

# 2017 THIRD QUARTER REPORT

MEAG POWER | 1470 RIVEREDGE PARKWAY, NW | ATLANTA, GEORGIA 30328-4640 | 1-800-333-MEAG | www.meagpower.org



## SUMMARY OF SELECTED FINANCIAL AND OPERATING DATA

(Dollars in thousands)

Nine months ended or as of September 30,

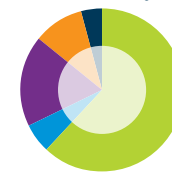
	2017	2016	2015
Total revenues	\$ 466,573	\$ 505,987	\$ 486,001
Total assets and deferred outflows of resources	\$ 9,017,709	\$ 9,178,971	\$ 9,208,750
Weighted average interest cost <sup>(1)</sup>	4.09%	4.12%	4.16%
Total cost to MEAG Power Participants (cents per kWh) <sup>(2)</sup>	6.63	6.55	6.52
Peak demand (MW)	1,884	1,923	1,941

<sup>(1)</sup> Excludes the impact of certain net non-operating expense components such as receipts and payments pertaining to interest rate swap agreements, amortization of debt discount and expense, investment income, the net change in the fair value of financial instruments and interest capitalized. The rate is net of subsidies on Build America Bonds.

<sup>(2)</sup> Funds from the Municipal Competitive Trust were applied to lower the Participants' generation billings.

## DELIVERED ENERGY BY SOURCE

66% Clean/Emissions-Free through September 30, 2017



Nuclear	60%
Hydro	6%
Gas	19%
Coal	11%
Net purchases	4%

The methodology to determine the resources retained for native load was adjusted during 2016 in order to better match the actual billed quantities. This adjustment assigned a higher share of sales to coal resources than was done through September 2016, resulting in more emissions-free resources being retained.

## NINE MONTHS' PERFORMANCE

### Revenue and Expense Analysis

**Revenues:** For the nine months ended September 30, 2017 (YTD 2017), total revenues were \$466.6 million compared with total revenues of \$506.0 million for the same period of 2016 (YTD 2016). Participant revenues decreased \$53.5 million, while other revenues increased \$14.1 million.

The decrease in Participant revenues was due primarily to a \$34.1 million increase in deferred inflows of resources. In comparison with YTD 2016, when the termination of a long-term lease transaction (2016 Lease Termination) resulted in a significant decrease in deferred inflows of resources, YTD 2017 activity was primarily related to normal timing differences between amounts billed and expenses determined in accordance with accounting principles generally accepted in the United States. A reduction in debt service billings and certain operating expenses also reduced Participant revenue requirements. These factors were partially offset by a planned reduction of \$14.1 million in fund transfers from the Municipal Competitive Trust applied to lower Participant billings (Competitive Trust Funding) in Project One, which increased Participant revenues.

Other revenues increased due mainly to an increase of \$12.8 million in contract energy sales under the Pseudo Scheduling and Services Agreement, as well as an increase of \$5.4 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. These factors were partially offset by a decrease of \$3.9 million in off-system energy sales due to lower volume.

**Operating expenses:** YTD 2017 operating expenses decreased 10.3% to \$437.3 million, compared with \$487.3 million for YTD 2016, when expenses related to the 2016 Lease Termination occurred. Such expenses were not incurred during YTD 2017, which was the primary factor in other generating and operating expense decreasing \$55.0 million. Lower maintenance costs at the generating plants were also a factor.

Total fuel expense decreased \$3.4 million due to decreases of \$6.8 million and \$1.4 million in nuclear fuel and coal expense, respectively, which were partially offset by an increase of \$4.5 million in natural gas expense. Nuclear fuel expense decreased due mainly to lower on-site storage costs, as well as a 2.8% decrease in generation related to planned refueling outages and a 1.7% decrease in amortization rates. The decrease in coal expense was mainly price-related. Natural gas expense increased due to a significant increase in gas prices when compared to near all-time low prices in early 2016, which was partially offset by a 6.6% decrease in generation from the Combined Cycle Project (CC Project). The decrease in CC Project generation was primarily related to higher natural gas prices.

These factors were partially offset by an increase of \$3.2 million in purchased power expense related to volume and higher average purchase prices. Depreciation expense increased \$3.1 million due primarily to accretion of asset retirement obligations.

**Non-operating expense (income), net:** 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, totaled \$80.3 million for YTD 2017. This 19.7% decrease from the total of \$100.0 million for YTD 2016 was due primarily to changes in these components of net non-operating expense:

- Interest capitalized increased \$11.5 million due mainly to additional capital investment in Vogtle Units 3&4.
- A decrease of \$9.4 million in amortization of debt discount and expense was primarily related to lower accretion as a result of the 2016 Lease Termination, as well as premium amortization on certain 2016 bond issuances.
- Investment income decreased \$2.3 million due mainly to comparison with 2016 activity related to the 2016 Lease Termination, which was partially offset

by gains realized during normal rebalancing of investments in the decommissioning trust account.

The weighted average interest rate of MEAG Power's debt was 4.09% and 4.12% for YTD 2017 and YTD 2016, respectively, with the slight decrease primarily attributable to maturity of high-cost, fixed-rate debt in January 2017, partially offset by higher interest rates on unhedged variable-rate borrowings.

### Operations

Energy delivered to MEAG Power Participants during YTD 2017 decreased 4.7% from YTD 2016 due mainly to weather factors. Cooler summer months and warmer winter weather during 2017 significantly reduced cooling and heating degree hours, respectively, compared with the same seasons in 2016. Total power cost to the Participants, including hydro energy purchased from the Southeastern Power Administration, was 6.63 cents/kilowatt-hour (kWh) for YTD 2017, compared with 6.55 cents/kWh for YTD 2016. The increase was mainly related to the decreases in energy delivered and Competitive Trust Funding, which were partially offset by reduced billings to the Participants for certain operating expenses.

### Update Regarding Vogtle Units 3&4

On December 8, 2017, MEAG Power, the Vogtle Units 3&4 Project Entities, the other Vogtle Co-Owners and Toshiba entered into an amendment to the Guarantee Settlement Agreement (the Settlement Agreement Amendment). The Settlement Agreement Amendment provides that, subject to the satisfaction or waiver of certain conditions precedent, the remaining payment obligations of Toshiba under the Guarantee Settlement Agreement (the Remaining Scheduled Payments), which totaled \$3.2 billion, were due and payable in full on December 15, 2017. On December 8, 2017, in connection with the separate Loan Guarantee Agreements (LGA), between each Vogtle Units 3&4 Project Entity and the U.S. Department of Energy (DOE), the DOE consented to (i) such Vogtle Units 3&4 Project Entity's entry into the Settlement Agreement Amendment, (ii) the release of the Assigned Rights (as defined below) and (iii) the surrender of the LOC (as defined below). The Vogtle Units 3&4 Project Entities' share of the final payment is \$732.1 million and was received on December 14, 2017. Previously during the Fourth Quarter 2017, the Vogtle Units 3&4 Project Entities had received \$103.3 million in scheduled payments.

As a result of Toshiba having paid the Remaining Scheduled Payments and having delivered an officer's certificate required under the Settlement Agreement Amendment, Toshiba is deemed to be the owner of certain pre-petition bankruptcy claims of the Vogtle Units 3&4 Project Entities and the other Vogtle Co-Owners against Westinghouse (the Assigned Rights). In addition, as a result of payment by Toshiba of the Remaining Scheduled Payments, the Vogtle Units 3&4 Project Entities and the other Vogtle Co-Owners will surrender the Westinghouse Letters of Credit (LOC), as per the Settlement Agreement Amendment.

On November 2, 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. Under the amended agreements, the holders of at least 90% of the ownership interests in Vogtle Units 3&4 must vote to continue construction if certain events occur, including an increase in the construction budget contained in the seventeenth Vogtle Construction Monitoring Report (VCM 17 Report) of more than \$1 billion or extension of the project schedule contained in the VCM 17 Report of more than one year. The effectiveness of the amendment to the joint ownership agreements is subject to the condition that Oglethorpe Power Corporation obtains the approval of the Administrator of the Rural Utilities Service.

A Construction Completion Agreement (the Construction Agreement) with Bechtel Power Corporation (Bechtel) entered into by Georgia Power Company (GPC), acting for itself and as agent for the other Vogtle Co-Owners, became effective on October 23, 2017. Under the Construction Agreement, Bechtel will serve as the primary

## Update Regarding Vogtle Units 3&4 (Continued)

contractor for the remaining construction activities for Vogtle Units 3&4. Facility design and engineering remains the responsibility of Westinghouse under the Services Agreement. The Construction Agreement is a cost reimbursable plus fee arrangement, whereby Bechtel will be reimbursed by the Vogtle Co-Owners 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 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 addition, pursuant to the separate LGA between each of the Vogtle Units 3&4 Project Entities and the DOE, each Vogtle Units 3&4 Project Entity is required to obtain approval of the Construction Agreement by the DOE prior to any further advances under its respective DOE LGA.

On September 28, 2017, the DOE offered MEAG Power a conditional commitment of up to \$414.7 million in loan guarantees toward construction of its share of Vogtle Units 3&4.

MEAG Power has been informed that JEA has identified certain issues it contends would alleviate its responsibility under the Project J Power Purchase Agreement, and has requested that MEAG Power or a third party be substituted for JEA thereunder. Previously, PowerSouth had expressed its full support for MEAG Power staff's position that construction of Vogtle Units 3&4 should be completed, whereas JEA disagreed and voiced its view that the project should be canceled rather than completed. In October 2017, JEA became an intervener in the hearings before the Georgia Public Service Commission in connection with GPC's filing of the VCM 17 Report. The ultimate outcome of these matters cannot be determined at this time.

For additional information, see MEAG Power's filings with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website dated subsequent to September 30, 2017, as well as any additional EMMA filings through the date of publication of MEAG Power's audited financial statements for its fiscal year ending December 31, 2017.

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In thousands)	September 30, 2017							Sept. 30, 2016	
	Project One	General Resolution Projects	Combined Cycle Project	Vogtle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total	Total
<b>Assets and Deferred Outflows of Resources</b>									
Property, plant and equipment, net	\$1,881,746	\$ 685,256	\$204,464	\$2,940,349	\$ -	\$5,282	\$ -	<b>\$5,717,097</b>	\$5,113,330
Other non-current assets	594,563	175,616	48,648	3,216,227	341,446	-	(2,020,016)	<b>2,356,484</b>	2,822,186
Current assets	303,003	164,567	58,077	61,684	276,660	630	(16,274)	<b>848,347</b>	1,106,861
Deferred outflows of resources	87,034	3,291	5,195	261	-	-	-	<b>95,781</b>	136,594
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$2,866,346</b>	<b>\$1,028,730</b>	<b>\$316,384</b>	<b>\$6,218,521</b>	<b>\$618,106</b>	<b>\$5,912</b>	<b>\$(2,036,290)</b>	<b>\$9,017,709</b>	<b>\$9,178,971</b>
<b>Liabilities and Deferred Inflows of Resources</b>									
Long-term debt	\$1,850,226	\$ 591,431	\$193,180	\$4,087,544	\$ -	\$ -	\$ (139,575)	<b>\$6,582,806</b>	\$6,787,344
Non-current liabilities	544,380	79,703	(171)	1,880,035	206,187	-	(1,880,441)	<b>829,693</b>	844,729
Current liabilities	189,183	100,293	31,085	250,859	411,919	180	(16,274)	<b>967,245</b>	1,081,027
Deferred inflows of resources	282,557	257,303	92,290	83	-	5,732	-	<b>637,965</b>	465,871
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$2,866,346</b>	<b>\$1,028,730</b>	<b>\$316,384</b>	<b>\$6,218,521</b>	<b>\$618,106</b>	<b>\$5,912</b>	<b>\$(2,036,290)</b>	<b>\$9,017,709</b>	<b>\$9,178,971</b>

## CONDENSED CONSOLIDATED STATEMENT OF NET REVENUES (UNAUDITED)

(In thousands)	Nine months ended September 30, 2017							Nine months ended Sept. 30, 2016 <sup>(2)</sup>	
	Project One	General Resolution Projects	Combined Cycle Project	Vogtle Units 3&4 Projects and Project Entities	Municipal Competitive Trust	Telecom Project	Eliminations	Total	Total
<b>Revenues:</b>									
Participant <sup>(1)</sup>	\$219,881	\$ 77,727	\$62,349	\$ 5,927	\$ -	\$639	\$ -	<b>\$366,523</b>	\$419,987
Other	47,055	35,905	7,652	9,363	-	75	-	<b>100,050</b>	86,000
<b>Total revenues</b>	<b>266,936</b>	<b>113,632</b>	<b>70,001</b>	<b>15,290</b>	<b>-</b>	<b>714</b>	<b>-</b>	<b>466,573</b>	<b>505,987</b>
Operating expenses	238,269	101,430	64,619	-	32,303	718	-	<b>437,339</b>	487,291
<b>Net operating revenues (loss)</b>	<b>28,667</b>	<b>12,202</b>	<b>5,382</b>	<b>15,290</b>	<b>(32,303)</b>	<b>(4)</b>	<b>-</b>	<b>29,234</b>	<b>18,696</b>
Non-operating expense (income), net	28,667	12,202	5,382	34,446	(379)	(4)	-	<b>80,314</b>	99,960
Change in net costs to be recovered from Participants or Competitive Trust obligations	-	-	-	(19,156)	(31,924)	-	-	<b>(51,080)</b>	(81,264)
<b>Net Revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<sup>(1)</sup> Net of over-recovery of \$34.8 million and \$38.9 million for the nine months ended September 30, 2017 and 2016, respectively. These amounts are included in current liabilities and may not be indicative of future results.

<sup>(2)</sup> Certain prior-year amounts have been reclassified to conform to the current year presentation with no impact on total revenues.

These condensed consolidated financial statements, which include the accounts of the Power Revenue Bond Resolution (Project One), the General Power Revenue Bond Resolution (General Resolution Projects), the Combined Cycle Project Bond Resolution (Combined Cycle Project), the Vogtle Units 3&4 Projects and Project Entities, the Municipal Competitive Trust and the Telecommunications Project (Telecom Project), should be read in conjunction with MEAG Power's 2016 audited financial statements.

## THE MUNICIPAL ELECTRIC AUTHORITY OF GEORGIA

MEAG Power is a nonprofit entity that was created by the Georgia General Assembly in 1975 to generate and transmit reliable, competitively priced wholesale electric power to 49 Participant communities throughout the state. These communities have access to MEAG Power's multibillion-dollar resources, including some of the lowest-cost, emissions-free energy in the region, as well as one of the most diversified fuel portfolios. MEAG Power operates in one of the largest and fastest-growing regions in the United States because of Georgia's attractive logistics, pro-business environment and talented workforce.