

**2016
ANNUAL REPORT**

**SOUTHEASTERN
POWER
ADMINISTRATION**

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ON THE FRONT COVER:

The Jim Woodruff powerplant services four cooperatives, two municipalities and one investor owned utility in Florida's central panhandle.

(Photo by Joe Clark, jsclark.net)

FAST FACTS

Administrator:

Kenneth E. Legg

Headquarters:

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Elberton, GA 30635-6711
Telephone: 706-213-3800
Fax: 706-213-3884

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	\$329 million
Total Capital Investment.....	\$2.7 billion
Investment Remaining.....	\$1.6 billion
Cumulative Investment Repaid.....	\$1.1 billion
Cumulative Interest Paid on Investment.....	\$2.2 billion

LETTER TO THE SECRETARY

Secretary Perry:

I am pleased to submit Southeastern Power Administration's (Southeastern) Fiscal Year 2016 Annual Report. This report reflects our agency's programs, accomplishments, operational and financial activities for the 12-month period beginning October 1, 2015, and ending September 30, 2016.

In 2016, Southeastern marketed more than 7.6 billion kilowatt-hours of energy to 485 wholesale customers in ten southeastern states. Power revenues totaled nearly \$318 million.

This past year, Southeastern developed new rate schedules for the Jim Woodruff System serving the eastern panhandle of Florida, specifically four electric cooperatives, two municipalities and our only investor-owned utility customer. The rate adjustment was effective the first of October and reflected a reduction in the capacity and energy rates of about 24 percent.

Within the Cumberland System, Southeastern signed a new customer funding agreement in June with the U.S. Army Corps of Engineers (Corps), Tennessee Valley Authority and the Tennessee Valley Public Power Association, representing 154 Southeastern customers. The new statement of intent, when combined with the prior agreement signed in 2011 with the customers outside the Tennessee Valley Authority service area, has doubled annual customer funding contributions from \$25 million to \$50 million for the restoration of the nine Cumberland System Power projects.

Funding for capitalized equipment purchases and replacements at hydroelectric facilities operated by the Corps continued in 2016 with the financial assistance and support of Southeastern's customers. Currently, there are 424 customers participating in programs to renew critical infrastructure within the Georgia-Alabama-South Carolina, Kerr-Philpott and Cumberland Systems. Congressional appropriations are insufficient to adequately maintain Federal hydropower assets; but customer funding, about \$62 million in 2016, will be a stable, consistent funding stream that allows the Corps to effect dependability-enhancing repairs for aging projects in Southeastern's marketing area. Hydropower reliability will continue to be a concern until generator refurbishments are completed and prolonged equipment outages are addressed.

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. 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

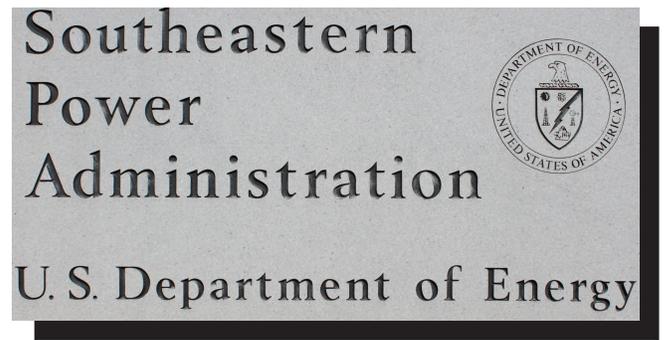
MISSION, VISION & ORGANIZATION

Mission Statement

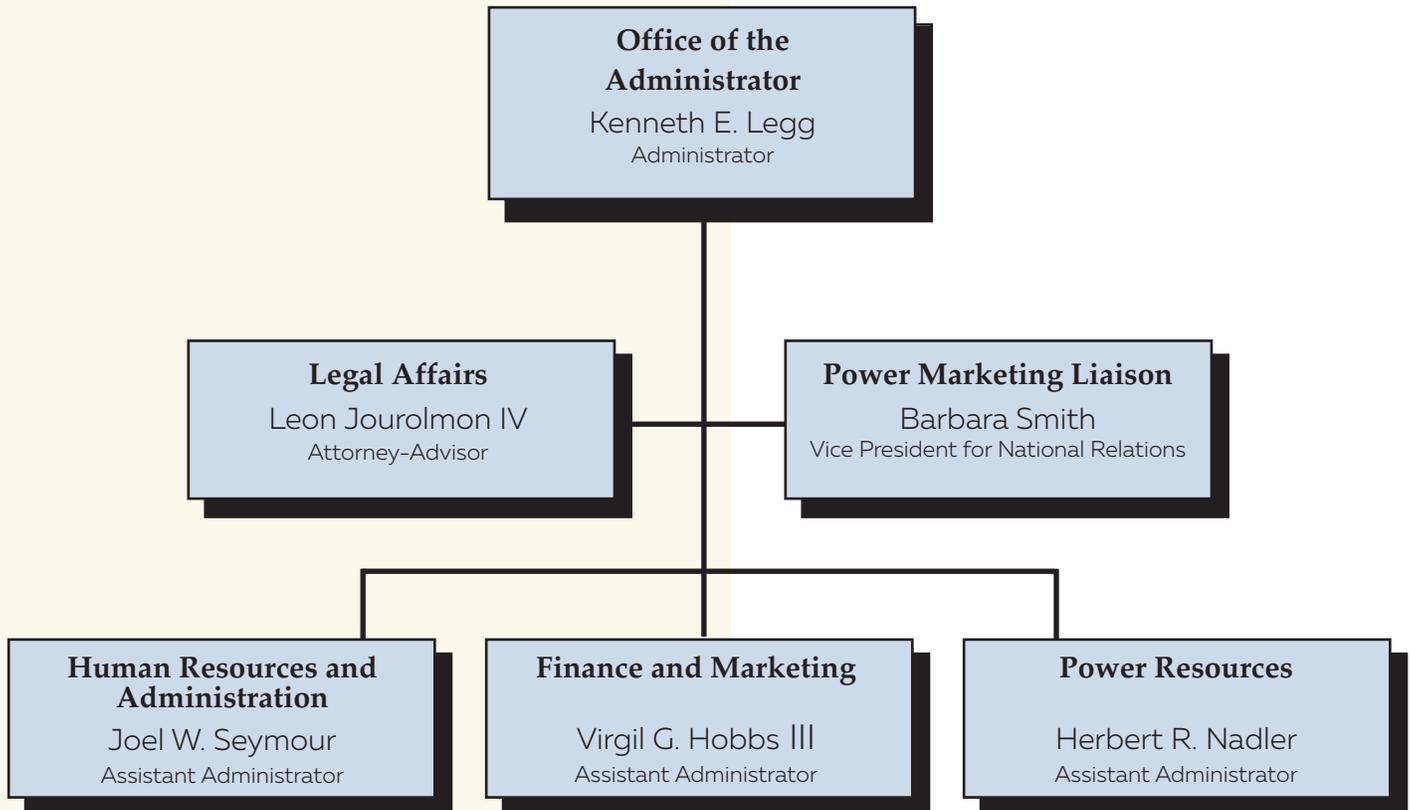
The mission of Southeastern is to market and deliver federal hydroelectric power, at the lowest possible cost, to public bodies and cooperatives in the Southeastern United States.

Vision Statement

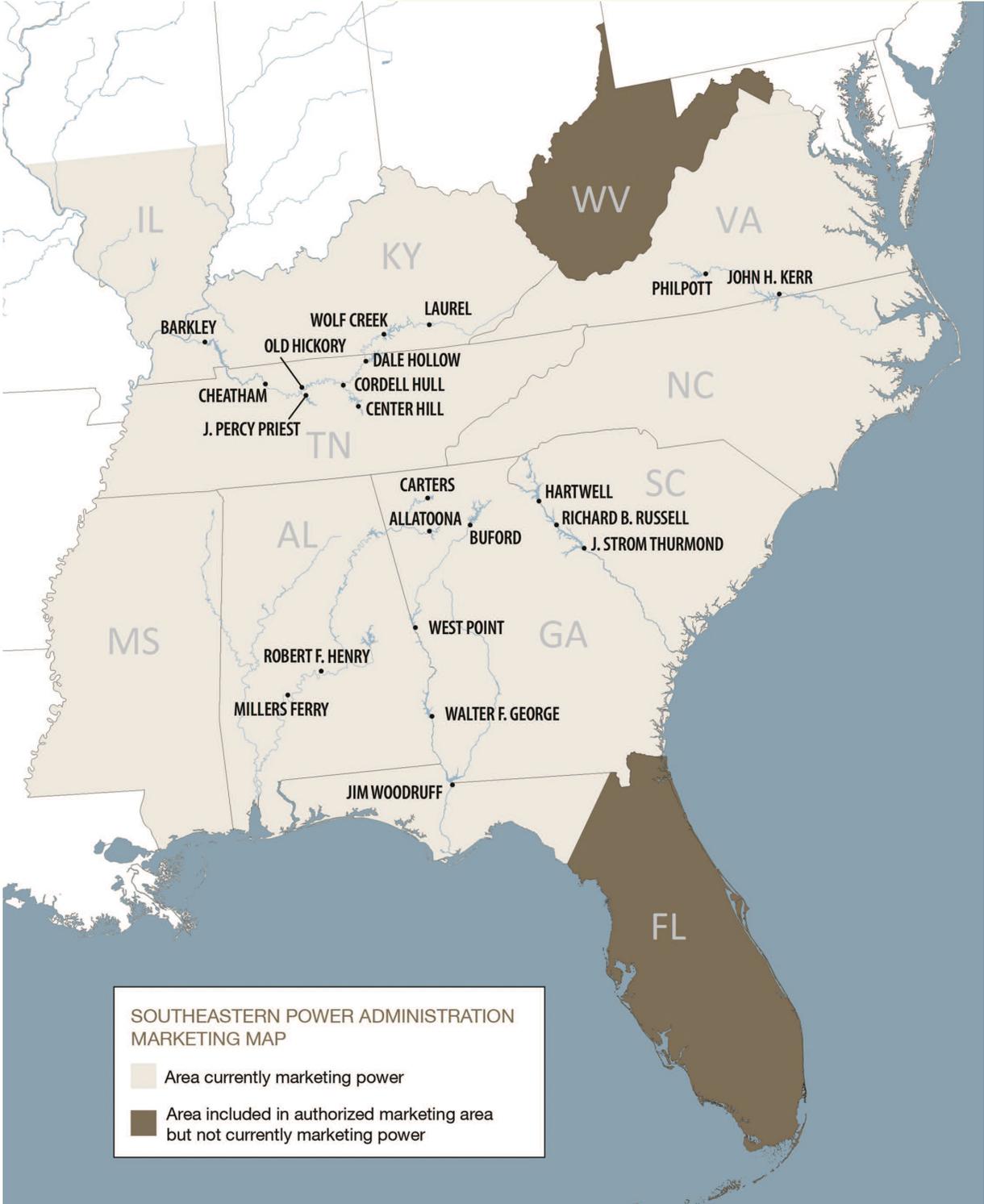
Southeastern will excel in an evolving energy market by maintaining a well-trained, flexible workforce in an open, rewarding and safe environment.



Organizational Chart



MARKETING MAP



SOUTHEASTERN POWER ADMINISTRATION
MARKETING MAP

- Area currently marketing power
- Area included in authorized marketing area but not currently marketing power

MARKETING OBJECTIVES

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

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

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

Section 5 of the Flood Control Act of 1944

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

RATES & REPAYMENTS

Kerr-Philpott

New rate schedules were approved on a final basis by the Federal Energy Regulatory Commission (FERC) for the Kerr-Philpott system on February 24, 2016. The new rates were effective on October 1, 2015.

Cumberland

In FY 2015, Southeastern proposed a rate adjustment that included the recovery cost of dam safety repairs at Wolf Creek and Center Hill. The new 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 have been approved by FERC through September 30, 2017. In FY 2017, Southeastern will propose a rate adjustment with rate schedules that would, if approved, go into effect on October 1, 2017.

Jim Woodruff

New rate schedules were approved on an interim basis by the Deputy Secretary of Energy for the Jim Woodruff System on August 22, 2016. The new rates were effective on October 1, 2016, and were 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, 2016 (in millions) - Table 1

System	Initial Year of Repayment Studies	Cumulative Revenue \$	Cumulative Expenses and Interest \$	Total Investment to be Repaid \$	Investment Repaid to Date \$	Unpaid Balance of Investment \$
GA-AL-SC	1950	4,855	4,292	1,836	563	1,273
Jim Woodruff	1957	270	232	77	38	39
Cumberland	1949	1,689	1,335	544	353	190
Kerr-Philpott	1953	628	526	227	103	124
TOTAL		7,442	6,385	2,684	1,057	1,626

CUSTOMER FUNDING

Georgia–Alabama–South Carolina Customer Funding:

On September 17, 2015, a Sub-Agreement was signed and approved funds for the Allatoona Fire Restoration in the Mobile District. The total funds collected for this work item was \$10,000,000.

On June 7, 2016, Southeastern, notified the GA-AL-SC System participating customers of the Project Review Committee’s approval of three new Sub-Agreements and amendments to the previously approved work items.

Kerr–Philpott System Customer Funding:

On July 15, 2016, a Sub-Agreement was signed to provide funding for and replacement of the plant control system which was destroyed in the Philpott powerhouse fire. The total funding requirement for this work item was \$2,300,000 and was collected on the July power-billing invoice.

Customer Funding Summary

GA-AL-SC System

Allatoona Fire.....	\$10,000,000
Carters Governors.....	\$375,000
Russell Draft Tube.....	\$420,000
Thurmond Motor Control.....	\$2,703,580
West Point Transformers.....	\$2,834,500

Kerr-Philpott System

Philpott Control System.....	\$2,300,000
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From left to right, Ron Graham, PowerSouth; Jennifer Wadford, Santee Cooper; Roger Brand, Municipal Electric Authority of Georgia; Alan Williford, Alabama Municipal Electric Authority; George Taylor, Oglethorpe Power Corporation; John Ferguson, Corps South Atlantic Division; and Col. Jon Chytka, Corps Mobile District Commander, partner at April 12, 2016, Southeastern Federal Power Alliance.

Customer Funding Summary

Cumberland System

Barkley Rehabilitation.....	\$54,900,000
Cheatham DC System.....	\$1,250,000
Cordell Hull Excitation.....	\$7,275,000
Dale Hollow Rehab Analysis.....	\$650,000
Old Hickory Rehabilitation.....	\$2,200,000
Wolf Creek Station Service.....	\$3,100,000

Cumberland System Customer Funding:

In March 2016, the Long-Term Memorandum of Agreement Project Review Committee recommended the formal approval of Sub-Agreement #7. The Program Coordination Committee members, representing 24 Customers outside the Tennessee Valley Authority service territory, signed the document approving the funding of Barkley main power transformers, Old Hickory major rehabilitation design and rehabilitation analysis reports for Cheatham, Cordell Hull and Dale Hollow powerplants.

On June 27, 2016, the Short-Term Memorandum of Agreement was executed in Chattanooga, Tennessee. Signatories seated at left are Lieutenant Colonel Stephen F. Murphy, U.S. Army Corps of Engineers Nashville District Commander, Jack W. Simmons, Tennessee Valley Public Power Association President, John McCormick, Tennessee Valley Authority Vice President and Ken Legg, Southeastern Power Administration Administrator. The first and second Sub-Agreements have been signed on behalf of the 154 Tennessee Valley preference entities focusing \$50 million of customer funds to rehabilitate the four generators of the Barkley powerhouse.



Short-term Memorandum of Agreement signing.

PROGRAM DIRECTION

Human Capital Initiatives

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

Power Marketing Administration Shared Services Center

On October 2, 2016, the Power Marketing Administration (PMA) Shared Service Center (SSC) opened for business. Situated at the Western Area Power Administration (WAPA), this center will provide streamlined Human Resources (HR) services to employees of Southeastern, the Southwestern Power Administration and WAPA.

This new approach to HR services will make efficient use of resources in support of DOE's mission and put customers at the center of HR's focus. Each PMA will utilize on-site HR Business Partners to serve as liaisons between DOE employees and the SSC. All SEPA HR personnel actions go through the Administrator and to the Office of the Chief Human Capital Officer and will utilize uniform processes, guidance and policy across the entire HR line of business.

Information Management

Southeastern's Information Management Team has been working with Corps personnel on a planned upgrade to the Supervisory Control and Data Acquisition (SCADA) equipment within the Georgia-Alabama-South Carolina system. Southeastern will modify our Energy Management System to match the changes to the SCADA for data exchange. Southeastern has also implemented a Privileged Access Management system to further strengthen our cyber security.



The Philpott control room before and after the March 2016 circuit breaker failure and fire. Plant expected to return to service Fall of 2017.





Refurbished poles and coils being installed on the rotating portion of Generator #2. Direct current flows in alternating directions to establish the machine's magnetic field.



Brigadier General C. David Turner, USACE South Atlantic Division Commander, addresses the September 2016 Southeastern Federal Power Alliance meeting on site at the Allatoona Project.

GEORGIA - ALABAMA - SOUTH CAROLINA

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

Operational Performance

Generation from streamflow for FY 2016 was 101% of the average. Figure A illustrates the percent of average generation by project and Figure B shows system generation for the years 2007 through 2016.

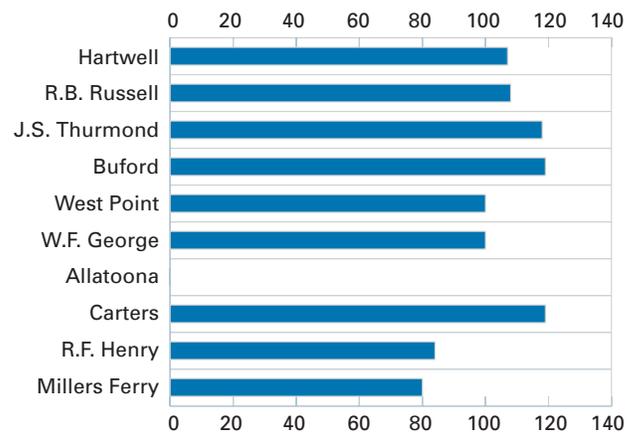
During FY 2016, customer-funded work on the Allatoona switchyard was completed. The customers agreed to fund the repair work at the project that was caused during the May 2014 fire. The contract for installation of new controls is expected to be completed during spring 2017. The full plant is estimated to return to service in May 2018. As a result of this outage, no generation occurred at Allatoona during FY 2016.

The new stator core and winding has been installed on Carters reversible pump generator #4. However, newly discovered issues at critical welds in the rotor delayed the return to service into FY 2017.

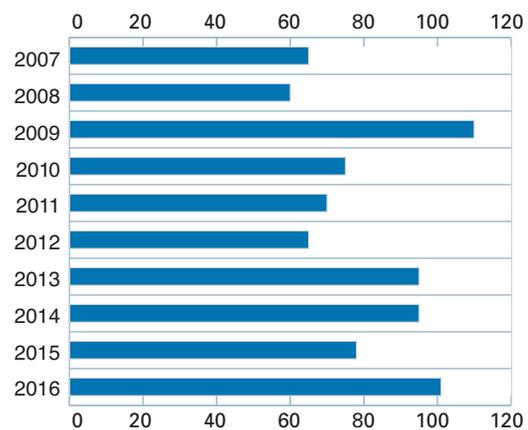
Work on analyzing the vibration problem on generator #3 at Hartwell continued during FY 2016. The solution to mitigate the vibrations has yet to be determined. The projected return of the unit continues to be unknown.

Work and planning for the repair of West Point transformer #2 continued during FY 2016. The Mobile District expects the contract for the transformer installation should be in place in early FY 2017 with a return to service by fall of 2017.

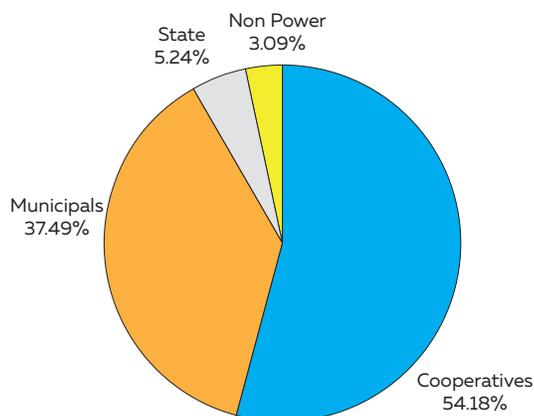
Actual Generation as a Percentage of Average Project Generation - Figure A



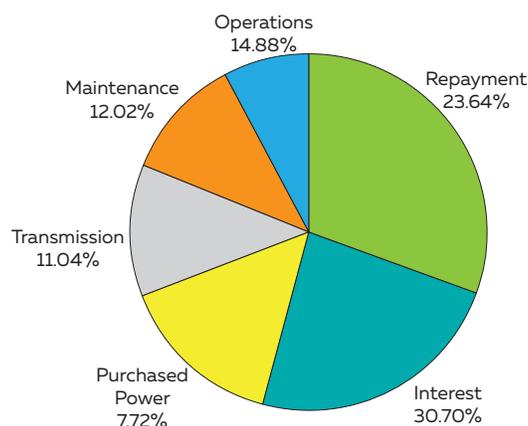
Actual Generation as a Percentage of Average System Generation - Figure B



FY 2016 Revenue by Source - Figure C



FY 2016 Application of Revenues - Figure D



Financial Performance

Total revenue for the Georgia-Alabama-South Carolina System in FY 2016 was \$214.9 million. Of this amount, \$208.3 million was derived from the sale of 3,827,539 megawatt-hours of energy and 2,184.2 megawatts of capacity. Total operating expenses, excluding depreciation, were \$98.1 million. Interest charged to Federal investment was \$66.0 million and repayment of the Federal investment was \$50.8 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 by FERC on a final basis on April 2, 2013. The rate schedules are effective for the period October 1, 2012, through September 30, 2017.

Power Rates - Table 2

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

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

KERR- PHILPOTT

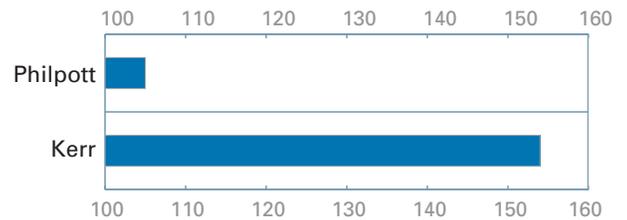
The Kerr-Philpott System consists of two Projects – John H. Kerr on the Roanoke River and Philpott on the Smith River. Power generated at the Projects is marketed to 75 preference customers in North Carolina and Virginia.

Operational Performance

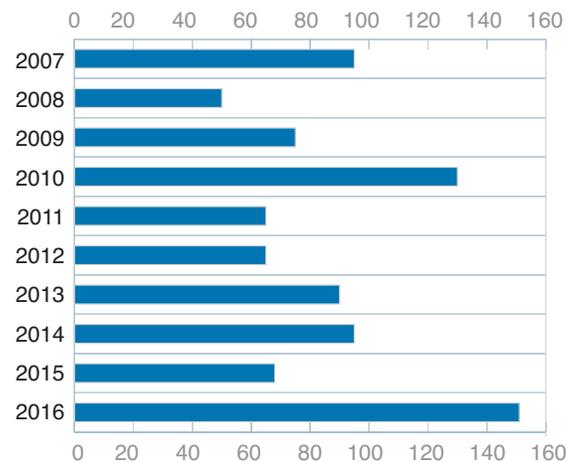
Generation for FY 2016 was 151% of average. Figure E illustrates the percent of average generation by project for the year. Figure F shows the system generation by year from 2007 through 2016.

In March 2016, Philpott Project experienced a circuit breaker fire, forcing a total plant outage. Contracts were established for fire cleanup, new switchgear interface equipment and replacement of generator control systems destroyed in the fire. The full plant is estimated to return to service in July of 2017.

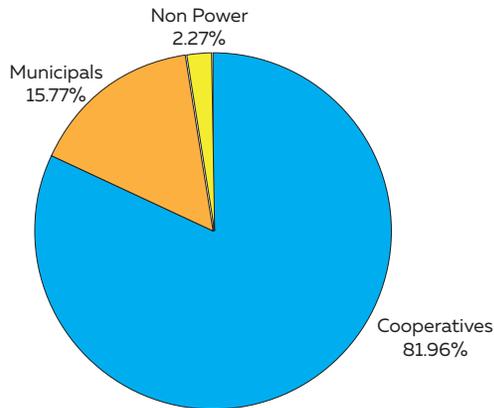
Actual Generation as a Percentage of Average Project Generation - Figure E



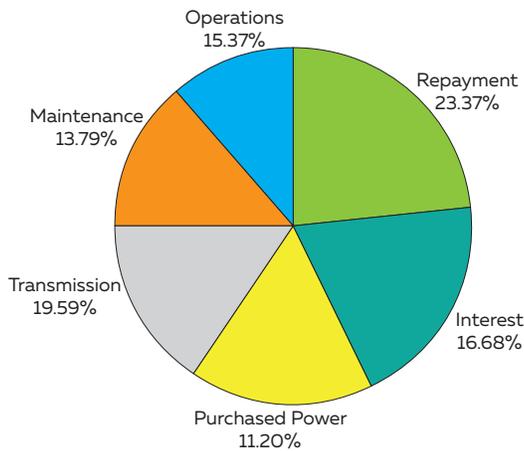
Actual Generation as a Percentage of Average System Generation - Figure F



**FY 2016 Revenue by Source -
Figure G**



**FY 2016 Application of Revenues -
Figure H**



Financial Performance

Total revenue for the Kerr-Philpott System in FY 2016 was \$34.1 million. Of this amount, \$33.3 million was derived from the sale of 657,389 megawatt-hours of energy and 196.5 megawatts of capacity.

Total operating expenses, excluding depreciation, were \$20.4 million. Interest charged to Federal investment was \$5.7 million and repayment of the Federal investment was \$8.0 million in FY 2016. 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, 2016
Capacity	4.60 \$/kW/Month
Energy	18.80 mills/kWh

Rate schedules also provide an adjustment to true-up energy and capacity rates based on the cumulative net revenue available for repayment. The rates for capacity and energy for the period April 1, 2017, through March 31, 2018, will be as follows:

Capacity	3.65 \$/kW/Month
Energy	14.80 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.

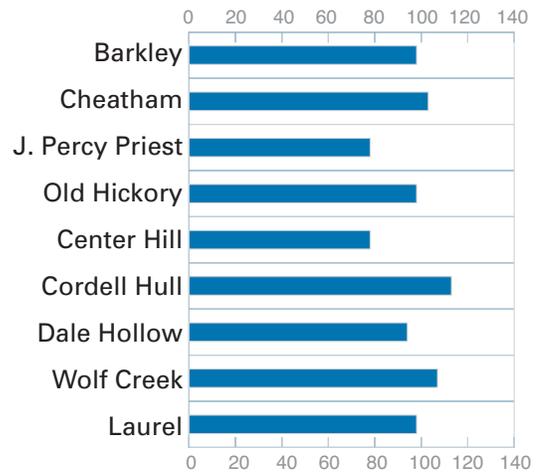
Operational Performance

Generation for the system during FY 2016 was 100% of average. The percentage of average generation by project is shown in Figure I and Figure J shows system generation for the years 2007 through 2016.

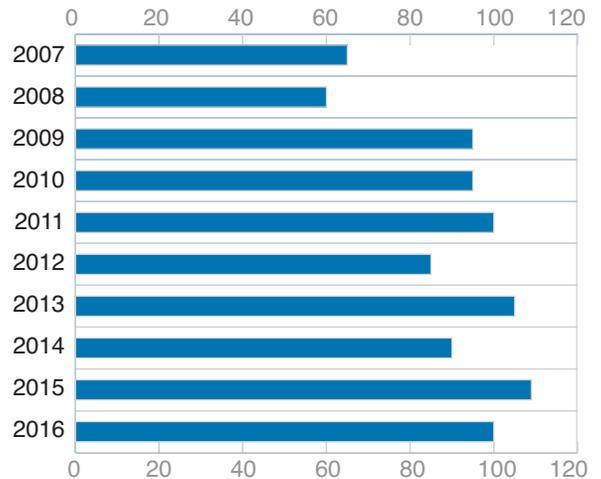
During FY 2016 partial peaking operation mode continued due to the Dam Safety repair work at the Center Hill Project. Generator #2 at Center Hill was taken out of service in July 2015 to begin its major rehabilitation. The unit is expected to return to service in May 2017. Also during the year, the outage of Generator #4 at Old Hickory continued due to alignment problems. The major rehabilitation contract will be awarded in June 2017.

Capacity interruption credits were provided to customers when their full allocated capacity was not available due to scheduled maintenance, forced outage and environmental operating restrictions. The total revenue foregone from these credits was about \$3.5 million.

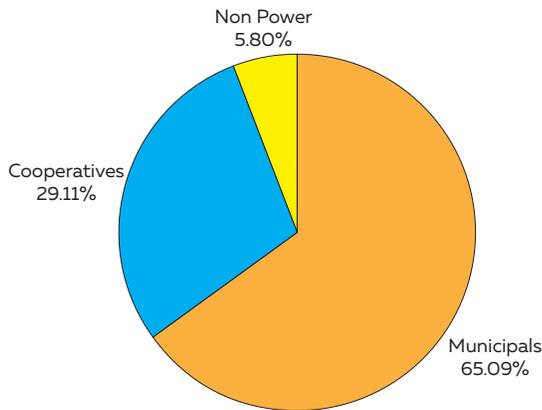
Actual Generation as a Percentage of Average Project Generation - Figure I



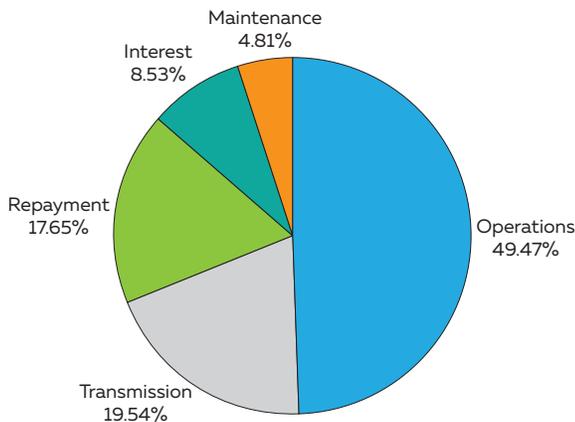
Actual Generation as a Percentage of Average System Generation - Figure J



FY 2016 Revenue by Source - Figure K



FY 2016 Application of Revenues - Figure L



Financial Performance

Total revenue for the Cumberland System in FY 2016 was \$69.2 million. Of this amount, \$65.2 million was derived from the sale of 2,914,865 megawatt-hours of energy and 829.5 megawatts of capacity. Total operating expenses, excluding depreciation, were \$51.1 million. Interest charged to Federal investment was \$5.9 million and repayment was \$12.2 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, 2016
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Capacity	1.908 \$/kW/Month Energy 12.47 mills/kWh
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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, 2017, through March 31, 2018, will be as follows:

Capacity	1.911 \$/kW/Month
Energy	12.53 mills/kWh

JIM WOODRUFF

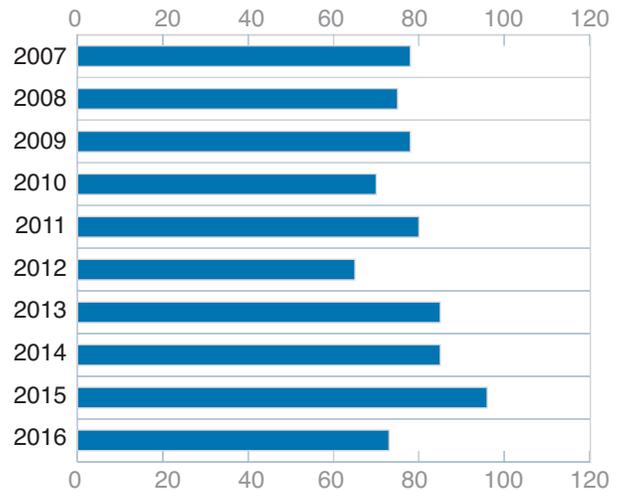
The Jim Woodruff System is a single-project system located on the border of Florida and Georgia. This system has six preference customers and one investor-owned utility located in the central panhandle of Florida.

Operational Performance

The Jim Woodruff power plant houses three generators which combine for a total capacity of 36 megawatts. Generation during FY 2016 was 73% of average. Figure M illustrates the project's generation for the years 2007 through 2016.

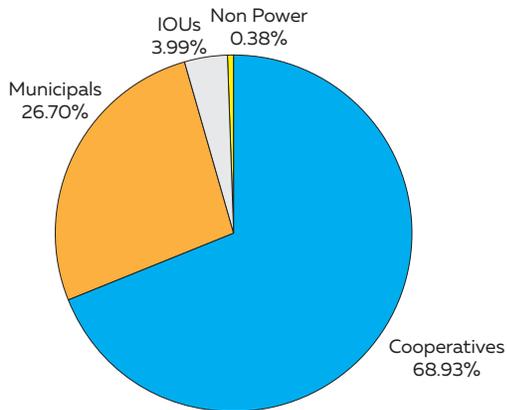
There were no significant operational issues in the Woodruff System during FY 2016.

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

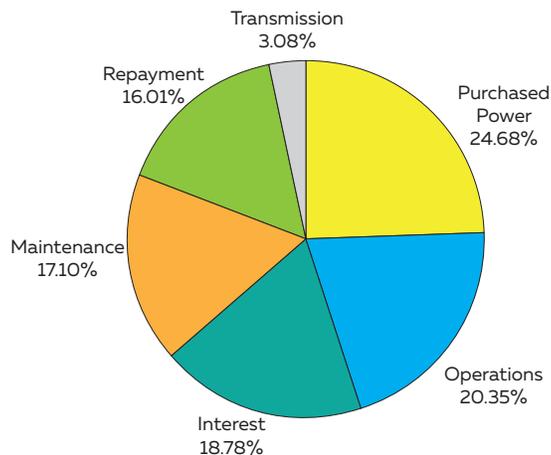


Jason Barrantine, Jim Woodruff's Power Project Manager, explains the operation of generator intake gates to system customers.

FY 2016 Revenue by Source - Figure N



FY 2016 Application of Revenues - Figure O



Financial Performance

Total revenue from the Jim Woodruff System was \$11.0 million in FY 2016. Of this amount, \$10.9 million was derived from the sale of 212,017 megawatt-hours of energy and 36 megawatts of capacity.

Total operating expenses, excluding depreciation, were \$7.2 million. Interest charged to the Federal investment was \$2.1 million and repayment of the Federal investment was \$1.8 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. In FY 2016, Southeastern proposed a rate adjustment decreasing rates. The new rate schedules were approved on an interim basis by the Deputy Secretary of Energy for the Jim Woodruff System on August 22, 2016. The new rates went into effect October 1, 2016, and extend through September 30, 2021.

Power Rates - Table 5

Product	Through September 30, 2016	Effective October 1, 2016
Capacity	10.29 \$/kW/Month 26.51 mills/kWh	7.74 \$/kW/Month 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	33,358,104	2,200,135.47
Black Warrior EMC	18,494	33,817,312	2,361,850.31
Central Alabama EC	18,660	35,790,802	2,372,872.91
Clarke-Washington EMC	6,678	12,617,907	847,073.73
Coosa Valley EC	5,728	10,935,503	727,885.91
Dixie EC	7,273	14,004,987	925,527.78
Pea River EC	3,422	6,461,341	433,996.33
Pioneer EC	10,056	19,317,519	1,279,014.80
Tallapoosa River EC	11,494	21,875,341	1,459,780.48
Tombigbee EC	6,578	11,953,639	839,322.59
Wiregrass EC	8,467	16,147,509	1,075,782.34
PowerSouth Energy Cooperative	100,000	212,656,000	9,135,445.44
City of Alexander City	7,846	14,537,228	1,003,983.02
City of Dothan	52,461	97,263,323	6,713,940.78
City of Evergreen	4,047	7,490,972	517,743.85
City of Fairhope	6,248	11,580,114	799,558.61
City of Foley	21,199	39,276,419	2,712,697.77
City of Hartford	3,050	5,497,622	388,463.72
City of LaFayette	2,358	4,366,365	301,692.23
City of Lanett	5,321	9,858,978	680,883.12
City of Luverne	3,158	5,850,697	404,093.31
City of Opelika	20,809	38,564,584	2,662,912.61
City of Piedmont	3,869	7,025,792	493,588.20
City of Robertsdale	3,372	6,116,430	430,076.18
City of Sylacauga	16,494	29,929,390	2,103,873.85
City of Troy	10,079	16,028,442	1,256,365.04
City of Tuskegee	11,689	21,439,032	1,493,414.31
Alabama Total	386,134	743,761,352	45,621,974.69
Florida			
Choctawhatchee EC	1,231	2,373,729	156,654.33
West Florida ECA	8,402	16,244,927	1,069,887.30
Florida Total	9,633	18,618,656	1,226,541.63
Georgia			
Altamaha EMC	10,956	16,733,791	895,510.70
Amicalola EMC	11,513	17,578,150	940,943.98
Canochee EMC	9,392	14,347,765	767,714.99
Carroll EMC	17,032	26,007,502	1,392,048.05
Central Georgia EMC	13,381	20,443,278	1,093,806.26
Coastal EMC	3,157	4,825,809	258,101.76
Cobb EMC	42,613	65,143,674	3,483,918.96
Colquitt EMC	38,410	58,638,635	3,139,114.03
Coweta-Fayette EMC	13,378	20,448,020	1,093,698.85
Diverse Power, Inc.	12,050	18,414,602	985,077.01
Excelsior EMC	8,914	13,614,093	728,591.63
Flint EMC	55,744	79,289,397	4,484,112.89
Grady EMC	10,439	15,936,869	853,145.19
Greystone Power Corporation	31,540	48,201,163	2,578,401.28
Habersham EMC	10,176	15,536,829	831,672.85
Hart EMC	18,630	28,433,054	1,522,439.51
Inwin EMC	8,246	12,586,316	673,880.48
Jackson EMC	48,415	73,955,676	3,957,421.58
Jefferson EMC	14,188	21,682,934	1,159,872.46
Little Ocmulgee EMC	7,754	11,832,085	633,624.88
Middle Georgia EMC	6,028	9,202,558	492,645.96
Mitchell EMC	18,023	27,515,966	1,472,973.26
Ocmulgee EMC	8,188	12,497,770	669,140.21
Oconee EMC	8,018	12,246,359	655,366.81
Okefenokee Rural EMC	9,487	14,486,912	775,392.13
Planters EMC	10,258	15,660,158	838,347.04
Rayle EMC	10,350	15,799,304	845,846.56
Satilla Rural EMC	30,374	46,370,140	2,482,355.18
Sawnee EMC	19,423	29,669,553	1,587,630.97
Slash Pine EMC	4,785	7,305,123	391,062.74
Snapping Shoals EMC	20,119	30,754,252	1,644,839.92
Southern Rivers Energy	6,842	10,451,703	559,266.60
Sumter EMC	11,437	17,469,051	934,835.00
Three Notch EMC	12,194	18,620,159	996,634.52
Tri-County EMC	6,416	9,806,575	524,528.40
Upson EMC	4,581	6,995,210	374,413.03
Walton EMC	31,322	47,899,155	2,561,040.24
Washington EMC	14,249	21,758,832	1,164,603.26
City of Acworth	2,303	4,212,907	205,618.02
City of Adel	6,902	12,617,872	616,103.43
City of Albany	60,831	111,288,579	5,431,305.93
City of Barnesville	2,635	4,819,348	235,245.89
City of Blakely	5,412	9,896,445	483,138.62
City of Brinson	156	286,168	13,940.57
City of Buford	2,356	4,309,559	210,345.22

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
City of Cairo	6,253	11,442,883	558,350.13
City of Calhoun	7,660	14,024,075	684,085.67
City of Camilla	6,072	11,099,866	542,003.84
City of Cartersville	17,152	31,372,223	1,531,311.79
City of College Park	15,559	28,478,342	1,389,400.36
City of Commerce	4,456	8,143,434	397,718.88
City of Covington	9,382	17,166,218	837,706.47
City of Dalton	45,822	87,132,295	4,126,107.32
City of Doerun	629	1,150,347	56,154.23
City of Douglas	10,180	18,617,907	908,827.67
City of East Point	33,488	61,237,800	2,989,551.18
City of Elberton	11,447	20,922,397	1,021,741.73
City of Ellaville	936	1,713,213	83,583.80
City of Fairburn	1,799	3,293,770	160,663.92
City of Fitzgerald	9,720	17,778,354	867,787.58
City of Forsyth	3,720	6,803,572	332,108.75
City of Fort Valley	9,417	17,224,970	840,748.97
City of Grantville	470	858,499	41,942.81
City of Griffin	18,157	33,212,405	1,621,067.86
City of Hampton	832	1,228,586	100,750.07
City of Hogansville	1,531	2,799,127	136,667.63
City of Jackson	2,067	3,780,814	184,541.54
City of LaFayette	6,607	12,083,444	589,846.50
City of Lagrange	17,096	31,283,152	1,526,520.84
City of Lawrenceville	4,795	8,782,099	428,275.09
City of Marietta	37,172	68,039,479	3,319,444.99
City of Monroe	7,223	13,207,261	644,797.17
City of Monticello	1,836	3,356,300	163,886.86
City of Moultrie	15,480	28,311,569	1,381,999.40
City of Newnan	6,893	12,608,402	615,409.21
City of Narcross	1,736	3,178,158	155,033.34
City of Oxford	458	839,546	40,918.32
City of Palmetto	923	1,688,580	82,410.04
City of Quitman	4,428	8,094,165	395,249.49
City of Sandersville	4,997	9,136,492	446,073.92
City of Sylvania	5,436	9,949,512	485,424.51
City of Sylvester	3,952	7,231,867	352,882.93
City of Thomaston	7,687	14,067,658	686,405.60
City of Thomasville	25,053	45,826,492	2,236,747.69
City of Washington	5,068	9,267,257	452,426.85
City of West Point	4,683	8,556,580	417,953.20
City of Whigham	319	583,704	28,483.60
Crisp County Power Commission	18,068	33,045,641	1,613,059.99
Town of Mansfield	379	691,727	33,813.44
Georgia Total	1,095,655	1,814,899,482	93,149,602.03
Mississippi			
Coast EPA	26,863	49,841,648	3,438,497.19
East Mississippi EPA	11,336	20,995,265	1,450,698.39
Singier River EPA	33,684	62,511,429	4,311,813.28
South Mississippi EPA	68,000	109,321,550	6,164,804.26
Mississippi Total	139,883	242,669,892	15,365,813.12
North Carolina			
Blue Ridge EMC	7,311	17,170,940	711,204.83
EnergyUnited EMC	16,302	36,590,340	1,509,216.98
Haywood EMC	926	2,378,440	92,467.20
Pee Dee EMC	455	1,098,813	44,571.15
Rutherford EMC	24,018	56,381,250	2,335,402.22
Union EMC	11,633	28,411,497	1,144,662.81
City of Cherryville	1,478	1,395,864	110,239.73
City of Concord	8,007	13,104,269	788,302.29
City of Gastonia	15,971	15,078,075	1,191,143.79
City of Kings Mountain	2,896	4,738,160	285,094.78
City of Lincolnton	1,577	1,488,482	117,609.59
City of Monroe	7,693	7,264,442	573,782.01
City of Morganton	9,535	21,902,814	921,871.52
City of Newton	2,067	1,950,499	154,145.06
City of Shelby	5,892	5,561,470	439,416.90
City of Statesville	9,705	9,161,907	723,806.92
Town of Bostic	412	954,139	39,959.75
Town of Cornelius	361	341,064	26,928.03
Town of Dallas	1,299	1,124,098	127,861.63
Town of Drexel	879	2,023,436	85,054.30
Town of Forest City	2,721	4,453,728	267,894.84
Town of Granite Falls	828	781,291	61,746.73
Town of Huntersville	490	462,013	36,535.33
Town of Landis	1,098	1,035,724	81,876.14
Town of Maiden	1,235	1,165,220	92,096.42
Town of Pineville	490	462,013	36,535.33
North Carolina Total	135,279	237,479,988	11,999,426.28

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
South Carolina			
Central Electric Power Cooperative	180,700	370,422,938	19,839,458.68
Little River EC	522	1,134,702	66,546.69
City of Abbeville	2,959	6,286,077	254,490.35
City of Clinton	2,975	2,429,518	212,967.99
City of Easley	8,656	17,207,551	773,915.14
City of Gaffney	6,986	13,895,630	624,724.54
City of Georgetown	5,300	10,442,160	596,536.67
City of Greenwood	11,404	27,013,530	1,112,643.22
City of Greer	9,159	18,283,327	820,041.38
City of Laurens	5,891	11,747,286	527,255.60
City of Newberry	3,277	2,675,576	234,578.32
City of Orangeburg	13,779	29,729,088	1,753,069.63
City of Rock Hill	19,115	37,998,644	1,709,022.08
City of Seneca	2,688	3,275,690	209,526.11
City of Union	3,484	2,845,906	249,416.10
City of Westminster	678	553,091	48,526.17
Town of Bamberg	2,300	4,475,210	257,956.52
Town of Due West	285	466,117	28,054.11
Town of McCormick	522	1,096,172	66,145.28
Town of Prosperity	602	2,413,318	80,263.78
Town of Winnsboro	1,366	2,850,048	172,796.74
South Carolina PSA	135,000	202,868,410	11,268,974.10
South Carolina Total	417,648	770,109,989	40,906,909.20
Georgia-Alabama-South Carolina System Total			
	2,184,232	3,827,539,359	208,270,266.95
KERR-PHILPOTT SYSTEM			
North Carolina			
Albemarle EMC	2,593	10,751,433	349,471.45
Brunswick EMC	3,515	15,430,315	554,986.75
Carteret-Craven EMC	2,735	11,803,114	428,163.38
Central EMC	1,239	5,439,022	195,626.90
Edgecombe-Martin County EMC	4,155	17,453,190	564,086.91
Four County EMC	4,198	18,428,579	662,826.32
Halifax EMC	2,606	11,041,974	366,459.87
Jones-Onslow EMC	5,184	22,756,965	818,506.69
Lumbee River EMC	3,729	16,369,742	588,775.45
Pee Dee EMC	2,968	13,029,067	468,620.49
Piedmont EMC	1,086	4,585,320	168,231.45
Pitt & Greene EMC	1,580	6,935,959	249,467.81
Randolph EMC	3,608	15,838,569	569,670.53
Roanoke EMC	5,528	23,054,315	747,463.02
South River EMC	6,119	26,861,475	966,134.80
Tideland EMC	3,098	13,122,979	435,290.33
Tri-County EMC	3,096	13,590,967	488,830.49
Wake EMC	2,164	9,499,627	341,675.95
City of Elizabeth City	2,073	1,580,774	332,134.40
City of Kinston	1,466	1,117,905	135,430.26
City of Laurinburg	415	316,460	38,338.03
City of Lumberton	895	682,486	82,680.77
City of New Bern	1,204	918,116	111,226.39
City of Rocky Mount	2,538	1,935,363	234,462.45
City of Washington	2,703	2,061,188	249,705.40
City of Wilson	2,950	2,249,537	272,523.35
Fayetteville Public Works Commission	5,431	4,141,434	501,720.12
Greenville Utilities Commission	7,534	5,745,087	695,997.03
Town of Apex	145	110,571	13,395.17
Town of Ayden	208	158,611	19,215.17
Town of Belhaven	182	138,787	29,159.94
Town of Benson	120	91,507	11,085.75
Town of Clayton	161	122,771	14,873.28
Town of Edenton	775	590,980	124,169.89
Town of Enfield	259	197,458	19,120.61
Town of Farmville	237	180,723	21,894.24
Town of Fremont	60	45,752	5,542.83
Town of Hamilton	40	30,504	6,408.80
Town of Hertford	203	154,798	32,524.49
Town of Hobgood	46	35,078	7,370.10
Town of Hookerton	30	22,878	2,771.49
Town of La Grange	93	70,919	8,591.42
Town of Louisville	857	5,407,090	165,858.68
Town of Pikeville	40	30,504	3,695.26
Town of Red Springs	117	89,222	10,808.63
Town of Robersonville	232	176,912	37,170.86
Town of Scotland Neck	304	231,819	48,706.66
Town of Selma	183	139,548	16,905.68
Town of Smithfield	378	288,246	34,920.00
Town of Tarboro	2,145	1,635,681	343,670.23
Town of Wake Forest	149	113,621	13,764.76
Town of Windsor	331	252,433	53,066.51
North Carolina Total	93,705	287,057,374	12,663,197.24

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
Virginia			
B-A-R-C EC	3,740	15,541,990	828,276.13
Central Virginia EC	7,956	33,281,721	1,765,832.15
Community EC	4,230	17,602,806	937,240.74
Craig-Botetourt EC	1,692	7,560,971	384,436.18
Mecklenburg EC	11,344	47,591,097	2,520,477.03
Northern Neck EC	3,944	16,332,653	872,415.89
Northern Virginia EC	3,268	13,443,878	721,478.24
Prince George EC	2,530	10,477,080	559,637.93
Rappahannock EC	22,427	93,387,533	4,970,228.83
Shenandoah Valley EC	9,938	41,623,865	2,206,833.56
Southside EC	14,575	60,357,099	3,224,001.32
City of Bedford	1,200	918,148	88,713.56
City of Danville	5,600	4,284,690	413,996.58
City of Franklin	1,003	764,920	160,802.63
City of Martinsville	1,600	1,224,196	118,284.70
City of Radford	1,300	990,903	96,005.36
City of Salem	2,200	1,676,913	162,470.65
Harrisonburg Electric Commission	2,691	2,079,068	431,935.29
Town of Blackstone	389	296,666	62,365.15
Town of Culpepper	391	302,087	62,759.84
Town of Elkton	171	130,411	27,415.03
Town of Richlands	500	382,562	36,963.99
Town of Wakefield	106	80,840	16,994.12
Virginia Total	102,795	370,332,097	20,669,564.90
Kerr-Philpott System Total	196,500	657,389,471	33,332,762.14
JIM WOODRUFF SYSTEM			
Florida			
Central Florida EC	2,300	11,660,462	573,145.20
Suwannee Valley EC	4,800	24,491,439	1,238,288.63
Talquin EC	13,500	78,703,319	4,210,764.89
Tri-County EC	5,200	29,241,670	1,543,679.33
City of Chattahoochee	1,800	10,992,946	587,347.18
City of Quincy	8,400	45,101,833	2,343,220.03
Duke Energy Florida	-	11,825,795	437,651.18
Jim Woodruff System Total	36,000	212,017,464	10,934,096.44
CUMBERLAND SYSTEM			
Illinois			
Southern Illinois Power Cooperative	24,000	35,000,000	1,439,439.57
Illinois Total	24,000	35,000,000	1,439,439.57
Kentucky			
Big Rivers Electric Corporation	154,000	188,755,000	8,739,889.42
East Kentucky Power Cooperative	157,000	238,397,000	9,719,309.70
City of Barbourville	1,916	3,453,838	135,741.87
City of Bardstown	1,957	3,527,746	138,568.29
City of Bardwell	472	850,841	33,375.90
City of Benham	216	389,368	15,358.12
City of Corbin	2,263	4,079,351	160,305.35
City of Falmouth	514	926,552	36,368.94
City of Frankfort	13,605	24,524,776	963,539.33
City of Henderson	10,000	15,000,000	613,295.00
City of Madisonville	6,796	12,250,671	481,354.14
City of Nicholasville	2,226	4,012,654	157,659.93
City of Owensboro	21,775	39,252,260	1,542,149.72
City of Paris	1,188	2,141,524	84,105.27
City of Providence	1,072	1,932,419	75,942.87
City of Princeton	313	1,620,803	36,437.89
City of Paducah	2,183	11,304,197	254,150.41
Kentucky Total	377,496	552,419,000	23,187,552.15
Mississippi			
South Mississippi EPA	44,000	66,648,000	2,658,370.75
Mississippi Delta Energy Agency	10,000	14,071,000	584,189.45
Municipal Energy Agency of Mississippi	16,000	23,427,000	962,018.00
Mississippi Total	70,000	104,146,000	4,204,578.20
North Carolina			
French Broad EMC	7,029	11,113,306	685,146.99
Haywood EMC	2,057	3,252,675	200,485.03
Town of Waynesville	1,457	2,303,979	142,022.12
North Carolina Total	10,543	16,669,960	1,027,654.13
Tennessee Valley Region			
TVA Acquisition for 154 TVPPA Members	347,504	2,206,630,000	35,308,265.22
Cumberland System Total	829,543	2,914,864,960	65,167,489.27
Grand Total	3,246,275	7,611,811,254	317,704,614.80



Customers, asset owners and marketers meet biannually at Team Cumberland, above, and Southeastern Federal Power Alliance, below, to discuss matters of mutual concern.



SOUTHEASTERN POWER ADMINISTRATION



2016 FINANCIAL OVERVIEW AND FINANCIAL STATEMENTS

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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, 2016, 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 2016, Southeastern marketed 7.6 billion kilowatt-hours of energy to 485 wholesale customers. The Program's revenues totaled \$329.2 million, \$31.9 million more than in FY 2016.

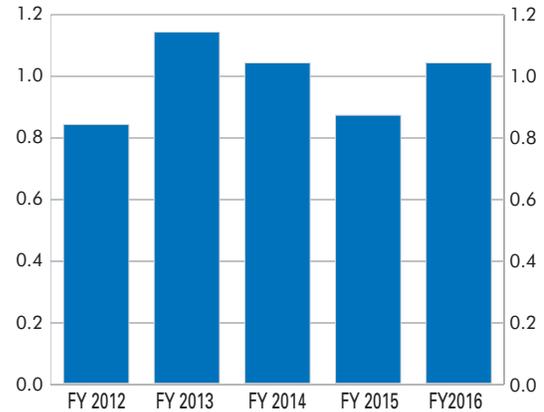
Financial Performance

Debt Service Coverage Ratio

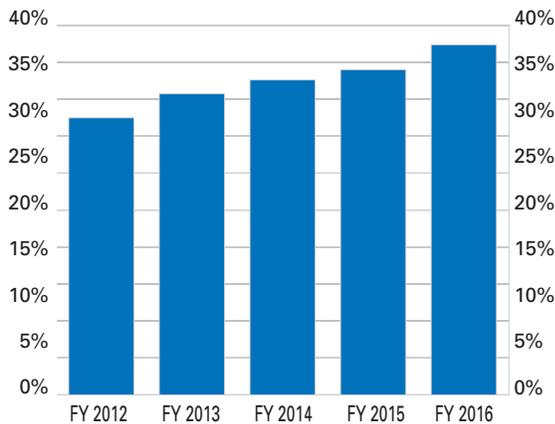
The debt service coverage ratio measures the adequacy of a utility's cash flow to cover debt service cash, both principal and interest.

Specifically, the debt service coverage ratio measures revenues in excess of operating expenses requiring cash, or cash flow from operations available to make debt service payments of principal and interest. A ratio of 1.0 would generally indicate just enough cash flow to make principal and interest payments on outstanding debt, in addition to meeting all other cash expenses. A ratio of 1.5 would indicate sufficient cash flow to pay 1.5 times the amount of debt service actually due. Debt service coverage is an important measure of financial health, particularly for public power systems with no significant surplus or equity as a cushion. Since the revenues of a power marketing administration are applied to operating expenses and debt service requirements with typically no return built into rates, the level of debt service coverage is viewed as an important means of determining the revenue shortfalls that could be sustained before debt service payments were adversely affected. A balance

Debt Service Coverage Ratio - Figure P



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



exists between maintaining a sound financial condition and maintaining the lowest rates consistent with the not-for-profit orientation of power marketing agencies.

Over the last five years, the Program's debt service ratio has ranged from about 0.838 to 1.140. The Program's debt service ratio for FY 2012 was below normal due to adverse water conditions. FY 2013 is above normal due to improved streamflow conditions and lower than expected operating expenses. FY 2014 was slightly above normal due to average streamflow conditions with slightly lower than expected operating expenses. FY 2015 was below average due to higher than expected operating expenses and streamflow conditions. FY 2016 was slightly above normal due to improved streamflow conditions and lower than expected operating expenses. The Program's debt service coverage ratio for fiscal years 2012-2016 is illustrated in Figure P.

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

This indicator is a cumulative cash flow measure. It measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature system. Thus, a system with little time remaining in its repayment period would be expected to have a ratio of cumulative principal payments relative to total Federal investment that approaches 100%. This indicator provides useful information by showing the relationship between the cumulative amount of principal paid to date by the Program, as well as the progress made over the period studied. While analysis of this indicator does not necessarily provide conclusive information without further analysis of additional factors, such as the average age of the system, the measure nevertheless provides valuable information on the status of repayment. The Program's principal payments as a percentage of total investment is now 37.9%. 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 2012 ratio of -50.8% were due to streamflow conditions. The FY 2013 ratio of 22.6% is due to improved streamflow conditions and lower than expected operating expenses. The FY 2014 ratio of 2.39% 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 variance of actual from planned payment is found in Figure R.

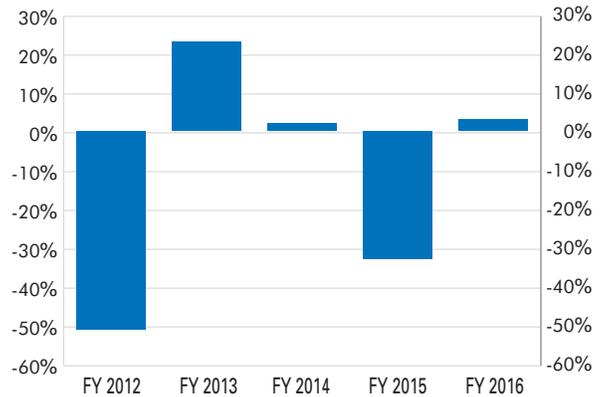
Net Cash to the Treasury

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.

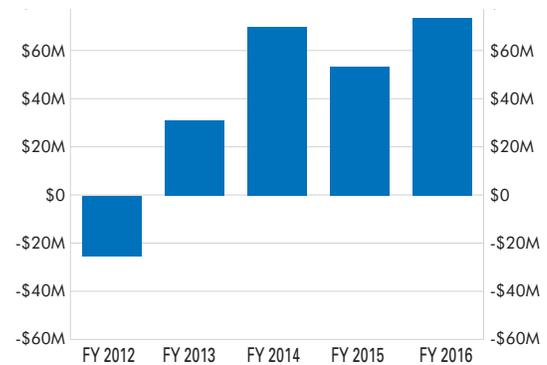
Because of its cash nature, this indicator is negatively influenced during years of large capital expenditures. Even in years of favorable financial performance, small or negative cash flow to the U.S. Treasury may result. In addition, the variability of water levels explains some of the fluctuation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

Percent Variance of Actual From Planned Principal Payments - Figure R



Net Cash Flow to the Treasury - Figure S





SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Financial Statements

September 30, 2016 and 2015

(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 the 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, 2016 and 2015, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the combined financial statements. As described in note 1 to the combined financial statements, the combined financial statements include the hydroelectric generation functions of the United States Army Corps of Engineers, for which Southeastern Power Administration (Southeastern), a component of the U.S. Department of Energy, 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, 2016 and 2015, 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 4 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
January 27, 2017

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Balance Sheets

September 30, 2016 and 2015

(In thousands)

Assets	2016	2015
Utility plant in service (note 4)	\$ 2,620,138	2,614,381
Accumulated depreciation	<u>(1,073,843)</u>	<u>(1,031,752)</u>
Net completed plant	1,546,295	1,582,629
Construction work-in-progress	<u>95,127</u>	<u>50,878</u>
Net utility plant	1,641,422	1,633,507
Cash	336,085	295,950
Accounts receivable, net	27,346	24,115
Regulatory assets	9,847	12,964
Other assets	<u>286</u>	<u>296</u>
Total assets	<u><u>\$ 2,014,986</u></u>	<u><u>1,966,832</u></u>
Total Liabilities and Capitalization		
Liabilities:		
Accounts payable and accrued liabilities	\$ 13,448	12,123
Workers' compensation actuarial liability	<u>9,847</u>	<u>12,964</u>
Total liabilities	<u>23,295</u>	<u>25,087</u>
Capitalization:		
Payable to U.S. Treasury (notes 3 and 4(b))	2,072,629	2,052,579
Accumulated net deficit	<u>(80,938)</u>	<u>(110,834)</u>
Total capitalization	1,991,691	1,941,745
Commitments and contingencies (note 5)	<u> </u>	<u> </u>
Total liabilities and capitalization	<u><u>\$ 2,014,986</u></u>	<u><u>1,966,832</u></u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Revenues and Expenses

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Operating revenues:		
Sales of electric power	\$ 317,705	288,552
Other operating revenues	11,464	8,740
Total operating revenues	329,169	297,292
Operating expenses, excluding depreciation expense:		
Operations	73,679	67,170
Maintenance	35,736	41,386
Purchased power	23,122	23,476
Purchased transmission services	44,263	38,890
Total operating expenses, excluding depreciation expense	176,800	170,922
Depreciation expense	42,852	44,035
Total operating expenses	219,652	214,957
Net operating revenues	109,517	82,335
Interest expenses:		
Interest on payable to U.S. Treasury	82,217	87,318
Interest charged to construction	(2,596)	(6,648)
Net interest expenses	79,621	80,670
Net revenues	\$ 29,896	1,665

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Changes in Capitalization

Years ended September 30, 2016 and 2015

(In thousands)

	<u>Payable to U.S. Treasury</u>	<u>Accumulated net deficit</u>	<u>Total capitalization</u>
Total capitalization as of September 30, 2014	\$ 2,142,985	(112,499)	2,030,486
Additions:			
Congressional appropriations	121,135	—	121,135
Interest	87,318	—	87,318
Transfers of property and services, net	6,955	—	6,955
Total additions to capitalization	<u>215,408</u>	<u>—</u>	<u>215,408</u>
Deductions:			
Payments to U.S. Treasury	(203,018)	—	(203,018)
Rate adjustments to congressional appropriations (note 4(b))	(86,960)	—	(86,960)
Rate adjustments to interest (note 4(b))	(15,836)	—	(15,836)
Total deductions to capitalization	<u>(305,814)</u>	<u>—</u>	<u>(305,814)</u>
Net revenues for the year ended September 30, 2015	<u>—</u>	<u>1,665</u>	<u>1,665</u>
Total capitalization as of September 30, 2015	\$ <u>2,052,579</u>	<u>(110,834)</u>	<u>1,941,745</u>
Additions:			
Congressional appropriations	123,725		123,725
Interest	82,217		82,217
Transfers of property and services, net	(5,693)		(5,693)
Total additions to capitalization	<u>200,249</u>	<u>—</u>	<u>200,249</u>
Deductions:			
Payments to U.S. Treasury	(173,461)		(173,461)
Rate adjustments to congressional appropriations (note 4(b))	(6,738)		(6,738)
Total deductions to capitalization	<u>(180,199)</u>	<u>—</u>	<u>(180,199)</u>
Net revenues for the year ended September 30, 2016		<u>29,896</u>	<u>29,896</u>
Total capitalization as of September 30, 2016	\$ <u>2,072,629</u>	<u>(80,938)</u>	<u>1,991,691</u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Cash Flows

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from operating activities:		
Net revenues	\$ 29,896	1,665
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	42,852	44,035
Interest on payable to U.S. Treasury, net	79,621	80,670
Unfunded retirement benefits	4,373	3,498
(Increase) decrease in assets:		
Accounts receivable, net	(3,231)	(694)
Other assets	10	63
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,325	(1,935)
Net cash provided by operating activities	154,846	127,302
Cash flows from investing activities:		
Investment in utility plant	(54,909)	(45,751)
Cash flows from financing activities:		
Congressional appropriations	123,725	121,135
Payments to U.S. Treasury	(173,461)	(203,018)
Transfers (to) from other federal agencies, net	(10,066)	3,457
Net cash used in financing activities	(59,802)	(78,426)
Net increase in cash	40,135	3,125
Cash, beginning of year	295,950	292,825
Cash, end of year	\$ 336,085	295,950
Supplemental disclosures:		
Cash paid for interest	\$ 79,621	80,670
Interest charged to construction	2,596	6,648
Adjustments to power allocations impacting (note 4(b)):		
Congressional appropriations	6,738	86,960
Payments to U.S. Treasury (interest on payable to U.S. Treasury)	—	15,836
Investment in utility plant	6,738	102,796

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

(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, 2016, the four power systems include 22 hydroelectric generating projects owned and operated by the Corps of Engineers. The projects serve multiple purposes, including power, recreation, navigation, and flood control. The costs of multipurpose generating agency projects are assigned to specific hydroelectric power functions through a cost allocation process administratively developed pursuant to relevant law. These combined financial statements include only those expenses and net assets of the Corps that are expected to be recovered through sales of power and other related revenues. Costs of multipurpose Corps projects are allocated to power and non-power purposes. The portion of total project costs allocated to power is included in the accompanying combined financial statements.

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

(2) Summary of Significant Accounting Policies

(a) General

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

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

(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.

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 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.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

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

(d) Confirmation and Approval of Rates

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

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

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

The Secretary has delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis and to remand or to disapprove such rates. FERC’s review is limited to (1) whether the rates are the lowest possible consistent with sound business principles; (2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy, including repayment within the period permitted by law; and (3) the assumptions and projections used in developing the rates. FERC shall reject decisions of Southeastern’s Administrator only if it finds them to be arbitrary, capricious, or in violation of the law. Refunds with interest, as determined by FERC, are authorized if final approved rates are lower than rates approved on an interim basis. However, if at any 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, 2016, the Jim Woodruff System was awaiting final rate approval by FERC for rate schedules JW-1-K and JW-1-F, which were approved on a final basis on October 20, 2016. There were no revenues subject to refund. All other power systems have their original authorized rate schedule in effect as of September 30, 2016.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

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

(e) Cash

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

(f) Utility Plant

Utility plant in service and construction work-in-progress consist principally of generating facilities and are stated at cost, net of contributions by entities outside the Program. Cost includes direct labor and materials; payments to contractors; indirect charges for engineering, supervision, and similar overhead items; and interest on federal funds used during construction. The costs of additions, replacements, and betterments are capitalized, while repairs and minor replacement costs are charged to operation and maintenance expenses. The cost of utility plant retired, together with removal costs less salvage, is charged against accumulated depreciation when the property is removed from service. There were no material asset retirements or asset retirement obligations as of September 30, 2016. In FY 2015, \$6.3 million was retired at the Allatoona Project. The majority of the asset retirements were from the May 19, 2014 Allatoona Powerhouse fire.

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

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

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

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

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

Interest, a component of total capitalization, is accrued annually on the outstanding payable to the U.S. Treasury based on federal statutes and power system legislation. Such interest is reflected as an expense in the combined financial statements. Interest rates on unpaid balances ranged from 2.50% to 6.25% for the years ended September 30, 2016 and 2015.

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 2.625% to 5.125% for the years ended September 30, 2016 and 2015, 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 13.6%, respectively, of eligible employee compensation. Contributions to these plans are submitted to benefit program trust funds administered by the Office of Personnel Management (the OPM), and totaled \$7.0 million and \$4.8 million for the years ended September 30, 2016 and 2015, respectively. The contribution levels, as legislatively mandated, do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding include direct appropriations to the OPM, not Southeastern or the Corps. In addition to the amounts contributed to the CSRS and FERS, the Program has recorded \$4.3 million and \$3.5 million of annual pension and retirement benefits expense for the years ended September 30, 2016 and 2015, 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 \$6,266 and \$5,469 per employee in fiscal years 2016 and 2015, 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.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

(j) Derivative and Hedging Activities

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

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

The Program's policy is to fulfill all derivative and hedging contracts by either providing power to a third party or by taking delivery of power from a third party as provided for in each contract. The Program's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond the Program's estimated capacity to deliver or receive power. Accordingly, the Program evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under accounting principles generally accepted in the United States. As of September 30, 2016 and 2015, 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

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

Program does not earn a rate of return on its regulatory assets. The asset listed below is regulatory in nature:

Workers' Compensation Actuarial Cost

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

The recovery of these future claims will be deferred for purposes of the rate-making process until such time the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as a regulatory asset in the combined balance sheets to reflect the effects of the rate-making process. The Program's cumulative unpaid expenses associated with estimated future claims are approximately \$10.0 million and \$13.0 million as of September 30, 2016 and 2015, respectively.

(m) Fair Value of Financial Instruments

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

(n) Use of Estimates

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

(3) Payable to U.S. Treasury

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

Southeastern follows the provisions of DOE Order RA 6120.2 in setting priorities for repayment. Order RA 6120.2 requires that annual revenues be first applied to current-year operating expenses, excluding depreciation, and interest, net of interest charged to construction and interest credited on operating revenues deposited with the U.S. Treasury. All annual amounts for such expenses have been paid through fiscal year 2016. Remaining revenues are to be first applied to repayment of operating deficits, if any, and then to

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

repayment of the outstanding principal. Annual net revenues available for repayment are generally applied first against investments in projects bearing the highest interest rates.

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

(4) Utility Plant

(a) Utility plant as of September 30, 2016 and 2015 consists of the following (in thousands):

	2016	2015
Utility plant:		
Structures and facilities	\$ 2,189,400	2,183,587
Buildings	47,973	48,477
Land	361,402	361,403
Movable equipment	21,363	20,914
Gross completed plant	2,620,138	2,614,381
Accumulated depreciation	(1,073,843)	(1,031,752)
Net completed plant	1,546,295	1,582,629
Construction work-in-progress	95,127	50,878
Net utility plant	\$ 1,641,422	1,633,507

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, 2016 and 2015, contributed plant, net, used in the Program's operations totaled approximately \$586,000.

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

As of September 30, 2015, major projects included in construction work-in-progress included switchgear relocation, governor replacement, exciter replacement, and a headgate machinery upgrade in the Kerr-Philpott power system; main transformers, switchyard bus and insulators, motor control centers, raw water supply system, microwave system, remote operations, station battery, and main switchgear in the Georgia-Alabama-South Carolina power system; supervisory control and data acquisition (SCADA) system servers and motor control centers in the Jim Woodruff System; and dam safety remediations,

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

turbine rehabilitation, generation modifications, relay and breaker replacement, and power house crane rehabilitation in the Cumberland power system.

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

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

In evaluating the impact of the construction remediation efforts on the Program's rates, Southeastern's Administrator determined the costs represented dam safety remediation costs under the Dam Safety Act (Section 1203 of the Water Resources Development Act of 1986) rather than major rehabilitation costs. Further, Southeastern's Administrator concluded that including the remediation costs at the typical multi-purpose allocation rate would not provide for the lowest possible rate consistent with sound business principles, as required under the Secretary's delegation order (note 2(d)). Accordingly, effective September 30, 2014, Southeastern's Administrator recommended a rate action to the Deputy Secretary, U.S. Department of Energy. The Deputy Secretary approved the rate order. The rate action was to cap repayment of the remediation costs at 15% under the Dam Safety Act. These costs were then allocated at the project's multi-purpose allocation rate of 55.113%. Consequently, Program management recorded a rate action adjustment to the Wolf Creek project of \$260.1 million to utility plant in service and \$47.6 million to accumulated interest payable, resulting in a reduction of \$307.7 million in the payable to U.S. Treasury as of September 30, 2014.

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

In fiscal year 2016, \$3.7 million was incurred in construction remediation costs for Wolf Creek with no additional interest during construction. These costs were also capped under the Dam Safety Act. Program management recorded a rate action adjustment to the Wolf Creek project of \$1.7 million to utility plant in service, resulting in a reduction of this amount being payable to U.S. Treasury as of September 30, 2016.

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

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

In fiscal year 2016, \$13.8 million was incurred in construction remediation costs for Center Hill with no additional interest during construction. These costs were also capped under the Dam Safety Act. Program management recorded a rate action adjustment to the project of \$5.0 million to utility plant in service, resulting in a reduction of this amount being payable to U.S Treasury as of September 30, 2016.

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

(5) Commitments and Contingencies

(a) General

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

(b) Transmission Contract Commitments

Southeastern has entered into agreements for transmission services that vary in length. Southeastern's long-term commitments for these transmission contracts are subject to the availability of federal funds and contingent upon authority from Congress. To fulfill its contractual obligations to deliver power, Southeastern has historically had to purchase a certain level of transmission services under these 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,	
2017	\$ 44,036
2018	45,256
2019	46,555
2020	47,996
2021	49,536
	<u>233,379</u>

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2016 and 2015

(6) Subsequent Events

The Program has evaluated all subsequent events as of September 30, 2016 through the date of the combined financial statements were available to be issued on January 27, 2017, and identified no subsequent events requiring disclosure.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2016

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	\$ 1,805,730	73,371	208,527	532,510	2,620,138
Accumulated depreciation	(692,511)	(31,228)	(74,638)	(275,466)	(1,073,843)
Net completed plant	1,113,219	42,143	133,889	257,044	1,546,295
Construction work-in-progress	38,938	460	5,512	50,217	95,127
Net utility plant	1,152,157	42,603	139,401	307,261	1,641,422
Cash	123,337	3,778	13,009	195,961	336,085
Accounts receivable, net	20,749	1,209	2,642	2,746	27,346
Regulatory assets	3,257	1,556	6	5,028	9,847
Other assets	161	6	33	86	286
Total assets	\$ 1,299,661	49,152	155,091	511,082	2,014,986
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	\$ 8,767	542	1,704	2,435	13,448
Workers' compensation actuarial liability	3,257	1,556	6	5,028	9,847
Total liabilities	12,024	2,098	1,710	7,463	23,295
Capitalization:					
Payable to U.S. Treasury	1,447,633	44,282	143,556	437,158	2,072,629
Accumulated net revenues (deficit)	(159,996)	2,772	9,825	66,461	(80,938)
Total capitalization	1,287,637	47,054	153,381	503,619	1,991,691
Commitments and contingencies					
Total liabilities and capitalization	\$ 1,299,661	49,152	155,091	511,082	2,014,986

See accompanying independent auditors' report.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2015

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	\$ 1,803,196	73,368	207,866	529,951	2,614,381
Accumulated depreciation	(663,907)	(29,699)	(70,331)	(267,815)	(1,031,752)
Net completed plant	1,139,289	43,669	137,535	262,136	1,582,629
Construction work-in-progress	24,630	123	1,776	24,349	50,878
Net utility plant	1,163,919	43,792	139,311	286,485	1,633,507
Cash	107,656	2,014	11,302	174,978	295,950
Accounts receivable, net	18,542	1,181	1,775	2,617	24,115
Regulatory assets	5,524	1,549	88	5,803	12,964
Other assets	167	6	34	89	296
Total assets	\$ 1,295,808	48,542	152,510	469,972	1,966,832
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	\$ 7,807	360	940	3,016	12,123
Workers' compensation actuarial liability	5,524	1,549	88	5,803	12,964
Total liabilities	13,331	1,909	1,028	8,819	25,087
Capitalization:					
Payable to U.S. Treasury	1,464,223	44,086	145,294	398,976	2,052,579
Accumulated net revenues (deficit)	(181,746)	2,547	6,188	62,177	(110,834)
Total capitalization	1,282,477	46,633	151,482	461,153	1,941,745
Commitments and contingencies					
Total liabilities and capitalization	\$ 1,295,808	48,542	152,510	469,972	1,966,832

See accompanying independent auditors' report.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2016

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	\$ 208,270	10,934	33,333	65,168	317,705
Other operating revenues	6,632	42	774	4,016	11,464
Total operating revenues	214,902	10,976	34,107	69,184	329,169
Operating expenses, excluding depreciation expense:					
Operations	31,988	2,232	5,242	34,217	73,679
Maintenance	25,824	1,877	4,704	3,331	35,736
Purchased power	16,594	2,709	3,819	—	23,122
Purchased transmission services	23,721	338	6,682	13,522	44,263
Total operating expenses, excluding depreciation expense	98,127	7,156	20,447	51,070	176,800
Depreciation expense	29,054	1,533	4,335	7,930	42,852
Total operating expenses	127,181	8,689	24,782	59,000	219,652
Net operating revenues	87,721	2,287	9,325	10,184	109,517
Interest expenses:					
Interest on payable to U.S. Treasury	67,156	2,076	5,789	7,196	82,217
Interest charged to construction	(1,185)	(14)	(101)	(1,296)	(2,596)
Net interest expenses	65,971	2,062	5,688	5,900	79,621
Net revenues (deficit)	\$ 21,750	225	3,637	4,284	29,896

See accompanying independent auditors' report.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2015

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	\$ 200,837	11,776	17,669	58,270	288,552
Other operating revenues	6,476	97	621	1,546	8,740
Total operating revenues	207,313	11,873	18,290	59,816	297,292
Operating expenses, excluding depreciation expense:					
Operations	26,958	2,306	5,756	32,150	67,170
Maintenance	33,570	2,218	3,850	1,748	41,386
Purchased power	22,082	1,394	—	—	23,476
Purchased transmission services	25,272	328	3,386	9,904	38,890
Total operating expenses, excluding depreciation expense	107,882	6,246	12,992	43,802	170,922
Depreciation expense	31,375	1,522	4,285	6,853	44,035
Total operating expenses	139,257	7,768	17,277	50,655	214,957
Net operating revenues	68,056	4,105	1,013	9,161	82,335
Interest expenses:					
Interest on payable to U.S. Treasury	68,286	2,240	5,805	10,987	87,318
Interest charged to construction	(932)	(11)	(70)	(5,635)	(6,648)
Net interest expenses	67,354	2,229	5,735	5,352	80,670
Net revenues (deficit)	\$ 702	1,876	(4,722)	3,809	1,665

See accompanying independent auditors' report.

SOUTHEASTERN FEDERAL POWER PROGRAM
 Schedule of Amount and Allocation of Gross Utility Plant Investment (unaudited)
 As of September 30, 2016
 (In thousands)

Projects in service and other	Total	Allocated to:						Percent of total plant investment returnable from power revenue		
		Power	Navigation	Flood risk management	Fish and wildlife	Recreation	Dam Safety		Other	
Alabama	\$ 80,809	58,424	—	10,100	—	12,053	—	232	(a)	72.3%
Buford	101,110	81,767	2,146	4,755	—	12,442	—	—	—	80.9%
Carters	189,332	157,728	—	20,013	—	11,591	—	—	—	83.3%
J. Strom Thurmond	188,198	162,966	4,370	4,115	—	16,747	—	—	—	86.6%
Walter F. George	286,795	190,641	82,575	—	348	13,231	—	—	—	66.5%
Hartwell	208,716	177,060	4,016	15,967	—	11,673	—	—	—	84.8%
Millers Ferry/Henry	244,626	135,792	87,051	—	—	21,783	—	—	—	55.5%
West Point	174,059	87,027	2,723	—	13,968	48,176	—	—	—	50.0%
Richard B. Russell	905,453	791,695	—	874	—	112,884	—	—	—	87.4%
Marketing facilities	1,568	1,568	—	—	—	—	—	—	—	100.0%
Total GA-AL-SC System	2,380,666	1,844,668	182,881	77,989	14,316	260,580	—	232	—	77.5%
Jim Woodruff	123,584	73,782	41,740	—	—	8,062	—	—	—	59.7%
Marketing facilities	49	49	—	—	—	—	—	—	—	100.0%
Total Jim Woodruff System	123,633	73,831	41,740	—	—	8,062	—	—	—	59.7%
Barkley	235,946	73,161	128,537	25,727	—	8,521	—	—	—	31.0%
J. Percy Priest	73,305	16,023	—	27,373	—	29,909	—	—	—	21.9%
Cheatham	77,460	24,671	48,256	—	—	4,533	—	—	—	31.8%
Cordell Hull	98,532	46,531	17,680	—	—	27,769	—	6,572	(b)	47.2%
Old Hickory	84,093	51,136	28,190	—	—	4,767	—	—	—	60.8%
Center Hill	433,997	104,619	—	70,339	—	8,023	—	697	(c)	24.1%
Dale Hollow	47,977	31,513	—	14,061	—	2,403	—	—	—	65.7%
Wolf Creek	919,996	206,289	—	129,410	—	20,190	—	246	(c)	22.4%
Laurel	52,856	28,831	—	—	—	17,659	—	6,366	(b)	54.5%
Marketing facilities	539	539	—	—	—	—	—	—	—	100.0%
Contributions in aid of construction	(586)	(586)	—	—	—	—	—	—	—	100.0%
Total Cumberland Basin System	2,024,135	582,727	222,663	266,910	—	123,774	—	13,881	—	28.8%
John H. Kerr	227,828	191,796	—	26,676	—	8,966	—	390	(a)	84.2%
Philpott	36,979	21,949	—	9,418	—	5,612	—	—	—	59.4%
Marketing facilities	294	294	—	—	—	—	—	—	—	100.0%
Total Kerr-Philpott System	265,101	214,039	—	36,094	—	14,578	—	390	—	80.7%
Total	\$ 4,793,535	2,715,265	447,284	380,993	14,316	406,994	—	14,503	—	56.6%

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

See accompanying independent auditors' report.

NOTES



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