2018 Annual Report

Southeastern Power Administration

Contents

SEPA
SouthEastern Power Administration

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Fast Facts

Administrator:
Kenneth E. Legg

Headquarters:
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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	$307 million
Total Capital Investment	$2.8 billion
Investment Remaining	$1.7 billion
Cumulative Investment Repaid	$1.1 billion
Cumulative Interest Paid on Investment	$2.3 billion

Allatoona Powerplant is featured on the cover, here and also on page 22. Allatoona suffered a control room fire in May of 2014 which rendered the plant unavailable for the following four years. Federal hydropower customers authorized $10 million to restore operation and all generation assets were returned to service in 2018. Allatoona is once again the most responsive and versatile plant in Southeastern's Georgia-Alabama-South Carolina System. *Photos provided by the US Army Corps of Engineers*

Administrator's Report

Secretary Perry:

I am pleased to submit Southeastern Power Administration's (Southeastern) Fiscal Year 2018 Annual Report for your review. This report reflects our agency's programs, accomplishments, operational, and financial activities for the 12-month period beginning October 1, 2017, and ending September 30, 2018.

In 2018, Southeastern marketed nearly 7 billion kilowatt-hours of energy to 485 wholesale customers in ten southeastern states. Hydroelectric power sales revenue totaled almost $292 million.

During 2018, 11 preference customers in the Georgia-Alabama-South Carolina System invoked the two-year termination notice clause in their power sales contract. After notice to all system customers, existing preference customers expressed interest in receiving a supplemental allocation, a portion of the 85,111 kW of capacity made available by the pending terminations. Southeastern received commitments from 63 customers to purchase all relinquished allocations which will result in no anticipated loss of revenue to the U.S. Treasury. Southeastern begins a process to amend transmission and power sales contracts prior to the contract termination dates in 2020 in order to fully accomplish the transition.

Funding for capitalized equipment purchases and replacements at hydroelectric facilities operated by the U.S. Army Corps of Engineers (Corps) continued in 2018 with the financial assistance and support of Southeastern's customers. Currently, there are 424 customers participating in funding infrastructure renewal efforts within the Georgia-Alabama-South Carolina, Kerr-Philpott, and Cumberland Systems. Congressional appropriations no longer adequately maintain Federal hydropower assets, but customer funding, about $58 million in 2018, will be a stable, consistent cash source and enable the Corps to effect dependability- enhancing repairs for aging projects in Southeastern's marketing area.

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

Sincerely,

Kenneth E. Legg
Administrator

Mission, Vision & Organization

Mission Statement

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

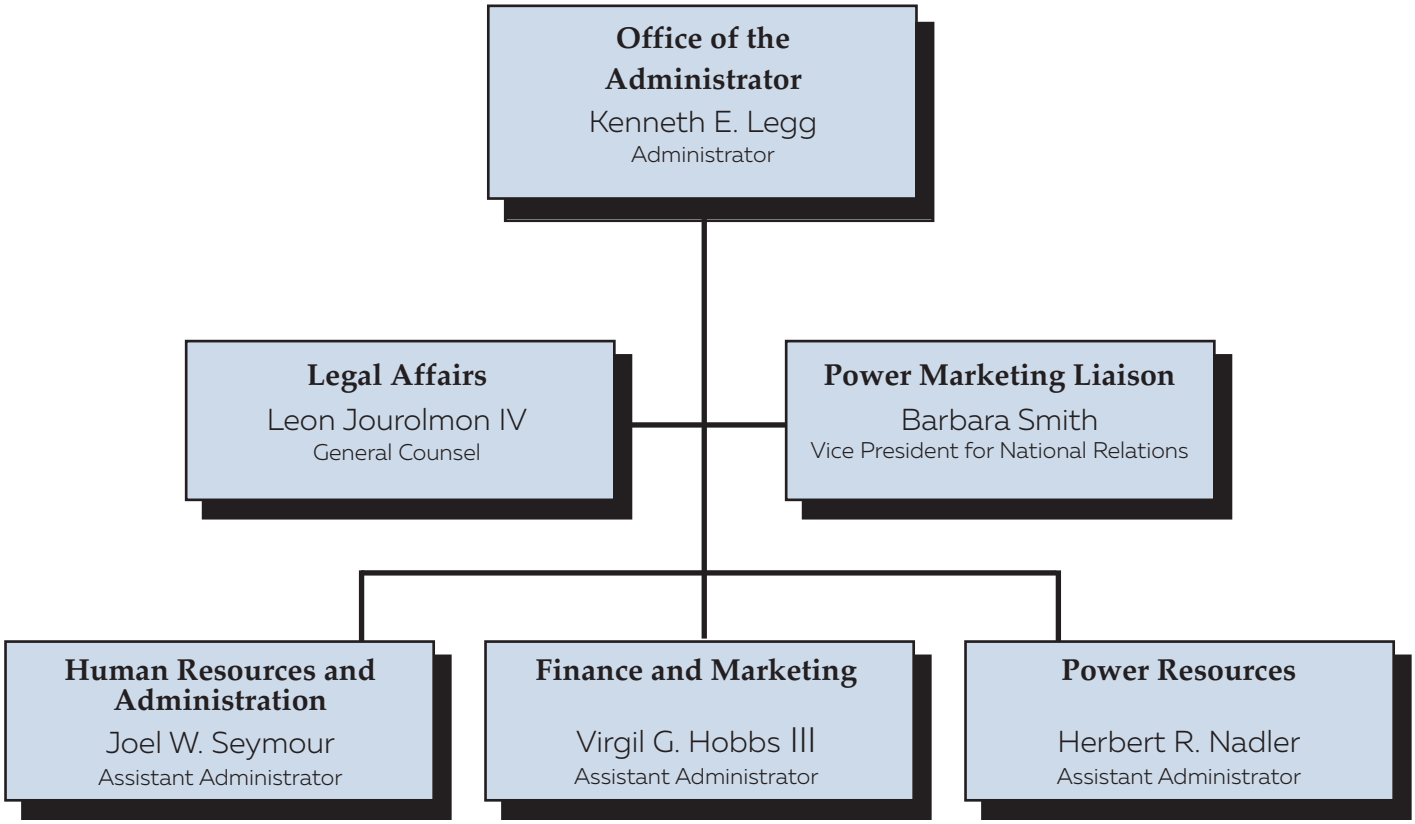
Vision Statement

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

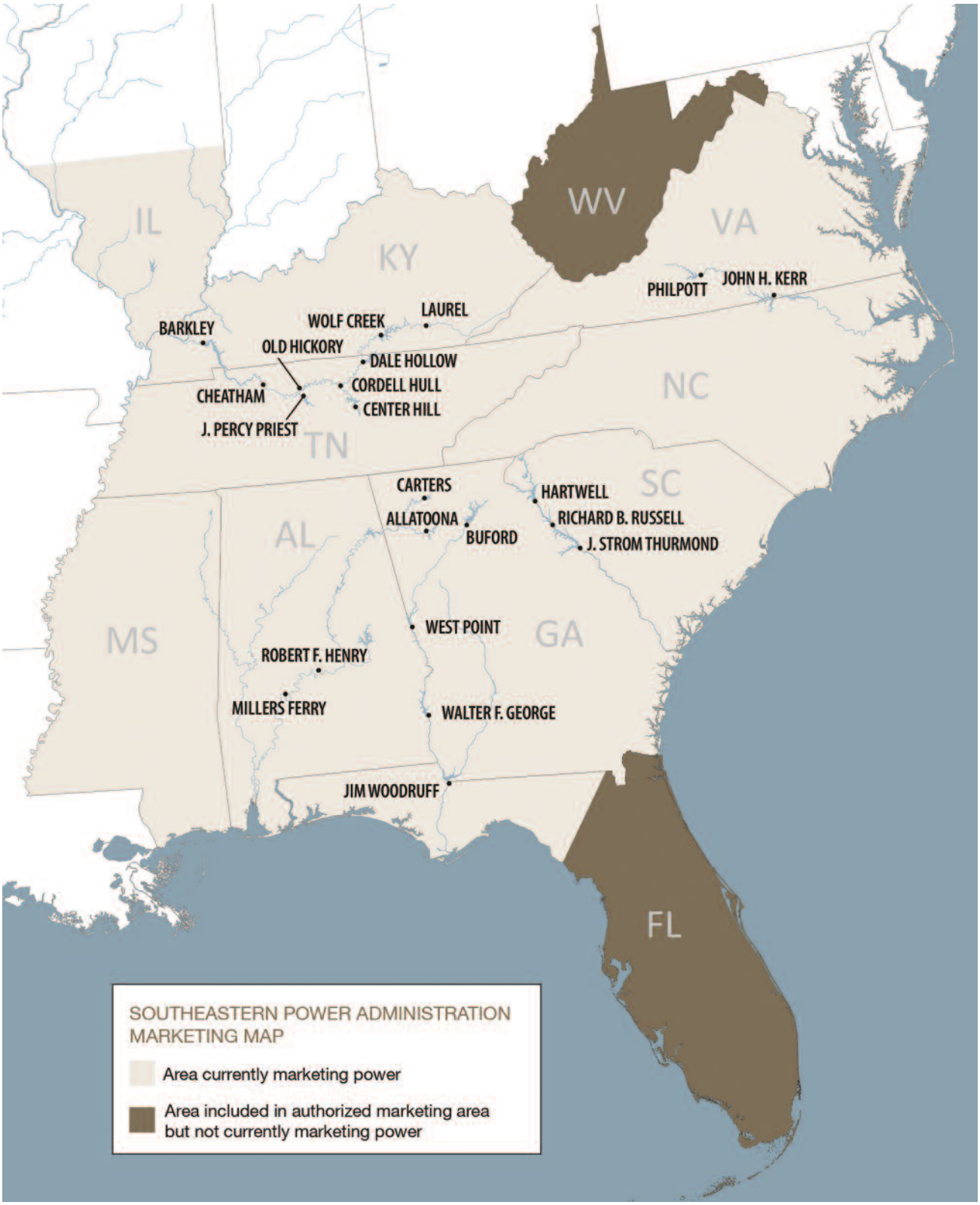
Southeastern Power Administration

U.S. Department of Energy

Organizational Chart



Marketing Map



Marketing Objectives

Southeastern was created in 1950 by the Secretary of the Interior to carry out the functions assigned to the Secretary by the Flood Control Act of 1944. In 1977, Southeastern was transferred to the newly-created Department of Energy (DOE). Headquartered in Elberton, Georgia, Southeastern has the authority to market hydroelectric power and energy 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

Georgia-Alabama-South Carolina System 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 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, 2018 (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	5,271	4,654	1,908	617	1,291
Jim Woodruff	1957	290	249	78	41	37
Cumberland	1949	1,821	1,442	584	379	205
Kerr-Philpott	1953	681	577	236	104	132
TOTAL		**8,063**	**6,922**	**2,806**	**1,141**	**1,665**

Program Direction

Southeastern is constantly evaluating and improving the execution of our program. This includes the management of our workforce, facilities and the operating systems that support our functions. We are also very aware of the overhead expenses associated with executing our program and constantly strive to manage these expense and their impact on power rates.

In 2018, Southeastern pursued workforce efficiencies and planning, improved Information Management, and continued regional partnerships such as Team Cumberland and Team Alliance. In addition, Southeastern maintained active engagement in the Federal Hydropower Council, a co-ordinated effort to explore and improve Federal hydropower nationwide.

Human Capital Update

During 2018, Southeastern experienced limited turnover and continued to utilize its allocation of Full-Time Equivalent (FTE) employees. Recognizing the human capital needs of the future, Southeastern reviewed its workforce and succession plans to ensure adequate and well-trained staff are in place to support the agency's mission and maintain organizational effectiveness. Employees were encouraged to create Individual Development Plans (IDPs) and focus on long term career goals. The agency also hosted Mid-Career and Pre-Retirement training for employees.

In an effort to improve employee engagement and the workplace experience, SEPA management established an action team to analyze results of the 2018 Federal Viewpoint Survey (FEVS). This team will work to identify challenges and areas of focus with a goal of improving engagement by 20 percent in 2020.

The US Army Corps of Engineers, South Atlantic Division, Mobile, Savannah and Wilmington Districts meet biannually with hydropower customers of the Georgia-Alabama-South Carolina, Kerr-Philpott and Jim Woodruff Systems. The Southeastern Federal Power Alliance convened on April 17, 2018, at the Historic Railroad Depot in Calhoun, Georgia.

Program Direction

Federal Hydropower Council

The Federal Hydropower Council brings together the Corps, US Bureau of Reclamation and Power Marketing Administration leadership to discuss the dynamic changes in energy and the status of the Federal hydropower program. Biannual meetings focus on improving existing Federal hydropower infrastructure, increasing price competiveness, exploring value and efficiencies, including project management and procurement processes. Working groups are actively pursuing four focus areas that include acquisition, charging practices, water storage reallocation and operation and maintenance improvements. Recommendations of the working group leadership may be addressed at the agency level, some may require further escalation. Some may ultimately require legislative authority. This effort will increase hydroelectric value and reliability, which supports the nation's economic and national security.

Supplemental Capacity Allocation

In FY 2018, Southeastern received termination notices for eleven preference customers' power sales contracts in the Georgia-Alabama-South Carolina System. All preference customers in the system were notified of the 85 MW of capacity, which would be available upon those terminations and 65 customers expressed interest in receiving a supplemental allocation. Customers requested an expedited transition prior to the contractual terminations, which would have been in FY 2020. Southeastern initiated a phased plan of terminating and amending contracts, which will be effective between January 2019 and August 2020.

The US Army Corps of Engineers, Great Lakes & Ohio River Division and Nashville District meet biannually with hydropower customers of the Cumberland System. Team Cumberland convened on March 27, 2018, at the Lighthouse on the shore of Old Hickory Lake in Hendersonville, Tennessee.

Customer Funding

Georgia-Alabama-South Carolina Customer Funding:

In April 2018, amendment #1 to Sub-Agreement #24 was signed and approved to increase funding for the transformer disconnect switch replacement at the Russell powerhouse by $70,000. The total funds approved for this work item was $600,000.

Kerr-Philpott System Customer Funding:

On May 26, 2017, a Sub-Agreement was signed to provide funding for the replacement of a turbine and generator at the Philpott powerhouse. The total funding requirement for this work item was $20,000,000. The collection of these funds is on-going, but funds are anticipated to be completely collected by December 2018.

Cumberland System Customer Funding:

The Long-Term Memorandum of Agreement Program Coordination Committee members, representing 24 customers in Illinois, Kentucky, Mississippi, and North Carolina signed Sub-Agreement #8 approving the funding of Old Hickory generator and turbine rehabilitation acquisition; intake/draft tube lifting equipment at Barkley, Cheatham, Old Hickory and Cordell Hull; Old Hickory excitation replacement, main power transformer replacement and DC systems replacement engineering and design. Southeastern is continuing to collect authorized funds for Sub-Agreement #8.

In May 2018, The Short-Term Memorandum of Agreement Sub-Agreement #4 was signed on behalf of 154 Tennessee Valley preference entities collecting $25 million of customer funds to rehabilitate the four generators and turbines at the Barkley powerhouse.

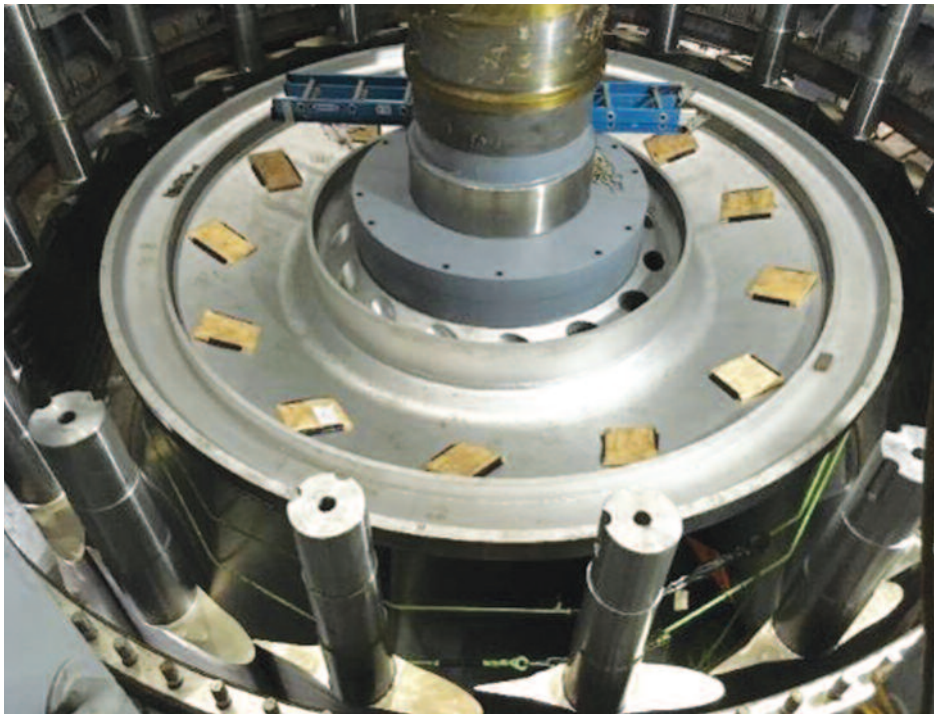
Customer Funding Summary

GA-AL-SC System

Russell Pump Start Disconnect Switches $70,000

Cumberland System

Barkley Rehabilitation .....$ 25,000,000



An air diffusing, fish habitat improving turbine was installed at Center Hill powerplant. Around the turbine, wicket gates which control turbine water flow are visible prior to headcover installation. The headcover provides the top seal of the turbine water passage and was determined to be of substandard casting requiring replacement on Generators 1 & 3. Downstream dissolved oxygen test results of the first rehabilitated generator's self-aspirating turbine proved to be unsatisfactory. The contractor based the turbine design on inaccurate tailwater elevations. The turbines are being modified to boost the environmental enhancement feature and meet the contract specifications.

Customer Funding

South Atlantic Division Memorandum of Agreement

Amendment #3 to the Memorandum of Agreement between the Corps, Southeastern Power Administration and the Southeastern Power LLC (an entity representing the preference customers served by Southeastern) was signed in February 2018. The purpose of this amendment was to clarify the conditions under which the Corps may immediately initiate work item preparation activities and to clarify multiple Funding Agreements may be executed while ensuring Participating Customers have cost responsibilities limited to their respective marketing areas defined by Southeastern. The Amendment initiated the customer funding program for the Jim Woodruff System.

Customers authorized $2.7 million to replace all the motor control centers throughout J. Strom Thurmond powerplant.

Customers authorized $17 million to replace the generator data acquisition and control systems. A total of 1,458 megawatts can be operated from either the Hartwell, Richard B. Russell or J. Strom Thurmond control room.

Bob Van Horn, Hartwell Powerplant Operator, shows Pearl Buenvenida, Office of Management & Budget, (left) and Barbara Smith, Power Marketing Liaison Office, the above monitors which enable remote control of all 20 Savannah River Corps generators.

Georgia – Alabama – South Carolina

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

Operational Performance

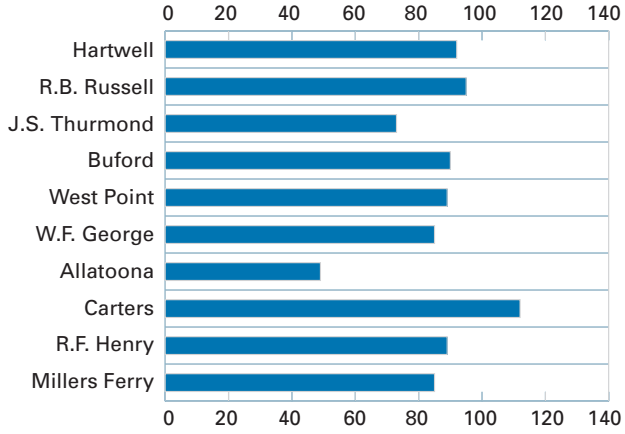
Generation from streamflow for FY 2018 was 87% of annual average. Figure A illustrates the percent of average generation by project. Figure B shows system generation for the years 2009 through 2018.

The customers agreed to fund the repair work at Allatoona for the damage resulting from the fire of May 2014. The Allatoona fire restoration was completed in May 2018 allowing the full plant to return to service.

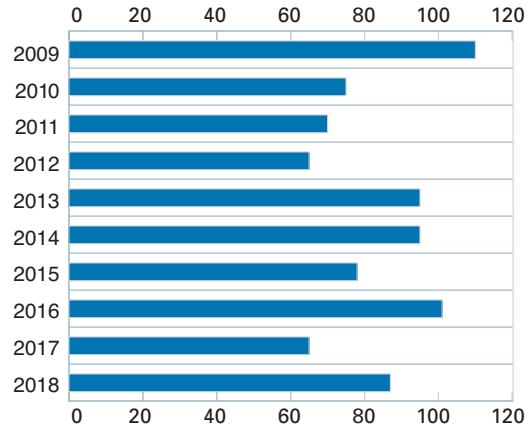
With the return of Carters reversible pump Generator #3 in June 2018, reversible pump Generator #4 was removed from service to replace the phase reversing switch and governor control. Carters Generator #4 was returned to service in December 2018 marking the completion of the major rehabilitation for the pump units.

Contractors re-mobilized at Hartwell Project to perform the pre-repair inspection of the windings and submitted a detailed damage report. An extensive repair plan is being developed to determine the cost and extent of the work required to return Generator #3 to service before the end of 2019. Following the return of Generator #3, the contract scope also includes the reconfiguring of Hartwell Generator #4 stator windings to address similar vibration issues.

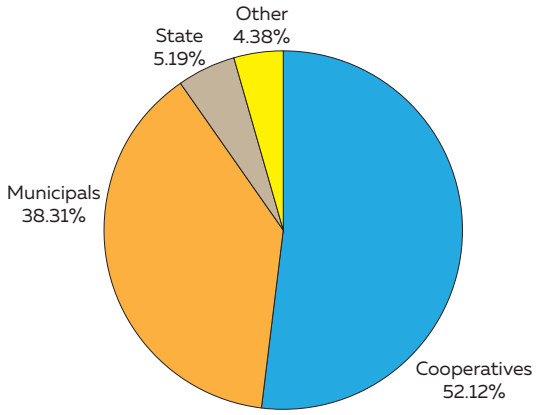
Actual Generation as a Percentage of Average Project Generation – Figure A



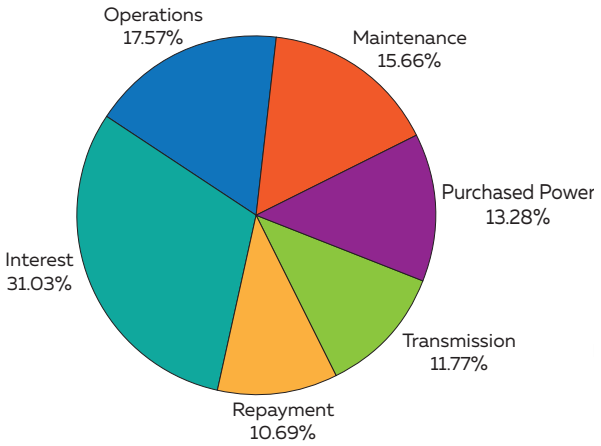
Actual Generation as a Percentage of Average System Generation – Figure B



FY 2018 Revenue by Source – Figure C



FY 2018 Application of Revenues – Figure D



Financial Performance

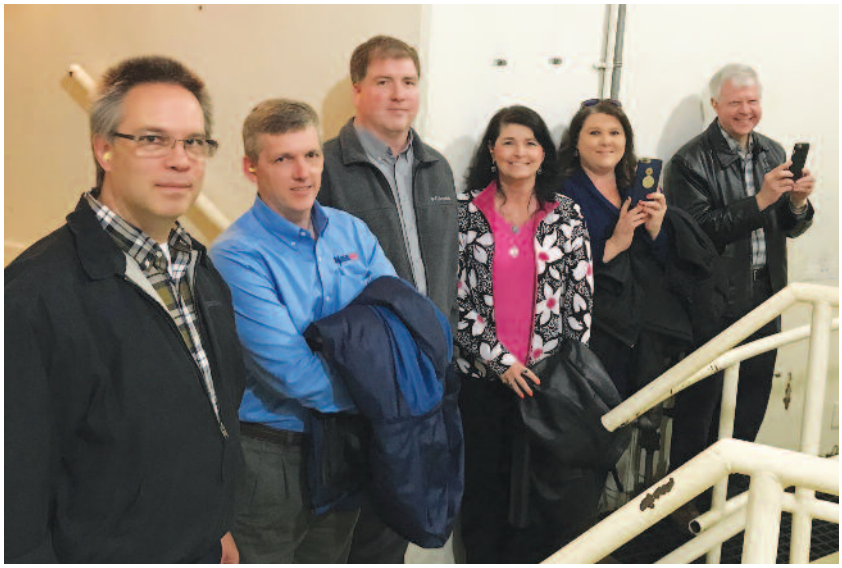
Total revenue for the Georgia-Alabama-South Carolina System in FY 2018 was $201.8 million. Of this amount, $193.0 million was derived from the sale of 3,133,514 megawatt-hours of energy and 2,184.2 megawatts of capacity. Total operating expenses, excluding depreciation, were $117.6 million. Interest charged to Federal investment was $62.6 million and repayment of the Federal investment was $21.6 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 a final basis January 25, 2018, by FERC. 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.



Kevin Josupait, ElectriCities of North Carolina, Roger Brand, MEAG Power, Mike Frazier, Piedmont Municipal Power Agency, Kim Ledbetter, Southeastern, Jennifer Wadford, Santee Cooper, and George Taylor, Oglethorpe Power Corporation, stand in the turbine "wheel pit" awaiting the start of a Carters powerplant reversible pump generator.

Kerr-Philpott

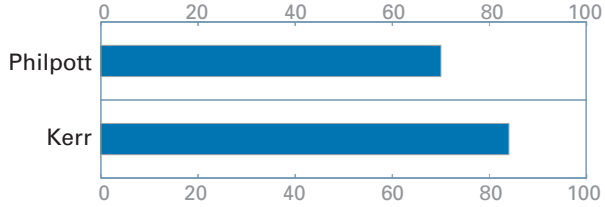
The Kerr-Philpott System consists of two projects – John H. Kerr on the Roanoke River and Philpott on the Smith River. Power generated at the projects is marketed to 75 preference customers in North Carolina and Virginia.

Operational Performance

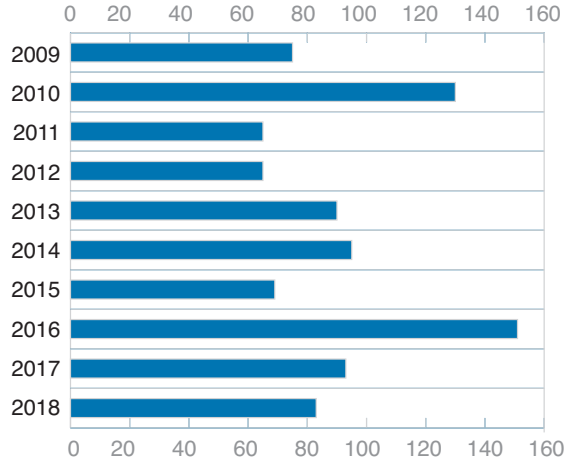
Generation for FY 2018 was 83% of annual average. Figure E illustrates the percent of average generation by project for the year. Figure F shows the system generation by year from 2009 through 2018.

Philpott Generator #2 will be unavailable until rehabilitation. Progress continues on the uprate study and design with a return to service planned in 2021.

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

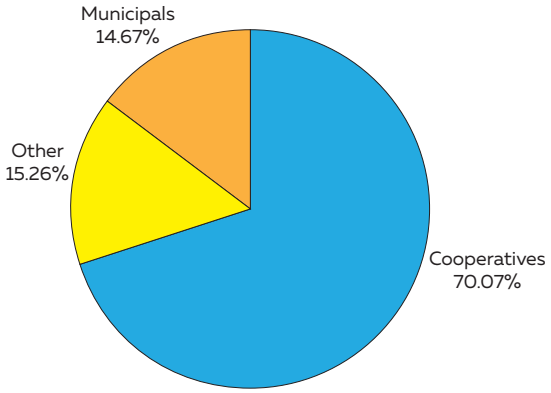


Actual Generation as a Percentage of Average System Generation - Figure F

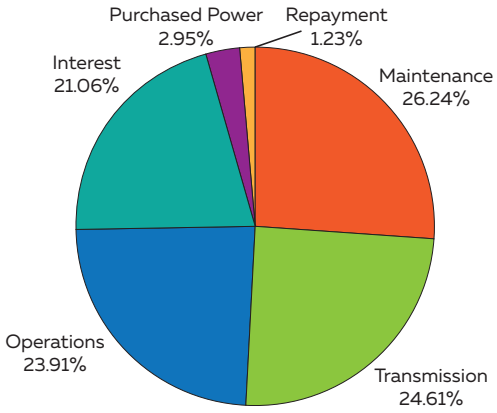


New generator control panels were installed in the Philpott control room. Customers have authorized $20 million to rehabilitate the two Philpott generators. One generator damaged in the 2016 fire remains out of service and will be the first to undergo rehabilitation in 2020.

FY 2018 Revenue by Source – Figure G



FY 2018 Application of Revenues – Figure H



Financial Performance

Total revenue for the Kerr-Philpott System in FY 2018 was $26.0 million. Of this amount, $22.1 million was derived from the sale of 372,206 megawatt-hours of energy and 196.5 megawatts of capacity.

Total operating expenses, excluding depreciation, were $20.2 million. Interest charged to Federal investment was $5.5 million and repayment of the Federal investment was $0.3 million in FY 2018. 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, 2018
Capacity	3.96 $/kW/Month
Energy	15.60 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, 2019, through March 31, 2020, will be as follows:

Capacity 4.20 $/kW/Month
Energy 16.80 mills/kWh

Cumberland

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

Operational Performance

Generation for the system during FY 2018 was 110% of annual average. The percentage of average generation by project is shown in Figure I. Figure J shows system generation for the years 2009 through 2018.

During FY 2018, partial peaking operation for scheduling continues under the Revised Interim Operating Plan due to ongoing dam safety repair work at Center Hill. The saddle dam roller compacted concrete dam and gated spillway repairs are scheduled to be complete by June 2019, marking the end of Force Majeure and return to normal system operations.

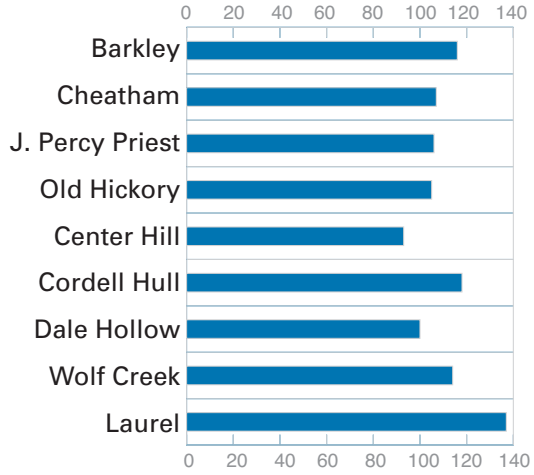
Center Hill Generator #1 turbine headcover original casting was found to be inadequate to return to service and rehabilitation has been stopped. Inspection coupons from the other two headcovers are being analyzed to determine acceptability for operation. Rehabilitation has begun on Generator #3 and the contractor is still planning to complete all work by the end of 2019.

Old Hickory Generator #4 outage continues due to alignment problems and scheduled turbine generator rehabilitation. Return to service will be November 2019.

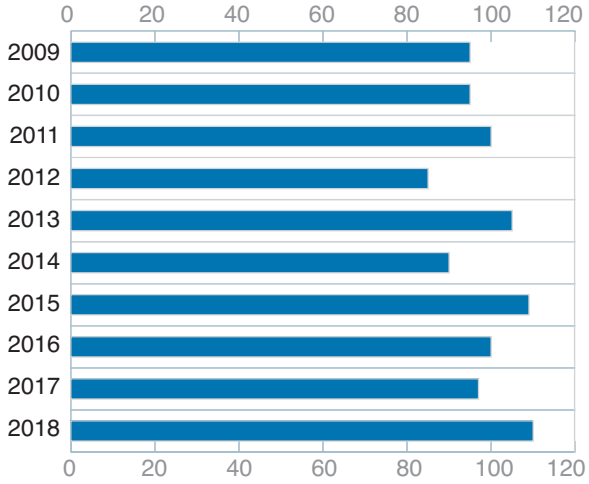
Barkley Generator #3 and Generator #4 excitation replacement will be completed in February 2019. The majority of customer funds for the major rehabilitation of the all Barkley transformers, generators and turbines has been collected. Contracting and design efforts for the various components are proceeding on schedule.

Wolf Creek Generator #2 was removed from service for penstock preservation with a return date in 2019. During the routine inspection of the generator, a rotor pole was in need of reinsulation and will be accomplished within the planned outage time.

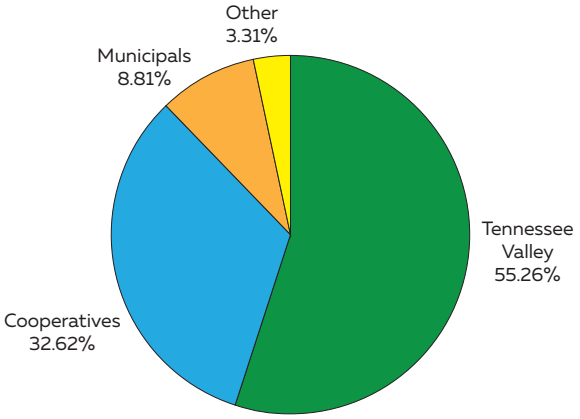
Actual Generation as a Percentage of Average Project Generation - Figure I



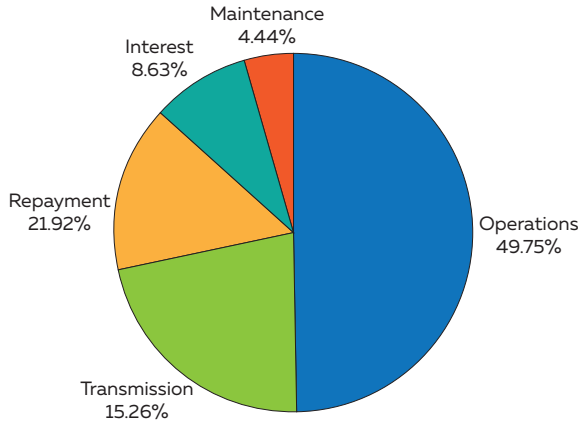
Actual Generation as a Percentage of Average System Generation - Figure J



FY 2018 Revenue by Source – Figure K



FY 2018 Application of Revenues – Figure L



Financial Performance

Total revenue for the Cumberland System in FY 2018 was $70.1 million. Of this amount, $67.8 million was derived from the sale of 3,219,844 megawatt-hours of energy and 829.5 megawatts of capacity. Total operating expenses, excluding depreciation, were $48.7million. Interest charged to Federal investment was $6.0 million and repayment was $15.4 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, 2018
Capacity	1.943 $/kW/Month
Energy	13.17 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, 2019, through March 31, 2020, will be as follows:

Capacity	1.950 $/kW/Month
Energy	13.31mills/kWh

Patty Coffey, Nashville Deputy District Engineer, Major Justin Toole, Nashville Deputy District Commander and Daniel Rabon, Corps Headquarters National Hydropower Program Manager, listen as Ken Legg, Southeastern Administrator, addresses the members of Team Cumberland.

Jim Woodruff

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

Operational Performance

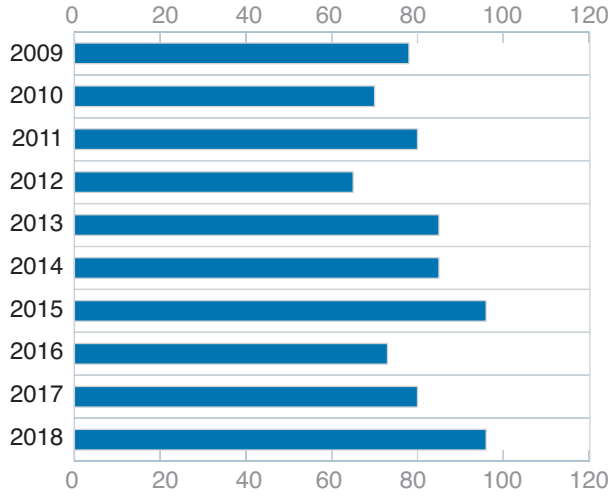
Generation during FY 2018 was 96% of average. Figure M illustrates the project's generation for the years 2009 through 2018.

There were no significant operational issues in the Woodruff System during FY 2018.

The spillway gantry crane rehabilitation is underway with completion planned for Februrary 2019. The generator intake gantry crane rehabilitation will follow with completions scheduled for December 2019.

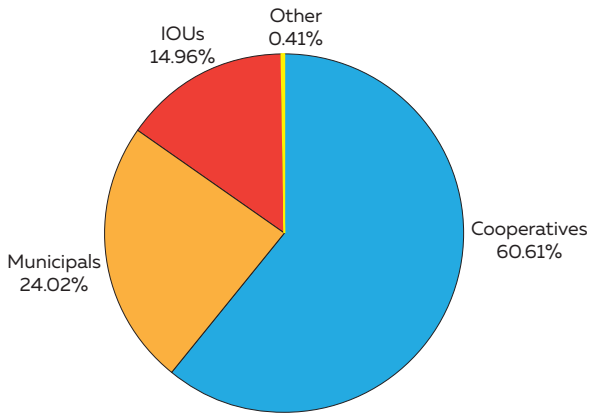
The electronic turbine governor controls for all three generators were replaced in FY 2018. Each generator was out of service for about a month to accomplish the restorations.

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

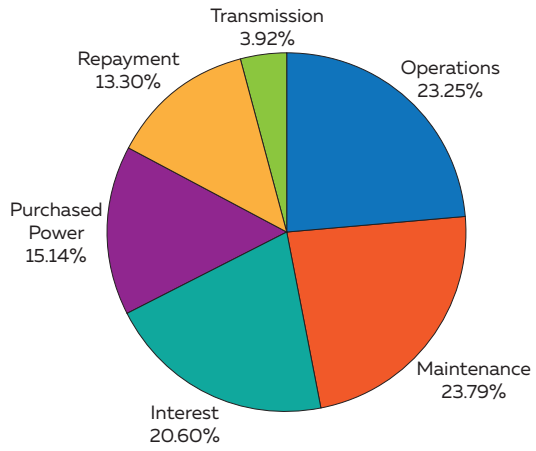


Regional Resource Management Accountants and Operations Division Engineers periodically meet with Southeastern Finance and Marketing Division staff to discuss mutual interest items including financial statement requirements, annual Hydropower Program independent audit, consistent work effort accounting, capitalization versus expenditure considerations and customer funding. Holly Sapp, South Atlantic Division, (above) and JW Smith, Southeastern (opposite) present concepts for collective consideration.

FY 2018 Revenue by Source – Figure N



FY 2018 Application of Revenues – Figure O



Financial Performance

Total revenue from the Jim Woodruff System was $8.9 million in FY 2018. Of this amount, $8.9 million was derived from the sale of 233,495 megawatt-hours of energy and 36 megawatts of capacity.

Total operating expenses, excluding depreciation, were $5.9 million. Interest charged to the Federal investment was $1.8 million and repayment of the Federal investment was $1.2 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, 2018	
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	27,074,264	2,146,836.56
Black Warrior EMC	18,494	29,934,789	2,346,600.85
Central Alabama EC	18,660	29,077,412	2,316,105.06
Clarke-Washington EMC	6,678	10,241,004	826,987.66
Coosa Valley EC	5,728	8,875,529	710,504.57
Dixie EC	7,273	11,368,068	903,234.34
Pea River EC	3,422	5,244,188	423,697.14
Pioneer EC	10,056	15,678,589	1,248,142.62
Tallapoosa River EC	11,494	17,754,565	1,424,967.13
Tombigbee EC	6,578	10,581,269	834,024.57
Wiregrass EC	8,467	13,105,712	1,050,135.86
PowerSouth Energy Cooperative	100,000	168,818,000	8,478,538.35
City of Alexander City	7,846	12,868,228	997,246.86
City of Dothan	52,461	86,096,660	6,669,067.01
City of Evergreen	4,047	6,630,951	514,249.06
City of Fairhope	6,248	10,250,617	794,203.79
City of Foley	21,199	34,767,150	2,694,541.81
City of Hartford	3,050	4,866,444	385,882.40
City of LaFayette	2,358	3,865,070	299,660.79
City of Lanett	5,321	8,727,085	676,314.73
City of Luverne	3,158	5,178,993	401,380.79
City of Opelika	20,809	34,137,042	2,645,112.35
City of Piedmont	3,869	6,219,169	490,458.76
City of Robertsdale	3,372	5,524,935	428,476.67
City of Sylacauga	16,494	26,493,234	2,090,467.71
City of Troy	10,079	11,886,612	1,204,085.34
City of Tuskegee	11,689	18,977,642	1,483,656.35
Alabama Total	**386,134**	**624,243,221**	**44,484,579.13**
Florida			
Choctawhatchee EC	1,231	1,926,585	152,846.88
West Florida ECA	8,402	13,184,777	1,043,962.61
Florida Total	**9,633**	**15,111,362**	**1,196,809.49**
Georgia			
Altamaha EMC	10,956	13,380,595	770,492.81
Amicalola EMC	11,513	14,055,757	809,581.65
Canoochee EMC	9,392	11,472,692	660,538.70
Carroll EMC	17,032	20,795,995	1,197,709.20
Central Georgia EMC	13,381	16,346,755	941,106.69
Coastal EMC	3,157	3,858,789	222,070.36
Cobb EMC	42,613	52,089,870	2,997,560.21
Colquitt EMC	38,410	46,888,342	2,700,870.39
Coweta-Fayette EMC	13,378	16,350,548	941,016.55
Diverse Power, Inc.	12,050	14,724,595	847,557.67
Excelsior EMC	8,914	10,886,037	626,876.33
Flint EMC	55,744	60,254,319	3,823,638.05
Grady EMC	10,439	12,743,364	734,039.82
Greystone Power Corporation	31,540	38,542,384	2,218,450.13
Habersham EMC	10,176	12,423,483	715,565.58
Hart EMC	18,630	22,735,507	1,309,893.73
Irwin EMC	8,246	10,064,209	579,801.13
Jackson EMC	48,415	59,136,081	3,404,946.95
Jefferson EMC	14,188	17,338,003	997,951.52
Little Ocmulgee EMC	7,754	9,461,115	545,164.78
Middle Georgia EMC	6,028	7,358,508	423,868.93
Mitchell EMC	18,023	22,002,184	1,267,335.56
Ocmulgee EMC	8,188	9,993,405	575,722.75
Oconee EMC	8,018	9,792,376	563,874.27
Okefenoke Rural EMC	9,487	11,583,954	667,142.42
Planters EMC	10,258	12,522,104	721,307.51
Rayle EMC	10,350	12,633,363	727,759.62
Satilla Rural EMC	30,374	37,078,268	2,135,799.87
Sawnee EMC	19,423	23,724,226	1,365,990.33
Slash Pine EMC	4,785	5,841,288	336,467.49
Snapping Shoals EMC	20,119	24,591,568	1,415,218.08
Southern Rivers Energy	6,842	8,357,340	481,190.39
Sumter EMC	11,437	13,968,517	804,327.38
Three Notch EMC	12,194	14,888,960	857,497.97
Tri-County EMC	6,416	7,841,483	451,303.23
Upson EMC	4,581	5,593,475	322,142.58
Walton EMC	31,322	38,300,892	2,203,520.45
Washington EMC	14,249	17,398,693	1,002,017.39
City of Acworth	2,303	3,729,230	197,405.45
City of Adel	6,902	11,169,235	591,469.18
City of Albany	60,831	98,511,699	5,214,413.94
City of Barnesville	2,635	4,266,050	225,847.12
City of Blakely	5,412	8,760,246	463,829.22
City of Brinson	156	253,313	13,386.55
City of Buford	2,356	3,814,783	201,942.84
City of Cairo	6,253	10,129,142	536,063.48
City of Calhoun	7,660	12,413,989	656,802.79
City of Camilla	6,072	9,825,500	520,329.91
City of Cartersville	17,152	27,770,426	1,470,136.68
City of College Park	15,559	25,208,775	1,333,961.86
City of Commerce	4,456	7,208,497	381,806.36
City of Covington	9,382	15,195,391	804,260.99
City of Dalton	45,822	77,128,759	3,958,665.82
City of Doerun	629	1,018,287	53,910.80
City of Douglas	10,180	16,480,403	872,513.84
City of East Point	33,488	54,207,187	2,870,073.90
City of Elberton	11,447	18,520,326	980,873.00
City of Ellaville	936	1,516,522	80,248.86
City of Fairburn	1,799	2,915,609	154,256.04
City of Fitzgerald	9,720	15,737,244	833,119.36
City of Forsyth	3,720	6,022,458	318,839.08
City of Fort Valley	9,417	15,247,398	807,164.20
City of Grantville	470	759,936	40,263.07
City of Griffin	18,157	29,399,339	1,556,314.84
City of Hampton	832	982,397	92,353.94
City of Hogansville	1,531	2,477,764	131,204.10
City of Jackson	2,067	3,346,748	177,169.74
City of LaFayette	6,607	10,696,168	566,279.09
City of Lagrange	17,096	27,691,577	1,465,583.08
City of Lawrenceville	4,795	7,773,838	411,205.87
City of Marietta	37,172	60,227,973	3,187,003.82
City of Monroe	7,223	11,690,956	619,024.36
City of Monticello	1,836	2,970,969	157,333.24
City of Moultrie	15,480	25,061,154	1,326,781.27
City of Newnan	6,893	11,160,845	590,826.42
City of Norcross	1,736	2,813,276	148,849.49
City of Oxford	458	743,163	39,290.29
City of Palmetto	923	1,494,713	79,119.17
City of Quitman	4,428	7,164,880	379,442.55
City of Sandersville	4,997	8,087,545	428,242.25
City of Sylvania	5,436	8,807,219	466,054.82
City of Sylvester	3,952	6,401,591	338,796.73
City of Thomaston	7,687	12,452,561	659,009.84
City of Thomasville	25,053	40,565,223	2,147,401.18
City of Washington	5,068	8,203,303	434,344.76
City of West Point	4,683	7,574,208	401,225.82
City of Whigham	319	516,693	27,346.63
Crisp County Power Commission	18,068	29,251,716	1,548,613.03
Town of Mansfield	379	612,312	32,457.67
Georgia Total	**1,095,655**	**1,522,997,580**	**84,360,177**
Mississippi			
Coast EPA	26,863	44,119,414	3,415,620.76
East Mississippi EPA	11,336	18,584,826	1,441,150.53
Singing River EPA	33,684	55,334,589	4,283,165.88
Cooperative Energy	68,000	78,925,000	4,737,788.27
Mississippi Total	**139,883**	**196,963,829**	**13,877,725.44**
North Carolina			
Blue Ridge EMC	7,311	12,747,014	682,844.77
EnergyUnited EMC	16,302	27,142,060	1,281,932.43
Haywood EMC	926	1,643,761	86,851.27
Pee Dee EMC	455	790,136	42,328.83
Rutherford EMC	24,018	42,622,371	2,251,147.57
Union EMC	11,633	20,430,095	1,087,821.33
City of Cherryville	1,478	1,138,652	101,730.12
City of Concord	8,007	7,750,625	675,704.23
City of Gastonia	15,971	12,299,687	1,099,174.79
City of Kings Mountain	2,896	2,802,421	244,372.50
City of Lincolnton	1,577	1,214,207	108,527.13
City of Monroe	7,693	5,925,848	529,486.63
City of Morganton	9,535	17,866,860	906,340.26
City of Newton	2,067	1,591,088	142,239.47
City of Shelby	5,892	4,536,675	405,484.55
City of Statesville	9,705	7,473,673	667,919.28
Town of Bostic	412	778,317	39,312.20
Town of Cornelius	361	278,218	24,850.02
Town of Dallas	1,299	1,256,311	109,597.69
Town of Drexel	879	1,650,584	83,635.62
Town of Forest City	2,721	2,634,193	229,629.81
Town of Granite Falls	828	637,329	56,977.82
Town of Huntersville	490	376,880	33,711.73
Town of Landis	1,098	844,877	75,550.64
Town of Maiden	1,235	950,506	84,982.13
Town of Pineville	490	376,880	33,711.73
North Carolina Total	**135,279**	**177,759,268**	**11,085,864.55**

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
South Carolina			
Central Electric Power Cooperative	180,700	285,064,964	18,541,126.37
Little River EC	522	774,489	65,638.51
City of Abbeville	2,959	5,183,319	223,782.02
City of Clinton	2,975	2,003,310	184,258.87
City of Easley	8,656	14,188,864	677,843.04
City of Gaffney	6,986	11,457,946	547,177.77
City of Georgetown	5,300	8,112,906	560,590.38
City of Greenwood	11,404	20,393,405	1,072,481.35
City of Greer	9,159	15,075,918	718,292.77
City of Laurens	5,891	9,686,484	461,826.99
City of Newberry	3,277	2,206,205	202,955.53
City of Orangeburg	13,779	20,291,592	1,729,166.66
City of Rock Hill	19,115	31,332,616	1,496,867.49
City of Seneca	2,688	2,374,592	188,587.99
City of Union	3,484	2,346,657	215,794.24
City of Westminster	678	456,064	41,984.11
Town of Bamberg	2,300	3,476,956	242,250.97
Town of Due West	285	275,687	24,046.61
Town of McCormick	522	748,192	65,380.36
Town of Prosperity	602	1,427,378	69,152.39
Town of Winnsboro	1,366	1,945,301	170,798.47
South Carolina PSA	135,000	157,616,070	10,467,363.41
South Carolina Total	**417,648**	**596,438,915**	**37,967,366.30**
Georgia-Alabama-South Carolina System Total	**2,184,232**	**3,133,514,175**	**192,972,521.72**
KERR-PHILPOTT SYSTEM			
North Carolina			
Albemarle EMC	2,593	5,518,945	184,754.73
Brunswick EMC	3,515	9,135,504	337,124.91
Carteret-Craven EMC	2,735	7,005,044	260,494.40
Central EMC	1,239	3,220,168	118,833.01
Edgecombe-Martin County EMC	4,155	8,959,094	298,038.30
Four County EMC	4,198	10,910,624	402,631.78
Halifax EMC	2,606	5,870,265	200,944.06
Jones-Onslow EMC	5,184	13,473,242	497,199.37
Lumbee River EMC	3,729	9,691,689	357,649.80
Pee Dee EMC	2,968	7,713,849	284,661.97
Piedmont EMC	1,086	2,386,660	97,338.66
Pitt & Greene EMC	1,580	4,106,428	151,538.36
Randolph EMC	3,608	9,377,209	346,044.66
Roanoke EMC	5,528	11,834,272	395,063.46
South River EMC	6,119	15,903,312	586,875.54
Tideland EMC	3,098	6,971,319	238,501.28
Tri-County EMC	3,096	8,046,521	296,938.47
Wake EMC	2,164	5,624,246	207,550.09
City of Elizabeth City	2,073	1,565,837	264,418.38
City of Kinston	1,466	1,107,340	92,942.37
City of Laurinburg	415	313,468	26,310.42
City of Lumberton	895	676,035	56,741.72
City of New Bern	1,204	909,441	76,331.84
City of Rocky Mount	2,538	1,917,073	160,905.68
City of Washington	2,703	2,041,709	171,366.46
City of Wilson	2,950	2,228,279	187,026.09
Fayetteville Public Works Commission	5,431	4,102,295	344,317.86
Greenville Utilities Commission	7,534	5,690,794	477,645.13
Town of Apex	145	109,525	9,192.80
Town of Ayden	208	157,113	13,186.91
Town of Belhaven	182	137,476	23,214.77
Town of Benson	120	90,642	7,607.79
Town of Clayton	161	121,610	10,207.12
Town of Edenton	775	585,396	98,853.94
Town of Enfield	259	196,855	12,399.07
Town of Farmville	237	179,016	15,025.43
Town of Fremont	60	45,320	3,803.92
Town of Hamilton	40	30,216	5,102.15
Town of Hertford	203	153,336	25,893.37
Town of Hobgood	46	34,747	5,867.49
Town of Hookerton	30	22,662	1,902.00
Town of La Grange	93	70,250	5,896.09
Town of Louisburg	857	2,591,255	87,872.72
Town of Pikeville	40	30,216	2,535.97
Town of Red Springs	117	88,379	7,417.65
Town of Robersonville	232	175,241	29,592.41
Town of Scotland Neck	304	229,629	38,776.30
Town of Selma	183	138,228	11,601.97
Town of Smithfield	378	285,522	23,964.70
Town of Tarboro	2,145	1,620,224	273,602.28
Town of Wake Forest	149	112,547	9,446.47
Town of Windsor	331	248,144	42,217.39
North Carolina Total	**93,705**	**173,754,212**	**7,885,369.51**

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE ($)
Virginia			
B-A-R-C EC	3,740	8,013,602	565,941.48
Central Virginia EC	7,956	17,025,434	1,204,308.79
Community EC	4,230	9,076,188	640,308.29
Craig-Botetourt EC	1,692	5,619,100	284,312.01
Mecklenburg EMC	11,344	24,538,448	1,720,603.48
Northern Neck EC	3,944	8,421,279	596,301.63
Northern Virginia EC	3,268	6,830,339	492,521.31
Prince George EC	2,530	5,402,088	382,515.99
Rappahannock EC	22,427	47,886,425	3,391,360.84
Shenandoah Valley EMC	9,938	21,461,695	1,506,735.24
Southside EC	14,575	31,226,089	2,205,758.28
City of Bedford	1,200	905,647	57,363.70
City of Danville	5,600	4,226,344	267,697.18
City of Franklin	1,003	751,931	127,927.68
City of Martinsville	1,600	1,207,527	76,484.89
City of Radford	1,300	981,574	62,062.14
City of Salem	2,200	1,661,126	105,028.25
Harrisonburg Electric Commission	2,691	2,043,764	343,692.00
Town of Blackstone	389	291,629	49,615.06
Town of Culpepper	391	296,956	49,938.16
Town of Elkton	171	128,197	21,810.25
Town of Richlands	500	377,354	23,901.55
Town of Wakefield	106	79,468	13,519.81
Virginia Total	102,795	198,452,204	14,189,708.01
Kerr-Philpott System Total	**196,500**	**372,206,416**	**22,075,077.52**
JIM WOODRUFF SYSTEM			
Florida			
Central Florida EC	2,300	11,709,913	405,567.45
Suwannee Valley EC	4,800	24,497,727	852,921.16
Talquin EC	13,500	76,495,038	3,116,872.91
Tri-County EC	5,200	28,544,535	1,022,140.08
City of Chattahoochee	1,800	10,836,906	430,438.44
City of Quincy	8,400	45,820,156	1,708,194.21
Duke Energy Florida	-	35,591,053	1,332,127.84
Jim Woodruff System Total	**36,000**	**233,495,328**	**8,868,262.09**
CUMBERLAND SYSTEM			
Illinois			
Southern Illinois Power Cooperative	24,000	35,000,000	1,383,455.89
Kentucky			
Big Rivers Electric Corporation	154,000	218,791,000	8,738,359.87
East Kentucky Power Cooperative	157,000	247,256,000	9,497,808.55
City of Barbourville	1,916	3,330,611	129,925.21
City of Bardstown	1,957	3,401,882	132,637.02
City of Bardwell	472	820,485	31,951.13
City of Benham	216	375,476	14,695.39
City of Corbin	2,263	3,933,806	153,437.80
City of Falmouth	514	893,494	34,814.34
City of Frankfort	13,605	23,649,773	922,277.97
City of Henderson	10,000	15,030,000	587,094.70
City of Madisonville	6,796	11,813,587	460,737.53
City of Nicholasville	2,226	3,869,489	150,907.83
City of Owensboro	21,775	37,851,806	1,476,111.45
City of Paris	1,188	2,065,118	80,506.35
City of Providence	1,072	1,863,473	72,689.02
City of Princeton	313	2,019,453	42,235.05
City of Paducah	2,183	14,084,547	294,568.50
KentuckyTotal	**377,496**	**591,050,000**	**22,820,757.71**
Mississippi			
Cooperative Energy	44,000	68,947,000	2,587,467.82
Mississippi Delta Energy Agency	10,000	14,063,000	558,927.31
Municipal Energy Agency of Mississippi	16,000	23,427,000	928,104.20
Mississippi Total	**70,000**	**106,437,000**	**4,074,499.33**
North Carolina			
French Broad EMC	7,029	11,871,609	518,836.97
Haywood EMC	2,057	3,474,615	151,808.89
Town of Waynesville	1,457	2,499,902	107,804.93
North Carolina Total	**10,543**	**17,846,126**	**778,450.79**
Tennessee Valley Region			
TVA Acquisition for 154 TVPPA Members	347,504	2,469,511,000	38,760,877.72
Cumberland System Total	**829,543**	**3,219,844,126**	**67,818,041.44**
Grand Total	**3,246,275**	**6,959,060,045**	**291,733,902.77**

Allatoona generator rotor removal (top left) prior to stator winding (above) and excitation (left) electrical component carbon dioxide blast cleaning.

Allatoona control room (above) and generator floor (below) after the fire. New switchyard breakers were being stored on the generator floor prior to installation.

New protective relay and metering cabinets (above) and sootless generator floor.

Southeastern Power Administration

2018 Financial Overview and Financial Statements

Contents

2018 Financial Overview & Financial Statements

Description

The Southeastern Federal Power Program (the Program) consists of all activities associated with the production, transmission and disposition of Federal power marketed under Section 5 of the Flood Control Act of 1944 in 11 states. These states are: Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. The Program includes the accounts of two separate Federal government agencies — the Southeastern Power Administration (Southeastern), an agency of the United States Department of Energy and the hydroelectric generating plants and power operations of the United States Army Corps of Engineers (Corps), an agency of the United States Department of Defense 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, 2018, 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

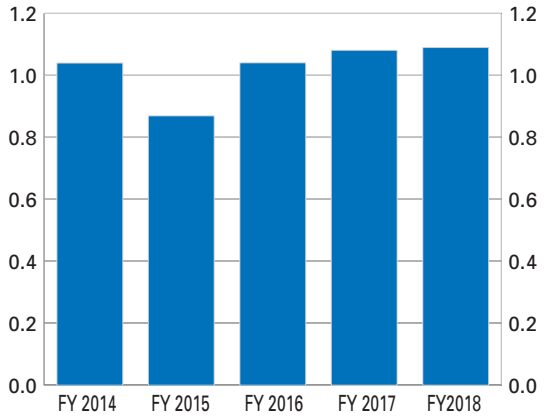
During FY 2018, Southeastern marketed 7.0 billion kilowatt-hours of energy to 485 wholesale customers. The Program's revenues totaled $306.9 million, $6.9 million less than in FY 2017.

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.

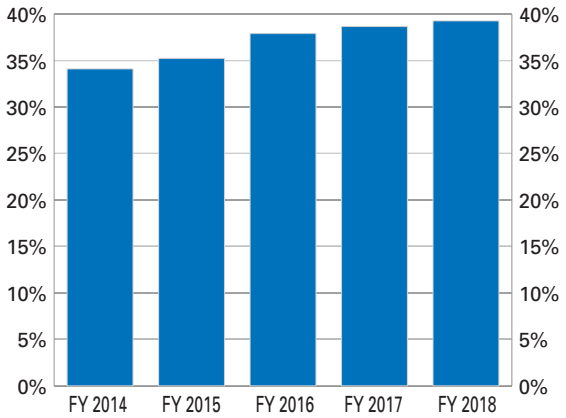
Specifically, the debt service coverage ratio measures revenues in excess of operating expenses requiring cash, or cash flow from operations available to make debt service payments of principal and interest. A ratio of 1.0 would generally indicate just enough cash flow to make principal and interest 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 1.090. The Program's debt service ratio for 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. FY 2018 actual generation was slightly less than estimates. The Program's debt service coverage ratio for fiscal years 2014-2018 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)

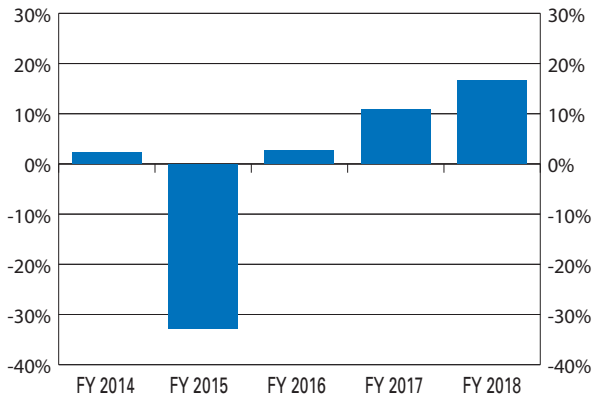
This indicator is a cumulative cash flow measure. It measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature 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 39.3%. 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 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 FY 2018 ratio of 16.7% shows repayment greater than planned. The variance of actual from planned payment is found in Figure R.

Percent Variance of Actual From Planned Principal Payments - Figure R



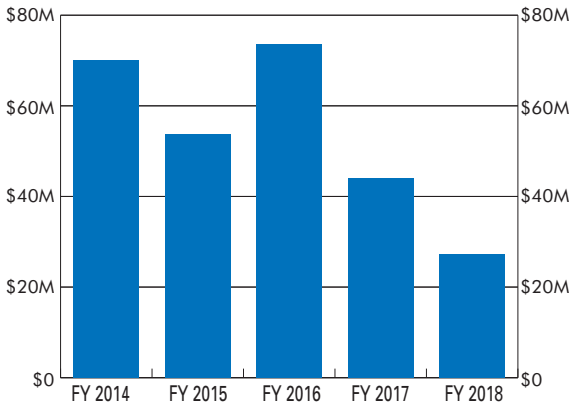
Net Cash to the Treasury

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



KPMG

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Financial Statements

September 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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
February 19, 2019

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Balance Sheets

September 30, 2018 and 2017

(In thousands)

Assets		2018	2017
Utility plant in service (note 4)	$	2,742,017	2,687,006
Accumulated depreciation		(1,140,972)	(1,097,903)
Net completed plant		1,601,045	1,589,103
Construction work-in-progress		86,753	83,394
Net utility plant		1,687,798	1,672,497
Cash		394,790	373,200
Accounts receivable, net		27,324	26,861
Regulatory assets		12,767	9,090
Other assets		303	428
Total assets	$	2,122,982	2,082,076
Total Liabilities and Capitalization			
Liabilities:			
Accounts payable and accrued liabilities	$	12,648	14,542
Workers' compensation actuarial liability		12,767	9,090
Total liabilities		25,415	23,632
Capitalization:			
Payable to U.S. Treasury (notes 3 and 4(a))		2,161,810	2,117,612
Accumulated net deficit		(64,243)	(59,168)
Total capitalization		2,097,567	2,058,444
Commitments and contingencies (note 5)		—	—
Total liabilities and capitalization	$	2,122,982	2,082,076

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Revenues and Expenses

Years ended September 30, 2018 and 2017

(In thousands)

		2018	2017
Operating revenues:			
Sales of electric power	$	291,734	301,816
Other operating revenues		15,175	12,009
Total operating revenues		306,909	313,825
Operating expenses, excluding depreciation expense:			
Operations		78,661	72,008
Maintenance		43,667	40,334
Purchased power		28,914	32,692
Purchased transmission services		41,220	45,040
Total operating expenses, excluding depreciation expense		192,462	190,074
Depreciation expense		43,518	40,899
Total operating expenses		235,980	230,973
Net operating revenues		70,929	82,852
Interest expenses:			
Interest on payable to U.S. Treasury		78,963	80,701
Interest charged to construction		(2,959)	(3,599)
Net interest expenses		76,004	77,102
Net revenues (deficit)	$	(5,075)	5,750

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Changes in Capitalization

Years ended September 30, 2018 and 2017

(In thousands)

	Payable to U.S. Treasury	Accumulated net deficit	Total capitalization
Total capitalization as of September 30, 2016	$ 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(a))	(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
Additions:			
Congressional appropriations	134,266	—	134,266
Interest	78,963	—	78,963
Transfers of property and services, net	10,373	—	10,373
Total additions to capitalization	223,602	—	223,602
Deductions:			
Payments to U.S. Treasury	(178,572)	—	(178,572)
Rate adjustments to congressional appropriations (note 4(a))	(832)	—	(832)
Total deductions to capitalization	(179,404)	—	(179,404)
Net deficit for the year ended September 30, 2018	—	(5,075)	(5,075)
Total capitalization as of September 30, 2018	$ 2,161,810	(64,243)	2,097,567

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Cash Flows

Years ended September 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Net revenues (deficit)	$	(5,075)	5,750
Adjustments to reconcile net revenues to net cash provided by operating activities:			
Depreciation		43,518	40,899
Interest on payable to U.S. Treasury, net		76,004	77,102
Unfunded retirement benefits		7,813	4,308
(Increase) decrease in assets:			
Accounts receivable, net		(463)	485
Other assets		125	(142)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities		(1,894)	1,094
Net cash provided by operating activities		120,028	129,496
Cash flows from investing activities:			
Investment in utility plant		(56,692)	(53,687)
Cash flows from financing activities:			
Congressional appropriations		134,266	129,956
Payments to U.S. Treasury		(178,572)	(171,456)
Transfers from other federal agencies, net		2,560	2,806
Net cash used in financing activities		(41,746)	(38,694)
Net increase in cash		21,590	37,115
Cash, beginning of year		373,200	336,085
Cash, end of year	$	394,790	373,200
Supplemental disclosures:			
Cash paid for interest	$	76,004	77,102
Interest charged to construction		2,959	3,599
Adjustments to power allocations impacting (note 4(a)):			
Congressional appropriations		832	1,333
Investment in utility plant		832	1,333

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2018 and 2017

(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, 2018, 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 combined financial statements are prepared following accounting principles generally accepted in the United States of America ("U.S. GAAP"). The combined financial statements also reflect Federal Energy Regulatory Commission ("FERC") regulations, FERC's prescribed uniform system of accounts for electric utilities and DOE's accounting practices.

(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, 2018 and 2017. 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(a)).

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, 2018, all rates were approved on a final basis by FERC. There were no revenues subject to refund.

The Program's combined financial statements are presented in accordance with the provisions of ASC Topic 980, *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, 2018.

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 wood chippers. Moveable equipment is currently depreciated using the straight line method over the estimated service lives ranging from 5 to 50 years.

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

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

Interest, a component of total capitalization, is accrued annually on the outstanding payable to the U.S. Treasury based on federal statutes and power system legislation. Such interest is reflected as an expense in the combined financial statements. Interest rates on unpaid balances ranged from 2.375% to 6.125% for the years ended September 30, 2018 and 2017.

(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, 2018 and 2017, 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 (OPM), and totaled $11.3 million and $9.0 million for the years ended September 30, 2018 and 2017, respectively. The contribution levels, as legislatively mandated, do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding for CSRS and FERS benefits include direct appropriations to the OPM, not Southeastern or the Corps, and is approximately 37.4% and 16.2% of base salary, respectively. In addition to the amounts contributed to the CSRS and FERS, the Program has recorded $7.8 million and $4.3 million of annual pension and retirement benefits expense for the years ended September 30, 2018 and 2017, respectively. 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 $7,151 and $5,412 per employee in fiscal years 2018 and 2017, 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

(Continued)

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, 2018 and 2017, 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 $12.8 million and $9.1 million, as of September 30, 2018 and 2017, 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. 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) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), 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)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU No. 2016-02 is effective for the Program for periods beginning after December 15, 2019 and early adoption is permitted. The Program is evaluating the effect that ASU No. 2016-02 will have on the Program's combined financial statements and related disclosures.

(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 2018. 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

Utility plant as of September 30, 2018 and 2017 consists of the following (in thousands):

	2018	2017
Utility plant:		
Structures and facilities	$ 2,310,907	2,256,049
Buildings	48,051	47,966
Land	361,463	361,402
Movable equipment	21,596	21,589
Gross completed plant	2,742,017	2,687,006
Accumulated depreciation	(1,140,972)	(1,097,903)
Net completed plant	1,601,045	1,589,103
Construction work-in-progress	86,753	83,394
Net utility plant	$ 1,687,798	1,672,497

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, 2018 and 2017, contributed plant, net, used in the Program's operations totaled approximately $586,000.

(Continued)

As of September 30, 2018, major projects included in construction work-in-progress included a fiber optic cable and design for turbines and generator upgrade in the Kerr-Philpott power system; security system upgrade, station switchgear supply, motor control centers supply, emergency closure gates (1-7), Supervisory Control and Data Acquisition (SCADA) system servers, station service 13.8 KV breakers replacement, plant automation system, vibration corrections, and crane rehabilitation and replacement in the Georgia-Alabama-South Carolina power system; SCADA system servers and motor control centers in the Jim Woodruff System; and dam safety remediations, electrical flash protection, security system improvements, sewer systems, exciters, and rehabilitation of turbines and generators in the Cumberland power system.

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 improvement, vibration corrections, and Alatoona reconstruction in the Georgia-Alabama-South Carolina power system; 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, springs and spillway modifications, dam safety remediations, and relay and breaker replacement in the Cumberland power system.

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

In fiscal year 2014, scheduled remediation efforts to the Wolf Creek project within the Cumberland power system were completed and placed into service. The remediation efforts addressed problems with karst foundation seepage. Total project costs of $656.9 million included $555.3 million in construction remediation costs and $101.6 million in interest during construction. Typically, multi-purpose rehabilitation costs are allocated to the power function based on established cost studies at 55.113%.

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 determined 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.

(Continued)

Since fiscal year 2014, additional remediation efforts to the Wolf Creek project were completed and placed into service as follows (in thousands):

		Total project costs	Multi-purpose allocation	Dam Safety Act adjustment	Allocated to power
2015	$	2,759	1,521	1,293	228
2016		3,721	2,051	1,743	308
2017		1,211	667	567	100
2018		132	73	62	11
Total	$	7,823	4,312	3,665	647

As of September 30, 2015, scheduled remediation efforts to the Center Hill project within the Cumberland 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.

Since fiscal year 2015, additional remediation efforts to the Center Hill project were completed and placed into service as follows (in thousands):

		Total project costs	Multi-purpose allocation	Dam Safety Act adjustment	Allocated to power
2016	$	13,812	5,876	4,995	881
2017		2,119	902	767	135
2018		2,130	906	770	136
Total	$	18,061	7,684	6,532	1,152

(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.

(Continued)

(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 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):

	Commitments for transmission services
Fiscal year ending September 30,	
2019	$ 41,404
2020	42,643
2021	44,045
2022	45,516
2023	47,059
	$ 220,667

(6) Subsequent Events

The Program has evaluated subsequent events as of September 30, 2018 through the date the combined financial statements were available to be issued on February 19, 2019, and identified no subsequent events requiring disclosure.

Schedule 1

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2018

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	$ 1,877,309	74,384	217,002	573,322	2,742,017
Accumulated depreciation	(734,137)	(34,266)	(82,889)	(289,680)	(1,140,972)
Net completed plant	1,143,172	40,118	134,113	283,642	1,601,045
Construction work-in-progress	21,037	1,674	1,004	63,038	86,753
Net utility plant	1,164,209	41,792	135,117	346,680	1,687,798
Cash	80,689	2,738	32,444	278,919	394,790
Accounts receivable, net	20,282	617	3,103	3,322	27,324
Regulatory assets	9,628	—	10	3,129	12,767
Other assets	172	6	35	90	303
Total assets	$ 1,274,980	45,153	170,709	632,140	2,122,982
Total Liabilities and Capitalization					
Liabilities:					
counts payable and accrued liabilities	$ 7,290	430	1,098	3,830	12,648
orkers' compensation actuarial liability	9,628	—	10	3,129	12,767
Total liabilities	16,918	430	1,108	6,959	25,415
Capitalization:					
Payable to U.S. Treasury	1,405,619	41,394	168,012	546,785	2,161,810
Accumulated net revenues (deficit)	(147,557)	3,329	1,589	78,396	(64,243)
Total capitalization	1,258,062	44,723	169,601	625,181	2,097,567
Commitments and contingencies	—	—	—	—	—
Total liabilities and capitalization	$ 1,274,980	45,153	170,709	632,140	2,122,982

See accompanying independent auditors' report.

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 2

SOUTHEASTERN :RAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2018

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	$ 192,973	8,868	22,075	67,818	291,734
Other operating revenues	8,842	36	3,975	2,322	15,175
Total operating revenues	201,815	8,904	26,050	70,140	306,909
Operating expenses, excluding depreciation expense:					
Operations	35,467	2,071	6,229	34,894	78,661
Maintenance	31,595	2,118	6,836	3,118	43,667
Purchased power	26,797	1,348	769	—	28,914
Purchased transmission services	23,762	349	6,409	10,700	41,220
Total operating expenses, excluding depreciation expense	117,621	5,886	20,243	48,712	192,462
Depreciation expense	29,812	1,516	4,589	7,601	43,518
Total operating expenses	147,433	7,402	24,832	56,313	235,980
Net operating revenues	54,382	1,502	1,218	13,827	70,929
Interest expenses:					
Interest on payable to U.S. Treasury	63,691	1,861	5,499	7,912	78,963
Interest charged to construction	(1,062)	(27)	(12)	(1,858)	(2,959)
Net interest expenses	62,629	1,834	5,487	6,054	76,004
Net revenues (deficit)	$ (8,247)	(332)	(4,269)	7,773	(5,075)

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.

SOUTHEASTERN FEDERAL POWER PROGRAM

Schedule of Amount and Allocation of Gross Utility Plant Investment (unaudited)

As of September 30, 2018

(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	$ 87,434	64,715	—	10,210	—	12,277	—	232	(a)	74.0%
Buford	104,086	84,607	2,167	4,870	—	12,442	—	—		81.3%
Carters	205,022	173,317	—	20,114	—	11,591	—	—		84.5%
J. Strom Thurmond	195,244	169,898	4,368	4,113	—	16,865	—	—		87.0%
Walter F. George	289,598	193,331	82,688	—	348	13,231	—	—		66.8%
Hartwell	211,758	178,710	4,009	16,132	—	12,907	—	—		84.4%
Millers Ferry/Henry	254,285	145,440	87,227	—	—	21,618	—	—		57.2%
West Point	181,010	93,374	2,738	22,293	14,047	48,558	—	—		51.6%
Richard B. Russell	907,089	793,346	—	873	—	112,870	—	—		87.5%
Marketing facilities	1,608	1,608	—	—	—	—	—	—		100.0%
Total GA-AL-SC System	2,437,134	1,898,346	183,197	78,605	14,395	262,359	—	232		77.9%
Jim Woodruff	126,865	76,008	42,872	—	—	7,985	—	—		59.9%
Marketing facilities	50	50	—	—	—	—	—	—		100.0%
Total Jim Woodruff System	126,915	76,058	42,872	—	—	7,985	—	—		59.9%
Barkley	244,914	81,111	129,405	25,877	—	8,521	—	—		33.1%
J. Percy Priest	74,209	16,509	—	27,600	—	30,100	—	—		22.2%
Cheatham	86,508	26,202	55,638	—	—	4,668	—	—		30.3%
Cordell Hull	99,819	47,199	17,718	—	—	28,235	—	6,667	(b)	47.3%
Old Hickory	91,245	56,409	29,222	—	—	5,614	—	—		61.8%
Center Hill	485,976	137,839	—	84,215	—	9,295	253,930	697	(c)	28.4%
Dale Hollow	49,854	32,915	—	14,237	—	2,702	—	—		66.0%
Wolf Creek	924,422	208,877	—	129,934	—	20,363	565,002	246	(c)	22.6%
Laurel	53,358	29,333	—	—	—	17,659	—	6,366	(b)	55.0%
Marketing facilities	552	552	—	—	—	—	—	—		100.0%
Contributions in aid of construction	(586)	(586)	—	—	—	—	—	—		100.0%
Total Cumberland Basin System	2,110,271	636,360	231,983	281,863	—	127,157	818,932	13,976		30.2%
John H. Kerr	228,924	192,960	—	26,781	—	9,183	—	—		84.3%
Philpott	39,365	24,745	—	9,214	—	5,406	—	—		62.9%
Marketing facilities	301	301	—	—	—	—	—	—		100.0%
Total Kerr-Philpott System	268,590	218,006	—	35,995	—	14,589	—	—		81.2%
Total	$ 4,942,910	2,828,770	458,052	396,463	14,395	412,090	818,932	14,208		57.2%

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

See accompanying independent auditors' report.

SouthEastern Power Administration

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