Central Electric Power Cooperative, Inc.

Presentation to the Santee Cooper Evaluation and Recommendation Committee

September 26, 2018
Agenda

• Who is Central? What Do We Do?
• Central's Cost Summary
  • Cost of Service
  • Wholesale Power Supply & Bulk Transmission
• Central's Core Services
  • Power Supply
  • Bulk Transmission
  • Economic Development
  • Central Finance & Administration
• Other Matters
• Appendix
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A “generation and transmission” (G&T) electric cooperative

• Business model is not-for-profit, cost-of-service
• Member-owned private company owned by distribution cooperatives
• Overseen by representatives of its membership
• Board comprised of two representatives from each of the 20 distribution cooperatives

Purpose:
• Wholesale power and transmission aggregation
• Pool resources to meet those needs reliably and more cost-effectively

Function:
• Power supply and transmission aggregator
• The nature of these services lends itself to aggregation
• Produces benefits for cooperative consumers
Electric cooperatives power 56% of the nation’s landmass.
Where you see distribution co-ops, you see G&T co-ops.
Central’s Role in the Physical System

2017 Simplified Model

- **Power Supply**: 6.86 ¢/kWh (89%)
- **Bulk Transmission**: 0.54 ¢/kWh (7%)
- **Central Costs**: 0.11 ¢/kWh (1%)
- **Switching Station**: 0.17 ¢/kWh (3%)
- **Tap Lines or Radial Lines**: 0.54 ¢/kWh (7%)

**Central’s Role**
- **Generators**
- **Bulk Electric System**
- **Distribution Substation**
- **Member**

**Total**
- **7.68 ¢/kWh**

**Distribution**
- **Co-op 100%**
Make up of Central’s Cost

• Power Supply 6.86 ¢/kWh
  • Duke, Santee Cooper, SEPA

• Bulk Transmission 0.54 ¢/kWh
  • Duke, Santee Cooper, SEPA, SCE&G

• Central Transmission 0.17 ¢/kWh

• Central Costs 0.11 ¢/kWh

7.68 ¢/kWh
ENERGY – Amount of electricity used in a period of time in kilowatt-hours.

PEAK DEMAND – Maximum energy used at a point in time in kilowatts.
Load factor – a measure of how efficiently you use power.

• High load factor
  • An industry with motors and machines running constantly

• Low load factor
  • A home or group of homes that use power more variably

• Utilities with lots of industries usually have high load factors.
• Utilities with lots of homes and small businesses have lower load factor.
# Comparing Invoices

## Illustration

<table>
<thead>
<tr>
<th></th>
<th>Rate (₵/kWh)</th>
<th>Load Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical 2017 Co-op Bill from Central</td>
<td>7.68</td>
<td>59%</td>
</tr>
<tr>
<td>Low Load Factor Co-op Bill</td>
<td>8.25</td>
<td>52%</td>
</tr>
<tr>
<td>High Load Factor Co-op Bill</td>
<td>6.82</td>
<td>77%</td>
</tr>
</tbody>
</table>

**Load Factor** is the relationship between peak demand and energy that measures the effectiveness of usage.

**Key Points**

Energy consumption and charges vary.

“Rate” changes with energy consumption, but similar demand.

**Essential Concept**

Energy rates are often used to compare electric charges, however an accurate comparison must consider load factor when discussing wholesale rates.

See Slide No. 65 in Appendix for detailed calculations.
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  • Central Finance & Administration

• Other Matters

• Appendix
Central “Cost of Service” to Electric Co-ops

2017 Cost of Service
$1,306 Million

Wholesale Power Supply & Bulk Transmission
$1,251 Million

Central Costs
$55 Million

96%

4%

Wholesale Power Supply
Santee Cooper $963 Million 73.7%
Duke Energy $186 Million 14.2%
SEPA $15 Million 1.2%

Bulk Transmission
Santee Cooper $74 Million 5.7%
Duke Energy $9 Million 0.7%
Other $4 Million 0.3%

Total $1,251 Million 95.8%

Central Costs by Core Services
Power Supply $16 Million 1.2%
Central Transmission $29 Million 2.2%
Economic Development $5 Million 0.4%
Finance & Administration $5 Million 0.4%

Total Central Costs $55 Million 4.2%
Total Cost of Service $1,306 Million 100%
Central “Cost of Service” to Electric Co-ops

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<thead>
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<th></th>
</tr>
</thead>
<tbody>
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<tr>
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<td>Other</td>
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<td><strong>Total</strong></td>
<td><strong>$1,251 Million</strong></td>
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Central Power Supply Mix

Source of wholesale power – mainly long-term contracts

- Board direction – leverage companies with expertise in developing and operating generation assets
- Common business model – numerous co-ops and municipal entities

Power Suppliers

- Santee Cooper
  - All power requirements for co-op deliveries in Santee Cooper territory
- Duke Energy Carolinas (Duke)
  - All power requirements for co-op deliveries in Duke territory
- Southeastern Power Administration (SEPA)
  - Hydro generation entitlements assigned to co-ops

See Slide No. 66 in Appendix for contract summaries
Energy Supply by Generation Source

2017 Santee Cooper:
- Coal: 42%
- Gas: 21%
- Nuclear: 25%
- Power Purchases: 10%
- Hydro and Other: 2%

2017 Duke:
- Coal: 48%
- Gas: 28%
- Nuclear: 12%
- Power Purchases: 1%
- Hydro and Other: 11%

2017 Central Weighted Avg Mix:
- Coal: 39%
- Gas: 23%
- Nuclear: 20%
- Power Purchases: 20%
- Hydro and Other: 16%

Legend:
- Coal
- Gas
- Nuclear
- Hydro and Other
- Power Purchases
Fuel Cost of Power Suppliers and Central's Mix

2017 Fuel Cost $/MWh

- Coal: $37.67
- Natural Gas: $30.86
- Nuclear: $27.46
- Weighted Average: $31.78

Fuel Cost of Power Suppliers and Central's Mix

- Santee Cooper
- Duke
- Central

Coal
Natural Gas
Nuclear
Weighted Average

$29.69
$27.46
$9.55
$6.94
$16.91
$29.32
Power Supply Costs

2017 Purchased Power $/MWh

- Santee Cooper: $66.61
- Duke: $59.10
- SEPA: $63.72
- Central: $65.34

Adjusted for Adjust to Actuals and excludes Bulk Transmission Costs
Central “Cost of Service” to Electric Co-ops

2017 Cost of Service
$1,306 Million

Wholesale Power Supply & Bulk Transmission
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Contract Summary - Transmission

• Central serves as aggregator for all 20 co-ops

• Central has multiple transmission agreements
  • Santee Cooper – Coordination Agreement (which also governs power supply terms)
  • Duke and SCE&G – Network Integrated Transmission System Agreement (NITSA)
  • Southeastern Power Administration (SEPA)
## Transmission Provider Reliability and Costs

<table>
<thead>
<tr>
<th>Transmission Provider</th>
<th>Reliability Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santee Cooper</td>
<td>99.9977%</td>
</tr>
<tr>
<td>Duke</td>
<td>99.9973%</td>
</tr>
</tbody>
</table>

Reliability percentages relate to Central’s delivery points from Santee Cooper and Duke.

<table>
<thead>
<tr>
<th>Transmission Provider</th>
<th>Cost ($ Millions)</th>
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<tr>
<td>Santee Cooper</td>
<td>$74</td>
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<tr>
<td>Duke</td>
<td>$9</td>
</tr>
<tr>
<td>SCE&amp;G</td>
<td>$1</td>
</tr>
<tr>
<td>SEPA</td>
<td>$3</td>
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Central Costs by Category

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<tr>
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<th>Costs</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Payroll &amp; Benefits</td>
<td>$9 million</td>
<td>0.7%</td>
</tr>
<tr>
<td>Transmission Investment</td>
<td>$29 million</td>
<td>2.2%</td>
</tr>
<tr>
<td>Department O&amp;M</td>
<td>$8 million</td>
<td>0.6%</td>
</tr>
<tr>
<td>Economic Development</td>
<td>$5 million</td>
<td>0.4%</td>
</tr>
<tr>
<td>Net Margins</td>
<td>$3 million</td>
<td>0.2%</td>
</tr>
<tr>
<td>Governance</td>
<td>$1 million</td>
<td>0.1%</td>
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Power Supply

Wholesale Power Supply & Bulk Transmission
$1,251 Million

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4%

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Power Supply

• Negotiate wholesale power supply agreements
• Manage existing agreements
  • Ensure commercial terms are met
  • Pursue amendments as the wholesale market evolves over the life of these long-term agreements
• Conduct annual cost-of-service audits for wholesale power supply and transmission agreements
  • Validate proper accounting treatment of charges
• Develop and manage community solar projects on behalf of the cooperatives
Distribution Cooperative Service Programs

• Energy use audits for commercial & industrial (C&I) and agriculture consumers

• C&I Lighting

• Demand Management
  • Water Heater and HVAC Load Control
  • Smart Thermostats
  • "Beat the Peak"
  • Electric Vehicle Charging Station – Residential (Pilot Program)

• Program Research and Development
• Signing the PPA with Duke enabled the following benefits
  • Diversified power suppliers to mitigate risk
  • Fuel diversification from generation resources
  • Reduction of load on Santee Cooper system
    • Elimination of need for construction of Pee Dee coal station
    • Lowered Santee Cooper’s future debt service requirements

• Savings
  - $1.8 billion  Distribution Cooperatives
  - $0.8 billion  Santee Cooper Direct-Served Customers
  - $2.6 billion  Total Santee Cooper System
• Central power supply savings passed directly to co-ops
  - $0.8 billion Debt Restructuring
  - $0.5 billion Contract Modifications
  - $1.3 billion Total Savings
• Contract Management
  - $90 million  Duke Contract Amendment

• Annual Cost of Service Audits
  - $42 million  Santee Cooper Agreement
  - $8 million  Duke Agreement
• Community Solar
  • 31 projects in 18 counties across South Carolina
  • 21 projects are completed
  • 10 projects are in planning/construction stages
  • Installed capacity will be ~5 MWac
  • 8 million kWh lifetime generation to date as of 9/1/18
    (power 600 homes)
Central Transmission

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Central Transmission

• Design and construct radial transmission lines to deliver power to co-op substations
  • Right of way survey and acquisition
  • Transmission design and construction

• Costs are comprised of depreciation, interest, and property taxes on transmission investment

• Negotiate and manage transmission service agreements with transmission providers
Central Transmission Ownership

- Central owns 799 miles of transmission lines
  - In the 1950s-1970s, Central financed 2,042 (40%) miles of Santee Cooper’s system

- Central contracts for operations and maintenance of its transmission lines to Santee Cooper and New Horizon

- 454 Delivery Points (substations)
  - Santee Cooper 332
  - Duke 113
  - SCE&G 9

- 307 Industrial Meters
Central Transmission Investment

- To ensure reliability to co-op consumers, current investment is outpacing prior years
  - Central has 33 active (and 10 planned) projects
### Transmission – Property Taxes

#### Property Taxes Paid to Each County

Central paid over $7 million in property taxes in **45 counties** in 2017

<table>
<thead>
<tr>
<th>County</th>
<th>Property Taxes Paid</th>
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</thead>
<tbody>
<tr>
<td>Abbeville</td>
<td>$58,034</td>
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<tr>
<td>Aiken</td>
<td>334,415</td>
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<tr>
<td>Allendale</td>
<td>589</td>
</tr>
<tr>
<td>Anderson</td>
<td>127,021</td>
</tr>
<tr>
<td>Bamberg</td>
<td>73,678</td>
</tr>
<tr>
<td>Barnwell</td>
<td>49,886</td>
</tr>
<tr>
<td>Beaufort</td>
<td>49,868</td>
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<tr>
<td>Berkeley</td>
<td>112,215</td>
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<tr>
<td>Calhoun</td>
<td>133,971</td>
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<tr>
<td>Charleston</td>
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<td>Cherokee</td>
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<td>Chester</td>
<td>$212,501</td>
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<td>Chesterfield</td>
<td>106,005</td>
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<tr>
<td>Clarendon</td>
<td>185,167</td>
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<td>Colleton</td>
<td>275,956</td>
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<tr>
<td>Darlington</td>
<td>113,151</td>
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<td>Dillon</td>
<td>65,837</td>
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<td>Dorchester</td>
<td>39,545</td>
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<tr>
<td>Edgefield</td>
<td>7,178</td>
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<tr>
<td>Fairfield</td>
<td>19,712</td>
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<tr>
<td>Florence</td>
<td>93,615</td>
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<tr>
<td>Georgetown</td>
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<tr>
<td>Greeneville</td>
<td>$230,258</td>
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<tr>
<td>Hampton</td>
<td>184,986</td>
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<tr>
<td>Horry</td>
<td>120,348</td>
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<tr>
<td>Jasper</td>
<td>351,897</td>
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<tr>
<td>Kershaw</td>
<td>184,662</td>
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<tr>
<td>Lancaster</td>
<td>220,584</td>
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<tr>
<td>Laurens</td>
<td>216,251</td>
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<tr>
<td>Lee</td>
<td>1,590</td>
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<tr>
<td>Lexington</td>
<td>183,978</td>
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<td>Marion</td>
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<td>329,778</td>
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<td>Orangeburg</td>
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<td>Pickens</td>
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<td>Saluda</td>
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<td>Sumter</td>
<td>113,155</td>
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<tr>
<td>Union</td>
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<tr>
<td>Williamsburg</td>
<td>208,182</td>
</tr>
<tr>
<td>York</td>
<td>289,878</td>
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Economic Development

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Wholesale Power Supply & Bulk Transmission $1,251 Million

4% 96%
Electric Co-ops Commitment to Economic Development

• 2014 - Electric co-ops redesigned their economic development strategy
  • Three areas of focus to deliver results
    • Incentives for critical project requirements with targeted return on investment
    • Development of infrastructure for market-ready sites
    • Assist communities in articulating their workforce assets

• 2017 - Electric co-op decision to take sole control of SC Power Team
  • Historically a joint venture with Santee Cooper
  • Focus efforts on service areas of co-ops

• SC Power Team recently named one of the Top Utilities in Economic Development by Site Selection magazine
Economic Development – Co-op Driven

• 2014 – 2017 co-ops exceeded strategic goals
  • 25,688 jobs announced
  • Capital investment of $5 billion

• Electric co-op load growth lowers the average costs for all co-op and Santee Cooper consumers

• Co-op incentives to projects were critical factors of success
Economic Development – Co-op Driven

• Central works with its power suppliers on economic development for co-op areas
  • Coordination with Duke on opportunities where co-ops can serve customers directly
  • Co-op commitment of $30 million to site infrastructure improvements
  • Santee Cooper responds to co-op led efforts with loans, grants and other services
    • Central pays its share of these Santee Cooper loans and grants
      • 100% for territories not served by Santee Cooper
      • Pro rata share for territories served by Santee Cooper
## Economic Development – Examples of Success

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<tr>
<td><strong>Served By</strong></td>
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</tr>
<tr>
<td><strong>Co-op Funding</strong></td>
<td>$1.725 million</td>
<td>$3.750 million</td>
<td>$260,000</td>
<td>$200,000</td>
<td>$700,000</td>
</tr>
<tr>
<td><strong># of Announced Jobs</strong></td>
<td>3,900</td>
<td>950</td>
<td>1,000</td>
<td>705</td>
<td>6,400</td>
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<tr>
<td><strong>Total Capital Investment</strong></td>
<td>$1.2 Billion Initial investment &amp; expansion</td>
<td>$380 Million</td>
<td>$194 Million</td>
<td>$79 Million</td>
<td>$284 Million</td>
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Finance and Administration

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</tr>
<tr>
<td>Economic Development</td>
<td>$5 million</td>
</tr>
<tr>
<td>Finance &amp; Administration</td>
<td>$5 million</td>
</tr>
</tbody>
</table>
Finance and Administration

• Provide Board and Central staff financial information to make quality decisions

• Ensure Central is operated in an efficient and effective manner (includes Finance, Accounting, HR, IT, Risk Management, and Strategic Planning)

• Provide long-term financing to fund transmission projects

• Manage debt to minimize costs to distribution co-ops

• Ensure adequate working capital
Central’s Financial Model – 4 Principles

All 4 principles work together to minimize Central impact on co-op rates

1. Minimize Central’s equity levels
   In 2017, Central’s equity was 12% of total assets.
   Net margins were 0.2% ($3.2 million) of total revenue requirements.

2. Keep long-term financing costs low
   Central’s weighted average interest rate on long-term debt is 2.62%

3. Minimize the need for working capital
   Central pays its power suppliers after the distribution co-ops pay Central

4. Collect all revenue requirements without built-in cushion
   Rate autonomy and intra-year rate adjustments allow Central to collect only the amount it needs to recover costs and margins
Central takes advantage of low cost financing available under the USDA Rural Utilities Service ("RUS") program. This program is available to all electric cooperatives and provides access to low cost financing – interest rates are set at U.S. Treasury rates plus ⅛ %. Central’s weighted average rate on RUS debt was 2.71% in 2017.

Central must comply with RUS requirements, including:

- Following RUS’ competitive bid process in awarding construction contracts
- Using RUS approved design and construction standards and materials

RUS must be notified prior to:

- Changes to Central’s overall rate structure
- Changes to or termination of any Central/Member wholesale power contract
- Material changes to existing power supply contracts

See Appendix – Page 68 for more information
Central Governance - Board and Committee Structure

The Board
- 40 Trustees

The Board meets a minimum of six times per year - every other month beginning in January

The Executive Committee meets a minimum of six times per year - every other month beginning in February

Committees
- Executive Committee: 8 Trustees
- Finance, Audit, & Risk Committee: 10 Trustees
- Engineering & Planning Committee: 10 Trustees
- Power Committee: 10 Trustees
- Member & Energy Services: 10 Trustees

SC Power Team Board
- 11 Trustees
Central Governance - Board Per Diems

• Central
  • Pays board per diem, per day of meeting attendance.
  • Sets per diem by full board vote, based upon national survey of G&Ts.
  • Reimburses for travel expenses; provides travel and accidental death & dismemberment insurance while on Central business.
  • Provides no other benefits to the board.

• The reasons we pay:
  • Board membership creates a fiduciary duty to Central. Per diem is a formal acknowledgement of that responsibility.
  • Trustees accept the risk and responsibility of being a board member.

• Payable to either the board member or the distribution co-op
### Central Governance - Board Per Diems

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>Average per diem per person</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central</strong></td>
<td></td>
<td>$15,102</td>
</tr>
<tr>
<td>Total Board Expenses</td>
<td>$789,655</td>
<td></td>
</tr>
<tr>
<td>Per diem</td>
<td>$709</td>
<td></td>
</tr>
<tr>
<td>Average # of meetings per person</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>2016</strong></th>
<th><strong>Average per diem per person</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia Transmission</td>
<td>$8,971</td>
</tr>
<tr>
<td>ODEC (VA, MD, DE)</td>
<td>$15,200</td>
</tr>
<tr>
<td>East Kentucky</td>
<td>$27,107</td>
</tr>
<tr>
<td>North Carolina EMC</td>
<td>$0</td>
</tr>
<tr>
<td>Cooperative Energy (MS)</td>
<td>$24,272</td>
</tr>
<tr>
<td>Oglethorpe (GA)</td>
<td>$23,268</td>
</tr>
</tbody>
</table>

Source Peer Group: 2016 IRS Form 990 on Guidestar.org or 2017 SEC 10K for Oglethorpe
Central Employee Costs  ($’s in Thousands)

See Appendix – Employee Benefits Detail is available on Pages 69-74
Board policy sets the evaluation and compensation of Central’s CEO

• Performance evaluated annually through process of
  • Survey completed by each board member, administered by an independent third-party
  • In-depth performance review by Executive Committee of the Board

• Executive Committee sets compensation based on multiple factors, including comparative salary information from peer group G&Ts

• Board approves any written employment contracts with the CEO
<table>
<thead>
<tr>
<th>Company</th>
<th>W-2 Wages 1</th>
<th>Other Compensation 2</th>
<th>Total Compensation 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>$496,200</td>
<td>$163,279</td>
<td>$659,479</td>
</tr>
<tr>
<td>Georgia Transmission</td>
<td>$460,320</td>
<td>$96,596</td>
<td>$556,916</td>
</tr>
<tr>
<td>ODEC (VA, MD, DE)</td>
<td>$668,117</td>
<td>$241,159</td>
<td>$909,279</td>
</tr>
<tr>
<td>East Kentucky</td>
<td>$818,359</td>
<td>$649,729</td>
<td>$1,472,165</td>
</tr>
<tr>
<td>North Carolina EMC</td>
<td>$887,323</td>
<td>$229,381</td>
<td>$1,116,704</td>
</tr>
<tr>
<td>Cooperative Energy (MS)</td>
<td>$834,912</td>
<td>$102,411</td>
<td>$937,323</td>
</tr>
<tr>
<td>Oglethorpe (GA)</td>
<td>$683,550</td>
<td>$265,780</td>
<td>$949,330</td>
</tr>
</tbody>
</table>

1 IRS Form 990 Part VII, Column D (W-2 Box 5 compensation and includes salary & taxable benefits)
2 IRS Form 990 Part VII, Column F (includes: actuarial increase in pension plan benefit, 401k co-op contributions, health insurance benefits)
3 IRS Form 990 Schedule J Part II Column F

Source Peer Group: 2016 IRS Form 990 on Guidestar.org
Oglethorpe: 2017 Annual 10k Report, Summary Compensation Table
## Executive Compensation

### Senior Staff Average

<table>
<thead>
<tr>
<th></th>
<th>W-2 Wages ¹</th>
<th>Other Compensation ²</th>
<th>Total Compensation ³</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central</strong></td>
<td>$266,351</td>
<td>$156,744</td>
<td>$423,096</td>
</tr>
<tr>
<td>Georgia Transmission</td>
<td>$242,884</td>
<td>$86,012</td>
<td>$328,896</td>
</tr>
<tr>
<td>ODEC (VA, MD, DE)</td>
<td>$264,702</td>
<td>$201,789</td>
<td>$466,491</td>
</tr>
<tr>
<td>East Kentucky</td>
<td>$318,592</td>
<td>$105,571</td>
<td>$424,159</td>
</tr>
<tr>
<td>North Carolina EMC</td>
<td>$321,089</td>
<td>$98,114</td>
<td>$419,202</td>
</tr>
<tr>
<td>Cooperative Energy (MS)</td>
<td>$335,170</td>
<td>$91,855</td>
<td>$427,024</td>
</tr>
</tbody>
</table>

¹ IRS Form 990 Part VII, Column D (W-2 Box 5 compensation and includes salary & taxable benefits)
² IRS Form 990 Part VII, Column F (includes: actuarial increase in pension plan benefit, 401k co-op contributions, health insurance benefits)
³ IRS Form 990 Schedule J Part II Column F
⁴ Averages of non-CEO Officers and Key Employees

Source Peer Group: 2016 IRS Form 990 on Guidestar.org

"Senior Staff" – Non-CEO Officers and "Key Employees" (as defined by RUS 990)
Agenda

• Who is Central? What Do We Do?
• Central's Cost Summary
  • Cost of Service
  • Wholesale Power Supply & Bulk Transmission
• Central's Core Services
  • Power Supply
  • Bulk Transmission
  • Economic Development
  • Central Finance & Administration

• Other Matters
• Appendix
Legal and Contractual Matters
Central Organization

January 15, 1948 - Central Electric Power Cooperative, Inc. was formed

Created under SC Code Section 33-49-220 which allows “two or more cooperatives” to form a cooperative

Seven local distribution cooperatives formed Central for the purpose of providing generation and transmission services

Central currently has 20 cooperative members
Important contract modifications to enhance Central’s position

• Right to opt out of future power supply from Santee Cooper

• Elimination of restriction on cooperatives to advocate for a sale of Santee Cooper

• Option to purchase % interest in Santee Cooper generation & transmission facilities used to serve Central subject to General Assembly approval
  • To recognize and preserve Central’s investment in the Santee Cooper system

• Joint resource planning

• Participation and influence in fuel supply decisions and financing plan

• “Extension” of contract term to 2058

Retained the right to terminate Coordination Agreement with Santee Cooper change in control
Litigation
Cook, several other named plaintiffs, and all others similarly situated vs Santee Cooper, its directors, Central, Palmetto Electric Cooperative, and SCANA

- Central was named as a defendant in the Cook case in September 2017
  - Cross-claim against Santee Cooper asserted in February 2018

- Central’s cross-claims against Santee Cooper are a subset of this larger class action case

- The claims of the plaintiffs are similar to those of Central. The plaintiffs class (if certified) will include all of the retail customers of Santee Cooper and all of the members of the Cooperatives.
1. Inclusion in rates of cost of failed nuclear project is not allowed under the statutory authority granted to Santee Cooper by the General Assembly

• Santee Cooper has the power to build, acquire, construct, and maintain power houses and any and all structures, ..., including power transmission lines, poles, telephone lines, substations, transformers, and generally all things used or useful in the manufacture, distribution, purchase, and sale of power generated by water, steam, or otherwise. (§ 58-31-30(A)(7))

• Santee Cooper can only charge for the “use of their facilities” or for “services rendered.” (§ 58-31-30(A)(13))
2. Inclusion of the cost of the failed project in rates violates the statutory requirement that rates be just and reasonable (§ 58-31-55(A)(3)(a))

3. Santee Cooper has breached its contract with Central by recovering costs that are not reasonable and not related to providing services, and exhibited bad faith in failing to make material disclosures to Central

4. Constructive trust for Toshiba/Citibank funds
• Santee Cooper filed a petition asking the Supreme Court to take the case in its original jurisdiction and stop all other related litigation

• Central opposed this petition

• Plaintiffs filed their opposition to Santee Cooper’s petition on August 27, 2018
Current Status of Litigation

• Motion of Santee Cooper to dismiss the claims of its ratepayers, the cooperative customers, and Central was heard by Judge John Hayes on September 20, 2018

• Petition to the Supreme Court by Santee Cooper to have the Court take original jurisdiction of all the Santee Cooper cases is pending

• Full discovery has not commenced
Central is committed to transparency of its operations and governance

Central and the electric cooperatives encourage this Committee to complete an evaluation of Santee Cooper

• Central has directly heard several viable offers from third parties
• Central’s interest is the solution that provides the optimal value for cooperative consumers
Appendix
### Comparing Invoices – Calculation Support

#### Typical Member Bill

<table>
<thead>
<tr>
<th>Units</th>
<th>Rate</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak Demand (kW)</td>
<td>158,400</td>
<td>$16.60 = $2,630,135</td>
</tr>
<tr>
<td>Energy (kWh)</td>
<td>70,049,848</td>
<td>$0.0393 = $2,752,503</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$5,382,638</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>$5,382,638 ÷ 70,049,848</td>
<td>$0.0768</td>
</tr>
</tbody>
</table>

#### Low Load Factor Member Bill

<table>
<thead>
<tr>
<th>Units</th>
<th>Rate</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak Demand (kW)</td>
<td>158,400</td>
<td>$16.60 = $2,630,135</td>
</tr>
<tr>
<td>Energy (kWh)</td>
<td>60,872,483</td>
<td>$0.0393 = $2,392,419</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$5,022,554</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>$5,022,554 ÷ 60,872,483</td>
<td>$0.0825</td>
</tr>
</tbody>
</table>

#### High Load Factor Member Bill

<table>
<thead>
<tr>
<th>Units</th>
<th>Rate</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak Demand (kW)</td>
<td>158,400</td>
<td>$16.60 = $2,630,135</td>
</tr>
<tr>
<td>Energy (kWh)</td>
<td>91,112,363</td>
<td>$0.0393 = $3,580,270</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$6,210,405</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>$6,210,405 ÷ 91,112,363</td>
<td>$0.0682</td>
</tr>
<tr>
<td>Contract Structure</td>
<td>Central Power Supply Contract Summary</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>All requirements within Santee Cooper balancing authority area, with limited exceptions</td>
<td>Central manages the hydro generation entitlements assigned to its member cooperatives</td>
<td></td>
</tr>
<tr>
<td>Rates based on cost of service methodology, with adjust-to-actual mechanism: monthly for fuel, annually for all other costs</td>
<td>Energy costs are included in Central’s wholesale power costs to its member cooperatives</td>
<td></td>
</tr>
<tr>
<td>Future generation subject to Central opt-out</td>
<td>Rates are set for a maximum 5-year period and adjusted over the contract term</td>
<td></td>
</tr>
<tr>
<td>% of Central Peak Load Served</td>
<td></td>
<td></td>
</tr>
<tr>
<td>78.2% - 3,558 MW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.8% - 810 MW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.0% - 181 MW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term End Date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2058 with 10-year termination notice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2030 with 5-year termination notice (ramp down beginning in 2028)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Each contract can be terminated with 24 month notice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint committees made up of both Central and Santee Cooper personnel oversee load forecasting, generation expansion planning, transmission planning and operations, fuel procurement, and debt financing</td>
<td>Central can terminate contract with 60 days notice if rate adjustments increase more than 5%. In this event, Central is required to purchase energy for one year at the new rate.</td>
<td></td>
</tr>
</tbody>
</table>
History of Central’s Power Supply Contracts

1934 – 2013

- **1934**: First electric cooperative formed in SC (Aiken)
- **1938**: Santee Cooper created to construct lakes & hydro plant at Pinopolis
- **1948**: Central formed by seven co-ops (Aiken, Black River, Lynches River, Mid-Carolina, Salkehatchie & Tri-County)
- **1950**: Original agreement between Central & Santee Cooper executed (thru 1985)
- **1950s-1970s**: Central finances generation and transmission assets on behalf of Santee Cooper system and leases those facilities to Santee Cooper
- **1980**: Updated agreement (“CA”) between Central & Santee Cooper (thru 2023)
- **1988**: Amended power purchase agreement (“CA”) between Central & Santee Cooper (thru 2058)
- **2009**: Central and Santee Cooper Agreement to extend CA (thru 2030)
- **2013**: Central finances generation and transmission assets on behalf of Santee Cooper system and leases those facilities to Santee Cooper
- **2013**: Central and Duke power purchase agreement effective January 1, 2013 (thru 2030)
Central takes advantage of low cost financing available under the USDA Rural Utilities Service ("RUS") program. This program is available to all electric cooperatives and provides access to low cost financing – interest rates are set at US Treasury rates plus ⅛ %. Central’s weighted average rate on RUS debt was 2.71% in 2017.

The terms and conditions of borrowing under the this program translates into RUS becoming a de facto regulator.

Central must comply with the following in order to continue to borrow:

- RUS must approve Central's:
  - Load Forecast
  - Construction Work Plan
  - Financial Forecast
- Projects must receive RUS environmental clearance prior to inclusion in a loan application
- Central must:
  - Follow RUS’ competitive bid process in awarding construction contracts
  - Use RUS approved design and construction standards and materials
- RUS must be notified prior to:
  - Asset additions or dispositions greater than certain thresholds
  - Changes to Central's overall rate structure
  - Changes to or termination of any Member wholesale power contract
  - Material changes to existing power supply contracts and certain changes to transmission contracts
  - New power supply or transmission contracts that exceed specified thresholds
  - Short-term indebtedness exceeding certain levels

This notification includes a timeframe for RUS to raise objections to any of the above. If RUS objects, Central may not proceed with the transaction.
<table>
<thead>
<tr>
<th>NRECA Retirement &amp; Security Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eligibility:</strong> All full time employees after 1-year waiting period</td>
</tr>
<tr>
<td><strong>Benefit:</strong> Age 62 Plan</td>
</tr>
<tr>
<td>Quasi-retirement option available</td>
</tr>
<tr>
<td>Annual COLA adjustment</td>
</tr>
<tr>
<td>1.8% of average of highest salaries over 5 year period times</td>
</tr>
<tr>
<td># of years of service</td>
</tr>
<tr>
<td><strong>2017 Cost:</strong> $1,399,339</td>
</tr>
</tbody>
</table>
### Central Benefits

#### Benefits - Supplemental Retirement Plans

<table>
<thead>
<tr>
<th>Pension Restoration Plan (closed to new participants in 2014)</th>
<th>(2 Participants)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides retiree benefits mirroring RS Plan for amounts above IRS limitations. Payments are made to NRECA as part of RS Plan monthly billing. At vesting date (age 62), Central pays the participant a lump sum (calculated by NRECA actuary) which is considered regular wages with federal and state withholding and reported on participant’s W-2 and Central’s 990. Central withholds payment on its monthly RS Plan billing until the lump sum is recouped.</td>
<td></td>
</tr>
<tr>
<td>2017 Cost: Included in RS Plan</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Executive Benefit Restoration Plan (replaced PRP in 2014)</th>
<th>(2 Current Participants)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides retiree benefits mirroring RS Plan for amounts above IRS limitations. A Homestead account has been established for each participant, owned by Central. Annual NRECA actuarial calculations create the accounting entries/footnote disclosures and provide the amount to be deposited into each participant’s account. At vesting date (age 62), Central pays the participant a lump sum (calculated by NRECA actuary) from the participant’s Homestead account. The lump sum is considered regular wages with federal and state withholding and reported on the participant’s W-2 and Central’s 990.</td>
<td></td>
</tr>
<tr>
<td>2017 Cost: $324,584 expense as calculated by NRECA actuary</td>
<td></td>
</tr>
</tbody>
</table>
## Central Benefits

### Benefits - Retirement Plans

<table>
<thead>
<tr>
<th><strong>401(k) Plan</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eligibility:</strong> All full time employees after 1-month waiting period</td>
<td></td>
</tr>
<tr>
<td><strong>Benefit:</strong> 3% contribution (creates Safe Harbor Plan, eliminating some discrimination testing) 100% match on employee contributions up to 2.3%</td>
<td></td>
</tr>
<tr>
<td><strong>2017 Central Contributions:</strong> $293,858</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Postretirement Health Insurance</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eligibility:</strong> All employees hired prior to 2009</td>
<td></td>
</tr>
</tbody>
</table>
| **Benefit:** Retiree health insurance coverage until Medicare eligibility (age 65) followed by Medicare Supplemental Insurance  
(Note: For retirees prior to 2010, Central pays 50% of spouse coverage also) |  |
| **Central has established an irrevocable trust to hold assets to pay these benefits. At 12/31/17, the balance of the trust was $5 million compared to an estimated liability of $3.8 million.** |  |
| **2017 Cost:** Negative $116,900 based on the actuarial calculation of plan liabilities |  |
## Central Benefits

### Benefits - Deferred Compensation Plan

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Eligibility</th>
<th>Benefit</th>
<th>Benefit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>457(b) Deferred Compensation Plan for Employee</strong></td>
<td>Senior Staff</td>
<td>Employee can defer compensation up to IRS limitations ($18,500)</td>
<td>No cost to Central other than Administration fees</td>
</tr>
<tr>
<td><strong>457(b) Deferred Compensation Plan for Directors</strong></td>
<td>Central’s Board of Directors</td>
<td>Director can defer the payment of per diems up to IRS limitations ($18,500)</td>
<td>No cost to Central other than Administration fees</td>
</tr>
</tbody>
</table>
## Central Benefits

### Health Insurance (NRECA Group Insurance Plan)

- **Eligibility:** All Full Time Employees
- **Benefit:** Central pays 100% of employee coverage and 50% of all additional coverage
- **2017 Cost:** $629,088

### Life Insurance (NRECA Group Insurance Plan)

- **Eligibility:** All Full Time Employees
- **Benefit:** Life insurance for employee: up to 3 times salary
  (Employee can purchase additional coverage, including spouse, paying all the additional premiums)
- **2017 Cost:** $46,564

### Spousal Life Insurance (NRECA Group Insurance Plan)

- **Eligibility:** All Full Time Employees
- **Benefit:** $10,000 life insurance on spouse
- **2017 Cost:** Included in Life Insurance above
## Central Benefits

### Benefits - Disability Insurance

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term Disability Insurance (NRECA Group Insurance Plan)</strong></td>
<td></td>
</tr>
</tbody>
</table>
Eligibility: All Full Time Employees  
Benefit: 67% of salary upon total disability after 13-week waiting period  
2017 Cost: $34,574 |
| **Short-term Disability Insurance (AFLAC)** | Employees can purchase coverage via payroll deduction  
Benefit Cost: No cost to Central |
S&P affirmed Central’s A+ rating & maintained a Negative outlook

Strengths:
- Narrow scope of business model as a pass-thru paper G&T
- Diversity of Member territory creates revenue stream security and political support
- Timing of payment stream (collect from Members prior to paying power suppliers) reduces liquidity risk
- Intra-year rate adjustments to ensure revenue requirements are collected from Members

Weaknesses:
- Costs of failed nuclear project and resulting litigation and potential legislative actions
- Fixed cost coverage ratio is 1.0x
- Margins are narrow
- Liquidity is adequate
- High off balance sheet fixed capacity payments from power supply contracts
- South Carolina’s average income levels are 12% below the national

Upside scenario:
- Courts rule that Santee Cooper is entitled to cost recovery on the failed nuclear project and Central does not pursue efforts to undercut the CA

Downside scenario:
- Courts rule that Santee Cooper cannot recover costs of nuclear project
- Litigation & political pressures leading to the elimination of rate-setting autonomy

Source: S&P Global Ratings August 21, 2018
### S&P Credit Rating

**Credit Ratings & Comparative Metrics**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Total Assets $ in millions</th>
<th>Operating Revenues $ in million</th>
<th>Peak Demand in MWs</th>
<th># of Meters Served</th>
<th>DSC Ratio</th>
<th>MFI Ratio</th>
<th>Average Cost of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA-</td>
<td>Central</td>
<td>$393</td>
<td>$1,306</td>
<td>3,853</td>
<td>775,000</td>
<td>1.10</td>
<td>1.73</td>
</tr>
<tr>
<td></td>
<td>Georgia Transmission</td>
<td>$2,651</td>
<td>$293</td>
<td>8,705</td>
<td>1,887,705</td>
<td>1.22</td>
<td>1.22</td>
</tr>
<tr>
<td></td>
<td>Old Dominion (VA)</td>
<td>$2,209</td>
<td>$753</td>
<td>2,911</td>
<td>580,000</td>
<td>1.32</td>
<td>2.13</td>
</tr>
<tr>
<td></td>
<td>East Kentucky</td>
<td>$3,825</td>
<td>$862</td>
<td>2,871</td>
<td>588,636</td>
<td>1.26</td>
<td>1.19</td>
</tr>
<tr>
<td></td>
<td>North Carolina EMC</td>
<td>$2,073</td>
<td>$993</td>
<td>3,820</td>
<td>999,205</td>
<td>1.22</td>
<td>1.38</td>
</tr>
<tr>
<td></td>
<td>Cooperative Energy (MS)</td>
<td>$1,661</td>
<td>$779</td>
<td>1,575</td>
<td>427,147</td>
<td>1.61</td>
<td>1.46</td>
</tr>
</tbody>
</table>

Source: G&T Accounting & Finance Association Annual Directory June 2018

Reporting #s are for year-end 2017
Cooperative Financial Terms & Acronyms

Margins
Patronage Capital
RUS
NRUCFC
CoBank
CEE-US
DSC Ratio
TIER Ratio
MFI Ratio
Capitalization Ratio