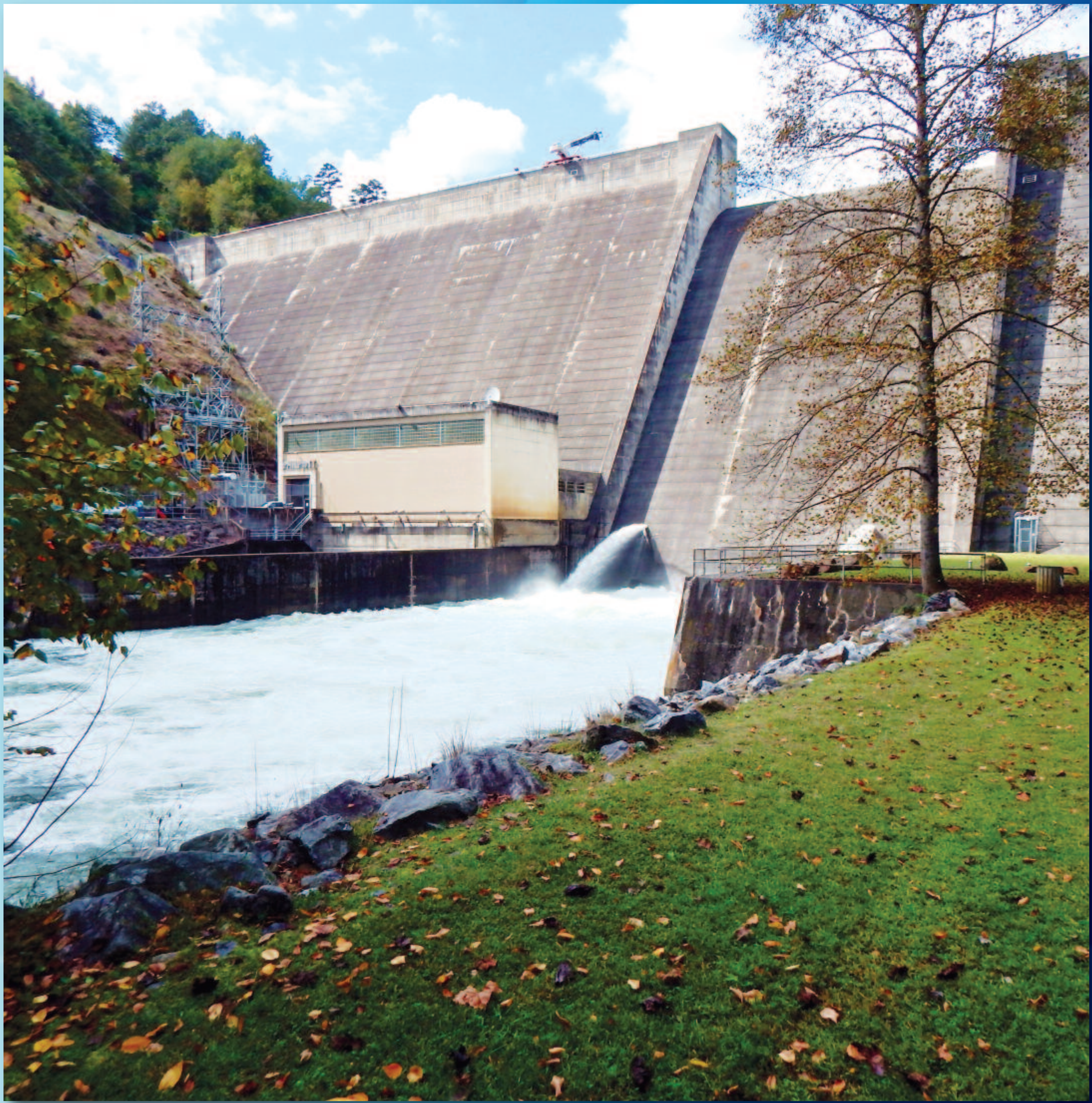
2017 ANNUAL REPORT



SOUTHEASTERN POWER ADMINISTRATION

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SouthEastern Power Administration

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southeastern-power-administration

FAST FACTS

Brian Stewart, US Army Corps of Engineers Park Ranger at Philpott Project in Bassett, Virginia, is credited with photographing the concrete dam, spillway and powerhouse on the cover and above. In Fiscal Year 2017, Philpott's Federal power customers signed an agreement authorizing a $20 million work effort to rehabilitate the two main generators.

Administrator:

Kenneth E. Legg

Headquarters:

1166 Athens Tech Road
Elberton, GA 30635-6711
Telephone: 706-213-3800
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Website:

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	196
Public Bodies	288
Investor-Owned Utilities	1
Total	485

Financial Data:

Power Revenues and Other Operating Revenues	$314 million
Total Capital Investment	$2.8 billion
Investment Remaining	$1.6 billion
Cumulative Investment Repaid	$1.1 billion
Cumulative Interest Paid on Investment	$2.2 billion

LETTER TO THE SECRETARY

Secretary Perry:

I am pleased to submit Southeastern Power Administration's (Southeastern) Fiscal Year 2017 Annual Report. This report reflects our agency's programs, accomplishments, operational and financial activities for the 12-month period beginning October 1, 2016, and ending September 30, 2017.

In 2017, Southeastern marketed more than 6.0 billion kilowatt-hours of energy to 485 wholesale customers in ten southeastern states. Power revenues totaled nearly $302 million.

Southeastern proposed new rate schedules for the Georgia-Alabama-South Carolina System. The adjustment was a revenue reduction of about nine percent to the level required to meet repayment obligations. The new rate schedules were effective October 1, 2017, for a period of five years.

Southeastern Federal Power Customers, LLC, the United States Army Corps of Engineers (Corps) and Southeastern entered into an agreement to fund the rehabilitation of generating units at the Philpott Project in Virginia. These units have been operating for 64 years. The approved funding of $20 million is based on current generator output and incidental uprate. An alternative proposal to increase generator capacity will be considered once detailed cost estimates are available.

Southeastern negotiated new scheduling and transmission arrangements with Duke Energy Progress for the delivery of power to three Cumberland System preference customers in western North Carolina. The new arrangements were effective January 1, 2017.

Southeastern, Tennessee Valley Authority, the Corps and the Tennessee Valley Public Power Association executed a two-year extension to their customer funding agreement. Continued funding under this agreement will support the 20 year, $1.2 billion program to modernize the Cumberland System Projects.

Anticipating another challenging year as we compete in the electric power industry, Southeastern will continue to partner with our customers, the Corps and other stakeholders to provide reliable hydropower at the lowest possible cost consistent with sound business principles.

Sincerely,

Ken Legg

Kenneth E. Legg
Administrator

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.

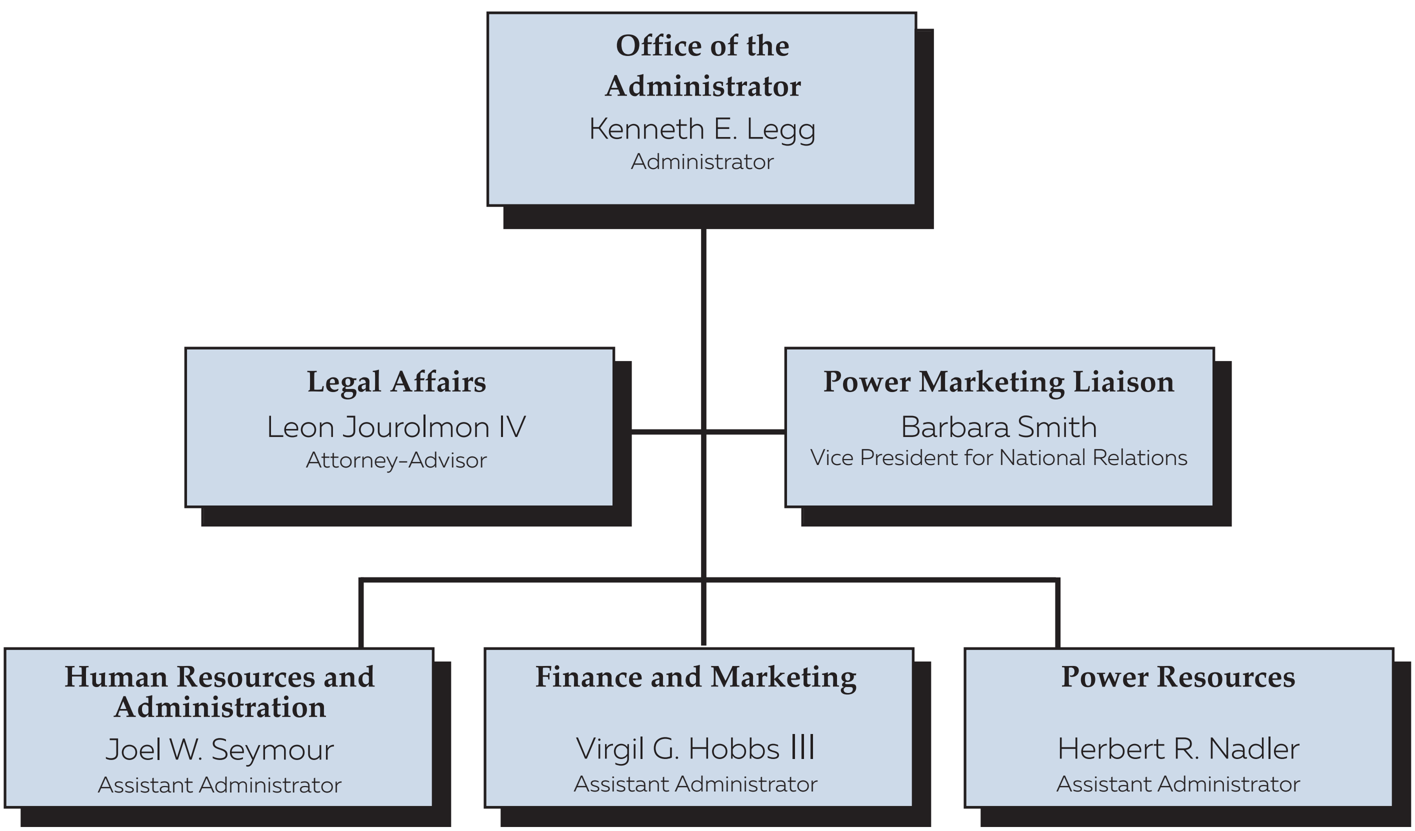
Vision Statement

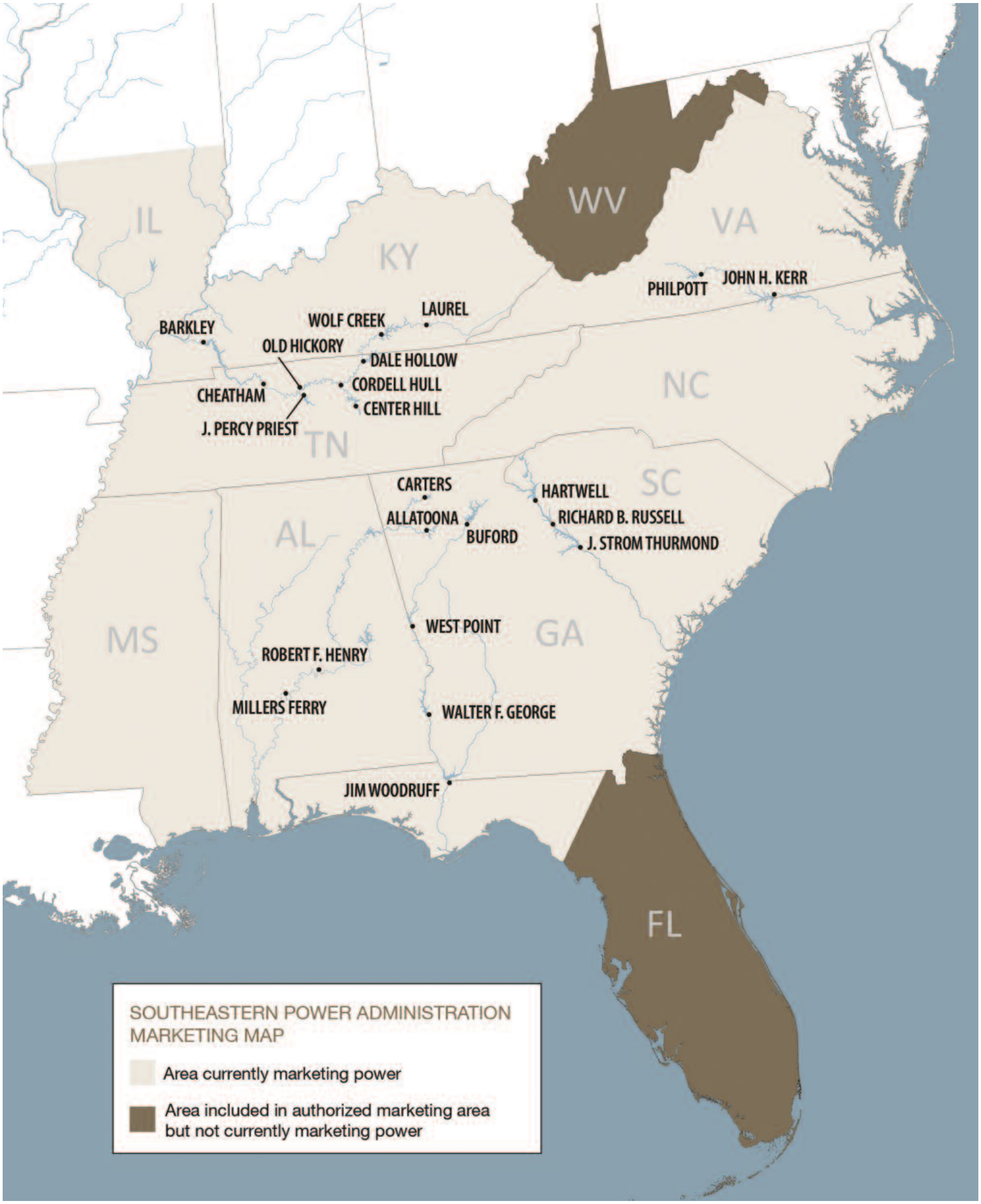
Southeastern will excel in an evolving energy market by maintaining a well-trained, flexible workforce in an open, rewarding and safe environment.

Southeastern Power Administration

U.S. Department of Energy

Organizational Chart




IL
KY
WV
VA
TN
NC
SC
AL
MS
GA
FL
BARKLEY
WOLF CREEK
LAUREL
OLD HICKORY
DALE HOLLOW
CORDELL HULL
CENTER HILL
CHEATHAM
J. PERCY PRIEST
PHILPOTT
JOHN H. KERR
CARTERS
ALLATOONA
BUFORD
HARTWELL
RICHARD B. RUSSELL
J. STROM THURMOND
WEST POINT
ROBERT F. HENRY
MILLERS FERRY
WALTER F. GEORGE
JIM WOODRUFF
SOUTHEASTERN POWER ADMINISTRATION MARKETING MAP
Area currently marketing power
Area included in authorized marketing area but not currently marketing power

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 from reservoir projects operated by the Corps in the states of Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia.

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 regional 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."

Kerr-Philpott

Rate schedules were effective on October 1, 2015, and approved on a final basis by the Federal Energy Regulatory Commisson (FERC) for the Kerr-Philpott System on February 24, 2016.

Cumberland

In FY 2015, Southeastern proposed a rate adjustment that included the cost recovery of dam safety repairs at Wolf Creek and Center Hill. The rates were effective on October 1, 2015, and were approved on a final basis by FERC for the Cumberland System on May 6, 2016.

Georgia-Alabama-South Carolina

New Georgia-Alabama-South Carolina System rate schedules were approved on an interim basis by the Deputy Secretary of Energy on August 24, 2017. The rate schedules were effective on October 1, 2017, and approved on a final basis January 25, 2018, by FERC.

Jim Woodruff

Rates were effective on October 1, 2016, and approved on a final basis by FERC for the Jim Woodruff System on on October 20, 2016.

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 Table 1.

Status of Repayment as of September 30, 2017 (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	5,069	4,473	1,871	596	1,275
Jim Woodruff	1957	281	241	77	40	37
Cumberland	1949	1,751	1,387	576	364	212
Kerr-Philpott	1953	655	552	227	103	124
TOTAL		**7,756**	**6,653**	**2,751**	**1,103**	**1,648**

Georgia-Alabama-South Carolina Customer Funding:

On July 25, 2017, Sub-Agreement #23 was signed which approved funds for the replacement of the digital microwave communication system for the Allatoona, Buford, Carters, Millers Ferry, and Jones Bluff (Robert F. Henry Project) powerhouses in the Mobile District. The total funds collected for this work item was $2,200,000.

Sub-Agreement #24 was signed on July 25, 2017, and funds were approved for the replacement of the static frequency converter disconnect switches enabling pump operations at the Richard B. Russell powerhouse. The total funding requirement for this work item was $530,000, which included funds available from closed-out completed work items.

Amendment #5 to Sub-Agreement #9 was signed on July 25, 2017, to increase the funding requirement by $1,000,000 for the replacement of the plant controls at the Allatoona powerhouse for a total funding requirement of $4,200,000, which included funds available from closed-out completed work items.

Kerr-Philpott System Customer Funding:

On May 26, 2017, Sub-Agreement #4 was signed to provide funding for the replacement of turbines and generators at the Philpott powerhouse. The total funding requirement for this work item was $20,000,000, and the collection of these funds are on-going.

Customer Funding Summary

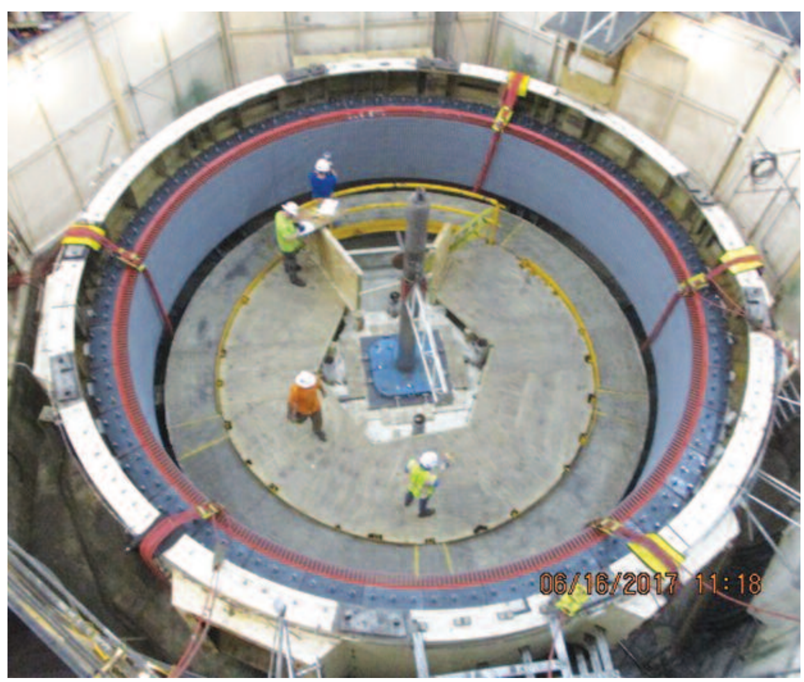
GA-AL-SC System

Digital Microwave System $2,200,000
Russell Disconnect Switches $530,000
Allatoona Plant Controls........................$4,200,000

Kerr-Philpott System

Philpott Turbines and Generators..........$20,000,000

New main power transformer installed in the Miller's Ferry switchyard stepping-up voltage from generator to transmission system.



Carters Pump Generator 3 stator core replaced and ready to have new insulated conductors installed. The machine is scheduled to return to service in June 2018.

Cumberland System Customer Funding:

In May 2017, the Long-Term Memorandum of Agreement Project Review Committee recommended the formal approval of Sub-Agreement #8. The Program Coordination Committee members, representing 24 customers outside the Tennessee Valley Authority service territory, signed the document approving funding of intake and draft tube gate lifting equipment at Barkley, Cheatham, Old Hickory and Cordell Hull. The Sub-Agreement also initiated funding the rehabilitation of Old Hickory which includes replacing generators, turbines, transformers, excitation equipment and direct current system components.

In August 2017, the Short-Term Memorandum of Agreement Sub-Agreement #3 was signed on behalf of the 154 Tennessee Valley preference entities collecting $25 million of customer funds to rehabilitate the four generators at the Barkley powerhouse.

Customer Funding Summary

Cumberland System

Barkley Rehabilitation ....$ 25,650,000
Old Hickory Rehabilitation ....$ 17,250,000

Brown Thornton representing Cumberland System Preference Customers in Kentucky and Mississippi poses in the Center Hill Generator 2 water passage next to new wicket gates and aerating turbine. As the turbine rotates, air is naturally drawn into hollow passages through valves and piping, shown in photo at right, to improve downstream dissolved oxygen levels.

Human Capital Update

To maintain organization effectiveness and accomplish Southeastern's mission, we continue to utilize our allocation of Full-Time Equivalent (FTE) employees. Southeastern experienced limited turn-over among its professional staff. As needed, we have followed our succession plan and employee development initiatives to acquire necessary training, make suitability determinations, initiate security clearances and facilitate certifications for new and existing employees.

Information Management

Southeastern's Information Management Team has completely rewritten our Energy Management System in preparation for the completion of the Corps upgrade to the Supervisory Control and Data Acquisition (SCADA) equipment within the Georgia-Alabama-South Carolina system. The new Energy Management System has improved processing speed and error-handling, as well as increased network performance and an enhanced alerting capability. We are currently working with the Corps to test the new SCADA as they finalize development and begin installation.

Below, Mobile District Corps Management hosted a tour of Buford Powerhouse for Sawnee Electric Membership Corporation Board Members and Executive Staff along with Georgia Transmission Corporation, Georgia System Operations Corporation and Oglethorpe Power Corporation Chief Officers. Southeastern Administrator and Senior Staff provided a briefing of the Federal Power Program.

Above and below, Senior Leaders from the US Bureau of Reclamation, US Army Corps of Engineers Headquarters, Great Lakes & Ohio River Division, Mississippi Valley Division, Northwestern Division, South Atlantic Division, Southwestern Division, US Department of Energy Headquarters, Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration and Western Area Power Administration met throughout the year forming the Federal Hydropower Council. The group is focusing efforts to improve, alter and adopt common infrastructure acquisition strategies, cost accounting procedures, water storage program administration, operations & maintenance efficiencies and communication plans to sustain the Nation's government owned and marketed power systems.

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 serving 203 preference customers in Alabama, Florida, Georgia, Mississippi, North Carolina and South Carolina.

Operational Performance

Generation from streamflow for FY 2017 was 65% of the average. Figure A illustrates the percent of average generation by project, and Figure B shows system generation for the years 2008 through 2017.

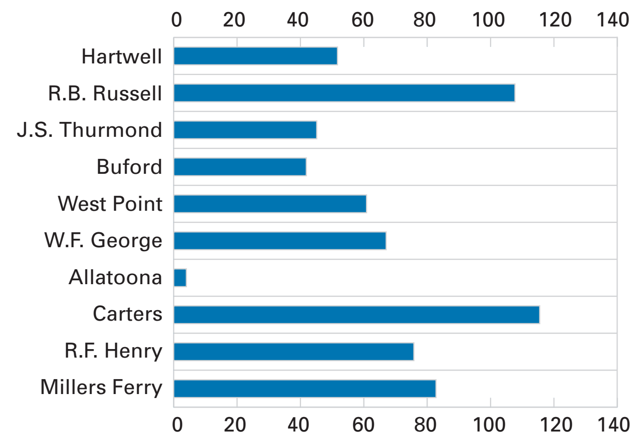
The customer funded work on the Allatoona switchyard was completed. The customers agreed to fund the repair work at the project that was caused during the fire in May of 2014. Allatoona Generator #4 was returned as the station service unit for the plant in June 2017. The full plant is expected to return to service in June 2018.

During March of FY 2017, Carters reversible pump Generator #3 was removed from service for rehabilitation. The return to service is scheduled for June 2018.

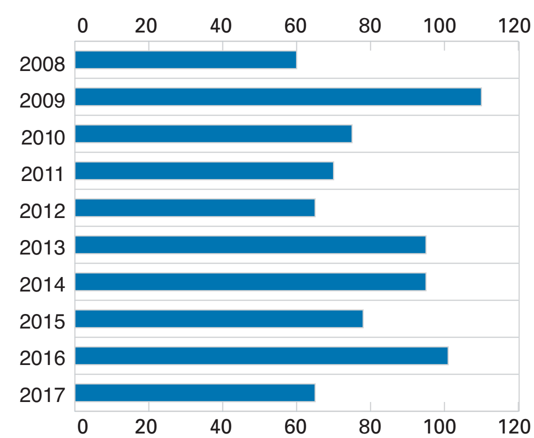
Work on analyzing the vibration problem on Generator #3 at Hartwell continued during FY 2017. The solution to mitigate the vibrations requires a reconfiguration of the generator windings. The projected return of the unit is October 2018.

West Point transformer installation was completed in August 2017.

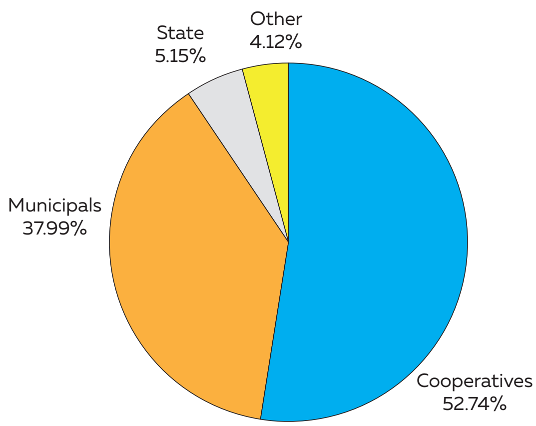
Actual Generation as a Percentage of Average Project Generation - Figure A



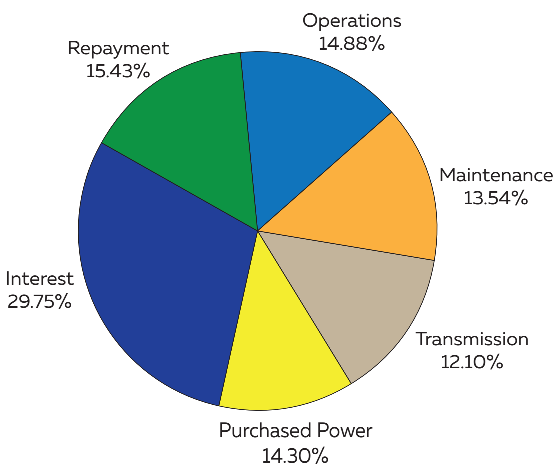
Actual Generation as a Percentage of Average System Generation - Figure B



FY 2017 Revenue by Source – Figure C



FY 2017 Application of Revenues – Figure D



Financial Performance

Total revenue for the Georgia-Alabama-South Carolina System in FY 2017 was $214.2 million. Of this amount, $205.4 million was derived from the sale of 2,595,445 megawatt-hours of energy and 2,184.2 megawatts of capacity. Total operating expenses, excluding depreciation, were $117.4 million. Interest charged to Federal investment was $63.7 million and repayment of the Federal investment was $33.1 million. Figure C shows the revenue by source for this system and Figure D shows the application of revenues.

Table 2 indicates the current rates. Current rates for the Georgia-Alabama-South Carolina System were approved on an interim basis August 24, 2017, by the Deputy Secretary of Energy. The rate schedules are effective for the period October 1, 2017, through September 30, 2022

Power Rates – Table 2

Product	Effective October 1, 2017
Capacity	4.09 $/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

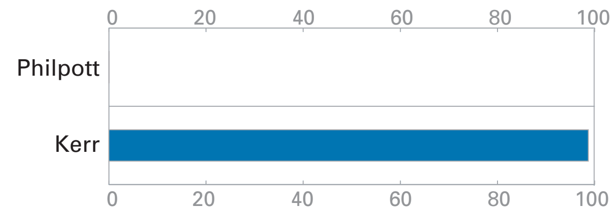
The Kerr-Philpott System consists of two projects – John H. Kerr on the Roanoke River and Philpott on the Smith River. Power generated at the projects is marketed to 75 preference customers in North Carolina and Virginia.

Operational Performance

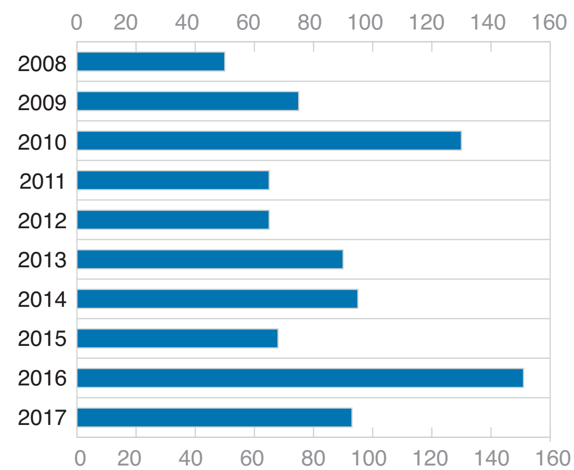
Generation for FY 2017 was 93% of average. Figure E illustrates the percent of average generation by project for the year. Figure F shows the system generation by year from 2008 through 2017.

In March 2016, Philpott Project experienced a breaker fire that forced a total plant outage. Contracts were awarded for fire cleanup and the replacement of generator control systems destroyed by the fire. The plant returned to service in September 2017. Generator #2 will remain unavailable until rehabilitation is complete.

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

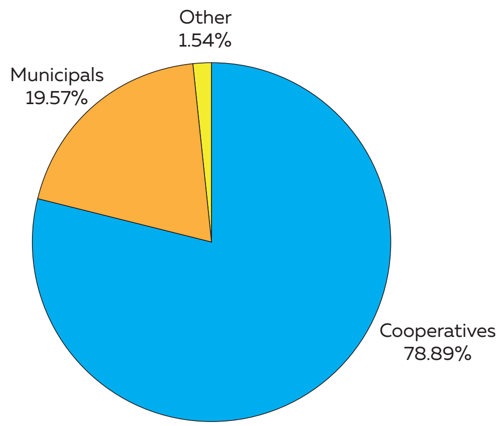


Actual Generation as a Percentage of Average System Generation - Figure F

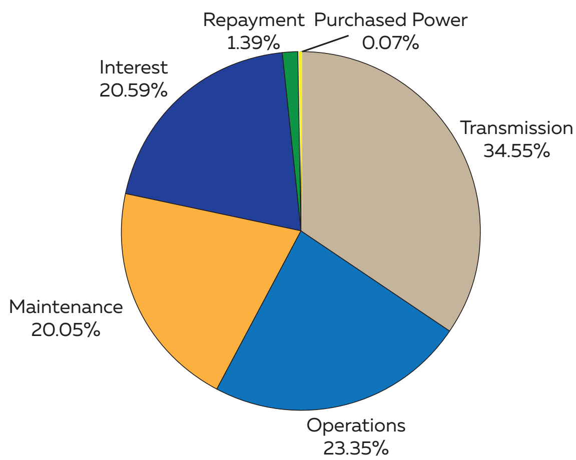


Steven Jones, Wilmington District Hydropower Chief (left) and Christopher Powell, Philpott Operations Project Manager, provide a Philpott Powerplant tour for Alice Wolfe, Blue Ridge Power Agency General Manager and Federal power municipal customers Durwin Joyce, City of Martinsville, Virginia, A.K. Briele, City of Salem, Virginia and Michael Goad, City of Radford, Virginia.

FY 2017 Revenue by Source – Figure G



FY 2017 Application of Revenues – Figure H



Financial Performance

Total revenue for the Kerr-Philpott System in FY 2017 was $26.2 million. Of this amount, $25.8 million was derived from the sale of 416,166 megawatt-hours of energy and 196.5 megawatts of capacity.

Total operating expenses, excluding depreciation, were $20.4 million. Interest charged to Federal investment was $5.4 million and repayment of the Federal investment was $0.4 million in FY 2017. Figure G shows the revenue by source for the Kerr-Philpott System and Figure H shows the application of revenues.

Table 3 indicates the current rates. Current rates for the Kerr-Philpott System were approved by FERC on a final basis on February 24, 2016. The rate schedules are effective for the period October 1, 2015, through September 30, 2020.

Power Rates – Table 3

Product	Through September 30, 2017
Capacity	3.65 $/kW/Month
Energy	14.80 mills/kWh

Rate schedules also provide an adjustment to true-up energy and capacity rates based on the cumulative net revenue available for repayment. The rates for capacity and energy for the period April 1, 2018, through March 31, 2019, will be as follows:

Capacity 3.96 $/kW/Month
Energy 15.60 mills/kWh

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.

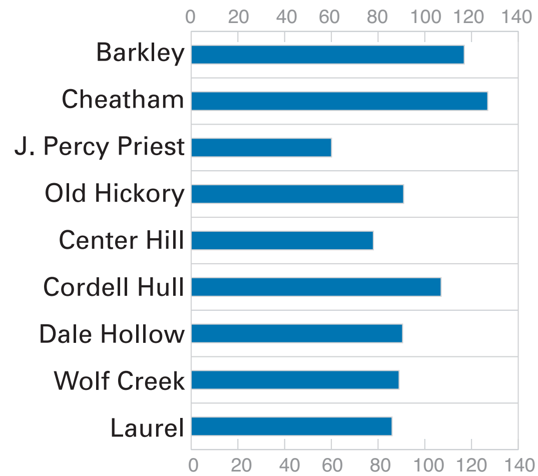
Operational Performance

Generation for the system during FY 2017 was 96% of average. The percentage of average generation by project is shown in Figure I, and Figure J shows system generation for the years 2008 through 2017.

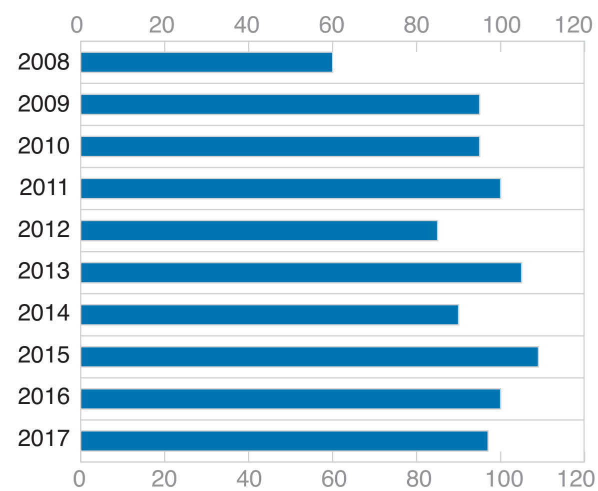
During FY 2017, partial peaking operation for scheduling continues under the Revised Interim Operating Plan due to the Dam Safety repair work at the Center Hill Project. The major rehabilitation of Center Hill Generator #2 was completed in August 2017. Following the return of Generator #2, the major rehabilitation of Center Hill Generator #1 was initiated. Generator #1 is expected to return June 2018.

The outage of Generator #4 at Old Hickory continued due to alignment problems. The major rehabilitation contract was awarded in March 2017. The Generator is expected to return to service in April 2019.

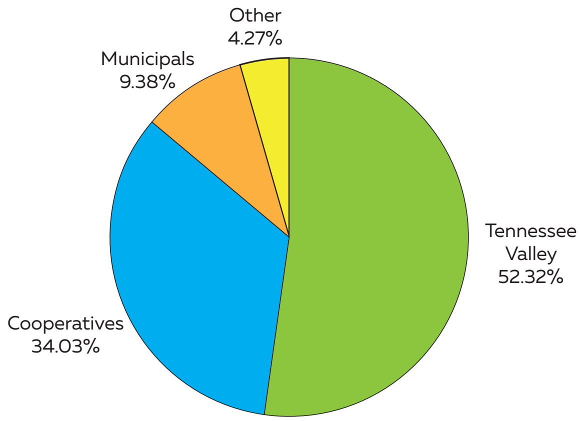
Actual Generation as a Percentage of Average Project Generation – Figure I



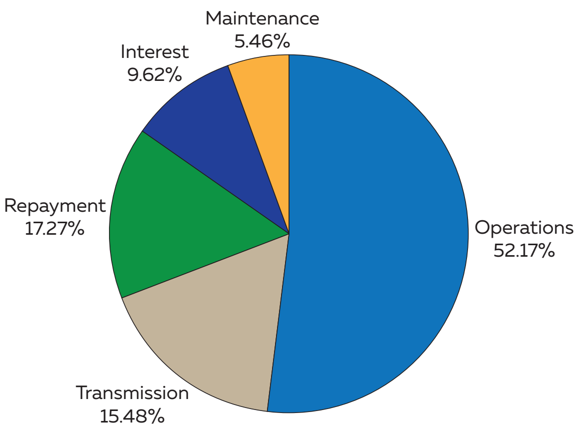
Actual Generation as a Percentage of Average System Generation – Figure J



FY 2017 Revenue by Source – Figure K



FY 2017 Application of Revenues – Figure L



Financial Performance

Total revenue for the Cumberland System in FY 2017 was $62.7 million. Of this amount, $60.0 million was derived from the sale of 2,820,121 megawatt-hours of energy and 829.5 megawatts of capacity. Total operating expenses, excluding depreciation, were $45.8 million. Interest charged to Federal investment was $6.0 million and repayment was $10.9 million. Figure K shows the revenue by source for the Cumberland System and Figure L shows the application of revenues.

Table 4 indicates the current rates. Current rates for the Cumberland System were approved by FERC on a final basis on May 6, 2016. The rate schedules are effective for the period October 1, 2015, through September 30, 2020.

Power Rates – Table 4

Product	Through September 30, 2017
Capacity	1.911 $/kW/Month Energy
Energy	12.53 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. Rate schedules also provide an adjustment to true-up capacity and energy rate based on transfers of specific power investment to plant in service for the preceding fiscal year. The rates for capacity and energy for the period April 1, 2018, through March 31, 2019, will be as follows:

Capacity 1.943 $/kW/Month
Energy 13.17mills/kWh

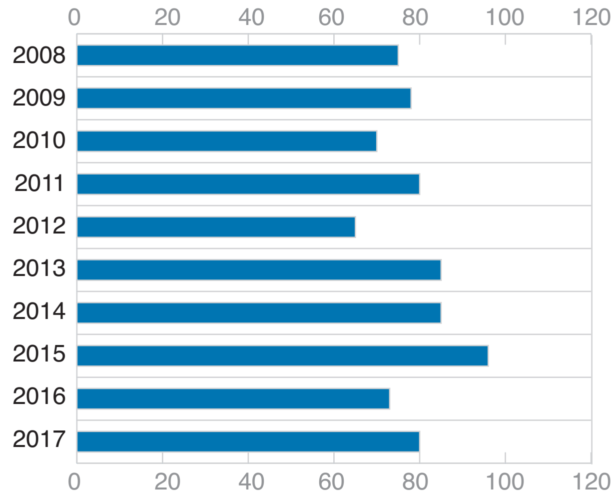
The Jim Woodruff System is a single-project system located on the border of Florida and Georgia. This system has six preference customers and one investor-owned utility located in the central panhandle of Florida.

Operational Performance

Generation during FY 2017 was 80% of average. Figure M illustrates the project's generation for the years 2008 through 2017.

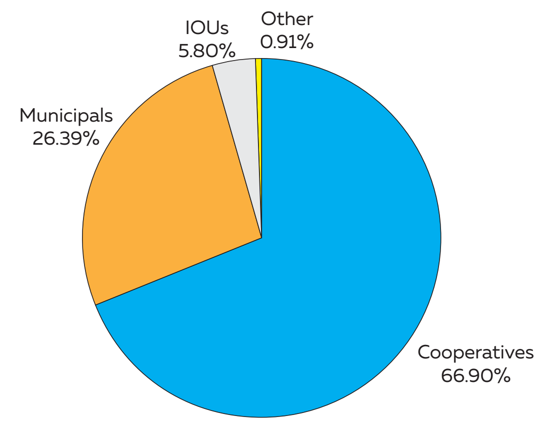
There were no significant operational issues in the Woodruff System during FY 2017.

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

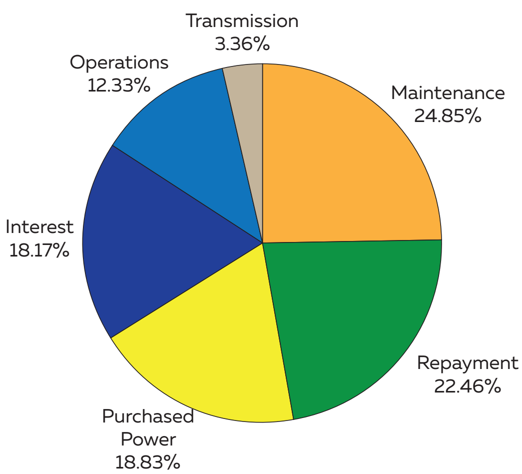


The Federal power generated from Lake Seminole and the Jim Woodruff Powerplant serve two municipal and four cooperative customers in Florida's central panhandle.

FY 2017 Revenue by Source – Figure N



FY 2017 Application of Revenues – Figure O



Financial Performance

Total revenue from the Jim Woodruff System was $10.7 million in FY 2017. Of this amount, $10.6 million was derived from the sale of 213,214 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 $1.9 million and repayment of the Federal investment was $2.4 million. Figure N shows the revenue by source for the System and Figure O shows the application of revenues.

Table 5 indicates the current rates. Current rates for the Jim Woodruff System were approved by FERC on a final basis October 20, 2016. The rate schedules were effective beginning October 1, 2016, and extend through September 30, 2021.

Power Rates – Table 5

Product	Through September 30, 2017	
Capacity	7.74 $/kW/Month	
Energy	20.44 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	19,953,524	2,240,982.80
Black Warrior EMC	18,494	26,049,506	2,492,546.30
Central Alabama EC	18,660	21,408,665	2,418,332.59
Clarke-Washington EMC	6,678	7,547,540	864,458.85
Coosa Valley EC	5,728	6,541,202	742,191.91
Dixie EC	7,273	8,377,245	942,965.62
Pea River EC	3,422	3,864,924	442,914.87
Pioneer EC	10,056	11,554,981	1,303,275.88
Tallapoosa River EC	11,494	13,084,988	1,488,828.07
Tombigbee EC	6,578	9,207,905	886,164.46
Wiregrass EC	8,467	9,658,817	1,097,055.17
PowerSouth Energy Cooperative	100,000	121,030,000	8,532,006.05
City of Alexander City	7,846	11,198,051	1,058,597.98
City of Dothan	52,461	74,922,056	7,079,119.04
City of Evergreen	4,047	5,770,309	545,913.82
City of Fairhope	6,248	8,920,172	843,050.11
City of Foley	21,199	30,254,670	2,860,311.33
City of Hartford	3,050	4,234,826	410,174.64
City of LaFayette	2,358	3,363,425	318,105.73
City of Lanett	5,321	7,594,383	717,921.66
City of Luverne	3,158	4,506,802	426,075.70
City of Opelika	20,809	29,706,351	2,807,795.68
City of Piedmont	3,869	5,411,971	521,138.18
City of Robertsdale	3,372	4,747,168	454,383.55
City of Sylacauga	16,494	23,054,649	2,221,319.43
City of Troy	10,079	10,273,890	1,305,663.04
City of Tuskegee	11,689	16,514,508	1,575,701.82
Alabama Total	**386,134**	**498,752,528**	**46,596,994.28**
Florida			
Choctawhatchee EC	1,231	1,419,874	159,558.82
West Florida ECA	8,402	9,717,080	1,089,611.58
Florida Total	**9,633**	**11,136,954**	**1,249,170.40**
Georgia			
Altamaha EMC	10,956	10,484,953	855,199.25
Amicalola EMC	11,513	11,014,005	898,598.43
Canoochee EMC	9,392	8,989,932	733,151.51
Carroll EMC	17,032	16,295,616	1,329,396.41
Central Georgia EMC	13,381	12,809,220	1,044,558.70
Coastal EMC	3,157	3,023,726	246,476.44
Cobb EMC	42,613	40,817,316	3,326,988.85
Colquitt EMC	38,410	36,741,429	2,997,854.50
Coweta-Fayette EMC	13,378	12,812,192	1,044,439.90
Diverse Power, Inc.	12,050	11,538,107	940,716.49
Excelsior EMC	8,914	8,530,233	695,795.49
Flint EMC	55,744	52,051,867	4,335,095.54
Grady EMC	10,439	9,985,624	814,753.59
Greystone Power Corporation	31,540	30,201,583	2,462,285.44
Habersham EMC	10,176	9,734,968	794,244.81
Hart EMC	18,630	17,815,405	1,453,944.70
Irwin EMC	8,246	7,886,253	643,560.22
Jackson EMC	48,415	46,338,686	3,779,263.64
Jefferson EMC	14,188	13,585,956	1,107,638.88
Little Ocmulgee EMC	7,754	7,413,672	605,121.54
Middle Georgia EMC	6,028	5,766,079	470,477.04
Mitchell EMC	18,023	17,240,781	1,406,687.76
Ocmulgee EMC	8,188	7,830,774	639,033.34
Oconee EMC	8,018	7,673,245	625,865.47
Okefenoke Rural EMC	9,487	9,077,120	740,493.37
Planters EMC	10,258	9,812,244	800,621.91
Rayle EMC	10,350	9,899,428	807,786.18
Satilla Rural EMC	30,374	29,054,312	2,370,650.14
Sawnee EMC	19,423	18,590,161	1,516,157.56
Slash Pine EMC	4,785	4,577,198	373,464.83
Snapping Shoals EMC	20,119	19,269,808	1,570,753.59
Southern Rivers Energy	6,842	6,548,763	534,088.61
Sumter EMC	11,437	10,945,646	892,752.39
Three Notch EMC	12,194	11,666,905	951,778.96
Tri-County EMC	6,416	6,144,541	500,904.45
Upson EMC	4,581	4,383,015	357,561.64
Walton EMC	31,322	30,012,356	2,445,652.02
Washington EMC	14,249	13,633,510	1,112,186.48
City of Acworth	2,303	3,245,207	206,299.31
City of Adel	6,902	9,719,568	618,143.89
City of Albany	60,831	85,725,726	5,449,301.11
City of Barnesville	2,635	3,712,354	236,025.44
City of Blakely	5,412	7,623,241	484,738.82
City of Brinson	156	220,438	13,986.94
City of Buford	2,356	3,319,658	211,042.12
City of Cairo	6,253	8,814,472	560,200.43
City of Calhoun	7,660	10,802,759	686,353.24
City of Camilla	6,072	8,550,240	543,798.71
City of Cartersville	17,152	24,166,068	1,536,384.75
City of College Park	15,559	21,936,896	1,394,005.10
City of Commerce	4,456	6,272,901	399,035.76
City of Covington	9,382	13,223,161	840,482.34
City of Dalton	45,822	67,118,113	4,125,717.81
City of Doerun	629	886,121	56,340.45
City of Douglas	10,180	14,341,392	911,837.92
City of East Point	33,488	47,171,555	2,999,453.57
City of Elberton	11,447	16,116,551	1,025,124.88
City of Ellaville	936	1,319,691	83,860.85
City of Fairburn	1,799	2,537,189	161,196.30
City of Fitzgerald	9,720	13,694,686	870,662.27
City of Forsyth	3,720	5,240,801	333,208.86
City of Fort Valley	9,417	13,268,417	843,534.33
City of Grantville	470	661,305	42,081.71
City of Griffin	18,157	25,583,559	1,626,438.25
City of Hampton	832	769,803	103,508.46
City of Hogansville	1,531	2,156,171	137,120.21
City of Jackson	2,067	2,912,364	185,152.85
City of LaFayette	6,607	9,307,891	591,800.43
City of Lagrange	17,096	24,097,451	1,531,579.33
City of Lawrenceville	4,795	6,764,860	429,695.26
City of Marietta	37,172	52,410,900	3,330,447.17
City of Monroe	7,223	10,173,570	646,932.68
City of Monticello	1,836	2,585,362	164,429.49
City of Moultrie	15,480	21,808,432	1,386,577.15
City of Newnan	6,893	9,712,262	617,447.78
City of Norcross	1,736	2,448,140	155,547.31
City of Oxford	458	646,706	41,054.22
City of Palmetto	923	1,300,714	82,682.92
City of Quitman	4,428	6,234,948	396,558.51
City of Sandersville	4,997	7,037,849	447,551.20
City of Sylvania	5,436	7,664,120	487,033.38
City of Sylvester	3,952	5,570,719	354,052.46
City of Thomaston	7,687	10,836,336	688,680.38
City of Thomasville	25,053	35,300,212	2,244,158.32
City of Washington	5,068	7,138,579	453,925.45
City of West Point	4,683	6,591,146	419,336.81
City of Whigham	319	449,627	28,577.88
Crisp County Power Commission	18,068	25,455,097	1,618,403.36
Town of Mansfield	379	532,840	33,925.34
Georgia Total	**1,095,655**	**1,265,374,797**	**91,061,433.58**
Mississippi			
Coast EPA	26,863	38,393,099	3,625,493.23
East Mississippi EPA	11,336	16,172,673	1,529,820.21
Singing River EPA	33,684	48,152,637	4,546,291.44
Cooperative Energy	68,000	67,974,000	5,347,393.26
Mississippi Total	**139,883**	**170,692,409**	**15,048,998.14**
North Carolina			
Blue Ridge EMC	7,311	11,054,334	690,698.44
EnergyUnited EMC	16,302	23,027,010	1,424,200.31
Haywood EMC	926	1,387,782	87,226.28
Pee Dee EMC	455	677,477	42,744.85
Rutherford EMC	24,018	36,202,626	2,266,527.16
Union EMC	11,633	17,517,235	1,097,442.90
City of Cherryville	1,478	914,959	108,799.88
City of Concord	8,007	5,093,829	713,373.62
City of Gastonia	15,971	9,883,364	1,175,589.73
City of Kings Mountain	2,896	1,841,795	258,002.42
City of Lincolnton	1,577	975,672	116,074.20
City of Monroe	7,693	4,761,690	566,288.34
City of Morganton	9,535	14,356,844	899,277.78
City of Newton	2,067	1,278,514	152,133.06
City of Shelby	5,892	3,645,428	433,679.97
City of Statesville	9,705	6,005,440	714,355.89
Town of Bostic	412	625,417	38,975.47
Town of Cornelius	361	223,564	26,576.31
Town of Dallas	1,299	825,667	115,715.86
Town of Drexel	879	1,326,318	82,966.97
Town of Forest City	2,721	1,731,233	242,429.06
Town of Granite Falls	828	512,123	60,940.93
Town of Huntersville	490	302,839	36,058.75
Town of Landis	1,098	678,894	80,807.68
Town of Maiden	1,235	763,773	90,894.23
Town of Pineville	490	302,839	36,058.75
North Carolina Total	**135,279**	**145,916,666**	**11,557,838.84**

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
South Carolina			
Central Electric Power Cooperative	180,700	241,943,262	19,327,458.49
Little River EC	522	593,271	64,044.19
City of Abbeville	2,959	4,460,170	250,076.42
City of Clinton	2,975	1,723,821	210,423.57
City of Easley	8,656	12,209,304	755,893.40
City of Gaffney	6,986	9,859,389	610,171.32
City of Georgetown	5,300	6,831,639	585,321.80
City of Greenwood	11,404	17,350,698	1,079,756.38
City of Greer	9,159	12,972,598	800,892.93
City of Laurens	5,891	8,335,072	514,952.45
City of Newberry	3,277	1,898,408	231,776.14
City of Orangeburg	13,779	15,543,720	1,687,786.44
City of Rock Hill	19,115	26,961,241	1,669,225.39
City of Seneca	2,688	1,643,040	197,438.45
City of Union	3,484	2,019,262	246,435.55
City of Westminster	678	392,438	47,946.98
Town of Bamberg	2,300	2,927,843	253,151.81
Town of Due West	285	181,187	25,388.89
Town of McCormick	522	573,129	63,916.96
Town of Prosperity	602	938,095	66,674.29
Town of Winnsboro	1,366	1,490,137	167,027.20
South Carolina PSA	135,000	132,723,800	11,025,614.92
South Carolina Total	**417,648**	**503,571,524**	**39,881,373.97**
Georgia-Alabama-South Carolina System Total	**2,184,232**	**2,595,444,878**	**205,393,809.21**

KERR-PHILPOTT SYSTEM

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
North Carolina			
Albemarle EMC	2,593	6,083,540	238,012.55
Brunswick EMC	3,515	8,431,939	378,828.71
Carteret-Craven EMC	2,735	6,468,485	293,268.40
Central EMC	1,239	2,972,168	133,533.12
Edgecombe-Martin County EMC	4,155	9,875,619	383,655.66
Four County EMC	4,198	10,070,350	452,439.09
Halifax EMC	2,606	6,198,161	249,504.90
Jones-Onslow EMC	5,184	12,435,611	558,705.12
Lumbee River EMC	3,729	8,945,292	401,892.56
Pee Dee EMC	2,968	7,119,771	319,875.84
Piedmont EMC	1,086	2,573,720	116,683.66
Pitt & Greene EMC	1,580	3,790,176	170,284.40
Randolph EMC	3,608	8,655,034	388,851.88
Roanoke EMC	5,528	13,044,940	508,760.44
South River EMC	6,119	14,678,530	659,474.61
Tideland EMC	3,098	7,367,588	296,364.31
Tri-County EMC	3,096	7,426,824	333,671.20
Wake EMC	2,164	5,191,100	233,224.90
City of Elizabeth City	2,073	1,553,770	292,530.20
City of Kinston	1,466	1,098,808	118,833.61
City of Laurinburg	415	311,054	33,639.77
City of Lumberton	895	670,825	72,548.39
City of New Bern	1,204	902,430	97,595.86
City of Rocky Mount	2,538	1,902,304	205,729.70
City of Washington	2,703	2,025,976	219,104.56
City of Wilson	2,950	2,211,106	239,126.27
Fayetteville Public Works Commission	5,431	4,070,684	440,235.52
Greenville Utilities Commission	7,534	5,642,614	610,704.19
Town of Apex	145	108,424	11,753.71
Town of Ayden	208	155,901	16,860.40
Town of Belhaven	182	136,415	25,682.84
Town of Benson	120	89,945	9,727.18
Town of Clayton	161	120,672	13,050.61
Town of Edenton	775	580,883	109,363.65
Town of Enfield	259	193,545	16,540.21
Town of Farmville	237	177,636	19,211.13
Town of Fremont	60	44,970	4,863.50
Town of Hamilton	40	29,981	5,644.58
Town of Hertford	203	152,154	28,646.21
Town of Hobgood	46	34,479	6,491.28
Town of Hookerton	30	22,487	2,431.84
Town of La Grange	93	69,709	7,538.59
Town of Louisburg	857	31,571,164	556,109.24
Town of Pikeville	40	29,981	3,242.42
Town of Red Springs	117	87,697	9,484.03
Town of Robersonville	232	173,887	32,738.48
Town of Scotland Neck	304	227,857	42,898.79
Town of Selma	183	136,844	14,833.92
Town of Smithfield	378	283,148	30,640.55
Town of Tarboro	2,145	1,607,736	302,690.43
Town of Wake Forest	149	111,496	12,077.89
Town of Windsor	331	247,344	46,655.33
North Carolina Total	**93,705**	**198,112,775**	**9,776,256.23**
Virginia			
B-A-R-C EC	3,740	8,813,625	632,182.42
Central Virginia EC	7,956	18,766,239	1,345,664.70
Community EC	4,230	9,982,288	715,256.11
Craig-Botetourt EC	1,692	7,049,443	338,304.29
Mecklenburg EMC	11,344	26,988,199	1,922,040.16
Northern Neck EC	3,944	9,262,006	666,090.10
Northern Virginia EC	3,268	7,433,877	548,061.83
Prince George EC	2,530	5,941,396	427,283.90
Rappahannock EC	22,427	52,949,452	3,792,649.04
Shenandoah Valley EMC	9,938	23,604,273	1,683,126.30
Southside EC	14,575	34,322,924	2,463,184.19
City of Bedford	1,200	905,645	76,726.74
City of Danville	5,600	4,226,343	358,058.20
City of Franklin	1,003	749,505	141,375.56
City of Martinsville	1,600	1,207,526	102,302.33
City of Radford	1,300	981,576	83,114.33
City of Salem	2,200	1,661,127	140,654.97
Harrisonburg Electric Commission	2,691	2,037,169	379,788.86
Town of Blackstone	389	290,687	54,830.63
Town of Culpepper	391	295,998	55,182.99
Town of Elkton	171	127,784	24,102.94
Town of Richlands	500	377,353	31,969.50
Town of Wakefield	106	79,208	14,940.97
Virginia Total	**102,795**	**218,053,643**	**15,996,891.06**
Kerr-Philpott System Total	**196,500**	**416,166,418**	**25,773,147.29**

JIM WOODRUFF SYSTEM

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
Florida			
Central Florida EC	2,300	11,189,524	560,098.15
Suwannee Valley EC	4,800	23,054,487	1,159,128.44
Talquin EC	13,500	81,982,749	4,158,899.68
Tri-County EC	5,200	24,951,941	1,305,400.46
City of Chattahoochee	1,800	10,718,062	560,895.48
City of Quincy	8,400	45,174,963	2,272,824.86
Duke Energy Florida	-	16,142,726	623,260.87
Jim Woodruff System Total	**36,000**	**213,214,452**	**10,640,507.94**

CUMBERLAND SYSTEM

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
Illinois			
Southern Illinois Power Cooperative	24,000	35,000,000	1,292,393.04
Illinois Total	**24,000**	**35,000,000**	**1,292,393.04**
Kentucky			
Big Rivers Electric Corporation	154,000	236,398,000	8,412,184.58
East Kentucky Power Cooperative	157,000	221,955,000	8,680,491.33
City of Barbourville	1,916	3,479,350	126,085.13
City of Bardstown	1,957	3,553,804	128,721.42
City of Bardwell	472	857,126	31,010.46
City of Benham	216	392,244	14,257.81
City of Corbin	2,263	4,109,483	148,903.88
City of Falmouth	514	933,395	33,788.07
City of Frankfort	13,605	24,705,925	895,038.20
City of Henderson	10,000	14,970,000	550,025.08
City of Madisonville	6,796	12,341,158	447,126.85
City of Nicholasville	2,226	4,042,293	146,450.15
City of Owensboro	21,775	39,542,188	1,432,514.41
City of Paris	1,188	2,157,342	78,130.42
City of Providence	1,072	1,946,692	70,540.90
City of Princeton	313	1,633,720	35,462.87
City of Paducah	2,183	11,394,280	247,353.36
Kentucky Total	**377,496**	**584,412,000**	**21,478,084.92**
Mississippi			
Cooperative Energy	44,000	57,123,000	2,274,805.84
Mississippi Delta Energy Agency	10,000	14,039,000	524,604.81
Municipal Energy Agency of Mississippi	16,000	23,427,000	864,747.25
Mississippi Total	**70,000**	**94,589,000**	**3,664,157.90**
North Carolina			
French Broad EMC	7,029	10,616,911	517,215.54
Haywood EMC	2,057	3,107,386	151,372.23
Town of Waynesville	1,457	2,060,074	105,433.02
North Carolina Total	**10,543**	**15,784,371**	**774,020.79**
Tennessee Valley Region			
TVA Acquisition for 154 TVPPA Members	347,504	2,090,336,000	32,798,208.30
Cumberland System Total	**829,543**	**2,820,121,371**	**60,006,864.95**
Grand Total	**3,246,275**	**6,044,947,119**	**301,816,329.39**

Public and investor owned utility hydropower operators gathered and networked in Nashville for the 2017 Joint Hydro. Ninety-five individuals participated, the most ever in the meeting's 40 year history.

Federal hydropower customers, owners and marketers convene biannually at Southeastern Federal Power Alliance, above, and Team Cumberland, below, meetings to discuss matters of mutual concern.

SOUTHEASTERN POWER ADMINISTRATION

2017 FINANCIAL OVERVIEW AND FINANCIAL STATEMENTS

SEPA
SouthEastern Power Administration

CONTENTS

2017 Financial Overview & Financial Statements

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 for which Southeastern markets the power. 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, 2017, 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 combined 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 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

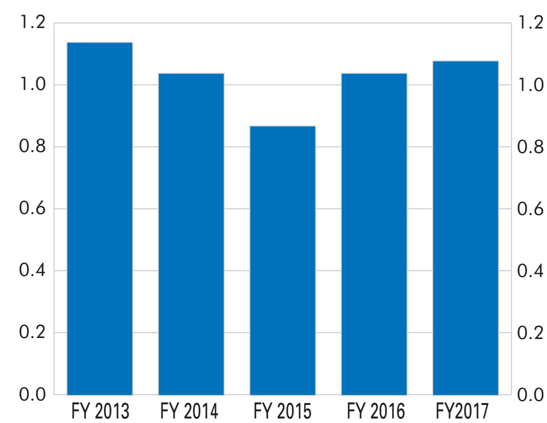
During FY 2017, Southeastern marketed 6.0 billion kilowatt-hours of energy to 485 wholesale customers. The Program's revenues totaled $313.8 million, $15.4 million less than in FY 2016.

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.

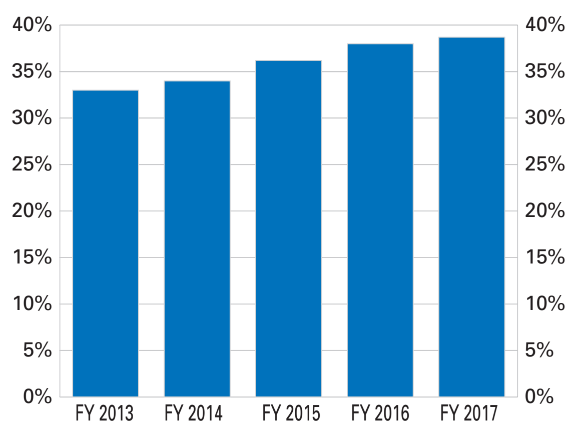
Specifically, the debt service coverage ratio measures revenues in excess of operating expenses requiring cash, or cash flow from operations available to make debt service payments of principal and interest. A ratio of 1.0 would generally indicate just enough cash flow to make principal and interest 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.

Debt Service Coverage Ratio – Figure P



Over the last five years, the Program's debt service ratio has ranged from about 0.870 to 1.140. The Program's debt service ratio for FY 2013 is 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. FY 2015 was below average due to higher than expected operating expenses and streamflow conditions. FY 2016 was slightly above normal due to improved streamflow conditions and lower than expected operating expenses. FY 2017 actual generation was better than planned. The Program's debt service coverage ratio for fiscal years 2013-2017 is illustrated in Figure P.

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



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

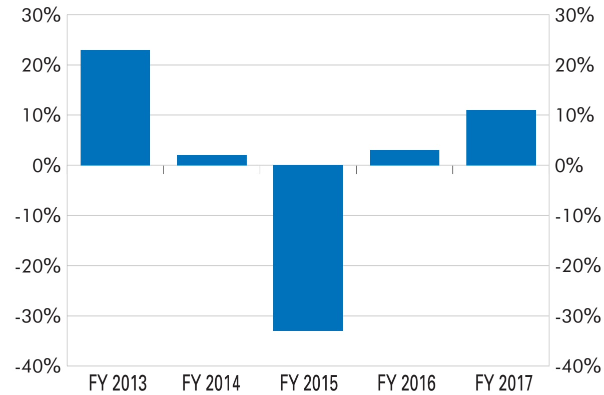
This indicator is a cumulative cash flow measure. It measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature 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 38.7%. 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 FY 2013 ratio of 22.6% is due to improved streamflow conditions and lower than expected operating expenses. The FY 2014 ratio of 2.39% is due to slightly lower than expected operating expenses. The FY 2015 ratio of –32.8% was due to higher than expected operating expenses and lower than average streamflow conditions. The FY 2016 ratio of 2.7% is due to improved streamflow conditions and lower than expected operating expenses. The FY 2017 ratio of 10.9% reflects a higher amount for repayment than planned. The variance of actual from planned payment is found in Figure R.

Percent Variance of Actual From Planned Principal Payments – Figure R



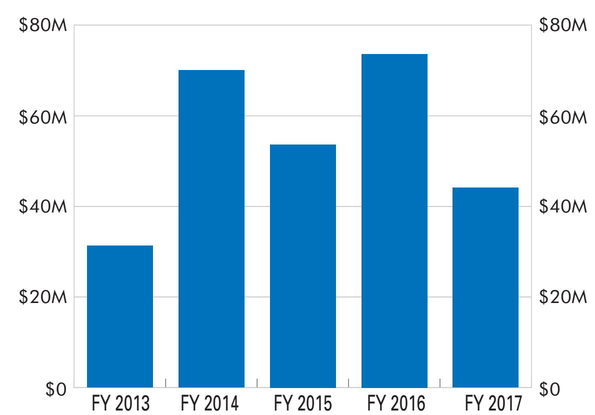
Net Cash to the Treasury

Net cash flow to the Treasury measures the actual net cash flow, both inflows and outflows, to the U.S. Treasury, excluding revenue from the Tennessee Valley Authority (TVA). 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



SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Financial Statements

September 30, 2017 and 2016

(With Independent Auditors' Reports Thereon)

KPMG LLP
Suite 800
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 Inspector General:

Report on the Combined 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, 2017 and 2016, 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. The combined financial statements include the Southeastern Power Administration (SEPA), a component of the U.S. Department of Energy, and the hydroelectric power generating function of the U.S. Department of Defense, Army Corps of Engineers (the generating agency) for which SEPA markets the related power.

Management's Responsibility for the Combined 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 the 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 our 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, 2017 and 2016, 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
March 26, 2018

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Balance Sheets

September 30, 2017 and 2016

(In thousands)

Assets		**2017**	**2016**
Utility plant in service (note 4)	$	2,687,006	2,620,138
Accumulated depreciation (note 6)		(1,097,903)	(1,057,823)
Net completed plant (note 6)		1,589,103	1,562,315
Construction work-in-progress		83,394	95,127
Net utility plant (note 6)		1,672,497	1,657,442
Cash		373,200	336,085
Accounts receivable, net		26,861	27,346
Regulatory assets		9,090	9,847
Other assets		428	286
Total assets (note 6)	$	2,082,076	2,031,006
Total Liabilities and Capitalization			
Liabilities:			
Accounts payable and accrued liabilities	$	14,542	13,448
Workers' compensation actuarial liability		9,090	9,847
Total liabilities		23,632	23,295
Capitalization:			
Payable to U.S. Treasury (notes 3 and 4(b))		2,117,612	2,072,629
Accumulated net deficit (note 6)		(59,168)	(64,918)
Total capitalization (note 6)		2,058,444	2,007,711
Commitments and contingencies (note 5)		—	—
Total liabilities and capitalization (note 6)	$	2,082,076	2,031,006

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Revenues and Expenses

Years ended September 30, 2017 and 2016

(In thousands)

		2017	2016
Operating revenues:			
Sales of electric power	$	301,816	317,705
Other operating revenues		12,009	11,464
Total operating revenues		313,825	329,169
Operating expenses, excluding depreciation expense:			
Operations		72,008	73,679
Maintenance		40,334	35,736
Purchased power		32,692	23,122
Purchased transmission services		45,040	44,263
Total operating expenses, excluding depreciation expense		190,074	176,800
Depreciation expense (note 6)		40,899	42,201
Total operating expenses (note 6)		230,973	219,001
Net operating revenues (note 6)		82,852	110,168
Interest expenses:			
Interest on payable to U.S. Treasury		80,701	82,217
Interest charged to construction		(3,599)	(2,596)
Net interest expenses		77,102	79,621
Net revenues (note 6)	$	5,750	30,547

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Changes in Capitalization

Years ended September 30, 2017 and 2016

(In thousands)

		Payable to U.S. Treasury	Accumulated net deficit	Total capitalization
Total capitalization as of September 30, 2015 (note 6)	$	2,052,579	(95,465)	1,957,114
Additions:				
Congressional appropriations		108,586	—	108,586
Interest		82,217	—	82,217
Transfers of property and services, net		9,446	—	9,446
Total additions to capitalization		200,249	—	200,249
Deductions:				
Payments to U.S. Treasury		(173,461)	—	(173,461)
Rate adjustments to congressional appropriations (note 4(b))		(6,738)	—	(6,738)
Total deductions to capitalization		(180,199)	—	(180,199)
Net revenues for the year ended September 30, 2016 (note 6)		—	30,547	30,547
Total capitalization as of September 30, 2016 (note 6)	$	2,072,629	(64,918)	2,007,711
Additions:				
Congressional appropriations		129,956	—	129,956
Interest		80,701	—	80,701
Transfers of property and services, net		7,115	—	7,115
Total additions to capitalization		217,772	—	217,772
Deductions:				
Payments to U.S. Treasury		(171,456)	—	(171,456)
Rate adjustments to congressional appropriations (note 4(b))		(1,333)	—	(1,333)
Total deductions to capitalization		(172,789)	—	(172,789)
Net revenues for the year ended September 30, 2017		—	5,750	5,750
Total capitalization as of September 30, 2017	$	2,117,612	(59,168)	2,058,444

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Cash Flows

Years ended September 30, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Net revenues (note 6)	$	5,750	30,547
Adjustments to reconcile net revenues to net cash provided by operating activities:			
Depreciation (note 6)		40,899	42,201
Interest on payable to U.S. Treasury, net		77,102	79,621
Unfunded retirement benefits		4,308	4,373
(Increase) decrease in assets:			
Accounts receivable, net		485	(3,231)
Other assets		(142)	10
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities		1,094	1,325
Net cash provided by operating activities		129,496	154,846
Cash flows from investing activities:			
Investment in utility plant		(53,687)	(54,909)
Cash flows from financing activities:			
Congressional appropriations		129,956	108,586
Payments to U.S. Treasury		(171,456)	(173,461)
Transfers (to) from other federal agencies, net		2,806	5,073
Net cash used in financing activities		(38,694)	(59,802)
Net increase in cash		37,115	40,135
Cash, beginning of year		336,085	295,950
Cash, end of year	$	373,200	336,085
Supplemental disclosures:			
Cash paid for interest	$	77,102	79,621
Interest charged to construction		3,599	2,596
Adjustments to power allocations impacting (note 4(b)):			
Congressional appropriations		1,333	6,738
Payments to U.S. Treasury (interest on payable to U.S. Treasury)		—	—
Investment in utility plant		1,333	6,738

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, 2017, 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.

(Continued)

(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 of $0 as of September 30, 2017 and 2016. The estimate of the allowance for accounts receivable 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

(Continued)

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 of Energy 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

(Continued)

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, 2017, the Georgia-Alabama-South Carolina System was awaiting final rate approval by FERC. There were no revenues subject to refund.

The Program's combined financial statements are presented in accordance with the provisions of ASC 980 Topic, *Regulated Operations*. The provisions of ASC Topic 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, 2017.

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, mobile cranes, energy testing equipment, trucks, and boats. 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 2.375% to 6.25% for the years ended September 30, 2017 and 2016.

(Continued)

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 2.375% to 5.125% for the years ended September 30, 2017 and 2016, 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 13.7%, respectively, of eligible employee compensation. Program contributions to these plans are submitted to benefit program trust funds administered by the Office of Personnel Management (the OPM), and totaled $9.0 million and $7.0 million for the years ended September 30, 2017 and 2016, respectively. The contribution levels do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding for CSRS and FERS benefits include direct appropriations to the OPM, not Southeastern or the Corps, and is approximately 32.8% and 14.7% of base salary, respectively. In addition to the amounts contributed to the CSRS and FERS, the Program has recorded $4.3 million of annual pension and retirement benefits expense for the years ended September 30, 2017 and 2016. This amount reflects the contribution made on behalf of Southeastern and the Corps by OPM to 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 $5,412 and $6,266 per employee in fiscal years 2017 and 2016, 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

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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, 2017 and 2016, 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:

(Continued)

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 $9.1 million and $9.9 million as of September 30, 2017 and 2016, 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. Actual results could differ from those estimates.

(o) Reclassifications

Certain 2016 amounts have been reclassified to conform to the current year presentation.

(p) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU No. 2014-09 is effective for the Program for periods beginning after December 15, 2018. ASU No. 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Program has not yet selected a transition method and is currently evaluating the effect that ASU No. 2014-09 will have on the Program's combined financial statements and related disclosures.

(Continued)

(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 2017. 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, 2017 and 2016 consists of the following (in thousands):

		2017	2016
Utility plant:			
Structures and facilities	$	2,256,049	2,189,400
Buildings		47,966	47,973
Land		361,402	361,402
Movable equipment		21,589	21,363
Gross completed plant		2,687,006	2,620,138
Accumulated depreciation		(1,097,903)	(1,057,823)
Net completed plant		1,589,103	1,562,315
Construction work-in-progress		83,394	95,127
Net utility plant	$	1,672,497	1,657,442

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, 2017 and 2016, contributed plant, net, used in the Program's operations totaled approximately $586,000.

As of September 30, 2017, major projects included in construction work-in-progress included a fiber optic cable, switchgear relocation, control system upgrade, governor replacement, and exciter replacement in the Kerr-Philpott power system; plant automation system, security system upgrade, station switchgear supply, motor control centers supply, emergency closure gates (1-7), station service 13.8 KV breakers replacement, plant automation system, security system upgrade, vibration

(Continued)

corrections, and Allatoona reconstruction in the Georgia-Alabama-South Carolina power system; Supervisory Control and Data Acquisition (SCADA) system servers and motor control centers in the Jim Woodruff System; and turbines, auxiliary dam, tail deck slot fillers, station service breakers, a generator, thrust bearing pressure plates, and springs and spillway modifications in the Cumberland power system.

As of September 30, 2016, major projects included in construction work-in-progress included switchgear relocation, governor replacement, exciter replacement, and a headgate machinery upgrade in the Kerr-Philpott power system; plant automation system, security system upgrade, station switchgear supply, motor control centers supply, emergency closure gates (1-7), station service 13.8 KV breakers replacement, main transformers, switchyard bus and insulators, motor control centers, raw water supply system, microwave system, remote operations, station battery, and main switchgear in the Georgia-Alabama-South Carolina power system; SCADA system servers and motor control centers in the Jim Woodruff System; and dam safety remediations, generator rewinds, turbine replacements, and relay and breaker replacement in the Cumberland power system.

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

In fiscal year 2014, the majority of the 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 55.113%.

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 recommended a rate action to the Deputy Secretary, U.S. Department of Energy. The Deputy Secretary approved the rate order. The rate action was 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 55.113%. 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 as of September 30, 2014.

In fiscal year 2015, additional remediation efforts to the Wolf Creek project within the Cumberland power system were completed and placed into service. Total project costs of $2.8 million were incurred for construction remediation costs with no additional interest during construction. Costs were then allocated at the project’s multi-purpose allocation rate of 55.113% and subjected to the rate action to cap repayment of the remediation costs of 15% under the Dam Safety Act. Program management recorded a rate action adjustment to the Wolf Creek project of $1.3 million to utility plant in service, resulting in a reduction of this amount being payable to U.S. Treasury as of September 30, 2015.

(Continued)

In fiscal year 2017 and 2016, $1.2 million and $3.7 million, respectively was incurred in construction remediation costs for Wolf Creek with no additional interest during construction. These costs were also capped under the Dam Safety Act. Program management recorded a rate action adjustment to the Wolf Creek project of $0.5 million and $1.7 million, respectively, to utility plant in service, resulting in a reduction of this amount being payable to U.S Treasury.

As of September 30, 2015, scheduled remediation efforts to the Center Hill project within the Cumberland power system were completed and placed into service. Total project costs of $280.7 million included $236.9 million in construction remediation and $43.8 million in interest during construction. Typically, multipurpose rehabilitation costs are allocated to the power function based on established cost studies at 42.545%. Southeastern's Administrator imposed a rate action to cap repayment at 15% under the Dam Safety Act. Consequently, Program management recorded a rate action adjustment to the Center Hill project of $85.7 million to utility plant in service and $15.8 million to accumulated interest payable, resulting in a reduction of $101.5 million in payable to U.S. Treasury as of September 30, 2015.

In fiscal year 2017 and 2016, $2.1 million and $13.8 million, respectively, was incurred in construction remediation costs for Center Hill with no additional interest during construction. These costs were also capped under the Dam Safety Act. Program management recorded a rate action adjustment to the project of $0.8 million and $5.0 million, respectively, to utility plant in service, resulting in a reduction of this amount being payable to U.S Treasury.

These rate actions fall under the Administrator's delegated authority to recommend rates to the Deputy Secretary of Energy, who has authority to confirm, approve, and place rates into effect on an interim basis. The Deputy Secretary of Energy provided interim approval of the Administrator's recommended rate actions and the Federal Energy Regulatory Commission approved these rate actions on a final basis.

(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) Transmission Contract Commitments

Southeastern has entered into agreements for transmission services that vary in length. Southeastern's long-term commitments for these transmission contracts are subject to the availability of federal funds and contingent upon authority from Congress. To fulfill its contractual obligations to deliver power, Southeastern has historically had to purchase a certain level of transmission services under these

(Continued)

arrangements. Southeastern fully intends to provide ongoing services to power customers and will continue to acquire resources under these contracts. The budgeted amounts are as follows (in thousands):

Fiscal year ending September 30,		Commitments for transmission services
2018	$	42,019
2019		43,201
2020		44,546
2021		45,958
2022		47,439
	$	223,163

(6) Adjustments to Accumulated Depreciation

During the year ended September 30, 2017, an error was identified in the useful life of a power house within the Georgia-Alabama-South Carolina power system. The Program recognized the cumulated effect of the error in periods prior to those that are presented by decreasing accumulated depreciation and accumulated net deficit by approximately $16.0 million as of October 1, 2015.

The following table presents the effects of the immaterial errors that were corrected on the combined balance sheets and statements of revenues and expenses as of September 30, 2016:

		As previously reported	Adjustments	As adjusted
Balance sheet:				
Accumulated depreciation	$	(1,073,843)	16,020	(1,057,823)
Net completed plant		1,546,295	16,020	1,562,315
Net utility plant		1,641,422	16,020	1,657,442
Total assets		2,014,986	16,020	2,031,006
Accumulated net deficit		80,938	(16,020)	64,918
Total capitalization		(1,991,691)	(16,020)	(2,007,711)
Total liabilities and capitalization		(2,014,986)	(16,020)	(2,031,006)
Statement of revenues and expenses:				
Depreciation expense		42,852	(651)	42,201
Total operating expenses		219,652	(651)	219,001
Net operating revenues		109,517	651	110,168
Net revenues		29,896	651	30,547

(Continued)

Impacted financial statement line items appearing in the combined statements of changes in capitalization and cash flows have also been revised accordingly.

(7) Subsequent Events

The Program has evaluated all subsequent events as of September 30, 2016 through the date of the combined financial statements were available to be issued on March 26, 2018, and identified no subsequent events requiring disclosure.

Schedule 1

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2017

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	$ 1,841,193	73,372	207,799	564,642	2,687,006
Accumulated depreciation	(704,932)	(32,750)	(78,142)	(282,079)	(1,097,903)
Net completed plant	1,136,261	40,622	129,657	282,563	1,589,103
Construction work-in-progress	31,873	841	10,080	40,600	83,394
Net utility plant	1,168,134	41,463	139,737	323,163	1,672,497
Cash	107,678	4,026	28,786	232,710	373,200
Accounts receivable, net	20,373	785	1,998	3,705	26,861
Regulatory assets	3,783	1,930	29	3,348	9,090
Other assets	252	8	50	118	428
Total assets	$ 1,300,220	48,212	170,600	563,044	2,082,076
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	$ 10,302	184	1,719	2,337	14,542
Workers' compensation actuarial liability	3,783	1,930	28	3,349	9,090
Total liabilities	14,085	2,114	1,747	5,686	23,632
Capitalization:					
Payable to U.S. Treasury	1,425,444	42,438	162,996	486,734	2,117,612
Accumulated net revenues (deficit)	(139,309)	3,660	5,857	70,624	(59,168)
Total capitalization	1,286,135	46,098	168,853	557,358	2,058,444
Commitments and contingencies	—	—	—	—	—
Total liabilities and capitalization	$ 1,300,220	48,212	170,600	563,044	2,082,076

See accompanying independent auditors' report.

Schedule 1

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2016

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	$ 1,805,730	73,371	208,527	532,510	2,620,138
Accumulated depreciation	(676,491)	(31,228)	(74,638)	(275,466)	(1,057,823)
Net completed plant	1,129,239	42,143	133,889	257,044	1,562,315
Construction work-in-progress	38,938	460	5,512	50,217	95,127
Net utility plant	1,168,177	42,603	139,401	307,261	1,657,442
Cash	123,337	3,778	13,009	195,961	336,085
Accounts receivable, net	20,749	1,209	2,642	2,746	27,346
Regulatory assets	3,257	1,556	6	5,028	9,847
Other assets	161	6	33	86	286
Total assets	$ 1,315,681	49,152	155,091	511,082	2,031,006
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	$ 8,767	542	1,704	2,435	13,448
Workers' compensation actuarial liability	3,257	1,556	6	5,028	9,847
Total liabilities	12,024	2,098	1,710	7,463	23,295
Capitalization:					
Payable to U.S. Treasury	1,447,633	44,282	143,556	437,158	2,072,629
Accumulated net revenues (deficit)	(143,976)	2,772	9,825	66,461	(64,918)
Total capitalization	1,303,657	47,054	153,381	503,619	2,007,711
Commitments and contingencies	—	—	—	—	—
Total liabilities and capitalization	$ 1,315,681	49,152	155,091	511,082	2,031,006

See accompanying independent auditors' report.

Schedule 2

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2017

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	$ 205,396	10,640	25,773	60,007	301,816
Other operating revenues	8,828	98	403	2,680	12,009
Total operating revenues	214,224	10,738	26,176	62,687	313,825
Operating expenses, excluding depreciation expense:					
Operations	31,867	1,324	6,111	32,706	72,008
Maintenance	28,996	2,668	5,249	3,421	40,334
Purchased power	30,651	2,023	18	—	32,692
Purchased transmission services	25,929	361	9,044	9,706	45,040
Total operating expenses, excluding depreciation expense	117,443	6,376	20,422	45,833	190,074
Depreciation expense	28,385	1,523	4,331	6,660	40,899
Total operating expenses	145,828	7,899	24,753	52,493	230,973
Net operating revenues	68,396	2,839	1,423	10,194	82,852
Interest expenses:					
Interest on payable to U.S. Treasury	65,286	1,966	5,628	7,821	80,701
Interest charged to construction	(1,557)	(15)	(237)	(1,790)	(3,599)
Net interest expenses	63,729	1,951	5,391	6,031	77,102
Net revenues (deficit)	$ 4,667	888	(3,968)	4,163	5,750

See accompanying independent auditors' report.

Schedule 2

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2016

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	$ 208,270	10,934	33,333	65,168	317,705
Other operating revenues	6,632	42	774	4,016	11,464
Total operating revenues	214,902	10,976	34,107	69,184	329,169
Operating expenses, excluding depreciation expense:					
Operations	31,988	2,232	5,242	34,217	73,679
Maintenance	25,824	1,877	4,704	3,331	35,736
Purchased power	16,594	2,709	3,819	—	23,122
Purchased transmission services	23,721	338	6,682	13,522	44,263
Total operating expenses, excluding depreciation expense	98,127	7,156	20,447	51,070	176,800
Depreciation expense	28,403	1,533	4,335	7,930	42,201
Total operating expenses	126,530	8,689	24,782	59,000	219,001
Net operating revenues	88,372	2,287	9,325	10,184	110,168
Interest expenses:					
Interest on payable to U.S. Treasury	67,156	2,076	5,789	7,196	82,217
Interest charged to construction	(1,185)	(14)	(101)	(1,296)	(2,596)
Net interest expenses	65,971	2,062	5,688	5,900	79,621
Net revenues (deficit)	$ 22,401	225	3,637	4,284	30,547

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, 2017

(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	$ 83,772	61,248	—	10,218	—	12,074	—	232	(a)	73.1%
Buford	103,354	83,996	2,151	4,765	—	12,442	—	—		81.3%
Carters	198,466	166,824	—	20,051	—	11,591	—	—		84.1%
J. Strom Thurmond	192,258	166,909	4,370	4,115	—	16,864	—	—		86.8%
Walter F. George	288,033	191,861	82,593	—	348	13,231	—	—		66.6%
Hartwell	209,291	177,536	4,015	15,977	—	11,763	—	—		84.8%
Millers Ferry/Henry	248,620	139,670	87,167	—	—	21,783	—	—		56.2%
West Point	177,985	90,893	2,725	22,188	13,982	48,197	—	—		51.1%
Richard B. Russell	906,282	792,524	—	874	—	112,884	—	—		87.4%
Marketing facilities	1,605	1,605	—	—	—	—	—	—		100.0%
Total GA-AL-SC System	2,409,666	1,873,066	183,021	78,188	14,330	260,829	—	232		77.7%
Jim Woodruff	124,232	74,163	41,989	—	—	8,080	—	—		59.7%
Marketing facilities	50	50	—	—	—	—	—	—		100.0%
Total Jim Woodruff System	124,282	74,213	41,989	—	—	8,080	—	—		59.7%
Barkley	238,415	75,301	128,850	25,743	—	8,521	—	—		31.6%
J. Percy Priest	73,383	16,073	—	27,389	—	29,921	—	—		21.9%
Cheatham	85,127	25,340	55,204	—	—	4,583	—	—		29.8%
Cordell Hull	98,825	46,727	17,684	—	—	27,831	—	6,583	(b)	47.3%
Old Hickory	87,763	53,376	28,980	—	—	5,407	—	—		60.8%
Center Hill	457,390	119,649	—	76,649	—	8,275	252,120	697	(c)	26.2%
Dale Hollow	49,021	32,366	—	14,149	—	2,506	—	—		66.0%
Wolf Creek	922,624	207,319	—	129,901	—	20,268	564,890	246	(c)	22.5%
Laurel	53,152	29,127	—	—	—	17,659	—	6,366	(b)	54.8%
Marketing facilities	551	551	—	—	—	—	—	—		100.0%
Contributions in aid of construction	(587)	(587)	—	—	—	—	—	—		100.0%
Total Cumberland Basin System	2,065,664	605,242	230,718	273,831	—	124,971	817,010	13,892		29.3%
John H. Kerr	228,659	192,366	—	26,718	—	9,184	—	391	(a)	84.1%
Philpott	40,411	25,213	—	9,212	—	5,986	—	—		62.4%
Marketing facilities	300	300	—	—	—	—	—	—		100.0%
Total Kerr-Philpott System	269,370	217,879	—	35,930	—	15,170	—	391		80.9%
Total	$ 4,868,982	2,770,400	455,728	387,949	14,330	409,050	817,010	14,515		56.9%

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

See accompanying independent auditors' report.

SouthEastern Power Administration

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