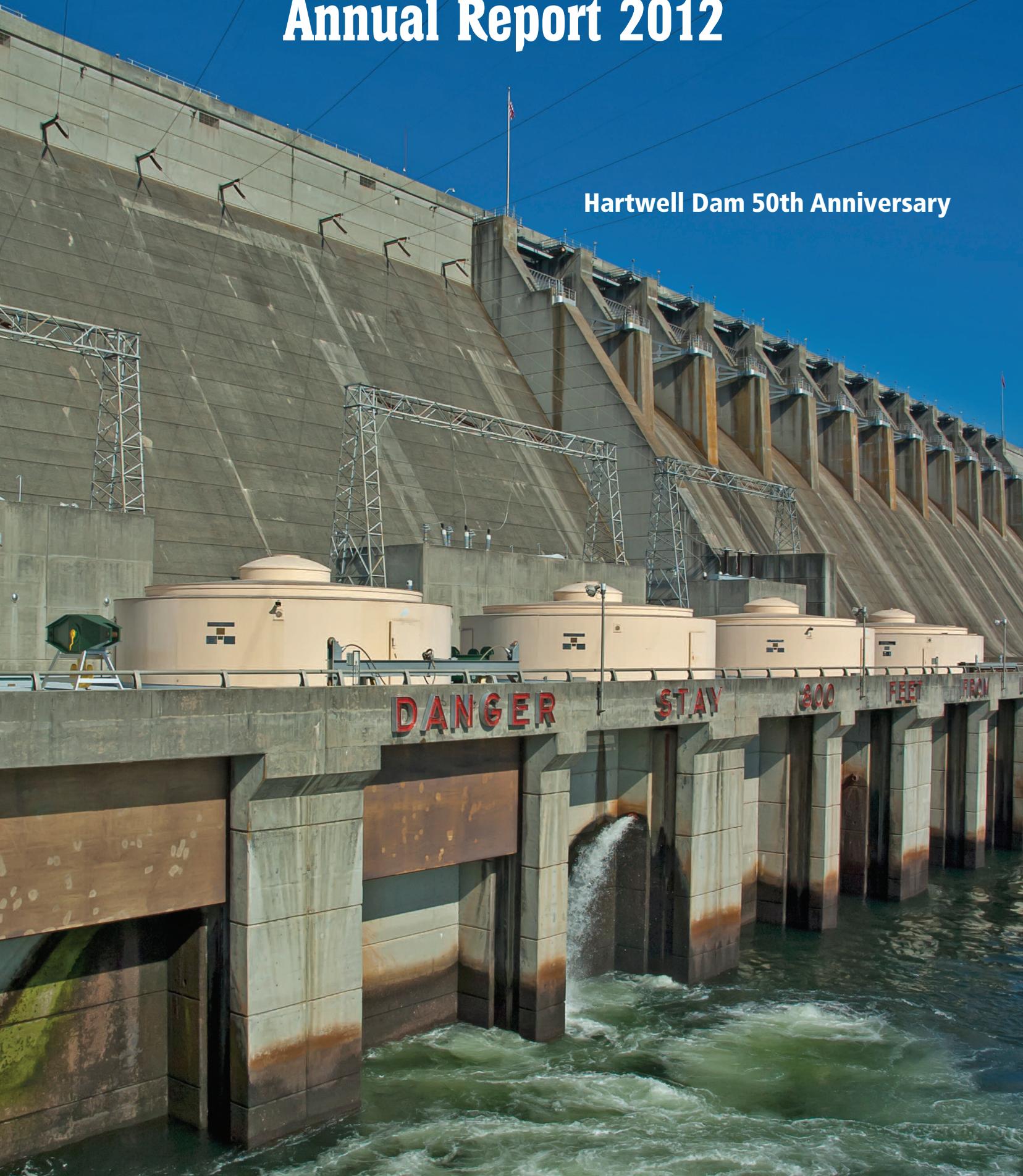


Southeastern Power Administration Annual Report 2012

Hartwell Dam 50th Anniversary



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Fast Facts

Administrator: Kenneth E. Legg

Headquarters: 1166 Athens Tech Road
 Elberton, GA 30635-6711
 Telephone: 706-213-3800
 Fax: 706-213-3884

Website: <http://www.sepa.doe.gov>



Number of Employees: 44

Marketing Area: Alabama, Florida, Georgia, Illinois, Kentucky,
 Mississippi, North Carolina, South Carolina,
 Tennessee, Virginia, and West Virginia

Customers:

Electric Cooperatives.....	198
Public Bodies.....	288
Investor-Owned Utilities	1
Total	487

Nameplate Generating Capacity:3,392 MW

Financial Data:

Power Revenues and Other	
Operating Revenues	\$272 million
Total Capital Investment	\$2.5 billion
Investment Remaining	\$1.7 billion
Cumulative Investment Repaid	\$788 million
Cumulative Interest Paid on Investment.	\$1.9 billion

Letter to the Secretary

Dear Secretary Moniz:

I am pleased to submit Southeastern Power Administration's (Southeastern) fiscal year (FY) 2012 Annual Report for your review. This report reflects our agency's programs, accomplishments, operational, and financial activities for the 12-month period beginning October 1, 2011, and ending September 30, 2012.



Southeastern Administrator Ken Legg, Nashville District Commander LTC James A. DeLapp and Roger Smith of South Mississippi Electric Power Association.

This past year, Southeastern marketed approximately 5.4 billion kilowatt-hours of energy to 487 wholesale customers in 10 southeastern states. Revenues from the sale of this power totaled about \$263 million.

With the financial assistance and support of Southeastern's customers, funding for capitalized equipment purchases and replacements at hydroelectric facilities operated by the U.S. Army Corps of Engineers (Corps) continued in FY 2012.

Currently, there are more than 214

customers participating in funding infrastructure renewal efforts of powerplants feeding the Georgia-Alabama-South Carolina, Kerr-Philpott, and Cumberland Systems. This funding, which totaled more than \$71 million, provided much needed repairs and maintenance for aging projects in Southeastern's marketing area.

Drought conditions continued in the southeastern region of the United States this past year, particularly in the Savannah River Basin. Lack of rainfall strained our natural and financial resources. Power purchases for FY 2012 in the Georgia-Alabama-South Carolina System totaled approximately \$29 million. About \$8 million of this amount was for replacement power, which is purchased only during adverse water conditions in order to meet Southeastern's customer contract requirements.

Southeastern's goal is to maximize the benefits of our region's water resources. Competing uses of these resources will present another challenging year for Southeastern's employees. With the cooperation and communication among the Department of Energy (DOE), preference customers, and Corps, I am certain Southeastern is positioned to meet these challenges in the future. We are 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

Human Capital Initiatives

To maintain organization effectiveness and accomplish Southeastern's mission, we continue to utilize our allocation of Full-Time Equivalents (FTEs). With selective turn-over among our professional staff, we continually address workforce development and succession planning. Employee development initiatives ensure the acquisition of necessary security clearances and certifications.

Strategic Plan – 2012-2015

Southeastern's Strategic Planning Team completed a new Strategic Plan. The Plan was published April 2, 2012, and aligns with DOE's goals and objectives published in their May 2011 plan.

ePerformance Implementation

DOE implemented ePerformance, a new electronic performance management system. Southeastern's plans were developed and input into the system according to departmental guidance and timelines. On-site training sessions were provided for all Southeastern employees to provide guidance through the process of accessing ePerformance and reviewing and acknowledging their 2012 performance plans.

Information Management

Southeastern's Information Management Team completed the independent security assessment of our systems in February of 2012. The assessment team recommended we update our system security plans, which we completed in early May of 2012. The team was then able to complete the security authorization for our systems in May of 2012. Southeastern's Information Management Team has begun the process of upgrading our



Southeastern Administrator Ken Legg, Southeastern Federal Power Customer President Dennis Cameron, South Atlantic Division Chief of Staff Bob Prince, Mobile and Savannah District Commanders COL Steven J. Roemhildt and COL Jeffery M. Hall view presentations during Southeastern Federal Power Alliance meeting.



Southeastern Power Marketing Congressional Liaison Kathy Tyer tours Buford Powerplant with Power Project Manager Cecil Quinley.



Operations Center is being outfitted with new variable height workstations and monitors.



Power Resources Division Associates participate in Web Meeting with new Video Conferencing System.



South Carolina Electric Cooperative Engineers participate in an EERE sponsored event learning to integrate renewable energy resources into their power distribution systems.



Ken Legg and author Patricia Stallings hold a copy of the newly published *Serving the Southeast, A History of the Southeastern Power Administration 1990-2010*

Energy Management System. The upgrade will modernize and expand the system, allow us to add additional projects, and improve data collection. A video conferencing system has recently been installed which will allow us to reduce travel cost to meetings where video conferencing is available. Additionally, we have begun the process of upgrading our video surveillance system to increase physical security of Southeastern's facilities. Upgrades are expected to be completed in November of 2012.

Energy Efficiency and Renewable Energy (EERE)

In 2012, Southeastern's Energy Efficiency and Renewable Energy Program supported the National Energy Policy Act by promoting EERE education among preference customers in the Southeast. Southeastern and its partners conducted 14 training events which directly impacted 270 trainees, and our conference and outreach efforts promoted energy efficiency and renewable energy to an estimated 1,250 customers. Support of customers increased by 246% over the five-year average, and exceeded last year's level of support by over 136%.

Customer Funding

In FY 2012, Southeastern continued its efforts to coordinate customer funding for the aging hydroelectric projects. Section 212 of the Water Resources and Development Act of 2000 allowed the Corps to use funds provided by Southeastern's customers to carry out the operation, maintenance, rehabilitation, and modernization of hydroelectric generating facilities. From this public law, support from the preference customers, and coordination by the Corps and Southeastern, customer funding continues in the Georgia-Alabama-

South Carolina, Cumberland, and Kerr-Philpott Systems. Southeastern is working diligently to implement this funding program in the Jim Woodruff System.

Georgia-Alabama-South Carolina System:

In November 2011, the Project Review Committee (PRC) approved Work Item No. 16, which provided funds for rewinding two reversible pump turbine generators at the Carters Project. The total funds collected through Customer Funding for Work Item No. 16 was \$35,000,000.

In December 2011, Work Item No. 15 provided funds for the installation of eight generator circuit breakers and the installation of a reversible pump turbine static start system at the Richard B. Russell Project. The total funds collected through Customer Funding for Work Item No. 15 was \$10,217,000.

Cumberland System:

A multi-year Memorandum of Agreement signed in August 2011 provides funding for non-routine maintenance, rehabilitation, or modernization activities at the Cumberland River hydroelectric facilities operated by the Corps. The total funds collected in FY 2012 was \$25,918,000.



Persistent drought continued to limit stream flow generation in the southeast forcing Southeastern to purchase replacement power for customers. An old highway bridge is usually completely submerged when J. Strom Thurmond Lake is full.



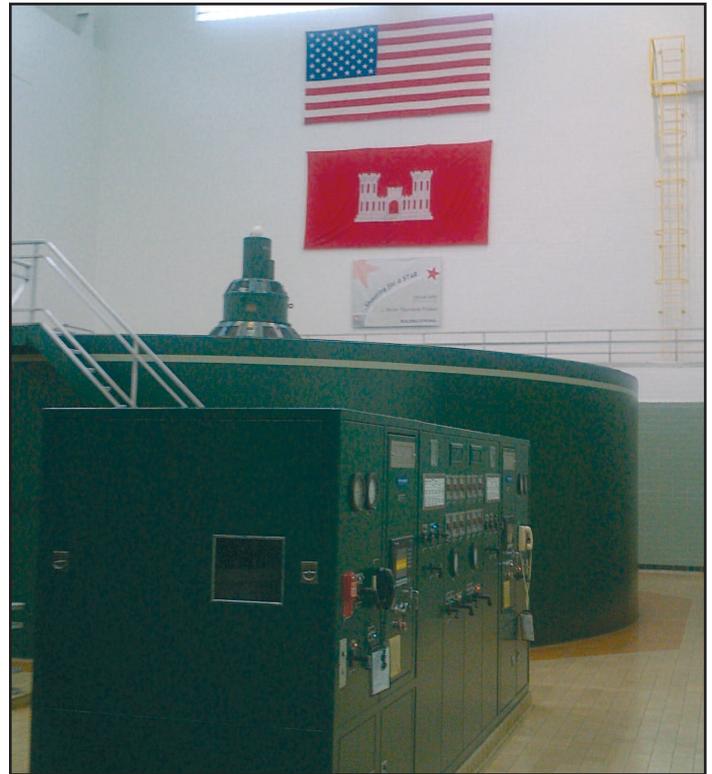
Douglas Spencer speaks with an interested Savannah River Basin stakeholder visiting the Southeastern booth at a drought informational workshop.



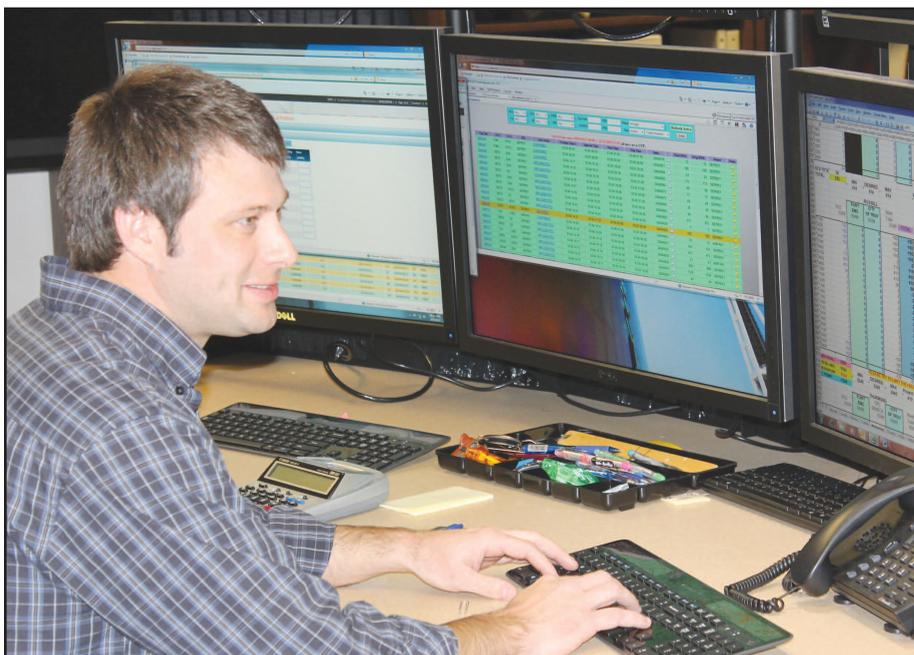
The generators at Center Hill Powerplant will be the first to be completely rehabilitated using only Customer Funding.



Electrical Engineers, Skylar Holloway, foreground, and Kellen Cole, verify and calibrate generator protective relay settings behind the Center Hill Powerplant control room switchboard.



J. Strom Thurmond Powerplant's Generator 7. The cabinet in foreground houses voltage regulation and turbine governor controls.



Power System Operator, Nathan Wiles, on his shift at a Southeastern Operations Center workstation.

Marketing Objectives

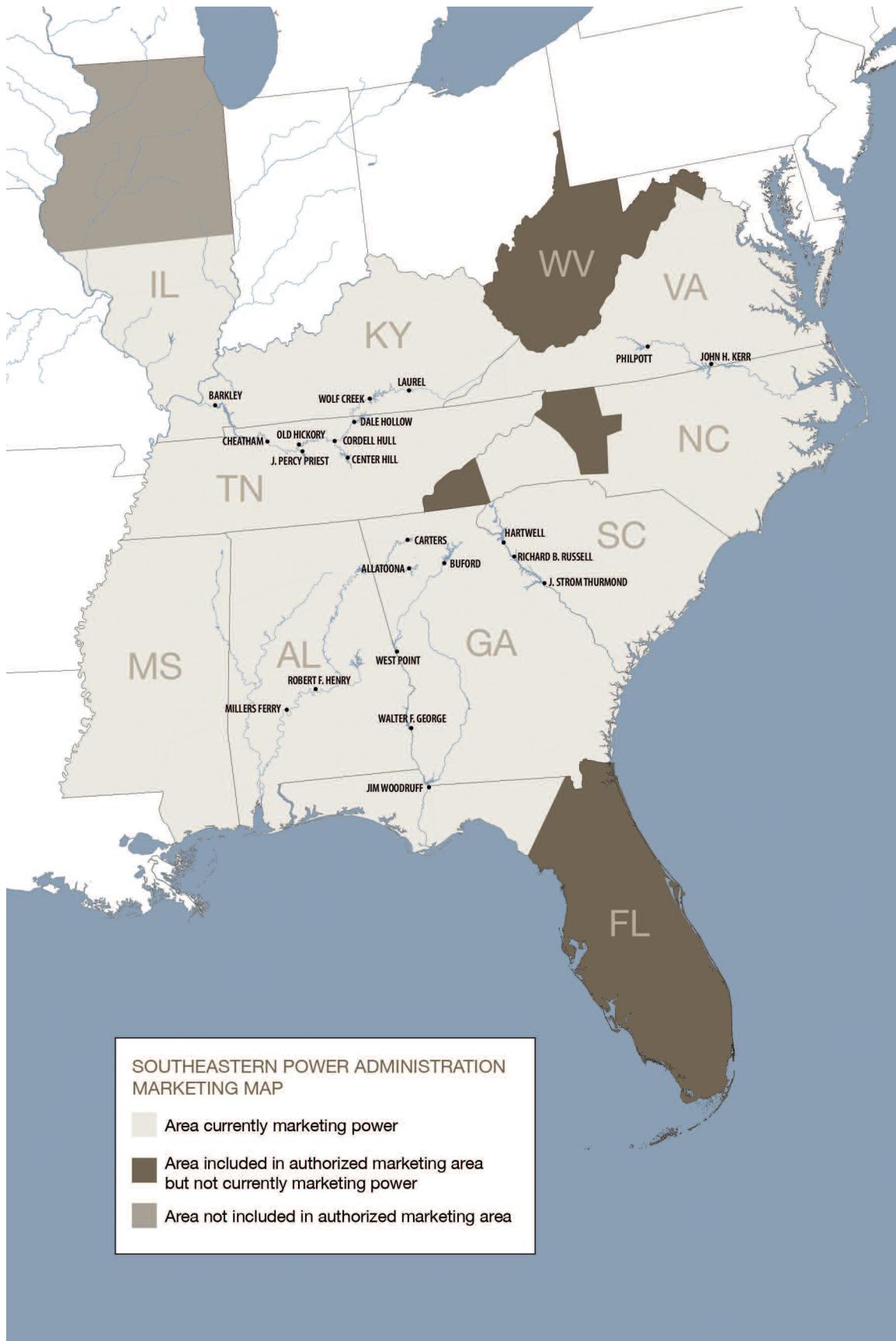
Southeastern was created in 1950 by the Secretary of the Interior to carry out the functions assigned to the Secretary by the Flood Control Act of 1944. In 1977, Southeastern was transferred to the newly created Department of Energy. Headquartered in Elberton, Georgia, Southeastern has the authority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

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

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

Section 5 of the Flood Control Act of 1944

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



Mission, Vision and Organization

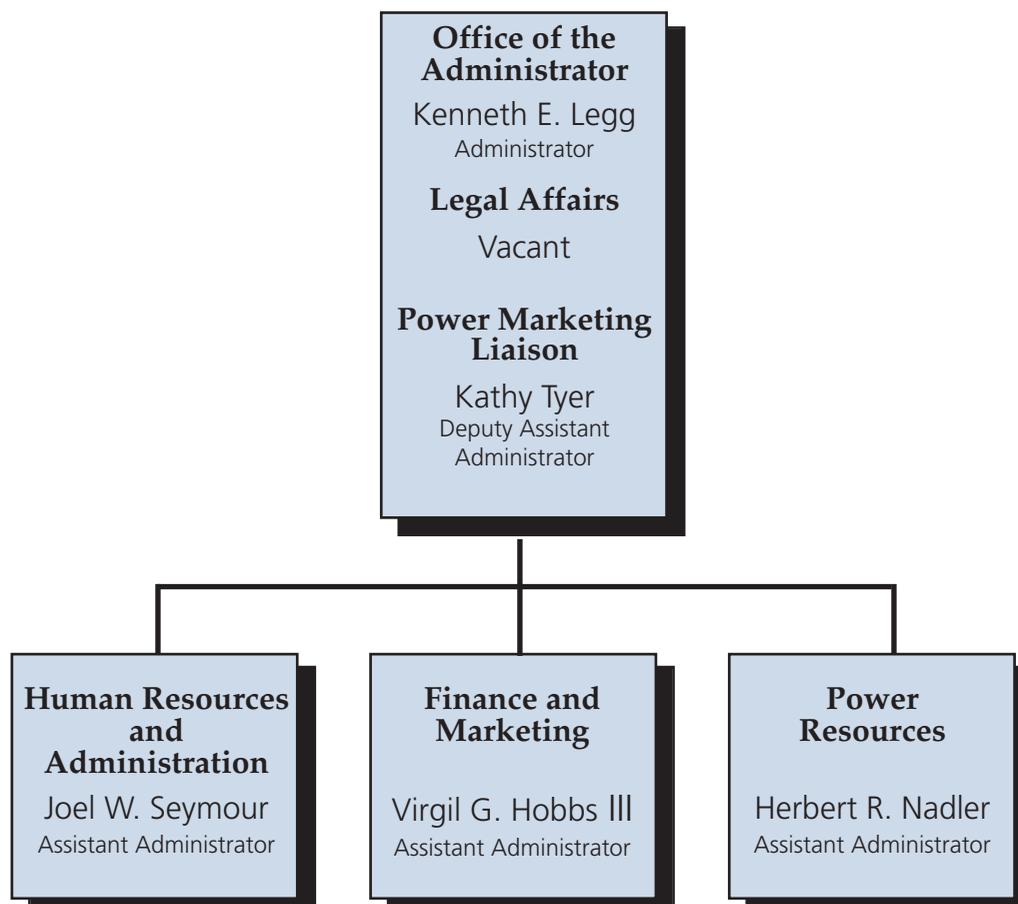
Mission Statement

Southeastern's mission is to market Federal hydroelectric power at the lowest possible cost to public bodies and cooperatives in the southeastern United States in a professional, innovative, customer-oriented manner, while continuing to meet the challenges of an ever-changing electric utility environment through continuous improvements.

Vision Statement

Southeastern Power Administration will foster a well-trained, flexible workforce in an open and rewarding workspace. Southeastern's employees will practice integrity and honesty with all partners, nurture creativity, and achieve results in a rapidly changing electric utility industry.

Organizational Chart





Southeastern Associates with more than 20 years of agency service. Back row from left: Kim Ledbetter, Ann Craft, JW Smith, Herb Nadler, Darlene Heard and Joel Seymour. Front row from left: Jane Crenshaw, Nancy Hill, Connie Dixon, Carol Rice and Sonya Hulme. Not pictured: Judy Worley.

Rates and Repayments

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

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

Status of Repayment as of September 30, 2012 (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 \$
Georgia-Alabama-S. Carolina	1950	4,017	3,642	1,776	376	1,400
Jim Woodruff	1957	221	196	75	25	50
Cumberland	1949	1,436	1,139	431	297	134
Kerr-Philpott	1953	530	440	221	90	130
TOTAL		6,204	5,417	2,503	788	1,714

Georgia-Alabama-South Carolina System

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 176 preference entities that serve 204 preference customers in Alabama, Florida, Georgia, Mississippi, North Carolina, and South Carolina.

Generation

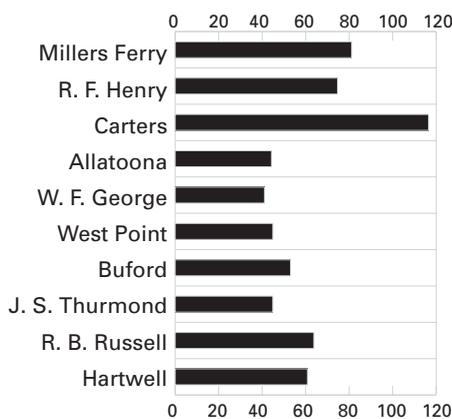
Generation for FY 2012 was 68% of average. Figure A illustrates the percent of average generation by project, and Figure B shows system generation for the years 2003 through 2012.

Financial Performance

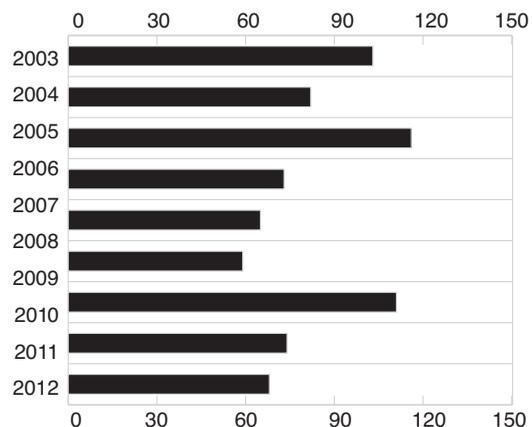
Total revenue for the Georgia-Alabama-South Carolina System in FY 2012 was \$187.7 million. Of this amount, \$181.0 million was derived from the sale of 2,637,347 megawatt-hours of energy and 2,184.2 megawatts of capacity. Total operating expenses, excluding depreciation, were \$105.5 million. Interest charged to Federal investment was \$68.8 million and repayment of the Federal investment was \$13 million. Figure C shows the revenue by source for this system, and Figure D shows the application of revenues.

Table 2 indicates the allocation of costs by project function for each project in the System, and Table 3 indicates the current rates. Current rates for the Georgia-Alabama-South Carolina System are approved by FERC through September 30, 2012. New rate schedules that will be effective for the period October 1, 2012, through September 30, 2017, were approved by the Deputy Secretary on an interim basis on September 11, 2012.

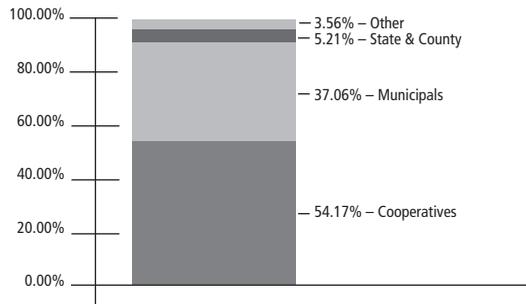
Actual Generation as a Percentage of Average Project Generation - Figure A



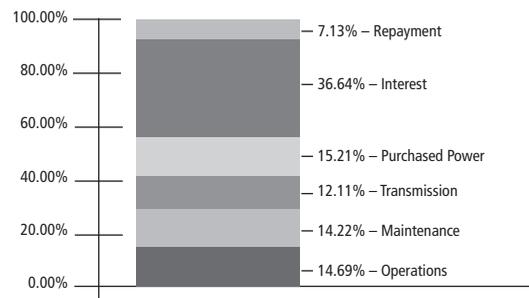
Actual Generation as a Percentage of Average System Generation - Figure B



FY 2012 Revenue by Source - Figure C



FY 2012 Application of Revenues - Figure D



Cost Allocation by Project Function as of September 30, 2012 (in thousands) - Table 2

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
Allatoona	73,559	70.20	—	13.93	—	15.55	0.32
Buford	100,203	80.86	2.14	4.74	—	12.26	—
Carters	176,444	82.11	—	11.31	—	6.58	—
J. Strom Thurmond	186,441	86.55	2.34	2.20	—	8.91	—
Walter F. George	282,211	65.96	29.39	—	0.12	4.52	—
Hartwell	207,624	84.85	1.92	7.66	—	5.58	—
Robert F. Henry/Millers Ferry	241,503	55.15	35.79	—	—	9.06	—
West Point	170,761	49.34	1.59	12.74	8.17	28.17	—
Richard B. Russell	895,215	87.09	—	0.10	—	12.81	—
Marketing Facilities	1,548	100.00	—	—	—	—	—
TOTAL-GA-AL-SC	2,335,509	77.07	7.82	3.32	0.61	11.17	0.01

Power Rates - Table 3

Product	Through September 30, 2012	Effective October 1, 2012
Capacity	4.19 \$/kW/Month	4.81 \$/kW/Month
Energy	10.67 mills/kWh	12.33 mills/kWh
Generation Services	0.12 \$/kW/Month	0.12 \$/kW/Month

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

Kerr-Philpott System

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 76 preference customers in North Carolina and Virginia.

Generation

Generation for FY 2012 was 63% of average. Figure E illustrates the percent of average generation by project for the year. Figure F shows the system generation by year from 2003 through 2012.

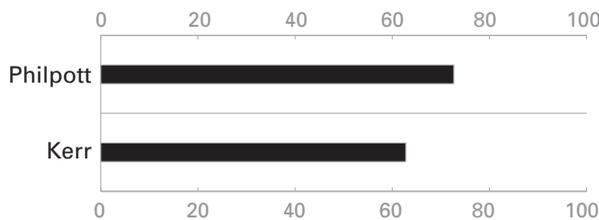
Financial Performance

Total revenue for the Kerr-Philpott System in FY 2012 was \$18.9 million. Of this amount, \$18.2 million was derived from the sale of 277,037 megawatt-hours of energy and 196.5 megawatts of capacity.

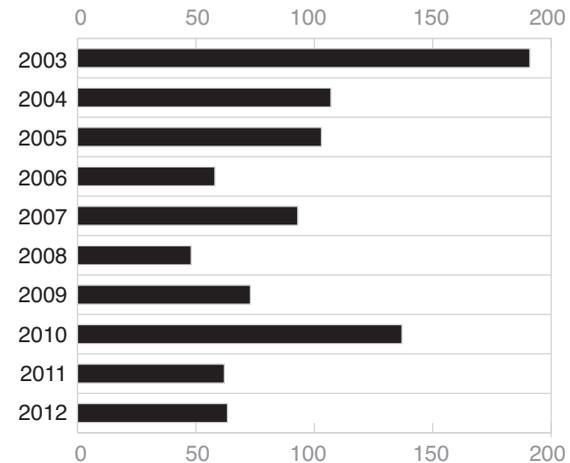
Total operating expenses, excluding depreciation, were \$12.9 million. Interest charged to Federal investment was \$5.6 million and repayment was \$432 thousand. Figure G shows the revenue by source for the Kerr-Philpott System, and Figure H shows the application of revenues.

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

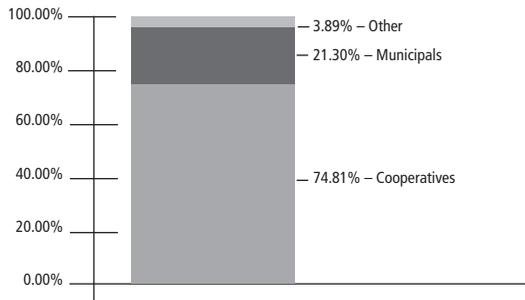
Actual Generation as a Percentage of Average Project Generation - Figure E



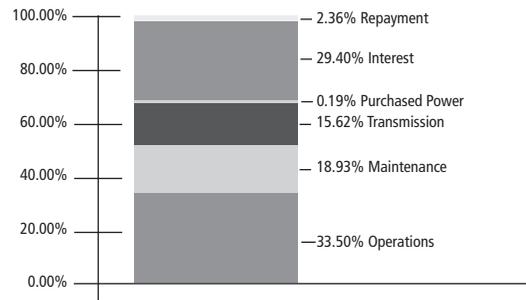
Actual Generation as a Percentage of Average System Generation - Figure F



FY 2012 Revenue by Source - Figure G



FY 2012 Application of Revenues - Figure H



Cost Allocation by Project Function as of September 30, 2012 (in thousands) - Table 4

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
John H. Kerr	221,137	84.45	—	11.50	—	3.88	0.17
Philpott	32,263	53.23	—	29.65	—	17.12	—
Marketing Facilities	290	100.00	—	—	—	—	—
TOTAL- Kerr-Philpott System	253,690	80.50	—	13.79	—	5.56	0.15

Power Rates - Table 5

Product	Through March 30, 2012	Effective April 1, 2012
Capacity	3.90 \$/kW/Month	4.71 \$/kW/Month
Energy	15.71 mills/kWh	19.46 mills/kWh

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

Cumberland System

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.

Generation

Generation for the system during FY 2012 was 80% of average. The percentage of average generation by project is shown in Figure I, and Figure J shows system generation for the years 2003 through 2012.

Financial Performance

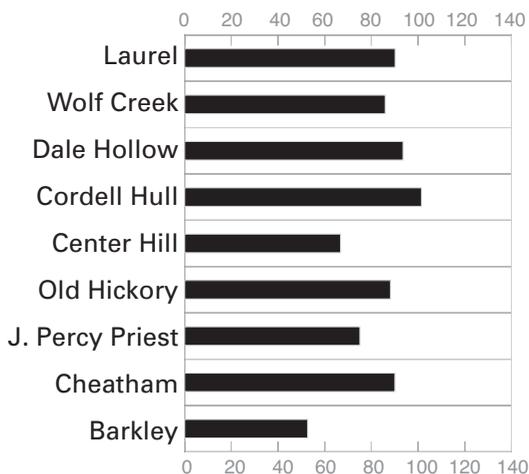
Total revenue for the Cumberland System in FY 2012 was \$52.3 million. Of this amount, \$50.3 million was derived from the sale of 2,283,313 megawatt-hours of energy. Total operating expenses, excluding depreciation, were \$41.1 million. Interest charged to Federal investment was \$4.1 million and repayment was \$7.1 million. Figure K shows the revenue by source for the Cumberland System, and Figure L shows the application of revenues.

Table 6 indicates the allocation of costs by project function for each project in this System, and Table 7 indicates the current rates. Current rates for the Cumberland System were approved on a final basis by the FERC on December 22, 2011. The rate schedules were placed in effect October 1, 2011 and approved through September 30, 2013.

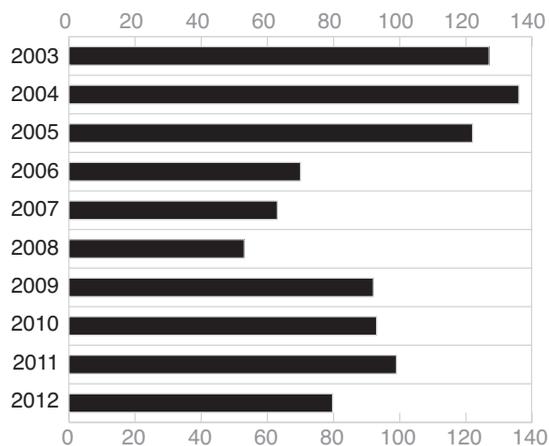
Cumberland System Dam Safety

During FY 2012, Southeastern continued an interim operating strategy in the Cumberland System. Dam safety concerns lowered lake elevations at both the Wolf Creek and Center Hill projects severely impacting Cumberland River Basin operations. These are the only storage projects in the basin and Southeastern is unable to market dependable capacity. Restricted operations began in FY 2007 and are expected to continue through Spring 2014.

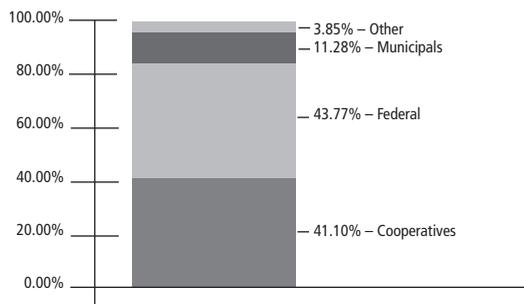
Actual Generation as a Percentage of Average Project Generation - Figure I



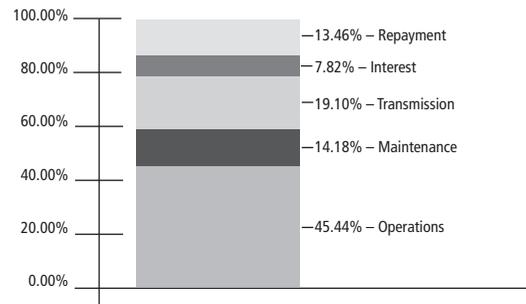
Actual Generation as a Percentage of Average System Generation - Figure J



FY 2012 Revenue by Source - Figure K



FY 2012 Application of Revenues - Figure L



Cost Allocation by Project Function as of September 30, 2012 (in thousands) - Table 6

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Other %
Barkley	206,805	26.63	57.73	11.59	—	4.05	—
J. Percy Priest	71,093	20.23	—	38.05	—	41.72	—
Cheatham	59,036	39.22	53.17	—	—	7.61	—
Cordell Hull	95,606	46.00	18.36	—	—	28.80	6.83
Old Hickory	76,939	56.94	37.06	—	—	6.00	—
Center Hill	233,332	48.04	—	48.28	—	3.38	0.30
Dale Hollow	40,953	64.69	—	30.49	—	4.81	—
Wolf Creek	761,028	56.27	—	41.10	—	2.59	0.03
Laurel	51,940	54.15	—	—	—	33.66	12.19
Marketing Facilities	532	100.00	—	—	—	—	—
Contributions in aid of construction	(586)	100.00	—	—	—	—	—
TOTAL- Cumberland System	1,596,678	48.56	12.33	30.62	—	7.63	0.86

Power Rates - Table 7

Product	Through September 30, 2012
Capacity	NA \$/kW/Month
Energy	17.69 mills/kWh

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

Jim Woodruff System

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

Generation

Generation during FY 2012 was 63% of average. Figure M illustrates the project's generation for the years 2003 through 2012.

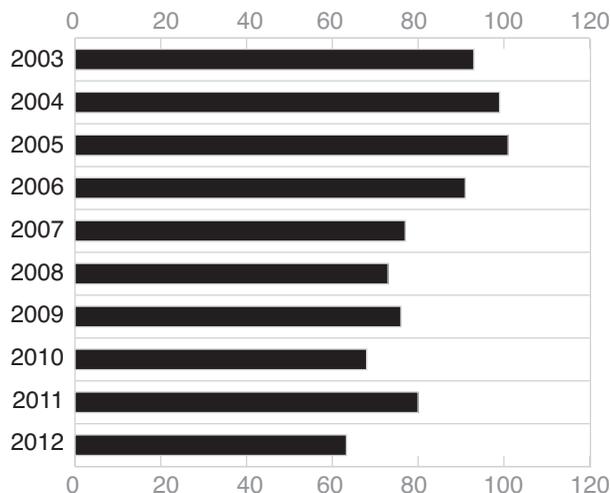
Financial Performance

Total revenue from the Jim Woodruff System was \$13.4 million in FY 2012. Of this amount, \$13.3 million was derived from the sale of 211,355 megawatt-hours of energy and 36 megawatts of capacity.

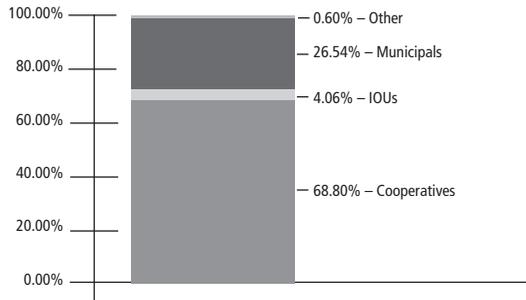
Total operating expenses, excluding depreciation, were \$8.6 million. Interest charged to the Federal investment was \$2.6 million and repayment of the Federal investment was \$2.2 million. Figure N shows the revenue by source for the System, and Figure O shows the application of revenues.

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

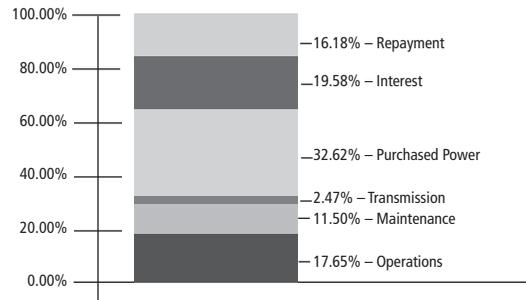
Actual Generation as a Percentage of Average System Generation - Figure M



FY 2012 Revenue by Source - Figure N



FY 2012 Application of Revenues - Figure O



Cost Allocation by Project Function as of September 30, 2012 (in thousands) - Table 8

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
Jim Woodruff	120,479	60.59	32.75	—	—	6.66	—
Marketing Facilities	48	100.00	—	—	—	—	—
TOTAL- Jim Woodruff System	120,527	60.60	32.74	—	—	6.66	—

Power Rates - Table 9

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

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

Customer Sales

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
Georgia-Alabama-South Carolina System			
Alabama			
Baldwin County EMC	17,284	24,686,082	1,886,187.83
Black Warrior EMC	18,494	24,083,749	2,023,592.12
Central Alabama EC	18,660	26,430,848	2,034,493.20
Clarke-Washington EMC	6,678	9,337,654	727,062.04
Coosa Valley EC	5,728	8,089,654	624,434.46
Dixie EC	7,273	10,364,147	793,625.21
Pea River EC	3,422	4,781,604	372,507.97
Pioneer EC	10,056	14,274,068	1,096,598.01
Tallapoosa River EC	11,494	16,157,902	1,252,281.47
Tombigbee EC	6,578	8,554,051	719,726.24
Wiregrass EC	8,467	11,949,685	922,998.49
PowerSouth Energy Cooperative	100,000	139,258,000	7,726,569.90
City of Alexander City	7,846	10,402,876	859,827.60
City of Dothan	52,461	69,601,844	5,749,926.53
City of Evergreen	4,047	5,360,560	443,404.70
City of Fairhope	6,248	8,286,753	684,754.95
City of Foley	21,199	28,106,581	2,323,230.68
City of Hartford	3,050	3,934,109	333,109.69
City of LaFayette	2,358	3,124,583	258,374.27
City of Lanett	5,321	7,055,103	583,119.29
City of Luverne	3,158	4,186,774	346,072.27
City of Opelika	20,809	27,594,066	2,280,563.33
City of Piedmont	3,869	5,027,665	423,255.81
City of Robertsdale	3,372	4,376,935	368,793.86
City of Sylacauga	16,494	21,417,529	1,804,088.27
City of Troy	10,079	13,362,132	1,104,510.95
City of Tuskegee	11,689	15,365,353	1,279,973.08
Alabama Total	386,134	525,170,307	39,023,082.22
Florida			
Choctawhatchee EC	1,231	1,756,640	134,293.23
West Florida ECA	8,402	12,005,921	917,015.32
Florida Total	9,633	13,762,561	1,051,308.55
Georgia			
Altamaha EMC	10,956	11,289,898	759,004.74
Amicalola EMC	11,513	11,859,565	797,518.98
Canoochee EMC	9,392	9,680,102	650,686.52
Carroll EMC	17,032	17,546,655	1,179,859.82
Central Georgia EMC	13,381	13,792,602	927,067.44
Coastal EMC	3,157	3,255,862	218,754.37
Cobb EMC	39,369	40,609,712	2,728,084.25
Colquitt EMC	38,410	39,568,632	2,660,893.89
Coweta-Fayette EMC	13,378	13,795,801	926,966.94
Diverse Power, Inc.	12,050	12,423,902	834,907.88
Excelsior EMC	8,914	9,185,111	617,530.59
Flint EMC	55,744	53,154,193	3,815,872.27
Grady EMC	10,439	10,752,232	723,104.63
Greystone Power Corporation	31,540	32,520,199	2,185,337.15
Habersham EMC	10,176	10,482,335	704,903.69
Hart EMC	18,630	19,183,120	1,290,390.94
Irwin EMC	8,246	8,491,693	571,167.00
Jackson EMC	48,415	49,904,384	3,354,494.17
Jefferson EMC	14,188	14,628,968	983,055.75
Little Ocmulgee EMC	7,754	7,982,832	537,050.55
Middle Georgia EMC	6,028	6,208,752	417,554.69
Mitchell EMC	18,023	18,564,381	1,248,454.77
Ocmulgee EMC	8,188	8,431,951	567,149.28
Oconee EMC	8,018	8,262,331	555,466.86
Okefenokee Rural EMC	9,487	9,773,981	657,199.41
Pataula EMC	3,244	3,341,205	224,708.07
Planters EMC	10,258	10,565,545	710,562.43
Rayle EMC	10,350	10,661,178	716,989.67
Satilla Rural EMC	30,374	31,290,002	2,104,187.49
Sawnee EMC	19,423	20,017,356	1,345,618.91
Slash Pine EMC	4,785	4,928,596	331,454.96
Snapping Shoals EMC	20,119	20,749,177	1,394,085.07
Southern Rivers Energy	6,842	7,051,518	474,013.94
Sumter EMC	11,437	11,785,958	792,334.11
Three Notch EMC	12,194	12,562,587	844,718.55
Tri-County EMC	6,416	6,616,266	444,565.29
Upson EMC	4,581	4,719,503	317,341.50
Walton EMC	31,322	32,321,761	2,170,801.18
Washington EMC	14,249	14,680,174	987,083.08
City of Acworth	2,303	3,014,765	179,148.53
City of Adel	6,902	9,029,381	536,793.34
City of Albany	60,831	79,638,340	4,732,124.15
City of Barnesville	2,635	3,448,741	204,962.71
City of Blakely	5,412	7,081,916	420,944.27
City of Brinson	156	204,780	12,145.69
City of Buford	2,356	3,083,931	183,267.22

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
City of Cairo	6,253	8,188,548	486,471.86
City of Calhoun	7,660	10,035,657	596,019.91
City of Camilla	6,072	7,943,089	472,232.54
City of Cartersville	17,152	22,450,029	1,334,184.44
City of College Park	15,559	20,379,158	1,210,537.46
City of Commerce	4,456	5,827,464	346,521.69
City of Covington	9,382	12,284,181	729,866.56
City of Dalton	45,822	62,352,058	3,582,231.10
City of Doerun	629	823,193	48,925.49
City of Douglas	10,180	13,323,010	791,833.75
City of East Point	33,488	43,821,907	2,604,706.72
City of Elberton	11,447	14,972,113	890,215.17
City of Ellaville	936	1,225,977	72,823.68
City of Fairburn	1,799	2,357,021	139,980.57
City of Fitzgerald	9,720	12,722,231	756,076.59
City of Forsyth	3,720	4,868,653	289,356.23
City of Fort Valley	9,417	12,326,226	732,518.50
City of Grantville	470	614,342	36,543.68
City of Griffin	18,157	23,766,874	1,412,386.11
City of Hampton	832	1,024,958	90,098.91
City of Hogansville	1,531	2,003,067	119,074.74
City of Jackson	2,067	2,705,558	160,785.27
City of LaFayette	6,607	8,646,933	513,915.24
City of Lagrange	17,096	22,386,294	1,330,007.70
City of Lawrenceville	4,795	6,284,490	373,140.61
City of Marietta	37,172	48,689,206	2,892,120.11
City of Monroe	7,223	9,451,145	561,792.76
City of Monticello	1,836	2,401,778	142,789.97
City of Moultrie	15,480	20,259,820	1,204,094.02
City of Newnan	6,893	9,022,596	536,186.84
City of Norcross	1,736	2,274,301	135,075.32
City of Oxford	458	600,782	35,650.68
City of Palmetto	923	1,208,350	71,801.21
City of Quitman	4,428	5,792,205	344,369.83
City of Sandersville	4,997	6,538,094	388,651.14
City of Sylvania	5,436	7,119,888	422,933.94
City of Sylvester	3,952	5,175,142	307,455.48
City of Thomaston	7,687	10,066,850	598,042.50
City of Thomasville	25,053	32,793,535	1,948,808.74
City of Washington	5,068	6,631,667	394,186.14
City of West Point	4,683	6,123,106	364,151.50
City of Whigham	319	417,696	24,816.64
Crisp County Power Commission	18,068	23,647,530	1,405,409.82
Town of Mansfield	379	495,000	29,460.83
Georgia Total	1,095,655	1,260,183,596	79,968,578.73
Mississippi			
Coast EPA	26,863	35,666,786	2,944,782.99
East Mississippi EPA	11,336	15,024,260	1,242,586.11
Singing River EPA	33,684	44,733,310	3,692,703.84
South Mississippi EPA	68,000	88,403,860	7,285,941.56
Mississippi Total	139,883	183,828,216	15,166,014.50
North Carolina			
Blue Ridge EMC	7,311	11,159,850	613,739.10
EnergyUnited EMC	16,302	23,435,200	1,257,184.41
Haywood EMC	926	1,402,620	77,496.82
Pee Dee EMC	455	682,558	37,958.83
Rutherford EMC	24,018	36,545,720	2,013,591.84
Union EMC	11,633	17,648,502	974,668.74
City of Cheryville	1,478	922,594	95,935.44
City of Concord	8,007	5,367,610	637,592.49
City of Gastonia	15,971	9,965,811	1,036,584.48
City of Kings Mountain	2,896	1,940,790	230,594.57
City of Lincolnton	1,577	983,810	102,349.03
City of Monroe	7,693	4,801,413	499,329.41
City of Morganton	9,535	14,476,605	799,021.70
City of Newton	2,067	1,289,175	134,143.80
City of Shelby	5,892	3,675,841	382,399.89
City of Statesville	9,705	6,055,535	629,888.07
Town of Bostic	412	630,635	34,633.14
Town of Cornelius	361	225,430	23,433.97
Town of Dallas	1,299	870,045	103,422.81
Town of Drexel	879	1,337,385	73,719.06
Town of Forest City	2,721	1,824,282	216,676.09
Town of Granite Falls	828	516,398	53,735.07
Town of Huntersville	490	305,367	31,794.80
Town of Landis	1,098	684,562	71,252.48
Town of Maiden	1,235	770,144	80,146.30
Town of Pineville	490	305,367	31,794.80
North Carolina Total	135,279	147,823,249	10,243,087.14

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
South Carolina			
Central Electric Power Cooperative	180,700	244,175,762	17,475,979.35
Little River EC	522	598,691	54,222.47
City of Abbeville	2,959	4,395,531	219,275.32
City of Clinton	2,975	1,698,839	184,268.88
City of Easley	8,656	12,032,364	663,015.52
City of Gaffney	6,986	9,716,507	535,199.35
City of Georgetown	5,300	6,896,793	511,233.36
City of Greenwood	11,404	17,521,110	959,416.20
City of Greer	9,159	12,784,601	702,492.46
City of Laurens	5,891	8,214,280	451,682.51
City of Newberry	3,277	1,870,895	202,967.32
City of Orangeburg	13,779	15,855,876	1,429,761.77
City of Rock Hill	19,115	26,570,515	1,464,124.95
City of Seneca	2,688	1,638,330	173,979.43
City of Union	3,484	1,989,998	215,804.85
City of Westminster	678	386,751	41,987.34
Town of Bamberg	2,300	2,955,767	221,071.40
Town of Due West	285	190,926	22,691.78
Town of McCormick	522	585,278	54,140.90
Town of Prosperity	602	988,512	60,074.05
Town of Winnsboro	1,366	1,521,725	141,460.86
South Carolina PSA	135,000	133,989,720	9,769,780.74
South Carolina Total	417,648	506,578,771	35,554,630.81
Georgia-Alabama-South Carolina System Total			
	2,184,232	2,637,346,700	181,006,701.95
Kerr-Philpott System			
North Carolina			
Albemarle EMC	2,593	4,162,200	213,476.20
Brunswick EMC	3,515	5,949,380	342,473.14
Carteret-Craven EMC	2,735	4,576,479	265,556.82
Central EMC	1,239	2,097,094	120,718.05
Edgecombe-Martin County EMC	4,155	6,751,988	343,781.44
Four County EMC	4,198	7,105,404	409,019.13
Halifax EMC	2,606	4,270,653	224,137.41
Jones-Onslow EMC	5,184	8,774,277	505,087.04
Lumbee River EMC	3,729	6,311,587	363,323.56
Pee Dee EMC	2,968	5,023,544	289,178.02
Piedmont EMC	1,086	1,844,280	105,977.20
Pitt & Greene EMC	1,580	2,674,260	153,942.51
Randolph EMC	3,608	6,106,790	351,534.36
Roanoke EMC	5,528	8,924,994	456,177.77
South River EMC	6,119	10,356,831	596,185.89
Tideland EMC	3,098	5,075,623	266,220.99
Tri-County EMC	3,096	5,240,195	301,649.05
Wake EMC	2,164	3,662,719	210,842.65
City of Elizabeth City	2,073	1,553,830	172,522.07
City of Kinston	1,466	1,098,847	118,719.42
City of Laurinburg	415	311,065	33,607.44
City of Lumberton	895	670,851	72,478.82
City of New Bern	1,204	902,466	97,502.18
City of Rocky Mount	2,538	1,902,373	205,532.08
City of Washington	2,703	2,026,050	218,894.06
City of Wilson	2,950	2,211,190	238,896.65
Fayetteville Public Works Commission	5,431	4,070,837	439,812.74
Greenville Utilities Commission	7,534	5,647,150	610,117.67
Town of Apex	145	108,688	11,742.42
Town of Ayden	208	155,910	16,844.27
Town of Belhaven	182	136,420	15,146.67
Town of Benson	120	89,945	9,717.81
Town of Clayton	161	120,677	13,038.09
Town of Edenton	775	580,905	64,498.11
Town of Enfield	259	194,399	16,918.08
Town of Farmville	237	177,644	19,192.73
Town of Fremont	60	44,973	4,858.89
Town of Hamilton	40	29,982	3,328.92
Town of Hertford	203	152,161	16,894.36
Town of Hobgood	46	34,477	3,828.25
Town of Hookerton	30	22,489	2,429.49
Town of La Grange	93	69,710	7,531.33
Town of Louisburg	857	1,451,709	83,580.86
Town of Pikeville	40	29,982	3,239.29
Town of Red Springs	117	87,701	9,474.93
Town of Robersonville	232	173,896	19,307.79
Town of Scotland Neck	304	227,865	25,299.91
Town of Selma	183	137,167	14,819.67
Town of Smithfield	378	283,332	30,611.20
Town of Tarboro	2,145	1,607,797	178,514.13
Town of Wake Forest	149	111,683	12,066.31
Town of Windsor	331	247,580	27,613.60
North Carolina Total	93,705	125,580,049	8,337,861.47

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
Virginia			
B-A-R-C EC	3,740	6,022,653	376,322.71
Central Virginia EC	7,956	12,917,670	803,110.99
Community EC	4,230	6,821,236	425,824.47
Craig-Botetourt EC	1,692	2,755,009	171,047.93
Mecklenburg EMC	11,344	18,441,967	1,145,058.84
Northern Neck EC	3,944	6,329,040	396,390.86
Northern Virginia EC	3,268	5,272,661	329,088.26
Prince George EC	2,530	4,059,961	254,277.14
Rappahannock EC	22,427	36,188,478	2,258,151.80
Shenandoah Valley EMC	9,938	16,129,608	1,002,585.93
Southside EC	14,575	23,575,252	1,468,720.44
City of Bedford	1,200	905,645	78,692.64
City of Danville	5,600	4,226,346	367,232.47
City of Franklin	1,003	750,221	83,675.07
City of Martinsville	1,600	1,207,526	104,923.54
City of Radford	1,300	981,576	85,228.11
City of Salem	2,200	1,661,126	144,232.21
Harrisonburg Electric Commission	2,691	2,039,109	225,065.16
Town of Blackstone	389	290,963	32,452.22
Town of Culpepper	391	296,280	32,701.77
Town of Elkton	171	127,903	14,265.63
Town of Richlands	500	377,350	32,788.57
Town of Wakefield	106	79,285	8,843.01
Virginia Total	102,795	151,456,865	9,840,679.77
Kerr-Philpott System Total			
	196,500	277,036,914	18,178,541.24
Jim Woodruff System			
Florida			
Central Florida EC	2,300	10,732,439	660,775.12
Suwannee Valley EC	4,800	23,961,550	1,477,489.28
Talquin EC	13,500	81,506,533	5,260,230.24
Tri-County EC	5,200	27,859,413	1,812,023.46
City of Chattahoochee	1,800	10,595,262	694,179.01
City of Quincy	8,400	44,753,653	2,858,238.86
Florida Power Corporation	-	11,945,824	542,869.29
Jim Woodruff System Total	36,000	211,354,674	13,305,805.26
Cumberland System			
Illinois			
Southern Illinois Power Cooperative	-	50,949,000	1,393,888.41
Kentucky			
Big Rivers Electric Corporation	-	320,613,000	8,802,888.81
East Kentucky Power Cooperative	-	284,108,000	8,016,372.28
City of Barbourville	-	4,724,181	122,303.88
City of Bardstown	-	4,825,105	124,856.14
City of Bardwell	-	1,163,865	30,080.29
City of Benham	-	532,544	13,830.95
City of Corbin	-	5,578,829	144,421.37
City of Falmouth	-	1,266,939	32,766.59
City of Frankfort	-	33,543,828	868,165.23
City of Henderson	-	21,926,000	598,985.50
City of Madisonville	-	16,755,810	433,701.80
City of Nicholasville	-	5,488,638	142,058.96
City of Owensboro	-	53,683,875	1,389,441.84
City of Paris	-	2,928,992	75,782.31
City of Providence	-	2,643,394	68,429.21
City of Princeton	-	1,331,052	32,404.22
City of Paducah	-	9,287,948	226,113.89
Kentucky Total	-	770,402,000	21,122,603.27
Mississippi			
South Mississippi EPA	-	91,558,000	2,516,849.90
Mississippi Delta Energy Agency	-	19,913,000	549,569.65
Municipal Energy Agency of Mississippi	-	33,613,000	925,091.69
Mississippi Total	-	145,084,000	3,991,511.24
North Carolina			
French Broad EMC	-	15,373,386	589,314.12
Haywood EMC	-	4,499,528	172,447.14
Town of Waynesville	-	3,187,166	122,162.02
North Carolina Total	-	23,060,080	883,923.28
Tennessee Valley Region			
TVA Acquisition for 155 TVPPA Members	-	1,293,818,000	22,887,640.42
Cumberland System Total			
	-	2,283,313,080	50,279,566.62
Grand Total	2,416,732	5,409,051,368	262,770,615.07

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Southeastern Power Administration Annual Report 2012



2012 Financial Overview and Financial Statements

2012 Financial Overview & Financial Statements

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Description

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

The Corps operates 22 Federal hydroelectric generating projects in commercial service as of September 30, 2012, for which Southeastern is the power marketing agency. The Corps and Southeastern are separately managed and financed; however, the financial statements are combined under the Program title.

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

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

Southeastern and the Corps receive Congressional appropriations through the Department of Energy and the Department of Defense 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 2012, Southeastern marketed 5.4 billion kilowatt-hours of energy to 487 wholesale customers. The Program's revenues totaled \$272 million, \$4 million less than in FY 2011.

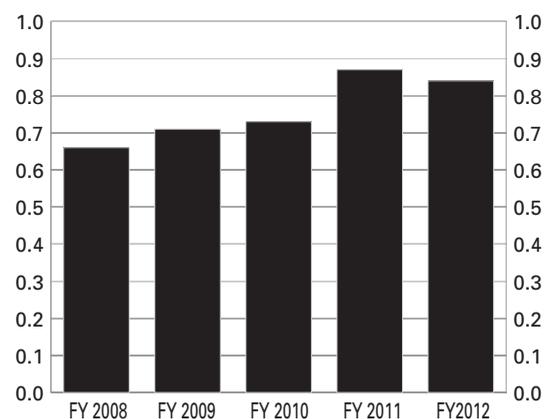
Financial Performance Debt Service Coverage Ratio

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

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

Over the last five years, the Program's debt service ratio has ranged from about 0.664 to 0.865. The Program's debt service ratio for FY 2008 through FY 2012 was below normal due to adverse water conditions. FY 2010 was below normal due to higher than expected Corps' maintenance expenses as a result of American Recovery and Reinvestment Act appropriations. FY 2011 and FY 2012 were below normal due to streamflow conditions. The Program's debt service coverage ratio for fiscal years 2008-2012 is illustrated in Figure P.

Debt Service Coverage Ratio - Figure P



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

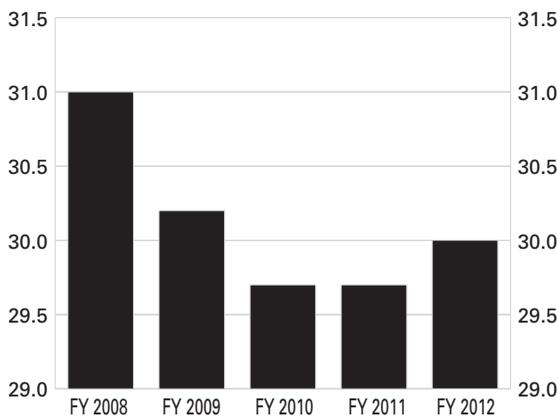
This indicator is a cumulative cash flow measure. It measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature system. Thus, a system with little time remaining in its repayment period would be expected to have a ratio of cumulative principal payments relative to total Federal investment that approaches 100%. This indicator provides useful information by showing the relationship between the cumulative amount of principal paid to date by the Program, as well as the progress made over the period studied. While analysis of this indicator does not necessarily provide conclusive information without further analysis of additional factors, such as the average age of the system, the measure nevertheless provides valuable information on the status of repayment. The Program's principal payments as a percentage of total investment is now 30.0%. This is due to an increase in the power investment and a lack of repayment due to drought conditions. Payments as a percent of total investment are illustrated in Figure Q.

Variance of Actual from Planned Principal Payment

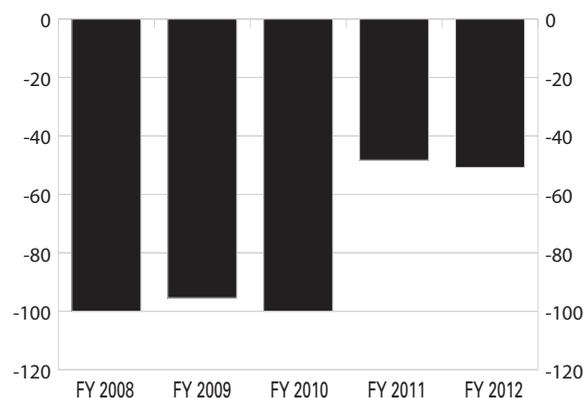
The Power Marketing Administrations show relatively large fluctuations between actual and planned revenues due to the high variability of water over the years analyzed. A negative number means that actual repayment is not as large as expected. A positive number means that actual repayment is larger than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

The Program's -100% ratio in 2008 and -95% in 2009 were the result of below average streamflow conditions, as illustrated in Figure R. The -100% ratio in 2010 was due to higher than expected Corps' operation and maintenance expenses. The FY 2011 and FY 2012 ratio of -48.3% and -50.8% were also due to streamflow conditions.

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



Percent Variance of Actual From Planned Principal Payments - Figure R



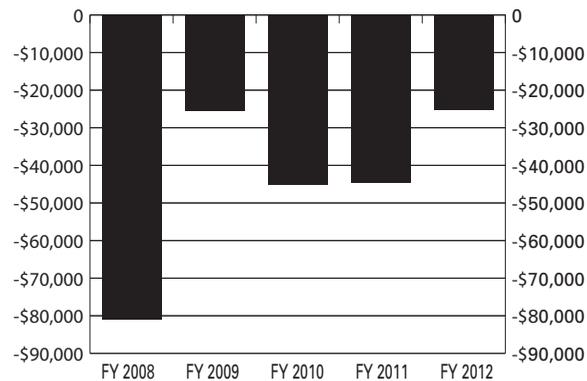
Net Cash to the Treasury

Net cash flow to the Treasury measures the actual net cash flow, both inflows and outflows, to the U.S. Treasury, 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 Treasury excluded revenue from and expenses paid to Federal entities, such as TVA. Net cash flow to the U.S. Treasury is illustrated in Figure S.

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





KPMG LLP
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:

We have audited the accompanying combined balance sheets of the Southeastern Federal Power Program (the Program) as of September 30, 2012 and 2011, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended. As described in note 1 to the combined financial statements, the combined financial statement presentation includes the hydroelectric generation functions of another federal agency (the generating agency) for which Southeastern Power Administration (Southeastern), a component of the U.S. Department of Energy (DOE), markets the related power. These combined financial statements are the responsibility of Program management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the Program's combined financial statements taken as a whole. The supplementary information in schedules 1 through 3 is presented for purposes of additional analysis of the combined financial statements and is not a required part of the combined financial statements. The supplementary information in schedules 1 and 2 has been subjected to the auditing procedures applied in the audits of the 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 combined financial statements or to the 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 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 combined financial statements and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

January 31, 2013

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Balance Sheets

September 30, 2012 and 2011

(In thousands)

Assets	2012	2011
Utility plant in service	\$ 2,450,326	2,404,596
Accumulated depreciation	(962,189)	(918,109)
Net completed plant	1,488,137	1,486,487
Construction work-in-progress	402,120	331,759
Net utility plant	1,890,257	1,818,246
Cash	264,738	203,471
Accounts receivable, net	29,723	27,470
Regulatory assets	13,474	13,513
Other assets	269	455
Total assets	<u>\$ 2,198,461</u>	<u>2,063,155</u>
Total Liabilities and Capitalization		
Liabilities:		
Accounts payable and accrued liabilities	\$ 15,330	26,730
Workers' compensation actuarial liability	13,474	13,513
Total liabilities	<u>28,804</u>	<u>40,243</u>
Capitalization:		
Payable to U.S. Treasury	2,396,249	2,226,877
Accumulated net deficit	(226,592)	(203,965)
Total capitalization	2,169,657	2,022,912
Commitments and contingencies (note 5)		
Total liabilities and capitalization	<u>\$ 2,198,461</u>	<u>2,063,155</u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Revenues and Expenses

Years ended September 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Sales of electric power	\$ 262,771	264,639
Other operating revenues	9,514	11,410
Total operating revenues	<u>272,285</u>	<u>276,049</u>
Operating expenses, excluding depreciation expense:		
Operations	60,030	58,729
Maintenance	39,229	45,742
Purchased power	32,944	38,549
Purchased transmission services	35,905	33,428
Total operating expenses, excluding depreciation expense	<u>168,108</u>	<u>176,448</u>
Depreciation expense	<u>45,763</u>	<u>42,215</u>
Total operating expenses	<u>213,871</u>	<u>218,663</u>
Net operating revenues	<u>58,414</u>	<u>57,386</u>
Interest expenses:		
Interest on payable to U.S. Treasury	98,214	93,415
Interest charged to construction	(17,173)	(13,747)
Net interest expenses	<u>81,041</u>	<u>79,668</u>
Net deficit	<u>\$ (22,627)</u>	<u>(22,282)</u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Changes in Capitalization

Years ended September 30, 2012 and 2011

(In thousands)

	<u>Payable to U.S. Treasury</u>	<u>Accumulated net deficit</u>	<u>Total capitalization</u>
Total capitalization as of September 30, 2010	\$ 2,121,280	(181,683)	1,939,597
Additions:			
Congressional appropriations	150,935	—	150,935
Interest	93,415	—	93,415
Transfers of property and services, net	4,368	—	4,368
Total additions to capitalization	<u>248,718</u>	<u>—</u>	<u>248,718</u>
Deductions:			
Payments to U.S. Treasury	(143,121)	—	(143,121)
Net deficit for the year ended September 30, 2011	<u>—</u>	<u>(22,282)</u>	<u>(22,282)</u>
Total capitalization as of September 30, 2011	<u>2,226,877</u>	<u>(203,965)</u>	<u>2,022,912</u>
Additions:			
Congressional appropriations	183,809	—	183,809
Interest	98,214	—	98,214
Transfers of property and services, net	9,130	—	9,130
Total additions to capitalization	<u>291,153</u>	<u>—</u>	<u>291,153</u>
Deductions:			
Payments to U.S. Treasury	(121,781)	—	(121,781)
Net deficit for the year ended September 30, 2012	<u>—</u>	<u>(22,627)</u>	<u>(22,627)</u>
Total capitalization as of September 30, 2012	<u>\$ 2,396,249</u>	<u>(226,592)</u>	<u>2,169,657</u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Cash Flows

Years ended September 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net deficit	\$ (22,627)	(22,282)
Adjustments to reconcile net deficit to net cash provided by operating activities:		
Depreciation	45,763	42,215
Interest on payable to U.S. Treasury, net	81,041	79,668
Unfunded retirement benefits	3,938	4,379
(Increase) decrease in assets:		
Accounts receivable, net	(2,253)	(1,228)
Other assets	186	130
Increase in liabilities:		
Accounts payable and accrued liabilities	(11,400)	367
Net cash provided by operating activities	<u>94,648</u>	<u>103,249</u>
Cash flows from investing activities:		
Investment in utility plant	<u>(100,600)</u>	<u>(123,390)</u>
Cash flows from financing activities:		
Congressional appropriations	183,809	150,935
Payments to U.S. Treasury	(121,781)	(143,121)
Transfers from (to) other federal agencies, net	5,191	(11)
Net cash provided by financing activities	<u>67,219</u>	<u>7,803</u>
Net increase (decrease) in cash	61,267	(12,338)
Cash, beginning of year	<u>203,471</u>	<u>215,809</u>
Cash, end of year	<u>\$ 264,738</u>	<u>203,471</u>
Supplemental disclosures:		
Cash paid for interest	\$ 81,041	79,668
Interest charged to construction	17,173	13,747

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

(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 10 states of Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, and Kentucky. The accompanying combined financial statements of the Program include the accounts of two separate federal government agencies—the Southeastern Power Administration (“Southeastern”), an agency 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 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 properties 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, 2012, 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 nonpower purposes. The portion of total project costs allocated to power is included in the accompanying combined financial statements.

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

(2) Summary of Significant Accounting Policies**(a) General**

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

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

(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 which are not specific to a project purpose are distributed between power and nonpower 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 FASB ASC Subtopic 605-25, *Revenue Recognition – Multiple Element Arrangements*, subsequently updated by FASB Accounting Standards Update ("ASU") No. 2009-13, *Multiple-Deliverable Revenue Arrangements*. Services qualify as separate units of accounting with distinguishable rates, terms, and delivery schedules. Services are provided to meet customer contractual obligations, and revenues are recognized when services are provided.

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

Accounts receivable, net represents amounts billed to customers but not collected, net of the related allowance for uncollectible accounts of \$0 as of September 30, 2012 and 2011. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

outstanding balances. Interest may be charged on the principal portion of delinquent receivables based on rates published by the U.S. Treasury for the period in which the debt became delinquent. Delinquent receivables are charged off against the allowance once they are deemed uncollectible.

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

(d) Confirmation and Approval of Rates

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

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

The Secretary of Energy (the "Secretary") has delegated authority to the Administrator of Southeastern to develop power and transmission rates for the power projects. The Deputy Secretary has the authority to confirm, approve, and place such rates in effect on an interim basis.

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

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

would exceed the amount to be refunded, no refunds will be required. As of September 30, 2012, the Georgia-Alabama-South Carolina power system was awaiting final rate approval. There were no revenues subject to refund.

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

(e) *Cash*

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

(f) *Utility Plant*

Utility plant in service and construction work-in-progress consist principally of generating facilities and are stated at cost, net of contributions by entities outside the Program. Cost includes direct labor and materials; payments to contractors; indirect charges for engineering, supervision, and similar overhead items; and interest on federal funds used during construction. The costs of additions, replacements, and betterments are capitalized, while repairs and minor replacement costs are charged to operation and maintenance expenses. The cost of utility plant retired, together with removal costs less salvage, is charged against accumulated depreciation when the property is removed from service. There were no material asset retirements or asset retirement obligations as of September 30, 2012 and 2011.

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 combined power systems are currently depreciated using the straight-line method over the estimated service lives ranging from 5 to 100 years for transmission and generation assets. Moveable equipment includes computers, copiers, cranes, energy testing equipment, trucks, and wood chippers. Moveable equipment is currently depreciated using the straight-line method over the estimated service lives ranging from 5 to 40 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.

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

(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 2.500% to 6.250% for the years ended September 30, 2012 and 2011.

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 4.000% to 6.875% for the years ended September 30, 2012 and 2011, depending on the year in which construction of the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(h) Transfer of Property and Services, Net

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

(i) Retirement Benefits

Substantially all employees engaged in Program activities participate in either the Civil Service Retirement System (“CSRS”) or the Federal Employees’ Retirement System (“FERS”). Both are contributory defined benefit pension plans and are not covered under the Employee Retirement Income Security Act of 1974. Pension benefit expense under CSRS and FERS is equivalent to 7.0% and up to 11.9%, respectively, of eligible employee compensation. Contributions to these plans are submitted to benefit program trust funds administered by the Office of Personnel Management (the “OPM”), and totaled \$3.9 million for the years ended September 30, 2012 and 2011. 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 \$3.9 million and \$4.4 million of annual pension and retirement benefits expense for the years ended September 30, 2012 and 2011, respectively. This amount reflects the contribution made on behalf of Southeastern and the Corps by OPM to the benefit program trust funds. This expense will be recovered from power customers through the future sale of power. Costs incurred by OPM on behalf of the Program are included as transfers of property and services, net within the payable to U.S. Treasury on the combined balance sheets.

Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program (“FEHB”) and the Federal Employee Group Life Insurance Program (“FEGLI”). FEHB is calculated at \$5,817 and \$6,027 per employee in fiscal years 2012 and 2011, respectively, and FEGLI is based on 0.02% of based salary for each employee enrolled in these programs.

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

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

(j) *Derivative and Hedging Activities*

The Program analyzes derivative financial instruments under FASB ASC Topic 815, *Derivatives and Hedging*, subsequently updated by ASU No. 2010-11, *Scope Exceptions 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 statement 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, 2012 and 2011, 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

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

affected by the business environment of the utility industry, management does not believe a significant risk of loss from a concentration of credit exists.

(l) Regulatory Assets

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

Workers' Compensation Actuarial Cost

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

The recovery of these future claims will be deferred for purposes of the rate-making process until such time the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as a regulatory asset in the combined balance sheets to reflect the effects of the rate-making process. The Program's cumulative unpaid expenses associated with estimated future claims are approximately \$13.5 million as of September 30, 2012 and 2011.

(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. The fair value 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

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

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.

(o) *Reclassifications*

Certain 2011 amounts have been reclassified to conform to the current year presentation.

(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 2012, except for \$5.5 million at the Jim Woodruff power system, \$4.8 million at the Kerr-Philpott power system, and \$24.5 million at the Georgia-Alabama-South Carolina power system. Remaining revenues are to be first applied to repayment of operating deficits, if any, and then to repayment of the outstanding principal. Annual net revenues available for repayment are generally applied first against investments in projects bearing the highest interest rates.

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

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

(4) Utility Plant

Utility plant as of September 30, 2012 and 2011 consists of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Utility plant:		
Structures and facilities	\$ 2,020,580	1,977,451
Buildings	48,435	46,416
Land	361,596	361,596
Movable equipment	<u>19,715</u>	<u>19,133</u>
Gross completed plant	2,450,326	2,404,596
Accumulated depreciation	<u>(962,189)</u>	<u>(918,109)</u>
Net completed plant	1,488,137	1,486,487
Construction work-in-progress	<u>402,120</u>	<u>331,759</u>
Net utility plant	<u>\$ 1,890,257</u>	<u>1,818,246</u>

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, 2012 and 2011, contributed plant, net, used in the Program's operations totaled approximately \$586,000.

As of September 30, 2012, major projects included in construction work-in-progress included a security system installation, tainter gate installation, head gate machinery replacement, and switchgear replacement in the Kerr-Philpott power system; a switchyard upgrade, oxygenation systems, and main circuit breaker replacement in the Georgia-Alabama-South Carolina power system; and a dam rehabilitation in the Cumberland power system.

As of September 30, 2011, major projects included in construction work-in-progress included a high-voltage cable system installation, transformer replacement, and bridge crane rehabilitation in the Kerr-Philpott power system; a switchyard upgrade, oxygenation systems, and main circuit breaker replacement in the Georgia-Alabama-South Carolina power system; and a dam rehabilitation in the Cumberland power system.

(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,

(Continued)

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2012 and 2011

results of operations, or cash flows. Power-related claims whose ultimate disposition will be paid by the U.S. Treasury Judgment Fund and are not subject to reimbursement from power revenues are excluded from the combined financial statements and notes thereto.

(b) Power Contract Commitments

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

	<u>Purchased power</u>	<u>Purchased transmission services</u>	<u>Total</u>
Fiscal year ending September 30,			
2013	\$ 1,000	38,454	39,454
2014	1,000	39,235	40,235
2015	1,000	40,464	41,464
2016	1,000	41,755	42,755
2017	1,000	43,109	44,109
	<u>\$ 5,000</u>	<u>203,017</u>	<u>208,017</u>

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

(6) Subsequent Events

The Program has evaluated subsequent events as of September 30, 2012 through the date the combined financial statements were available to be issued on January 31, 2013, and identified no subsequent events requiring disclosure.

Schedule 1

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2012

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	\$ 1,756,894	70,646	202,586	420,200	2,450,326
Accumulated depreciation	(629,620)	(25,203)	(57,821)	(249,545)	(962,189)
Net completed plant	1,127,274	45,443	144,765	170,655	1,488,137
Construction work-in-progress	42,966	2,397	1,636	355,121	402,120
Net utility plant	1,170,240	47,840	146,401	525,776	1,890,257
Cash	109,749	1,516	13,288	140,185	264,738
Accounts receivable, net	19,733	2,223	1,863	5,904	29,723
Regulatory assets	3,965	1,778	1,441	6,290	13,474
Other assets	145	5	37	82	269
Total assets	\$ 1,303,832	53,362	163,030	678,237	2,198,461
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	\$ 8,074	968	721	5,567	15,330
Workers' compensation actuarial liability	3,965	1,778	1,441	6,290	13,474
Total liabilities	12,039	2,746	2,162	11,857	28,804
Capitalization:					
Payable to U.S. Treasury	1,565,068	54,971	146,484	629,726	2,396,249
Accumulated net deficit	(273,275)	(4,355)	14,384	36,654	(226,592)
Total capitalization	1,291,793	50,616	160,868	666,380	2,169,657
Commitments and contingencies					
Total liabilities and capitalization	\$ 1,303,832	53,362	163,030	678,237	2,198,461

See accompanying independent auditors' report.

Schedule 1

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2011

(In thousands)

Assets	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Utility plant in service	\$ 1,729,873	67,908	192,314	414,501	2,404,596
Accumulated depreciation	(595,039)	(23,693)	(54,530)	(244,847)	(918,109)
Net completed plant	1,134,834	44,215	137,784	169,654	1,486,487
Construction work-in-progress	56,180	2,960	5,012	267,607	331,759
Net utility plant	1,191,014	47,175	142,796	437,261	1,818,246
Cash	68,715	2,810	16,141	115,805	203,471
Accounts receivable, net	17,508	1,611	1,182	7,169	27,470
Regulatory assets	3,970	1,872	3,103	4,568	13,513
Other assets	220	7	121	107	455
Total assets	\$ 1,281,427	53,475	163,343	564,910	2,063,155
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	\$ 9,921	651	798	15,360	26,730
Workers' compensation actuarial liability	3,970	1,872	3,103	4,568	13,513
Total liabilities	13,891	2,523	3,901	19,928	40,243
Capitalization:					
Payable to U.S. Treasury	1,519,703	55,944	141,331	509,899	2,226,877
Accumulated net deficit	(252,167)	(4,992)	18,111	35,083	(203,965)
Total capitalization	1,267,536	50,952	159,442	544,982	2,022,912
Commitments and contingencies					
Total liabilities and capitalization	\$ 1,281,427	53,475	163,343	564,910	2,063,155

See accompanying independent auditors' report.

Schedule 2

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2012

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	\$ 181,007	13,306	18,179	50,279	262,771
Other operating revenues	6,683	81	735	2,015	9,514
Total operating revenues	187,690	13,387	18,914	52,294	272,285
Operating expenses, excluding depreciation expense:					
Operations	27,567	2,363	6,338	23,762	60,030
Maintenance	26,696	1,539	3,579	7,415	39,229
Purchased power	28,542	4,367	35	—	32,944
Purchased transmission services	22,731	331	2,955	9,888	35,905
Total operating expenses, excluding depreciation expense	105,536	8,600	12,907	41,065	168,108
Depreciation expense	34,494	1,530	4,173	5,566	45,763
Total operating expenses	140,030	10,130	17,080	46,631	213,871
Net operating revenues	47,660	3,257	1,834	5,663	58,414
Interest expenses:					
Interest on payable to U.S. Treasury	70,295	2,715	5,717	19,487	98,214
Interest charged to construction	(1,527)	(95)	(156)	(15,395)	(17,173)
Net interest expenses	68,768	2,620	5,561	4,092	81,041
Net deficit	(21,108)	637	(3,727)	1,571	(22,627)

See accompanying independent auditors' report.

Schedule 2

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2011

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	\$ 191,562	13,215	13,447	46,415	264,639
Other operating revenues	8,961	52	889	1,508	11,410
Total operating revenues	200,523	13,267	14,336	47,923	276,049
Operating expenses, excluding depreciation expense:					
Operations	26,864	2,145	6,354	23,366	58,729
Maintenance	31,029	2,032	4,171	8,510	45,742
Purchased power	35,426	3,123	—	—	38,549
Purchased transmission services	23,385	344	(185)	9,884	33,428
Total operating expenses, excluding depreciation expense	116,704	7,644	10,340	41,760	176,448
Depreciation expense	31,132	1,247	4,361	5,475	42,215
Total operating expenses	147,836	8,891	14,701	47,235	218,663
Net operating revenues	52,687	4,376	(365)	688	57,386
Interest expenses:					
Interest on payable to U.S. Treasury	70,654	2,755	4,672	15,334	93,415
Interest charged to construction	(2,426)	(72)	210	(11,459)	(13,747)
Net interest expenses	68,228	2,683	4,882	3,875	79,668
Net deficit	\$ (15,541)	1,693	(5,247)	(3,187)	(22,282)

See accompanying independent auditors' report.

Schedule 3

SOUTHEASTERN FEDERAL POWER PROGRAM
 Schedule of Amount and Allocation of Gross Utility Plant Investment (unaudited)
 As of September 30, 2012
 (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	Other	
Allatoona	\$ 73,559	51,641	—	10,250	—	11,436	232	(a) 70.2%
Buford	100,203	81,022	2,145	4,753	—	12,283	—	80.9%
Carters	176,444	144,874	—	19,960	—	11,610	—	82.1%
J. Strom Thurmond	186,441	161,363	4,360	4,106	—	16,612	—	86.5%
Walter F. George	282,211	186,146	82,952	—	348	12,765	—	66.0%
Hartwell	207,624	176,177	3,956	15,900	—	11,591	—	84.9%
Alabama Power Projects	241,503	133,182	86,432	—	—	21,889	—	55.1%
West Point	170,761	84,253	2,718	21,749	13,944	48,097	—	49.3%
Richard B. Russell	895,215	779,654	—	887	—	114,674	—	87.1%
Marketing facilities	1,548	1,548	—	—	—	—	—	100.0%
Total GA-AL-SC System	2,335,509	1,799,860	182,563	77,605	14,292	260,957	232	77.1%
Jim Woodruff	120,479	72,995	39,458	—	—	8,026	—	60.6%
Marketing facilities	48	48	—	—	—	—	—	100.0%
Total Jim Woodruff System	120,527	73,043	39,458	—	—	8,026	—	60.6%
Barkley	206,805	55,078	119,387	23,960	—	8,380	—	26.6%
J. Percy Priest	71,093	14,380	—	27,054	—	29,659	—	20.2%
Cheatham	59,036	23,152	31,390	—	—	4,494	—	39.2%
Cordell Hull	95,606	43,980	17,558	—	—	27,534	6,534	(b) 46.0%
Old Hickory	76,939	43,811	28,513	—	—	4,615	—	56.9%
Center Hill	233,332	112,088	—	112,661	—	7,886	697	(c) 48.0%
Dale Hollow	40,953	26,494	—	12,488	—	1,971	—	64.7%
Wolf Creek	761,028	428,265	—	312,777	—	19,740	246	(c) 56.3%
Laurel	51,940	28,127	—	—	—	17,483	6,330	(b) 54.2%
Marketing facilities	532	532	—	—	—	—	—	100.0%
Contributions in aid of construction	(586)	(586)	—	—	—	—	—	100.0%
Total Cumberland Basin System	1,596,678	775,321	196,848	488,940	—	121,762	13,807	48.6%
John H. Kerr	221,137	186,757	—	25,430	—	8,578	372	(a) 84.5%
Philpott	32,263	17,175	—	9,566	—	5,522	—	53.2%
Marketing facilities	290	290	—	—	—	—	—	100.0%
Total Kerr-Philpott System	253,690	204,222	—	34,996	—	14,100	372	80.5%
Total	\$ 4,306,404	2,852,446	418,869	601,541	14,292	404,845	14,411	66.2%

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

See accompanying independent auditors' report.



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