PIEDMONT MUNICIPAL POWER AGENCY

Financial Statements and Schedules

December 31, 2016 and 2015

(With Report of Independent Auditor Thereon)

Cherry Bekaert LLP
CPAs & Advisors

PIEDMONT MUNICIPAL POWER AGENCY

Table of Contents

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, 2016 and 2015, 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, 2016 and 2015, 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 13, 2017

PIEDMONT MUNICIPAL POWER AGENCY

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, 2016 and 2015. 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, 2016 decreased by $12.4 million over the prior year. This decrease is due to decreases in other non-current 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.

PMPA's total assets as of December 31, 2015 increased by $41.6 million over the prior year. This increase is primarily due to an increase to total current restricted assets, which increased due to the 2015A bond issuance and to cover debt service payments. Total current unrestricted assets also increased, primarily due to an increase in marketable debt securities purchased during 2015. There was also an increase to total capital assets due to additions to the utility plant. Additionally, there was a decrease to other non-current assets, a result of decreases in net costs recoverable from future Participant billings. Deferred outflows, which include costs on advanced refundings and redemption losses, decreased by $11.2 million at December 31, 2015 when compared to the prior year.

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 Fair Value ("FV") liability of derivative instruments at December 31, 2016.

Total liabilities at December 31, 2015 increased by $21.8 million when compared to December 31, 2014. Bond-related liabilities increased $8.4 million; of this amount, $6.0 million represented an increase in current debt service requirements. Reserves for decommissioning increased by $4.2 million due to annual accretion, and accrued interest payable increased by $8.7 million.

The change in deferred inflows was due to a $3.9 million increase in the FV liability of derivative instruments at December 31, 2015.

Overview of the Financial Activities

The following is an overview of the financial activities of PMPA for the years ended December 31, 2016 and 2015.

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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Financial Information

The following summarizes the activities of PMPA for the years ended December 31, 2016, 2015, and 2014:

	2016	2015	2014
		(In thousands)	
Revenues:			
Sales of electricity to Participants	$ 236,690	$ 229,510	$ 216,493
Sales of electricity to other utilities and other operating revenues	23,174	21,096	21,018
Total operating revenues	259,864	250,606	237,511
Interest income	2,346	1,700	1,557
Net increase/(decrease) in fair value of investments and derivative instruments	225	(4,125)	(9,560)
Total revenues	262,435	248,181	229,508
Expenses:			
Operation, maintenance, and nuclear fuel amortization	51,193	50,274	52,195
Purchased power, transmission, and power delivery	61,582	60,738	59,663
Administrative, general, and payment in lieu of property taxes	24,603	24,598	24,289
Depreciation	11,840	9,434	8,806
Interest and amortization expense	56,345	58,811	61,474
Other	9,656	9,731	12,803
Decommissioning-change in accounting estimate	-	-	(21,510)
Total expenses	215,219	213,586	197,720
Revenues over expenses before deferred items	47,216	34,595	31,788
Change in net expenses recoverable from future Participant billings	(25,300)	(29,870)	(11,892)
Change in net position	21,916	4,725	19,896
Net position – beginning	58,938	54,213	34,317
Net position – ending	$ 80,854	$ 58,938	$ 54,213

Results of Operations

Revenues

- Sales of electricity to Participants, PMPA's primary source of revenue, increased in 2016 by 3.1% or approximately $7.2 million. A 2.8% increase in energy sales is the primary component of the revenue increase. PMPA's primary source of revenue increased in 2015 by 6.0% or approximately $13.0 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 9.9% in 2016 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 increased by 1.4% (or approximately $0.8 million) in 2016 due to an increase in both the quantity and price of energy purchased compared to 2015. PMPA's purchased power expense increased 1.8% (or approximately $1.1 million) in 2015.

- Fuel amortization expense increased by $1.4 million in 2016 due to an increase in production at Catawba. Fuel amortization expense increased by $0.7 million in 2015 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 2016, a $0.6 million decrease in FV of the step coupon swap liability was added to a $0.4 million increase in the FV of PMPA's other investments. In 2015, a $3.9 million increase in FV of the swap liability was added to a $0.2 million increase in the FV of PMPA's other investments.

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

	2016	2015	2014
		(In thousands)	
Assets:			
Capital assets	$ 359,847	$ 362,389	$ 349,853
Current unrestricted assets	133,859	111,915	102,906
Current restricted assets	252,726	259,153	209,184
Other noncurrent assets	517,851	543,181	573,080
Total assets	$ 1,264,283	$ 1,276,638	$ 1,235,023
Deferred outflows:	$ 61,685	$ 72,102	$ 83,260
Liabilities:			
Long-term liabilities	$ 1,013,399	$ 1,066,588	$ 1,059,839
Current liabilities	184,915	175,795	160,740
Total liabilities	$ 1,198,314	$ 1,242,383	$ 1,220,579
Deferred inflows:	$ 46,800	$ 47,419	$ 43,491
Net position:			
Net investment in capital assets	$ (572,071)	$ (618,256)	$ (614,170)
Restricted for debt service	-	-	-
Other restricted assets	37,736	46,570	2,738
Unrestricted	615,189	630,624	665,645
Total net position	$ 80,854	$ 58,938	$ 54,213

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, 2017 and an increase in bond interest payable on January 1, 2017.

Changes in PMPA's current unrestricted assets during 2015 are a reflection of the $26.9 million increase to PMPA's working capital, when PMPA budgeted to decrease working capital by $0.9 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, 2016 and an increase in bond interest payable on January 1, 2016.

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

Restricted assets increased in 2015 as a result of an increase in the construction accounts from the 2015 bond deal. Also, the semi-annual debt service payments accrued and deposited for payment in January 2016. In contrast, money was withdrawn from construction accounts for capital additions at Catawba.

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.

The 2015 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, 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. As bonds matured on January 1, 2015, long-term repayment obligations that were funded in the prior year were retired and offset by the 2015 bond issuance, resulting in a net increase of debt outstanding of $8.4 million in 2015.

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:

	2016	2015	2014
		(In thousands)	
Structures and improvements	$ 162,301	$ 158,068	$ 154,661
Reactor plant equipment	273,468	265,555	245,534
Turbo generator units	71,307	69,704	69,069
Other equipment	84,162	81,284	79,207
Nuclear fuel	73,047	70,363	68,137
Other	58,339	63,526	88,264
Construction work-in-progress	8,162	16,838	5,217
Total	730,786	725,338	710,089
Less accumulated depreciation	(370,939)	(362,949)	(360,236)
Total, net	$ 359,847	$ 362,389	$ 349,853

(Continued)

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).

PMPA's investment in capital assets at December 31, 2015 totaled $362.3 million (net of accumulated depreciation), a $12.5 million increase from 2014. Major capital transactions during 2015 included the following:

- Decrease in Catawba plant and decommissioning obligation of $25.0 million offset by $0.5 million in retirements and related accumulated depreciation.
- Net increase in nuclear fuel of $2.2 million ($18.6 million was added to fuel, and $16.4 million of fully amortized fuel was written off).
- Depreciation and amortization expense of $23.1 million.
- Increase in construction work-in-progress of $11.6 million representing capital additions at Catawba ($16.6 million of additions offset by $5.0 million that was moved to plant accounts and written off).

Debt Management

PMPA's total debt decreased $53.4 million in 2016 and increased $4.6 million in 2015.

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.

In September 2015, PMPA issued electric revenue bonds totaling $51.9 million to (i) finance capital projects for the Catawba Project, (ii) make certain deposits to the Reserve Account and Reserve and Contingency Fund to provide for the Reserve Account Requirement and Reserve and Contingency Fund Requirement, and (iii) pay a portion of the costs of issuance of the Offered Bonds.

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 more large commercial and industrial retail customers. The 2017 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, 2016 and 2015
(Dollars in thousands)

Assets	2016	2015
Capital assets (Note 5)		
Utility plant assets being depreciated	$ 722,097	$ 708,154
Accumulated depreciation and amortization	(370,939)	(362,949)
Total utility plant assets being depreciated, net	351,158	345,205
Utility plant assets not being depreciated	8,689	17,184
Total capital assets, net	359,847	362,389
Current assets (Note 8)		
Cash	95	13
Marketable debt securities	96,201	76,693
Accrued interest receivable	3	3
Participant accounts receivable	18,372	17,324
Other accounts receivable	436	119
Materials and supplies	18,752	17,763
Total current unrestricted assets	133,859	111,915
Restricted assets (Note 7)		
Restricted for debt service	145,750	147,589
Restricted for decommissioning	69,240	64,994
Restricted for other	37,736	46,570
Total current restricted assets	252,726	259,153
Total current assets	386,585	371,068
Noncurrent assets:		
Net costs recoverable from future Participant billings (Note 9)	517,621	542,921
Other	230	260
Total other assets	517,851	543,181
Total assets	$ 1,264,283	$ 1,276,638
Deferred Outflows:		
Redemption loss	$ 17,947	$ 20,750
Losses on advance refunding of debt, net	43,738	51,352
Total deferred outflows	$ 61,685	$ 72,102

Liabilities		2016		2015
Long-term liabilities (Notes 10 and 11)				
Bonds payable, net	$	920,956	$	978,632
Reserve for decommissioning (Note 12)		91,746		87,301
Accrued expense OPEB		697		655
Total long-term liabilities		1,013,399		1,066,588
Current liabilities:				
Accounts payable and accrued liabilities		9,154		9,775
Current liabilities payable from restricted assets:				
Accrued interest payable		121,061		112,655
Current installments of bonds payable		54,700		53,365
Total current liabilities payable from restricted assets		175,761		166,020
Total current liabilities		184,915		175,795
Total liabilities	$	1,198,314	$	1,242,383
Deferred Inflows:				
Derivative financial instruments	$	46,800	$	47,419
Net position				
Net investment in capital assets	$	(572,071)	$	(618,256)
Restricted for other		37,736		46,570
Unrestricted		615,189		630,624
Total net position	$	80,854	$	58,938

See accompanying notes to financial statements.

PIEDMONT MUNICIPAL POWER AGENCY

Statements of Revenues, Expenses and Changes in Net Position
December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
Operating revenues		
Sales of electricity to Participants	$ 236,690	$ 229,510
Sales of electricity to other utilities	21,380	19,474
Other	1,794	1,622
Total operating revenues	259,864	250,606
Operating expenses		
Operation and maintenance	36,040	36,492
Nuclear fuel amortization	15,153	13,782
Purchased power	53,573	52,963
Transmission	7,088	7,130
Power delivery	921	645
Administrative and general	17,938	18,084
Depreciation	11,840	9,434
Decommissioning	4,445	4,230
Payments in lieu of property taxes	6,665	6,514
Total operating expenses	153,663	149,274
Net operating income	106,201	101,332
Other income (expense)		
Interest income	2,346	1,700
Net change in fair market value of investments and derivative instruments	225	(4,125)
Interest expense	(51,089)	(53,290)
Amortization expense	(5,256)	(5,521)
Other	(5,211)	(5,501)
Total other expense	(58,985)	(66,737)
Revenues over expenses before change in net expenses recoverable from future Participant billings	47,216	34,595
Net decrease in net expenses recoverable from future Participant billings	(25,300)	(29,870)
Revenue over expenses	21,916	4,725
Net position at beginning of year	58,938	54,213
Net position at end of year	$ 80,854	$ 58,938

See accompanying notes to financial statements.

PIEDMONT MUNICIPAL POWER AGENCY

Statements of Cash Flows
December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
Cash flows from operating activities:		
Receipts from customers	$ 258,500	$ 250,807
Payments for operations and maintenance	(37,029)	(37,618)
Payments for purchased power, transmission and power delivery	(68,247)	(67,252)
Payments for administration and general	(18,518)	(17,725)
Net cash from operating activities	134,706	128,212
Cash flows from investing activities:		
Purchase of investment securities	(611,580)	(558,143)
Proceeds from sales and maturities of investments	598,276	499,985
Interest received on investments	2,169	1,586
Interest received on Duke working capital	177	114
Net interest paid on derivative instruments	(1,554)	(1,780)
Net cash from investing activities	(12,512)	(58,238)
Cash flows from capital and related financing activities:		
Payment of bond principal	(53,365)	(47,330)
Proceeds from bond issuance	-	59,102
Interest payment on bonds	(38,944)	(40,430)
Debt issuance costs	-	(535)
Expenditures for electric plant in service	(11,277)	(16,629)
Expenditures for nuclear fuel	(12,338)	(18,610)
Payment to Duke for other charges	(5,850)	(6,477)
Other	(338)	739
Net cash from financing activities	(122,112)	(70,170)
Net change in cash	82	(196)
Cash at beginning of year	13	209
Cash at end of year	$ 95	$ 13
Non-cash investing and financing activities:		
Gain on sale of investment	$ 171	$ 288
Amortization expense on discounts and premiums	$ 2,976	$ 3,302
Amortization of net redemption loss	$ (10,447)	$ (11,187)
Net change in fair value of investments	$ 225	$ (4,125)

		2016		2015
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	106,201	$	101,332
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		11,840		9,434
Fuel amortization		15,153		13,782
Accretion of reserve for decommissioning		4,445		4,230
(Increase) decrease in:				
Participant accounts receivable		(1,048)		(175)
Other accounts receivable		(317)		376
Materials and supplies		(989)		(1,126)
Increase (decrease) in:				
Accounts payable and accrued liabilities		(621)		275
Accrued expense OPEB		42		84
Net cash from operating activities	$	134,706	$	128,212

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 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 ("US GAAP") and substantially in conformity with the Federal Energy Regulatory Commission's Uniform System of Accounts.

PMPA follows the accounting practices set forth in US 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, 2016 and 2015 of $61,685 and $72,102, respectively, (net of accumulated amortization of $306,160 and $297,780, respectively) have been deferred in accordance with US 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 17 years (2017 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, 2016 and 2015 of $1,375 and $1,565, respectively, (net of accumulated amortization of $15,602 and $15,474, 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, 2016 and 2015 of $16,201 and $19,367, respectively, (net of accumulated amortization of $23,188 and $22,180, 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, 2016 and 2015 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 1.7% and 1.3% for 2016 and 2015, 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 US 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. 72, *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy and valuation techniques. This Statement is effective for periods beginning after June 15, 2015. Adoption of this statement had no material effect on PMPA's financial statements.

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, O*ther Post-employment 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. This Statement is not expected to have material impact on PMPA.

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. The impact to the Agency upon adoption of this standard is currently being evaluated.

(2) Summary of Significant Accounting Policies – Continued

(o) Recent Pronouncements - Continued

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This Statement reduces the US GAAP hierarchy to two categories of authoritative US GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative US GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is approved by the GASB. The requirements of this Statement are effective for periods beginning after June 15, 2015. Adoption of this statement had no material effect on PMPA's financial statements.

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.

(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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(Dollars in thousands)

(5) Capital Assets

The following is a summary of capital asset activity for the years ended December 31, 2016 and 2015:

	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

(Dollars in thousands)

(5) Capital Assets – Continued

	December 31, 2015			
	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant being depreciated:				
Structures and improvements	$ 154,661	$ 3,876	$ (469)	$ 158,068
Reactor plant equipment	245,534	22,779	(2,758)	265,555
Turbo generator units	69,069	722	(87)	69,704
Accessory electric equipment	51,221	1,560	(189)	52,592
Miscellaneous plant equipment	19,203	688	(83)	19,808
Station equipment	4,963	129	(28)	5,064
Transmission equipment	3,820	-	-	3,820
Other	2,386	272	(8)	2,650
Unclassified	85,532	4,623	(29,625)	60,530
Nuclear fuel	68,137	18,610	(16,384)	70,363
Total utility plant assets being depreciated	704,526	53,259	(49,631)	708,154
Less accumulated depreciation and amortization	(360,236)	(23,103)	20,390	(362,949)
Total utility plant assets being depreciated, net	344,290	30,156	(29,241)	345,205
Utility plant assets not being depreciated:				
Land	346	-	-	346
Construction work-in-progress	5,217	16,629	(5,008)	16,838
Total utility plant assets not being depreciated	5,563	16,629	(5,008)	17,184
Total capital assets, net	$ 349,853	$ 46,785	$ (34,249)	$ 362,389

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 $9,654 and $16,384 were removed during 2016 and 2015, respectively.

A summary of accumulated depreciation and amortization at December 31, 2016 and 2015 is as follows:

	2016	2015
Accumulated depreciation of electric plant in service	$ 335,790	$ 333,299
Accumulated amortization of nuclear fuel	35,149	29,650
	$ 370,939	$ 362,949

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, 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

(Dollars in thousands)

(6) Cash, Cash Equivalents and Investments – Continued

At December 31, 2015, the carrying value of deposits included in cash and cash equivalents was $13. Bank deposits were covered by federal depository insurance up to $250, as described in Note 8.

As of December 31, 2015, 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	$ 187,454	$ -	$ -	$ -	$ -	$ 187,454
Government Agency	25,879	14,023	-	-	-	39,902
Government Treasury	7,043	19,295	26,749	29,567	23,610	106,264
Mortgage Backed Securities	-	1	-	114	1,728	1,843
Total fair value	$ 220,376	$ 33,319	$ 26,749	$ 29,681	$ 25,338	$ 335,463

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, 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)

The following represents securities in an unrealized loss position as of December 31, 2015:

	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	$ 10,061	$ (90)	$ 12,323	$ (95)	$ 22,384	$ (185)
Total	$ 10,061	$ (90)	$ 12,323	$ (95)	$ 22,384	$ (185)

(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, 2016, 5% of the portfolio was held in Federal Agency bonds and 0.4% was held in Agency Mortgage-Backed Securities. As of December 31, 2015, 12% of the portfolio was held in Federal Agency bonds and 0.6% was held in Agency Mortgage-Backed Securities.

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

	2016	2015
Fair value of investments	$ 348,351	$ 335,463
Accrued interest receivable	576	383
Total	$ 348,927	$ 335,846
Statement of Net Position:		
Marketable debt securities	$ 96,201	$ 76,693
Restricted for debt services	145,750	147,589
Restricted for decommissioning	69,240	64,994
Restricted for other	37,736	46,570
Total investments	$ 348,927	$ 335,846

(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, 2016 and 2015, management believes PMPA was in compliance with all such restrictions and held the following restricted assets:

	2016		2015	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Debt services - bond principal	$ 54,655	$ 54,657	$ 53,358	$ 53,358
Debt services - bond fixed rate interest	18,271	18,269	19,030	19,030
Debt service - bond retirement principal	187	187	187	187
Debt service reserve	66,005	66,320	68,181	68,033
Reserve and contingency	6,632	6,632	6,833	6,833
Decommissioning	69,240	69,548	64,994	64,895
Construction	36,136	36,136	44,970	44,970
Special reserve	1,600	1,600	1,600	1,600
	$ 252,726	$ 253,349	$ 259,153	$ 258,906
Funds are comprised of:				
Marketable debt securities	$ 252,150	$ 252,773	$ 258,770	$ 258,523
Accrued interest receivable	576	576	383	383
	$ 252,726	$ 253,349	$ 259,153	$ 258,906

(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:

	2016		2015	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Working capital	$ 127,547	$ 127,486	$ 108,417	$ 108,338
Derivative financial instruments	(46,800)	-	(47,419)	-
Fuel acquisition	6,312	6,312	3,498	3,498
	$ 87,059	$ 133,798	$ 64,496	$ 111,836

(8) Current Unrestricted Assets and Current Liabilities – Continued

Current unrestricted assets include $95 and $13 in cash at December 31, 2016 and 2015, respectively. Bank balances at December 31, 2016 and 2015 were $574 and $333, respectively, of which $324 and $83 are uninsured and uncollateralized at December 31, 2016 and 2015, respectively. Accounts payable and accrued liabilities of $9,154 and $9,775 at December 31, 2016 and 2015, 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:

	2016	2015	Change
	(Cumulative totals)		
Items to be recovered in future			
Participant billings:			
Interest expense	$ 462,535	$ 451,311	$ 11,224
Depreciation expense	384,182	376,915	7,267
Amortization of redemption and defeasance losses	315,542	305,125	10,417
Debt issuance costs and amortization of bond discounts and premiums	90,870	93,846	(2,976)
Nuclear fuel expenses	873	873	-
Letter of credit fees	5,649	5,649	-
Other	2,390	2,390	-
	1,262,041	1,236,109	25,932
Items reducing future Participant billings:			
Investment income	(76,528)	(76,528)	-
Increase in fair value of investments and derivative instruments	47,361	47,586	(225)
Rate stabilization (revenue received to reduce future billings to Participants)	(537,784)	(537,784)	-
Reserve and contingency deposits	(102,796)	(102,133)	(663)
	(669,747)	(668,859)	(888)
Revenues (expenses) recognized:			
Interest, depreciation, amortization expense included in Participant billings for debt principal payments	(605,263)	(550,599)	(54,664)
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	32,526	28,206	4,320
Net costs recoverable from future Participant billings	$ 517,621	$ 542,921	$ (25,300)

(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, 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 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 through 2019 with interest from 5.00% to 5.25%	87,475	-	15,325	72,150	23,435

(Dollars in thousands)

(10) Long-Term Liabilities – Continued

	2015	Additions	Reductions	2016	Due within one year
2008E Refunding Series Electric Revenue Bonds, payable from 2033 to 2034 with variable interest rates (1.26% at December 31, 2016)	$ 60,000	$ -	$ -	$ 60,000	$ -
2009A-3 Refunding Series Electric Revenue Bonds, payable through 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 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	-
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 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

PIEDMONT MUNICIPAL POWER AGENCY

Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

(10) Long-Term Liabilities – Continued

Long-term liabilities at December 31, 2015 and 2014 consist of the following:

	2014	Additions	Reductions	2015	Due within one year
1988A Capital Appreciation Electric Revenue Bonds, payable 2015 with interest at 7.65%	$ 225	$ -	$ 225	$ -	$ -
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%	17,630	-	12,210	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	-
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	-	-	87,475	15,325

PIEDMONT MUNICIPAL POWER AGENCY

Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

(10) Long-Term Liabilities – Continued

	2014	Additions	Reductions	2015	Due within one year
2008E Refunding Series Electric Revenue Bonds, payable 2034 with variable interest rates (1.03% at December 31, 2015)	$ 60,000	$ -	$ -	$ 60,000	$ -
2009A-1 Refunding Series Electric Revenue Bonds, payable 2015 with interest at 4.873%	12,340	-	12,340	-	-
2009A-2 Refunding Series Electric Revenue Bonds, payable 2015 with interest at 5.00%	19,950	-	19,950	-	-
2009A-3 Refunding Series Electric Revenue Bonds, payable from 2015 to 2019 with interest ranging from 3.00% to 5.00%	73,870	-	2,400	71,470	30,215
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%	13,840	-	205	13,635	2,405
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	-
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

	2014	Additions	Reductions	2015	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 0.83% at December 31, 2015	53,950	-	-	53,950	-
2011C Refunding Series Electric Revenue Bonds, payable annually from 2026 to 2034 with variable interest rate 0.83% at December 31, 2015	53,950	-	-	53,950	-

(Dollars in thousands)

(10) Long-Term Liabilities – Continued

	2014	Additions	Reductions	2015	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	1,009,590	51,935	47,330	1,014,195	53,365
Less unamortized discount	(1,758)	-	(193)	(1,565)	-
Plus unamortized premium	15,695	7,167	3,495	19,367	-
Bonds payable, net	$ 1,023,527	$ 59,102	$ 50,632	$ 1,031,997	$ 53,365

(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, 2016:

Year	Principal	Interest	Total
2017	$ 53,175	$ 38,906	$ 92,081
2018-2022	293,124	174,266	467,390
2023-2027	234,696	224,783	459,479
2028-3032	240,612	218,870	459,482
2033-2034	84,523	7,372	91,895
	$ 906,130	$ 664,197	$ 1,570,327

The debt service deposit requirements for principal differ from total long-term debt outstanding at December 31, 2016 because the principal payment of $54,700, which is due January 1, 2017, was deposited during 2016. 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, 2016: 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 $1,570,327. Principal and interest deposited for the years ended December 31, 2016 and 2015 were $94,401 and $93,706, respectively. Total revenues for the years ended December 31, 2016 and 2015 were $259,864 and $250,606 respectively.

In September 2015, PMPA issued electric revenue bonds totaling $51,935 to (i) finance capital projects for the Catawba Project (ii) make certain deposits to the Reserve Account and Reserve and Contingency Fund to provide for the Reserve Account Requirement and Reserve and Contingency Fund Requirement and (iii) pay a portion of the costs of issuance of the Offered Bonds.

(Intentionally Left Blank)

(Dollars in thousands)

(11) Refunding of Debt

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, 2016 and 2015, $53,750 and $63,260 of the bonds are considered defeased in-substance, respectively.

(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, 2016 and 2015, the fair value of PMPA's assets that are legally restricted for purposes of settling the decommissioning obligation is $69,240 and $64,994, 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 December 5, 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 US GAAP accounting for asset retirement obligations.

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

	2016	2015
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

(Dollars in thousands)

(12) Reserve for Decommissioning – Continued

The following is a roll-forward of the reserve for decommissioning for the year ended December 31, 2016 and 2015:

	2016	2015
Reserve for decommissioning at January 1	$ 87,301	$ 83,071
Accretion expense (decommissioning)	4,445	4,230
Reserve for decommissioning at December 31	$ 91,746	$ 87,301

(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 $149 and $142 in 2016 and 2015, 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 2016 or 2015. 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.

(Dollars in thousands)

(14) Postemployment Benefits – Continued

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

	2016	2015
Retirees	3	3
Active Employees	17	14
Total	20	17

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 US 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.

The following table shows the components of PMPA's annual OPEB cost for the years ended December 31, 2016 and 2015. PMPA is solely responsible for funding of the Plan.

	2016	2015
ARC at year-end	62	99
Interest on net OPEB obligation	26	29
Adjustment to ARC	(27)	(27)
Annual OPEB cost at year-end	61	101
Contribution made during the year	(19)	(17)
	42	84

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, 2016, 2015 and 2014 are as follows:

Year Ended	OPEB Cost	Contribution (ARC)	OPEB Cost Contributed	% of ARC Contributed	OPEB Obligation
12/31/2014	94	93	17	18.28%	571
12/31/2015	101	99	17	17.17%	655
12/31/2016	61	62	19	30.65%	697

(Dollars in thousands)

(14) Postemployment Benefits – Continued

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
1/1/2014	-	715	715	0%	1,201	60%
1/1/2015	-	715	715	0%	1,409	51%
1/1/2016	-	594	594	0%	1,547	38%

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.

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

US 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 US 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.

(b) Marketable Debt Securities

Marketable debt securities are reported at fair value and categorized within the fair value hierarchy established under 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, 2016 and 2015, 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.

(Dollars in thousands)

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

(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.

The estimated fair values of PMPA's long-term debt with carrying values which are different from their estimated fair values at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
1988A Electric Revenue Refunding Bonds	$ -	$ -	$ 2,081	$ 2,081
1991 Electric Revenue Refunding Bonds	56,327	64,110	56,261	66,853
1991A Electric Revenue Refunding Bonds	-	-	5,601	5,596
1993 Electric Revenue Refunding Bonds	34,129	40,397	34,078	41,718
2004A-2 Electric Revenue Refunding Bonds	205,689	249,912	194,465	176,370
2008A-2 Electric Revenue Bonds	38,781	39,563	38,786	40,546
2008A-3 Electric Revenue Refunding Bonds	74,347	75,727	90,499	94,105
2008C Electric Revenue Refunding Bonds	92,483	99,781	92,473	105,157
2008D Electric Revenue Refunding Bonds	30,826	33,259	30,823	34,337
2008E Electric Revenue Refunding Bonds	60,088	64,935	60,051	60,051
2009A-3 Electric Revenue Refunding Bonds	42,551	43,143	74,045	75,644
2009A-4 Electric Revenue Refunding Bonds	96,374	101,875	97,004	104,946
2009B Build America Bonds	27,422	34,075	27,422	35,845
2010A-1 Electric Revenue Bonds	11,474	11,783	13,931	14,237
2010A-2 Electric Revenue Refunding Bonds	55,438	58,113	55,980	60,831
2010A-3 Electric Revenue Refunding Bonds	19,600	20,536	19,710	21,131
2010A-4 Electric Revenue Refunding Bonds	24,674	25,790	24,765	26,375
2010A-5 Electric Revenue Refunding Bonds	16,198	17,028	16,326	17,551
2011A Electric Revenue Refunding Bonds	1,996	2,066	1,996	2,149
2011B Electric Revenue Refunding Bonds	54,021	54,021	53,988	53,987
2011C Electric Revenue Refunding Bonds	54,021	54,021	53,987	53,987
2012A Electric Revenue Refunding Bonds	14,466	14,548	14,592	14,939
2012B Electric Revenue Refunding Bonds	21,318	21,721	21,454	21,730
2012C Electric Revenue Refunding Bonds	4,580	4,712	4,580	4,875
2015A Electric Revenue Refunding Bonds	59,914	59,729	59,754	61,091
	$ 1,096,717	$ 1,190,845	$ 1,144,652	$ 1,196,132

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 $13,600,000.

Primary Liability Insurance. Duke has purchased the maximum reasonably available private primary nuclear liability insurance as required by law, which currently is $375,000.

Excess Liability. This policy currently provides $13,100,000 of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary financial protection program of risk pooling. The $13,100,000 of coverage is the sum of the current potential cumulative retrospective premium assessments of $127,000 per licensed commercial nuclear reactor. This $13,100,000 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 these 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 approximately a credit of $46,800 and $47,419 at December 31, 2016 and 2015, respectively. The fair value was estimated using a proprietary pricing service.

(17) Derivative Financial Instruments – Continued

Net Benefit 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, 2016, and 2015, PMPA has realized a net loss from the swap of $13,901 and $12,347, respectively, with the counterparty having paid or obligated to pay aggregate variable rate payments under the swap of $8,394 and $8,148, respectively, to PMPA, and PMPA having paid or obligated to pay aggregate fixed payments under the swap of $22,295 and $20,495, 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	1,800	1,800	-
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)
	$ 37,644	$ 115,895	$ (78,251)

(18) Subsequent Events

On March 7, 2017, the Agency issued the Electric Revenue Bonds, Refunding Series 2017 in the amount of $15,850,000. The bonds were issued to refund a portion of the Agency's Electric Revenue bonds, Series 2008A-2 and Electric Revenue Bonds, Refunding Series 2008A-3, as well as pay the cost of issuance.

SUPPLEMENTARY INFORMATION

PIEDMONT MUNICIPAL POWER AGENCY

Schedule of Revenue and Expenses
Per the Bond Resolution and Other Agreements
Year Ending December 31, 2016
(Dollars in thousands)

	Actual Revenues and Expenses	Budgeted Revenues and Expenses	Actual Over (Under) Budget
Revenue:			
Sales of electricity to participants	$ 236,690	$ 239,855	$ (3,165)
Sales of electricity to Duke	13,612	13,770	(158)
Sales of electricity to Others	7,768	3,290	4,478
Interest income	2,346	1,855	491
Other	1,794	1,427	367
Total revenue	$ 262,210	$ 260,197	$ 2,013
Expenses:			
Catawba operating expenses:			
Operation & maintenance	$ 36,040	$ 35,041	$ 999
Nuclear fuel	15,153	14,315	838
Purchased power-Duke	14,267	15,204	(937)
Payments in lieu of taxes	6,665	6,835	(170)
Interconnection services:			
Purchased power:			
Duke	24,609	27,991	(3,382)
Participants	12,773	13,129	(356)
Other	1,924	1,680	244
Transmission Services:	7,088	7,192	(104)
Distribution services:	921	821	100
Administrative and general:			
Agency	5,423	4,128	1,295
Duke	12,515	14,505	(1,990)
Other	5,211	6,159	(948)
Special fund deposits(withdrawals):			
Bond fund:			
Deposits from revenues	94,401	94,718	(317)
Liquidity facility fees	-	-	-
Reserve and Contingency fund:			
Deposits from revenue	9,284	9,336	(52)
Capital additions	(663)	(3,736)	3,073
Transfer excess funds	(8,621)	(5,765)	(2,856)
Decommissioning fund:			
Deposits from revenue	3,636	3,636	-
Transfer excess funds	-	-	-
Interest income(1)	820	705	115
Revenue fund:			
Working capital	17,483	8,513	8,970
Fuel	(12,338)	(12,694)	356
Construction Fund:			
Interest income(1)	174	277	(103)
Transfer excess funds	-	-	-
Deposits(draws)	-	(12,035)	12,035
Supplemental power reserve:			
Interest income(1)	-	-	-
Transfer excess funds	3	(2,210)	2,213
Other capital transactions:			
Bond Refunding:			
Bond proceeds	-	-	-
Bond payments	-	-	-
Debt issuance	-	-	-
Excess funds	-	-	-
Plant additions:			
Reserve and contingency fund	663	15,771	(15,108)
General plant	521	919	(398)
Transmission plant	834	1,100	(266)
LDMSS/SCADA	1,086	1,968	(882)
Fuel acquisitions	12,338	12,694	(356)
Total expenses	$ 262,210	$ 260,197	$ 2,013

(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, 2016
(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		$ 93,845	$ 44,970	$ 3,498	$ 72,574	$ 68,329	$ 6,833	$ 65,092	$ 1,600
Liabilities		(9,775)	-	-	-	-	-	-	-
Net		84,070	44,970	3,498	72,574	68,329	6,833	65,092	1,600
Project revenues:									
Participants-Electric	(1)	236,690							
-Facilities rent	(1)	596							
-Control services	(1)								
-Other	(1)	1,198							
Duke Power-Electric	(1)	13,612							
Other-Surplus Electric	(1)	7,768							
Interest income	(1)	1,352	174					820	
Project costs (see note):									
Operations and maintenance	(2)	(36,040)							
Fuel	(3)	(15,153)		15,153					
Purchased power-Duke	(2)	(14,267)							
Decommissioning	(3)	(3,636)						3,636	
General and administration	(2)	(16,447)							
Payments in lieu of taxes	(2)	(6,611)							
Other	(2)	(3,587)							
Debt service	(3)	(94,401)			94,401				
Liquidity facility fees/Remkt fe	(3)	0							
Bond retirement	(3)								
Reserve and contingency	(3)	(9,284)					9,284		
Supplemental power costs:									
Purchased power-Duke/SoCo	(2)	(24,609)							
-Participant	(2)	(12,773)							
-Other	(2)	(1,924)							
Transmission services	(2)	(7,088)							
Distribution services	(2)	(921)							
General and administration	(2)	(1,491)							
Payments in lieu of taxes	(2)	(54)							
Other fund changes:									
Transfers in (out):									
Construction	(3)	663					(663)		
Excess funds	(3)	8,621					(8,621)		
Decommissioning	(3)								
Payments:									
Debt retire/interest	(2)				(93,862)	(2,009)	(201)		
Capital additions	(2)	(2,441)	(9,008)	(12,338)					
Balances at December 31, 2015		$ 103,843	$ 36,136	$ 6,313	$ 73,113	$ 66,320	$ 6,632	$ 69,548	$ 1,600
Assets		112,997							
Liabilities		(9,154)							
		$ 103,843							

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