation debate. In December, we hosted a half-day workshop for mayors and commission chairmen on deregulation to update these key representatives on the upcoming legislative agenda. We hosted a Round Table on deregulation and economic development for utility management, chambers of commerce and economic development organizations in October and have participated in events and programs in our member communities. Representatives from all of our

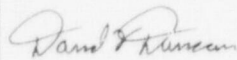
members have met with their legislators to explain our position, and this involvement is continuing to grow as the deregulation debate continues. Our director of legislative affairs coordinates these efforts in both Columbia and Washington, D.C., to give PMPA a strong voice in the legislative arena.

This year, we have continued to look for opportunities to increase our flexibility regarding power supply and generation costs. One such opportunity is the Department of Energy's (DOE) program to burn Mixed Oxide Plutonium (MOX) in commercial nuclear plants. In August, the joint owners of the Catawba Nuclear Plant, teamed up with Duke Engineering and Services, COGEMA Inc. (an international fuel fabrication company) and Stone & Webster (a global provider of engineering and related services) in responding to a DOE call for proposals to use MOX fuel in nuclear reactors beginning in 2007. The use of MOX fuel at Catawba could reduce PMPA's fuel cost over the 15-year life of the project. The DOE is expected to announce which reactors will be used in the MOX project in 1999.

A significant improvement to agency costs was achieved this year through the 1998A bond refinancing. The refinancing generated approximately \$8.9 million in gross debt service savings, which is equal to a 5.2 percent reduction in debt service costs over the life of the bonds. In

addition, plans were begun in late 1998 to refinance a portion of the agency's 1996A Refunding Series. Over the past three years, our refinancing efforts have generated more than \$180 million in gross debt service savings. The majority of these savings has been concentrated in the years between 2002 and 2008, and will result in savings of more than \$13 million per year during that period.

As a public power utility, it is our sole mission to provide affordable, reliable electric resources to our member utilities while enabling them to continue contributing to the economic vitality of their individual communities. The potential for electric deregulation does not change that mission. In fact, it is that mission that will guide us in charting a new course to meet the many challenges that lie ahead. From legislative and regulatory activities, to customer service programs and communications, to changes in power supply, to refinancings, we will always act to protect the interests of our member utilities and to assure that public power utilities are a part of all efforts to deregulate the electric industry.



David V. Duncan  
*Chairman, Board of Directors*



Don A. Ouchley  
*General Manager*

# Abbeville

*"A close-knit, small community demands the personal touch that only locally owned public power can provide. Together, we have solved the problems of the past, and, together we will meet the challenges of the new millennium."*

—David H. Krumwiede, City Manager, City of Abbeville

Located in the foothills of western South Carolina, the historic city of Abbeville is surrounded by rolling countryside and small rivers that flow into the Savannah River. City leaders have charted a new course for this quaint city by taking a fond look back at its rich history and applying the work ethics of yesterday into the bright and thriving business climate of today.

The downtown economy is booming, thanks to the concerted efforts of business and civic leaders who have renovated historic buildings into restaurants, specialty shops and overnight accommodations. Tourists from throughout the nation regularly visit Abbeville for its exquisite downtown square, stately homes and professional Opera House. Abbeville is also located on the South Carolina National Heritage Corridor — a select series of highways, roads, towns, cities and sights that define the state's history, culture and natural beauty. The area is also home to two major educational institutions: Erskine College and Lander College — both within minutes of downtown Abbeville. Industrial companies have found the area to be ideal for their business needs, with over 30 manufacturing and distribution companies located within the region. In addition, Abbeville County is home to three industrial parks and is in close proximity to Interstate 85.

The City of Abbeville provides public utilities, including water, sewer and

Abbeville's historic opera house, home of dozens of legendary performances over the years.



electricity, to customers both inside and outside the city limits. The city began providing electricity in the early 1900s and prides itself on providing a high level of personal service to its entire customer base almost 100 years later. These personal services include levelized billing, demand-side management and a proactive approach to customer concerns. The utility purchases power

from PMPA and operates its own distribution system. The city of Abbeville has charted its future by honoring its rich history and supplying quality power for future growth into the next century.

Peak Demand for 1998: July—15 MW (includes 2.3 MW from SEPA and 3.1 MW from hydroplant)  
Usage for 1998: 67,012 MWh (includes 8,047 MWh from SEPA and 9,500 MWh from hydroplant)  
Peak Generation: 3.1 MW  
Population: 6,000  
Customers: Residential—3,075; usage—32,300 MWh  
Commercial—458; usage—27,278 MWh



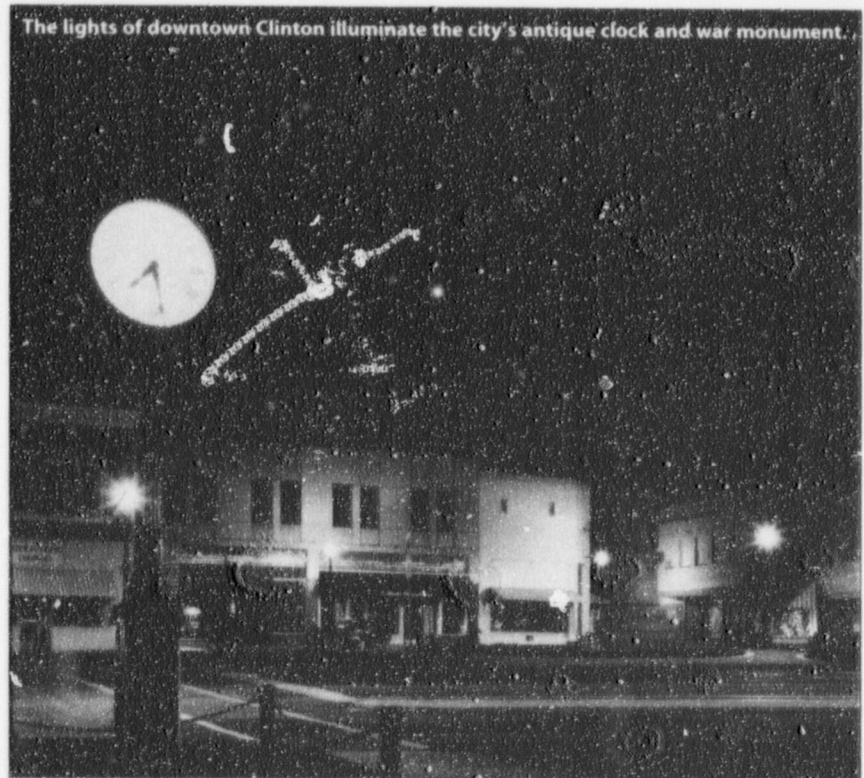
# Clinton

*"One of the greatest benefits of public power is that retail rates, service policies and customer-service programs are established locally by residents of the community. Our ability to quickly react to customer-service requirements and tailor services to their needs will be our greatest asset in the deregulated environment."*

—Charles B. Litchfield, City Manager, City of Clinton

Strategically located near major highway systems — Interstates 26 and 85, Clinton is known as the "Gateway" to the Upstate. This historic city primarily began as a textile town with Clinton Mills being the largest employer in the area. In the past few years, historic preservation has played a major role in the economic revitalization of the downtown area. In the past three years, 75 percent of all buildings in the historic district have been renovated, and the majority of these are now occupied by a thriving business community. Civic and business leaders have charted a new course for the future by continuing its preservation efforts and strategically planning ways to ensure the local economy remains successful. A priority has been set for the renovation of the remaining buildings in the historic district — with the goal of using these buildings for housing. In addition, city leaders and private developers are in the early planning stages for developing the "Eastside Industrial Park" to lure new and expanding industries into Clinton. These industries will join other forces in the local economy such as the Whitten Center, the Thornwell Home and Asten-Press.

Clinton is also home to Presbyterian College — a private, liberal arts college, home to over 1,000 students — which provides cultural, sporting and educational events for the surrounding community.



The population of Clinton is 8,203 and Laurens County, an estimated 62,540. City leaders continue to work closely with the business and residential community to improve the quality of life in Clinton, showing their strong sense of ownership in the community with their theme of "Pride in Service." The city of Clinton's utility system was founded in 1907 and provides water, sewer and electric service to its customers. The city purchases its power from PMPA, operates its own distribution system and is able to lower peak demand as well as reduce supplemental power costs through

diesel generators totaling approximately 2 MW. This system also provides a valuable back-up to the municipal water treatment facility. As part of providing superior customer relations, the city offers such programs as a water heater maintenance program, which allows customers to pay a nominal monthly fee for the repair or replacement of their water heaters at no additional cost. By supplying superior customer relations and the highest quality service available, the city of Clinton is utilizing its power to continue on a course set for success.

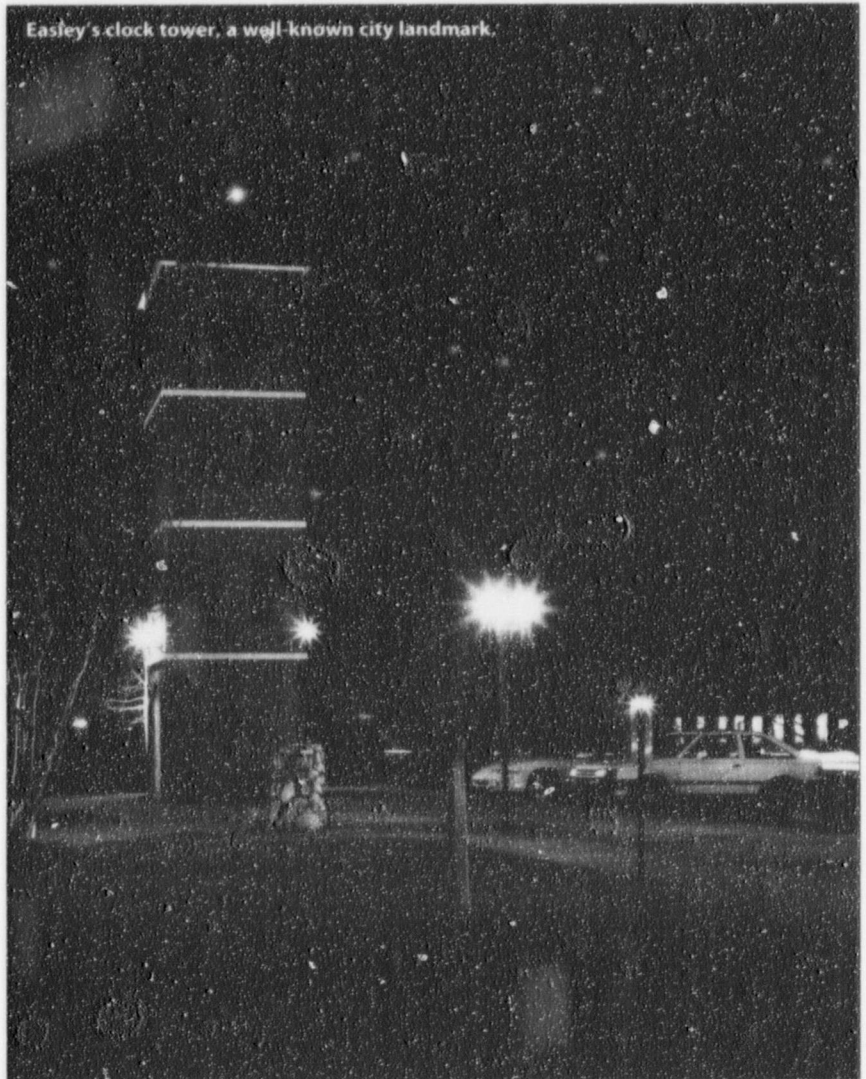
Peak Demand for 1998: August—24 MW (includes 1.9 from SEPA)  
Usage for 1998: 123,369 MWh (includes 2,123 MWh from SEPA)  
Peak Generation: Diesel generators totaling approximately 2 MW  
Population: 8,203  
Customers: Residential—3,650; usage—34,933 MWh  
Commercial—575; usage—41,012 MWh  
Industrial—6; usage—30,352 MWh

# Easley

*"The primary strength of Easley Combined Utilities is the flexibility provided by local control. We are able to respond quickly to our customers' wishes. The ability to rapidly provide products and services that our customers desire will provide Easley Combined Utilities an advantage in the deregulated market." — Joel D. Ledbetter, General Manager, Easley Combined Utilities*

Since its origins as a textile manufacturing community, the city of Easley continues to be one of the Upstate's most economically successful municipalities. Due to the visionary leadership of government and civic leaders, as well as its location in the pro-business climate of Pickens County, Easley has seen tremendous residential growth in the past several years. That growth is largely due to the approximately 150 manufacturing plants that have expanded or relocated to Easley and its surrounding communities. Since 1985, Pickens County has attracted more than \$406 million in capital investments, creating over 2,800 new jobs. The superior quality of life in the region was noted in the publication "Crime, Justice and Society 1998," ranking Pickens County as the best overall county in the state due to its low crime rate, superior SAT scores and low taxes. Continuing on its charted course for economic success, Easley is responsible for nearly 50 percent of all retail sales in Pickens County. Easley is also adjacent to major educational institutions including Clemson University, which has earned national prominence in the areas of engineering, agriculture, architecture, forestry and textiles, and Southern Wesleyan University, a four-year liberal arts college.

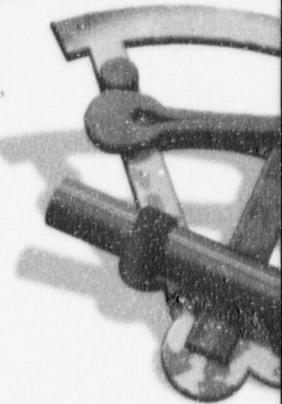
The Easley Combined Utilities (ECU) was founded in 1927 to provide utility services, including water, sewer and electricity, to Easley and the surrounding community. The



Easley's clock tower, a well-known city landmark.

ECU purchases power from PMPA and is able to meet peak electric generation through diesel generators totaling approximately 6 MW. The utility offers special value-added programs for their customers including a water heater maintenance plan, which allows customers to pay a nominal monthly fee for the repair or replacement of their water heaters. As

a PMPA member utility, the ECU continues to meet the diverse needs of residential and business customers, ensuring that the area continues to prosper in the new millennium.



Peak Demand for 1998: July—56 MW (includes 6.7 MW from SEPA)  
Usage for 1998: 263,058 MWh (includes 21,989 MWh from SEPA)  
Peak Generation: Diesel generators totaling approximately 6 MW  
Population: 16,880  
Customers: Residential—9,969; usage 122,390 MWh  
Commercial and Industrial 1,486; usage—92,556 MWh

# Gaffney

*"The Board of Public Works is Gaffney's 'hometown utility.' We are dedicated to providing our community with the most reliable and competitively priced utility possible."  
—Donnie L. Hardin, General Manager, Gaffney Board of Public Works*

Located in northwest South Carolina, the city of Gaffney is located in Cherokee County and has a population of 13,275. Gaffney's location in Cherokee County, between the Greenville-Spartanburg area of South Carolina and Charlotte, North Carolina, makes it an ideal location for individuals and businesses seeking small town life with easy access to big-city amenities. Since World War II, industry has played a major part in the local economy and, today, Gaffney is home to a variety of industrial businesses including Nestle, Milliken and several international textile companies. Gaffney has a well-deserved reputation as a major supplier of peaches, the area's largest crop, and Gaffney plays host to the annual South Carolina Peach Festival. The stately homes that line the downtown area are proud testaments to Gaffney's rich history, and civic leaders have recently renovated Main Street in the Historic Downtown District. Gaffney is also home to Limestone College, a four-year, liberal arts college.

Founded in 1907, the Gaffney Board of Public Works provides electric, water and wastewater services to the city and surrounding community.

The BPW purchases power from PMPA and is able to meet the service needs of any size electrical load at the most competitive prices available. The BPW is

Gaffney's Board of Public Works built the million-gallon water storage tank, known as the Peachoid, in 1981.



also able to meet peak electric generation through diesel generators totaling approximately 8 MW. Committed to quality service to the community, the BPW routinely offers special programs such as energy audits and billing options to help customers save on their energy bills. In addition, the BPW helps with the

overall welfare of the community with the altruistic Project Hope program. The Board of Public Works continues to chart a successful course for Gaffney and its residents by supplying quality power for future growth in the new millennium.

Peak Demand for 1998: August—44 MW (includes 5.4 MW from SEPA)  
Usage for 1998: 231,690 MWh (includes 17,827 MWh from SEPA)  
Peak Generation: Diesel generators totaling approximately 8 MW  
Population: 13,275  
Customers: Residential—6,057; usage—62,825 MWh  
Commercial—1,092; usage—75,457 MWh  
Industrial—33; usage—50,106 MWh  
Other—41; usage—16,267 MWh

# Greer

"Last year, Greer introduced Destination 2000, a customer-motivated program that raises service to a higher level. Customer service has always been a priority, and we're moving it to an even higher level."  
—H. Jerry Balding, General Manager, Greer Commission of Public Works

Located at the foothills of the scenic Blue Ridge Mountains, the city of Greer has an estimated population of 14,500. Strategically located along Interstate 85, Greer is midway between Atlanta and Charlotte in the Spartanburg/Greenville Metropolitan area and adjacent to an international airport. The area provides a strong industrial corridor, a force made even stronger with the recent addition of the BMW automotive assembly plant. In calling Greer home, BMW joins other major industrial companies such as Spartan Food System Inc., Springs Industries and Phil Chem as major contributors to the local economy — all customers of the Greer Commission of Public Works. With a strong foundation in industrial recruitment, city and business leaders have positioned Greer as a prime business location for new and expanding industry. The Chamber of Commerce has joined forces with other chambers as part of the I-85 Business Belt Group, a group dedicated to the promotion of the I-85 business corridor as a viable economic region with a high quality of life.

A member of PMPA, the Greer Commission of Public Works (CPW) was established in 1913. The CPW provides natural gas, electricity, water and wastewater service to more than 9,000 customers in the Greer area. In 1998, the CPW launched "Destination 2000," a utility-wide initiative focused on improving customer relations. One component of this program includes a key



The Greenville-Spartanburg International Airport has grown into one of the finest airports in the country, steadily meeting the Upstate's ever-increasing needs.

accounts program, which focuses on the precise and individual needs of the CPW's largest industrial customers. The CPW is able to meet peak electric generation through diesel generators totaling approximately 2.5 MW. Customer service programs of the CPW include billing options, outage systems and an informative home page on the

World Wide Web ([www.greercpw.com/](http://www.greercpw.com/)). By planning for the future, focusing on improving the local economy and anticipating the needs of its customers, the Greer CPW has charted a successful, ambitious course for the future.

Peak Demand for 1998: July—45 MW (includes 7.3 MW from SEPA)  
Usage for 1998: 202,411 MWh (includes 23,986 MWh from SEPA)  
Peak Generation: Diesel generators totaling approximately 2.5 MW  
Population: 14,500  
Customers (1997): Residential—8,560; usage—102,367 MWh  
Commercial—1,347; usage—100,044 MWh

# Laurens

*"The Laurens CPW is dedicated to offering to our customers tailored choices of services of the desired quality and reliability at competitive prices."  
—Coleman F. Smoak Jr., General Manager, Laurens Commission of Public Works*

Located in the rolling hills of South Carolina, the city of Laurens is but a short distance from Greenville and Spartanburg, which together form the 36th largest market in the United States. The city of Laurens joins other small towns throughout the state which are deeply committed to revitalizing their downtown corridors. With civic and business leaders joining forces with the Laurens Main Street USA program, Laurens has recently undergone major renovations to bring consumers back to the historic downtown district. Renovations to the area include a streetscape plan that includes lush landscaping, period lighting and streets restored to their original brick covering. In addition, the "Laurens Lights" program was initiated in Christmas of 1998, creating splendid lighting displays throughout the downtown area. In addition to improving the downtown business district, Laurens is also home to a solid industrial base that includes manufacturing, logging and textile companies.

A member utility of PMPA, the Laurens Commission of Public Works (LCPW) offers water, sewer, gas and electric service to customers both within and out of the city limits. The LCPW was created in 1922 for the improvement and expansion of the existing utilities system and, over 75 years later, the LCPW continues to anticipate and facilitate the changing utility needs of its customers. In addition, the LCPW works diligently with municipal and civic

Building renovations and new landscaping are attracting visitors and residents alike to the historic downtown area of Laurens.



leaders to bring a consistently high quality of life to its residents. These efforts include participation in the "Laurens Lights" program, the downtown renovation project and helping develop Hunter Industrial Park. The LCPW has allocated money for the design of improvements to four new sites at the park and is actively participating in marketing efforts. The LCPW offers a variety of service and informative

programs that include customer billing options, a charitable donation program called Community Change and an informative customer home page on the World Wide Web ([www.lcpw.com](http://www.lcpw.com)). By partnering with other crucial entities and fulfilling a commitment for future development, the Laurens CPW is ensuring the course for Laurens is on the fast track for success.

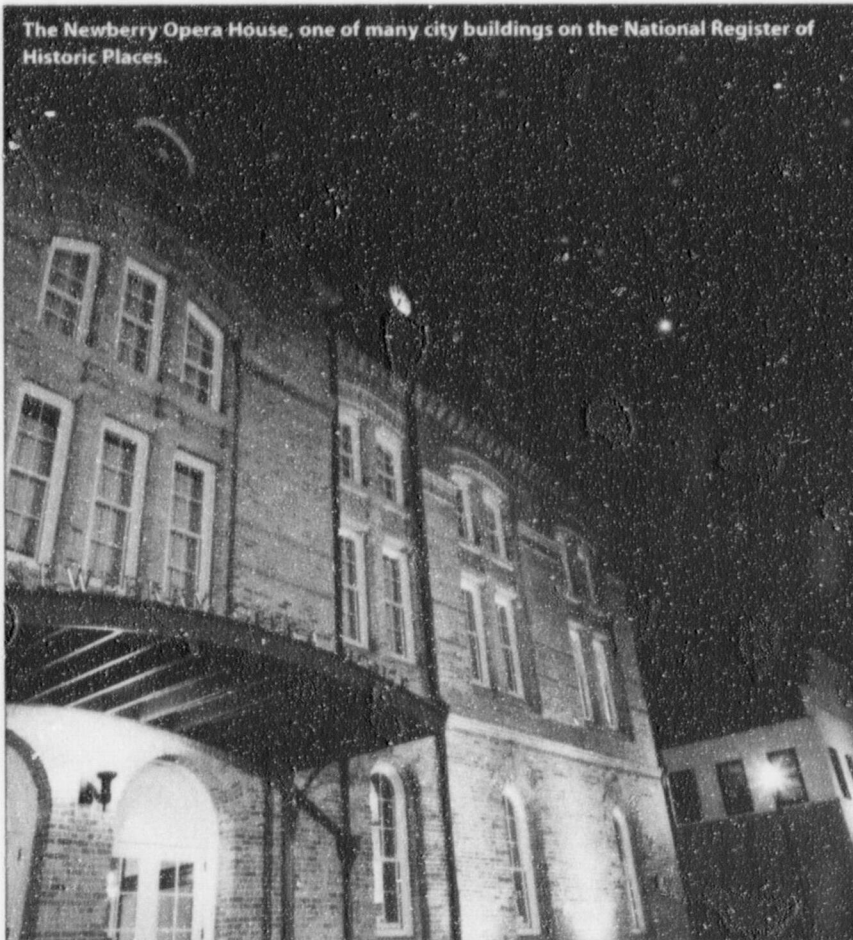
Peak Demand for 1998: July—23 MW (includes 4.7 MW from SEPA)  
Usage for 1998: 104,931 MWh (includes 15,315 MWh from SEPA)  
Peak Generation: None  
Population: 10,000  
Customers: Residential—3,776; usage—44,506 MWh  
Commercial—645; usage—46,915 MWh

# Newberry

*"Working together with our base of residential and business customers, the City of Newberry is truly a partner for progress in making our city a prosperous place to work and live. Customer satisfaction has, and remains, our primary goal, and it is our duty and pleasure to use public power as a source for improving the quality of life in Newberry."*—Charles H. Guerry, City of Newberry Utility Director

Newberry, located in the central Midlands of South Carolina, has a population of 10,581. The city's strategic location along Interstate 26, between Columbia, the state capital and Greenville, allows easy access to two major metropolitan areas. Since the late 1800s, textile industries have provided Newberry County's economic foundation and, today, they are joined by wood processing and wood products firms as well as food processing industries. The recently renovated Newberry Opera House has emerged as a proud symbol of a city that remembers its rich, significant past and has taken great strides to preserve its history for future generations. There are several blocks within the downtown business district on which every building is listed on the National Register of Historic Places. Newberry is also home to Newberry College, a fully accredited four-year, coeducational liberal arts college supported by the South Carolina, Southeastern and Florida Synods of the Lutheran Church of America.

The city of Newberry began utility service in the late 1800s and now provides water, sewer and electrical service to both residential and business customers. Meeting the service needs of any size electrical



The Newberry Opera House, one of many city buildings on the National Register of Historic Places.

load, the city offers the most competitive prices available and is actively involved with civic and other governmental entities to promote Newberry as an excellent location for new and expanding industries. As a member of PMPA, the city of

Newberry holds firm in its commitment to offer the necessary power and performance that will chart the course for future growth and development.

Peak Demand for 1998: July—33 MW (includes 2.2 MW from SEPA)  
Usage for 1998: 168,374 MWh (includes 2,337 MWh from SEPA)  
Peak Generation: None  
Population: 10,581  
Customers: Residential—3,926; usage—42,470 MWh  
Commercial—821; usage—55,630 MWh  
Industrial—13; usage—54,420

# Rock Hill

*"Rock Hill has always invested in meeting the growing needs of our customers, and, every day, we're working harder, smarter and more creatively for customer-service excellence. As a public power entity, we know where we are, we know where we want to be, and we'll be quite resourceful and competitive in getting there."*

*-J. Russell Allen, City Manager, City of Rock Hill*

The city of Rock Hill, located in York County, is the county's largest city and continues to be one of the fastest-growing South Carolina cities. Rock Hill is part of the Charlotte-Gastonia-Rock Hill metropolitan statistical area, the Southeast's second largest business hub and the nation's fifth largest trade area. The city is home to Winthrop University, York Technical College and Clinton Junior College, which are all known for offering high-quality education. Rock Hill has strategically positioned itself as a progressive community with an excellent quality of life and a strong tradition of actively pursuing business and industrial growth. Through an aggressive economic development program, the city has developed four premier business parks which are home to more than forty businesses. Civic and business leaders have developed strong financial incentives to encourage new and expanding business development in the downtown area, including loan programs to support business growth and historic preservation. The Downtown Rock Hill Association helps organize and sponsor special community events which bring more than 22,000 people annually to the Main Street area. At the entrance of Rock Hill's historic district, visitors are greeted by the GateWay Plaza, a civic art monument that stands as a true symbol of this city's commitment to growth and prosperity. The GateWay features four majestic statues honoring the beautification, educational, cultural, historical and business efforts of its citizens.

The City of Rock Hill Utilities Department supplies electric, water

The GateWay in Rock Hill is a monument honoring the community's citizens for creating a vision for the city for the 21st century.



and sanitary sewer service to more than 23,000 customers. Established in 1911, the public power utility operates a system consisting of more than 500 miles of electric distribution lines, four delivery substations and a fifth substation planned for 2002. Rock Hill provides superior customer service by offering such programs as the "AllCall" automated service reporting system, the residential Smart Switch load management

program, security lighting and customer energy audits. To prepare for electric industry restructuring, Rock Hill Utilities created a key accounts program in 1998 to help focus on and meet the needs of its commercial and industrial customers. Rock Hill's leaders have charted the future growth of the city with a collective vision of quality that honors the past and will successfully carry it into the next millennium.

Peak Demand for 1998: July—133 MW (includes 14.8 MW from SEPA)  
Usage for 1998: 628,406 MWh (includes 48,590 MWh from SEPA)  
Peak Generation: Diesel generators totaling approximately 3 MW  
Population: 50,289  
Customers: Residential—21,611; usage 236,550 MWh  
Commercial & industrial—2,952; usage—360,483 MWh

# Union

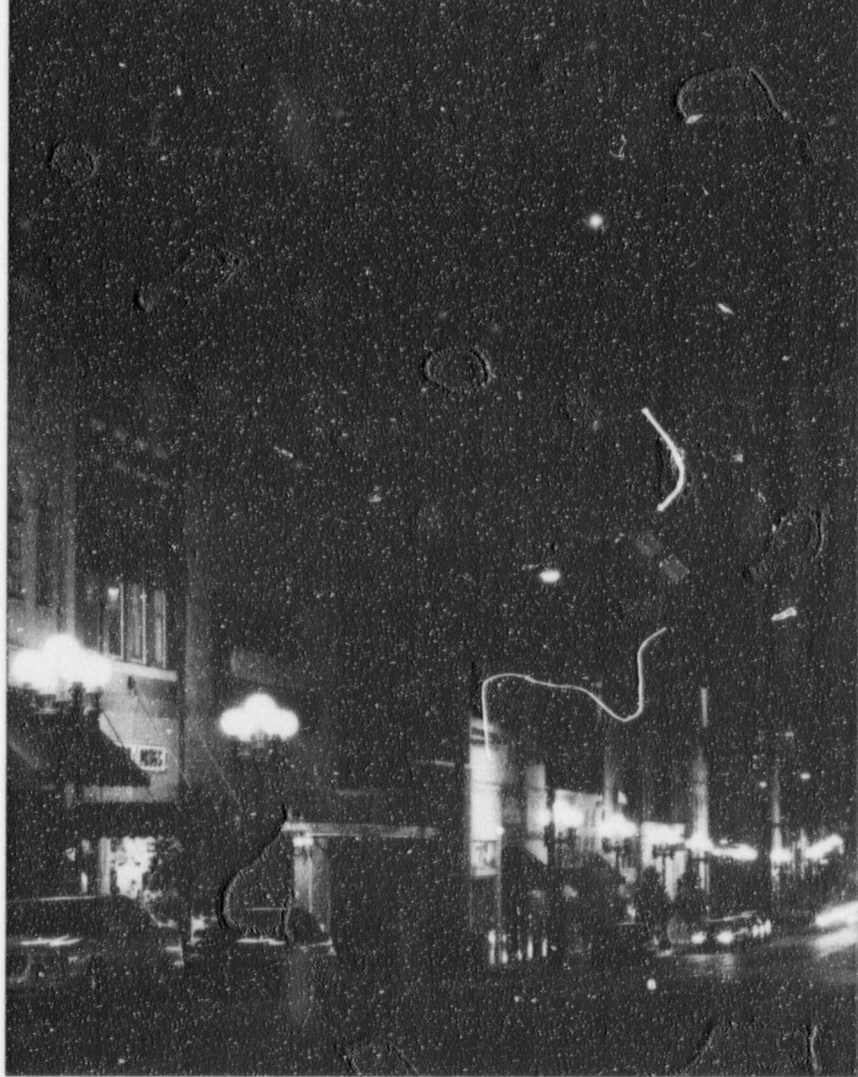
*"Being a public power utility, the city of Union is dedicated to providing the finest customer-service available. By offering superior customer incentives, along with the most reliable and competitive rates available, we've formed personal relationships with our family of customers—relationships that will see us through successfully into the next century."*

—Charles H. Potts, City Administrator, City of Union

The unique combination of small-town charm, proximity to the metropolitan communities of Greenville and Spartanburg and location in a county that includes 55,000 acres of the Sumter National Forest makes the city of Union an ideal home for families and businesses. With an estimated population of nearly 10,700, Union is home to a diverse business community that includes Torrington, Conso, Fieldcrest Cannon, and Kohler — all served by City of Union utilities. Since the mid 1990s, economic growth in Union has been tremendous. A unique development of the city and county has led to the development of the 165-acre Mac Johnston Industrial Park, fast becoming home to a wide variety of industrial businesses. With a dedicated workforce, available industrial sites, access to three interstate highways within 35 miles of the city, a revitalized downtown shopping district, rolling rural acreage, and higher education opportunities at the local campus of the University of South Carolina, Union is a city that offers a proud heritage, a superior quality of life and a firm grasp on future development.

The City of Union began supplying its citizens with water and electric utility service in 1898, wastewater treatment in 1917 and gas service in 1956. The City of Union is committed to its customers both within and out of the city limits and offers special programs

Union's downtown area reflects the charm of Southern communities.



to residents such as Community Change, a charitable donation program for needy residents. As a PMPA member city, Union offers superior service and quality programs to ensure residential, business and

industrial customers have the power and the energy to chart the course for optimum growth into the next century.

Peak Demand for 1998: July—31 MW (includes 2.3 MW from SEPA)  
Usage for 1998: 142,264 MWh (includes 2,486 MWh from SEPA)  
Peak Generation: None  
Population: 10,700  
Customers: Residential—6,029; usage—64,678 MWh  
Commercial—883; usage—45,587 MWh  
Industrial—15; usage—8,986 MWh  
Other—99; usage—12,918 MWh





# Westminster

*"There is a personal touch between our workers and the city of Westminster. That's one of the pluses of being in a small service area. When deregulation comes about, we can capitalize on our personal touch."*  
—R. Buck Marcingill, Chairman, Westminster Commission of Public Works

Located in Oconee County, known as the "Golden Corner" of the state, the City of Westminster is in the foothills of the beautiful Appalachian Mountains. Westminster's population is 4,351 and Oconee County's population is over 62,000. The city's economic base is diversified, thanks to the development efforts of civic and business leaders. That base ranges from modern industry to a revitalized Main Street District. The city also features outstanding architecture, boasting over 100 period homes dating back to the late 1800s. Home to the Chamber of Commerce, the restored train depot is a prime example of Westminster's commitment to the reuse and renewal of historic buildings. Westminster plays host to the South Carolina Apple Festival and offers a wide variety of recreational opportunities with the rivers, lakes, forests, mountains and golf courses found throughout Oconee County. Westminster is also located on the South Carolina National Heritage Corridor — a select series of highways, roads, towns, cities and sights that define the state's history, culture and natural beauty.

A PMPA member city, Westminster established a Commission of Public Works in 1921 and provides electricity, water and wastewater treatment facilities to customers both within and out of the city limits. Westminster prides itself on

Westminster's fully restored train depot, which today houses the offices of the city's Chamber of Commerce.



providing a high level of personal service to its entire customer base — services that include demand-side management, personalized customer service and a deep commitment to the community's overall quality of

life. Westminster continues to provide the energy needs and economic expertise for both residents and business to ensure they continue on a successful course for future growth and development.

Peak Demand for 1998: July—7 MW (includes .4 MW from SEPA)  
Usage for 1998: 34,458 MWh (includes 483 MWh from SEPA)  
Peak Generation: None  
Population: 4,351  
Customers: Residential—1,447; usage—18,084 MWh  
Commercial—220; usage—16,374 MWh

# Operations Report

## The Catawba Project

In 1998, the Catawba Nuclear Plant achieved a net capacity factor of 88.9 percent and a net availability of 89.0 percent. Catawba Unit One had a 90.0 percent capacity factor and 90.5 percent availability. The unit was off-line at the start of 1998 due to a scheduled refueling outage and returned to service on January 5. In early August, Unit One was taken off-line to repair components of its ice condenser and was returned to service in early September. Catawba Unit Two had a 87.7 percent capacity factor and 86.5 percent availability for the year. It completed a record 381 continuous days of operation prior to its scheduled refueling outage.

## Load Management

In 1998, PMPA reduced peak demand by approximately 49 megawatts through the operation of its load-side generation, residential demand-side management and municipal load management programs.

Five PMPA members operated load-side generation programs in 1998 that allowed the agency to save 18 megawatts of peaking generation.

PMPA continued to operate its residential demand-side management program, PowerPartners, during 1998. At year's end, 18,431 customers were participating in the volunteer program. PowerPartners generated approximately five megawatts of load reduction and was activated an average of 2.25 days per month for an average of 2.22 hours per day.

Municipal load-management programs implemented during periods of high demand provided approximately 26 megawatts of load reduction.

For many months of the year, load was less than retained capacity from the Catawba Project. During these months, the load-management programs were not operated.

## Energy and Demand

The 1998 annual peak demand occurred in July and equaled 406.6 megawatts. Energy usage for the year equaled 1,963,367 megawatt hours, which represents a 8.5 percent increase over 1997. The increase in usage is attributed primarily to warmer weather. Retained capacity from the Catawba Project was 232.4 megawatts. Included in the energy and demand figures are allocations of power from the Southeastern Power Administration (SEPA). In 1998, the members received a total of 48.2 megawatts and 143,355 megawatt hours from SEPA.

Year	Energy Usage	Coincident Peak Demand
1998	1,963,367 MWh	406.6 MW
1997	1,809,768 MWh	383.8 MW
1996	1,809,897 MWh	382.7 MW
1995	1,760,088 MWh	387.8 MW
1994	1,667,343 MWh	340.2 MW
<b>1998 Coincident Peak Demand—MW</b>		
Abbeville		11.9
Clinton		24.4
Easley		56.0
Gaffney		43.0
Greer		45.3
Laurens		22.7
Newberry		32.2
Rock Hill		133.1
Union		31.0
Westminster		7.0
<b>Total</b>		<b>406.6</b>
<b>1998 Energy Usage—MWh</b>		
Abbeville		57,683
Clinton		123,369
Easley		263,058
Gaffney		231,695
Greer		209,129
Laurens		104,931
Newberry		168,374
Rock Hill		628,406
Union		142,264
Westminster		34,458
<b>Total</b>		<b>1,963,367</b>

## Surplus Power Sales

Off-system, surplus power sales have continued to produce net revenue improvements for PMPA. In 1998, the agency sold 193,358-megawatt hours of surplus energy to utilities and marketers across the region generating total revenues of \$2,795,296. These sales represent a net improvement to revenues of \$1,217,294.

PMPA sold power to 12 utilities in several states east of the Mississippi River and participated in two regional automated sales systems: the Automated Interchange Matching System and the Energy Broker Network.

## Year 2000 Update

PMPA completed an impact analysis of all systems that could be affected by year 2000 (Y2K) in May 1998 and found minimal exposure. Two primary systems, the accounting system and the SCADA system, will be replaced or upgraded by late 1999 to ensure Y2K compliance.

In addition to efforts to assure internal compliance, PMPA has worked closely with its member utilities and with Duke Power to prepare for 2000.

Duke Power, the operator of the Catawba Nuclear Plant, has assured the joint owners of Catawba that all systems will be operational in 2000. PMPA and its members will participate in industry-wide, Y2K tests conducted by Duke in April and September 1999.

## Financial Highlights

PMPA's source of funds comes from three major areas, which include operating revenues, interest income and withdrawals from other funds on hand. Total operating revenue for 1998 was \$140 million and included Sales to Participants of \$107 million and Sales to Other Utilities of \$33 million, which represent 56.9 percent and 17.6 percent of total sources of funds, respectively. 1998 Sales to Participants of \$107 million is about \$10 million more than 1997 sales. Increased demand and energy requirements, along with a 2.5 percent rate increase effective May 1, 1998, are the primary contributors to the increase in participant sales. 1998 Sales to Other Utilities of \$33 million is a \$7 million decrease from 1997 sales, due largely to reductions in sales to Duke Energy. Contractual requirements of the Interconnection Agreement between Duke Energy and PMPA call for annual reductions in the sellback provision, which ends in 2001.

Interest income provided a \$32 million source of funds along with the withdrawals of \$16 million from PMPA's Rate Stabilization Fund. At year's end, the agency's Rate Stabilization Fund totaled \$207 million. This is a net decrease from 1997 of \$16 million, which includes the net of planned withdrawals and interest deposits. Interest earnings in the Rate Stabilization Fund produced an average yield of 7.22 percent on deposited funds for the year.

Debt service makes up 50.4 percent of PMPA's total use of funds. In 1998, interest expense, the major component of debt service, decreased by 7 percent. Increased

levels of variable rate debt and the 1998A Refunding Issue provided for this decrease of approximately \$5 million in interest expense.

Remaining significant uses of funds include operations and maintenance expense, and purchased power expenses, which account for 17.7 percent and 15.2 percent, respectively, of total uses of funds. Operations and maintenance have remained constant over the past two years, while purchased power has increased by \$3 million.

After all operating and capital expenses were dispersed, PMPA had excess working capital for the year of over \$3.5 million, which was deposited into working capital accounts. This increase in working capital is a combination of positive net operations results and lower-than-anticipated capital expenditures.

### Portfolio Statistics

(dollars in thousands)

Earnings	Income	Rate of Return
1998	\$31,799	6.97%
1997	\$34,668	7.10%

### Market Value

As of 12/31	Value	Years (average maturity)
1998	\$470,638	4.00 years
1997	\$476,988	5.11

### Transactions

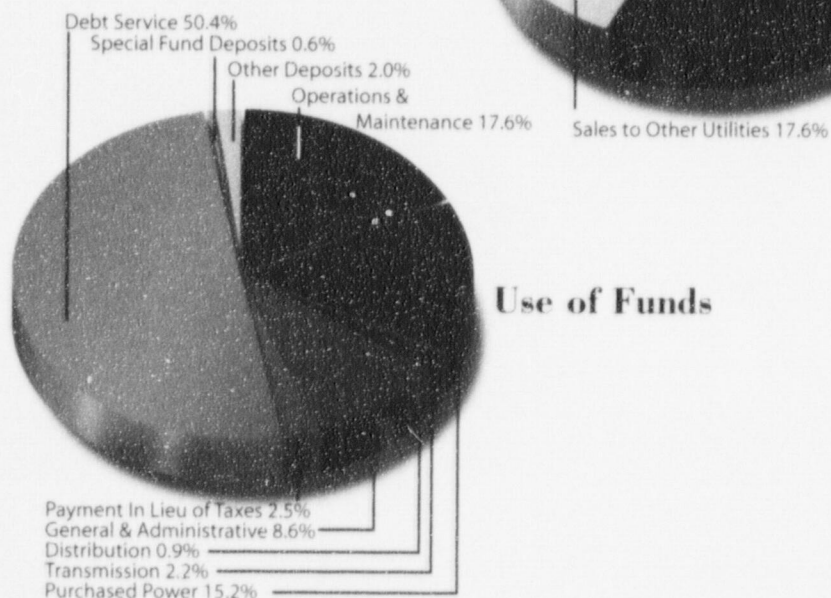
	Number	Amount
1998	699	\$909,536
1997	533	\$656,514

### Debt Outstanding

(dollars in thousands)

Bonds Outstanding	
December 31, 1997	\$1,346,399
Issued	
Series 1998A	\$161,380
Matured January 1, 1998	\$19,370
Refunded	\$144,090
Bonds Outstanding	
December 31, 1998	\$1,344,319

## Sources of Funds



## Use of Funds

# Board of Directors and Staff



**Board from left:** David H. Krumwiede, Abbeville; Charles H. Guerry, Newberry; R. Buck Marcengill, Westminster; J. Russell Allen, Rock Hill; Charles B. Litchfield, Clinton; David V. Duncan (Chairman), Greer; Charles H. Potts, Union; Richard S. Hale, Easley; Donnie L. Harden, Gaffney; Coleman F. Smoak, Laurens.



**Staff from left:** Calvin W. Daniels, Engineering Manager; John N. Glover, Finance Director; S. Scott Griffin, Director of Legislative Affairs; Todd Kilsdonk, Key Accounts Coordinator; Robin Broumas, Public Relations Manager; Sandy Boozer, Information Technology Manager; Don Ouchley, General Manager.

# Independent Auditors' Report

## **KPMG Peat Marwick LLP**

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

The Board of Directors  
Piedmont Municipal Power Agency:

We have audited the accompanying balance sheets of Piedmont Municipal Power Agency (the "Agency") as of December 31, 1998 and 1997, 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.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the Year 2000 issue. The Agency has included such disclosures in Note 18. Because of the unprecedented nature of the Year 2000 issues, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Agency's disclosures with respect to the Year 2000 issue made in Note 18. Further, we do not provide assurance that the Agency is, or will be, Year 2000 ready, that the Agency's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Agency does business will be Year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of PMPA, as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

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

**KPMG Peat Marwick LLP**

March 3, 1999

# Balance Sheets

December 31, 1998 and 1997 (Dollars in thousands)

Assets	1998	1997
Utility plant (note 5):		
Electric plant in service	\$ 550,236	551,094
Nuclear fuel	32,547	44,109
Construction work-in-progress	2,831	2,083
	585,614	597,286
Less accumulated depreciation and amortization	(228,016)	(223,129)
Net utility plant	357,598	374,157
Restricted funds (notes 2 and 6)	193,043	188,108
Revenue fund assets (notes 2 and 7):		
Cash	7,105	8,339
Marketable debt securities	273,265	284,636
Accrued interest receivable	3,111	4,124
Due from restricted funds	419	120
Participant accounts receivable	8,292	6,941
Other accounts receivable	2,430	1,791
Materials and supplies	5,148	5,158
Total revenue fund assets	299,770	311,109
Deferred charges:		
Unamortized debt issuance costs	22,789	22,134
Net deferred expenses to be recovered from future revenues (notes 2 and 8)	323,010	296,202
Excess costs on advance refundings of debt	190,470	188,213
Other	3,041	3,219
Total deferred charges	539,310	509,768
	<b>\$ 1,390,521</b>	<b>1,383,142</b>
<b>Retained Earnings and Liabilities</b>		
Long-term debt (notes 9 and 10):		
Bonds	1,344,319	1,346,399
Unamortized discounts	(53,393)	(52,420)
Unamortized premiums	1,663	1,060
	1,292,589	1,295,039
Restricted fund liabilities:		
Accrued interest payable	46,463	45,995
Reserve for decommissioning (note 11)	26,803	23,017
	73,266	69,012
Revenue fund liabilities — accounts payable (note 7)	8,249	6,230
Retained earnings	16,417	12,861
Commitments and contingencies (notes 14, 15 and 16)		
	<b>\$ 1,390,521</b>	<b>1,383,142</b>

See accompanying notes to financial statements.

# Statements of Revenues

## and Expenses and Changes in Retained Earnings

Years ended December 31, 1998 and 1997 (Dollars in thousands)

	1998	1997
Operating revenues:		
Sales of electricity to participants	\$ 105,731	95,968
Sales of electricity to other utility (note 4)	32,970	40,078
Other	1,239	1,220
Total operating revenues	<u>139,940</u>	<u>137,266</u>
Operating expenses:		
Operation and maintenance	22,444	22,627
Nuclear fuel amortization	6,795	6,925
Purchased power (note 4)	28,647	25,242
Transmission	4,131	4,128
Distribution	1,617	1,738
Administrative and general	10,136	13,370
Depreciation	18,271	18,381
Decommissioning	3,786	3,980
Payments in lieu of property taxes	4,645	4,503
Total operating expenses	<u>100,472</u>	<u>100,894</u>
Net operating income	<u>39,468</u>	<u>36,372</u>
Other income (expenses):		
Interest income	31,799	34,668
Net increase (decrease) in fair value of investments	115	(364)
Interest expense	(74,912)	(80,070)
Amortization expense	(13,746)	(13,762)
Other	(5,976)	(5,617)
Total other expenses, net	<u>(62,720)</u>	<u>(65,145)</u>
Revenues under expenses before deferred items	(23,252)	(28,773)
Deferred items to be recovered from future revenues, net (notes 2 and 8)	<u>26,808</u>	<u>29,666</u>
Revenues over expenses	3,556	893
Retained earnings at beginning of year	<u>12,861</u>	<u>11,968</u>
Retained earnings at end of year	<u>\$ 16,417</u>	<u>12,861</u>

See accompanying notes to financial statements.

# Statements of Cash Flows

Years ended December 31, 1998 and 1997 (Dollars in thousands)

	1998	1997
Cash flows from operating activities:		
Revenues over expenses	\$ 3,556	893
Adjustments to reconcile revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	38,812	39,068
Net (increase) decrease in fair value of investments	(115)	364
Net deferred expenses to be recovered from future revenue	(26,808)	(29,666)
Reserve for decommissioning	3,786	3,980
Decrease (increase) in:		
Participant accounts receivable	(1,351)	1,687
Other accounts receivable	(639)	1,101
Accrued interest receivable	995	620
Materials and supplies	10	(174)
Increase (decrease) in:		
Other liabilities	—	(351)
Accounts payable	2,019	1,189
Accrued interest payable	468	1,443
Net cash provided by operating activities	<u>20,733</u>	<u>20,154</u>
Cash flows from investing activities:		
Purchase of investment securities	(767,366)	(609,160)
Proceeds from sales and maturities of investment securities	772,836	615,448
Expenditures for electric plant in service	(1,453)	(1,545)
Expenditures for nuclear fuel	(7,054)	(2,457)
Net cash used in investing activities	<u>(3,037)</u>	<u>(4,714)</u>
Cash flows from financing activities:		
Payment of bond principal	(19,370)	(7,340)
Proceeds from issuance of long-term debt	155,779	141,300
Refunding of bonds	(144,090)	(142,145)
Defeasance losses	(7,029)	(1,576)
Increase in debt issuance costs	(4,220)	(4,468)
Net cash used in financing activities	<u>(18,930)</u>	<u>(14,229)</u>
Net increase (decrease) in cash	(1,234)	1,211
Cash at beginning of year	<u>8,339</u>	<u>7,128</u>
Cash at end of year	<u>\$ 7,105</u>	<u>8,339</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 72,417</u>	<u>78,627</u>

See accompanying notes to financial statements.



# Notes

## to Financial Statements

December 31, 1998 and 1997 (Dollars in thousands)

### (1) Description of the Entity and Industry Developments

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

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

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

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

In 1997, two bills to restructure the electric utility industry in South Carolina were introduced in the South Carolina General Assembly — House Bill 3414 and Senate Bill 346. In addition, Joint Resolutions were introduced in both the House and Senate to create an electric industry deregulation study committee and task force to study electric industry deregulation. None of these bills or resolutions were acted upon or passed and, accordingly, they have died.

At the request of the Speaker of the House of Representatives of the South Carolina General Assembly, the Public Service Commission issued a report dated February 3, 1998 titled "Proposed Electric Restructuring Implementation Process" (the "PSC Report"). The PSC Report sets forth the procedures the Public Service Commission would follow to implement electric restructuring if and when required by South Carolina law.

In the fall of 1998, the Chairman of the Senate Judiciary Committee appointed a task force to begin the process of drafting legislation to handle the many issues related to the deregulation of South Carolina's electric utility business.

The First Session of the 113th General Assembly of the South Carolina legislature (which includes calendar years 1999 and 2000) will commence on January 12, 1999. It is anticipated that several bills will be introduced. What the results of these legislative initiatives will be or whether any such legislation will become law cannot be predicted.

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

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

### (2) Summary of Significant Accounting Policies

#### Basis of Accounting

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

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

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

#### Unamortized Debt Issuance Costs

Unamortized debt issuance costs at December 31, 1998 and 1997 of \$22,789 and \$22,134, respectively, (net of accumulated amortization of \$17,301 and \$15,753, respectively) are being amortized on the bonds outstanding method.

#### Excess Costs on Advance Refundings of Debt

Excess costs on advance refundings of debt at December 31, 1998 and 1997 of \$190,470 and \$188,213, respectively, (net of accumulated amortization of \$103,671 and \$92,327, respectively) are being amortized on the bonds outstanding method.

#### Organization Costs

Organization costs at December 31, 1998 and 1997 of \$756 and \$785, respectively, (net of accumulated amortization of \$411 and \$382, respectively) are being amortized on the straight-line method over 40 years.

#### Discounts on Bonds Payable

The discounts on bonds payable at December 31, 1998 and 1997 of \$53,393 and \$52,420, respectively, (net of accumulated amortization of \$33,860 and \$31,243, respectively) are being amortized on the bonds outstanding method.

#### Premiums on Bonds Payable

The premiums on bonds payable at December 31, 1998 and 1997 of \$1,663 and \$1,060, respectively, (net of accumulated amortization of \$691 and \$384, respectively) are being amortized on the bonds outstanding method.

#### Income Taxes

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

#### Cash Flows

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

#### Marketable Debt Securities

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

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

#### Depreciation Expense

Electric plant in service, including unclassified assets, is stated at cost and is depreciated on a straight-line basis at rates calculated to amortize the composite assets over their respective estimated useful lives. Depreciation begins when assets are placed into service. The Agency's annual provision for depreciation expressed as a percentage of the average balance of depreciable utility plant was 3.3% for 1998 and 1997.

#### Materials and Supplies

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

#### Use of Estimates

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

#### Financial Reporting

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

# Notes

## to Financial Statements

December 31, 1998 and 1997 (Dollars in thousands)

### (3) Power Sales Agreements

#### Catawba Project Power Sales Agreements

The Agency and each Participant are parties to Catawba Project Power Sales Agreements (Sales Agreements). These Sales Agreements obligate the Agency to provide each Participant a share of Project power output and, in turn, each Participant must pay its share of Project costs. Participants make their payments on a "take-or-pay" basis whether or not the Project is operable or operating. Such payments are not subject to reduction or offset and are not conditioned upon performance by the Agency or any given Participant. The Sales Agreements are in effect until the earlier of August 1, 2035, or the completion of payments on the bonds and satisfaction of obligations under the Project agreements.

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

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

#### Supplemental Power Sales Agreements

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

### (4) Project Agreements

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

#### Purchase Agreement

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

#### Operating Agreement

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

#### Interconnection Agreement

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

### (4) Project Agreements — continued

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

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

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

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

# Notes

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### (5) Utility Plant

Original costs of major classes of the Agency's electric plant in service at December 31, 1998 and 1997 are as follows:

	1998	1997
Land	\$ 336	336
Structures and improvements	156,559	156,400
Reactor plant equipment	237,096	236,895
Turbo generator units	69,270	69,270
Accessory electric equipment	48,604	50,134
Miscellaneous plant equipment	16,636	16,386
Station equipment	4,777	4,777
Other	2,002	1,900
Unclassified	14,956	14,996
	<u>\$ 550,236</u>	<u>551,094</u>

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

Nuclear fuel at December 31, 1998 and 1997 of \$32,547 and \$44,109, respectively, represents costs associated with acquiring and processing reload fuel assemblies as well as the cost of nuclear fuel in the reactor. Nuclear fuel is amortized based on burn rates using a unit of production basis. The Agency regularly removes fully amortized nuclear fuel costs from its books when fuel batches are replaced during core refueling operations. Costs in 1998 of \$18,617 were removed.

A summary of accumulated depreciation and amortization at December 31, 1998 and 1997 follows:

	1998	1997
Accumulated depreciation of electric plant in service	\$ 210,424	1,3715
Accumulated amortization of nuclear fuel	17,592	9,414
	<u>\$ 228,016</u>	<u>223,129</u>

### (6) Restricted Funds

The General Bond Resolution, Project agreements, and Agency policies restrict the use of bond proceeds, Agency revenues, and Agency funds on hand. Certain restrictions define the order in which available funds may be used to pay costs; other restrictions require minimum balances or accumulation of balances for specific purposes. At December 31, 1998 and 1997, the Agency was in compliance with all such restrictions and held the following restricted assets:

	1998		1997	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Debt service - bond principal	\$ 23,774	23,775	19,369	19,370
Debt service - bond fixed rate interest	31,866	31,867	33,331	33,331
Debt service - bond retirement	1	1	1	1
Debt service reserve	86,539	85,047	87,649	86,428
Reserve and contingency	8,792	8,504	8,939	8,645
Decommissioning	27,811	26,803	23,683	23,017
Special reserve	15,060	15,030	15,136	15,000
	<u>\$ 193,843</u>	<u>190,997</u>	<u>188,108</u>	<u>185,790</u>
Funds are comprised of:				
Marketable debt securities	192,929	190,083	186,914	184,596
Accrued interest receivable	1,333	1,333	1,314	1,314
Due to revenue fund	(419)	(419)	(120)	(120)
	<u>\$ 193,843</u>	<u>190,997</u>	<u>188,108</u>	<u>185,790</u>

### (7) Revenue Fund Assets and Liabilities

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

	1998		1997	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Working capital	\$ 57,482	56,552	51,698	51,007
Fuel acquisition	29,257	29,257	29,517	29,517
Rate stabilization	213,031	206,818	229,894	223,029
	<u>\$ 299,770</u>	<u>292,627</u>	<u>311,109</u>	<u>303,553</u>

Liabilities of \$8,249 and \$6,230 at December 31, 1998 and 1997, respectively, will be paid out of working capital assets.

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

As described in note 2, rates charged to Participants are structured to systematically provide for debt requirements and operating costs of the Agency. The expenses and revenues excluded from rates are deferred to such periods as they are intended to be included in rate.

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

	1998	1997	Change (Cumulative Totals)
Items to be recovered in future Participant billings:			
Interest expense	\$ 325,042	323,109	1,933
Depreciation expense	230,383	212,903	17,480
Amortization of redemption and defeasance losses	104,293	92,800	11,493
Amortization of bond discounts and debt issuance costs	51,633	47,777	3,856
Nuclear fuel expenses	873	873	—
Letter of credit fees	5,649	5,649	—
Other	2,392	2,392	—
	<u>720,265</u>	<u>685,503</u>	<u>34,762</u>
Items reducing future Participants' billings:			
Investment income	\$ (76,528)	(76,528)	—
Increase in fair value of investments	(9,989)	(9,874)	(115)
Rate stabilization (revenue received to reduce future billings to Participants)	(477,224)	(460,912)	(16,312)
Reserve and contingency deposits	(34,293)	(33,074)	(1,219)
	<u>(598,034)</u>	<u>(580,388)</u>	<u>(17,646)</u>
Deferred revenues (expenses) recognized:			
Deferred interest, depreciation, amortization expense included in Participant billings for debt principal payments	(72,449)	(48,674)	(23,775)
Rate stabilization draws applied to expenses	270,406	237,883	32,523
Reserve and contingency revenue applied to expenses	2,822	1,878	944
	<u>190,779</u>	<u>181,087</u>	<u>9,692</u>
Net deferred expenses to be recovered from future revenues	\$ <u>323,010</u>	<u>296,202</u>	<u>26,808</u>

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

- Interest expense on the Agency's bonds and variable rate demand obligation along with associated letter-of-credit, banking and re-marketing fees (except interest and fees related to Capital Appreciation Bonds) paid from bond proceeds during a defined "Construction Period," (net of income earned on the temporary investment of those bond proceeds);
- Interest expense on Capital Appreciation Bonds accrued but not paid until maturity;
- Amortization of debt issuance expenses, bond discounts, defeasance losses, redemption losses, and organization costs paid from or included in bond proceeds;
- Depreciation on utility plant constructed with bond proceeds and amortization of nuclear fuel acquired with bond proceeds; and
- Certain other project costs paid from bond proceeds.

# Notes

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

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

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

### (9) Long-term Debt

Long-term debt at December 31, 1998 and 1997 consists of the following:

	1998	1997
1986 Refunding Series Electric Revenue Bonds, payable in 2025 with interest at 5%	\$ 33,620	33,620
1986A Refunding Series Electric Revenue Bonds, payable in 2023 and 2024 with interest at 5.75%	103,815	103,815
1988 Refunding Series Electric Revenue Bonds, payable annually in 1998 and from 2010 to 2013 with interest ranging from 6.70% to 7.75%	7,745	10,435
1988A Refunding Series Electric Revenue Bonds, payable annually from 2004 to 2015 with interest ranging from 7.3% to 7.65%	4,284	4,284
1991 Refunding Series Electric Revenue Bonds, payable annually from 2005 to 2023 with interest ranging from 4% to 6.85%	213,550	213,550
1991A Refunding Series Electric Revenue Bonds, payable annually from 1998 to 2007 and from 2013 to 2018 with interest ranging from 5% to 6.5%	161,855	169,225
1992 Refunding Series Electric Revenue Bonds, payable annually from 2010 to 2025 with interest ranging from 6.30% to 6.375%	19,940	164,030
1993 Refunding Series Electric Revenue Bonds, payable annually from 2000 to 2025 with interest ranging from 4.9% to 5.6%	80,150	80,150
1996A Refunding Series Electric Revenue Bonds, payable annually from 2013 to 2021 with interest ranging from 6.55% to 6.6%	163,565	163,565
1996B Refunding Series Electric Revenue Bonds, payable annually from 1998 to 2013 with interest ranging from 4.8% to 6.0%	153,115	162,425
1996C Refunding Series Electric Revenue Bonds, payable annually in 2021 to 2022 with variable interest rates (3.85% at December 31, 1998)	50,000	50,000
1996D Refunding Series Electric Revenue Bonds, payable annually from 2022 to 2025 with variable interest rates (3.95% at December 31, 1998)	50,000	50,000
1997A Refunding Series Electric Revenue Bonds, payable annually from 1999 to 2000 and in 2024 with variable interest rates (4.1% at December 31, 1998)	32,300	32,300
1997B Refunding Series Electric Revenue Bonds, payable annually from 1999 to 2003 and 2016 to 2019 with variable interest rates (3.85% at December 31, 1998)	70,700	70,700

	1998	1997
1997C Refunding Series Electric Revenue Bonds, payable annually from 1999 to 2003 and 2016 to 2019 with variable interest rates (4.1% at December 31, 1998)	38,300	38,300
1998A Refunding Series Electric Revenue Bonds, payable annually from 2006 to 2025 with interest ranging from 4.4% to 5.5%	161,380	—
Total long-term debt	1,344,319	1,346,369
Less unamortized discount	(53,393)	(52,420)
Plus unamortized premium	1,663	1,060
	<u>\$1,292,589</u>	<u>1,295,039</u>

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

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

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

The following is a summary of total debt service deposit requirements for bonds outstanding at December 31, 1998:

Year	Principal	Interest	Total
1999	\$ 21,200	71,963	93,163
2000	16,025	70,873	86,898
2001	19,370	70,065	89,435
2002	20,470	68,993	89,463
2003	20,880	68,893	89,773
2004	23,015	67,689	90,704
2005	24,728	66,402	91,130
2006	31,772	64,943	96,715
2007	33,993	63,063	97,056
2008	43,056	61,228	104,284
2009	37,390	66,730	104,120
2010	37,310	66,721	104,031
2011	39,049	64,861	103,910
2012	38,759	62,937	101,696
2013	52,367	50,598	102,965
2014	56,660	47,382	104,042
2015	60,385	42,504	102,889
2016	64,270	39,122	103,392
2017	67,360	35,879	103,239
2018	68,995	32,492	101,487
2019	80,220	28,708	108,928
2020	85,450	23,616	109,066
2021	90,480	18,889	109,369
2022	92,975	14,619	107,594
2023	100,590	9,902	110,492
2024	93,775	4,681	98,456
	<u>\$ 1,320,544</u>	<u>1,283,743</u>	<u>2,604,287</u>

The debt service deposit requirements for principal differ from total long-term debt outstanding at December 31, 1998, because the principal payment of \$23,775 which is due January 1, 1999, was deposited during 1998. All principal payments are due on January 1 of the year subsequent to the deposit requirement.

# Notes

## to Financial Statements

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### (10) In-Substance Debt Defeasance

On January 1, 1998, the Agency issued \$161,380 of the 1998A Refunding Series Bonds carrying interest rates from 4.4% to 5.5%. The 1998A proceeds were used to refund a portion of the 1992A Refunding Series Bonds. These proceeds were used to purchase U.S. Government Securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The refunding resulted in a net defeasance loss of \$13,601, which is the difference between the acquisition price of the new bonds and the net carrying amount of the refunded bonds.

In prior years, the Agency defeased in-substance certain Electric Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On December 31, 1998, \$330,455 of the bonds are considered defeased in-substance.

### (11) Reserve for Decommissioning

The Agency is in compliance with Nuclear Regulatory Commission requirements for funding future decommissioning costs. Since 1985, the Agency has been making regular deposits to segregated decommissioning accounts. Deposits pertaining to contaminated portions of the Project are held by a Trustee. The Agency has custody of funds set aside to decommission non-contaminated portions of the Project. The Agency's share of decommissioning costs, based on decommissioning studies completed in 1994, is estimated to be \$81,700, which includes an estimate for inflation from 1994 to 1998. This estimate presumes the Catawba Nuclear Station will be decommissioned as soon as possible following the expiration of its operating licenses in 2024 and 2025.

### (12) Employee Benefit Plans

The Agency maintains a defined contribution money purchase plan in compliance with Section 401(a) of the Internal Revenue Code. On behalf of all full-time employees, the Agency contributes 10% of base salary into the money purchase plan. Agency contributions totaled \$94 and \$80 in 1998 and 1997, respectively. Employee contributions may also be made to the Plan, providing combined employer and employee annual contributions do not exceed 25% of taxable income, or \$30, whichever is less.

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

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

### (13) Disclosures Regarding Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107 (SFAS No. 107),

*Disclosure About Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, prepayments, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may or may not be realized in an immediate sale of the instrument.

Under SFAS No. 107, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of the assets and liabilities that are not financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Agency.

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

#### (a) Cash

Carrying value equals estimated fair value.

#### (b) Marketable Debt Securities

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

#### (c) Participant Accounts Receivable, and Other Accounts Receivable

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

#### (d) Long-term Debt

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

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

The estimated fair values of the Agency's long-term debt with carrying values different from their estimated fair values at December 31, 1998 and 1997 are as follows:

	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:				
1986 Electric Revenue Refunding Bonds \$	26,633	33,101	26,331	31,956
1986A Electric Revenue Refunding Bonds	94,007	106,919	93,485	106,862
1988 Electric Revenue Refunding Bonds	—	—	2,782	2,782
1988 Electric Revenue Refunding Bonds	17,569	35,820	16,283	23,814
1988A Electric Revenue Refunding Bonds	9,056	17,114	8,410	11,268
1991 Electric Revenue Refunding Bonds	202,993	235,386	202,191	234,904
1991A Electric Revenue Refunding Bonds	161,608	181,052	168,811	188,582
1992 Electric Revenue Refunding Bonds	20,397	22,370	166,102	184,453
1993 Electric Revenue Refunding Bonds	80,762	87,571	80,688	86,602
1996A Electric Revenue Refunding Bonds	168,311	170,289	168,276	170,201
1996B Electric Revenue Refunding Bonds	155,803	166,292	165,390	173,523
1996C/D Electric Revenue Refunding Bonds	100,283	100,283	100,326	100,326
1997A Electric Revenue Refunding Bonds	32,391	32,391	32,604	32,604
1997B/C Electric Revenue Refunding Bonds	109,309	109,309	109,355	109,355
1998A Electric Revenue Refunding Bonds	159,931	162,091	—	—
	<u>\$ 1,339,053</u>	<u>1,459,988</u>	<u>1,341,034</u>	<u>1,457,232</u>

### (14) Nuclear Insurance

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

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Pursuant to the Price-Anderson Act, Duke is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$9.8 billion.

**Primary Liability Insurance.** The maximum required private primary liability insurance of \$9.6 million has been purchased along with a like amount to cover certain worker tort claims.

**Excess Liability Insurance.** This policy currently provides approximately \$9.6 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling. The \$9.6 billion of coverage is the sum of the current potential cumulative retrospective premium assessments of \$88 million per licensed commercial nuclear reactor. This \$9.6 billion will be increased by \$88 million as each additional commercial nuclear reactor is licensed, or reduced by \$88 million for certain nuclear reactors that are no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs and public liability damages exceed primary insurances, licensees may be assessed up to \$88 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$88 million amount is subject to indexing for inflation and may be subject to state premium taxes.

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

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

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

**Business Interruption Insurance.** This policy provides business interruption and/or extra expense coverage resulting from an accidental outage of a nuclear unit. Each unit of the McGuire and Catawba Nuclear Stations is insured for up to approximately \$4 million per week and the Oconee Nuclear Station units are insured for up to approximately \$3 million per week. Coverage amounts per unit decline if more than one unit is involved in an accidental outage. Initial coverage begins after a 17-week deductible period and continues at 100 percent for 52 weeks and 80 percent for the next 104 weeks.

If NEIL's losses ever exceed its reserves for any of the above three programs, Duke will be liable for assessments of up to five times its annual premiums. The current potential maximum assessments are as follows: Primary Property Insurance - \$30 million; Excess Property Insurance - \$25 million; Business Interruption Insurance - \$20 million.

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

### (15) Contingencies

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

### (16) Forward Delivery Agreement

In order to mitigate its exposure to fluctuations in interest rates, the Agency has entered into a Forward Delivery Agreement which requires certain actions and obligations on the part of the Agency and incurs certain off balance sheet risks through December 25, 1999.

This Agreement involves an element of interest rate risk in excess of amounts recognized in the financial statements. This risk arises from the possible unfavorable changes in market interest rates.

In exchange for the Agency receiving a fixed monthly fee of \$98, the Agency has given up interest income which will be earned on scheduled monthly deposits into certain debt service principal and interest accounts through December 31, 1999. This Agreement allows the Agency to earn a yield of 6.58% on short-term funds. Because of the decrease in short-term interest rates, if the Agency had terminated the Agreement at December 31, 1998, it would have received an additional payment of \$508. However, the Agency has the intent to continue with this Agreement through its contractual maturity.

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

### (17) Subsequent Event

In February 1999, the Agency issued \$97,510 in Electric Revenue Bonds, 1999A Refunding Series, with interest at 5.25%. The proceeds will be used to current refund \$94,425 Electric Revenue Bonds, 1996A Refunding Series, bearing interest rates ranging from 6.55% to 6.60%. The refunding resulted in a net defeasance loss of \$5,611.

### (18) Year 2000

The Agency began considering the impact of its Year 2000 issues in 1996. Management established a project team which reports Year 2000 progress to the Board of Directors on a regular basis. The Agency conducted an impact analysis of internal operations including hardware, application and system software, network and telecommunications, and facilities to identify and assess their date sensitivity. An inventory of all computer systems was completed and a plan was developed to address all non-compliant systems. The Agency also conducted an impact analysis of external operations including vendors and service providers.

A portion of the computer software and hardware embedded technology used by the Agency was not designed to recognize calendar years after 1999 — the so-called "Year 2000 Problem." The Agency has identified the Accounting/Financial Reporting System and the Load Control/Demand Side Management System (SCADA) as its mission-critical systems. The replacement of the Accounting/Financial Reporting System is currently in progress, and the Agency expects to complete the conversion by October 1999. The SCADA system is in the assessment stage and conversion to a Year 2000 compliant system is expected by December 1999.

The Agency is significantly dependent upon the Year 2000 readiness of Duke Power and the Participants. The failure of the Agency or others with whom the Agency conducts business to become Year 2000 compliant on a timely basis could result in disruptions in electric service in the service areas of the Agency and its participants and could result in a significant loss of revenues to the Agency. Therefore, the Agency is actively involved in Duke Power's Year 2000 efforts and shares information on a regular basis with the Participants. In addition, the Agency has assessed the Year 2000 compliance of external vendors. The majority of the vendors have indicated that they will be Year 2000 compliant by the end of 1999.

As of December 31, 1998, the Agency has budgeted more than \$250 to replace current systems including the accounting and load side demand monitoring systems for 1999. These costs include replacement systems that, in addition to being Year 2000 compliant, provide significantly enhanced capabilities which will benefit operations in future periods.

The Agency believes that, based on available information, it will be able to manage its Year 2000 transition for systems and infrastructure, without any material adverse effect on its business operations or financial prospects. However, there can be no assurance that failure to resolve any issue relating to such transition would not have a material adverse effect on the Agency.

# Schedule 1

## Schedule of Revenue and Expenses

### Per the Bond Resolution and Other Agreements

Year ended December 31, 1998 (Dollars in thousands)

	Actual Revenues and Expenses	Budgeted Revenues and Expenses	Actual Over (Under) Budget
Revenue:			
Sales of electricity to Participants	\$ 105,731	104,656	1,075
Sales of electricity to Duke	30,174	29,443	731
Sales of electricity to others	2,795	1,543	1,252
Interest income	31,799	30,410	1,389
Other	1,239	1,228	11
Total revenue	<u>\$ 171,738</u>	<u>167,280</u>	<u>4,458</u>
Expenses:			
Catawba operating expenses:			
Operation and maintenance	\$ 22,444	21,895	549
Nuclear fuel	6,795	7,264	(469)
Purchased power - Duke	7,765	7,265	500
Payments in lieu of taxes	4,645	4,692	(47)
Interconnection services:			
Purchased power:			
Duke	12,603	10,358	2,245
Participants	8,200	8,243	(43)
Other	79	48	31
Transmission services	4,131	3,564	567
Distribution services	1,617	1,753	(136)
Administrative and general:			
Agency	3,016	4,114	(1,098)
Duke	7,120	8,823	(1,703)
Other	5,976	4,324	1,652
Special funds deposits (withdrawals):			
Bond fund:			
Deposits from revenues	94,043	97,488	(3,445)
Liquidity facility fees	700	708	(8)
Refundings	(1,381)	—	(1,381)
Reserve and Contingency fund:			
Deposits from revenue	9,404	9,749	(345)
Capital additions	(1,219)	(1,174)	(45)
Transfer excess funds	(8,186)	(8,575)	389
Refundings	(138)	—	(138)
Decommissioning fund:			
Deposits from revenue	2,048	2,048	—
Interest income (1)	1,738	1,686	52
Revenue fund:			
Working capital	3,526	(1,255)	4,781
Fuel	(7,055)	(6,416)	(639)
Rate stabilization:			
Interest income (1)	16,312	15,485	827
Net deposits (draws)	(32,523)	(32,523)	—
Supplemental power reserve:			
Interest income (1)	998	1,007	(9)
Transfer excess funds	(998)	(1,007)	9
Other capital transactions:			
Plant additions:			
Reserve and contingency fund	1,219	1,174	45
General plant	105	51	54
Transmission plant	128	75	53
Fuel acquisitions	7,055	6,416	639
Bondings:			
Bond proceeds	(155,779)	—	(155,779)
Bond payments	144,090	—	144,090
Debt issuance	12,881	—	12,881
Refunded series interest	379	—	379
Total expenses	<u>\$ 171,738</u>	<u>167,280</u>	<u>4,458</u>

(1) Included in "Revenue: Interest Income."

# Schedule 2

## Schedule of Revenue and Expenses

### Per the Bond Resolution and Other Agreements

Year ended December 31, 1998 (Dollars in thousands)

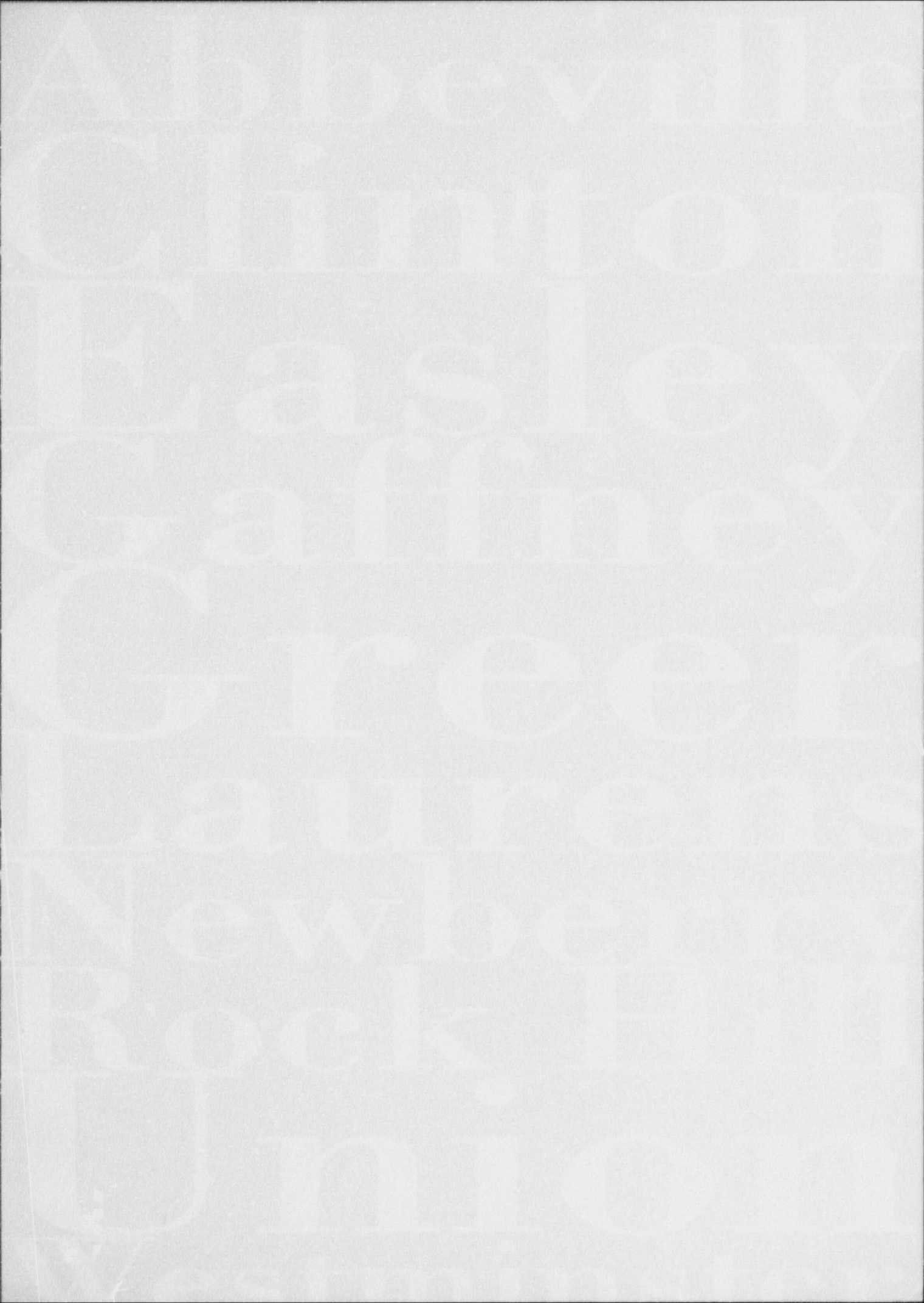
	Funds						
	Revenue	Operating	Bond	Reserve and	Decommission	Supplemental	
	Working Capital	Rate Stabilization	Fuel Account	Principal Interest Retire	Reserve	Contingency	Power
Balances at beginning of year:							
Assets	\$ 51,007	223,029	29,517	52,702	86,428	8,643	15,000
Liabilities	(6,230)						
Net	<u>44,777</u>						
Project revenues:							
Participants—Electric	105,731						
—Facilities rent	(1)						
—Control services	1,187						
—Other	21						
Duke Power—Electric	31						
Other—Surplus Electric	30,175						
Interest income	2,795						
Project costs (see note):	12,751	16,312					998
Operations and maintenance	(2)						
Fuel	(22,444)		6,795				
Purchased power—Duke	(6,795)						
Decommissioning	(7,765)						
General and administration	(2,048)						2,048
Payments in lieu of taxes	(9,216)						
Other	(4,634)						
Debt service	(5,976)						
Liquidity facility fee	(94,043)			94,043			
Reserve and contingency	(700)			700			
Supplemental power costs:	(9,404)					9,404	
Purchased Power—Duke	(12,603)						
—Participants	(8,200)						
—Other	(79)						
Transmission services	(2)						
Distribution services	(4,131)						
General and administration	(1,617)						
Payment in lieu of taxes	(920)						
	(11)						
Other fund changes:							
Transfers in (out):							
Rate stabilization	32,523	(32,523)				(8,186)	(998)
Excess funds	9,184					(1,219)	
Reimbursement	1,219						
Payments:							
Debt retire/interest	(1,453)		(7,055)	(92,108)			
Capital additions	(2)						
Debt refunding:							
New issue proceeds	155,779			306	(1,381)	(138)	
Excess funds	1,519						
Old issue retirement	(144,090)						
Cost to issue	(12,881)						
Refunded Series interest	(379)						
Balances at December 31, 1998	\$ 48,303	206,818	29,257	55,643	85,047	8,504	15,000
Assets	\$ 56,552						
Liabilities	<u>\$ (8,249)</u>						
	<u>\$ 48,303</u>						

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

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

Note 2: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 1998.







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