

Interest on the Series 2015 Bonds is not excludable from gross income for Federal income tax purposes. In the opinion of Bond Counsel to Power Agency, under existing laws of the State of North Carolina, the interest on the Series 2015 Bonds is not subject to taxation as income, and the Series 2015 Bonds are free from taxation by said State or any political subdivision or any of their agencies, excepting inheritance or gift taxes, income taxes on the gain from the transfer of the Series 2015 Bonds, and franchise taxes. See "TAX MATTERS" herein.



\$421,430,000

**NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY
Revenue Bonds, Series 2015 (Federally Taxable)**

PURPOSE	To provide funds, together with other available funds as described herein, to defease all outstanding Power System Revenue Bonds of Power Agency.
DESCRIPTION	The Series 2015 Bonds will bear interest from their date at the rates per annum shown on the inside front cover. Interest on the Series 2015 Bonds is payable each January 1 and July 1, commencing on January 1, 2016.
SECURITY	<p><i>The Series 2015 Bonds will be the first Series of Bonds issued under the Resolution. The Series 2015 Bonds will be secured on a parity with any other Bonds that may be hereafter issued and Outstanding under the Resolution, subject to the establishment of separate debt service reserve provisions and accounts for various series as authorized by the Resolution. The Bonds issued under the Resolution will be payable from the Revenues derived by Power Agency from payments to be made to Power Agency by the 32 Members, all of which are North Carolina towns or cities, pursuant to Debt Service Support Contracts, which provide that each Member will pay its share of Monthly Support Costs (including debt service on all Bonds) as an operating expense of its electric system, and solely from the revenues thereof.</i></p> <p>Neither the faith and credit nor the taxing power of the State of North Carolina or of any city, town or other unit of municipal government thereof is pledged for the payment of the principal of, premium, if any, or interest on the Series 2015 Bonds.</p>
MATURITY	As shown on the inside front cover hereof.
REDEMPTION	Redemption prior to maturity as set forth herein.
BOND FUND TRUSTEE	U.S. Bank National Association

The Series 2015 Bonds are offered when, as and if issued and received by the Underwriters, subject to certain conditions, including the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to Power Agency. Certain legal matters in connection with the Series 2015 Bonds are subject to the approval of Womble Carlyle Sandridge & Rice, LLP, Raleigh, North Carolina, Counsel to the Underwriters, and Poyner Spruill LLP, Raleigh, North Carolina, North Carolina Counsel to Power Agency. The Series 2015 Bonds are expected to be available for delivery on July 31, 2015.

This cover page is for quick reference only and does not summarize the issue. Investors must read the entire Official Statement to obtain information essential to an informed investment decision. Capitalized terms have the meanings given in the Official Statement.

BofA MERRILL LYNCH

**BARCLAYS
MORGAN STANLEY
US BANCORP**

**FIRSTSOUTHWEST
RAYMOND JAMES
WELLS FARGO SECURITIES**

MATURITY SCHEDULE

\$421,430,000

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY REVENUE BONDS, SERIES 2015 (FEDERALLY TAXABLE)

<u>DUE</u> <u>(July 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>PRICE</u>	<u>CUSIP</u> [†]
2016	\$35,215,000	1.085%	100%	65819W AA1
2017	38,675,000	1.561	100	65819W AB9
2018	39,280,000	2.003	100	65819W AC7
2019	40,065,000	2.578	100	65819W AD5
2020	41,100,000	2.928	100	65819W AE3
2021	42,300,000	3.308	100	65819W AF0
2022	43,705,000	3.558	100	65819W AG8
2023	45,260,000	3.808	100	65819W AH6
2024	46,985,000	3.958	100	65819W AJ2
2025	48,845,000	4.058	100	65819W AK9

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. None of the Local Government Commission, Power Agency, nor any underwriter of the Series 2015 Bonds makes any representation as to, and shall not be responsible for, the accuracy of such CUSIP numbers

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No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than the information and representations contained herein, in connection with this offering of bonds, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the 2015 Bonds offered hereby, nor shall there be any sale of the 2015 Bonds, in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Certain of the information set forth herein has been compiled or prepared by Power Agency from information obtained from the Members or DTC (each as defined herein) and other sources believed to be reliable but it is not guaranteed as to accuracy or completeness. Neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of Power Agency, the Members or DTC since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING OF THE 2015 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

Relating to

\$421,430,000

North Carolina Eastern Municipal Power Agency Revenue Bonds, Series 2015 (Federally Taxable)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices attached hereto, is to set forth information concerning North Carolina Eastern Municipal Power Agency (“Power Agency”), its \$421,430,000 aggregate principal amount of Revenue Bonds, Series 2015 (Federally Taxable), being offered hereby (the “2015 Bonds”), and the 32 North Carolina towns and cities that are members of Power Agency (the “Members”) and have entered into Debt Service Support Contracts and Full Requirements Power Sales Agreements with Power Agency.

The 2015 Bonds are to be issued to provide funds, together with other funds available to Power Agency as described herein, to pay the costs to retire or defease (“Defeasance Costs”) all outstanding Power System Revenue Bonds of Power Agency (the “Outstanding Prior Bonds”) previously issued under Resolution No. R-2-82 adopted by the Board of Commissioners of Power Agency on April 1, 1982, as amended (the “Prior Resolution”). This defeasance is being carried out in connection with the plan by Power Agency to sell all of the electric generating and other assets it jointly owns with Duke Energy Progress, Inc. (“DEP”) to DEP. The proceeds of the 2015 Bonds, together with the amounts received from DEP from the sale of the assets and other funds available to Power Agency, will be used to retire or defease the Outstanding Prior Bonds as described herein under “PLAN OF FINANCE.”

The 2015 Bonds are to be issued pursuant to Chapter 159B, General Statutes of North Carolina, as amended (the “Act”), Resolution No. BDR-5-15 adopted by the Board of Directors of Power Agency on May 22, 2015, and a supplemental resolution also adopted by the Board of Directors of Power Agency on May 22, 2015 (the “2015 Supplemental Resolution”). Resolution No. BDR-5-15, as supplemented and amended from time to time, including as supplemented by the 2015 Supplemental Resolution, is referred to herein as the “Resolution.” The Board of Commissioners of Power Agency, by resolution adopted on May 20, 2015, has concurred in the issuance of the 2015 Bonds. For a description of the Board of Commissioners and the Board of Directors of Power Agency, and of ElectriCities of North Carolina Inc. (“ElectriCities”), which provides management services to Power Agency, see “NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY - Organization and Management” herein.

The 2015 Bonds are the initial bonds issued under the Resolution. The 2015 Bonds and all additional bonds that hereafter may be issued pursuant to the Resolution are referred to herein collectively as the “Bonds”. **Additional Bonds may be issued only to pay any remaining Balance of Defeasance Costs (no such remaining costs are anticipated) or to refund Bonds previously issued.**

In connection with sale of its generating assets to DEP and the issuance of the Bonds, each of the Members has entered into two separate agreements with Power Agency. First, each Member has entered into a Debt Service Support Contract (a “Debt Service Support Contract” and, collectively, the “Debt Service Support Contracts”) pursuant to which the Member agrees to pay to Power Agency such Member’s share of the debt service on the Bonds issued under the Resolution. Second, each Member has entered into a Full Requirements Power Sales Agreement (a “Full Requirements Power Sales Agreement” and, collectively, the “Full Requirement Power Sales Agreements”), pursuant to which Power Agency has agreed to sell to the Member, and the Member has agreed to purchase from Power Agency, all of the power and energy the Member will require in connection with the Member’s ownership and operation of its municipal electric system, except for the output of certain distributed generation facilities of the Member and its customers and power and energy purchased by the Member from the Southeastern Power Administration (“SEPA”). Revenue derived by the Member from its operation of the municipal electric system will provide the source of funds for the Member to make the required payments to Power Agency under the Debt Service Support Contract and the Full Requirements Power Sales Agreement. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS.” To enable Power Agency to satisfy its obligations to sell power and energy to the Members pursuant to the Full Requirements Power Sales Agreements, Power Agency has entered into a Full Requirements Power Purchase Agreement with DEP. See “NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY– Full Requirements Power Purchase Agreement.”

The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. The definitions of certain of such terms are summarized in Appendix C and Appendix D to this Official Statement.

PLAN OF FINANCE

Sale of the Joint Facilities to DEP

All of the 32 Members own and operate their own municipal electric system, from which they supply electric power to wholesale and retail customers within their service areas. The Act authorizes municipalities owning electric systems in North Carolina to create joint agencies having authority to plan, finance, develop, acquire, construct, reconstruct, improve, enlarge, better, operate, and maintain electric generation and transmission facilities. Power Agency is a public body and body corporate and politic organized in December 1976 under the Act. Power Agency was created primarily to participate in the ownership of several nuclear fueled and coal-fired electric generating facilities with Carolina Power & Light Company, with Power Agency’s share of the output of those facilities to be sold to the Members.

In April 1982, Power Agency adopted the Prior Resolution authorizing the issuance of Power System Revenue Bonds of Power Agency to finance, among other things, Power Agency's ownership interests in three nuclear fueled and two coal-fired electric generating units, together with support facilities (the "Joint Facilities"). Pursuant to agreements entered into between Power Agency and the Members at that time, Power Agency has been selling bulk power supply, consisting of power and energy derived from the Joint Facilities and power and energy acquired by Power Agency under contractual arrangements, to all the Members since April 22, 1982, with the proceeds of sales of power and energy derived from the Joint Facilities used, among other purposes, to pay debt service on the Power System Revenue Bonds. During that 33 year period, none of the 32 members has ever defaulted on a payment required under the contractual arrangements with Power Agency. The Outstanding Prior Bonds, in the aggregate principal amount of \$1,721,650,000, are the remaining Power System Revenue Bonds.

Power Agency and DEP have entered into an Asset Purchase Agreement, dated as of September 5, 2014 (the "Asset Purchase Agreement") for the sale of Power Agency's interests in the Joint Facilities, and certain other assets, to DEP. The Asset Purchase Agreement contains numerous conditions and requirements for the consummation of the sale, but the principal term of the sale is that Power Agency will sell its undivided ownership interests in the Joint Facilities, certain funds set aside for the decommissioning of the Joint Facilities that are nuclear power facilities, all nuclear fuel inventory, all spare parts at the Joint Facilities and all permits for the operation of the Joint Facilities to DEP for a purchase price of \$1,200,000,000, as adjusted to take into account the reimbursement for capital additions to the Joint Facilities paid by Power Agency during 2015 through the closing date (approximately \$43,750,000).

Full defeasance is a condition under the Prior Resolution to the sale of the Joint Facilities to DEP pursuant to the Asset Purchase Agreement. Accordingly, simultaneously with the consummation of the sale of the Joint Facilities, Power Agency will apply the proceeds of such sale, together with other funds available to and held by Power Agency under the Prior Resolution, to redeem, purchase, retire or defease a portion of the Outstanding Prior Bonds and the 2015 Bonds will be issued to provide funds to redeem, purchase, retire or defease the remaining Outstanding Prior Bonds so that all Outstanding Prior Bonds will be defeased and will no longer be outstanding under the Prior Resolution. The consummation of the sale under the Asset Purchase Agreement will result in the disposition by Power Agency of all of its electric generating assets (except for a very small amount of distributed generation).

In connection with the sale of the Joint Facilities, the Initial Project Power Sales Agreements between Power Agency and its 32 Members, which supported payment by Power Agency of debt service on the Prior Outstanding Bonds and other obligations, will be terminated and no further obligations will be issued under the Prior Resolution.

Pursuant to the Debt Service Support Contracts, each of the 32 Members has agreed to pay its share (the "Member's Share") of the amount necessary for Power Agency to pay all debt service payments on the Bonds, including the 2015 Bonds, and to pay administrative overhead costs allocable to Power Agency's activities under the Resolution and the Debt Service Support Contracts. The respective Member's Share for each Member is set forth below under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Service Support Contracts."

Pursuant to the Full Requirements Power Sales Agreements, each Member will purchase its full requirements bulk power supply, net of certain other resources, from Power Agency. The sales of power and energy to the Members under the Full Requirements Power Sales Agreements will constitute the primary source of power that the Members will sell to the wholesale and retail customers of their respective electric systems, and the sales of such power by the Members will provide funds to enable the Members to make the required payments to Power Agency under the Debt Service Support Contracts and the Full Requirements Power Sales Agreements. Since, upon the sale of the Joint Facilities to DEP, Power Agency will not have any generating resources (except for a very small amount of distributed generation), Power Agency has entered into an agreement (the “Full Requirements Power Purchase Agreement”) with DEP for DEP to sell to Power Agency and Power Agency to purchase from DEP, power and energy in the amounts required by Power Agency to serve the current and future electrical loads of its Members.

Motivation for Sale

Power Agency projects that the sale of the Joint Facilities to DEP, along with the replacement power supply arrangements under the Full Requirements Power Purchase Agreements with DEP, will provide both immediate and long term benefits to Power Agency and the Members. Power Agency’s total wholesale power costs will decrease immediately at closing by approximately 18% and total wholesale power costs for 2015-2025 are estimated to range from 15-19% lower than total projected power costs prior to the transaction. The immediate wholesale rate reduction will result in a significant improvement in Power Agency’s competitive position relative to other wholesale suppliers in the region. In addition, the sale of the Joint Facilities will eliminate the operational risk associated with Power Agency’s ownership of the Joint Facilities and will diversify Power Agency’s power supply.

Use of Proceeds of the 2015 Bonds

On the date of delivery of the 2015 Bonds, Power Agency will enter into an Escrow Deposit Agreement (the “Escrow Deposit Agreement”) with the Bond Fund Trustee under the Prior Resolution (the “Prior Trustee”) to provide for the defeasance of the Outstanding Prior Bonds. The Escrow Deposit Agreement will create an irrevocable trust fund (the “Escrow Fund”), which is to be held by the Prior Trustee and is to be applied to the payment of, and is pledged solely for the benefit of, the Outstanding Prior Bonds. Power Agency will deposit a portion of the proceeds from the sale of the 2015 Bonds, together with other available funds (consisting of the net proceeds from the sale of the Joint Facilities and other funds available to Power Agency), into the Escrow Fund in amounts which will be retained as cash or invested, at the direction of Power Agency, in direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (“Federal Securities”) maturing or subject to redemption at the option of the holder in amounts and bearing interest at rates sufficient without reinvestment (i) to pay the principal of the Outstanding Prior Bonds not subject to optional redemption on their respective maturity dates, (ii) to redeem the Outstanding Prior Bonds to be optionally redeemed on their respective redemption dates at their respective redemption prices and (iii) to pay the interest on the Outstanding Prior Bonds through their respective maturity dates or earlier redemption dates. The Federal Securities may be purchased from the Treasury Department of the United States of America or in the open market through a

competitive bidding process. If the Federal Securities are purchased on the open market, they may be purchased from one or more of the Underwriters.

Upon issuance of the 2015 Bonds, the Outstanding Prior Bonds to be optionally redeemed will be irrevocably designated for redemption as described above, provision will be made in the Escrow Deposit Agreement for the giving of notice of such redemption, and the Outstanding Prior Bonds shall not be redeemed other than as described above.

Upon the irrevocable deposit and application of monies and securities in the Escrow Fund, together with certain other provisions of the Escrow Deposit Agreement, the Outstanding Prior Bonds will be deemed to be no longer outstanding under the Prior Resolution. Under the terms of the Prior Resolution, upon that event, the Prior Resolution will be “defeased” and the pledges, charges, trusts, covenants and agreements of Power Agency in the Prior Resolution or provided for therein, including the pledge of the “Revenues” of Power Agency provided for therein as security for the Outstanding Prior Bonds, will be fully discharged and satisfied as to the Outstanding Prior Bonds and they shall be deemed to be no longer “Outstanding” under the Prior Resolution.

Approvals and Authorizations

Amendments to the Act were enacted in April 2015 by the General Assembly of North Carolina in order to facilitate the sale of the assets to DEP and the issuance of the Bonds. The North Carolina Utilities Commission has approved certain aspects of the transaction with DEP in connection with its regulation of DEP. The purchase of the Joint Facilities by DEP and the Full Requirements Power Purchase Agreement have been approved by the Federal Energy Regulatory Commission (“FERC”) and the transfer of the ownership of the nuclear facilities has been approved by the federal Nuclear Regulatory Commission. No additional regulatory approvals or authorizations are required for Power Agency to sell the Joint Facilities to DEP pursuant to the Asset Purchase Agreement.

The Local Government Commission of North Carolina (the “Local Government Commission”) has powers of general oversight of the fiscal management of Power Agency and the Members, and bond issues by Power Agency, including the issuance of the 2015 Bonds, are subject to the approval of the Local Government Commission, which must determine that the issuance of the proposed bonds will effectuate the purposes and policies of the Act. The Local Government Commission has approved the issuance of the 2015 Bonds.

Estimated Sources and Uses

The proceeds of the 2015 Bonds and other available funds are estimated to be applied as follows:

Sources

Principal Amount of the 2015 Bonds	\$ 421,430,000
Available Funds of Power Agency	329,709,000
Proceeds from Sale of Joint Facilities	<u>1,220,920,089</u>
Total Sources	<u>\$1,972,059,089</u>

Uses

Deposit to Escrow Fund	\$1,953,148,752
Deposit to Reserve Account	12,146,384
Deposit to Contingency Account	5,082,713
Underwriters' Discount and Financing Expense	<u>1,681,240</u>
Total Uses	<u>\$1,972,059,089</u>

DESCRIPTION OF THE 2015 BONDS

General

The 2015 Bonds will be dated the date of their delivery, will mature at the times and in the principal amounts and will bear interest at the rates as set forth on the inside cover page of this Official Statement. Interest on the 2015 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the 2015 Bonds shall be payable on each January 1 and July 1, commencing January 1, 2016 (or in each case, if such interest payment date is not a business day, the next succeeding business day, but with no additional accrued interest), in each case to the registered owner as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding an interest payment date therefor. Notwithstanding the foregoing, defaulted interest shall be payable to holders as of a special record date or dates as may be established by the Bond Fund Trustee.

The 2015 Bonds will be issued as fully registered bonds without coupons and in denominations of \$5,000 or any integral multiple thereof. The 2015 Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the 2015 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the 2015 Bonds, the 2015 Bonds will be exchangeable for other fully registered certificated 2015 Bonds. See "DTC and Book-Entry" below.

Redemption; Purchase in Lieu of Redemption

“Make-Whole” Optional Redemption. The 2015 Bonds are subject to redemption prior to maturity at the option of Power Agency, in whole or in part, on any business day at the “Make-Whole Redemption Price” (as defined herein). The Make-Whole Redemption Price is the greater of (i) 100% of the principal amount of the 2015 Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2015 Bonds to be redeemed to the maturity date thereof, not including any portion of those payments of interest accrued and unpaid as of the respective dates on which the 2015 Bonds are to be redeemed, discounted to the respective dates on which the 2015 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of 12 30-day months, at the “Treasury Rate” (defined below) plus thirty basis points (.30%), plus, in each case, accrued and unpaid interest on the 2015 Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular 2015 Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519)) that has become publicly available at least two business days prior to the redemption date, excluding inflation indexed securities, or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the 2015 Bonds to be redeemed; provided, however, that if the period from the redemption date to the maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Purchase in Lieu of Redemption. Any 2015 Bonds subject to optional redemption are also subject to optional call for purchase and resale by Power Agency at the same times and at the same prices as would be applicable to the optional redemption of such 2015 Bonds. Notice of such call for purchase shall be given to the same persons and in the same manner as would have been required for notices of redemption, and the particular 2015 Bonds to be called for purchase shall be selected in the same manner as required for redeemed 2015 Bonds. Notices of calls for purchase may be conditional and may be rescinded as with calls for redemption.

Selection of Bonds to be Redeemed or Purchased. In the event that less than all of the 2015 Bonds of a maturity are to be redeemed or purchased in lieu of redemption, the particular 2015 Bonds or portions thereof of that maturity to be redeemed or purchased shall be selected in accordance with the operational arrangements of DTC or its successor then in effect. If DTC or a successor securities depository is willing and able to select 2015 Bonds for redemption proportionally based on the principal amount of the 2015 Bonds owned by each beneficial owner of the 2015 Bonds, subject to the authorized denominations of the 2015 Bonds, the Bond Fund Trustee will be requested to request DTC or its successor to use such a proportional allocation in selecting 2015 Bonds of the maturity for redemption. If proportional provisions are used, it is expected that the selection will be done in accordance with DTC's or the successor securities depository's procedures. Nevertheless, Power Agency cannot provide any assurance that DTC will allocate redemptions among beneficial owners on a proportional basis. If DTC or a successor securities depository is not willing or able to select 2015 Bonds proportionately, or if proportional allocation is not requested for any reason, the 2015 Bonds within a maturity will be

selected in accordance with the operational arrangements of DTC or such successor securities depository then in effect. Any failure to select 2015 Bonds for redemption on the basis of a proportional allocation for any reason shall not affect the sufficiency or validity of the redemption of such 2015 Bonds.

In any event, for so long as a book-entry only system is in effect with respect to the 2015 Bonds, DTC or its successor and Direct DTC Participants (as defined in Appendix G hereto) and Indirect DTC Participants (as defined in Appendix G hereto) will determine the particular ownership interests of 2015 Bonds of such maturity to be redeemed or purchased. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to make such determination or to make such determination as described above, will not affect the sufficiency or the validity of the redemption or purchase of 2015 Bonds. See APPENDIX G - "DTC AND BOOK-ENTRY."

If records of ownership of the 2015 Bonds are not maintained in a book-entry only form, if less than all of the 2015 Bonds of a maturity are to be redeemed, the Trustee will select the 2015 Bonds of a maturity to be redeemed as nearly practicable proportionally based on the principal amounts of the 2015 Bonds owned by each registered owner, subject to the authorized denominations of the 2015 Bonds.

Notice and Effect of Redemption; Conditional Notice; Rescission. Notice of redemption of 2015 Bonds to be redeemed is to be mailed, not less than 30 days prior to the redemption date, to the registered owner of each bond to be redeemed at the address that appears on the Books of Registry, but failure to receive any such notice shall not affect the validity of the redemption proceedings. For so long as a book-entry only system is in effect with respect to the 2015 Bonds, the Bond Fund Trustee will mail notice of redemption to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a Beneficial Owner of a 2015 Bond of any redemption will not affect the sufficiency or the validity of the redemption of such bonds. See APPENDIX G - "DTC AND BOOK-ENTRY".

Any optional redemption notice may state that it is conditioned upon the deposit with the Bond Fund Trustee on or prior to the redemption date of moneys in an amount equal to the amount necessary to effect the redemption, or upon the occurrence or satisfaction of any other condition, and that the notice of redemption may be rescinded by written notice given to the Bond Fund Trustee by Power Agency no later than the date specified for redemption. The Bond Fund Trustee shall give notice of rescission, failure of such condition to occur or be satisfied or failure to fund the redemption price as soon thereafter as practicable in the same manner, to the same Persons as notice of redemption was given.

None of Power Agency, the Bond Fund Trustee or the Underwriters can give any assurance that DTC or its successor, the Direct DTC Participants or the Indirect DTC Participants will distribute such redemption notices to the Beneficial Owners of the 2015 Bonds, or that they will do so on a timely basis.

DTC and Book-Entry

The 2015 Bonds are issuable as fully registered bonds. When issued, the 2015 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. Purchases of the 2015 Bonds by the beneficial owners thereof will be made in book-entry form only. Individual purchasers of 2015 Bonds will not receive physical delivery of bond certificates. Transfers of the 2015 Bonds and payments of the principal of, redemption premium, if any, and interest on the 2015 Bonds will be made as described in Appendix G - "DTC AND BOOK ENTRY". Beneficial owners of the 2015 Bonds should make appropriate arrangements with their broker or dealer to receive notices (including notices of redemption) and other information regarding the 2015 Bonds that may be conveyed by DTC to its participants. So long as Cede & Co. is the registered owner of the 2015 Bonds, all references herein to the bondholders or the registered owners of the 2015 Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the 2015 Bonds except as provided in Appendix G hereto.

If at any time the Book-Entry Only System is discontinued for the 2015 Bonds, the 2015 Bonds will be exchangeable for other fully registered certificated 2015 Bonds. The Bond Fund Trustee may impose a charge sufficient to reimburse Power Agency or the Bond Fund Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a 2015 Bond. The cost, if any, of preparing each new 2015 Bond issued upon such exchange or transfer, and any other expenses of Power Agency or the Bond Fund Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer. See Appendix G - "DTC AND BOOK-ENTRY."

Trustee and Bond Registrar

U.S. Bank National Association is Bond Fund Trustee under the Resolution. The Bond Fund Trustee is the sole registrar, transfer agent and paying agent for the 2015 Bonds. Any successor Bond Fund Trustee must be a bank or trust company with capital stock, surplus and undivided profits at least equal to \$50 million.

Transfer and Ownership of Bonds

Transfers of beneficial interests in the 2015 Bonds will be made as described in Appendix G - "DTC AND BOOK ENTRY." If at any time the Book-Entry Only System is discontinued for the 2015 Bonds, any 2015 Bond may be transferred upon the Books of Registry kept by the Bond Fund Trustee by the person in whose name it is registered, in person or by his duly authorized agent, upon surrender of such 2015 Bond to the Bond Fund Trustee, accompanied by a written instrument of transfer duly executed by the registered owner in person or by his duly authorized agent, in form satisfactory to the Bond Fund Trustee.

Whenever any 2015 Bond is surrendered for transfer, a new 2015 Bond or Bonds, registered in the name of the transferee or transferees, of the same Series, interest rate and maturity and for a like aggregate principal sum shall be delivered at the principal office of the Bond Fund Trustee. All such transfers shall be made without expense to the owner of such 2015 Bonds, except that the Bond Fund Trustee shall require the payment by the owner requesting

such transfer of any tax or other governmental charges required to be paid with respect to such transfer.

No transfers are required to be made by the Bond Fund Trustee during the fifteen days next preceding an interest payment date for 2015 Bonds, or during the 45 days next preceding a date fixed for redemption of such 2015 Bonds.

For a description of provisions relating to the ownership of 2015 Bonds, see APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Ownership of Bonds."

DEBT SERVICE REQUIREMENTS

The following table shows the annual accrued debt service requirements for the 2015 Bonds. The 2015 Bonds are the initial Bonds issued under the Resolution.

Year Ending <u>July 1</u>	<u>Principal</u>	<u>Interest</u>	Total Debt <u>Service</u>
2016	\$35,215,000	\$11,519,229.14	\$46,734,229.14
2017	38,675,000	12,146,384.00	50,821,384.00
2018	39,280,000	11,542,667.26	50,822,667.26
2019	40,065,000	10,755,888.80	50,820,888.80
2020	41,100,000	9,723,013.10	50,823,013.10
2021	42,300,000	8,519,605.10	50,819,605.10
2022	43,705,000	7,120,321.10	50,825,321.10
2023	45,260,000	5,565,297.20	50,825,297.20
2024	46,985,000	3,841,796.40	50,826,796.40
2025	<u>48,845,000</u>	<u>1,982,130.10</u>	<u>50,827,130.10</u>
Total	<u>\$421,430,000</u>	<u>\$82,716,332.20</u>	<u>\$504,146,332.20</u>

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge Under The Resolution

The principal of and premium, if any, and interest on the Bonds issued under the Resolution are payable solely from and secured solely by a pledge of (i) the Revenues, consisting of all amounts received directly or indirectly by Power Agency from or on behalf of Members pursuant to the Debt Service Support Contracts, and all interest, profits or other income derived from the investment of any moneys held pursuant to the Resolution and required to be paid into the Revenue Fund and (ii) the moneys and Investment Securities, if any, credited to the funds and accounts established by the Resolution and the income therefrom. The Resolution creates a Revenue Fund and a Bond Fund, in which there is created a Debt Service Account. The Resolution also permits the creation, pursuant to Supplemental Resolutions, of Reserve Accounts in the Bond Fund to further secure one or more series of Bonds, which Power Agency has done by the 2015 Supplemental Resolution for the benefit of the 2015 Bonds and, at Power Agency's option, any Bonds refunding the 2015 Bonds or such refunding Bonds. See "Reserve Account" below. For the definitions of certain terms used in this paragraph, see Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION".

Debt Service Support Contracts

Pursuant to a Debt Service Support Contract between Power Agency and each of its Members, each Member agrees to pay on a monthly basis its Member's Share of all costs that are paid or incurred by Power Agency during each month of each Contract Year resulting from the issuance of the Bonds, notes and subordinated debt issued under the Resolution ("Monthly Support Costs"), including, but not limited to, the following items of costs:

- (1) the amount which Power Agency is required under the Resolution to pay or deposit during such month into the Bond Fund for the payment of the principal of and premium, if any, and interest on the Bonds and for reserves with respect thereto;
- (2) the amount required under the Resolution to be paid or deposited during such month into any fund or account established by the Resolution, other than funds and accounts referred to in subparagraph (1) above;
- (3) the amount required to pay or provide for the payment of the principal of and premium, if any, and interest on notes and subordinated debt and for reserves with respect thereto;
- (4) Power Agency's administrative overhead costs allocable to Power Agency's activities under the Bond Resolution and the Debt Service Support Contracts, as determined by Power Agency; and
- (5) any other costs incurred by Power Agency during such month relating to Bonds, notes and subordinated debt, and the payment of Defeasance Costs and the defeasance, payment and retirement of the Outstanding Prior Bonds, not included in the costs specified in (1) through (4) above, including but not limited to amounts required as working capital for the payment of the costs included above.

The following table sets forth the respective Members' Shares, which are established contractually by and set forth in the Debt Service Support Contracts:

City of Greenville.....	20.3709%	Town of Farmville.....	0.9836%
City of Wilson.....	17.7385	Town of Selma.....	0.9171
City of Rocky Mount.....	12.9031	Town of Louisburg.....	0.8445
City of Kinston.....	7.6434	City of Southport.....	0.7366
City of New Bern.....	6.6370	Town of Benson.....	0.6507
City of Lumberton.....	4.7153	Town of Red Springs.....	0.5500
City of Washington.....	4.0871	Town of Scotland Neck.....	0.5140
City of Elizabeth City.....	4.0525	Town of LaGrange.....	0.4261
Town of Tarboro.....	3.6701	Town of Robersonville.....	0.4237
Town of Smithfield.....	2.2631	Town of Hertford.....	0.3867
City of Laurinburg.....	2.1984	Town of Belhaven.....	0.3473
Town of Edenton.....	1.5570	Town of Fremont.....	0.2359
Town of Ayden.....	1.4347	Town of Pikeville.....	0.1611
Town of Wake Forest.....	1.1297	Town of Hookerton.....	0.1057
Town of Apex.....	1.1218	Town of Hobgood.....	0.0730
Town of Clayton.....	1.0539	Town of Hamilton.....	<u>0.0675</u>
		Total	100.0000%

Upon the failure of a Member to make any payment which constitutes a default under its Debt Service Support Contract, the Member's Share of each remaining nondefaulting Member will be automatically increased, but only for the duration of the existence and continuation of such default, by the *pro rata* amount of the defaulting Member's Share compared to those of the other non-defaulting Members, and the defaulting Member's Share shall be reduced correspondingly; provided, however, that the sum of increases for any nondefaulting Member may not exceed, without the consent of such nondefaulting Member, an accumulated maximum of twenty-five percent (25%) of the nondefaulting Member's Share prior to any such increases. The assumption by the other Members of the obligation to make the defaulting Member's payments does not relieve the defaulting Member of its liability for such payments, and any Members assuming such obligation, either individually or as a member of a group, will have a right of recovery from the defaulting Member.

The Members are not required to make any payments to Power Agency under the Debt Service Support Contract except from the revenues of their respective electric systems.

Reference should be made to Bond Counsel's opinions, the proposed forms of which appear in Appendix E hereto, relating to the 2015 Bonds, the Resolution and the Debt Service Support Contracts.

For a more detailed description of the Debt Service Support Contracts, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS – Debt Service Support Contracts."

Full Requirements Power Sales Agreements

Pursuant to a Full Requirements Power Sales Agreement between Power Agency and each Member, Power Agency will sell, and the Member will purchase, such Member's "Full Requirements Bulk Power Supply," which is generally all electric power and energy required by the Member for the operation of its electric system, including transmission services, excluding any purchases of power and energy by the Member from SEPA, if any, and the output of certain distributed generation facilities of the Member and its customers. The purchase of Full Requirements Bulk Power Supply will be on a take and pay basis.

Amounts payable by Members under the Full Requirements Power Sales Agreements are not treated as Revenues under the Resolution and are not pledged to the payment of the Bonds. The Full Requirements Power Sales Agreements, and the arrangements that Power Agency has made with DEP to meet its obligations thereunder, provide a source of wholesale power to the Members for the operation of their electric systems (which provide the source of payment by the Members of their payment obligations under the Debt Service Support Contracts).

In order to meet its obligations to provide power and energy to the Members under the Full Requirements Power Sales Agreements, Power Agency has entered into a take and pay Full Requirements Power Purchase Agreement with DEP.

For a more detailed description of the Full Requirements Power Sales Agreements, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS – Full Requirements Power Sales Agreements."

Rate Covenants of Members

Each Member covenants and agrees in its Debt Service Support Contract that it will fix, charge, and collect rents, rates, fees, and charges for electric power and energy and other services, facilities, and commodities sold, furnished, or supplied through the facilities of its electric system at least sufficient to provide revenues to the Member adequate to meet its obligations under the Debt Service Support Contract and under its Full Requirements Power Sales Agreement and any additional contract relating to the supply of Full Requirements Bulk Power Supply by Power Agency to the Member, and to pay any and all other amounts payable from or constituting a charge and lien upon such revenues, including, but not limited to, amounts sufficient to pay the principal of and interest on all general obligation bonds (if also payable from revenues) and revenue bonds previously or hereafter issued by the Member to finance its electric system. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS – Debt Service Support Contracts – Payment Sources."

Rate Regulation

Under current law, the authority of Power Agency to determine, fix, impose and collect rates and charges for Full Requirements Bulk Power Supply and the authority of the Members to determine, fix, impose and collect rates and charges for electric power and energy sold and delivered by them, is not subject to the regulatory jurisdiction of the North Carolina Utilities

Commission (the “NCUC”) or the Federal Energy Regulatory Commission (the “FERC”), and there is no other governmental or regulatory body with authority to limit or restrict such rates and charges, except to the extent the Members’ rates and charges and compliance with the REPS Standard (as defined below) are regulated by the REPS Legislation (as defined below) and the rules and regulations promulgated by the NCUC in connection therewith. See “THE MEMBERS - Renewable Energy Legislation.”

Amendments to the Act enacted in 2012 require the Members to hold a public hearing, following public notice, before they may change their rates, fees and charges. The public hearing requirement does not apply to actions by a Member to revise its rates, fees or charges if the revision is required to be implemented immediately as a result of a catastrophic event or to avoid impairing the ability of the Member to comply with applicable law or its contractual obligations relating to its outstanding bonds or other indebtedness. The 2012 amendments also provide that Power Agency may only take action to change the rates, fees, or charges in a public meeting following public notice. The provisions of the Act relating to publication of a notice do not apply to an action required to be taken by Power Agency to revise its rates, fees or charges if the revision is required to be implemented immediately as a result of a catastrophic event or to avoid impairing the ability of Power Agency to comply with applicable law or its contractual obligations relating to its outstanding bonds or other indebtedness.

DEP’s sale of wholesale power, including the sale of power and energy to Power Agency under the Full Requirements Power Purchase Agreement, is subject to regulation by FERC.

Statutory Covenant

Pursuant to the Act, the approval of the Local Government Commission is required for each issuance of Bonds and other obligations by Power Agency.

The State of North Carolina, through adoption of the Act by the Legislature, has covenanted that so long as any bonds of a joint agency are outstanding and unpaid, the State will not limit or alter the rights vested in such joint agency to acquire, construct, reconstruct, improve, enlarge, better, extend, own, operate and maintain its electric system or any project or interest therein, as the case may be, or to establish, maintain, revise, charge and collect the rents, rates, fees and charges referred to in the Act and to fulfill the terms of any agreements made with the holders of the bonds or in any way impair the rights and remedies of the bondholders, until the bonds, together with interest thereon, interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of the bondholders, are fully paid, met and discharged.

Reserve Account

The 2015 Supplemental Resolution creates a Reserve Account in the Debt Service Fund to provide a reserve for the payment of the principal of, premium, if any, and interest on the 2015 Bonds. Except as described below, the Reserve Account will not secure any other Bonds.

There will be deposited from the proceeds of the Series 2015 Bonds into the Bond Fund for credit to the Reserve Account an amount equal to the Reserve Account Requirement. “Reserve Account Requirement” means, as of any date of calculation, an amount equal to the

greatest amount of interest accruing in any Fiscal Year (or for the balance of the then current Fiscal Year) with respect to all Series 2015 Bonds then Outstanding.

If, as of a date upon which there is a withdrawal from the Reserve Account (other than earnings on Investment Securities), the moneys and Value of Investment Securities in the Reserve Account is less than the Reserve Account Requirement, Power Agency shall, beginning with the first Business Day of the third month next succeeding such date, after making the transfers from the Revenue Fund to the Bond Fund for credit to the Debt Service Account therein pursuant to the Resolution, make monthly transfers from the Revenue Fund from Revenues to the Bond Fund for credit to the Reserve Account in an amount equal to one-sixtieth (1/60) (or, if less, one (1) divided by the number of whole calendar months remaining to the final maturity of the 2015 Bonds) of the amount as originally determined by which the moneys and Value of Investment Securities in the Reserve Account is less than the Reserve Account Requirement. No additional deposits to the Reserve Account shall be required on account of any change in Value of Investment Securities.

“Value of Investment Securities”, for purposes of the preceding paragraph, shall be determined (i) as of any date that moneys or obligations (other than earnings on Investment Securities) are withdrawn from the Reserve Account other than with respect to a refunding of Series 2015 Bonds, (ii) as of a date not more than ten (10) Business Days prior to any such withdrawal from the Reserve Account with respect to such a refunding, and (iii) as of a date not more than ten (10) Business Days prior to the deposit into the Reserve Account of a Credit Instrument (as defined below) or substitute therefor, and shall constitute the bid quotation prices thereof as reported as of such date in The Wall Street Journal or, in the event such newspaper is not published or such price is not reported in said newspaper, in a newspaper or a financial journal of general circulation in the Borough of Manhattan, City and State of New York, selected by the Bond Fund Trustee or otherwise as the Bond Fund Trustee may determine; provided, however, with respect to those obligations which are redeemable at the option of the holder, the value shall be the price at which such obligations are then redeemable. Such computations shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected.

If, as of the last Business Day of any Fiscal Year, the moneys and Value of Investment Securities in the Reserve Account shall exceed the Reserve Account Requirement, the amount of such excess may be transferred as of such date to the Revenue Fund.

If and when the Series 2015 Bonds are refunded in whole or in part, moneys in the Reserve Account may be withdrawn to pay or provide for the payment of refunded Series 2015 Bonds; provided, however, that immediately after such refunding and withdrawal, there shall be on credit to the Reserve Account moneys and Value of Investment Securities in an amount equal to the Reserve Account Requirement for all Outstanding Series 2015 Bonds. In the event of the issuance of Bonds to refund Series 2015 Bonds (or any such refunding Bonds), the Supplemental Resolution authorizing such refunding Bonds may provide that the Reserve Account shall apply to both such refunding Bonds and the Series 2015 Bonds that will be Outstanding immediately following such refunding, in which event references to the Series 2015 Bonds in the definitions of Reserve Account Requirement or Value of Investment Securities above and elsewhere as described in this section, shall be deemed to refer to such refunding Bonds and Outstanding

Series 2015 Bonds in the aggregate. If any such refunding Bonds are Variable Rate Bonds to which the Reserve Account shall apply, interest thereon shall be calculated at the maximum rate permitted thereby.

In lieu of deposits of moneys and Investment Securities in the Reserve Account, in whole or in part, Power Agency may obtain and maintain letters of credit or other credit facilities, insurance policies or surety bonds (“Credit Instruments”) rated, or the securities of the providers of which are rated, or the securities insured by such providers which are rated, not lower than the second highest rating category (without regard to gradations) by one or more rating agencies or agencies rating claims paying ability of insurance companies, in an amount available thereunder, together with the moneys and value of Investment Securities remaining on deposit therein, at least equal to the Reserve Account Requirement. Each Credit Instrument shall be payable (upon the giving of notice as required thereunder) on any interest payment date on which moneys will be required to be withdrawn from the Reserve Account and applied to the payment of the principal of or interest on any Series 2015 Bonds and such withdrawals cannot be made by amounts credited to the Reserve Account. If a disbursement is made pursuant to a Credit Instrument, Power Agency shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to deposit into the Bond Fund for credit to the Reserve Account, funds in the amount of the disbursement made under such Credit Instrument, or a combination of such alternatives, no less quickly than is permitted for the replenishment of the Reserve Account upon a withdrawal therefrom as described above.

If the Credit Instrument, or securities of the providers of the Credit Instrument, or the securities insured by such providers, on deposit in the Bond Fund for credit to the Reserve Account shall cease to have a rating described in the immediately preceding paragraph, Power Agency shall replace such Credit Instrument with one described in the immediately preceding paragraph or deposit moneys or Investment Securities in the Bond Fund for credit to the Reserve Account in lieu of replacing such Credit Instrument.

Contingency Account

The Resolution creates a “Contingency Account” in the Revenue Fund and establishes the “Contingency Account Requirement” for the Contingency Account, which is, with respect to each Fiscal Year, an amount equal to ten percent (10%) of the aggregate of the principal of and interest (calculated, in the case of variable interest rate bonds, at the rate of 5% per annum or such greater amount as may be determined by the Supplemental Resolution providing for the issuance of such variable rate bonds) on all Outstanding Bonds accrued and to accrue in such Fiscal Year.

It is currently expected that the Contingency Account Requirement initially will be funded from the proceeds of the Series 2015 Bonds or other funds available to Power Agency at the time of issuance, although the Resolution permits Power Agency to fund the initial Contingency Account Requirement over the eighteen month period ending December 31, 2016. If, as of the last business day of a Fiscal Year, or as of the day on which any additional Bonds are issued and delivered (giving effect to the issuance of such Bonds and the application of the proceeds thereof), the moneys and value of Investment Securities as of such day is less than the Contingency Account Requirement, Power Agency shall deposit to the Contingency Account in

each month of the subsequent Fiscal Year or, in the case of the issuance of additional Bonds, in each whole month thereafter of the current Fiscal Year, an amount at least equal to the Contingency Account Requirement less the moneys and value of Investment Securities then on deposit in the Contingency Account, divided by twelve (12) or, in the case of the issuance of additional Bonds, the number of whole months remaining in such Fiscal Year.

Any amount on deposit in the Contingency Account (i) at any time may be used for any purpose for which other moneys on deposit in the Revenue Fund may be used, including, but not limited to, transfers to the Bond Fund, and (ii) in excess of an amount equal to the Contingency Account Requirement as of the end of each Fiscal Year may be transferred therefrom to the Revenue Fund. See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Funds and Accounts; Flow of Funds –Contingency Account.”

Although the amounts in the Contingency Account may be used for any purpose for which other moneys on deposit in the Revenue Fund may be used, the primary objective of Power Agency in establishing the Contingency Account is to provide additional liquidity if needed in the event of a Member default under the Debt Service Support Contracts until the “step-up” provisions of the Debt Service Support Contracts upon the default of a Member under its Debt Service Support Contract are fully implemented. See APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS—Debt Service Support Contracts—Defaults and Remedies.”

Additional Bonds

The Resolution provides that Power Agency may issue additional Bonds secured by the payments by the Members under the Debt Service Support Contracts on parity with the Bonds only to pay any remaining Defeasance Costs not funded from the proceeds of sale by Power Agency to DEP of the Joint Facilities or other funds available to Power Agency not funded by the 2015 Bonds (no such remaining costs are anticipated) or to refund Outstanding Bonds issued under the Resolution.

Nothing in the Resolution prohibits Power Agency and any Members from entering into additional debt service support contracts, with the obligations of the Members thereunder payable from the same sources and with the same priority as their payment obligations under the Debt Service Support Contracts, with respect to any bonds, notes and other evidences of indebtedness authorized or permitted by the Act to be issued by Power Agency and supported by such additional debt service support contracts.

Under the Act, Power Agency may issue its Bonds only if approved and sold by the Local Government Commission.

No Pledge of Credit or Taxing Power

Neither the faith and credit nor the taxing power of the State of North Carolina or of any city, town or other unit of municipal government thereof is pledged for the payment of the principal of, premium, if any, or interest on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power by the State of North Carolina or of any city,

town or other unit of municipal government thereof or the forfeiture of any of their property in connection with any default with respect to the Bonds. Power Agency has no taxing power.

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NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

Background

Power Agency is a public body and body corporate and politic organized in December 1976 under the laws of the State of North Carolina. All Members were participants in the undertaking involving the financing of the Joint Facilities. No Member currently operates any electric base load generating facilities (however, Power Agency, the Members and certain of the Members' retail customers own or have access to approximately 365 MW of distributed generation which is available to reduce peak power purchases from DEP under the Full Requirements Power Purchase Agreement).

The Act authorizes municipalities owning electric systems in North Carolina to create joint agencies with authority to plan, finance, develop, acquire, construct, reconstruct, improve, enlarge, better, operate, and maintain electric generation and transmission facilities. A joint agency is also authorized to enter into contracts for the purchase, sale, exchange, interchange, pooling, and transmission of electric power with any municipality of any state owning electric distribution facilities or with any political subdivision of any state, rural electric cooperative, or other public utility or federal or municipal agency which owns electric generation, transmission or distribution facilities inside or outside North Carolina. A 1977 amendment to the Constitution of North Carolina permits joint agencies to participate as joint owners in generating or transmission projects with private utilities and rural electric cooperatives.

On the authority of the Act and the constitutional amendment, North Carolina municipalities formed two joint power agencies, each of which is a separate legal and financial entity managed through the arrangements mentioned below. Collectively, these agencies have as members a majority of the municipalities in the State which own and operate electric distribution systems. North Carolina Municipal Power Agency Number 1 ("Power Agency Number 1") is the other joint action agency formed under the Act. Power Agency Number 1 was formed by 19 North Carolina municipalities (none of which is a member of Power Agency) that formerly were wholesale customers of Duke Power Company (now Duke Energy Carolinas, LLC). Those municipalities have been receiving all requirements bulk power supply from Power Agency Number 1 since July 1, 1983.

Amendments to the Act in 2015 authorize a joint agency (1) to issue bonds to refinance other bonds previously issued by the joint agency to pay the cost of a project undertaken under the Act if the project previously financed is sold or otherwise disposed of by the joint agency and (2) to secure the payment of such bonds by a pledge of payments derived from support contracts such as the Debt Support Contracts with the members of the joint agency. The 2015 amendments also authorize municipalities in a joint agency to enter into support contracts with the joint agency to pay a proportionate share of the payments on bonds issued by the joint agency to refinance the bonds issued to finance the acquisition of a joint project that is being sold or otherwise disposed of if the proceeds of the sale or other disposition of the project, together with other moneys available to the joint agency, are not sufficient to pay or provide for the payment of the bonds issued to finance the project being sold. The enactment of these amendments was required in order to carry out the plan of finance involving the 2015 Bonds.

Organization and Management

Boards of Commissioners and Board of Directors. Prior to November 1, 1995, the business and affairs of Power Agency were managed exclusively by a Board of Commissioners consisting of one representative from each member municipality. Power Agency's By-Laws provide that each member, through its commissioner, shall have one vote plus additional votes based on its Member's Share.

While Power Agency's Board of Commissioners remains in existence, since November 1, 1995, the business and affairs of Power Agency have been managed by an executive committee known as the Board of Directors. The Board of Directors was created, pursuant to the authority contained in the Act, by the Board of Directors Resolutions adopted in August 1995 by the respective Boards of Commissioners of Power Agency and Power Agency Number 1. The Board of Directors operates much like an executive committee on behalf of the two agencies and ElectriCities (as such matters are discussed under the caption "*ElectriCities*" below), and is responsible for setting policy and strategic planning for all three organizations. The existence and functioning of the Board of Directors enables all three organizations to work more closely together and operate more efficiently, effectively and responsively in addressing competition and other major challenges facing the Power Agencies and ElectriCities.

Pursuant to each Board of Directors Resolution, the Board of Directors is delegated substantially all of the power and authority of the Board of Commissioners that has adopted such Resolution, including, but not limited to, the power and authority to (i) adopt or amend Bylaws for the regulation of the affairs and the conduct of the business, and to prescribe rules, regulations and policies in connection with the performance of its functions, duties, powers and authority, (ii) establish one or more committees necessary or appropriate for the conduct of its business and that of Power Agency represented by such Board of Commissioners, (iii) issue notes and bonds of such Power Agency with the concurrence of the Board of Commissioners thereof, (iv) employ a Chief Executive Officer and provide for management services, (v) set wholesale rates sufficient to provide revenues adequate to meet requirements set forth in any budget for such Power Agency adopted by the Board of Commissioners thereof, as the same may be amended from time to time, and (vi) do all acts and things necessary, convenient or desirable to exercise its powers and authority. Each Board of Directors Resolution provides, however, that the Board of Commissioners that has adopted such Resolution reserves exclusively unto itself the power and authority to (i) amend its Board of Directors Resolution or elect or remove its Directors, (ii) adopt or amend any budget for its Power Agency, (iii) adopt or amend Bylaws for the regulation of the affairs and the conduct of its business, and to prescribe rules, regulations and policies in connection with the performance of its functions, duties and powers and authority reserved unto such Board of Commissioners, (iv) establish one or more committees necessary or appropriate for the conduct of its business, and (v) do all acts and things necessary, convenient or desirable to exercise the powers and authority reserved unto such Board of Commissioners. A Board of Directors Resolution may be revoked by the Board of Commissioners that has adopted such Resolution upon one year's prior written notice to the other Power Agency and ElectriCities. See also "Power Agency's Rates and Charges to Members" below.

The Board of Directors consists of a maximum of 14 members. Six members of the Board of Directors are elected by the Board of Commissioners of Power Agency and six

members of the Board of Directors are elected by the Board of Commissioners of Power Agency Number 1. Two members of the Board of Directors are elected by members of ElectriCities that are not members of the Power Agencies, as more fully described under the caption “*ElectriCities*” below, and the Chairman of the Board of Commissioners of each Power Agency serves as an “*ex officio*” member of the Board of Directors. The members of the Board of Directors serve for staggered terms of three years. The Board of Directors has a Chairman, Vice-Chairman and Secretary, and each member of the Board of Directors has one vote. The Act provides that action by the Board of Directors is by majority vote of the members present and voting, so long as a quorum (a majority of the members) is present. The *ex officio* members do not have the right to vote on matters coming before the Board of Directors.

Four members of the Board of Directors elected by each of the Power Agencies are either (i) an electric utility ratepayer of a Power Agency Member, (ii) an elected or appointed official of a Member, or (iii) an employee of a Member. Members of the Board of Directors elected by Power Agency Number 1 are compensated for their attendance at meetings of the Board of Directors and committees of the Board of Directors up to a maximum amount of \$1,000 per month for each member of the Board and \$1,500 per month for the Chairman. Members of the Board of Directors elected by Power Agency are not compensated.

ElectriCities. Originally formed in 1965 to present a unified voice for public power, ElectriCities of North Carolina, Inc. was reorganized in 1996 as a Joint Municipal Assistance Agency under the General Statutes of North Carolina and now provides a wide range of management and technical services for the purpose of providing aid and assistance to municipalities and joint agencies such as Power Agency in connection with their electric system operations. There are currently 66 members and 22 associate members of ElectriCities. Members and associate members include municipalities and university systems from North Carolina, South Carolina and Virginia that are involved in providing power and electric services to their citizens and communities. Of the 88 members, 51 are municipalities representing North Carolina’s two municipal power agencies.

ElectriCities is involved in four principal areas on behalf of its members: federal power marketing matters; legislation and other public policy issues at both state and national levels; assistance with local problems; and information services. Membership or associate membership is open to any municipality in North Carolina or in any other State that owns an electric distribution system and all members of the University of North Carolina consolidated university system.

ElectriCities has entered into a management agreement with Power Agency (the “Management Agreement”) to provide all personnel and personnel services necessary for Power Agency to conduct its business in an economic and efficient manner. All services rendered under the Management Agreement are at the actual cost thereof. The term of the current Management Agreement extends until December 31, 2016 and will continue thereafter for successive periods of three years thereafter unless terminated by one year’s written notice by either party prior to the end of any contract term or by 30 days’ written notice by either party in the event of the failure of the other to perform its obligations under the Management Agreement or the inability of either party to perform its obligations thereunder on account of a change in the legal or financial condition of such party. ElectriCities has entered into a similar management agreement with

Power Agency Number 1. In addition, ElectriCities manages the day to day operations of the electric distribution systems of the towns of Cornelius and Huntersville pursuant to operating agreements between ElectriCities and those towns.

The business and affairs of ElectriCities are governed by the Board of Directors. Municipal members of ElectriCities that are not members of either Power Agency and the nonmunicipal members of ElectriCities (collectively, the “Non-Power Agency Members”) are entitled to elect one or two members to the Board of Directors, one member if the membership of ElectriCities includes seven or less municipalities that are not participants in either Power Agency or nonmunicipalities owning electric distribution systems, and two members if the membership of ElectriCities includes more than seven municipalities that are not participants in either Power Agency or nonmunicipalities owning electric distribution systems. There presently are ten Non-Power Agency Members of ElectriCities, and they have elected two members of the ElectriCities Board of Directors.

The ElectriCities management services group consists of a Chief Executive Officer, a Chief Financial Officer, a Chief Operating Officer, a Chief Legal & Ethics Officer and finance, engineering, accounting and administrative personnel. As of December 31, 2014, ElectriCities had 97 full-time employees in Raleigh, North Carolina and 16 full-time employees in Huntersville, North Carolina.

The Chief Executive Officer reports to the Board of Directors on all matters relating to the fulfillment of management agreements between the Power Agencies and ElectriCities, including staffing and budgeting for management services. The management services group is responsible for the performance of the required functions of the Power Agencies including: (i) disbursement of bond proceeds; (ii) all new or additional financings; (iii) preparation of construction and operating budgets; (iv) accounting and preparation of billings under power sales agreements; (v) specific rate matters under project agreements; and (vi) other Power Agency matters.

The principal members of the management services group of ElectriCities, with information concerning their background and experience, are listed below.

T. GRAHAM EDWARDS is the Chief Executive Officer of ElectriCities and each Power Agency. Mr. Edwards was appointed Chief Executive Officer on June 22, 2009. Prior to being appointed Chief Executive Officer, Mr. Edwards served as the President and Chief Executive Officer of the Midwest ISO, one of the nation’s largest Regional Transmission Organizations. He served in that capacity from 2006 until January 2009. He also served on the Board of Directors of the Midwest ISO from January 2001 until January 2009, and was Chairman of the Board during 2005. The majority of Mr. Edwards’ career was with the South Carolina Public Service Authority (“Santee Cooper”), where he served in various capacities over a period of more than 25 years, including serving as President and Chief Executive Officer from 1993 until 2000. He also served as Chairman and as a member of Santee Cooper’s Board of Directors. Earlier in his career, he served as Executive Vice President, Chief Financial Officer and in other senior level positions with Santee Cooper. Mr. Edwards holds a Bachelor of Science

degree from Francis Marion University and a Masters of Business Administration from The Citadel.

ROY L. JONES is the Chief Operating Officer of ElectriCities and each Power Agency and was appointed to such positions in November 2011. Since joining Power Agency in August 2009, Mr. Jones has served as Senior Vice President, Operations of ElectriCities and each Power Agency and as Senior Vice President, Planning and Marketing of ElectriCities. Prior to joining ElectriCities he was employed by LS Power, LLC as the Vice President, Transmission Development for a year. Prior to joining LS Power, LLC, he was an Executive Director for Midwest ISO, where he held various leadership positions in market design and operations. Prior to joining the Midwest ISO, he was employed by Entergy Corporation, where he held various leadership positions in both the regulated and unregulated businesses. Mr. Jones holds a Bachelor of Science Degree in Electrical Engineering from LaSalle University.

F. TIMOTHY TUNIS is the Chief Financial Officer of ElectriCities and each Power Agency and was appointed to such positions in May 2008. He was previously Manager of Accounting and Financial Reporting since joining ElectriCities in April 2005. Prior to joining ElectriCities he was employed by KPMG LLC as a Manager Financial Risk Management for a year. Prior to joining KPMG LLC he was employed by Progress Energy for five years, and by Consolidated Natural Gas for twelve years, where he held various leadership positions in risk management, accounting and internal auditing. Mr. Tunis holds a Bachelor of Science degree in Business Administration, and a Masters of Professional Accountancy degree, both from West Virginia University.

DAVID BARNES is the Chief Legal & Ethics Officer of each Power Agency and of ElectriCities and was hired for such positions in January 2013. Prior to joining ElectriCities, he was a partner in the law firm of Poyner Spruill LLP, Raleigh, North Carolina. Mr. Barnes is an experienced trial attorney with more than two decades of legislative advocacy experience, a certified Superior Court mediator and has been a registered lobbyist in the North Carolina General Assembly since 2001. He received both his undergraduate degree and Juris Doctorate from Wake Forest University.

Administrative Building and Facilities. Power Agency and Power Agency Number 1 jointly own and equally share the costs of an administrative building in Raleigh, North Carolina, and computer equipment and facilities used in their operations. The cost of the building, which was first occupied in 1988, and its site were paid from revenues derived from the two Power Agencies.

Asset Purchase Agreement

The sale by Power Agency of its interest in the Joint Facilities will constitute the disposition by Power Agency of all of its electric generating assets (except for a very small amount of distributed generation). At closing of the sale, Power Agency will convey to DEP all of Power Agency's interest in the Joint Facilities, all real property associated with the Joint Facilities, Power Agency's interest in the trust funds set aside for the decommissioning of the portion of the Joint Facilities that are nuclear facilities and \$26,000,000 of additional funds set

aside by Power Agency as a reserve for the decommissioning of the Joint Facilities, Power Agency's interest in the nuclear fuel inventory for those nuclear plants, the spare parts inventory of the Joint Facilities and all permits acquired or held by or in the name of Power Agency in connection with the ownership, operation, maintenance or use of the Joint Facilities. Power Agency's cash or cash equivalents associated with the Joint Facilities (other than the nuclear decommissioning funds mentioned above) and bank deposits, and accounts and notes receivable are excluded from the sale. Also excluded from the sale and retained by Power Agency are all rights Power Agency to any damages, costs or settlement amounts that may be collected by DEP pursuant to or as a result of certain legal proceedings against the United States related to damages associated with spent fuel storage costs.

Under the Asset Purchase Agreement, DEP will assume all liabilities, costs, fees and expenses (including operating expenses) of Power Agency arising after the closing out of or related to the operation, ownership or use of the Joint Facilities prior to the closing of the sale, regardless of when such liabilities are actually suffered or incurred (other than liabilities for any indebtedness incurred by Power Agency in connection with the Joint Facilities). DEP also assumes all liabilities of Power Agency directly related to the decommissioning of those Joint Facilities that are nuclear facilities.

Power Agency and DEP will also enter into an agreement that will terminate all existing agreements between Power Agency and DEP relating to the ownership and operation of the Joint Facilities and the interconnection and purchase or sale of power.

Full Requirements Bulk Power Supply

The Full Requirements Power Sales Agreements contemplate that Power Agency will supply the Members their total electric power and energy requirements in excess of allocations of power from federally-owned facilities through SEPA and any power and energy generated and utilized directly by a Member from its own facilities acquired with Power Agency's consent under the limited circumstances permitted by the Full Requirements Power Sales Agreements. The payments by the Members under the Full Requirements Power Sales Agreements do not constitute "Revenues" under the Resolution and do not secure payment of the Bonds issued under the Resolution. The arrangement for power supply is integral, however, to the ability of the Members to operate their electric systems, and thus to generate revenues from utility operations to pay the payments required under the Debt Service Support Contracts and Full Requirements Power Sales Agreements. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS – Full Requirements Power Sales Agreements." The power and energy Power Agency provides to the Members under the Full Requirements Power Sales Agreements is purchased by Power Agency from DEP pursuant to the Full Requirements Power Purchase Agreement.

Full Requirements Power Purchase Agreement

In order to provide the power and energy that Power Agency has agreed to provide to the Members under the Full Requirements Power Sales Agreements, Power Agency has entered into the Full Requirements Power Purchase Agreement with DEP.

Under the Full Requirements Power Purchase Agreement DEP agrees to provide firm capacity and energy in the amounts required by Power Agency to reliably serve the electrical loads of its Members. Member loads (i) not located in the geographic area DEP serves, and (ii) of a type and size that would not have been included by DEP in planning its system and that would require an enlargement of DEP's generating facilities or would impair DEP's ability to serve other wholesale and retail customers are excluded from DEP's commitment. In providing the services required by the Full Requirements Power Purchase Agreement, DEP is required to exercise reasonable care (consistent with industry practices) to provide an uninterrupted supply of electricity and may not adversely distinguish between the provision of service to Power Agency and the provision of service to other wholesale and retail DEP customers.

Under the Full Requirements Power Purchase Agreement, DEP will charge Power Agency a monthly capacity charge and monthly energy charge. The monthly capacity charge for each month is determined by applying the measured demand of Power Agency in the hour that is coincident with the hour of the DEP system peak demand (less SEPA capacity and certain alternative base load capacity sources) to a capacity rate that is determined pursuant to the Full Requirements Power Purchase Agreement. The monthly energy charge is based on the amount of energy actually used by Power Agency in a given month. Under the Full Requirements Power Purchase Agreement, DEP will also charge Power Agency a monthly charge for reserve capacity maintained by DEP for certain noticed distributed generation that have capacity ratings in excess of 2,500 kW. The rates to be charged to Power Agency are based on DEP's system wide average cost of producing power and energy.

The term of the Full Requirements Power Purchase Agreement continues through December 31, 2043. Power Agency has certain options to terminate the Full Requirements Power Purchase Agreement on an earlier date, the earliest such date being after the final maturity date of the 2015 Bonds.

Power Agency's Rates and Charges to Members

Power Agency will bill each Member monthly for its Member's Share of Monthly Support Costs, which is described above under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Debt Service Support Contracts." The amount of each Member's monthly payment will be based upon the Members' Share set forth in that section. Such amounts will be used to pay debt service on the Bonds and to pay administrative costs incurred under the Resolution. See also APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS – Definitions– Monthly Support Costs."

Rates and charges to the Members for Full Requirements Bulk Power Supply will be set by Power Agency's Board of Directors. A rate committee comprised of members appointed by the Chair of Power Agency's Board of Directors will advise the Board of Directors with respect to the determination of rate policy and the methodology for setting Power Agency's Full Requirements Bulk Power Supply rates for the Members. Power Agency will review the adequacy of these rates and charges at such intervals as it deems appropriate but in any event not less frequently than once each Contract Year.

Power Agency will establish appropriate rates and charges for power sales to the Members under the Full Requirements Power Sales Agreements. The rates and charges will be sufficient at all times to pay all costs and expenses incurred by Power Agency and reserves deemed necessary therefor by Power Agency, including reserves for the payment of such costs and expenses in future periods and taking into account withdrawals of such reserves established in previous periods. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS – Full Requirements Power Sales Agreements – Rates and Charges.” Monthly billing statements will be rendered for Full Requirements Bulk Power Supply service.

Consistent with the Act, the Board of Directors Resolutions delegate to the Board of Directors the power and authority to set Members’ rates sufficient to provide revenues adequate to meet requirements set forth in any budget adopted by the Board of Commissioners of Power Agency, as the same may be amended from time to time. The Board of Directors, however, has no power or authority to adopt or amend a budget for Power Agency, which power and authority is reserved exclusively by the Board of Commissioners of Power Agency.

Under the Act, any rate set by the Board of Directors for Power Agency may be rejected within 30 days following its adoption by a vote of two-thirds in number of the members of the Board of Commissioners of Power Agency. If any rate is so rejected, the Board of Directors shall adopt, within 10 days following the Board of Commissioners’ action, a second rate for Power Agency (which may be the same as the first rate). The second rate may be rejected within 10 days of its adoption by a two-thirds vote in number of the members of the Board of Commissioners of Power Agency. If the second rate is so rejected, the Board of Commissioners of Power Agency shall adopt, acting by weighted vote, a rate for Power Agency which is at least sufficient to comply with the provisions of the Act. The Act requires that for so long as any bonds of Power Agency are Outstanding and unpaid, the rents, rates, fees and charges of Power Agency shall be so fixed as to provide revenues sufficient to pay when due the principal of, premium, if any, and interest on all bonds and other evidences of indebtedness payable from said revenues, to create and maintain reserves as may be required by any resolution or trust agreement authorizing and securing the bonds, and to pay any and all amounts that Power Agency may be obligated to pay from said revenues by law or contract. Notwithstanding the right of the Board of Commissioners to reject a rate or rates adopted by the Board of Directors, if the Board of Directors determines that a rate is required to be established within 50 days to enable Power Agency to satisfy the provisions of the Act described above, the rate adopted by the Board of Directors will be effective until changed by the Board of Directors or the Board of Commissioners as described in this paragraph. No rate adopted by the Board of Directors for Power Agency will become effective so long as it is subject to rejection by the Board of Commissioners of Power Agency.

Economic Development Rate: Power Agency has in effect an Economic Development Rate (“ED Rate”) that is intended to assist the Members in attracting new commercial and industrial loads. The ED Rate offers Members a discount from Power Agency’s standard rates for a maximum of 4 years for individually-metered new loads of new or existing commercial and industrial customers that meet certain size and load factor requirements. In order to qualify for the ED Rate, the customer must be either new to the Member’s system or a current customer relocating to a new facility, and the Member must pass at least 100% of the savings derived from

application of the ED Rate, directly or indirectly, to the applicable customer. Only customers receiving the ED Rate on the effective date of the Full Requirements Power Sales Agreements will be entitled to the benefit of the ED Rate and, at such time as the last ED Rate applicable to a customer expires, the ED Rate will no longer be offered by Power Agency.

Financial Statements

Power Agency's audited financial statements for the fiscal year ended December 31, 2014 are shown in Appendix B hereto.

SUCH FINANCIAL STATEMENTS REFLECT THE ASSETS AND LIABILITIES AND RESULTS OF OPERATION PRIOR TO THE SALE OF THE JOINT FACILITIES AND DISCONTINUATION OF OPERATIONS IN THE MANNER ASSOCIATED WITH POWER AGENCY'S PREVIOUS OWNERSHIP OF THE JOINT FACILITIES, AND THE SIGNIFICANT CHANGE TO POWER AGENCY'S OPERATIONS AND FINANCES FOLLOWING THIS DISPOSITION SHOULD BE CONSIDERED WHEN READING THE AUDITED FINANCIAL STATEMENTS.

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THE MEMBERS

General

The 32 Members are located in the eastern section of North Carolina, which extends approximately from Raleigh, the State capital, to the Atlantic Ocean. The Members are located within 20 of the State's 100 counties. Thirteen Members serve as the seats of their respective county governments. According to the 2010 census, the Members had a combined estimated population of approximately 462,000 and for the calendar year ended December 31, 2014, provided electric services to approximately 271,000 residential, commercial, industrial, and other types of customers.

Traditionally, the livelihood of the area has been dependent to a large extent on agriculture and the textile industry. The major farm products raised in the area are cotton, corn, soybeans, tobacco, swine and poultry. The industrial diversification that began in the early 1970s is continuing with the addition to the region of various national corporations as well as a diverse group of small industries. New manufacturing activity includes the manufacture of electronic components, chemicals, plastics, pharmaceuticals, and diesel engines and equipment.

Electric Systems and Management

Municipal electric systems are North Carolina's oldest electric utilities. Each of the Members has provided more than 80 years of electric service. Each Member owns and operates an electric system for the distribution of electric power and energy together with the general plant necessary to conduct its business. The Members and certain of the Members' customers own or have access to approximately 365 MW of distributed generation which is available to reduce peak power purchases from Power Agency under the Full Requirements Power Sales Agreements (and, in turn, reduce peak power purchases from DEP under the Full Requirements Power Purchase Agreement).

Service Areas. The Members provide electric service to customers both within and outside of their corporate limits. Electric service to customers in areas adjoining the service areas of the Members is provided by private utilities or rural electric cooperatives which in some instances also serve a limited number of customers within the corporate limits of the Members.

Under North Carolina law, each Member has authority to acquire, construct, establish, enlarge, improve, maintain, own, and operate its electric distribution system to furnish service to the city or town and its citizens. However, this authority is not exclusive, and other electric suppliers have certain rights to supply electric power and energy within the corporate limits of some of the Members under unexpired and expired franchises and contracts. In addition, pursuant to legislation known as the 1965 Electric Act, the Members' authority to supply electric power and energy is limited in areas which were annexed at a time when other suppliers served within such areas, and in areas served by other electric suppliers on April 20, 1965.

The Members' authority to extend their lines and distribute electric power and energy to private customers beyond their corporate boundaries is by statute subject only to "reasonable limitations." Under existing judicial interpretation, the term "reasonable limitations" does not refer solely to territorial extent, but embraces all facts and circumstances which in each case

affect the reasonableness of such extension, such as the level of current service in the territory in question (particularly in the vicinity of the potential customer), the readiness, willingness and ability of each competitor to provide electric service, the location of the territory in relation to the Member's corporate limits and the existence of any plans on the part of the Member to annex the territory in question. As a result, the authority of a Member to extend its lines beyond its corporate boundaries can only be determined on a case-by-case basis.

Legislation enacted by the Legislature in 2005 directed municipalities and electric membership corporations ("EMCs") to engage in good faith negotiations, during the period beginning June 1, 2005 and ending May 31, 2007, concerning the provision of future electric services within areas outside of the corporate limits of such municipalities as of June 1, 2005, and the development of agreements relating to the provision of electric services, the location of lines and the areas within which electric services could be provided by such entities (the "2005 Legislative Directive"). Agreements reached by negotiating parties would require the NCUC approval in order to be enforceable. The 2005 Legislative Directive was the result of a compromise between the municipalities and the EMCs following the introduction of a bill on behalf of the EMCs that would have had the effect of limiting the rights of municipalities to extend their lines and distribute electric power and energy to private customers beyond their corporate boundaries. Approximately thirty agreements have been agreed to and approved by the NCUC to date.

Legislation enacted by the Legislature in 2007 (the "2007 Legislation") vests jurisdiction in the NCUC to resolve all issues related to negotiations between municipalities and EMCs that were undertaken pursuant to the 2005 Legislative Directive. In exercising its jurisdiction to resolve any such disputes, the NCUC is to include consideration of the public convenience and necessity, but not rate differentials. In addition, the 2007 Legislation authorized the transfer of certain petitions then pending before the Public Staff of the NCUC to the NCUC upon the payment of a \$500.00 filing fee by the petitioner. There are no such proceedings currently pending before the NCUC Public Staff eligible for transfer.

Renewable Energy Legislation

North Carolina law establishes a renewable energy and renewable energy portfolio standard for electric power suppliers in the State of North Carolina (the "REPS Legislation"). The REPS Legislation, as presently interpreted by the NCUC, requires that the Members, included as electric power suppliers under certain provisions of the law, supply increasing annual percentages of their respective retail energy sales from renewable energy resources, beginning with 3% of annual retail sales for the preceding year in years 2012 through 2014, escalating to 6% of 2014 retail sales in 2015, 6% of 2015 retail sales in 2016, 6% of 2016 retail sales in 2017 and 10% of prior years' retail sales in 2018 and each calendar year thereafter. Several bills have been introduced in the current session of the legislature that would modify the minimum amount of retail sales to be derived from renewable energy sources from those described above. These bills include various proposals that would maintain the current level indefinitely, defer the date for the increase to a later date, or eliminate the requirement after a few years. Power Agency is unable to predict whether either of these proposals, or other proposals, will become law.

As defined in the REPS Legislation, renewable energy resources include solar electric, solar thermal, wind, hydropower, geothermal, ocean current or wave energy resource, biomass resources, including agricultural waste, animal waste, wood waste, spent pulping liquors, combustible residues, combustible liquids, combustible gases, energy crops, or landfill methane, waste heat derived from renewable energy resources and used to produce electricity, useful measurable thermal energy at a retail electric customer's facility, or hydrogen derived from a renewable energy resource. Notwithstanding the foregoing schedule, the REPS Legislation provides a cap on the amount an electric power supplier must expend annually on its renewable energy portfolio and a cap on the amounts an electric supplier can recover from its retail customers. The cap is \$34, \$150 and \$1,000 per residential, commercial and industrial account, respectively, in the years 2015 and thereafter. In addition, pursuant to rules recently promulgated by the NCUC pursuant to authority granted by the REPS Legislation, each electric power supplier has been required, beginning in 2008, to file annually with the NCUC a plan for complying with the REPS Legislation; the compliance plan must cover the year in which the plan is filed and the immediately subsequent two calendar years. In addition, beginning in 2009, each electric power supplier has been required to file annually with the NCUC a report describing the electric power supplier's compliance with the REPS Legislation during the previous calendar year.

An order entered by the NCUC requires that electric power suppliers give priority to solar, swine waste and poultry waste resources over other renewal energy resources in meeting the REPS Standard (as defined below). Of the foregoing amounts, the NCUC's present interpretation of the REPS Legislation requires that the following percentages of the Members' retail sales be supplied by solar energy resources: .07% of 2011 retail sales in 2012, .07% of 2012 retail sales in 2013, .07% of 2013 retail sales in 2014, .14% of 2014 retail sales in 2015, .14% of 2015 retail sales in 2016, .14% of 2016 retail sales in 2017 and .20% of prior years' retail sales in 2018 and each calendar year thereafter. In addition, the NCUC's present interpretation of the REPS Legislation requires that the following percentages of the Members' retail sales be supplied by swine waste resources: .07% of 2011 retail sales in 2012, .07% of 2012 retail sales in 2013, .07% of 2013 retail sales in 2014, .14% of 2014 retail sales in 2015, .14% of 2015 retail sales in 2016, .14% of 2016 retail sales in 2017 and .20% of prior years' retail sales in 2018 and each calendar year thereafter. Finally, the NCUC's present interpretation of the REPS Legislation requires that the following amounts of the Members' retail energy sales be supplied by poultry waste resources: 170,000 MWh in 2012, 700,000 MWh in 2013 and 900,000 MWh in 2014 and each calendar year thereafter (collectively, the "REPS Standard").

Power Agency, on behalf of the Members, and all other electric suppliers in North Carolina subject to the provisions of the REPS Legislation, have been unable to obtain the necessary Renewable Energy Credits ("REC") required to fulfill the statewide obligations to comply with the REPS Legislation requirements relating to swine and poultry waste resources for the calendar years 2012 and 2013. Furthermore, all of the electric suppliers, including Power Agency have been unable to obtain the necessary Renewable Energy Credits ("REC") required to fulfill the statewide obligation to comply with the REPS Legislation requirements relating to swine resources for the calendar year 2014. For each year that Power Agency and the other North Carolina electric suppliers have been unable to meet the swine and/or the poultry waste requirements the electric suppliers, including Power Agency, have either filed joint motions or individual motions with the NCUC requesting relief from these requirements. These Joint

Motions were predicated on the fact that the small number of existing participants in the swine and poultry waste-to-energy market with experience developing or operating biomass technologies, coupled with contractual issues encountered with many of those participants, have prevented the electric suppliers from meeting the REPS Legislation swine waste and poultry waste requirements for those years. To date, the NCUC has granted full relief to the electric suppliers, including Power Agency, from complying with these requirements in the years requested. Notwithstanding these Joint Motions before the NCUC, Power Agency and the Members continue to engage in various activities in an attempt to insure compliance by the Members with the REPS Legislation.

Descriptions of the Five Largest Members

The five largest Members, measured by Members Shares of Monthly Support Costs (the “Major Members”) are Greenville, Rocky Mount, Wilson, Kinston and New Bern. The Major Members have Member’s Shares of Monthly Support Costs ranging from 6.6370% to 20.3709% and aggregating approximately 65.25% of the total Members Shares of Monthly Support Costs. Additional information regarding the Major Members, including population, energy sales and revenues, summary of operating results, and condensed balance sheets, is set forth in Appendix A to this Official Statement.

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Members' Historical and Projected Demand and Energy Requirements

Historical Demand and Energy Requirements - The total energy delivered to the Members, excluding SEPA allocations, increased at a compound average annual growth rate of 0.4% during the period 2005 to 2014, but decreased at a compound average annual rate of -0.3% during the period 2010 to 2014.

The following table provides a summary of historical demand and energy requirements at the Power Agency delivery point over the period 2004 through 2014.

Historical Demand and Energy Requirements Net of SEPA Allocations				
Calendar Year	Annual Coincident Peak Demand (MW)	Annual Coincident Peak Demand Growth Rates (%)	Annual Energy (GWh)	Annual Energy Growth Rates (%)
2004.....	1,257	--	7,185	--
2005.....	1,384	10.1	7,270	1.2
2006.....	1,362	-1.6	7,110	-2.2
2007.....	1,418	4.1	7,423	4.4
2008.....	1,354	-4.5	7,340	-1.1
2009.....	1,323	-2.3	7,207	-1.8
2010.....	1,368	3.4	7,711	7.0
2011.....	1,380	0.9	7,374	-4.4
2012.....	1,350	-2.2	7,215	-2.2
2013.....	1,283	-5.0	7,264	0.7
2014.....	1,304	1.6	7,582	4.4
Compound Average Annual Growth Rate				
	2004-2014	0.4		0.5
	2009-2014	-0.3		1.0

Projected Demand and Energy Requirements - Power Agency has a load research and forecasting program designed to meet forecasting requirements for rate design studies and budgeting. Projections of the Members' Delivery Point demand and energy requirements through the year 2034 have been developed by Power Agency's staff. After exclusion of SEPA allocations, such projections are shown for selected years below. SEPA allocations are approximately 28 MW and 22 GWh in total to 31 Members. Actual energy delivered to the Members from SEPA will depend upon the generation of the hydroelectric facilities from which the Members' allocations are obtained. The demand projections reflect the highest projected monthly peak demand of the Members in each year coincident with the DEP annual system peak. Under the Full Requirements Power Purchase Agreement with DEP, Power Agency's cost for power to be purchased under the Full Requirements Power Purchase Agreement will be based upon the Member's monthly peak demands coincident with DEP's monthly peak.

<u>Calendar Year</u> ¹	<u>Annual Coincident Peak Demands (MW)²</u>	<u>Annual Energy Requirements (GWh)²</u>
2015	1,400	7,389
2025	1,445	7,783

2015-2025 Projected Compound
Average Annual Energy Growth Rate: 0.6%

¹ Projected summer peak capacity requirements to be supplied by Power Agency coincident with DEP annual peak.

² From Power Agency's 2015 Load Forecast.

In developing the projected requirements shown above, Power Agency utilized economic, demographic, weather data and historical trends of energy requirements to develop standard econometric forecasting models for each of the Members. Energy models predominantly use an economic variable as a predictor of load growth or loss over time. Peak demand models use the projected energy from the energy models or an economic variable to predict load growth or loss over time. The demand forecast at the time of the DEP peak was derived based upon the historical relationship between the Power Agency peak demand and the coincident peak demand with DEP.

The projections of the Members' demand and energy requirements assume that eastern North Carolina will experience limited economic growth; that the load characteristics of the DEP system, and those of the Members, will be comparable to those experienced in recent years; that the SEPA allocations discussed above will not change; and reflect the effects of load management activities by the Members during the historical data period. Growth rates assumed for load projections were based upon conditions prevailing in a relatively stable economy; however, no assurances can be given that these growth rates will be realized.

Power Agency Members currently are engaged in load management activities, in each case under the strategic coordination of Power Agency. In some cases, Power Agency directly operates the Member's load management programs and in certain other cases Power Agency provides assistance. Power Agency has a load forecasting and control system that either (i) automatically activates a Member's load management system, (ii) recommends load management activity by a Member or (iii) directly controls the Member's customers' loads. In addition, under existing programs, the Members and certain of their customers are operating approximately 365 MW of distributed generation which is available to reduce peak power purchases. Future load management efforts by Power Agency and the Members will continue in order to reduce peak loads and improve load factors, but no specific new load management programs have been assumed or their effects included in the foregoing projections.

The arrangements for electric power and energy received from SEPA by any of the Members are not affected by the provisions of the Full Requirements Power Sales Agreements. The Members will receive their allocations of electric power and energy and pay SEPA directly for such power and energy.

Power purchased by Power Agency from DEP under the Full Requirements Power Purchase Agreement is expected to be sufficient to provide the Members' Full Requirements Bulk Power Supply at least through the final maturity of the 2015 Bonds. The charges incurred

by Power Agency for transmission services, and the specific terms and conditions under which those services are provided, could be affected by a number of factors, including changes in the transmission providers' costs, changes in federal and state regulatory policies relating to transmission services, potential participation in regional transmission organizations, or other factors. The effects, if any, of such factors cannot be predicted at this time. A further discussion of certain of these factors is provided in the section entitled "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY."

Summary of Operating Results of the Major Members

The following table, prepared on the basis of information furnished to the Local Government Commission by the Major Members, summarizes certain collective operating results of the Major Members. For a more detailed compilation of operating results for the Major Members, see Table 2 of Appendix A to this Official Statement.

	Fiscal Year Ended June 30,		
	2012	2013	2014
Sales of Electricity.....	\$530,824,558	\$534,770,978	\$545,912,765
Other Operating Revenues.....	6,360,889	12,697,336	12,605,537
Total Operating Revenues.....	537,185,447	547,468,314	558,518,302
Purchased Power Expense ⁽²⁾	447,185,012	450,375,860	455,709,506
Other Operating Expenses.....	67,195,511	65,379,048	68,773,101
Subtotal Operating Expenses.....	514,380,523	515,754,908	524,482,607
Depreciation.....	16,095,981	16,321,366	16,623,479
Total Operating Expenses.....	530,476,504	532,076,274	541,106,086
Net Operating Revenues.....	6,708,943	15,392,040	17,412,216
Other Revenues.....	6,989,278	3,413,873	1,838,988
Other Expenses.....	4,758,537	3,781,908	3,291,243
Interest Expense.....	1,615,383	1,613,639	1,198,696
Net Revenues.....	\$7,324,301	\$13,410,366	\$15,161,265
Principal and Interest Payable on Members'			
Electric System Bonds.....	\$6,144,801	\$6,004,395	\$7,033,879

Totals may not add due to rounding.

- (1) This data is for comparative purposes only. Pursuant to the Debt Service Support Contracts, each Member is responsible to Power Agency for its respective Member's Share of Monthly Support Costs, subject to the obligations of it and the other Members in the event of default to accept and pay for a pro rata share of the capacity and output of defaulting Members; provided, however, that the sum of the increase in such shares shall not exceed, without the consent of the non-defaulting Member, an accumulated maximum of 25% of its respective Member's Share prior to any such increases. See Appendix D — "SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS —Debt Service Support Contracts— Defaults and Remedies."
- (2) Includes payments to Power Agency for power purchased from the Joint Facilities and other sources under existing arrangements.

Based on the Summary of Operating Results of the Major Members as set forth in the preceding table, an aggregate calculation of revenue coverage for purchased power and debt service on bonds issued by the Major Members for electric system purposes is shown in the following table. The amounts paid to Power Agency in each Contract Year by each Major Member included amounts required to pay debt service on Power Agency's Bonds and amounts required to be deposited into all funds and accounts established by the Prior Resolution in

addition to amounts required for additional power (in excess of the power generated by the Joint Facilities), which in the aggregate represent a purchased power expense of each Member's electric system. The coverage ratio is calculated, based upon the preceding table, as follows:

	Fiscal Year Ended June 30,		
	2012	2013	2014
Total Operating Revenues	\$537,185,447	\$547,468,314	\$558,518,302
Other Revenues	6,989,278	3,413,873	1,838,988
Less Other Expenses	<u>(4,758,537)</u>	<u>(3,781,908)</u>	<u>(3,291,243)</u>
Total Revenues	539,416,188	547,100,279	557,066,047
Less Other Operating Expenses	<u>(64,710,882)</u>	<u>(65,379,048)</u>	<u>(68,773,101)</u>
Revenues available to pay for Purchased Power and debt service on Members' Electric System Bonds	\$472,220,677	\$481,721,231	\$488,292,946
Cost of Purchased Power and debt service On Members' Electric System Bonds	\$453,329,813	\$456,380,255	\$462,743,385
Aggregate Major Members' Coverage Ratio ⁽¹⁾	1.04	1.06	1.06

Totals may not add due to rounding.

(1) Total Revenues less Other Operating Expenses and Other Expenses (excluding depreciation and the cost of purchased power) divided by the Cost of Purchased Power and debt service on Members' Electric System Bonds.

Restrictions on Transfers from Electric System Funds

Power Agency and the Local Government Commission have recommended to the Members a policy regarding the transfer of funds from their electric system funds to their general funds. Historically, many municipalities owning electric systems, including the Members, have utilized revenues from their electric funds to help support their general funds, often to provide higher levels of service or to keep the ad valorem tax rate lower than would otherwise be required. Legislation enacted in 2011 and 2012 limits any transfers from their electric system funds to any other funds except for a rate of return not exceeding either 3% of gross capital assets of the electric system as of the end of the preceding fiscal or 5% of gross annual electric revenues for the preceding fiscal year.

LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA

The Local Government Commission of North Carolina, a division of the Department of State Treasurer, is a State agency responsible for the approval and sale of the bonded indebtedness of all North Carolina units of local government (including the Members) and power agencies (including Power Agency), and nearly all public authorities, and provides assistance in the area of fiscal management.

The Local Government Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon the recommendation of the President Pro Tempore, and one by the General Assembly upon the recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Local Government Commission, who heads the administrative staff serving

the Local Government Commission. The current membership of the Local Government Commission is as follows:

Janet Cowell, State Treasurer
Elaine Marshall, Secretary of State
Lyons Gray, Secretary of Revenue
Beth Wood, State Auditor

Robert G. Greer
Michael Philbeck
Earl Phillip
William "Pete" Rodda
Rudy Wright

Gregory Gaskins is the Deputy Treasurer and the Secretary of the Local Government Commission.

Pursuant to the Act, Bonds may be sold in such manner and for such price as the Local Government Commission determines to be in the best interest of Power Agency, and each such sale is required to be approved by Power Agency. On June 2, 2015, the Local Government Commission approved the sale of the 2015 Bonds.

The Local Government Commission has a number of functions with respect to fiscal management of the Members. The Local Government Commission monitors certain fiscal and accounting standards prescribed for the Members by the Local Government Budget and Fiscal Control Act and attempts to ensure that the Members follow generally accepted accounting principles, systems and practices. That act also requires each Member to operate under a balanced budget and to have its accounts audited annually by a certified public accountant or by an accountant certified by the Local Government Commission as qualified to audit local government accounts. As of this date, no audit contract to be performed by an accountant other than an independent certified public accountant has been approved. In addition, the Local Government Commission staff advises the Members in debt, treasury and cash management, budget preparation, investment policies and procedures, and financing and accounting systems.

Pursuant to the Act, and in the opinion of Poyner Spruill LLP, North Carolina counsel to Power Agency, if a Member defaults on any payment of debt service on bonded debt, or willfully or negligently fails or refuses to comply with the provisions of the Local Government Budget and Fiscal Control Act (including those requiring the appropriation of moneys to meet obligations under continuing contracts such as the Debt Service Support Contracts), the Local Government Commission has statutory authority to assume full control of all of the Member's financial affairs. If the Local Government Commission elects to exercise such authority, it is vested with all of the powers of the Member's governing board as to expenditures of money, adoption of budgets and all other financial powers conferred upon the governing board by law and may impose any electric rate increases necessary to pay amounts required by the Debt Service Support Contracts.

DUKE ENERGY PROGRESS, INC.

DEP has not been asked to assist in the preparation of this Official Statement, nor has it been asked to review it. As the discussion in this Official Statement indicates, DEP is contractually committed under the Full Requirements Power Purchase Agreement to provide power and energy to Power Agency, which Power Agency will sell to the Members under the

Full Requirements Power Sales Agreements, which power is required by the Members to operate their electric systems, which will generate the revenues to make the required payments under the Debt Service Support Contracts. Therefore, Duke's ability to perform its obligations to Power Agency may have a significant impact on the ability of Power Agency to make the required payments on the Bonds.

DEP is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and in accordance therewith, file reports and other information with the Securities and Exchange Commission. Such reports and other information may be inspected at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Washington, DC 20549. Copies of such material may be obtained from the Securities and Exchange Commission at prescribed rates, and are also available on the Securities and Exchange Commission's website at www.sec.gov.

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Although following the issuance of the 2015 Bonds and the related sale by Power Agency of the Joint Facilities to DEP Power Agency will no longer have any electric generating assets (except for a very small amount of distributed generation), and the Members will have only limited generating assets, and although Power Agency and the Members have made the arrangements for their continued access to the electric power and energy they will require to carry out their electric utility operations, Power Agency and the Members will continue to be subject to challenges affecting the electric utility industry.

Power Agency cannot predict what effects these factors may have on the business operations and financial condition of Power Agency, the Members or DEP. The following sections of this caption provide brief discussions of some of these factors. However, these discussions do not purport to be comprehensive or definitive, and the matters discussed are subject to change subsequent to the date hereof.

General Factors Affecting the Electric Utility Industry

Electric utilities are subject to increasing federal, state and local statutory and regulatory requirements affecting a broad range of matters, including the following: siting and construction of new generation and transmission facilities; mandatory reliability standards for the bulk electric power system; homeland security, including protection of critical infrastructure facilities from damage or attack; employee safety; renewable resource mandates; challenges associated with the disposal of spent nuclear fuel and residual materials from coal fired plants; and air, water quality, land use and other environmental factors.

Over the last fifteen years, the electric utility industry has undergone significant changes in the area of competition, in both wholesale and retail markets, for the sale of electricity generation services. In large measure, this increase in competition is the outgrowth of statutory changes and regulatory initiatives at the federal and state levels. It is manifested in a number of ways, including the following: inter-fuel competition; municipal and industrial self-generation; the availability of open access wholesale transmission services under standardized tariffs; and the greater use of alternative and renewable energy resources and demand response. In many areas

of the United States, electric utilities no longer have a monopoly in power generation in their service areas, and are no longer the sole power supply option for at least some of their customers. In many instances, electric utilities that serve retail loads have found it necessary to grant rate concessions to larger commercial or industrial customers, sometimes with corresponding adverse effects on the rates paid by residential and other customers. Utilities with comparatively high-cost power supply resources often find it difficult to retain customers and recover through rates the full cost of their resources.

Nuclear Power Issues

A significant amount of DEP's electric generation is from nuclear facilities. While nuclear generation has proven to provide a reliable and clean source of electricity, the operation of nuclear power facilities requires a great deal of care and expense to assure that operations are carried out safely. Most recently, the March 2011 earthquake and tsunami that struck Japan and caused substantial damage to the nuclear generating units at the Fukushima Daiichi generating plant demonstrate the damage that can occur if an accident occurs at a nuclear generating facility. Significant costs must be incurred to assure that the nuclear facilities are operated safely. As more advanced safety technology becomes available, significant costs must be incurred to upgrade existing plants. The NRC continues to evaluate and act on the lessons learned from Fukushima Daiichi and otherwise to ensure U.S. nuclear power plants implement appropriate safety enhancements.

In addition to general safety concerns, daily operations of nuclear generating facilities entail significant costs. Also, fueling nuclear generating facilities and disposing of spent nuclear fuel continues to be a significant cost of nuclear operations.

Federal Regulatory Initiatives to Promote Increased Competition

A number of initiatives have been and continue to be pursued at the federal level aimed at promoting increased competition in the production, transmission and sale of electricity. These initiatives have their origins in energy legislation enacted by Congress since the late 1970s. Pursuant to those legislative actions, FERC has implemented a number of policy initiatives aimed at promoting greater competition in wholesale power markets. These initiatives, which at present do not apply directly to Power Agency or the Members, include requirements to encourage access to transmission service for power producers over transmission lines of competing power producers; regulations intended to prevent utilities from favoring the sale of their own generation in granting transmission service; regulations designed to encourage independent regional transmission organizations to oversee transmission in a region that are independent of the transmission owners and other market participants in the region; and other steps to foster the growth of competitive markets for generation services.

Greenhouse Gas Initiatives and Other Actions

Certain bills have been introduced in Congress that would amend the Clean Air Act, in order to, among other things, limit the emissions of carbon dioxide (CO₂) and other greenhouse gases. The cost impact of legislation or regulation to address global climate change would depend on the specific legislation or regulation enacted and cannot be determined at this time.

FERC has taken a number of steps aimed at ensuring that demand response, energy storage, energy efficiency and renewable resources are able to compete against conventional forms of energy supply without undue disadvantage. Among other things, FERC's efforts have been reflected in the outcome of generic and party-specific proceedings involving issues such as transmission cost allocation, rate incentives and planning, requirements and pricing for ancillary services, and compensation. Power Agency cannot predict the effect any of these initiatives may have on Power Agency, the Members or DEP.

Electric System Reliability

Particularly in response to the 2003 blackout in the Northeastern United States and Canada that effected over 50 million people, federal legislation was enacted that provides for mandatory compliance by electric utilities with reliability standards that are adopted by an Electric Reliability Organization ("ERO") and approved by FERC. Under the regulatory scheme developed, FERC adopted regulations involving the formulation of rules for the establishment, approval and enforcement of mandatory electric reliability standards, and the identification of the parties that will be subject to those standards. Power Agency has registered with the applicable organization as a Resource Planner, Distribution Provider and Load-Serving Entity on behalf of the Members under that regulatory scheme and is subject to the mandatory standards and requirements applicable to entities in these registration categories. Monetary and non-monetary penalties may be imposed on registered entities found to be in violation of one or more of the mandatory standards. Depending on the severity of the violation, penalties can reach \$1 million per day per violation.

Power Agency is unable to predict the effect on DEP, the Members or Power Agency of these or other requirements that may be adopted in furtherance of improved electric system reliability.

Sale of SEPA Assets

Legislation has been introduced from time to time in the U.S. Congress to provide for the sale of SEPA's assets. No prediction can be made as to the outcome of such legislative efforts. However, Power Agency does not believe that any sale of SEPA's assets, or the results of any such sale, would have a material adverse effect on the Members having SEPA allocations.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Barclays Capital Inc., First Southwest Company, LLC, Morgan Stanley & Co. LLC, Raymond James & Associates, Inc., U.S. Bancorp Investments, Inc. and Wells Fargo Bank, National Association (the "Underwriters") have jointly and severally agreed, subject to the terms of a Bond Purchase Agreement to purchase the 2015 Bonds from Power Agency. The Bond Purchase Agreement provides that the Underwriters, subject to certain conditions, will purchase the 2015 Bonds from Power Agency at an aggregate Underwriters' discount of \$789,347.67 from the initial public offering prices, or prices derived from the yields, thereof derived from the information shown on the inside cover hereof. The Underwriters will be obligated to purchase all such 2015 Bonds if any such bonds are purchased.

The 2015 Bonds may be offered and sold to certain dealers (including Underwriters and other dealers depositing such 2015 Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

The execution of a Continuing Disclosure Undertaking referred to under “AVAILABLE INFORMATION; CONTINUING DISCLOSURE UNDERTAKING” below on the date of delivery of the 2015 Bonds is a condition precedent to the obligations of the Underwriters to purchase such 2015 Bonds.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of the arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2015 Bonds.

“US Bancorp” is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc., which is serving as one of the Underwriters of the 2015 Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association (“WFBNA”). WFBNA has entered into an agreement with its affiliate, Wells Fargo Advisors, LLC (“WFA”), for the distribution of certain municipal securities offerings, including the 2015 Bonds. Pursuant to this distribution agreement, WFBNA will share a portion of its underwriting compensation with respect to the 2015 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate, Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the 2015 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

LITIGATION

No litigation is pending or, to the knowledge of Power Agency, threatened in any court to restrain or enjoin the issuance or delivery of any of the 2015 Bonds offered hereby or the collection of Revenues pledged or to be pledged to pay the principal of, redemption premium, if any, and interest on any of the 2015 Bonds, or in any way contesting or affecting the validity of any of the 2015 Bonds or the Resolution or the power to collect and pledge the Revenues to pay the 2015 Bonds, or contesting the powers or authority of Power Agency to issue the 2015 Bonds or to adopt the Resolution.

LEGALITY FOR INVESTMENT

Pursuant to the provisions of the Act, the 2015 Bonds are securities in which all public officers and agencies of the State of North Carolina and its political subdivisions, all insurance companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or

belonging to them, and are securities which may properly and legally be deposited with and received by any officer or agency of the State or any political subdivision for any purpose for which the deposit of bonds or obligations of the State or any political subdivision is now or may hereafter be authorized by law.

TAX MATTERS

Federal Tax Matters

General. The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of 2015 Bonds by original purchasers of the 2015 Bonds who are “U.S. Holders,” as defined herein. This summary (i) is based on certain relevant provisions of the Internal Revenue Code of 1986, as amended under existing law (the “Code”) and are subject to change at any time, possibly with retroactive effect; (ii) assumes that the 2015 Bonds will be held as “capital assets;” and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the 2015 Bonds as a position in a “hedge” or “straddle,” or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, or holders who acquire 2015 Bonds in the secondary market.

Holders of the 2015 Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the 2015 Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Interest Income. Interest and original issue discount (as defined below) on the 2015 Bonds are not excludable from gross income for United States Federal income tax purposes.

Original Issue Discount. In general, if Original Issue Discount (“OID”) is greater than a statutorily defined *de minimis* amount, a holder of a 2015 Bond must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such 2015 Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the 2015 Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such 2015 Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “de minimis amount” is an amount equal to 0.25 percent of the 2015 Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a 2015 Bond using the constant-yield method, subject to certain modifications.

Bond Premium. In general, if a 2015 Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the 2015 Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

Disposition and Defeasance. Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a 2015 Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the 2015 Bond.

Power Agency may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the 2015 Bonds to be deemed to be no longer outstanding under the Resolution of the 2015 Bonds (a “defeasance”). (See APPENDIX C -- SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Discharge of Obligations Under the Resolution”). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the 2015 Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting. In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID on a 2015 Bond and the proceeds of the sale of a 2015 Bond before maturity within the United States. Backup withholding may apply to holders of 2015 Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Service.

U.S. Holders. The term “U.S. Holder” means a beneficial owner of a 2015 Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United

States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

State of North Carolina Tax Matters

In the opinion of Bond Counsel to Power Agency, under existing laws of the State of North Carolina, interest on the 2015 Bonds is not subject to taxation as income, and the 2015 Bonds are free from taxation by the State of North Carolina or any political subdivision or any of their agencies, excepting inheritance or gift taxes, income taxes on the gain from the transfer of the 2015 Bonds, and franchise taxes.

For the proposed form of opinion of Bond Counsel, see Appendix E hereto.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decision, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2015 Bonds under state law and could affect the market price or marketability of the 2015 Bonds.

Prospective purchasers of the 2015 Bonds should consult their own tax advisors regarding the foregoing matters.

APPROVAL OF LEGAL PROCEEDINGS

All of the legal proceedings in connection with the authorization and issuance of the 2015 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to Power Agency. Certain legal matters in connection with the 2015 Bonds are subject to the approval of Poyner Spruill LLP, Raleigh, North Carolina, and of Womble Carlyle Sandridge & Rice, LLP, counsel to the Underwriters. For the proposed forms of opinions of Bond Counsel, see Appendix E hereto. Bond Counsel's opinion is issued as of the date of delivery of the 2015 Bonds, and Bond Counsel assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may thereafter arise or occur, or for any other reason.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the arithmetical and mathematical computations of the adequacy of the maturing principal amounts of the Federal Securities in the Escrow Deposit Fund together with the interest income thereon and uninvested cash, if any, to pay, when due, the redemption price of and interest on the Refunded Bonds has been verified by Causey Demgen & Moore P.C. Such verification of arithmetical accuracy and mathematical computations was based in part upon information and assumptions supplied by or on behalf of Power Agency.

RATINGS

Standard & Poor's and Fitch have assigned the 2015 Bonds ratings of "A-" and "A", respectively.

Such ratings reflect only the views of such organizations and are not a recommendation to buy, sell or hold the 2015 Bonds. Explanations of the significance of such ratings may be obtained only from the respective organizations. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

No assurance can be given that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of each such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2015 Bonds.

AVAILABLE INFORMATION; CONTINUING DISCLOSURE UNDERTAKING

Additional information relating to Power Agency and each Member is contained in their respective audited financial statements. The audited financial statements for the year ended December 31, 2014, are included as Appendix B. As noted above under “NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY—Financial Statements,” such audited financial statements reflect the assets and liabilities and results of operations of Power Agency prior to the sale of the Joint Facilities and the discontinuation of operations in the manner associated with Power Agency’s ownership of the Joint Facilities and the significant change to Power Agency’s operations following this disposition should be considered when reading the audited financial statements. In addition, copies of annual reports of Power Agency for future years will be made available by Power Agency upon request at any time after the date such reports are released and copies of the audited financial statement of each Member for future years may be obtained upon request from Power Agency at any time after the date such financial statements are filed with the Local Government Commission.

Power Agency has authorized the execution of a Continuing Disclosure Undertaking, to be dated the date of delivery of the 2015 Bonds, to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12, as amended, under the regulations of the SEC. The form of the Undertaking relating to the 2015 Bonds is included as Appendix F hereto. The Undertaking will be for the benefit of the respective holders of the 2015 Bonds, and beneficial owners will be third-party beneficiaries thereof. Pursuant to the Undertaking, Power Agency will be obligated to provide financial information and operating data, financial statements, notice of certain events and certain other notices to the Municipal Securities Rulemaking Board and its Electronic Municipal Market Access (“EMMA”) system, and such obligations will be enforceable, all as described therein. The execution of the Undertaking is a condition precedent to the obligation of the Underwriters to purchase the 2015 Bonds.

The Undertaking and commitments of Power Agency described under this heading and in Appendix F hereto to furnish the above-described documents and information are agreements and commitments solely of Power Agency, and the Underwriters have no responsibility to ensure that Power Agency complies with the Undertaking or any such commitment. In addition, the Underwriters make no representation that any such documents or information will be furnished, or that any such documents or information so furnished will be accurate or complete, or sufficient for the purposes for which it may be used.

In 2012, Power Agency discovered that Power Agency’s audited financial statements for each of the fiscal years ended December 31, 2007 through 2011 had not been filed with the applicable municipal securities information repositories as Power Agency had undertaken to provide pursuant to continuing disclosure undertakings it had made in connection with Bond issues by Power Agency. Upon this discovery, the audited financial statements were filed with EMMA. For the years in question, Power Agency timely provided to the municipal securities information repositories all other information it undertook to provide in its continuing disclosure undertakings made pursuant to Rule 15c2-12. The audited financial statements that were not so provided to the municipal securities information repositories were available on ElectriCities’ website at all times on and after the date such statements were to be filed with the municipal securities information repositories. In addition, on at least two occasions in recent years there

were changes in the ratings on Power Agency's Bonds (both an upgrade and a downgrade) on account of changes to the credit rating of the credit enhancer providing bond insurance for those Bonds for which continuing disclosure event notices were not filed. Other instances of a change in a rating on account of the rating of a credit enhancer for which an event notice was not filed may have occurred (in many instances Power Agency does not receive notice of a change in a Bond rating of a credit enhanced Bond). Power Agency has instituted procedures to avoid the omission of the audited financial statements in future continuing disclosure annual filings, and to monitor for changes in the credit ratings of Power Agency's Bonds in order to assure that event notices are timely filed, in each case pursuant to the undertakings by Power Agency pursuant to Rule 15c2-12.

MISCELLANEOUS

This Official Statement includes descriptions of the 2015 Bonds, the Debt Service Support Contracts, the Full Requirements Power Sales Agreements, the Resolution and certain provisions of the Act. Such descriptions do not purport to be complete and all such descriptions and references thereto are qualified in their entirety by reference to each such document, copies of which may be obtained from Power Agency.

Certain of the information contained in this Official Statement has been compiled or prepared by Power Agency from information obtained from the Members, DTC and other sources deemed to be reliable, but it is not guaranteed as to completeness or accuracy. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

AUTHORIZATION OF THE OFFICIAL STATEMENT

The execution and distribution of this Official Statement have been duly authorized by the Local Government Commission and Power Agency. Members of the Local Government Commission staff have participated in the preparation of this Official Statement and other documents related to the issuance of the 2015 Bonds, but the Local Government Commission and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement other than those made with respect to the Local Government Commission. Power Agency, assisted by its advisors and consultants, has furnished all information in this Official Statement relating to the Bonds and the security therefor, Power Agency, its Members, and Power Agency's provision of power and energy to its Members and the Debt Service Support Contracts and Full Requirements Power Sales Agreements.

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

By: /s/ D. Ronald Hovis
Chair, Board of Directors

LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA

By: /s/ Gregory Gaskins
Secretary

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THE MEMBERS

The following information pertaining to the Members has been obtained from sources believed to be reliable, but none of Power Agency, the Local Government Commission, or the Underwriters has verified this information nor do they make any representations as to the correctness of the information presented, except the information under the caption “Major Members.”

Major Members

The five largest Members measured by Members’ Shares (the “Major Members”), Greenville, Wilson, Rocky Mount, Kinston and New Bern, have Member’s Shares of 20.3709%, 17.7385%, 12.9031%, 7.6434% and 6.6370%, respectively, and aggregating approximately 65.3% of total Member’s Shares.

Under the arrangements in effect prior to the issuance of the Series 2015 Bonds and the sale of the Joint Facilities, the Members were required to pay to Power Agency in each year amounts required to pay debt service on Power Agency’s Bonds and amounts required to be deposited into all funds and accounts established by the Prior Resolution. Under the project agreements for the Joint Facilities, the shares of these payments for Greenville, Wilson, Rocky Mount, Kinston and New Bern were 16.13%, 15.51%, 16.03%, 8.67% and 6.37%, respectively, for an aggregate amount of 62.71% of the total amount these Members were required to pay to Power Agency for that purpose. In addition, the Members were required to pay to Power Agency additional amounts for supplemental power purchased by such Members.

Statistical and Financial Information

Tables 1 through 3 represent financial information, operating data and selected additional information with respect to the Major Members. The statistical information presented in Table 1 was prepared by Power Agency on the basis of information submitted by the Members to Power Agency, and the information presented in Table 2 and Table 3 was compiled by Power Agency from the Members’ annual audit reports for the fiscal years ended June 30, 2014, 2013 and 2012 submitted by the Members to Power Agency. These annual audit reports are identical to those submitted to the Local Government Commission for the same periods.

The selected statistics of the Major Members presented in Table 1 provide the population, system requirements, number of consumers, energy sales and revenue from power sales by customer category for each Major Member for the fiscal years ended June 30, 2014, 2013 and 2012.

The information presented in Table 2 — “SUMMARY OF MAJOR MEMBERS’ OPERATING RESULTS,” and Table 3 — “MAJOR MEMBERS’ CONDENSED BALANCE SHEETS,” summarizes and restates in a comparative format the operating results of the electric systems of the Major Members for the fiscal years ended June 30, 2014, 2013 and 2012, as available, and the financial position of the electric funds of the Major Members as of June 30, 2014, 2013 and 2012, as available. Table 2 is not presented in accordance with generally

accepted accounting principles and is unaudited. Neither Power Agency, the Local Government Commission, nor the Underwriters have verified the data contained in Table 2 and Table 3 nor make any representations as to the correctness of the information presented.

The Summary of the Major Members' Operating Results also includes an aggregate calculation of revenue coverage for purchased power and debt service on bonds, if any, issued by a Major Member for electric system purposes. The Purchase Power Expense for each year includes the amount paid to Power Agency for such Major Member's share for the year for the power produced by the Joint Facilities (calculated as provided in the project agreements for the Joint Facilities to include amounts required to pay debt service on the Power System Revenue Bonds issued by Power Agency and amounts required to be deposited into any fund or account established by the Prior Resolution). Purchase Power Expense also includes such Member's payments for additional power supplied by Power Agency that was not from output of the Joint Facilities and certain transmission and delivery station charges. This coverage ratio is calculated as follows:

Member's Coverage Ratio ("MCR"):

$$\frac{\text{Total Operating Revenues and Other Revenues minus Other Operating Expenses and Other Expenses (excluding depreciation and the cost of purchased power)}}{\text{Purchased Power Expense Plus Principal And Interest Payable On Member's Electric System Bonds}}$$

In addition, a MCR is calculated for the Major Members together.

In some instances, the amounts shown for Sales of Electricity on Table 2 will differ from the amounts shown for Total Sales Revenues from Power Sales on Table 1. The latter amounts represent cash received, rather than billings, in that fiscal year.

The Local Government Commission has received unqualified annual audit reports for all of the Members for the fiscal year ended June 30, 2014.

The basis of accounting utilized in the Major Members' audit reports, with respect to their electric funds, was full-accrual. The line item, Transfers to Other Funds, represents cash transfers to other governmental and proprietary activities of the Major Members.

Table 1
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY
Population, System Requirements, Customers, Megawatt-Hour Sales
And Revenues of Major Members

	Total	Greenville	Kinston	New Bern	Rocky Mount	Wilson
Population						
2010 (U.S. Census).....	242,399	84,554	21,677	29,524	57,477	49,167
2000 (U.S. Census).....	207,590	60,476	23,688	23,128	55,893	44,405
System Requirements, Fiscal Year Ended June 30; (1)(2)						
-2014-						
Peak Demand (kW)(3).....	788,419	298,974	77,177	97,141	129,352	185,775
Energy (MWh).....	4,744,051	1,741,372	478,012	480,049	730,694	1,313,924
-2013-						
Peak Demand (kW)(3).....	835,533	317,988	79,682	93,546	141,561	202,756
Energy (MWh).....	4,652,690	1,704,715	452,880	470,916	722,890	1,301,289
-2012-						
Peak Demand (kW)(3)	858,895	319,490	82,123	93,879	144,358	219,045
Energy (MWh)	4,592,133	1,686,667	438,140	458,825	715,496	1,293,005
Average Number of Customers, Fiscal Year Ended June 30;						
-2014-						
Residential		57,377	9,744	18,487	23,597	30,243
Commercial and Industrial		7,588	1,819	3,356	3,728	4,346
Municipal and Other		235	134	1	0	176
Total.....	160,831(3)	65,200	11,697	21,844	27,325	34,765
-2013-						
Residential		57,087	9,804	18,038	23,603	30,218
Commercial and Industrial		7,508	1,827	3,341	3,713	4,433
Municipal and Other		236	137	1		180
Total.....	160,126(3)	64,831	11,768	21,380	27,316	34,831
-2012-						
Residential		56,717	9,876	18,128	23,546	30,183
Commercial and Industrial		7,512	1,834	3,553	3,703	4,452
Municipal and Other		233	133	1	0	175
Total.....	160,046(3)	64,462	11,843	21,682	27,249	34,810
Megawatt-Hour Sales, Fiscal Year Ended June 30;(1)						
-2014-						
Residential		717,180	126,778	240,284	296,830	385,592
Commercial and Industrial		931,213	306,792	217,522	408,365	814,839
Municipal and Other		36,422	15,431	114	0	47,294
Total.....	4,545,016(3)	1,684,815	449,001	457,920	705,195	1,248,085
-2013-						
Residential		698,909	124,768	233,509	297,036	388,462
Commercial and Industrial		920,966	298,206	218,582	404,222	817,943
Municipal and Other		36,585	14,464	15		46,823
Total.....	4,500,490(3)	1,656,460	437,438	452,106	701,258	1,253,228
-2012-						
Residential		662,730	120,693	221,705	284,006	374,145
Commercial and Industrial		932,846	285,899	214,070	406,073	816,957
Municipal and Other		37,317	14,069	102	0	46,377
Total.....	4,416,989(3)	1,632,893	420,661	435,877	690,079	1,237,479
Revenue from Power Sales, Fiscal Year Ended June 30;						
-2014-						
Residential		94,489,736	18,629,994	34,575,966	42,714,433	54,241,728
Commercial and Industrial		95,169,001	33,281,385	27,299,481	48,716,545	81,331,239
Municipal and Other		4,293,124	1,431,771	14,540	0	5,297,986
Total.....	\$541,486,929(3)	\$193,951,861	\$53,343,150	\$61,889,987	\$91,430,978	\$140,870,953
-2013-						
Residential		91,495,257	18,423,395	30,526,317	41,677,126	54,359,462
Commercial and Industrial		94,154,677	33,271,802	27,856,283	47,849,441	81,108,464
Municipal and Other		4,264,815	1,373,654	2,544		5,202,700
Total.....	\$531,565,937(3)	\$189,914,749	\$53,068,851	\$58,385,144	\$89,526,567	\$140,670,626
-2012-						
Residential		86,822,852	17,943,939	32,098,126	39,981,759	52,938,595
Commercial and Industrial		94,795,985	32,184,243	26,061,406	48,176,152	80,289,378
Municipal and Other		4,339,561	1,341,899	13,815	0	5,106,966
Total.....	\$522,094,676(3)	\$185,958,398	\$51,470,081	\$58,173,347	\$88,157,911	\$138,334,939

(1) Differences between system energy requirements and megawatt-hour sales are due primarily to differences in billing cycles, losses over the Members' distribution system and unaccounted for use.

(2) The Peak Demand and Energy System Requirements represent amounts at the Power Agency Delivery Point level, and Peak Demands are the highest demands in any month coincident with DEP's monthly peak demand.

(3) Aggregate amounts for the above three categories are omitted due to differences in the reporting practices of the Members. In cases when information was unavailable for a Participant, the most recent years' amounts that were available were included in the total column.

Table 2
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY
Summary of Major Members' Operating Results
For Fiscal Years Ended June 30 (Unaudited)

2014	Total(1)	Greenville	Kinston	New Bern	Rocky Mount	Wilson
Sales of Electricity	\$545,912,765	\$200,421,499	\$53,978,114	\$63,763,783	\$91,430,978	\$136,318,391
Other Operating Revenues	12,605,537	699,404	775,218		2,340,731	8,790,184
Total Operating Revenues	558,518,302	201,120,903	54,753,332	63,763,783	93,771,709	145,108,575
Purchased Power Expense	455,709,506	164,909,937	46,666,200	48,695,774	75,354,137	120,083,458
Other Operating Expenses	68,773,101	21,915,863	5,817,416	8,918,557	12,150,980	19,970,285
Subtotal Operating Expenses.....	524,482,607	186,825,800	52,483,616	57,614,331	87,505,117	140,053,743
Depreciation	16,623,479	7,596,737	1,019,631	1,988,542	1,841,903	4,176,666
Total Operating Expenses.....	541,106,086	194,422,537	53,503,247	59,602,873	89,347,030	144,230,409
Net Operating Revenues	17,412,216	6,698,366	1,250,085	4,160,910	4,424,689	878,166
Other Revenues.....	1,838,988	1,683,768	8,918	174,066	87,965	284,271
Other Expenses.....	3,291,243				277,002	3,014,241
Interest Expense on Electric System						
Bonds	1,198,696	761,918	238,525	110,610	87,643	
Net Revenues	\$15,161,265	\$7,620,216	\$1,020,478	\$4,224,366	\$4,148,009	(\$1,851,804)
Transfers to Other Funds	\$10,494,990	\$4,833,702	\$524,883	\$1,958,455	\$1,425,000	\$1,752,950
Principal & Interest on Electric						
System Bonds	\$7,033,879	\$3,407,819	\$963,835	\$718,921	\$1,943,304	\$0
Member's Coverage Ratio	1.06	1.07	1.03	1.11	1.05	1.02
2013						
Sales of Electricity	\$534,770,978	\$195,341,808	\$52,529,425	\$61,909,426	\$89,526,567	\$135,463,752
Other Operating Revenues	12,697,336	504,564	681,119	0	1,972,910	9,538,743
Total Operating Revenues	547,468,314	195,846,372	53,210,544	61,909,426	91,499,477	145,002,495
Purchased Power Expense	450,375,860	162,173,347	46,398,005	47,644,177	74,829,348	119,330,983
Other Operating Expenses	65,379,048	21,207,680	4,937,316	7,846,481	11,855,428	19,532,143
Subtotal Operating Expenses.....	515,754,908	183,381,037	51,335,321	55,490,658	86,684,776	138,863,126
Depreciation	16,321,366	7,361,238	1,039,734	1,976,078	1,930,588	4,013,728
Total Operating Expenses.....	532,076,274	190,742,265	52,375,055	57,466,736	88,615,364	142,876,854
Net Operating Revenues	15,392,040	5,104,107	835,489	4,442,690	2,884,113	2,125,641
Other Revenues.....	3,413,873	1,940,180	11,741	544,077	565,585	352,290
Other Expenses.....	3,781,908	311,435		14,761	209,110	3,246,602
Interest Expense on Electric System						
Bonds	1,613,639	1,003,966	278,892	255,603	75,178	0
Net Revenues	\$13,410,366	\$5,728,886	\$568,338	\$4,716,403	\$3,165,410	(\$768,671)
Transfers to Other Funds	\$9,588,314	\$4,586,608	\$826,600	\$1,942,527	\$1,404,419	\$828,160
Principal & Interest on Electric						
System Bonds	\$6,004,395	\$2,883,477	\$1,081,751	\$748,714	\$1,290,453	\$0
Member's Coverage Ratio	1.06	1.07	1.02	1.13	1.05	1.04
2012						
Sales of Electricity	\$530,824,558	\$192,141,546	\$51,673,626	\$60,516,535	\$88,157,911	\$138,334,940
Other Operating Revenues	6,360,889	494,829	534,742	0	1,413,827	3,917,491
Total Operating Revenues	537,185,447	192,636,375	52,208,368	60,516,535	89,571,738	142,252,431
Purchased Power Expense	447,185,012	160,322,489	45,570,221	47,382,382	74,419,871	119,490,049
Other Operating Expenses	67,195,511	22,602,996	4,339,928	10,773,213	11,958,699	17,520,675
Subtotal Operating Expenses.....	514,380,523	182,925,485	49,910,149	58,155,595	86,378,570	137,010,724
Depreciation	16,095,981	7,327,825	914,113	1,958,056	1,873,606	4,022,381
Total Operating Expenses.....	530,476,504	190,253,310	50,824,262	60,113,651	88,252,176	141,033,105
Net Operating Revenues	6,708,943	2,383,065	1,384,106	402,884	1,319,562	1,219,326
Other Revenues.....	6,989,278	4,336,512	15,782	1,423,454	124,780	1,088,750
Other Expenses.....	4,758,537	268,329	951,601	0	360,922	3,177,685
Interest Expense on Electric System						
Bonds	1,615,383	1,015,327	296,563	211,449	92,044	0
Net Revenues	\$7,324,301	\$5,435,921	\$151,724	\$1,614,889	\$991,376	(\$869,609)
Transfers to Other Funds	\$11,187,059	\$4,594,622	\$823,400	\$1,801,367	\$1,500,000	\$2,467,670
Principal & Interest on Electric						
System Bonds	\$6,144,801	\$2,977,267	\$1,092,212	\$727,622	\$1,061,234	\$0
Member's Coverage Ratio	1.04	1.07	1.01	1.06	1.02	1.03

(1) The data in the Total column is provided for comparative purposes only. Pursuant to Joint Facilities project agreements, each Member was responsible to Power Agency for its share of monthly project power costs of the Joint Facilities.

Table 3
NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY
Major Members' Condensed Balance Sheets (1)
For Fiscal Years Ended June 30 (Unaudited)

2014	Greenville	Kinston	New Bern	Rocky Mount	Wilson
ASSETS:					
Cash and Investments.....	\$39,463,448	\$4,273,523	\$15,527,509	\$16,592,514	\$35,115,598
Other Current Assets.....	28,906,592	8,344,155	8,816,755	12,361,708	20,598,490
Plant and Equipment (net of accumulated depreciation).....	\$93,320,296	\$21,891,325	\$26,566,607	\$39,063,036	\$74,474,451
Total Assets.....	\$161,690,336	\$34,509,003	\$50,910,871	\$68,017,258	\$130,188,539
LIABILITIES AND NET POSITION:					
Current Liabilities.....	\$19,454,617	\$5,148,616	\$6,101,049	\$9,367,382	\$41,503,149
Customer Deposits.....	2,734,118	1,738,773	1,302,980	3,132,273	1,549,214
Post-Employment Benefits ⁽²⁾	5,133,093		944,574	403,543	1,199,042
Bonds or Certificates of Participation Payable.....	17,812,450	4,816,990	4,465,175	3,365,816	
Total Liabilities.....	\$45,134,278	\$11,704,379	\$12,813,778	\$16,269,014	\$44,251,405
Net Position:					
Beginning Net Position.....	\$114,118,512	\$21,790,275	\$35,831,152	\$49,025,236	\$89,778,064
Net Revenues.....	7,620,216	1,020,478	4,224,396	4,148,009	(1,851,804)
Increase (Decrease) for:					
Transfers to other funds.....	\$4,833,702	\$524,883	\$1,958,455	\$1,425,000	\$1,752,950
Other Changes in Net Position.....		\$518,754			
Ending Net Position.....	\$116,905,026	\$22,804,624	\$38,097,093	\$51,748,245	\$86,173,310
Deferred Inflows (Outflows) of Resources.....	(\$348,968)				(\$236,175)
Total Liabilities and Net Position....	\$161,690,336	\$34,509,003	\$50,910,871	\$68,017,259	\$130,188,540
2013					
ASSETS:					
Cash and Investments.....	\$41,126,840	\$3,054,369	\$11,964,742	\$16,123,175	\$42,817,885
Other Current Assets.....	29,474,995	8,519,991	9,034,353	11,740,752	19,056,384
Plant and Equipment (net of accumulated depreciation).....	\$91,388,915	\$22,466,352	\$27,126,796	\$38,443,599	\$74,182,582
Total Assets.....	\$161,990,750	\$34,040,712	\$48,125,891	\$66,307,526	\$136,056,851
LIABILITIES AND NET POSITION:					
Current Liabilities.....	\$20,320,438	\$5,142,404	\$5,389,626	\$9,533,216	\$16,629,184
Customer Deposits.....	2,678,225	1,640,437	1,271,743	2,829,649	1,514,673
Post-Employment Benefits.....	4,700,352		857,837	329,263	1,131,924
Bonds or Certificates of Participation Payable.....					27,251,920
Bonds Payable.....	20,567,975	5,467,596	4,775,533	4,590,162	0
Total Liabilities.....	\$48,266,990	\$12,250,437	\$12,294,739	\$17,282,290	\$46,527,701
Net Position:					
Beginning Net Position.....	\$112,976,234	\$21,679,316	\$33,057,276	\$47,256,151	\$91,929,622
Net Revenues.....	5,728,886	568,338	4,716,403	3,165,410	(768,671)
Increase (Decrease) for:					
Transfers to Other Funds.....	(\$4,586,608)	(\$826,600)	(\$1,942,527)	(\$1,404,419)	(\$828,160)
Other Changes in Net Position.....	\$0	\$369,221	\$0	\$8,094	(\$554,727)
Ending Net Position.....	\$114,118,512	\$21,790,275	\$35,831,152	\$49,025,236	\$89,778,064
Deferred Inflows (Outflows) of Resources.....	(\$394,752)				(\$248,914)
Total Liabilities and Net Position....	\$161,990,750	\$34,040,712	\$48,125,891	\$66,307,526	\$136,056,851
2012					
ASSETS:					
Cash and Investments.....	\$44,987,909	\$3,324,191	\$8,974,255	\$10,079,472	\$46,427,961
Other Current Assets.....	28,123,686	8,535,700	8,599,400	13,086,283	21,064,443
Plant and Equipment (net of accumulated depreciation).....	\$88,803,735	\$22,739,285	\$26,866,595	\$37,611,234	\$73,941,619
Total Assets.....	\$161,915,330	\$34,599,176	\$44,440,250	\$60,776,989	\$141,434,023
LIABILITIES AND FUND EQUITY:					
Current Liabilities.....	\$20,319,068	\$4,970,062	\$5,776,925	\$8,712,906	\$17,512,213
Customer Deposits.....	2,601,181	1,707,774	1,261,529	2,814,854	1,517,484
Post-Employment Benefits ⁽²⁾	4,279,018	49,118	0	305,812	1,023,835
Bonds or Certificates of Participation Payable.....	21,739,829	6,192,906	4,344,520	1,687,266	29,450,869
Total Liabilities.....	\$48,939,096	\$12,919,860	\$11,382,974	\$13,520,838	\$49,504,401

Fund Equity:					
Beginning Fund Equity	\$112,134,935	\$21,097,299	\$33,243,754	\$47,055,907	\$95,266,901
Net Revenues	5,435,921	151,724	1,614,889	991,376	(869,609)
Increase (Decrease) for:					
Transfers to Other Funds:					
General Fund	(4,594,622)	(823,400)	(1,713,067)	(1,500,000)	(2,159,780)
Other Funds	(0)	1,253,693	(88,300)	708,868	(307,890)
Total Transfers to Other Funds	(\$4,594,622)	\$430,293	(\$1,801,367)	(\$791,132)	(\$2,467,670)
Other Changes in Fund Equity	\$0	\$0	\$0	\$0	\$0
Ending Fund Equity	\$112,976,234	\$21,679,316	\$33,057,276	\$47,256,151	\$91,929,622
Total Liabilities and Fund Equity.....	\$161,915,330	\$34,599,176	\$44,440,250	\$60,776,989	\$141,434,023

(1) Unless otherwise noted, amounts shown as "Fund Equity: Increase (Decrease) for: "Other" reflect accounting adjustments, including those to record previously unrecorded fixed assets and adjustments to contributed capital.

**NORTH CAROLINA EASTERN MUNICIPAL
POWER AGENCY**

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2014 and 2013

**North Carolina Eastern Municipal Power Agency
Annual Financial Report
Years Ended December 31, 2014 and 2013**

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Independent Auditor's Report

To the Board of Directors
North Carolina Eastern Municipal Power Agency
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Eastern Municipal Power Agency (the Agency), which are comprised of the statements of net position as of December 31, 2014 and 2013, and the related statements of revenue and expenses and changes in net position, and cash flows for the years ended and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

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 the audit 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Eastern Municipal Power Agency as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years ended December 31, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the "Management's Discussion and Analysis" on pages 3 through 9 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise North Carolina Eastern Municipal Power Agency's basic financial statements. The budgetary schedules and statements as listed in the table of contents as "Supplementary Information" are presented for purposes of additional analysis and are not a required part of the basic financial statements of North Carolina Eastern Municipal Power Agency.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McGladrey LLP

Morehead City, North Carolina
April 1, 2015

**Management’s Discussion and Analysis (MD&A)
Unaudited**

As management of North Carolina Eastern Municipal Power Agency (Agency), we offer this narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2014 and 2013. We encourage you to read this information in conjunction with the information furnished in the Agency’s financial statements and accompanying notes that follow this narrative.

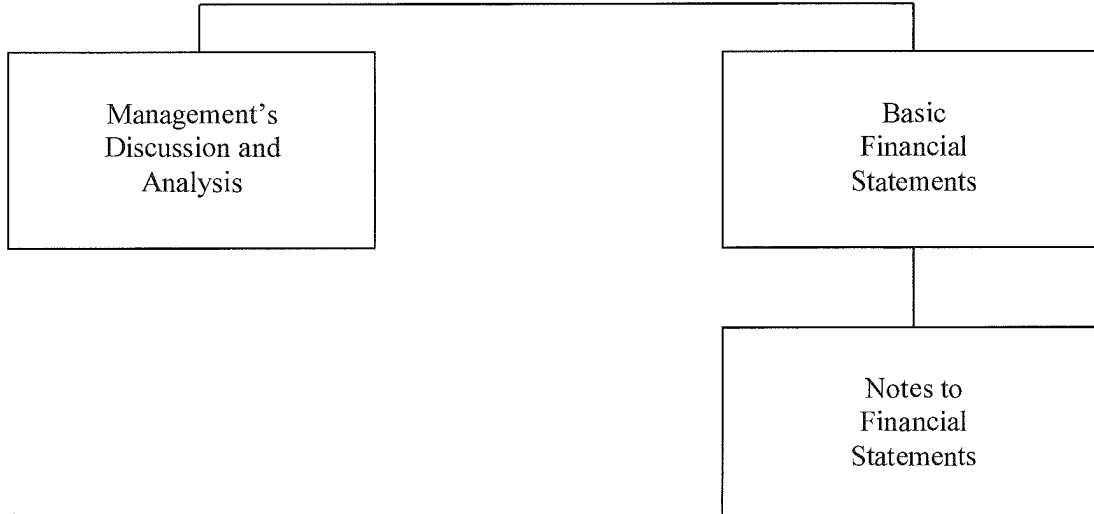
Financial Highlights

- The Agency’s basic financial statements consist of a single electric enterprise fund.
- At year-end 2014 and 2013, the Agency’s assets and deferred outflows exceeded its liabilities and deferred inflows by \$117,253,000 and \$76,572,000, respectively (net position).
- The Agency’s net position increased by \$40,681,000 and decreased \$26,426,000 for 2014 and 2013, respectively.
- Year-end 2014 and 2013 unrestricted net position was \$207,416,000 and \$302,624,000, respectively, and decreased \$95,208,000 and \$184,091,000 during 2014 and 2013, respectively.
- The Agency’s total debt decreased \$156,265,000 and \$134,050,000 during 2014 and 2013, respectively, as follows:
 - Decreased \$156,265,000 and \$134,050,000 in 2014 and 2013, respectively, due to principal paid January 1, 2014 and 2013 in accordance with debt service schedules.
- The bond ratings increased or remained the same as follows:
 - Standard and Poor’s – Unchanged at A- (stable).
 - Moody’s – Unchanged at Baa1 (positive).
 - Fitch – Unchanged at A- (stable).
- There were no rate increases in 2014 or 2013.

Overview of the Financial Statements

This MD&A is an introduction to the Agency’s basic financial statements and notes to the financial statements (see Exhibit 1). In addition to the basic financial statements, this report contains other supplemental information designed to enhance your understanding of the financial condition of the Agency.

**Required Components of the Annual Financial Report
Exhibit 1**



Summary → Detail

Basic Financial Statements

The Agency is a special purpose municipal corporation that accounts for its activities as a business type entity. The first section of the basic financial statements is the Agency's single proprietary fund that focuses on the business activities of the electric enterprise. The statements are designed to provide a broad overview of the Agency's finances, similar in format to private sector business statements, and provide short and long-term information about the Agency's financial status, operations and cash flow. The statements report net position and how it has changed during the period. Net position is the difference between total assets and deferred outflows of resources and total liabilities. Analyzing the various components of net position is one way to gauge the Agency's financial condition.

The second section of the basic financial statements is the notes that explain in more detail some of the data contained in the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are on pages 14 to 35 of this report.

After the notes, supplemental information is provided to show how the Agency's rates recovered its expenses as defined by the Bond Resolution, to show the Agency's performance against budget and to show activities in the special funds established by the Bond Resolution or the Board of Commissioners. Supplemental information can be found on pages 36 to 41 of this report.

Financial Analysis

The electric enterprise fund financial statements for the years ended December 31, 2014 and 2013 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Condensed Statements of Net Position Exhibit 2 (\$000s)

	December 31,		
	2014	2013	2012
Assets and Deferred Outflows of Resources			
Capital assets	\$ 857,316	\$ 822,546	\$ 738,327
Current and other assets	947,495	942,717	1,939,841
Deferred outflows of resources	1,053,884	1,014,678	226,499
Total assets and deferred outflows of resources	2,858,695	2,779,941	2,904,667
Liabilities and Deferred Inflows of Resources			
Long-term liabilities outstanding	1,778,656	1,938,490	2,115,672
Other liabilities	709,418	764,879	685,997
Deferred inflows of resources	253,368	252,110	
Total liabilities and deferred inflows of resources	2,741,442	2,703,369	2,801,669
Net Position			
Net Invested in capital assets	(116,436)	(257,908)	(438,752)
Restricted for debt service	26,273	31,856	55,035
Unrestricted	207,416	302,624	486,715
Total net position	\$ 117,253	\$ 76,572	\$ 102,998

The various components of net position may serve over time as a useful indicator of the Agency's financial condition. The assets and deferred outflows of resources of the Agency exceeded liabilities and deferred inflows by \$117,253,000, \$76,572,000 and \$102,998,000 at December 31, 2014, 2013 and 2012, respectively, representing an increase of \$40,681,000 and a decrease of \$26,426,000 for 2014 and 2013 respectively.

The deficit portion of net position of \$(116,436,000), \$(257,908,000) and \$(438,752,000) at December 31, 2014, 2013 and 2012, respectively, reflects the Agency's investments in capital assets (e.g. land, buildings, generation facilities, nuclear fuel and equipment), less any related debt outstanding that was issued to acquire or refinance those items. The deficit occurs because depreciation is expensed on a straight line basis over the life of the plant while debt repayment is structured similar to a home mortgage where early debt payments include more interest than principal and later payments include more principal than interest. This deficit was reduced during 2014 and 2013 because the payment of principal debt service on January 1 and the payment of capital additions from current operating funds exceeded depreciation expense.

These capital assets are used to provide electric power to Agency Participants. Consequently, these assets are not available for future spending. While the Agency's investments in capital assets are reported net of the outstanding related debt, the resources needed to repay that debt will be provided through future rates and certain reserve funds since the capital assets cannot be used to liquidate the liabilities.

An additional portion of the Agency's net position of \$26,273,000, \$31,856,000 and \$55,035,000 at December 31, 2014, 2013 and 2012, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$207,416,000, \$302,624,000 and \$486,715,000 at December 31, 2014, 2013 and 2012, respectively, is unrestricted net position.

**Condensed Statement of Revenues, Expenses, and
Changes in Net Position**
Exhibit 3
(\$000s)

	Years Ended December 31,		
	2014	2013	2012
Revenues:			
Operating revenues	\$ 698,503	\$ 699,099	\$ 696,526
Nonoperating revenues	12,366	13,245	15,612
Total Revenues	<u>710,869</u>	<u>712,344</u>	<u>712,138</u>
Expenses:			
Operating expenses	630,590	440,154	443,407
Interest on long-term debt	97,611	105,095	112,054
Other nonoperating (revenues)/expenses	(58,013)	193,521	134,975
Total Expenses	<u>670,188</u>	<u>738,770</u>	<u>690,436</u>
Increase in net position	<u>40,681</u>	<u>(26,426)</u>	<u>21,702</u>
Net Position, Beginning of year	<u>76,572</u>	<u>102,998</u>	<u>81,296</u>
Net Position, End of year	<u>\$ 117,253</u>	<u>\$ 76,572</u>	<u>\$ 102,998</u>

Capital Assets and Debt Administration

Capital Assets

Investments in capital assets at December 31, 2014, 2013 and 2012 totaled \$857,316,000, \$822,546,000 and \$738,327,000, respectively, (net of accumulated amortization and depreciation) for an increase of \$34,770,000 and \$84,219,000 in 2014 and 2013, respectively. These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2014 and 2013 include the following:

- CWIP increased \$47,942,000 and \$81,553,000 in 2014 and 2013, respectively, due to capital additions projects at the joint units.
- Electric Plant in Service (EPIS) increased and CWIP decreased \$40,761,000 and \$58,221,000 in 2014 and 2013, respectively, due to the transfer of completed capital additions projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$24,737,000 and \$20,733,000 for 2014 and 2013, respectively.
- Nuclear Fuel Net Amortization was \$20,341,000 and \$17,409,000 for 2014 and 2013, respectively.

Capital Assets Exhibit 4 (\$000s)

Electric Utility Plant, Net

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,764,647	\$ 5,616	\$ 40,761	\$ (4,701)	\$ 1,806,323
Nuclear Fuel	157,817	26,281			184,098
Total Depreciable Utility Plant	1,922,464	31,897	40,761	(4,701)	1,990,421
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,091,696)	(24,697)		4,701	(1,111,692)
Nuclear Fuel	(75,044)	(20,341)			(95,385)
Total Accumulated Depreciation and Amortization	(1,166,740)	(45,038)	-	4,701	(1,207,077)
Depreciable Utility Plant, Net	755,724	(13,141)	40,761	-	783,344
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	51,452	47,942	(40,761)		58,633
Total Electric Utility Plant, Net	\$ 821,363	\$ 34,801	\$ -	\$ -	\$ 856,164

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,711,080	\$ 8,113	\$ 58,221	\$ (12,767)	\$ 1,764,647
Nuclear Fuel	125,081	32,736			157,817
Total Depreciable Utility Plant	1,836,161	40,849	58,221	(12,767)	1,922,464
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,083,730)	(20,733)		12,767	(1,091,696)
Nuclear Fuel	(57,635)	(17,409)			(75,044)
Total Accumulated Depreciation and Amortization	(1,141,365)	(38,142)	-	12,767	(1,166,740)
Depreciable Utility Plant, Net	694,796	2,707	58,221	-	755,724
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	28,120	81,553	(58,221)		51,452
Total Electric Utility Plant, Net	\$ 737,103	\$ 84,260	\$ -	\$ -	\$ 821,363

Non-Utility Plant and Equipment, Net

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242	\$ 9			\$ 2,251
Accumulated Depreciation	(1,769)	(40)			(1,809)
Total Depreciable Property and Equipment, Net	473	(31)			442
Land	710				710
Total Non-Utility Property and Equipment, Net	\$ 1,183	\$ (31)	\$ -	\$ -	\$ 1,152
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242				\$ 2,242
Accumulated Depreciation	(1,728)	(41)			(1,769)
Total Depreciable Property and Equipment, Net	514	(41)			473
Land	710				710
Total Non-Utility Property and Equipment, Net	\$ 1,224	\$ (41)	\$ -	\$ -	\$ 1,183

Additional information on capital assets can be found in Note C beginning on page 21 of this report.

Outstanding Debt

Total debt outstanding at December 31, 2014, 2013 and 2012 was \$1,869,455,000, \$2,025,720,000 and \$2,159,770,000, respectively, all of which are revenue bonds. Total debt decreased by \$156,265,000 (7.7%) and \$134,050,000 (6.2%) during 2014 and 2013, respectively, due to the principal debt payments.

The bond ratings increased or remained the same as follows:

- Standard and Poor's – Unchanged at A- (stable).
- Moody's – Unchanged at Baa1 (positive).
- Fitch – Unchanged at A- (stable).

Additional information regarding the Agency's long-term debt can be found in Note H beginning on page 29 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2015 budget:

- The 10 year average weather-normalized load (energy) growth rate is approximately 0.5% per year. Load is expected to grow by less than 1% annually for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Market prices for coal are expected to remain flat in the near term with modest increases comparable with inflation in the mid to long term.
- Market prices for natural gas remain low and are expected to stay relatively flat in the near and mid-term due to strong domestic natural gas supply and healthy storage inventories. Long term prices are expected to increase comparable with inflation.

Budget Highlights for 2015

- Assumes no wholesale rate change.
- The load forecast projects energy sales growing 0.6% during 2014 and annual coincident peak demand growing 0.4% per year.
- Collection through rates of \$144,370,000 for debt principal due January 1, 2016.
- Anticipates capital additions at the joint units of approximately \$71,540,000 for system improvements, equipment replacement/modifications and ongoing capital programs and projects. Approximately \$35,770,000 of these capital additions will be funded through rates.
- Scheduled outages at Brunswick Unit 2 and Harris plants for refueling and a maintenance outage at Roxboro Unit 4.

Requests for Information

This report is designed to provide an overview of the Agency's finances for those who are interested. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, North Carolina Eastern Municipal Power Agency, P. O. Box 29513, Raleigh, NC 27626-0513.

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North Carolina Eastern Municipal Power Agency
Statements of Net Position
(\$000s)

	December 31,	
	2014	2013
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	\$ 1,820,510	\$ 1,778,834
Construction work in progress	58,633	51,452
Nuclear fuel	184,098	157,817
Accumulated depreciation and amortization	(1,207,077)	(1,166,740)
Total Electric Utility Plant, Net	856,164	821,363
Non-Utility Property and Equipment, Net		
Property and equipment	2,961	2,952
Accumulated depreciation	(1,809)	(1,769)
Total Non-Utility Property and Equipment, Net	1,152	1,183
Total Capital Assets	857,316	822,546
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	22	-
Bond fund	306,072	318,690
Reserve and contingency fund	11,097	10,962
Total Special Funds Invested	317,191	329,652
Trust for Decommissioning Costs (Notes D and E)	256,992	239,555
Total Restricted Assets	574,183	569,207
Total Non-Current Assets	1,431,499	1,391,753
Current Assets		
Funds Invested (Note D):		
Revenue fund	28,805	14,397
Operating fund	55,889	68,645
Supplemental fund	172,103	180,611
Total Funds Invested	256,797	263,653
Participants accounts receivable	55,941	58,425
Fossil fuel stock	38	38
Plant material and renewable certificate inventory	57,675	49,067
Prepaid expenses	2,861	2,327
Total Current Assets	373,312	373,510
Total Assets	\$ 1,804,811	\$ 1,765,263

See accompanying notes to financial statements.

North Carolina Eastern Municipal Power Agency
Statements of Net Position
(\$000s)

	December 31,	
	2014	2013
DEFERRED OUTFLOWS OF RESOURCES		
Costs of advance refundings of debt	\$ 146,943	\$ 177,829
Unamortized debt issuance costs	12,899	15,263
VEPCO compensation payment (Note F)	2,720	3,109
Development costs	2,030	2,300
Costs To Be Recovered (Note G)	889,292	816,177
Total Deferred Outflows of Resources	<u>\$ 1,053,884</u>	<u>\$ 1,014,678</u>
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt (Note H)		
Bonds payable	\$ 1,721,650	\$ 1,869,455
Unamortized premium	57,006	69,035
Total Long-Term Debt	<u>1,778,656</u>	<u>1,938,490</u>
Asset Retirement Obligation (Note E)	455,469	243,890
Total Non-Current Liabilities	<u>2,234,125</u>	<u>2,182,380</u>
Current Liabilities		
Operating Liabilities:		
Accounts payable	54,081	54,639
Accrued taxes	3,600	5,510
Total Operating Liabilities	<u>57,681</u>	<u>60,149</u>
Special Funds Liabilities:		
Current maturities of bonds (Note H)	147,805	156,265
Accrued interest on bonds	48,463	52,465
Total Special Funds Liabilities	<u>196,268</u>	<u>208,730</u>
Total Current Liabilities	<u>253,949</u>	<u>268,879</u>
Total Liabilities	<u>\$ 2,488,074</u>	<u>\$ 2,451,259</u>
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note G)	\$ 253,368	\$ 252,110
Total Deferred Inflows of Resources	<u>\$ 253,368</u>	<u>\$ 252,110</u>
NET POSITION		
Net invested in capital assets	\$ (116,436)	\$ (257,908)
Restricted for debt service	26,273	31,856
Unrestricted	207,416	302,624
Total Net Position	<u>\$ 117,253</u>	<u>\$ 76,572</u>

North Carolina Eastern Municipal Power Agency
Statements of Revenue and Expenses and Changes in Net Position
(\$000s)

	Years Ended	
	December 31,	
	2014	2013
Operating Revenues:		
Sales to participants	\$ 698,380	\$ 698,963
Sales to utilities	142	6
Other revenues (expenses)	(19)	130
Total Operating Revenues	<u>698,503</u>	<u>699,099</u>
Operating Expenses:		
Operation and maintenance	86,837	92,468
Fuel	69,189	56,436
Power coordination services:		
Purchased power	157,021	166,532
Transmission and distribution	24,923	24,658
Other	812	397
Total power coordination services	<u>182,756</u>	<u>191,587</u>
Administrative and general	40,346	40,174
Amounts in lieu of taxes	3,433	2,912
Gross receipts tax	11,334	22,429
Depreciation and amortization	25,116	21,435
Amortization of asset retirement obligation	211,579	12,713
Total Operating Expenses	<u>630,590</u>	<u>440,154</u>
Operating Income	67,913	258,945
Nonoperating (Revenues) Expenses		
Investment income	(12,366)	(13,245)
Net decrease (increase) in fair value of investments	(7,378)	25,931
Interest expense	97,611	105,095
Amortization of debt refunding cost	30,886	37,139
Amortization of debt discount, premium and issuance costs	(9,664)	(17,505)
Net decrease (increase) in costs to be recovered (Note G)	(73,115)	127,219
Net increase in collections to be expended (Note G)	1,258	20,737
Total nonoperating expenses (revenues)	<u>27,232</u>	<u>285,371</u>
Increase (Decrease) in Net Position	40,681	(26,426)
Net Position, Beginning of the year	76,572	102,998
Net Position, End of the year	<u>\$ 117,253</u>	<u>\$ 76,572</u>

See accompanying notes to financial statements.

North Carolina Eastern Municipal Power Agency
Statements of Cash Flows
(\$000s)

	Years Ended December 31,	
	2014	2013
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 700,987	\$ 696,416
Payments of operating expenses	(376,865)	(365,861)
Net cash provided by operating activities	324,122	330,555
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(101,613)	(106,771)
Debt premium (discount), issuance costs	-	(6)
Additions to electric utility plant and non-utility property and equipment	(87,866)	(127,659)
Bonds retired or redeemed	(156,265)	(134,050)
Net cash used for capital and related financing activities	(345,744)	(368,486)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,513,403	2,913,528
Purchases of investment securities	(1,498,590)	(2,882,759)
Investment earnings receipts	6,770	7,187
Net cash provided by investing activities	21,583	37,956
Net Change in Operating Cash	(39)	25
Operating Cash, Beginning of year	115	90
Operating Cash, End of year	\$ 76	\$ 115
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 67,913	\$ 258,945
Adjustments:		
Depreciation and amortization	25,116	21,435
Amortization of asset retirement obligation	211,579	12,713
Additional funding for nuclear decommissioning		
Amortization of nuclear fuel	27,980	22,004
Changes in assets and liabilities:		
(Increase) decrease in participant accounts receivable	2,484	(2,682)
Decrease in fossil fuel stock	-	-
Decrease (increase) in prepaid expenses	(534)	(1,499)
(Increase) in plant material and operating supplies	(8,608)	(5,911)
Decrease in deferred costs	659	659
Increase (decrease) in accounts payable	(557)	24,786
Increase in accrued taxes	(1,910)	105
Total Adjustments	256,209	71,610
Net Cash Provided by Operating Activities	\$ 324,122	\$ 330,555

See accompanying notes to financial statements.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

A. General Matters

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

Initial Project

The initial project is comprised of the Agency's undivided ownership interests in three nuclear-fueled and two coal-fired generating units presently in commercial operation by Duke Energy Progress, Inc. (DEP) as follows:

	Commercial Operation	Agency Ownership	Maximum Net Dependable Capability (MNDC)			
			(MW)			
			2014		2013	
			Unit	Agency	Unit	Agency
Nuclear-Fuel Units						
Brunswick Unit 2	1975	18.33%		170.8	932	170.8
Brunswick Unit 1	1977	18.33%		171.9	938	171.9
Harris Unit 1	1987	16.17%		150.1	928	150.1
Total Nuclear-Fueled Capability				492.8		492.8
Coal-Fired Units						
Roxboro Unit 4	1980	12.94%		90.3	698	90.3
Mayo Unit 1	1983	16.17%		117.6	727	117.6
Total Coal-Fired Capability				207.9		207.9
Total of All Units				700.7		700.7

In conjunction with the purchase of its ownership interest, the Agency entered into several agreements with DEP that govern the purchase, ownership, construction, operation and maintenance of the generating units in the initial project.

- The Purchase, Construction and Ownership Agreement provides, among other things, for the Agency to purchase its ownership share of the project from DEP.
- The Operation and Fuel Agreement provides for DEP to operate, maintain and fuel the units; to make renewals, replacements and capital additions as approved by the Agency; and for the ultimate decommissioning or retirement of the joint units at the end of their useful lives.
- The Power Coordination Agreement provides for the interconnection of the Project with the DEP system, for the transmission of power to the Agency's Participants and for the purchase by the Agency of its power needs in excess of its ownership share from DEP.
- The Agency also entered into an agreement with Virginia Electric and Power Company (VEPCO) for the transmission of power to the Agency's Participants formerly served by VEPCO.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

A. General Matters (continued)

The Agency entered into two power sales agreements with each of its Participants for supplying the total electric power requirements of the Participants in excess of Southeastern Power Administration (SEPA) allocations. With initial project power, together with supplemental purchases of power from DEP, the Agency provides the total electric power requirements of its Participants, exclusive of power allotments from SEPA. Under the Initial Project Power Sales Agreements, the Agency sells to the Participants their respective shares of initial project output. The revenues received relative to the initial project are pledged as security for bonds issued under the Resolution, after payment of initial project operating expenses. Each Participant is obligated to pay its share of operating costs and debt service for the initial project. Under the Supplemental Power Sales Agreements, the Agency supplies each Participant the additional power it requires in excess of that provided by the initial project and from SEPA.

The initial project is financed under Power System Revenue Bond Resolution No. R-2-82 (Resolution) which was adopted by the Board of Commissioners (Board) of the Agency. The Resolution established special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the initial project and to establish and maintain certain reserves. The Resolution also established special funds into which initial project revenues from Participants are to be deposited and from which initial project operating costs, debt service and other specified payments are to be made.

ElectriCities of North Carolina, Inc.

ElectriCities of North Carolina, Inc. (ElectriCities), organized as a joint municipal assistance agency under the General Statutes of North Carolina, is a public body and body corporate and politic created for the purpose of providing aid and assistance to municipalities in connection with their electric systems and to joint agencies, such as the Agency.

The Agency entered into a management agreement with ElectriCities. Under the current management agreement with the Agency, ElectriCities is required to provide all personnel and personnel services necessary for the Agency to conduct its business in an economic and efficient manner. This agreement continues through December 31, 2014, and is automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term.

For the years ended December 31, 2014 and 2013, the Agency paid ElectriCities \$12,594,000 and \$10,961,000, respectively.

B. Significant Accounting Policies

Basis of Accounting

The accounts of the Agency are maintained on the accrual basis, in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, and are in conformity with accounting principles generally accepted in the United States of America (GAAP). The Agency has adopted the principles promulgated by the Governmental Accounting Standards Board (GASB) and U.S. GAAP. U.S. GAAP allows utilities to capitalize or defer certain costs and/or revenues based upon the Agency's ongoing assessment that it is probable that such items will be recovered through future revenues.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

The Agency reports in accordance with GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” The statement requires certain information be included in the financial statements and specifies how that information should be presented.

The financial statements are prepared using the economic resources measurement focus. Operating revenues are defined as revenues received from the sale of electricity and associated services. Revenues from capital and related financing activities and investment activities are defined as non-operating revenues. Restricted net position represents constraints on resources that are imposed by Resolution and may be utilized only for the purposes established by the Resolution. Unrestricted net position may be utilized for any purpose approved by the Board through the budget process. When both restricted and unrestricted net position might be used to meet an obligation, the Agency first uses the restricted net position.

Electric Plant in Service

All direct and indirect expenses associated with the development and construction of the Agency's undivided ownership interests in five of DEP's generating units in commercial operation, including interest expense net of investment earnings on funds not yet expended, have been recorded at original cost (plus acquisition adjustment) and are being depreciated (or amortized) on a straight-line basis. Both Brunswick units are being depreciated over the remaining life of the plants, which at December 31, 2014, was 21 years, 8 months for Brunswick Unit 1 and 20 years for Brunswick Unit 2. The Harris plant is being depreciated over the remaining life of the plant, which at December 31, 2014, was 32 years. The two remaining units, Mayo and Roxboro Unit 4 are being depreciated over the remaining useful lives at December 31, 2014, which is 21 years and 21 years, respectively.

The asset retirement obligation adjustment arising from implementing U.S. GAAP (discussed under Decommissioning Costs beginning on page 28) is also included. It is being depreciated over the remaining life of the plants from which the asset retirement obligation arises.

The Agency has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” which requires the Agency to report the effect of capital asset impairments in the financial statements when they occur rather than in the ongoing depreciation expense for the capital asset. Any insurance recovery associated with the impairment will be netted with the impairment loss. During 2014 and 2013, no such impairment occurred.

Construction Work in Progress

All expenditures associated with capital additions related to the Agency's undivided ownership interests in DEP's generating units are capitalized as construction work in progress until such time as they are complete, at which time they are transferred to Electric Plant in Service. No interest is capitalized on capital additions. Depreciation expense is recognized on these items after they are transferred.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

Nuclear Fuel

Nuclear Fuel, net of amortization, includes all expenditures related to the purchase and construction of the Agency's undivided ownership interests in nuclear fuel cores are capitalized until such time as the cores are placed in the reactor. No interest is capitalized on fuel cores. Once placed in the reactor, they are amortized to fuel expense utilizing the units of production method. Amounts are removed from the books upon disposal of the spent nuclear fuel. Nuclear fuel expense includes a provision for estimated disposal costs, which is being collected currently from Participants. Amortization of nuclear fuel costs in 2014 and 2013 included a provision of \$1,331,000 and \$3,777,000, respectively, for estimated disposal costs.

Under provisions of the Nuclear Waste Policy Act of 1982, DEP, on behalf of DEP and the Agency, entered into contracts with the Department of Energy (DOE) for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel in 1998, the year provided by the Nuclear Waste Policy Act and DEP's contract with the DOE. To date, the DOE continues not to accept spent nuclear fuel assemblies or title to such fuel assemblies.

On December 12, 2011, Duke Energy Progress and Duke Energy Florida (DEF) sued the United States in the U.S. Court of Federal Claims. The lawsuit claimed the Department of Energy breached a contract in failing to accept spent nuclear fuel under the Nuclear Waste Policy Act of 1982 and asserted damages for the cost of on-site storage. DEP and DEF asserted damages for the period January 1, 2006 through December 31, 2010. Claims for all period prior to 2006 have been resolved. On March 24, 2014, the U.S. Court of Federal Claims issued a judgement in favor of DEP and DEF on this matter, awarding amount of \$83 million and \$21 million, respectively. The majority of the awards were recorded as a reduction to capital costs associated with construction of on-site storage facilities. DEP and DEF received payment of the award in September 2014. The Agency's portion of the settlement was \$13 million. On October 16, 2014, DEP and DEF filed a new action for costs incurred from 2011 through 2013.

The DOE announced that it would cease the collection of the of 0.1-cent charge from utilities customers for each nuclear-generated kilowatt-hour of electricity as of May 16th, 2014, in response to a November 2013 ruling by the US Court of Appeals. This action resulted from a lawsuit filed on behalf of utilities and regulators by the National Association of Regulatory Utility Commissioners (NARUC) and the Nuclear Energy Institute (NEI). The court instructed the US energy secretary to "change the fee to zero" pending either compliance with the existing US nuclear waste act or the enactment by Congress of an alternative waste management plan.

Non-Utility Property and Equipment

This includes the land and administrative office building jointly owned with NCMPA1 and used by both Agencies and Electricities. The administrative office building is being depreciated over 37 ½ years on a straight-line basis.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

Investments

The Agency reports according to the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires investments to be reported at fair value. In addition, the Agency reports according to the provisions of GASB Statement No. 40 "Deposit and Investment Risk Disclosures" which addresses common investment risks related to credit risk, concentration of credit risk and interest rate risk.

Accounts Receivable

Accounts receivable consist of trade accounts receivable associated with the sale of electricity and are stated at cost. The Agency primarily sells to the Participants in the project and accordingly, management does not believe an allowance for doubtful accounts is required.

Fossil Fuel Stock

Fossil fuel stock includes fossil fuel stock and EPA Clean Air Act Allowances, each of which is stated at average cost.

Discounts/Premiums on Bonds

Discounts on bonds (net of premiums) at December 31, 2014 and 2013 shown net of accumulated accretion/amortization of \$(67,534,000) and \$(55,505,000), respectively, are amortized over the terms of the related bonds in a manner which yields a constant rate of interest.

Decommissioning Costs

U.S. GAAP requires the Agency to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of assets and record a corresponding asset that will be depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Any such adjustments for changes in the estimated future cash flows will also be capitalized and amortized over the remaining life of the asset.

Pollution Remediation Obligations

The Agency reports according to GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations" which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as nuclear power plant decommissioning.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

Taxes

Income of the Agency is excludable from income subject to federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the Agency from property and franchise or other privilege taxes. In lieu of property taxes, the Agency pays an amount that would otherwise be assessed on the real and personal property of the Agency. In lieu of a franchise or privilege tax, the Agency pays an amount equal to 3.22% of the gross receipts from sales of electricity to Participants. The gross receipts taxes were eliminated effective July 1, 2014 as a result of legislative changes.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of \$48,000 and \$113,000 at December 31, 2014 and 2013, respectively, included on the statement of net position in the line item "Current Assets: Funds Invested". Restricted cash of \$28,000 and \$2,000 at December 31, 2014 and 2013, respectively, included on the balance sheet in the line item "Restricted Assets: Special Funds Invested" is also included on the statements of cash flows.

Use of Estimates

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

Debt Issuance Costs

GASB No. 65 additionally provides discussion on the accounting treatment of debt issuance costs. This GASB established the requirement that debt issuance costs are to be expensed in the current period as compared to amortization of the costs over the life of the related debt. Per GASB No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", entities that are rate regulated are allowed to amortize these costs over time if future recovery is probable and that future recovery is based on prior costs and not similar future costs. The Agency elects to follow this pronouncement as its current rate methodology provides recovery of debt issuance costs.

Recently Adopted GASB Standards

For the year-ended December 31, 2013 the Agency adopted GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34" effective for periods beginning after June 15, 2012 and GASB Statement No. 66, "Technical Corrections -2012- An Amendment of GASB Statements No. 10 and No. 62" effective for periods beginning after December 15, 2012.

In June 2012, GASB issued Statement No. 67, "Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25". This Statement improves accounting and financial reporting for state and local governments for pensions. It replaces the requirements of Statements No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributed Plans", and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

arrangements that meet certain criteria. This Statement is effective for periods beginning after June 15, 2013, and did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations for 2014.

In January 2013, GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations". This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for periods beginning after December 15, 2013 and did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations for 2014.

In April 2013, GASB issued Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees". This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective for reporting periods beginning after June 15, 2013 and did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations for 2014.

Future Accounting Standards

In June 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27". This Statement improves accounting and financial reporting for state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement is effective for periods beginning after June 15, 2014, and the Agency is evaluating the potential impact on the Agency's financial position, over cash flow or balances or results of operations.

In November 2013, GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date: An Amendment of GASB Statement No. 68". This Statement addresses an issue regarding application of the transition provisions of Statement No. 68 "Accounting and Financial Reporting for Pensions". The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68 and are not expected to have a material impact on the Agency's financial position, over cash flow or balances or results of operations.

In February 2015, GASB issued Statement No. 72, "Fair Value Measurement and Application". This Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value guidance and enhances disclosures about fair value measurements. The provisions of this statement are effective for periods beginning after June 15, 2015 and are not expected to have a material impact on the Agency's financial statements as a whole.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

C. Capital Assets

Changes in components of electric utility plant, net during 2014 and 2013 are as follows (in thousands of dollars):

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,764,647	\$ 5,616	\$ 40,761	\$ (4,701)	\$ 1,806,323
Nuclear Fuel	157,817	26,281			184,098
Total Depreciable Utility Plant	1,922,464	31,897	40,761	(4,701)	1,990,421
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,091,696)	(24,697)		4,701	(1,111,692)
Nuclear Fuel	(75,044)	(20,341)			(95,385)
Total Accumulated Depreciation and Amortization	(1,166,740)	(45,038)	-	4,701	(1,207,077)
Depreciable Utility Plant, Net	755,724	(13,141)	40,761	-	783,344
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	51,452	47,942	(40,761)		58,633
Total Electric Utility Plant, Net	\$ 821,363	\$ 34,801	\$ -	\$ -	\$ 856,164

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,711,080	\$ 8,113	\$ 58,221	\$ (12,767)	\$ 1,764,647
Nuclear Fuel	125,081	32,736			157,817
Total Depreciable Utility Plant	1,836,161	40,849	58,221	(12,767)	1,922,464
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,083,730)	(20,733)		12,767	(1,091,696)
Nuclear Fuel	(57,635)	(17,409)			(75,044)
Total Accumulated Depreciation and Amortization	(1,141,365)	(38,142)	-	12,767	(1,166,740)
Depreciable Utility Plant, Net	694,796	2,707	58,221	-	755,724
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	28,120	81,553	(58,221)		51,452
Total Electric Utility Plant, Net	\$ 737,103	\$ 84,260	\$ -	\$ -	\$ 821,363

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

C. Capital Assets (continued)

The Agency has commitments to DEP in connection with capital additions for the initial project. Current estimates indicate the Agency's portion of these costs for 2015 and 2016 will be approximately \$146,000,000.

Changes in components of non-utility property and equipment, net during 2014 and 2013 are as follows (in thousands of dollars):

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242	\$ 9			\$ 2,251
Accumulated Depreciation	(1,769)	(40)			(1,809)
Total Depreciable Property and Equipment, Net	473	(31)			442
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,183</u>	<u>\$ (31)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,152</u>

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242				\$ 2,242
Accumulated Depreciation	(1,728)	(41)			(1,769)
Total Depreciable Property and Equipment, Net	514	(41)			473
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,224</u>	<u>\$ (41)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183</u>

D. Investments

The Agency's investments are categorized to give an indication of the level of risk assumed by the Agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Agency or its agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Agency's name. All investments except repurchase agreements are considered Category 1. Repurchase agreements are considered Category 3. In accordance with the provisions of the Resolution, the collateral under the repurchase agreements is segregated and held by the trustee for the Agency.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

The Agency's investments are detailed in the following schedule (in thousands of dollars):

	December 31,			
	2014		2013	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Repurchase agreements	\$ 67,450	\$ 67,450	\$ 64,240	\$ 64,240
U.S. Government Agencies	245,801	247,614	263,206	264,167
Treasury State and Local Government Securities	27,068	27,068	27,068	27,068
Treasury Coupons	21,209	21,269	9,977	9,947
Treasury Strips	-	-	1,242	2,598
Money market	109,468	109,468	215,177	215,177
Collateralized Certificates of Deposit	94,300	94,300	-	-
Collateralized mortgage obligations	5,201	5,776	8,061	9,070
Sub-total funds invested	<u>570,497</u>	<u>572,945</u>	<u>588,971</u>	<u>592,267</u>
Decommissioning Trust securities	202,895	256,525	193,382	239,095
Cash				
Operating cash	48	48	113	113
Restricted cash	28	28	2	2
Accrued interest	1,434	1,434	1,383	1,383
Total funds invested	<u>\$ 774,902</u>	<u>\$ 830,980</u>	<u>\$ 783,851</u>	<u>\$ 832,860</u>
Consisting of:				
Special funds invested		\$ 317,191		\$ 329,652
Decommissioning Trust		256,992		239,555
Operating assets		<u>256,797</u>		<u>263,653</u>
Total funds invested		<u>\$ 830,980</u>		<u>\$ 832,860</u>

Interest Rate Risk

The Bond Resolution authorizes the Agency to invest in obligations with maturity dates, or with redemption features, on or before the respective dates when the money in such accounts will be required for the purposes intended. The Agency does not have additional formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2014 and 2013, the maturities of the Agency's investments are as follows (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

	December 31, 2014				
	Fair Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
Repurchase agreements	\$ 67,450	\$ 67,450	\$ -	\$ -	\$ -
U.S. government agencies	247,614	31,995	200,908	14,711	
Treasury State and Local Government Securities	27,068		14,378	12,690	
Treasury Coupons	21,269		21,269		
Treasury Strips	-				
Money market	109,468	109,468			
Collateralized Certificates of Deposit	94,300	94,300			
Collateralized mortgage obligations	5,776		5,776		
	572,945	303,213	242,331	27,401	-
Decommissioning Trust securities	256,525	16,612	104,145	129,169	6,599
Total	<u>\$ 829,470</u>	<u>\$ 319,825</u>	<u>\$ 346,476</u>	<u>\$ 156,570</u>	<u>\$ 6,599</u>

	December 31, 2013				
	Fair Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
Repurchase agreements	\$ 64,240	\$ 64,240	\$ -	\$ -	\$ -
U.S. government agencies	264,167	43,275	160,696	60,196	
Treasury State and Local Government Securities	27,068		14,378	12,690	
Treasury Coupons	9,947		9,947		
Treasury Strips	2,598			2,598	
Money market	215,177	215,177			
Collateralized mortgage obligations	9,070		5,936	3,134	
	592,267	322,692	190,957	78,618	-
Decommissioning Trust securities	239,095	23,206	43,093	147,723	25,073
Total	<u>\$ 831,362</u>	<u>\$ 345,898</u>	<u>\$ 234,050</u>	<u>\$ 226,341</u>	<u>\$ 25,073</u>

As of December 31, 2014 and 2013 the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

	December 31, 2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Repurchase agreements					\$ -	\$ -
U.S. government securities	89,491	356	70,997	678	160,488	1,034
Agency strips	-	-	-	-	-	-
Treasury strips	-	-	-	-	-	-
Money market	-	-	-	-	-	-
Collateralized mortgage obligations	-	-	-	-	-	-
Sub-total	89,491	356	70,997	678	160,488	1,034
Decommissioning Trust securities	14,445	104	40,705	804	55,150	908
Total	<u>\$ 103,936</u>	<u>\$ 460</u>	<u>\$ 111,702</u>	<u>\$ 1,482</u>	<u>\$ 215,638</u>	<u>\$ 1,942</u>

	December 31, 2013					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Repurchase agreements					\$ -	\$ -
U.S. government securities	121,414	1,674	3,705	194	125,119	1,868
Agency strips	-	-	-	-	-	-
Treasury strips	-	-	-	-	-	-
Money market	-	-	-	-	-	-
Collateralized mortgage obligations	20,917	789	13,874	173	34,791	962
Sub-total	142,331	2,463	17,579	367	159,910	2,830
Decommissioning Trust securities	26,886	1,361	13,957	589	40,843	1,950
Total	<u>\$ 169,217</u>	<u>\$ 3,824</u>	<u>\$ 31,536</u>	<u>\$ 956</u>	<u>\$ 200,753</u>	<u>\$ 4,780</u>

Credit Risk

The Resolution authorizes the Agency to invest in 1) direct obligations of, or obligations of which the principal and interest are unconditionally guaranteed by the United States (U.S.), 2) obligations of any Agency of the U.S. or corporation wholly owned by the U.S., 3) direct and general obligations of the State of North Carolina or any political subdivision thereof whose securities are rated "A" or better, 4) repurchase agreements with a member of the Federal Reserve System which are collateralized by previously described obligations and 5) bank time deposits evidenced by certificates of deposit and bankers' acceptances. The Agency has no formal investment policy that would further limit its investment choices.

As of December 31, 2014 and 2013 the Agency's investments in repurchase agreements are all collateralized by U.S. Treasury or U.S. Government securities. The Agency's investments in U.S. Government Agencies, U.S. Treasury Strips and Collateralized Mortgage Obligations are rated Aaa by Moody's Investor Service and AAA by Standard and Poor's Corporation. The Agency's investments in Money Market Instruments are rated AAA by Standard and Poor's Corporation and Moody's Investor Service.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

The Agency places no limit on the amount the Agency may invest in direct obligations of the United States Treasury. Limits have been established for all remaining issuers. As of December 31, 2014 and 2013, the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

	December 31, 2014		December 31, 2013	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	\$ 89,096	11%	\$ 101,274	12%
Federal National Mortgage Association	103,827	13%	109,180	13%
Federal Home Loan Bank	93,805	11%	90,536	11%
Federal Farm Credit Bank	93,779	11%	100,554	12%
Resolution Funding Corporation	5,701	1%	10,195	1%
Repurchase Agreements				
Morgan Stanley/Dean Witter	4,225	1%	64,240	8%
Bank of America	63,225	8%		
Collateralized CD's				
Bank of America	94,300	11%	-	-
Money Market Fund - NC Capital Management Trust	110,303	13%	215,968	26%
U.S. Treasury Department	171,209	20%	139,415	17%
Total	\$ 829,470	100%	\$ 831,362	100%

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

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

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The Agency's depositories use the pooling method, a single financial institution collateral pool. Under the pooling method, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. The financial institutions using the pooling method are responsible for assuring sufficient collateralization of these excess deposits. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each pooling method depository, which minimizes any risk of under-collateralization. The Agency had \$76,000 and \$115,000 at December 31, 2014 and 2013, respectively, covered by federal depository insurance.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

E. Decommissioning Costs

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency does not have a formal policy for custodial credit risk. All deposits are currently held in the name of North Carolina Eastern Municipal Power Agency.

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

To satisfy the NRC's financial capability regulations, the Agency established an external trust fund (Decommissioning Trust) pursuant to a trust agreement with a bank. The Agency's certification requires that the Agency make annual deposits to the Decommissioning Trust which, together with the investment earnings and amounts previously on deposit in the trust, are anticipated to result in sufficient funds being held in the Decommissioning Trust at the expiration of the current operating licenses for the units (currently 2034 for Brunswick Unit 2, 2036 for Brunswick Unit 1 and 2046 for Harris Unit 1) to meet the Agency's share of decommissioning costs.

Estimates of the future costs of decommissioning the units are based on the most recent site-specific study that was conducted on behalf of DEP in 2014 utilizing the unit factor method, which follows the approach as outlined in the DOE decommissioning handbook. The Agency's portion of decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, is \$148,119,000 for Brunswick Unit 1, \$129,565,000 for Brunswick Unit 2 and \$177,785,000 for Harris, all stated in 2014 dollars.

The Decommissioning Trust is irrevocable and funds may be withdrawn from the trust solely for the purpose of paying the Agency's share of the costs of nuclear decommissioning. Under the NRC regulations, the Decommissioning Trust is required to be segregated from Agency assets and outside the Agency's administrative control. The Agency is deemed to have incurred and paid decommissioning costs as amounts are deposited to the Decommissioning Trust. In addition to the Decommissioning Trust, certain reserve assets are anticipated to be available to satisfy the Agency's total decommissioning liability.

The Agency has identified certain asset retirement obligations, which are primarily associated with the decommissioning of NCEMPA's ownership interest in Brunswick Unit 1 and Unit 2, and Harris plants. Changes in components of the asset retirement obligation during 2014 and 2013 are as follows (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

E. Decommissioning Costs (continued)

	Years Ended December 31,	
	2014	2013
Balance, beginning of year	\$ 243,890	\$ 231,177
Accretion expense	13,412	12,713
Revisions in estimated cash flows	198,167	-
Balance, end of year	\$ 455,469	\$ 243,890

F. VEPCO Compensation Payment

The VEPCO compensation payment represents compensation to VEPCO for early termination of service for those Participants previously served by VEPCO. This payment of \$15,515,000 and the related capitalized interest of \$33,000 were deferred and are being amortized on a straight-line basis over 40 years, the original expected life of the initial project. The balance at December 31, 2014 and 2013 is net of accumulated amortization of \$12,828,000 and \$12,439,000, respectively.

G. Costs To Be Recovered and Collections to be Expended

Rates for power billings to Participants are designed to cover the Agency's operating expenses, debt requirements and reserves as specified by the Resolution and power sales agreements. Straight-line depreciation and amortization are not considered in the cost of service calculation used to design rates. In addition, certain earnings on funds established in accordance with the Resolution are restricted to those funds and are not available for current operations.

The differences between debt principal maturities (adjusted for the effects of premiums, discounts and amortization of deferred gains and losses) and straight-line depreciation and amortization and interest income recognition are recognized as costs to be recovered. When total recoverable/collectible items exceed principal debt service, costs to be recovered increase. When principal debt service exceeds total recoverable/collectible items, costs to be recovered decrease.

Funds collected through rates for reserve accounts and restricted investment income are recognized as collections to be expended, thus increasing total collections to be expended. When these funds are used to meet current expenses, collections to be expended decrease.

The Agency's present charges to the Participants are sufficient to recover all of the Agency's current annual costs of the Participants' bulk power needs. Each Participant is required under the power sales agreements to set its rates for its customers at levels sufficient to pay all costs of its electric utility system, including the Agency's charges for bulk power supply. All Participants have done so.

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

G. Costs To Be Recovered and Collections to Be Expended (continued)

Costs to be recovered include the following (in thousands of dollars):

	Years Ended December 31,		Inception to December 31,	
	2014	2013	2014	2013
Costs To Be Recovered				
Deferred interest expense	\$ -	\$ -	\$ 649,984	\$ 649,984
Amortization of debt discount, premium and issuance costs	(9,664)	(17,505)	30,745	40,409
Net (increase) decrease in fair value of investments and derivative financial instruments	(7,378)	25,931	78,869	86,247
Depreciation and amortization	25,116	21,435	1,330,689	1,305,573
Amortization of asset retirement obligation	13,412	12,713	122,918	109,506
Amortization of debt refunding costs	30,886	37,139	853,354	822,468
Participant billing offsets	(177,424)	(206,932)	(2,425,984)	(2,248,560)
Asset Retirement Obligation Provision	198,167		203,631	5,464
New project negotiation and Harris Plant litigation costs			45,086	45,086
Costs To Be Recovered	<u>\$ 73,115</u>	<u>\$ (127,219)</u>	<u>\$ 889,292</u>	<u>\$ 816,177</u>

Collections to be expended include the following (in thousands of dollars):

	Years Ended December 31,		Inception to December 31,	
	2014	2013	2014	2013
Collections To Be Expended				
Net special funds withdrawals	\$ (13,646)	\$ 9,785	\$ 44,246	\$ 57,892
Restricted investment income	7,748	8,010	167,344	159,596
Rate stabilization funds used for other than operations	-	-	(21,839)	(21,839)
Special funds valuations	550	(4,478)	(81,270)	(81,820)
Prepaid fuel	(2,000)	-	90,000	92,000
Other collections to be expended	8,606	7,420	54,887	46,281
Net Collections To Be Expended	<u>\$ 1,258</u>	<u>\$ 20,737</u>	<u>\$ 253,368</u>	<u>\$ 252,110</u>

H. Bonds

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

The following shows bond activity during 2014 and 2013 (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

	2014	2013
Bonds Outstanding - Beginning of year	\$ 2,025,720	\$ 2,159,770
Principal payments January 2	(156,265)	(134,050)
Bonds Outstanding - End of year	\$ 1,869,455	\$ 2,025,720

The various issues comprising the outstanding debt are as follows (in thousands of dollars):

	December 31,	
	2014	2013
Series 1991 A		
6.5% maturing in 2018	\$ 28,755	\$ 28,755
Series 1993 B		
6% maturing in 2018	97,790	97,790
6% maturing in 2022	157,740	157,740
6.25% maturing in 2023	45,030	45,030
6% maturing annually from 2025 to 2026	32,985	32,985
Total Series 1993 B	333,545	333,545
Series 2003 D		
4.375% to 5.375% maturing annually from 2011 to 2015	-	57,010
Series 2003 E (Federally Taxable)		
5.5% maturing in 2014	-	13,410
6.58% maturing in 2026	4,195	4,195
Total Series 2003 E	4,195	17,605
Series 2003 F		
4.375% to 5.5% maturing annually from 2011 to 2017	-	27,840
Series 2003 G (Federally Taxable)		
5.55% maturing annually from 2013 to 2014	-	1,130
Series 2005 A		
3.65% to 5.00% maturing annually from 2011 to 2016	23,255	23,415
4.25% to 5.00% maturing annually from 2020 to 2021	101,145	101,145
Total Series 2005 A	124,400	124,560
Series 2008 A		
3.25% to 5.25% maturing annually from 2013 to 2020	255,865	275,070
5.00% to 5.25% maturing annually from 2022 to 2024	61,730	61,730
Total Series 2008 A	317,595	336,800

**North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013**

H. Bonds (continued)

	December 31,	
	2014	2013
Series 2008 B (Federally Taxable)		
6.217% maturing in 2017 with annual sinking fund requirements beginning in 2014	\$ 33,740	\$ 36,420
6.55% maturing in 2024 with annual sinking fund requirements beginning in 2020	8,105	8,105
Total Series 2008 B	41,845	44,525
Series 2008 C		
6.00% maturing in 2019 with annual sinking fund requirements beginning in 2014	12,925	15,090
6.75% maturing in 2024 with annual sinking fund requirements beginning in 2020	17,555	17,555
Total Series 2008 C	30,480	32,645
Series 2009 A		
3.00% to 4.625% maturing annually from 2011 to 2019	360	595
5.00% maturing annually from 2012 to 2019	19,315	22,485
5.5% maturing in 2026 with annual sinking fund requirements beginning in 2020	32,760	32,760
Total Series 2009 A	52,435	55,840
Series 2009 B		
3.00% to 4.2% maturing annually from 2011 to 2022	34,335	41,910
5.00% maturing annually from 2015 to 2021	62,800	62,800
4.7% maturing in 2026 with annual sinking fund requirements beginning in 2023	7,065	7,065
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	259,960	259,960
Total Series 2009 B	364,160	371,735
Series 2009 C (Federally Taxable)		
3.38% to 4.68% maturing annually from 2011 to 2015	3,790	9,640
6% maturing in 2023 with annual sinking fund requirements beginning in 2016	2,860	2,860
Total Series 2009 C	6,650	12,500
Series 2009 D		
3.00% to 5.00% maturing annually from 2011 to 2022	7,955	8,795
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	5,240	5,240
Total Series 2009 D	13,195	14,035

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

	December 31,	
	2014	2013
Series 2010A		
3.00% maturing annually from 2015 to 2016	\$ 15,125	\$ 15,125
5.00% maturing annually from 2015 to 2016	62,180	62,180
4% maturing in 2021	1,500	1,500
5% maturing in 2021	53,035	53,035
5% maturing in 2023	14,305	14,305
Total Series 2010A	146,145	146,145
Series 2012A		
4.00% maturing in 2013	-	-
2.00% maturing annually from 2014 to 2015	5,335	10,565
3.00% maturing annually from 2016 to 2019	15,050	15,050
4.00% maturing annually from 2020 to 2022	4,175	4,175
4.00% maturing in 2026	850	850
5.00% maturing annually from 2018 to 2026	53,690	53,690
Total Series 2012A	79,100	84,330
Series 2012B		
5.00% maturing annually from 2015 to 2017	50,395	50,395
5.00% maturing annually from 2019 to 2021	120,310	120,310
Total Series 2012B	170,705	170,705
Series 2012C		
1.69% maturing in 2015	365	365
2.44% maturing in 2017	29,020	29,020
Total Series 2012C	29,385	29,385
Series 2012D		
5.00% maturing annually from 2014 to 2017	75,075	84,840
5.00% maturing in 2023	36,930	36,930
5.00% maturing annually from 2025 to 2026	14,860	14,860
Total Series 2012D	126,865	136,630
Total Bonds Outstanding	1,869,455	2,025,720
Current maturities of bonds	(147,805)	(156,265)
Long-Term Debt, Bonds Payable	\$ 1,721,650	\$ 1,869,455

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

The fair market value of the Agency's long-term debt was estimated using the Dobbins Scale. The individual maturities were priced and summed to arrive at an estimated fair market value of \$2,134,656,000 and \$2,188,048,000 at December 31, 2014 and 2013, respectively.

Certain proceeds of the Series 1986 A, 1991 A, 1993 B, 1993 C, 1995 A, 2003 A, 2003 B, 2003 C, 2003 D, 2003 E, 2003 F, 2003 G, 2005 A, 2008 A, 2008 B, 2009 B, 2009 C and 2010 A bonds, were used to establish trusts for refunding \$3,466,935,000 of previously issued bonds at December 31, 2012. At December 31, 2014, \$3,052,815,000 of these bonds has been redeemed leaving \$414,120,000 still outstanding. Under these Refunding Trust Agreements, obligations of, or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 2012 at various dates prior to or on their original maturities. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

The following table reflects principal debt service included in the designated year's rates. In accordance with the Resolution, these moneys are collected through rates the year prior to the January 1 maturity and deposited into the Bond Fund as collected for payment when due. Current maturities of \$147,805,000 at December 31, 2014 were collected through rates during 2014 and were deposited monthly into the Bond Fund to make the January 1, 2015 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2014 are as follows (in thousands of dollars):

	Principal	Interest	Total
2015	\$ 144,370	\$ 89,926	\$ 234,296
2016	149,965	82,803	232,768
2017	160,725	76,024	236,749
2018	171,350	66,809	238,159
2019	185,795	57,987	243,782
2020 to 2024	822,455	143,270	965,725
2025 to 2026	86,990	4,582	91,572
Total	\$ 1,721,650	\$ 521,401	\$ 2,243,051

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

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

Interest on the bonds is payable semi-annually. Certain of the bonds are subject to redemption prior to maturity at the option of the Agency, on or after the following dates, at 100% of the respective principal amounts:

Series 1993 B	January 1, 2003
Series 2005 A	January 1, 2016
Series 2008 A	January 1, 2018
Series 2008 C	January 1, 2019
Series 2009 A, B and D	January 1, 2019
Series 2010 A	January 1, 2021

The Series 2008 B Bonds are subject to redemption at any time prior to maturity at the option of the Agency. The redemptions price is 100% plus an applicable premium based upon the present value of the principal plus interest due to the stated maturity discounted at the treasury rate plus 25 basis points.

The Resolution requires that the agency maintain a reserve fund balance in an amount to sufficiently cover the aggregate of the greatest amount of interest coming due in any Fiscal Year on all Series of Bonds outstanding, determined for each Series of Bonds as of the date of the issue, which was \$108,928,000 and \$108,928, 000 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the balances of the reserve were \$109,696,000 and \$109,931,000, respectively.

The Resolution also requires a bond contingency fund to be established to be equal to the greater of one-tenth of the Reserve Account requirement or the anticipated capital additions for the year, which was \$10,893,000 and \$10,893,000 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the balances of the contingency fund were \$11,097,000 and \$10,962,000, respectively.

As of December 31, the Agency had \$0 and \$0 in unspent bond funds in restricted cash and investments for 2014 and 2013, respectively.

In April 2014, the BOD approved entering into a revolving credit agreement in the amount of \$175,000,000 with JPMorganChase to fund all capital additions through the asset sale discussions for 2014 and 2015. As of December 31, 2014 the outstanding balance is \$19,366,000.

I. Commitments and Contingencies

DEP maintains, on behalf of all co-owners of the joint project, nuclear insurance coverage in the following areas: liability coverage, property, decontamination and decommissioning coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases.

Liability Coverage

In accordance with the Price-Anderson Act, DEP, on behalf of all co-owners, insures against public liability claims from a nuclear incident to the full limit of liability of approximately \$13.2 billion, \$375 million of which is by private insurance with a like amount to cover certain worker tort claims. The \$13.2 billion amount will increase by \$127 million as each new nuclear reactor is licensed and decrease by \$127 million for each insured nuclear reactor that in no longer operational and has been exempted from the program. The Agency is liable for its proportionate share of these premiums associated with the Harris and Brunswick units.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

I. Commitments and Contingencies (continued)

The terms of this coverage require the owners of all licensed facilities to provide retrospective premiums of up to \$127 million per year per unit owned (adjusted annually for inflation) in the event of any nuclear incident involving any licensed facility in the nation, with an annual maximum assessment of \$19 million per unit owned. If any such payments are required, the Agency would be liable for its proportionate share of those payments applicable to the Harris and Brunswick units.

The Price Anderson Act expires in 2025.

Property, Decontamination and Decommissioning Coverage

Primary property damage insurance coverage purchased for the Harris and Brunswick plants is \$500 million. If the insurer's losses ever exceed its reserves, DEP will be liable, on a pro rata basis, for additional assessments of up to \$29 million which represents ten times the annual premium for the Harris and Brunswick plants. Excess property damage, decontamination and decommissioning liability insurance of \$1.75 billion have also been purchased. If losses ever exceed the accumulated funds available to the insurer for the excess property, decontamination and decommissioning liability program, DEP will be liable, on a pro rate basis, for additional assessments of up to \$40 million which represents ten times the annual premium.

Extended Accidental Outage Coverage

DEP also purchases on behalf of all co-owners, increased cost of generation and/or purchased power insurance resulting from an accidental outage of a nuclear unit. Each unit at Harris and Brunswick is insured for up to approximately \$3.5 million per week, after a 12-week deductible period, with declining amounts per unit where more than one unit is involved in the accidental outage. The coverage continues at 100% for 52 weeks and 80% for the next 110 weeks. If the insurer's losses exceed its reserves for this program, DEP will be liable, on a pro rata basis, for additional assessments of up to \$25 million which represents ten times the annual premium for the station.

The Agency is obligated to assume their pro rata share of any liability for retrospective premium assessments resulting from the Nuclear Electric Insurance Limited policies applicable to the joint ownership agreements.

J. Subsequent Events

The Agency has evaluated subsequent events through April 1, 2015, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

North Carolina Eastern Municipal Power Agency (NCEMPA) announced on July 28, 2014, that it had reached an agreement to sell its jointly-owned power plants to Duke Energy Progress (DEP). State and Federal approvals are required to close the transaction which is expected to close on or after July 1, 2015.

SUPPLEMENTARY INFORMATION

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North Carolina Eastern Municipal Power Agency
Schedules of Revenues and Expenses
Per Bond Resolution and Other Agreements
(\$000's)

	Year Ended December 31, 2014		
	Initial Project	Supple- mental	Total
Revenues:			
Sales to participants	\$ 496,973	\$ 201,407	\$ 698,380
Sales to utilities	142		142
Investment income	3,806	813	4,619
Excess Funds valuation	19,635	21,553	41,188
Other revenues	(19)		(19)
Total Revenues	520,537	223,773	744,310
Expenses:			
Operation and maintenance	94,200	142	94,342
Fuel	66,476	713	67,189
Power coordination services:			
Purchased power	17,945	139,077	157,022
Transmission and distribution		22,781	22,781
Other		8,413	8,413
Total power coordination services:	17,945	170,271	188,216
Administrative and general – PEC	28,057		28,057
Power Agency services	5,026	7,263	12,289
Taxes			
Amounts in lieu of taxes	3,433		3,433
Gross receipts tax	9,383	1,951	11,334
Total taxes	12,816	1,951	14,767
Debt service:			
Debt administrative costs	684		684
Debt service	245,588		245,588
Total debt service	246,272	-	246,272
Special funds deposits:			
Revenue Fund	5,155		5,155
Reserve and contingency fund	42,500		42,500
Decommissioning fund	2,090	2,752	4,842
Total special funds deposits	49,745	2,752	52,497
Total Expenses	520,537	183,092	703,629
Revenues Over (Under) Expenses	\$ -	\$ 40,681	\$ 40,681

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2014 and 2013, respectively.

See accompanying Report of Independent Auditor.

Year Ended December 31, 2013		
Initial Project	Supple- mental	Total
\$ 528,703	\$ 170,260	\$ 698,963
6		6
4,261	974	5,235
9,864		9,864
130		130
542,964	171,234	714,198
98,374	5	98,379
56,436		56,436
26,945	139,587	166,532
	22,357	22,357
	13,829	13,829
26,945	175,773	202,718
29,213		29,213
4,269	6,692	10,961
2,912		2,912
17,024	5,405	22,429
19,936	5,405	25,341
166		166
261,195		261,195
261,361	-	261,361
		-
44,930		44,930
1,500	9,785	11,285
46,430	9,785	56,215
542,964	197,660	740,624
\$ -	\$ (26,426)	\$ (26,426)

North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Year Ended December 31, 2014
(\$000's)

	2014 Budget		Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
	Original	Final		
Revenues:				
Sales to participants	\$ 692,792	\$ 701,148	\$ 698,380	\$ (2,768)
Sales to utilities	54	54	142	88
Investment income	4,489	4,726	4,619	(107)
Excess Funds valuation	2,400	25,371	41,188	15,817
Other revenues	-	-	(19)	(19)
Total Revenues	<u>699,735</u>	<u>731,299</u>	<u>744,310</u>	<u>13,011</u>
Expenses:				
Operation and maintenance	94,878	99,878	94,342	5,536
Fuel	61,588	61,588	67,189	(5,601)
Power coordination expenses:				
Purchased power	154,881	154,881	157,022	(2,141)
Transmission and distribution	24,784	24,784	22,781	2,003
Other	2,124	2,124	8,413	(6,289)
Total power coordination expenses	<u>181,789</u>	<u>181,789</u>	<u>188,216</u>	<u>(6,427)</u>
Administrative and general – PEC	30,176	30,176	28,057	2,119
Power Agency services	11,208	11,207	12,289	(1,082)
Taxes	14,021	14,021	14,767	(746)
Debt service	260,973	260,973	246,272	14,701
Special funds deposits	54,637	54,637	52,497	2,140
Total Expenses	<u>709,270</u>	<u>714,269</u>	<u>703,629</u>	<u>10,640</u>
Revenues Over (Under) Expenses	<u>\$ (9,535)</u>	<u>\$ 17,030</u>	<u>\$ 40,681</u>	<u>\$ 23,651</u>

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2014.

See accompanying Report of Independent Auditor.

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North Carolina Eastern Municipal Power Agency
Schedule of Changes in Assets of Funds Invested
(\$000's)

	Funds				
	Invested January 1, 2012	Power Billing Receipts	Invest- ment Income	Receipts (Disburse- ments)	Transfers
Bond Fund:					
Construction Fund	\$ 32,105	\$ -	\$ 5		\$ (32,110)
Interest account	54,506	-	25	(106,605)	104,540
Reserve account	109,050		3,443		(5,778)
Principal account	134,070		83	(134,050)	156,187
Total Bond Fund	297,626	-	3,551	(240,655)	254,949
Reserve and Contingency Fund	13,466		181	(72,222)	69,354
Revenue Fund	47,022	524,733	192	(1,653)	(556,456)
Operating Fund:					
Working Capital account	31,590		336	(141,125)	142,295
Fuel account	28,605			(56,643)	63,507
Total Operating Fund	60,195	-	336	(197,768)	205,802
Supplemental Fund	139,758	172,056	975	(223,651)	47,612
Reserved for Decommissioning Costs	34,060		284		10,849
Total Supplemental	173,818	172,056	1,259	(223,651)	58,461
	\$ 624,232	\$ 696,789	\$ 5,524	\$ (735,949)	\$ -

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2014 and 2013, respectively.

See accompanying Report of Independent Auditor.

Funds Invested December 31, 2013	Power Billing Receipts	Invest- ment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2014
\$ -	\$ -	\$ -	\$ 10,365	\$ (10,343)	\$ 22
52,466		26	(100,928)	96,906	48,470
106,715		2,474		(2,238)	106,951
156,290		107	(156,265)	147,774	147,906
315,471	-	2,607	(257,193)	242,442	303,327
10,779		189	(48,118)	48,104	10,954
13,838	521,286	623	(2,512)	(504,430)	28,805
33,096		396	(126,853)	123,965	30,604
35,469			(78,113)	68,001	25,357
68,565	-	396	(204,966)	191,966	55,961
136,750	180,283	812	(222,867)	51,177	146,155
45,193		358		(18,916)	26,635
181,943	180,283	1,170	(222,867)	32,261	172,790
\$ 590,596	\$ 701,569	\$ 4,985	\$ (725,291)	\$ -	\$ 571,859

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following summary is not a full statement of the terms of the Resolution and, accordingly, is qualified by reference thereto and is subject to the full text thereof. A copy of the Resolution may be obtained from Power Agency.

Definitions

“APA Closing Date” means the date on which the closing of Power Agency’s sale to DEP of the Joint Facilities takes place.

“Authorized Officer” when used with reference to Power Agency means the Chair, the Vice Chair, the Secretary or any Assistant Secretary of the Board; the Chief Executive Officer, Chief Operating Officer or Chief Financial Officer of Power Agency; or such other officer or person designated by resolution of the Board.

“Balance of Defeasance Costs” means the Defeasance Costs not funded from the proceeds of sale by Power Agency to DEP of the Joint Facilities or other funds available to Power Agency for the purpose.

“Bank Bonds” means Bonds issued as described below under “Authorization of Bonds – Bank Bonds”.

“Board” means the Board of Directors of Power Agency or, if said Board shall be abolished, the person, board, body, commission or agency succeeding to the principal functions thereof or to whom the powers and duties granted or imposed by the Resolution shall be given by law.

“Bond Fund” means the fund by that name created and established by the Resolution.

“Bond Fund Trustee” means the trustee appointed pursuant to the Resolution, its successor or successors and any other entity which may at any time be substituted in its place pursuant to the Resolution.

“Bonds” means the Revenue Bonds of Power Agency issued pursuant to and under the authority of the Resolution.

“Bondholder” or “holder of a Bond” or “holder of an Outstanding Bond” or word of like import means any person who shall be the registered owner of any Outstanding Bond.

“Contingency Account” means the account by that name created and established in the Revenue Fund pursuant to the Resolution.

“Contingency Account Requirement” means, with respect to each Fiscal Year, an amount equal to ten percent (10%) of the aggregate of the principal of and interest (calculated, in

the case of Variable Rate Bonds, at the rate of five percent (5%) per annum or such greater amount as may be determined by the Supplemental Resolution providing for the issuance of such Variable Rate Bonds) on all Outstanding Bonds accrued and to accrue in such Fiscal Year.

“Contract Year” means the 12-month period commencing January 1 of each year during the term of a Debt Service Support Contract and ending midnight local time on the December 31 next following (or such other 12-month period as Power Agency shall determine); *provided, however*, that the first Contract Year shall commence on the day immediately following the APA Closing Date; and *provided further, however*, that the last Contract Year shall end at midnight local time on the date of termination of the Debt Service Support Contract as provided in Section 3 of the Debt Service Support Contract.

“Credit Enhancement” means, with respect to the Bonds of a Series or a maturity within a Series, an insurance policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes unconditionally obligated to pay when due, to the extent not paid by Power Agency or otherwise, the principal of and interest on such Bonds.

“Debt Service Account” means the account by that name created and established in the Bond Fund pursuant to the Resolution.

“Debt Service Support Contract” means a written contract, as the same may be supplemented and amended from time to time, by and between Power Agency and a Member for the payment by the Member to Power Agency of, among other things, amounts equal to the principal of and premium, if any, and interest on the Bonds, which contract, among other things, provides substantially in certain respects as described in APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS”.

“Defeasance Amount” means the amount required by Power Agency to redeem, purchase, otherwise retire or defease all Outstanding Prior Bonds and cause such bonds to be no longer outstanding under the Prior Bond Resolution.

“Defeasance Costs” means all costs associated with (A) the redemption, purchase or otherwise retirement or defeasance of all Outstanding Prior Bonds, (B) causing all Outstanding Prior Bonds to be no longer outstanding under the Prior Bond Resolution, including but not limited to, the deposit of the Defeasance Amount under the Outstanding Bond Resolution, (C) financing the Balance of Defeasance Costs, whether heretofore or hereafter paid or incurred by Power Agency, and (D) the development, negotiation, execution and delivery of the Debt Service Support Contracts, and shall include, but not be limited to, funds required for:

1. the deposit or deposits from the proceeds of Bonds in any fund or account established pursuant to the Resolution to meet debt service reserve requirements or for initial working capital;
2. the payment of all costs and expenses incurred in connection with the deposit, pursuant to the Prior Bond Resolution, of the Defeasance Amount and the issuance and sale of Bonds, including, but not limited to, bond and underwriters’

discounts, fees and expenses of trustees and paying agents, and legal, financial advisory and other financing costs; and

3. the payment of all other costs incurred by Power Agency in considering and planning for the deposit of the Defeasance Amount under the Prior Bond Resolution and the issuance of Bonds to finance the Balance of Defeasance Costs and the entry into the Debt Service Support Contract.

“Event of Default” shall have the meaning given to such term as described in “Events of Default; Remedies – Events of Default” below.

“Fiscal Year” means the twelve month period established by Power Agency or provided by law from time to time as its fiscal year.

“Full Requirements Power Sales Agreements” means agreements entered into between Power Agency and Members with respect to the sale and purchase of electric power or energy or other services, as the same may be supplemented and amended from time to time.

“Government Obligations” means any of the following, if and to the extent that the same are legal for the investment of funds of Power Agency, if and to the extent that the same are permitted by the investment procedures and policies of Power Agency:

1. Direct and general obligations of, or obligations which as to principal and interest are unconditionally guaranteed as to full and timely payment by, the United States of America or any agency or instrumentality thereof, including evidences of direct ownership of proportionate interests in future principal or interest payments of such obligations; investments in such proportionate interests must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying obligations; and (iii) the underlying obligations are held in safekeeping in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; and

2. Pre-refunded municipal obligations bearing the highest rating of at least one nationally recognized rating service and meeting the following conditions: the municipal obligations are (i) not subject to redemption prior to maturity or irrevocable instructions concerning the calling and redemption of such obligations have been given and the issuer thereof has covenanted not to redeem such obligations other than as set forth in such instructions, (ii) the municipal obligations are secured by cash or non-callable Government Obligations that may be applied only to interest, principal and premium payments of such municipal obligations, (iii) the principal of and interest on such Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations, (iv) the cash and Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee

and (v) such Government Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

“Investment Securities” means any securities which under the laws of the State of North Carolina are legal for the investment of funds of Power Agency, if and to the extent that the same are permitted by the investment procedures and policies of Power Agency.

“Liquidity Support” means, with respect to the Bonds of a Series or a maturity within a Series, an insurance policy, letter of credit, surety bond or any other similar obligation, or the entering into of a standby bond purchase agreement, credit agreement or any other similar agreement, whereby the issuer or party obligated thereunder, as the case may be, becomes obligated to pay the purchase price of any such Bond upon the tender for purchase thereof by the holder thereof in the event that such Bond cannot be resold.

“Member” means any member of Power Agency which has entered into a Debt Service Support Contract with Power Agency.

“Member’s Share” shall have the meaning given to such term in the Debt Service Support Contracts.

“Monthly Support Costs” means all of Power Agency's costs that are paid or incurred by Power Agency during each month of each Contract Year and as of the APA Closing Date resulting from the issuance of the Bonds, Notes and Subordinated Debt including, but not limited to, the following items of costs:

1. the amount which Power Agency is required under the Resolution to pay or deposit during such month from the Revenue Fund into the Bond Fund for the payment of the principal of and premium, if any, and interest on the Bonds and for reserves with respect thereto;
2. the amount required under the Resolution with respect to the Bonds to be paid or deposited during such month into any fund or account established by the Resolution, other than funds and accounts referred to in subparagraph (1) above;
3. the amount required to pay or provide for the payment of the principal of and premium, if any, and interest on Notes and Subordinated Debt and for reserves with respect thereto;
4. Power Agency’s administrative overhead costs allocable to Power Agency’s activities under the Resolution and the Debt Service Support Contracts, as determined by Power Agency; and
5. any other costs incurred by Power Agency during such month relating to Bonds, Notes and Subordinated Debt, and the payment of Defeasance Costs and the defeasance, payment and retirement of the Outstanding Prior Bonds, not included in the costs hereinabove specified, including, but not limited to, amounts required as working capital for the payment of the costs included in this definition.

“Notes” means any notes or other evidences of indebtedness issued in anticipation of the issuance of Bonds.

“Outstanding” when used with reference to Bonds means, as of any date, Bonds theretofore or thereupon issued pursuant to the Resolution except: (a) any Bonds cancelled by the Bond Fund Trustee or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds shall have been or are thereupon being delivered; and (c) Bonds deemed to be no longer Outstanding under the Resolution.

“Outstanding Prior Bonds” means all of the Power System Revenue Bonds issued pursuant to, and outstanding under, the Prior Bond Resolution.

“Power Agency” means North Carolina Eastern Municipal Power Agency, a joint agency of the State of North Carolina, and its successors.

“Prior Bond Resolution” means Resolution No. R-2-82 adopted by the Board of Commissioners of Power Agency on April 1, 1982, as amended.

“Reserve Account” means each account by that name created and established in the Bond Fund by a Supplemental Resolution.

“Resolution” means Resolution No. BDR-5-15 adopted by the Board of Directors of Power Agency on May 22, 2015, as from time to time amended or supplemented by one or more Supplemental Resolutions.

“Revenue Fund” means the fund by that name created and established by the Resolution.

“Revenues” means and include (i) all amounts received directly or indirectly by Power Agency from or on behalf of Members pursuant to the Debt Service Support Contracts; and (ii) all interest, profits or other income derived from the investment of any moneys held pursuant to the Resolution and required to be paid into the Revenue Fund.

“Serial Bonds” means Bonds which are not Term Bonds.

“Series” or “Series of Bonds” or “Bonds of a Series” means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

“Subordinated Debt” means any bonds, notes, certificates, warrants or other evidences of indebtedness issued for the payment of the Balance of Defeasance Costs, or for the purpose of refunding any Outstanding Bonds, Notes or Subordinated Debt, which are payable as to principal and interest from the Revenues subject and subordinate to the deposits and credits required to be made pursuant to the Resolution from the Revenues and Revenue Fund into the Bond Fund

“Supplemental Resolution” means any resolution adopted by Power Agency pursuant to and in compliance with the provisions of the Resolution providing for the issuance of Bonds, and shall also mean any other resolution adopted by Power Agency pursuant to and in compliance with the provisions of the Resolution amending or supplementing the provisions of the Resolution as originally adopted or as amended or supplemented prior to the amending or supplementing effected by the particular Supplemental Resolution.

“Term Bonds” means Bonds the retirement or the redemption of which shall be provided for from moneys credited to the Debt Service Account as sinking fund installments.

“Variable Rate Bond” means any Bond not bearing interest throughout its term at the same single numerical rate.

Authorization of Bonds

General. Each Series of Bonds shall be issued by means of a Supplemental Resolution. Power Agency may include either or both of the following provisions in a Supplemental Resolution authorizing the issuance of a Series of Bonds as Power Agency deems appropriate:

1. So long as Credit Enhancement relating to any Series of Bonds is in full force and effect, and the issuer of the Credit Enhancement is not in default thereunder, then, in all such events, the Supplemental Resolution for such Series of Bonds may specify that either (i) the issuer of such Credit Enhancement shall be deemed to be the sole holder of Outstanding Bonds the payment of which such Credit Enhancement secures or secured when the approval, consent or action of the holders of such Bonds is required or may be exercised under the Resolution, or (ii) the approval, consent or action of the issuer of such Credit Enhancement shall be required in addition to the approval, consent or action of the applicable percentage of the holders of the Outstanding Bonds the payment of which such Credit Enhancement secures or secured when the approval, consent or action of the holders of such Bonds is required or may be exercised under the Resolution.

2. In the event that the principal, sinking fund installments, if any, purchase price and redemption price, if applicable, or interest due on any Outstanding Bonds shall be paid under the provisions of a Credit Enhancement or Liquidity Support, all covenants, agreements and other obligations of Power Agency to the holders of such Bonds shall continue to exist, and the issuer of the Credit Enhancement or Liquidity Support shall be subrogated to the rights of such holders in accordance with the terms of such Credit Enhancement or Liquidity Support.

Bonds other than Refunding Bonds or Bank Bonds. One or more Series of Bonds (except refunding Bonds or Bank Bonds) may be issued at any time and from time to time for payment of all or a portion of the Balance of Defeasance Costs, but only upon compliance as to each such Series with and the following provisions:

1. There shall have been delivered to the Bond Fund Trustee a certified copy of the Resolution and a certified copy of the Supplemental Resolution authorizing the issuance of such Series of Bonds.

2. There shall have been delivered to the Bond Fund Trustee and Power Agency an opinion or opinions of counsel (which may be counsel to Power Agency or to any Member), which counsel shall be satisfactory to the Bond Fund Trustee, to the effect that each of the Debt Service Support Contracts has been duly authorized, executed and delivered by the parties thereto, constitutes a valid and binding instrument of such parties in accordance with its terms and is in full force and effect, and that each of the Debt Service Support Contracts extends at least to the final maturity date of the Bonds being issued. Any such opinion of counsel to Power Agency may rely on opinions of counsel to the Members as to such matters with respect to the respective Members as shall be recited in such opinion of counsel to Power Agency.

Bank Bonds. One or more Series of Bank Bonds may be issued concurrently with the issuance of the Bonds of a Series authorized pursuant to the Resolution for which Credit Enhancement or Liquidity Support is being provided with respect to such Bonds (or a maturity or maturities thereof) by a third party. Such Bank Bonds shall be issued for the purpose of evidencing Power Agency's obligation to repay any advances or loans made to, or on behalf of, Power Agency in connection with such Credit Enhancement or Liquidity Support; provided, however, that the stated maximum principal amount of any such Series of Bank Bonds shall not exceed the aggregate principal amount of the Bonds with respect to which such Credit Enhancement or Liquidity Support is being provided, and such number of days' interest on such Bonds as Power Agency shall determine, but not in excess of 366 days of interest thereon, computed at the maximum interest rate applicable thereto. Interest on Bank Bonds may be calculated at a rate higher than the interest rate on the Bonds enhanced by the related Credit Enhancement or Liquidity Support. Principal of and interest on Bank Bonds may be made payable on dates that do not coincide with, and may occur more frequently than, the principal and interest payment dates applicable to the Bonds for which the related Credit Enhancement or Liquidity Support is being provided.

Refunding Bonds. Refunding Bonds may be issued for the purpose of refunding (including by purchase) at any time any Outstanding Bonds, including amounts to pay principal, redemption premium, if any, and interest to the date of maturity or redemption (or purchase) and the expenses of issuing the refunding Bonds and of effecting such refunding and redemption (or purchase).

Subordinate Lien Obligations. Nothing contained in the Resolution shall prohibit or prevent, or be deemed or construed to prohibit or prevent, Power Agency from authorizing and issuing bonds, notes, certificates, warrants or other evidences of indebtedness for any corporate use or purpose of Power Agency payable as to principal and interest from the Revenues subject and subordinate to the deposits and credits required to be made from the Revenues and Revenue Fund into the Bond Fund or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Revenues junior and inferior to the lien and pledge on the Revenues herein created for the payment and security of the Bonds.

Funds and Accounts; Flow of Funds

Revenue Fund. Power Agency covenants and agrees with the holders from time to time of the Bonds that, on and after the issuance of the initial Series of Bonds, it will pay, or cause to be paid, into the Revenue Fund, as promptly as practicable after receipt thereof, all of the Revenues and all other moneys required to be paid into the Revenue Fund pursuant to the Resolution (other than the Revenues and other amounts expressly required or permitted by the Resolution to be credited to, or deposited in, any other fund or account).

Contingency Account. The “Contingency Account” is created in the Revenue Fund. There may be, but shall not be required to be, deposited into the Contingency Account from the proceeds of any Bonds an amount as may be provided by Supplemental Resolution. If, as of the last business day of each Fiscal Year, or as of the day on which any Bonds are issued and delivered (giving effect to the issuance of such Bonds and the application of the proceeds thereof), the moneys and Value of Investment Securities as of such day is less than the Contingency Account Requirement, Power Agency shall deposit to the Contingency Account in each month of the subsequent Fiscal Year or, in the case of the issuance of Bonds, in each whole month thereafter of the current Fiscal Year (or, in the case of the Bonds first issued under the Resolution, in each month thereafter of the current Fiscal Year and the next succeeding full Fiscal Year), an amount at least equal to the Contingency Account Requirement less the moneys and Value of Investment Securities then on deposit in the Contingency Account, divided by twelve (12) or, in the case of the issuance of additional Bonds, the number of whole calendar months remaining in such Fiscal Year (or, in the case of the Bonds first issued under the Resolution, the number of whole months remaining in such Fiscal Year and the next succeeding full Fiscal Year); *provided, however*, that no deposits to the Contingency Account need be made at such time as the amounts on deposit in the Contingency Account and Bond Fund (including but not limited to any Reserve Accounts) at least equal the remaining principal of and interest due and to become due on all Outstanding Bonds.

“Value of Investment Securities”, for the purposes of the previous paragraph, means the bid quotation prices thereof as reported as of such date in The Wall Street Journal or, in the event such newspaper is not published or such price is not reported in said newspaper, in a newspaper or a financial journal of general circulation in the Borough of Manhattan, City and State of New York, selected by Power Agency or otherwise as Power Agency may determine; provided, however, with respect to those obligations which are redeemable at the option of the holder, the value shall be the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected.

Any amount on deposit in the Contingency Account (i) at any time may be used for any purpose for which other moneys on deposit in the Revenue Fund may be used, including but not limited to transfers to the Bond Fund, and (ii) in excess of an amount equal to the Contingency Account Requirement as of the end of each Fiscal Year may be transferred therefrom to the Revenue Fund.

Bond Fund. The Bond Fund and the moneys on credit to such Fund shall be used solely for the purpose of paying the principal of and premium, if any, and interest on the Bonds

(or, in the case of Reserve Accounts, the related Bonds), and of retiring the Bonds prior to maturity in the manner herein provided. Each month, commencing with the second full calendar month next succeeding the date of delivery of the Bonds initially issued under the Resolution, Power Agency shall transfer (to the extent not otherwise provided) from the Revenue Fund (including, if necessary from the Contingency Account therein) to the Bond Fund Trustee for deposit into the Bond Fund, amounts as follows and in the following order of priority:

Debt Service Account. The “Debt Service Account” is created in the Bond Fund in order to provide for the payment of the interest on the Bonds as the same becomes due and payable, provide for the payment of the principal of Serial Bonds as the same mature, and meet the specified sinking fund installment requirements of Term Bonds and otherwise retire Bonds prior to maturity. Power Agency shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Debt Service Account, the amounts required for such purposes, at such times and in such manner as will assure good funds in the Debt Service Account when needed.

When a Series of Bonds is refunded in whole or in part, Power Agency may direct the Bond Fund Trustee to transfer all or any portion of the amounts credited to the Debt Service Account to pay or provide for the payment of the principal or redemption price of or interest on such refunded Bonds.

The Bond Fund Trustee shall on each date upon which a sinking fund installment is due with respect to a particular Series of Bonds, without further authorization or direction, apply moneys credited to the Debt Service Account as sinking fund installments to the retirement of the Term Bonds of such Series by redemption in accordance with the Supplemental Resolution providing for the issuance of such Series of Bonds or, if so directed by Power Agency, semi-annually on both such due date and the day six (6) months prior to such due date, in the respective principal amounts credited to the Debt Service Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Debt Service Account on such sinking fund installment dates by such Supplemental Resolution providing for their issuance; provided, however, that if the last sinking fund installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemption of such Term Bonds but shall be applied to the payment thereof at such maturity date. In addition, the Bond Fund Trustee shall, if so directed by Power Agency, apply moneys credited to the Debt Service Account as sinking fund installments for the retirement of the Term Bonds of a particular Series to the purchase of such Bonds, at a purchase price (including any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Bonds from sinking fund installments, plus accrued interest, in which event the principal amount of such Bonds required to be redeemed on the next respective ensuing sinking fund installment date shall be reduced by the principal amount of the Bonds so purchased; provided, however, that no Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Bonds from sinking fund installments is given and the date of redemption set forth in such notice, unless the Bonds so purchased are Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Debt Service Account with respect to such sinking fund installments.

In the event that moneys in the Debt Service Account, other than moneys credited thereto as sinking fund installments, are to be applied to the retirement of a Series of Bonds, Power Agency may direct the Bond Fund Trustee within thirty (30) days of the deposit of such moneys to apply such moneys to the purchase of Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Bonds, plus accrued interest. Any such moneys not applied to the purchase of Bonds shall be applied to the redemption of Bonds of such Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of Bonds of such Series then Outstanding and so subject to redemption bears to the total principal amount of Bonds then Outstanding and so subject to redemption.

Any purchase of Bonds pursuant to the foregoing provisions may be made with or without tenders of Bonds and at either public or private sale, as shall be determined by Power Agency. All Bonds purchased, redeemed or retired pursuant to the foregoing provisions shall be cancelled and shall not be reissued.

In the event of the purchase or redemption of Term Bonds of a particular Series except from moneys credited to the Debt Service Account as sinking fund installments, or if such Term Bonds to be so redeemed are deemed to be no longer Outstanding, the principal amount of such Bonds required to be credited to the Debt Service Account on each sinking fund installment date thereafter, as specified in the Supplemental Resolution providing for the issuance thereof, shall be reduced in the proportion, as nearly as practicable, which the principal amount of such sinking fund installment bears to the total principal amount of all sinking fund installments so specified for the Term Bonds of such Series, but only if such reduction is requested by a resolution of the Board filed with the Bond Fund Trustee.

Reserve Accounts. One or more separate “Reserve Accounts” may be created in the Bond Fund by Supplemental Resolutions authorizing Series of Bonds in order to provide reserves for the payment of the principal of and premium, if any, and interest on one or more Series of Bonds as provided by such Supplemental Resolutions. Amounts on deposit in any Reserve Account created and established for one or more Series of Bonds shall be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series, and any withdrawals therefrom or deficiencies therein shall be replenished or reimbursed as provided in such Supplemental Resolution; provided, however, that any required transfers from the Revenue Fund to more than one (1) Reserve Account shall be made *pro rata*.

The Supplemental Resolution authorizing and providing for the issuance of the 2015 Bonds creates a Reserve Account for the 2015 Bonds and, at the option of Power Agency, any Bonds refunding the 2015 Bonds or such refunding Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Reserve Account” in the Official Statement.

In the event that amounts in the Debt Service Account shall be insufficient for the purposes of paying the principal of or premium, if any, or interest on any Bonds when due (either at the maturity date thereof or redemption date prior to maturity), the Bond Fund Trustee shall promptly make up such deficiency from the related Reserve Account, if any, by the withdrawal of cash therefrom for that purpose and by the sale or redemption of Investment Securities held in

such Reserve Account, if necessary, in such amounts as will provide cash in such Reserve Account sufficient to make up any such deficiency.

Surplus Moneys in Revenue Fund. Amounts on deposit in the Revenue Fund at any time that are not required or expected to be required to make deposits to the Bond Fund or as a reserve for subsequent deposits to the Bond Fund may be applied or set aside by Power Agency in the Revenue Fund for one or more of the following purposes: (i) to pay Monthly Support Costs, (ii) to purchase or redeem Bonds, Notes or Subordinated Debt, or (iii) as a credit against Member payment obligations to Power Agency under the Debt Service Support Contracts.

Investment of Funds

Moneys in the Revenue Fund (including the Contingency Account) and Bond Fund (including the Debt Service Account and Reserve Accounts) not required for immediate disbursement for the purposes for which such respective funds and accounts therein are created shall, to the fullest extent practicable and reasonable, be invested and reinvested by Power Agency solely in Investment Securities.

All income received from the investment or reinvestment of moneys in the Revenue Fund (other than the Contingency Account) or Bond Fund shall be retained in or transferred, as the case may be, to the Revenue Fund. All income received from the investment or reinvestment of moneys in the Contingency Account shall be retained therein.

Moneys in the Debt Service Account and Reserve Accounts, and moneys in the Contingency Account and other moneys in the Revenue Fund, may be combined for purposes of investment.

The Bond Fund Trustee shall not be liable for any depreciation in value of any investments made pursuant to this Section.

Covenants to Secure Bonds

To Determine and Collect Sufficient Amounts under Debt Service Support Contracts. Power Agency shall determine and, subject to and in accordance with the Debt Service Support Contracts, collect amounts which, in the aggregate, will be sufficient to provide Power Agency with Revenues sufficient, together with other amounts which lawfully may be applied to the purpose, for the following:

(a) to make when due all payments which Power Agency is obligated to pay to the Bond Fund Trustee for the account of the Bond Fund;

(b) to credit to the Contingency Account, in each Fiscal Year in which a credit is required by the Resolution to be made to the Contingency Account, an amount which, together with the amounts on deposit therein, shall at least equal the Contingency Account Requirement; and

(c) to pay or discharge when due all other charges or obligations against the Revenues of whatever nature and whether now or hereafter imposed by the Resolution or by law or contract.

Debt Service Support Contracts and Full Requirements Power Sales Agreements; Other Support Contracts. So long as any of the Bonds are Outstanding (i) Power Agency shall perform all of its obligations under each Debt Service Support Contract and take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the Bonds afforded by the provisions of the Debt Service Support Contracts; (ii) Power Agency shall not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with (A) any Debt Service Support Contracts which will limit or reduce the obligation of the other parties thereto to make the payments provided for therein constituting Revenues or which will in any manner have a material adverse effect on the security for the payment of the Bonds, or (B) any Full Requirements Power Sales Agreements which would provide for payments by Members under the Full Requirements Power Sales Agreements with a priority over payments by Members under the Debt Service Support Contracts. The foregoing shall not prohibit the termination of any Debt Service Support Contract or Full Requirements Power Sales Agreement pursuant to termination provisions included therein as of the date of issuance of the initial Series of Bonds.

Nothing in the Resolution shall prohibit Power Agency and any Members from entering into additional debt service support contracts, with the obligations of the Members thereunder payable from the same sources and with the same priority as their payment obligations under the Debt Service Support Contracts, with respect to any bonds, notes and other evidences of indebtedness authorized or permitted by the Act to be issued by Power Agency and supported by such additional debt service support contracts.

Books of Account; Annual Audit. Power Agency shall keep proper books of account relating to the transactions contemplated by the Debt Service Support Contracts and the Resolution, including the transactions relating to the Revenue Fund and the Bond Fund. Within one hundred twenty days (120) after the end of each Fiscal Year, Power Agency shall cause such books of account to be audited by independent certified public accountants experienced in public finance, licensed, registered or entitled to practice and practicing as such under the laws of the State of North Carolina. A copy of each audit report, annual balance sheet and income and expense statement, showing in reasonable detail the financial condition of Power Agency as of the close of each Fiscal Year and summarizing in reasonable detail the income and expenses for such Fiscal Year, shall be filed promptly with the Bond Fund Trustee and sent to any Bondholder filing with Power Agency a written request for a copy thereof. Each such audit report shall state therein that the auditor has examined and is familiar with the provisions of the Resolution relating to the matters set forth above, and that as to such matters Power Agency is in compliance therewith or, if not in compliance therewith, the details of such failure to comply and the action to be taken by Power Agency to be in compliance therewith.

Events of Default; Remedies

Events of Default. Each of the following events is hereby defined as and declared to be and shall constitute an "Event of Default":

(a) if payment of the principal of or premium, if any, on any Bond shall not be made when due and payable, whether at maturity or by proceedings for redemption or otherwise;

(b) if payment of the interest on any Bond shall not be made when due;

(c) if the provisions of any Supplemental Resolution with respect to mandatory sinking fund installment payments or the retirement of Term Bonds therefrom, as the case may be, shall not be complied with at the time and in the manner specified in such Supplemental Resolution;

(d) if Power Agency shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Resolution or in the Bonds on the part of Power Agency to be performed, and such failure shall continue for ninety (90) days after written notice thereof to Power Agency from the Bond Fund Trustee or to Power Agency and the Bond Fund Trustee from the holders of not less than ten percent (10%) in principal amount of the Bonds then Outstanding; provided, however, that if such failure shall be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(e) if an order, judgment or decree shall be entered, with the consent or acquiescence of Power Agency, or if such order, judgment or decree, having been entered without the consent or acquiescence of Power Agency, shall not be vacated, set aside, discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within ninety days after the entry thereof, and if appealed, shall not thereafter be vacated or discharged: (i) approving any petition for the reorganization of Power Agency under provisions of any applicable bankruptcy laws or the rearrangement or readjustment under such laws of the obligations of Power Agency under the Resolution; (ii) appointing a receiver, trustee or liquidator for Power Agency or any part thereof; or (iii) approving a petition filed against Power Agency under the provisions of Chapter 9 the United States Bankruptcy Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"), or granting relief to Power Agency under any amendment to the Bankruptcy Code, or under any other applicable bankruptcy act which shall give relief substantially similar to that afforded by said Chapter 9; and

(f) if Power Agency shall (i) admit in writing its inability to pay its debts generally as they become due; (ii) file a petition in bankruptcy or seeking a composition of indebtedness; (iii) make an assignment for the benefit of its creditors; or (iv) file a petition or any answer seeking relief under the Bankruptcy Code, referred to in the preceding paragraph, or under any amendment thereto, or under any other applicable bankruptcy act which shall give relief substantially the same as that afforded by Chapter 9 of the Bankruptcy Code.

Notice to Bondholders of Event of Default. The Bond Fund Trustee, within ninety (90) days after the occurrence of an Event of Default, shall give to the Bondholders notice of all Events of Default known to the Bond Fund Trustee, unless such Events of Default shall

have been remedied before the giving of such notice; provided, however, that, except in the case of an Event of Default set forth in items (a) through (c) described in “Events of Default” above, the Bond Fund Trustee shall be protected in withholding such notice if and for so long as the board of directors, the executive committee, or a trust committee of directors or a trust committee of other responsible officers or a trust committee of directors and other responsible officers of the Bond Fund Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders.

Payment of Funds to the Bond Fund Trustee; Application of Revenues. If an Event of Default shall have happened and shall not have been remedied, Power Agency covenants that, upon demand of the Bond Fund Trustee, Power Agency shall pay over to the Bond Fund Trustee (i) forthwith, all moneys, securities and funds then held by Power Agency and pledged under the Resolution, and (ii) as promptly as practicable after receipt thereof, all Revenues.

During the continuance of an Event of Default as defined in items (a) through (c) described in “Events of Default” above or of any other Event of Default resulting in an Event of Default as defined in such items (a) through (c), the Revenues received by the Bond Fund Trustee, whether received by the Bond Fund Trustee shall be applied by the Bond Fund Trustee as follows:

First, to the payment of all necessary and proper disbursements or liabilities made or incurred by any trustee appointed by or pursuant to the provisions of the Resolution to the extent required;

Second, to the payment of all necessary and proper costs specified in clause (4) of the definition of Monthly Support Costs; and

Third, to the then due and overdue payments into the Bond Fund, including the making up of deficiencies therein.

In the event that at any time the funds held by the Bond Fund Trustee pursuant to the preceding paragraph shall be insufficient for the payment of the principal of and premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or interest thereon, which shall be applied thereto) and all Revenues shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper disbursements or liabilities made or incurred by any trustee appointed by or pursuant to the provisions of the Resolution to the extent required;

Second, to the payment of all necessary and proper costs specified in clause (4) of the definition of Monthly Support Costs; and

Third, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and, if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amount due thereon, to the persons entitled thereto, without any discrimination or preference; and

Fourth, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Bonds at the time of such payment without preference or priority of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper disbursements or liabilities made or incurred by any trustee appointed by or pursuant to the provisions of the Resolution to the extent required;

Second, to the payment of all necessary and proper costs specified in clause (4) of the definition of Monthly Support Costs; and

Third, to the payment to the persons entitled thereto of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference.

Whenever moneys are to be applied pursuant to paragraphs (1) and (2) above, such moneys shall be applied by the Bond Fund Trustee at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Fund Trustee shall exercise such discretion, it shall fix the date upon which application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Bond Fund Trustee shall give such notice as it may deem appropriate of the fixing of any such date and shall not be required to make payment to the holder of any unpaid Bond unless such Bond is presented for appropriate endorsement.

Management, Collection, Receipt and Application of Revenues; Appointment of a Receiver. Upon the occurrence of an Event of Default and while such Event of Default shall be continuing, the Bond Fund Trustee as a matter of right against Power Agency, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law, be entitled to manage, collect, receive and apply the Revenues.

Upon the occurrence of an Event of Default and at any time while such Event of Default shall be continuing, the Bond Fund Trustee or the holders of twenty-five percent (25%) or more in principal amount of the Bonds then Outstanding shall, but only if and to the extent then permitted by law, be entitled to the appointment of a receiver to manage, collect, receive and apply the Revenues.

Notwithstanding the appointment of any receiver, the Bond Fund Trustee shall be entitled to collect and receive income from any moneys, securities, funds and Revenues deposited or pledged with it under the Resolution or agreed or provided to be delivered to or deposited or pledged with it under the Resolution.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bond Fund Trustee and the holders of Bonds, their respective agents and attorneys, and all other sums payable by Power Agency under the Resolution, including the principal of and premium, if any, on all Bonds which shall then be payable, shall either be paid in full by or for the account of Power Agency or provision made for such payment in the manner provided in subsection (ii) of subparagraph (B) under “Discharge of Obligations – Discharge of Liens and Pledges; Bonds Deemed to be No Longer Outstanding Under the Resolution” below, and all defaults under the Resolution or the Bonds shall be made good or provision deemed by the Bond Fund Trustee in its sole discretion to be adequate shall be made therefor, the Bond Fund Trustee or the receiver appointed pursuant to the provisions described above, as the case may be, shall pay over to Power Agency all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bond Fund Trustee or such receiver, as the case may be (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Bond Fund Trustee) and thereupon Power Agency and the Bond Fund Trustee shall be restored to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as before.

Certain Powers and Rights of the Bond Fund Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case the Bond Fund Trustee, either in its own name or as trustee of an express trust, or as attorney-in-fact for the holders of the Bonds, or in any one or more of such capacities, by its agents and attorneys, shall be entitled and empowered to proceed forthwith to institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution for the specific performance of any covenant contained in the Resolution, or in aid of the execution of any power granted in the Resolution, or for an accounting against Power Agency as trustee of any express trust, or in the enforcement of any other legal or equitable right as the Bond Fund Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights, or to perform any of its duties under the Resolution. The Bond Fund Trustee shall be entitled and empowered either in its own name or as a trustee of an express trust, or as attorney-in-fact for the holders of the Bonds, or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Bond Fund Trustee and of the holders of the Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings.

All rights of action under the Resolution may be enforced by the Bond Fund Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings.

No Acceleration. The Resolution does not provide for acceleration, by the Bond Fund Trustee or any Bondholder, of payment of the principal of Bonds.

Bondholders May Direct Proceedings and Waive Defaults. Anything contained in the Resolution to the contrary notwithstanding, the holders of not less than a majority in principal amount of the Bonds at the time Outstanding shall be authorized and empowered (i) to direct the time, method, and place of conducting any proceeding for any remedy available to the holders of the Bonds or to the Bond Fund Trustee therefor, or of exercising any trust or power conferred upon the Bond Fund Trustee under the Resolution, or (ii) on behalf of the holders of the Bonds then Outstanding, to consent to the waiver of any Event of Default except for an Event of Default defined in items (a) through (c) described in “Events of Default” above or its consequences, and the Bond Fund Trustee shall waive any Event of Default and its consequences upon the written request of the holders of such majority; provided, however, that the Bond Fund Trustee shall be provided with adequate security and indemnity and shall have the right to decline to follow any such direction only if the Bond Fund Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken or that the action or proceeding so directed would be unjustly prejudicial to the holders of Bonds not parties to such direction. No waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Suits by Individual Bondholders. Except as otherwise specifically provided, no holder of any of the Bonds shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Bond Fund Trustee written notice of the happening of an Event of Default and the holders of at least twenty-five per cent (25%) in principal amount of the Bonds then Outstanding shall have filed a written request with the Bond Fund Trustee and shall have offered it reasonable opportunity either to exercise the powers granted under the Resolution or to institute such action, suit or proceeding in its own name, and unless such Bondholders shall have offered to the Bond Fund Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Fund Trustee for a period of sixty (60) days after the receipt by it of such notice, request and offer of indemnity shall have refused to comply with such request; it being understood and intended that, except as above provided, no one or more holders of Bonds shall have any right in any manner whatever by such holder’s or holders’ action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in compliance with the conditions precedent to the initiation of such litigation as herein provided, and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all holders of the Outstanding Bonds.

Law and Place of Enforcement of the Resolution. The Resolution shall be construed and interpreted in accordance with the laws of the State of North Carolina. All suits and actions arising out of the Resolution shall be instituted in a court of competent jurisdiction in

the State of North Carolina, except to the extent necessary for enforcement by any trustee appointed by or pursuant to the provisions of the Resolution of remedies under the Resolution to the extent not inconsistent with N.C.G.S. Section 159B-37 or any successor or similar statute. Section 37 currently provides that any action or proceeding by or against a municipality or a joint agency that concerns or relates to (i) any bonds issued pursuant to Chapter 159B, (ii) any contract or document the revenues from which secure in whole or in part the payment of said bonds or (iii) any other security or source for payment of said bonds must be tried in the Superior Court of Wake County.

Amendments; Supplemental Resolutions

Amending and Supplementing of Resolution Without Consent of Holders of Bonds. Power Agency, from time to time and at any time and without the consent or concurrence of any holder of any Bond, may adopt a resolution amendatory of the Resolution or supplemental to the Resolution, (i) for the purpose of providing for the issuance of Bonds pursuant to the Resolution, or (ii) if the provisions of such Supplemental Resolution shall not materially adversely affect the rights of the holders of the Bonds then Outstanding, for any one or more of the following purposes:

1. To make any changes or corrections in the Resolution as to which Power Agency shall have been advised by counsel that the same reflect verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Resolution, or to insert in the Resolution such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable;
2. To add additional covenants and agreements of Power Agency for the purpose of further securing the payment of the Bonds;
3. To surrender any right, power or privilege reserved to or conferred upon Power Agency by the terms of the Resolution;
4. To confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Resolution;
5. To grant to or confer upon the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them, or to grant to or to confer upon the Bond Fund Trustee for the benefit of the holders of the Bonds any additional rights, duties, remedies, powers, authority or security that lawfully may be granted to or conferred upon it;
6. To provide with respect to the issuance of Bonds in coupon form registrable as to principal only or as to both principal and interest;
7. To comply with regulations and procedures as are from time to time in effect relating to any book-entry-only system, whether within or without the United States, for the registration of beneficial ownership interests in Bonds;

8. To comply with additional requirements that a rating agency may impose in order to issue or maintain a rating on the Bonds; and

9. To modify any of the provisions of the Resolution in any other respects; provided that (i)(A) such modification shall relate only to, and is to be effective prior to the issuance of, the Bonds affected by such modification, or such modification relates only to, and is to be effective only upon the remarketing of, the Bonds affected by such modification in connection with an optional or mandatory tender thereof for purchase by or on behalf of Power Agency or purchase in lieu of redemption pursuant to the Resolution, and (B) such modification is disclosed in an offering or reoffering document applicable to such issuance or remarketing, or (ii) the holders of the Bonds Outstanding at the time such Supplemental Resolution is adopted shall consent thereto pursuant to the Resolution.

Except for Supplemental Resolutions providing for the issuance of Bonds, Power Agency shall not adopt any Supplemental Resolution authorized by the foregoing provisions unless in the opinion of counsel the adoption of such Supplemental Resolution is permitted by the foregoing provisions of this Section and the provisions of such Supplemental Resolution do not materially and adversely affect the rights of the holders of the Bonds then Outstanding.

Amendment of Resolution With Consent of Holders of Bonds. With the consent of the holders of not less than a majority in principal amount of the Bonds then Outstanding, which holders may be the initial holders of any Bonds, regardless of whether such Bonds are being held for subsequent resale, or any subsequent holders, Power Agency from time to time and at any time may adopt a resolution amendatory of the Resolution or supplemental to the Resolution for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Resolution, or modifying or amending the rights and obligations of Power Agency under the Resolution, or modifying or amending in any manner the rights of the holders of the Bonds then Outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof; (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Resolution; (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured hereby (which shall not be deemed to include the availability of any Reserve Accounts to secure some but not all Bonds); (4) authorize the creation of any pledge of the Revenues and other moneys pledged under the Resolution, prior, superior or equal to the pledge of and lien and charge thereon created herein for the payment of the Bonds except to the extent provided in the Resolution; or (5) deprive any holder of the Bonds in any material respect of the security afforded by the Resolution. Nothing in this paragraph contained, however, shall be construed as making necessary the approval of the holders of the Bonds of the adoption of any Supplemental Resolution authorized by the provisions described above under “Amending or Supplementing of Resolution Without Consent of Holders of Bonds”.

Ownership of Bonds

Power Agency and the Bond Fund Trustee may deem and treat the person in whose name any Bond shall at the time be registered on the Books of Registry as the absolute owner of such Bond for all purposes whatsoever, including payment thereof, and neither Power Agency nor the Bond Fund Trustee shall be affected by any notice to the contrary. The payment of or on account of principal to or upon the order of the person in whose name a Bond shall at the time be registered on the Books of Registry, and the payment of interest to or upon the order of any person in whose name any Bond shall at the time be registered on the Books of Registry, shall be valid and effectual fully to satisfy and discharge all liability under the Resolution or upon such Bond to the extent of the sum or sums so paid.

Discharge of Obligations under Resolution

Discharge of Liens and Pledges; Bonds Deemed to be No Longer Outstanding Under the Resolution. The obligations of Power Agency under the Resolution and the pledges, charges, trusts, covenants and agreements of Power Agency herein made or provided for shall be fully discharged and satisfied as to any Bond and such Bond shall be deemed to be no longer Outstanding under the Resolution:

(A) when such Bond shall have been cancelled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by the Bond Fund Trustee from moneys held by it under the Resolution; or

(B) as to any Bond not cancelled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal of and premium, if any, on such Bond, plus interest on such principal (calculated, in the case of Variable Rate Bonds, at the maximum numerical rate permitted by the terms thereof) to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Bond Fund Trustee, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (a) moneys sufficient to make such payment, (b) Government Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, or (c) a combination of both such moneys and such Government Obligations, whichever Power Agency deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Bond Fund Trustee pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Bond Fund Trustee.

At such time as a Bond shall be deemed to be no longer Outstanding under the Resolution, such Bond, except for the purposes of any payment from such moneys or Government Obligations, shall no longer be secured by or entitled to the benefits of the Resolution, including, without limiting the generality of the foregoing, the provisions of the Resolution for the retirement of Term Bonds from amounts credited to the Debt Service Account as sinking fund installments.

Notwithstanding the foregoing, in the case of a Bond which is to be redeemed or otherwise prepaid prior to its stated maturity and which Power Agency elects to so redeem or prepay, no deposit under clause (ii) of subparagraph (B) above shall constitute such payment, discharge and satisfaction as aforesaid until such Bond shall have been irrevocably designated for redemption or prepayment on such date or dates as shall be determined by the Board in its sole discretion and proper notice of such redemption or prepayment shall have been previously given in accordance with the Resolution or provision satisfactory to the Bond Fund Trustee shall have been irrevocably made for the giving of such notice; provided, however, that nothing in this Section shall require or be deemed to require Power Agency to elect to redeem or prepay such Bonds or, in the event Power Agency elects to redeem or prepay such Bonds, shall require or be deemed to require redemption or prepayment as of any particular date or dates.

Any such moneys so deposited with the Bond Fund Trustee as provided in this Section may at the direction of Power Agency also be invested and reinvested in Government Obligations, maturing in the amounts and times as hereinbefore set forth. All income from all Government Obligations in the hands of the Bond Fund Trustee pursuant to this Section which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to Power Agency and deposited in the Revenue Fund as and when received and collected, for use and application as are other moneys deposited in said Fund.

Notwithstanding any provision of any other Section of the Resolution which may be contrary to the provisions of this Section, all moneys or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Government Obligations have been so set aside in trust.

Unclaimed Moneys

Bonds Not Presented for Payment When Due; Moneys Held After Due Date. Subject to the provisions of the next sentence of this paragraph, if any Bond shall not be presented for payment when the principal thereof shall become due (whether at maturity or upon redemption or prepayment, or otherwise), and if moneys or Investment Securities shall at such due date be held by the Bond Fund Trustee in trust for that purpose sufficient and available to pay the principal of and premium, if any, on such Bond, together with all interest due on such Bond to the due date thereof or to the date fixed for redemption thereof, all liability of Power Agency for such payment shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Bond Fund Trustee to hold said moneys or Investment Securities without liability to the holder of such Bond for interest thereon, in trust for the benefit of such holder who thereafter shall be restricted exclusively to said moneys or Government Obligations for any claim of whatever nature on his part on or with respect to such Bond, including any claim for the payment thereof. Any moneys or Investment Securities held by the Bond Fund Trustee remaining unclaimed by the holders of Bonds for three years after the principal of or premium on (with respect to payment of principal and premium) or interest on (with respect to payment of interest) the respective Bonds with respect to which such moneys or Government Obligations have been so set aside has become due and payable (whether at

maturity or upon redemption or prepayment, or otherwise) shall be treated as abandoned property and paid to the Escheat Fund of North Carolina according to North Carolina law, and the holders of such Bonds shall thereafter be entitled to look only to the Escheat Fund for payment of such principal or premium, if any, or interest, as the case may be.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE DEBT SERVICE SUPPORT CONTRACTS AND FULL REQUIREMENTS POWER SALES AGREEMENTS

Definitions

Unless otherwise defined in this Appendix, capitalized terms defined elsewhere in the Official Statement have the meanings given to them by those definitions. In addition, the following capitalized terms have the following meanings in this Appendix.

“Affiliate” of any Person means any other Person directly or indirectly Controlling, directly or indirectly Controlled by or under direct or indirect common Control with such Person.

“Balance of Defeasance Costs” means the portion of the Defeasance Costs not funded from proceeds of the sale and transfer of the Joint Facilities to DEP and other funds available to Power Agency for this purpose.

“Bonds” means Bonds issued from time to time pursuant to and under the authority of the Resolution (i) to pay the Balance of Defeasance Costs, and (ii) to refund Bonds, Notes or Subordinated Debt theretofore issued and outstanding as authorized by the Debt Service Support Contracts.

“Contract Year” means the 12-month period commencing January 1 of each year during the term of the Debt Service Support Contract or Full Requirements Power Sales Agreement, as applicable, and ending midnight local time on the December 31 next following (or such other 12-month period as Power Agency shall determine); *provided, however*, that the first Contract Year shall commence on the day immediately following the Effective Date; and *provided further, however*, that the last Contract Year shall end at midnight local time on the date of termination of the Debt Service Support Contract or Full Requirements Power Sales Agreement, as applicable.

“Control” of any Person means the possession, directly or indirectly, of the power either to (a) vote more than fifty percent (50%) of the securities or interests having ordinary voting power for the election of directors (or other comparable controlling body) of such Person or (b) direct or cause the direction of management or policies of such Person, whether through the ownership of voting securities or interests, by contract or otherwise.

“Customer Generation” means any generating unit having a nameplate capacity rating of 95 kW or more that is owned (i) by a retail or wholesale customer of a Member, or a retail customer of a wholesale customer of a Member and is used to serve load at the site of the load; or (ii) by a Member and is installed at a customer location for the benefit of the customer.

“Defeasance Amount” means the amount required by Power Agency to redeem, purchase, otherwise retire or defease all Outstanding Prior Bonds and cause such bonds to be no longer outstanding under the Prior Resolution.

“Defeasance Costs” means all costs associated with:

(1) the redemption, purchase or other retirement or defeasance of all Outstanding Prior Bonds;

(2) causing all Outstanding Prior Bonds to be no longer outstanding under the Prior Resolution, including but not limited to the deposit of the Defeasance Amount under the Prior Resolution;

(3) financing the Balance of Defeasance Costs, whether heretofore or hereafter paid or incurred by Power Agency; and

(4) the development, negotiation, execution and delivery of the Debt Service Support Contracts,

and in each such case shall include, but not be limited to, funds required for:

(1) the deposit or deposits from the proceeds of Bonds in any fund or account established pursuant to the Resolution to meet debt service reserve requirements or for initial working capital;

(2) the payment of all costs and expenses incurred in connection with the deposit, pursuant to the Prior Resolution, of the Defeasance Amount under the Prior Resolution and the issuance and sale of the Bonds, including, but not limited to, bond and underwriters' discounts, fees and expenses of trustees and paying agents, and legal, financial advisory and other financing costs; and

(3) the payment of all other costs incurred by Power Agency in considering, planning for and implementing the deposit pursuant to the Prior Resolution of the Defeasance Amount and the issuance of Bonds to finance the Balance of Defeasance Costs and the entry into the Debt Service Support Contract, including, but not limited to, costs associated with any necessary amendments to the Act;

provided, however, that "Member's Defeasance Costs" for purposes of applying the termination provisions of the Debt Service Support Contract shall have the meaning set forth below under "Termination of Debt Service Support Contract."

"Delivery Point" means the point on the DEP Transmission System where the delivery of power to the Member is measured in accordance with the Transmission Agreements, at which point the delivery of electric power to the Member is measured for billing purposes under the Full Requirements Power Sales Agreement.

"Economic Development Generation" means any generating unit owned by Power Agency, a Member, or a retail or wholesale customer of a Member, or a retail customer of a wholesale customer of a Member, in each case that is installed for the purpose of retaining the load of an existing customer or attracting the load of a new customer served or to be served by a Member.

"Edenton Generators" means the two (2) 1,250 kW generators owned and operated by the Town of Edenton that are located on Tower Drive, Edenton, North Carolina.

“Effective Date” means the date on which the closing of the transactions contemplated by the Asset Purchase Agreement takes place.

“Electric System” means all properties and assets, real and personal and tangible and intangible, of the Member now or hereafter existing, used for or pertaining to the generation, transmission, transformation, distribution and sale of electric power and energy or general plant associated therewith, including all renewals, replacements, additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Elizabeth City Generators” means the four (4) 1,750 kW generators owned and operated by the City of Elizabeth City that are located at 410 Pritchard Street, Elizabeth City, North Carolina.

“Full Requirements Bulk Power Supply” means, with respect to the Member, all electric power and energy required by the Member at its Delivery Point(s) (including any load met by NCEMPA Generation that is interconnected with the Member’s Electric System), exclusive of any purchases of power and energy by the Member from the Southeastern Power Administration, if any, and, as applicable, exclusive of the output of Customer Generation, Member Generation, Economic Development Generation, the Edenton Generators and the Elizabeth City Generators. Full Requirements Bulk Power Supply shall include all transmission service to deliver Full Requirements Bulk Power Supply to the Member’s Delivery Point(s), power and energy purchases made by Power Agency pursuant to the Full Requirements Power Purchase Agreement, power and energy supplied by NCEMPA Generation, and power and energy derived by Power Agency from any resource used to replace power and energy purchases under the Full Requirements Power Purchase Agreement (i) following the exercise by Power Agency of an early termination option set forth in the Full Requirements Power Purchase Agreement, or (ii) in connection with a PURPA Qualifying Resource owned by Power Agency.

“Full Requirements Power Costs” for any period means all costs associated with or incidental to Full Requirements Bulk Power Supply for such period. In addition to the costs associated with or incidental to Full Requirements Bulk Power Supply, Full Requirements Power Costs also shall include, without limitation (i) Power Agency’s general and administrative overhead costs allocated to Power Agency’s activities related to its provisions of Full Requirements Bulk Power Supply, (ii) working capital deemed necessary by Power Agency, (iii) costs and expenses relating to the acquisition, construction, maintenance and operation of an administrative building or office, including land therefor, together with any administrative equipment and facilities, which may be owned alone or together with any other joint agency or agencies, joint municipal assistance agencies, municipalities, corporations, associations or Persons under such terms and provisions for sharing costs and otherwise as may be determined by Power Agency, (iv) costs associated with Power Agency management and other services provided to Members, including, but not limited to, costs associated with compliance with renewable energy requirements or mandatory electric reliability standards, (v) amounts necessary for the payment of the principal of and premium, if any, and interest on any bonds, notes (including notes issued in anticipation of the issuance of bonds), certificates, warrants or other evidences of indebtedness, including commercial paper, issued for Full Requirements Power Costs (collectively, “Full Requirements Power Debt”), which Full Requirements Power Debt shall be payable from all or any amounts received under the Full Requirements Power Sales

Agreements, as payments from the Members of Full Requirements Power Costs, and (vi) all costs and expenses relating to the issuance, security and payment of Full Requirements Power Debt, including without limitation costs and expenses associated with insurance contracts, agreements for lines of credit, letters of credit, commitments to purchase Full Requirements Power Debt, depositaries for safekeeping and agents for delivery and payment.

“Full Requirements Power Purchase Agreement” means the Full Requirements Power Purchase Agreement, dated as of September 5, 2014, between Power Agency and DEP, pursuant to which Power Agency will purchase from DEP and DEP will sell to Power Agency firm capacity and energy in the amounts required by Power Agency to reliably serve the current and future electrical loads of its Members.

“Hourly Demand” means, in each hour, the aggregate load of Power Agency's Members for which there is in effect a Full Requirements Power Sales Agreement, determined by summing the metered 60-minute demands of the Members (integrated metered kilowatt load, compensated where applicable, in accordance with the Transmission Agreements, to reflect losses from the meter location back to the Delivery Point), adjusted to include the output of PURPA Qualifying Resources in each clock hour, and adjusted further to include line losses over the DEP transmission system.

“Member Electric System Revenues”^{*} means all income, rents, rates, fees, charges, receipts, profits and other moneys or monetary benefits derived by the Member directly or indirectly from the ownership or operation of its Electric System and the sale, furnishing or supplying of capacity or output and power and energy therefrom, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges, receipts, profits or other moneys derived from the sale, furnishing or supplying of the electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System, (ii) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, receipts, profits or other moneys to the extent that the use of such earnings and income is limited by or pursuant to law to the Electric System and (iii) the proceeds derived by the Member directly or indirectly from the sale, lease or other disposition of a part of the Electric System as permitted by the Debt Service Support Contract as described under “Mortgages, Leases and Disposition by Member of Electric System; Mergers,” but the term “Member Electric System Revenues” shall not include retail customers’ deposits or any other deposits subject to refund until such deposits have become the property of the Member and shall not include any refunds associated with electric service by a Member prior to the Effective Date.

“Member Generation” means any generating unit (other than the Edenton Generators and Elizabeth City Generators) owned by a Member having a nameplate capacity of 95kW or more, that is used to serve load at the site of the load, except for any such generating unit owned by a Member that is installed at the Member’s customer’s location for the benefit of the customer. “Member’s Share” means the percentage indicated for the Member in the Debt Service Support Contract as that Member’s share of the obligations of all of the Members under all of the Debt

^{*} In the Debt Service Support Contract and the Full Requirements Power Sales Agreements, this term is defined as “Revenues.” The term “Member Electric System Revenues” is used in these Summaries for clarity to distinguish revenues derived by a Member from the operation of its electric system, as more fully defined above, from “Revenues” of Power Agency as defined in the Resolution.

Service Support Contracts, subject to adjustment as described below under “Events of Defaults and Remedies”; *provided, however*, that in the event the Member terminates the Debt Service Support Contract as described below under “Termination of Debt Service Support Contract”, its Member’s Share shall be zero and all other Members’ Shares shall be recalculated as a percentage of the total of all non-terminating Members’ Shares.

“Monthly Bill” means the written statement prepared monthly by Power Agency and provided to the Member as further described in this Summary.

“Monthly Support Costs” means all of Power Agency's costs that are paid or incurred by Power Agency during each month of each Contract Year and as of the Effective Date resulting from the issuance of the Bonds, Notes and Subordinated Debt including, but not limited to, the following items of costs:

(1) the amount which Power Agency is required under the Resolution to pay or deposit during such month from the “Revenue Fund” into the “Bond Fund” (as such terms are defined in the Resolution) established by the Resolution for the payment of the principal of and premium, if any, and interest on the Bonds and for reserves with respect thereto;

(2) the amount required under the Resolution with respect to the Bonds to be paid or deposited during such month into any fund or account established by the Resolution, other than funds and accounts referred to in subparagraph (1) above;

(3) the amount required to pay or provide for the payment of the principal of and premium, if any, and interest on Notes and Subordinated Debt and for reserves with respect thereto;

(4) Power Agency’s administrative overhead costs allocable to Power Agency’s activities under the Resolution and the Debt Service Support Contracts, as determined by Power Agency; and

(5) any other costs incurred by Power Agency during such month relating to Bonds, Notes and Subordinated Debt, and the payment of Defeasance Costs and the defeasance, payment and retirement of the Outstanding Prior Bonds, not included in the costs hereinabove specified, including but not limited to amounts required as working capital for the payment of the costs included in this definition.

“NCEMPA Generation” means any generating unit owned by Power Agency having a nameplate capacity rating of 95 kW or more (but not more than 2,000 kW) that is connected directly to the electric distribution system of a Member, such that the output of such unit is thereby excluded from Power Agency’s Hourly Demand.

“Notes” means any notes or other evidences of indebtedness issued in anticipation of the issuance of Bonds for the payment of the Balance of Defeasance Costs or for the other purposes specified in the Debt Service Support Contract.

“Person” means “any individual, corporation, partnership, joint venture, association, joint stock company, trust, limited liability company, unincorporated organization, governmental authority or any other form of legal entity.

“Prudent Utility Practice” means, at a particular time, any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in the light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Prudent Utility Practices are not intended to be limited to the optimum practices, methods or acts, to the exclusion of all others, but rather to be acceptable practices, methods or acts generally accepted in the electric utility industry. In evaluating whether any matter conforms to Prudent Utility Practice as used in the Debt Service Support Contract or Full Requirements Power Sales Agreement, the parties to the Debt Service Support Contract or Full Requirements Power Sales Agreement, as applicable, shall take into account the fact that the Member is a public body and a body corporate and politic organized under the laws of the State of North Carolina, with the statutory duties and responsibilities thereof. In evaluating whether any matter conforms to Prudent Utility Practice as used in the Full Requirements Power Sales Agreement, the parties shall take into account (i) the fact that Power Agency and each Member is a public body and a body corporate and politic organized under the laws of the State of North Carolina, with the statutory duties and responsibilities thereof, and (ii) the objectives to integrate Full Requirements Bulk Power Supply with the other resources of the Members, including, but not limited to, Qualified Generation owned by Power Agency, its Members and its Members’ customers, SEPA Purchases and other PURPA Qualifying Resources to achieve optimum utilization of the resources and achieve efficient and economical operation of each system.

“PURPA Qualifying Resource” means a resource derived from a generating facility that is a “small power production facility” or “cogeneration facility” that, in each case, meets the requirements of such a resource under applicable Federal Regulations.

“Qualified Generation” means Member Generation, Customer Generation, and NCEMPA Generation.

“Resolution” means the resolution adopted by Power Agency, as the same may be amended or supplemented from time to time pursuant to the terms thereof, pursuant to which the Bonds are issued.

“SEPA Purchases” means the aggregate sum of capacity and energy that some or all of Power Agency’s Members receive as preference customers, through the U.S. Department of Energy - Southeastern Power Administration, pursuant to contracts entered into between the United States of America and such Members.

“Subordinated Debt” means any bonds, notes, certificates, warrants or other evidences of indebtedness issued for the payment of the Balance of Defeasance Costs, or for the other purposes specified in the Debt Service Support Contract, which are payable as to principal and interest from the Member Electric System Revenues subject and subordinate to the deposits and

credits required to be made pursuant to the Resolution from the “Revenues” and “Revenue Fund” into the “Bond Fund” (as such terms are defined in the Resolution).

“Total Annual Budget” means the budget adopted by Power Agency for each Contract Year.

“Transmission Agreements” means the existing agreements between Power Agency and transmission service providers, consisting of (1) the Agreement for Transmission Use and Other Electric Service with Dominion North Carolina Power (formerly Virginia Electric and Power Company), dated as of July 30, 1981, (2) the Network Integration Transmission Service Agreement between DEP and Power Agency, as amended by DEP from time to time, on file with the Federal Energy Regulatory Commission as OATT Service Agreement No. 268 of Duke Energy Progress, Inc. and (3) Network Operating Agreement between DEP and Power Agency, as amended by DEP from time to time, on file with the Federal Energy Regulatory Commission as OATT Service Agreement No. 268 of Duke Energy Progress, Inc.

Debt Service Support Contracts

Power Agency has entered into a separate, but substantially identical, Debt Service Support Contract with each Member. The following is a summary of certain provisions of a Debt Service Support Contract. As used in this summary, the term “Member” refers to the respective City or Town that has entered into a specific Debt Service Support Contract.

The following summary is not a full statement of the terms of the Debt Service Support Contract and, accordingly, is qualified by reference thereto and is subject to the full text thereof. A copy of the form of Debt Service Support Contract may be obtained from Power Agency.

Term of Contract

The Debt Service Support Contract shall be effective as of the Effective Date. The term of the Debt Service Support Contract shall expire on the earliest to occur of (i) the date on which no Bonds remain outstanding under the Resolution, (ii) midnight local time on December 31, 2035, or (iii) the date the Debt Service Support Contract is terminated as described under “Termination of Debt Service Support Contract.” Notwithstanding the foregoing, the expiration or termination of the Debt Service Support Contract shall not affect any accrued liability or obligation thereunder, including, but not limited to, the Member’s obligation to pay Monthly Support Costs. The Debt Service Support Contract shall not be subject to termination by either party under any circumstances, whether based upon the default of any other party under the Debt Service Support Contract or any other instrument or otherwise, except as specifically provided in the Debt Service Support Contract.

Charges for Monthly Support Costs

Power Agency shall determine, and revise from time to time to the extent necessary, the amounts required to permit Power Agency to timely pay all Monthly Support Costs, and each Member shall pay such Member’s Share of the Monthly Support Costs.

Total Annual Budget and Monthly Bills; Payments by the Member

Not less than fifteen (15) days prior to each Contract Year, Power Agency shall provide to the Member a proposed annual budget for the ensuing Contract Year with respect to amounts to be paid under the Debt Service Support Contract, and thereafter shall hold a public hearing on such proposed annual budget and shall provide to the Member a Total Annual Budget for the Contract Year. During each Contract Year, Power Agency shall review at least quarterly, and at such other times as Power Agency deems desirable, the Total Annual Budget for the Contract Year. In the event such review indicates that the Total Annual Budget does not or will not substantially correspond with actual receipts and expenditures, or if at any time during such Contract Year there are or are expected to be extraordinary receipts, credits, or costs substantially affecting the Monthly Support Costs, Power Agency shall adopt and provide to the Member an amended Total Annual Budget, which shall supersede, for the remainder of such Contract Year, the Total Annual Budget or amended Total Annual Budget theretofore provided as the basis for the determination of Monthly Support Costs. The Total Annual Budget under the Debt Service Support Contract may be included with or as a component of any budget required to be provided to the Member under the Member’s Full Requirements Power Sales Agreement.

On or before the fifth (5th) day of each month of each Contract Year (beginning with the first full month of the Contract Year), or such other date not later than the tenth (10th) day of such month as Power Agency shall establish from time to time, Power Agency shall prepare, date, and on such date provide to the Member a Monthly Bill showing the amount payable by the Member for its Member's Share of Monthly Support Costs for the preceding month. The Monthly Bill under the Debt Service Support Contract may be included with or as a component of any monthly bill under the Member's Full Requirements Power Sales Agreements.

The amounts shown in the Monthly Bill to be paid to Power Agency by the Member shall be due and payable ten (10) days after the date of the Monthly Bill, and any amounts due and not paid by the Member within fifteen (15) days after the date of the Monthly Bill shall accrue a late payment charge.

All monies received by Power Agency as payment from the Member of any Monthly Bill and of any monthly bill, for the same month, under the Member's Full Requirements Power Sales Agreement (whether in full or partial payment of either thereof) shall be applied by Power Agency *pro rata* to the Monthly Bill and to such other monthly bill in the ratio that the total amount of each bears to the total of the two, and the resulting amounts shall be credited to the appropriate accounts on the books of Power Agency. ***The Debt Service Support Contract recites that the Member understands and agrees that a failure by the Member to pay in full its obligations under both the Debt Service Support Contract and its Full Requirements Power Sales Agreement may result in an event of default under both the Debt Service Support Contract and its Full Requirements Power Sales Agreement.***

In each Contract Year, the Member shall be obligated to pay to Power Agency the Member's Share of Monthly Support Costs for such Contract Year. The Member shall be obligated to make such payments unconditionally and without offset, counterclaim or other reduction, whether or not all or any portion of the electric power and energy contracted for under the Member's Full Requirements Power Sales Agreement is delivered to the Member or such Full Requirements Power Sales Agreement expires or is terminated in whole or in part. Such payments shall be made and shall not be conditioned upon the performance or non-performance by Power Agency or any other Member under this or any other agreement or instrument.

In the event of any dispute as to any portion of any Monthly Bill, the Member shall nevertheless pay the full amount of the disputed charges when due and shall give written notice of the dispute to Power Agency within sixty (60) days following the date on which such payment is due.

Payment Sources

The obligations of the Member to make payments under the Debt Service Support Contract shall be an operating expense of its Electric System. The Member shall not be required to make any payments to Power Agency under the Debt Service Support Contract except from the Member Electric System Revenues. The Member covenants and agrees that it will fix, charge, and collect rents, rates, fees, and charges for electric power and energy and other services, facilities, and commodities sold, furnished, or supplied through the facilities of its Electric System at least sufficient to provide Member Electric System Revenues adequate to

meet its obligations under the Debt Service Support Contract and under its Full Requirements Power Sales Agreement and any additional contract relating to supplying Full Requirements Bulk Power Supply by and between Power Agency and the Member, and to pay any and all other amounts payable from or constituting a charge and lien upon such Member Electric System Revenues, including, but not limited to, amounts sufficient to pay the principal of and interest on all general obligation bonds (if also payable from Member Electric System Revenues) and revenue bonds heretofore or hereafter issued by the Member to finance its Electric System.

Notwithstanding the foregoing, nothing in the Debt Service Support Contract shall be construed to limit, constrain or affect in anyway the legal rights and authority of the Member to design, set and implement rates, fees and charges for electric power and energy and other services to its retail and wholesale customers through the operation of the Member's duly authorized rate setting process so long as the Member's rates, fees and charges for electric power and energy and other services fully meet and comply with the Member's obligations under the Debt Service Support Contract.

Operation of Electric System

The Member covenants and agrees that in accordance with Prudent Utility Practice: (i) it shall at all times operate the properties of its Electric System and the business in connection therewith in an efficient manner and at reasonable cost, (ii) it shall maintain its Electric System in good repair, working-order and condition and in a safe operating condition, and (iii) it shall make all necessary and proper repairs, renewals, replacements, additions, betterments, equippings and furnishings to its Electric System.

Mortgages, Leases and Disposition by Member of Electric System; Mergers

The Member covenants and agrees that it shall not sell, mortgage, lease or otherwise dispose of or encumber its Electric System or any part thereof except as permitted by any of the following provisions:

(1) The Member may, in the ordinary course of the business of operating and maintaining its Electric System, scrap, trade-in, sell or otherwise dispose of any property or equipment if the Member determines that (i) such property or equipment is surplus, obsolete or otherwise not required for the operation and maintenance of its Electric System, and (ii) the original cost of all property and equipment disposed of pursuant to this paragraph (1) in any fiscal year of the Member is less than the greater of \$25,000 or two percent (2%) of the gross plant investment of the Electric System as reported on the books for the Electric System as of the end of the most recent fiscal year of the Member for which such figure is available.

(2) The Member may sell, lease, mortgage or otherwise dispose of or encumber any property and equipment (i) if and to the extent permitted by Section 160A-20 of the North Carolina General Statutes, as the same may be amended from time to time, or (ii) if the Member determines, with the written concurrence of Power Agency (which concurrence shall not be unreasonably withheld), that, taking into account past and current operating results of its Electric System and any replacements or intended

replacements for such property and equipment to be disposed of, the proposed action will not have a material adverse effect on the Member Electric System Revenues or the operation of its Electric System, or materially increase the operating and maintenance expenses of its Electric System.

(3) The Member may sell or otherwise dispose of its Electric System to one or more other Members, or merge or consolidate its Electric System with the Electric System or Systems of one or more other Members, *provided* that the purchasing or surviving Member(s), as the case may be, shall have assumed all of the transferor Member's duties and obligations under the Debt Service Support Contract and under the transferor Member's Full Requirements Power Sales Agreement.

(4) The Member may merge or consolidate with, or be merged or consolidated into, one or more units of local government which shall have assumed all of the Member's duties and obligations hereunder, in which event such Member shall be relieved from all such duties and obligations, but only if (i) the Debt Service Support Contract shall have been assigned to such unit(s) of local government, which shall have assumed all of the transferor Member's duties and obligations hereunder, and (ii) the Local Government Commission of North Carolina shall have determined that after such merger or consolidation the survivor unit(s) of local government will have the ability to meet the obligations of such Member hereunder.

(5) The Member may sell or otherwise dispose of its Electric System to any other Person but only if the Member (i) has terminated the Debt Service Support Contract pursuant to the provisions described under "Termination of Debt Service Support Contract" below, and (ii) has assigned and transferred its Full Requirements Power Sales Agreement and all interests therein to the transferee Person who has assumed all of the transferor Member's duties and obligations under the transferor Member's Full Requirements Power Sales Agreement; *provided, however*, that prior to any sale or other disposition pursuant to the provision described in this paragraph, Power Agency shall have determined that such sale or other disposition will not increase the cost of power and energy under the Full Requirements Power Sales Agreement of any other Member; and *provided further, however*, that if the transferee Person is DEP, or a subsidiary or Affiliate of DEP, the transferor Member's Full Requirements Power Sales Agreement shall be terminated and not assigned and transferred and DEP shall have agreed to certain additional requirements set forth in the Debt Service Support Contract.

(6) In the event of a sale or other disposition described in paragraph (3), or a merger or consolidation described in paragraphs (3) and (4), the Member shall provide to Power Agency a counsel's opinion, satisfactory in form and substance to counsel to Power Agency, that (i) in the event of a sale or other disposition, the transferee has assumed and become liable for the duties and obligations of the transferor Member under the Debt Service Support Contract and the transferor Member's Full Requirements Power Sales Agreement, and (ii) in the event of a merger or consolidation, that following such merger or consolidation the Electric System or unit of local government, as the case may be, surviving such merger or consolidation shall remain or shall have become subject to the Debt Service Support Contract and liable for the duties and obligations of the

transferor Member under the Debt Service Support Contract and under the transferor Member's Full Requirements Power Sales Agreement to the same extent that such Electric System or Member had been so subject prior to such merger or consolidation. In the event of a sale or other disposition described in paragraph (5) (other than a sale or disposition to DEP or a subsidiary or Affiliate of DEP), the Member shall provide to Power Agency a counsel's opinion, satisfactory in form and substance to counsel to Power Agency, that the transferee has assumed and become liable for the duties and obligations of the transferor Member under its Full Requirements Power Sales Agreement.

(7) Nothing contained in the foregoing paragraphs (1) through (6) shall be deemed to authorize a Member to mortgage or encumber all or substantially all of the properties of its Electric System.

The Member covenants and agrees not to issue bonds, notes or other evidences of indebtedness or enter into any agreement to take or to take or pay for power and energy, other than a power sales agreement with Power Agency, payable from the Member Electric System Revenues on a parity with or superior to the payment of operating expenses of its Electric System (including Monthly Support Costs hereunder) unless an independent consulting engineer or engineering firm or corporation having a national and favorable reputation for special skill, knowledge and experience in analyzing the operations of electric utility systems (which may be a consulting engineer to Power Agency) shall render and file with Power Agency a written opinion that the facilities for the financing of which the bonds, notes or other evidences of indebtedness are being issued or with respect to which such agreement is being entered into are (or were when the Member committed itself to them by contract or financing) reasonably expected to contribute properly and advantageously to the conduct of the business of its Electric System in an efficient and economical manner consistent with Prudent Utility Practice and will not impair the ability of the Member to raise Member Electric System Revenues sufficient to meet its obligations to provide Member Electric System Revenues adequate to meet its rate covenant obligations under the Debt Service Support Contract and under its Full Requirements Power Sales Agreement; *provided, however*, that the foregoing written opinion is not required with respect to bonds, notes or other evidences of indebtedness issued to refund bonds, notes or other evidences of indebtedness theretofore or thereafter issued for which the foregoing written opinion was provided and which refunded bonds, notes or other evidences of indebtedness are payable from and secured by a lien on Member Electric System Revenues on a parity with or superior to the payment of operating expenses of the Member's Electric System.

The Member shall take no action the effect of which would be to prevent, hinder, or delay Power Agency from the timely fulfillment of its obligations under the Debt Service Support Contract, the Member's Full Requirements Power Sales Agreement, the Resolution and the Bonds, or any Debt Service Support Contract or Full Requirements Power Sales Agreement entered into between Power Agency and any other Member.

Defaults and Remedies

Upon failure of the Member to make any payment in full when due under the Debt Service Support Contract or to perform or otherwise comply with any other obligation of the

Member under the Debt Service Support Contract, Power Agency shall make demand upon the Member for payment or performance, and if said failure is not cured within fifteen (15) days from the date of such demand, it shall constitute a default under the Debt Service Support Contract at the expiration of such period, and notice of such event of default shall forthwith be given to the Member. Notice of such demand, and of the default if it occurs, shall be provided to the other Members by Power Agency.

No default shall affect any accrued liabilities or the obligations of the Member under the Debt Service Support Contract, including, but not limited to, its obligation to pay its Member's Share of Monthly Support Costs, all of which shall continue in full force and effect.

In the event of any default by the Member under any covenant, agreement, or obligation under the Debt Service Support Contract, Power Agency may, upon fifteen (15) days' prior written notice, bring any suit, action, or proceeding in law or in equity, including mandamus, injunction, and action for specific performance as may be necessary or appropriate to enforce any covenant, agreement, or obligation of the Debt Service Support Contract against the Member.

Upon the failure of any Member(s) to make any payment which failure constitutes a default under any Debt Service Support Contract, the Member's(s') Share(s) of each nondefaulting Member shall be automatically increased, but only for the duration of the existence and continuation of such default, by the *pro rata* amount of the defaulting Member's(s') Share(s) compared to those of the other non-defaulting Member(s), and the defaulting Member's(s') Share(s) shall be reduced correspondingly; *provided, however*, that no such reduction shall reduce the defaulting Member's(s') obligations described in the following paragraph; and *provided further, however*, that the sum of such increases for any nondefaulting Member as described in this subsection shall not exceed, without the consent of such nondefaulting Member, an accumulated maximum of twenty-five percent (25%) of the nondefaulting Member's Share prior to any such increases. The provisions described in this paragraph apply to accrued obligations of the defaulting Member prior to the change in Member's(s') Share(s).

If the Member shall fail or refuse to pay any amounts due to Power Agency hereunder, the fact that other Members have assumed the obligation to make such payments shall not relieve the defaulting Member of its liability for such payments, and any Members assuming such obligation, either individually or as a member of a group, shall have a right of recovery from the defaulting Member. Power Agency or any Members, as their interests may appear, jointly or severally, may commence such suits, actions or proceedings, at law or in equity, as may be necessary or appropriate to enforce the obligations of the Debt Service Support Contract against the defaulting Member.

In the event of any default by Power Agency under any covenant, agreement, or obligation under the Debt Service Support Contract, the Member may, upon fifteen (15) days' prior written notice, bring any suit, action, or proceeding in law or in equity, including mandamus and injunction, as may be necessary or appropriate to enforce any covenant, agreement, or obligation of the Debt Service Support Contract against Power Agency.

No remedy conferred upon or reserved to the parties hereto is intended to be exclusive of any other remedy or remedies available hereunder or now or hereafter existing at law, in equity, or by statute or otherwise, but each and every such remedy shall be cumulative and shall be in addition to every other such remedy. The pursuit by either party of any specific remedy shall not be deemed to be an election of that remedy to the exclusion of any other or others, whether provided hereunder or by law, equity, or statute. Any delay by either party in the exercise of any remedy with respect to any matter arising in connection with the Debt Service Support Contract shall not constitute a waiver by such party of any right to later exercise such remedy with respect to the same or any other matter arising in connection with the Debt Service Support Contract.

Any waiver at any time by either party to the Debt Service Support Contract of its rights with respect to any default of the other party hereto, or with respect to any other matter arising in connection with the Debt Service Support Contract, shall not be considered a waiver with respect to any subsequent default, right, or matter arising in connection with the Debt Service Support Contract or with respect to any default, right or matter arising in connection with any other Debt Service Support Contract.

Records; Accounts; Reports; Audits

The Member shall keep accurate records and accounts for its Electric System, separate and distinct from its other records and accounts. Such records and accounts shall be audited annually by a firm of certified public accountants or by an accountant approved by the Local Government Commission of North Carolina as qualified to audit Local Government accounts who has no personal interest, direct or indirect, in the fiscal affairs of the municipal government or any of its officers, which audit may be part of the annual audit of the accounts of the Member. Such records and accounts shall be made available for inspection by Power Agency at any reasonable time, and a copy of such annual audit, including all written comments and recommendations of such accountants, shall be furnished to Power Agency not later than one hundred eighty (180) days after the close of the Member's fiscal year.

Termination of Debt Service Support Contract

The Member may terminate the Debt Service Support Contract, in whole but not in part, as described in this Section. If the Member determines to terminate the Debt Service Contract, the Member shall give Power Agency notice in writing of (i) the Member's intent to terminate the Debt Service Support Contract, (ii) the proposed effective date of such termination, which shall not be less than six (6) months following the date Power Agency receives such notice, (iii) the proposed Retirement Date (referred to below), and (iv) the Net Funding Election (referred to below).

If the Member properly gives notice of Termination, the Termination shall be effective upon deposit by the Member of immediately available funds with Power Agency in an amount at least equal to the amount necessary (together with any amounts that Power Agency advises the Member will be available for the purpose from funds held under the Resolution and allocable to the Member) to enable the principal or redemption price of and interest on the Member's Share of the Bonds at the time outstanding under the Resolution, determined as described below (the

“Member’s Defeasance Costs”) and to enable such Bonds to be redeemed, purchased or otherwise retired, and defeased, under the Resolution (the “Member’s Defeasance”).

The amount of the Member’s Defeasance Costs shall be the amount that is due on and prior to the first optional redemption date or earlier maturity date of the Member’s Share of the outstanding Bonds after the date Power Agency receives notice of termination, or on such other date or dates as may be agreed upon between Power Agency and the Member (for purposes of this Section 13, the “Retirement Date”). Member’s Defeasance Costs may take into account investment income on amounts deposited under the Resolution to effectuate such defeasance, if the Member so elects (the “Net Funding Election”), in which case the same may be estimated in advance but shall be finally determined as of a date agreed upon between Power Agency and the Member when such amounts are capable of being finally determined; *provided, however*, that the nature of the securities invested in shall be subject to the approval of Power Agency. The sufficiency of such deposit for such purpose shall be verified at the sole expense of the Member by such person or firm as shall be satisfactory to Power Agency in its sole discretion.

In addition to the deposit of the Member’s Defeasance Costs, the Member also shall pay directly to Power Agency, contemporaneously with the deposit of the Member’s Defeasance Costs, immediately available funds in an amount estimated by Power Agency to be sufficient to reimburse Power Agency for internal costs incident to the Member’s Defeasance and all costs estimated by Power Agency to be payable by it to third parties (including, but not limited to, the trustee and paying agents under the Resolution) in connection with the Member’s Defeasance (the “Termination Costs”).

The deposit of the Member’s Defeasance Costs and the payment of Termination Costs, once made by the Member, shall be irrevocable.

The particular Bonds to be paid at maturity or redemption prior to maturity that shall constitute the Member’s Share of the Bonds shall be selected by Power Agency, or the trustee or registrar for the Bonds under the Resolution, from each maturity of Bonds then outstanding under the Resolution. Power Agency shall select such Bonds of each maturity, or cause such Bonds of each maturity to be selected, *pro rata* as nearly as possible, based on the terminating Member’s Share compared to the total of all Members’ Shares at the time of termination, subject to the authorized denominations of the Bonds, but in each or any year may round upwards from *pro rata* in its sole discretion.

Upon the termination of the Debt Service Support Contract, Power Agency shall recalculate the Members’ Shares of the non-terminating Members in accordance with the definition of Member’s Share in the Debt Service Support Contract and shall notify the non-terminating Members of such termination and of the recalculated Members’ Shares following such termination.

Full Requirements Power Sales Agreements

Power Agency has entered into a separate, but substantially identical, Full Requirements Power Sales Agreement with each Member. The following is a summary of certain provisions of a Full Requirements Power Sales Agreement. As used in this summary, the term “Member” refers to the respective City or Town that has entered into a specific Full Requirements Power Sales Agreement.

The following summary is not a full statement of the terms of the Full Requirements Power Sales Agreement and, accordingly, is qualified by reference thereto and is subject to the full text thereof. A copy of the form of Full Requirements Power Sales Agreement may be obtained from Power Agency.

Term of Full Requirements Power Sales Agreement

The term of the Full Requirements Power Sales Agreement extends for a term at least as long as the final maturity of the Bonds, under the terms set forth in the Full Requirements Power Sales Agreement.

Sale and Purchase of Full Requirements Bulk Power Supply

Power Agency will provide or cause to be provided and sell, and the Member will purchase from Power Agency, the Full Requirements Bulk Power Supply requirements of the Member. Power Agency is responsible for planning, negotiating, designing, financing, acquiring or constructing, contracting for, administering, operating, and maintaining all generation and transmission arrangements and facilities and power purchases necessary to effect the delivery and sale of Full Requirements Bulk Power Supply to the Member. Full Requirements Bulk Power Supply will initially be sold and purchased on a take and pay basis to the extent delivered or provided.

Full Requirements Bulk Power Supply will be obtained or furnished and delivered or caused to be delivered by Power Agency in the manner it determines to be most economical, dependable, and otherwise feasible. Initially, Full Requirements Bulk Power Supply shall be obtained and furnished to all Members in accordance with the Full Requirements Power Purchase Agreement and the Transmission Agreements. If Power Agency exercises one or more of its early termination options set forth in the Full Requirements Power Purchase Agreement, Power Agency may provide for Full Requirements Bulk Power Supply by any additional or alternative means it determines to be most economical, dependable, and otherwise feasible, including, but not limited to, one or more of the following methods: (1) purchase by Power Agency of power generated by one or more other power suppliers and transmission thereof over the facilities of one or more other power suppliers, either solely or in combination with transmission facilities owned by Power Agency or as to which Power Agency has the right of use, if any; (2) acquisition or construction by Power Agency of generation or transmission facilities or any project supplying a portion of Full Requirements Bulk Power Supply; (3) acquisition or construction by Power Agency of such additional generation facilities and transmission of the power and energy generated thereby over the facilities of one or more other power suppliers, either solely or in combination with transmission facilities owned by Power

Agency or as to which Power Agency has the right of use, if any; or (4) generation, transmission and delivery by one or more other power suppliers, pursuant to a contract arrangement therefor obtained or approved by, or assigned to, Power Agency for and on behalf of Member or the Members as its agent for that purpose. In the event that any such method or any combination of such methods is such that the Member makes payment for any part of such power supply service directly to one or more other power suppliers, such payments shall nevertheless be accounted for as though the same were paid by Power Agency, and the Member shall be granted a credit with respect to Power Agency's rates and charges to the Member with respect to the same billing period, accordingly.

From and after the effective date of the Full Requirements Power Sales Agreement, neither Power Agency nor the Member shall enter into any new contract or permit any then or thereafter existing contract to be renewed or extended (regardless of the manner in which such renewal or extension may be effectuated, including failure of a party thereto timely to cancel and terminate the same upon any anniversary date when such is possible) or enter into any amendment to or modification to such a contract, with any other bulk power supplier which shall preclude or impair the ability of Power Agency or the Member to exercise and perform its rights and obligations under the Full Requirements Power Sales Agreement.

Rates and Charges

Power Agency will establish appropriate rates and charges for Full Requirements Bulk Power Supply for the Members sufficient at all times to pay all costs and expenses incurred by Power Agency and reserves deemed necessary therefor by Power Agency, including reserves for the payment of such costs and expenses in future periods (including future Contract Years) and taking into account withdrawals of such reserves established in previous periods, all with respect to Full Requirements Bulk Power Supply, and will establish appropriate rates and charges for special obligations. Such rates and charges shall be sufficient at all times to permit the payment of all Monthly Support Costs and of all Full Requirements Power Costs of Power Agency and shall at all times be consistent with the provisions of the Transmission Agreements, the Renewable Energy Development and Service Agreement and the policies and guidelines established from time to time by Power Agency, including, but not limited to, Policy Guidelines for Leased Facilities Charges, Guidelines Concerning Load-side Generation, and policies regarding any compliance responsibilities associated with mandatory electric reliability standards applicable to the Members.

Monthly Bills; Payments by the Member

Power Agency shall prepare and provide to the Member a Monthly Bill separately showing (i) the amount of power and energy of Full Requirements Bulk Power Supply delivered to the Member in the preceding calendar month at the Delivery Point(s) and the total amount payable by the Member therefor at Power Agency's applicable Full Requirements Bulk Power Supply rates and charges; (ii) the amount payable by the Member under the Monthly Bill pursuant to the Debt Service Support Contract for the next preceding month for its Member's Share of Monthly Support Costs; (iii) the amount payable by the Member for special obligations, which shall be for leased facilities charges, delivery facilities costs, any back end costs or liabilities or any charges payable by the Member for services or facilities other than for the

provisions of Full Requirements Bulk Power Supply for the preceding month, and (iv) any costs or charges payable by the Member associated with the Agreement for Transmission Use and Other Electric Service.

The amounts shown in the Monthly Bill to be paid to Power Agency by the Member shall be due and payable ten (10) days after the date of the Monthly Bill. A failure by the Member to pay in full its obligations under the Full Requirements Power Sales Agreement and under its Debt Service Support Contract may result in an event of default under the Full Requirements Power Sales Agreement and under its Debt Service Support Contract. The Member shall be obligated to make such payments unconditionally and without offset, counterclaim or other reduction, whether or not all or any portion of Full Requirements Bulk Power Supply is delivered to the Member pursuant to the Full Requirements Power Sales Agreement or the Full Requirements Power Sales Agreement expires or is terminated in whole or in part. Such payments shall be made and shall not be conditioned upon the performance or non-performance by Power Agency or any other Member under the Full Requirements Power Sales Agreement or any other agreement or instrument. The remedies for any such non-performance by Power Agency shall be limited to those provided by the Full Requirements Power Sales Agreement.

In the event of any dispute as to any portion of any Monthly Bill, the Member shall nevertheless pay the full amount of the disputed charges when due while the dispute is being resolved.

Payment Sources

Power Agency, at such intervals as it shall deem appropriate, but in any event not less frequently than once each Contract Year, shall review its rates and charges and, if necessary, shall revise such rates and charges so that the Member Electric System Revenues collected under the Full Requirements Power Sales Agreement shall be at least sufficient to permit the payment by Power Agency of all of all Monthly Support Costs and of all Full Requirements Power Costs of Power Agency.

The obligations of the Member to make payments for its Full Requirements Bulk Power Supply shall be an operating expense of its Electric System.

The Member shall not be required to make any payments to Power Agency under the Full Requirements Power Sales Agreement except from the Member Electric System Revenues of its Electric System. The Member covenants and agrees that it will fix, charge, and collect rents, rates, fees, and charges for electric power and energy and other services, facilities, and commodities sold, furnished, or supplied through the facilities of its Electric System at least sufficient to provide Member Electric System Revenues adequate to meet its obligations under the Full Requirements Power Sales Agreement and the Debt Service Support Contract, any additional contract relating to supplying Full Requirements Bulk Power Supply by and between Power Agency and the Member, and to pay any and all other amounts payable from or constituting a charge and lien upon such Member Electric System Revenues, including, but not limited to, amounts sufficient to pay the principal of and interest on all general obligation bonds (if also payable from Member Electric System Revenues) and revenue bonds heretofore or hereafter issued by the Member to finance its Electric System.

Notwithstanding the foregoing, nothing in the Full Requirements Power Sales Agreement shall be construed to limit, constrain or affect in anyway the legal rights and authority of the Member to design, set and implement rates, fees and charges for electric power and energy and other services to its retail and wholesale customers through the operation of the Member's duly authorized rate setting process so long as the Member's rates, fees and charges for electric power and energy and other services fully meet and comply with the Member's obligations under the Full Requirements Power Sales Agreement.

The Member shall take no action the effect of which would be to prevent, hinder, or delay Power Agency from the timely fulfillment of its obligations under the Full Requirements Power Sales Agreement, the Full Requirements Power Purchase Agreement, the Transmission Agreements, the Bond Resolution, and the Bonds or other securities or evidences of indebtedness issued to provide the amounts due and payable between Power Agency and the Member relating to delivery facilities, or any other agreement entered into between Power Agency and any Member.

Obligations in the Event of Default.

Upon failure of the Member to make any payment in full when due under the Full Requirements Power Sales Agreement or to perform any obligation herein, Power Agency shall make demand upon the Member for payment or performance, and if said failure is not cured within fifteen (15) days from the date of such demand, it shall constitute a default under the Full Requirements Power Sales Agreement at the expiration of such period, and notice of such default shall forthwith be given to the Member.

If the Member shall fail to pay any amounts due to Power Agency under the Full Requirements Power Sales Agreement, or to perform any other obligation hereunder which failure constitutes a default under the Full Requirements Power Sales Agreement, Power Agency may terminate the Full Requirements Power Sales Agreement.

In the event of any default by Power Agency under any covenant, agreement, or obligation of the Full Requirements Power Sales Agreement, the Member may, upon fifteen (15) days' prior written notice, bring any suit, action, or proceeding in law or in equity, including mandamus and injunction, as may be necessary or appropriate to enforce any covenant, agreement, or obligation of the Full Requirements Power Sales Agreement against Power Agency.

No remedy conferred upon or reserved to the parties under the Full Requirements Power Sales Agreement is intended to be exclusive of any other remedy or remedies available existing at law, in equity, or by statute or otherwise, but each and every such remedy shall be cumulative and shall be in addition to every other such remedy. The pursuit by either party of any specific remedy shall not be deemed to be an election of that remedy to the exclusion of any other or others, whether provided hereunder or by law, equity, or statute. Any delay by either party in the exercise of any remedy with respect to any matter arising in connection with the Full Requirements Power Sales Agreement shall not constitute a waiver by such party of any right to later exercise such remedy with respect to the same or any other matter arising in connection with the Full Requirements Power Sales Agreement.

Disposition of Electric Systems; Mergers

The Member covenants and agrees that it shall not sell, mortgage, lease or otherwise dispose of or encumber its Electric System or any part thereof except as described in this section.

The Member may, in the ordinary course of the business of operating and maintaining its Electric System, scrap, trade-in, sell or otherwise dispose of any property or equipment if the Member determines that (i) such property or equipment is surplus, obsolete or otherwise not required for the operation and maintenance of its Electric System, and (ii) the original cost of all property and equipment disposed of pursuant to this subparagraph (a) in any fiscal year of the Member is less than the greater of \$25,000 or two percent (2%) of the gross plant investment of the Electric System as reported on the books for the Electric System as of the end of the most recent fiscal year of the Member for which such figure is available.

The Member may sell, lease, mortgage or otherwise dispose of or encumber any property and equipment (i) if and to the extent permitted by N.C.G.S. Section 160A-20, as the same may be amended from time to time, or (ii) if the Member determines, with the written concurrence of Power Agency (which concurrence shall not be unreasonably withheld), that, taking into account past and current operating results of its Electric System and any replacements or intended replacements for such property and equipment to be disposed of, the proposed action will not have a material adverse effect on the Member Electric System Revenues or the operation of its Electric System, or materially increase the operating and maintenance expenses of its Electric System.

The Member may sell or otherwise dispose of its Electric System to one or more other Members, or merge or consolidate its Electric System with the Electric System or Systems of one or more other Members, provided that the purchasing or surviving Member(s), as the case may be, shall have assumed all of the transferor Member's duties and obligations hereunder and under the transferor Member's Debt Service Support Contract.

The Member may merge or consolidate with, or be merged or consolidated into, one or more units of local government which shall have assumed all of the Member's duties and obligations hereunder, in which event such Member shall be relieved from all such duties and obligations, but only if (i) the Full Requirements Power Sales Agreement shall have been assigned to such unit(s) of local government, which shall have assumed all of the transferor Member's duties and obligations hereunder, and (ii) the Local Government Commission of North Carolina shall have determined that after such merger or consolidation the survivor unit(s) of local government will have the ability to meet the obligations of such Member hereunder.

The Member may sell or otherwise dispose of its Electric System to any other Person but only if the Member (i) has assigned and transferred the Full Requirements Power Sales Agreement and all interests herein to the transferee Person who has assumed all of the transferor Member's duties and obligations hereunder, and (ii) has terminated its Debt Service Support Contract pursuant to the provisions of the Debt Service Support Contract; provided, however, that prior to any sale or other disposition described in this paragraph, Power Agency shall have determined that such sale or other disposition will not increase the cost of power and energy under the Full Requirements Power Sales Agreement of any other Member; and provided further,

however, that if the transferee Person is DEP, or a subsidiary or Affiliate of DEP, the Full Requirements Power Sales Agreement shall be terminated and not assigned and transferred and DEP shall have agreed to (a) exclude the transferor Member's load from the calculation of Power Agency's Hourly Demand under the Full Requirements Power Purchase Agreement, and (b) delete the transferor Member's Delivery Points from the Transmission Agreements.

In the event of a sale or other disposition described in the second preceding paragraph, or a merger or consolidation described in the two preceding paragraphs, the Member shall provide to Power Agency a counsel's opinion that (i) in the event of such sale or other disposition, the transferee has assumed and become liable for the duties and obligations of the transferor Member under the Full Requirements Power Sales Agreement and the transferor Member's Debt Service Support Contract, or (ii) in the event of such a merger or consolidation, that following such merger or consolidation the Electric System or unit of local government, as the case may be, surviving such merger or consolidation shall remain or shall have become subject to the Full Requirements Power Sales Agreement and the transferor Member's Debt Service Support Contract and liable for the duties and obligations of the Member thereunder to the same extent that such Electric System or Member had been so subject prior to such merger or consolidation. In the event of a sale or other disposition described in the preceding paragraph (other than a sale or disposition to DEP or a subsidiary or Affiliate of DEP), the Member shall provide to Power Agency a counsel's opinion, satisfactory in form and substance to counsel to Power Agency, that the transferee has assumed and become liable for the duties and obligations of the transferor Member under the Full Requirements Power Sales Agreement.

Notwithstanding the invalidity or unenforceability of any or all other provisions of the Full Requirements Power Sales Agreement, the provisions of the Full Requirements Power Sales Agreement in respect of the Member's obligation to pay its Member's Share of Monthly Support Costs shall remain in full force and effect.

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(Proposed Form of Opinion of Hawkins Delafield & Wood LLP
Relating to the 2015 Bonds)

[Closing Date]

North Carolina Eastern Municipal
Power Agency
1427 Meadow Wood Boulevard
Raleigh, North Carolina 27604

Ladies and Gentlemen:

**NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY
REVENUE BONDS, SERIES 2015 (FEDERALLY TAXABLE)**

We have acted as Bond Counsel to North Carolina Eastern Municipal Power Agency (“Power Agency”) in connection with the issuance by Power Agency of its \$421,430,000 aggregate principal amount of Revenue Bonds, Series 2015 (Federally Taxable) (the “Series 2015 Bonds”). As such Bond Counsel, at your request we have examined into the validity of the Series 2015 Bonds. The Series 2015 Bonds are dated the date hereof, and mature, bear interest and are subject to redemption prior to maturity, all as provided in the Resolution hereinafter mentioned.

The Series 2015 Bonds recite that they are issued under the authority of and in full compliance with the Constitution and statutes of the State of North Carolina, including particularly Chapter 159B, General Statutes of North Carolina, as amended, and under and pursuant to Resolution No. BDR-5-15 duly adopted by the Board of Directors of Power Agency on May 22, 2015, and a supplemental resolution duly adopted by said Board of Directors on May 22, 2015, including as a part thereof the Series Certificate dated the date hereof (collectively, the “Resolution”), and that the Series 2015 Bonds are part of an issue of bonds issued, or to be issued, for the purpose of paying the Balance of Defeasance Costs and refunding outstanding Bonds (as such terms are defined in the Resolution).

We have examined the Constitution and statutes of the State of North Carolina, certified copies of the proceedings of the Board of Directors of Power Agency authorizing the issuance of the Series 2015 Bonds, including the Resolution, such other records and documents as we have considered necessary or appropriate for the purposes of this opinion and specimens of the Series 2015 Bonds.

We are of the opinion that:

(1) The Resolution has been duly adopted and the provisions thereof are valid and binding upon Power Agency.

(2) The Series 2015 Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of North Carolina and constitute valid and legally binding obligations of Power Agency, payable solely from and secured by a lien upon and pledge of the Revenues (as defined in the Resolution) and other moneys and securities pledged under the Resolution, on a parity with any bonds which hereafter may be issued under the Resolution (subject to the establishment of separate debt service reserve provisions and accounts for various series as authorized by the Resolution), all as set forth and provided in the Resolution.

(3) Under existing laws of the State of North Carolina, the interest on the Series 2015 Bonds is not subject to taxation as income, and the Series 2015 Bonds are free from taxation by the State of North Carolina or any political subdivision or any of their agencies, excepting inheritance or gift taxes, income taxes on the gain from the transfer of the Series 2015 Bonds, and franchise taxes.

The opinions expressed in paragraphs 1 and 2 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium, and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the Series 2015 Bonds, or the ownership or disposition thereof, except as stated in paragraph 3 above, or (ii) the accuracy, adequacy, sufficiency or completeness of the Official Statement dated July 16, 2015 (or any update or amendment thereof or supplement thereto) relating to the Series 2015 Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Series 2015 Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

[Closing Date]

North Carolina Eastern Municipal
Power Agency
1427 Meadow Wood Boulevard
Raleigh, North Carolina 27604

Ladies and Gentlemen:

**NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY
REVENUE BONDS, SERIES 2015 (FEDERALLY TAXABLE)**

On the date hereof we, as Bond Counsel to North Carolina Eastern Municipal Power Agency (“Power Agency”), rendered an opinion approving the validity of the bonds referred to above (the “Bonds”) issued by Power Agency under and pursuant to the resolutions referred to in said opinion. For all purposes of this opinion, the terms used herein which are defined in said resolutions shall have the meanings specified in said resolutions.

We have examined into the validity of the Debt Service Support Contracts and the Full Requirements Power Sales Agreements, each dated as of April 24, 2015, entered into by and between Power Agency and each of the following cities and towns in the State of North Carolina that are members of Power Agency: the Cities of Elizabeth City, Greenville (including the Greenville Utilities Commission), Kinston, Laurinburg, Lumberton, New Bern, Rocky Mount, Southport, Washington and Wilson and the Towns of Apex, Ayden, Belhaven, Benson, Clayton, Edenton, Farmville, Fremont, Hamilton, Hertford, Hobgood, Hookerton, La Grange, Louisburg, Pikeville, Red Springs, Robersonville, Scotland Neck, Selma, Smithfield, Tarboro and Wake Forest. Such contracts and agreements are referred to herein collectively as the “Contracts and Agreements” and such cities and towns are referred to herein collectively as the “Members”.

With respect to the authorization, execution and delivery of the Contracts and Agreements by Power Agency and the Members, we have examined certified copies of proceedings of Power Agency and the Members authorizing the execution and delivery of the Contracts and Agreements to which such Members are parties, an executed copy of each such Contract and Agreement, such other documents, proceedings and matters relating to the authorization, execution and delivery of the Contracts and Agreements by Power Agency and the Members that are parties thereto as we deemed relevant for the purposes of this opinion letter and applicable law.

In our opinion, the Contracts and Agreements have been duly authorized, executed and delivered by Power Agency and the Members that are parties thereto and constitute valid and legally binding agreements of the parties thereto enforceable in accordance with their terms.

In rendering the opinions expressed above, we have relied upon (i) an opinion of counsel to Power Agency to the effect that the authorization, execution and delivery by Power Agency of the Contracts and Agreements do not conflict with or constitute a breach of or default under any indenture, loan, mortgage, contract or other agreement to which Power Agency is a

party or may be bound, and (ii) an opinion of counsel to each of the Members to the effect that the Member is a municipal corporation duly created and validly existing, the Contracts and Agreements to which such Member is a party have been duly authorized, executed and delivered by such Member, the authorization, execution and delivery by such Member of the Contracts and Agreements to which such Member is a party and compliance with all terms and provisions to be carried out and performed by the Member thereunder do not conflict with and are not in violation of any ordinance, resolution, rule, by-laws or motion thereof, and will not be a breach of or constitute a default under any indenture, loan agreement, mortgage, resolution, ordinance, contract or other instrument, agreement or document to which such Member is a party or may be bound.

The opinions expressed above are subject to applicable bankruptcy, insolvency, reorganization, moratorium, and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

APPENDIX F

IN CONNECTION WITH THE ISSUANCE OF THE 2015 BONDS, POWER AGENCY WILL EXECUTE AND DELIVER A CONTINUING DISCLOSURE UNDERTAKING IN SUBSTANTIALLY THE FORM SET FORTH IN THIS APPENDIX F

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated and made as of July 31, 2015, by North Carolina Eastern Municipal Power Agency (“Power Agency”) in connection with the issuance of Power Agency’s \$421,430,000 principal amount of Revenue Bonds, Series 2015 (the “2015 Bonds”). As authorized by Section 12 of Resolution No. BDR-6-15 adopted by the Board of Directors of Power Agency on May 22, 2015, Power Agency agrees as follows:

ARTICLE I.

Definitions

Section 1.1 Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) “Annual Financial Information” means Annual Major Member Financial Information and Annual Power Agency Financial Information, collectively.

(2) “Annual Major Member Financial Information” means, collectively, (i) updated versions of the following financial information and operating data contained in Appendix A to the Official Statement with respect to each Major Member, for each fiscal year of the Major Member:

- System Requirements (Peak Demand and Energy)
- Average Number of Customers by customer classification
- Megawatt-Hour Sales by customer classification
- Revenue from Power Sales by customer classification
- Summary of Operating Results
- Condensed Balance Sheets

and (ii) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(d) and (e) of this Undertaking. Annual Major Member Financial Information shall include Audited Major Member Financial Statements, if available, or Unaudited Major Member Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Major Member Financial Information are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Major Member Financial Information containing modified operating

data or financial information shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of operating data or financial information being provided.

(3) “Annual Power Agency Financial Information” means (i) updated versions of the following financial information and operating data contained in the Official Statement with respect to Power Agency, for each fiscal year of Power Agency:

- Debt Service Requirements
- Tabular data in the Table “Historical Demand and Energy Requirements Net of SEPA Allocations”

and (ii) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(d) and (e) of this Undertaking. Annual Power Agency Financial Information shall include Audited Power Agency Financial Statements, if available, or Unaudited Power Agency Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Power Agency Financial Information are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Power Agency Financial Information containing modified operating data or financial information shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of operating data or financial information being provided.

(4) “Audited Financial Statements” means Audited Major Member Financial Statements and Audited Power Agency Financial Statements, collectively.

(5) “Audited Major Member Financial Statements” means the annual financial statements of each Major Member, audited by such auditors as shall then be required or permitted by State law. Audited Major Member Financial Statements shall be prepared in accordance with Section 159-34 of the General Statutes of North Carolina as amended from time to time, or any successor statute; provided, however, that any Major Member may from time to time, if required by federal or any other State legal requirements, or otherwise, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 4.2(e) hereof shall include a reference to ‘the specific federal or State law or regulation describing such accounting principles, or other description thereof. Said Section 159-34 currently requires that, at a minimum, financial statements shall be prepared in accordance with GAAP.

(6) “Audited Power Agency Financial Statements” means the annual financial statements of Power Agency, audited by such auditors as shall then be required or permitted by State law or the Resolution. Audited Power Agency Financial Statements shall be prepared in accordance with GAAP; provided, however, that Power Agency may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed

in preparing its financial statements. The notice of any such modification required by Section 4.2(d) hereof shall include a reference to the specific federal or State law or regulation describing such accounting principles, or other description thereof.

(7) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Power Agency.

(8) “Debt Service Support Contracts” has the meaning specified in the Official Statement.

(9) “EMMA” means the MSRB’s Electronic Municipal Market Access system or its successor.

(10) “GAAP” means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(11) “Major Members” means, individually or collectively as the context requires, each Member which shall have a Member’s Share, and each Member or other unit of local government which pursuant to Section 6(d)(3), (4) or (5) or Section 13 of the Debt Service Support Contracts or otherwise shall have and/or shall have assumed (by agreement or by operation of law) the obligations of one or more Members under the Debt Service Support Contracts to the extent of an aggregate Member’s Share, in excess of 6.6%. The Major Members currently are the Cities of Greenville, Kinston, New Bern, Rocky Mount and Wilson, North Carolina.

(12) “Member” has the meaning specified in the Official Statement.

(13) “Member’s Share” has the meaning specified in the Official Statement.

(14) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any successor thereto or to the functions of the MSRB contemplated by this Undertaking.

(15) “Notice Event” means any of the following events with respect to the 2015 Bonds, whether relating to Power Agency or any Major Member or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;

- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, or material notices of determinations with respect to the tax status of the 2015 Bonds or other material events affecting the status of the 2015 Bonds;
- (vii) modifications to rights of 2015 Bondholders, if material;
- (viii) bond calls (other than bond calls relating to mandatory sinking fund redemptions), if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the 2015 Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Power Agency;

(Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Power Agency in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Power Agency, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Power Agency.)

- (xiii) the consummation of a merger, consolidation, or acquisition involving Power Agency or the sale of all or substantially all of the assets of Power Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (16) “Notice Event Notice” means written or electronic notice of a Notice

Event.

(17) “Official Statement” means the Official Statement dated July 16, 2015, of Power Agency relating to the 2015 Bonds.

(18) “Power Agency” has the meaning specified in the introductory paragraph of this Undertaking.

(19) “Resolution” means Resolution No. BDR-6-15 adopted by the Board of Directors of Power Agency on May 22, 2015, as supplemented and amended.

(20) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as in effect on the effective date hereof, including any official interpretations thereof.

(21) “SEC” means the United States Securities and Exchange Commission.

(22) “State” means the State of North Carolina.

(23) “2015 Bonds” has the meaning specified in the introductory paragraph of this Undertaking.

(24) “Unaudited Major Member Financial Statements” and “Unaudited Power Agency Financial Statements” mean the same as Audited Major Member Financial Statements and Audited Power Agency Financial Statements, respectively, except that they shall not have been audited.

ARTICLE II

The Undertaking

Section 2.1 Purpose. This Undertaking is being executed, delivered and made solely to assist the underwriters of the 2015 Bonds in complying with subsection (b)(5) of the Rule.

Section 2.2 Annual Financial Information. (a) Power Agency shall provide Annual Power Agency Financial Information with respect to each fiscal year of Power Agency, commencing with the fiscal year ended December 31, 2015, by no later than 7 months after the end of the respective fiscal year, to the MSRB.

(b) Power Agency shall provide Annual Major Member Financial Information with respect to each fiscal year of the Major Members, commencing with the fiscal year ended June 30, 2015, by no later than 7 months after the end of the respective fiscal year, to the MSRB; provided, however, that the same can practicably be obtained by Power Agency.

(c) Power Agency shall provide, in a timely manner, notice of any failure of Power Agency to provide the Annual Financial Information by the dates specified in subsections (a) and (b) above to the MSRB; provided, however, in the case of said subsection (b), that the Annual Major Member Financial Information could practicably be obtained by Power Agency by said date.

Section 2.3 Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Sections 2.2(a) and (b) hereof because not available, Power Agency shall provide Audited Financial Statements, when and if available, to the MSRB; provided, however, in the case of Audited Major Member Financial Statements, that the same can practicably be obtained by Power Agency.

Section 2.4 Notice Events. (a) If a Notice Event occurs, Power Agency shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, a Notice Event Notice to the MSRB.

(b) Upon any legal defeasance of 2015 Bonds, Power Agency shall provide notice of such defeasance to the MSRB, which notice shall state whether the 2015 Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 2.5 Additional Disclosure Obligations. Power Agency acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to Power Agency, and that under some circumstances compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of Power Agency under such laws.

Section 2.6 Additional Information. Nothing in this Undertaking shall be deemed to prevent Power Agency from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Notice Event Notice, in addition to that which is required by this Undertaking. If Power Agency chooses to include any information in any Annual Financial Information or Notice Event Notice in addition to that which is specifically required by this Undertaking, Power Agency shall have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or Notice Event Notice.

ARTICLE III

Operating Rules

Section 3.1 Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if Power Agency provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Material Events pursuant to Section 1.4 hereof.

Section 3.2 Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 3.3 Dissemination Agents. Power Agency may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of Power Agency under this Undertaking, and revoke or modify any such designation.

Section 3.4 Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to EMMA, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

Section 3.5 Fiscal Years. Power Agency shall provide Annual Power Agency Financial Information, and shall provide Annual Major Member Financial Information, at least annually notwithstanding any fiscal year longer than 12 calendar months; provided, however, in the case of Annual Major Member Financial Information, that the same can practicably be obtained by Power Agency. Power Agency's current fiscal year is January 1 - December 31, and the Major Members' current fiscal year is July 1 - June 30. Power Agency shall promptly notify the MSRB of each change in its or, to the knowledge of Power Agency, the Major Members' respective fiscal years.

Article IV

Effective Date, Termination, Amendment and Enforcement

Section 4.1 Effective Date; Termination. (a) This Undertaking and the provisions hereof shall be effective upon the issuance of the 2015 Bonds.

(b) Power Agency's obligations under this Undertaking shall terminate with respect to each 2015 Bond upon a legal defeasance pursuant to Section 12.1 of the Resolution, prior redemption or payment in full of such 2015 Bond.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that Power Agency (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Undertaking, or such provision, as the case may be, do not or no longer apply to the 2015 Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 4.2 Amendment. (a) This Undertaking may be amended without the consent of the holders of the 2015 Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of Power Agency or the Major Members or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Power Agency shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) either (i) Power Agency shall have received either an opinion of Counsel or a determination by a person, in each case

unaffiliated with Power Agency or any Major Member (such as the Bond Fund Trustee under the Resolution), to the effect that the amendment does not materially impair the interests of the holders of the Outstanding 2015 Bonds or (ii) the holders of the Outstanding 2015 Bonds consent to the amendment of this Undertaking pursuant to the same procedures as are required for amendments to the Resolution with consent of holders of Outstanding 2015 Bonds pursuant to Section 9.2 of the Resolution as in effect at the time of the amendment, and (5) Power Agency shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) In addition to subsection (a) above, this Undertaking may be amended without the consent of the holders of the 2015 Bonds if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Undertaking, (2) Power Agency shall have received an opinion of Counsel to the effect that performance by Power Agency under this Undertaking as so amended will not result in a violation of the Rule as so amended or officially interpreted and (3) Power Agency shall have delivered copies of such opinion and amendment to the MSRB.

(c) In addition to subsections (a) and (b) above, this Undertaking may be amended without the consent of the holders of the 2015 Bonds if all of the following conditions are satisfied: (1) Power Agency shall have received an opinion of Counsel to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) Power Agency shall have delivered copies of such opinion and amendment to the MSRB.

(d) To the extent any amendment to this Undertaking results in a change in the categories or types of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(e) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of any such amendment shall be provided by Power Agency to the MSRB.

Section 4.3 Contract; Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the 2015 Bonds, except that beneficial owners of 2015 Bonds shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in subsection (a) of this Section and this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Power Agency to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial

information, operating data and notices, by any holder of Outstanding 2015 Bonds or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of not less than a majority in aggregate principal amount of the 2015 Bonds at the time Outstanding. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of Power Agency's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of 2015 Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of 2015 Bonds for purposes of this subsection (b).

(c) Any failure by Power Agency to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Resolution and shall not result in any acceleration of payment of the 2015 Bonds, and the rights and remedies provided by the Resolution upon the occurrence of such a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 4.4 Information From Major Members. Power Agency agrees to request and use its best efforts to obtain, pursuant to Section 9(c) of the Full Requirements Power Sales Agreements or otherwise, Annual Financial Information, Audited Major Member Financial Statements, and information relating to any change in fiscal year and the basis on which audited financial statements are prepared, from time to time and in sufficient time to permit Power Agency to comply with the provisions of this Undertaking, and shall enforce the provisions of said Section 9(c) if necessary to obtain the information and data specified in this Undertaking; provided, however, that the failure of any Major Member to furnish any such requested information or data shall not excuse the performance by Power Agency of any of its obligations under this Undertaking.

NORTH CAROLINA EASTERN MUNICIPAL
POWER AGENCY

By: _____
F. Timothy Tunis
Assistant Secretary, Board of Directors,
and Chief Financial Officer

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DTC AND BOOK-ENTRY

Beneficial ownership interests in the 2015 Bonds will be available only in book-entry form. Beneficial Owners will not receive physical bond certificates representing their interests in the 2015 Bonds purchased. So long as DTC or its nominee is the registered owner of the 2015 Bonds, references in this Official Statement to the Owners of the 2015 Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners. The Resolution contains provisions applicable to periods when DTC or its nominee is not the registered owner.

THE FOLLOWING DESCRIPTION OF DTC, OF PROCEDURES AND RECORD KEEPING ON BENEFICIAL OWNERSHIP INTERESTS IN THE 2015 BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS WITH RESPECT TO THE 2015 BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2015 BONDS AND OF OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

DTC will act as securities depository for the 2015 Bonds. The 2015 Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond in the aggregate principal amount of each maturity of the 2015 Bonds will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Members will remain responsible for keeping account of their holdings on behalf of their Customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2015 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2015 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the Bond Fund Trustee as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting and voting rights to those Direct Participants to whose accounts the 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

BECAUSE DTC IS TREATED AS THE OWNER OF THE 2015 BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE RESOLUTION, BENEFICIAL OWNERS

MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OF REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITY OF BENEFICIAL OWNERS IS UNKNOWN TO POWER AGENCY, TO DTC OR TO THE BOND FUND TRUSTEE, IT MAY BE DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE 2015 BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.

Payments of principal, interest and any redemption premiums with respect to the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Fund Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Fund Trustee or Power Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the Bond Fund Trustee's responsibility, disbursement of such payments to Direct Participants is DTC's responsibility, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. POWER AGENCY CAN GIVE NO ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its service as securities depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Bond Fund Trustee or Power Agency. Power Agency also may determine that Beneficial Owners shall be able to obtain certificated 2015 Bonds. In either situation, if Power Agency fails to identify another qualified securities depository to replace DTC, physical 2015 Bonds will be delivered to the Beneficial Owners or their nominees, subject to DTC procedures.

POWER AGENCY AND THE BOND FUND TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATION TO THE MEMBERS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE 2015 BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE RESOLUTION TO BE GIVEN TO OWNERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS UPON ANY PARTIAL REDEMPTION OF THE 2015 BONDS; OR (5) ANY

CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2015 BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources Power Agency believes to be reliable, but Power Agency takes no responsibility for the accuracy thereof.

