



# MEAG POWER 2018 Financial Review

Management's Discussion and Analysis of Financial Condition and Results of Operations .....	<b>14</b>
Consolidated Balance Sheets and Consolidated Statements of Net Revenues and Cash Flows.....	<b>22</b>
Notes to Consolidated Financial Statements.....	<b>30</b>
Report of Independent Auditors.....	<b>76</b>

# Management’s Discussion and Analysis of Financial Condition and Results of Operations (*Unaudited*)

## Introduction

The Municipal Electric Authority of Georgia (MEAG Power) is a public corporation and an instrumentality of the State of Georgia (the State), created by the State for the purpose of owning and operating electric generation and transmission facilities to supply bulk electric power to political subdivisions of the State which owned and operated electric distribution systems as of March 18, 1975, and which contracted with MEAG Power for the purchase of wholesale power. The statute under which it was created provides that MEAG Power will establish rates and charges so as to produce revenues sufficient to cover its costs, including debt service, but it may not operate any of its projects for profit, unless any such profit inures to the benefit of the public. Forty-eight cities and one county in the State (the Participants) have contracted with MEAG Power for bulk electric power supply needs.

## Overview of the Consolidated Financial Statements

MEAG Power is comprised of the following projects/funds, as discussed in the Notes to Consolidated Financial Statements (Notes) Note 1 (A), “The Organization — Reporting Entity”:

- Project One;
- General Resolution Projects;
- Combined Cycle Project (CC Project);
- Vogtle Units 3&4 Projects and Project Entities;

- The Municipal Competitive Trust (Competitive Trust); and
- Telecommunications Project (Telecom).

This discussion serves as an introduction to the basic consolidated financial statements of MEAG Power to provide the reader with an overview of MEAG Power’s financial position and operations.

The Consolidated Balance Sheet (Balance Sheet) summarizes information on all of MEAG Power’s assets and deferred outflows of resources, as well as liabilities and deferred inflows of resources.

Revenue and expense information is presented in the Consolidated Statement of Net Revenues (Statement of Net Revenues). Revenues represent billings for wholesale electricity sales to the Participants and sales of electricity to unrelated parties (see Note 2 (C), “Summary of Significant Accounting Policies and Practices — Revenues”), as well as billings of Telecom. Expenses primarily include operating costs and debt service-related charges.

The Consolidated Statement of Cash Flows is presented using the direct method. This method provides broad categories of cash receipts and cash disbursements pertaining to cash provided by or used in operations, investing and financing activities.

The Notes are an integral part of MEAG Power’s basic consolidated financial statements and provide additional information on certain components of these statements.

## Financial Condition Overview

MEAG Power’s Balance Sheet as of December 31, 2018, 2017 and 2016 is summarized below (in thousands). Significant 2018 transactions include:

- Construction work in progress (CWIP) additions totaling \$743.9 million, mainly pertaining to Vogtle Units 3&4.
- Bond issuances of \$342.9 million used primarily for capital improvements and debt refunding/retirement.

	2018	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>			
Property, plant and equipment, net	<b>\$5,690,057</b>	\$4,910,870	\$5,255,928
Other non-current assets	<b>2,227,078</b>	2,913,234	2,682,344
Current assets	<b>853,688</b>	920,373	1,076,261
<b>Total assets</b>	<b>8,770,823</b>	8,744,477	9,014,533
Deferred outflows of resources	<b>253,196</b>	252,287	101,462
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 9,024,019</b>	\$8,996,764	\$9,115,995
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:</b>			
Long-term debt	<b>\$ 6,441,368</b>	\$6,568,586	\$6,772,670
Non-current liabilities	<b>909,232</b>	855,560	855,906
Current liabilities	<b>834,354</b>	884,954	984,836
<b>Total liabilities</b>	<b>8,184,954</b>	8,309,100	8,613,412
Deferred inflows of resources	<b>839,065</b>	687,664	502,583
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 9,024,019</b>	\$8,996,764	\$9,115,995

# Management's Discussion and Analysis of Financial Condition and Results of Operations (*Unaudited*)

The primary changes in MEAG Power's consolidated financial condition as of December 31, 2018 and 2017 were as follows:

## 2018 COMPARED WITH 2017

### Assets and Deferred Outflows of Resources

During 2018, total assets and deferred outflows of resources increased \$27.3 million, or 0.3%. Within asset components:

- An increase of \$779.2 million in property, plant and equipment (PP&E) was primarily due to the CWIP additions at Vogtle Units 3&4, as discussed in Note 3, "Property, Plant and Equipment." In-service additions also increased \$90.9 million mainly related to equipment upgrades and replacements at generating units.
- Other non-current assets decreased \$686.2 million due mainly to a decrease of \$664.9 million in special funds, primarily related to payment of the CWIP additions, Vogtle Units 3&4 Projects and Project Entities' interest expense and long-term maintenance expenditures, which were partially offset by bond proceeds of \$261.7 million. A decrease of \$15.9 million in net costs to be recovered from Participants was due to timing differences between amounts billed and expenses determined in accordance with accounting principles generally accepted in the United States (Timing Differences) (see Note 2 (A), "Summary of Significant Accounting Policies and Practices — Basis of Accounting"), which were partially offset by net non-operating expense in the Vogtle Units 3&4 Projects and Project Entities (see "Results of Operations — 2018 Compared with 2017 — Non-operating expense (income), net").
- A decrease of \$66.7 million in current assets was primarily related to investment activity within special funds.

Deferred outflows of resources increased \$0.9 million due primarily to asset retirement obligations (ARO) and pensions and other postemployment benefits. These factors were partially offset by normal amortization of unamortized loss on refunded debt and an increase in the fair market value of interest rate swap obligations.

### Liabilities and Deferred Inflows of Resources

Total liabilities decreased \$124.1 million, or 1.5%, during 2018, as follows:

- Long-term debt decreased \$127.2 million due primarily to principal payments and refundings totaling \$476.9 million, which were partially offset by \$371.5 million in debt issuances.
- An increase of \$53.7 million in non-current liabilities was primarily due to a \$39.5 million increase in ARO, as discussed in Note 2 (H), "Summary of Significant Accounting Policies and Practices — Asset Retirement Obligations and Decommissioning." Competitive Trust obligations increased \$18.9 million due mainly to Participant deposits to defray the future costs of new generation projects. A decrease of \$4.7 million in other non-current liabilities was primarily related to an increase in the fair value of interest rate swap obligations, which was partially offset by a reduction in net pension obligations.
- Current liabilities decreased \$50.6 million due mainly to a decrease of \$24.5 million in accounts payable, partially due to a decrease in 2018 year-end settlement refunds due to the Participants (see Note 2 (C), "Summary of Significant Accounting Policies and Practices — Revenues — Year-End Settlement"). A decrease of \$15.4 million in construction liabilities was mainly related to accruals for Vogtle Units 3&4. Competitive Trust obligations decreased \$13.1 million due to transfers from the Competitive Trust applied to lower Participant billings (Competitive Trust Funding) (see Note 1 (E), "The Organization — Municipal Competitive Trust"), which were partially offset by an increase in deposits to

the Competitive Trust Flexible Operating account by the Participants. These factors were partially offset by a \$7.7 million increase in borrowings under lines of credit and other short-term debt for net financing activities.

An increase of \$151.4 million in deferred inflows of resources was primarily due to Timing Differences. These factors were partially offset by long-term maintenance costs pertaining to the Combined Cycle facility (Wansley Unit 9).

## 2017 COMPARED WITH 2016

### Assets and Deferred Outflows of Resources

Total assets and deferred outflows of resources decreased \$119.2 million, or 1.3%, in 2017. Within asset components:

- PP&E decreased \$345.1 million due primarily to the Settlement Receipts (see below), reclassifications of \$159.3 million to deferred outflows of resources, and an increase of \$64.1 million in accumulated depreciation, which were partially offset by CWIP additions.
- Other non-current assets increased \$230.9 million due mainly to special funds. During the Fourth Quarter of 2017, \$835.4 million was received by the Vogtle Units 3&4 Project Entities from Toshiba under the Guarantee Settlement Agreement (Settlement Receipts) (see Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities — EPC Contract and Construction"). The Settlement Receipts were partially offset by payment of CWIP additions and Vogtle Units 3&4 Projects and Project Entities' interest expense. Net costs to be recovered from Participants increased \$23.3 million due to Vogtle Units 3&4 Projects and Project Entities' net non-operating expense (see "Results of Operations — 2017 Compared with 2016 — Non-operating expense (income), net"), which was partially offset by Timing Differences.
- A decrease of \$155.9 million in current assets was primarily related to the payoff of bond anticipation notes (BANs).

Deferred outflows of resources increased \$150.8 million due primarily to reclassifications of ARO from PP&E.

### Liabilities and Deferred Inflows of Resources

During 2017, total liabilities decreased \$304.3 million, or 3.5%, as follows:

- A decrease of \$204.1 million in long-term debt was primarily due to principal payments.
- Non-current liabilities decreased \$0.3 million due mainly to Competitive Trust Funding (see "Results of Operations — 2017 Compared with 2016 — Revenues"), as well as decreases of \$30.3 million in accruals for Vogtle Units 3&4 and \$7.4 million in pension obligations (see Note 7, "Retirement Plan and Other Postemployment Benefits — Net Pension Liability"). These factors were partially offset by increases of \$27.2 million in ARO and \$10.7 million in other postemployment benefits.
- A decrease of \$99.9 million in current liabilities was primarily related to lines of credit and other short-term debt, which decreased \$140.3 million due mainly to payoff of \$151.0 million in BANs. Accounts payable decreased \$18.5 million due primarily to a decrease in 2017 year-end settlement refunds due to the Participants. These factors were partially offset by an increase of \$94.5 million in construction liabilities mainly related to accruals for Vogtle Units 3&4.

An increase of \$185.1 million in deferred inflows of resources was primarily due to Timing Differences.

# Management's Discussion and Analysis of Financial Condition and Results of Operations *(Unaudited)*

## Results of Operations

MEAG Power's Statement of Net Revenues for each of the years ended December 31, 2018, 2017 and 2016 is summarized below (in thousands):

	2018	2017	2016
Revenues:			
Participant	\$549,425	\$492,704	\$ 544,127
Other	131,903	130,870	117,255
Total revenues	681,328	623,574	661,382
Operating expenses	581,726	583,576	628,218
Net operating revenues	99,602	39,998	33,164
Non-operating expense, net	103,738	105,186	143,665
Change in net costs to be recovered from Participants or Competitive Trust obligations	(4,136)	(65,188)	(110,501)
Net Revenues	\$ —	\$ —	\$ —

The primary changes in MEAG Power's results of operations for the years ended December 31, 2018 and 2017 were as follows:

### 2018 COMPARED WITH 2017

#### Revenues

Total revenues were \$681.3 million during 2018 compared with total revenues of \$623.6 million for 2017, an increase of 9.3%:

- Participant revenues increased \$56.7 million, or 11.5%, due primarily to a \$38.8 million decrease in deferred inflows of resources due to Timing Differences, primarily debt service billings and depreciation. A planned reduction of \$23.0 million in Competitive Trust Funding also increased Participant revenues. These factors were partially offset by a reduction in Participant billings for fuel expense, as discussed below.
- Within other revenues, capacity and energy sales from new power purchase agreements totaled \$6.4 million. A decrease of \$5.5 million in off-system energy revenues was mainly related to volume reduction in energy sales while performing scheduled major maintenance on Wansley Unit 9 (see "Operating Expenses"), which was partially offset by higher market prices during the Fourth Quarter.

#### Operating Expenses

Operating expenses decreased 0.3% to \$581.7 million during 2018, compared with \$583.6 million for 2017:

- Total fuel expense decreased \$19.2 million due mainly to a \$23.7 million decrease in natural gas expense, partially offset by \$5.1 million increase in coal expense. Natural gas expense decreased due to margins on delivered gas sales to third parties using MEAG Power's gas transportation capacity during unusually cold weather in early 2018, as well as a 21.5% decrease in generation from Wansley Unit 9 due to scheduled and non-scheduled maintenance. Higher natural gas prices during the Fourth Quarter were also a factor in the reduced generation. The increase in coal expense was due to higher volumes related to both weather and fuel switching.
- An increase of \$9.5 million in purchased power expense was mainly due to major maintenance and weather factors.
- Other generation and operating expense increased \$6.3 million also mostly due to major maintenance and weather factors. Scheduled major maintenance increased \$12.0 million, which was partially offset by a reduction in nuclear refueling outages. A \$3.6 million increase in Pseudo Scheduling and Services Agreement (PSSA) energy purchases was due to increased utilization of coal generating units related to weather.

# Management's Discussion and Analysis of Financial Condition and Results of Operations (*Unaudited*)

2018 COMPARED WITH 2017 (CONTINUED)

## Non-Operating Expense (Income), Net

During 2018, net non-operating expense, which includes interest expense and other related components such as amortization of debt discount and expense, investment income, net change in the fair value of financial instruments, interest capitalized and subsidy on Build America Bonds (collectively, Net Non-operating Expense), totaled \$103.7 million. This 1.4% decrease from the total of \$105.2 million for 2017 was due primarily to changes in these components of Net Non-operating Expense:

- Investment income increased \$14.2 million due mainly to short-term interest rates trending higher as result of multiple Federal Reserve Bank rate hikes in recent months.
- A decrease of \$39.4 million in the fair value of financial instruments was mainly due to overall market performance at year-end that resulted in a corresponding decline in the value of the U.S. equity investments and certain fixed income assets held in the Decommissioning Trust (see Note 2 (H), "Summary of Significant Accounting Policies and Practices — Asset Retirement Obligations and Decommissioning").
- Interest capitalized increased \$26.1 million due mainly to additional capital investment in Vogtle Units 3&4.

## Net Costs to Be Recovered or Competitive Trust Obligations

The change in net costs to be recovered from Participants or Competitive Trust obligations was \$4.1 million and \$65.2 million for the years ended December 31, 2018 and 2017, respectively. For both years, the Vogtle Units 3&4 Projects and Project Entities' net costs to be recovered portion was related to Net Non-operating Expense and Timing Differences, while the change in Competitive Trust obligations was due primarily to the planned reduction in Competitive Trust Funding (see "Revenues" section in "Results of Operations — 2018 Compared with 2017" and "2017 Compared with 2016").

## 2017 COMPARED WITH 2016

### Revenues

Total revenues were \$623.6 million during 2017 compared with total revenues of \$661.4 million for 2016, a decrease of 5.7%:

- Participant revenues decreased \$51.4 million, or 9.5%, due primarily to a \$52.7 million increase in deferred inflows of resources. In comparison with 2016, when a long-term lease transaction with a third party was terminated (Termination Agreement) resulted in a significant decrease in deferred inflows of resources, 2017 activity was primarily related to Timing Differences. A reduction in debt service billings and certain operating expenses, due in part to a 3.0% decrease in energy delivered to the Participants, also reduced Participant revenue requirements. These factors were partially offset by a planned reduction of \$18.8 million in Competitive Trust Funding, which increased Participant revenues (see Note 1 (E), "The Organization — Municipal Competitive Trust").

- An increase of \$13.6 million, or 11.6%, in other revenues was mainly due to PSSA energy sales (see Note 2 (G) "Summary of Significant Accounting Policies and Practices — Generation and Transmission Facilities — Pseudo Scheduling and Services Agreement"), which increased \$11.3 million, as well as an increase of \$7.1 million in billings to JEA and PowerSouth pertaining to scheduled debt principal payments for Project J and Project P of the Vogtle Units 3&4 Projects (see Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities — Structure and DOE Guaranteed Loans — Vogtle Units 3&4 Projects"). These factors were partially offset by a decrease of \$3.7 million in off-system energy sales due to lower volume.

### Operating Expenses

Operating expenses decreased 7.1% to \$583.6 million during 2017, compared with \$628.2 million for 2016:

- Other generating and operating expense decreased \$52.4 million compared with 2016 when expenses related to the Termination Agreement occurred. Such expenses were not incurred during 2017. Lower maintenance costs at the generating units were also a factor.
- A decrease of \$5.0 million in total fuel expense was mainly due to decreases of \$6.1 million in nuclear fuel and \$3.3 million in coal expenses, which were partially offset by an increase of \$4.1 million in natural gas expense:
  - Nuclear fuel expense decreased due mainly to lower on-site storage costs, as well as a 2.4% decrease in generation related to planned refueling outages and a 1.5% decrease in amortization rates.
  - The decrease in coal expense was due to a 4.1% decrease in coal generation.
  - Natural gas expense increased due to a significant increase in gas prices when compared with near all-time low prices in early 2016, which was partially offset by a 2.8% decrease in generation from the CC Project. The decrease in CC Project generation was primarily related to higher natural gas prices.
- Transmission expense increased \$5.3 million due mainly to higher maintenance related to vegetation management. A decrease in receipts pertaining to MEAG Power's joint-ownership investment in the Integrated Transmission System was also a factor.
- An increase of \$3.2 million in purchased power expense was mainly due to volume and higher average purchase prices.
- Depreciation expense increased \$4.3 million due primarily to accretion of ARO.



# Management's Discussion and Analysis of Financial Condition and Results of Operations (*Unaudited*)

2017 COMPARED WITH 2016 (CONTINUED)

## Non-Operating Expense (Income), Net

During 2017, Net Non-operating Expense totaled \$105.2 million. This 26.8% decrease from the total of \$143.7 million for 2016 was due primarily to changes in these components of Net Non-operating Expense:

- A decrease of \$9.1 million in amortization of debt discount and expense was primarily related to lower accretion as a result of the Termination Agreement, as well as premium amortization on certain 2016 bond issuances.
- Investment income decreased \$9.0 million due mainly to comparison with 2016 activity related to the Termination Agreement.
- An increase of \$19.5 million in the fair value of financial instruments was primarily due to an increase in equity securities held, as well as normal repositioning of fixed-income securities held during 2017 within the decommissioning trust account. Comparison with 2016 activity related to the Termination Agreement was also a factor in certain other accounts.
- Interest capitalized increased \$16.2 million due mainly to additional capital investment in Vogtle Units 3&4.

## Net Costs to Be Recovered or Competitive Trust Obligations

The change in net costs to be recovered from Participants or Competitive Trust obligations was \$65.2 million and \$110.5 million for the years ended December 31, 2017 and 2016, respectively. For both years, the Vogtle Units 3&4 Projects and Project Entities' net costs to be recovered portion was related to Net Non-operating Expense and Timing Differences, while the change in Competitive Trust obligations was due primarily to the planned reduction in Competitive Trust Funding.

## Vogtle Units 3&4 Projects and Project Entities

Key recent developments pertaining to Vogtle Units 3&4 are outlined below. For additional information and definitions of certain terms, see Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities."

- The U.S. Internal Revenue Service allocated production tax credits (PTCs) to each of Vogtle Units 3&4, which originally required the applicable unit to be placed in service before 2021. The Bipartisan Budget Act of 2018, signed into law on February 9, 2018, removed the deadline for these PTCs by allowing for new nuclear reactors placed in service after December 31, 2020 to qualify for the nuclear PTCs. It also provided a modification to prior law to allow public power utilities, such as MEAG Power, to utilize the credits. The passage of this bill allows MEAG Power to monetize the hundreds of millions of dollars of tax credits to reduce the cost of the output of the Vogtle Units 3&4 Project Entities' ownership shares of the project.
- On February 12, 2018, Georgia Interfaith Power & Light, Inc. (GIPL) and Partnership for Southern Equity, Inc. (PSE) filed a petition appealing the Georgia Public Service Commission's (GPSC) January 11, 2018 order with the Fulton County, Georgia Superior Court (Fulton County Superior Court). On March 8, 2018, Georgia Watch filed a similar appeal to the Fulton County Superior Court for judicial review of the GPSC's decision and denial of Georgia Watch's motion for reconsideration.

On December 21, 2018, the Fulton County Superior Court granted Georgia Power Company's (GPC) motion to dismiss the two appeals. On January 9, 2019, GIPL, PSE and Georgia Watch filed an appeal of this decision with the Georgia Court of Appeals. GPC has reported that it believes the appeal has no merit; however, an adverse outcome in this appeal combined with subsequent adverse action by the GPSC could have a material impact on GPC's ability to proceed with and complete construction of Vogtle Units 3&4 and, therefore, on MEAG Power's results of operations, financial condition, and liquidity.

- During mid-2018, GPC advised the other Vogtle Co-Owners that it became aware that the estimated future Vogtle Units 3&4 costs were projected to exceed the corresponding budgeted amounts included in the VCM 17 Report. Following this analysis, GPC proposed an increased construction budget and included a revised estimate to complete in the VCM 19 Report. This revised project budget included a \$2.4 billion increase, including a project-level contingency in an amount of \$800 million, as compared to the VCM 17 Report. The scheduled in-service dates of November 2021 and November 2022 for Vogtle Units 3&4, respectively, did not change in connection with these budget revisions.
- On September 11, 2018, after MEAG Power determined that JEA had indicated a clear intent to breach its contract, abandon its obligations, undermine MEAG Power's ability to perform and attempt to force MEAG Power's hand in the vote for continuing construction of Vogtle Units 3&4, MEAG Power sued JEA in the United States District Court, Northern District of Georgia (U.S. District Court — Georgia). MEAG Power's complaint alleged that JEA repudiated and breached the Project J PPA. JEA and the City of Jacksonville sued MEAG Power in the Circuit Court of Duval County, Florida later that same day (Florida Action). JEA and the City of Jacksonville allege that JEA "acted beyond the limits of its authority by entering into the PPA in violation of the constitution, laws, and public policy of the state of Florida, rendering the PPA ultra vires, void and unenforceable." MEAG Power timely removed the Florida Action to the United States District Court, Middle District of Florida and filed a motion to dismiss for lack of personal jurisdiction or, in the alternative, to transfer the case to the U.S. District Court — Georgia. JEA and the City of Jacksonville filed a motion to remand the case to Florida state court. All of these motions are pending.
- By September 26, 2018, the Vogtle Co-Owners had unanimously voted to continue construction of Vogtle Units 3&4.
- MEAG Power expects that, based on the current estimated in-service dates of November 2021 and November 2022 for Vogtle Unit 3 and Vogtle Unit 4, respectively, the Vogtle Units 3&4 Project Entities' estimated in-service cost will be approximately \$6.5 billion, including construction costs, financing costs through the estimated in-service dates, contingencies, initial fuel load costs, and switchyard and transmission costs. Additional financing needs relating to reserve funds and other fund deposits required under MEAG Power's and the Vogtle Units 3&4 Project Entities' financing documents result in total financing needs of approximately \$7.0 billion, of which approximately \$2.2 billion (as of March 31, 2019) of additional funding will be required.

# Management’s Discussion and Analysis of Financial Condition and Results of Operations (*Unaudited*)

- In late 2018, the first four nuclear units to utilize Westinghouse’s AP1000 technology began commercial operation in China. One of these units recently experienced a failure of one of its four reactor coolant pumps and is not operating pending determination of the cause of the failure and replacement of the pump. The other three nuclear units remain in operation.
- On February 18, 2019, the Vogtle Co-Owners entered into certain amendments to the Vogtle Joint Ownership Agreements (the Global Amendments).
- Pursuant to the Global Amendments, GPC has agreed to purchase additional PTCs from OPC, Dalton and the Project Entities (to the extent any PTC rights of SPVJ remain after any purchases required under the MEAG Funding Agreement) at varying purchase prices dependent upon the actual cost to complete construction of Vogtle Units 3&4 as compared to the EAC reflected in the VCM 19 Report.
- If SPVJ is unable to make its payments due under the Vogtle Joint Ownership Agreements solely as a result of the occurrence of certain situations that materially impedes access to capital markets for MEAG Power for Project J, at MEAG Power’s request, GPC will purchase from SPVJ the rights to PTCs attributable to SPVJ’s share of Vogtle Units 3&4 (approximately 206 MWh) within 30 days of such request at varying prices dependent upon the stage of construction of Vogtle Units 3&4. The aggregate purchase price of the PTCs, together with certain other advances, shall not exceed \$300 million.
- On February 21, 2019, the Federal Energy Regulatory Commission (FERC) voted, unanimously, to dismiss a request by JEA to intervene in JEA’s ongoing dispute with MEAG Power over the Project J PPA. In its ruling, FERC found that it had no statutory jurisdiction over the agreement in particular or public power utilities in general. Accordingly, FERC dismissed JEA’s petition.
- The United States, acting on behalf of the U.S. Department of Energy (DOE), has also filed a statement of interest in related litigation urging the federal court for the U.S. District Court — Florida to deny JEA’s attempt to have the matter remanded to state court on the grounds that a matter involving strong federal interests should be decided by federal courts.
- On March 22, 2019, the Project Entities closed on \$414.7 million in additional loan guarantees from the DOE toward construction of the Project Entities’ respective shares of Vogtle Units 3&4. In connection with that closing, each Project Entity entered into an amendment and restatement of its Original LGA, as theretofore amended (each such Original LGA, as so amended and restated, being hereinafter referred to as an LGA), in order, among other things, to reflect the Replacement EPC Arrangements and to facilitate additional draws.
- On April 9, 2019, a federal judge in the U.S. District Court — Georgia issued a ruling dismissing MEAG Power’s suit against JEA. The judge made no decision as to the underlying merits of MEAG Power’s claim regarding the enforceability of the Project J PPA. Rather, the U.S. District Court — Georgia determined that MEAG Power failed to show that JEA’s actions prior to the filing of the complaint constituted a violation of Project J PPA’s cooperation clause. The U.S. District Court — Georgia’s decision was without prejudice as to MEAG Power’s ability to refile its claim seeking a declaratory judgment regarding the enforceability of the Project J PPA, and JEA has indicated that, until a court determines otherwise, it currently intends to comply by making payments due under the Project J PPA. MEAG Power believes that the U.S. District Court — Georgia misapplied the procedural law relating to standing, and made other errors, including denying MEAG Power the opportunity to amend its complaint in the Georgia Action. On April 10, 2019, MEAG Power filed a Notice of Appeal of the U.S. District Court — Georgia’s Order in the United States Court of Appeals for the Eleventh Circuit. The Florida Action is subject to pending motions, which will dictate if, how, and where that action may proceed. MEAG Power believes that JEA’s claims are without merit and that MEAG Power will prevail in these proceedings.
- On April 29, 2019, MEAG Power announced that it and JEA have commenced negotiations in an attempt to arrive at a mutually beneficial commercial resolution of their dispute.

The ultimate outcome of certain of these matters cannot be determined at this time. For additional information related to Vogtle Units 3&4, see Note 1 (D), “The Organization — Vogtle Units 3&4 Projects and Project Entities.”

## Capital Program

MEAG Power’s PP&E includes nuclear, coal and natural gas generating units, as well as transmission, distribution and other plant facilities. PP&E investment net of accumulated depreciation, as well as CWIP balances as of December 31, 2018, was as follows (in thousands):

	Net Plant in service	Total CWIP
Nuclear	\$ 962,254	\$2,948,660
Coal	661,228	128,988
Natural gas	192,979	416
Transmission	280,809	11,362
Distribution	166,359	17,251
Telecom	4,409	—
General/other plant	30,644	6,853
<b>Total</b>	<b>\$2,298,682</b>	<b>\$3,113,530</b>

# Management’s Discussion and Analysis of Financial Condition and Results of Operations *(Unaudited)*

## Financing Activities

Funds generated from operations are estimated to provide approximately 52%, 43% and 55% of construction expenditures in the years 2019, 2020 and 2021, respectively, for Project One, the General Resolution Projects and the CC Project. The remaining expenditures will be met by issuing long-term bonds and utilizing MEAG Power’s existing commercial paper (CP) program and bank lines of credit. Other than debt service billings, funds generated from the Vogtle Units 3&4 Projects and Project Entities are not anticipated to begin until Vogtle Units 3&4 are placed into service. To meet short-term cash needs and contingencies, \$397.3 million of unused credit was available through the Project P Credit Agreement and arrangements with banks (collectively, the Credit Arrangements) as of December 31, 2018, as described in Note 5, “Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Financing of Vogtle Units 3&4 Projects and Project Entities” and “— Credit Agreements and Other Short-Term Debt — Credit Agreements” within that Note. As discussed in “Vogtle Units 3&4 Projects and Project Entities,” on March 22, 2019, the Project Entities closed on \$414.7 million in additional DOE loan guarantees toward construction of the Project Entities’ respective shares of Vogtle Units 3&4.

The unenhanced ratings and outlook assigned to MEAG Power’s senior lien and subordinated debt obligations as of December 31, 2018 are as follows:

Project	Lien	Fitch Ratings		Moody’s Investors Service		Standard & Poor’s	
		Rating	Outlook	Rating	Outlook	Rating	Outlook
Project One	Senior	A-	Negative	A1	Stable	A	Negative
	Subordinated	BBB+	Negative	A2	Stable	A-	Negative
General Resolution Projects	Senior	A-	Negative	A1	Stable	A	Negative
	Subordinated	BBB+	Negative	A2	Stable	A-	Negative
Combined Cycle Project	Senior	BBB+	Negative	A1	Stable	A-	Negative
Vogtle Units 3&4 Projects:							
Project M	Senior	BBB+	Negative	A2	Stable	A	Negative
Project J	Senior	BBB+	RWN <sup>(1)</sup>	Baa3	Negative	A	Negative
Project P	Senior	BBB+	Negative	Baa2	Stable	BBB+	Negative

<sup>(1)</sup> Rating Watch Negative

Additional information pertaining to MEAG Power’s debt balances is provided in Note 5, “Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps.”



# Management's Discussion and Analysis of Financial Condition and Results of Operations (*Unaudited*)

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## Liquidity and Capital Resources

MEAG Power has substantial cash flow from operating activities, access to the capital markets, bank facilities and special funds deposit balances.

At December 31, 2018, MEAG Power had \$2.4 billion of special funds deposits, of which \$1.5 billion was available to fund various operating, construction, debt service and contingency requirements. Within the Competitive Trust, \$594.9 million was invested and may be used by Participants to mitigate future billings. Investments in the Decommissioning Trust funds (see Note 2 (H), "Summary of Significant Accounting Policies and Practices — Asset Retirement Obligations and Decommissioning") totaled \$471.6 million. Credit Arrangements with banks at December 31, 2018 totaled \$774.5 million, of which \$218.5 million provided liquidity support to \$211.0 million of outstanding variable-rate demand obligations, \$84.2 million was drawn on the Credit Arrangements, \$56.5 million supported obligations to the Competitive Trust and \$17.9 million supported \$12.0 million of outstanding CP balances, with the remaining \$397.4 million available. The Credit Arrangements mature at various dates in 2019 through 2020, and management expects to renew or replace the facilities as needed prior to expiration. For additional information regarding available credit, see Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Financing of Vogtle Units 3&4 Projects and Project Entities" and "— Credit Agreements and Other Short-Term Debt" within that Note.

During 2019 through 2021, maturities of long-term debt and sinking fund redemptions are expected to total \$533.2 million. These requirements will be included in the appropriate year's budgeted revenue requirements, as applicable, and collected from the Participants, as well as from JEA and PowerSouth, in the case of Project J and Project P, respectively.

When considering the risks associated with liquidity and capital, MEAG Power is susceptible to changes in the interest rate environment. In rising interest rate markets, MEAG Power may be impacted by increases in costs associated with variable-rate subordinated debt and new debt issuances. These increases would be somewhat offset by increases in income earned on MEAG Power's investment portfolio. Conversely, when rates decline, MEAG Power may experience decreases in both the cost of some debt and the earnings on some investments. To partially mitigate this risk, MEAG Power occasionally implements hedges that help to stabilize the impact of these interest rate fluctuations. In addition, MEAG Power maintains a relatively high credit rating and strong liquidity position, which provide access to competitive funding options.

Estimated construction and financing expenditures for Project One, the General Resolution Projects and the CC Project in total are estimated to be \$141.4 million, \$150.7 million and \$106.4 million for the years 2019, 2020 and 2021, respectively. These expenditures are related to capital improvements at existing generating units and investment in transmission facilities. Also included in the estimates are the costs necessary to comply with certain environmental regulations, as described in Note 8, "Commitments and Contingencies — Environmental Regulation." MEAG Power's estimated construction expenditures for Vogtle Units 3&4, including various contingencies and financing amounts for the years 2019 through 2022 are \$2.8 billion. Actual construction costs may vary from the estimates because of factors such as changes in economic conditions; revised environmental regulations; changes to existing generating units to meet regulatory requirements; updated load forecasts; and the cost of construction labor, equipment and materials. As discussed in "Capital Program," CWIP as of December 31, 2018 totaled \$3.1 billion.

# 2018 Consolidated Balance Sheet

<b>December 31, 2018</b>	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
ASSETS (in thousands)								
Property, plant and equipment, at cost:								
In service	\$3,308,301	\$1,204,454	\$ 331,484	\$ —	\$ —	\$ 28,871	\$ —	\$ 4,873,110
Less accumulated depreciation	(1,803,146)	(608,315)	(138,505)	—	—	(24,462)	—	(2,574,428)
Property in service, net	1,505,155	596,139	192,979	—	—	4,409	—	2,298,682
Construction work in progress	137,851	64,711	416	2,910,552	—	—	—	3,113,530
Nuclear fuel, net of accumulated amortization	179,911	24,050	—	73,884	—	—	—	277,845
Total property, plant and equipment, net	1,822,917	684,900	193,395	2,984,436	—	4,409	—	5,690,057
Other non-current assets:								
Investment in Alliance	6,891	—	104	—	—	—	—	6,995
Special funds, including cash and cash equivalents	579,777	166,280	39,349	857,423	338,924	—	(203,285)	1,778,468
Other receivables	—	—	—	25,251	3,436	—	—	28,687
Net costs to be recovered from Participants	—	—	—	354,065	—	—	—	354,065
Unamortized bond issuance costs	7,158	1,812	537	49,356	—	—	—	58,863
Total other non-current assets	593,826	168,092	39,990	1,286,095	342,360	—	(203,285)	2,227,078
Current assets:								
Special funds, including cash and cash equivalents	177,024	136,103	27,133	78,406	255,936	401	(27,545)	647,458
Supplemental power account, including cash and cash equivalents	4,050	—	—	—	—	—	—	4,050
Securities lending collateral	630	74	—	—	—	—	—	704
Receivables from Participants	41,630	17,400	315	—	1,453	14	—	60,812
Other receivables	9,346	2,663	2,245	15,345	600	122	(8,699)	21,622
Fuel stocks, at average cost	8,647	10,292	—	—	—	—	—	18,939
Materials, supplies and other assets	76,160	14,755	8,829	359	—	—	—	100,103
Total current assets	317,487	181,287	38,522	94,110	257,989	537	(36,244)	853,688
Total assets	2,734,230	1,034,279	271,907	4,364,641	600,349	4,946	(239,529)	8,770,823
Deferred outflows of resources:								
Accumulated decrease in fair value of hedging derivatives	50,504	—	1,845	—	—	—	—	52,349
Unamortized loss on refunded debt	15,268	973	3,130	—	—	—	—	19,371
Pensions and other postemployment benefits	6,141	1,188	357	853	—	—	—	8,539
ARO-deferred outflows	96,900	76,037	—	—	—	—	—	172,937
Total deferred outflows of resources	168,813	78,198	5,332	853	—	—	—	253,196
Total Assets and Deferred Outflows of Resources	\$ 2,903,043	\$1,112,477	\$ 277,239	\$4,365,494	\$600,349	\$ 4,946	\$(239,529)	\$ 9,024,019

The accompanying Notes are an integral part of these consolidated financial statements.

# 2018 Consolidated Balance Sheet

<b>December 31, 2018</b>	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
LIABILITIES (in thousands)								
Long-term debt:								
Power Revenue bonds	\$ 409,560	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 409,560
General Power Revenue bonds	—	127,250	—	—	—	—	—	127,250
Combined Cycle Project Revenue bonds	—	—	122,605	—	—	—	—	122,605
Vogle Units 3&4 Projects' Revenue bonds	—	—	—	2,959,770	—	—	(100,000)	2,859,770
DOE Guaranteed Loans	—	—	—	1,223,353	—	—	—	1,223,353
Unamortized (discount) premium, net	24,773	5,407	3,991	10,427	—	—	—	44,598
Total Revenue bonds and DOE Guaranteed Loans	434,333	132,657	126,596	4,193,550	—	—	(100,000)	4,787,136
Subordinated debt	1,257,242	362,982	—	—	—	—	(46,790)	1,573,434
Unamortized (discount) premium, net	68,594	12,204	—	—	—	—	—	80,798
Total subordinated debt	1,325,836	375,186	—	—	—	—	(46,790)	1,654,232
Bond anticipation notes (unsecured)	28,075	4,670	23,750	—	—	—	(56,495)	—
Total long-term debt	1,788,244	512,513	150,346	4,193,550	—	—	(203,285)	6,441,368
Non-current liabilities:								
Asset retirement obligations	481,014	129,471	—	—	—	—	—	610,485
Competitive Trust obligations	—	—	—	—	237,351	—	—	237,351
Other	58,837	1,868	431	163	97	—	—	61,396
Total non-current liabilities	539,851	131,339	431	163	237,448	—	—	909,232
Current liabilities:								
Accounts payable	34,440	8,286	9,704	12,965	1,630	117	(8,699)	58,443
Construction liabilities	14,666	3,929	—	70,189	—	—	—	88,784
Securities lending collateral	647	76	—	—	—	—	—	723
Current portion of long-term debt	91,336	85,463	16,780	28,829	—	—	(27,545)	194,863
Lines of credit and other short-term debt	25,675	435	—	—	—	—	—	26,110
Competitive Trust obligations	—	—	—	—	361,271	—	—	361,271
Accrued interest	33,934	9,758	1,167	59,301	—	—	—	104,160
Total current liabilities	200,698	107,947	27,651	171,284	362,901	117	(36,244)	834,354
Commitments and contingencies (Note 8)	—	—	—	—	—	—	—	—
Total liabilities	2,528,793	751,799	178,428	4,364,997	600,349	117	(239,529)	8,184,954
Deferred inflows of resources	374,250	360,678	98,811	497	—	4,829	—	839,065
Total Liabilities and Deferred Inflows of Resources	\$2,903,043	\$1,112,477	\$277,239	\$4,365,494	\$600,349	\$4,946	\$(239,529)	\$9,024,019

The accompanying Notes are an integral part of these consolidated financial statements.

# 2018 Consolidated Statement of Net Revenues

<b>For the Year Ended December 31, 2018</b> (in thousands)	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
<b>Revenues:</b>								
Participant	\$355,433	\$111,471	\$72,070	\$ 9,644	\$ —	\$807	\$ —	\$ 549,425
Other	61,771	44,477	10,387	15,166	—	102	—	131,903
Total revenues	417,204	155,948	82,457	24,810	—	909	—	681,328
<b>Operating expenses:</b>								
Fuel	87,812	61,003	33,187	—	—	—	—	182,002
Purchased power	37,147	—	—	—	—	—	—	37,147
Other generating and operating expense	136,123	50,994	33,978	136	44	196	—	221,471
Transmission	21,009	—	—	—	—	—	—	21,009
Depreciation and amortization	84,292	26,019	9,065	—	—	721	—	120,097
Competitive Trust funding	(20,051)	—	—	—	20,051	—	—	—
Total operating expenses	346,332	138,016	76,230	136	20,095	917	—	581,726
Net operating revenues (loss)	70,872	17,932	6,227	24,674	(20,095)	(8)	—	99,602
<b>Non-operating expense (income), net:</b>								
Interest expense	90,870	23,803	8,919	227,753	—	—	—	351,345
Amortization of debt discount and expense	(14,974)	(1,914)	(1,418)	300	—	—	—	(18,006)
Investment income	(14,814)	(4,702)	(1,255)	(22,773)	(258)	(8)	—	(43,810)
Net change in the fair value of financial instruments	15,481	1,216	(19)	1,144	(1)	—	—	17,821
Interest capitalized	(5,691)	(471)	—	(140,064)	—	—	—	(146,226)
U.S. Treasury cash subsidy on Build America Bonds	—	—	—	(57,386)	—	—	—	(57,386)
Total non-operating expense (income), net	70,872	17,932	6,227	8,974	(259)	(8)	—	103,738
<b>Change in:</b>								
Net costs to be recovered from Participants	—	—	—	15,700	—	—	—	15,700
Competitive Trust obligations	—	—	—	—	(19,836)	—	—	(19,836)
Total change in net costs to be recovered from Participants or Competitive Trust obligations	—	—	—	15,700	(19,836)	—	—	(4,136)
Net Revenues	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

The accompanying Notes are an integral part of these consolidated financial statements.

# 2018 Consolidated Statement of Cash Flows

<b>For the Year Ended December 31, 2018</b> (in thousands)	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
<b>Cash flows from operating activities:</b>								
Cash received from Participants	\$ 414,266	\$ 188,571	\$ 75,117	\$ 9,793	\$ (811)	\$ 105	\$ —	\$ 687,041
Cash received from others	40,143	43,800	12,270	15,166	—	89	—	111,468
Cash paid for operating expenses	(233,356)	(104,224)	(69,478)	65	(305)	(302)	—	(407,600)
Competitive Trust funding	20,051	—	—	—	(20,051)	—	—	—
<b>Net cash provided by (used in) operating activities</b>	<b>241,104</b>	<b>128,147</b>	<b>17,909</b>	<b>25,024</b>	<b>(21,167)</b>	<b>(108)</b>	<b>—</b>	<b>390,909</b>
<b>Cash flows from investing activities:</b>								
Sales and maturities of investment securities	405,648	131,962	24,093	512,041	110,457	—	—	1,184,201
Purchase of investment securities	(368,547)	(80,646)	(13,619)	(534,887)	(179,349)	—	—	(1,177,048)
Investment income receipts	10,645	2,895	960	8,506	8,959	8	—	31,973
Distribution from Alliance	24,136	—	—	—	—	—	—	24,136
Contributions from Participants	—	—	—	—	13,914	—	—	13,914
<b>Net cash provided by (used in) investing activities</b>	<b>71,882</b>	<b>54,211</b>	<b>11,434</b>	<b>(14,340)</b>	<b>(46,019)</b>	<b>8</b>	<b>—</b>	<b>77,176</b>
<b>Cash flows from capital and related financing activities:</b>								
Property additions	(160,181)	(53,447)	(235)	(585,669)	—	(30)	—	(799,562)
Net proceeds from lines of credit and other short-term debt	9,825	(2,166)	—	—	—	—	—	7,659
Proceeds from issuance of long-term debt	190,775	69,156	—	127,182	—	—	—	387,113
Retirement of long-term debt	(248,790)	(112,917)	(19,765)	(24,170)	—	—	—	(405,642)
Interest payments	(88,628)	(23,713)	(7,987)	(227,812)	—	—	—	(348,140)
U.S. Treasury cash subsidy on Build America Bonds	—	—	—	57,400	—	—	—	57,400
Advance payments from Participants for New Generation and Capacity Funding	—	—	—	—	13,807	—	—	13,807
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(296,999)</b>	<b>(123,087)</b>	<b>(27,987)</b>	<b>(653,069)</b>	<b>13,807</b>	<b>(30)</b>	<b>—</b>	<b>(1,087,365)</b>
(Decrease) increase in cash and cash equivalents	15,987	59,271	1,356	(642,385)	(53,379)	(130)	—	(619,280)
Cash and cash equivalents at beginning of year	276,672	172,811	50,533	1,248,121	265,480	531	—	2,014,148
Cash and cash equivalents at end of year	292,659	232,082	51,889	605,736	212,101	401	—	1,394,868
Other investment securities and accrued interest receivable at end of year	468,822	70,375	14,593	330,093	382,759	—	(230,830)	1,035,812
Special funds, Supplemental power account and Securities lending collateral at end of year	\$ 761,481	\$ 302,457	\$ 66,482	\$ 935,829	\$ 594,860	\$ 401	\$ (230,830)	\$ 2,430,680
<b>Reconciliation of net operating revenues (loss) to net cash provided by (used in) operating activities:</b>								
Net operating revenues (loss)	\$ 70,872	\$ 17,932	\$ 6,227	\$ 24,674	\$ (20,095)	\$ (8)	\$ —	\$ 99,602
Adjustments to reconcile net operating revenues (loss) to net cash from operating activities:								
Depreciation and amortization	136,732	33,983	9,066	—	—	721	—	180,502
Pensions and other postemployment benefits	715	190	57	136	—	—	—	1,098
Deferred inflows of resources	66,341	81,021	4,102	—	—	(721)	—	150,743
Share of net revenues from Alliance	(24,807)	—	—	—	—	—	—	(24,807)
Change in current assets and liabilities:								
Accounts receivable	1,830	(2,440)	2,917	(2)	(811)	(13)	—	1,481
Fuel stocks	508	1,127	—	—	—	—	—	1,635
Materials, supplies and other assets	1,711	607	2	—	—	—	—	2,320
Accounts payable and other liabilities	(12,798)	(4,273)	(4,462)	216	(261)	(87)	—	(21,665)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 241,104</b>	<b>\$ 128,147</b>	<b>\$ 17,909</b>	<b>\$ 25,024</b>	<b>\$ (21,167)</b>	<b>\$(108)</b>	<b>\$ —</b>	<b>\$ 390,909</b>

The accompanying Notes are an integral part of these consolidated financial statements.

# 2017 Consolidated Balance Sheet

December 31, 2017	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
ASSETS (in thousands)								
Property, plant and equipment, at cost:								
In service	\$ 3,234,321	\$ 1,187,585	\$ 331,484	\$ —	\$ —	\$ 28,841	\$ —	\$ 4,782,231
Less accumulated depreciation	(1,767,383)	(594,315)	(129,440)	—	—	(23,741)	—	(2,514,879)
Property in service, net	1,466,938	593,270	202,044	—	—	5,100	—	2,267,352
Construction work in progress	130,681	47,452	180	2,191,352	—	—	—	2,369,665
Nuclear fuel, net of accumulated amortization	178,526	24,563	—	70,764	—	—	—	273,853
Total property, plant and equipment, net	1,776,145	665,285	202,224	2,262,116	—	5,100	—	4,910,870
Other non-current assets:								
Investment in Alliance	6,220	—	104	—	—	—	—	6,324
Special funds, including cash and cash equivalents	580,382	168,957	48,607	1,454,323	326,379	—	(135,295)	2,443,353
Other receivables	—	—	—	32,817	3,063	—	—	35,880
Net costs to be recovered from Participants	—	—	—	369,942	—	—	—	369,942
Unamortized bond issuance costs	6,774	1,491	687	48,783	—	—	—	57,735
Total other non-current assets	593,376	170,448	49,398	1,905,865	329,442	—	(135,295)	2,913,234
Current assets:								
Special funds, including cash and cash equivalents	208,115	125,269	26,681	87,922	264,185	531	(5,505)	707,198
Supplemental power account, including cash and cash equivalents	4,781	—	—	—	—	—	—	4,781
Securities lending collateral	379	44	—	—	—	—	—	423
Receivables from Participants	40,280	15,638	1,258	(2)	2,767	14	—	59,955
Other receivables	12,524	1,985	4,308	15,674	162	109	(10,812)	23,950
Fuel stocks, at average cost	9,156	11,419	—	—	—	—	—	20,575
Materials, supplies and other assets	78,182	15,433	9,668	208	—	—	—	103,491
Total current assets	353,417	169,788	41,915	103,802	267,114	654	(16,317)	920,373
Total assets	2,722,938	1,005,521	293,537	4,271,783	596,556	5,754	(151,612)	8,744,477
Deferred outflows of resources:								
Accumulated decrease in fair value of hedging derivatives	59,669	—	1,009	—	—	—	—	60,678
Unamortized loss on refunded debt	22,299	2,467	4,164	—	—	—	—	28,930
Pensions and other postemployment benefits	2,772	299	90	214	—	—	—	3,375
ARO-deferred outflows	127,574	31,730	—	—	—	—	—	159,304
Total deferred outflows of resources	212,314	34,496	5,263	214	—	—	—	252,287
Total Assets and Deferred Outflows of Resources	\$ 2,935,252	\$ 1,040,017	\$ 298,800	\$ 4,271,997	\$ 596,556	\$ 5,754	\$ (151,612)	\$ 8,996,764

The accompanying Notes are an integral part of these consolidated financial statements.



# 2017 Consolidated Balance Sheet

December 31, 2017	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
LIABILITIES (in thousands)								
Long-term debt:								
Power Revenue bonds	\$ 263,845	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 263,845
General Power Revenue bonds	—	80,505	—	—	—	—	—	80,505
Combined Cycle Project Revenue bonds	—	—	139,385	—	—	—	—	139,385
Vogle Units 3&4 Projects' Revenue bonds	—	—	—	2,885,130	—	—	—	2,885,130
DOE Guaranteed Loans	—	—	—	1,198,289	—	—	—	1,198,289
Unamortized (discount) premium, net	12,668	(29)	5,559	10,905	—	—	—	29,103
Total Revenue bonds and DOE Guaranteed Loans	276,513	80,476	144,944	4,094,324	—	—	—	4,596,257
Subordinated debt	1,457,578	490,604	—	—	—	—	(74,335)	1,873,847
Unamortized (discount) premium, net	83,732	14,750	—	—	—	—	—	98,482
Total subordinated debt	1,541,310	505,354	—	—	—	—	(74,335)	1,972,329
Bond anticipation notes (unsecured)	28,075	4,670	28,215	—	—	—	(60,960)	—
Total long-term debt	1,845,898	590,500	173,159	4,094,324	—	—	(135,295)	6,568,586
Non-current liabilities:								
Asset retirement obligations	489,331	81,680	—	—	—	—	—	571,011
Competitive Trust obligations	—	—	—	—	218,470	—	—	218,470
Other	63,989	1,404	175	414	97	—	—	66,079
Total non-current liabilities	553,320	83,084	175	414	218,567	—	—	855,560
Current liabilities:								
Accounts payable	48,918	12,439	14,198	14,430	3,585	203	(10,812)	82,961
Construction liabilities	17,714	7,734	—	78,780	—	—	—	104,228
Securities lending collateral	396	46	—	—	—	—	—	442
Current portion of long-term debt	106,905	53,168	15,300	24,170	—	—	(5,505)	194,038
Lines of credit and other short-term debt	15,850	2,601	—	—	—	—	—	18,451
Competitive Trust obligations	—	—	—	—	374,404	—	—	374,404
Accrued interest	38,765	11,035	1,269	59,361	—	—	—	110,430
Total current liabilities	228,548	87,023	30,767	176,741	377,989	203	(16,317)	884,954
Commitments and contingencies (Note 8)	—	—	—	—	—	—	—	—
Total liabilities	2,627,766	760,607	204,101	4,271,479	596,556	203	(151,612)	8,309,100
Deferred inflows of resources	307,486	279,410	94,699	518	—	5,551	—	687,664
Total Liabilities and Deferred Inflows of Resources	\$2,935,252	\$1,040,017	\$298,800	\$4,271,997	\$596,556	\$5,754	\$(151,612)	\$8,996,764

The accompanying Notes are an integral part of these consolidated financial statements.

# 2017 Consolidated Statement of Net Revenues

For the Year Ended December 31, 2017 (in thousands)	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
Revenues:								
Participant	\$296,759	\$105,542	\$81,292	\$ 8,268	\$ —	\$843	\$ —	\$492,704
Other	59,689	43,902	14,155	13,024	—	100	—	130,870
Total revenues	356,448	149,444	95,447	21,292	—	943	—	623,574
Operating expenses:								
Fuel	88,685	55,641	56,853	—	—	—	—	201,179
Purchased power	27,644	—	—	—	—	—	—	27,644
Other generating and operating expense	140,611	51,811	22,364	66	49	222	—	215,123
Transmission	22,847	—	—	—	—	—	—	22,847
Depreciation and amortization	81,414	25,578	9,065	—	—	726	—	116,783
Competitive Trust funding	(43,022)	—	—	—	43,022	—	—	—
Total operating expenses	318,179	133,030	88,282	66	43,071	948	—	583,576
Net operating revenues (loss)	38,269	16,414	7,165	21,226	(43,071)	(5)	—	39,998
Non-operating expense (income), net:								
Interest expense	94,922	25,738	9,624	224,258	—	—	(157)	354,385
Amortization of debt discount and expense	(15,702)	(3,034)	(1,793)	(7)	—	—	—	(20,536)
Investment income	(14,711)	(3,547)	(771)	(10,060)	(668)	(5)	157	(29,605)
Net change in the fair value of financial instruments	(20,037)	(2,310)	105	439	193	—	—	(21,610)
Interest capitalized	(6,203)	(433)	—	(113,525)	—	—	—	(120,161)
U.S. Treasury cash subsidy on Build America Bonds	—	—	—	(57,287)	—	—	—	(57,287)
Total non-operating expense (income), net	38,269	16,414	7,165	43,818	(475)	(5)	—	105,186
Change in:								
Net costs to be recovered from Participants	—	—	—	(22,592)	—	—	—	(22,592)
Competitive Trust obligations	—	—	—	—	(42,596)	—	—	(42,596)
Total change in net costs to be recovered from Participants or Competitive Trust obligations	—	—	—	(22,592)	(42,596)	—	—	(65,188)
Net Revenues	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

The accompanying Notes are an integral part of these consolidated financial statements.

# 2017 Consolidated Statement of Cash Flows

For the Year Ended December 31, 2017 (in thousands)	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total
Cash flows from operating activities:								
Cash received from Participants	\$ 382,928	\$ 167,675	\$ 99,367	\$ 8,278	\$ (234)	\$ (382)	\$ —	\$ 657,632
Cash received from others	52,395	44,858	13,044	13,042	—	103	—	123,442
Cash paid for operating expenses	(221,379)	(101,704)	(77,740)	1,046	(247)	(115)	—	(400,139)
Competitive Trust funding	43,022	—	—	—	(43,022)	—	—	—
Net cash provided by (used in) operating activities	256,966	110,829	34,671	22,366	(43,503)	(394)	—	380,935
Cash flows from investing activities:								
Sales and maturities of investment securities	444,629	116,237	29,770	949,799	245,216	—	—	1,785,651
Purchase of investment securities	(377,109)	(123,320)	(21,757)	(589,124)	(174,542)	—	—	(1,285,852)
Investment income receipts	9,495	2,329	600	5,552	8,412	5	(157)	26,236
Distribution from Alliance	7,899	—	—	—	—	—	—	7,899
Contributions from Participants	—	—	—	—	17,998	—	—	17,998
Net cash provided by (used in) investing activities	84,914	(4,754)	8,613	366,227	97,084	5	(157)	551,932
Cash flows from capital and related financing activities:								
Property additions	(121,756)	(37,501)	(54)	(484,443)	—	—	—	(643,754)
Proceeds from the Guarantee Settlement Agreement	—	—	—	835,360	—	—	—	835,360
Net payments on lines of credit and other short-term debt	(136,150)	(4,155)	—	—	—	—	—	(140,305)
Proceeds from issuance of long-term debt	—	—	—	26,256	—	—	—	26,256
Retirement of long-term debt	(133,925)	(66,436)	(19,115)	(31,172)	—	—	—	(250,648)
Interest payments	(92,001)	(25,664)	(8,510)	(223,430)	—	—	157	(349,448)
U.S. Treasury cash subsidy on Build America Bonds	—	—	—	57,241	—	—	—	57,241
Advance payments from Participants for New Generation and Capacity Funding	—	—	—	—	20,047	—	—	20,047
Net cash (used in) provided by capital and related financing activities	(483,832)	(133,756)	(27,679)	179,812	20,047	—	157	(445,251)
Increase (decrease) in cash and cash equivalents	(141,952)	(27,681)	15,605	568,405	73,628	(389)	—	487,616
Cash and cash equivalents at beginning of year	418,624	200,492	34,928	679,716	191,852	920	—	1,526,532
Cash and cash equivalents at end of year	276,672	172,811	50,533	1,248,121	265,480	531	—	2,014,148
Other investment securities and accrued interest receivable at end of year	516,985	121,459	24,755	294,124	325,084	—	(140,800)	1,141,607
Special funds, Supplemental power account and Securities lending collateral at end of year	\$ 793,657	\$ 294,270	\$ 75,288	\$ 1,542,245	\$ 590,564	\$ 531	\$ (140,800)	\$ 3,155,755
Reconciliation of net operating revenues (loss) to net cash provided by (used in) operating activities:								
Net operating revenues (loss)	\$ 38,269	\$ 16,414	\$ 7,165	\$ 21,226	\$ (43,071)	\$ (5)	\$ —	\$ 39,998
Adjustments to reconcile net operating revenues (loss) to net cash from operating activities:								
Depreciation and amortization	133,419	33,239	9,065	—	—	726	—	176,449
Pensions and other postemployment benefits	141	39	12	66	—	—	—	258
Deferred inflows of resources	105,289	69,281	15,675	—	—	(726)	—	189,519
Share of net revenues from Alliance	(7,704)	—	—	—	—	—	—	(7,704)
Change in current assets and liabilities:								
Accounts receivable	1,660	855	(362)	2	(233)	4	—	1,926
Fuel stocks	1,781	10	—	—	—	—	—	1,791
Materials, supplies and other assets	1,228	19	601	—	—	—	—	1,848
Accounts payable and other liabilities	(17,117)	(9,028)	2,515	1,072	(199)	(393)	—	(23,150)
Net cash provided by (used in) operating activities	\$ 256,966	\$ 110,829	\$ 34,671	\$ 22,366	\$ (43,503)	\$ (394)	\$ —	\$ 380,935

The accompanying Notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

*For the Years Ended December 31, 2018 and 2017*

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## 1. THE ORGANIZATION

### (A) REPORTING ENTITY

The Municipal Electric Authority of Georgia (MEAG Power) is a public corporation and an instrumentality of the State of Georgia (the State or Georgia), created by the State for the purpose of owning and operating electric generation and transmission facilities to supply bulk electric power to political subdivisions of the State which owned and operated electric distribution systems as of March 18, 1975, and which contracted with MEAG Power for the purchase of wholesale power. The statute under which it was created (the Act) provides that MEAG Power will establish rates and charges so as to produce revenues sufficient to cover its costs, including debt service, but it may not operate any of its projects for profit, unless any such profit inures to the benefit of the public. Forty-eight cities and one county in the State (the Participants) have contracted with MEAG Power for bulk electric power supply needs.

MEAG Power's assets include ownership interests in 10 electric generating units, which all have been placed in service. In addition, MEAG Power may purchase from, sell to or exchange with other bulk electric suppliers additional capacity and energy in order to enhance the Participants' bulk power supply. MEAG Power's ownership interests in those 10 generating units represent 2,069 megawatts (MW) of nominally rated generating capacity, consisting of 808 MW of nuclear-fueled capacity, 750 MW of coal-fired capacity, 503 MW of combined cycle capacity and 8 MW of combustion turbine capacity. MEAG Power also has an ownership interest, through the Project Entities, as discussed herein, in two additional nuclear generating units under construction at Generation Station Vogtle, Unit Nos. 3 (Vogtle Unit 3) and 4 (Vogtle Unit 4) (collectively, Vogtle Units 3&4), which represent 500 MW of nominally rated generating capacity. MEAG Power also owns transmission facilities that, together with those of other utilities, form a statewide, integrated transmission system (ITS).

MEAG Power is comprised of the following projects/funds, all defined herein:

- Project One;
- General Resolution Projects;
- Combined Cycle Project;
- Vogtle Units 3&4 Projects and Project Entities;
- Municipal Competitive Trust; and
- Telecom Project.

### (B) PROJECT ONE AND THE GENERAL RESOLUTION PROJECTS

Project One, established and financed under the Power Revenue Bond Resolution, consists of undivided ownership interests in nine generating units, separately owned transmission facilities and working capital. Projects Two, Three and Four (the General Resolution Projects), established and financed under the General Power Revenue Bond Resolution, consist of additional undivided ownership interests in seven generating units.

The resolutions require that payments by the Participants for electric power be deposited in special funds and be used only for operating costs, debt service and other stipulated purposes. The resolutions also establish specific funds to hold assets for payment of acquisition costs. Other funds are used to hold assets not subject to the restrictions of the resolutions but designated for specific purposes. Power Sales Contracts between MEAG Power and each of the Participants (Power Sales Contracts) require MEAG Power to provide, and the Participants to purchase from MEAG Power, bulk power supply as defined in the contracts. Each Participant is obligated to pay its share of the operating and debt service costs.

During 2004, MEAG Power and each Participant executed an amendment to their Power Sales Contracts (the Amendments) for Project One and the General Resolution Projects which, in part, extended the terms of such contracts until June 2054. The Amendments also revised the method used to allocate the output, services and costs of the General Resolution Projects after the initial term of the related Power Sales Contracts. In addition, the Amendments provided that MEAG Power not extend the term of any existing generation debt outstanding as of November 3, 2004, exclusive of certain working capital debt components, beyond March 1, 2026 for Project One and dates ranging from February 1, 2028 through November 16, 2033 for the General Resolution Projects.

Supplemental bulk power supply is that portion of the Participants' bulk power supply in excess of their entitlement to the output and related services of Project One and the General Resolution Projects. Payments received from the Participants for supplemental bulk power supply are not pledged under either resolution. Supplemental bulk power supply revenue and costs are included in the financial statements of Project One.

Inter-Participant agreements (IP agreements) are utilized by the Participants to improve their respective power supply resource mix. Four Participants have entered into long-term, life-of-the-facility IP agreements to sell the rights to a portion of their Project One output (Selling Participants) to three other Participants. The obligation of the Selling Participants to pay their share of the operating and debt service costs under their respective Project One Power Sales Contracts is not affected.

### (C) COMBINED CYCLE PROJECT

The Combined Cycle Project (CC Project) is wholly owned by MEAG Power and consists of a natural gas-fired combined-cycle facility that has a nominal summer capacity of 503 MW. The facility, which is also known as Wansley Unit 9 (Wansley Unit 9), includes two combustion turbines, two supplementary fired heat recovery steam generators, and one steam turbine. The 37 Participants in the CC Project (CC Participants) include the initial 32 Participants (the Initial CC Participants) that entered into a CC Project Power Sales Contract (CC Project Power Sales Contract) in 2003, as well as five additional Participants that became CC Participants between 2007 and 2012 through the execution of additional CC Project Power Sales Contracts and assignment agreements with certain of the Initial CC Participants with respect to portions of such Initial CC Participants' interests in the output of the CC Project. MEAG Power and each of the CC Participants have amended their applicable CC Project Power Sales Contract, which allows MEAG Power to utilize a credit facility for the purpose of funding, on an interim basis, certain CC Project costs, including fuel costs, capital costs and working capital requirements.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### (D) VOGTLE UNITS 3&4 PROJECTS AND PROJECT ENTITIES

#### Key Recent Developments

Key recent developments pertaining to Vogtle Units 3&4 are outlined below. Additional information and definitions of certain terms are in this Note of these Notes to Consolidated Financial Statements (Notes).

- The U.S. Internal Revenue Service allocated production tax credits (PTCs) to each of Vogtle Units 3&4, which originally required the applicable unit to be placed in service before 2021. The Bipartisan Budget Act of 2018, signed into law on February 9, 2018, removed the deadline for these PTCs by allowing for new nuclear reactors placed in service after December 31, 2020 to qualify for the nuclear PTCs. It also provided a modification to prior law to allow public power utilities, such as MEAG Power, to utilize the credits. The passage of this bill allows MEAG Power to monetize the tax credits to reduce the cost of the output of the Vogtle Units 3&4 Project Entities' ownership shares of the project.
- On February 12, 2018, Georgia Interfaith Power & Light, Inc. (GIPL) and Partnership for Southern Equity, Inc. (PSE) filed a petition appealing the Georgia Public Service Commission's (GPSC) January 11, 2018 order with the Fulton County, Georgia Superior Court (Fulton County Superior Court). On March 8, 2018, Georgia Watch filed a similar appeal to the Fulton County Superior Court for judicial review of the GPSC's decision and denial of Georgia Watch's motion for reconsideration. On December 21, 2018, the Fulton County Superior Court granted Georgia Power Company's (GPC) motion to dismiss the two appeals. On January 9, 2019, GIPL, PSE and Georgia Watch filed an appeal of this decision with the Georgia Court of Appeals. GPC has reported that it believes the appeal has no merit; however, an adverse outcome in this appeal combined with subsequent adverse action by the GPSC could have a material impact on GPC's ability to proceed with and complete construction of Vogtle Units 3&4 and, therefore, on MEAG Power's results of operations, financial condition, and liquidity.
- During mid-2018, GPC advised the other Vogtle Co-Owners that it became aware that the estimated future Vogtle Units 3&4 costs were projected to exceed the corresponding budgeted amounts included in the VCM 17 Report. Following this analysis, GPC proposed an increased construction budget and included a revised estimate to complete in the VCM 19 Report. This revised project budget included a \$2.4 billion increase, including a project-level contingency in an amount of \$800 million, as compared to the VCM 17 Report. The scheduled in-service dates of November 2021 and November 2022 for Vogtle Units 3&4, respectively, did not change in connection with these budget revisions.
- On September 11, 2018, after MEAG Power determined that JEA had indicated a clear intent to breach its contract, abandon its obligations, undermine MEAG Power's ability to perform and attempt to force MEAG Power's hand in the vote for continuing construction of Vogtle Units 3&4, MEAG Power sued JEA in the United States District Court, Northern District of Georgia (U.S. District Court — Georgia). MEAG Power's complaint alleged that JEA repudiated and breached the Project J PPA. JEA and the City of Jacksonville sued MEAG Power in the Circuit Court of Duval County, Florida later that same day (Florida Action). JEA and the City of Jacksonville allege that JEA "acted beyond the limits of its authority by entering into the PPA in violation of the constitution, laws, and public policy of the state of Florida, rendering the PPA ultra vires, void and unenforceable." MEAG Power timely removed the Florida Action to the United States District Court, Middle District of Florida (U.S. District Court — Florida) and filed a motion to dismiss for lack of personal jurisdiction or, in the alternative, to transfer the case to the U.S. District Court — Georgia. JEA and the City of Jacksonville filed a motion to remand the case to Florida state court. All of these motions are pending.
- By September 26, 2018, the Vogtle Co-Owners had unanimously voted to continue construction of Vogtle Units 3&4.
- MEAG Power expects that, based on the current estimated in-service dates of November 2021 and November 2022 for Vogtle Unit 3 and Vogtle Unit 4, respectively, the Vogtle Units 3&4 Project Entities' estimated in-service cost will be approximately \$6.5 billion, including construction costs, financing costs through the estimated in-service dates, contingencies, initial fuel load costs, and switchyard and transmission costs. Additional financing needs relating to reserve funds and other fund deposits required under MEAG Power's and the Vogtle Units 3&4 Project Entities' financing documents result in total financing needs of approximately \$7.0 billion, of which approximately \$2.2 billion (as of March 31, 2019) of additional funding will be required.
- In late 2018, the first four nuclear units to utilize Westinghouse's AP1000 technology began commercial operation in China. One of these units recently experienced a failure of one of its four reactor coolant pumps and is not operating pending determination of the cause of the failure and replacement of the pump. The other three nuclear units remain in operation.
- On February 18, 2019, the Vogtle Co-Owners entered into certain amendments to the Vogtle Joint Ownership Agreements (the Global Amendments).
- Pursuant to the Global Amendments, GPC has agreed to purchase additional PTCs from OPC, Dalton and the Project Entities (to the extent any PTC rights of SPVJ remain after any purchases required under the MEAG Funding Agreement) at varying purchase prices dependent upon the actual cost to complete construction of Vogtle Units 3&4 as compared to the EAC reflected in the VCM 19 Report.
- If SPVJ is unable to make its payments due under the Vogtle Joint Ownership Agreements solely as a result of the occurrence of certain situations that materially impedes access to capital markets for MEAG Power for Project J, at MEAG Power's request, GPC will purchase from SPVJ the rights to PTCs attributable to SPVJ's share of Vogtle Units 3&4 (approximately 206 MWs) within 30 days of such request at varying prices dependent upon the stage of construction of Vogtle Units 3&4. The aggregate purchase price of the PTCs, together with certain other advances, shall not exceed \$300 million.
- On February 21, 2019, the Federal Energy Regulatory Commission (FERC) voted, unanimously, to dismiss a request by JEA to intervene in JEA's ongoing dispute with MEAG Power over the Project J PPA. In its ruling, FERC found that it had no statutory jurisdiction over the agreement in particular or public power utilities in general. Accordingly, FERC dismissed JEA's petition.
- The United States, acting on behalf of the U.S. Department of Energy (DOE), has also filed a statement of interest in related litigation urging the federal court for the U.S. District Court — Florida to deny JEA's attempt to have the matter remanded to state court on the grounds that a matter involving strong federal interests should be decided by federal courts.
- On March 22, 2019, the Project Entities closed on \$414.7 million in additional loan guarantees from the DOE toward construction of the Project Entities' respective shares of Vogtle Units 3&4. In connection with that closing, each Project Entity entered into an amendment and restatement of its Original LGA, as theretofore amended (each such Original LGA, as so amended and restated, being hereinafter referred to as an LGA), in order, among other things, to reflect the Replacement EPC Arrangements discussed below and to facilitate additional draws.



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

- On April 9, 2019, a federal judge in the U.S. District Court — Georgia issued a ruling dismissing MEAG Power's suit against JEA. The judge made no decision as to the underlying merits of MEAG Power's claim regarding the enforceability of the Project J PPA. Rather, the U.S. District Court — Georgia determined that MEAG Power failed to show that JEA's actions prior to the filing of the complaint constituted a violation of Project J PPA's cooperation clause. The U.S. District Court — Georgia's decision was without prejudice as to MEAG Power's ability to refile its claim seeking a declaratory judgment regarding the enforceability of the Project J PPA, and JEA has indicated that, until a court determines otherwise, it currently intends to comply by making payments due under the Project J PPA. MEAG Power believes that the U.S. District Court — Georgia misapplied the procedural law relating to standing, and made other errors, including denying MEAG Power the opportunity to amend its complaint in the Georgia Action. On April 10, 2019, MEAG Power filed a Notice of Appeal of the U.S. District Court — Georgia's Order in the United States Court of Appeals for the Eleventh Circuit. The Florida Action is subject to pending motions, which will dictate if, how, and where that action may proceed. MEAG Power believes that JEA's claims are without merit and that MEAG Power will prevail in these proceedings.
- On April 29, 2019, MEAG Power announced that it and JEA have commenced negotiations in an attempt to arrive at a mutually beneficial commercial resolution of their dispute.

### History

As discussed below, MEAG Power, GPC, Oglethorpe Power Corporation (OPC) and the City of Dalton, Georgia (Dalton) (collectively, the Original Vogtle Co-Owners) agreed to expand the facilities at Generation Station Vogtle located in Burke County, Georgia, by developing two additional nuclear generating units, Vogtle Units 3&4. Vogtle Units 3&4 will consist of two Westinghouse Electric Company LLC (Westinghouse) AP1000 reactors, each with a nominally rated generating capacity of 1,102 MW.

MEAG Power acquired a 22.7% undivided ownership interest in Vogtle Units 3&4, representing 500.3 MW of nominally rated generating capacity, for the purpose of serving the future loads of the Participants. MEAG Power determined that Vogtle Units 3&4 will enable it to serve a significant portion of the projected baseload needs of the Participants and potentially offset the retirement of some of MEAG Power's other generating resources.

GPC was designated as the agent of the Original Vogtle Co-Owners and authorized to develop, license, engineer, contract, operate and maintain Vogtle Units 3&4 on behalf of the Original Vogtle Co-Owners. The Nuclear Regulatory Commission (NRC) certified the Westinghouse Design Control Document, as amended (DCD), for the AP1000 nuclear reactor design in late 2011, and issued Combined Construction and Operating Licenses (COLs) for Vogtle Units 3&4 in early 2012. Receipt of the COLs allowed full construction to begin. Legal challenges filed immediately after COL issuance were dismissed by court order for lack of merit.

### Structure and DOE Guaranteed Loans

#### Vogtle Units 3&4 Projects

Since a portion of the output and services of MEAG Power's interest in Vogtle Units 3&4 initially was expected to be surplus to the Participants' needs, for the initial 20 years of commercial operation of each of Vogtle Units 3&4, MEAG Power sold 66.1% of the output and services associated with its Vogtle Units 3&4 interest through take-or-pay power purchase agreements (PPA) to two buyers, as discussed below. MEAG Power initially structured its ownership interest in Vogtle Units 3&4 as three separate projects, Project M, Project J and Project P, collectively referred to herein as the Vogtle Units 3&4 Projects and summarized as follows:

Vogtle Units 3&4 Projects	PPA Buyer	Percentage of MEAG Power's Total Ownership	MW	Output and Services
Project M	Not Applicable	33.9%	169.5	(1)
Project J	JEA	41.2%	206.0	(2)
Project P	PowerSouth	24.9%	124.8	(2)

(1) The output and services of Project M will be provided to the 29 Participants who have executed take-or-pay Project M Power Sales Contracts (Project M Participants) commencing as of the commercial operation date (COD) of each of Vogtle Units 3&4. The Project M Participants shall be responsible for payment of their respective shares of all of MEAG Power's costs relating to Project M. The payment obligations of each of the Project M Participants are general obligations to which its full faith and credit are pledged. Each Project M Power Sales Contract, as amended and discussed below, will continue in full force and effect for a term not to exceed 50 years from December 31, 2014.

(2) The output and services of Project J will be provided to JEA, a publicly owned electric, water and wastewater (sewer) utility and an independent agency of the City of Jacksonville, Florida, and the Project J Participants, and the output and services of Project P will be provided to PowerSouth Energy Cooperative (PowerSouth), a rural electric generation and transmission cooperative located in Andalusia, Alabama, and the Project P Participants. The Project J and Project P Participants are defined below. The Project J PPA and the Project P PPA require: (a) MEAG Power to sell to JEA and PowerSouth all of the capacity, energy and related services of Project J and Project P, respectively, for the first 20 years of commercial operation of each of Vogtle Units 3&4 and (b) JEA and PowerSouth to pay to MEAG Power the following related to its purchased share of output: (i) 100% of the interest and principal (Project J and Project P Debt Service) on Project J Bonds or Project P Bonds, as applicable (see Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Financing of Vogtle Units 3&4 Projects and Project Entities"), and on the respective Project Entity's DOE Guaranteed Loan (see "DOE Loan Guarantee Program" section of this Note), for the first 20 years from the respective dates that MEAG Power commences the billing of principal of and interest on each series of bonds and on each advance under the respective Project Entity's DOE Guaranteed Loan and (ii) 100% of Project J and Project P total costs in a given year, other than Project J and Project P Debt Service, for the first 20 years following the COD of each unit. In the event that MEAG Power issues Project J or Project P bonds for either or both of Vogtle Units 3&4 after their respective CODs, or issues refunding bonds for Project J or Project P, the time periods during which JEA or PowerSouth, respectively, is obligated under the applicable PPA regarding Project J and Project P Debt Service on such bonds may differ from the 20-year time periods described above.

The Project J Participants and the Project P Participants are required to pay the principal of and interest on each series of Project J or Project P Bonds, as applicable, and on each advance under the respective Project Entity's DOE Guaranteed Loan, commencing with the month following the last month for which JEA or PowerSouth, as applicable, is obligated to pay such principal or interest. Following the twentieth anniversary of the COD of each of Vogtle Units 3&4, the output and services of Project J and Project P derived from such units shall be provided to the 39 Participants who have executed take-or-pay Power Sales Contracts for Project J and Project P (the Project J and Project P Participants, respectively, and, together with the Project M Participants, hereinafter referred to as the Vogtle Units 3&4 Participants). At such time, the Project J and Project P Participants become responsible for payment of their respective shares of all of MEAG Power's costs relating to Project J and Project P, other than Project J and Project P Debt Service (which is payable as described above). The payment obligations of each of the Project J and Project P Participants are general obligations to which its full faith and credit are pledged. Each Project J Power Sales Contract and Project P Power Sales Contract, as amended and discussed below, will continue in full force and effect for a term not to exceed 50 years from December 31, 2014.



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### **DOE Loan Guarantee Program**

In order to provide a potential source of financing for its interest in Vogtle Units 3&4 and augment its financing alternatives, in 2008 MEAG Power submitted an application to the DOE for loans guaranteed by DOE pursuant to the Federal loan guarantee solicitation for nuclear projects employing new or significantly improved technology issued under Title XVII of the Energy Policy Act of 2005 (Title XVII Loan Guarantee Program). DOE selected Vogtle Units 3&4 as such a nuclear project and issued a conditional commitment to guarantee loans to be made by the Federal Financing Bank (FFB) to three wholly-owned, special-purpose, limited-liability subsidiaries to be formed by MEAG Power in the aggregate principal amount including capitalized interest of up to \$1.8 billion (Original DOE Guaranteed Loans).

Concurrently with the transfer of MEAG Power's undivided ownership in Vogtle Units 3&4 to the Vogtle Units 3&4 Project Entities (as discussed in the "Vogtle Units 3&4 Project Entities" section of this Note), each Vogtle Units 3&4 Project Entity entered into, among other agreements, a Loan Guarantee Agreement (Original LGA) with DOE. Under each Original LGA, the applicable Vogtle Units 3&4 Project Entity may request advances up to a specified maximum amount (collectively, Advances) until the earliest to occur of (i) December 31, 2020, (ii) the date on which available FFB credit is fully utilized or the commitment is terminated, or (iii) termination of the applicable Project Entity's right to request advances. Proceeds of Advances are used to reimburse each Project Entity (see the "Vogtle Units 3&4 Project Entities" section of this Note) for certain costs of construction relating to Vogtle Units 3&4 that are eligible for DOE-guaranteed loans (Eligible Project Costs).

Each LGA provides that the DOE Guaranteed Loan thereunder is secured by a first priority lien on various assets (the Collateral) including, among other things, the applicable Project Entity's rights or interests in: (i) Vogtle Units 3&4 (primarily the units under construction, the related real property, and any nuclear fuel loaded in the reactor core) and (ii) the Project Entities' rights and obligations under the principal contracts relating to Vogtle Units 3&4.

Future Advances are subject to satisfaction of customary conditions, as well as certification of compliance with the requirements of the Title XVII Loan Guarantee Program, including accuracy of project-related representations and warranties, delivery of updated project-related information, and evidence of compliance with the prevailing wage requirements of the Davis-Bacon Act of 1931, as amended, and certification from the DOE's consulting engineer that proceeds of the Advances are used to reimburse Eligible Project Costs.

Advances may be requested on a quarterly basis (a) in the case of the original DOE loan guarantees, through December 31, 2020 and (b) in the case of the additional DOE loan guarantees, through November 30, 2023. The DOE Guaranteed Loans have a final maturity date of April 2, 2045. Each Advance to a Project Entity under its DOE Guaranteed Loan is evidenced by a promissory note issued to the FFB (FFB Promissory Note). The maximum amount that a Project Entity may borrow under its DOE Guaranteed Loan and capitalized interest thereon has been allocated among the various FFB Promissory Notes of such Project Entity and the Advances evidenced by each such FFB Promissory Note will bear interest at the applicable U.S. Treasury rate plus a spread equal to 0.375%. Interest is payable quarterly and principal payments will begin on October 2, 2019.

During 2018 and 2017, the Project Entities obtained Advances for payment of certain capitalized interest pertaining to the DOE Guaranteed Loans totaling \$28.5 million and \$27.5 million, respectively. At both December 31, 2018 and 2017, the Project Entities had a total of \$1.2 billion of Advances outstanding.

On March 22, 2019, the Project Entities closed on \$414.7 million in additional DOE loan guarantees toward construction of the Project Entities' respective shares of Vogtle Units 3&4. In connection with that closing, each Project Entity entered into

an LGA, in order, among other things, to reflect the Replacement EPC Arrangements discussed below and to facilitate additional draws.

Under each LGA, the applicable Project Entity is subject to customary borrower affirmative and negative covenants and events of default. In addition, each Project Entity is subject to project-related reporting requirements and other project-specific covenants and events of default.

In the event certain events of default occur under an LGA, the FFB's commitment to make further Advances to the applicable Project Entity will terminate. Upon the occurrence of such events of default, subject to certain conditions, DOE is permitted to take possession of the Collateral, but the scheduled repayment of the Advances cannot be accelerated. Among other things, these events of default include the termination of the Vogtle Services Agreement. Under certain circumstances, insurance proceeds and any proceeds from an event of taking must be applied to prepay outstanding Advances. In addition, under certain circumstances, including (a) if a particular Project Entity decides to discontinue construction of Vogtle Units 3&4 or the Vogtle Services Agreement is terminated or rejected in a bankruptcy proceeding and such Project Entity does not maintain access to intellectual property rights under the intellectual property licenses (IP Licenses) and (b) if outstanding Advances exceed a specified percentage of Eligible Project Costs, net of the proceeds received by such Project Entity under the Guarantee Settlement Agreement (see "EPC Contract and Construction" section of this Note), within 14 days of November 30, 2023, such Project Entity would be obligated to prepay a portion of the outstanding Advances. Each Project Entity also may voluntarily prepay outstanding Advances. Under the FFB Promissory Notes, any prepayment (whether mandatory or optional) will be made with a make-whole premium or discount, as applicable.

In connection with a cancellation of Vogtle Units 3&4, the DOE may elect to continue construction of Vogtle Units 3&4. In such an event, the DOE will have the right to assume the Project Entities' rights and obligations under the principal agreements relating to Vogtle Units 3&4 and to acquire all or a portion of the Project Entities' ownership interests in Vogtle Units 3&4.

### **Vogtle Units 3&4 Project Entities**

On June 24, 2015, in order to permit each Vogtle Units 3&4 Project Entity to secure its Original DOE Guaranteed Loan by a first-priority perfected security interest in, among other things, such Project Entity's undivided ownership interest in Vogtle Units 3&4, and thereby permit the Vogtle Units 3&4 Project Entities to obtain \$1.1 billion in initial advances of Original DOE Guaranteed Loans from the FFB, MEAG Power divided its undivided ownership interest in Vogtle Units 3&4, as specified above in the "Vogtle Units 3&4 Projects" section of this Note, into three separate undivided interests and transferred such interests and nominally rated generating capacity to the following special-purpose, limited liability companies (LLCs), organized and existing under the laws of the State, of which MEAG Power is the sole member:

- transferred approximately 33.9% of its ownership interest, representing 169.5 MW attributable to Project M, to MEAG Power SPVM, LLC (the Project M Entity or SPVM);
- transferred approximately 41.2% of its ownership interest, representing 206.0 MW attributable to Project J, to MEAG Power SPVJ, LLC (the Project J Entity or SPVJ); and
- transferred approximately 24.9% of its ownership interest, representing 124.8 MW attributable to Project P, to MEAG Power SPVP, LLC (the Project P Entity or SPVP) and, together with the Project M Entity and the Project J Entity, referred to as the Vogtle Units 3&4 Project Entities (Project Entities).

# Notes to Consolidated Financial Statements

## *For the Years Ended December 31, 2018 and 2017*

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In contemplation of the transfers described above, MEAG Power and each of the Project Entities entered into a Wholesale Power Sales Agreement, pursuant to which (a) MEAG Power is entitled to all of the capacity and output of such Project Entity's ownership interest in Vogtle Units 3&4 and (b) MEAG Power is obligated to pay such Project Entity all of its costs and expenses (including debt service on such Project Entity's DOE Guaranteed Loan, except for certain situations pertaining to Project J and Project P) in connection with the ownership and operation of such Project Entity's ownership interest in Vogtle Units 3&4. As a result, each of the Vogtle Units 3&4 Projects now includes all of MEAG Power's right, title and interest in and to the capacity and output of the related Project Entity's ownership interest in Vogtle Units 3&4, but does not include such ownership interest.

Also in contemplation of those transfers, (a) MEAG Power and the Vogtle Units 3&4 Participants entered into amended and restated power sales contracts, (b) MEAG Power and JEA entered into an amended and restated PPA and (c) MEAG Power and PowerSouth entered into an amended and restated PPA, in each such case, effective as of the date of such transfer, in order to, among other things, (i) extend the term of each such contract and agreement, so that each such contract and agreement shall remain in effect for not to exceed 50 years from December 31, 2014, (ii) reflect such transfers of MEAG Power's ownership interest in Vogtle Units 3&4 and (iii) provide that the payment obligations of the Vogtle Units 3&4 Participants, JEA and PowerSouth, respectively, shall include all costs and expenses of the applicable Project Entity (including scheduled debt service on such Project Entity's DOE Guaranteed Loan) resulting from the ownership, operation and maintenance of, and renewals and replacements to, the applicable Project Entity's ownership interest.

In contemplation of MEAG Power's transfer of its ownership interest in Vogtle Units 3&4 to the Project Entities, in February 2014, the Original Vogtle Co-Owners amended certain previous agreements in order to, among other things, permit MEAG Power to assign to the Project Entities, and permit the Project Entities to assume, MEAG Power's rights and obligations thereunder with respect to Vogtle Units 3&4. As a result of such assignment and assumption, the term Vogtle Co-Owners includes GPC, OPC, Dalton and the Project Entities, and does not include MEAG Power.

Additional information regarding financing of Vogtle Units 3&4 and the DOE Guaranteed Loans is included in Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Financing of Vogtle Units 3&4 Projects and Project Entities" and certain other sections of that Note.

### **EPC Contract and Construction**

In 2008, GPC, on behalf of itself and the other Original Vogtle Co-Owners, entered into an Engineering, Procurement and Construction Contract (EPC Contract) with a consortium consisting of Westinghouse and a company which later became its affiliate as WECTEC Global Project Services Inc., collectively, the Contractor. Pursuant to the EPC Contract, the Contractor agreed to design, engineer, procure, construct and test Vogtle Units 3&4. Certain obligations of the Contractor under the EPC Contract, including any liability of the Contractor for abandonment of work, were guaranteed by Westinghouse's parent company, Toshiba Corporation (Toshiba) (the Toshiba Guarantee). As a result of MEAG Power's transfer of its ownership interest in Vogtle Units 3&4 to the Project Entities, the Project Entities assumed MEAG Power's rights and obligations under the EPC Contract, in proportion to their respective undivided ownership interests in Vogtle Units 3&4.

Until March 2017, construction on Vogtle Units 3&4 continued under the EPC Contract, which was a substantially fixed price agreement. In March 2017, the Contractor filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. In connection with the Contractor's bankruptcy filing, GPC, acting for itself and as agent for the other Vogtle Co-Owners, entered into several transitional arrangements to allow construction to continue.

In June 2017, GPC and the other Vogtle Co-Owners and Toshiba entered into a settlement agreement regarding the Toshiba Guarantee (Guarantee Settlement Agreement). Pursuant to the Guarantee Settlement Agreement, Toshiba acknowledged the amount of its obligation was \$3.68 billion, of which the Project Entities' proportionate share was \$835.4 million, which Toshiba satisfied in December 2017.

Additionally, in June 2017, GPC, acting for itself and as agent for the other Vogtle Co-Owners, and the Contractor entered into (a) a services agreement between the Vogtle Co-Owners and the Contractor, as amended and restated in July 2017, for the Contractor to transition construction management of Vogtle Units 3&4 to Southern Nuclear Operating Company, Inc., an affiliate of GPC and the operating agent for Vogtle Units 3&4 (Southern Nuclear) and to provide ongoing design, engineering, and procurement services to Southern Nuclear (the Vogtle Services Agreement) and (b) the related IP Licenses (the Vogtle Services Agreement and the IP Licenses, together with the Construction Agreement discussed below, the Replacement EPC Arrangements). Under the Vogtle Services Agreement, Westinghouse provides facility design and engineering services, procurement and technical support, and staff augmentation on a time and materials cost basis. The Vogtle Services Agreement provides that it will continue until the start-up and testing of Vogtle Units 3&4 are complete and electricity is generated and sold from both units. The Vogtle Services Agreement is terminable by the Vogtle Co-Owners upon 30 days' written notice.

In August 2017, following completion of comprehensive cost to complete and cancellation cost assessments, GPC filed the seventeenth Vogtle Construction Monitoring (VCM) report (VCM 17 Report) with the GPSC, which included a recommendation to continue construction of Vogtle Units 3&4, with Southern Nuclear serving as project manager, the Contractor providing engineering services and Bechtel Power Corporation (Bechtel) serving as the primary construction contractor.

In October 2017, GPC, acting for itself and as agent for the other Vogtle Co-Owners, entered into a Construction Completion Agreement (the Construction Agreement) with Bechtel, whereby Bechtel serves as the primary contractor for the remaining construction activities for Vogtle Units 3&4. The Construction Agreement is a cost reimbursable plus fee arrangement, whereby Bechtel is reimbursed for actual costs plus a base fee and an at-risk fee, which is subject to adjustment based on Bechtel's performance against cost and schedule targets. Each Vogtle Co-Owner is severally (not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to Bechtel under the Construction Agreement. The Vogtle Co-Owners may terminate the Construction Agreement at any time for their convenience, provided that the Vogtle Co-Owners will be required to pay amounts related to work performed prior to the termination (including the applicable portion of the base fee), certain termination-related costs, and, at certain stages of the work, the applicable portion of the at-risk fee. Bechtel may terminate the Construction Agreement under certain circumstances, including certain Vogtle Co-Owner suspensions of work, certain breaches of the Construction Agreement by the Vogtle Co-Owners, Vogtle Co-Owner insolvency, and certain other events.

In December 2016, the GPSC approved a settlement agreement with GPC (the Vogtle Cost Settlement Agreement) resolving certain prudence matters in connection with the fifteenth VCM report. In December 2017, the GPSC voted to approve (and issued its related order on January 11, 2018) certain recommendations made by GPC in the VCM 17 Report and modifying the Vogtle Cost Settlement Agreement. The Vogtle Cost Settlement Agreement, as modified by the January 11, 2018 order, resolved the following regulatory matters related to Vogtle Units 3&4: (i) none of the costs incurred by GPC through December 31, 2015 and reflected in the fourteenth VCM report should be disallowed from GPC's rate base on the basis of imprudence; (ii) the Contractor Settlement Agreement (a 2015 definitive settlement agreement to resolve disputes between the Vogtle Co-Owners and the Contractor under the

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

EPC Contract) was reasonable and prudent and none of the amounts paid pursuant to it should be disallowed from GPC's rate base on the basis of imprudence; (iii) construction of Vogtle Units 3&4 should be completed, with Southern Nuclear serving as project manager and Bechtel as primary contractor; (iv) GPC's revised schedule placing Vogtle Units 3&4 in service in November 2021 and November 2022, respectively, was approved and deemed reasonable; (v) the revised cost forecast was confirmed, although the GPSC stated that it does not represent a cost cap and that prudence decisions on cost recovery will be made at a later date, consistent with applicable Georgia law; and (vi) various other matters specific to GPC. In its January 11, 2018 order, the GPSC also stated if other certain conditions and assumptions upon which GPC's VCM 17 Report are based upon do not materialize, the GPSC reserved the right to reconsider the decision to continue construction.

### Cost and Schedule

During the latter part of the Second Quarter through the early part of the Third Quarter of 2018, GPC advised the other Vogtle Co-Owners that it became aware that the estimated future Vogtle Units 3&4 costs were projected to exceed the corresponding budgeted amounts included in the VCM 17 Report (which, for Vogtle Units 3&4 in their entirety, corresponded to \$15.0 billion, exclusive of financing costs, of which the aggregate shares of the Vogtle Units 3&4 Project Entities was \$3.4 billion). Upon discovery of these variances, the Vogtle Co-Owners requested Southern Nuclear perform a full cost analysis and reforecast of the cost to complete Vogtle Units 3&4 and engaged an international consulting firm to independently assess this analysis and reforecast, and existing project controls for identifying budget variances. Following this analysis, GPC proposed an increased construction budget and included a revised estimate to complete in its nineteenth VCM report (VCM 19 Report) filed with the GPSC in August 2018. This revised project budget included a \$2.4 billion increase (of which the aggregate 22.7% shares of the Vogtle Units 3&4 Project Entities is \$556 million), including a project-level contingency in an amount of \$800 million (of which the aggregate 22.7% shares of the Vogtle Units 3&4 Entities is \$182 million) as compared to the VCM 17 Report. GPC, as agent, reported that the increase in the revised budget was primarily attributable to Bechtel and subcontractor construction costs, including craft labor incentives, as well as expenses for project management, oversight and support. The scheduled in-service dates of November 2021 and November 2022 for Vogtle Units 3&4, respectively, did not change in connection with these budget revisions.

MEAG Power expects that, based on the current estimated in-service dates of November 2021 and November 2022 for Vogtle Unit 3 and Vogtle Unit 4, respectively, the Vogtle Units 3&4 Project Entities' estimated in-service cost will be approximately \$6.5 billion, including construction costs, financing costs through the estimated in-service dates, contingencies, initial fuel load costs, and switchyard and transmission costs. Additional financing needs relating to reserve funds and other fund deposits required under MEAG Power's and the Vogtle Units 3&4 Project Entities' financing documents result in total financing needs of approximately \$7.0 billion, of which approximately \$2.2 billion (as of March 31, 2019) of additional funding will be required. These amounts reflect the Vogtle Units 3&4 Project Entities' aggregate \$835.4 million share of the payments received from Toshiba under the Guarantee Settlement Agreement Amendment.

In April 2019, Southern Nuclear completed a cost and schedule validation process to verify and update quantities of commodities remaining to install; labor hours to install remaining quantities and related productivity, testing, and system turnover requirements; and forecasted staffing needs and related costs. GPC has reported that this process confirmed the total estimated project capital cost forecast for Vogtle Units 3&4. The expected in-service dates of November 2021 for Vogtle Unit 3 and November 2022 for Vogtle Unit 4, as previously approved by the GPSC, remain unchanged.

As construction continues, challenges with management of contractors, subcontractors, and vendors; supervision of craft labor and related craft labor productivity, ability to attract and retain craft labor, and/or related cost escalation; procurement, fabrication, delivery, assembly, and/or installation and the initial testing and start-up, including any required engineering changes, of generating unit systems, structures, or components (some of which are based on new technology that only recently began initial operation in the global nuclear industry at this scale), any of which may require additional labor and/or materials; or other issues could arise and change the projected schedule and estimated cost. Monthly construction production targets established as part of a strategy to maintain and build margin to the approved in-service dates will continue to increase significantly throughout 2019. To meet these increasing monthly targets, existing craft construction productivity must improve and additional craft laborers must be retained and deployed.

MEAG Power will continue to monitor and evaluate developments related to Vogtle Units 3&4 and will endeavor to undertake a course of action that MEAG Power believes will advance the long-term interest of MEAG Power, JEA, PowerSouth and the Vogtle Units 3&4 Participants.

There have been technical and procedural challenges to the construction and licensing of Vogtle Units 3&4, at the federal and state level, and additional challenges may arise. GPC reports that there are processes in place that are designed to assure compliance with the requirements specified in the DCD and the COLs, including inspections by Southern Nuclear and the NRC that occur throughout construction. As a result of such compliance processes, certain license amendment requests have been filed and approved or are pending before the NRC. Various design and other licensing-based compliance matters, including the timely resolution of Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) and the related approvals by the NRC, may arise, which may result in additional license amendments or require other resolution. If any license amendment requests or other licensing-based compliance issues are not resolved in a timely manner, there may be delays in the project schedule that could result in increased costs.

The ultimate outcome of these matters cannot be determined at this time.

The Project Entities' investment in property, plant and equipment (PP&E), including nuclear fuel, for Vogtle Units 3&4 as of December 31, 2018 totaled \$3.0 billion.

The U.S. Internal Revenue Service allocated PTCs to each of Vogtle Units 3&4, which originally required the applicable unit to be placed in service before 2021. The Bipartisan Budget Act of 2018, signed into law on February 9, 2018, removed the deadline for these PTCs by allowing for new nuclear reactors placed in service after December 31, 2020 to qualify for the nuclear PTCs. It also provided a modification to prior law to allow public power utilities, such as MEAG Power, to utilize the credits. The passage of this bill allows MEAG Power to monetize the tax credits to reduce the cost of the output of the Vogtle Units 3&4 Project Entities' ownership shares of the project.

### Litigation and Other Matters

MEAG Power is involved in litigation with JEA regarding the Project J PPA. In late-2017 and early-2018, JEA indicated to MEAG Power that it was in favor of discontinuing construction of Vogtle Units 3&4. On September 11, 2018, after MEAG Power determined that JEA had indicated a clear intent to breach its contract, abandon its obligations, undermine MEAG Power's ability to perform and attempt to force MEAG Power's hand in the vote for continuing construction of Vogtle Units 3&4, MEAG Power sued JEA in the U.S. District Court — Georgia (Georgia Action). MEAG Power's complaint alleged that JEA repudiated and breached the Project J PPA. JEA and the City of Jacksonville sued MEAG Power in the Circuit Court of Duval County, Florida later that same day. JEA and the City of Jacksonville allege that JEA "acted beyond the limits of its authority by entering



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

into the PPA in violation of the constitution, laws, and public policy of the state of Florida, rendering the PPA ultra vires, void and unenforceable.” MEAG Power timely removed the Florida Action to the U.S. District Court — Florida and filed a motion to dismiss for lack of personal jurisdiction or, in the alternative, to transfer the case to the U.S. District Court — Georgia. JEA and the City of Jacksonville filed a motion to remand the case to Florida state court. All of these motions are pending.

In its complaint, MEAG Power asserted that JEA’s obligations are unconditional under the Project J PPA. JEA also filed a petition with FERC requesting its involvement in this dispute with MEAG Power over the construction of Vogtle Units 3&4. MEAG Power believes that JEA’s claims are without merit and that MEAG Power will prevail in these proceedings.

This litigation could impact MEAG Power’s ability to finance SPVJ’s interest in Vogtle Units 3&4; however, there are provisions in the Vogtle Joint Ownership Agreements that permit the other Vogtle Co-Owners to fund construction in the event that one Vogtle Co-Owner fails to fund its proportionate costs (see “Joint Ownership Agreements — Potential Funding to MEAG Power’s Project J” section of this Note below).

On February 21, 2019, FERC voted, unanimously, to dismiss a request by JEA to intervene in JEA’s ongoing dispute with MEAG Power over the Project J PPA. In its ruling, FERC found that it had no statutory jurisdiction over the agreement in particular or public power utilities in general. Accordingly, FERC dismissed JEA’s petition.

The United States, acting on behalf of the DOE, has also filed a statement of interest in related litigation urging the federal court for the U.S. District Court — Florida to deny JEA’s attempt to have the matter remanded to state court on the grounds that a matter involving strong federal interests should be decided by federal courts.

A federal judge in the U.S. District Court — Georgia issued a ruling on April 9, 2019, dismissing MEAG Power’s suit against JEA. The judge made no decision as to the underlying merits of MEAG Power’s claim regarding the enforceability of the Project J PPA. Rather, the U.S. District Court — Georgia determined that MEAG Power failed to show that JEA’s actions prior to the filing of the complaint constituted a violation of Project J PPA’s cooperation clause. The U.S. District Court — Georgia’s decision was without prejudice as to MEAG Power’s ability to refile its claim seeking a declaratory judgment regarding the enforceability of the Project J PPA, and JEA has indicated that, until a court determines otherwise, it currently intends to comply by making payments due under the Project J PPA.

The U.S. District Court — Georgia’s decision dismissing MEAG Power’s claim for a declaration that the Project J PPA is valid and enforceable is based solely on the grounds that MEAG Power lacked standing at the time it filed its complaint. The U.S. District Court — Georgia stated that MEAG Power’s claim that JEA intended to repudiate and breach its obligations under the Project J PPA was “purely speculative.” Specifically, the U.S. District Court — Georgia stated that as of the moment MEAG Power filed the Georgia Action, it could not demonstrate that JEA was likely to file a lawsuit challenging the validity of the Project J PPA, notwithstanding that JEA filed such a lawsuit in Florida within hours of MEAG Power initiating the Georgia Action. Indeed, even according to the U.S. District Court — Georgia’s own analysis, once JEA filed its lawsuit in Florida, MEAG Power had standing to bring its action, and thus could file a new lawsuit if it chose to do so.

MEAG Power believes that the U.S. District Court — Georgia misapplied the procedural law relating to standing, and made other errors, including denying MEAG Power the opportunity to amend its complaint in the Georgia Action. On April 10, 2019, MEAG Power filed a Notice of Appeal of the U.S. District Court — Georgia’s Order in the United States Court of Appeals for the Eleventh Circuit.

As noted above, the Florida Action is subject to pending motions, which will dictate if, how, and where that action may proceed.

On April 29, 2019, MEAG Power announced that it and JEA have commenced negotiations in an attempt to arrive at a mutually beneficial commercial resolution of their dispute.

On February 12, 2018, GIPL and PSE filed a petition appealing the GPSC’s January 11, 2018 order with the Fulton County Superior Court. On March 8, 2018, Georgia Watch filed a similar appeal to the Fulton County Superior Court for judicial review of the GPSC’s decision and denial of Georgia Watch’s motion for reconsideration. On December 21, 2018, the Fulton County Superior Court granted GPC’s motion to dismiss the two appeals. On January 9, 2019, GIPL, PSE and Georgia Watch filed an appeal of this decision with the Georgia Court of Appeals. GPC has reported that it believes the appeal has no merit; however, an adverse outcome in this appeal combined with subsequent adverse action by the GPSC could have a material impact on GPC’s ability to proceed with and complete construction of Vogtle Units 3&4 and, therefore, on MEAG Power’s results of operations, financial condition, and liquidity.

The ultimate outcome of these matters cannot be determined at this time.

### Joint Ownership Agreements

In November 2017, the Vogtle Co-Owners amended their joint ownership agreements for Vogtle Units 3&4 to provide for, among other conditions, additional Vogtle Co-Owner approval requirements. Effective August 31, 2018, the Vogtle Co-Owners further amended the joint ownership agreements to clarify and provide procedures for certain provisions of the joint ownership agreements related to adverse events that require the vote of the holders of at least 90% of the ownership interests in Vogtle Units 3&4 to continue construction (as amended, and together with the November 2017 amendment, the Vogtle Joint Ownership Agreements). The Vogtle Joint Ownership Agreements also confirm that the Vogtle Co-Owners’ sole recourse against GPC or Southern Nuclear for any action or inaction in connection with their performance as agent for the Vogtle Co-Owners is limited to removal of GPC and/or Southern Nuclear as agent, except in cases of willful misconduct.

GPC informed the GPSC in its VCM 19 Report that it did not intend to seek rate recovery for its proportionate share of the additional base capital costs identified in that report. As a result of both GPC’s decision not to seek rate recovery of its allocation of these costs and the increased construction budget, the holders of at least 90% of the ownership interests in Vogtle Units 3&4 were required to vote to continue construction.

In addition, the staff of the GPSC requested, and GPC agreed, to report the results of the cost and schedule validation process to the GPSC (which is expected to occur by May 1, 2019) and to file its twentieth VCM report concurrently with the twenty-first VCM report by August 31, 2019.

By September 26, 2018, the Vogtle Co-Owners had unanimously voted to continue construction of Vogtle Units 3&4.

### Amendments to the Vogtle Joint Ownership Agreements

In connection with the Vogtle Co-Owners’ vote to continue construction in September 2018, GPC entered into (i) a binding term sheet (Vogtle Owner Term Sheet) with the other Vogtle Co-Owners to take certain actions which partially mitigate potential financial exposure for the other Vogtle Co-Owners, including additional amendments to the Vogtle Joint Ownership Agreements and the purchase of PTCs from the other Vogtle Co-Owners at pre-established prices, and (ii) a term sheet (MEAG Term Sheet) with MEAG Power and SPVJ to provide funding with respect to SPVJ’s ownership interest in Vogtle Units 3&4 under certain circumstances. On January 14, 2019, GPC, MEAG Power and SPVJ entered into an agreement to implement the provisions of the MEAG Term Sheet (MEAG Funding Agreement). On February 18, 2019, the Vogtle Co-Owners and MEAG Power entered into certain amendments to the Vogtle Joint Ownership Agreements to implement the provisions of the Vogtle Owner Term Sheet (Global Amendments).

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

Pursuant to the Global Amendments, and consistent with the Vogtle Owner Term Sheet, the Vogtle Joint Ownership Agreements were modified as follows:

- each Vogtle Co-Owner must pay its proportionate share of qualifying construction costs for Vogtle Units 3&4 based on its ownership percentage up to the estimated cost at completion (EAC) for Vogtle Units 3&4 which formed the basis of GPC's forecast of \$8.4 billion in the VCM 19 Report plus \$800 million;
- GPC will be responsible for 55.7% of actual qualifying construction costs between \$800 million and \$1.6 billion over the EAC in the VCM 19 Report (resulting in up to \$80 million of potential additional costs to GPC), with the remaining Vogtle Co-Owners responsible for 44.3% of such costs pro rata in accordance with their respective ownership interests; and
- GPC will be responsible for 65.7% of qualifying construction costs between \$1.6 billion and \$2.1 billion over the EAC in the VCM 19 Report (resulting in up to a further \$100 million of potential additional costs to GPC), with the remaining Vogtle Co-Owners responsible for 34.3% of such costs pro rata in accordance with their respective ownership interests.

If the EAC is revised and exceeds the EAC in the VCM 19 Report by more than \$2.1 billion, each of the Vogtle Co-Owners, other than GPC, will have a one-time option at the time the project budget forecast is so revised to tender a portion of its ownership interest to GPC in exchange for GPC's agreement to pay 100% of such Vogtle Co-Owner's remaining share of total construction costs in excess of the EAC in the VCM 19 Report plus \$2.1 billion. In this event, GPC will have the option of cancelling the project in lieu of purchasing a portion of the ownership interest of any other Vogtle Co-Owner. If GPC accepts the offer to purchase a portion of another Vogtle Co-Owner's ownership interest in Vogtle Units 3&4, the ownership interest to be conveyed from the tendering Vogtle Co-Owner to GPC will be calculated based on the proportion of the cumulative amount of construction costs paid by each such tendering Vogtle Co-Owner and by GPC as of the COD of Vogtle Unit 4. For purposes of this calculation, payments made by GPC on behalf of another Vogtle Co-Owner in accordance with the second and third items described in the paragraph above will be treated as payments made by the applicable Vogtle Co-Owner.

In the event the actual costs of construction at completion of a Unit are less than the EAC reflected in the VCM 19 Report and such Unit is placed in service in accordance with the schedule projected in the VCM 19 Report (i.e., Vogtle Unit 3 is placed in service by November 2021 or Vogtle Unit 4 is placed in service by November 2022), GPC will be entitled to 60.7% of the cost savings with respect to the relevant Unit and the remaining Vogtle Co-Owners will be entitled to 39.3% of such savings on a pro rata basis in accordance with their respective ownership interests.

For purposes of the foregoing provisions, qualifying construction costs will not include (i) costs resulting from force majeure events, including governmental actions or inactions (or significant delays associated with issuance of such actions) that affect the licensing, completion, start-up, operations, or financing of Vogtle Units 3&4, administrative proceedings or litigation regarding ITAAC or other regulatory challenges to commencement of operation of Vogtle Units 3&4, and changes in laws or regulations governing Vogtle Units 3&4, (ii) legal fees and legal expenses incurred due to litigation with contractors or subcontractors that are not subsidiaries or affiliates of Southern Company (parent company of GPC), and (iii) additional costs caused by requests from the Vogtle Co-Owners other than GPC, except for the exercise of a right to vote granted under the Vogtle Joint Ownership Agreements, that increase costs by \$0.1 million or more.

Pursuant to the Global Amendments, and consistent with the Vogtle Owner Term Sheet, the provisions of the Vogtle Joint Ownership Agreements requiring that Vogtle

Co-Owners holding 90% of the ownership interests in Vogtle Units 3&4 vote to continue construction following certain adverse events (Project Adverse Events) were modified. Pursuant to the Global Amendments, the holders of at least 90% of the ownership interests in Vogtle Units 3&4 must vote to continue construction, or can vote to suspend construction, if certain Project Adverse Events occur, including: (i) the bankruptcy of Toshiba; (ii) the termination or rejection in bankruptcy of certain agreements, including the Vogtle Services Agreement, the Construction Agreement, or the agency agreement with Southern Nuclear; (iii) GPC publicly announces its intention not to submit for rate recovery any portion of its investment in Vogtle Units 3&4 or the GPSC determines that any of GPC's costs relating to the construction of Vogtle Units 3&4 will not be recovered in retail rates, excluding any additional amounts paid by GPC on behalf of the other Vogtle Co-Owners pursuant to the Global Amendments described above and the first 6% of costs during any six-month VCM reporting period that are disallowed by the GPSC for recovery, or for which GPC elects not to seek cost recovery, through retail rates; and (iv) an incremental extension of one year or more over the most recently approved schedule. Under the Global Amendments, GPC may cancel the project at any time at its sole discretion.

In addition, pursuant to the Vogtle Joint Ownership Agreements, the required approval of holders of ownership interests in Vogtle Units 3&4 is at least (i) 90% for a change of the primary construction contractor and (ii) 67% for material amendments to the Vogtle Services Agreement or agreements with Southern Nuclear or the primary construction contractor, including the Construction Agreement.

The Global Amendments provide that if the holders of at least 90% of the ownership interests fail to vote in favor of continuing the project following any future Project Adverse Event, work on Vogtle Units 3&4 will continue for a period of 30 days if the holders of more than 50% of the ownership interests vote in favor of continuing construction (Majority Voting Owners). In such a case, the Vogtle Co-Owners (i) have agreed to negotiate in good faith towards the resumption of the project, (ii) if no agreement is reached during such 30-day period, the project will be cancelled, and (iii) in the event of such a cancellation, the Majority Voting Owners will be obligated to reimburse any other Vogtle Co-Owner for the incremental costs it incurred during such 30-day negotiation period.

### **Purchase of PTCs During Commercial Operation**

Pursuant to the Global Amendments, and consistent with the Vogtle Owner Term Sheet, GPC has agreed to purchase additional PTCs from OPC, Dalton and the Project Entities (to the extent any PTC rights of SPVJ remain after any purchases required under the MEAG Funding Agreement as described below) at varying purchase prices dependent upon the actual cost to complete construction of Vogtle Units 3&4 as compared to the EAC reflected in the VCM 19 Report. The purchases are at the option of the applicable Vogtle Co-Owner.

### **Potential Funding to MEAG Power's Project J**

Pursuant to the MEAG Funding Agreement, and consistent with the MEAG Term Sheet, if SPVJ is unable to make its payments due under the Vogtle Joint Ownership Agreements solely as a result of the occurrence of one of the following situations that materially impedes access to capital markets for MEAG Power for Project J:

(i) the conduct of JEA or the City of Jacksonville, such as JEA's legal challenges of its obligations under the Project J PPA, or (ii) Project J PPA is declared void by a court of competent jurisdiction or rejected by JEA under the applicable provisions of the U.S. Bankruptcy Code (each of (i) and (ii), a JEA Default), at MEAG Power's request, GPC will purchase from SPVJ the rights to PTCs attributable to SPVJ's share of Vogtle Units 3&4 (approximately 206 MWs) within 30 days of such request at varying prices dependent upon the stage of construction of Vogtle Units 3&4. The aggregate purchase

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

price of the PTCs, together with any advances made as described in the next paragraph, shall not exceed \$300 million.

At the option of MEAG Power, as an alternative or supplement to GPC's purchase of PTCs as described above, GPC has agreed to provide up to \$250 million in funding to MEAG Power for Project J in the form of advances (either advances under the Vogtle Joint Ownership Agreements or the purchase of MEAG Power Project J bonds, at the discretion of GPC), subject to any required approvals of the GPSC and the DOE.

In the event SPVJ certifies to GPC that it is unable to fund its obligations under the Vogtle Joint Ownership Agreements as a result of a JEA Default and GPC becomes obligated to provide funding as described above, MEAG Power is required to (i) assign to GPC its right to vote on any future Project Adverse Event and (ii) diligently pursue JEA for its breach of Project J PPA. In addition, GPC agreed that it will not sue MEAG Power for any amounts due from SPVJ under MEAG Power's guarantee of SPVJ's obligations so long as SPVJ complies with the terms of the MEAG Funding Agreement as to its payment obligations and the other non-payment provisions of the Vogtle Joint Ownership Agreements.

Under the terms of the MEAG Funding Agreement, GPC may cancel the project in lieu of providing funding in the form of advances or PTC purchases.

The ultimate outcome of these matters cannot be determined at this time.

See Note 2 (G), "Summary of Significant Accounting Policies and Practices — Generation and Transmission Facilities — Nuclear Generating Facilities" for a discussion of other nuclear generating and NRC matters.

### (E) MUNICIPAL COMPETITIVE TRUST

The Municipal Competitive Trust (Competitive Trust) was established in 1999 to accumulate and grow, through common investment, a substantial fund to be utilized by the Participants to mitigate the high fixed cost related to Generation Station Vogtle, Unit Nos. 1 and 2 (Vogtle Units 1&2) and the impacts that may result from the deregulation of the electric industry in Georgia. It was initially funded with certain rate stabilization and debt service reserve funds totaling approximately \$441 million and was comprised of the Reserve Funded Debt, Credit Support Operating and Flexible Operating accounts. The Reserve Funded Debt and Credit Support Operating accounts are held for the benefit of Project One and the General Resolution Projects.

Participants currently contribute funds into the Flexible Operating, as well as the New Generation and Capacity Funding, accounts on an elective basis. With the exception of the Flexible Operating account and the New Generation and Capacity Funding account, the funds in the Competitive Trust have been retained and invested in securities typically held to maturity. Investments of the Competitive Trust totaled \$594.9 million at December 31, 2018. Changes impacting the balance in the Competitive Trust result from investment earnings and additional Participants' contributions, which are offset by scheduled distributions to the Participants.

During 2008 and 2009, several amendments to the terms of the Competitive Trust authorized MEAG Power, on behalf of the Participants executing such amendments, to, among other things:

- apply funds from certain Competitive Trust accounts for the purpose of lowering the Participants' annual generation billings from MEAG Power during the period 2009 through 2018 (Competitive Trust Funding); and
- establish the New Generation and Capacity Funding account to permit the Participants to fund their share of the acquisition and construction costs of any future MEAG Power generation project joined by such Participants (including the Vogtle Units 3&4 Projects and Project Entities), as well as funding of capacity purchases proposed by MEAG Power, purchase of additional entitlement shares or obligation shares of existing MEAG Power projects, and for mitigation of certain bulk power supply cost increases.

If not otherwise expended, monies in the Credit Support Operating account and Reserve Funded Debt account may be withdrawn on or after December 31, 2018 and 2025, respectively, and monies in the New Generation and Capacity Funding account may be withdrawn after January 1, 2037. An external trustee holds the funds in the Competitive Trust and maintains balances on an individual Participant basis. All of the Participants participate in the Competitive Trust. Competitive Trust Funding totaled \$20.1 million and \$43.0 million for the years ended December 31, 2018 and 2017, respectively.

The Competitive Trust is not fiduciary in nature and is not considered a trust fund in the context of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments" (Statement 34).

### (F) TELECOMMUNICATIONS PROJECT

MEAG Power offers specialized services to the Participants through the Telecommunications Project (Telecom or Telecom Project) by separate contracts between MEAG Power and the participating communities. As of December 31, 2018 and 2017, 32 of the Participants (the Telecom participants) had such contracts. Telecom commenced operations in 1997 to: (1) provide advanced internal telecommunications services to MEAG Power, (2) enhance the education proficiencies of the Telecom participants through the deployment of state-of-the-art telecommunications and (3) foster economic growth and development of the Telecom participants throughout Georgia by providing competitive access services in conjunction with local municipal fiber-optic networks.

MEAG Power has a Master Agreement with Georgia Public Web (GPW) under which all operational control of Telecom's fixed assets was transferred to GPW, a Georgia nonprofit corporation formed by the Telecom participants. The Master Agreement also entitles GPW to derive revenue from the Telecom assets. In exchange for control of these assets, GPW assumed certain ongoing obligations of Telecom for the operation and maintenance of the Telecom assets. In addition, GPW pays Project One a monthly payment for use of rights-of-way.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

### (A) BASIS OF ACCOUNTING

The electric utility accounts of MEAG Power are maintained substantially in accordance with the Uniform System of Accounts of FERC, as provided by the Power Sales Contracts with the Participants. Telecom accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Communications Commission. All such accounts are in conformity with accounting principles generally accepted in the United States (GAAP). MEAG Power's financial statements are prepared in accordance with GAAP as prescribed by the GASB and the Accounting Standards Codification of the Financial Accounting Standards Board (FASB), where such FASB pronouncements do not conflict with or contradict GASB pronouncements.

MEAG Power's Board (the Board) has authority for establishing rates billed to the Participants each year as part of the Annual System Budget approval process. Accounting guidance under GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in its billings. As discussed in "Net Costs to be Recovered and Deferred Inflows of Resources," section (D) of this Note, differences between amounts billed and expenses determined in accordance with GAAP (Timing Differences) are charged or credited to net costs to be recovered from Participants or deferred inflows of resources.



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

The following balances have been eliminated from MEAG Power's consolidated financial statements:

- certain investment, long-term debt, investment income and interest expense balances, as discussed in Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Project Borrowings from the Competitive Trust"; and
- interproject receivables and payables.

Certain transfers related to the Project Entities and DOE Guaranteed Loans, as discussed in Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities — Structure and DOE Guaranteed Loans" have been eliminated from the balances of the Vogtle Units 3&4 Projects and Project Entities. To be consistent with the Consolidated Balance Sheet (Balance Sheet) presentation as of December 31, 2018, these eliminations were also reclassified on MEAG Power's 2017 Balance Sheet to correct an oversight in the 2017 presentation.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the consolidated financial statements and the related disclosures in these Notes. Actual results could differ from those estimates. As discussed in "Asset Retirement Obligations and Decommissioning," section (H) of this Note and "Recent Accounting Pronouncements," section (N) of this Note, certain prior year data has been reclassified to conform to the current year's presentation with no impact on net revenues.

### (B) STATEMENT OF CASH FLOWS

In accordance with Statement 34, the Consolidated Statement of Cash Flows (Statement of Cash Flows) is presented using the direct method. For reporting cash flows, highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents except for securities lending investments, as discussed in Note 4, "Special Funds and Supplemental Power Account — Securities Lending." For the years ended December 31, 2018 and 2017, cash and cash equivalents totaled \$1.4 billion and \$2.0 billion, respectively. Amounts presented in the Statement of Cash Flows for property additions are net of changes in the related liability accounts payable. For the years ended December 31, 2018 and 2017, such changes were \$(15.4) million and \$94.5 million, respectively.

### (C) REVENUES

#### Participant

Wholesale electric sales to the Participants are recorded as Participant revenues on an accrual basis. Billings to the Participants for delivered energy are designed to recover certain costs, as defined by the bond resolutions and Power Sales Contracts, and principally include current operating costs, scheduled debt principal and interest payments, and deposits in certain funds. Billings to Participants of Project One, the General Resolution Projects, the CC Project, as well as Project M, accounted for 80.6% and 79.0% of total revenues for the years ended December 31, 2018 and 2017, respectively. Three Participants collectively accounted for approximately 26% of Participant revenues in both 2018 and 2017, with one Participant accounting for 11.3% of these revenues in 2018 and 11.7% in 2017.

#### Telecom

Telecom's revenues are derived from contractual cost-recovery billings to Telecom participants, primarily related to certain operating costs not assumed by GPW, as defined by the Telecom contracts. Revenues are recorded on an accrual basis and are recognized as corresponding costs are incurred.

#### Year-End Settlement

In accordance with the Power Sales Contracts and Telecom contracts, MEAG Power performs a year-end settlement process to determine if the aggregate amount of revenues received from the Participants and Telecom participants to provide recovery of costs incurred were in the proper amount. Any excess or deficit amounts resulting in adjustment of billings are refunded to or collected from the Participants and Telecom participants in the following year. For the years ended December 31, 2018 and 2017, the excess revenues received and included in accounts payable on MEAG Power's Balance Sheet were as follows (in thousands):

Year-end Settlement	2018	2017
Project One	\$11,533	\$17,887
General Resolution Projects	7,052	9,369
CC Project	(921)	1,225
Vogtle Units 3&4 Projects and Project Entities	180	29
Telecom Project	73	54
Total	\$17,917	\$28,564

Refunds for 2018 excess revenues will be processed beginning in the First Quarter of 2019.

#### Other Revenues

Sales to other utilities and power marketers, which are also recorded on an accrual basis, comprise other revenues. Such sales are primarily to The Energy Authority, as discussed in Note 6, "Investment in Alliance," and GPC, as discussed in section (G) of this Note, "Generation and Transmission Facilities — Jointly Owned Generation Facilities," as well as "— Pseudo Scheduling and Services Agreement."

### (D) NET COSTS TO BE RECOVERED AND DEFERRED INFLOWS OF RESOURCES

Timing Differences are charged or credited to net costs to be recovered from Participants in other non-current assets or deferred inflows of resources on the Balance Sheet. Depreciation and certain debt service billings are examples of such Timing Differences. All costs are billed to the Participants and Telecom participants over the period of the applicable contracts. Certain investment income represents earnings on funds not subject to year-end adjustment of billings.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

At December 31, 2018 and 2017, net costs to be recovered from Participants and deferred inflows of resources consisted of the following (in thousands):

### Net Costs to Be Recovered from Participants

	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Total
<b>December 31, 2018</b>							
Timing Differences	\$ —	\$ —	\$ —	\$ (56,190)	\$ —	\$ —	\$ (56,190)
Certain investment income	—	—	—	—	—	—	—
Vogle Units 3&4 Projects' and Project Entities' net non-operating expense	—	—	—	409,577	—	—	409,577
Other, net	—	—	—	678	—	—	678
<b>Total net costs to be recovered from Participants</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$354,065</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$354,065</b>

	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Total
December 31, 2017							
Timing Differences	\$ —	\$ —	\$ —	\$ (31,127)	\$ —	\$ —	\$ (31,127)
Certain investment income	—	—	—	—	—	—	—
Vogle Units 3&4 Projects' and Project Entities' net non-operating expense	—	—	—	400,350	—	—	400,350
Other, net	—	—	—	719	—	—	719
<b>Total net costs to be recovered from Participants</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$369,942</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$369,942</b>

### Deferred Inflows of Resources

	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Total
<b>December 31, 2018</b>							
Timing Differences	\$ 37,112	\$308,947	\$79,950	\$ —	\$ —	\$5,240	\$431,249
Certain investment income	357,007	62,878	16,027	—	—	179	436,091
Asset retirement obligations	(6,336)	(12,754)	—	—	—	—	(19,090)
Other, net	(13,533)	1,607	2,834	497	—	(590)	(9,185)
<b>Total deferred inflows of resources</b>	<b>\$374,250</b>	<b>\$360,678</b>	<b>\$98,811</b>	<b>\$497</b>	<b>\$ —</b>	<b>\$4,829</b>	<b>\$839,065</b>

	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Total
December 31, 2017							
Timing Differences	\$ (54,788)	\$227,303	\$67,736	\$ —	\$ —	\$5,961	\$246,212
Certain investment income	355,727	61,482	15,386	—	—	180	432,775
Asset retirement obligations	22,495	(8,626)	—	—	—	—	13,869
Other, net	(15,948)	(749)	11,577	518	—	(590)	(5,192)
<b>Total deferred inflows of resources</b>	<b>\$307,486</b>	<b>\$279,410</b>	<b>\$94,699</b>	<b>\$518</b>	<b>\$ —</b>	<b>\$5,551</b>	<b>\$687,664</b>

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## (E) PROPERTY, PLANT AND EQUIPMENT

The cost of PP&E includes both direct and overhead costs, capitalized interest and the cost of major property replacements. Costs are recorded in construction work in progress (CWIP) and capitalized as a generating unit or other PP&E asset is placed in service; hence, most of the PP&E additions are transfers from CWIP. Repairs and replacement of minor items of property are charged to maintenance expense. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with the cost of removal less salvage, is charged to accumulated depreciation, with no gain or loss recorded. Note 3, "Property, Plant and Equipment," includes additional PP&E information.

Interest on amounts borrowed to finance construction of MEAG Power's projects is capitalized and included in CWIP and also recorded as a reduction to net non-operating expense. Included in MEAG Power's Consolidated Statement of Net Revenues (Statement of Net Revenues) for the years ended December 31, 2018 and 2017, respectively, was total interest expense of \$351.3 million and \$354.4 million, of which \$146.2 million and \$120.2 million was capitalized.

Generating Unit	Fuel	Rate	Other Property, Plant and Equipment	Rate
Hatch	Nuclear	2.1%	Transmission Plant	2.0%
Scherer	Coal	2.0%	Distribution Plant	2.5%
Vogtle Unit 1	Nuclear	1.1%	General/Other Plant	2.5%–33.0%
Vogtle Unit 2	Nuclear	1.6%		
Wansley	Coal	2.9%		
Wansley Unit 9	Natural gas	2.9%		

Depreciation of telecommunications plant in service, which consists mainly of fiber-optic cable and network systems, totaled \$0.7 million for each of the years ended December 31, 2018 and 2017. Depreciation expense is computed using the straight-line method over the expected life of the plant. The composite depreciation rates for both 2018 and 2017 were as follows:

Fiber-optic cable	4.0%
Electronic systems	20.0%
Other	4.0%–33.3%

## (G) GENERATION AND TRANSMISSION FACILITIES

### Jointly Owned Generation Facilities

At December 31, 2018, MEAG Power's ownership percentages in jointly owned generation facilities in service were as follows:

Facility	Ownership Percent		
	Project One	General Resolution Projects	Total Ownership
Hatch Units 1&2	17.7%	—	17.7%
Scherer Units 1&2	10.0%	20.2%	30.2%
Vogtle Units 1&2	17.7%	5.0%	22.7%
Wansley Units 1&2	10.0%	5.1%	15.1%

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

MEAG Power, GPC, OPC and Dalton (collectively, the joint-owners) jointly own the facilities. GPC has contracted to operate and maintain the jointly owned facilities as agent for the respective joint-owners. MEAG Power's proportionate share of generating unit operating expenses is included in the corresponding operating expense items in the accompanying Statement of Net Revenues. MEAG Power also has a 22.7% ownership interest in Vogtle Units 3&4 through the Project Entities, currently under construction (see Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities").

MEAG Power and GPC are parties to agreements governing the ownership and operation of electric generating and transmission facilities. GPC is agent for the operation of the generating and transmission facilities. In addition, there is a long-term agreement that provides for the sale by MEAG Power to GPC of a portion of the output of Vogtle Units 1&2. Sales to GPC pursuant to this agreement, included in other revenues, were \$10.2 million in 2018 and \$10.4 million in 2017 for Project One, and \$2.9 million in 2018 and \$3.0 million in 2017 for the General Resolution Projects.

### Nuclear Generating Facilities

MEAG Power's current nuclear generating facilities consist of its 17.7% ownership in Generation Station Hatch, Unit Nos. 1 and 2 (Hatch Units 1&2) and its 22.7% ownership in Vogtle Units 1&2 (collectively, the existing Nuclear Units). Southern Nuclear, as agent for GPC, is the operator of the existing Nuclear Units.

Per the contracts GPC has with the DOE, permanent disposal of spent nuclear fuel was to begin in 1998. This has not occurred, and GPC has pursued, and continues to pursue, legal remedies against the U.S. government for its partial breach of contract. In 2014, GPC filed additional lawsuits against the U.S. government in the U.S. Court of Federal Claims (the Federal Claims Court) for the costs of continuing to store spent nuclear fuel at the existing Nuclear Units for the period January 1, 2011 through December 31, 2013. The damage period was subsequently extended to December 31, 2014. On October 10, 2017, GPC filed additional lawsuits against the U.S. government in the Federal Claims Court for the costs of continuing to store spent nuclear fuel at the existing Nuclear Units for the period from January 1, 2015 through December 31, 2017. All of these lawsuits are still pending before the Federal Claims Court. No amounts have been recognized in MEAG Power's financial statements as of December 31, 2018 for any potential recoveries from any of these additional lawsuits, and the final outcome of these matters cannot be determined at this time. MEAG Power previously received its share of awards by the Federal Claims Court for spent nuclear fuel damages for the years 1998 through 2010.

Interim storage of spent fuel in an on-site dry storage facility began in 2013 at Vogtle Units 1&2. Such a facility became operational at Hatch Units 1&2 in 2000. These facilities can be expanded to accommodate spent fuel throughout the life of the generating units.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance with NRC licensing and safety-related requirements, the NRC has the authority to impose fines and/or shut down any unit, depending upon its assessment of the severity of the situation, until compliance is achieved. NRC orders or regulations related to increased security measures and any future safety requirements promulgated by the NRC could require MEAG Power to make substantial operating and capital expenditures at the existing Nuclear Units. In addition, although GPC has no reason to anticipate a serious nuclear incident at the existing Nuclear Units, if an incident were to occur, it could result in substantial costs to MEAG Power. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit that could result in substantial costs. Moreover, a major incident at any nuclear facility in the United States could require MEAG Power to make material contributory payments.

In addition, potential terrorist threats and increased public scrutiny of utilities could result in increased nuclear licensing or compliance costs that are difficult to predict.

For information regarding nuclear insurance and MEAG Power's long-term nuclear fuel commitments, see Note 8, "Commitments and Contingencies — Nuclear Insurance," as well as "Fuel" within that Note.

### Coal Generating Facilities

MEAG Power's coal generating facilities consist of its 30.2% ownership in Generation Station Scherer Units 1&2 (Scherer Units 1&2) and its 15.1% ownership in Generation Station Wansley Units 1&2 (together, the Coal Units) and related common facilities at each generating station. For information regarding MEAG Power's long-term coal commitments, see Note 8, "Commitments and Contingencies — Fuel."

### Natural Gas Generating Facilities

As discussed in Note 1 (C), "The Organization — Combined Cycle Project," MEAG Power wholly owns Wansley Unit 9 within the CC Project. MEAG Power has contracted with North American Energy Services Corporation to perform the operation and maintenance of the CC Project. The agreement provides for a three-year automatic renewal, unless a 90-day notice is provided by either party, with the next scheduled renewal being October 2021. MEAG Power has contracted with Mechanical Dynamics & Analysis, formerly PW Power Systems, for long-term parts and outage services for Wansley Unit 9. The term of the contract is based on the operations of the unit and estimated to be in place through 2030.

### Transmission Facilities

MEAG Power; GPC; Georgia Transmission Corporation, a not-for-profit cooperative transmission provider to 38 electric distribution cooperatives in Georgia; and Dalton each own transmission system facilities, which together comprise a statewide ITS. MEAG Power and the other owners of those facilities may make use of the majority of such facilities included in the ITS, regardless of ownership, in serving its customers. Bulk power supply is furnished by MEAG Power to the Participants through the ITS. MEAG Power's ITS facilities are included in Project One.

MEAG Power and GPC entered into a Second Revised and Restated Integrated Transmission System Operation Agreement (the Operation Agreement), effective March 23, 2017, which appointed GPC as agent for the management and operation of MEAG Power's transmission system facilities. The revisions to the Operation Agreement specified: (a) an initial term through December 31, 2017, with automatic two-year renewals thereafter, with the current renewal term extending through December 31, 2019; (b) GPC's supporting compliance role for MEAG Power regarding (i) certain mandatory federal reliability standards and (ii) filing requirements of SERC Reliability Corporation (SERC) and the North American Electric Reliability Corporation (NERC) regarding Coordinated Functional Registration (CFR) agreements; (c) provisions to update certain sections of the Operation Agreement (and associated CFR agreements, as applicable) as NERC standards change; and (d) certain other legal provisions. These revisions enabled MEAG Power, with GPC's agreement and consent, to request that SERC relieve MEAG Power of a number of obligations of certain mandatory federal reliability standards pertaining to transmission systems, which relief is now effective in accordance with NERC's compliance registry ([www.nerc.com](http://www.nerc.com)). Neither MEAG Power nor GPC has given the required 24 months' prior notice of cancellation for the Operation Agreement.

The Integrated Transmission System Maintenance Agreement, pursuant to which GPC maintains MEAG Power's transmission system facilities, has been effective since 1999 and has renewed annually since 2002, with the current renewal term extending through December 31, 2019. Neither party has given the required 12 months' prior notice of cancellation.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

In 2006, the owners of the ITS exchanged written commitments whereby each owner agreed to waive and not to exercise its right under its respective ITS Agreement (Agreement) to terminate the Agreement on any date prior to December 31, 2027. In accordance with the five-year notice requirement in the Agreement, an owner may provide written notice on or before December 31, 2022, terminating its respective Agreement no earlier than December 31, 2027. These written commitments do not have the effect of modifying, superseding or terminating any Agreement.

### Southeastern Power Administration

The Participants have contracts with the Southeastern Power Administration (SEPA) under which they are entitled to receive capacity and energy allocations of hydroelectric generation. Each contract remains in effect until a termination notice is given by either the Participant (with 25 months' notice) or SEPA (with 24 months' notice).

Pursuant to the 25-month notice provision described above, the Cities of Blakely, Fitzgerald, Hogansville, Sylvania and Washington submitted their requests to terminate their contracts as soon as practicable with SEPA. SEPA was successful in remarketing the 27.2 MW of capacity and energy from these contracts to other preference customers effective January 1, 2019. As part of this process, the City of Monroe increased its allocation by 1.9 MW resulting in a net decrease to the MEAG Power system of 25.3 MW for 2019. The City of Adel also submitted its request to terminate its contract for 6.9 MW of capacity and energy with SEPA with an ending date of July 31, 2020.

### Pseudo Scheduling and Services Agreement

MEAG Power and GPC are parties to a Pseudo Scheduling and Services Agreement (PSSA) that addresses unit scheduling and dispatch and system services required for MEAG Power to manage its resources and effectuate off-system sales and purchases within the Southern Company system. Under this agreement, MEAG Power's schedule for the output from the Coal Units may differ from the actual output of its ownership share and will result in sales to or purchases from GPC to reconcile the difference. During the years ended December 31, 2018 and 2017, sales and purchases with GPC under this agreement were (in thousands):

PSSA	2018	2017
Sales	\$61,524	\$62,583
Purchases	\$11,673	\$7,836

## (H) ASSET RETIREMENT OBLIGATIONS AND DECOMMISSIONING

Asset retirement obligations (ARO) are calculated at the present value of a long-lived asset's applicable disposal costs and are recorded in the period in which the liability is incurred. This liability is accreted during the remaining life of the associated assets and adjusted periodically based upon updated estimates to reflect current assumptions regarding the retirement of the applicable PP&E. The costs associated with the corresponding assets have been increased and are being depreciated throughout the remaining lives of the assets.

The recognition of ARO is driven primarily by decommissioning costs associated with the existing Nuclear Units, as well as costs associated with potential closure of ash ponds related to the Coal Units in response to the final coal combustion residual (CCR) and effluent limitation guidelines (ELG) regulations (see Note 8, "Commitments and Contingencies — Environmental Regulation"). The most recent estimates pertaining to decommissioning costs were completed in 2018. Additional updates pertaining to coal ash ponds were also received in 2018.

In accordance with GASB Statement No. 83, "Certain Asset Retirement Obligations" (Statement 83), which MEAG Power early adopted in 2018, as a minority owner (less than 50%) of applicable jointly owned generation facilities (see "footnote (1) below), MEAG Power uses the measurement produced by the nongovernmental minority owner that has operational responsibility for the generating units (ARO Measurement), to account for its ARO, which is included in non-current liabilities on the Balance Sheet.

As of December 31, 2018, MEAG Power's share of the ARO Measurement is as follows (dollars in thousands):

	Total ARO	ARO at MEAG Power's Ownership Percentage <sup>(1)</sup>
Nuclear	\$2,162,221	\$425,313
Coal ash	1,103,210	166,585
Other	107,056	18,587
<b>Total</b>	<b>\$3,372,487</b>	<b>\$610,485</b>

<sup>(1)</sup>MEAG Power's percentage of ARO approximates its ownership percentage of jointly owned common generation facilities, which ranges from 15.1% to 30.2%, as shown in "Generation and Transmission Facilities," section (G) of this Note.

MEAG Power did not retroactively adopt Statement 83. For presentation purposes, reclassifications were made to MEAG Power's 2017 Balance Sheet as follows (in thousands):

December 31, 2017 Balance Sheet	Project One	General Resolution Projects	Total
<i>Applicable assets and deferred outflows of resources as reclassified:</i>			
Property, plant and equipment, at cost:			
In service	\$3,234,321	\$1,187,585	\$4,421,906
Deferred outflows of resources:			
ARO-deferred outflows	127,574	31,730	159,304
<b>Total</b>	<b>\$3,361,895</b>	<b>\$1,219,315</b>	<b>\$4,581,210</b>
<i>Applicable assets and deferred outflows of resources as originally reported:</i>			
Property, plant and equipment, at cost:			
In service	\$3,361,895	\$1,219,315	\$4,581,210
<b>Total</b>	<b>\$3,361,895</b>	<b>\$1,219,315</b>	<b>\$4,581,210</b>
<b>Net change due to reclassifications</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

Future costs of decommissioning are recognized through the accretion of ARO as part of depreciation expense.

Pursuant to NRC guidelines, funds are maintained to hold assets that will be used to pay the future costs to decommission the existing Nuclear Units. The Decommissioning Trust funds (Decommissioning Trust), which are held by a trustee, were established to comply with NRC regulations, which require licensees of nuclear power generating units to provide certain financial assurances that funds will be available when needed for required decommissioning activities.

Under current plans, the existing Nuclear Units will be decommissioned over extended periods at estimated costs (Project One and the General Resolution Projects' portion) as of the year of site-specific studies as follows (dollars in thousands):

	Hatch Units 1&2	Vogtle Units 1&2
Decommissioning period	2034–2075	2047–2079
Estimated future costs (2018 dollars)	\$339,889	\$418,356
Amount expensed in 2018	\$12,837	\$12,604
Accumulated provision in external funds	\$236,879	\$234,716



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

In 2009, the NRC extended the operating licenses for Vogtle Units 1&2 for an additional 20 years until 2047 and 2049, respectively. The NRC had previously extended the operating licenses for Hatch Units 1&2 until 2034 and 2038, respectively. These extensions are factored into the above estimates.

Actual decommissioning costs may vary due to changes in the assumed dates of decommissioning, NRC funding requirements, regulatory requirements, costs of labor and equipment, or other assumptions used in determining the estimates. Earnings and inflation assumptions of 4.8% and 2.9%, respectively, were used to determine decommissioning-related billings to the Participants for 2019 budget purposes, based on the most recent estimates pertaining to decommissioning costs.

### (I) FUEL COSTS

Fuel stocks, which are stated at average cost, are recorded as inventory when purchased and expensed as burned. Emission allowances are expensed as used on an expected-average-cost basis. Emission allowances granted by the U.S. Environmental Protection Agency (EPA) are included in inventory at zero cost. MEAG Power did not purchase any emission allowances during 2018 or 2017, and expensed immaterial amounts in both years. Amortization of nuclear fuel is calculated on a units-of-production basis.

Natural gas expense for the CC Project totaled \$33.2 million and \$56.9 million for 2018 and 2017, respectively. MEAG Power uses fuel-related derivative financial instruments/natural gas hedges to manage specific risks associated with procurement of natural gas for the CC Project. Such strategies are governed by MEAG Power's Fuel Risk Management Policy (the Fuel Risk Management Policy) and primarily include hedging transactions used to manage MEAG Power's natural gas cost.

MEAG Power follows GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" (Statement 53), which requires changes in the fair value of effective hedging derivative instruments to be recorded as a deferred inflow or outflow. All of MEAG Power's natural gas hedges are considered effective and, as such, the fair value of \$(1.8) million and \$(1.0) million as of December 31, 2018 and 2017, respectively, is recorded on the Balance Sheet in materials, supplies and other assets. The decrease in fair value of \$0.8 million for 2018 and \$0.5 million for 2017 is recorded in deferred outflows of resources on the Balance Sheet.

Summary information pertaining to natural gas hedges as of December 31, 2018 and 2017 is as follows (dollars in thousands):

Contract Year	Notional Amount* December 31, 2018	Fair Value December 31, 2018	Latest Maturity Date
2019	<b>5,540,000</b>	<b>\$ (177)</b>	<b>Dec. 2019</b>
2020	<b>5,740,000</b>	<b>(670)</b>	<b>Dec. 2020</b>
2021	<b>5,140,000</b>	<b>(648)</b>	<b>Dec. 2021</b>
2022	<b>4,010,000</b>	<b>(306)</b>	<b>Dec. 2022</b>
2023	<b>1,780,000</b>	<b>(43)</b>	<b>Nov. 2023</b>
<b>Total</b>	<b>22,210,000</b>	<b>\$(1,844)</b>	

Contract Year	Notional Amount* December 31, 2017	Fair Value December 31, 2017	Latest Maturity Date
2018	5,030,000	\$ (650)	Dec. 2018
2019	4,400,000	(327)	Dec. 2019
2020	3,360,000	(114)	Dec. 2020
2021	2,160,000	34	Oct. 2021
2022	1,210,000	48	Sept. 2022
<b>Total</b>	<b>16,160,000</b>	<b>\$(1,009)</b>	

\*In mmBtus (one million British Thermal Units).

The above natural gas hedges were entered into between November 2013 and December 2018 with total cash paid at inception of \$0.1 million and \$0.3 million for natural gas hedges outstanding at December 31, 2018 and 2017, respectively. The price index for all of MEAG Power's natural gas hedges is the New York Mercantile Exchange Natural Gas Futures Contract at Henry Hub (Henry Hub Contract). All of MEAG Power's natural gas hedges are with one of two counterparties and had credit ratings with Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's (S&P) at December 31, 2018 and 2017 as follows:

	Counterparty Credit Rating		
	Fitch	Moody's	S&P
<b>December 31, 2018</b>	<b>AA/A</b>	<b>Aa1/A3</b>	<b>A+/BBB+</b>
December 31, 2017	AA-/A	Aa2/A3	A+/BBB+

For a discussion of risks pertaining to derivative financial instruments, see "Derivative Financial Instruments," section (K) of this Note.

### (J) MATERIALS, SUPPLIES AND OTHER ASSETS

Materials and supplies include the cost of transmission materials and the average cost of generating unit materials, which are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate. Emission allowances granted by EPA have a zero cost basis, when calculating the allowance inventory at average cost, and are expensed as used. Other assets consist primarily of prepaid assets and the fair value of effective natural gas hedging instruments.

### (K) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments used in the management of interest rate exposure through swap transactions are governed by MEAG Power's Asset/Liability Management Policy (ALCO Policy), as authorized by the Asset/Liability Committee of the Board. As discussed in "Fuel Costs," section (I) of this Note, MEAG Power also uses natural gas hedges to manage specific risks associated with procurement of natural gas for the CC Project, in accordance with the Fuel Risk Management Policy. Such swap transactions and natural gas hedges are accounted for, as applicable, in accordance with Statement 53 or GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" (Statement 31). These derivatives are not held or issued for trading purposes and MEAG Power management has designated the swaps as hedge instruments. Under Statement 53, the swap agreements and natural gas hedges are marked-to-market monthly with the effective portion included in deferred outflows of resources. If the instrument is terminated before the end of the agreement's term, any gain or loss is amortized over a period consistent with the underlying liability.

Information about natural gas hedges and interest rate swap agreements outstanding as of December 31, 2018 and 2017 is included in "Fuel Costs," section (I) of this Note and Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Other Financing Transactions," respectively.

As a result of using derivative financial instruments, MEAG Power is subject to the following risks:

#### Credit Risk

MEAG Power is exposed to credit risk on all interest rate swaps and all natural gas hedges, with the largest potential for risk on swaps and hedges that are in a significant asset position and to a lesser extent through the possibility of non-performance under the swap by the counterparty. In order to minimize this risk, the ALCO Policy, which governs interest rate swaps, and the Fuel Risk Management Policy, which governs natural gas hedges, restrict potential counterparties to major financial institutions with either high investment-grade credit ratings or agreements to collateralize their net positions. In addition, the ALCO Policy and the individual agreements with the natural gas hedging counterparties limit the amount of exposure to the counterparty to certain amounts that decrease as the counterparty's credit rating decreases.



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

Finally, MEAG Power requires each counterparty to post collateral based on the exposure of the swap or hedge. The eight outstanding interest rate swaps and \$(2.1) million of the outstanding natural gas hedges were in the counterparty's favor in a liability position as of December 31, 2018, thereby minimizing the credit risk to MEAG Power. The value of natural gas hedges in MEAG Power's favor totaled \$0.3 million.

### Interest Rate Risk

MEAG Power is exposed to various interest rate risks on the variable-rate portion of its debt portfolio and utilizes interest rate swaps to help mitigate them. In accordance with the ALCO Policy, MEAG Power may either hedge specific bonds by synthetically converting them to a fixed rate of interest or hedge a portion of the overall debt portfolio for a specific period of time. Under the terms of each interest rate swap, MEAG Power pays a fixed rate of interest and receives a floating-rate payment that is based on an index. If interest rates rise, the amount of interest MEAG Power would pay on its variable-rate debt would rise. However, the higher payments made on its variable-rate debt should be offset by higher payments received on its interest rate swaps, thereby reducing MEAG Power's interest rate risk.

### Basis Risk

Basis risk occurs when the floating rates on the interest rate swaps and the variable-rate bonds do not match exactly. When investors demand an interest rate on MEAG Power's variable-rate debt that is higher or lower than the variable-rate index used to calculate the payments on the swap, the payments may not offset completely. This mismatch in payments may be a benefit or detriment to MEAG Power.

MEAG Power is also exposed to basis risk between the natural gas hedges, which settle against the Henry Hub Contract, and the hedged gas deliveries, which are typically daily spot purchases in Transcontinental Gas Pipeline Company, LLC's zone 3 or zone 4. However, the prices at each of these pricing points are highly correlated and generally very close; therefore, MEAG Power's basis risk for its natural gas hedges is not substantial.

### Termination Risk

Either party to an interest rate swap or a natural gas hedge may terminate the transaction for a variety of reasons, based upon the terms of the contract. MEAG Power would be exposed to additional interest rate risk or natural gas price volatility if the counterparty to a swap or hedge transaction defaults or if the swap or hedge is terminated. If the swap or natural gas hedge is a liability to MEAG Power at the time of termination, the counterparty would be due a payment from MEAG Power equal to the liability as specified in the International Swaps and Derivatives Association Agreement. An asset position in the swap or hedge at the time of termination would generate a payment to MEAG Power from the counterparty.

### Rollover Risk

The interest rate swaps that are used to hedge a portion of the overall variable-rate debt portfolio may terminate prior to the maturity of the bonds they hedge. Therefore, MEAG Power may be exposed to rollover risk as these swaps terminate.

### Market-Access Risk

MEAG Power is exposed to market-access risk on future bond or swap transactions and natural gas hedges if market conditions deteriorate in the future.

## (L) FAIR VALUE MEASUREMENTS

Fair value is defined in GASB Statement No. 72, "Fair Value Measurement and Application" (Statement 72) as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions maximize the use of relevant observable inputs and minimize the use of unobservable inputs. MEAG Power holds investments and derivative financial instruments that are measured at fair value on a recurring basis. Because investing is not a core part of MEAG Power's mission, MEAG Power determines that the disclosures related to these investments only need to be disaggregated by major type. MEAG Power chooses a tabular format for the fair value disclosures. MEAG Power categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset or liability, as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that MEAG Power can access at the measurement date.
- Level 2 inputs are inputs — other than quoted prices included within Level 1 — that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

### Investments

Level 1 investments are valued using prices quoted in active markets for identical assets. Investments classified in Level 2 of the fair value hierarchy are valued using comparative observable input market data, including, but not limited to: benchmark yields or yield curves; historic sector, security, or issuer relative pricing; observed or reported trades of like assets; broker dealer quotes; or quantitative pricing models using any or all of these market data. Money market mutual funds are recorded at amortized cost in accordance with Statement 31. For additional information pertaining to MEAG Power's investments, see Note 4, "Special Funds and Supplemental Power Account."

### Interest Rate Swaps

MEAG Power's interest rate swap agreements are valued using observable market interest rates, implied volatilities and credit spreads, which places them at Level 2 in the fair value hierarchy. For additional information pertaining to MEAG Power's interest rate swap agreements, see Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Other Financing Transactions."

### Natural Gas Hedges

MEAG Power's natural gas hedges consist of over-the-counter swaps, call options, and put options. These hedges are valued using price quotes for identical assets or liabilities in active markets, which places them at Level 1 in the fair value hierarchy. For additional information pertaining to MEAG Power's natural gas hedges, see "Fuel Costs," section (I) of this Note.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

MEAG Power's fair value measurements and their levels within the fair value hierarchy as of December 31, 2018 and 2017 were as follows (in thousands):

<b>December 31, 2018</b>	Total	Level 1	Level 2	Level 3
<i>Investments by fair value level:</i>				
U.S. Treasury securities	\$ 203,351	\$203,351	\$ —	\$ —
U.S. government agency and agency-backed securities	1,507,770	—	1,507,770	—
Corporate notes	134,777	—	134,777	—
Municipal bonds	21,039	—	21,039	—
Total investments by fair value level	1,866,937	\$203,351	\$1,663,586	\$ —
<i>Investments measured at the net asset value (NAV):</i>				
Common equity investment trusts	144,496			
<i>Investments measured at cost:</i>				
Money market mutual funds	418,345			
Cash/Other	902			
Total investments measured at cost	419,247			
Total special funds, supplemental power account and securities lending collateral	\$2,430,680			
<i>Derivative financial instruments:</i>				
Interest rate swaps	\$ (46,119)	\$ —	\$ (46,119)	\$ —
Natural gas hedges	(1,844)	—	(1,844)	—
Total derivative financial instruments	\$ (47,963)	\$ —	\$ (47,963)	\$ —
<b>December 31, 2017</b>				
<i>Investments by fair value level:</i>				
U.S. Treasury securities	\$ 217,665	\$217,665	\$ —	\$ —
U.S. government agency and agency-backed securities	2,020,200	—	2,020,200	—
Corporate notes	136,446	—	136,446	—
Municipal bonds	24,036	—	24,036	—
Total investments by fair value level	2,398,347	\$217,665	\$2,180,682	\$ —
<i>Investments measured at the net asset value (NAV):</i>				
Common equity investment trusts	161,491			
<i>Investments measured at cost:</i>				
Money market mutual funds	597,437			
Cash/Other	(1,520)			
Total investments measured at cost	595,917			
Total special funds, supplemental power account and securities lending collateral	\$3,155,755			
<i>Derivative financial instruments:</i>				
Interest rate swaps	\$ (54,528)	\$ —	\$ (54,528)	\$ —
Natural gas hedges	(1,009)	—	(1,009)	—
Total derivative financial instruments	\$ (55,537)	\$ —	\$ (55,537)	\$ —

The valuation method for investments measured at NAV per share (or its equivalent) is presented in the following table (dollars in thousands):

Common Equity Investment Trusts Measured at NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
<b>December 31, 2018</b>	<b>\$144,496</b>	<b>\$ —</b>	<b>Daily, monthly</b>	<b>1–30 days</b>
December 31, 2017	\$161,491	\$ —	Daily, monthly	1–30 days

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## (M) ENTERPRISE RISK MANAGEMENT

The Board has established an Enterprise Risk Management (ERM) program through the approval of an ERM Policy. The ERM Policy governs the ERM program, which consists of a Board-level Risk Management and Audit Committee (RMAC), an Executive-level Risk Oversight Committee (ROC) and personnel dedicated to the day-to-day execution of ERM activities. The ERM function is responsible for assessing risk throughout the organization and working with the RMAC and ROC to monitor and mitigate material risks identified through the risk-assessment process.

## (N) RECENT ACCOUNTING PRONOUNCEMENTS

In June 2015, GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (Statement 75). Statement 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Statement 75 resulted from a comprehensive review of the effectiveness of then-existing standards of accounting and financial reporting for all postemployment benefits (pensions and other postemployment benefits (OPEB)) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. MEAG Power adopted Statement 75 effective January 1, 2018. Additional information is provided in Note 7, "Retirement Plan and Other Postemployment Benefits — Other Postemployment Benefits." For comparative purposes, the reclassifications shown below were made to MEAG Power's 2017 Balance Sheet (in thousands). Reclassifications to MEAG Power's 2017 Statement of Net Revenues related to Statement 75 increased both Participant revenues and other generating and operating expense by \$0.4 million, with no impact on net revenues. None of these reclassifications had a material impact on any project's 2017 financial statements.

	2017 Increase (Decrease)
Assets and Deferred Outflows of Resources	
Other non-current assets	\$ 1,327
Deferred outflows of resources	315
Total reclassifications due to Statement 75	\$ 1,642
Liabilities and Deferred Inflows of Resources	
Non-current liabilities	\$10,720
Deferred inflows of resources	(9,078)
Total reclassifications due to Statement 75	\$ 1,642

In March 2016, GASB issued Statement No. 82, "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73" (Statement 82). Statement 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 was effective for MEAG Power beginning in 2017 and did not have a significant impact on MEAG Power's financial reporting.

In November 2016, GASB issued Statement 83, which addresses accounting and financial reporting for certain ARO. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in Statement 83. As discussed in "Asset Retirement Obligations and Decommissioning," section (H) of this Note, MEAG Power early adopted Statement 83 in 2018.

In January 2017, GASB issued Statement No. 84, "Fiduciary Activities" (Statement 84). Statement 84 was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement 84 is effective for MEAG Power beginning in 2019. The impact to MEAG Power's financial reporting has not been determined.

In March 2017, GASB issued Statement No. 85, "Omnibus 2017" (Statement 85). The objective of Statement 85 is to address practice issues that have been identified during implementation and application of certain GASB pronouncements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Statement 85 was effective for MEAG Power beginning in 2018 and did not impact MEAG Power's financial reporting.

In May 2017, GASB issued Statement No. 86, "Certain Debt Extinguishment Issues" (Statement 86). The primary objective of Statement 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. Statement 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement 86 was effective for MEAG Power beginning in 2018 and had no impact on MEAG Power's financial reporting.

# Notes to Consolidated Financial Statements

## *For the Years Ended December 31, 2018 and 2017*

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In June 2017, GASB issued Statement No. 87, “Leases” (Statement 87). The objective of Statement 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. Statement 87 increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under Statement 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. Statement 87 is effective for MEAG Power beginning in 2020. The impact to MEAG Power’s financial reporting has not been determined.

In April 2018, GASB issued Statement No. 88, “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements” (Statement 88). The primary objective of Statement 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, Statement 88 also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. Statement 88 is effective for MEAG Power beginning in 2019 and will require additional disclosures in the Notes.

In June 2018, GASB issued Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period” (Statement 89). The objectives of Statement 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Statement 89 establishes accounting requirements for interest cost incurred before the end of a construction period. Statement 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. GASB has allowed that, provided the criteria for regulated operations are met and the entity has elected regulatory accounting, qualifying interest cost may be capitalized as a regulatory asset. Statement 89 is effective for MEAG Power beginning in 2020. The impact to MEAG Power’s financial reporting has not been determined.

In August 2018, GASB issued Statement No. 90, “Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61” (Statement 90). The primary objectives of Statement 90 are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement 90 is effective for MEAG Power beginning in 2019. The impact to MEAG Power’s financial reporting has not been determined.

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## 3. PROPERTY, PLANT AND EQUIPMENT

PP&E activity for the years ended December 31, 2018 and 2017 is shown (in thousands) in the following table. Land is included in the electric component at a non-depreciable cost basis of \$40.5 million and \$43.5 million as of December 31, 2018 and 2017, respectively. In 2018, capital additions totaled \$799.6 million, primarily pertaining to site construction in the nuclear islands, turbine islands and balance of plant areas at Vogtle Units 3&4. A large portion of major plant equipment was set in place during 2018 including the steam generators, the Vogtle Unit 3 reactor coolant pumps, the Vogtle Unit 3 pressurizer, low and high-pressure turbine casings and diaphragms, and the Vogtle Unit 4 generator stator. Civil and structural work continued on the build-out of the containment and shield buildings, the auxiliary buildings, the annex buildings, and balance of plant facilities. Capital improvements at existing generating units and transmission facilities, as well as nuclear fuel purchases for the initial core for Vogtle Units 3&4, were also a factor.

Property, Plant and Equipment	As of December 31, 2016	Increases	Decreases	As of December 31, 2017	Increases	Decreases	As of December 31, 2018
<i>Project One</i>							
Electric utility plant in service	\$ 3,282,911	\$ 93,947	\$ (142,537)	\$3,234,321	\$ 94,341	\$ (20,361)	<b>\$3,308,301</b>
Less accumulated depreciation	(1,728,908)	(53,438)	14,963	(1,767,383)	(56,124)	20,361	<b>(1,803,146)</b>
Electric utility depreciable plant, net	1,554,003	40,509	(127,574)	1,466,938	38,217	—	<b>1,505,155</b>
CWIP	127,152	102,410	(98,881)	130,681	105,588	(98,418)	<b>137,851</b>
Nuclear fuel, net	187,388	—	(8,862)	178,526	1,385	—	<b>179,911</b>
Total Project One	1,868,543	142,919	(235,317)	1,776,145	145,190	(98,418)	<b>1,822,917</b>
<i>General Resolution Projects</i>							
Electric utility plant in service	1,205,677	17,485	(35,577)	1,187,585	23,201	(6,332)	<b>1,204,454</b>
Less accumulated depreciation	(578,442)	(19,720)	3,847	(594,315)	(20,332)	6,332	<b>(608,315)</b>
Electric utility depreciable plant, net	627,235	(2,235)	(31,730)	593,270	2,869	—	<b>596,139</b>
CWIP	30,254	36,840	(19,642)	47,452	42,236	(24,977)	<b>64,711</b>
Nuclear fuel, net	24,392	171	—	24,563	—	(513)	<b>24,050</b>
Total General Resolution Projects	681,881	34,776	(51,372)	665,285	45,105	(25,490)	<b>684,900</b>
<i>Combined Cycle Project</i>							
Electric utility plant in service	331,484	—	—	331,484	—	—	<b>331,484</b>
Less accumulated depreciation	(120,375)	(9,065)	—	(129,440)	(9,065)	—	<b>(138,505)</b>
Electric utility depreciable plant, net	211,109	(9,065)	—	202,044	(9,065)	—	<b>192,979</b>
CWIP	126	54	—	180	236	—	<b>416</b>
Total Combined Cycle Project	211,235	(9,011)	—	202,224	(8,829)	—	<b>193,395</b>
<i>Vogtle Units 3&amp;4 Projects and Project Entities</i>							
CWIP	2,420,859	605,882	(835,389)	2,191,352	718,674	526	<b>2,910,552</b>
Nuclear fuel, net	67,584	3,180	—	70,764	3,120	—	<b>73,884</b>
Total Vogtle Units 3&4 Projects and Project Entities	2,488,443	609,062	(835,389)	2,262,116	721,794	526	<b>2,984,436</b>
<i>Telecom Project</i>							
Telecommunications plant in service	28,841	—	—	28,841	30	—	<b>28,871</b>
Less accumulated depreciation	(23,015)	(726)	—	(23,741)	(721)	—	<b>(24,462)</b>
Total Telecom Project	5,826	(726)	—	5,100	(691)	—	<b>4,409</b>
Total property, plant and equipment, net	\$ 5,255,928	\$ 777,020	\$ (1,122,078)	\$4,910,870	\$902,569	\$ (123,382)	<b>\$5,690,057</b>

As of December 31, 2018 and 2017, the Telecom fiber-optic network encompassed over 1,500 miles of fiber. Telecom has entered into agreements that convey the rights to the use of certain fiber-optic cable owned by others. Telecom's costs under these agreements have been recorded as capital lease assets.



# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## 4. SPECIAL FUNDS AND SUPPLEMENTAL POWER ACCOUNT

### Investments

The ALCO Policy governs permitted investments, which include direct obligations of the U.S. government, certain government agency and mortgage-backed securities, general and special obligations of states, certain Georgia political subdivision and public authority obligations, certain federal agency discount notes and money market mutual funds that are permissible securities, as well as repurchase and reverse repurchase agreements collateralized by permissible securities. In the Project Entities, the ALCO Policy also permits direct obligations of the U.S. government, as well as certain government agency bonds, discount notes and money market mutual funds. In the Decommissioning Trust, in addition to these same categories of investments, the ALCO Policy permits common-equity investment trusts, asset-backed securities, commercial paper (CP), and corporate and municipal bonds, as well as other debt obligations and certificates of deposit. Based on these guidelines, special funds, the supplemental power account and securities lending investments (discussed below) are considered restricted assets as defined by Statement 34.

All of MEAG Power's investments are recorded and carried at fair value except for money market mutual funds, which are recorded at amortized cost. Quoted market prices or other inputs as permitted by Statement 72 (see Note 2 (L), "Summary of Significant Accounting Policies and Practices — Fair Value Measurements") are used in the determination of fair value. Unrealized gains/losses on investment securities are reported in net change in the fair value of financial instruments in the Statement of Net Revenues.

### Credit Risk

Credit risk is the risk that MEAG Power will be unable to recover its investments either by an inability to withdraw the funds through insolvency or nonperformance of a counterparty or an inability to recover collateral. In accordance with the ALCO Policy, MEAG Power manages exposure to credit risk by restricting investments to issuers that meet certain qualifications and therefore limits any potential credit exposure. In addition, all repurchase agreements must be collateralized using cash or securities permissible under the ALCO Policy at 102% of the market value of principal and accrued interest. As of December 31, 2018, substantially all of MEAG Power's investments in mortgage-backed securities and U.S. government agency bonds and notes were rated AAA by Moody's and AA+ by S&P, and/or guaranteed by the issuer, which carries the AAA/AA+ ratings. Common equity investment trusts are not rated. Credit risk considerations for the securities lending program are discussed in "Securities Lending" below.

The ALCO Policy establishes a framework to govern the management of MEAG Power's financial assets and seeks to obtain reasonable investment returns within prudent levels of risk, including credit risk. The primary objective of the ALCO Policy is to meet all cash flow requirements and reduce the revenue requirements of Participants without exposing MEAG Power to undue or inappropriate risks. The ALCO Policy is consistent with the requirements for state and local governments contained within State statutes, as well as applicable MEAG Power bond resolutions. As such, the following investment credit risk components are derived directly from the ALCO Policy: (1) U.S. Treasury securities held in the portfolio are direct obligations of the U.S. Treasury that carry the full faith and credit backing of the U.S. government; (2) U.S. government agency and agency-backed securities held are issued or otherwise guaranteed by agencies created pursuant to an Act of the U.S. Congress (Congress) as an agency, corporation, or instrumentality of the U.S. government; (3) Municipal bonds held are general or special obligations of states carrying at least a AA rating by two nationally recognized rating agencies or other State obligations, including political

subdivisions or public authorities created by the State legislature; (4) Corporate notes and common equity investment trusts are held only in the Decommissioning Trust managed by external money managers and are subject to the "Prudent Investor" standard established by FERC, as well as the NRC, related to the Decommissioning Trust; and (5) Money market mutual funds are U.S. Treasury or government agency class-only funds rated AAAM by S&P and Aaa-mf by Moody's.

### Custodial Credit Risk

In the event of failure of the counterparty, custodial credit risk is the risk that MEAG Power would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. MEAG Power limits the potential of such risk by ensuring that all investments are held by MEAG Power or by an agent in its name.

### Concentration of Credit Risk

Concentration of credit risk is the chance of a loss due to the magnitude of MEAG Power's investment in a single issuer. Under the ALCO Policy, MEAG Power restricts possible concentration of credit risk by placing maximum exposure restrictions by security type. The ALCO Policy also requires diversification to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer or bank. External investments with one issuer that comprised 5% or more of MEAG Power's portfolio (excluding those issued or explicitly guaranteed by the U.S. government, as well as mutual funds) as of December 31, 2018 were (dollars in thousands):

Issuer	Fair Value	Percentage of Portfolio
Federal Home Loan Bank	\$1,096,524	41.2%
Federal Farm Credit Bank	\$ 146,576	5.5%
Federal Agricultural Mortgage Corporation	\$ 142,344	5.3%

### Securities Lending

The Board has approved a securities lending program (the Program), which allows MEAG Power to lend securities held in the Decommissioning Trust in return for collateral in the form of cash or authorized security types, with a simultaneous agreement to return collateral for the same securities in the future. All investments in the Program are considered other investment securities for reporting cash flows.

MEAG Power's Trustee for the Decommissioning Trust is the lending agent for the Program, and collateral is pledged at 102% of the fair value of the investments loaned and is valued daily. There are no restrictions on the amount of securities that can be loaned.

At December 31, 2018, MEAG Power and the lending agent had no credit risk exposure to borrowers for direct lending activity because the fair value of the collateral held was greater than the fair value of the securities loaned. Contracts with the lending agent require it to indemnify MEAG Power if the borrowers fail to return the securities and the collateral is inadequate to replace the securities loaned or fail to pay MEAG Power for income distributions while the securities are on loan. There were no violations of legal or contractual provisions, no realized borrower or lending agent default losses, and no recoveries of prior period counterparty losses during the year. There were no income distributions owing on the securities loaned.

All securities loans can be terminated on demand by either MEAG Power or the borrower. MEAG Power is not exposed to custodial credit risk, as the collateral securities and cash collateral are held in MEAG Power's name. MEAG Power cannot pledge or sell collateral securities without an act of insolvency on the part of the borrower. Cash collateral is invested in short-term securities that generally match the obligations of the investments on loan. A portion of the investments may be specifically matched to the loans.

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## Interest Rate Risk

All fixed-income investments are exposed to interest rate risk. MEAG Power's investments would be subject to changes in fair value due to potential changes in interest rates. The ALCO Policy describes the maximum maturity limitations and performance benchmarks for each account in the funds established under the various bond resolutions and agreements pertaining to the Competitive Trust, as well as certain agreements with the DOE. These limits are based upon the underlying use of the monies deposited into each account. The maturity restrictions are designed to ensure that the assets are not invested longer than the intended use of the funds. The ALCO Policy prohibits the use of leverage or mortgage investments that are highly sensitive to interest rate changes, such as interest-only and principal-only securities. For reporting purposes, MEAG Power assumes that callable securities in its investment portfolio will be held until maturity. As of December 31, 2018, maturities of special funds, the supplemental power account and securities lending were as follows (in thousands):

Investment Type	Maturities (in years)						Total
	Under One	One-Three	Three-Seven	Seven-Ten	Over Ten	No Specific Maturity	
U.S. Treasury securities	\$ 44,263	\$ 57,331	\$ 86,004	\$ 15,753	\$ —	\$ —	\$ 203,351
U.S. government agency and agency-backed securities	1,236,133	65,132	142,767	47,877	9,868	5,993	1,507,770
Corporate notes	10,449	40,658	65,498	14,811	3,361	—	134,777
Common equity investment trusts	—	—	—	—	—	144,496	144,496
Municipal bonds	84,605	19,193	72,212	29,678	6,057	40,124	251,869
Eliminations*	(84,605)	(19,193)	(72,212)	(8,639)	(6,057)	(40,124)	(230,830)
Money market mutual funds	418,318	—	—	—	27	—	418,345
Cash/Other	—	—	—	—	—	902	902
Total special funds, supplemental power account and securities lending collateral	\$ 1,709,163	\$ 163,121	\$ 294,269	\$ 99,480	\$ 13,256	\$ 151,391	\$ 2,430,680

\* Represents investments in MEAG Power bonds held by the Competitive Trust as discussed in Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Project Borrowings from the Competitive Trust," which are eliminated at par value.

## Environmental Facilities Reserve Accounts

In 2006, MEAG Power established an Environmental Facilities Reserve Account (EFRA) for Project One, as well as a separate EFRA for each of Project Two and Project Three. MEAG Power will continue to deposit amounts to the EFRA in accordance with requirements set forth in remaining resolutions pursuant to which the EFRA was established. Such amounts may be applied by MEAG Power to any lawful purpose of MEAG Power related to the Coal Units (including paying a portion of the respective project's debt service related to the Coal Units).

## Classification

Investments are classified as current or non-current assets based on whether the securities represent funds available for current disbursement under the terms of the related trust agreement or other contractual provisions. Brief descriptions of funds not discussed elsewhere in these Notes are as follows:

- Construction funds are established to maintain funds for the payment of all costs and expenses related to the cost of acquisition and construction of a project, which MEAG Power is permitted to finance through the issuance of debt.
- Revenue and Operating funds are used for the purpose of depositing all revenues and disbursement of operating expenses and required fund deposits of the projects.
- Reserve and Contingency funds are used to accumulate and maintain a reserve for payment of the costs of major renewals, replacements, repairs, additions, betterments and improvements for the projects (Reserve and Contingency).
- Debt Service accounts are established for the purpose of accumulating funds for the payment of interest and principal on each payment date of the bonds and notes issued for the projects.
- Debt Service Reserve accounts (DSRA) are established for certain funding requirements in accordance with applicable bond resolutions and DOE financing documents.



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

At December 31, 2018 and 2017, investments in special funds, the supplemental power account and securities lending were classified on the Balance Sheet as follows (in thousands):

	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations*	Total
<b>December 31, 2018</b>								
Special funds, non-current:								
Decommissioning Trust	\$422,097	\$ 49,498	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 471,595
Construction fund	81,719	68,522	3	692,076	—	—	—	842,320
Debt Service fund —								
Reserve and Retirement accounts	57,684	39,413	34,043	165,347	—	—	—	296,487
Revenue and Operating fund	—	—	2,603	—	—	—	—	2,603
Reserve and Contingency fund	18,277	8,847	2,700	—	—	—	—	29,824
Environmental Facilities								
Reserve account	—	—	—	—	—	—	—	—
Competitive Trust:								
New Generation and Capacity								
Funding account	—	—	—	—	217,305	—	(86,595)	130,710
Reserve Funded Debt account	—	—	—	—	4,929	—	—	4,929
Flexible Operating account	—	—	—	—	116,690	—	(116,690)	—
Total special funds, non-current	579,777	166,280	39,349	857,423	338,924	—	(203,285)	1,778,468
Special funds, current:								
Revenue and Operating fund	47,233	66,003	22,395	271	—	401	—	136,303
Debt Service fund —								
Debt Service account	39,584	19,556	4,738	21,133	—	—	—	85,011
Subordinated Debt Service fund —								
Debt Service accounts	84,356	50,265	—	—	—	—	—	134,621
Construction fund	5,851	279	—	57,002	—	—	—	63,132
Competitive Trust:								
New Generation and Capacity								
Funding account	—	—	—	—	13,074	—	(13,074)	—
Flexible Operating account	—	—	—	—	242,862	—	(14,471)	228,391
Total special funds, current	177,024	136,103	27,133	78,406	255,936	401	(27,545)	647,458
Supplemental power account	4,050	—	—	—	—	—	—	4,050
Securities lending collateral	630	74	—	—	—	—	—	704
Total special funds, supplemental power account and securities lending collateral	\$761,481	\$302,457	\$66,482	\$935,829	\$594,860	\$401	\$(230,830)	\$2,430,680

\* Represents investments in MEAG Power bonds held by the Competitive Trust as discussed in Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Project Borrowings from the Competitive Trust," which are eliminated at par value.

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

December 31, 2017	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations*	Total
Special funds, non-current:								
Decommissioning Trust	\$428,145	\$ 49,867	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 478,012
Construction fund	85,574	51,002	3	1,288,033	—	—	—	1,424,612
Debt Service fund —								
Reserve and Retirement accounts	47,647	57,371	33,473	166,290	—	—	—	304,781
Revenue and Operating fund	—	—	11,516	—	—	—	—	11,516
Reserve and Contingency fund	19,016	10,717	3,615	—	—	—	—	33,348
Environmental Facilities								
Reserve account	—	—	—	—	—	—	—	—
Competitive Trust:								
New Generation and Capacity								
Funding account	—	—	—	—	216,650	—	(46,781)	169,869
Reserve Funded Debt account	—	—	—	—	21,215	—	—	21,215
Flexible Operating account	—	—	—	—	88,514	—	(88,514)	—
Total special funds, non-current	580,382	168,957	48,607	1,454,323	326,379	—	(135,295)	2,443,353
Special funds, current:								
Revenue and Operating fund	60,876	49,117	22,115	67,770	—	531	—	200,409
Debt Service fund —								
Debt Service account	33,736	41,366	4,564	20,149	—	—	—	99,815
Subordinated Debt Service fund —								
Debt Service accounts	109,936	23,042	—	—	—	—	—	132,978
Construction fund	3,567	11,744	2	3	—	—	—	15,316
Competitive Trust:								
Reserve Funded Debt account	—	—	—	—	5,505	—	(5,505)	—
Flexible Operating account	—	—	—	—	258,680	—	—	258,680
Total special funds, current	208,115	125,269	26,681	87,922	264,185	531	(5,505)	707,198
Supplemental power account	4,781	—	—	—	—	—	—	4,781
Securities lending collateral	379	44	—	—	—	—	—	423
Total special funds, supplemental power account and securities lending collateral	\$793,657	\$294,270	\$75,288	\$1,542,245	\$590,564	\$531	\$(140,800)	\$3,155,755

\* Represents investments in MEAG Power bonds held by the Competitive Trust as discussed in Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Project Borrowings from the Competitive Trust," which are eliminated at par value.

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## 5. LONG- AND SHORT-TERM DEBT, CREDIT AGREEMENTS AND INTEREST RATE SWAPS

All bonds issued under a resolution are secured by a pledge of revenues, typically electric power, attributable to the respective projects after payment of operating costs, as well as by pledges of the assets in the funds established by the bond resolutions. In addition, each Participant's payment obligations under the Power Sales Contracts are general obligations to which each Participant's full faith and credit are pledged. Also, each Power Sales Contract includes a provision for the assessment and collection of an ad valorem tax by the Participant, if necessary to meet its obligations under the applicable Power Sales Contract.

Project One has been financed through the issuance of senior lien bonds (Power Revenue Bonds) and subordinated lien bonds under the Power Revenue Bond Resolution. The General Resolution Projects have also been financed through the issuance of senior lien bonds (General Power Revenue Bonds) and subordinated lien bonds under the General Power Revenue Bond Resolution. The CC Project has been financed through the issuance of senior lien bonds (CC Project Bonds) under the Combined Cycle Project Bond Resolution (CC Project Bond Resolution). Bonds issued for the Vogtle Units 3&4 Projects under the applicable resolutions are senior debt.

### Power Revenue Bonds, General Power Revenue Bonds and Subordinated Debt

Under the Act, prior to the issuance of any of its revenue bonds, MEAG Power is required to cause such bonds, and the security therefor, to be confirmed and validated in a judicial proceeding in the Fulton County Superior Court. Prior to 2018, MEAG Power had caused the following principal amounts of its Power Revenue Bonds, General Power Revenue Bonds and subordinated lien bonds to finance and refinance Project One and the General Resolution Projects to be confirmed and validated (in thousands):

	Validated Amount
<i>Project One</i>	
Power Revenue Bonds	\$ 8,000,000
Subordinated lien bonds	5,400,000
<i>General Resolution Projects</i>	
General Power Revenue Bonds	3,300,000
Subordinated lien bonds	1,800,000
<b>Total</b>	<b>\$18,500,000</b>

The bond resolutions permit the issuance of bonds in the future for certain purposes. No scheduled debt maturity for Project One or the General Resolution Projects may extend beyond June 2054, the expiration of the Power Sales Contracts for the respective project — see Note 1 (B), "The Organization — Project One and the General Resolution Projects."

On July 17, 2018, the Fulton County Superior Court entered a judgment (the 2018 Validation Judgment) which confirmed and validated bonds of MEAG Power to finance the cost of acquisition and construction of capital improvements to the applicable project and to refund Power Revenue Bonds, General Power Revenue Bonds and subordinated lien bonds, as applicable, in the following aggregate principal amounts (in thousands):

	Validated Amount
Project One	\$4,706,900
General Resolution Projects	1,396,900
<b>Total</b>	<b>\$6,103,800</b>

The Fulton County Superior Court also confirmed and validated (i) a method or formula for structuring debt service on Power Revenue Bonds, General Power Revenue Bonds and subordinated lien bonds that provides MEAG Power with additional flexibility in the structuring of such debt service and (ii) the validity and enforceability of bond resolutions, as amended and restated, for Project One and the General Resolution Projects.

In December 2018, MEAG Power issued the following amounts of Power Revenue Bonds, Series HH and General Power Revenue Bonds, Series 2018A to: (a) finance or refinance certain capital improvements, (b) provide a portion of the moneys required to refund certain subordinated lien bonds, (c) provide a portion of the moneys required to retire certain tax-exempt commercial paper notes and (d) provide a portion of the moneys for deposit in the applicable DSRA (in thousands):

Project One	\$178,600
General Resolution Projects	64,335
<b>Total</b>	<b>\$242,935</b>

On December 16, 2011, MEAG Power adopted various resolutions (the Amending Resolutions) for the purpose of making certain amendments (the Proposed Amendments) to the Power Revenue Bond Resolution and the General Power Revenue Bond Resolution (collectively, the Senior Resolutions). As a result of changes in market conditions and standard practices, MEAG Power undertook this process to modernize the Senior Resolutions via a "springing lien" amendment to the Senior Resolutions. The Amending Resolutions allow MEAG Power to, among other things, more easily issue Power Revenue Bonds and General Power Revenue Bonds, as well as be more consistent with the bond resolutions of the CC Project and the Vogtle Units 3&4 Projects. MEAG Power published notice of the receipt of the required consents on March 8, 2017, which caused the Proposed Amendments (other than certain amendments that will not become effective until all Power Revenue Bonds and General Power Revenue Bonds, respectively, outstanding at December 16, 2011 are no longer outstanding) to become effective. As discussed above, the 2018 Validation Judgment validated and confirmed the validity and enforceability of the Senior Resolutions, as so amended.

Debt issued under the subordinated bond resolutions is subordinate in all respects to the Power Revenue Bonds and the General Power Revenue Bonds.

Various bond issues have been defeased by creating separate irrevocable trust funds. New debt was issued and a portion of the proceeds were used to purchase U.S. government securities that were placed in such trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Balance Sheet of Project One and the General Resolution Projects. As of December 31, 2018, the amount held in escrow to defease Power Revenue Bonds and General Power Revenue Bonds removed from the Balance Sheet amounted to \$118.0 million.

### Combined Cycle Project Revenue Bonds

As of December 31, 2018, MEAG Power had validated by court judgments \$1.3 billion of CC Project bonds, which includes \$200.0 million for prepayment of fuel costs. Reference to "court judgments" for these bonds, as well as for the Vogtle Units 3&4 Bonds described below, indicates that MEAG Power is authorized to issue such bonds up to the validated amount.

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## Financing of Vogtle Units 3&4 Projects and Project Entities

Project M, Project J and Project P are being financed, in part, through the issuance of bonds, including bond anticipation notes (BANs) and revenue bonds constituting Build America Bonds (Build America Bonds) for purposes of the American Recovery and Reinvestment Act of 2009 (Recovery Act) under the applicable Project M Bond Resolution, Project J Bond Resolution and Project P Bond Resolution, respectively. All bonds (including BANs) heretofore or hereafter issued under these resolutions, as applicable, are referred to herein as Project M Bonds, Project J Bonds and Project P Bonds, respectively, and are collectively referred to herein as the Vogtle Units 3&4 Bonds.

As of December 31, 2018, MEAG Power had validated by court judgments \$5.0 billion of Project M Bonds for the purpose of financing Project M and refunding Project M Bonds and the Project M DOE Guaranteed Loan, \$6.0 billion of Project J Bonds for the purpose of financing Project J and refunding Project J Bonds and the Project J DOE Guaranteed Loan, and \$3.4 billion of Project P Bonds for the purpose of financing Project P and refunding Project P Bonds and the Project P DOE Guaranteed Loan.

Under the Recovery Act, MEAG Power, provided it complies with the requirements of the Recovery Act, may receive cash subsidy payments rebating a portion of the interest on the Build America Bonds from the U.S. Treasury up to 35% of the interest payable on such bonds. No assurance can be given by MEAG Power of the receipt of such cash subsidy payments. MEAG Power is obligated to make payments of the principal and interest on the Build America Bonds whether or not it receives such cash subsidy payments. Section 30101 of the Bipartisan Budget Act of 2018 extended sequester reduction on all subsidy payments owed to issuers of direct-pay Build America Bonds until 2027 (the Sequester Reduction). The Sequester Reduction for the federal fiscal year ended September 30, 2018 was 6.6%. The Sequester Reduction percentage for the federal fiscal year ending September 30, 2019 is 6.2%.

On September 24, 2018, MEAG Power issued its Plant Vogtle Units 3&4 Project P Bond, Taxable Series 2018A in the principal amount of \$100.0 million (the Taxable Series 2018A Project P Bond). The Taxable Series 2018A Project P Bond was purchased by the trustee of the Competitive Trust, as an investment of funds on deposit in the Competitive Trust, and the proceeds thereof were applied (a) to pay and refund \$80.0 million in aggregate principal amount of the Series 2010A Project P Notes (see next paragraph) and (b) to provide \$20.0 million of additional funds to finance a portion of the costs of acquisition and construction and financing costs of Project P. Upon the payment of the Series 2010A Project P Notes, a previous credit agreement pertaining to Project P (the Project P Credit Agreement) terminated in accordance with its terms.

In order to evidence its obligation to repay borrowings made and to be made by MEAG Power pursuant to the Project P Credit Agreement, and interest thereon, in 2010, MEAG Power issued its Project P BANs, Taxable Series 2010A (the Series 2010A Project P Notes) to the banks that were parties to the Project P Credit Agreement. In 2012, MEAG Power issued a Project P BAN, Taxable Series 2012A (the Series 2012A Project P Note) to evidence MEAG Power's obligation to repay advances made by the trustee of the Competitive Trust to MEAG Power, as an investment of funds on deposit in the Competitive Trust, and the interest thereon.

On December 4, 2018, MEAG Power entered into a revolving credit facility with a commercial bank for the payment of additional costs of acquisition and construction and financing costs of Project P. The amount available for borrowings under such facility is \$50.0 million. No amount was outstanding as of December 31, 2018. On January 4, 2019, MEAG Power borrowed \$50.0 million for CWIP payments pertaining to Vogtle 3&4.

Changes in the Series 2010A Project P Notes, Series 2012A Project P Note and Taxable Series 2018A Project P Bond during the years ended December 31, 2018 and 2017 were (in thousands):

	Balance December 31, 2016			Balance December 31, 2017			Balance December 31, 2018
	Proceeds	Payments		Proceeds	Payments		
Series 2010A Project P Notes	\$ —	\$ 70,675	\$ 70,675	\$ —	\$ 80,000	\$80,000	\$ —
Series 2012A Project P Note	18,075	31,119	49,194	—	—	—	—
Taxable Series 2018A Project P Bond	—	—	—	100,000	—	—	100,000
Total	\$18,075	\$101,794	\$119,869	\$ —	\$180,000	\$80,000	\$100,000

For information pertaining to DOE Guaranteed Loans, see Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities — Structure and DOE Guaranteed Loans — DOE Loan Guarantee Program."

## Telecommunications Project Revenue Bonds

As of December 31, 2018, MEAG Power had validated by court judgment \$44.0 million of bonds pertaining to Telecom for the purpose of acquisition and construction of the Telecom network and subsequent refundings. All Telecommunications Project Revenue Bonds have been repaid.

## Credit Agreements and Other Short-Term Debt

### Credit Agreements

As of both December 31, 2018 and 2017, \$155.9 million in aggregate amount of letters of credit were in effect to support CP notes which, as of such dates, were issued and outstanding in the amount of \$12.0 million and \$105.5 million, respectively. Any amounts drawn under the letters of credit would be payable by MEAG Power on a semiannual basis over a three-year period using the bank's interest rates. The maximum amount of CP authorized to be issued is \$410.0 million, but in no event can the aggregate principal amount of all CP notes outstanding, and the interest thereon due at maturity, exceed the aggregate stated amounts of all such letters of credit at any time outstanding

and in effect. A principal amount of validated but unissued Power Revenue Bonds and General Power Revenue Bonds of not less than the amount of subordinated bonds issued as BANs is required and was maintained as of both December 31, 2018 and December 31, 2017.

On December 28, 2016, MEAG Power and two commercial banks entered into revolving credit agreements (RCAs) for Project One and the General Resolution Projects that permit MEAG Power to borrow from such banks, until the end of the revolving credit period thereunder (initially, until December 28, 2019 unless earlier terminated, and subject to extension at the sole discretion of the applicable bank), in the aggregate, not to exceed \$225.0 million. Any amounts borrowed under the RCAs would be payable by MEAG Power following the end of the revolving credit period on a quarterly basis over a three-year period using the bank's interest rates. Since the notes evidencing such banks' right to be repaid for such borrowings constitute subordinated bonds issued as BANs, a principal amount of validated but unissued Power Revenue Bonds and General Power Revenue Bonds of not less than the amount of such subordinated bonds is required and was maintained as of both December 31, 2018 and 2017.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

Subordinated bonds issued as variable-rate demand obligations and outstanding as of December 31, 2018 totaled \$211.0 million. Bondholders may require repurchase of these subordinated bonds at the time of periodic interest rate adjustments. Agreements have been entered into to provide for the remarketing of the subordinated bonds if such repurchase is required. Agreements have also been entered into with certain banks, which generally provide for the purchase by those banks of subordinated bonds which are not remarketed. As of December 31, 2018, none of the aforementioned bonds were held by the banks. Under the terms of these agreements, any bonds purchased by the banks would be payable by MEAG Power on a semiannual basis over periods generally ranging over two to five years.

As of December 31, 2018, MEAG Power and two banks had entered into committed credit agreements providing for lines of credit (LOC) available to Project One, the General Resolution Projects and the CC Project for \$125.0 million individually, but not to exceed \$125.0 million in the aggregate. The agreements expire in December 2019. The LOC generally provide for interest at taxable rates.

### Other Short-Term Debt

In 2016, MEAG Power issued \$194.1 million of its Project One BANs, Series 2016A and \$80.9 million of its General Resolution Projects BANs, Series 2016A (collectively, the Series 2016A BANs) in order to, among other things, provide, together with a portion of the amounts on deposit in the EFRA, the funds required to redeem Capital Appreciation Bonds (CABs) issued in 2006 and thereby provide, together with the balance of the amounts on deposit in the EFRA, the amount needed to pay an early termination amount under a lease transaction, which was terminated in 2016. The Series 2016A BANs, as previously extended, matured on June 23, 2017. On June 1, 2017, \$145.0 million of the Project One Series 2016A BANs and \$6.0 million of the General Resolution Projects Series 2016A BANs were repaid with proceeds from the Project One Subordinated Bonds, Series 2016A and General Resolution Projects Subordinated Bonds, Series 2016A.

Changes in LOC and the Series 2016A BANs during the years ended December 31, 2018 and 2017 were (in thousands):

Lines of Credit and Other Short-term Debt	Balance December 31, 2016			Balance December 31, 2017			Balance December 31, 2018
	Proceeds	Payments		Proceeds	Payments		
Project One	\$152,000	\$15,850	\$152,000	\$15,850	\$57,533	\$47,708	<b>\$25,675</b>
General Resolution Projects	6,756	1,850	6,005	2,601	3,635	5,801	<b>435</b>
CC Project	—	—	—	—	—	—	<b>—</b>
<b>Total</b>	<b>\$158,756</b>	<b>\$17,700</b>	<b>\$158,005</b>	<b>\$18,451</b>	<b>\$61,168</b>	<b>\$53,509</b>	<b>\$26,110</b>

### Project Borrowings from the Competitive Trust

In order to facilitate certain financings as described below, borrowings by various projects of MEAG Power were purchased by the Competitive Trust as an investment.

In 2012, MEAG Power issued BANs in a maximum principal amount to be outstanding at any time of \$100.0 million for each of Project One, the General Resolution Projects and the CC Project (the Series 2012A BANs). The Series 2012A BANs are unsecured debt.

In 2012, MEAG Power issued \$67.7 million of Project One subordinated bonds and \$54.8 million of General Resolution Projects subordinated bonds (collectively, Series 2012B Bonds) to refund previously issued bonds outstanding in the same amount.

The Series 2012A BANs, the Series 2012B Bonds, the Series 2012A Project P Note and the Taxable Series 2018A Project P Bond were issued to evidence MEAG Power's obligation to repay loans made by the trustee of the Competitive Trust to MEAG Power, as an investment of funds on deposit in the Competitive Trust, and the interest thereon. Such loans are used by MEAG Power to finance a portion of the costs of acquisition and construction and working capital needs of the applicable project(s), as well as financing costs for Project P.

Changes in the Series 2012A BANs, the Series 2012B Bonds, the Series 2012A Project P Note and the Taxable Series 2018A Project P Bond during the years ended December 31, 2018 and 2017 were (in thousands):

Description	Balance December 31, 2016			Balance December 31, 2017			Balance December 31, 2018
	Proceeds	Payments		Proceeds	Payments		
Project One Series 2012A BANs	\$ 28,075	\$ —	\$ —	\$ 28,075	\$ —	\$ —	<b>\$ 28,075</b>
Project One Series 2012B Bonds	25,060	—	—	25,060	—	5,505	<b>19,555</b>
General Resolution Projects Series 2012A BANs	4,670	—	—	4,670	—	—	<b>4,670</b>
General Resolution Projects Series 2012B Bonds	54,780	—	—	54,780	—	—	<b>54,780</b>
CC Project Series 2012A BANs	32,495	—	4,280	28,215	—	4,465	<b>23,750</b>
Project P Series 2012A Project P Note	18,075	31,119	49,194	—	—	—	<b>—</b>
Project P Taxable Series 2018A Project P Bond	—	—	—	—	100,000	—	<b>100,000</b>
<b>Total</b>	<b>\$163,155</b>	<b>\$31,119</b>	<b>\$53,474</b>	<b>\$140,800</b>	<b>\$100,000</b>	<b>\$9,970</b>	<b>\$230,830</b>

As such, the investments of the Competitive Trust that were also liabilities of the various project(s), along with interest expense paid on the bonds and interest earned by the Competitive Trust, were eliminated as applicable from MEAG Power's 2018 and 2017 consolidated financial statements.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### Other Financing Transactions

MEAG Power uses various methods of hedging, including floating-to-fixed interest rate swap agreements, as part of its debt management under the ALCO Policy. Floating-to-fixed interest rate swaps, as discussed in these Notes, are hedging instruments where MEAG Power pays a fixed rate and receives a floating rate.

Under certain circumstances, a swap transaction is subject to early termination prior to its scheduled termination and prior to the maturity of the related bonds, in which event MEAG Power may be obligated to make or receive a substantial payment to or from the counterparty. As of both December 31, 2018 and 2017, MEAG Power had interest rate swap transactions outstanding under interest rate swap master agreements with four counterparties.

The mark-to-market value of interest rate swap agreements is recorded in other non-current liabilities on the Balance Sheet and totaled \$50.9 million and \$60.5 million as of December 31, 2018 and 2017, respectively. Statement 53 requires hedging

instruments to be evaluated for effectiveness, with the change in the fair value of effective hedging instruments recorded as a deferred inflow or outflow. For the years ended December 31, 2018 and 2017, a fair value increase (decrease) of \$9.2 million and \$(2.2) million, respectively, was recorded in deferred outflows of resources on the Balance Sheet.

MEAG Power previously entered into certain interest rate swap agreements that had a notional amount outstanding as of December 31, 2018 of \$13.1 million, to hedge portions of the variable-rate debt portfolio. These hedges do not meet the criteria for effectiveness under the evaluation methods permitted by Statement 53. As such, the change in the fair value of ineffective hedges, which increased \$0.4 million and \$0.5 million for the years ended December 31, 2018 and 2017, respectively, was reported in net change in the fair value of financial instruments in the Statement of Net Revenues.

The terms of the interest rate swap agreements outstanding as of December 31, 2018 and 2017 were as follows (dollars in thousands):

Project(s)	Notional Amount Outstanding December 31, 2018	Interest Rate*		Term Dates		Counterparty Credit Rating		
		Paid	Received	Start	End	Fitch	Moody's	S&P
One	\$ 39,150	4.20%	SIFMA	Jan. 2005	Jan. 2044	A+	A3	A-
One	59,275	4.31%	SIFMA	Jan. 2005	Jan. 2048	AA-	Aa2	A+
One	49,225	4.32%	SIFMA	Jan. 2005	Jan. 2048	AA	Aa2	A+
One	46,725	3.81%–3.90%	CPI + 1.05%	Jan. 2007	Jan. 2019–2022	AA-	A2	A-
Total Project One	194,375							
General Resolution	13,060	3.78%	SIFMA	Jan. 2007	Jan. 2020	A+	A3	A-
<b>Total</b>	<b>\$207,435</b>							

Project(s)	Notional Amount Outstanding December 31, 2017	Interest Rate*		Term Dates		Counterparty Credit Rating		
		Paid	Received	Start	End	Fitch	Moody's	S&P
One	\$ 39,150	4.20%	SIFMA	Jan. 2005	Jan. 2044	A	A3	A-
One	59,275	4.31%	SIFMA	Jan. 2005	Jan. 2048	AA-	Aa2	AA-
One	49,225	4.32%	SIFMA	Jan. 2005	Jan. 2048	AA-	Aa3	A+
One	46,725	3.81%–3.90%	CPI + 1.05%	Jan. 2007	Jan. 2019–2022	A+	A3	A-
Total Project One	194,375							
General Resolution	15,565	3.78%	SIFMA	Jan. 2007	Jan. 2020	A	A3	A-
<b>Total</b>	<b>\$209,940</b>							

\*SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, produced by Municipal Market Data, and is a seven-day, high-grade market index comprising tax-exempt, variable-rate debt obligations. CPI is the Consumer Price Index.

For a discussion of risks pertaining to interest rate swap agreements, see Note 2 (K), "Summary of Significant Accounting Policies and Practices — Derivative Financial Instruments."



# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## Long-Term Debt Activity

Changes in long-term debt during the years ended December 31, 2018 and 2017 were (in thousands):

	As of December 31, 2016	Increases	Decreases	As of December 31, 2017	Increases	Decreases	As of December 31, 2018
<b>Project One</b>							
Power Revenue bonds	\$ 339,505	\$ —	\$ (48,980)	\$ 290,525	\$178,600	\$ (26,680)	\$ 442,445
Unamortized (discount) premium, net	14,842	50	(2,224)	12,668	(2,691)	14,796	24,773
Subordinated debt	1,622,476	512	(85,185)	1,537,803	8,334	(230,444)	1,315,693
Unamortized (discount) premium, net	99,384	42	(15,694)	83,732	177	(15,315)	68,594
Bond anticipation notes (unsecured)	28,075	—	—	28,075	—	—	28,075
Total Project One	2,104,282	604	(152,083)	1,952,803	184,420	(257,643)	1,879,580
<b>General Resolution Projects</b>							
General Power Revenue bonds	161,085	—	(42,085)	119,000	64,335	(38,495)	144,840
Unamortized (discount) premium, net	1,029	22	(1,080)	(29)	5,690	(254)	5,407
Subordinated debt	529,627	—	(24,350)	505,277	—	(74,422)	430,855
Unamortized (discount) premium, net	17,418	10	(2,678)	14,750	10	(2,556)	12,204
Bond anticipation notes (unsecured)	4,670	—	—	4,670	—	—	4,670
Total General Resolution Projects	713,829	32	(70,193)	643,668	70,035	(115,727)	597,976
<b>Combined Cycle Project</b>							
Combined Cycle Project Revenue bonds	169,520	—	(14,835)	154,685	—	(15,300)	139,385
Unamortized (discount) premium, net	7,523	25	(1,989)	5,559	25	(1,593)	3,991
Bond anticipation notes (unsecured)	32,495	—	(4,280)	28,215	—	(4,465)	23,750
Total Combined Cycle Project	209,538	25	(21,104)	188,459	25	(21,358)	167,126
<b>Vogle Units 3&amp;4 Projects and Project Entities</b>							
Vogle Units 3&4 Projects' Revenue bonds	2,940,375	101,794	(132,869)	2,909,300	180,000	(104,170)	2,985,130
Unamortized (discount) premium, net	11,700	—	(795)	10,905	—	(478)	10,427
DOE Guaranteed Loans	1,170,786	27,503	—	1,198,289	28,533	—	1,226,822
Total Vogle Units 3&4 Projects and Project Entities	4,122,861	129,297	(133,664)	4,118,494	208,533	(104,648)	4,222,379
Total senior and subordinated debt	\$7,150,510	\$129,958	\$(377,044)	\$6,903,424	\$463,013	\$(499,376)	\$6,867,061

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## Long-Term Debt by Series and DOE Guaranteed Loans

All Power Revenue Bonds, General Power Revenue Bonds, CC Project Bonds, as well as Vogtle Units 3&4 Bonds, and certain subordinated bonds bear interest at fixed rates, except for certain Project P BANS. The remaining subordinated bonds bear interest at variable interest rates. Advances under the DOE Guaranteed Loans are at both fixed and variable rates. At December 31, 2018 and 2017, MEAG Power's long-term debt consisted of the following (in thousands):

Project One	2018	2017
<i>Power Revenue Bonds (senior):</i>		
Series V	\$ —	\$ 2,165
Series W	—	2,190
Series BB	17,940	20,030
Series EE	38,125	38,125
Series GG	124,170	127,575
Series HH	178,600	—
Taxable Series Four	83,610	100,440
Total	442,445	290,525
Unamortized (discount) premium, net	24,773	12,668
Total Power Revenue Bonds outstanding	467,218	303,193
<i>Subordinated debt:</i>		
Series 2005A-1 – Taxable fixed rate	57,475	63,130
Series 2005A-2 – Fixed rate CABs	1,176	1,176
Series 2007A-1 and A-2 – Fixed rate	—	13,280
Series 2007A-2 – Variable rate	46,725	46,725
Series 2007B – Taxable fixed rate	12,225	12,640
Series 2008A – Fixed rate	24,805	64,425
Series 2008B – Variable rate	148,065	148,065
Series 2008D – Fixed rate	—	86,060
Series 2009B – Fixed rate	217,750	220,560
Series 2011A – Fixed rate	189,285	201,070
Series 2011B – Fixed rate	24,435	25,740
Series 2012A – Taxable fixed rate	59,575	59,575
Series 2012B – Taxable fixed rate	19,555	25,060
Series 2012C – Fixed rate	45,255	45,255
Series 2015A – Fixed rate	145,610	149,370
Series 2015A – Fixed rate CABs	10,090	10,090
Series 2016A – Fixed rate	282,155	286,380
Series A and B BANS:		
Tax-exempt variable rate CP	—	48,224
Taxable variable rate CP	12,007	12,007
Revolving credit note – Taxable variable rate	16,945	16,945
Total	1,313,133	1,535,777
Accretion of CABs	2,560	2,026
Unamortized (discount) premium, net	68,594	83,732
Total subordinated debt	1,384,287	1,621,535
Total senior and subordinated debt	1,851,505	1,924,728
Bond anticipation notes (unsecured) – Series 2012A		
BANS – Taxable variable rate	28,075	28,075
Current portion of long-term debt	(91,336)	(106,905)
Total Project One long-term debt	\$1,788,244	\$1,845,898
<i>Combined Cycle Project</i>		
<i>Revenue bonds (senior):</i>		
Series 2010A	\$ 103,115	\$ 106,670
Series 2012A	36,270	48,015
Total	139,385	154,685
Unamortized (discount) premium, net	3,991	5,559
Total senior bonds outstanding	143,376	160,244
Bond anticipation notes (unsecured) – Series 2012A		
BANS – Taxable variable rate	23,750	28,215
Total	167,126	188,459
Current portion of long-term debt	(16,780)	(15,300)
Total Combined Cycle Project long-term debt	\$ 150,346	\$ 173,159

General Resolution Projects	2018	2017
<i>General Power Revenue Bonds (senior):</i>		
1992A Series	\$ 9,470	\$ 13,780
1993B Series	165	170
1993C Series	11,395	12,425
2012B Series	5,985	34,840
2018A Series	64,335	—
Taxable 2012A Series	53,490	57,785
Total	144,840	119,000
Unamortized (discount) premium, net	5,407	(29)
Total General Power Revenue Bonds outstanding	150,247	118,971
<i>Subordinated debt:</i>		
Series 1985A – Variable rate	23,050	23,050
Series 1985B – Variable rate	20,120	25,320
Series 1985C – Variable rate	19,765	24,805
Series 2007A – Taxable fixed rate	24,555	25,380
Series 2008A – Fixed rate	36,435	39,795
Series 2008C – Fixed rate	—	2,870
Series 2009B – Fixed rate	7,915	8,165
Series 2011A – Fixed rate	4,695	4,935
Series 2011B – Fixed rate	44,255	46,570
Series 2012A – Taxable fixed rate	76,750	81,160
Series 2012B – Taxable fixed rate	54,780	54,780
Series 2015A – Fixed rate	9,605	9,605
Series 2016A – Fixed rate	67,745	72,380
Series A and B BANS		
Tax-exempt variable rate CP	—	45,277
Revolving credit note – Variable rate	29,605	29,605
Revolving credit note – Taxable variable rate	11,580	11,580
Total	430,855	505,277
Unamortized (discount) premium, net	12,204	14,750
Total subordinated debt	443,059	520,027
Total senior and subordinated debt	593,306	638,998
Bond anticipation notes (unsecured) – Series 2012A		
BANS – Taxable variable rate	4,670	4,670
Current portion of long-term debt	(85,463)	(53,168)
Total General Resolutions Project long-term debt	\$ 512,513	\$ 590,500
<i>Vogtle Units 3&amp;4 Projects and Project Entities</i>		
<i>Revenue bonds (senior):</i>		
Series 2010A, Project J – Taxable (Build America Bonds)	\$ 1,223,800	\$ 1,224,265
Series 2010B, Project J	7,045	17,995
Series 2015A, Project J	185,180	185,180
Series 2010A, Project M – Taxable (Build America Bonds)	1,010,400	1,012,235
Series 2010B, Project M	4,140	11,705
Series 2010A, Project P – Taxable (Build America Bonds)	383,290	383,405
Series 2010B, Project P	2,030	5,270
Series 2015A, Project P	69,245	69,245
Series 2018A, Project P – Taxable variable rate	100,000	—
Total	2,985,130	2,909,300
Unamortized (discount) premium, net	10,427	10,905
Current portion of long-term debt	(25,360)	(24,170)
Total Vogtle Units 3&4 Bonds long-term debt	2,970,197	2,896,035
<i>DOE Guaranteed Loans:</i>		
Federal Financing Bank, SPVJ – Fixed rate	148,747	143,922
Federal Financing Bank, SPVJ – Variable rate	193,931	193,931
Federal Financing Bank, SPVM – Fixed rate	328,381	317,307
Federal Financing Bank, SPVM – Variable rate	179,894	179,894
Federal Financing Bank, SPVP – Fixed rate	375,869	363,235
Total DOE Guaranteed Loans	1,226,822	1,198,289
Current portion of long-term debt	(3,469)	—
Total DOE Guaranteed Loans long-term debt	1,223,353	1,198,289
Total Vogtle Units 3&4 Projects and Project Entities long-term debt	\$ 4,193,550	\$ 4,094,324

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### Debt Service

At December 31, 2018, expected debt service payments for the Power Revenue Bonds, General Power Revenue Bonds, CC Project Bonds, Vogtle Units 3&4 Bonds and DOE Guaranteed Loans (net of applicable subsidy payments on the Build America Bonds and capitalized interest payments totaling \$2.1 billion collectively for the Vogtle Units 3&4 Bonds and DOE Guaranteed Loans, excluding debt service on all BANS, including future DOE Guaranteed Loan draws and other borrowings for capitalized interest of \$512.0 million, and excluding amounts paid under PPA of \$753.5 million for principal and \$2.8 billion for interest net of subsidy payments on the Build America Bonds), were as follows (in thousands):

Year	Project One		General Resolution Projects		Combined Cycle Project		Vogtle Units 3&4 Projects and Project Entities		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2019	\$ 45,275	\$ 20,647	\$ 11,865	\$ 6,011	\$ 16,569	\$ 6,542	\$ 12,783	\$ —	\$ 119,692
2020	12,455	18,480	7,015	5,313	15,600	5,723	17,069	—	81,655
2021	40,440	17,884	7,295	5,016	16,116	4,990	18,913	5,598	116,252
2022	22,075	15,883	7,555	4,697	17,826	4,222	19,562	35,103	126,923
2023	29,210	14,792	6,905	4,359	24,254	3,405	20,261	53,391	156,577
2024–2028	89,350	49,941	34,042	16,898	41,603	5,416	112,531	263,593	613,374
2029–2033	40,094	36,637	11,720	10,791	4,621	202	134,345	241,391	479,801
2034–2038	47,432	26,737	14,225	8,051	—	—	242,444	214,434	553,323
2039–2043	32,285	15,970	2,890	5,864	—	—	501,347	282,670	841,026
2044–2048	50,944	7,775	23,738	4,494	—	—	603,668	432,416	1,123,035
2049–2053	—	—	—	522	—	—	746,059	296,660	1,043,241
2054–2058	—	—	—	—	—	—	814,803	108,856	923,659
2059–2060	—	—	—	—	—	—	114,603	3,270	117,873
<b>Total</b>	<b>\$409,560</b>	<b>\$224,746</b>	<b>\$127,250</b>	<b>\$72,016</b>	<b>\$136,589</b>	<b>\$30,500</b>	<b>\$3,358,388</b>	<b>\$1,937,382</b>	<b>\$6,296,431</b>

The reduction of subsidy payments on the Build America Bonds as a result of the Sequester Reduction has been excluded from the above table.

At December 31, 2018, scheduled debt service payments, including CABs, which are accreted through December 31, 2018, for the subordinated debt were as follows (in thousands):

Year	Project One			General Resolution Projects			Total
	Principal	Interest	Net Swap Cash Flows	Principal	Interest	Net Swap Cash Flows	
2019	\$ 84,184	\$ 54,962	\$ 3,737	\$ 19,913	\$ 13,823	\$275	\$ 176,894
2020	83,475	49,793	3,683	43,710	13,804	220	194,685
2021	74,806	43,667	3,660	5,709	12,156	—	139,998
2022	63,519	41,227	3,625	5,706	12,579	—	126,656
2023	35,014	38,854	3,625	4,911	12,352	—	94,756
2024–2028	173,859	170,450	18,125	56,652	57,441	—	476,527
2029–2033	192,098	143,507	18,125	95,149	38,274	—	487,153
2034–2038	164,502	91,079	15,779	52,739	17,238	—	341,337
2039–2043	93,357	66,386	9,985	13,297	10,179	—	193,204
2044–2048	179,308	48,607	2,868	29,480	7,280	—	267,543
2049–2053	94,360	13,123	—	11,000	1,705	—	120,188
2054–2058	—	—	—	—	—	—	—
2059–2060	—	—	—	—	—	—	—
<b>Total</b>	<b>\$1,238,482</b>	<b>\$761,655</b>	<b>\$83,212</b>	<b>\$338,266</b>	<b>\$196,831</b>	<b>\$495</b>	<b>\$2,618,941</b>

Variable-rate debt may be in various modes including, but not limited to, money-market mode, daily mode, weekly mode, and CP mode and is reset in time increments ranging from one day to 180 days. The interest rates on variable-rate subordinated debt at December 31, 2018 were used to calculate future interest expense on this debt. Principal amounts include both refundable principal installment bonds that have been extended to the expected maturity dates of the bonds that will refund them and also bonds that will be paid with funds on hand.

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

The Power Revenue Bond Resolution and General Power Revenue Bond Resolution require that MEAG Power charge and collect, in each year, rates, fees and other charges that, together with other available funds, are sufficient for the payment of operating expenses, 1.10 times senior debt service and all other charges and liens payable out of revenues (Senior Requirement), including 1.0 times subordinated debt service (Subordinated Requirement). The CC Project Bond Resolution requires that MEAG Power charge and collect, in each year, rates, fees and other charges that, together with other available funds, are sufficient for the payment of operating expenses, 1.0 times debt service, the collections for the Reserve and Contingency funds and all other charges and liens payable out of revenues (CC Requirement). The Project M Bond Resolution, Project J Bond Resolution and Project P Bond Resolution and the Project Entities' LGAs (collectively, the Vogtle Units 3&4 Projects Bond Resolutions and Lending Agreements) require that MEAG Power charge and collect, in each year, for each Vogtle Units 3&4 Project, rates, fees and other charges that, together with other available funds, are sufficient for the payment of such Project's operating expenses, 1.0 times such Project's debt service on both the applicable Project's Bonds and DOE Guaranteed Loan and, during commercial operation, funding of such Project's Reserve and Contingency fund and account (with respect to each Vogtle Units 3&4 Project, the Vogtle Units 3&4 Requirement).

For 2018 and 2017, the Senior Requirement and the Subordinated Requirement were met for the Power Revenue Bond Resolution and the General Power Revenue Bond Resolution, the CC Requirement was met for the CC Project Bond Resolution, and the Vogtle Units 3&4 Requirements were met for the Vogtle Units 3&4 Projects Bond Resolutions and Lending Agreements, as shown in the following table (dollars in thousands):

	Project One	General Resolution Projects	Combined Cycle Project	Vogtle Units 3&4 Projects and Project Entities	Total
<b>2018</b>					
Total revenues	\$ 417,204	\$ 155,948	\$ 82,457	\$ 24,810	\$ 680,419
Deferred inflows of resources <sup>(1)</sup>	66,341	81,021	4,102	—	151,464
Adjusted revenues	\$ 483,545	\$ 236,969	\$ 86,559	\$ 24,810	\$ 831,883
Operating expenses (excluding depreciation and amortization)	\$ 262,040	\$ 111,997	\$ 55,468	\$ 136	\$ 429,641
Total investment income	\$ 14,814	\$ 4,702	\$ 1,255	\$ 22,773	\$ 43,544
Excluding Decommissioning Trust income <sup>(2)</sup>	(8,392)	(1,045)	—	—	(9,437)
Including subsidy received on Build America Bonds	—	—	—	57,386	57,386
Total other income	\$ 6,422	\$ 3,657	\$ 1,255	\$ 80,159	\$ 91,493
Available amounts to pay debt service	\$ 227,927	\$ 128,629	\$ 32,346	\$ 104,833	\$ 493,735
Amounts released from DSRA <sup>(3)</sup>	775	23,324	—	—	24,099
Amounts drawn for capitalized interest <sup>(4)</sup>	5,691	471	—	178,477	184,639
Total amounts available to pay debt service	\$ 234,393	\$ 152,424	\$ 32,346	\$ 283,310	\$ 702,473
Total Senior Debt Service <sup>(5)</sup>	\$ 46,211	\$ 21,514	\$ 27,926	\$ 215,748	\$ 311,399
Senior Debt Service Coverage	5.07	7.08	1.16	1.31	2.26
Total Subordinated Debt Service <sup>(5)</sup>	124,677	87,081	—	—	211,758
Total Debt Service <sup>(5)</sup>	\$ 170,888	\$ 108,595	\$ 27,926	\$ 215,748	\$ 523,157
Debt Service Coverage on Total Debt Service	1.37	1.40	1.16	1.31	1.34

(1) Deferred inflows of resources represent Timing Differences.

(2) Income on funds reserved for the decommissioning of nuclear generating units at retirement.

(3) Planned fund releases from reserves for debt service.

(4) Amounts on hand to fund interest expense during construction of the facilities being constructed.

(5) Total Senior and Subordinated debt service reflects principal and interest accrued during the reporting year.

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

2017	Project One	General Resolution Projects	Combined Cycle Project	Vogle Units 3&4 Projects and Project Entities	Total
Total revenues	\$356,448	\$149,444	\$ 95,447	\$ 21,292	\$ 622,631
Deferred inflows of resources <sup>(1)</sup>	105,289	69,281	15,675	—	190,245
Adjusted revenues	\$ 461,737	\$218,725	\$111,122	\$ 21,292	\$ 812,876
Operating expenses (excluding depreciation and amortization)	\$ 236,765	\$ 107,452	\$ 79,217	\$ 66	\$ 423,500
Total investment income	\$ 14,711	\$ 3,547	\$ 771	\$ 10,060	\$ 29,089
Excluding Decommissioning Trust income <sup>(2)</sup>	(7,397)	(912)	—	—	(8,309)
Including subsidy received on Build America Bonds	—	—	—	57,287	57,287
Total other income	\$ 7,314	\$ 2,635	\$ 771	\$ 67,347	\$ 78,067
Available amounts to pay debt service	\$232,286	\$113,908	\$ 32,676	\$ 88,573	\$ 467,443
Amounts released from DSRA <sup>(3)</sup>	18,675	6,484	289	—	25,448
Amounts drawn for capitalized interest <sup>(4)</sup>	6,203	433	—	138,673	145,309
Total amounts available to pay debt service	\$ 257,164	\$120,825	\$ 32,965	\$227,246	\$638,200
Total Senior Debt Service <sup>(5)</sup>	\$ 40,790	\$ 44,235	\$ 27,520	\$212,807	\$ 325,352
Senior Debt Service Coverage	6.30	2.73	1.20	1.07	1.96
Total Subordinated Debt Service <sup>(5)</sup>	150,718	45,565	—	—	196,283
Total Debt Service <sup>(5)</sup>	\$ 191,508	\$ 89,800	\$ 27,520	\$212,807	\$ 521,635
Debt Service Coverage on Total Debt Service	1.34	1.35	1.20	1.07	1.22

(1) Deferred inflows of resources represent Timing Differences.

(2) Income on funds reserved for the decommissioning of nuclear generating units at retirement.

(3) Planned fund releases from reserves for debt service.

(4) Amounts on hand to fund interest expense during construction of the facilities being constructed.

(5) Total Senior and Subordinated debt service reflects principal and interest accrued during the reporting year.

## 6. INVESTMENT IN ALLIANCE

Investment in Alliance reflects MEAG Power's 16.7% ownership interest in The Energy Authority (TEA), a governmental nonprofit power marketing corporation. As of December 31, 2018, eight members (Members) including MEAG Power comprised TEA: American Municipal Power, Inc.; City Utilities of Springfield; Gainesville Regional Utilities; JEA; Nebraska Public Power District; Public Utility District No. 1 of Cowlitz County (Cowlitz); and South Carolina Public Service Authority. Effective January 1, 2019, Cowlitz transitioned from a Member to a partner receiving services under a contractual agreement. TEA provides energy products and resource management services to Members and non-members and allocates transaction savings and operating expenses to Members pursuant to Settlement Procedures under the Operating Agreement. TEA has access to more than 30,000 MW of its Members' and non-members' generation resources.

In the Statement of Net Revenues, certain portions of MEAG Power's sales to TEA are recorded in either other revenues or netted against related fuel expense. Purchases from TEA are recorded in purchased power expense. For the years ended December 31, 2018 and 2017, sales to TEA totaled \$47.8 million and \$42.1 million, with net purchases from TEA totaling \$20.2 million and \$14.2 million, respectively. During 2018 and 2017, an aggregate of \$4.0 million and \$3.9 million, respectively, of net revenues received from TEA were netted against related fuel, transmission and operating expenses, based on methodology approved by the Board for the application of off-system sales revenues. Remaining net revenues of TEA were allocated as sales margins as follows (in thousands):

Project(s)	2018	2017
One	\$2,066	\$1,219
General Resolution	1,631	2,061
CC	2,775	2,880
Total	\$6,472	\$6,160



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

In addition to \$2.7 million of contributed capital, MEAG Power has committed up to an additional \$53.0 million through a combination of guarantees as of December 31, 2018. TEA evaluates its credit needs periodically and requests Members to adjust their guarantees accordingly. The guarantee agreements are authorized by the Board and intended to provide credit support for TEA when entering into transactions on behalf of its Members. Such guarantees would require the Members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity or natural gas as required by contract with a counterparty, or if TEA failed to make payment for purchases of such commodities. If guaranty payments are required, MEAG Power has rights with other Members that such payments would be apportioned based on certain criteria.

The guarantees generally have indefinite terms; however, MEAG Power can terminate its guaranty obligations by providing notice to counterparties and others, as required by the agreements. Such termination would not pertain to any transactions TEA entered into prior to notice being given. As of December 31, 2018 and 2017, MEAG Power had no liability related to these guarantees outstanding.

As of December 31, 2018 and 2017, MEAG Power's current other receivables due from TEA totaled \$3.6 million and \$6.4 million, respectively.

## 7. RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS

### Retirement Plan Description

MEAG Power is the sponsor and administrator of a single-employer, non-contributory retirement plan that provides a defined benefit to employees hired before 2014 based on years of service and average earnings. The Municipal Electric Authority of Georgia Retirement Plan (the Retirement Plan) was established by the Board, and Board action is required to terminate the Retirement Plan or for material changes made to Retirement Plan benefits. The Retirement Plan is funded through a tax-exempt trust fund qualified under sections of the Internal Revenue Code. An independent actuarial firm is used to calculate MEAG Power's contribution to the Retirement Plan, which is based on actuarial valuations as of January 1 of each year, approved by the Board and included as part of the annual system budget. The Retirement Plan is not required to issue a separate financial report.

### Benefits Provided

Prior to January 1, 2014, employees who attained age 25 with at least one year of service were eligible to participate in the Retirement Plan (Plan participant), as were former employees rehired prior to that date, under certain vesting guidelines of the Retirement Plan. The Retirement Plan is closed to new entrants. As discussed in the "Other Retirement Benefits" section of this Note, employees hired after December 31, 2013 are eligible to receive a non-matching contribution to MEAG Power's 403(b) defined contribution plan (403(b) Plan).

A Plan participant who retires on such participant's normal retirement date (considered to be age 62) will receive a monthly benefit (Accrued Benefit), based on the applicable vesting percentage, equal to 2.4% of final average earnings (FAE) multiplied by years of benefit service (Benefit Service) (up to a maximum of 25 years), if employed as of February 1, 1991, or 2.0% of FAE multiplied by Benefit Service (up to a maximum of 30 years), if employed after that date. The Accrued Benefit of a Plan participant who retires prior to such participant's normal retirement date is reduced by 6.0% for each year the early retirement date precedes age 62. FAE is calculated using different methods to determine the highest average earnings, generally based on the average of the 60 consecutive or non-consecutive (depending on employment date) calendar months during the Plan participant's final 120 consecutive calendar months of employment (or fewer number of actual months). Vesting percentage increases up to 100% at five years of service. A Plan participant who retires or terminates service after age 55 is 100% vested regardless of years of service.

### Employees Covered by Benefit Terms

At December 31, 2018 and 2017, the following Plan participants were covered by Retirement Plan benefits:

Plan participants	2018	2017
Active	86	97
Inactive, vested	84	89
Retirees and beneficiaries	119	107
Total	289	293

### Contributions

The actuarially determined contribution to the Retirement Plan by MEAG Power is pursuant to the Official Code of Georgia Annotated, section 47-20-10 (OCGA 47-20-10). Historically, MEAG Power's contribution has been well in excess of the minimum required contribution under OCGA 47-20-10. For the years ended December 31, 2018 and 2017, MEAG Power contributed 7.3% and 28.8% respectively, of covered payroll. No contributions by Plan participants are required.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### Net Pension Liability

MEAG Power's net pension liability was measured as of December 31, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by the entry age normal valuation method as of that date. The following schedule presents the change in net pension liability for the years ended December 31, 2018 and 2017 (in thousands):

	Total Pension Liability (a)	Plan Fiduciary Position (b)	Net Position Liability (a)-(b)
Balance at December 31, 2017	\$57,120	\$64,585	\$(7,465)
<i>Changes for the year:</i>			
Service cost	769	—	769
Interest on the total pension liability	4,189	—	4,189
Difference between expected and actual experience	(183)	—	(183)
Assumption changes	(136)	—	(136)
MEAG Power contributions	—	775	(775)
Net investment income	—	(2,643)	2,643
Benefit payments	(2,557)	(2,557)	—
Administrative expenses	—	—	—
Net change	2,082	(4,425)	6,507
<b>Balance at December 31, 2018</b>	<b>\$59,202</b>	<b>\$60,160</b>	<b>\$ (958)</b>

	Total Pension Liability (a)	Plan Fiduciary Position (b)	Net Position Liability (a)-(b)
Balance at December 31, 2016	\$55,840	\$55,886	\$ (46)
<i>Changes for the year:</i>			
Service cost	795	—	795
Interest on the total pension liability	4,152	—	4,152
Difference between expected and actual experience	(212)	—	(212)
Assumption changes	(915)	—	(915)
MEAG Power contributions	—	3,141	(3,141)
Net investment income	—	8,098	(8,098)
Benefit payments	(2,540)	(2,540)	—
Administrative expenses	—	—	—
Net change	1,280	8,699	(7,419)
Balance at December 31, 2017	\$57,120	\$64,585	\$(7,465)

### Actuarial Assumptions and Methods

The assumptions used to measure the total pension liability as of December 31, 2018 include a 7.5% investment rate of return, an inflation assumption of 2.5% per year and salary increases of 4.0% per year. Mortality rates were based on the RP-2014 Mortality table, male and female, with rates adjusted to 2006 and projected generationally using the MP-2018 Projection Scale.

The long-term expected rates of return on Retirement Plan investments, valued as of December 31, 2018, were determined using geometric mean methodology, including measures of standard deviation and correlation, in which best-estimate ranges of expected future rates of returns were derived for each investment asset class. Analysis included information on past, current, and future capital market performance, key economic indicators and inflation expectations. A 10-year period was chosen for analysis to capture a full market cycle. These best estimate ranges, net of assumed long-term inflation and investment expenses, are combined to produce the long-term expected rate of return. Factors likely to produce additional

higher returns for Retirement Plan assets such as active portfolio management (35% of assets), a longer-term investment cycle (30 years), flexibility in the annual budgeting of voluntary contributions, and anticipated changes in asset allocation are considered in the overall management of the Retirement Plan, but were not included in the expected rates of return methodology. The target allocation for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Domestic Large Cap Equity	30%	6.75%
Domestic Mid Cap/Small Cap Equity	15%	7.00%
International Equity	15%	6.75%
Domestic Fixed Income	40%	3.00%
Total	100%	

\*10-Year Horizon, Passively-Managed

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### Retirement Plan's Assets

The fair value of the Retirement Plan's assets, based on quoted market prices, with substantially all of these assets being measured at Level 1 within the fair value hierarchy, as per Statement 72 guidelines (see Note 2 (L), "Summary of Significant Accounting Policies and Practices — Fair Value Measurements"), as of the measurement dates of December 31, 2018 and 2017, were as follows (in thousands):

	2018	2017
Mutual Funds:		
U.S. Equity Index Fund	\$17,109	\$23,149
Mid-Cap Index Fund	5,554	6,742
Small Cap Index Fund	2,623	3,419
Diversified International Fund	8,474	6,433
Aggregate Bond Fund	17,990	16,434
Total Bond Fund	8,380	8,384
Institutional Government Portfolio	3	3
Cash	27	21
<b>Total</b>	<b>\$60,160</b>	<b>\$64,585</b>

### Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2018 and 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that future employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the Retirement Plan's fiduciary net position was projected to be available to make all projected future benefit payments of Plan participants. Therefore, the long-term expected rate of return on Retirement Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate (dollars in thousands):

	1% Lower (6.5%)	Current Discount Rate (7.5%)	1% Higher (8.5%)
Net Pension Liability			
<b>December 31, 2018</b>	<b>\$5,743</b>	<b>\$ (958)</b>	<b>\$ (6,619)</b>
December 31, 2017	303	(7,465)	(13,794)

### Retirement Plan Fiduciary Net Position

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirement Plan and additions to/deductions from the Retirement Plan's fiduciary net position have been determined on the same basis as they are reported by the Retirement Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

The accounting for pension activity under GASB Statement No. 68 "Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27" (Statement 68) results in deferred outflows (delayed recognition of unfavorable investment income changes or unfavorable actuarial changes) and deferred inflows (delayed recognition of favorable investment income changes or favorable actuarial changes). All deferred investment income changes (whether favorable or unfavorable) are combined for a net balance sheet presentation. These changes will be amortized into net pension expense over five years for investment-related deferrals, and approximately two years for actuarially determined deferrals beginning in the year that the inflow or outflow is initially recognized.

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Retirement Plan

For the years ended December 31, 2018 and 2017, MEAG Power recognized pension expense of \$ 0.7 million and \$(0.2) million, respectively. At December 31, 2018 and 2017, the Retirement Plan reported deferred outflows of resources and deferred inflows of resources from the following sources (in thousands):

	2018	2017
Deferred Outflows of Resources		
Differences between expected and actual experience	\$ —	\$ —
Assumption changes	—	—
Net difference between projected and actual earnings on Retirement Plan investments	6,606	1,359
<b>Total</b>	<b>\$ 6,606</b>	<b>\$ 1,359</b>
Deferred Inflows of Resources		
Differences between expected and actual experience	\$ (138)	\$ (324)
Assumption changes	(265)	(637)
Net difference between projected and actual earnings on Retirement Plan investments	(2,323)	(3,102)
<b>Total</b>	<b>\$(2,726)</b>	<b>\$(4,063)</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Retirement Plan will be recognized in pension expense in future years as follows (in thousands):

Year	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$2,160	\$(1,177)
2020	1,482	(782)
2021	1,482	(767)
2022	1,482	—
2023	—	—
<b>Total</b>	<b>\$6,606</b>	<b>\$(2,726)</b>

### Other Retirement Benefits

MEAG Power also offers a 403(b) Plan to all employees and matches regular employee contributions at the rate of 100% of the first 5% of compensation contributed by the employee, as well as 50% of certain additional contributions. Total matching contributions made by MEAG Power to the 403(b) Plan were \$0.7 million and \$0.8 million for 2018 and 2017, respectively. Employees hired after December 31, 2013 are eligible to receive a non-matching contribution equal to a specified percentage of the employees' compensation based on years of service.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### Other Postemployment Benefits

As discussed in Note 2 (N), "Summary of Significant Accounting Policies and Practices — Recent Accounting Pronouncements," MEAG Power adopted Statement 75 effective January 1, 2018. Information regarding MEAG Power's OPEB is as follows:

#### Plan Description

The MEAG Power Retiree Medical Premium Reimbursement Plan (the Plan) is administered by MEAG Power's Retirement Investment Committee and is a single-employer defined benefit retirement health benefits plan. The Board has sole authority to amend the Plan. The Plan operates on a pay-as-you-go basis and has no trust for accumulating assets.

#### Plan Benefits

The Plan reimburses each eligible retiree and/spouse or surviving spouse for eligible medical premium expenses subject to certain criteria and maximum amounts. An eligible retiree is a former employee who retired after attaining age 55 and completing at least 10 years of service, and who retired on or after January 1, 1997.

#### Employees Covered by the Plan

At December 31, 2018 and 2017, the following participants were covered by the Plan benefits:

	2018	2017
Active employees	134	137
Retired employees or beneficiaries	73	70
Total	207	207

#### Actuarial Assumptions

Actuarial assumptions used to determine MEAG Power's OPEB liability, measured as of December 31, 2018 and 2017, were as follows:

Inflation	2.50%
Salary Increases	4.00%
Discount Rate	4.10% for actuarial valuation December 31, 2018
Healthcare cost trend rates	Not applicable for eligible retirees, as the benefit payable is a fixed amount that does not vary with healthcare cost trends. For a minimal number of grandfathered participants, an appropriate graded trend scale was used.
Mortality	RP-2014 Mortality table, Male and Female, adjusted to 2006 and projected generationally using the MP-2018 Projection Scale.

### Changes in the OPEB Liability

MEAG Power's total OPEB liability as of December 31, 2018 and 2017 was as follows (in thousands):

	2018	2017
Beginning total OPEB Liability	\$10,720	\$ 9,998
Changes for the year:		
Service cost	262	226
Interest	363	394
Change of benefit terms	—	—
Differences between expected and actual experience	(715)	244
Benefits payments	(335)	(298)
Changes of assumptions or other inputs	(757)	156
Net Changes	(1,182)	722
Ending total OPEB liability	\$ 9,538	\$10,720

Changes of assumptions or other inputs reflect an increase in the discount rate from 3.44% to 4.10%. The mortality projection scale was updated to the MP-2018 scale.

### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the years ended December 31, 2018 and 2017, MEAG Power's OPEB expense was \$0.4 million and \$0.7 million, respectively. As of December 31, 2018 and 2017, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

Deferred Outflows of Resources	2018	2017
Differences between expected and actual experience	\$ 142	\$193
Changes of assumptions or other inputs	91	123
Total	\$ 233	\$316

Deferred Inflows of Resources	2018	2017
Differences between expected and actual experience	\$ (564)	\$ —
Changes of assumptions or other inputs	(598)	—
Total	\$ (1,162)	\$ —

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future years as follows (in thousands):

Year	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ 83	\$ (311)
2020	83	(311)
2021	67	(311)
2022	—	(229)
2023	—	—
Total	\$233	\$(1,162)

# Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

## Sensitivity of the total OPEB Liability to Changes in the Discount Rate or Healthcare Cost Trend Rate

The following presents the effect of a 1% increase or decrease of the discount rate and the healthcare cost trend rate, respectively, on MEAG Power's OPEB liability as of December 31, 2018 and 2017 (dollars in thousands):

### Discount Rate Sensitivity

	December 31, 2018		
	1% Decrease (3.1%)	Current Rate (4.1%)	1% Increase (5.1%)
Total OPEB Liability	\$10,680	\$ 9,538	\$ 8,583

  

	December 31, 2017		
	1% Decrease (2.4%)	Current Rate (3.4%)	1% Increase (4.4%)
Total OPEB Liability	\$12,068	\$10,720	\$ 9,601

### Healthcare Cost Trend Rate Sensitivity

	December 31, 2018		
	1% Decrease	Current Rate	1% Increase
Total OPEB Liability	\$ 9,462	\$ 9,538	\$ 9,622

  

	December 31, 2017		
	1% Decrease	Current Rate	1% Increase
Total OPEB Liability	\$10,606	\$10,720	\$10,847

## 8. COMMITMENTS AND CONTINGENCIES

### Nuclear Insurance

Under the Price-Anderson Amendments Act (the Amendments Act), MEAG Power is afforded certain indemnities, and has certain obligations, as an owner of nuclear generating units. The Amendments Act provisions, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the nuclear generating units in which MEAG Power has an ownership interest. The Amendments Act provides for the payment of funds up to a maximum of \$14.1 billion for public liability claims that could arise from a single nuclear incident. Each nuclear generating unit is insured against this liability to a maximum of \$450.0 million by American Nuclear Insurers (ANI). The remaining coverage is provided by a mandatory program of deferred premiums that could be assessed, after a nuclear incident, against all owners of nuclear reactors. The owners of a nuclear generating unit could be assessed up to \$137.6 million per incident for each licensed reactor they operate, but not more than an aggregate of \$20.5 million per reactor, per incident, to be paid in a calendar year. MEAG Power's share of the potential ANI deferred premiums could be up to \$108.1 million, with an annual limit of \$16.1 million. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due by September 2023.

GPC, on behalf of all the joint-owners of the existing Nuclear Units, is a member of the Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance for members' nuclear generating facilities. NEIL provides three types of property coverage for the joint-owners through GPC, primary property insurance, excess property insurance and excess non-nuclear property insurance.

The primary property insurance provides coverage limits of \$1.5 billion per generating unit. The excess property insurance provides coverage limits up to \$1.25 billion per generating unit above the primary property coverage levels. These policies have a combined sublimit of \$1.5 billion for non-nuclear losses. The excess non-nuclear property insurance provides additional coverage limits of \$750.0 million per generating unit above the primary policy.

MEAG Power is also a member of NEIL in its capacity to provide insurance to cover members' costs of replacement power and other costs that might be incurred during a prolonged accidental outage of the existing Nuclear Units. The coverage begins after the outage has exceeded 12 weeks, with a maximum per occurrence per unit limit of \$490.0 million. MEAG Power's share of the policy limit is \$127.9 million per unit for Hatch Units 1&2, as well as \$154.5 million per unit for Vogtle Units 1&2. For non-nuclear losses, the policy limit of liability is \$327.6 million per generating unit. MEAG Power's share of the non-nuclear policy limit is \$85.5 million per unit for Hatch Units 1&2, as well as \$103.3 million per unit for Vogtle Units 1&2. These policies, similar to the other NEIL policies, contain provisions for a retrospective premium adjustment for a member of up to ten times its annual premium, as discussed below. Under each of the NEIL policies, members are subject to assessments if losses each year exceed the accumulated funds available to the insurer under that policy.

GPC, on behalf of the Vogtle Co-Owners, subscribed to a builders' risk policy addressing the construction of Vogtle Units 3&4. The policy is through NEIL and provides coverage limits of \$2.75 billion for accidental property damage occurring during construction. The policy has a natural catastrophe sublimit of \$300.0 million, includes \$200.0 million delay-in-startup coverage, full terrorism coverage and nuclear exposure during hot testing.

MEAG Power's share of retrospective premium assessments, based on policies effective April 1, 2018, could be as much as \$17.6 million for primary, excess property insurance and excess non-nuclear property, \$7.4 million per incident for replacement power and other costs, and \$11.8 million during each policy year for the Vogtle Units 3&4 builders' risk policy. All retrospective assessments, whether generated for liability, property or replacement power may be subject to applicable state premium taxes.

Claims resulting from terrorist acts against commercial nuclear generating units are covered under both the ANI and NEIL policies, subject to normal policy limits. The Terrorism Risk Insurance Program Reauthorization Act of 2015 extended coverage of domestic acts of terrorism until December 31, 2020. The aggregate, however, that NEIL will pay for all claims resulting from terrorist acts in any 12-month period is \$3.2 billion plus such additional amounts NEIL can recover through reinsurance, indemnity or other sources.

In accordance with NRC regulations related to on-site property damage insurance policies for commercial nuclear generating units, the proceeds of such policies pertaining to MEAG Power shall be dedicated first for the sole purpose of placing the reactor in a safe and stable condition after an accident. Any remaining proceeds are next to be applied toward the costs of decontamination or debris removal operations ordered by the NRC; then, any further remaining proceeds are to be paid to either the owners of the facility or their bond trustees as may be appropriate under applicable trust indentures. In the event of a loss, the amount of insurance available might not be adequate to cover property damage and other expenses incurred. Uninsured losses and other expenses would be borne by MEAG Power and could have a material adverse effect on MEAG Power's financial condition and results of operations.



# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### Fuel

Project One and the General Resolution Projects, through GPC, are obligated by various long-term commitments for the procurement of fossil and nuclear fuel to supply a portion of the fuel requirements of their generating units. Coal and/or related transportation commitments for the period 2019–2022 total \$30.3 million. For the years beginning 2019 through 2023, nuclear fuel commitments total \$107.5 million. Commitments for nuclear fuel are calculated based on MEAG Power's ownership percentage of jointly owned generation facilities per operating agreements with GPC, as discussed in Note 2 (G), "Summary of Significant Accounting Policies and Practices — Generation and Transmission Facilities — Jointly Owned Generation Facilities." With respect to its long-term coal commitments, MEAG Power manages its own coal stockpile inventory including selection of fuel sources, contract arrangements and coal inventory levels. GPC, as the coal agent for MEAG Power, has contracted with Southern Company Fuel Services to act as coal procurement agent, and it is responsible for issuance of requests for proposals for coal supply, contract negotiations and scheduling coal delivery. Also discussed within that Note is information regarding sales by MEAG Power to GPC of a portion of the output of Vogtle Units 1&2, which have the effect of reducing MEAG Power's gross commitments for nuclear fuel. Railcar lease commitments through 2021 total \$0.3 million. In general, most, if not all, of the contracted material and services reflected in these estimates could be sold on the market, thereby reducing MEAG Power's liability.

TEA provides natural gas fuel management services for MEAG Power, including procurement, scheduling and risk management of the transportation and supply portfolio. In addition, MEAG Power entered into a long-term gas purchase agreement with Main Street Natural Gas, Inc. (Main Street) in 2007 for a term of 15 years. From December 31, 2018 through the remaining term of the contract, MEAG Power will purchase from Main Street, on a "take-and-pay" basis, 1,988 mmBtus per day of natural gas on an average annual basis. Such purchases are structured to match the usage in the peak operating season and are expected to equal approximately 4% of MEAG Power's natural gas requirements for its native load. The price paid by MEAG Power is based on a discount from a natural gas index. The volatility of the natural gas market precludes MEAG Power from precisely estimating a cost for the remaining term; however, based on December 31, 2018 market prices, the commitment, net of a prepaid discount, totals \$5.0 million for the remaining term. Additional commitments for fuel supply will be required in the future.

Through participation in the Momentum Expansion Phase II, previously known as the "Cornerstone Expansion," of the Transco natural gas pipeline system (Transco), MEAG Power has secured firm natural gas transportation capacity sufficient to deliver 65% of the natural gas required to operate the CC Project at projected peak period capacity factors. The primary term of the Transco agreement began in 2004 and ended January 31, 2019. The contract continues on an evergreen basis and MEAG Power has certain retention rights, which ensure continued service. For the remainder of the facility's natural gas transportation requirements, MEAG Power uses a combination of daily and short-term capacity purchases. MEAG Power entered into a summer capacity release agreement with NextEra Energy Marketing, LLC for the period May 1–September 30, 2019, to fill the bulk of this need for 2019.

MEAG Power was previously party to an agreement for 21,174 mmBtus of natural gas storage from Transco's Eminence gas storage facility. Effective February 1, 2019, MEAG Power elected to terminate this firm storage agreement.

MEAG Power has also entered into agreements with Petal Gas Storage, L.L.C., providing for storage and associated transportation of 200,000 mmBtus of natural gas for a term of 15 years that began in 2008. MEAG Power entered into a two-year release of the capacity that began on April 1, 2017 and ended on March 31, 2019. Natural gas pipeline and storage commitments through August 2023 total \$7.0 million.

### Long-Term Purchases and Sales of Power

During 2017, MEAG Power entered into five-year purchase power agreements with the Alabama cities of Hartford and Evergreen to provide full requirements service, effective January 1, 2018 through December 31, 2022. These agreements provide 11.0 MW and 11.5 MW, respectively, of system capacity and energy to meet their needs net of their resources from SEPA and include provisions for MEAG Power to sell additional capacity. The Hartford and Evergreen sales are served from the resources of 16 and 15 subscribed Participants, respectively.

MEAG Power entered into an eight-year purchase power agreement with the City of Robertsdale, Alabama (Robertsdale), during 2016 to provide full requirements service to Robertsdale, effective January 1, 2018 through December 31, 2025. The agreement provides 25 MW of system capacity and energy to meet Robertsdale's needs net of its resources from SEPA and includes provisions for MEAG Power to sell additional capacity. This sale is served from the resources of nine subscribed Participants.

MEAG Power has a 20-year power purchase agreement with Southern Power Company, an affiliate of GPC, for the output and services of a combustion turbine nominally rated from 149 MW to 165 MW, depending on the season. The effective date of the power purchase agreement was May 1, 2009. Twenty Participants have subscribed to this resource.

### Environmental Regulation

The existing Nuclear Units, the Coal Units, the CC Project and Vogtle Units 3&4 are subject to various federal and state environmental regulatory requirements. The EPA and the Georgia Environmental Protection Division (EPD) of the Department of Natural Resources have primary responsibility for developing and enforcing the requirements where directed or authorized by statutes such as the Federal Clean Air Act (CAA), Federal Clean Water Act (CWA), Federal Resource Conservation and Recovery Act (RCRA), Georgia Air Quality Act, Georgia Water Quality Control Act and Georgia Comprehensive Solid Waste Management Act.

Compliance with environmental regulatory requirements require owners/operators of affected facilities, including MEAG Power, to commit significant expenditures for installation, operation, and maintenance of pollution control and environmental monitoring equipment. Failure to comply with these requirements could lead to fines, sanctions, or civil and criminal penalties. Environmental regulatory requirements are complex; they are subject to change due to continuing legislative, regulatory and judicial actions; and they have become substantially more stringent over time.

For the Coal Units, MEAG Power has invested \$672.7 million from 2000 through 2018 in generating unit environmental enhancements, including a switch to lower-sulfur coal at Scherer Units 1&2, and installing control technologies to reduce emissions of mercury, sulfur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), non-mercury metals and acid gases. MEAG Power anticipates total capital investment for environmental improvements at the Coal Units for the years 2019 through 2023, including additions to comply with CCR and ELG regulations (see "Coal Combustion Residuals and Effluent Limitations Guidelines Regulations" within this Note), will be approximately \$72 million.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### **Greenhouse Gas Regulation**

On October 23, 2015, EPA published in the Federal Register a final regulation (referred to by EPA as the Clean Power Plan (CPP)), “Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units,” that established emission guidelines for states to follow in developing plans to reduce carbon dioxide (CO<sub>2</sub>) emissions from existing fossil-fueled electric generating units, by meeting rate-based (lb. CO<sub>2</sub> per megawatt-hour) or mass-based (tons of CO<sub>2</sub> emitted) limitations, beginning in 2022. Numerous Petitions for Review of the regulation were filed with the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit). On February 9, 2016, the U.S. Supreme Court (Supreme Court) stayed the final CPP regulation pending disposition of the Petitions for Review filed in the D.C. Circuit, and continuing until the Supreme Court subsequently denies a petition for writ of certiorari or the Supreme Court decides the case after granting a petition for writ of certiorari. The D.C. Circuit has not issued a decision on the case and, on April 28, 2017, issued an order holding the case in abeyance as EPA considers repealing and replacing the CPP regulation.

On October 16, 2017, EPA published in the Federal Register a proposed regulation, “Repeal of Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units.” The public comment period for the proposal ended on April 26, 2018.

On December 28, 2017, EPA published in the Federal Register an advance notice of proposed rulemaking (ANPR), “State Guidelines for Greenhouse Gas Emission from Existing Electric Utility Generating Units.” The public comment period for the notice ended on February 26, 2018.

Also on October 23, 2015, EPA published in the Federal Register a final regulation (referred to by EPA as the Carbon Pollution Standards or the New Source Rule), “Standards of Performance for Greenhouse Gas Emissions From New, Modified, and Reconstructed Stationary Sources: Electric Utility Generating Units,” that established standards for emissions of CO<sub>2</sub> for newly constructed, modified, and reconstructed fossil fuel-fired electric generating units. Petitions for Review were filed with the D.C. Circuit to contest this final regulation. On April 28, 2017, the D.C. Circuit issued an order temporarily holding the case in abeyance. On August 10, 2017, the D.C. Circuit extended the abeyance order indefinitely. The 2015 regulation remains in effect, however.

On August 21, 2018, EPA published in the Federal Register a proposed regulation, “Emission Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units,” generally referred to as the Affordable Clean Energy (ACE) rule. The proposed ACE rule requires states to set CO<sub>2</sub> performance standards for each individual affected generating unit based on heat rate improvements appropriate for each specific generating unit. In addition, the proposed ACE rule includes the adoption of reforms to the New Source Review program designed to remove current regulatory barriers to implementing efficiency measures as well as other reliability, maintenance, and safety projects at existing power plants. EPA held a public hearing regarding the proposed ACE rule on October 1, 2018. The public comment period on the proposed ACE rule ended on October 31, 2018. EPA plans to issue a final ACE rule were delayed to the end of the Second Quarter of 2019. The D.C. Circuit court continues to hold the litigation relating to EPA’s CPP in abeyance while EPA moves forward with its efforts to repeal and replace the CPP.

Until legal challenges to the 2015 CPP and New Source Rule regulations are resolved, until the regulation repealing the CPP is finalized, until the ACE rule is finalized, and until EPD submits and EPA approves a final state plan to implement a CPP regulation, it is not possible to make a final assessment of the financial and operational impacts on MEAG Power’s existing generating units.

On December 6, 2018, EPA proposed to revise the New Source Performance Standards for greenhouse gas emissions from new, modified, and reconstructed fossil fuel-fired power plants. After further analysis and review, EPA proposes to determine that the Best System of Emission Reduction (BSER) for newly constructed coal-fired units, is the most efficient demonstrated steam cycle in combination with the best operating practices. This proposed BSER would replace the determination from the CPP, which identified the BSER as partial carbon capture and storage (CCS). The primary reason for this proposed revision is the high costs and limited geographic availability of CCS.

This proposal includes four distinct actions based on a revised BSER: (i) to revise the standards for newly constructed steam units as separate standards for large and small units. For large units, the proposed emission rate would be 1,900 pounds (lb.) of CO<sub>2</sub> per megawatt-hour on a gross output basis (lb. CO<sub>2</sub>/MWh-gross). For small units, the proposed emission rate would be 2,000 lb. CO<sub>2</sub>/MWh-gross; (ii) to create separate standards of performance for newly constructed coal refuse-fired units. Regardless of size, the proposed emission rate would be 2,200 lb. CO<sub>2</sub>/MWh-gross; (iii) to revise the standards for large modifications of steam generating units to be consistent with the standards for large and small newly constructed units; and (iv) to revise the standards of performance for reconstructed fossil fuel-fired steam units — which are also based on the best available efficiency technology — to be consistent with the emission rates for newly constructed units.

EPA is also requesting comments as to whether and how to address concerns raised by stakeholders regarding the increased use of simple cycle aero-derivative turbines, including as back-up generation for wind and solar resources, whose operation may exceed the non-base load threshold described in the CPP. Any follow-up regulatory actions would be achieved through a separate and subsequent regulatory proposal.

Finally, EPA is requesting comments on the regulatory threshold under section 111(b) of the CAA that a source category “causes, or contributes significantly to,” air pollution. EPA asks for the public’s views on the proper interpretation of this phrase, the agency’s historic approach to this requirement, and whether this requirement should apply differently in the context of greenhouse gases than for traditional pollutants. MEAG Power filed comments on the proposed rule on March 14, 2019.

### **National Ambient Air Quality Standards and Regional Haze Regulations**

#### **2015 Ozone National Ambient Air Quality Standards**

On October 26, 2015, EPA published a final regulation in the Federal Register, “National Ambient Air Quality Standards for Ozone.” The regulation revised the primary and secondary national ambient air quality standards (NAAQS) for ozone from 0.075 parts per million (ppm) to 0.070 ppm, while retaining the prior compliance criteria (fourth-highest daily maximum, averaged across three consecutive years; averaging times of eight hours).

On December 20, 2017, EPA notified the Governor of Georgia that it agreed with EPD’s September 23, 2016 recommendation to EPA that eight counties in the metropolitan Atlanta area be designated as nonattainment areas for the 2015 ozone NAAQS. On November 16, 2017, EPA published in the Federal Register a final regulation designating all other counties in Georgia as unclassifiable/attainment. For the eight counties in the metropolitan Atlanta area that are anticipated to be designated as non-attainment, EPD may be required to develop a State Implementation Plan (SIP) to attain the 2015 standard. Until EPD develops an attainment plan, if needed, MEAG Power is not able to determine whether there would be any significant financial or operational impacts to its generating units.

# Notes to Consolidated Financial Statements

## For the Years Ended December 31, 2018 and 2017

### **Regional Haze Regulations**

In the CAA, Congress declared as a national goal the prevention of any future, and the remedying of any existing, impairment of visibility in mandatory Class I federal areas (e.g., national parks and wilderness areas) for which visibility impairment results from manmade air pollution. The CAA directs EPA to issue regulations to assure reasonable progress towards meeting the national goal. Current EPA regulations set 2064 as the target year to achieve natural visibility conditions via a uniform rate of progress over specific periods, and SIPs are required from states that contribute to visibility impairment.

On January 10, 2017, EPA published in the Federal Register a final revised regulation, "Protection of Visibility: Amendments to Requirements for State Plans." The revised regulation defers the due date for the next round of SIP submittals to EPA, from July 31, 2018 to July 31, 2021, and addresses issues such as wildfires, anthropogenic sources outside of the United States, and prescribed fires. However, on January 17, 2018, EPA announced that it would revisit certain aspects of its 2017 regulation through a proposed rulemaking.

On March 20, 2018, the D.C. Circuit issued a decision that the Cross-State Air Pollution Rule (CSAPR) "is better than" Best Available Retrofit Technology (BART), thereby allowing states to rely on the SO<sub>2</sub> and NO<sub>x</sub> emissions reductions under the CSAPR emissions trading program for meeting their BART control requirements under the regional haze program. In addition, on September 11, 2018, EPA issued a guidance memorandum outlining its roadmap for reforming the regional haze program. Most importantly, this guidance memorandum calls for the agency to initiate a rulemaking to revise EPA's January 2017 regional haze rule that gave the agency broad authority to require emission reductions from coal-fired power plants that are more stringent than necessary to achieve "reasonable progress" toward visibility improvements required by the CAA. The Unified Agenda, a semiannual publication of all regulatory actions federal agencies are considering, targeted December 2018 for a proposed rule, but the rule has not yet been issued. The D.C. Circuit continues to hold litigation on this regional haze rule in abeyance while EPA moves forward with a reconsideration rulemaking to revise key requirements of this rule.

Until EPA completes its announced rulemaking process, and until EPD and air agencies from other southeastern states conduct additional studies and develop the SIPs, currently due for submittal to EPA in 2021, to achieve the next round of visibility improvements, MEAG Power is not able to determine whether there would be any significant financial or operational impacts to its generating units.

The next Georgia SIP for regional haze, covering the 2018–2028 period, will not be due until July 31, 2021.

### **Startup, Shutdown, and Malfunction Regulations**

On June 12, 2015, EPA published a final rule/action in the Federal Register pertaining to Startup, Shutdown and Malfunction (SSM) regulations, "State Implementation Plans: Response to Petition for Rulemaking; Restatement and Update of EPA's SSM Policy Applicable to SIPs; Findings of Substantial Inadequacy; and SIP Calls To Amend Provisions Applying to Excess Emissions During Periods of Startup, Shutdown and Malfunction." In this rule/action, EPA issued a finding that certain SIP provisions in 36 states were substantially inadequate to meet CAA requirements and thus issued a SIP call for each of those 36 states. EPA also established a due date for states subject to the SIP call action to submit "corrective SIP" revisions. Georgia was named as one of the 36 states.

Many states, including Georgia, and industry groups filed Petitions for Review with the D.C. Circuit. On April 24, 2017, the D.C. Circuit issued an order holding the case in abeyance.

EPD had developed revised state SSM regulations that were adopted by the Georgia Board of Natural Resources on October 26, 2016. EPD submitted a timely corrective SIP including the revised regulations to EPA for approval in November 2016. EPA has not acted on the Georgia submission.

Until court challenges are resolved and until EPA approves a corrective SIP, if needed, MEAG Power is not able to determine whether there would be any significant financial or operational impacts to its generating units.

### **National Emissions Standards for Hazardous Air Pollutants**

On February 16, 2012, EPA published a final regulation in the Federal Register, "National Emission Standards for Hazardous Air Pollutants From Coal and Oil-Fired Electric Utility Steam Generating Units and Standards of Performance for Fossil-Fuel-Fired Electric Utility, Industrial-Commercial-Institutional, and Small Industrial-Commercial-Institutional Steam Generating Units." The regulation set National Emissions Standards for Hazardous Air Pollutants (NESHAP) for both new and existing coal- and oil-fired electric utility steam generating units. The Coal Units are subject to the regulation, which set limits on emissions of mercury, non-mercury metals and acid gases. To comply with the NESHAP regulation, hydrated lime injection systems have been added to the Coal Units, and activated carbon injection systems have also been added to Wansley Units 1&2. The Coal Units are in compliance with the regulation.

### **Coal Combustion Residuals and Effluent Limitations Guidelines Regulations**

On April 17, 2015, EPA published a final regulation in the Federal Register, "Hazardous and Solid Waste Management System; Disposal of Coal Combustion Residuals From Electric Utilities" (CCR Rule), regulating the disposal of CCR as solid waste under Subtitle D of the RCRA. The regulation finalized national minimum criteria for existing and new CCR landfills and surface impoundments.

On July 30, 2018, EPA published a final regulation in the Federal Register, "Hazardous and Solid Waste Management System: Disposal of Coal Combustion Residuals From Electric Utilities; Amendments to the National Minimum Criteria (Phase One, Part One)." The CCR Rule finalized certain revisions to the 2015 regulations for the disposal of CCR in landfills and surface impoundments to provide EPA and states with the ability to use alternate performance standards; revise the groundwater protection standards for four constituents; and provide facilities which are triggered into closure by the regulation additional time to cease receiving waste and initiate closure. On November 1, 2018, Scherer Units 1&2 received a variance under OCGA § 12-8-23.1 (a) (11) from EPD to continue the use of the surface impoundment for non-CCR waste streams until October 31, 2020.

Impoundments and landfills at the Coal Units are affected by the regulation. GPC, the operator of the Coal Units, reports that it is meeting the compliance requirements, including completion of fugitive dust control plans, conducting periodic structural inspections, conducting groundwater monitoring, and placing required information on a publicly accessible Internet site.

In 2016, EPD developed revisions to its regulations for solid waste management, to implement a state permitting program for CCR landfills and impoundments in Georgia. The revisions incorporated most requirements of EPA's CCR regulation by reference. The EPD revisions were adopted by the Georgia Board of Natural Resources on October 26, 2016.



# Notes to Consolidated Financial Statements

## *For the Years Ended December 31, 2018 and 2017*

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On December 16, 2016, President Obama signed into law the “Water Infrastructure Improvements for the Nation Act” (WIIN Act), which included a provision on the regulation of CCR as a non-hazardous waste under RCRA. This legislation authorized states to implement and enforce the requirements of the CCR regulation through state permitting programs. On August 15, 2017, EPA published in the Federal Register a notice of availability and request for comment, “Release of Interim Final Guidance for State Coal Combustion Residuals Permit Programs; Comment Request.” EPD subsequently proposed amendments to its 2016 CCR permit regulations to fully conform them to the WIIN Act and EPA guidance. The EPD’s amended regulations were adopted by the Georgia Board of Natural Resources on February 28, 2018.

On November 3, 2015, EPA published a final regulation in the Federal Register, “Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category.” The regulation strengthened the technology-based ELG for the steam electric power generating industry. The regulation set effluent limits for arsenic, mercury, selenium and nitrogen for wastewater discharged from wet flue gas desulfurization waste streams and requires zero discharge of pollutants in fly ash and bottom ash transport waters. The new requirements must be incorporated into National Pollutant Discharge Elimination System permits. Petitions for Review of the ELG regulation were consolidated for action by the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit). On April 24, 2017, the Fifth Circuit issued an order staying litigation proceedings. On April 25, 2017, EPA published a notice in the Federal Register, stating that it was postponing certain of the ELG regulation’s compliance dates, consistent with its April 12, 2017 announcement that it would reconsider the regulation. On September 18, 2017, EPA published a final regulation in the Federal Register, announcing that it intends to conduct a rulemaking to potentially revise certain effluent limitations set in the 2015 ELG regulation, and amending the 2015 regulation so as to revise the earliest compliance dates for those limitations to November 1, 2020.

In response to the final CCR and ELG regulations, GPC announced on September 28, 2015, that it was developing a closure schedule for all CCR impoundments (ash ponds) that it operates, including ash ponds serving the Coal Units. On June 13, 2016, GPC announced that closure preparation activities were underway for all of its ash ponds and has committed that all of its ash ponds would stop receiving coal ash within three years. GPC has also stated that the ash ponds serving the Coal Units would be closed in place using advanced engineering methods. These closures would occur in conjunction with complying with the ELG regulation by conversion of the wet ash handling systems to dry ash handling, enabling storage in lined landfills in lieu of the current unlined ash ponds. Information pertaining to MEAG Power’s estimates for ARO related to CCR, as well as other ARO matters, is discussed in Note 2 (H), “Summary of Significant Accounting Policies and Practices — Asset Retirement Obligations and Decommissioning.”

On March 13, 2019, the D.C. Circuit granted EPA’s motion for voluntary remand without vacatur of CCR rule resulting in the October 31, 2020 closure deadline for receiving CCR and non-CCR waste streams remaining in place. EPA is directed on remand to issue expeditiously a rule that establishes deadlines for when unlined and clay-lined CCR surface impoundments must stop receiving CCR and non-CCR waste streams in light of the D.C. Circuit decision issued in August 2018.

### **Waters of the United States Regulation**

On June 29, 2015, EPA and the U.S. Army Corps of Engineers (the Army Corps) published a final regulation in the Federal Register, “Clean Water Rule: Definition of ‘Waters of the United States’” defining the scope of waters protected under the CWA. The regulation revised definitions of “waters of the United States” (WOTUS) or “navigable waters” in 12 separate water regulatory programs (the 2015 Clean Water Rule).

Many states and industry groups filed court actions in various federal district and appellate courts. Georgia was one of the petitioners. On October 9, 2015, the U.S. Court of Appeals for the Sixth Circuit (the Sixth Circuit), as a Judicial Panel on Multi-District Litigation, issued a nationwide stay of the regulation, pending a further order of the court on subject-matter jurisdiction.

On February 22, 2016, the Sixth Circuit issued a further order finding that it has the requisite jurisdiction to review the challenges presented, but did not modify the stay. On January 22, 2018, in response to a petition for writ of certiorari on the question of whether federal district or appellate courts have jurisdiction, the Supreme Court held that challenges to the WOTUS regulation must be filed in federal district courts.

On February 6, 2018, EPA and the Army Corps published in the Federal Register a final regulation, “Definition of ‘Waters of the United States’ — Addition of an Applicability Date to 2015 Clean Water Rule,” adding an applicability date of February 6, 2020 to the 2015 regulation. As a result, the pre-2015 regulation will remain in effect until 2020 while the agencies continue a process to reconsider the 2015 regulation.

On July 12, 2018, EPA and the Army Corps issued a supplemental notice of proposed rulemaking clarifying that the agencies are proposing to permanently repeal the 2015 Clean Water Rule in its entirety. The notice also reiterates that the agencies are proposing to recodify the pre-2015 regulations to keep them in place while the agencies finalize a new definition of WOTUS.

On December 11, 2018, the EPA and the Army Corps proposed a revised definition for WOTUS, which would establish the scope of federal regulatory authority under the CWA in a more clear and understandable way. The agencies’ proposal would be clearer and easier to understand than previous regulations. It would help landowners understand whether a project would require a federal permit. As a result of litigation, the 2015 Clean Water Rule is in effect in 22 states, the District of Columbia, and the U.S. territories, and previous regulations, issued in the 1980s, are in effect in the remaining 28 states. If finalized, the agencies’ proposed rule would apply nationwide, replacing the patchwork framework for CWA jurisdiction that has resulted from litigation challenging the 2015 Clean Water Rule. The proposal would also re-balance the relationship between the federal government, states, and tribes in managing land and water resources.

The proposal respects the limited powers that the executive branch has been given under the Constitution and the CWA to regulate navigable waters. The proposal limits where federal regulations apply and gives states and tribes more flexibility to determine how best to manage waters within their borders. Together, the agencies’ proposal and existing state and tribal regulations and programs would provide a network of coverage for the nation’s water resources in accordance with the objectives and policies of the CWA.

The EPA and the Army Corps reviewed and considered the extensive feedback and recommendations the agencies received from states, tribes, local governments and stakeholders throughout consultations and pre-proposal meetings and webinars. This input helped highlight the issues that are most important to state and tribal co-regulators and stakeholders, including those directly affected by the scope of CWA jurisdiction.

# Notes to Consolidated Financial Statements

*For the Years Ended December 31, 2018 and 2017*

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## **Comprehensive Environmental Response, Compensation, and Liability Act — Financial Responsibility Requirements**

On January 11, 2017, EPA published in the Federal Register a notice of intent to proceed with rulemakings, “Financial Responsibility Requirements for Facilities in the Chemical, Petroleum and Electric Power Industries.” The EPA notice of intent states that it has not determined whether financial responsibility requirements are necessary for any or all of the classes of facilities within the three listed industries, or that EPA will propose such requirements — only that it intends to move forward with a regulatory process, after which it will determine whether proposals of requirements for any or all of the classes of facilities are necessary. The notice of intent states that EPA must gather additional information and must further evaluate the classes of facilities within the three industry sectors. If EPA moves forward with a regulatory process and determines that financial responsibility requirements are necessary for one or more of the sectors, a January 29, 2016 consent order discussed in the Federal Register notice of intent specifies schedules for proposed rulemakings beginning in 2019 and final actions beginning in 2020. With respect to the electric power industry, EPA has not taken further action on the January 11, 2017 notice of intent.

## **Legislative and Regulatory Issues**

A variety of proposals to restructure the electric industry have been introduced at the federal level and in certain state jurisdictions. Restructuring initiatives have the potential for materially affecting revenues, operations and financial results and condition. The nature of these effects will depend on the content of any legislative or regulatory actions that may be applicable to Project One, the General Resolution Projects, the CC Project, the Vogtle Units 3&4 Projects and Project Entities or the Participants and cannot be identified with any degree of certainty at the current time. Neither MEAG Power nor the Participants are subject to regulation by the GPSC, the State regulatory body for certain utility matters.

MEAG Power is not a FERC-jurisdictional utility; however, it is affected by certain FERC rulemakings, including Open Access Transmission Tariffs (OATT) and Standards of Conduct for Transmission Providers. MEAG Power has an OATT in substantially the form of the pro forma open access transmission tariffs set forth by FERC in Order Nos. 888 and 888 A, which required all “public utilities” under the Federal Power Act (FPA) that own, control or operate transmission facilities used in interstate commerce to file open access non-discriminatory tariffs containing minimum terms and conditions of service with FERC. While MEAG Power is not a public utility under the FPA, MEAG Power believes that its OATT satisfies the “reciprocity” requirements of Order Nos. 888 and 888 A.

Owners and operators of bulk power systems, including MEAG Power, have been subject to mandatory reliability standards since 2007. These reliability standards, enacted by NERC and enforced by FERC, have been revised and expanded from time to time, and MEAG Power expects them to continue to change. MEAG Power has a formal compliance program designed to monitor and maintain compliance with the reliability standards applicable to MEAG Power. Noncompliance with the mandatory reliability standards could subject MEAG Power to sanctions, including substantial monetary penalties.

In January 2016, FERC issued Order No. 822 approving a set of revised NERC Critical Infrastructure Protection standards. Of these revised standards, MEAG Power has successfully met the medium impact asset compliance set of requirements, which had a July 1, 2016 deadline, and low impact asset compliance requirements, which had an April 1, 2017 deadline. On April 19, 2018, FERC issued Order No. 843 approving NERC Critical Infrastructure Protection standard CIP-003-7. MEAG Power is working toward successfully meeting the additional low impact asset compliance requirements under this new standard, which have a compliance deadline of January 1, 2020. On October 18, 2018, FERC issued Order No. 850 approving NERC Critical Infrastructure Protection standards CIP-005-6, CIP-010-3 and CIP-013-1. MEAG Power is working toward successfully meeting the various additional requirements under these new standards, all of which have a compliance deadline of July 1, 2020.

On July 21, 2011, FERC issued Order No. 1000 entitled “Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities.” Order No. 1000 required public utility transmission providers to amend their open access transmission tariffs to include a methodology for planning and allocating the costs of new regional and inter-regional transmission facilities. Order No. 1000 did not, however, disturb the charges for transmission facilities that existed on such order’s effective date.

As a non-public utility, MEAG Power is not directly subject to the requirements of Order No. 1000. However, in the order, FERC stated that non-public utilities that decline to bear their assigned share of the costs for new regional facilities may be denied tariff-based transmission service from public utilities and that FERC will consider using the authority it has under Section 211A of the FPA against such non-public utilities. MEAG Power continues to monitor regulatory actions related to Order No. 1000 and has intervened in the Order No. 1000 compliance filings of Southern Company and certain other FERC-jurisdictional utilities. At this time, MEAG Power is continuing to participate, voluntarily, in a regional and inter-regional transmission planning process with Southern Company and certain other Southeast utilities. The effect of Order No. 1000 on MEAG Power, the Participants or the ITS cannot be determined at this time.

## **Mutual Aid Agreement**

MEAG Power has entered into a mutual aid agreement with six Florida utilities for provision of replacement power during an extended outage of certain specified baseload generating units. In the event of an outage of Scherer Unit No. 1 or Scherer Unit No. 2 that extends beyond 60 days, MEAG Power will receive 100 MW at a price based upon a fixed heat rate and a published gas price index or, if replacement power is provided by a coal unit, such coal unit’s actual dispatch cost. In the event of an outage of the CC Project that extends beyond 60 days, MEAG Power will receive 150 MW at a price based upon a fixed heat rate and a published gas price index or, if replacement power is provided by a coal unit, such coal unit’s actual dispatch cost. If a counterparty has an extended outage, MEAG Power expects that it would be required to provide between 13 MW and 31 MW for a maximum of 305 days, also at a price based upon a fixed heat rate and a published gas price index or, if replacement power is provided by a coal unit, such coal unit’s actual dispatch cost. The mutual aid agreement expires in October 2022 and will automatically renew for an additional five years unless a 90-day notice is provided.



# Notes to Consolidated Financial Statements

## *For the Years Ended December 31, 2018 and 2017*

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### Litigation

Prior to July 2012, several federal lawsuits were pending that may have had an impact on water storage and related issues at Lake Lanier, Georgia. These lawsuits related to over 20 years of litigation and periodic settlement discussions pertaining to water allocations, including for drinking water and hydropower, of the Apalachicola-Chattahoochee-Flint River Basin (ACF) and the Alabama-Coosa-Tallapoosa River Basin (ACT). Parties involved in these proceedings included Southeastern Federal Power Customers, Inc., a coalition of municipal and cooperative utilities, the Army Corps, as well as Georgia, Florida and the State of Alabama (Alabama). As of October 2012, all claims in the lawsuits regarding water allocations in the ACF and the ACT were dismissed to allow the Army Corps time to prepare revised water allocation plans for both basins. The Army Corps issued the revised water allocation plan for the ACT in May 2015 and, on March 30, 2017, released the final revised water allocation plan for the ACF. The ACT revised water allocation plan has been challenged in three separate federal lawsuits filed by Georgia, the Atlanta Regional Commission (ARC), the Cobb County-Marietta Water Authority, Alabama, and Alabama Power Company (an affiliate of GPC), with several Alabama municipalities also intervening. The ACF revised water allocation plan has been challenged in two federal lawsuits filed by Alabama and three environmental groups, and Georgia, ARC, and several metropolitan Atlanta area water providers have intervened in the lawsuits to defend the Army Corps' decision. Because both water allocation plans have been challenged by interested parties, it is currently unclear what effect, if any, the result of such finalized water allocation plans may have on the financial condition of MEAG Power.

In October 2013, Florida filed a Motion for Leave to File a Complaint, invoking the Supreme Court's original jurisdiction, asking the Supreme Court to equitably apportion the waters of the ACF. On November 3, 2014, the Supreme Court granted Florida's motion, and Florida filed its complaint against the State. A special master was appointed by the Supreme Court. Following a discovery process and an evidentiary hearing, on February 14, 2017, the special master issued his Report of the Special Master (Report) to the Supreme Court. Although the special master denied Georgia's June 2015 motion to dismiss the proceeding on the grounds that Florida had failed to join the United States as an indispensable party to the proceeding, the Report recommends denial of Florida's request for relief because the Army Corps is not a party to the proceedings before the Supreme Court, and without the ability to bind the Army Corps, the special master was not persuaded that the Supreme Court could provide Florida with the relief it sought.

On June 27, 2018, the Supreme Court ruled that the special master had erred by applying a "clear and convincing evidence" standard in arriving at his recommendation that the Supreme Court would not be able to fashion an appropriate equitable decree to rule in Florida's behalf. Instead, it found that Florida had made a legally sufficient showing as to the possibility of fashioning an effective remedial decree. But, the Supreme Court further held that Florida would be entitled to such a decree only if it demonstrated that the benefits of apportionment substantially outweighed the harm that might result. It therefore remanded the matter back to the special master for additional findings applying the correct standard of evidence.

On August 9, 2018, the Supreme Court appointed a senior federal judge to replace the special master in presiding over this case.

It is currently unclear when this lawsuit may be finally concluded and what effect, if any, the result of such lawsuit may have on the financial condition of MEAG Power.

Other than the litigation involving JEA, as discussed in Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities — Litigation and Other Matters," no other litigation or proceeding is pending that could have any material adverse effect on the financial condition of MEAG Power.

### Other

In January 2011, MEAG Power purchased certain portions of the distribution system of the City of Hogansville (Hogansville), one of MEAG Power's Participants. Pursuant to an Installment Sales Agreement, MEAG Power will pay the purchase price of \$6.0 million in 26 semiannual installments from February 2011 through April 2023. MEAG Power took title to Hogansville's distribution system in order to facilitate the lease of the distribution system back to Hogansville (the Distribution Lease). The Distribution Lease has a term of 30 years, and Hogansville's payment obligations thereunder are its general obligation, to which its full faith and credit are pledged. Payments under the Distribution Lease, which commenced in October 2012, are structured to fully reimburse MEAG Power for the purchase price paid to Hogansville under the Installment Sales Agreement.

MEAG Power has facilitated, through its Distribution Lease Financing Policy, lease transactions with three of the Participants in order to finance the costs of the acquisition, construction, replacement and installation of certain extensions and improvements to the Participant's electrical system. These obligations are secured by a pledge of rentals to be received from lease agreements between MEAG Power and the applicable Participant. The lease transactions do not constitute a debt or pledge of the faith and credit of MEAG Power, and accordingly have not been reported in the accompanying financial statements. As of December 31, 2018, the balance outstanding pertaining to the lease transactions totaled \$1.7 million.

MEAG Power has no other conduit debt obligations.

## 9. SUBSEQUENT EVENTS

In accordance with GASB Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards," MEAG Power's management evaluated operating activities through April 30, 2019 and reports that certain 2019 developments are discussed in Note 1 (D), "The Organization — Vogtle Units 3&4 Projects and Project Entities," Note 5, "Long- and Short-Term Debt, Credit Agreements and Interest Rate Swaps — Financing of Vogtle Units 3&4 Projects and Project Entities;" Note 6, "Investment in Alliance" and Note 8, "Commitments and Contingencies — Fuel" and "— Environmental Regulation" within that Note.

# Required Supplementary Information

## (Unaudited)

### RETIREMENT PLAN

#### Schedule of Changes in Net Pension Liability and Related Ratios

Pursuant to Statement 68, a 10-year history of the following information is required. However, until a full 10-year trend is compiled, information for those years available may be presented (dollars in thousands):

	2018	2017	2016	2015
<b>Total pension liability</b>				
Service cost	\$ 769	\$ 795	\$ 904	\$ 1,012
Interest on the total pension liability	4,189	4,152	4,040	3,738
Difference between expected and actual experience	(183)	(212)	(661)	362
Assumption changes	(136)	(915)	(273)	(134)
Benefit payments	(2,557)	(2,540)	(2,269)	(1,938)
Net change in total pension liability	2,082	1,280	1,741	3,040
Total pension liability — beginning of year	57,120	55,840	54,099	51,059
Total pension liability — end of year (a)	59,202	57,120	55,840	54,099
<b>Plan fiduciary net position</b>				
MEAG Power contributions	775	3,141	934	8,500
Net investment income	(2,643)	8,098	3,969	325
Benefit payments	(2,557)	(2,540)	(2,269)	(1,938)
Administrative expenses	—	—	—	—
Net change in plan fiduciary net position	(4,425)	8,699	2,634	6,887
Plan fiduciary net position — beginning of year	64,585	55,886	53,252	46,365
Plan fiduciary net position — end of year (b)	60,160	64,585	55,886	53,252
Net pension liability — ending (a)–(b)	\$ (958)	\$ (7,465)	\$ (46)	\$ 847
Plan fiduciary net position as a percentage of total pension liability	101.62%	113.07%	100.08%	98.43%
Covered payroll	\$10,664	\$10,922	\$11,230	\$11,013
Net pension liability as a percentage of covered payroll	-8.98%	-68.35%	-0.41%	7.69%

#### Schedule of Employer Contributions to the Pension Plan

Pursuant to Statement 68, a 10-year history of the following information is required. However, until a full 10-year history is compiled, information for those years available may be presented (dollars in thousands):

Year	Actuarially Determined Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a Percent of Covered Payroll
2018	\$ —	\$ 775	\$ (775)	\$10,664	7.27%
2017	\$ 637	\$ 3,141	\$(2,504)	\$10,922	28.76%
2016	\$ 900	\$ 934	\$ (34)	\$11,230	8.32%
2015	\$1,875	\$8,500	\$(6,625)	\$11,013	77.18%
2014	\$1,871	\$2,400	\$ (529)	\$11,956	20.07%

The actuarially determined employer contribution is determined pursuant to OCGA 47-20-10. MEAG Power's contribution policy is to contribute at least the minimum required contribution calculated under OCGA 47-20-10. Historically, MEAG Power has contributed well in excess of that amount.

# Required Supplementary Information (CONTINUED)

## (Unaudited)

### OPEB

#### Schedule of Changes in Total OPEB Liability and Related Ratios

Pursuant to Statement 75, a 10-year history of the following information is required. However, until a full 10-year trend is compiled, information for those years available may be presented (dollars in thousands):

	2018	2017
<b>Total OPEB liability</b>		
Service cost	\$ 262	\$ 226
Interest	363	394
Changes of benefit terms	—	—
Differences between expected and actual experiences	(715)	244
Benefit payments	(335)	(298)
Changes of assumptions or other inputs	(757)	156
Net change in total OPEB liability	(1,182)	722
Total OPEB liability — beginning of year	10,720	9,998
Total OPEB liability — end of year	<b>\$ 9,538</b>	<b>\$10,720</b>
Covered employee payroll	<b>\$15,030</b>	\$14,632
Total OPEB liability as a percentage of covered payroll	<b>63.46%</b>	73.26%

#### Notes to Schedule:

- The Plan has no trust for accumulating assets.
- The discount rate was increased from 3.44% to 4.10% and the mortality projection scale was updated to the MP-2018 scale.

# Report of Independent Auditors

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## TO THE BOARD OF MUNICIPAL ELECTRIC AUTHORITY OF GEORGIA

We have audited the accompanying financial statements of the business-type activities, the Project One major fund, the General Resolution Projects major fund, the Combined Cycle Project major fund, the Vogtle Units 3&4 Projects and Project Entities major fund, the Municipal Competitive Trust major fund, and the Telecommunications Project aggregate nonmajor fund of Municipal Electric Authority of Georgia ("MEAG Power") as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise MEAG Power's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to MEAG Power's preparation and fair presentation of the 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 MEAG Power'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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the Project One major fund, the General Resolution Projects major fund, the Combined Cycle Project major fund, the Vogtle Units 3&4 Projects and Project Entities major fund, the Municipal Competitive Trust major fund, and the Telecommunications Project aggregate nonmajor fund of Municipal Electric Authority of Georgia as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

The accompanying management's discussion and analysis on pages 14 through 21, schedule of changes in net pension liability and related ratios on page 74, schedule of employer contributions to the pension plan on page 74 and schedule of changes in total OPEB liability and related ratios on page 75 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Atlanta, Georgia  
April 30, 2019