# PIEDMONT MUNICIPAL POWER AGENCY

Financial Statements and Schedules

December 31, 2017 and 2016

(With Report of Independent Auditor Thereon)

Cherry Bekaert LLP
CPAs & Advisors

# PIEDMONT MUNICIPAL POWER AGENCY

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Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor

To the Board of Directors of
Piedmont Municipal Power Agency
Greer, South Carolina

## Report on the Financial Statements

We have audited the accompanying financial statements of Piedmont Municipal Power Agency (the "Agency") (a South Carolina corporation), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Management's Discussion and Analysis*
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cherry Bekaert LLP

Greenville, South Carolina
March 9, 2018

# PIEDMONT MUNICIPAL POWER AGENCY

Management's Discussion and Analysis

December 31, 2017 and 2016

**Overview of the Financial Statements**

This section of Piedmont Municipal Power Agency's ("PMPA") annual financial statements presents our analysis of PMPA's financial performance during the fiscal years ended December 31, 2017 and 2016. Please read this discussion and analysis in conjunction with the financial statements that follow this section.

**Financial Highlights**

PMPA's total assets as of December 31, 2017 decreased by $7.6 million over the prior year. This decrease is due to decreases in other noncurrent assets, a result of decreases in net costs recoverable from future Participant billings. This is offset by increases in current unrestricted assets, primarily due to an increase in marketable debt securities purchased during 2017. Deferred outflows, which include costs on advanced refundings and redemption losses, decreased by $8.8 million at December 31, 2017 when compared to the prior year.

PMPA's total assets as of December 31, 2016 decreased by $12.4 million over the prior year. This decrease is due to decreases in other noncurrent assets, a result of decreases in net costs recoverable from future Participant billings. This is offset by increases in current unrestricted assets, primarily due to an increase in marketable debt securities purchased during 2016. Deferred outflows, which include costs on advanced refundings and redemption losses, decreased by $10.4 million at December 31, 2016 when compared to the prior year.

Total liabilities at December 31, 2017 decreased by $44.7 million when compared to December 31, 2016. Bond-related liabilities decreased $59.7 million; of this amount, $1.5 million represented a decrease in current debt service requirements. Reserves for decommissioning increased by $4.7 million due to annual accretion, and accrued interest payable increased by $10.1 million.

The change in deferred inflows was due to a $2.7 million increase in the Fair Value ("FV") liability of derivative instruments at December 31, 2017.

Total liabilities at December 31, 2016 decreased by $44.1 million when compared to December 31, 2015. Bond-related liabilities decreased $56.3 million; of this amount, $1.3 million represented an increase in current debt service requirements. Reserves for decommissioning increased by $4.4 million due to annual accretion, and accrued interest payable increased by $8.4 million.

The change in deferred inflows was due to a $0.6 million decrease in the FV liability of derivative instruments at December 31, 2016.

**Overview of the Financial Activities**

The following is an overview of the financial activities of PMPA for the years ended December 31, 2017 and 2016.

PMPA's financial statements, which include the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows, are presented to display information about the reporting entity as a whole in accordance with GASB Statement No. 34, as amended. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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## PIEDMONT MUNICIPAL POWER AGENCY

Management's Discussion and Analysis

December 31, 2017 and 2016

### Financial Information

The following summarizes the activities of PMPA for the years ended December 31, 2017, 2016, and 2015:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| | | (In thousands) | |
| Revenues: | | | |
| Sales of electricity to Participants | $ 232,803 | $ 236,690 | $ 229,510 |
| Sales of electricity to other utilities and other operating revenues | 23,288 | 23,174 | 21,096 |
| Total operating revenues | 256,091 | 259,864 | 250,606 |
| Interest income | 3,319 | 2,346 | 1,700 |
| Net increase/(decrease) in fair value of investments and derivative instruments | (3,673) | 225 | (4,125) |
| Total Revenues | 255,737 | 262,435 | 248,181 |
| Expenses: | | | |
| Operation, maintenance, and nuclear fuel amortization | 46,167 | 51,193 | 50,274 |
| Purchased power, transmission, and power delivery | 58,974 | 61,582 | 60,738 |
| Administrative, general, and payment in lieu of property taxes | 25,209 | 24,603 | 24,598 |
| Depreciation | 8,232 | 11,840 | 9,434 |
| Interest and amortization expense | 55,324 | 56,345 | 58,811 |
| Other | 11,728 | 9,656 | 9,731 |
| Total Expenses | 205,634 | 215,219 | 213,586 |
| Revenues over expenses before deferred items | 50,103 | 47,216 | 34,595 |
| Change in net expenses recoverable from future Participant billings | (24,510) | (25,300) | (29,870) |
| Change in net position | 25,593 | 21,916 | 4,725 |
| Net position – beginning | 80,854 | 58,938 | 54,213 |
| Net position – ending | $ 106,447 | $ 80,854 | $ 58,938 |

**Results of Operations**

**Revenues**

- Sales of electricity to Participants, PMPA's primary source of revenue, decreased in 2017 by 1.6% or approximately $3.9 million. A 3.9% decrease in energy sales is the primary component of the revenue decrease. PMPA's primary source of revenue increased in 2016 by 3.1% or approximately $7.2 million. A 4.0% rate increase implemented on May 1, 2015 is the primary component of the revenue increase.

- Surplus energy sales to other utilities increased 0.5% in 2017 due to an increase in surplus energy available for sale. The majority of PMPA's surplus energy was contractually sold to Santee Cooper as part of a supplemental purchased power agreement. During 2015, PMPA cancelled the contract regarding selling surplus energy to The Energy Authority and entered into a contract with Duke Energy.

**Expenses**

- Purchased power (including transmission and power delivery) expenses decreased by 4.2% (or approximately $2.6 million) in 2017 due to a decrease in both the quantity and price of energy purchased compared to 2016. PMPA's purchased power expense increased 1.4% (or approximately $0.8 million) in 2016.

- Fuel amortization expense increased by $1.9 million in 2017 due to an increase in production at Catawba. Fuel amortization expense increased by $1.4 million in 2016 due to an increase in production at Catawba.

- PMPA entered into a floating-to-fixed rate, step-coupon swap ("swap") as part of the 2004 debt restructuring that helped to produce level debt service without issuing more capital appreciation debt and increased the benefits of the restructuring through January 1, 2025. Under this swap, PMPA will pay a below-market rate of interest for the first twenty years and an above-market rate for the last ten years resulting in approximate market rates over the entire term of the swap. This swap was designed to minimize the amount of capital appreciation bonds PMPA needed to issue as part of the 2004 restructuring. By paying an artificially low rate for the first twenty years, should the swap terminate during this period, it is likely that PMPA would owe a payment to the swap counterparty. In 2017, a $2.7 million increase in FV of the step-coupon swap liability was added to a $0.9 million increase in the FV of PMPA's other investments. In 2016, a $0.6 million decrease in FV of the swap liability was added to a $0.4 million increase in the FV of PMPA's other investments.



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Assets, liabilities, and net position are summarized as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| | | (In thousands) | |
| Assets: | | | |
| Capital assets | $ 359,146 | $ 359,847 | $ 362,389 |
| Current unrestricted assets | 163,369 | 133,859 | 111,915 |
| Current restricted assets | 240,824 | 252,726 | 259,153 |
| Other noncurrent assets | 493,312 | 517,851 | 543,181 |
| Total Assets | $ 1,256,651 | $ 1,264,283 | $ 1,276,638 |
| Deferred outflows: | $ 52,935 | $ 61,685 | $ 72,102 |
| Liabilities: | | | |
| Long-term liabilities | $ 959,973 | $ 1,013,399 | $ 1,066,588 |
| Current liabilities | 193,631 | 184,915 | 175,795 |
| Total Liabilities | $ 1,153,604 | $ 1,198,314 | $ 1,242,383 |
| Deferred inflows: | $ 49,535 | $ 46,800 | $ 47,419 |
| Net position: | | | |
| Net investment in capital assets | $ (520,203) | $ (572,071) | $ (618,256) |
| Other restricted assets | 29,676 | 37,736 | 46,570 |
| Unrestricted | 596,974 | 615,189 | 630,624 |
| Total Net Position | $ 106,447 | $ 80,854 | $ 58,938 |

Changes in PMPA's current unrestricted assets during 2017 are a reflection of the $24.2 million increase to PMPA's working capital, when PMPA budgeted to increase working capital by $11.0 million. Also, there was a decrease to Participant accounts receivable and an increase in materials and supplies. The increase in current liabilities includes a decrease in bond principal payable on January 1, 2017 and an increase in bond interest payable on January 1, 2017.

Changes in PMPA's current unrestricted assets during 2016 are a reflection of the $18.8 million increase to PMPA's working capital, when PMPA budgeted to increase working capital by $8.5 million. Also, there was an increase to Participant accounts receivable and materials and supplies. The increase in current liabilities includes an increase in bond principal payable on January 1, 2018 and an increase in bond interest payable on January 1, 2018.

Restricted assets decreased in 2017 as a result of funds being withdrawn from construction accounts for capital additions at Catawba.

Restricted assets decreased in 2016 as a result of funds being withdrawn from construction accounts for capital additions at Catawba.

The 2017 decrease in noncurrent assets was due, primarily, to a decrease in net costs recoverable from future Participant billings resulting from an increase in interest and depreciation expenses included in



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Participant billings for debt principal payments and amortization of costs on advanced refundings of PMPA debt.

The 2016 decrease in noncurrent assets was due, primarily, to a decrease in net costs recoverable from future Participant billings resulting from an increase in interest and depreciation expenses included in Participant billings for debt principal payments and amortization of costs on advanced refundings of PMPA debt.

As bonds matured on January 1, 2017, long-term repayment obligations that were funded in the prior year were retired, resulting in a decrease in debt outstanding of $59.7 million. As bonds matured on January 1, 2016, long-term repayment obligations that were funded in the prior year were retired, resulting in a decrease in debt outstanding of $56.3 million.

## Capital Assets

PMPA's capital assets include structures and improvements, reactor plant equipment, turbo generator units, other equipment, and nuclear fuel. Such amounts are detailed as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| | | (In thousands) | |
| Structures and improvements | $ 163,579 | $ 162,301 | $ 158,068 |
| Reactor plant equipment | 277,930 | 273,468 | 265,555 |
| Turbo generator units | 73,277 | 71,307 | 69,704 |
| Other equipment | 94,194 | 84,162 | 81,284 |
| Nuclear fuel | 76,268 | 73,047 | 70,363 |
| Other | 48,246 | 58,339 | 63,526 |
| Construction work-in-progress | 9,876 | 8,162 | 16,838 |
| Total | 743,370 | 730,786 | 725,338 |
| Less accumulated depreciation | (384,224) | (370,939) | (362,949) |
| Total, net | $ 359,146 | $ 359,847 | $ 362,389 |


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PMPA's investment in capital assets at December 31, 2017 totaled $359.1 million (net of accumulated depreciation), a $0.7 million decrease from 2016. Major capital transactions during 2017 included the following:

- Decrease in Catawba plant and decommissioning obligation of $10.6 million offset by $0.5 million in retirements and related accumulated depreciation.
- Net increase in nuclear fuel of $3.2 million ($12.5 million was added to fuel, and $9.3 million of fully amortized fuel was written off).
- Depreciation and amortization expense of $25.3 million.
- Increase in construction work-in-progress of $1.7 million representing capital additions at Catawba ($12.1 million of additions offset by $10.4 million that was moved to plant accounts and written off).

PMPA's investment in capital assets at December 31, 2016 totaled $359.8 million (net of accumulated depreciation), a $2.5 million decrease from 2015. Major capital transactions during 2016 included the following:

- Decrease in Catawba plant and decommissioning obligation of $5.4 million offset by $0.5 million in retirements and related accumulated depreciation.
- Net increase in nuclear fuel of $2.7 million ($12.4 million was added to fuel, and $9.7 million of fully amortized fuel was written off).
- Depreciation and amortization expense of $27.0 million.
- Decrease in construction work-in-progress of $8.7 million representing capital additions at Catawba ($11.3 million of additions offset by $20.0 million that was moved to plant accounts and written off).

**Debt Management**

PMPA's total debt decreased $62.7 and $53.4 million in 2017 and 2016, respectively.

On September 1, 2016, PMPA's bond rating by Moody's Investors Service was upgraded to A3 with a stable outlook. Standard and Poor's Corporation remained unchanged at A- with a stable outlook. Fitch Ratings remained unchanged at A- with a stable outlook.


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## Economic Factors and Next Year's Rates

Because the retail customers of PMPA Participants are mostly residential and small commercial accounts, PMPA is much less affected by economic downturns than a utility with larger commercial and industrial retail customers. The 2018 budget does not include an increase in PMPA's wholesale rates to the Participants.

## Request for Information

This financial report is provided as an overview of PMPA's finances. Questions concerning any of the information in this report or requests for additional information should be directed to the Office of the Finance Director, Piedmont Municipal Power Agency, 121 Village Drive, Greer, South Carolina 29651.

# PIEDMONT MUNICIPAL POWER AGENCY

Statements of Net Position

December 31, 2017 and 2016

(Dollars in thousands)

| **Assets** | **2017** | **2016** |
|---|---|---|
| Capital Assets (Note 5): | | |
| Utility plant assets being depreciated | $ 732,958 | $ 722,097 |
| Accumulated depreciation and amortization | (384,224) | (370,939) |
| Total utility plant assets being depreciated, net | 348,734 | 351,158 |
| Utility plant assets not being depreciated | 10,412 | 8,689 |
| Total Capital Assets, net | 359,146 | 359,847 |
| | | |
| Current Assets (Note 8) | | |
| Cash | 415 | 95 |
| Marketable debt securities | 124,846 | 96,201 |
| Accrued interest receivable | 3 | 3 |
| Participant accounts receivable | 18,316 | 18,372 |
| Other accounts receivable | 429 | 436 |
| Materials and supplies | 19,360 | 18,752 |
| Total Current Unrestricted Assets | 163,369 | 133,859 |
| | | |
| Restricted Assets (Note 7) | | |
| Restricted for debt service | 137,833 | 145,750 |
| Restricted for decommissioning | 73,315 | 69,240 |
| Restricted for other | 29,676 | 37,736 |
| Total Current Restricted Assets | 240,824 | 252,726 |
| | | |
| Total Current Assets | 404,193 | 386,585 |
| | | |
| Noncurrent assets: | | |
| Net costs recoverable from future Participant billings (Note 9) | 493,111 | 517,621 |
| Other | 201 | 230 |
| Total Other Assets | 493,312 | 517,851 |
| | | |
| Total Assets | $ 1,256,651 | $ 1,264,283 |
| | | |
| Deferred Outflows: | | |
| Redemption loss | $ 16,294 | $ 17,947 |
| Losses on advance refunding of debt, net | 36,641 | 43,738 |
| | | |
| Total Deferred Outflows | $ 52,935 | $ 61,685 |

| Liabilities | 2017 | 2016 |
| --- | --- | --- |
| Long-term liabilities (Notes 10 and 11) | | |
| Bonds payable, net | $ 862,815 | $ 920,956 |
| Reserve for decommissioning (Note 12) | 96,418 | 91,746 |
| Accrued expense OPEB | 740 | 697 |
| Total long-term liabilities | 959,973 | 1,013,399 |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 9,340 | 9,154 |
| Current liabilities payable from restricted assets: | | |
| Accrued interest payable | 131,116 | 121,061 |
| Current installments of bonds payable | 53,175 | 54,700 |
| Total current liabilities payable from restricted assets | 184,291 | 175,761 |
| Total current liabilities | 193,631 | 184,915 |
| Total liabilities | $ 1,153,604 | $ 1,198,314 |
| Deferred Inflows: | | |
| Derivative financial instruments | $ 49,535 | $ 46,800 |
| **Net position** | | |
| Net investment in capital assets | $ (520,203) | $ (572,071) |
| Restricted for other | 29,676 | 37,736 |
| Unrestricted | 596,974 | 615,189 |
| Total net position | $ 106,447 | $ 80,854 |

See accompanying notes to financial statements.

# PIEDMONT MUNICIPAL POWER AGENCY

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2017 and 2016

(Dollars in thousands)

| | 2017 | 2016 |
|---|---|---|
| Operating Revenues: | | |
| Sales of electricity to Participants | $ 232,803 | $ 236,690 |
| Sales of electricity to other utilities | 21,605 | 21,380 |
| Other | 1,683 | 1,794 |
| Total Operating Revenues | 256,091 | 259,864 |
| Operating Expenses: | | |
| Operation and maintenance | 29,092 | 36,040 |
| Nuclear fuel amortization | 17,075 | 15,153 |
| Purchased power | 51,582 | 53,573 |
| Transmission | 6,835 | 7,088 |
| Power delivery | 557 | 921 |
| Administrative and general | 18,075 | 17,938 |
| Depreciation | 8,232 | 11,840 |
| Decommissioning | 4,672 | 4,445 |
| Payments in lieu of property taxes | 7,134 | 6,665 |
| Total Operating Expenses | 143,254 | 153,663 |
| Net operating income | 112,837 | 106,201 |
| Other Income (Expense) | | |
| Interest income | 3,319 | 2,346 |
| Net change in fair market value of investments and derivative instruments | (3,673) | 225 |
| Interest expense | (51,222) | (51,089) |
| Amortization expense | (4,102) | (5,256) |
| Other | (7,056) | (5,211) |
| Total Other Expense | (62,734) | (58,985) |
| Revenues over expenses before change in net expenses recoverable from future Participant billings | 50,103 | 47,216 |
| Net decrease in net expenses recoverable from future Participant billings | (24,510) | (25,300) |
| Revenue over expenses | 25,593 | 21,916 |
| Net position at beginning of year | 80,854 | 58,938 |
| Net position at end of year | $ 106,447 | $ 80,854 |

See accompanying notes to financial statements.

# PIEDMONT MUNICIPAL POWER AGENCY

Statements of Cash Flows

December 31, 2017 and 2016

(Dollars in thousands)

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Receipts from customers | $ 256,154 | $ 258,500 |
| Payments for operations and maintenance | (29,700) | (37,029) |
| Payments for purchased power, transmission and power delivery | (66,108) | (68,247) |
| Payments for administration and general | (17,846) | (18,518) |
| Net cash from operating activities | 142,500 | 134,706 |
| **Cash flows from investing activities:** | | |
| Purchase of investment securities | (550,352) | (611,580) |
| Proceeds from sales and maturities of investments | 532,679 | 598,276 |
| Interest received on investments | 3,220 | 2,169 |
| Interest received on Duke working capital | 99 | 177 |
| Net interest paid on derivative instruments | (1,297) | (1,554) |
| Net cash from investing activities | (15,651) | (12,512) |
| **Cash flows from capital and related financing activities:** | | |
| Payment of bond principal | (116,650) | (53,365) |
| Proceeds from bond issuance | 60,682 | - |
| Interest payment on bonds | (37,826) | (38,944) |
| Debt issuance costs | (931) | - |
| Expenditures for electric plant in service | (12,086) | (11,277) |
| Expenditures for nuclear fuel | (12,549) | (12,338) |
| Payment to Duke for other charges | (6,753) | (5,850) |
| Other | (416) | (338) |
| Net cash from financing activities | (126,529) | (122,112) |
| Net change in cash | 320 | 82 |
| Cash, beginning of year | 95 | 13 |
| Cash, end of year | $ 415 | $ 95 |
| **Non-cash investing and financing activities:** | | |
| Gain on sale of investment | $ 8 | $ 171 |
| Amortization expense on discounts and premiums | $ 3,511 | $ 2,976 |
| Amortization of net redemption loss | $ (8,592) | $ (10,447) |
| Net change in fair value of investments | $ (3,673) | $ 225 |

| | 2017 | 2016 |
|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income | $ 112,837 | $ 106,201 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 8,232 | 11,840 |
| Fuel amortization | 17,075 | 15,153 |
| Accretion of reserve for decommissioning | 4,672 | 4,445 |
| (Increase) decrease in: | | |
| Participant accounts receivable | 56 | (1,048) |
| Other accounts receivable | 7 | (317) |
| Materials and supplies | (608) | (989) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 186 | (621) |
| Accrued expense OPEB | 43 | 42 |
| Net cash from operating activities | $ 142,500 | $ 134,706 |

See accompanying notes to financial statements.

## (1) Description of the Entity, Industry Restructuring Developments, and Related Uncertainties

### *(a) Description of the Entity*

Piedmont Municipal Power Agency ("PMPA") was incorporated in 1979 under the South Carolina Joint Municipal Electric Power and Energy Act (the "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 PMPA'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. PMPA is not a component unit of any other governmental entity.

PMPA has a 25% undivided ownership interest in Unit 2 of the Catawba Nuclear Station ("Catawba"). Pursuant to the Operating and Fuel Agreement between PMPA and Duke Energy Carolinas, LLC ("Duke"), Duke operates both Units 1 and 2 at Catawba. PMPA's power output entitlements (approximately 282 MW) come from both Catawba Units. PMPA pays 12.5% of the costs and receives 12.5% of the power output associated with each of these 1,129 MW units. The operating licenses for Catawba Unit 1 and Unit 2 expire on December 5, 2043.

Additionally, the terms of the McGuire Reliability Exchange Agreement ("MREA") allow transfers of energy between PMPA's entitlements from the Catawba Units and Duke's two nuclear units at the McGuire Nuclear Station ("McGuire"). The result spreads PMPA's entitlements across four similar nuclear units. The operating license for McGuire Unit 1 expires on June 12, 2041 and the operating license for McGuire Unit 2 expires March 3, 2043.

### *(b) Industry Restructuring Developments and Related Uncertainties*

There is no deregulation debate underway in the South Carolina General Assembly. The well-publicized problems with deregulation in other parts of the country have caused the legislators and regulators in South Carolina to continue a regulated retail electricity market.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Accounting*

The financial statements have been prepared in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* GASB Statement No. 38, *Certain Financial Statement Disclosures* and GASB Statement No. 61, *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statement No. 14 and No. 34.* Statement No. 34 requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of PMPA's financial activities.

PMPA's accounting records are maintained on the accrual basis in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and substantially in conformity with the Federal Energy Regulatory Commission's Uniform System of Accounts.

PMPA follows the accounting practices set forth in U.S. GAAP, Accounting for the Effects of Certain Types of Regulation, as amended. This standard allows PMPA to capitalize or defer certain costs or revenues based on PMPA's ongoing assessment that it is probable that such items will be recovered through future revenues based on the rate-making authority of PMPA's board of directors. The criteria require consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized cost.

PMPA's General Bond Resolution requires that its rate structure be designed to produce revenues sufficient to pay operating, debt service, and other specified costs. PMPA's board of directors, 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.

**(2) Summary of Significant Accounting Policies – Continued**

***(b) Losses on Advanced Refundings of Debt and Redemption Losses***

Losses on advanced refundings of debt at December 31, 2017 and 2016 of $52,935 and $61,685, respectively, (net of accumulated amortization of $315,816 and $306,160, respectively) have been deferred in accordance with U.S. GAAP and are being amortized over the term of the debt issued on refunding using the effective interest method. The remaining costs on advanced refundings will be amortized over the next 16 years (2018 through 2033) based on the shorter of the original debt maturity dates or the maturity dates of the new debt.

***(c) Discounts on Bonds Payable***

The discounts on bonds payable at December 31, 2017 and 2016 of $1,213 and $1,375, respectively, (net of accumulated amortization of $2,948 and $15,602, respectively) are being amortized on the bonds outstanding method, which approximates the effective interest method.

***(d) Premiums on Bonds Payable***

The premiums on bonds payable at December 31, 2017 and 2016 of $19,058 and $16,201, respectively, (net of accumulated amortization of $27,116 and $23,188, respectively) are being amortized on a method which approximates the effective interest method.

***(e) Income Taxes***

PMPA is recognized as a public utility for federal income tax purposes. As such, gross income of PMPA is excluded from federal income taxes under Internal Revenue Code Section 115.

***(f) Cash Flows***

For purposes of the statements of cash flows, PMPA considers deposits with banks and held by Duke to be cash.

(Dollars in thousands)

## (2) Summary of Significant Accounting Policies – Continued

### *(g) Marketable Debt Securities*

As authorized by the General Bond Resolution, investment securities at December 31, 2017 and 2016 consist only of direct obligations of the United States government and obligations of United States government agencies. These investments are uninsured and unregistered and are held by PMPA's trustee in PMPA's name.

Marketable debt securities are recorded at fair value based on market prices. Unrealized holding gains and losses on marketable debt securities are included in income. Interest income is recognized when earned.

### *(h) Capital Assets*

Electric plant in service, including unclassified assets, is stated at cost and is depreciated on a straight-line basis at rates calculated to depreciate the composite assets over their respective estimated useful lives. Depreciation begins when assets are placed into service. PMPA's annual provision for depreciation expressed as a percentage of the average balance of depreciable utility plant was 1.6% and 1.7% for 2017 and 2016, respectively.

PMPA's capital assets are currently being depreciated according to the following table:

| | Years | | Years |
|---|---|---|---|
| Structures and improvements | 40 | Station equipment | 40 |
| Reactor plant equipment | 40 | Transmission equipment | 40 |
| Turbo generator units | 40 | Other | 35-40 |
| Accessory electric equipment | 40 | Unclassified | 40 |
| Miscellaneous plant equipment | 40 | Nuclear fuel | 4-5 |

### *(i) Materials and Supplies*

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

### *(j) Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP 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.

**(2) Summary of Significant Accounting Policies – Continued**

***(k) Net Position***

Equity is classified into net positions and is displayed in three components:

- *Net Investment in Capital Assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted* – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provision or enabling legislation.

- *Unrestricted* – all other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

***(l) Revenue Recognition***

PMPA recognizes revenue on sales when the electricity is delivered to the Participants.

***(m) Operating and Non-operating Expenses***

PMPA's funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in addition to producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of PMPA's funds are charges to Participants for sales and services. Operating expenses for PMPA's funds include the costs of sales and services, general and administrative services and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***(n) Derivative Financial Instrument***

The derivative is recognized on the statements of net position at its fair value. PMPA has not designated its derivative as a hedge. Changes in the fair value of the derivative instrument are reported in current-period revenues and expenses and in the changes to the net increase or decrease in net expenses recoverable from future Participant billings.

## (2) Summary of Significant Accounting Policies – Continued

### *(o) Recent Pronouncements*

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about post-employment benefits other than pensions. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *Other Postemployment Benefits ("OPEB") Measurements by Agent Employers and Agent Multiple-Employer Plans.* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures.* The requirements of this Statement are effective for periods beginning after June 15, 2016, although early adoption is permitted. Adoption of this statement had no material effect on PMPA's financial statements.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Among other things, GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The requirements of this Statement are effective for periods beginning after June 15, 2017, although early adoption is permitted. This Statement is not expected to have a material impact on PMPA.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). Among other things, GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for periods beginning after June 15, 2018, although early adoption is permitted. The impact to the Agency upon adoption of this standard is currently being evaluated.

The GASB issued Statement No. 85, *Omnibus 2017.* This Statement addresses practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this Statement are effective for periods beginning after June 15, 2017. This Statement is not expected to have a material impact on PMPA.

## (2) Summary of Significant Accounting Policies – Continued

### *(o) Recent Pronouncements - Continued*

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources; that is, resources other than the proceeds of refunding debt are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished regardless of how the cash and other monetary assets were acquired. This Statement also establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The requirements of this Statement are effective for periods beginning after June 15, 2017, although early adoption is permitted. This Statement is not expected to have a material impact on PMPA.

The GASB issued Statement No. 87, *Leases.* This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. As a result, recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues) or outflows of resources (expenses) based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for periods beginning after December 15, 2019, although early adoption is permitted. The impact to the Agency upon adoption of this standard is currently being evaluated.

## (3) Power Sales Agreements

### *(a) Catawba Project Power Sales Agreements*

PMPA and each Participant are parties to Catawba Project Power Sales Agreements (“Power Sales Agreements”). These Power Sales Agreements obligate PMPA to provide each Participant a share of the undivided 25% interest in Unit 2 of Catawba power output and, in turn, each Participant must pay its share of the Catawba costs. Participants make their payments on a “take-or-pay” basis whether or not Catawba is operable or operating. Such payments are not subject to reduction or offset and are not conditioned upon performance by PMPA or any given Participant. The Power 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.

(Dollars in thousands)

## (3) Power Sales Agreements – Continued

### *(a) Catawba Project Power Sales Agreements – Continued*

The Participants' Shares of PMPA's Catawba Output are as follows:

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

### *(b) Supplemental Power Sales Agreements*

PMPA and each Participant are also parties to Supplemental Power Sales Agreements ("Supplemental Agreements") under which each Participant has agreed to pay, in exchange for All Requirements Bulk Power Supply, its share of All Requirements Bulk Power Supply costs. The Supplemental Agreements terminate December 20, 2034; however, a Participant may terminate its Supplemental Agreement with ten years advance notice.

## (4) Project and Other Agreements

Project Agreements between PMPA and Duke consist of the Purchase, Construction, and Ownership Agreement ("Sales Agreement"), the Operating and Fuel Agreement (the "Operating Agreement"), the Joint Ownership Support Agreement, (the "JOSA"), and the MREA.

### *(a) Sales Agreement*

The Sales Agreement generally provides for (i) the purchase of Catawba by PMPA; (ii) PMPA's contract with Duke to act as engineer contractor for PMPA for completion of construction, initial fueling, and placing Catawba into commercial operation; (iii) PMPA's payment to Duke for construction completed to date of closing on Catawba and for construction thereafter; and (iv) PMPA's payment to Duke of certain profits and fees.

## (4) Project and Other Agreements – Continued

### *(b) Operating Agreement*

The Operating Agreement generally provides that PMPA employs Duke, as operator of Catawba, to be responsible for the (i) operation, maintenance, and fueling of Catawba; (ii) making of renewals, replacements, and capital additions to Catawba; and (iii) ultimate decommissioning of Catawba at the end of its useful life.

### *(c) JOSA*

The JOSA generally provides for certain joint ownership rights and obligations, including the Catawba Reliability Exchange. This agreement became effective January 1, 2006.

### *(d) MREA*

The MREA generally provides for the continued exchange of energy from PMPA's entitlements to the Catawba units for energy from units at Duke's McGuire Nuclear Station. This agreement became effective January 1, 2006, and can be terminated by either party by giving a three-year written notice.

### Other Agreements

### *(a) Requirements Service Agreement*

On December 13, 2010, PMPA entered into a Power Sales Agreement with the South Carolina Public Service Authority ("Santee Cooper"). This agreement became effective on January 1, 2014. The contract requires that PMPA purchase power from Santee Cooper, approximately 200 MW, to meet all of its load demand beyond the amounts served by Catawba, the Participants' share of electricity from SEPA ("Southeastern Power Administration") hydroelectric facilities, and load requirements met by individual generating resources owned by certain Participants.

## (4) Project and Other Agreements – Continued

### Other Agreements - Continued

#### *(b) Transmission Services*

PMPA entered into a service agreement with Duke to begin taking transmission service under Duke's Open Access Transmission Tariff ("OATT") on January 1, 2006.

#### *(c) Power Purchase Agreement*

On December 28, 2010, PMPA entered into a Power Purchase Agreement with Duke. This agreement generally provides for PMPA to purchase capacity and energy from Duke in order to obtain backstand services for PMPA's entitlement to capacity and energy from the Catawba and McGuire Nuclear Stations. This agreement became effective on January 1, 2014.

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**PIEDMONT MUNICIPAL POWER AGENCY**

Notes to Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

## (5) Capital Assets

The following is a summary of capital asset activity for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Beginning Balance | Increase | Decrease | Ending Balance |
| Utility plant being depreciated: | | | | |
| Structures and improvements | $ 162,301 | $ 6,023 | $ (4,745) | $ 163,579 |
| Reactor plant equipment | 273,468 | 7,752 | (3,290) | 277,930 |
| Turbo generator units | 71,307 | 2,301 | (331) | 73,277 |
| Accessory electric equipment | 54,161 | 3,938 | - | 58,099 |
| Miscellaneous plant equipment | 20,501 | 3,858 | (7) | 24,352 |
| Station equipment | 5,408 | 162 | - | 5,570 |
| Transmission equipment | 4,092 | 2,081 | - | 6,173 |
| Other | 2,869 | 552 | (190) | 3,231 |
| Unclassified | 55,124 | 8,208 | (18,853) | 44,479 |
| Nuclear fuel | 73,047 | 12,549 | (9,328) | 76,268 |
| Total utility plant assets being depreciated | 722,278 | 47,424 | (36,744) | 732,958 |
| Less accumulated depreciation and amortization | (370,939) | (25,307) | 12,022 | (384,224) |
| Total utility plant assets being depreciated, net | 351,339 | 22,117 | (24,722) | 348,734 |
| Utility plant assets not being depreciated: | | | | |
| Land | 346 | 190 | - | 536 |
| Construction work-in-progress | 8,162 | 12,086 | (10,372) | 9,876 |
| Total utility plant assets not being depreciated | 8,508 | 12,276 | (10,372) | 10,412 |
| Total capital assets, net | $ 359,847 | $ 34,393 | $ (35,094) | $ 359,146 |

(Dollars in thousands)

## (5) Capital Assets – Continued

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Beginning Balance | Increase | Decrease | Ending Balance |
| Utility plant being depreciated: | | | | |
| Structures and improvements | $ 158,068 | $ 6,648 | $ (2,415) | $ 162,301 |
| Reactor plant equipment | 265,555 | 12,429 | (4,516) | 273,468 |
| Turbo generator units | 69,704 | 2,519 | (916) | 71,307 |
| Accessory electric equipment | 52,592 | 2,465 | (896) | 54,161 |
| Miscellaneous plant equipment | 19,808 | 1,090 | (397) | 20,501 |
| Station equipment | 5,064 | 344 | - | 5,408 |
| Transmission equipment | 3,820 | 272 | - | 4,092 |
| Other | 2,650 | 219 | - | 2,869 |
| Unclassified | 60,530 | 19,746 | (25,152) | 55,124 |
| Nuclear fuel | 70,363 | 12,338 | (9,654) | 73,047 |
| Total utility plant assets being depreciated | 708,154 | 58,070 | (43,946) | 722,278 |
| Less accumulated depreciation and amortization | (362,949) | (26,993) | 19,003 | (370,939) |
| Total utility plant assets being depreciated, net | 345,205 | 31,077 | (24,943) | 351,339 |
| Utility plant assets not being depreciated: | | | | |
| Land | 346 | - | - | 346 |
| Construction work-in-progress | 16,838 | 11,277 | (19,953) | 8,162 |
| Total utility plant assets not being depreciated | 17,184 | 11,277 | (19,953) | 8,508 |
| Total capital assets, net | $ 362,389 | $ 42,354 | $ (44,896) | $ 359,847 |

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

(Dollars in thousands)

## (5) Capital Assets – Continued

Nuclear fuel 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. PMPA regularly removes fully amortized nuclear fuel costs when fuel batches are replaced during core refueling operations. Fully amortized fuel costs of $9,328 and $9,654 were removed during 2017 and 2016, respectively.

A summary of accumulated depreciation and amortization at December 31, 2017 and 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| Accumulated depreciation of electric plant in service | $ 341,328 | $ 335,790 |
| Accumulated amortization of nuclear fuel | 42,896 | 35,149 |
| | $ 384,224 | $ 370,939 |

The depreciation charge for the year on PMPA's generation plant has been determined based on revised estimated useful lives for these assets. The remaining estimated useful lives were revised to recognize a 19-year extension of the operating license for Catawba Unit 1 and a 17-year extension of the operating license for Catawba Unit 2 through 2043 which Duke received during 2003.

## (6) Cash, Cash Equivalents and Investments

At December 31, 2017, the carrying value of deposits included in cash and cash equivalents was $415. Bank deposits were covered by federal depository insurance up to $250, as described in Note 8.

As of December 31, 2017, PMPA had the following investments (all are listed at fair value):

| | Time Segmented Distribution | | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Under 1 Year | 1-2 Years | 2-3 Years | 3-4 Years | >4 Years | Total |
| Cash/Money Market | $ 210,957 | $ - | $ - | $ - | $ - | $ 210,957 |
| Government Agency | 14,445 | 4,474 | - | - | - | 18,919 |
| Government Treasury | 12,636 | 29,748 | 35,797 | 29,912 | 25,923 | 134,016 |
| Mortgage Backed Securities | - | 68 | 118 | 234 | 694 | 1,114 |
| Total fair value | $ 238,038 | $ 34,290 | $ 35,915 | $ 30,146 | $ 26,617 | $ 365,006 |

(Dollars in thousands)

## (6) Cash, Cash Equivalents and Investments – Continued

At December 31, 2016, the carrying value of deposits included in cash and cash equivalents was $95. Bank deposits were covered by federal depository insurance up to $250, as described in Note 8.

As of December 31, 2016, PMPA had the following investments (all are listed at fair value):

| | Time Segmented Distribution | | | | | |
|---|---|---|---|---|---|---|
| **Investment Type** | **Under 1 Year** | **1-2 Years** | **2-3 Years** | **3-4 Years** | **>4 Years** | **Total** |
| Cash/Money Market | $ 197,310 | $ - | $ - | $ - | $ - | $ 197,310 |
| Government Agency | 16,449 | - | - | - | - | 16,449 |
| Government Treasury | 4,405 | 38,633 | 35,320 | 27,255 | 27,592 | 133,205 |
| Mortgage Backed Securities | - | 54 | 395 | 393 | 545 | 1,387 |
| Total fair value | $ 218,164 | $ 38,687 | $ 35,715 | $ 27,648 | $ 28,137 | $ 348,351 |

### Interest Rate Risk

Interest rate risk is the risk that rising interest rates will adversely affect the fair value of PMPA's investments. As outlined in PMPA's investment policy, investment maturities shall be less than 20 years and maturities shall be staggered in a way that avoids undue concentration in a specific maturity sector and provides for stability of income and reasonable liquidity.

### Credit Risk

PMPA's investment policy for managing credit risk is in accordance with the statutes of the State of South Carolina. The policy allows for the investment of money in the following investments:

a) Direct obligations of, or obligations for, which the principal and interest are unconditionally guaranteed by the United States or its Agencies.

b) Direct and general obligations, to the payment of which the full faith and credit of the issuer is pledged, of the State of South Carolina or any political subdivision thereof that at the time of investment are assigned a rating of at least "A".

c) Certificates of deposit issued by any bank, trust company, or national banking association whose principal place of business is in the State of South Carolina or that is a member of the Federal Reserve System and authorized to do business in any state of the United States.

(Dollars in thousands)

## (6) Cash, Cash Equivalents and Investments – Continued

d) Bills of exchange or time drafts drawn on and accepted by a domestic or foreign bank, otherwise known as Bankers' Acceptances, which are eligible for purchase by the Federal Reserve, the short-term commercial paper of which is rated in the highest category.

e) Investments in repurchase agreements and reverse repurchase agreements with any bank, savings and loan association, credit union, or trust company organized under the laws of any state of the United States or any national banking association or government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, which are collateralized by securities as set forth in (a) and (b).

PMPA's investments in U.S. Agencies and U.S. Government Sponsored Enterprises including Federal Home Loan Bank System, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation, are rated AA+ by Standard and Poor's and Aaa by Moody's Investors Service. U.S. Treasury and Agency Mortgage-Backed Securities are unrated but are considered equivalent to an AAA rating.

The following represents securities in an unrealized loss position as of December 31, 2017:

| | Continuous Unrealized Loss Position | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| **Investment Type** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Government Agency | $ 18,366 | $ (154) | $ 38,515 | $ (821) | $ 56,881 | $ (975) |
| Total | $ 18,366 | $ (154) | $ 38,515 | $ (821) | $ 56,881 | $ (975) |

The following represents securities in an unrealized loss position as of December 31, 2016:

| | Continuous Unrealized Loss Position | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| **Investment Type** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Government Agency | $ 31,053 | $ (536) | $ - | $ - | $ 31,053 | $ (536) |
| Total | $ 31,053 | $ (536) | $ - | $ - | $ 31,053 | $ (536) |

(Dollars in thousands)

## (6) Cash, Cash Equivalents and Investments – Continued

### Custodial Credit Risk

PMPA's policy for managing custodial risk requires all securities owned by PMPA to be held in safekeeping by a third-party custodian bank in PMPA's name under a custody agreement. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, PMPA will not be able to recover the value of its investments or collateral that is in the possession of an outside party.

### Concentration of Credit Risk

The investment policy of PMPA permits a maximum portfolio percentage of 100% for U.S. Treasuries, Federal Agencies and U.S. Government sponsored enterprises and permits a maximum portfolio percentage of 50% in any one federal agency or government sponsored enterprise.

As of December 31, 2017, 5% of the portfolio was held in Federal Agency bonds and 0.3% was held in Agency Mortgage-Backed Securities. As of December 31, 2016, 5% of the portfolio was held in Federal Agency bonds and 0.4% was held in Agency Mortgage-Backed Securities.

A reconciliation of cash and investments for PMPA, at December 31, shown in the statements of net position is as follows:

| | 2017 | 2016 |
|---|---|---|
| Fair value of investments | $ 365,006 | $ 348,351 |
| Accrued interest receivable | 664 | 576 |
| Total | $ 365,670 | $ 348,927 |
| | | |
| Statement of Net Position: | | |
| Marketable debt securities | $ 124,846 | $ 96,201 |
| Restricted for debt services | 137,833 | 145,750 |
| Restricted for decommissioning | 73,315 | 69,240 |
| Restricted for other | 29,676 | 37,736 |
| Total investments | $ 365,670 | $ 348,927 |

(Dollars in thousands)

## (7) Restricted Assets

The General Bond Resolution and Project agreements restrict the use of bond proceeds, PMPA revenues, and PMPA 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, 2017 and 2016, management believes PMPA was in compliance with all such restrictions and held the following restricted assets:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| Debt services - bond principal | $ 53,130 | $ 53,132 | $ 54,655 | $ 54,657 |
| Debt services - bond fixed rate interest | 16,184 | 16,182 | 18,271 | 18,269 |
| Debt service - bond retirement principal | 187 | 187 | 187 | 187 |
| Debt service reserve | 62,054 | 62,783 | 66,005 | 66,320 |
| Reserve and contingency | 6,278 | 6,278 | 6,632 | 6,632 |
| Decommissioning | 73,315 | 74,129 | 69,240 | 69,548 |
| Construction | 28,076 | 28,076 | 36,136 | 36,136 |
| Special reserve | 1,600 | 1,600 | 1,600 | 1,600 |
| | $ 240,824 | $ 242,367 | $ 252,726 | $ 253,349 |
| Funds are comprised of: | | | | |
| Marketable debt securities | $ 240,160 | $ 241,703 | $ 252,150 | $ 252,773 |
| Accrued interest receivable | 664 | 664 | 576 | 576 |
| | $ 240,824 | $ 242,367 | $ 252,726 | $ 253,349 |

## (8) Current Unrestricted Assets and Current Liabilities

Current unrestricted assets and current liabilities are used in PMPA's day-to-day operations. The assets are allocated at December 31, for the following purposes:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| Working capital assets | $ 152,530 | $ 152,485 | $ 127,547 | $ 127,486 |
| Derivative financial instruments | (49,535) | - | (46,800) | - |
| Fuel acquisition | 10,839 | 10,839 | 6,312 | 6,312 |
| | $ 113,834 | $ 163,324 | $ 87,059 | $ 133,798 |

## (8) Current Unrestricted Assets and Current Liabilities – Continued

Current unrestricted assets include $415 and $95 in cash at December 31, 2017 and 2016, respectively. Bank balances at December 31, 2017 and 2016 were $468 and $574, respectively, of which $218 and $324 are uninsured and uncollateralized at December 31, 2017 and 2016, respectively. Accounts payable and accrued liabilities of $9,340 and $9,154 at December 31, 2017 and 2016, respectively, will be paid from working capital assets.

## (9) Net Expenses Recoverable from Future Participant Billings

As described in Notes 1 and 2, rates charged to Participants are structured to systematically provide for debt requirements and operating costs of PMPA. The expenses and revenues excluded from rates are capitalized and expensed in such periods as they are intended to be included in rates.

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(Dollars in thousands)

## (9) Net Expenses Recoverable from Future Participant Billings – Continued

Net expenses recoverable from future Participant billings, at December 31 are as follows:

| | 2017 | 2016 | Change |
|---|---|---|---|
| | (Cumulative totals) | | |
| Items to be recovered in future | | | |
| Participant billings: | | | |
| Interest expense | $ 474,418 | $ 462,535 | $ 11,883 |
| Depreciation expense | 388,492 | 384,182 | 4,310 |
| Amortization of redemption and defeasance losses | 325,199 | 315,542 | 9,657 |
| Debt issuance costs and amortization of bond discounts and premiums | 88,290 | 90,870 | (2,580) |
| Nuclear fuel expenses | 873 | 873 | - |
| Letter of credit fees | 5,649 | 5,649 | - |
| Other | 2,390 | 2,390 | - |
| | 1,285,311 | 1,262,041 | 23,270 |
| Items reducing future Participant billings: | | | |
| Investment income | (76,528) | (76,528) | - |
| Increase in fair value of investments and derivative instruments | 51,034 | 47,361 | 3,673 |
| Rate stabilization (revenue received to reduce future billings to Participants) | (537,784) | (537,784) | - |
| Reserve and contingency deposits | (104,637) | (102,796) | (1,841) |
| | (667,915) | (669,747) | 1,832 |
| Revenues (expenses) recognized: | | | |
| Interest, depreciation, amortization expense included in Participant billings for debt principal payments | (658,438) | (605,263) | (53,175) |
| Capital appreciation bond interest deposits | (39,720) | (39,720) | - |
| Rate stabilization draws applied to expenses | 537,784 | 537,784 | - |
| Reserve and contingency revenue applied to expenses | 36,089 | 32,526 | 3,563 |
| Net costs recoverable from future Participant billings | $ 493,111 | $ 517,621 | $ (24,510) |

**(9) Net Expenses Recoverable from Future Participant Billings – Continued**

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

- Interest expense on PMPA's bonds and variable rate demand obligations along with associated letter of credit, banking, and remarketing 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;
- Debt issuance expenses, amortization of bond discounts and premiums, 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.

PMPA has also capitalized Participant revenues that, 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. The remaining balance of the Rate Stabilization account was applied to the payment of Project costs in 2007.

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

Additionally, PMPA'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 assets. The recognition of such revenues is considered unearned until such time as the depreciation is recorded on the assets constructed or acquired with those monies.

(Dollars in thousands)

## (10) Long-Term Liabilities

Long-term liabilities at December 31, 2017 and 2016 consist of the following:

| | 2016 | Additions | Reductions | 2017 | Due within one year |
|---|---|---|---|---|---|
| 1991 Refunding Series Electric Revenue Bonds, payable from 2019 to 2021 with interest ranging from 6.25% to 6.75% | $ 55,040 | $ - | $ - | $ 55,040 | $ - |
| 1993 Refunding Series Electric Revenue Bonds, payable in 2018 and 2021 to 2025 with interest at 5.50% | 33,615 | - | 310 | 33,305 | 330 |
| 2004A Capital Appreciation Electric Revenue Bonds, payable annually from 2022 to 2024, 2026 to 2032 and 2034 with interest ranging from 5.38% to 5.80% | 102,670 | - | - | 102,670 | - |
| 2008A-2 Electric Revenue Bonds Payable annually from 2024 to 2025 with interest at 5.00% | 37,785 | - | 37,785 | - | - |
| 2008A-3 Refunding Series Electric Revenue Bonds, payable annually through 2019 with interest from 5.00% to 5.25% | 72,150 | - | 47,600 | 24,550 | 24,550 |

# PIEDMONT MUNICIPAL POWER AGENCY

Notes to Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

| | 2016 | Additions | Reductions | 2017 | Due within one year |
|---|---|---|---|---|---|
| 2008E Refunding Series Electric Revenue Bonds, payable from 2033 to 2034 with variable interest rates (3.75% at December 31, 2017) | $ 60,000 | $ - | $ - | $ 60,000 | $ - |
| 2009A-3 Refunding Series Electric Revenue Bonds, payable through 2019 with interest ranging from 3.00% to 5.00% | 41,255 | - | 19,225 | 22,030 | 20,080 |
| 2009A-4 Refunding Series Electric Revenue Bonds, payable 2019 to 2021 with interest ranging from 4.25% to 5.00% | 92,305 | - | - | 92,305 | - |
| 2009B Electric Revenue Bonds (Build America Bonds), payable 2031 to 2034 with interest at 7.036% (35% interest federally refunded yielding net interest at 4.5734%) | 26,490 | - | - | 26,490 | - |
| 2010A-1 Series Electric Revenue Bonds (Federally Taxable), payable 2017 with interest at 4.344% | 11,230 | - | 11,230 | - | - |
| 2010A-2 Refunding Series Electric Revenue Bonds, payable 2018 and 2021 to 2022 with interest at 5.00% | 52,025 | - | 500 | 51,525 | 6,275 |
| 2010A-3 Refunding Series Electric Revenue Bonds, payable from 2023 to 2024 with interest at 5.00% | 18,435 | - | - | 18,435 | - |

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

| | 2016 | Additions | Reductions | 2017 | Due within one year |
|---|---|---|---|---|---|
| 2010A-4 Refunding Series Electric Revenue Bonds, payable from 2024 to 2025 with interest at 4.00% to 5.00% | $ 23,385 | $ - | $ - | $ 23,385 | $ - |
| 2010A-5 Refunding Series Electric Revenue Bonds, payable from 2021 to 2023 with interest at 5.00% | 15,165 | - | - | 15,165 | - |
| 2008C Refunding Conv Series Electric Revenue Bonds, payable from 2026 to 2034 with interest ranging from 4.75% to 5.75% | 90,000 | - | - | 90,000 | - |
| 2008D Refunding Conv Series Electric Revenue Bonds, payable from 2026 to 2034 with interest ranging from 4.75% to 5.75% | 30,000 | - | - | 30,000 | - |
| 2011A Refunding Series Electric Revenue Bonds, payable 2018 with interest at 5.75% | 1,940 | - | - | 1,940 | 1,940 |
| 2011B Refunding Series Electric Revenue Bonds, payable annually from 2026 to 2034 with variable interest rate 1.51% at December 31, 2017 | 53,950 | - | - | 53,950 | - |
| 2011C Refunding Series Electric Revenue Bonds, payable annually 2026 to 2034 with variable interest rate 1.46% at December 31, 2017 | 53,950 | - | - | 53,950 | - |

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

| | 2016 | Additions | Reductions | 2017 | Due within one year |
|---|---|---|---|---|---|
| 2012A Refunding Series Electric Revenue Bonds, payable annually 2023 to 2026 with interest ranging from 3.375% to 5.00% | $ 13,050 | $ - | $ - | $ 13,050 | $ - |
| 2012B Refunding Series Electric Revenue Bonds, payable 2023 with interest at 4.00% | 19,970 | - | - | 19,970 | - |
| 2012C Refunding Series Electric Revenue Bonds, payable 2023 with interest at 4.25% | 4,485 | - | - | 4,485 | - |
| 2015A Series Electric Revenue Bonds, payable annually 2022 to 2034 with interest ranging from 3.50% to 5.00% | 51,935 | - | - | 51,935 | - |
| 2017A Series Electric Revenue Bonds, payable annually 2019 to 2025 with interest at 5.00% | - | 15,850 | - | 15,850 | - |
| 2017B Series Electric Revenue Bonds, payable annually 2019 to 2025 with interest ranging from 4.00% to 5.00% | - | 38,115 | - | 38,115 | - |
| Total bonds payable | 960,830 | 53,965 | 116,650 | 898,145 | 53,175 |
| Less unamortized discount | (1,375) | (69) | (231) | (1,213) | - |
| Plus unamortized premium | 16,201 | 6,785 | 3,928 | 19,058 | - |
| Bonds payable, net | $ 975,656 | $ 60,681 | $ 120,347 | $ 915,990 | $ 53,175 |

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

Long-term liabilities at December 31, 2016 and 2015 consist of the following:

| | 2015 | Additions | Reductions | 2016 | Due within one year |
|---|---|---|---|---|---|
| 1991 Refunding Series Electric Revenue Bonds, payable from 2019 to 2021 with interest ranging from 6.25% to 6.75% | $ 55,040 | $ - | $ - | $ 55,040 | $ - |
| 1991A Refunding Series Electric Revenue Bonds, payable through 2016 with interest at 6.50% | 5,420 | - | 5,420 | - | - |
| 1993 Refunding Series Electric Revenue Bonds, payable in 2017, 2018, and 2021 to 2025 with interest at 5.50% | 33,615 | - | - | 33,615 | 310 |
| 2004A Capital Appreciation Electric Revenue Bonds, payable annually from 2022 to 2024, 2026 to 2032, and 2034 with interest ranging from 5.38% to 5.80% | 102,670 | - | - | 102,670 | - |
| 2008A-2 Electric Revenue Bonds Payable annually from 2024 to 2025 with interest at 5.00% | 37,785 | - | - | 37,785 | - |
| 2008A-3 Refunding Series Electric Revenue Bonds, payable annually from 2016 to 2019 with interest from 5.00% to 5.25% | 87,475 | - | 15,325 | 72,150 | 23,435 |

# PIEDMONT MUNICIPAL POWER AGENCY

Notes to Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

| | 2015 | Additions | Reductions | 2016 | Due within one year |
|---|---|---|---|---|---|
| 2008E Refunding Series Electric Revenue Bonds, payable 2034 with variable interest rates (1.26% at December 31, 2016) | $ 60,000 | $ - | $ - | $ 60,000 | $ - |
| 2009A-3 Refunding Series Electric Revenue Bonds, payable from 2015 to 2019 with interest ranging from 3.00% to 5.00% | 71,470 | - | 30,215 | 41,255 | 19,225 |
| 2009A-4 Refunding Series Electric Revenue Bonds, payable 2019 to 2021 with interest ranging from 4.25% to 5.00% | 92,305 | - | - | 92,305 | - |
| 2009B Electric Revenue Bonds (Build America Bonds), payable 2031 to 2034 with interest at 7.036% (35% interest federally refunded yielding net interest at 4.5734%) | 26,490 | - | - | 26,490 | - |
| 2010A-1 Series Electric Revenue Bonds (Federally Taxable), payable through 2017 with interest at 4.344% | 13,635 | - | 2,405 | 11,230 | 11,230 |
| 2010A-2 Refunding Series Electric Revenue Bonds, payable from 2017 to 2018 and 2021 to 2022 with interest at 5.00% | 52,025 | - | - | 52,025 | 500 |
| 2010A-3 Refunding Series Electric Revenue Bonds, payable from 2023 to 2024 with interest at 5.00% | 18,435 | - | - | 18,435 | - |

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

| | 2015 | Additions | Reductions | 2016 | Due within one year |
|---|---|---|---|---|---|
| 2010A-4 Refunding Series Electric Revenue Bonds, payable from 2024 to 2026 with interest at 4.00% to 5.00% | $ 23,385 | $ - | $ - | $ 23,385 | $ - |
| 2010A-5 Refunding Series Electric Revenue Bonds, payable from 2021 to 2023 with interest at 5.00% | 15,165 | - | - | 15,165 | - |
| 2008C Refunding Conv Series Electric Revenue Bonds, payable from 2026 to 2030 and 2034 with interest ranging from 4.75% to 5.75% | 90,000 | - | - | 90,000 | - |
| 2008D Refunding Conv Series Electric Revenue Bonds, payable from 2026 to 2030 and 2034 with interest ranging from 4.75% to 5.75% | 30,000 | - | - | 30,000 | - |
| 2011A Refunding Series Electric Revenue Bonds, payable 2018 with interest at 5.75% | 1,940 | - | - | 1,940 | - |
| 2011B Refunding Series Electric Revenue Bonds, payable annually from 2026 to 2034 with variable interest rate 1.21% at December 31, 2016 | 53,950 | - | - | 53,950 | - |
| 2011C Refunding Series Electric Revenue Bonds, payable annually from 2026 to 2034 with variable interest rate 1.21% at December 31, 2016 | 53,950 | - | - | 53,950 | - |

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

| | 2015 | Additions | Reductions | 2016 | Due within one year |
|---|---|---|---|---|---|
| 2012A Refunding Series Electric Revenue Bonds, payable annually 2023 to 2026 with interest ranging from 3.375% to 5.00% | $ 13,050 | $ - | $ - | $ 13,050 | $ - |
| 2012B Refunding Series Electric Revenue Bonds, payable 2023 with interest at 4.00% | 19,970 | - | - | 19,970 | - |
| 2012C Refunding Series Electric Revenue Bonds, payable 2023 with interest at 4.25% | 4,485 | - | - | 4,485 | - |
| 2015A Series Electric Revenue Bonds, payable annually 2022 to 2034 with interest ranging from 3.50% to 5.00% | 51,935 | - | - | 51,935 | - |
| Total bonds payable | 1,014,195 | - | 53,365 | 960,830 | 54,700 |
| Less unamortized discount | (1,565) | - | (190) | (1,375) | - |
| Plus unamortized premium | 19,367 | - | 3,166 | 16,201 | - |
| Bonds payable, net | $ 1,031,997 | $ - | $ 56,341 | $ 975,656 | $ 54,700 |

(Dollars in thousands)

## (10) Long-Term Liabilities – Continued

The bonds are special obligations of PMPA 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.

PMPA has advanced refunded certain bond issues as described in Note 11. PMPA is in compliance with its covenants under the Bond Resolution.

*Variable Rate Terms*

Interest rates on PMPA's variable rate debt are determined by PMPA's Remarketing Agents based on market conditions. These rates are reset weekly.

The following is a summary of total debt service deposit requirements for bonds outstanding at December 31, 2017:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 53,175 | $ 38,073 | $ 91,248 |
| 2019-2023 | 290,734 | 172,536 | 463,270 |
| 2024-2028 | 229,101 | 224,362 | 453,463 |
| 2029-3033 | 240,612 | 218,870 | 459,482 |
| 2034 | 84,523 | 7,372 | 91,895 |
| | $ 898,145 | $ 661,213 | $ 1,559,358 |

All principal payments are due on January 1 of the year subsequent to the deposit requirement. Future interest requirements on variable rate debt are estimated as follows at December 31, 2017: for Bonds, Series 2011B through C, the estimated interest rates plus annual liquidity and remarketing fees are 4.85%; for Bonds Series 2008E, the estimated interest rate plus annual liquidity and remarketing fees is 4.5% through January 1, 2025 and 17.5% thereafter.

## (10) Long-Term Liabilities – Continued

PMPA has pledged future total revenues, net of Catawba operating expenses, to repay substantially all outstanding bonds issued in prior years. Proceeds from these bonds provided financing for the construction of Catawba. The bonds are payable solely from electrical net revenues and are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 64 percent of revenues. The total principal and interest remaining to be paid on the bonds is $1,559,358. Principal and interest deposited for the years ended December 31, 2017 and 2016 were $92,626 and $94,401, respectively. Total operating revenues for the years ended December 31, 2017 and 2016 were $256,091 and $259,864 respectively.

## (11) Refunding of Debt

In March 2017, PMPA issued electric revenue bonds totaling $15,850 plus other sources of funds including premiums, totaling $1,997 to refund portions of the 2008A2 and 2008A3 series in the amounts of $10,435 and $6,670, respectively. The economic gain from this issuance was $1,386.

In October 2017, PMPA issued electric revenue bonds totaling $38,115 plus other sources of funds including premiums, totaling $4,719 to refund all remaining outstanding bonds of the 2008A2 and 2008A3 series in the amount of $27,350 and $17,495, respectively. The economic gain from this issuance was $5,064.

In prior years, PMPA 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, 2017 and 2016, $113,150 and $53,750 of the bonds are considered defeased in-substance, respectively.

(Dollars in thousands)

## (12) Reserve for Decommissioning

The owners of Catawba, including PMPA, have an obligation for decommissioning the station after the expiration of its operating licenses. PMPA is in compliance with Nuclear Regulatory Commission requirements for funding future decommissioning costs. Since 1985, PMPA has been making regular deposits to segregated decommissioning accounts. Deposits pertaining to contaminated portions of the Project are held by a trustee. As of December 31, 2017 and 2016, the fair value of PMPA's assets that are legally restricted for purposes of settling the decommissioning obligation is $73,715 and $69,240, respectively.

Planned deposits into the decommissioning fund, together with interest earnings, are expected to be sufficient to pay PMPA's share of the projected cost of decommissioning the entire Catawba Station.

During 2003, Duke received a 19-year extension of the operating license for Catawba Unit 1 and a 17-year extension of the operating license for Catawba Unit 2 through 2043. In connection with the license extensions, PMPA received an updated decommissioning study in 2003 and has subsequently received updated decommissioning studies in December 2008 and 2013. The latest study in December 2013 estimates total decommissioning costs of $1,410,893 in 2013 dollars and presumes the Catawba Nuclear Station will be decommissioned as soon as possible following the expiration of its operating licenses in 2043. PMPA used the estimates from this study to determine its decommissioning liability to be recorded in accordance with U.S. GAAP accounting for asset retirement obligations.

PMPA used the following assumptions in determining its reserve for decommissioning:

| | 2017 | 2016 |
|---|---|---|
| Period in which decommissioning liability was incurred | 1985 | 1985 |
| Agency's share of decommissioning costs per study (in 2013 dollars respectively) | $ 176,362 | $ 176,362 |
| Estimation of inflation | 2.4% | 2.4% |
| Credit adjusted risk-free interest rate | 5.0% | 5.0% |
| Estimated life of corresponding asset | 29 years | 29 years |

The following is a roll forward of the reserve for decommissioning for the years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Reserve for decommissioning at January 1 | $ 91,746 | $ 87,301 |
| Accretion expense (decommissioning) | 4,672 | 4,445 |
| Reserve for decommissioning at December 31 | $ 96,418 | $ 91,746 |

(Dollars in thousands)

## (13) Employee Benefit Plans

PMPA maintains a defined contribution money purchase plan in compliance with Section 401(a) of the Internal Revenue Code ("IRC"). On behalf of all full-time employees, PMPA contributes 10% of base salary into the money purchase plan. PMPA contributions totaled $155 and $149 in 2017 and 2016, respectfully. Employee contributions may also be made to the Plan, providing combined employer and employee annual contributions do not exceed 25% of eligible employee compensation, or $30, whichever is less.

PMPA also maintains a deferred compensation plan under Section 457 of the IRC. In the past, on behalf of selected employees, PMPA has contributed to the deferred compensation plan; however, no such contribution was made in 2017 or 2016. 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 and deferred compensation plans are held by Prudential Financial, administrator and trustee for PMPA, for the exclusive benefit of the employees.

## (14) Postemployment Benefits

PMPA's Postemployment Benefit Plan (the "Plan") provides for retiree medical benefits as follows: PMPA will maintain and pay up to 100% of premiums for group medical and dental insurance for each qualified retiree and up to 60% of premiums for the retiree's dependent spouse and/or children of the retiree for the retiree's lifetime. After the retiree and/or dependent qualifies for Medicare, he or she will be covered under a supplemental insurance plan, which will be secondary to Medicare.

Membership in the healthcare benefit plan consisted of the following at December 31:

| | 2017 | 2016 |
|---|---|---|
| Retirees | 3 | 3 |
| Active Employees | 13 | 17 |
| Total | 16 | 20 |

*Funding Policy*

The required contribution is based on pay-as-you-go financing requirements.

*Annual OPEB Cost and Net OPEB Obligation*

The Plan's annual OPEB cost is calculated based on PMPA's Annual Required Contribution ("ARC"), an amount actuarially determined in accordance with the parameters of U.S. GAAP relevant to OPEB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

(Dollars in thousands)

## (14) Postemployment Benefits – Continued

The following table shows the components of PMPA's annual OPEB cost for the years ended December 31, 2017 and 2016. PMPA is solely responsible for funding of the Plan.

| | 2017 | 2016 |
|---|---|---|
| ARC at year-end | 65 | 62 |
| Interest on net OPEB obligation | 28 | 26 |
| Adjustment to ARC | (29) | (27) |
| Annual OPEB cost at year-end | 64 | 61 |
| Contribution made during the year | (21) | (19) |
| | 43 | 42 |

PMPA's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the years ended December 31, 2017, 2016, and 2015 are as follows:

| Year Ended | OPEB Cost | Contribution (ARC) | OPEB Cost Contributed | % of ARC Contributed | OPEB Obligation |
|---|---|---|---|---|---|
| 12/31/2015 | 101 | 99 | 17 | 17.17% | 655 |
| 12/31/2016 | 61 | 62 | 19 | 30.65% | 697 |
| 12/31/2017 | 64 | 65 | 21 | 32.31% | 740 |

*Funded Status and Funding Progress*

The Plan's funded status as of the most recent actuarial valuation dates are shown below:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 1/1/2015 | - | 715 | 715 | 0% | 1,409 | 51% |
| 1/1/2016 | - | 594 | 594 | 0% | 1,547 | 38% |
| 1/1/2017 | - | 594 | 594 | 0% | 1,622 | 37% |

Actuarial valuation of an ongoing Plan involves the estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The assumptions include employee turnover, mortality, and health care trend rate, etc. The amounts determined regarding the funded status of the Plan and the ARC of PMPA are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future.

**(14) Postemployment Benefits – Continued**

*Actuarial Methods and Assumptions.*

The Projected Unit Credit actuarial cost method has been used to determine PMPA's OPEB obligation and the initial unfunded actuarial liability is being amortized over 30 years using the level percentage of payroll method. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The annual medical cost trend rates range from 5% to 10%.

**(15) Disclosures Regarding Fair Value of Financial Instruments**

U.S. GAAP 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 U.S. GAAP, 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 PMPA.

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

***(a) Cash***

Carrying value equals estimated fair value.

## (15) Disclosures Regarding Fair Value of Financial Instruments – Continued

### *(b) Marketable Debt Securities*

Marketable debt securities are reported at fair value and categorized within the fair value hierarchy established under U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Gains or losses that result from market fluctuation are reported in the current period. As of December 31, 2017 and 2016, the Agency's marketable debt securities are valued using significant other observable inputs (Level 2 inputs).

### *(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 unamortized premiums, plus accrued interest payable. Carrying value also includes capital appreciation term bonds valued at original price plus accrued interest payable.

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

(Dollars in thousands)

## (15) Disclosures Regarding Fair Value of Financial Instruments – Continued

The estimated fair values of PMPA's long-term debt with carrying values which are different from their estimated fair values at December 31, 2017 and 2016 are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| 1991 Electric Revenue Refunding Bonds | $ 56,640 | $ 60,508 | $ 56,327 | $ 64,110 |
| 1993 Electric Revenue Refunding Bonds | 33,860 | 39,731 | 34,129 | 40,397 |
| 2004A-2 Electric Revenue Refunding Bonds | 217,572 | 213,464 | 205,689 | 249,912 |
| 2008A-2 Electric Revenue Bonds | - | - | 38,781 | 39,563 |
| 2008A-3 Electric Revenue Refunding Bonds | 25,164 | 24,550 | 74,347 | 75,727 |
| 2008C Electric Revenue Refunding Bonds | 92,493 | 98,165 | 92,483 | 99,781 |
| 2008D Electric Revenue Refunding Bonds | 30,830 | 32,721 | 30,826 | 33,259 |
| 2008E Electric Revenue Refunding Bonds | 60,117 | 60,117 | 60,088 | 64,935 |
| 2009A-3 Electric Revenue Refunding Bonds | 22,599 | 22,091 | 42,551 | 43,143 |
| 2009A-4 Electric Revenue Refunding Bonds | 95,744 | 97,111 | 96,374 | 101,875 |
| 2009B Build America Bonds | 27,422 | 36,696 | 27,422 | 34,075 |
| 2010A-1 Electric Revenue Bonds | - | - | 11,474 | 11,783 |
| 2010A-2 Electric Revenue Refunding Bonds | 54,393 | 55,382 | 55,438 | 58,113 |
| 2010A-3 Electric Revenue Refunding Bonds | 19,492 | 18,940 | 19,600 | 20,536 |
| 2010A-4 Electric Revenue Refunding Bonds | 24,582 | 25,113 | 24,674 | 25,790 |
| 2010A-5 Electric Revenue Refunding Bonds | 16,071 | 16,447 | 16,198 | 17,028 |
| 2011A Electric Revenue Refunding Bonds | 1,996 | 1,940 | 1,996 | 2,066 |
| 2011B Electric Revenue Refunding Bonds | 54,033 | 54,033 | 54,021 | 54,021 |
| 2011C Electric Revenue Refunding Bonds | 54,029 | 53,950 | 54,021 | 54,021 |
| 2012A Electric Revenue Refunding Bonds | 14,323 | 14,283 | 14,466 | 14,548 |
| 2012B Electric Revenue Refunding Bonds | 21,183 | 21,403 | 21,318 | 21,721 |
| 2012C Electric Revenue Refunding Bonds | 4,580 | 4,704 | 4,580 | 4,712 |
| 2015A Electric Revenue Refunding Bonds | 58,915 | 59,717 | 59,914 | 59,729 |
| 2017A Electric Revenue Refunding Bonds | 17,982 | 17,752 | - | - |
| 2017B Electric Revenue Refunding Bonds | 43,086 | 42,614 | - | - |
| | $ 1,047,106 | $ 1,071,432 | $ 1,096,717 | $ 1,190,845 |

The carrying amount of the bond is shown net of all discounts, premiums, and accrued interest on capital appreciation bonds.

**(16) Nuclear Insurance and Other Risk Management**

*Nuclear Insurance*. Duke owns and operates McGuire with two nuclear reactors. In addition, Duke operates and has a partial ownership interest in Catawba with two nuclear reactors. Nuclear insurance coverage is maintained in three program areas: nuclear liability coverage; property, decontamination and premature decommissioning coverage; and business interruption and/or extra expense coverage. The other joint owners of Catawba reimburse Duke for certain expenses associated with nuclear insurance premiums per the Catawba joint owner agreements. The Price-Anderson Act requires Duke to provide for public nuclear liability claims resulting from nuclear incidents to the maximum total financial protection liability. Effective January 1, 2010, this adjustment increased the maximum total financial protection liability, which currently is $13,400,000.

*Primary Liability Insurance*. Duke has purchased the maximum reasonably available private primary nuclear liability insurance as required by law, which currently is $450,000.

*Excess Liability*. This policy currently provides $13,000,000 of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary financial protection program of risk pooling. The $13,000,000 of coverage is the sum of the current potential cumulative retrospective premium assessments of $127,000 per licensed commercial nuclear reactor. This $13,000,000 would be increased by $127,000 as each additional commercial nuclear reactor is licensed or reduced by $127,000 for 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 public nuclear liability damages in the event of a nuclear incident at any licensed facility in the U.S. If such an incident should occur and public nuclear liability damages exceed primary liability insurance, licensees may be assessed up to $127,000 for each of their licensed reactors, payable at a rate not to exceed $19,000 a year per licensed reactor for each incident. The $127,000 amount is subject to indexing for inflation and may be subject to state premium taxes. The Price-Anderson Act provides for an inflation adjustment at least every five years with the last adjustment effective October 2013.

Duke is a member of Nuclear Electric Insurance Limited ("NEIL"), which provides property and accidental outage insurance coverage for Duke's nuclear facilities under the following three policy programs:

**(16) Nuclear Insurance and Other Risk Management – Continued**

*Accidental Property Insurance*. This policy provides excess property, decontamination, and decommissioning liability insurance in the following amounts: $1,500,000 for Catawba and McGuire. Catawba has a dedicated $1,250,000 insurance limit above this excess. McGuire also shares an additional $1,250,000 insurance limit with another nuclear station above this excess. This shared limit is not subject to reinstatement in the event of a loss. NEIL sublimits property damage losses to $750,000 for non-nuclear accidental property damage.

*Accidental Outage Insurance*. This policy provides business interruption and/or extra expense coverage resulting from an accidental property damage outage of a nuclear unit. Coverage is provided on a weekly limit basis after a significant waiting period deductible. Coverage amounts per unit decline if more than one unit is involved in an accidental outage. Initial coverage begins after a 12-week deductible period for Catawba and a 26-week deductible period for McGuire and continues at 100% for 52 weeks and 80% for the next 110 weeks. The McGuire and Catawba policy limit is $490,000. Effective April 1, 2013, NEIL sublimits the accidental outage recovery to approximately $328,000 for non-nuclear accidental property damage.

Losses resulting from non-certified acts of terrorism are covered as common occurrence, such that if non-certified terrorist acts occur against one or more commercial nuclear power plants insured by NEIL within a 12-month period, they would be treated as one event and the owners of the plants, where the acts occurred, would share one full limit of liability (currently $3,200,000). Effective April 1, 2013, NEIL sublimits the total aggregate for all of their policies for non-nuclear terrorist events to approximately $1,830,000.

In the event of large industry losses, NEIL's board of directors may assess Duke for amounts up to ten times its annual premiums. The current potential maximum assessments are as follows: Primary Property Insurance – $73,000; Excess Property Insurance – $24,000; Accidental Outage– $32,000.

Pursuant to regulations of the Nuclear Regulatory Commission, each company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after a qualifying accident, and second, to decontaminate before any proceeds can be used for decommissioning, plant repair or restoration.

In the event of a loss, the amount of insurance available might not be adequate to cover property damage and other expenses incurred. Uninsured losses and other expenses, to the extent not recovered by other sources, could have a material adverse effect on Duke's results of operations, cash flows or financial position.

(Dollars in thousands)

## (16) Nuclear Insurance and Other Risk Management – Continued

The maximum assessment amounts include 100% of Duke's potential obligation to NEIL for Catawba. However, the other joint owners of Catawba are obligated to assume their pro rata share of liability for retrospective premiums and other premium assessments resulting from the Price-Anderson Act's excess secondary financial protection program of risk pooling or the NEIL policies.

PMPA also carries building and personal property insurance for the administrative offices, health insurance for all active employees, and workers' compensation insurance in accordance with statutory requirements. The policy limits for the building and personal property insurance is $3,443.

## (17) Derivative Financial Instruments

In August 2004, PMPA entered into a floating-to-fixed rate, step-coupon swap ("swap") as part of the 2004 debt restructuring that helped to produce level debt service without issuing more capital appreciation debt and increased the benefits of the restructuring through January 1, 2025.

*Objectives.* The objectives of the swap were to achieve a lower fixed rate of interest on PMPA's debt and to push debt service out into later years in order to produce level debt service by deferring payments until later years.

*Terms.* Under the terms of the swap agreement, PMPA receives a variable interest rate based on the SIFMA Municipal Swap Index on a notional amount of $60 million and pays a low rate of 3% for the first twenty years and a higher rate of 16% for the last ten years of the swap life. The average rate that PMPA will pay over the life of the swap will be 4.84%.

<u>Outstanding Notional Amount Schedule</u>

| **Effective From:** | **Effective To:** | **Floating Rate Payer Notional Amount (USD)** | **Fixed Rate Payer Notional Amount (USD)** |
|---|---|---|---|
| Effective Date | January 1, 2025 | $ 60,000 | $ 40,000 |
| January 1, 2025 | January 1, 2033 | 60,000 | 213,333 |
| January 1, 2033 | Termination Date | 15,000 | 53,333 |

*Fair Value.* The fair value of this one remaining swap agreement was a credit of approximately $49,535 and $46,800 at December 31, 2017 and 2016, respectively. The fair value was estimated using a proprietary pricing service.

**(17) Derivative Financial Instruments – Continued**

*Net Effect from Swap.* The swap is designed to push debt service out into later years in order to produce level debt service by deferring payments until later years. Through December 31, 2017, and 2016, PMPA has realized a net loss from the swap of $15,198 and $13,901, respectively, with the counterparty having paid or obligated to pay aggregate variable rate payments under the swap of $8,897 and $8,394 respectively, to PMPA, and PMPA having paid or obligated to pay aggregate fixed payments under the swap of $24,095 and $22,295, respectively, to the counterparty.

*Credit Risk.* Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of the derivative contract is positive, the counterparty owes PMPA, creating no repayment risk for PMPA. When the fair value of the derivative contract is negative, PMPA owes the counterparty and, therefore does create repayment risk. PMPA minimizes the credit or repayment risk in derivative instruments by entering into transactions with high-quality counterparties.

*Market Risk.* Market risk is the adverse effect on the value of financial instruments that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

*Termination Risk.* PMPA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. An additional termination event occurs if PMPA's or the counterparty's ratings falls below BBB by Standard & Poor's, Baa3 by Moody's, and BBB by Fitch. If at the time of termination, the swap has a negative fair value, PMPA would be liable to the counterparty for a payment equal to the swap's fair value.

*Renewal Risk.* PMPA elected to enter into the swap for a term of approximately 29 years. Since the term of the swap does match the stated long-term maturities of its fixed rate debt, PMPA is not subject to renewal risk.

(Dollars in thousands)

## (17) Derivative Financial Instruments – Continued

*Swap Payments.* PMPA expects to realize the following net benefits from the swap through the stated expiration date:

| Period Ended | Variable Rate Payments Received | Fixed Rate Payments Made | Net Benefit (Expense) From Interest Rate Swap |
|---|---|---|---|
| December 31, 2004 | $ 361 | $ 695 | $ (334) |
| December 31, 2005 | 1,468 | 1,800 | (332) |
| December 31, 2006 | 2,067 | 1,800 | 267 |
| December 31, 2007 | 2,175 | 1,800 | 375 |
| December 31, 2008 | 1,348 | 1,800 | (452) |
| December 31, 2009 | 248 | 1,800 | (1,552) |
| December 31, 2010 | 158 | 1,800 | (1,642) |
| December 31, 2011 | 119 | 1,800 | (1,681) |
| December 31, 2012 | 98 | 1,800 | (1,702) |
| December 31, 2013 | 55 | 1,800 | (1,745) |
| December 31, 2014 | 31 | 1,800 | (1,769) |
| December 31, 2015 | 20 | 1,800 | (1,780) |
| December 31, 2016 | 246 | 1,800 | (1,554) |
| December 31, 2017 | 503 | 1,800 | (1,297) |
| December 31, 2018-2022 | 9,000 | 9,000 | - |
| December 31, 2023-2027 | 9,000 | 32,400 | (23,400) |
| December 31, 2028-2032 | 9,000 | 48,000 | (39,000) |
| December 31, 2033 | 450 | 2,400 | (1,950) |
| | $ 36,347 | $ 115,895 | $ (79,548) |

## (18) Subsequent Events

On February 15, 2018, the Agency used excess cash in the Revenue Fund to defease $20,945 of refunding series 2009A3 and refunding series 2009A4 Electric Revenue Bonds by placing the cash in an irrevocable trust fund to provide for future debt service payments on the above mentioned debt.

# SUPPLEMENTARY INFORMATION

# PIEDMONT MUNICIPAL POWER AGENCY

Schedule of Revenue and Expenses Actual and Budget

Per the Bond Resolution and Other Agreements

Year Ending December 31, 2017

(Dollars in thousands)

| | Actual Revenues and Expenses | Budgeted Revenues and Expenses | Actual Over (Under) Budget |
|---|---|---|---|
| Revenue: | | | |
| Sales of electricity to participants | $ 232,803 | $ 235,492 | $ (2,689) |
| Sales of electricity to Duke | 13,312 | 13,743 | (431) |
| Sales of electricity to Others | 8,293 | 3,411 | 4,882 |
| Interest income | 3,319 | 3,034 | 285 |
| Other | 1,683 | 1,515 | 168 |
| Total Revenue | $ 259,410 | $ 257,195 | $ 2,215 |
| Expenses: | | | |
| Catawba operating expenses: | | | |
| Operation & maintenance | $ 29,092 | $ 33,830 | $ (4,738) |
| Nuclear fuel | 17,075 | 16,790 | 285 |
| Purchased power-Duke | 13,114 | 13,772 | (658) |
| Payments in lieu of taxes | 7,134 | 6,998 | 136 |
| Interconnection services: | | | |
| Purchased power: | | | |
| Duke | 23,822 | 24,134 | (312) |
| Participants | 12,601 | 12,727 | (126) |
| Other | 2,045 | 1,907 | 138 |
| Transmission Services: | 6,835 | 7,974 | (1,139) |
| Distribution services: | 557 | 727 | (170) |
| Administrative and general: | | | |
| Agency | 5,349 | 6,477 | (1,128) |
| Duke | 12,726 | 13,630 | (904) |
| Other | 7,056 | 6,053 | 1,003 |
| Special fund deposits(withdrawals): | | | |
| Bond fund: | | | |
| Deposits from revenues | 90,210 | 91,339 | (1,129) |
| Liquidity facility fees | - | - | - |
| Reserve and Contingency fund: | | | |
| Deposits from revenue | 8,891 | 9,041 | (150) |
| Capital additions | (1,841) | (2,868) | 1,027 |
| Transfer excess funds | (7,050) | (6,173) | (877) |
| Decommissioning fund: | | | |
| Deposits from revenue | 3,637 | 3,635 | 2 |
| Transfer excess funds | - | - | - |
| Interest income(1) | 944 | 837 | 107 |
| Revenue fund: | | | |
| Working capital | 24,397 | 11,008 | 13,389 |
| Fuel | (12,549) | (10,055) | (2,494) |
| Construction Fund: | | | |
| Interest income(1) | 255 | 245 | 10 |
| Transfer excess funds | - | 7 | (7) |
| Deposits(draws) | - | (7,257) | 7,257 |
| Supplemental power reserve: | | | |
| Interest income(1) | - | 5 | (5) |
| Transfer excess funds | 12 | (802) | 814 |
| Other capital transactions: | | | |
| Bond Refunding: | | | |
| Bond proceeds | (60,682) | - | (60,682) |
| Bond payments | 61,950 | - | 61,950 |
| Debt issuance | 931 | - | 931 |
| Excess funds | (3,089) | - | (3,089) |
| Plant additions: | | | |
| Reserve and contingency fund | 1,841 | 10,125 | (8,284) |
| General plant | 250 | 265 | (15) |
| Transmission plant | 601 | 700 | (99) |
| LDMSS/SCADA | 747 | 2,069 | (1,322) |
| Fuel acquisitions | 12,549 | 10,055 | 2,494 |
| Total Expenses | $ 259,410 | $ 257,195 | $ 2,215 |

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

# PIEDMONT MUNICIPAL POWER AGENCY

## Schedule of Revenue and Expenses

## Per the Bond Resolution and Other Agreements

## Year Ending December 31, 2017

## (Dollars in thousands)

**FUNDS**

| | | Revenue | | Operating | Bond | | Reserve Contingency | Decommission | Supplemental Power |
|---|---|---|---|---|---|---|---|---|---|
| | | Working Capital | Construction | Fuel Account | Principal Interest Retirement | Reserve | | | |
| Balances at beginning of year: | | | | | | | | | |
| Assets | | $ 127,486 | $ 36,136 | $ 6,313 | $ 73,113 | $ 66,320 | $ 6,632 | $ 69,548 | $ 1,600 |
| Liabilities | | (9,154) | - | - | - | - | - | - | - |
| Net | | 118,332 | 36,136 | 6,313 | 73,113 | 66,320 | 6,632 | 69,548 | 1,600 |
| Project revenues: | | | | | | | | | |
| Participants-Electric | (1) | 232,803 | | | | | | | |
| -Facilities rent | (1) | 497 | | | | | | | |
| -Other | (1) | 1,186 | | | | | | | |
| Duke Power-Electric | (1) | 13,312 | | | | | | | |
| Other-Surplus Electric | (1) | 8,293 | | | | | | | |
| Interest income | (1) | 2,120 | 255 | | | | | 944 | |
| Project costs (see note): | | | | | | | | | |
| Operations and maintenance | (2) | (29,092) | | | | | | | |
| Fuel | (3) | (17,075) | | 17,075 | | | | | |
| Purchased power-Duke | (2) | (13,114) | | | | | | | |
| Decommissioning | (3) | (3,637) | | | | | | 3,637 | |
| General and administration | (2) | (16,467) | | | | | | | |
| Payments in lieu of taxes | (2) | (7,074) | | | | | | | |
| Other | (2) | (5,404) | | | | | | | |
| Debt service | (3) | (90,210) | | | 90,210 | | | | |
| Reserve and contingency | (3) | (8,891) | | | | | 8,891 | | |
| Supplemental power costs: | | | | | | | | | |
| Purchased power-Duke/SoCo | (2) | (23,822) | | | | | | | |
| -Participant | (2) | (12,601) | | | | | | | |
| -Other | (2) | (2,045) | | | | | | | |
| Transmission services | (2) | (6,835) | | | | | | | |
| Distribution services | (2) | (557) | | | | | | | |
| General and administration | (2) | (1,608) | | | | | | | |
| Payments in lieu of taxes | (2) | (60) | | | | | | | |
| Other fund changes: | | | | | | | | | |
| Transfers in (out): | | | | | | | | | |
| Construction | (3) | 1,841 | | | | | (1,841) | | |
| Excess funds | (3) | 7,050 | | | | | (7,050) | | |
| Payments: | | | | | | | | | |
| Debt retire/interest | (2) | | | | (93,822) | (729) | (73) | | |
| Capital additions | (2) | (1,598) | (8,615) | (12,549) | | | | | |
| Debt Refunding: | | | | | | | | | |
| New issue proceeds | | 60,682 | | | | | | | |
| Excess funds | | | 300 | | | | | | |
| Old issue proceeds | | (61,950) | | | | | | | |
| Cost to issue | | (931) | | | | (2,808) | (281) | | |
| Balances at December 31, 2017 | | $ 143,145 | $ 28,076 | $ 10,839 | $ 69,501 | $ 62,783 | $ 6,278 | $ 74,129 | $ 1,600 |
| Assets | | 152,485 | | | | | | | |
| Liabilities | | (9,340) | | | | | | | |
| | | $ 143,145 | | | | | | | |

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