Southeastern Power Administration

2014 Annual Report

CONTENTS

ON THE FRONT COVER:
Wolf Creek Dam was returned to normal operations on March 25, 2014. The water level in the picture is approximately 724 feet above mean sea level, which is slightly higher than normal summer pool elevation.

ON THE BACK COVER:
Dam safety seepage repairs in progress at Wolf Creek Dam showing the construction of a nearly 1,000,000-square-foot concrete wall within the dam.

FAST FACTS

Administrator:	Kenneth E. Legg
Headquarters:	1166 Athens Tech Road Elberton, GA 30635-6711 Telephone: 706-213-3800 Fax: 706-213-3884
Website:	http://energy.gov/sepa/southeastern-power-administration
Number of Employees:	44
Marketing Area:	Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia
Customers:	Electric Cooperatives ..... 197 Public Bodies ..... 288 Investor-Owned Utilities ..... 1 Total 486
Nameplate Generating Capacity:	.....3,392 MW
Financial Data:	Power Revenues and Other Operating Revenues .....$299 million Total Capital Investment .....$2.6 billion Investment Remaining ..... $1.7 billion Cumulative Investment Repaid .....$938 million Cumulative Interest Paid on Investment. .....$2.0 billion

LETTER TO THE SECRETARY

Secretary Moniz:

I am pleased to submit Southeastern Power Administration's (Southeastern) Fiscal Year (FY) 2014 Annual Report for your review. This report reflects our agency's programs, accomplishments, operational, and financial activities for the 12-month period beginning October 1, 2013, and ending September 30, 2014.

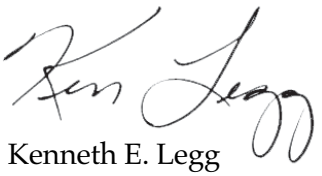
This past year, Southeastern marketed approximately 6.9 billion kilowatt-hours of energy to 486 wholesale customers in 10 southeastern states. Revenues from the sale of this power totaled about $291 million.

With the financial assistance and support of Southeastern's customers, funding for capitalized equipment purchases and replacements at hydroelectric facilities operated by the U.S. Army Corps of Engineers (Corps) continued in FY 2014. Currently, there are 214 customers participating in funding infrastructure renewal efforts of power plants comprising the Georgia-Alabama-South Carolina, Kerr-Philpott, and Cumberland Systems. This funding, which totaled more than $45.6 million, provided much needed repairs and maintenance for aging projects in Southeastern's marketing area. Hydropower asset reliability will continue to be a concern until generator refurbishments are completed and current prolonged equipment outages are addressed.

On March 25, 2014, Great Lakes/Ohio River Division Engineer Brigadier General Margaret W. Burcham signed a letter returning the Wolf Creek Project to normal operations and authorizing the transfer of costs associated with the dam safety rehabilitation from Construction Work In Progress to Plant in Service. The main phase of construction began in March 2006 and was completed in March 2013 when the last concrete was placed for the 4,000-foot-long barrier wall through the dam's earthen embankment. Lake Cumberland pool elevation returned to normal operating levels in the spring of 2014.

Southeastern continues to provide clean and renewable hydroelectric power to cities and rural cooperatives at the lowest possible rate consistent with sound business principles. Through partnerships with these customers and the Corps, Southeastern will help protect and sustain the Federal hydroelectric facilities of the region for future generations. Southeastern is well positioned to help meet the challenges of the region's dynamic energy future. We remain committed to providing reliable hydroelectric power to preference customers, which ultimately serve more than 12 million consumers in the southeast.

Sincerely,



Kenneth E. Legg
Administrator

MISSION, VISION & ORGANIZATION

Mission Statement

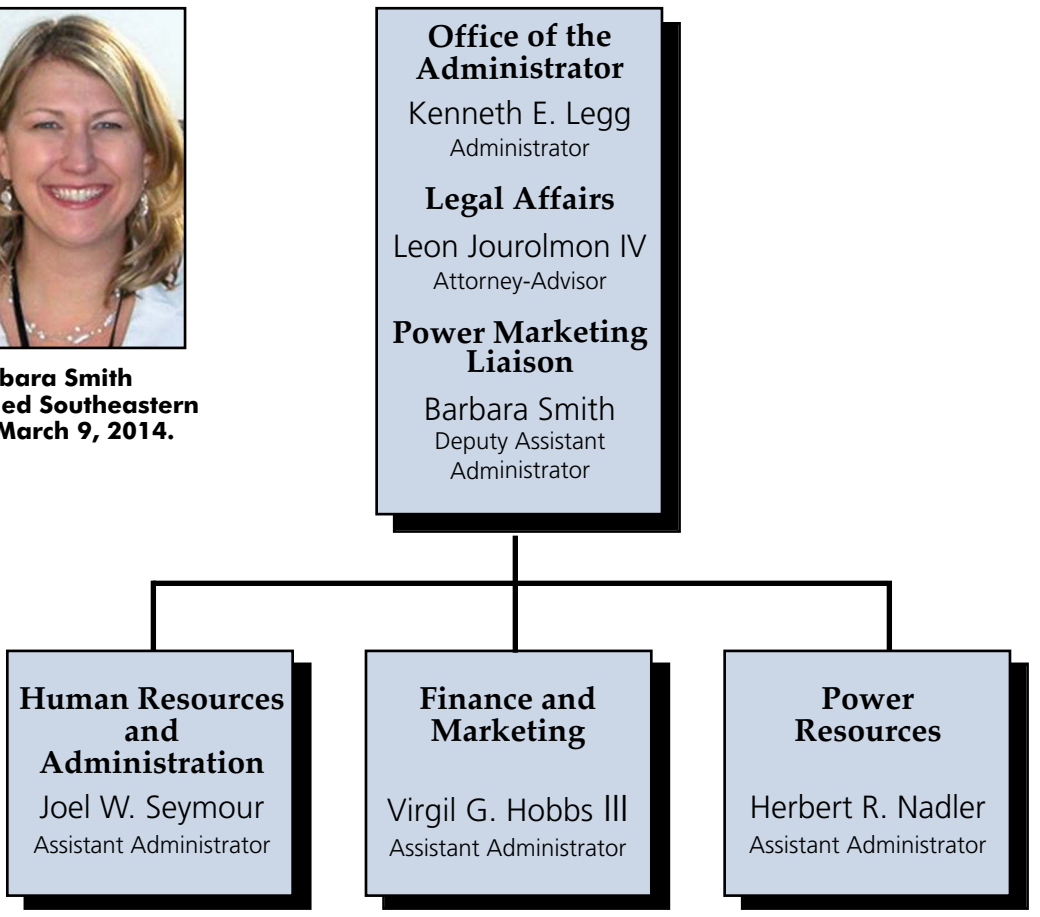
The mission of Southeastern is to market and deliver federal hydroelectric power, at the lowest possible cost, to public bodies and cooperatives in the Southeastern United States.

Vision Statement

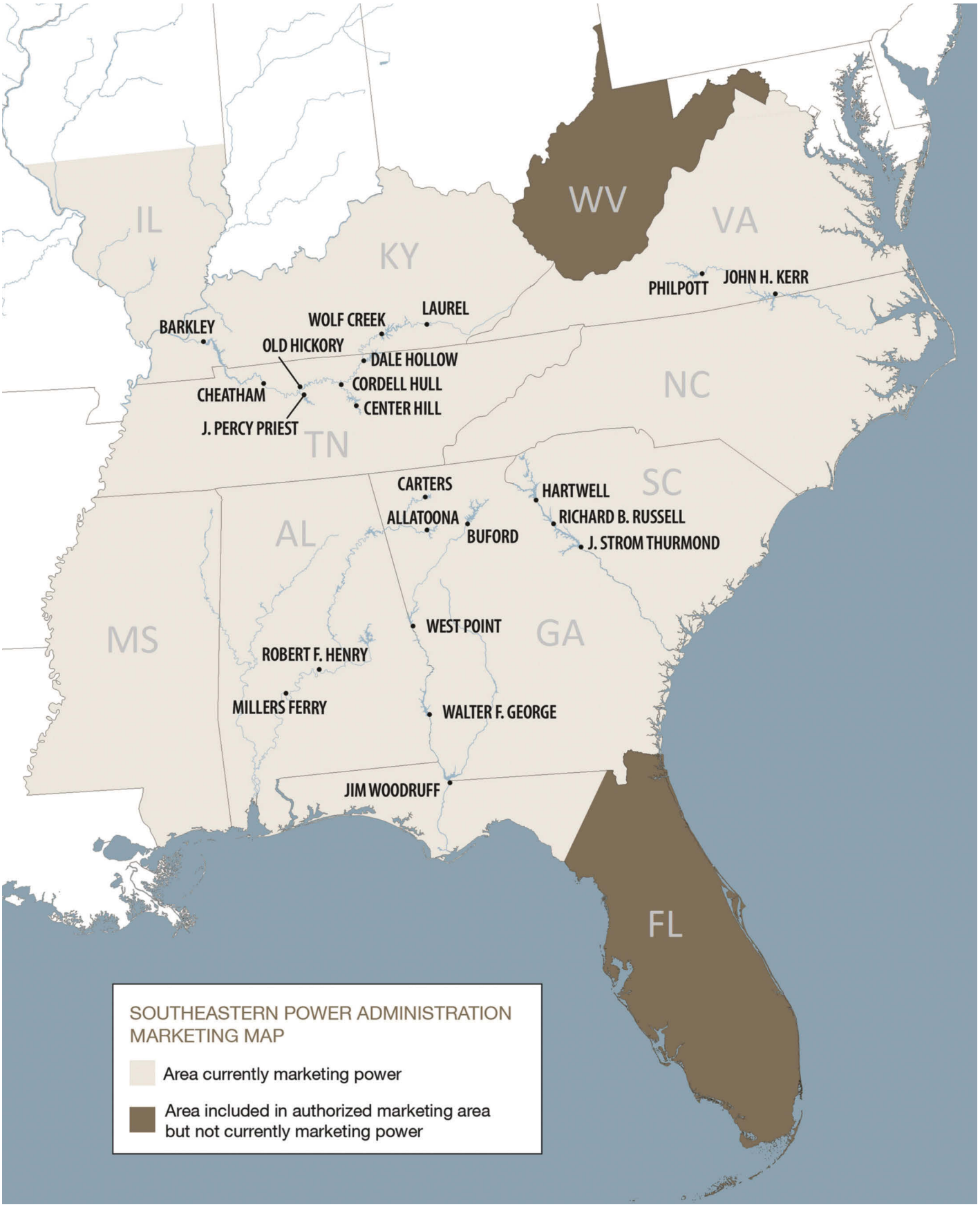
Southeastern will excel in an evolving energy market by maintaining a well-trained, flexible workforce in an open, rewarding and safe environment.

Organizational Chart

Barbara Smith joined Southeastern on March 9, 2014.



MARKETING MAP



MARKETING OBJECTIVES

Southeastern was created in 1950 by the Secretary of the Interior to carry out the functions assigned to the Secretary by the Flood Control Act of 1944. In 1977, Southeastern was transferred to the newly created Department of Energy (DOE). Headquartered in Elberton, Georgia, Southeastern has the authority to market hydroelectric power and energy in the states of Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia, from reservoir projects operated by the Corps.

The objectives of Southeastern are to market the electric power and energy generated by the Federal reservoir projects and to encourage widespread use of the power at the lowest possible cost to consumers. Power rates are formulated based on sound financial principles. Preference in the sale of power is given to public bodies and cooperatives, referred to as preference customers. Southeastern does not own transmission lines and must contract with other utilities to provide transmission service for the delivery of Federal power.

Southeastern's responsibilities include negotiating, preparing, executing, and administering contracts for the sale of electric power. Southeastern prepares wholesale rates and repayment studies for the southeast's interconnected reservoir projects, supporting deliveries made to serve contractual loads. Southeastern is responsible for scheduling hydropower generation at the Corps' facilities within its marketing area to ensure and maintain continuity of electric service to its customers.

Section 5 of the Flood Control Act of 1944

"Electric power and energy generated at reservoir projects under the control of the Department of the Army not required in the operation of such projects shall be delivered to the Secretary of Energy, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles, the rate schedules to become effective upon confirmation and approval by the Secretary of Energy. Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years. Preference in the sale of such power and energy shall be given to public bodies and cooperatives. The Secretary of Energy is authorized, from funds to be appropriated by Congress, to construct or acquire, by purchase or other agreement, only such transmission lines and related facilities as may be necessary in order to make the power and energy generated at said projects available in wholesale quantities for sale on fair and reasonable terms and conditions to facilities owned by the Federal Government, public bodies, cooperatives, and privately owned companies. All monies received from such sales shall be deposited in the Treasury of the United States as miscellaneous receipts."

RATES & REPAYMENT

One of the major responsibilities of Southeastern is to design, formulate, and justify rates. Repayment studies prepared by the agency determine revenue requirements and appropriate rate levels.

Repayment studies for each of Southeastern's four power marketing systems are updated annually and demonstrate the adequacy of the rates for each system. Rates are considered to be adequate when revenues are sufficient to repay all costs associated with power production and transmission costs. Power production and transmission costs include the amortization of Federal investment allocated to power. An outline of the status of repayment is included in the table below.

Existing rate schedules for the Kerr-Philpott System have been approved by the Federal Energy Regulatory Commission (FERC) through September 30, 2015. In FY 2015, Southeastern plans to propose a rate adjustment for the Kerr-Philpott System with rate schedules that would, if approved, go into effect on October 1, 2015.

Existing rate schedules for the Cumberland System have been approved through September 30, 2015. The existing rate schedules do not include the recovery of costs associated with the dam safety repairs to Wolf Creek and Center Hill. Southeastern plans to propose a rate adjustment to address these costs in FY 2015. The rate schedules, if approved, are expected to go in effect October 1, 2015.

Status of Repayment as of September 30, 2014 (in millions) - Table 1

System	Initial Year of Repayment Studies	Cumulative Revenue $	Cumulative Expenses and Interest $	Total Investment to be Repaid $	Investment Repaid to Date $	Unpaid Balance of Investment $
GA-AL-SC	1950	4,433	3,954	1,827	479	1,348
Jim Woodruff	1957	247	214	77	33	44
Cumberland	1949	1,560	1,229	514	331	183
Kerr-Philpott	1953	576	480	223	95	128
TOTAL		**6,816**	**5,877**	**2,641**	**938**	**1,703**

Customer Funding

In FY 2014, Southeastern continued its efforts to coordinate customer funding for the aging hydroelectric projects. Section 212 of the Water Resources and Development Act of 2000 allowed the Corps to use funds provided by Southeastern's customers to carry out the operation, maintenance, rehabilitation, and modernization of hydroelectric generating facilities. From this public law, support from the preference customers, and coordination by the Corps and Southeastern, customer funding continues in the Georgia-Alabama-South Carolina, Cumberland, and Kerr-Philpott Systems.

Georgia-Alabama-South Carolina System Funding:
On November 21, 2013, the Project Review Committee (PRC) approved the initial design phase for remote operations of the Savannah River Projects, Sub-Agreement #17. This was funded by an amendment to Sub-Agreement #15 to transfer $200,000 to Sub-Agreement #17.The PRC also agreed to an increase of $4 million to the generator rewind of units 3 and 4 at Carters Project. The total funding is now $39 million. After funds were made available from the close-out of other work items, the total additional funds collected was $2.9 million.

On February 27, 2014, the PRC agreed to increase funding of Sub-Agreement #10, Repair Unit 3 Stator at Hartwell Powerhouse, by $620,000 to include additional work supporting the second repair of the generator stator and complete vibration analysis. Total funding collected for Work Item No. 10, including these additional funds, is $2.2 million.

In August 2014, the PRC approved Work Item No. 18, which will provide funds for the final design work, installation and commissioning of all equipment necessary for remote operations of the three projects within the Savannah District, including equipment for the Generic Data Acquisition and Control System (GDACS) and Supervisory Control and Data Acquisition (SCADA) system for the Hartwell, Russell and Thurmond hydropower projects. The total amount of funds collected for Work Item No. 18 is $15 million.

One of the two power transformers replaced at the Allatoona Project utilizing customer funding. The $17.8 million effort includes a complete reconfiguration of the switchyard, replacement of the 115kV circuit breakers, associated bus work, superstructure and added new 13.8kV generator breakers.

Cumberland System Funding:
Long Term Memorandum of Agreement Sub-Agreement 5 was approved on March 26, 2014, to fund Emergent Work, System-Wide Headworks/Intake Controls and Wiring Replacement, Old Hickory Water Cooling Piping, Barkley Medium Voltage Cables and Busses, and Program Management Year 2 with a total cost of $25 million.

On April 17, 2014, the Nashville District revised the Master Plan to reflect current operating procedures and system conditions. The revision resulted in minor adjustments to the hydropower rehabilitation program priorities, mostly related to funding stream.

On June 25, 2014, the Corps' Nashville District awarded a $47.3 million contract to Voith Hydro, Inc., to rehabilitate three hydropower units at the Center Hill Dam Powerhouse.

On September 17, 2014, the PRC approved Legacy Ballot 15 to reallocate $1.2 milllion from these completed work items: Old Hickory Powerhouse Crane Rehabilitation and Repair, System-Wide Circuit Breakers Planning Engineering and Design, System-Wide Circuit Breakers Procurement & Installation, System-Wide Main Power Transformers Planning Engineering and Design, System-Wide Switchyards Condition Assessment, and System Wide Program Start-up Support.

Kerr-Philpott System Funding:
The PRC approved an amendment to Sub-Agreement No. 2 on September 13, 2013, associated with the 13.8 kV Switchgear Supply/Relocation at Philpott Powerhouse. This amendment increased the amount for the work item by $211,308. No additional funding was needed, excess funds were transferred from the closed out Kerr Replacement of High Tension Oil Filled Cable work item.

A technical team convened October 8, 2014 at the Voith Hydro laboratory in York Pennsylvania to witness model hydropower turbine performance testing and ensure required specifications are met before the manufacturing process and work to modernize the power house begins at the Center Hill Project.

Cumberland System Dam Safety

The Corps has provided Southeastern with financial statements and supplemental reports for the Wolf Creek Project for FY 2014 which include $657 million for dam safety repairs. Similar repairs, which are estimated to cost $457 million, continue at the Center Hill Project. The Assistant Secretary of the Army for Civil Works (Army) has determined the costs of rehabilitating the Wolf Creek and Center Hill Projects do not qualify under the Dam Safety Act, therefore, all repair costs would be considered joint costs recoverable by authorized project purposes. Southeastern disagrees with the Army. Under the Dam Safety Act, $167 million (15%) of the total costs would be considered joint costs. Southeastern, the DOE and the Army continue to discuss the applicability of the Dam Safety Act and the appropriate level of final cost allocation to be borne by hydropower stakeholders, Southeastern has not included disputed costs in these audited financial statements.

Energy Efficiency and Renewable Energy

Southeastern's Energy Efficiency and Renewable Energy Program (EERE) continued to support the National Energy Policy Act by promoting energy efficiency and renewable energy education and training among preference customers in the Southeast. In FY 2014, Southeastern Power Administration and its partners conducted 12 training events which directly impacted 642 trainees, and our outreach efforts promoted energy efficiency and renewable energy to an estimated 867 customer employees.

Jim McCarty of the City of Paris, Kentucky, Roger Smith of South Mississippi Electric Power Association, and Ken Legg the Southeastern Administrator at Team Cumberland meeting held in the offices of the Nashville Electric Service on April 30, 2014.

Human Resources Service Delivery Initiative

Southeastern continued to participate in the DOE Human Resources Service Delivery (HRSD) Study through numerous data calls and site visits with Headquarters staff. To improve both quality and efficiency of Human Resources (HR) across DOE, the study concluded the Shared Service Center (SSC) approach would be implemented. This new approach strengthens accountability by moving reporting relationships for HR operations directly under the Office of the Chief Human Capital Officer and uses a blend of shared services and onsite HR expertise to support DOE's diverse missions. Southeastern will be serviced by the PMA SSC, Western Area Power Administration (WAPA), with the timeline for standup being October 2016.

Information Management

Southeastern's Information Management Team completed the virtualization of most Southeastern servers and all non-critical desktops. This project allows more complete control of the configuration of our servers and desktops. To reduce our power usage, we replaced most desktop computers with virtual desktops and thin-client endpoint devices that use considerably less power than a typical desktop computer. The emergency power generator and Intrusion Detection System were replaced to improve physical security capabilities.

From L-R at the Allatoona Project: Rick Feathers of North Carolina Electric Member Corporation, Alan Williford of Alabama Municipal Electric Authority, and Mike Frazier of Piedmont Municipal Power Agency on the stairs adjacent to Allatoona powerhouse.

Southeastern Federal Power Alliance attendees tour the Allatoona Project.

GEORGIA-ALABAMA-SOUTH CAROLINA

The Georgia-Alabama-South Carolina System consists of ten projects located in or on the border of Alabama, Georgia, and South Carolina. The power generated at these Projects is sold to 175 preference entities that serve 203 preference customers in Alabama, Florida, Georgia, Mississippi, North Carolina, and South Carolina.

Operational Performance

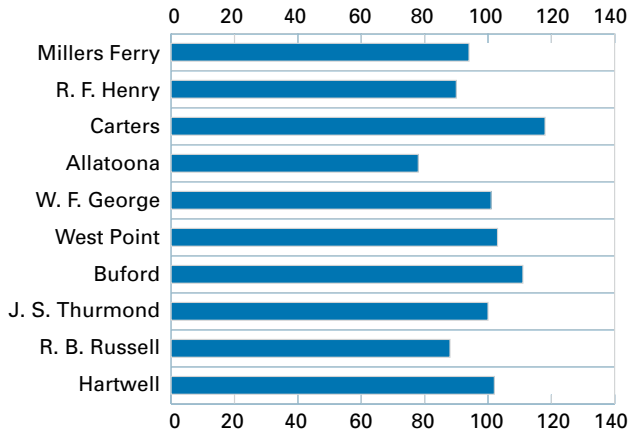
Streamflow generation for FY 2014 was 99% of the average. Figure A illustrates the percent of average generation by Project, and Figure B shows system generation for the years 2005 through 2014.

During FY 2014, work in the Allatoona switchyard neared completion, and the Corps' Hydropower Design Center (HDC) continued to develop plans for the new governors and excitation system. In May, the power house experienced significant damage due to a fire which was caused by a breaker malfunction. This incident caused a complete plant outage for the remainder of the fiscal year. The Mobile District, working in conjunction with HDC, spent several months evaluating the extent of the damage and developing a plan that will return the project to service if funding is secured.

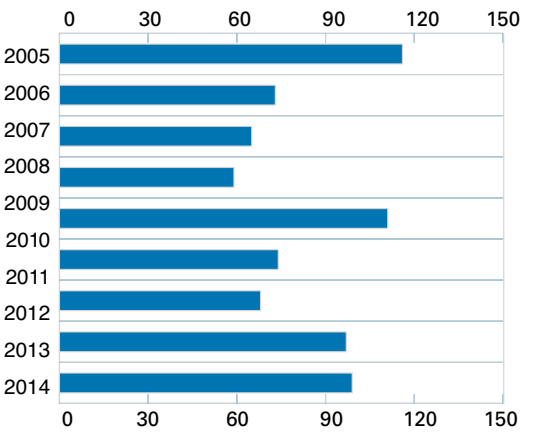
Hartwell Unit #3 was forced out of service in July of 2013 when it experienced a winding failure. The preliminary data collected by the Corps indicated the cause of the winding failure was unit vibration, which ultimately led to cracking of the winding insulation. The unit experienced a similar failure in 2010. The Corps also found several other windings on the verge of failure, as well as cracking in the stator foundation. HDC continued to work with the Savannah District to develop a plan to repair the winding damage and permanently correct the vibration problem.

On September 15, West Point Transformer #2 experienced a fault which damaged a section of the generator bus adjacent to the transformer, as well as all the low side bushings. Since the Mobile District was already in the planning process to replace the transformers at West Point, they will proceed with the planned replacement of this equipment, which is currently expected to take one year. During this time, Unit #2 will be unavailable.

Actual Generation as a Percentage of Average Project Generation - Figure A



Actual Generation as a Percentage of Average System Generation - Figure B



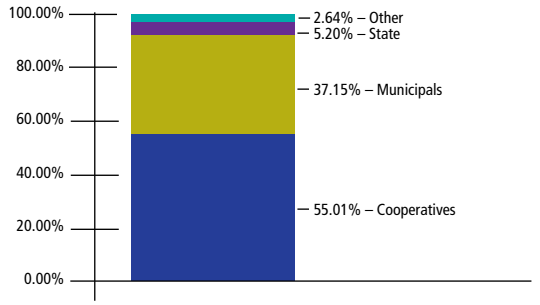
Financial Performance

Total revenue for the Georgia-Alabama-South Carolina System in FY 2014 was $207.5 million. Of this amount, $202.0 million was derived from the sale of 3,556,268 megawatt-hours of energy and 2,184.2 megawatts of capacity. Total operating expenses, excluding depreciation, were $89.4 million. Interest charged to Federal

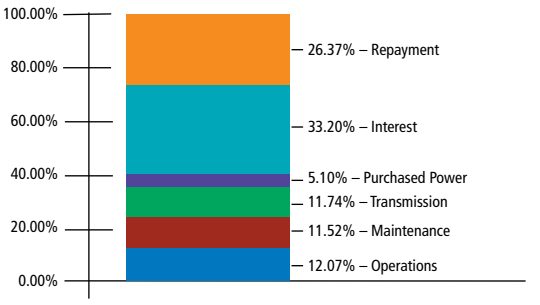
investment was $68.9 million and repayment of the Federal investment was $50.5 million. Figure C shows the revenue by source for this system, and Figure D shows the application of revenues.

Table 2 indicates the allocation of costs by authorized purpose for each Project in the System, and Table 3 indicates the current rates. Current rates for the Georgia-Alabama-South Carolina System were approved by FERC on a final basis on April 2, 2013. The rate schedules are effective for the period October 1, 2012, through September 30, 2017.

FY 2014 Revenue by Source - Figure C



FY 2014 Application of Revenues - Figure D



Cost Allocation by Authorized Purchase as of September 30, 2014 - Table 2

Project	Total $	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
Allatoona	82,061,292	73.06	–	12.50	–	14.16	0.28
Buford	100,646,022	80.79	2.13	4.72	–	12.36	–
Carters	178,695,002	82.14	–	11.37	–	6.50	–
J. Strom Thurmond	186,570,108	86.56	2.34	2.20	–	8.90	–
Walter F. George	286,215,439	66.55	28.86	–	–	4.47	–
Hartwell	207,932,447	84.78	1.93	7.68	–	5.61	–
Millers Ferry/Robert F. Henry	242,830,504	55.13	35.81	–	–	9.06	–
West Point	173,267,934	49.82	1.57	12.79	8.05	27.77	–
Richard B. Russell	902,793,225	87.40	–	0.10	–	12.51	–
Marketing Facilities	1,608,030	100.00	–	–	–	–	–
Total GA-AL-SC System	**2,362,620,003**	**77.33**	**7.74**	**3.32**	**0.61**	**11.00**	**0.01**

Power Rates - Table 3

Product	Effective October 1, 2012
Capacity	4.81 $/kW/Month
Energy	12.33 mills/kWh
Generation Services	0.12 $/kW/Month

Rate schedules provide for a monthly pass-through of actual purchase power, transmission, and ancillary service expense.

KERR-PHILPOTT

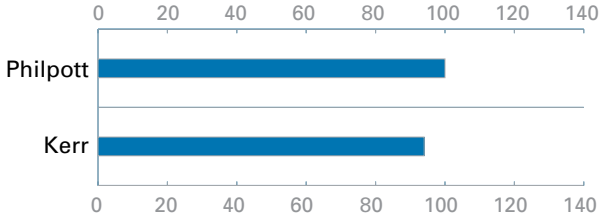
The Kerr-Philpott System consists of two Projects – John H. Kerr on the Roanoke River and Philpott on the Smith River. Power generated at the Projects is marketed to 75 preference customers in North Carolina and Virginia.

Operational Performance

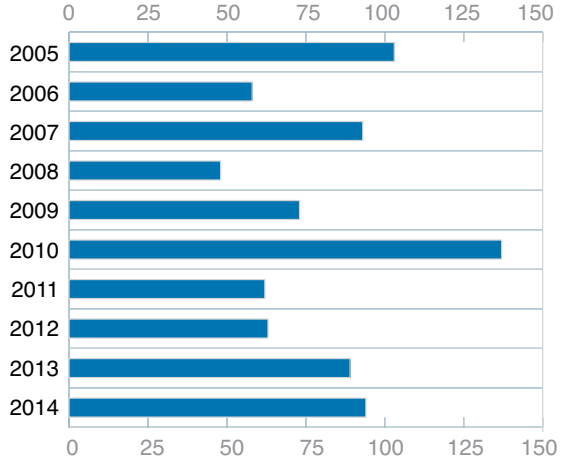
Generation for FY 2014 was 94% of average. Figure E illustrates the percent of average generation by Project for the year. Figure F shows the system generation by year from 2005 through 2014.

There were no significant operational issues in the Kerr-Philpott System during FY 2014.

Actual Generation as a Percentage of Average Project Generation - Figure E



Actual Generation as a Percentage of Average System Generation - Figure F



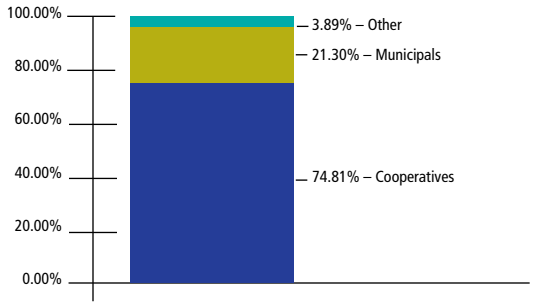
Financial Performance

Total revenue for the Kerr-Philpott System in FY 2014 was $21.3 million. Of this amount, $20.7 million was derived from the sale of 417,638 megawatt-hours of energy and 196.5 megawatts of capacity.

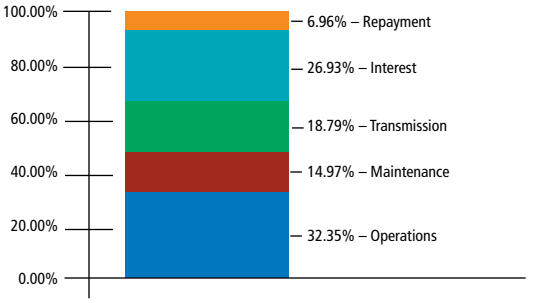
Total operating expenses, excluding depreciation, were $14.1 million. Interest charged to Federal investment was $5.7 million and repayment was $1.5 million. Figure G shows the revenue by source for the Kerr-Philpott System, and Figure H shows the application of revenues.

Table 4 indicates the allocation of costs by authorized purpose for each Project in the System. Table 5 indicates the current rates. Current rates for the Kerr-Philpott System were approved on a final basis by FERC on March 11, 2011. The rate schedules are approved for the period October 1, 2010, through September 30, 2015.

FY 2014 Revenue by Source - Figure G



FY 2014 Application of Revenues - Figure H



Cost Allocation by Authorized Purpose as of September 30, 2014 - Table 4

Project	Total $	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
John H. Kerr	226,048,882	84.34	–	11.60	–	3.90	0.17
Philpott	32,248,004	53.83	–	29.21	–	16.96	–
Marketing Facilities	301,506	100.00	–	–	–	–	–
TOTAL-Kerr-Philpott System	**258,598,392**	**80.55**	**– – –**	**13.78**	**– – –**	**5.52**	**0.15**

Power Rates - Table 5

Product	Through March 30, 2015	Effective April 1, 2015
Capacity	3.78 $/kW/Month	4.18 $/kW/Month
Energy	14.63 mills/kWh	16.63 mills/kWh

Rate schedules provide for a monthly pass-through of actual purchase power, transmission, and ancillary service expense.

CUMBERLAND

There are nine Projects in the Cumberland System located in Kentucky and Tennessee. The power produced at these Projects is delivered to 25 preference entities that serve 210 preference customers in Alabama, Georgia, Illinois, Kentucky, Mississippi, North Carolina, Tennessee, and Virginia.

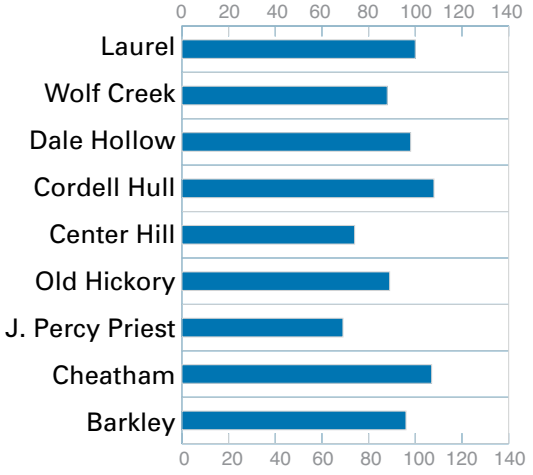
Operational Performance

Generation for the system during FY 2014 was 92% of average. The percentage of average generation by Project is shown in Figure I, and Figure J shows system generation for the years 2005 through 2014.

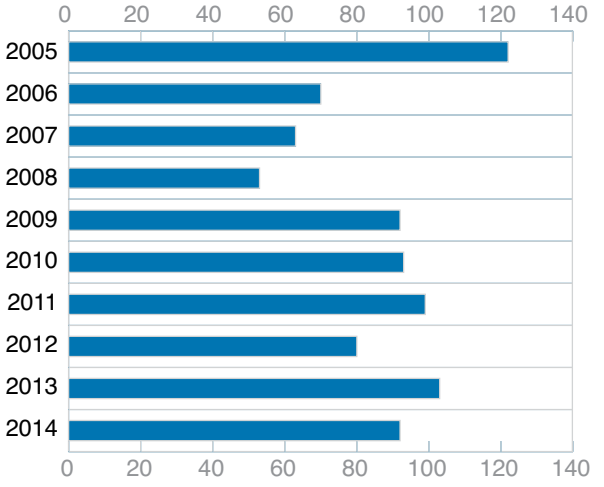
In July of 2014 the Cumberland System returned to a partial peaking schedule operation as a result of the completion of the earthen dam repair work at Wolf Creek Project. The system had been operated in a run-of-the-river manner since February 2007 when Lake Cumberland was drawn down to the bottom of its conservation pool due to potential dam failure concerns. During the same time period, the Center Hill Project lake elevation was reduced in a similar manner, as it also displayed signs of distress.

Generator # 4 at Old Hickory was taken out of service in July of 2013 due to alignment problems which were attributed to foundation concrete growth. Generator #3 at Barkley experienced intermittent outages until June, when the unit went out of service for the remainder of the fiscal year due to a Kaplan turbine head high temperature alarm. The Nashville District is continuing to evaluate possible methods to repair these units.

Actual Generation as a Percentage of Average Project Generation - Figure I



Actual Generation as a Percentage of Average System Generation - Figure J



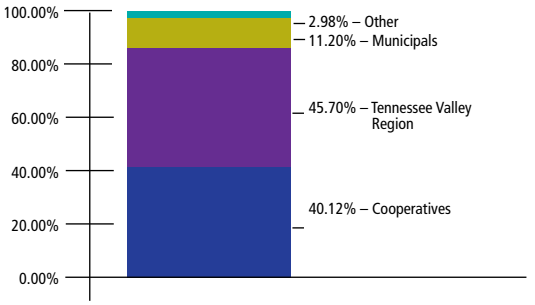
Financial Performance

Total revenue for the Cumberland System in FY 2014 was $59.2 million. Of this amount, $57.5 million was derived from the sale of 2,659,572 megawatt-hours of energy. Total operating expenses, excluding depreciation, were $42.4 million. Interest charged to Federal investment was $4.3 million and repayment was $12.4 million. Figure K shows the revenue by source for the Cumberland System, and Figure L shows the application of revenues.

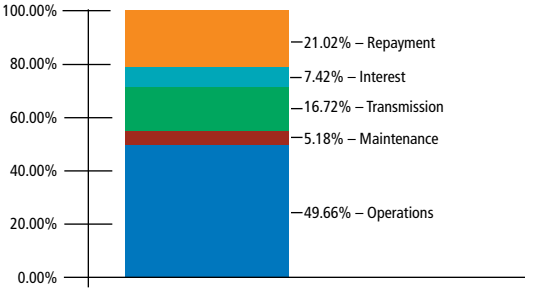
Table 6 indicates the allocation of costs by authorized purpose for each Project in this System, and Table 7 indicates the current rates. On July 10, 2013, an extension of the current rates was approved through September 30, 2015.

The completion of the Wolf Creek dam safety repair on March 25, 2014, enabled the Corps to record the seven year, $657 million construction effort in their FY 2014 financial statements. The Army did not apply the Water Resources Development Act of 1986 dam safety repayment methodology. Southeastern disputes the majority of the dam safety repair expense be borne by authorized purpose stakeholders, and has not included disputed costs in the audited financial statements. Southeastern has added a Dam Safety column to Table 6 to account for the disputed amount.

FY 2014 Revenue by Source - Figure K



FY 2014 Application of Revenues - Figure L



Cost Allocation by Authorized Purpose as of September 30, 2014 - Table 6

Project	Total $	Power %	Navigation %	Flood Risk Management %	Recreation %	Dam Safety %	Other %
Barkley	221,861,482	29.39	55.60	11.22	3.79	–	–
J. Percy Priest	72,514,818	21.90	–	37.40	40.71	–	–
Cheatham	68,448,666	34.56	58.82	–	6.62	–	–
Cordell Hull	95,959,051	46.08	18.30	–	28.82	–	6.81(a)
Old Hickory	80,285,453	57.62	36.63	–	5.75	–	–
Center Hill	334,806,528	46.79	–	50.64	2.36	–	0.21(b)
Dale Hollow	45,187,898	65.23	–	30.21	4.57	–	–
Wolf Creek	910,361,035	22.38	–	14.13	2.17	61.29	0.03(b)
Laurel	52,176,400	54.26	–	–	33.61	–	12.13(a)
Marketing Facilites	552,760	100.00	–	–	–	–	–
Total Cumberland Basin System	**1,882,154,091**	**32.60**	**11.19**	**19.34**	**6.48**	**61.29**	**0.73**

(a) Area Redevelopment
(b) World War II Suspension Costs

Power Rates - Table 7

Product	Through September 30, 2015
Capacity	1.697 $/kW/Month
Energy	11.012 mills/kWh

This is the rate under a revised interim operating plan, effective July 1, 2014.

Rate schedules provide for a monthly pass-through of actual purchase power, transmission, and ancillary service expense.

JIM WOODRUFF

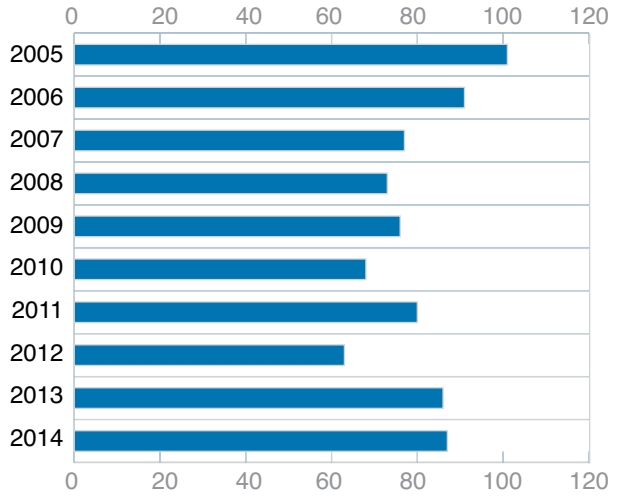
The Jim Woodruff System is a single-project system located on the border of Florida and Georgia. This system has six preference customers and one investor-owned utility located in the central panhandle of Florida.

Operational Performance

Generation during FY 2014 was 87% of average. Figure M illustrates the Project's generation for the years 2005 through 2014.

There were no significant operational issues in the Jim Woodruff System during FY 2014.

Actual Generation as a Percentage of Average System Generation - Figure M



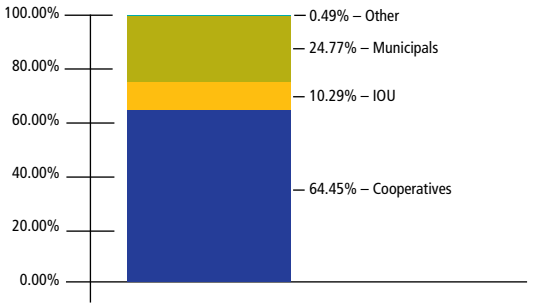
Financial Performance

Total revenue from the Jim Woodruff System was $11.0 million in FY 2014. Of this amount, $10.9 million was derived from the sale of 222,255 megawatt-hours of energy and 36 megawatts of capacity.

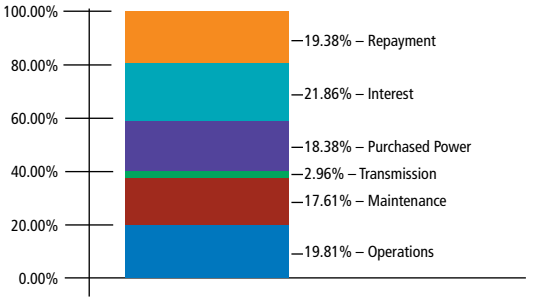
Total operating expenses, excluding depreciation, were $6.4 million. Interest charged to the Federal investment was $2.4 million and repayment of the Federal investment was $2.1 million. Figure N shows the revenue by source for the System, and Figure O shows the application of revenues.

Table 8 indicates the allocation of costs by authorized function, and Table 9 indicates the current rates. Current rates for the Jim Woodruff System were approved on a final basis by the FERC on December 22, 2011. The rate schedules were placed in effect September 20, 2011, and are approved through September 19, 2016.

FY 2014 Revenue by Source - Figure N



FY 2014 Application of Revenues - Figure O



Cost Allocation by Authorized Purpose as of September 30, 2014 - Table 8

Project	Total $	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
Jim Woodruff	123,177,192	59.74	33.75	–	–	6.52	–
Marketing Facilities	50,251	100.00	–	–	–	–	–
TOTAL- Jim Woodruff System	**123,227,443**	**59.75**	**33.73**	**–**	**–**	**6.52**	**–**

Power Rates - Table 9

Product	Through September 19, 2016
Capacity	10.29 $/kW/Month
Energy	26.51 mills/kWh

Rate schedules provide for a monthly pass-through of actual purchased power.

CUSTOMER SALES

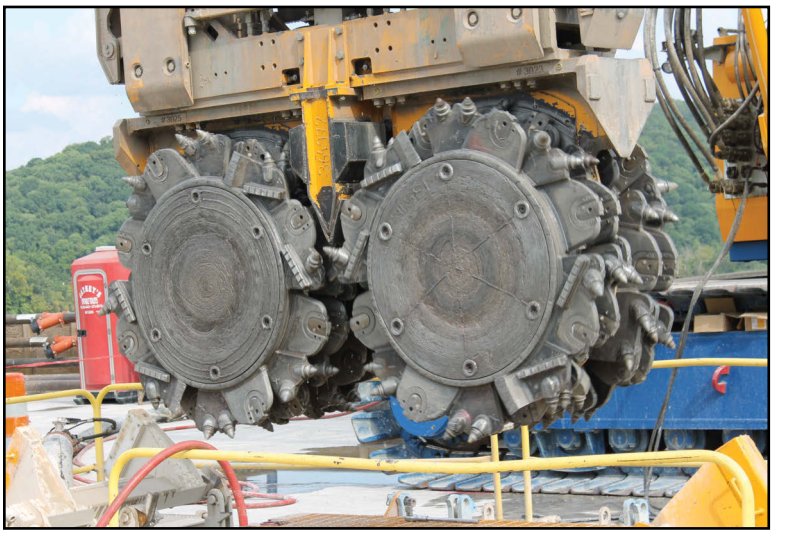
CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
GEORGIA-ALABAMA-SOUTH CAROLINA SYSTEM			
Alabama			
Baldwin County EMC	17,284	31,873,229	2,107,712.48
Black Warrior EMC	18,494	31,595,987	2,254,414.73
Central Alabama EC	18,660	34,185,984	2,272,995.20
Clarke-Washington EMC	6,678	12,056,238	811,418.76
Coosa Valley EC	5,728	10,445,290	697,216.45
Dixie EC	7,273	13,381,588	886,614.33
Pea River EC	3,422	6,173,728	415,733.88
Pioneer EC	10,056	18,457,638	1,225,278.37
Tallapoosa River EC	11,494	20,862,153	1,397,919.30
Tombigbee EC	6,578	11,168,462	801,118.04
Wiregrass EC	8,467	15,428,732	1,030,499.32
PowerSouth Energy Cooperative	100,000	179,034,000	8,478,522.05
City of Alexander City	7,846	13,582,338	958,362.17
City of Dothan	52,461	90,874,505	6,408,772.50
City of Evergreen	4,047	6,998,925	494,228.05
City of Fairhope	6,248	10,819,465	763,221.51
City of Foley	21,199	36,696,519	2,589,406.88
City of Hartford	3,050	5,136,505	370,845.72
City of LaFayette	2,358	4,079,559	287,987.05
City of Lanett	5,321	9,211,383	649,943.78
City of Luverne	3,158	5,466,389	385,732.14
City of Opelika	20,809	36,031,443	2,541,899.14
City of Piedmont	3,869	6,564,296	471,127.84
City of Robertsdale	3,372	5,714,667	410,515.74
City of Sylacauga	16,494	27,963,455	2,008,171.13
City of Troy	10,079	12,065,586	1,164,300.55
City of Tuskegee	11,689	20,030,789	1,425,522.61
Alabama Total	**386,134**	**675,898,853**	**43,309,479.72**
Florida			
Choctawhatchee EC	1,231	2,268,077	150,079.93
West Florida ECA	8,402	15,521,811	1,024,936.72
Florida Total	**9,633**	**17,789,888**	**1,175,016.65**
Georgia			
Altamaha EMC	10,956	15,559,620	877,955.55
Amicalola EMC	11,513	16,344,730	922,502.83
Canoochee EMC	9,392	13,341,018	752,662.94
Carroll EMC	17,032	24,182,616	1,364,763.87
Central Georgia EMC	13,381	19,008,818	1,072,359.38
Coastal EMC	3,157	4,487,193	253,039.05
Cobb EMC	42,613	60,572,689	3,415,577.37
Colquitt EMC	38,410	54,524,094	3,077,596.84
Coweta-Fayette EMC	13,378	19,013,229	1,072,246.98
Diverse Power, Inc.	12,050	17,122,490	965,758.49
Excelsior EMC	8,914	12,658,822	714,309.17
Flint EMC	55,744	68,840,902	4,339,600.42
Grady EMC	10,439	14,818,614	836,425.89
Greystone Power Corporation	31,540	44,818,996	2,527,833.94
Habersham EMC	10,176	14,446,644	815,373.28
Hart EMC	18,630	26,437,974	1,492,610.77
Irwin EMC	8,246	11,703,161	660,676.21
Jackson EMC	48,415	68,766,372	3,879,835.43
Jefferson EMC	14,188	20,161,491	1,137,125.25
Little Ocmulgee EMC	7,754	11,001,855	621,212.01
Middle Georgia EMC	6,028	8,556,835	482,991.56
Mitchell EMC	18,023	25,585,230	1,444,106.54
Ocmulgee EMC	8,188	11,620,829	656,029.01
Oconee EMC	8,018	11,387,060	642,519.27
Okefenoke Rural EMC	9,487	13,470,399	760,193.99
Planters EMC	10,258	14,561,320	821,918.06
Rayle EMC	10,350	14,690,703	829,271.66
Satilla Rural EMC	30,374	43,116,450	2,433,708.61
Sawnee EMC	19,423	27,587,705	1,556,504.78
Slash Pine EMC	4,785	6,792,538	383,398.94
Snapping Shoals EMC	20,119	28,596,295	1,612,575.92
Southern Rivers Energy	6,842	9,718,330	548,301.82
Sumter EMC	11,437	16,243,285	916,508.43
Three Notch EMC	12,194	17,313,623	977,100.29
Tri-County EMC	6,416	9,118,470	514,240.36
Upson EMC	4,581	6,504,372	367,074.45
Walton EMC	31,322	44,538,178	2,510,789.65
Washington EMC	14,249	20,232,063	1,141,776.24
City of Acworth	2,303	3,936,176	196,616.28
City of Adel	6,902	11,789,059	589,143.09
City of Albany	60,831	103,978,495	5,193,517.27
City of Barnesville	2,635	4,502,794	224,948.67
City of Blakely	5,412	9,246,389	461,993.04
City of Brinson	156	267,368	13,329.01
City of Buford	2,356	4,026,480	201,136.98
City of Cairo	6,253	10,691,249	533,900.24
City of Calhoun	7,660	13,102,890	654,120.65
City of Camilla	6,072	10,370,761	518,287.02
City of Cartersville	17,152	29,311,518	1,464,279.16
City of College Park	15,559	26,607,717	1,328,551.07
City of Commerce	4,456	7,608,525	380,319.04
City of Covington	9,382	16,038,641	801,027.61
City of Dalton	45,822	81,408,939	3,946,033.64
City of Doerun	629	1,074,789	53,696.38
City of Douglas	10,180	17,394,968	869,046.98
City of East Point	33,488	57,215,353	2,858,705.77
City of Elberton	11,447	19,548,089	977,037.10
City of Ellaville	936	1,600,678	79,923.31
City of Fairburn	1,799	3,077,407	153,625.93
City of Fitzgerald	9,720	16,610,570	829,800.92
City of Forsyth	3,720	6,356,666	317,571.38
City of Fort Valley	9,417	16,093,537	803,944.75
City of Grantville	470	802,104	40,108.40
City of Griffin	18,157	31,030,826	1,550,103.42
City of Hampton	832	1,142,378	97,864.01
City of Hogansville	1,531	2,615,263	130,686.72
City of Jackson	2,067	3,532,471	176,463.19
City of LaFayette	6,607	11,289,729	564,027.95
City of Lagrange	17,096	29,228,290	1,459,678.43
City of Lawrenceville	4,795	8,205,238	409,510.68
City of Marietta	37,172	63,570,244	3,174,065.90
City of Monroe	7,223	12,339,735	616,577.46
City of Monticello	1,836	3,135,841	156,715.55
City of Moultrie	15,480	26,451,894	1,321,506.36
City of Newnan	6,893	11,780,202	588,468.97
City of Norcross	1,736	2,969,397	148,242.56
City of Oxford	458	784,403	39,124.59
City of Palmetto	923	1,577,662	78,801.95
City of Quitman	4,428	7,562,490	377,954.82
City of Sandersville	4,997	8,536,357	426,552.25
City of Sylvania	5,436	9,295,968	464,165.51
City of Sylvester	3,952	6,756,839	337,430.84
City of Thomaston	7,687	13,143,615	656,347.56
City of Thomasville	25,053	42,816,339	2,138,830.96
City of Washington	5,068	8,658,533	432,625.78
City of West Point	4,683	7,994,534	399,670.57
City of Whigham	319	545,364	27,236.47
Crisp County Power Commission	18,068	30,875,010	1,542,451.87
Town of Mansfield	379	646,292	32,335.38
Georgia Total	**1,095,655**	**1,686,591,089**	**90,236,578.69**
Mississippi			
Coast EPA	26,863	46,567,769	3,282,155.49
East Mississippi EPA	11,336	19,616,170	1,384,704.52
Singing River EPA	33,684	58,405,317	4,115,743.38
South Mississippi EPA	68,000	116,992,670	8,319,365.03
Mississippi Total	**139,883**	**241,581,926**	**17,101,968.42**
North Carolina			
Blue Ridge EMC	7,311	15,973,960	669,058.14
EnergyUnited EMC	16,302	34,986,930	1,482,523.72
Haywood EMC	926	2,146,610	86,182.65
Pee Dee EMC	455	1,023,252	41,960.04
Rutherford EMC	24,018	52,228,680	2,194,390.16
Union EMC	11,633	26,457,818	1,077,150.70
City of Cherryville	1,478	1,358,517	107,483.79
City of Concord	8,007	11,320,961	747,354.88
City of Gastonia	15,971	14,674,644	1,161,373.53
City of Kings Mountain	2,896	4,093,363	270,288.59
City of Lincolnton	1,577	1,448,656	114,670.69
City of Monroe	7,693	7,070,076	559,439.20
City of Morganton	9,535	21,316,780	878,626.67
City of Newton	2,067	1,898,311	150,293.98
City of Shelby	5,892	5,412,670	428,436.53
City of Statesville	9,705	8,916,771	705,717.67
Town of Bostic	412	928,609	38,075.85
Town of Cornelius	361	331,942	26,254.71
Town of Dallas	1,299	1,835,032	121,223.26
Town of Drexel	879	1,969,293	81,059.26
Town of Forest City	2,721	3,847,638	253,978.29
Town of Granite Falls	828	760,393	60,204.38
Town of Huntersville	490	449,651	35,623.12
Town of Landis	1,098	1,008,011	79,831.26
Town of Maiden	1,235	1,134,037	89,795.71
Town of Pineville	490	449,651	35,623.12
North Carolina Total	**135,279**	**223,042,256**	**11,496,619.90**

CUSTOMER SALES

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
South Carolina			
Central Electric Power Cooperative	180,700	340,109,237	18,472,464.76
Little River EC	522	1,014,362	63,357.29
City of Abbeville	2,959	5,867,525	248,230.13
City of Clinton	2,975	2,267,754	210,453.38
City of Easley	8,656	16,061,809	756,104.47
City of Gaffney	6,986	12,970,405	610,341.81
City of Georgetown	5,300	9,745,120	546,131.04
City of Greenwood	11,404	25,330,580	1,049,028.70
City of Greer	9,159	17,065,954	801,117.19
City of Laurens	5,891	10,965,108	515,096.57
City of Newberry	3,277	2,497,425	231,808.87
City of Orangeburg	13,779	26,576,287	1,669,490.34
City of Rock Hill	19,115	35,468,553	1,669,691.63
City of Seneca	2,688	2,732,490	198,723.05
City of Union	3,484	2,656,417	246,470.43
City of Westminster	678	516,268	47,953.82
Town of Bamberg	2,300	4,176,478	236,219.59
Town of Due West	285	402,684	26,597.50
Town of McCormick	522	979,925	62,984.31
Town of Prosperity	602	2,084,901	73,403.55
Town of Winnsboro	1,366	2,547,795	164,576.29
South Carolina PSA	135,000	189,326,420	10,784,042.93
South Carolina Total	417,648	711,363,497	38,684,287.65
Georgia-Alabama-South Carolina System Total	**2,184,232**	**3,556,267,509**	**202,003,951.02**
KERR-PHILPOTT SYSTEM			
North Carolina			
Albemarle EMC	2,593	6,553,521	251,047.44
Brunswick EMC	3,515	9,539,554	400,571.59
Carteret-Craven EMC	2,735	7,313,132	309,893.70
Central EMC	1,239	3,362,589	141,197.16
Edgecombe-Martin County EMC	4,155	10,638,576	404,750.58
Four County EMC	4,198	11,393,186	478,406.69
Halifax EMC	2,606	6,752,929	263,369.79
Jones-Onslow EMC	5,184	14,069,143	590,771.75
Lumbee River EMC	3,729	10,120,339	424,959.05
Pee Dee EMC	2,968	8,055,017	338,235.09
Piedmont EMC	1,086	2,900,840	122,980.35
Pitt & Greene EMC	1,580	4,288,051	180,057.81
Randolph EMC	3,608	9,791,951	411,170.03
Roanoke EMC	5,528	14,052,731	536,672.33
South River EMC	6,119	16,606,693	697,325.06
Tideland EMC	3,098	8,025,025	312,828.87
Tri-County EMC	3,096	8,402,406	352,822.11
Wake EMC	2,164	5,872,999	246,610.75
City of Elizabeth City	2,073	1,571,008	180,333.79
City of Kinston	1,466	1,110,998	120,241.34
City of Laurinburg	415	314,505	34,038.34
City of Lumberton	895	678,267	73,407.84
City of New Bern	1,204	912,444	98,752.14
City of Rocky Mount	2,538	1,923,406	208,166.85
City of Washington	2,703	2,048,450	221,700.14
City of Wilson	2,950	2,235,636	241,959.03
Fayetteville Public Works Commission	5,431	4,115,843	445,450.70
Greenville Utilities Commission	7,534	5,709,588	617,938.79
Town of Apex	145	109,888	11,892.97
Town of Ayden	208	157,633	17,060.22
Town of Belhaven	182	137,928	15,832.50
Town of Benson	120	90,941	9,842.40
Town of Clayton	161	122,013	13,205.25
Town of Edenton	775	587,328	67,418.58
Town of Enfield	259	195,691	16,977.32
Town of Farmville	237	179,608	19,438.73
Town of Fremont	60	45,470	4,921.18
Town of Hamilton	40	30,312	3,479.64
Town of Hertford	203	153,843	17,659.33
Town of Hobgood	46	34,861	4,001.62
Town of Hookerton	30	22,736	2,460.61
Town of La Grange	93	70,482	7,627.90
Town of Louisburg	857	2,428,892	99,182.71
Town of Pikeville	40	30,312	3,280.77
Town of Red Springs	117	88,669	9,596.37
Town of Robersonville	232	175,818	20,182.06
Town of Scotland Neck	304	230,385	26,445.51
Town of Selma	183	138,685	15,009.64
Town of Smithfield	378	286,464	31,003.58
Town of Tarboro	2,145	1,625,573	186,597.18
Town of Wake Forest	149	112,917	12,220.92
Town of Windsor	331	248,804	28,729.21
North Carolina Total	**93,705**	**185,664,079**	**9,349,725.31**

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
Virginia			
B-A-R-C EC	3,740	9,535,252	443,541.39
Central Virginia EC	7,956	20,180,032	941,562.88
Community EC	4,230	10,799,595	501,924.45
Craig-Botetourt EC	1,692	4,674,285	205,970.72
Mecklenburg EMC	11,344	29,197,881	1,350,310.86
Northern Neck EC	3,944	10,020,338	467,102.54
Northern Virginia EC	3,268	8,260,082	386,245.19
Prince George EC	2,530	6,427,850	299,637.18
Rappahannock EC	22,427	57,294,706	2,661,806.36
Shenandoah Valley EMC	9,938	25,536,895	1,182,189.86
Southside EC	14,575	37,030,022	1,726,171.26
City of Bedford	1,200	907,470	78,754.35
City of Danville	5,600	4,234,853	367,520.13
City of Franklin	1,003	753,929	87,055.61
City of Martinsville	1,600	1,209,958	105,005.76
City of Radford	1,300	997,361	85,657.41
City of Salem	2,200	1,687,841	144,958.67
Harrisonburg Electric Commission	2,691	2,049,196	234,065.95
Town of Blackstone	389	292,402	33,763.35
Town of Culpepper	391	297,747	34,009.60
Town of Elkton	171	128,537	14,841.98
Town of Richlands	500	378,113	32,814.32
Town of Wakefield	106	79,676	9,200.27
Virginia Total	**102,795**	**231,974,021**	**11,394,110.09**
Kerr-Philpott System Total	**196,500**	**417,638,100**	**20,743,835.40**
JIM WOODRUFF SYSTEM			
Florida			
Central Florida EC	2,300	11,236,653	508,379.13
Suwannee Valley EC	4,800	23,971,496	1,115,551.77
Talquin EC	13,500	77,928,642	4,013,033.36
Tri-County EC	5,200	28,791,244	1,420,727.94
City of Chattahoochee	1,800	10,433,881	531,872.68
City of Quincy	8,400	45,300,958	2,180,265.58
Duke Energy Florida	-	24,591,890	1,127,173.43
Jim Woodruff System Total	**36,000**	**222,254,764**	**10,897,003.89**
CUMBERLAND SYSTEM			
Illinois			
Southern Illinois Power Cooperative	24,000	59,510,000	1,562,414.61
Kentucky			
Big Rivers Electric Corporation	154,000	357,659,000	9,707,504.76
East Kentucky Power Cooperative	157,000	301,548,000	8,839,455.63
City of Barbourville	1,916	5,326,464	137,082.81
City of Bardstown	1,957	5,440,285	139,951.48
City of Bardwell	472	1,312,233	33,720.97
City of Benham	216	600,444	15,497.06
City of Corbin	2,263	6,290,234	161,877.62
City of Falmouth	514	1,428,531	36,731.63
City of Frankfort	13,605	37,820,538	973,107.48
City of Henderson	10,000	25,268,000	666,468.91
City of Madisonville	6,796	18,892,124	486,122.79
City of Nicholasville	2,226	6,188,362	159,228.95
City of Owensboro	21,775	60,528,985	1,557,406.45
City of Paris	1,188	3,302,442	84,946.05
City of Providence	1,072	2,980,358	76,697.75
City of Princeton	313	1,510,298	36,528.67
City of Paducah	2,183	10,537,702	254,871.17
KentuckyTotal	**377,496**	**846,634,000**	**23,367,200.18**
Mississippi			
South Mississippi EPA	44,000	110,393,000	2,869,400.27
Mississippi Delta Energy Agency	10,000	23,817,000	627,675.99
Municipal Energy Agency of Mississippi	16,000	41,074,000	1,059,741.8
Mississippi Total	**70,000**	**175,284,000**	**4,556,818.10**
North Carolina			
French Broad EMC	7,029	15,910,441	607,542.15
Haywood EMC	2,057	4,656,713	177,781.02
Town of Waynesville	1,457	3,298,506	125,940.09
North Carolina Total	**10,543**	**23,865,660**	**911,263.26**
Tennessee Valley Region			
TVA Acquisition for 155 TVPPA Members	347,504	1,554,278,000	27,077,396.66
Cumberland System Total	**829,543**	**2,659,571,660**	**57,475,092.81**
Grand Total	**3,246,275**	**6,855,732,033**	**291,119,883.12**

Center Hill Project
Dam Safety Repair



Team Cumberland meeting attendees visit Center Hill Dam seepage cutoff wall construction site on September 10, 2014.

Southeastern Power Administration

2014 Financial Overview and Financial Statements

2014 Financial Overview & Financial Statements

Contents

Description

The Southeastern Federal Power Program (the Program) consists of all activities associated with the production, transmission, and disposition of Federal power marketed under Section 5 of the Flood Control Act of 1944 in 11 states. These states are: Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. The Program includes the accounts of two separate Federal government agencies — the Southeastern Power Administration (Southeastern), an agency of the United States Department of Energy, and the hydroelectric generating plants and power operations of the United States Army Corps of Engineers (Corps), an agency of the United States Department of Defense. Southeastern purchases, transmits, and markets power within four separate power systems (each including one or more Corps generating projects for which rates are set). These systems are: Georgia-Alabama-South Carolina System; Jim Woodruff System; Cumberland System; and Kerr-Philpott System.

The Corps operates 22 Federal hydroelectric generating projects in commercial service as of September 30, 2014, for which Southeastern is the power marketing agency. The Corps and Southeastern are separately managed and financed; however, the financial statements are combined under the Program title.

Costs of multiple purpose Corps projects are allocated to individual purposes (e.g., power, recreation, navigation, and flood control) through a cost allocation process. Specific and joint-function costs allocated to power are included in the attached balance sheets.

The Program accounts are maintained in conformity with accounting principles generally accepted in the United States and with the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission. The Program's accounting policies also reflect requirements of specific legislation and executive directives issued by the applicable government agencies.

Southeastern and the Corps receive Congressional appropriations through the Department of Energy and the Department of Defense, respectfully, to finance their operations. The Corps has also received Congressional appropriations to finance construction of its hydroelectric projects. In accordance with the Flood Control Act of 1944, Southeastern is responsible for repayment, with interest, of its appropriations, as well as Corps construction and operation appropriations allocated to power.

Program Performance

During FY 2014, Southeastern marketed 6.9 billion kilowatt-hours of energy to 486 wholesale customers. The Program's revenues totaled $299.0 million, $13.4 million less than in FY 2013.

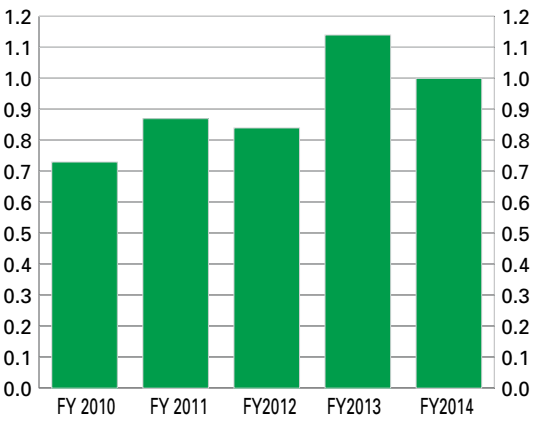
Financial Performance Debt Service Coverage Ratio

The debt service coverage ratio measures the adequacy of a utility's cash flow to cover debt service cash, both principal and interest.

Specifically, the debt service coverage ratio measures revenues in excess of operating expenses requiring cash, or cash flow from operations available to make debt service payments of principal and interest. A ratio of 1.0 would generally indicate just enough cash flow to make principal and interest payments on outstanding debt, in addition to meeting all other cash expenses. A ratio of 1.5 would indicate sufficient cash flow to pay 1.5 times the amount of debt service actually due. Debt service coverage is an important measure of financial health, particularly for public power systems with no significant surplus or equity as a cushion. Since the revenues of a power marketing administration are applied to operating expenses and debt service requirements with typically no return built into rates, the level of debt service coverage is viewed as an important means of determining the revenue shortfalls that could be sustained before debt service payments were adversely affected. A balance exists between maintaining a sound financial condition and maintaining the lowest rates consistent with the not-for-profit orientation of power marketing agencies.

Over the last five years, the Program's debt service ratio has ranged from about 0.732 to 1.140. The Program's debt service ratio for FY 2010 through FY 2012 was below normal due to adverse water conditions. FY 2010 was below normal due to higher than expected Corps' maintenance expenses as a result of American Recovery and Reinvestment Act appropriations. FY 2011 and FY 2012 were below normal due to streamflow conditions. FY 2013 is above normal due to improved streamflow conditions and lower than expected operating expenses. The Program's debt service coverage ratio for fiscal years 2010-2014 is illustrated in Figure P. FY 2013 was above normal due to improved streamflow conditions and lower than expected operating expenses. FY 2014 was slightly above normal due to average streamflow conditions with slightly lower than expected operating expenses.

Debt Service Coverage Ratio - Figure P



Cumulative Principal as a Percentage of Total Federal Investment (Plant-in-Service)

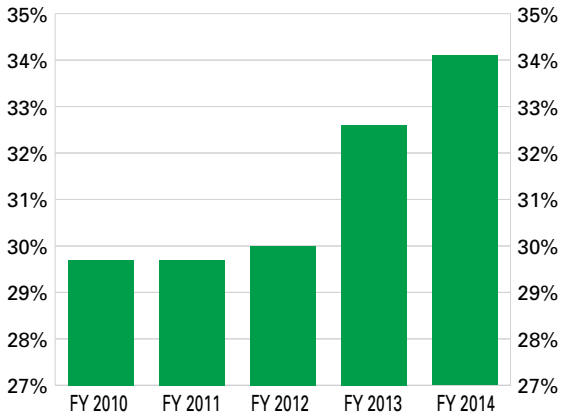
This indicator is a cumulative cash flow measure. It measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature system. Thus, a system with little time remaining in its repayment period would be expected to have a ratio of cumulative principal payments relative to total Federal investment that approaches 100%. This indicator provides useful information by showing the relationship between the cumulative amount of principal paid to date by the Program, as well as the progress made over the period studied. While analysis of this indicator does not necessarily provide conclusive information without further analysis of additional factors, such as the average age of the system, the measure nevertheless provides valuable information on the status of repayment. The Program's principal payments as a percentage of total investment is now 32.6%. Payments as a percent of total investment are illustrated in Figure Q.

Variance of Actual from Planned Principal Payment

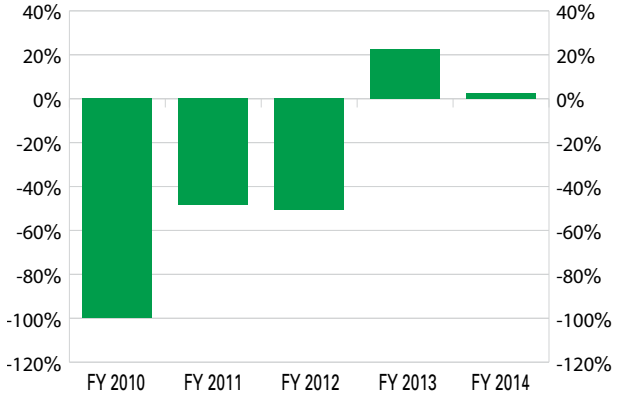
The Power Marketing Administrations show relatively large fluctuations between actual and planned revenues due to the high variability of water over the years analyzed. A negative number means that actual repayment is not as large as expected. A positive number means that actual repayment is larger than expected.

The -100% ratio in 2010 was due to higher than expected Corps' operation and maintenance expenses as illustrated in Figure R. The FY 2011 and FY 2012 ratios of -48.3% and -50.8% were also due to streamflow conditions. The FY 2013 ratio of 22.6% is due to improved streamflow conditions and lower than expected operating expenses. The FY 2014 ratio of 2.3% was due to average streamflow conditions and a slightly lower than expected operating expenses.

Cumulative Principal Payments as a Percentage of Total Investment - Figure Q



Percent Variance of Actual From Planned Principal Payments - Figure R



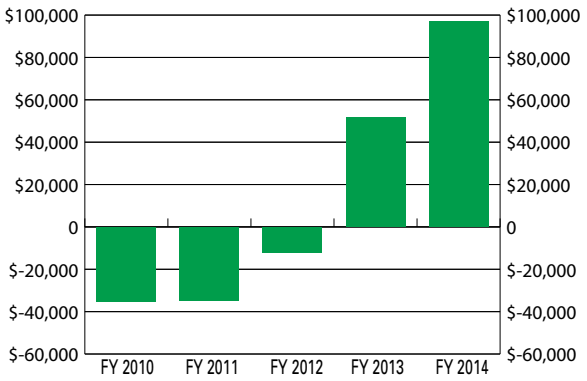
Net Cash to the Treasury

Net cash flow to the Treasury measures the actual net cash flow, both inflows and outflows, to the U.S. Treasury. This indicator focuses on cash flows as opposed to accrual accounting results.

Because of its cash nature, this indicator is negatively influenced during years of large capital expenditures. Even in years of favorable financial performance, small or negative cash flow to the U.S. Treasury may result. In addition, the variability of water levels explains some of the fluctuation of this measure.

This indicator provides valuable financial information related to the annual effect of the power marketing administrations on the cash position of the U.S. Treasury. The measure should be used only in combination with other financial indicators to assess the Program's financial performance. Net cash flow to the U.S. Treasury is illustrated in Figure S.

Net Cash Flow to the Treasury – Figure S (in thousands)



KPMG LLP
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1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

The Administrator of Southeastern Power Administration and the
U.S. Department of Energy Office of the Inspector General:

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Southeastern Federal Power Program (the Program), which comprise the combined balance sheets as of September 30, 2014 and 2013, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the combined financial statements. As described in note 1 to the combined financial statements, the combined financial statements include the hydroelectric generation functions of the United States Army Corps of Engineers (the generating agency) for which Southeastern Power Administration (Southeastern), a component of the U.S. Department of Energy (DOE), markets the related power.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Federal Power Program as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the Program's basic combined financial statements as a whole. The supplementary information in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements.

The supplementary information in schedules 1 and 2 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined 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 combined financial statements or to the basic combined 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 in schedules 1 and 2 is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

The supplementary information in schedule 3 has not been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Denver, Colorado
May 15, 2015

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Balance Sheets

September 30, 2014 and 2013

(In thousands)

Assets		2014	2013
Utility plant in service (note 4)	$	2,586,321	2,511,130
Accumulated depreciation (note 6)		(994,583)	(958,344)
Net completed plant		1,591,738	1,552,786
Construction work-in-progress		136,200	454,366
Net utility plant		1,727,938	2,007,152
Cash		292,825	274,162
Accounts receivable, net		23,421	29,070
Regulatory assets		20,121	12,859
Other assets		359	305
Total assets	$	2,064,664	2,323,548
Total Liabilities and Capitalization			
Liabilities:			
Accounts payable and accrued liabilities	$	14,057	10,201
Workers' compensation actuarial liability		20,121	12,859
Total liabilities		34,178	23,060
Capitalization:			
Payable to U.S. Treasury (notes 3 and 4(b))		2,142,985	2,440,675
Accumulated net deficit (note 6)		(112,499)	(140,187)
Total capitalization		2,030,486	2,300,488
Commitments and contingencies (note 5)			
Total liabilities and capitalization	$	2,064,664	2,323,548

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Revenues and Expenses

Years ended September 30, 2014 and 2013

(In thousands)

	2014	2013
Operating revenues:		
Sales of electric power	$ 291,120	303,685
Other operating revenues	7,806	8,629
Total operating revenues	298,926	312,314
Operating expenses, excluding depreciation expense:		
Operations	69,039	63,616
Maintenance	32,080	29,319
Purchased power	12,601	15,001
Purchased transmission services	38,574	39,425
Total operating expenses, excluding depreciation expense	152,294	147,361
Depreciation expense (note 6)	37,572	41,412
Total operating expenses	189,866	188,773
Net operating revenues	109,060	123,541
Interest expenses:		
Interest on payable to U.S. Treasury	95,599	102,830
Interest charged to construction	(14,227)	(20,947)
Net interest expenses	81,372	81,883
Net revenues	$ 27,688	41,658

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Changes in Capitalization

Years ended September 30, 2014 and 2013

(In thousands)

	Payable to U.S. Treasury	Accumulated net deficit	Total capitalization
Total capitalization as of September 30, 2012 (note 6)	$ 2,396,249	(181,845)	2,214,404
Additions:			
Congressional appropriations	151,259	—	151,259
Interest	102,830	—	102,830
Transfers of property and services, net	4,686	—	4,686
Total additions to capitalization	258,775	—	258,775
Deductions:			
Payments to U.S. Treasury	(214,349)	—	(214,349)
Total deductions to capitalization	(214,349)	—	(214,349)
Net revenues for the year ended September 30, 2013	—	41,658	41,658
Total capitalization as of September 30, 2013 (note 6)	2,440,675	(140,187)	2,300,488
Additions:			
Congressional appropriations	114,967	—	114,967
Interest	95,599	—	95,599
Total additions to capitalization	210,566	—	210,566
Deductions:			
Payments to U.S. Treasury	(199,611)	—	(199,611)
Transfers of property and services, net	(919)	—	(919)
Rate adjustments to congressional appropriations (note 4(b))	(260,118)	—	(260,118)
Rate adjustments to interest (note 4(b))	(47,608)	—	(47,608)
Total deductions to capitalization	(508,256)	—	(508,256)
Net revenues for the year ended September 30, 2014	—	27,688	27,688
Total capitalization as of September 30, 2014	$ 2,142,985	(112,499)	2,030,486

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

	2014	2013
Cash flows from operating activities:		
Net revenues	$ 27,688	41,658
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	37,572	41,412
Interest on payable to U.S. Treasury, net	81,372	81,883
Unfunded retirement benefits	4,300	3,997
(Increase) decrease in assets:		
Accounts receivable, net	5,649	653
Other assets	(54)	(36)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	3,856	(5,129)
Net cash provided by operating activities	160,383	164,438
Cash flows from investing activities:		
Investment in utility plant	(51,857)	(92,613)
Cash flows from financing activities:		
Congressional appropriations	114,967	151,259
Payments to U.S. Treasury	(199,611)	(214,349)
Transfers (to) from other federal agencies, net	(5,219)	689
Net cash used in financing activities	(89,863)	(62,401)
Net increase in cash	18,663	9,424
Cash, beginning of year	274,162	264,738
Cash, end of year	$ 292,825	274,162
Supplemental disclosures:		
Cash paid for interest	$ 81,372	81,883
Interest charged to construction	14,227	20,947
Adjustments to power allocations impacting (note 4(b)):		
Congressional appropriations	260,118	—
Payments to U.S. Treasury (interest on payable to U.S. Treasury)	47,608	—
Investment in utility plant	307,726	—

See accompanying notes to combined financial statements.

(1) Organization and Basis of Presentation

The Southeastern Federal Power Program (the "Program") consists of all activities associated with the production, transmission, and disposition of all federal power marketed under Section 5 of the Flood Control Act of 1944 (the "Flood Control Act") in the 11 states of Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. The accompanying combined financial statements of the Program include the accounts of two separate federal government agencies—the Southeastern Power Administration ("Southeastern"), a component of the United States Department of Energy ("DOE"), and the hydroelectric generating plants and power operations of the United States Army Corps of Engineers (the "Corps of Engineers", the "Corps", or the "generating agency"), an agency of the United States Department of Defense ("DOD"), for which Southeastern markets the related power. Southeastern and the Corps are separately managed and financed, and each maintains its own accounting records. For purposes of financial and operational reporting, the facilities and related operations of Southeastern and the respective hydroelectric generating activity of the Corps are combined as the Program. U.S. government agencies are exempt from all income taxes imposed by any governing body, whether it is a federal, state or commonwealth of the United States, or a local government.

Southeastern purchases, transmits, and markets power within four separate power systems: Georgia-Alabama-South Carolina; Jim Woodruff; Cumberland; and Kerr-Philpott. As of September 30, 2014, the four power systems include 22 hydroelectric generating projects owned and operated by the Corps of Engineers. The projects serve multiple purposes, including power, recreation, navigation, and flood control. The costs of multipurpose generating agency projects are assigned to specific hydroelectric power functions through a cost allocation process administratively developed pursuant to relevant law. These combined financial statements include only those expenses and net assets of the Corps that are expected to be recovered through sales of power and other related revenues. Costs of multipurpose Corps projects are allocated to power and non-power purposes. The portion of total project costs allocated to power is included in the accompanying combined financial statements.

Over the life of the combined hydroelectric power systems, the accumulated net deficit represents timing differences between the recognition of expenses and related revenues. Southeastern and the generating agency are nonprofit federal agencies; therefore, ultimately the agencies will collect funds through power rates to repay all congressional appropriations amounts as discussed in note 2(b). Thus, the individual power systems may at any point in time have an accumulated deficit, but there are no operating or going-concern implications because of the federal government's backing of the DOE and DOD and the liquidity and positive cash flows from operations of the Program.

(2) Summary of Significant Accounting Policies

(a) General

The accompanying combined financial statements are prepared in accordance with accounting principles and standards prescribed by the DOE, including the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission ("FERC"). These practices integrate accounting principles generally accepted in the United States of America as established by the Financial Accounting Standards Board ("FASB"), except where deviations therefrom are specifically authorized by federal statute or allowed by federal regulation.

(b) Congressional Authority and Financing

Southeastern and the Corps of Engineers receive congressional appropriations through the Energy and Water Development and Related Agencies Appropriations Bill to finance their operations. Southeastern's appropriations are fully offset by the use of receipts collected from the sale of Federal hydroelectric power, resulting in a net zero appropriation. The Corps also receives appropriations to finance construction of its hydroelectric projects; however, the Corps' operations are not fully offset by the use of receipts. In accordance with the Flood Control Act, Southeastern is responsible for repayment to the federal government, with interest, of its appropriations and the portion of Corps appropriations allocated for construction and operation of the power projects.

Congressional appropriations received by the Corps are authorized and allocated to individual projects. It is the intent of the Corps' project management to distribute congressional appropriations in amounts approximating estimated current year expenses and to adjust the distribution as necessary within the limits of the Corps' transfer authority. Project costs that are not specific to a project purpose are distributed between power and non-power purposes based on project cost allocations.

(c) Operating Revenues

Operating revenues are recorded on an accrual basis as earned. Cash received from sales, less amounts legislatively authorized for use in operations, is deposited directly with the U.S. Treasury and is reflected as repayments to the U.S. Treasury, which is included in the payable to U.S. Treasury in the combined balance sheets.

Southeastern markets federal power and provides services necessary to market power on behalf of nonfederal entities. The agent transactions are evaluated under the provisions of FASB Accounting Standards Codification ("ASC") Subtopic 605-45, *Revenue Recognition – Principal Agent Considerations*, to determine whether the transactions should be reported at the gross or net value. Generally, the Program's policy is to record agent activity at the gross value because Southeastern typically shares in the risks and rewards of the transaction.

Southeastern may provide multiple services to any one customer. Significant services may include the sale of electric power, ancillary services, and the purchase and resale of electric power and transmission services. The Program accounts for these arrangements in accordance with the provisions of ASC Subtopic 605-25, *Revenue Recognition – Multiple Element Arrangements*, subsequently updated by FASB Accounting Standards Update ("ASU") No. 2009-13, *Multiple-Deliverable Revenue Arrangements*. Services qualify as separate units of accounting with distinguishable rates, terms, and delivery schedules. Services are provided to meet customer contractual obligations, and revenues are recognized when services are provided.

Other operating revenues generally consist of water revenue and headwater benefits attributable to the power function, and other miscellaneous revenue.

Accounts receivable, net represents amounts billed to customers but not collected, net of the related allowance for uncollectible accounts of $0 as of September 30, 2014 and 2013. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances. Interest may be charged on the principal portion of delinquent receivables based on rates

published by the U.S. Treasury for the period in which the debt became delinquent. Delinquent receivables are charged off against the allowance once they are deemed uncollectible.

Billing methods used by Southeastern include net billing and bill crediting. Net billing is a two-way agreement between Southeastern and a customer, whereby both parties buy and sell power or services to each other. Monthly sales and purchases, including any customer advances received, are netted between the two parties and the customer is provided either an invoice or a credit. Bill crediting involves a three-way net billing arrangement among Southeastern, a customer, and a third party whereby all three parties are involved in purchase and sales transactions. Under both billing methods, purchase and sales transactions are reported "gross" in the combined financial statements.

(d) Confirmation and Approval of Rates

The Flood Control Act requires rates to be set to encourage widespread use of electricity at the lowest possible cost, consistent with sound business principles, to preference customers (i.e., public bodies and cooperatives). Rates are established under the requirements of the Flood Control Act, related legislation, and executive departmental directives, and are intended to provide sufficient revenues to meet all required payments of Program costs. Such Program costs include operation and maintenance expenses, wheeling fees to connecting utilities for transmission of power to customers, purchased power costs to meet firm power sale requirements, and payment to the U.S. Treasury for the investment in utility plant and interest thereon. Southeastern has established rate schedules for each of the four power systems. These rates generally are adjusted at five-year intervals, or less, under the terms of Southeastern's current power sales contracts and DOE Order RA 6120.2.

The rates required under present DOE policy make provision for recovery of the federal investment in generating facilities within the service lives of the assets, not to exceed 50 years from the date placed in service. Operation and maintenance expenses and expensed interest are intended to be recovered annually. Utility plant assets are depreciated on a straight-line basis over their estimated service lives, which differ from the established repayment period. Accordingly, there are differences in the amortization of utility plant for financial reporting and for rate-setting purposes.

The Secretary of Energy (the "Secretary") has delegated authority to the Administrator of Southeastern to develop power and transmission rates for the power projects. The Deputy Secretary has the authority to confirm, approve, and place such rates in effect on an interim basis. Projects under construction are included in the combined financial statements at the multi-purpose allocation rate specific to the related project. Any adjustments to the multi-purpose allocation rate, as determined necessary by Southeastern's Administrator, are recorded at the time the asset is placed into service and subjected to repayment (note 4(b)).

The Secretary has delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis and to remand or to disapprove such rates. FERC's review is limited to (1) whether the rates are the lowest possible consistent with sound business principles; (2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy including repayment within the period permitted by law; and (3) the assumptions and projections used in developing the rates. FERC shall reject decisions of Southeastern's Administrator only if it finds them to be arbitrary, capricious, or in violation of the law. Refunds with interest, as determined by FERC, are authorized if final approved rates are lower than rates approved on an interim basis. However, if at

any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. As of September 30, 2014, there were no power systems awaiting final rate approval. There were no revenues subject to refund.

The Program's combined financial statements are presented in accordance with the provisions of ASC 980, *Regulated Operations*. The provisions of ASC 980 require, among other things, regulated enterprises to reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

(e) Cash

Cash consists of power receipts authorized by Congress for use in operations and the unexpended balance of funds appropriated by Congress for the Program-related activities of Southeastern and the Corps of Engineers, and is maintained by the U.S. Treasury.

(f) Utility Plant

Utility plant in service and construction work-in-progress consist principally of generating facilities and are stated at cost, net of contributions by entities outside the Program. Cost includes direct labor and materials; payments to contractors; indirect charges for engineering, supervision, and similar overhead items; and interest on federal funds used during construction. The costs of additions, replacements, and betterments are capitalized, while repairs and minor replacement costs are charged to operation and maintenance expenses. The cost of utility plant retired, together with removal costs less salvage, is charged against accumulated depreciation when the property is removed from service. There were no material asset retirements or asset retirement obligations as of September 30, 2014 and 2013.

The policy of the Program is to move capitalized costs into completed utility plant at the time a project or feature of a project is deemed to be substantially complete. A project is substantially complete when it is providing benefits and services for the intended purpose, and is generating project purpose revenue, where applicable.

Plant assets of the Program are currently depreciated using the straight-line method over the estimated service lives ranging from 5 to 100 years for transmission and generation assets. Moveable equipment includes computers, copiers, cranes, energy testing equipment, trucks, and wood chippers. Moveable equipment is currently depreciated using the straight-line method over the estimated service lives ranging from 5 to 50 years.

The Program is subject to ASC Topic 980. Most completed utility plant, as required by law, is recovered through the rates, regardless of whether an asset is abandoned, loses value, is disposed of significantly before the end of its estimated useful life, or is destroyed. Consequently, the cash flow is not impaired, regardless of the condition of the asset.

(g) Interest on the Payable to U.S. Treasury

Interest, a component of total capitalization, is accrued annually on the outstanding payable to the U.S. Treasury based on federal statutes and power system legislation. Such interest is reflected as an

expense in the combined financial statements. Interest rates on unpaid balances ranged from 2.50% to 6.25% for the years ended September 30, 2014 and 2013.

Interest charged to construction represents interest on federal funds used during utility plant construction and is included in the cost of completed projects. Applicable interest rates ranged from 2.75% to 6.25% for the years ended September 30, 2014 and 2013, depending on the year in which construction of the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(h) Transfer of Property and Services, Net

Transfer of property and services, net is a component of total capitalization that represents the cumulative receipt of transfers of assets or costs offset by the cumulative disbursement of transfers of revenues. Transfers are recognized upon physical delivery of the asset or performance of the service. Transfers occur between projects, project types, and other federal entities. Transfers between Southeastern and the generating agency eliminate upon combination.

(i) Retirement Benefits

Substantially all employees engaged in Program activities participate in either the Civil Service Retirement System ("CSRS") or the Federal Employees Retirement System ("FERS"). Both are contributory defined benefit pension plans and are not covered under the Employee Retirement Income Security Act of 1974. Pension benefit expense under CSRS and FERS is equivalent to 7.0% and up to 11.9%, respectively, of eligible employee compensation. Contributions to these plans are submitted to benefit program trust funds administered by the Office of Personnel Management (the OPM), and totaled $4.4 million and $4.3 million for the years ended September 30, 2014 and 2013, respectively. The contribution levels, as legislatively mandated, do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding include direct appropriations to the OPM, not Southeastern or the Corps. In addition to the amounts contributed to the CSRS and FERS, the Program has recorded $4.1 million and $3.9 million of annual pension and retirement benefits expense for the years ended September 30, 2014 and 2013, respectively. This amount reflects the contribution made on behalf of Southeastern and the Corps by OPM to the benefit program trust funds. This expense will be recovered from power customers through the future sale of power. Costs incurred by OPM on behalf of the Program are included as transfers of property and services, net within the payable to U.S. Treasury on the combined balance sheets.

Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program ("FEHB") and the Federal Employee Group Life Insurance Program ("FEGLI"). FEHB is calculated at $5,169 and $5,190 per employee in fiscal years 2014 and 2013, respectively, and FEGLI is based on 0.02% of base salary for each employee enrolled in these programs.

As a federal agency, all postretirement activity is managed by OPM; therefore, neither the assets of the plans nor the actuarial data with respect to the accumulated plan benefits relative to Program employees are included in this report.

(j) Derivative and Hedging Activities

The Program analyzes derivative financial instruments under ASC Topic 815, *Derivatives and Hedging*, subsequently updated by ASU No. 2010-11, *Scope Exception Related to Embedded Credit Derivatives*. This standard requires that all derivative instruments, as defined by ASC Topic 815, be recorded on the combined balance sheets at fair value, unless exempted. Changes in a derivative instrument's fair value must be recognized currently in the combined statements of revenues and expenses, unless the derivative has been designated in a qualifying hedging relationship. The application of hedge accounting allows a derivative instrument's gains and losses to offset related results of the hedged item in the combined statements of revenues and expenses to the extent effective. ASC Topic 815 requires that the hedging relationship be highly effective and that an organization formally designate a hedging relationship at the inception of the contract to apply hedge accounting.

The Program enters into contracts for the purchase and sale of electricity for use in its business operations. ASC Topic 815 requires the Program to evaluate these contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted from ASC Topic 815 as normal purchases or normal sales. Normal purchases and sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented and exempted from the accounting and reporting requirements of ASC Topic 815.

The Program's policy is to fulfill all derivative and hedging contracts by either providing power to a third party or by taking delivery of power from a third party as provided for in each contract. The Program's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond the Program's estimated capacity to deliver or receive power. Accordingly, the Program evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under accounting principles generally accepted in the United States. As of September 30, 2014 and 2013, the Program has no contracts accounted for as derivatives.

(k) Concentrations of Credit Risk

Financial instruments, which potentially subject the Program to credit risk, include accounts receivable for customer purchases of power, transmission, or other products and services. These receivables are primarily held with a group of diverse customers that are generally large, stable, and established organizations, which do not represent a significant credit risk. Although the Program is affected by the business environment of the utility industry, management does not believe a significant risk of loss from a concentration of credit exists.

(l) Regulatory Assets

Regulatory assets are assets that result from rate actions of Southeastern's Administrator and other regulatory agencies. These assets arise from specific costs that would have been included in the determination of net revenue or deficit in one period, but are deferred until a different period for purposes of developing rates to charge for services, per the requirements of ASC Topic 980. The Program defers costs as regulatory assets so that the costs will be recovered through the rates during the periods when the costs are scheduled to be repaid. This ensures the matching of revenues and expenses. The Program does not earn a rate of return on its regulatory assets. The asset listed below is regulatory in nature:

Workers' Compensation Actuarial Cost

Workers' compensation consists of two elements: (i) the actuarial liability associated with workers' compensation cases incurred for which additional claims may still be made in the future ("future claims"); and (ii) a liability for expenses associated with actual claims incurred and paid by the U.S. Department of Labor ("DOL"), the program administrator, to whom Southeastern and the Corps must reimburse. The DOL, the DOE, and the DOD determine the Program's actuarial liability associated with workers' compensation cases. The actuarial liability for future claims was determined using historical benefit payment patterns and the U.S. Treasury discount rates.

The recovery of these future claims will be deferred for purposes of the rate-making process until such time the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as a regulatory asset in the combined balance sheets to reflect the effects of the rate-making process. The Program's cumulative unpaid expenses associated with estimated future claims are approximately $20.1 million and $12.9 million as of September 30, 2014 and 2013, respectively.

(m) Fair Value of Financial Instruments

ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial instruments. The carrying (recorded) value of short-term financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, and other assets approximates the fair value of these instruments because of the short maturity of these instruments. The fair value of the payable to U.S. Treasury and of certain unfunded and actuarially based liabilities cannot be determined as the future payout dates have yet to be determined.

(n) Use of Estimates

The preparation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America requires Program management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Significant items subject to such estimates and assumptions include the useful lives of completed utility plant; allowance for doubtful accounts; employee benefit obligations; and other contingencies. Estimates have also been used in allocating the reimbursable power activity of the generating agency for the purpose of repayment to the U.S. Treasury. Actual results could differ significantly from those estimates.

(3) Payable to U.S. Treasury

The payable to U.S. Treasury in each of the generating projects is to be repaid to the U.S. Treasury within the service lives of the assets, not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis.

Southeastern follows the provisions of DOE Order RA 6120.2 in setting priorities for repayment. Order RA 6120.2 requires that annual revenues be first applied to current-year operating expenses, excluding depreciation, and interest, net of interest charged to construction and interest credited on operating revenues deposited with the U.S. Treasury. All annual amounts for such expenses have been paid through fiscal year 2014, except for $12.3 million at the Georgia-Alabama-South Carolina power system, which will be recovered in future periods. Remaining revenues are to be first applied to repayment of operating deficits, if any, and then to repayment of the outstanding principal. Annual net revenues available for repayment are generally applied first against investments in projects bearing the highest interest rates.

Capitalization in certain multipurpose facilities, primarily dams and structures integral to hydroelectric power generation required to be repaid from the power revenues, has been determined from final cost allocation studies based on project evaluation standards approved by Congress.

(4) Utility Plant

(a) Utility plant as of September 30, 2014 and 2013 consists of the following (in thousands):

		2014	2013
Utility plant:			
Structures and facilities	$	2,155,843	2,080,603
Buildings		48,572	48,500
Land		361,596	361,596
Movable equipment		20,310	20,431
Gross completed plant		2,586,321	2,511,130
Accumulated depreciation		(994,583)	(958,344)
Net completed plant		1,591,738	1,552,786
Construction work-in-progress		136,200	454,366
Net utility plant	$	1,727,938	2,007,152

In accordance with FERC guidelines, the Program excludes contributed plant within the combined balance sheets to eliminate the impact on power rates. As of September 30, 2014 and 2013, contributed plant, net, used in the Program's operations totaled approximately $586,000.

As of September 30, 2014, major projects included in construction work-in-progress included spillway gate rehabilitation, security camera installation, switchgear relocation, governor replacement, exciter replacement, and intake gate machinery upgrade in the Kerr-Philpott power system; switchyard upgrade, microwave system installation, and battery room modification in the Georgia-Alabama-South

Carolina power system; and dam safety remediations, turbine rehabilitation, and generation modifications in the Cumberland power system.

As of September 30, 2013, major projects included in construction work-in-progress included tainter gate installations, generator and turbine upgrades, and exciter, governor, and headgate machinery replacements in the Kerr-Philpott power system; bridge crane and transformer upgrades and a main circuit breaker replacement in the Georgia-Alabama-South Carolina power system; and two safety remediations in the Cumberland power system.

(b) Adjustments to Multi-Purpose Utility Plant Allocation Rates

In fiscal year 2014, scheduled remediation efforts to the Wolf Creek project within the Cumberland power system were completed and placed into service. The remediation efforts addressed problems with karst foundation seepage. Total project costs of $656.9 million included $555.3 million in construction remediation costs and $101.6 million in interest during construction. Typically, multi-purpose rehabilitation costs are allocated to the power function based on established cost studies at 55.11%.

In evaluating the impact of the construction remediation efforts on the Program's rates, Southeastern's Administrator determined the costs represented dam safety remediation costs under the Dam Safety Act (Section 1203 of the Water Resources Development Act of 1986) rather than major rehabilitation costs. Further, Southeastern's Administrator concluded that including the remediation costs at the typical multi-purpose allocation rate would not provide for the lowest possible rate consistent with sound business principles, as required under the Secretary's delegation order (note 2(d)). Accordingly, effective September 30, 2014, Southeastern's Administrator imposed a rate action to cap repayment of the remediation costs at 15% under the Dam Safety Act. These costs were then allocated at the project's multi-purpose allocation rate of 55.11%. Consequently, Program management recorded a rate action adjustment to the Wolf Creek project of $260.1 million to utility plant in service and $47.6 million to accumulated interest payable, resulting in a reduction of $307.7 million in the payable to U.S. Treasury.

During fiscal year 2013, there were no rate actions resulting in adjustments to multi-purpose utility plant allocation rates. As of September 30, 2014, other remediation projects under construction potentially subject to the Safety of Dams Act include the Center Hill project within the Cumberland power system. As of September 30, 2014 and 2013, allocated construction in progress balances pertaining to Center Hill totaled $105.7 million and $79.9 million, respectively, and are included in the combined financial statements at the project's typical multi-purpose allocation rate of 42.55%. In accordance with Program policy, final determination of these costs, in regards to rate setting, will be made when the project is completed and placed into service.

(5) Commitments and Contingencies

(a) General

Southeastern and the Corps of Engineers are presently parties to certain claims and legal actions arising in the ordinary course of Program activities. However, in the opinions of management, such claims and actions will not have a material adverse impact on the Program's financial position, results of operations, or cash flows. Power-related claims against the Corps of Engineers whose ultimate disposition will be paid by the U.S. Treasury Judgment Fund and are not subject to reimbursement from power revenues are excluded from the combined financial statements and notes thereto.

(b) Power Contract Commitments

Southeastern has entered into agreements for power and transmission purchases that vary in length. Southeastern's long-term commitments for these power and transmission contracts are subject to the availability of federal funds and contingent upon authority from Congress. The budgeted amounts are as follows (in thousands):

	Purchased power	Purchased transmission services	Total
Fiscal year ending September 30,			
2015	$ 1,000	40,010	41,010
2016	1,000	41,987	42,987
2017	1,000	43,154	44,154
2018	1,000	44,368	45,368
2019	1,000	45,654	46,654
	$ 5,000	215,173	220,173

To fulfill its contractual obligations to deliver power, Southeastern has historically had to purchase a certain level of transmission services under these arrangements. Southeastern fully intends to provide ongoing services to power customers and will continue to acquire resources under these contracts.

(6) Adjustment to Accumulated Depreciation

During the year ended September 30, 2014, Southeastern identified an error relating to an overstatement of accumulated depreciation associated with the Richard B. Russell project within the Georgia-Alabama-South Carolina system. The Program recognized the cumulative effect of the error on periods prior to those that are presented herein by decreasing accumulated depreciation and accumulated net deficit by approximately $44.7 million as of October 1, 2012.

The following table presents the effects of the immaterial error that was corrected on the combined balance sheet as of September 30, 2013, and the statement of revenues and expenses for the year ended September 30, 2013 (in thousands):

	As of and for the year ended September 30, 2013		
	As previously reported	Adjustment	As adjusted
Balance sheet:			
Accumulated depreciation	$ (1,007,566)	49,222	(958,344)
Net completed plant	1,503,564	49,222	1,552,786
Total assets	2,274,326	49,222	2,323,548
Accumulated net deficit	(189,409)	49,222	(140,187)
Total capitalization	2,251,266	49,222	2,300,488
Total liabilities and capitalization	2,274,326	49,222	2,323,548
Statement of revenues and expenses:			
Depreciation expense	45,887	(4,475)	41,412

Impacted financial statement line items appearing in the combined statement of changes in capitalization have also been revised accordingly. Cash flows from operating, investing and financing activities for the above period were not impacted by the immaterial correction of the error.

(7) Subsequent Events

The Program has evaluated subsequent events as of September 30, 2014 through the date the combined financial statements were available to be issued on May 15, 2015, and identified no subsequent events requiring disclosure.

Schedule 1

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2014

(In thousands)

Assets		GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	$	1,805,187	73,368	204,928	502,838	2,586,321
Accumulated depreciation		(639,329)	(28,177)	(66,109)	(260,968)	(994,583)
Net completed plant		1,165,858	45,191	138,819	241,870	1,591,738
Construction work-in-progress		21,908	265	3,375	110,652	136,200
Net utility plant		1,187,766	45,456	142,194	352,522	1,727,938
Cash		112,027	1,225	10,858	168,715	292,825
Accounts receivable, net		18,434	1,150	1,105	2,732	23,421
Regulatory assets		8,318	1,795	4,003	6,005	20,121
Other assets		168	6	96	89	359
Total assets	$	1,326,713	49,632	158,256	530,063	2,064,664
Total Liabilities and Capitalization						
Liabilities:						
Accounts payable and accrued liabilities	$	6,545	528	788	6,196	14,057
Workers' compensation actuarial liability		8,318	1,795	4,003	6,005	20,121
Total liabilities		14,863	2,323	4,791	12,201	34,178
Capitalization:						
Payable to U.S. Treasury		1,494,298	46,637	142,554	459,496	2,142,985
Accumulated net revenues (deficit)		(182,448)	672	10,911	58,366	(112,499)
Total capitalization		1,311,850	47,309	153,465	517,862	2,030,486
Commitments and contingencies						
Total liabilities and capitalization	$	1,326,713	49,632	158,256	530,063	2,064,664

See accompanying independent auditors' report.

Schedule 1

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2013

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	$ 1,799,602	73,660	204,748	433,120	2,511,130
Accumulated depreciation	(614,271)	(26,749)	(62,017)	(255,307)	(958,344)
Net completed plant	1,185,331	46,911	142,731	177,813	1,552,786
Construction work-in-progress	18,582	130	1,770	433,884	454,366
Net utility plant	1,203,913	47,041	144,501	611,697	2,007,152
Cash	94,964	517	11,682	166,999	274,162
Accounts receivable, net	19,997	1,540	1,399	6,134	29,070
Regulatory assets	4,869	1,549	1,475	4,966	12,859
Other assets	173	6	35	91	305
Total assets	$ 1,323,916	50,653	159,092	789,887	2,323,548
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	$ 5,963	91	642	3,505	10,201
Workers' compensation actuarial liability	4,869	1,549	1,475	4,966	12,859
Total liabilities	10,832	1,640	2,117	8,471	23,060
Capitalization:					
Payable to U.S. Treasury	1,518,723	48,907	143,351	729,694	2,440,675
Accumulated net revenues (deficit)	(205,639)	106	13,624	51,722	(140,187)
Total capitalization	1,313,084	49,013	156,975	781,416	2,300,488
Commitments and contingencies					
Total liabilities and capitalization	$ 1,323,916	50,653	159,092	789,887	2,323,548

See accompanying independent auditors' report.

Schedule 2

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2014

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	$ 202,004	10,897	20,744	57,475	291,120
Other operating revenues	5,474	53	515	1,764	7,806
Total operating revenues	207,478	10,950	21,259	59,239	298,926
Operating expenses, excluding depreciation expense:					
Operations	30,551	2,170	6,900	29,418	69,039
Maintenance	23,902	1,928	3,182	3,068	32,080
Purchased power	10,588	2,013	—	—	12,601
Purchased transmission services	24,350	324	3,994	9,906	38,574
Total operating expenses, excluding depreciation expense	89,391	6,435	14,076	42,392	152,294
Depreciation expense	26,005	1,557	4,199	5,811	37,572
Total operating expenses	115,396	7,992	18,275	48,203	189,866
Net operating revenues	92,082	2,958	2,984	11,036	109,060
Interest expenses:					
Interest on payable to U.S. Treasury	69,650	2,401	5,762	17,786	95,599
Interest charged to construction	(759)	(8)	(67)	(13,393)	(14,227)
Net interest expenses	68,891	2,393	5,695	4,393	81,372
Net revenues (deficit)	$ 23,191	565	(2,711)	6,643	27,688

See accompanying independent auditors' report.

Schedule 2

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2013

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	$ 201,921	14,917	24,061	62,786	303,685
Other operating revenues	5,933	88	808	1,800	8,629
Total operating revenues	207,854	15,005	24,869	64,586	312,314
Operating expenses, excluding depreciation expense:					
Operations	26,641	2,258	6,614	28,103	63,616
Maintenance	22,834	1,466	3,313	1,706	29,319
Purchased power	12,554	2,367	80	—	15,001
Purchased transmission services	23,540	344	5,634	9,907	39,425
Total operating expenses, excluding depreciation expense	85,569	6,435	15,641	39,716	147,361
Depreciation expense	29,855	1,519	4,220	5,818	41,412
Total operating expenses	115,424	7,954	19,861	45,534	188,773
Net operating revenues	92,430	7,051	5,008	19,052	123,541
Interest expenses:					
Interest on payable to U.S. Treasury	70,593	2,624	5,842	23,771	102,830
Interest charged to construction	(1,051)	(35)	(72)	(19,789)	(20,947)
Net interest expenses	69,542	2,589	5,770	3,982	81,883
Net revenues (deficit)	$ 22,888	4,462	(762)	15,070	41,658

See accompanying independent auditors' report.

Schedule 3

SOUTHEASTERN FEDERAL POWER PROGRAM
Schedule of Amount and Allocation of Gross Utility Plant Investment (unaudited)
As of September 30, 2014
(In thousands)

Projects in service and other	Total	Allocated to: Power	Navigation	Flood risk management	Fish and wildlife	Recreation	Dam Safety	Other		Percent of total plant investment returnable from power revenue
Allatoona	$ 82,062	59,952	—	10,259	—	11,619	—	232	(a)	73.1%
Buford	100,645	81,313	2,142	4,746	—	12,444	—	—		80.8%
Carters	178,694	146,773	—	20,311	—	11,610	—	—		82.1%
J. Strom Thurmond	186,571	161,494	4,360	4,105	—	16,612	—	—		86.6%
Walter F. George	286,215	190,473	82,590	—	348	12,804	—	—		66.5%
Hartwell	207,932	176,278	4,016	15,966	—	11,672	—	—		84.8%
Alabama Power Projects	242,830	133,867	86,968	—	—	21,995	—	—		55.1%
West Point	173,268	86,315	2,719	22,159	13,953	48,122	—	—		49.8%
Richard B. Russell	902,793	789,022	—	874	—	112,897	—	—		87.4%
Marketing facilities	1,608	1,608	—	—	—	—	—	—		100.0%
Total GA-AL-SC System	2,362,618	1,827,095	182,795	78,420	14,301	259,775	—	232		77.3%
Jim Woodruff	123,178	73,583	41,566	—	—	8,029	—	—		59.7%
Marketing facilities	50	50	—	—	—	—	—	—		100.0%
Total Jim Woodruff System	123,228	73,633	41,566	—	—	8,029	—	—		59.8%
Barkley	221,861	65,207	123,345	24,903	—	8,406	—	—		29.4%
J. Percy Priest	72,515	15,879	—	27,118	—	29,518	—	—		21.9%
Cheatham	68,448	23,653	40,262	—	—	4,533	—	—		34.6%
Cordell Hull	95,960	44,215	17,558	—	—	27,653	—	6,534	(b)	46.1%
Old Hickory	80,285	46,259	29,411	—	—	4,615	—	—		57.6%
Center Hill	334,806	156,654	—	169,549	—	7,906	—	697	(c)	46.8%
Dale Hollow	45,188	29,475	—	13,650	—	2,063	—	—		65.2%
Wolf Creek	910,948	203,870	—	128,704	—	19,774	558,354	246	(c)	22.4%
Laurel	52,177	28,311	—	—	—	17,536	—	6,330	(b)	54.3%
Marketing facilities	553	553	—	—	—	—	—	—		100.0%
Contributions in aid of construction	(586)	(586)	—	—	—	—	—	—		100.0%
Total Cumberland Basin System	1,882,155	613,490	210,576	363,924	—	122,004	558,354	13,807		32.6%
John H. Kerr	226,049	190,641	—	26,210	—	8,814	—	384	(a)	84.3%
Philpott	32,247	17,360	—	9,418	—	5,469	—	—		53.8%
Marketing facilities	302	302	—	—	—	—	—	—		100.0%
Total Kerr-Philpott System	258,598	208,303	—	35,628	—	14,283	—	384		80.6%
Total	$ 4,626,599	2,722,521	434,937	477,972	14,301	404,091	558,354	14,423		58.8%

(a) Water supply
(b) Area redevelopment
(c) World War II suspension costs

See accompanying independent auditors' report.

SEPA

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