

SOUTHEASTERN POWER ADMINISTRATION

Annual Report 2013



CONTENTS

Fast Facts	2
Letter to the Secretary	3
Human Capital Management Accountability Program	4
Human Resource Services Delivery Study	4
Information Management.....	5
Energy Efficiency and Renewable Energy	5
Customer Funding.....	6
Marketing Objectives	8
Marketing Map.....	9
Mission, Vision and Organization	10
Rates & Repayments.....	11
Georgia-Alabama-South Carolina System	12
Kerr-Philpott System.....	14
Cumberland System	16
Jim Woodruff System	18
Customer Sales	20
Financial Overview, Financial Statements, and Independent Auditors' Report.....	23

ON THE COVER:

Cadet Master Sergeant Dalton Mattson (left) and Battalion Commander Cadet Lieutenant Colonel Logan Blake of the Dothan High School Army ROTC Tiger Battalion serve as color guard during the Walter F. George Project 50th Anniversary ceremony.

FAST FACTS



Administrator:
Headquarters:

Kenneth E. Legg
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Elberton, GA 30635-6711
Telephone: 706-213-3800
Fax: 706-213-3884

Website:

<http://energy.gov/sepa/southeastern-power-administration>

Number of Employees: 44

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

Customers: Electric Cooperatives..... 197
Public Bodies..... 288
Investor-Owned Utilities 1
Total 486

Nameplate Generating Capacity: 3,392 MW

Financial Data: Power Revenues and Other
Operating Revenues \$312 million
Total Capital Investment \$2.6 billion
Investment Remaining \$1.7 billion
Cumulative Investment Repaid \$871 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) 2013 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, 2012, and ending September 30, 2013.

This past year, Southeastern marketed approximately 7.1 billion kilowatt-hours of energy to 486 wholesale customers in 10 southeastern states. Revenues from the sale of this power totaled about \$304 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 2013. Currently, there are 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 \$32.5 million, provided much needed repairs and maintenance for aging projects in Southeastern's marketing area.

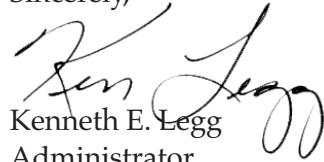


General Ed Jackson, South Atlantic Division Commander, and Ken Legg speaking after a Southeastern Federal Power Alliance partnership meeting.

The prolonged drought ended in the late spring and early summer, filling lakes and recharging the Federal Reservoir System. Power purchases for FY 2013 in the Georgia-Alabama-South Carolina System totaled approximately \$12.5 million. About \$3.3 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 those resources will present another challenging year for Southeastern's employees. With the cooperation and communication among the Department of Energy (DOE), 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

BRIEFS

Human Capital Management Accountability Program

A Human Capital Management Accountability Program (HCMAP) Audit was performed by DOE HQ of SEPA's Human Capital Program. The purpose was to measure levels of compliance, effectiveness and efficiency in the areas of Staffing and Classification; Performance Management; Leadership and Knowledge; and Workforce Planning and Strategic Alignment. Southeastern's Human Resources Programs were found to be effective and support merit system principles.

Human Resource Services Delivery Study

Southeastern participated in the DOE Human Resource Services Delivery (HRSD) study. The goal of the study was to develop recommendations to improve both quality and efficiency of Human Resources across the Department. A baseline of the current HR structure and services provided were analyzed. The study was concluded and recommendations were presented to the DOE Secretary.



Ken Legg and Joel Seymour represent Southeastern Power Administration at a Power Marketing Administration Council Meeting in Tulsa, Oklahoma.

Southeastern hosted the 36th Annual Joint Hydropower Conference in Opelika, Alabama on March 19, 2013. Representatives from Alabama Power, Duke Energy, Georgia Power, Southern Company, Tennessee Valley Authority and the US Army Corps of Engineers were in attendance.



Information Management

Southeastern's Information Management Team completed the upgrade of our Energy Management System. The upgrade modernized and expanded the system, which will allow us to add additional projects, and improve data collection. We have installed new operator consoles and new computers which improved the physical environment for the operators. The new computers provide the operator a complete view of all of the operational elements from a single workstation using multiple wrap-around large-screen monitors. We completed upgrading our video surveillance system to increase physical security of Southeastern's facilities. We also replaced our older digital phone system with a modern Voice-Over-IP phone system that has improved our communication capabilities. Additionally, we completed the installation of the Video Teleconferencing system which allows Southeastern employees to reduce travel cost by attending meetings remotely via Video conferencing.

Energy Efficiency and Renewable Energy

In 2013, Southeastern's Energy Efficiency and Renewable Energy Program continued to support the DOE initiatives by promoting energy efficiency and renewable energy education among preference customers in the Southeast. Southeastern and its partners conducted 32 training events which directly impacted 855 trainees, and our conference and outreach efforts promoted energy efficiency and renewable energy to an estimated 3,500 customers.



Dale Jett, Information Technology Specialist, speaks to Oglethorpe County High School science classes studying renewable energy and the various methods of power generation.

CUSTOMER FUNDING

Customer Funding

In FY 2013, 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. Competing water demand concerns are delaying implementation of this funding program in the Jim Woodruff System.

Georgia-Alabama-South Carolina System:

In October 2012, the Project Review Committee (PRC) agreed to amend Sub-Agreement #9 to increase the cost of the Allatoona switchyard construction work item by \$7.8 million for a total of \$13.0 million. Due to funds available from closed-out Sub-Agreements #4, #6, #9 and #14 and an amendment to Sub-Agreement #15, only \$1.5 million of additional funds were required for Allatoona.

A successful load test being performed on the West Point Project powerhouse crane. Full capacity verification is routinely performed on US Army Corps of Engineers cranes using bags filled with water to achieve the appropriate target weight, in this instance 150 tons.



In FY 2013, hydropower preference customers provided funding to replace eight generator circuit breakers and install a new static frequency converter for starting pump-turbines at Richard B. Russell Power Plant.

CUSTOMER FUNDING

Cumberland System:

During FY 2013, Cumberland customers, the Corps and Southeastern partnered to execute additional sub-agreements under a Long Term Memorandum of Agreement (LTMOA) and made significant progress to sign a Short Term Memorandum of Agreement (STMOA) in FY 2014. The total funds collected in FY 2013 were more than \$31 million, which will primarily fund the rehabilitation of Center Hill generators and turbines.

Kerr-Philpott System:

In the Kerr-Philpott System the Project Review Committee (PRC) for Customer Funding approved an amendment to Sub-Agreement No. 2, the 13.8kV Switchgear Supply /Relocation at Philpott Powerhouse. This amendment increased the amount for the work item by \$211 thousand. Additional funding was not needed. Excess funds were transferred from the Kerr Replacement of High Tension Oil Filled Cable work item. All members of the PRC approved the amendment.



The generator rotor is lifted into place as one of the final steps of the Barkley Unit 1 reassembly process. The generator suffered a stator winding failure in December 2010 and has since undergone a complete rewind, core replacement and major component refurbishment.

In recent years, the Kerr-Philpott System Project Review Committee authorized the replacement of the main power transformer and several other reliability/dependability improvements at Philpott powerplant.



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

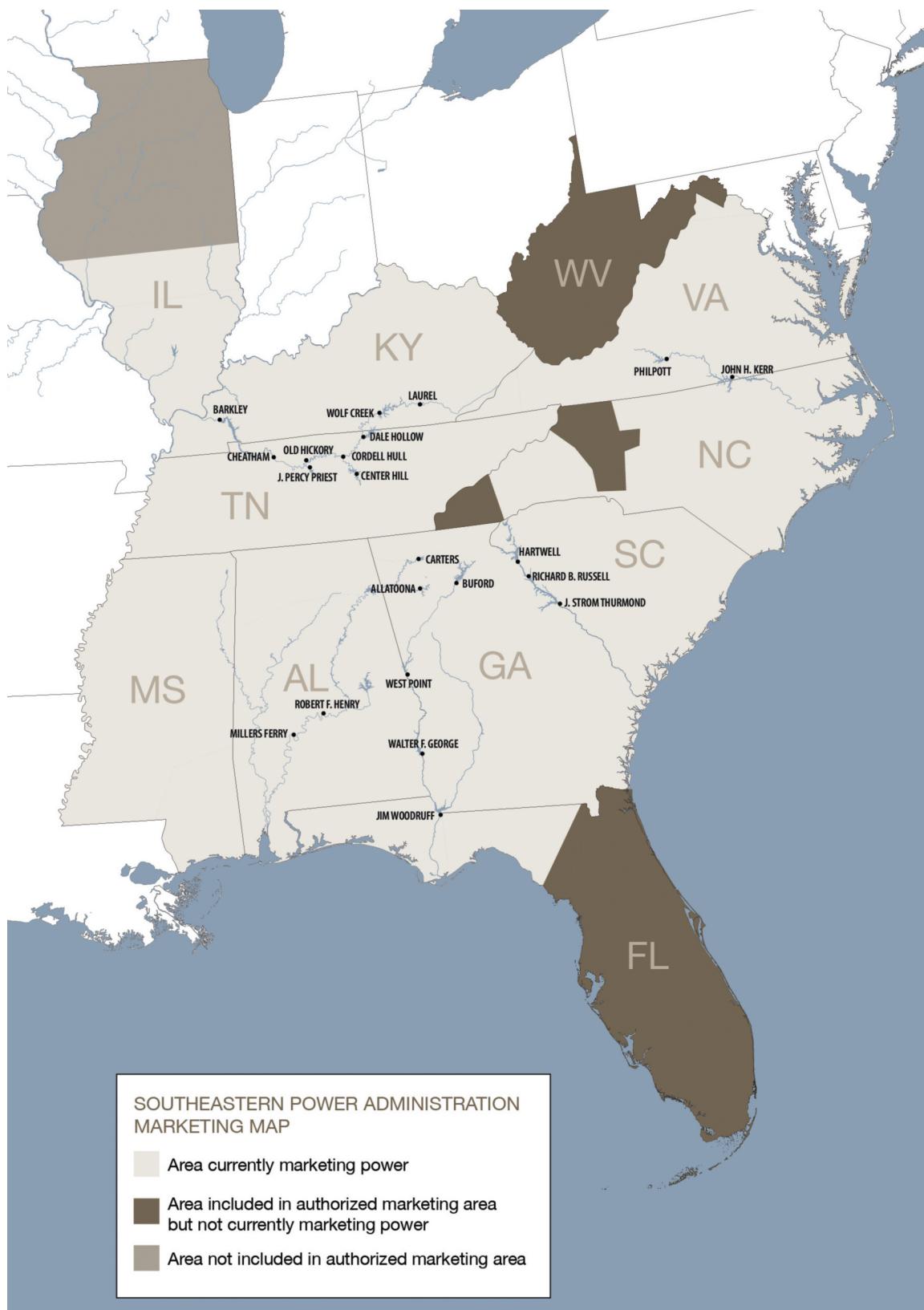
The objectives of Southeastern are to market the electric power and energy generated by the Federal reservoir projects and to encourage widespread use of the power at the lowest possible cost to consumers. Power rates are formulated based on sound financial principles. Preference in the sale of power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

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

Section 5 of the Flood Control Act of 1944

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

MARKETING MAP



MISSION, VISION & ORGANIZATION

Mission Statement

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

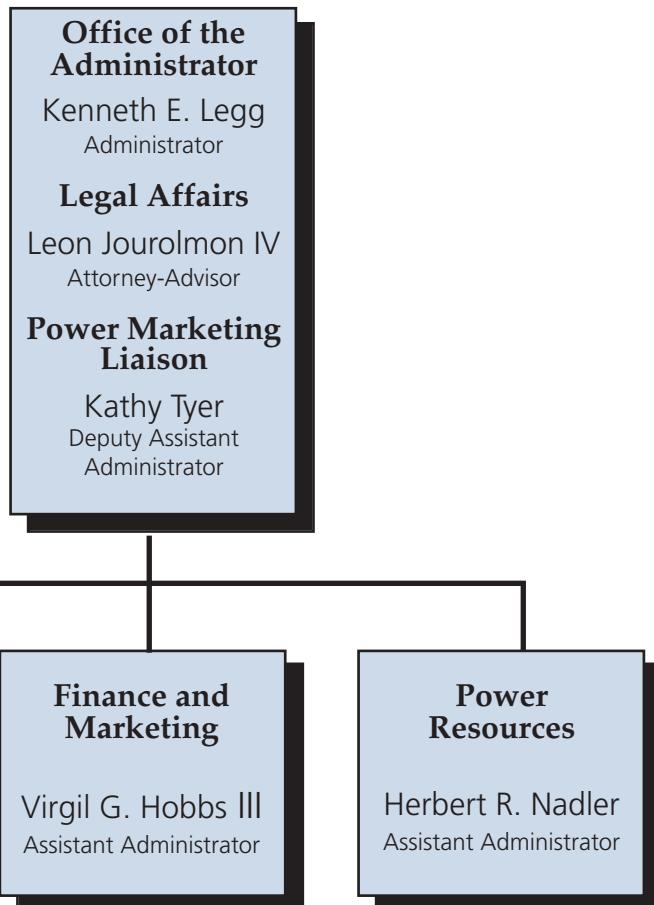
Vision Statement

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

Organizational Chart



**Leon Jourolmon IV
assumed the Legal
Affairs position on
April 22, 2013.**



RATES & REPAYMENT

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

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

Status of Repayment as of September 30, 2013 (in millions) - Table 1

System	Initial Year of Repayment Studies	Cumulative Revenue \$	Cumulative Expenses and Interest \$	Total Investment to be Repaid \$	Investment Repaid to Date \$	Unpaid Balance of Investment \$
GA-AL-SC	1950	4,225	3,798	1,819	429	1,390
Jim Woodruff	1957	236	205	78	31	47
Cumberland	1949	1,501	1,182	444	318	126
Kerr-Philpott	1953	555	461	223	93	130
TOTAL		6,517	5,646	2,564	871	1,693



Brigadier General Ed Jackson, South Atlantic Division Commander, and Wynne Fuller, Mobile District Operations Division Chief, present a Walter F. George 50th Anniversary commemorative plaque to Kenneth Legg, Southeastern Administrator, and Alan Williford, Southeastern Federal Power Customer President.

SYSTEM REPORT

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

Generation

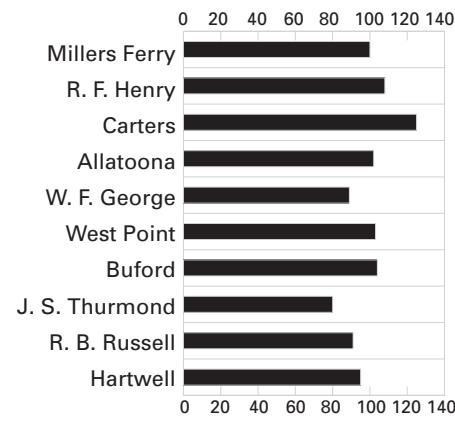
Generation for FY 2013 was 97% of average. Figure A illustrates the percent of average generation by project, and Figure B shows system generation for the years 2004 through 2013.

Financial Performance

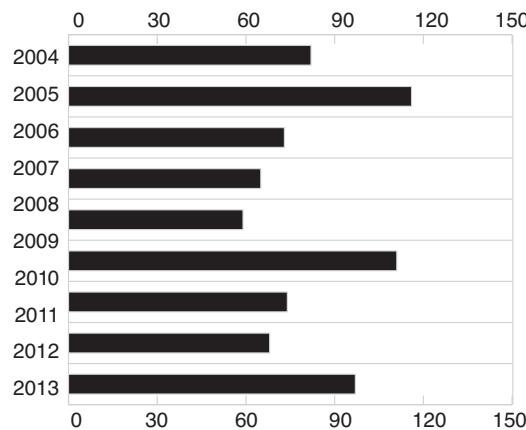
Total revenue for the Georgia-Alabama-South Carolina System in FY 2013 was \$207.9 million. Of this amount, \$201.9 million was derived from the sale of 3,524,176 megawatt-hours of energy and 2,184.2 megawatts of capacity. Total operating expenses, excluding depreciation, were \$85.6 million. Interest charged to Federal investment was \$69.5 million and repayment of the Federal investment was \$52.6 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 were approved by FERC on a final basis on April 2, 2013. The rate schedules are effective for the period October 1, 2012, through September 30, 2017.

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

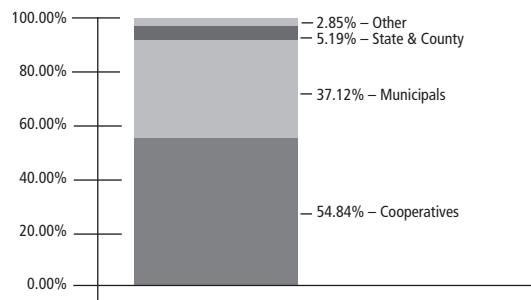


Actual Generation as a Percentage of Average System Generation - Figure B

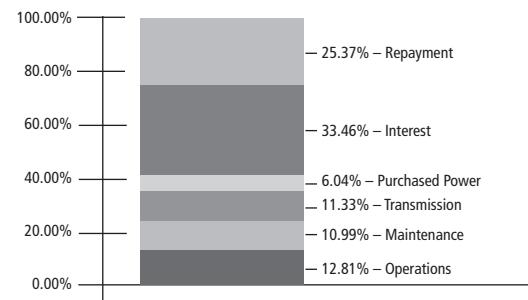


GEORGIA-ALABAMA-SOUTH CAROLINA

FY 2013 Revenue by Source - Figure C



FY 2013 Application of Revenues - Figure D



Cost Allocation by Project Function as of September 30, 2013 (in thousands) - Table 2

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
Allatoona	74,713	70.59	—	13.69	—	15.41	0.31
Buford	100,429	80.91	2.13	4.73	—	12.23	—
Carters	178,153	82.10	—	11.38	—	6.52	—
J. Strom Thurmond	186,533	86.56	2.34	2.20	—	8.91	—
Walter F. George	285,758	66.45	28.96	—	0.12	4.47	—
Hartwell	207,869	84.78	1.93	7.68	—	5.61	—
Robert F. Henry/Millers Ferry	242,587	55.10	35.85	—	—	9.05	—
West Point	171,906	49.49	1.58	12.86	8.10	27.97	—
Richard B. Russell	903,802	87.40	—	0.10	—	12.50	—
Marketing Facilities	1,698	100.00	—	—	—	—	—
TOTAL-GA-AL-SC	2,353,448	77.26	7.77	3.33	0.61	11.03	0.01

Power Rates - Table 3

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

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

SYSTEM REPORT:

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

Generation

Generation for FY 2013 was 89% of average. Figure E illustrates the percent of average generation by project for the year. Figure F shows the system generation by year from 2004 through 2013.

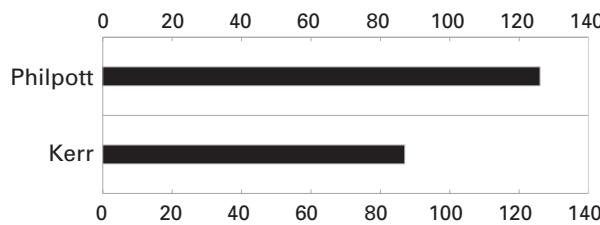
Financial Performance

Total revenue for the Kerr-Philpott System in FY 2013 was \$24.9 million. Of this amount, \$24.1 million was derived from the sale of 405,159 megawatt-hours of energy and 196.5 megawatts of capacity.

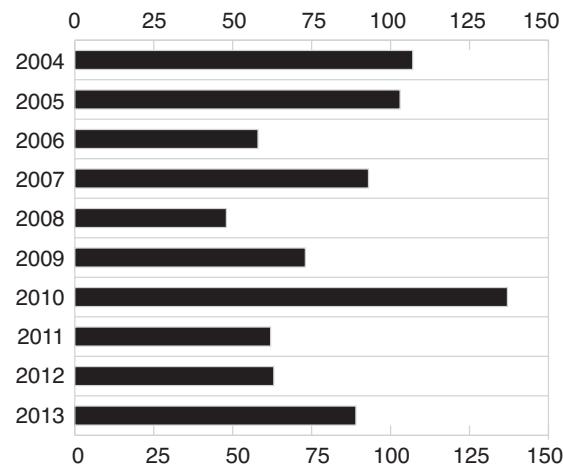
Total operating expenses, excluding depreciation, were \$15.6 million. Interest charged to Federal investment was \$5.8 million and repayment was \$3.4 million. Figure G shows the revenue by source for the Kerr-Philpott System, and Figure H shows the application of revenues.

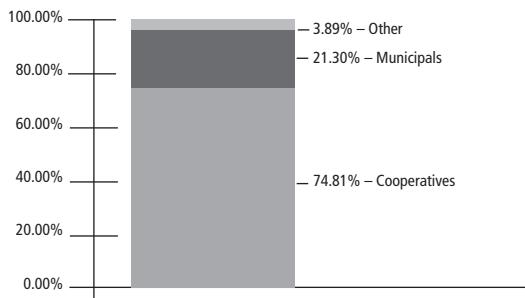
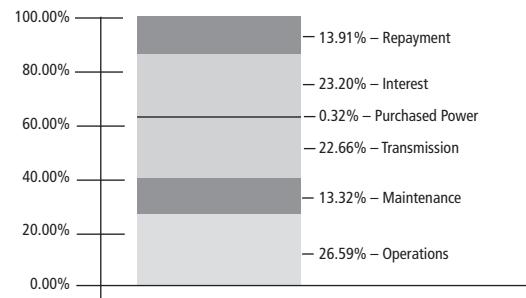
Table 4 indicates the allocation of costs by project function for each project in the System. Table 5 indicates the current rates. Current rates for the Kerr-Philpott System were approved on a final basis by FERC on March 11, 2011. The rate schedules are approved for the period October 1, 2010, through 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 2013 Revenue by Source -
Figure G**

**FY 2013 Application of Revenues -
Figure H**

**Cost Allocation by Project Function
as of September 30, 2013 (in thousands) - Table 4**

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
John H. Kerr	223,523	84.53	–	11.39	–	3.91	0.17
Philpott	32,131	53.68	–	29.31	–	17.01	–
Marketing Facilities	318	100.00	–	–	–	–	–
TOTAL- Kerr-Philpott System	255,972	80.68	–	13.62	–	5.55	0.15

Power Rates - Table 5

Product	Through March 30, 2014	Effective April 1, 2014
Capacity	4.39 \$/kW/Month	3.78 \$/kW/Month
Energy	17.73 mills/kWh	14.83 mills/kWh

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

SYSTEM REPORT

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 2013 was 103% of average. The percentage of average generation by project is shown in Figure I, and Figure J shows system generation for the years 2004 through 2013.

Financial Performance

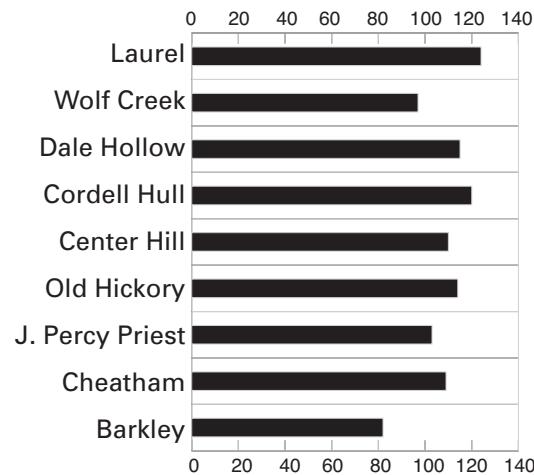
Total revenue for the Cumberland System in FY 2013 was \$64.6 million. Of this amount, \$62.8 million was derived from the sale of 2,989,714 megawatt-hours of energy. Total operating expenses, excluding depreciation, were \$39.7 million. Interest charged to Federal investment was \$4.0 million and repayment was \$20.8 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. On July 10, 2013, an extension of the current rates was approved. The rate schedules are extended through September 30, 2015.

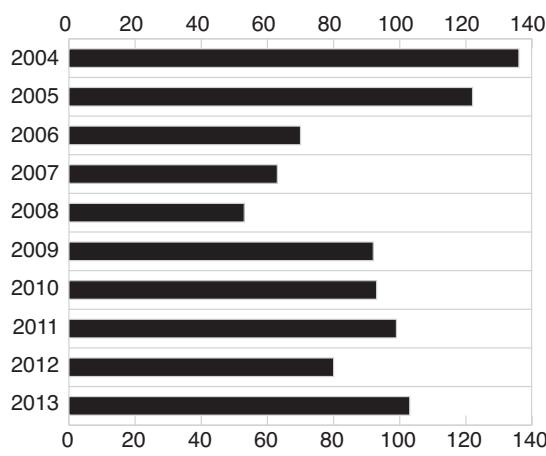
Cumberland System Dam Safety

During FY 2013, 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 Fall 2014.

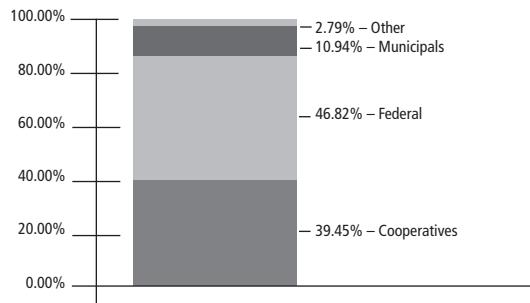
Actual Generation as a Percentage of Average Project Generation - Figure I



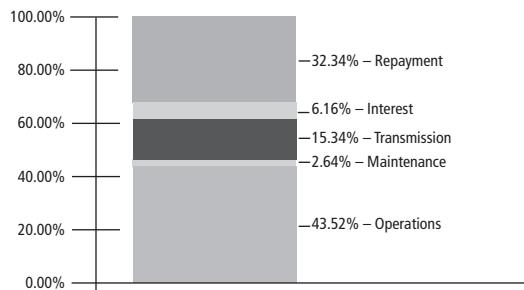
Actual Generation as a Percentage of Average System Generation - Figure J



**FY 2013 Revenue by Source -
Figure K**



**FY 2013 Application of Revenues -
Figure L**



**Cost Allocation by Project Function
as of September 30, 2013 (in thousands) - Table 6**

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Other %
Barkley	217,391	28.98	55.93	11.23	—	3.85	—
J. Percy Priest	72,470	21.79	—	37.29	—	40.91	—
Cheatham	65,846	35.61	57.57	—	—	6.83	—
Cordell Hull	95,772	46.01	18.33	—	—	28.83	6.82 (a)
Old Hickory	79,700	57.50	36.71	—	—	5.79	—
Center Hill	270,599	47.52	—	49.30	—	2.92	0.26 (b)
Dale Hollow	44,760	65.23	—	30.19	—	4.58	—
Wolf Creek	870,299	56.17	—	41.53	—	2.27	0.03 (b)
Laurel	52,037	54.25	—	—	—	33.60	12.16 (a)
Marketing Facilities	584	100.00	—	—	—	—	—
Contributions in aid of construction	(586)	100.00	—	—	—	—	—
TOTAL- Cumberland System	1,768,872	49.01	11.66	31.65	—	6.89	0.78

(a) Area Redevelopment

(b) World War II Suspension Cost

Power Rates - Table 7

Product	Through September 30, 2015
Capacity	NA
Energy	17.69 mills/kWh

This is the rate under the interim operating plan.

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

SYSTEM REPORT

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 2013 was 86% of average. Figure M illustrates the project's generation for the years 2004 through 2013.

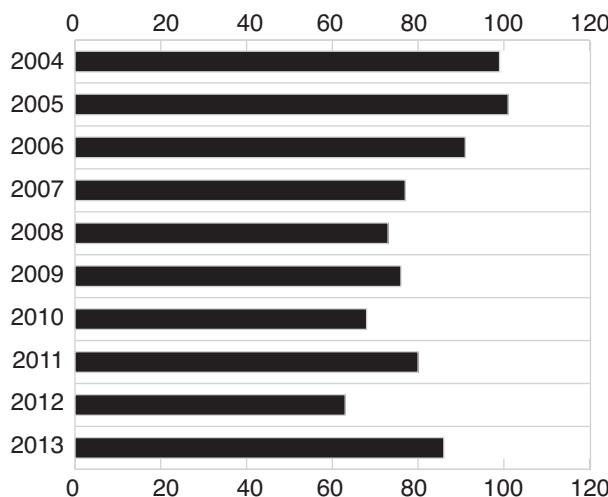
Financial Performance

Total revenue from the Jim Woodruff System was \$15.0 million in FY 2013. Of this amount, \$14.9 million was derived from the sale of 230,063 megawatt-hours of energy and 36 megawatts of capacity.

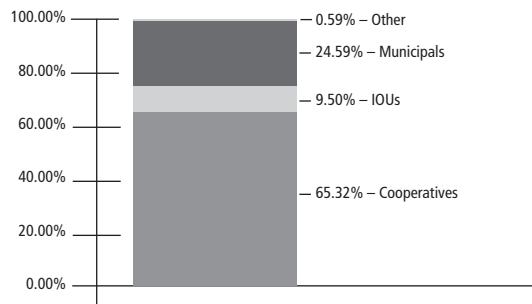
Total operating expenses, excluding depreciation, were \$6.4 million. Interest charged to the Federal investment was \$2.6 million and repayment of the Federal investment was \$5.9 million. Figure N shows the revenue by source for the System, and Figure O shows the application of revenues.

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.

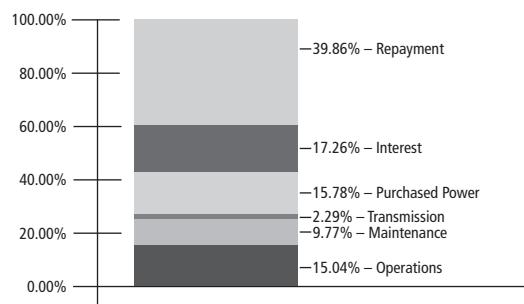
Actual Generation as a Percentage of Average System Generation - Figure M



FY 2013 Revenue by Source - Figure N



FY 2013 Application of Revenues - Figure O



Cost Allocation by Project Function as of September 30, 2013 (in thousands) - Table 8

Project	Total \$	Power %	Navigation %	Flood Risk Management %	Fish and Wildlife %	Recreation %	Water Supply %
Jim Woodruff	122,910	59.99	33.48	—	—	6.53	—
Marketing Facilities	53	100.00	—	—	—	—	—
TOTAL- Jim Woodruff System	122,963	60.01	33.46	—	—	6.53	—

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 (\$)	CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
Georgia-Alabama-South Carolina System							
Alabama				City of Cairo	6,253	10,553,595	538,295.78
Baldwin County EMC	17,284	33,596,509	2,095,483.89	City of Calhoun	7,660	12,934,185	659,507.50
Black Warrior EMC	18,494	31,039,750	2,211,354.29	City of Camilla	6,072	10,237,232	522,550.61
Central Alabama EC	18,660	36,034,317	2,259,699.11	City of Cartersville	17,152	28,934,109	1,476,329.59
Clarke-Washington EMC	6,678	12,708,080	806,576.53	City of College Park	15,559	26,265,135	1,339,490.34
Coosa Valley EC	5,728	11,009,613	693,119.02	City of Commerce	4,456	7,510,567	383,447.19
Dixie EC	7,273	14,105,080	881,469.25	City of Covington	9,382	15,832,138	807,621.65
Pea River EC	3,422	6,507,521	413,247.28	City of Dalton	45,822	80,360,776	3,976,865.58
Pioneer EC	10,056	19,430,933	1,217,844.06	City of Doerun	629	1,060,950	54,138.23
Tallapoosa River EC	11,494	21,990,098	1,389,650.07	City of Douglas	10,180	17,171,006	876,198.60
Tombigbee EC	6,578	11,024,651	786,417.28	City of East Point	33,488	56,478,699	2,882,228.68
Wiregrass EC	8,467	16,262,903	1,024,444.22	City of Elberton	11,447	19,296,402	985,073.88
PowerSouth Energy Cooperative	100,000	195,183,000	8,781,601.91	City of Ellaville	936	1,580,069	80,581.37
City of Alexander City	7,846	13,407,470	940,695.84	City of Fairburn	1,799	3,037,785	154,891.14
City of Dothan	52,461	89,704,469	6,290,671.40	City of Fitzgerald	9,720	16,396,697	836,629.75
City of Evergreen	4,047	6,908,811	485,112.88	City of Forsyth	3,720	6,274,830	320,185.08
City of Fairhope	6,248	10,680,163	749,154.66	City of Fort Valley	9,417	15,886,321	810,560.97
City of Foley	21,199	36,224,034	2,541,685.24	City of Grantville	470	791,778	40,438.22
City of Hartford	3,050	5,070,372	364,012.39	City of Griffin	18,157	30,631,292	1,562,860.98
City of LaFayette	2,358	4,027,036	282,676.68	City of Hampton	832	1,160,492	95,951.45
City of Lanett	5,321	9,092,788	637,962.87	City of Hogansville	1,531	2,581,596	132,103.38
City of Luverne	3,158	5,396,009	378,621.17	City of Jackson	2,067	3,486,986	177,915.31
City of Opelika	20,809	35,567,528	2,495,047.36	City of LaFayette	6,607	11,144,372	568,669.58
City of Piedmont	3,869	6,479,775	462,479.70	City of Lagrange	17,096	28,851,971	1,471,695.20
City of Robertsdale	3,372	5,641,092	402,975.96	City of Lawrenceville	4,795	8,099,596	412,884.08
City of Sylacauga	16,494	27,603,412	1,971,294.54	City of Marietta	37,172	62,751,765	3,200,201.86
City of Troy	10,079	12,632,698	1,151,846.97	City of Monroe	7,223	12,180,857	621,650.74
City of Tuskegee	11,689	19,772,889	1,399,298.39	City of Monticello	1,836	3,095,467	158,004.66
Alabama Total	386,134	697,101,001	43,114,442.96	City of Moultrie	15,480	26,111,322	1,332,381.61
Florida				City of Newnan	6,893	11,628,528	593,311.98
Choctawhatchee EC	1,231	2,390,703	149,204.74	City of Norcross	1,736	2,931,163	149,463.40
West Florida ECA	8,402	16,361,019	1,019,011.42	City of Oxford	458	774,300	39,447.02
Florida Total	9,633	18,751,722	1,168,216.16	City of Palmetto	923	1,557,345	79,450.55
Georgia				City of Quitman	4,428	7,465,121	381,063.98
Altamaha EMC	10,956	15,186,910	868,204.92	City of Sandersville	4,997	8,426,446	430,061.64
Amicalola EMC	11,513	15,953,219	912,260.19	City of Sylvan	5,436	9,176,280	467,987.40
Canoochee EMC	9,392	13,021,452	744,302.67	City of Sylvester	3,952	6,669,844	340,208.71
Carroll EMC	17,032	23,603,355	1,349,609.73	City of Thomaston	7,687	12,974,385	661,751.15
Central Georgia EMC	13,381	18,553,491	1,060,447.33	City of Thomasville	25,053	42,265,072	2,156,434.13
Coastal EMC	3,157	4,379,710	250,227.06	City of Washington	5,068	8,547,049	436,185.53
Cobb EMC	39,369	57,444,865	3,236,497.31	City of West Point	4,683	7,891,603	402,957.22
Colquitt EMC	38,410	53,497,449	3,059,268.69	City of Whigham	319	538,344	27,460.69
Coweta-Fayette EMC	13,378	18,557,792	1,060,332.15	Crisp County Power Commission	18,068	30,477,480	1,555,145.31
Diverse Power, Inc.	12,050	16,712,348	955,028.47	Town of Mansfield	379	637,969	32,601.04
Excelsior EMC	8,914	12,355,599	706,376.40	Georgia Total	1,095,655	1,654,194,370	90,043,356.05
Flint EMC	55,744	64,931,257	4,265,178.05				
Grady EMC	10,439	14,463,658	827,139.76	Mississippi			
Greystone Power Corporation	31,540	43,745,423	2,499,747.60	Coast EPA	26,863	45,968,182	3,221,694.42
Habersham EMC	10,176	14,100,595	806,320.11	East Mississippi EPA	11,336	19,363,610	1,359,214.89
Hart EMC	18,630	25,804,690	1,476,043.08	Singing River EPA	33,684	57,653,352	4,039,936.46
Irwin EMC	8,246	11,422,827	653,342.38	South Mississippi EPA	68,000	125,426,820	8,291,108.10
Jackson EMC	48,415	67,471,557	3,856,719.88	Mississippi Total	139,883	248,411,964	16,911,953.87
Jefferson EMC	14,188	19,678,551	1,124,490.80	North Carolina			
Little Ocmulgee EMC	7,754	10,738,322	614,317.56	Blue Ridge EMC	7,311	14,898,230	668,005.53
Middle Georgia EMC	6,028	8,351,870	477,629.35	EnergyUnited EMC	16,302	32,057,530	1,435,772.03
Mitchell EMC	18,023	24,972,376	1,428,073.23	Haywood EMC	926	1,964,250	85,510.67
Ocmulgee EMC	8,188	11,342,468	648,746.57	Pee Dee EMC	455	921,258	41,453.77
Oconee EMC	8,018	11,114,298	635,383.51	Rutherford EMC	24,018	49,340,020	2,198,929.94
Okefenokee Rural EMC	9,487	13,147,737	751,752.63	Union EMC	11,633	23,820,532	1,064,056.77
Pataula EMC	3,244	1,676,891	125,128.64	City of Cherryville	1,478	1,464,087	109,792.08
Planters EMC	10,258	14,212,526	812,792.99	City of Concord	8,007	11,185,932	750,342.73
Rayle EMC	10,350	14,414,090	824,333.40	City of Gastonia	15,971	15,814,995	1,186,307.20
Satilla Rural EMC	30,374	42,304,599	2,419,215.13	City of Kings Mountain	2,896	4,044,539	271,368.73
Sawnee EMC	19,423	26,926,883	1,539,216.79	City of Lincolnton	1,577	1,561,229	117,132.17
Slash Pine EMC	4,785	6,629,835	379,142.42	City of Monroe	7,693	7,619,485	571,451.93
Snapping Shoals EMC	20,119	27,911,315	1,594,655.95	City of Morganton	9,535	22,973,286	914,846.01
Southern Rivers Energy	6,842	9,485,542	542,211.70	City of Newton	2,067	2,045,827	153,519.34
Sumter EMC	11,437	15,854,198	906,329.29	City of Shelby	5,892	5,833,281	437,633.07
Three Notch EMC	12,194	16,898,899	966,250.54	City of Statesville	9,705	9,609,685	720,868.20
Tri-County EMC	6,416	8,900,052	508,526.26	Town of Bostic	412	1,000,766	39,653.53
Upson EMC	4,581	6,348,566	362,998.31	Town of Cornelius	361	357,733	26,818.62
Walton EMC	31,322	43,699,561	2,495,818.45	Town of Dallas	1,299	1,813,146	121,707.47
Washington EMC	14,249	19,747,433	1,129,097.62	Town of Drexel	879	2,122,329	84,405.28
City of Acworth	2,303	3,885,498	198,234.60	Town of Forest City	2,721	3,801,750	254,993.88
City of Adel	6,902	11,637,276	593,990.10	Town of Granite Falls	828	819,478	61,496.21
City of Albany	60,831	102,639,748	5,236,266.09	Town of Huntersville	490	484,597	36,387.26
City of Barnesville	2,635	4,444,813	226,799.81	Town of Landis	1,098	1,086,346	81,544.04
City of Blakely	5,412	9,127,338	465,794.43	Town of Maiden	1,235	1,222,165	91,722.59
City of Brinson	156	263,929	13,439.00	Town of Pineville	490	484,597	36,387.26
City of Buford	2,356	3,974,640	202,792.34	North Carolina Total	135,279	218,347,073	11,562,106.31

CUSTOMER SALES

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
South Carolina			
Central Electric Power Cooperative	180,700	324,498,542	18,903,234.20
Little River EC	522	911,641	61,313.10
City of Abbeville	2,959	6,216,765	250,190.01
City of Clinton	2,975	2,402,727	211,324.43
City of Easley	8,656	17,017,819	762,274.66
City of Gaffney	6,986	13,742,413	615,324.43
City of Georgetown	5,300	9,284,793	558,591.08
City of Greenwood	11,404	23,267,390	1,042,794.64
City of Greer	9,159	18,081,730	807,673.11
City of Laurens	5,891	11,617,759	519,308.82
City of Newberry	3,277	2,646,077	232,768.36
City of Orangeburg	13,779	23,960,206	1,616,239.03
City of Rock Hill	19,115	37,579,659	1,683,316.90
City of Seneca	2,688	2,779,050	201,086.46
City of Union	3,484	2,814,529	247,490.96
City of Westminster	678	546,997	48,152.08
Town of Bamberg	2,300	3,979,193	241,622.05
Town of Due West	285	397,883	26,703.76
Town of McCormick	522	883,746	61,013.96
Town of Prosperity	602	2,060,035	74,067.20
Town of Winnsboro	1,366	2,297,735	159,431.40
South Carolina PSA	135,000	180,383,280	10,796,826.67
South Carolina Total	417,648	687,369,969	39,120,747.31
Georgia-Alabama-South Carolina System Total			
	2,184,232	3,524,176,099	201,920,822.66
Kerr-Philpott System			
North Carolina			
Albemarle EMC	2,593	6,358,679	289,346.27
Brunswick EMC	3,515	9,103,214	457,996.88
Carteret-Craven EMC	2,735	6,980,454	354,472.92
Central EMC	1,239	3,208,786	161,438.91
Edgecombe-Martin County EMC	4,155	10,321,963	466,245.06
Four County EMC	4,198	10,872,059	546,990.27
Halifax EMC	2,606	6,526,739	302,833.26
Jones-Onslow EMC	5,184	13,425,626	675,463.95
Lumbee River EMC	3,729	9,657,436	485,880.58
Pee Dee EMC	2,968	7,686,583	386,724.02
Piedmont EMC	1,086	2,743,860	140,272.70
Pitt & Greene EMC	1,580	4,091,914	205,870.60
Randolph EMC	3,608	9,344,070	470,114.59
Roanoke EMC	5,528	13,634,926	618,400.35
South River EMC	6,119	15,847,106	797,292.49
Tideland EMC	3,098	7,756,891	359,718.70
Tri-County EMC	3,096	8,018,079	403,401.99
Wake EMC	2,164	5,604,369	281,964.49
City of Elizabeth City	2,073	1,570,719	215,812.43
City of Kinston	1,466	1,110,795	141,552.90
City of Laurinburg	415	314,448	40,071.27
City of Lumberton	895	678,144	86,418.67
City of New Bern	1,204	912,276	116,254.89
City of Rocky Mount	2,538	1,923,054	245,062.30
City of Washington	2,703	2,048,076	260,994.22
City of Wilson	2,950	2,235,225	284,843.72
Fayetteville Public Works Commission	5,431	4,115,093	524,402.34
Greenville Utilities Commission	7,534	5,708,543	727,462.23
Town of Apex	145	109,868	14,000.87
Town of Ayden	208	157,601	20,083.87
Town of Belhaven	182	137,903	18,947.36
Town of Benson	120	90,926	11,586.89
Town of Clayton	161	121,991	15,545.73
Town of Edenton	775	587,218	80,682.37
Town of Enfield	259	193,693	20,229.72
Town of Farmville	237	179,576	22,884.05
Town of Fremont	60	45,461	5,793.38
Town of Hamilton	40	30,309	4,164.30
Town of Heriford	203	153,814	21,133.59
Town of Hobgood	46	34,854	4,788.90
Town of Hookerton	30	22,731	2,896.73
Town of La Grange	93	70,466	8,979.80
Town of Louisburg	857	2,303,751	113,163.51
Town of Pikeville	40	30,309	3,862.33
Town of Red Springs	117	88,652	11,297.19
Town of Robersonville	232	175,785	24,152.62
Town of Scotland Neck	304	230,343	31,648.33
Town of Selma	183	138,660	17,670.00
Town of Smithfield	378	286,411	36,498.66
Town of Tarboro	2,145	1,625,274	223,308.07
Town of Wake Forest	149	112,899	14,387.04
Town of Windsor	331	260,346	34,404.40
North Carolina Total	93,705	178,987,968	10,809,412.71

CUSTOMER	CAPACITY (kW)	ENERGY (kWh)	REVENUE (\$)
Virginia			
B-A-R-C EC	3,740	9,268,158	515,304.77
Central Virginia EC	7,956	19,321,505	1,087,567.09
Community EC	4,230	10,497,093	583,104.58
Craig-Botetourt EC	1,692	4,907,881	249,549.45
Mecklenburg EMC	11,344	28,380,023	1,568,246.38
Northern Neck EC	3,944	9,739,660	542,746.59
Northern Virginia EC	3,268	7,945,617	447,446.61
Prince George EC	2,530	6,247,804	348,161.46
Rappahannock EC	22,427	55,689,841	3,092,249.79
Shenandoah Valley EMC	9,938	24,821,587	1,373,073.58
Southside EC	14,575	36,202,969	2,009,968.78
City of Bedford	1,200	908,510	93,885.57
City of Danville	5,600	4,239,716	438,132.78
City of Franklin	1,003	788,900	104,252.55
City of Martinsville	1,600	1,211,348	125,180.81
City of Radford	1,300	981,573	101,695.78
City of Salem	2,200	1,661,127	172,100.65
Harrisonburg Electric Commission	2,691	2,144,246	280,219.14
Town of Blackstone	389	305,965	40,432.97
Town of Culpepper	391	311,557	40,715.59
Town of Elkhorn	171	134,501	17,773.90
Town of Richlands	500	378,543	39,118.93
Town of Wakefield	106	83,374	11,017.72
Virginia Total	102,795	226,171,498	13,281,945.47
Allocation of Interest			(30,491.00)
Kerr-Philpott System Total	196,500	405,159,466	24,060,867.18
Jim Woodruff System			
Florida			
Central Florida EC	2,300	10,660,718	699,978.31
Sewanee Valley EC	4,800	23,656,271	1,576,004.64
Talquin EC	13,500	81,488,037	5,630,793.96
Tri-County EC	5,200	28,475,149	1,895,163.71
City of Chattahoochee	1,800	10,645,201	721,178.04
City of Quincy	8,400	44,378,059	2,968,898.56
Florida Power Corporation	-	30,759,331	1,425,304.47
Jim Woodruff System Total	36,000	230,062,766	14,917,321.69
Cumberland System			
Illinois			
Southern Illinois Power Cooperative	-	65,223,000	1,646,395.47
Kentucky			
Big Rivers Electric Corporation	-	414,233,000	10,459,026.61
East Kentucky Power Cooperative	-	369,023,000	9,518,518.63
City of Barbourville	-	6,143,749	147,416.02
City of Bardstown	-	6,275,002	150,504.83
City of Bardwell	-	1,513,597	36,267.05
City of Benham	-	692,568	16,661.76
City of Corbin	-	7,255,208	174,076.52
City of Falmouth	-	1,647,641	39,501.21
City of Frankfort	-	43,623,408	1,046,473.01
City of Henderson	-	28,228,000	710,467.88
City of Madisonville	-	21,790,758	522,770.04
City of Nicholasville	-	7,137,919	171,234.73
City of Owensboro	-	69,815,320	1,674,807.08
City of Paris	-	3,809,124	91,351.83
City of Providence	-	3,437,706	82,480.57
City of Princeton	-	1,690,921	39,665.30
City of Paducah	-	11,799,079	276,780.80
Kentucky Total	-	998,116,000	25,158,003.87
Mississippi			
South Mississippi EPA	-	118,073,000	2,985,900.25
Mississippi Delta Energy Agency	-	25,777,000	653,303.81
Municipal Energy Agency of Mississippi	-	43,166,000	1,094,084.26
Mississippi Total	-	187,016,000	4,733,288.32
North Carolina			
French Broad EMC	-	20,085,293	674,879.99
Haywood EMC	-	5,878,623	197,490.78
Town of Waynesville	-	4,164,024	139,901.25
North Carolina Total	-	30,127,940	1,012,272.02
Tennessee Valley Region			
TVA Acquisition for 155 TVPPA Members	-	1,709,231,000	30,236,296.39
Cumberland System Total	-	2,989,713,940	62,786,256.07
Grand Total	2,416,732	7,149,112,271	303,685,267.60



Customers approved funding of \$26.9 million in FY 2013 to rehabilitate Center Hill powerhouse generators and turbines.

Southeastern Power Administration Annual Report 2013

**2013
FINANCIAL OVERVIEW
AND
FINANCIAL STATEMENTS**

2013 Financial Overview & Financial Statements

Contents

Financial Overview and Program Performance	25
Independent Auditors' Report	29
Combined Financial Statements:	
Combined Balance Sheets as of September 30, 2013 and 2012	31
Combined Statements of Revenue and Expenses for the years ended September 30, 2013 and 2012	32
Combined Statements of Changes in Capitalization for the years ended September 30, 2013 and 2012	33
Combined Statements of Cash Flows for the years ended September 30, 2013 and 2012	34
Notes to the Combined Financial Statements – September 30, 2013 and 2012	35
Schedules:	
1 – Combining Schedules of Balance Sheet Data as of September 30, 2013 and 2012	44
2 – Combining Schedules of Revenues and Expenses Data for the years ended September 30, 2013 and 2012	46
3 – Schedule of Amount and Allocation of Gross Utility Plant Investment (unaudited) as of September 30, 2013	48

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, 2013, 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 2013, Southeastern marketed 7.1 billion kilowatt-hours of energy to 486 wholesale customers. The Program's revenues totaled \$312 million, \$40 million more than in FY 2012.

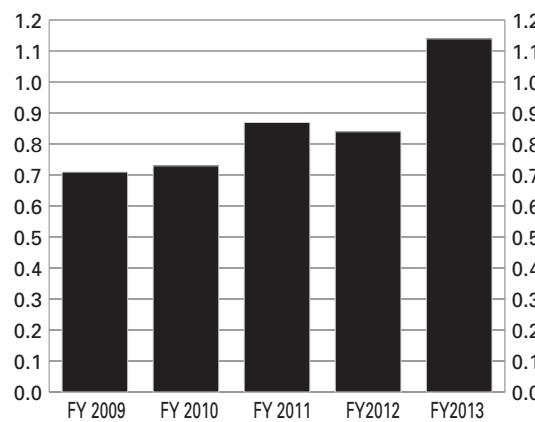
Financial Performance Debt Service Coverage Ratio

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 0.707 to 1.140. The Program's debt service ratio for FY 2009 through FY 2013 was below normal due to adverse water conditions. FY 2010 was below normal due to higher than expected Corps' maintenance expenses as a result of American Recovery and Reinvestment Act appropriations. FY 2011 and FY 2012 were below normal due to streamflow conditions. FY 2013 is above normal due to improved streamflow conditions and lower than expected operating expenses. The Program's debt service coverage ratio for fiscal years 2009-2013 is illustrated in Figure P.

**Debt Service Coverage Ratio -
Figure P**



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

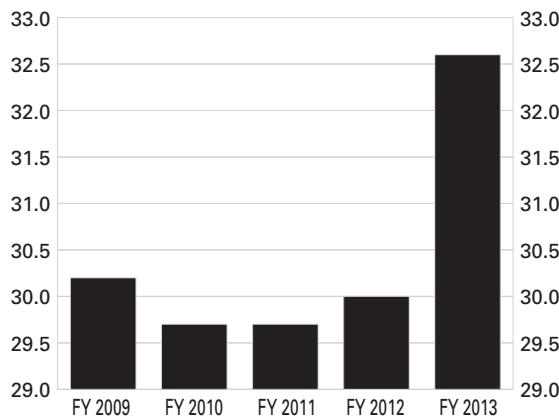
This indicator is a cumulative cash flow measure. It measures the cumulative principal payments made relative to the total Federal investment to date. During a period of capital expansion, this ratio would tend to decrease, whereas increases in cumulative payments over time would be expected for a mature 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 32.6%. Payments as a percent of total investment are illustrated in Figure Q.

Variance of Actual from Planned Principal Payment

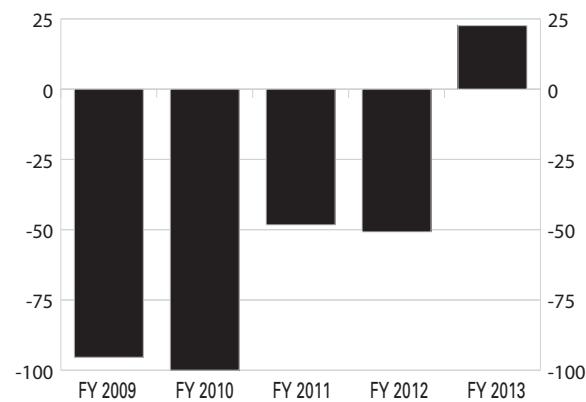
The Power Marketing Administrations show relatively large fluctuations between actual and planned revenues due to the high variability of water over the years analyzed. A negative number means that actual repayment is not as large as expected. A positive number means that actual repayment is larger than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

The Program's -95% ratio in 2009 was 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 ratios of -48.3% and -50.8% were also due to streamflow conditions. The FY 2013 ratio of 22.6% is due to improved streamflow conditions and lower than expected operating expenses.

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



Percent Variance of Actual From Planned Principal Payments - Figure R



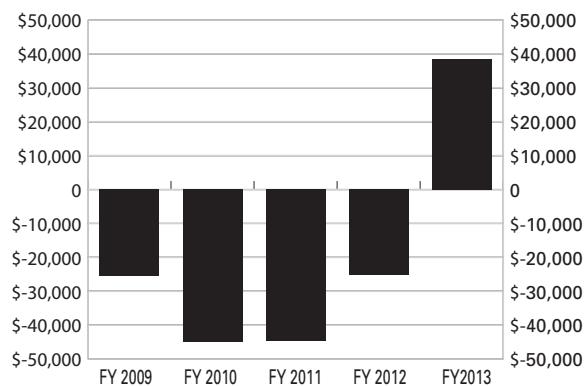
Net Cash to the Treasury

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:

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Southeastern Federal Power Program (the Program), which comprise the combined balance sheets as of September 30, 2013 and 2012, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the combined financial statements. As described in note 1 to the combined financial statements, the combined financial statements include the hydroelectric generation functions of the United States Army Corps of Engineers (the generating agency) for which Southeastern Power Administration (Southeastern), a component of the U.S. Department of Energy (DOE), markets the related power.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Federal Power Program as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

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

The supplementary information in schedules 1 and 2 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in schedules 1 and 2 is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

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

KPMG LLP

Denver, Colorado
January 31, 2014

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Balance Sheets

September 30, 2013 and 2012

(In thousands)

Assets	2013	2012
Utility plant in service	\$ 2,511,130	2,450,326
Accumulated depreciation	(1,007,566)	(962,189)
Net completed plant	1,503,564	1,488,137
Construction work-in-progress	454,366	402,120
Net utility plant	1,957,930	1,890,257
Cash	274,162	264,738
Accounts receivable, net	29,070	29,723
Regulatory assets	12,859	13,474
Other assets	305	269
Total assets	<u>\$ 2,274,326</u>	<u>2,198,461</u>
Total Liabilities and Capitalization		
Liabilities:		
Accounts payable and accrued liabilities	\$ 10,201	15,330
Workers' compensation actuarial liability	12,859	13,474
Total liabilities	<u>23,060</u>	<u>28,804</u>
Capitalization:		
Payable to U.S. Treasury	2,440,675	2,396,249
Accumulated net deficit	(189,409)	(226,592)
Total capitalization	<u>2,251,266</u>	<u>2,169,657</u>
Commitments and contingencies (note 5)		
Total liabilities and capitalization	<u><u>\$ 2,274,326</u></u>	<u><u>2,198,461</u></u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Revenues and Expenses

Years ended September 30, 2013 and 2012

(In thousands)

	2013	2012
Operating revenues:		
Sales of electric power	\$ 303,685	262,771
Other operating revenues	8,629	9,514
Total operating revenues	<u>312,314</u>	<u>272,285</u>
Operating expenses, excluding depreciation expense:		
Operations	63,616	60,030
Maintenance	29,319	39,229
Purchased power	15,001	32,944
Purchased transmission services	39,425	35,905
Total operating expenses, excluding depreciation expense	<u>147,361</u>	<u>168,108</u>
Depreciation expense	<u>45,887</u>	<u>45,763</u>
Total operating expenses	<u>193,248</u>	<u>213,871</u>
Net operating revenues	<u>119,066</u>	<u>58,414</u>
Interest expenses:		
Interest on payable to U.S. Treasury	102,830	98,214
Interest charged to construction	(20,947)	(17,173)
Net interest expenses	<u>81,883</u>	<u>81,041</u>
Net revenues (deficit)	<u>\$ 37,183</u>	<u>(22,627)</u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Changes in Capitalization

Years ended September 30, 2013 and 2012

(In thousands)

	Payable to U.S. Treasury	Accumulated net deficit	Total capitalization
Total capitalization as of September 30, 2011	\$ 2,226,877	(203,965)	2,022,912
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 revenues (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	2,396,249	(226,592)	2,169,657
Additions:			
Congressional appropriations	151,259	—	151,259
Interest	102,830	—	102,830
Transfers of property and services, net	4,686	—	4,686
Total additions to capitalization	<u>258,775</u>	<u>—</u>	<u>258,775</u>
Deductions:			
Payments to U.S. Treasury	(214,349)	—	(214,349)
Net revenues (deficit) for the year ended September 30, 2013	<u>—</u>	<u>37,183</u>	<u>37,183</u>
Total capitalization as of September 30, 2013	<u>\$ 2,440,675</u>	<u>(189,409)</u>	<u>2,251,266</u>

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combined Statements of Cash Flows

Years ended September 30, 2013 and 2012

(In thousands)

	2013	2012
Cash flows from operating activities:		
Net revenues (deficit)	\$ 37,183	(22,627)
Adjustments to reconcile net revenues (deficit) to net cash provided by operating activities:		
Depreciation	45,887	45,763
Interest on payable to U.S. Treasury, net	81,883	81,041
Unfunded retirement benefits	3,997	3,938
(Increase) decrease in assets:		
Accounts receivable, net	653	(2,253)
Other assets	(36)	186
Increase in liabilities:		
Accounts payable and accrued liabilities	(5,129)	(11,400)
Net cash provided by operating activities	<u>164,438</u>	<u>94,648</u>
Cash flows from investing activities:		
Investment in utility plant	<u>(92,613)</u>	<u>(100,600)</u>
Cash flows from financing activities		
Congressional appropriations	151,259	183,809
Payments to U.S. Treasury	(214,349)	(121,781)
Transfers from (to) other federal agencies, net	689	5,191
Net cash (used in) provided by financing activities	<u>(62,401)</u>	<u>67,219</u>
Net increase in cash	9,424	61,267
Cash, beginning of year	<u>264,738</u>	<u>203,471</u>
Cash, end of year	<u>\$ 274,162</u>	<u>264,738</u>
Supplemental disclosures:		
Cash paid for interest	\$ 81,883	81,041
Interest charged to construction	20,947	17,173

See accompanying notes to combined financial statements.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

(1) Organization and Basis of Presentation

The Southeastern Federal Power Program (the “Program”) consists of all activities associated with the production, transmission, and disposition of all federal power marketed under Section 5 of the Flood Control Act of 1944 (the “Flood Control Act”) in the 11 states of Alabama, Florida, Georgia, Illinois, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. The accompanying combined financial statements of the Program include the accounts of two separate federal government agencies—the Southeastern Power Administration (“Southeastern”), 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 agencies are exempt from all income taxes imposed by any governing body, whether it is a federal, state or commonwealth of the United States, or a local government.

Southeastern purchases, transmits, and markets power within four separate power systems: Georgia-Alabama-South Carolina; Jim Woodruff; Cumberland; and Kerr-Philpott. As of September 30, 2013, 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.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

(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 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, 2013 and 2012. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances. Interest may be charged on the principal portion of delinquent receivables

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

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

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

(d) Confirmation and Approval of Rates

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

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

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

The Secretary has delegated to FERC the authority to confirm, approve, and place such rates in effect on a final basis and to remand or to disapprove such rates. FERC’s review is limited to (1) whether the rates are the lowest possible consistent with sound business principles; (2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy including repayment within the period permitted by law; and (3) the assumptions and projections used in developing the rates. FERC shall reject decisions of Southeastern’s Administrator only if it finds them to be arbitrary, capricious, or in violation of the law. Refunds with interest, as determined by FERC, are authorized if final approved rates are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. As of September 30, 2013, there were no power systems awaiting final rate approval. There were no revenues subject to refund.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

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, 2013 and 2012.

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.

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

Interest, a component of total capitalization, is accrued annually on the outstanding payable to the U.S. Treasury based on federal statutes and power system legislation. Such interest is reflected as an expense in the combined financial statements. Interest rates on unpaid balances ranged from 2.50% to 6.25% for the years ended September 30, 2013 and 2012.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

Interest charged to construction represents interest on federal funds used during utility plant construction and is included in the cost of completed projects. Applicable interest rates ranged from 2.75% to 6.25% for the years ended September 30, 2013 and 2012, depending on the year in which construction of the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(h) Transfer of Property and Services, Net

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

(i) Retirement Benefits

Substantially all employees engaged in Program activities participate in either the Civil Service Retirement System (“CSRS”) or the Federal Employees’ Retirement System (“FERS”). Both are contributory defined benefit pension plans and are not covered under the Employee Retirement Income Security Act of 1974. Pension benefit expense under CSRS and FERS is equivalent to 7.0% and up to 11.9%, respectively, of eligible employee compensation. Contributions to these plans are submitted to benefit program trust funds administered by the Office of Personnel Management (the “OPM”), and totaled \$4.3 million and \$3.9 million for the years ended September 30, 2013 and 2012. 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 of annual pension and retirement benefits expense for the years ended September 30, 2013 and 2012. 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 \$5,190 and \$5,817 per employee in fiscal years 2013 and 2012, respectively, and FEGLI is based on 0.02% of base salary for each employee enrolled in these programs.

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

(j) Derivative and Hedging Activities

The Program analyzes derivative financial instruments under ASC Topic 815, *Derivatives and Hedging*, subsequently updated by ASU No. 2010-11, *Scope Exceptions Related to Embedded Credit Derivatives*. This standard requires that all derivative instruments, as defined by ASC Topic 815, be

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

recorded on the combined balance sheets at fair value, unless exempted. Changes in a derivative instrument's fair value must be recognized currently in the combined statements of revenues and expenses, unless the derivative has been designated in a qualifying hedging relationship. The application of hedge accounting allows a derivative instrument's gains and losses to offset related results of the hedged item in the combined statements of revenues and expenses to the extent effective. ASC Topic 815 requires that the hedging relationship be highly effective and that an organization formally designate a hedging relationship at the inception of the contract to apply hedge accounting.

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

The Program's policy is to fulfill all derivative and hedging contracts by either providing power to a third party or by taking delivery of power from a third party as provided for in each contract. The Program's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond the Program's estimated capacity to deliver or receive power. Accordingly, the Program evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under accounting principles generally accepted in the United States. As of September 30, 2013 and 2012, the Program has no contracts accounted for as derivatives.

(k) Concentrations of Credit Risk

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

(l) Regulatory Assets

Regulatory assets are assets that result from rate actions of Southeastern's Administrator and other regulatory agencies. These assets arise from specific costs that would have been included in the determination of net revenue or deficit in one period, but are deferred until a different period for purposes of developing rates to charge for services, per the requirements of ASC Topic 980. The Program defers costs as regulatory assets so that the costs will be recovered through the rates during the periods when the costs are scheduled to be repaid. This ensures the matching of revenues and

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

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 \$12.9 million and \$13.5 million as of September 30, 2013 and 2012, respectively.

(m) Fair Value of Financial Instruments

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

(n) Use of Estimates

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

(3) Payable to U.S. Treasury

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

Southeastern follows the provisions of DOE Order RA 6120.2 in setting priorities for repayment. Order RA 6120.2 requires that annual revenues be first applied to current-year operating expenses, excluding depreciation, and interest, net of interest charged to construction and interest credited on operating



SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

revenues deposited with the U.S. Treasury. All annual amounts for such expenses have been paid through fiscal year 2013, except for \$1.4 million at the Kerr-Philpott power system and \$37.5 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.

(4) Utility Plant

Utility plant as of September 30, 2013 and 2012 consists of the following (in thousands):

	2013	2012
Utility plant:		
Structures and facilities	\$ 2,080,603	2,020,580
Buildings	48,500	48,435
Land	361,596	361,596
Movable equipment	<u>20,431</u>	<u>19,715</u>
Gross completed plant	2,511,130	2,450,326
Accumulated depreciation	<u>(1,007,566)</u>	<u>(962,189)</u>
Net completed plant	1,503,564	1,488,137
Construction work-in-progress	<u>454,366</u>	<u>402,120</u>
Net utility plant	<u>\$ 1,957,930</u>	<u>1,890,257</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, 2013 and 2012, contributed plant, net, used in the Program's operations totaled approximately \$586,000.

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

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 two safety remediations in the Cumberland power system.

SOUTHEASTERN FEDERAL POWER PROGRAM

Notes to Combined Financial Statements

September 30, 2013 and 2012

(5) Commitments and Contingencies

(a) General

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

(b) Power Contract Commitments

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

Fiscal year ending September 30,	Purchased power	Purchased transmission services	Total
2014	\$ 1,000	39,235	40,235
2015	1,000	40,010	41,010
2016	1,000	41,131	42,131
2017	1,000	42,303	43,303
2018	1,000	43,537	44,537
	<hr/> <hr/> \$ 5,000	<hr/> <hr/> 206,216	<hr/> <hr/> 211,216

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, 2013 through the date the combined financial statements were available to be issued on January 31, 2014, and identified no subsequent events requiring disclosure.

SOUTHEASTERN FEDERAL POWER PROGRAM

Combining Schedule of Balance Sheet Data

September 30, 2013

(In thousands)

Assets	<u>GA-AL-SC</u>	<u>Jim Woodruff</u>	<u>Kerr-Philpott</u>	<u>Cumberland</u>	<u>Total</u>
Utility plant in service	\$ 1,799,602	73,660	204,748	433,120	2,511,130
Accumulated depreciation	(663,493)	(26,749)	(62,017)	(255,307)	(1,007,566)
Net completed plant	1,136,109	46,911	142,731	177,813	1,503,564
Construction work-in-progress	18,582	130	1,770	433,884	454,366
Net utility plant	1,154,691	47,041	144,501	611,697	1,957,930
Cash	94,964	517	11,682	166,999	274,162
Accounts receivable, net	19,997	1,540	1,399	6,134	29,070
Regulatory assets	4,869	1,549	1,475	4,966	12,859
Other assets	173	6	35	91	305
Total assets	<u>\$ 1,274,694</u>	<u>50,653</u>	<u>159,092</u>	<u>789,887</u>	<u>2,274,326</u>
Total Liabilities and Capitalization					
Liabilities:					
Accounts payable and accrued liabilities	\$ 5,963	91	642	3,505	10,201
Workers' compensation actuarial liability	4,869	1,549	1,475	4,966	12,859
Total liabilities	<u>10,832</u>	<u>1,640</u>	<u>2,117</u>	<u>8,471</u>	<u>23,060</u>
Capitalization:					
Payable to U.S. Treasury	1,518,723	48,907	143,351	729,694	2,440,675
Accumulated net deficit	(254,861)	106	13,624	51,722	(189,409)
Total capitalization	<u>1,263,862</u>	<u>49,013</u>	<u>156,975</u>	<u>781,416</u>	<u>2,251,266</u>
Commitments and contingencies					
Total liabilities and capitalization	<u>\$ 1,274,694</u>	<u>50,653</u>	<u>159,092</u>	<u>789,887</u>	<u>2,274,326</u>

See accompanying independent auditors' report.



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 2**SOUTHEASTERN FEDERAL POWER PROGRAM**

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2013

(In thousands)

	GA-AL-SC	Jim Woodruff	Kerr-Philpott	Cumberland	Total
Operating revenues:					
Sales of electric power	\$ 201,921	14,917	24,061	62,786	303,685
Other operating revenues	5,933	88	808	1,800	8,629
Total operating revenues	<u>207,854</u>	<u>15,005</u>	<u>24,869</u>	<u>64,586</u>	<u>312,314</u>
Operating expenses, excluding depreciation expense:					
Operations	26,641	2,258	6,614	28,103	63,616
Maintenance	22,834	1,466	3,313	1,706	29,319
Purchased power	12,554	2,367	80	—	15,001
Purchased transmission services	23,540	344	5,634	9,907	39,425
Total operating expenses, excluding depreciation expense	<u>85,569</u>	<u>6,435</u>	<u>15,641</u>	<u>39,716</u>	<u>147,361</u>
Depreciation expense	<u>34,330</u>	<u>1,519</u>	<u>4,220</u>	<u>5,818</u>	<u>45,887</u>
Total operating expenses	<u>119,899</u>	<u>7,954</u>	<u>19,861</u>	<u>45,534</u>	<u>193,248</u>
Net operating revenues	<u>87,955</u>	<u>7,051</u>	<u>5,008</u>	<u>19,052</u>	<u>119,066</u>
Interest expenses:					
Interest on payable to U.S. Treasury	70,593	2,624	5,842	23,771	102,830
Interest charged to construction	(1,051)	(35)	(72)	(19,789)	(20,947)
Net interest expenses	<u>69,542</u>	<u>2,589</u>	<u>5,770</u>	<u>3,982</u>	<u>81,883</u>
Net revenues (deficit)	<u>\$ 18,413</u>	<u>4,462</u>	<u>(762)</u>	<u>15,070</u>	<u>37,183</u>

See accompanying independent auditors' report.

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	<u>187,690</u>	<u>13,387</u>	<u>18,914</u>	<u>52,294</u>	<u>272,285</u>
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	<u>105,536</u>	<u>8,600</u>	<u>12,907</u>	<u>41,065</u>	<u>168,108</u>
Depreciation expense	<u>34,494</u>	<u>1,530</u>	<u>4,173</u>	<u>5,566</u>	<u>45,763</u>
Total operating expenses	<u>140,030</u>	<u>10,130</u>	<u>17,080</u>	<u>46,631</u>	<u>213,871</u>
Net operating revenues	<u>47,660</u>	<u>3,257</u>	<u>1,834</u>	<u>5,663</u>	<u>58,414</u>
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	<u>68,768</u>	<u>2,620</u>	<u>5,561</u>	<u>4,092</u>	<u>81,041</u>
Net revenues (deficit)	<u>\$ (21,108)</u>	<u>637</u>	<u>(3,727)</u>	<u>1,571</u>	<u>(22,627)</u>

See accompanying independent auditors' report.

SOUTHEASTERN FEDERAL POWER PROGRAM
 Schedule of Amount and Allocation of Gross Utility Plant Investment (unaudited)
 As of September 30, 2013
 (In thousands)

Projects in service and other	\$	Allocated to:						Percent of total plant investment returnable from power revenue
		Total	Power	Navigation	Flood risk management	Fish and wildlife	Recreation	
Allatoona	\$ 74,713	52,738	—	10,227	—	11,516	232	(a) 70.6%
Buford	100,429	81,258	2,142	4,746	—	12,283	—	80.9%
Carters	178,153	146,266	—	20,277	—	11,610	—	82.1%
J. Strom Thurmond	186,533	161,457	4,360	4,104	—	16,612	—	86.6%
Walter F. George	285,758	189,894	82,751	—	348	12,765	—	66.5%
Hartwell	207,869	176,223	4,016	15,966	—	11,664	—	84.8%
Alabama Power Projects	242,587	133,671	86,972	—	—	21,944	—	55.1%
West Point	171,906	85,069	2,715	22,108	13,933	48,081	—	49.5%
Richard B. Russell	903,802	789,910	—	874	—	113,018	—	87.4%
Marketing facilities	1,698	1,698	—	—	—	—	—	100.0%
Total GA-AL-SC System	<u>2,353,448</u>	<u>1,818,184</u>	<u>182,956</u>	<u>78,302</u>	<u>14,281</u>	<u>259,493</u>	<u>232</u>	<u>77.3%</u>
Jim Woodruff	122,910	73,737	41,147	—	—	8,026	—	60.0%
Marketing facilities	53	53	—	—	—	—	—	100.0%
Total Jim Woodruff System	<u>122,963</u>	<u>73,790</u>	<u>41,147</u>	<u>—</u>	<u>—</u>	<u>8,026</u>	<u>—</u>	<u>60.0%</u>
Barkley	217,391	63,004	121,597	24,410	—	8,380	—	29.0%
J. Percy Priest	72,470	15,793	—	27,026	—	29,651	—	21.8%
Cheatham	65,846	23,446	37,906	—	—	4,494	—	35.6%
Cordell Hull	95,772	44,065	17,558	—	—	27,615	6,534	(b) 46.0%
Old Hickory	79,700	45,826	29,259	—	—	4,615	—	57.5%
Center Hill	270,599	128,595	—	133,401	—	7,906	697	(c) 47.5%
Dale Hollow	44,760	29,199	—	13,511	—	2,050	—	65.2%
Wolf Creek	870,299	488,854	—	361,470	—	19,729	246	(c) 56.2%
Laurel	52,037	28,224	—	—	—	17,483	6,330	(b) 54.2%
Marketing facilities	584	584	—	—	—	—	—	100.0%
Contributions in aid of construction	(586)	(586)	—	—	—	—	—	100.0%
Total Cumberland Basin System	<u>1,768,872</u>	<u>867,004</u>	<u>206,320</u>	<u>559,818</u>	<u>—</u>	<u>121,923</u>	<u>13,807</u>	<u>49.0%</u>
John H. Kerr	223,523	188,952	—	25,449	—	8,749	373	(a) 84.5%
Philpott	32,131	17,248	—	9,418	—	5,465	—	53.7%
Marketing facilities	318	318	—	—	—	—	—	100.0%
Total Kerr-Philpott System	<u>255,972</u>	<u>206,518</u>	<u>—</u>	<u>34,867</u>	<u>—</u>	<u>14,214</u>	<u>373</u>	<u>80.7%</u>
Total	<u>\$ 4,501,255</u>	<u>2,965,496</u>	<u>430,423</u>	<u>672,987</u>	<u>14,281</u>	<u>403,656</u>	<u>14,412</u>	<u>65.9%</u>

(a) Water supply

(b) Area redevelopment

(c) World War II suspension costs

See accompanying independent auditors' report.



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