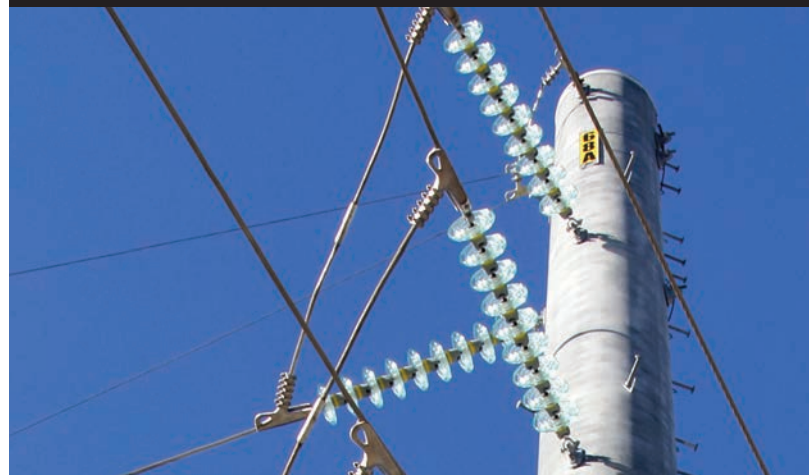




Together, we add Light

Together, with 38 of Georgia's electric membership corporations (EMCs), Georgia Transmission Corporation adds light to the lives of more than 4.1 million Georgians in nearly 70% of the state's land area.

2019 ANNUAL REPORT



GeorgiaTransmission



Williamsburg Substation

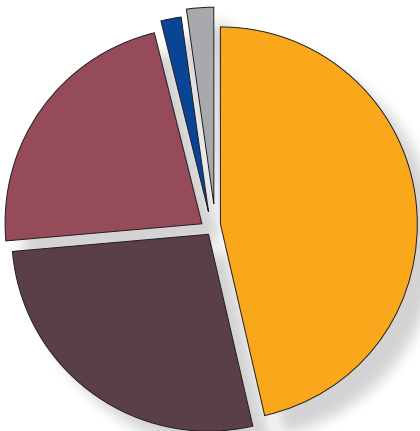
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Financial and Operating Highlights

	(dollars in thousands)
Transmission Lines	\$1,085,990
Distribution Substations	635,286
Transmission Substations	525,741
Plant Held for Future Use	40,537
General Plant	49,134



	(dollars in thousands)
Total Assets	\$2,670,390
Total Operating Revenues	330,462
Net Margin	16,365
Patronage Capital and Membership Fees	329,162

Thrill Hill Substation



A Message from Our Officers

At Georgia Transmission, we believe great things happen when, together, we add light. That's why, since our beginning, we've partnered with our 38 member systems to meet the state's energy needs. Working together, we provide the safe, affordable and reliable electricity that adds light to Georgia communities — small and large.





The 107 capital projects completed in 2019 included the construction of three substations for solar interconnection projects, such as the Giles Substation shown right.

In 2019, this meant Georgia Transmission:

- Invested \$113.5 million, completing 107 capital projects, including facilities to support commercial/ industrial customer-choice loads for our member systems;
- Received \$141 million in loan advances from the Federal Financing Bank for post-construction funding of capital projects;
- Raised \$73 million through a private placement transaction;
- Received approval from the Rural Utilities Service for \$78 million for a new construction loan;
- Continued to monitor cybersecurity developments and follow federal reliability standards;
- Recognized 15 consecutive years of our annual safety awareness program; and
- Incurred no environmental violations and no lost-time incidents for the sixth consecutive year.

Additionally, record-breaking temperatures last summer put the strength of our system on display for the millions of Georgians who depend on reliable electricity to keep cool. As the dog days of summer labored on well into the start of a new school year, Georgia Transmission and our member EMCs stood ready to deliver reliable energy, no matter the demand. In fact, on Aug. 13, Georgia Transmission set a new all-time peak of 9,459 MW, which replaced our previous all-time peak of 9,353 MW set Jan. 7, 2014.

Summertime heat was not the only thing making history for Georgia's EMCs this year. The passage of Georgia Senate Bill 2, commonly referred to as the "broadband bill," was a welcomed milestone for our member systems evaluating the possibilities of offering broadband service. The bill provides them with the statutory clarity necessary to begin engaging in this market, as they work to bridge the digital divide in Georgia.

Our fiber optic network also continued to reach new milestones. At year-end, we had successfully connected all but four of our member EMCs to our network. We are on track to have all member systems connected by the end of first quarter 2020. Connecting our member EMCs and other key locations to this state-of-the-art network





will allow us to monitor and more securely operate our equipment remotely, assess conditions and communicate with our members' facilities — all faster and more reliable than before. As we complete these operational network connections, we'll shift our focus toward exploring ways and opportunities to use our network to assist members who choose to engage in their own fiber-related projects.

We achieved these successes, in part, thanks to the hard work and dedication of our 293 associates. Their commitment to responsible stewardship, continuous improvement and innovative solutions continues to push the corporation forward, every day.

One way our associates pursued continuous improvement was by building the foundation for a "Culture of Communication." This corporate-goal supported — and employee-driven — initiative is aimed at making extra-mile communication second nature among teammates, and in the way we communicate with members, project partners and other stakeholders. In the first year of this initiative, associates participated in several learning opportunities, which covered a variety of topics — such as phone and email tips, presentation skills and meeting planning.

In the fall, our pursuit of continuous improvement progressed as the corporation hosted a North American Transmission Forum (NATF) Peer Review. For the review, 36 individuals representing 26 different utilities across the country spent the week working with associates from throughout our organization. As part of this review, participants evaluated our processes, procedures and controls for a wide variety of activities — such as human performance improvement, substation and transmission line maintenance, and protection and control.

All of these milestones, and others, helped make 2019 another incredible year at Georgia Transmission, as we continued to pursue our mission of providing the best in reliable, cost-effective service for our members. We're excited to share more with you about the year's highlights and our continued financial strength throughout the following pages. And, we're looking forward to all the great things to come in 2020, as together, we continue to add light.

Charles R. Fendley
Chairman

Steve Rawl Sr.
Vice Chairman

Otis P. Jones
Secretary-Treasurer

Together, We Solve Problems

The task of adding light isn't always easy or straightforward. It was nearly 130 years from the time of Benjamin Franklin's famous kite experiment before Thomas Edison created the first incandescent light bulb. Today, more than 130 years since that milestone helped illuminate our world, we continue to learn and innovate with each project.



In 2019, our project teams — working with our members — continued to create unique solutions to meet Georgia's growing energy needs. And, while none of the challenges faced took 130 years to solve, each of them helped better our approach to planning, building, maintaining and delivering energy.

When it came to the construction of the Wolf Creek Substation near the Atlanta airport, project team members tackled some pretty big challenges with unique solutions. While we expected there to be some rock due to the location, our boring samples did not adequately prepare us for the amount of rock we discovered. This offered another good reminder that no matter how many soil samples you take, you can never be 100% sure how much rock is under the dirt, until you start digging.



Much of the rock discovered during the Wolf Creek Substation construction project was crushed and repurposed on site.



We used a design process known as mechanically stabilized earth to create a plateau for the Wolf Creek Substation building site.



The challenge didn't deter our project team members who worked to find a solution to prepare the land for the substation. The result was the construction of a plateau with a front wall soaring to a height of more than 50 feet. Following a design approach known as mechanically stabilized earth, the plateau was engineered with long-term stability and low maintenance in mind. The team even found a useful solution for all the rock unearthed in the process — much of the rock was crushed on site and repurposed as gravel for an access road to the distribution side of the substation.

Solving problems and crafting innovative solutions are not unique to the Wolf Creek Substation project. In fact, Georgia Transmission's construction and project teams conquered numerous challenges in 2019 — including setting a project timeline record to secure a commercial load for a member. And, teams accomplished each of these tasks while also working together to complete 80 substation and transmission line improvement projects, construct 12 new substations and build more than 12 miles of new transmission lines.



2019 COMPLETED PROJECTS

- 12 New Substations
- 1 New Transmission Line Project
- 23 Transmission Line Modifications
- 57 Substation Modifications
- 10 Low-side Projects
- 4 Advance Land Purchases

107 Total Projects Completed

12.3 Miles of New Transmission Lines



Reliability Adds Light

Having reliable energy at the flip of a switch is more than just something that is nice to have, it's become an essential part of everyday life and what millions of Georgians have come to expect from our member EMCs. Ensuring that our transmission system stays healthy to meet that expectation is the responsibility of our maintenance, reliability and inspection groups. Every year, these associates perform routine tests and maintenance on equipment, replace end-of-life assets and maintain our rights of way through vegetation management activities.



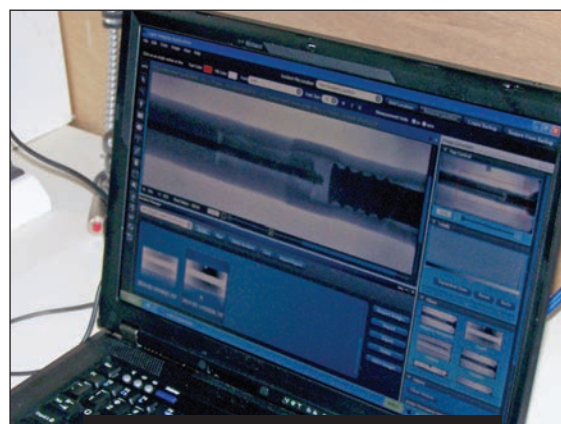


Employees in these groups also perform numerous inspections — by foot and by air — of our transmission lines and towers. In 2017, we added drones to our toolbox. This technology continues to be an effective resource for supplementing our existing inspection activities and storm damage assessment process.

Digital imaging of line splices is another aspect of our inspection program. Similar to taking an X-ray, this process allows us to more closely inspect the connections made at a line splice. Since the program's introduction more than 10 years ago, our Construction Inspection department has relied on third parties to perform this task. In 2019, Georgia Transmission brought the process in-house after determining it was now more cost-effective to purchase the equipment and have our own associates perform the inspections.

With the digital imaging device part of our toolbox, Georgia Transmission is able to make more frequent inspections during the line construction process. Before, when we had to rely on the schedules of other organizations, this often meant multiple segments of line would be built between inspection opportunities. If a problem were discovered, construction crews would then have to double back to remedy the situation. Now, the lines can be inspected in real time, before moving on to the next phase of the project.

Making sure our teams have the technology and tools they need to get the job done in a safe and responsible way is just another way we ensure reliable energy stays available at the flip of a switch.



The above series of photos shows our line splice inspection process, including an image created with our digital imaging device (shown on computer monitor).

The Financial Strength to Add Light

As a not-for-profit cooperative owned by those we serve, we're committed to being responsible stewards of the funding our members provide. In 2019 this responsible stewardship was recognized by leading credit rating institutions. In July, Standard and Poor's raised Georgia Transmission's rating outlook from "stable" to "positive," and Moody's reaffirmed our current ratings.





North Dublin Substation

Lending agencies consistently point to Georgia Transmission’s long-term, stable relationships with our member systems and high credit ratings as primary reasons for awarding us low-cost financing. During 2019, the Rural Utilities Service (RUS) approved a Federal Financing Bank (FFB) loan for \$78 million to fund Georgia Transmission’s capital project construction. In addition, we received \$141 million through three loan advances from FFB for funding project construction. In other actions, Georgia Transmission raised \$73 million through a private placement transaction. Our offering was significantly oversubscribed and resulted in Georgia Transmission locking in one of the lowest all-in coupon rates compared to other similar transactions in that period.

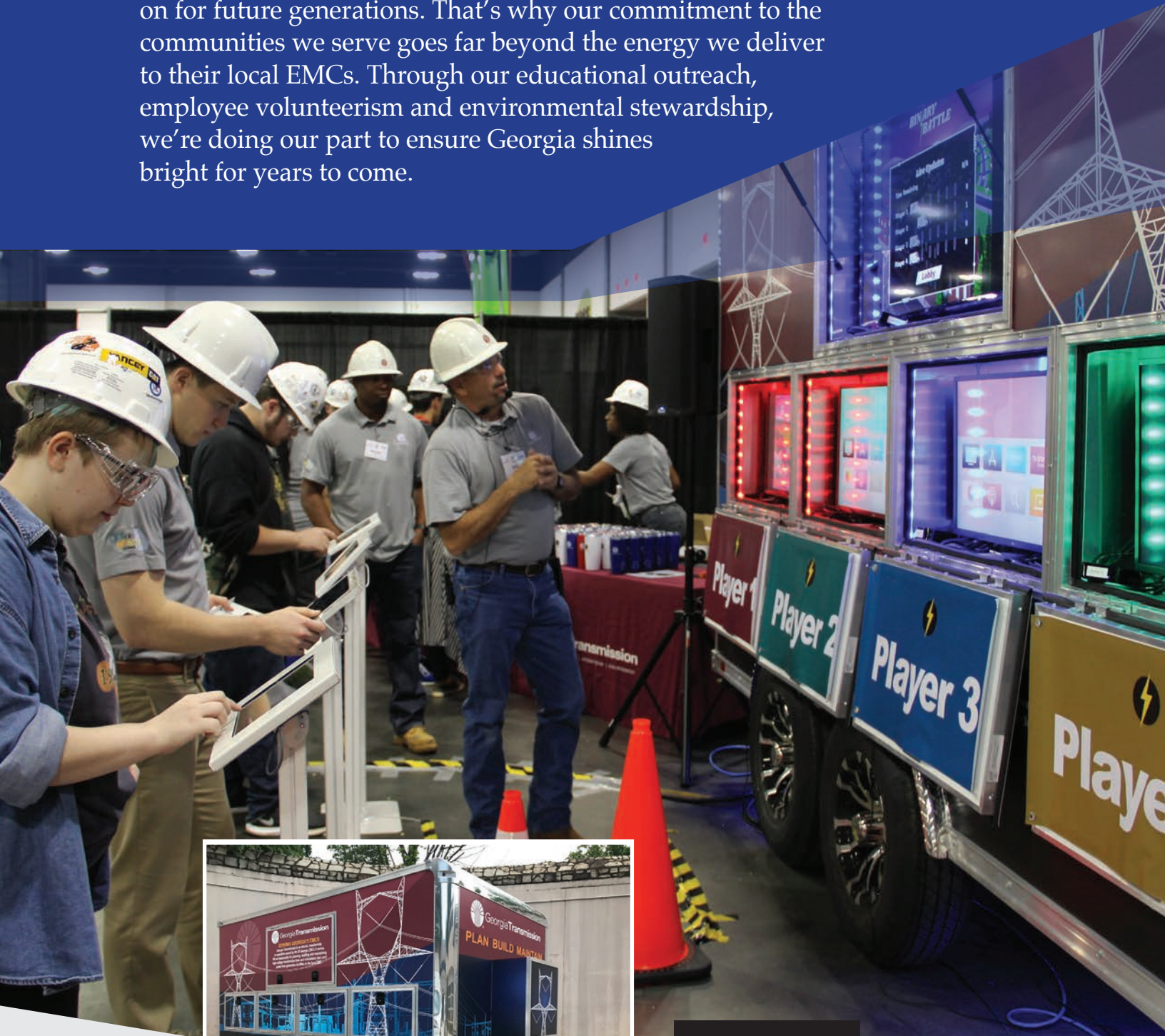
Since our inception in 1997, Georgia’s need for light has continued to grow. Our members have seen this growth firsthand, with some of their memberships tripling in size during this time. We’ve been right by their side, growing our infrastructure — from nearly \$760 million in assets in 1997 to nearly \$3 billion today — to keep up with this demand. Together, we’ve added light for the millions of new friends we’ve welcomed to our state. And, with our \$136 million capital budget to fund more than 70 projects in 2020, together, we’ll continue to add light for those still to come.

Georgia Transmission Corporation Credit Ratings			
	S&P	Moody’s	Fitch
Long-term Rating	AA-	A2	AA-
Short-term Rating (commercial)	A1+	P1	F1+



Beyond Energy: Adding Light for Tomorrow

We know it takes more than just electricity to keep the lights on for future generations. That's why our commitment to the communities we serve goes far beyond the energy we deliver to their local EMCs. Through our educational outreach, employee volunteerism and environmental stewardship, we're doing our part to ensure Georgia shines bright for years to come.



Students compete in a game of Binary Battle.

In 2019, as part of our educational outreach, we introduced a new video game resource called Binary Battle. The game helps students understand the importance of a binary system by turning lights on, if executed correctly, or causing a power outage, if done incorrectly. We built the game on a trailer to allow our associates to take it to career days, science, technology, engineering and math (STEM) programs, and EMC events throughout the state. Students play the game on iPads mounted on stands and bystanders watch the competition on monitors mounted on the trailer.



This year also marked five years of our STEM education partnership with Tucker Middle School — a partnership that helped the DeKalb County school be the first middle school in Georgia to earn its STEM certification. Since 2018, we've also helped the school host an annual STEM career day, during which area companies help inspire the next generation to pursue STEM-related studies.



In addition to our educational outreach, our associates gave back to the community by once again volunteering at a Habitat for Humanity project. This year, we supported an "aging in place" renovation for an area resident. Associates also invested in our community by contributing time and resources to the United Way, The Salvation Army, Boys & Girls Clubs of America and American Red Cross.



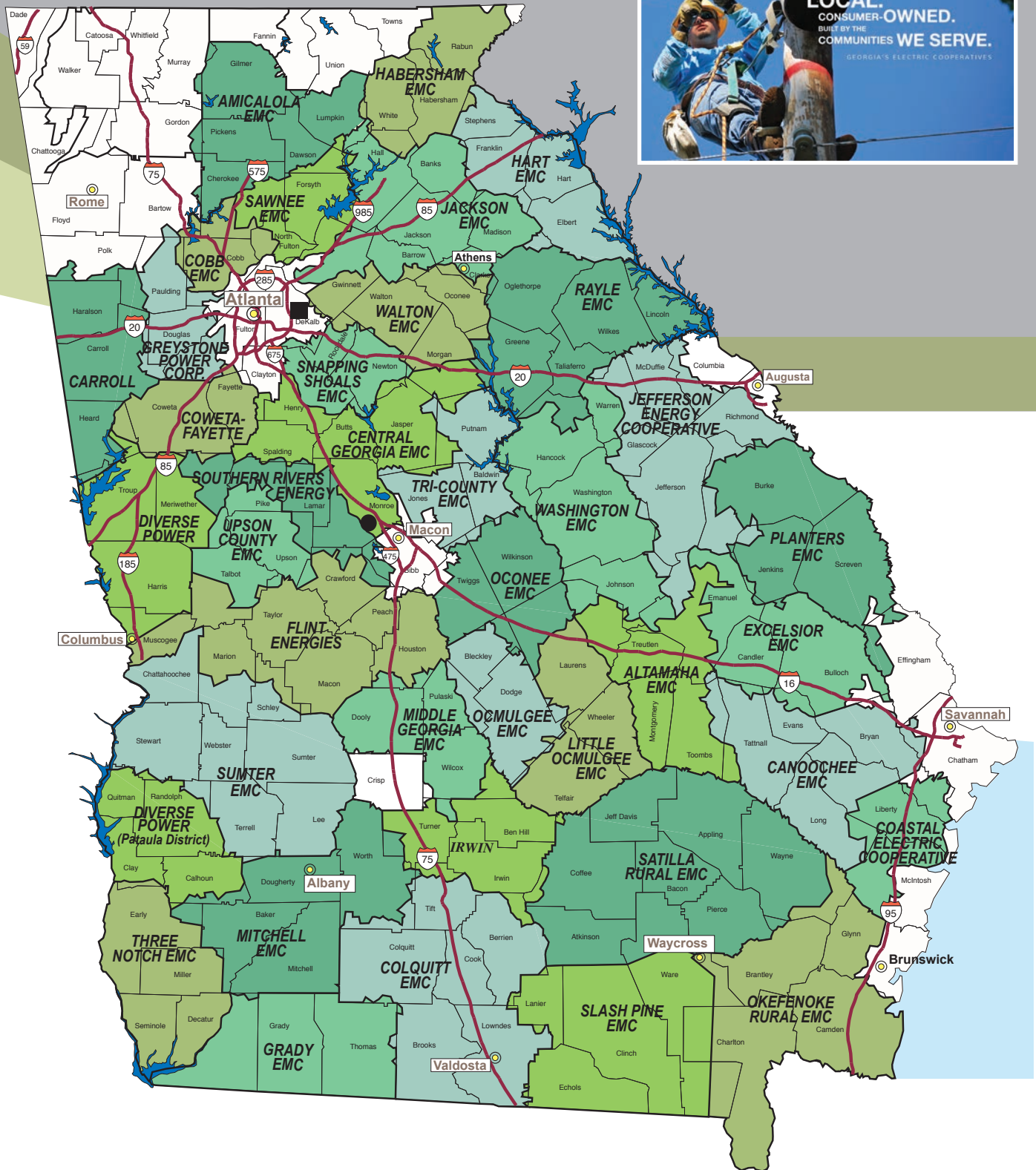
Our environmental stewardship initiatives also continued to flourish in 2019. In the summer, we added two electric vehicle (EV) chargers at the Electric Cooperative Training Center campus in Smarr, helping make all of our facilities more EV friendly. Additionally, we carried on with our investments and research for wildlife habitat opportunities in our rights of way — such as our support of the Georgia Department of Natural Resources' butterfly feed plot program.



Member Systems



LOCAL.
CONSUMER-OWNED.
BUILT BY THE
COMMUNITIES WE SERVE.
GEORGIA'S ELECTRIC COOPERATIVES



Oglethorpe Power Corporation is a Georgia Transmission member and power supplier that serves 38 member systems.

■ Georgia EMC, Georgia System Operations Corp., Georgia Transmission Corp. and Oglethorpe Power Corp., Tucker, Ga.

● Electric Cooperative Training Center, Smarr, Ga.

GTC Board of Directors



Charles R. Fendley
Chairman
Member Director



Steve Rawl Sr.
Vice Chairman
Member Director



Otis P. Jones
Secretary-Treasurer
Member Director



Raphael Brumbeloe
Member Director



David Dunaway
Member Director



Michael Goodroe
Manager Director



Ronnie Lee
Manager Director



Bobby Lewis
Member Director



Brad Thomas
Manager Director



Jill Tietjen
Outside Director



Tony Tucker
Manager Director



Jack Waters
Member Director



Everett Williams
Member Director

GTC CEO and Executive Staff



Jerry Donovan
President and
Chief Executive Officer



Barbara Hampton
Sr. Vice President
and Chief Financial
Officer



Keith Daniel
Sr. Vice President
Transmission Policy



Angie Farsee
Vice President
Human Resources



John Raese
Vice President
Project Services



Angela Sheffield
Vice President
General Auditor/
Chief Regulatory
Compliance Officer



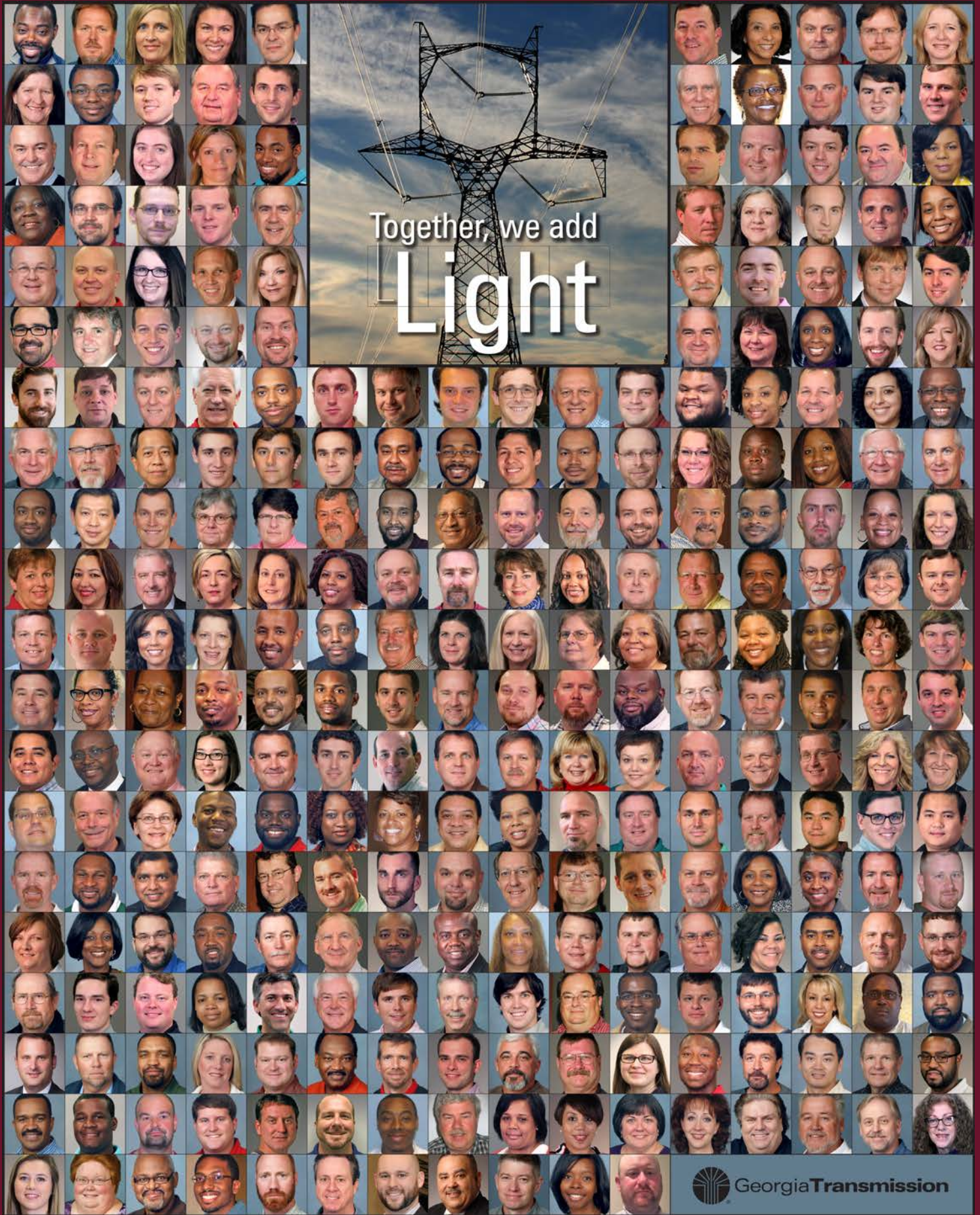
Joe Sowell
Vice President
System Planning



David Van Winkle
Vice President
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Maintenance



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SELECTED FINANCIAL DATA

This selected financial data should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes thereto included elsewhere in this annual report. The selected financial data as of the end of and for each of the fiscal years ended December 31, 2019, 2018, and 2017, have been derived from our audited financial statements.

STATEMENTS OF REVENUES AND EXPENSES DATA

(dollars in thousands)

	2019	2018	2017
Operating revenues:			
Network services revenues	\$ 288,890	\$ 270,695	\$ 259,953
Other transmission revenues	41,572	35,051	32,819
Total operating revenues	330,462	305,746	292,772
Operating expenses:			
Operation and maintenance	83,575	78,044	76,348
Parity expense, net	19,995	16,462	19,273
Control center services	24,500	23,241	23,236
Administrative and general	15,924	15,281	15,961
Depreciation and amortization	90,211	86,474	79,864
Taxes	733	745	794
Total operating expenses	234,938	220,247	215,476
Operating margin	95,524	85,499	77,296
Total other income, net	8,622	16,809	14,877
Total interest charges, net	87,781	87,141	77,799
Net margin	\$ 16,365	\$ 15,167	\$ 14,374

BALANCE SHEET DATA

Electric plant, net:			
In service	\$ 2,336,688	\$ 2,322,777	\$2,140,778
Plant acquisition adjustments, at amortized cost	49,886	52,118	54,349
Construction work in progress	54,217	41,754	40,870
Total electric plant, net	\$ 2,440,791	\$ 2,416,649	\$2,235,997
Total assets	\$ 2,670,390	\$ 2,789,792	\$2,650,850
Capitalization:			
Long-term debt, excluding amounts due within one year	\$ 2,078,439	\$ 2,153,607	\$1,909,469
Patronage capital and membership fees	329,162	312,797	297,630
Total capitalization	\$ 2,407,601	\$ 2,466,404	\$2,207,099

OTHER DATA

Net cash provided by operating activities	\$ 119,845	\$ 100,418	\$ 101,071
Margins-for-interest ratio⁽¹⁾	1.21	1.21	1.22
Equity ratio⁽²⁾	13.7%	12.7%	13.5%
Property additions⁽³⁾	\$ 114,164	\$ 266,884	\$ 218,383

(1) Our Indenture obligates us to establish and collect rates that, subject to any necessary regulatory approvals, are reasonably expected, together with other revenues, to yield a margins-for-interest (MFI) ratio equal to at least 1.10 for each fiscal year. The MFI ratio is the quotient of our MFI over our interest charges as calculated under the Indenture. See "Margins and Patronage Capital" and "Rates and Regulation" for further discussion of the MFI ratio.

(2) Our equity ratio is calculated by dividing patronage capital and membership fees by total capitalization.

(3) Property additions consist of assets obtained through the construction, acquisition, expansion and upgrading of facilities and systems.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements regarding matters that could have an impact on our business, financial condition and future operations. These include statements regarding: (i) anticipated capital expenditures, (ii) anticipated trends in our business and the regulation of the electric utility industry, (iii) anticipated availability of financing sources and (iv) other statements using terms such as "may," "will," "expects," "anticipates," "believes," "intends," "projects," "plans" or similar terms. These statements, which are based on our expectations and estimates, are not guarantees of future performance and are subject to risks, uncertainties and other factors that could cause actual events or results to differ materially from those expressed in the forward-looking statements. These risks, uncertainties, and other factors include, among others:

- new federal requirements related to cybersecurity, reliability, and transmission access;
- risks related to the economy and our ability to access the debt capital markets and other sources of liquidity;
- changes in environmental laws and policies;
- changes in the demand for transmission services;
- the weather and other natural phenomena, including the economic, operational, and other effects of storms; and
- other risks described under "Risk Factors."

Any forward-looking statement is based on assumptions or information known or believed to be accurate only as of the date of this annual report. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date of this annual report, even if new information becomes available or other events occur in the future.

CORPORATE HISTORY AND INFORMATION

Georgia Transmission Corporation (Georgia Transmission) was formed in 1996 pursuant to a corporate restructuring of Oglethorpe Power Corporation (Oglethorpe) that occurred in 1997. The corporate restructuring divided Oglethorpe into three separate operating companies with Oglethorpe retaining the wholesale generation business. We purchased Oglethorpe's transmission assets and operate the transmission business previously owned and operated by Oglethorpe. Georgia System Operations Corporation (GSOC), which was also formed in connection with the corporate restructuring, acquired the system operations business previously owned by Oglethorpe and currently provides system operations services, including control center services and administrative support services to Georgia Transmission and Oglethorpe.

We are a not-for-profit cooperative transmission services provider headquartered in Tucker, Georgia. We provide transmission services to our members in the State of Georgia. Our members consist of 38 of the 41 electric distribution cooperatives in Georgia (the Member Systems) as well as Oglethorpe. Oglethorpe provides wholesale electric power to the Member Systems through our electric power transmission facilities.

Our Member Systems serve approximately 2 million electric consumers (meters) representing approximately 4.2 million people. Our Member Systems serve a region covering approximately 40,000 square miles, which is approximately 70% of the land area in the State of Georgia, encompassing 152 of the state's 159 counties, a small portion of the northern end of the State of Florida, and a small portion of the eastern side of the State of Alabama. In 2018, the most recent year for which we have consolidated data, sales by the Member Systems amounted to approximately 39 million megawatt hours (MWh), with approximately 67% to residential consumers, 30% to commercial and industrial consumers, and 3% to other consumers. The Member Systems are the principal suppliers for the power needs of rural Georgia. While our Member Systems do not serve any major cities, portions of their service territories are in close proximity to urban areas and have experienced varying degrees of growth in previous years due to the expansion of urban areas, including metropolitan Atlanta, into suburban areas and the growth of suburban areas into neighboring rural areas. From 2016 through 2018, our Member Systems experienced an average annual compound growth rate of 1.4% in number of consumers while MWh sales increased by 1.1% and electric revenues by 3.1%.

Currently, we have a Member Transmission Service Agreement (MTSA) with each Member System through December 31, 2060, subject to certain options that allow a Member System to reduce service if it so chooses. Under the MTSA, each Member System is jointly and severally liable for all of the obligations relating to our transmission business, including the payment of principal and interest on our indebtedness, and is required to pay us rates for the provision of transmission services in accordance with our Transmission Service Tariff (the Tariff). In addition, the MTSAs contain express covenants requiring the Member Systems to set and collect retail rates sufficient to meet their respective obligations under the MTSAs.

We coordinate transmission service planning and operational issues in Georgia through the Integrated Transmission System Agreements (ITSAs), which are bilateral contracts executed between Georgia Power Company (Georgia Power) and three other transmission owners in the state, including Georgia Transmission. Under the ITSA, we incur parity expense to the extent our percentage use of the Integrated Transmission System (ITS) exceeds our percentage investment in the assets that are part of the ITS. We receive parity revenue to the extent our percentage use of the ITS is less than our percentage investment in ITS assets. The owners of the ITS (the ITS Owners) are Georgia Transmission, Georgia Power, the Municipal Electric Authority of Georgia (MEAG Power), and the City of Dalton, Georgia (Dalton Utilities). Currently, we are planning new transmission projects to increase our percentage investment in ITS assets and reduce our projected parity expense in future periods; however, there can be no assurance that we will be able to reduce our parity expense in future periods due to, among other things, the increase by other ITS Owners of their investment in the ITS assets.

Our transmission assets consist primarily of the transmission lines and substations located throughout Georgia comprising our share of the ITS. As of December 31, 2019, we owned 3,470 miles of transmission lines and 752 substations. In addition to the assets we own, we have access to jointly use the entire system, including the assets of the other ITS Owners, pursuant to the ITSA. The assets we own are broken down into the following categories:

Transmission Lines		Substations	
46 kV Lines	247 miles	Transmission Substations	72
115 kV Lines	1,387 miles	Distribution Substations	606
230 kV Lines	1,301 miles	Combined Transmission & Distribution Substations	74
500 kV Lines	535 miles		
Total Lines	3,470 miles	Total Substations	752

As of December 31, 2019, we had total assets of approximately \$2.7 billion and total long-term debt, including amounts due within one year, of approximately \$2.1 billion. We have 293 approved full-time employees.

EXECUTIVE OVERVIEW

For most of the past several years, we have seen a relative flattening of Georgia's load growth due to such factors as the effects of milder seasonal temperatures, technological advances in today's energy efficient devices, general economic fluctuations, the addition of small solar facilities, and the use of demand-side management by our Member Systems. However, in 2019, we recorded a historically high peak load caused by a hot summer. Our current forecasts suggest that the 2019 peak is an outlier and the trend of only slight percentage increases in load growth is likely for the next few years. Still, we continue to construct new transmission facilities and modify existing ones to meet our Member Systems' needs and to achieve our system reliability objectives.

Since 2000, we have incurred parity expense primarily because the load in the Member Systems' territories has been either growing at a faster rate or declining at a slower rate than the load of other ITS Owners. We expect this trend to continue. Also, current and projected off-system sales, for us as well as other ITS Owners, are considerably less now than in previous years, which negatively affects our parity position. Therefore, as part of a long-term plan to achieve investment parity in the ITS, we may potentially purchase assets from other ITS Owners, as is permitted under both the ITSA and our parity management agreement/procedure with Georgia Power.

We have agreed with Georgia Power to not terminate the ITSA before December 31, 2027. A five-year prior written notice is required to terminate the agreement. Beyond 2027, the ITSA remains in effect until terminated using a five-year notice. We plan to begin exploring options in 2020 for continuing a joint transmission arrangement in Georgia.

Having an appropriately sized and properly credentialed staff is critical for us. Accordingly, we have adopted a staff development focus to encourage mentoring, cross-training and new skills development within our organization. We maintain extensive bidders lists of qualified contractors for our capital projects and maintenance activities. However, both improved market conditions and aging infrastructure across the United States are having an adverse effect on the availability of qualified crews.

The primary long-term financing source for our capital expenditures is loans from the Federal Financing Bank (FFB), guaranteed and administered by the Rural Utilities Service (RUS). The continued availability of RUS-guaranteed loan funds is subject to uncertainty because of congressional budgetary pressures and competition for RUS funds from other borrowers. We, therefore, cannot predict the future availability or amount of RUS-guaranteed loans. However, we intend to continue to submit annual loan applications to RUS for the long-term financing of our capital projects for as long as the loan program is available and it is economically feasible for us to borrow such funds. In addition, we have long-term and intermediate-term financing in place provided by the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). Future financings may include loans from FFB, CFC, CoBank and other banks, as well as public and private debt offerings.

As an RUS Borrower, we have participated in the RUS Cushion of Credit (COC) program since 2008. When the Agriculture Improvement Act of 2018 became law, several provisions pertaining to RUS borrower participation in the COC program, including new prepayment and refinancing options, went into effect. Under the law, RUS no longer accepts new deposits into COC accounts. Also, a different interest rate schedule was adopted for existing deposits: 5% per annum through September 2020, 4% through September 2021, and then from October 2021 onward, deposit earnings will be tied to the applicable 1-year Treasury Rate. Additionally, the law allows RUS borrowers to use their existing COC deposits to make prepayments on their FFB loans made or guaranteed under the Rural Electrification Act of 1936 without incurring prepayment penalties. In 2019, we adopted a strategy to prepay certain outstanding FFB loan debt using our COC deposits. (See "Liquidity and Sources of Capital" for a discussion of our 2019 activity related to the COC program, including an FFB debt prepayment we made of approximately \$73 million).

We continue to maintain a strong liquidity position comprised of a diversified mix of cash and short-term instruments, and \$585 million in borrowing capacity through our credit facilities and commercial paper program, of which \$493 million was available at December 31, 2019. We will continue to monitor economic conditions and take appropriate actions to ensure ongoing access to liquidity as well as to short-term and long-term funding opportunities for our capital requirements.

As the electric power industry enters its 13th year under mandatory reliability standards, we continue to demonstrate compliance with applicable requirements. The body of standards continues to evolve as new requirements are added to address emerging risks to the bulk power system and existing standards are modified to improve the quality and content of the requirements. We are focused on being prepared for any new or revised standards applicable to us. As such, we continue to participate in standards drafting teams, working groups and other initiatives to ensure any new or revised requirements tangibly improve reliability in a cost-effective manner.

Cyber and physical security are top priorities for Georgia Transmission. We focus on all aspects of security, including technology, process, and people. We provide periodic cybersecurity training to our entire staff. We regularly exercise and refine our processes to identify, protect, detect, respond, and recover from security events. We continue to make infrastructure and technology upgrades to enhance protection of assets from security threats. As we continue to be active in ongoing efforts to improve our own security posture, we participate in industry activities aimed at improving the security and reliability of the industry as a whole. We receive information on security incidents from the North American Electric Reliability Corporation (NERC) Electricity Information Sharing and Analysis Center (E-ISAC), the Electricity Subsector Coordinating Council (ESCC), the FBI, and the Department of Homeland Security, and proactively make improvements to our systems based on lessons learned from such events on other systems. Moreover, we are focused on building a transmission system that is inherently resilient, capable of adapting and rerouting electricity when facing any threat or disruption, whether natural or man-made.

We continue to monitor energy legislative efforts in Congress and the regulatory efforts of the Federal Energy Regulatory Commission (FERC). With Order No. 1000, FERC required public utility transmission providers to implement changes in regional transmission planning processes to address new planning and cost allocation requirements. Utilities in the Southeast have implemented these changes. We support a cost allocation approach that requires grid improvements be paid for by only those customers who directly benefit from them. We also believe a regional approach to the grid, such as the ITS, and local decision-making are more effective toward meeting the needs of our Member Systems.

Generation emission regulations contribute to transmission project planning uncertainty. While emissions proposals and rules by the Environmental Protection Agency (EPA) generally do not directly address transmission providers, such requirements and proposals could affect generation resource retirements and the construction of new generating resources, which in turn may lead to transmission project planning uncertainty. Our efforts to plan and build much-needed transmission projects within critical time frames are influenced by the generation resource decisions of our Member Systems as well as those of other parties that use the ITS. Under the Trump Administration, we have seen industry changes with regard to a number of environmental and generation emission regulations. Such changes include the replacement of the Clean Power Plan with the Affordable Clean Energy (ACE) Rule, and fewer regulatory requirements and restrictions from the EPA and other federal agencies. Nevertheless, we will continue to monitor existing and proposed environmental rulemaking processes and their effects in order to provide input to and better inform our planning and construction processes.

We are implementing a fiber-based telecommunications network that ties our Member Systems and our facilities together. We are also continuing to investigate other telecommunications opportunities and have identified situations where there is value to the Member Systems in owning telecommunication assets versus the previous practice of leasing lines from service providers. We believe such enhanced telecommunications assets will benefit the Member Systems by providing larger bandwidth for more complex operational applications and improving connectivity for business processes.

The absence of adequate high-speed broadband services in most of rural Georgia directly affects our Member Systems and the quality of life of the communities they serve in terms of education, business, healthcare, and general economic development. In 2019, Governor Kemp signed legislation providing legal clarity allowing electric cooperatives the ability to offer high-speed broadband to Georgia's rural areas. Currently, several of our Member Systems are studying and actively seeking to provide some level of broadband services to rural Georgia, either directly or through partnerships with other providers.

SUMMARY OF COOPERATIVE OPERATIONS

Tax Status

We are a 501(c)(12) cooperative and are exempt from federal and state income taxes, provided revenues from our Member Systems and Oglethorpe constitute 85% or more of our total revenues. For all years since Georgia Transmission began operation, we have met this requirement. Currently, we have no reason to believe we will not meet this requirement in future years.

Indenture

The Indenture constitutes a first lien on substantially all of our tangible and some of our intangible property and secures, equally and ratably, all of our indebtedness issued under the Indenture. All of our outstanding long-term debt was issued under the Indenture, as of December 31, 2019.

Margins and Patronage Capital

We operate on a not-for-profit basis and, accordingly, seek only to generate revenues sufficient to recover our cost of service and to generate margins sufficient to establish reasonable reserves and meet certain financial coverage requirements set forth in our Indenture. Revenues in excess of current period costs in any year are designated as net margin in our statements of revenues and expenses. Retained net margins are designated on our balance sheets as patronage capital, of which \$142 million is related to land recovery. Patronage capital is allocated to each of our Member Systems and Oglethorpe on the basis of certain transmission service purchases from us.

In connection with the corporate restructuring of Oglethorpe in 1997, Oglethorpe made a \$49 million special patronage capital distribution to the Member Systems, which they then used to contribute equity and provide initial working capital for us. Currently, our equity consists of our patronage capital and membership fees. Patronage capital constitutes our principal equity. As of December 31, 2019, we had \$329 million in patronage capital and membership fees. Our equity ratio (patronage capital and membership fees divided by total capitalization) was 13.7% at December 31, 2019, up from 12.7% at December 31, 2018.

Any distributions of patronage capital are subject to the discretion of our Board of Directors and our Indenture requirements. The Indenture prohibits us from making any distribution, payment, or retirement of patronage capital to our Member Systems and Oglethorpe if we are in default under the Indenture. Otherwise, we are permitted to make distributions to our Member Systems and Oglethorpe if, after the distribution: (1)(a) our aggregate margins and equity as of the end of the most recent fiscal quarter

would be equal to, or greater than, 20% of our total long-term debt and equity, and (b) the aggregate amount of all distributions after the date on which our aggregate margins and equity first reached 20% of total long-term debt and equity does not exceed 35% of our aggregate net margins earned after that date; or (2) our aggregate margins and equity as of the end of the most recent fiscal quarter would be equal to, or greater than, 30% of our total long-term debt and equity. If so, then 100% of the current year margin, upon board approval, could be returned to the Member Systems.

Rates and Regulation

We have entered into an MTSA with each of the Member Systems under which we provide transmission services. (See "Corporate History and Information" for further discussion.) We have also entered into a transmission service agreement with Oglethorpe to provide transmission service to Oglethorpe's headquarters and certain generating facilities. This agreement is substantially similar to the other MTSA's except Oglethorpe, unlike the Member Systems, is not obligated to cover any revenue shortfall resulting from a payment default by a Member System or any other transmission customer. Oglethorpe also makes point-to-point purchases from Georgia Transmission under this arrangement.

All of our Member Systems, Oglethorpe, and any other transmission customers are required to pay us for transmission service furnished under a transmission service agreement in accordance with the rate formulas established and reflected in the Tariff. The Tariff includes formulary rates for network and point-to-point service, with minor differences, applicable to the Member Systems, Oglethorpe, and other customers. The rate formulas set forth in the Tariff are intended to recover all of our costs and expenses paid or incurred. The rate formulas expressly include, in the description of costs to be recovered, all principal and interest on our indebtedness.

We review our annual budget and rates at such intervals as we deem appropriate, but we are required to do so at least once every year. We are required to update our network service rates as necessary so the revenues derived from such rates, together with our revenues from all other sources, will be sufficient to pay operating costs, including the purchase of land and land rights, and the payment of principal and interest on all indebtedness, and to provide for the establishment and maintenance of reasonable reserves as required under the Indenture. If necessary, we may modify the charges to our Member Systems during the year through an adjustment to our annual budget.

Substantially all of our network services revenue requirements are based on fixed costs and, thus, these revenues do not vary during the year based on use. We determine the network services revenue requirements by subtracting point-to-point service revenues and other revenues from total revenue requirements. Network services revenue requirements are allocated to the Member Systems and Oglethorpe annually based primarily on each network customer's use during the prior year's peaks, with a smaller component based on distribution investment.

Under the Indenture, we are required, subject to any necessary regulatory approval, to establish rates and collect network services revenues that are reasonably expected, together with other revenues, to yield a margins-for-interest (MFI) ratio for each fiscal year equal to at least 1.10. The MFI ratio is the ratio of MFI to our total interest charges (as defined below) for a given period. The Indenture defines MFI as the sum of:

- our net margins (including our revenues subject to refund at a later date but excluding provisions for (i) non-recurring charges to income, including the non-recoverability of assets or expenses, except to the extent we determine to recover such charges in rates, and (ii) refunds of revenues collected or accrued subject to refund); plus
- interest charges, whether capitalized or expensed, on all indebtedness secured under the Indenture or by a lien equal to or prior to the lien of the Indenture, including amortization of debt discount and expense or premium; plus
- any amount included in net margins for accruals for federal or state income taxes imposed on income after deduction of interest expense.

The network service rate formula also includes a prior period adjustment mechanism designed to ensure we achieve the minimum 1.10 MFI ratio. Amounts, if any, by which we fail to achieve a minimum 1.10 MFI ratio would be accrued as of December 31 of the applicable year and collected from the Member Systems and Oglethorpe during the period April through December of the following year. Amounts within a range from a 1.10 MFI ratio to a 1.20 MFI ratio may be retained as patronage capital, subject to approval by the Board of Directors. Amounts, if any, by which we exceed the maximum 1.20 MFI ratio, after excluding amounts for land recovery, would be charged against revenues as of December 31 of the applicable year and offset against amounts owed by the Member Systems and Oglethorpe during the period April through December of the following year. The rate formula is intended to provide for the collection of revenues that, together with revenues from all other sources, are equal to all costs and expenses we record, plus amounts necessary to achieve at least the minimum 1.10 MFI ratio.

We achieved an MFI ratio, including land recovery, of 1.21 in 2019, 1.21 in 2018, and 1.22 in 2017. Because land and land rights are not depreciable items, the land recovery component in our rate formula allows us to collect costs related to land purchases over a certain recovery period. This recovery period has been periodically adjusted to better match the lives of the associated assets. Our current depreciation rates for transmission and distribution facilities support average lives of approximately 40 years. In years prior to 2016, we used 35 years or less in our rate formula. Additional revenues associated with land recovery have resulted in, and are expected to continue to result in, an MFI ratio in excess of 1.10.

Under the Indenture and related loan contract with RUS, changes to the rate formula and adjustments to our rates to reflect changes in our budgets are not subject to RUS approval, but RUS approval or a notice to RUS with the opportunity for RUS to object may apply under certain circumstances, such as a reduction in rates in a fiscal year following a fiscal year in which we have failed to meet the minimum 1.10 MFI ratio set forth in the Indenture. Our rates are approved by our Board of Directors and not subject to approval by any other federal or state agency or authority, including FERC and the Georgia Public Service Commission.

Composition of the Board of Directors

Our Board of Directors consists of 13 directors: eight Member Directors, four Manager Directors and one independent Outside Director. Each Member Director must be a director of a Member System. One Member Director must come from each of five Scheduling Member Groups. Generally, the Scheduling Member Groups consist of certain Member Systems that have chosen to partner together in transactions for their future generation supply. Three Member Directors serve as Member At-Large Directors. Each Manager Director must be a general manager of a Member System. The Manager Directors also represent different Scheduling Member Groups. The Outside Director may not be a director, officer, or employee of Oglethorpe, GSOC, or any Member System. Our bylaws provide for staggering the terms of the directors by dividing the number of directors into three groups. Directors are elected for a term of three years.

ACCOUNTING POLICIES

Basis of Accounting

We follow accounting principles generally accepted in the United States of America and the practices prescribed in the FERC Uniform System of Accounts as modified and adopted by RUS.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported.

We have determined the accounting policy below is critical to understanding and evaluating Georgia Transmission's financial condition and results of operations, and requires assumptions or estimates about matters that were uncertain at the time of the preparation of our financial statements. Actual results could differ from those estimates. Changes in our estimates and assumptions could materially impact our results of operations and financial condition.

Regulatory Assets and Liabilities

We are subject to the provisions of authoritative guidance regarding Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent certain costs we expect to recover from the Member Systems and Oglethorpe in the future through the rate-making process. Regulatory liabilities represent probable future revenues associated with amounts that are to be credited to the Member Systems and Oglethorpe through the rate-making process. At December 31, 2019, we had regulatory assets and regulatory liabilities totaling \$40.2 million and \$2.6 million, respectively. (See Note 1(k) in "Notes to Financial Statements" for further discussion.) We do not foresee any event related to competition or other factors that will make it improbable for us to recover these costs from the Member Systems and Oglethorpe through rates under the MTSAs.

Other Significant Policies

Our other significant policies and estimates include those related to depreciation and parity. (See Note 1(e) in "Notes to Financial Statements" for a discussion of our accounting for depreciation expense and Note 1(l) in "Notes to Financial Statements" for a discussion of our accounting for parity under the ITSA.)

RESULTS OF OPERATIONS

Results for the Years Ended December 31, 2019, 2018, and 2017

Operating Revenues

We collect revenues for network services from the Member Systems and Oglethorpe pursuant to the transmission agreements discussed under "Corporate History and Information" and "Rates and Regulation." Such revenues are in the form of fixed payments based on our expected net costs and the net margins required under the Indenture. Network services revenues were 6.7% higher in 2019 compared to 2018. This change was due in part to increased operation and maintenance expenses, parity expense and depreciation expense offset by additional transmission rental income and a decrease in non-operating income. During 2018, network services revenues increased 4.1% compared to 2017 due in part to increased interest, depreciation, and operation and maintenance expenses.

Members with contributions that are greater than or equal to 10% of our total operating revenue as well as their contribution percentages for the last three years are listed in the table on the right. Revenues from non-members accounted for approximately 1.0% of our total operating revenues for all years: 2019, 2018, and 2017.

Contribution to Total Operating Revenue	2019	2018	2017
Jackson EMC	12.0%	11.8%	11.8%
Oglethorpe	11.5%	10.6%	10.3%
Cobb EMC*	7.4%	10.0%	10.3%

*Cobb EMC's contribution to Total Operating Revenue was either greater than or equal to 10% in 2018 and 2017. In 2019, there was a shift in costs among the Member Systems caused by the effects of unusual winter peaks on our normally summer-peaking system.

Other transmission revenues primarily include transmission rental revenues. Transmission rental revenues consist of revenues from Oglethorpe and third parties for point-to-point transmission service. During 2019, other transmission revenues increased 18.6% compared to 2018 primarily due to higher point-to-point transmission rates. During 2018, other transmission revenues increased by 6.8% compared to 2017 partially due to higher point-to-point transmission rates as well as an increase in reimbursements associated with storm-related costs.

Operating Expenses

In 2019, operation and maintenance expenses increased by 7.1% compared to 2018 due to higher costs associated with routine operation and maintenance activities and increased property taxes. In 2018, operation and maintenance expenses increased slightly compared to 2017: up only 2.2%.

Net parity expenses increased by 21.5% in 2019 compared to 2018 primarily due to lower investment additions during the year offset by expected true-ups for prior years. In 2018, net parity expenses decreased by 14.6% primarily due to investment additions during the year offset by actual and expected true-ups for prior years.

The expenses for control center services provided by GSOC increased by 5.4% in 2019 compared to 2018. This increase was due primarily to higher associate-related expenses as well as increases in depreciation and equipment. In 2018, expenses for control center services provided by GSOC remained flat compared to 2017.

In 2019, administrative and general expenses increased slightly compared to 2018: up 4.2%. In 2018, administrative and general expenses decreased slightly compared to 2017: down 4.3%.

In 2019, depreciation and amortization expenses increased by 4.3% compared to 2018. This increase was due to additions to plant that resulted in a larger depreciable fixed asset base. Depreciation and amortization expenses increased by 8.3% in 2018 compared to 2017 due to similar factors.

Other Income, Net

Investment income during 2019 decreased by 28.6% compared to 2018. This decrease was caused by lower average RUS COC balances. In 2018, investment income increased 8.0% compared to 2017 due to higher average COC balances and investment rates.

In 2019, allowance for equity funds used during construction was 21.9% lower compared to 2018. This decrease was caused by lower average Construction Work in Progress (CWIP) balances. In 2018, allowance for equity funds used during construction was 22.7% lower for the same reason.

Other, net decreased by 122.8% in 2019 compared to 2018 due primarily to writedowns of costs related to diesel generators at two of our substations as well as an increase in cancelled projects. Other, net increased 40.5% in 2018 compared to 2017 due to an increase in third-party rental income of transmission assets as well as increased patronage capital from third parties.

Interest Charges, Net

During 2019, interest charges on long-term debt were relatively flat compared to 2018 interest charges. During 2018, interest charges on long-term debt were 10.0% higher than in 2017 due to increased FFB loan borrowings related to project construction and asset acquisition, including the Thomson-Vogtle transmission line purchase.

Other interest charges, which consist primarily of interest on short-term borrowings, were 5.2% higher in 2019 compared to 2018 due to higher commercial paper rates and fees. Other interest charges were 49.0% higher in 2018 compared to 2017 due to higher commercial paper rates and higher average commercial paper balances.

In 2019, allowance for debt funds used during construction was 20.2% lower than in 2018 primarily due to lower average CWIP balances. In 2018, allowance for debt funds used in construction was 24.4% lower than in 2017 for largely the same reason.

In 2019, amortization of debt expense, net slightly decreased compared to 2018. Amortization of debt expense, net was 17.9% lower in 2018 compared to 2017, primarily due to the full amortization of various prepayment penalties.

Net Margin

As discussed under "Rates and Regulation," our rates are designed to provide a net margin that is adequate to meet the financial requirements of the Indenture. Generally, the Indenture contains a net margin requirement that is based on 10% of interest expenses on secured long-term debt plus an amount to recover the principal and interest payments on long-term debt related to the purchase of land and land rights. For 2019, 2018, and 2017, this provision for land produced an additional \$8.7 million, \$7.9 million and \$7.6 million of net margin, respectively. Total net margins for the years ended December 31, 2019, 2018, and 2017, were \$16.4 million, \$15.2 million, and \$14.4 million, respectively.

FINANCIAL CONDITION

General

The principal changes in our financial condition from 2018 to 2019 resulted from additions to transmission and distribution assets and additional long-term debt. The average interest rate on our long-term debt decreased for this period: 3.4% as of December 31, 2019, compared to 3.7% as of December 31, 2018.

Liquidity and Sources of Capital

In general, we fund our operations, including property additions and other capital expenditures, using revenues from operations, revolving credit facilities, commercial paper issuances, financing from the FFB (guaranteed and administered through RUS), CFC, CoBank and other lending institutions, and public and private debt offerings. We expect these same sources to provide future funding of our capital requirements.

To meet short-term cash needs and liquidity requirements, we had approximately \$42 million in cash and cash equivalents as of December 31, 2019. In addition, as described in the table on the right, as of December 31, 2019, we had short-term and intermediate-term committed and uncommitted credit facilities totaling \$585 million, of which \$493 million was available.

Short-/Intermediate-Term Credit Facilities	Authorized Amount	Available Amount
As of December 31, 2019		
<i>(dollars in thousands)</i>		
Committed		
Syndicated bank credit facility	\$240,000	\$240,000
CoBank credit agreement	325,000	325,000
Less commercial paper outstanding	—	(92,000)
Total committed available	\$565,000	\$473,000
Uncommitted		
CFC line of credit	20,000	20,000
Total	\$585,000	\$493,000

We have a committed revolving credit facility provided by a group of banks syndicated by CFC. This facility was established to fund general corporate purposes and to serve as a backup for our commercial paper program. The table on the right lists the participant banks and the amount of their commitments under the facility through its maturity in 2020. (See "Subsequent Events" for a discussion of our 2020 activity related to amending and extending the facility).

We have a \$325 million revolving credit agreement with CoBank scheduled to terminate in 2022. This agreement is a resource for liquidity and funding project construction as well as for general corporate purposes. The agreement may also be used as support for our commercial paper program. At year-end, no unpaid balance was outstanding on the CoBank agreement.

We have a \$240 million commercial paper program that is primarily used for short-term project financing during construction. As of December 31, 2019, we had \$92 million outstanding in commercial paper issuances. Because we use our committed credit facilities to fully back our commercial paper program, the combined borrowing capacity for both facilities is limited by the current amount of commercial paper outstanding.

We have an uncommitted, one-year revolving line of credit for \$20 million from CFC. This line functions as another potential liquidity resource; although, we have never accessed it. We expect to renew the line of credit each year by its renewal date in April.

We have a \$230 million long-term shelf loan facility with CFC. The purpose of the shelf loan is to fund a portion of our capital expenditures, primarily those that are not eligible for FFB funding. Advances under the facility are available for a five-year term (through 2021) and may be extended for an additional five years. During 2019, we advanced approximately \$20 million under the CFC shelf loan.

During 2019, we advanced approximately \$141 million from existing RUS-guaranteed FFB loans to fund construction costs related to transmission projects. In addition, we received approval for another RUS-guaranteed FFB loan for approximately \$78 million related to transmission projects to be completed in 2019. No advances on this loan have occurred to date.

RUS offers a COC program allowing its borrowers to deposit FFB debt service payments prior to their scheduled due dates. (See "Executive Overview" for further discussion of the COC program). We began 2019 with a COC account balance of \$206 million. During the year, we made no additional deposits into the account and received interest of \$7 million. Subsequent withdrawals for debt service payments of \$153 million resulted in a balance of \$60 million as of December 31, 2019. Of the \$153 million in debt services payments, \$73 million were related to prepayments and \$80 million were related to scheduled payments.

During 2019, we issued approximately \$73 million in First Mortgage Obligations due in 2050 in the private placement debt market to four institutional investors. The debt securities have an interest rate of 3.30%. Our purpose for entering into this transaction was to replace the aforementioned \$73 million in prepaid FFB long-term debt. The debt we prepaid had relatively high interest rates and was retired early using COC deposits without incurring prepayment penalties.

We may issue additional indebtedness secured under our Indenture upon certification of (i) our achievement of an MFI ratio of at least 1.10 for the immediately preceding fiscal year and (ii) a basis for issuance of additional obligations under the Indenture, including either retired principal payments or new property additions pledged under the Indenture with a value in an amount of 110% of the additional secured indebtedness to be issued. Our rates for the provision of transmission services are designed to ensure we achieve the required MFI ratio. (See "Rates and Regulation" for further discussion of MFI and our rates.) Based on carry-forwards of property additions from prior years, internally generated funds, unsecured sources of indebtedness available to us, and the availability of retired debt as a basis for the issuance of additional secured indebtedness, we do not foresee the property additions requirement as an impediment to raising the aggregate financing required for our current operating and proposed capital expenditure needs.

Syndicated Bank Credit Facility Participant Banks	Commitment through 2020
As of December 31, 2019	(dollars in thousands)
CFC, administrative agent	\$100,000
MUFG	60,000
Bank of America, NA	60,000
CoBank	20,000
Total	<u>\$240,000</u>

Refinancing Transactions

In connection with the 1997 corporate restructuring in which we purchased Oglethorpe's transmission assets (which represented 16.864% of Oglethorpe's assets at the time), we assumed 16.864% of Oglethorpe's then outstanding indebtedness, including an assumption of the primary payment obligation with respect to Oglethorpe's then outstanding debt associated with multiple series of pollution control revenue bonds (PCBs). On April 25, 2012, we refinanced the debt associated with such PCBs through the issuance of the Development Authority of Burke County PCBs (Georgia Transmission Corporation Vogtle Project), Series 2012, in the principal amount of approximately \$94.5 million. The Series 2012 bonds have a final maturity date of January 1, 2052. We remarketed the PCBs in 2015 and, again, during 2018, retaining the structure and tenor (three years) of the original bonds. Currently, the bonds have a fixed term rate of 2.5% and a mandatory tender date of May 3, 2021.

Capital Requirements

Capital Expenditures

Property additions, which consist primarily of substations and lines, totaled \$114 million for the year ended December 31, 2019. As part of our ongoing planning, we forecast capital expenditures required for transmission facilities. The table on the right details these expenditure forecasts for 2020 through 2022.

Actual costs may vary from the estimates listed because of factors such as changes in business conditions, fluctuations in load growth, litigation, design changes, delays in receiving the necessary federal or other regulatory approvals, construction delays, changes in the cost of capital, equipment, material and labor, and decisions regarding the ultimate timing to construct planned facilities.

Year	Capital Expenditures
	<i>(dollars in thousands)</i>
2020	\$ 130,859
2021	150,381
2022	155,448
Total	<u>\$ 436,688</u>

Environmental Matters

Based on the current status of regulatory requirements, we do not anticipate that any capital expenditures or other expenses associated with our compliance with environmental laws and regulations will have a material adverse effect on our operating results or financial condition.

Contractual Obligations

We incur transmission parity expense or receive transmission parity revenue for use of the ITS and related transmission interfaces. We receive revenues from the other ITS Owners to the extent our percentage of investment in the ITS exceeds our percentage use of the ITS. We incur transmission parity expense if our percentage use of the system exceeds our percentage investment therein. In general, the Member Systems are growing at a faster rate than the other ITS Owners. For the year ended December 31, 2019, we incurred parity expense of \$20 million.

We have agreements with Oglethorpe and GSOC for certain administrative, general and control center operations services. (See Note 9 in "Notes to Financial Statements" for further discussion.) For the year ended December 31, 2019, we paid Oglethorpe and GSOC \$4.3 million and \$35.8 million for these services, respectively.

We have four contracts with Georgia Power covering certain operation services, maintenance services, spare parts and equipment requirements, and planning services. Either party may cancel one or more of these contracts upon two years' notice. As of December 31, 2019, neither party had issued a cancellation notice. Our purchases and uses of the services offered under the contracts are optional. However, each contract is subject to a minimum annual payment. Future charges are tied to escalation factors based on Bureau of Labor statistics indices and changes to our ownership percentage in the ITS.

In January 2019, we entered into a ten-and-a-half-month contract with Aubrey Silvey for construction services with an option to extend two additional years and a guaranteed minimum payment of approximately \$977,000. In December 2019, we exercised the option to extend the contract for an additional year. For 2020, the guaranteed minimum amount is approximately \$2.3 million for two substation construction crews. For 2021, no guaranteed minimum payments are required under this contract.

In 2019, we entered into a three-year contract with Pike Electric for maintenance services. The contract was written for time and material with no guaranteed minimum payment required.

The upper table on the right reflects, as of December 31, 2019, our contractual obligations for the periods indicated. These are known commitments for future expenditures. The amount of other expenses we expect to incur that are unknown at this time, such as parity expense, are not included.

Credit Rating Risk

The lower table on the right shows our current credit ratings.

Provisions in our loan contract with RUS and certain other loan or credit agreements contain covenants based on credit ratings that could result in higher rates, restrictions on issuing debt, or increased RUS oversight but would not result in acceleration of any debt if those covenants are not met.

Given our present ratings, we do not currently expect a rating downgrade that would trigger the restrictions in these loan agreements. However, the ratings reflect the views of the rating agencies, not ours; therefore, we cannot give any assurance that our ratings will be maintained at their current levels for any period of time. Any future downgrades of our credit ratings could limit our ability to access the capital markets, including the commercial paper markets. In addition, we likely would be required to pay higher interest rates on renewed lines of credit and debt from future public and private debt offerings.

Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

Contractual Obligations (dollars in thousands)				
As of 12/31/19	2020	2021 – 2024	2025 and beyond	Total
Long-term debt:				
Principal	\$ 70,343	\$264,673	\$1,813,766	\$2,148,782
Interest ⁽¹⁾	75,366	271,859	758,759	1,105,984
O&M agreements ⁽²⁾	16,179	33,829	–	50,008
Other	2,287	–	–	2,287
Total	\$164,175	\$570,361	\$2,572,525	\$3,307,061

Note: Table does not include commercial paper.
⁽¹⁾ Includes an interest rate assumption for variable rate debt.
⁽²⁾ Represents minimum payment obligations to Georgia Power under our four operation and maintenance contracts with escalation rates in future years remaining constant, and assumes a termination notice is given at year-end 2020.

Georgia Transmission Ratings	S&P	Moody's	Fitch
Long-term rating*	AA-	A2	AA-
Short-term rating (commercial paper)	A1+	P1	F1+

*The Moody's rating shown here is its "Issuer Rating" for Georgia Transmission.
The Fitch rating is its "Senior Secured" rating for Georgia Transmission.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Due to our cost-based rate structure, we have limited exposure to market risks. However, changes in interest rates on our outstanding indebtedness may result in fluctuations in rates to the Member Systems and Oglethorpe.

Interest Rate Risk

At December 31, 2019, we were exposed to the risk of changes in interest rates related to our variable rate debt, which consisted entirely of \$92 million in commercial paper issuances. Commercial paper maturities range between one and 90 days. We had no outstanding balances on any of our LIBOR-based credit facilities. At December 31, 2019, the weighted average interest rate on this variable rate debt was 1.94%. Hypothetically, if within the next 12 months, interest rates on this debt were to increase by 100 basis points on the respective repricing dates and remain at that level for the remainder of the year, annual interest expense would increase by approximately \$700,000.

Our objective in managing interest rate risk is to maintain a balance of fixed and variable rate debt that will lower our overall borrowing costs within reasonable risk parameters. At December 31, 2019, we had 4% of our total debt, including commercial paper and LIBOR-based credit facilities, in a variable rate mode.

Interest Rate Hedge Transactions

From 2012 through 2019, we did not execute any new interest rate hedge transactions. All hedge transactions executed prior to 2012 have terminated.

OTHER INFORMATION

Legal Proceedings

The final outcome of any pending or potential litigation against us cannot be predicted at this time; however, we do not anticipate liabilities, if any, arising from such proceedings would have a material effect on our financial condition or results of operations.

RISK FACTORS

The following describes the most significant risks, in management's view, that may affect our business and financial condition. This discussion is not exhaustive, and there may be other risks we face that are not described below. The risks described below, as well as additional risks and uncertainties presently unknown to us or currently not deemed significant, could negatively affect our business operations, financial condition, and future results of operations.

Our transmission activities are subject to certain federal laws, regulations and policies – and changes in these laws or new laws, regulations or policies could adversely affect our operating results or financial condition.

Under the Energy Policy Act of 2005, Georgia Transmission, as an owner of bulk electric system assets, is subject to mandatory reliability standards. FERC, the federal agency that regulates the interstate transmission of electricity, certified NERC as the national organization to establish and enforce mandatory reliability standards. Volunteer industry experts and NERC staff work collaboratively to develop standards, subject to FERC approval. FERC and NERC both have the authority to impose penalties for violations of FERC-approved reliability standards. We are registered with NERC as a Transmission Owner, Transmission Service Provider, Planning Coordinator, Transmission Planner and Distribution Provider. Currently, we are subject to 57 mandatory reliability standards and support compliance with several other mandatory reliability standards applicable to Oglethorpe and GSOC. Our industry experts monitor standards development activity and participate in various NERC standards drafting teams. Our goal is to provide technical expertise to NERC to ensure standards are developed based on sound reliability principles.

We have a formal compliance program to identify and assess new or revised mandatory reliability standards applicable to our system and facilities; implement processes, procedures, and service agreements to support compliance; and perform routine monitoring to provide assurance of ongoing compliance. Through this monitoring, we have identified and self-reported several minimal risk issues to SERC Reliability Corporation (SERC), the entity with delegated authority from NERC to enforce mandatory reliability standards across the southeastern and central regions of the United States. To date, none of our self-reported issues have triggered a regulatory enforcement action or resulted in fines or penalties from NERC. We are awaiting final disposition from SERC on two open self-reports, which we anticipate to be handled similarly.

As part of its responsibilities, SERC uses various monitoring methods, including audits and spot checks, to identify possible violations of reliability standards. SERC last performed an audit of Georgia Transmission in 2017. Other than one minor issue identified during the audit related to software patching and the open self-reported issues, SERC found no violations and concluded we were in compliance with the standards reviewed. Our next SERC audit is scheduled for October 2020. For Georgia Transmission, like all registered entities, failure to meet federal mandatory reliability standards or other mandated standards in the future can lead to significant assessed fines and penalties or mandated remedial action plans.

In January 2020, the scope of the assets requiring protection under the Cyber Infrastructure Protection (CIP) standards expanded significantly. Additionally, new standards related to supply chain cybersecurity risk management have been approved by FERC and will become mandatory in July 2020. The increasingly stringent reliability requirements in the areas of cyber and physical security could require us to invest in additional technology, equipment, personnel, processes, and services.

In addition to mandatory reliability standards, we are subject to other federal regulations. For example, as a "transmitting utility" under the Federal Power Act, we are subject to mandatory wheeling orders that FERC issues. Mandatory wheeling orders compel

transmitting utilities to transmit electricity across their transmission systems. Furthermore, under Section 211A of the Federal Power Act, FERC potentially could order us to offer transmission service at rates and terms that are comparable to service we provide ourselves. Currently, we are not a public utility subject to FERC jurisdiction under the Federal Power Act, which exempts us from a large number of FERC regulations; however, there is no guarantee we will remain exempt from such additional regulations in the future.

Georgia Transmission voluntarily participates in regional transmission planning with several other utilities in the Southeast through the Southeastern Regional Transmission Planning (SERTP) process. For jurisdictional public utility transmission providers, participation in a regional planning process is required by FERC through Order Nos. 890 and 1000. FERC generally supports the idea of “no allocation of costs without benefits.” However, if our participation in Order No. 1000 processes were to become mandatory, our main risk would be that we might be allocated certain costs based on a broad definition of “benefits.”

Due to the interconnected nature of the electric grid and our participation in the ITS and the SERTP, FERC rules, regulations and policies could materially affect our relationship with other FERC-jurisdictional public utilities, such as Georgia Power and Southern Company, as well as services to our Member Systems.

Pursuant to our ongoing focus on workplace safety, we continue to engage with industry groups, provide in-depth training on safety compliance, policies and work practices, and maintain a robust personal protective equipment program in adherence with the latest Occupational Safety and Health Administration's (OSHA) regulations. In 2019, our risk mitigation efforts included the addition of several new policies to the Administrative Safety & Health (ASH) Manual, which incorporates OSHA regulations into internal policies and procedures for maintaining compliance. We also participated in a three-day AEGIS Assessment, as well as a Human Performance Peer Review performed by the North American Transmission Forum. Our work practices received high marks during both evaluations.

While we do not expect our compliance with these laws, regulations, standards, and orders to have a material adverse effect on our operating results or financial condition, actual compliance costs could be significantly more than we currently anticipate.

Our access to, and cost of, capital could be adversely affected by various factors, including market conditions, potential limitations on the availability of RUS loans, and potential downgrades by rating agencies. Significant constraints on our access to, or increases in our cost of, capital could adversely affect our financial condition and future operating results.

We rely on access to external funding sources as a significant source of liquidity for capital expenditure requirements not satisfied by cash flow generated from operations. Our ability to access these funding sources and our cost of capital could be adversely affected by various factors, including potential limitations on the availability of loans from the Federal Financing Bank, guaranteed and administered by RUS. Historically, we and other electric cooperatives have relied principally on RUS-guaranteed and administered federal loan programs to meet a significant portion of our long-term financing needs. However, the availability and magnitude of annual RUS funding levels, the types of facilities eligible for RUS funding, and the RUS operating budget are subject to the federal budget appropriations process, and, therefore, are subject to uncertainty because of periodic budgetary pressures within Congress. In addition, new generation, environmental capital expenditures, and transmission construction nationwide among electric cooperatives may result in increased competition for available RUS funding. Lastly, the direction and priorities of the RUS program are subject to change under current and future administrations. If the amount of RUS-guaranteed loan funds available to us in the future were to decrease, we may have to seek alternative financing, and our cost of borrowing could significantly increase.

The unpredictable nature of RUS funding means our ability to access both short-term and long-term capital markets may become increasingly important. Although we have successfully accessed the capital markets through private placement and PCB transactions and have obtained sufficient liquidity facilities, the capital markets are subject to instability based on national and international events, including recessions and global acts of terrorism. Any such events could constrain, at least temporarily, our liquidity and ability to access capital on favorable terms or at all. Additionally, if our credit ratings were lowered, our borrowing costs could increase, and our potential pool of investors, funding sources, and liquidity could decrease.

If our ability to access capital becomes significantly constrained or our cost of capital significantly increases for any of the reasons stated above, our ability to finance capital expenditures required to maintain existing transmission facilities and to construct or acquire additional transmission facilities could be limited, and our financial condition and future operating results could be adversely affected.

We are subject to environmental laws and regulations that can give rise to substantial liabilities and could adversely affect our business, financial condition, or operating results.

Our operations are subject to federal and state environmental laws and regulations, which affect, among other areas, erosion control practices during construction, prevention of oil spills into navigable waters, and waste disposal practices. In addition to generally applicable requirements, some of our facilities and properties are located near environmentally sensitive areas, such as wetlands or protected species habitats. Environmental requirements affect the design and manner of construction of new transmission facilities, as well as the operation and maintenance of existing transmission facilities. We believe we are in compliance with current regulatory requirements; however, there is no assurance our facilities will continue to be subject to the regulations currently in effect. Furthermore, there is no assurance we will be in compliance with future regulations when they first go into effect. New requirements may increase the cost of electric transmission service by requiring changes in the design or operation of existing facilities or changes or delays in the location, design, construction, or operation of new facilities. Failure to comply with existing environmental laws and regulations could result in significant civil or criminal penalties and remediation costs. Additionally, compliance with new environmental legislation or regulations could have a significant impact on us; however, any impact would depend on the final legislation and the implementation of regulations, which cannot be determined at this time.

We may also be responsible for costs to investigate or remediate contamination as well as other liabilities concerning hazardous materials or contamination, such as claims for property damage. Compliance with environmental laws and regulations, and liabilities concerning contamination or hazardous materials may increase our costs.

Electric generation facilities are also subject to significant environmental regulation that may indirectly affect our business. Our resources and the ITS as a whole were planned and constructed to connect existing generation resources. Changing environmental regulations to address issues such as climate change may shift electric generation to new generation resources located in different areas. As a result, the continued use of certain existing generation resources may become uneconomical. Decisions on what generation resources continue into the future and what types of generation resources are added may have a significant impact on power flows across the transmission grid. Therefore, our decisions pertaining to transmission project planning will also be affected going forward.

We expect to incur considerable costs related to capital expenditures at our existing transmission facilities and for the construction or acquisition of new transmission facilities. Such costs are subject to uncertainty associated with construction.

We have undertaken a capital expansion program to upgrade our existing transmission facilities and construct or acquire additional transmission facilities. Many of our transmission facilities were constructed years ago and, as a result, may require modifications in order to maintain efficient and reliable operations, and to comply with changing regulatory requirements.

The modification of existing transmission facilities and addition of new transmission facilities will require construction-related expenditures. The completion of these construction projects without delays or cost overruns is subject to certain risks, including:

- shortages and inconsistent quality of equipment, materials and labor;
- work stoppages;
- permits, approvals, and other regulatory matters;
- adverse weather conditions;
- unforeseen engineering problems;
- environmental and geological conditions;
- unanticipated cost increases; and
- attention to other projects.

Each of these risks could have the effect of increasing our construction expenditures and, consequently, increasing the cost of transmission services we provide to the Member Systems and Oglethorpe.

We have undertaken a sizable capital expenditure program that may increase our long-term debt.

We have undertaken a sizable capital expenditure program to meet the future transmission needs of our Member Systems and Oglethorpe, and we expect to incur a considerable amount of long-term debt in connection with this program. For 2020 through 2029, we project we will invest approximately \$1.6 billion in new transmission facilities and upgrades to our existing transmission

facilities. As a result of these investments, net of projected principal payments, we estimate that our outstanding long-term debt, including amounts due within one year, will increase from approximately \$2.1 billion as of December 31, 2019 to approximately \$2.4 billion by the end of 2029.

Additional long-term debt will likely increase the cost of transmission service we provide to the Member Systems and Oglethorpe. Also, as a result of this debt, we may become more leveraged and certain of our financial metrics may weaken, which could affect our credit ratings. Any reduction in our credit ratings could increase our borrowing costs and decrease our access to the credit and capital markets.

The costs of providing reliable transmission services could be impacted or delayed by litigation, which could materially increase our cost of providing transmission services and may affect the reliability of such services.

From time to time, we are subject to litigation from various parties. Our business, financial condition, and operating results may be materially affected by adverse results of certain litigation. Unfavorable resolution of legal proceedings in which we are involved or other future legal proceedings could require significant expenditures that could have the effect of increasing the cost of electric service we provide our Member Systems.

In addition, we continue to experience periodic opposition to transmission line and substation projects, primarily through challenges to the siting process. If challengers who oppose local transmission projects are successful, the completion of transmission projects could be delayed or prevented, which could materially increase our cost of providing transmission services in those areas and/or may affect the reliability of such service. Opponents of local projects could also attempt to change state laws that could affect our business operations. To date, this type of opposition has been unsuccessful.

Termination of the ITSA between Georgia Power and us may adversely affect our cost of providing transmission services.

We rely on our ITSA with Georgia Power to access the ITS, a statewide, jointly-owned transmission grid that consists of the combined transmission facilities of the ITS Owners. The ITSA will remain in effect until terminated by five years' prior written notice by either party. Pursuant to an agreement with Georgia Power, we each committed not to provide a notice of termination before December 31, 2022, extending the term of the ITSA through at least December 31, 2027. If the ITSA were terminated, we and the other ITS Owners could be forced to enter into alternative arrangements to use the ITS or construct new transmission facilities. There is no assurance the ITSA will continue past 2027 or will continue with its current provisions. Termination of or changes to the current terms or administration of the ITSA could result in increased costs to us, including increased investment responsibility.

Our ability to meet our financial obligations is dependent upon the performance by the Member Systems of their obligations under the MTSAs and Oglethorpe of its obligations under its Transmission Service Agreement.

We derive our revenues primarily from the sale of transmission services to the Member Systems pursuant to the MTSAs and to Oglethorpe pursuant to its transmission service agreement. Under the MTSAs and Oglethorpe's Transmission Service Agreement, we collect revenues that are sufficient, when taken together with revenues from other sources, to meet all of our costs and other obligations and liabilities, including the costs of the operation and maintenance of transmission facilities, the payment of principal and interest on outstanding indebtedness, and the establishment and maintenance of reasonable financial reserves.

The Member Systems and Oglethorpe are our owners, and we do not control their operations or financial performance. As a result, we are exposed to the risk that one or more Member Systems or Oglethorpe could default in the performance of their obligations to us under the MTSAs or Transmission Service Agreement, respectively. Our ability to meet our financial obligations, including the payment of principal and interest on outstanding indebtedness, could be adversely affected if one or more of the Member Systems, particularly one of our larger Member Systems, or Oglethorpe defaulted on obligations to us. Although the MTSAs obligate non-defaulting Member Systems to pay the amounts of any payment default pursuant to a prorata, step-up formula, there can be no guarantee that other Member Systems would not also default. The MTSAs contain express covenants requiring the Member Systems to set and collect retail rates sufficient for meeting their respective obligations under the MTSAs.

In addition, Oglethorpe is participating as a 30% co-owner in the construction of two additional nuclear units at Plant Vogtle and has committed significant capital expenditures to that endeavor. The construction of large, complex generating plants involves significant financial risk and certain events have materially delayed the original commercial operation dates and increased the original project budget for the additional Vogtle units. Further, no nuclear plants have been constructed in the United States using advanced designs, such as the Westinghouse AP1000 design, and therefore estimating the total cost of construction and the related schedule is inherently uncertain. Oglethorpe's current project budget for these units is \$7.5 billion and the scheduled commercial operation dates are November 2021 for Unit No. 3 and November 2022 for Unit No. 4. As construction continues, Oglethorpe remains subject to construction risks and will be responsible for 30% of all project costs. The ultimate outcome of these matters cannot be determined at this time. For more information on Oglethorpe and the Vogtle construction project, see Oglethorpe's current and periodic reports as filed with the Securities and Exchange Commission.

Hazards associated with high-voltage electricity transmission may result in suspension of our operations, lawsuits or the imposition of civil or criminal penalties.

Our operations are subject to potential hazards associated with high-voltage electricity transmission, including accidental contact by the public or by crews during construction or maintenance, explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, equipment interruptions, and oil discharges. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment, environmental damage, and may result in suspension of operations, lawsuits, and the imposition of civil or criminal penalties. We maintain liability insurance to cover any third-party claims for both bodily injury and property damage associated with our ownership and operation of transmission lines and substations. We also carry property insurance to cover damage to owned transmission substations with property values greater than \$2 million, but we are self-insured for damage to smaller distribution substations and transmission facilities, such as poles and towers. We do not purchase insurance for losses related to outages, such as business interruption insurance, because there is no risk of loss of revenue based on the inability to transmit power.

In addition, claims have been made or threatened against electric utilities for bodily injury, disease, or other damages allegedly related to exposure to electromagnetic fields and stray voltages associated with electric transmission and distribution lines. The scientific community, regulatory agencies, and the electric utility industry continue to examine the possible health effects of electromagnetic fields and related theories. We maintain insurance to mitigate our risk in this area.

Changes in technology could affect the value of or demand on our transmission assets.

Currently, our transmission assets provide service from central generating stations to distribution substations.

Distributed generation technologies, such as fuel cells, microturbines, and solar technology, located at or near distribution load centers could, if broadly adopted, lessen the demand on our existing transmission assets. A faster than projected development and adoption of distributed generation technologies augmented through battery technology and microgrids could reduce demand on our transmission assets at a rate faster than our growth and could affect the value of our existing transmission assets.

Costs associated with solar power are continuing to decrease. Battery technology is improving, and further developments may lead to significantly lower costs and longer battery lives. Improved technological capabilities may result in reliability and power quality being enhanced through the employment of microgrids. We will continue to monitor such developments through active engagement with industry trade organizations.

Under any decentralized generation scenario projected for the foreseeable future, any effect on the need for or value of our transmission assets would be offset in part as our transmission assets would be required for diversity exchanges, increased resiliency, and backup between areas, and to provide associated voltage and frequency support (also known as Essential Reliability Services).

At the same time, advances in green technology related to large-scale wind, utility-scale batteries, solar and/or nuclear power would serve to increase demand upon our transmission assets. Wind and solar resources do not inherently provide the same support to the power system as do conventional generators which rotate and provide inertia to the system. The need to ensure

adequate Essential Reliability Services combined with the intermittent nature of these resources would require a more robust and extensive transmission network able to provide both flexibility and needed levels of reliability.

We expect the grid will be needed for a long time and will continue to provide value, despite potential technological changes; however, service characteristics may change such that current rate structures may need to be carefully monitored to minimize cost recovery risks associated with those technological changes.

Electric generation, transmission and distribution facilities may be the target of future acts of war or terrorist attacks, including cybersecurity breaches, which could negatively affect our business, financial condition, and operating results.

Strategic targets, such as electric generation, transmission, and distribution facilities, may be targets of acts of war or terrorist attacks, including cybersecurity breaches. Physical attacks or cybersecurity incidents, including those propagated through our supply chain, could disrupt our normal business operations, affect our ability to control and monitor our transmission and distribution assets, cause damage to transmission assets, jeopardize safety, and hamper both internal and external communications. Additionally, any cybersecurity incident, unauthorized access, or other loss of information could also result in legal claims or proceedings, regulatory penalties, disruptions of our operations, damage to our reputation, and a loss of confidence in our services, which could adversely affect our business.

STATEMENTS OF REVENUES AND EXPENSES

For the years ended December 31, 2019, 2018, and 2017

(dollars in thousands)

	2019	2018	2017
Operating revenues:			
Network services revenues	\$ 288,890	\$ 270,695	\$ 259,953
Other transmission revenues	41,572	35,051	32,819
Total operating revenues	<u>330,462</u>	<u>305,746</u>	<u>292,772</u>
Operating expenses:			
Operation and maintenance	83,575	78,044	76,348
Parity expense, net	19,995	16,462	19,273
Control center services	24,500	23,241	23,236
Administrative and general	15,924	15,281	15,961
Depreciation and amortization	90,211	86,474	79,864
Taxes	733	745	794
Total operating expenses	<u>234,938</u>	<u>220,247</u>	<u>215,476</u>
Operating margin	<u>95,524</u>	<u>85,499</u>	<u>77,296</u>
Other income, net:			
Investment income	9,255	12,958	11,996
Allowance for equity funds used during construction	189	242	313
Other, net	(822)	3,609	2,568
Total other income, net	<u>8,622</u>	<u>16,809</u>	<u>14,877</u>
Interest charges:			
Interest on long-term debt	80,110	80,088	72,811
Other interest	6,588	6,265	4,204
Allowance for debt funds used during construction	(1,346)	(1,687)	(2,232)
Amortization of debt expense, net of gain	2,429	2,475	3,016
Total interest charges, net	<u>87,781</u>	<u>87,141</u>	<u>77,799</u>
Net margin	<u>\$ 16,365</u>	<u>\$ 15,167</u>	<u>\$ 14,374</u>

STATEMENTS OF PATRONAGE CAPITAL AND MEMBERSHIP FEES

For the years ended December 31, 2019, 2018, and 2017

(dollars in thousands)

	2019	2018	2017
Patronage capital and membership fees, beginning of period	\$ 312,797	\$ 297,630	\$ 283,256
Net margin	16,365	15,167	14,374
Patronage capital and membership fees, end of period	<u>\$ 329,162</u>	<u>\$ 312,797</u>	<u>\$ 297,630</u>

BALANCE SHEETS

As of December 31, 2019, and 2018

(dollars in thousands)

	2019	2018
Assets		
Electric plant:		
In service.	\$ 3,452,912	\$ 3,364,242
Less: Accumulated provision for depreciation.	(1,116,224)	(1,041,465)
	<u>2,336,688</u>	<u>2,322,777</u>
Plant acquisition adjustments, at amortized cost	49,886	52,118
Construction work in progress.	<u>54,217</u>	<u>41,754</u>
	<u>2,440,791</u>	<u>2,416,649</u>
Investments:		
Investment in associated organizations.	<u>25,299</u>	<u>25,194</u>
	<u>25,299</u>	<u>25,194</u>
Current assets:		
Cash, cash equivalents, and restricted cash.	102,417	247,857
Receivables.	34,751	34,907
Inventories, at weighted average cost	18,228	15,802
Prepaid commercial paper discount.	147	287
Prepayments and other current assets.	<u>5,206</u>	<u>4,059</u>
	<u>160,749</u>	<u>302,912</u>
Deferred charges and other assets:		
Premium and loss on reacquired debt, being amortized	16,376	17,479
Unobligated FEMA assistance.	1,350	944
Deferred debt expense, being amortized.	4,200	4,360
Deferred loss on interest rate hedges, being amortized	18,908	19,886
Special fund, deferred compensation.	<u>2,717</u>	<u>2,368</u>
	<u>43,551</u>	<u>45,037</u>
	<u>\$ 2,670,390</u>	<u>\$ 2,789,792</u>

(dollars in thousands)

	2019	2018
Equity and liabilities		
Capitalization (see accompanying statements):		
Patronage capital and membership fees	\$ 329,162	\$ 312,797
Long-term debt, excluding amount due within one year	2,078,439	2,153,607
	<u>2,407,601</u>	<u>2,466,404</u>
Commitments and contingencies:		
Current liabilities:		
Long-term debt due within one year	70,343	63,342
Commercial paper, recorded gross	92,000	174,000
Accounts payable	45,182	35,993
Accrued taxes	13,120	9,943
Accrued interest	832	1,280
Accrued current year budget adjustment for members	2,200	1,100
Other current liabilities	33,587	32,280
	<u>257,264</u>	<u>317,938</u>
Deferred credits and other liabilities:		
Unearned revenues	13	26
Accumulated provision for benefits	2,889	2,489
Gain on reacquired debt, being amortized	34	73
Deferred gain on interest rate hedges, being amortized	2,589	2,862
	<u>5,525</u>	<u>5,450</u>
	<u>\$ 2,670,390</u>	<u>\$ 2,789,792</u>

STATEMENTS OF CAPITALIZATION

As of December 31, 2019, and 2018

(dollars in thousands)

	2019	2018
Long-term debt:		
Mortgage notes payable to the Federal Financing Bank (FFB), weighted average rate of 3.33% at December 31, 2019, due in quarterly installments through 2054	\$1,661,351	\$1,641,996
Mortgage notes issued in conjunction with the sale by public authorities of pollution control revenue bonds:		
• Series 2012		
Term rate of 2.50% to April 30, 2021; final maturity date of January 1, 2052	94,465	94,465
Private Placement notes payable:		
• 2009 mortgage notes payable: fixed at 5.59% due in quarterly installments through June 30, 2030	118,000	128,000
• 2010 mortgage notes payable: fixed at 4.81% due in quarterly installments beginning March 30, 2025, through December 30, 2039	135,000	135,000
• 2019 mortgage notes payable: fixed at 3.30% due in quarterly installments through December 31, 2050	72,504	—
National Rural Utilities Cooperative Finance Corporation (CFC) notes payable:		
• Mortgage notes payable: weighted average rate of 3.81% at December 31, 2019, due in quarterly installments through October 31, 2049	51,464	34,258
• Mortgage notes payable: weighted average rate of 3.43% at December 31, 2019, due in quarterly installments through October 31, 2024	15,998	18,230
CoBank revolving credit note payable:		
• Unsecured, weighted average variable rate of 3.87% at December 31, 2018, due 2022	—	165,000
Long-term debt	2,148,782	2,216,949
Less: Long-term debt due within one year	70,343	63,342
Long-term debt, excluding amounts due within one year	2,078,439	2,153,607
Patronage capital and membership fees	329,162	312,797
Total capitalization	\$2,407,601	\$2,466,404

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019, 2018, and 2017

(dollars in thousands)

	2019	2018	2017
Cash flows from operating activities:			
Net margin	\$ 16,365	\$ 15,167	\$ 14,374
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	92,640	88,949	82,880
Allowance for equity funds used during construction	(189)	(242)	(313)
Decrease in unearned revenues	(13)	(13)	(13)
Accumulated provision for benefits	400	49	510
Decrease (increase) in net current assets, excluding long-term debt due within one year and commercial paper:			
Receivables	156	(3,752)	(1,779)
Unobligated FEMA assistance	(406)	(942)	—
Inventories	(2,426)	(170)	2,523
Prepayments and other current assets	(1,147)	(261)	552
Prepaid commercial paper discount	140	(89)	(10)
Accounts payable	9,189	7,773	3,966
Accrued taxes	3,177	(1,347)	(6,666)
Accrued interest	(448)	(15,856)	3,237
Accrual for current year budget adjustment to members	1,100	(1,900)	1,800
Other current liabilities	1,307	13,052	10
Total adjustments	103,480	85,251	86,697
Net cash provided by operating activities	119,845	100,418	101,071
Cash flows from investing activities:			
Property additions	(114,164)	(266,884)	(218,383)
Net change in investment in associated organizations	(105)	(140)	77
Special deposits	(349)	(9)	(459)
Net cash from investing activities	(114,618)	(267,033)	(218,765)
Cash flows from financing activities:			
Proceeds from issuance of notes and bonds	234,068	355,462	114,966
Payments for long-term debt of maturities and refinancings	(302,235)	(226,006)	(50,242)
Changes in commercial paper	(82,000)	(7,001)	35,000
Debt issuance cost	(500)	(472)	(843)
Net cash from financing activities	(150,667)	121,983	98,881
Net increase (decrease) in cash and cash equivalents	(145,440)	(44,632)	(18,183)
Cash, cash equivalents, and restricted cash – beginning of period	247,857	292,489	311,302
Cash, cash equivalents, and restricted cash – end of period	\$ 102,417	\$ 247,857	\$ 292,489
Cash paid for interest (net of amounts capitalized)	\$ 84,904	\$ 68,810	\$ 71,545

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Business description

Georgia Transmission Corporation (Georgia Transmission) is a Georgia electric membership corporation headquartered in Tucker, Georgia. Georgia Transmission was formed in 1996 pursuant to a corporate restructuring of Oglethorpe Power Corporation (Oglethorpe) that occurred in 1997. The corporate restructuring divided Oglethorpe into three separate operating companies with Oglethorpe retaining the wholesale generation business. Georgia Transmission purchased the transmission assets and operates the transmission business previously owned and operated by Oglethorpe. Georgia System Operations Corporation (GSOC), which was also formed in connection with the corporate restructuring of Oglethorpe, acquired the system operations business previously owned by Oglethorpe and currently provides system operations service to Georgia Transmission and Oglethorpe. Georgia Transmission commenced operations effective April 1, 1997. The members of Georgia Transmission are 38 of the 41 retail electric distribution cooperative members in Georgia (the Member Systems) and Oglethorpe. The Member Systems are entirely owned by their retail consumers.

As with cooperatives generally, Georgia Transmission operates on a not-for-profit basis. Georgia Transmission's principal business is providing transmission services to the Member Systems for delivery of the Member Systems' power purchases from Oglethorpe and other power suppliers. Georgia Transmission also provides transmission services to Oglethorpe and third parties. At December 31, 2019, Georgia Transmission owned 3,470 miles of transmission lines and 752 substations of various voltages. Georgia Transmission succeeded to all of Oglethorpe's rights and obligations with respect to the Integrated Transmission System (ITS), consisting of transmission facilities owned by Georgia Transmission, Georgia Power Company (Georgia Power), the Municipal Electric Authority of Georgia (MEAG Power), and the City of Dalton, Georgia (Dalton Utilities). Through agreements, common access to the combined facilities that comprise the ITS enables the owners to use their combined resources to make deliveries to, or for, their respective customers and to provide transmission services to third parties.

b. Basis of accounting

Georgia Transmission follows accounting principles generally accepted in the United States of America and the practices prescribed in the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) as modified and adopted by the Rural Utilities Service (RUS).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

c. Patronage capital and membership fees

Georgia Transmission is organized and operates as a cooperative. The Member Systems and Oglethorpe made a one-time aggregate payment of \$195 in membership fees. At December 31, 2019, patronage capital consisted of a \$49 million special patronage contribution from the Member Systems, cumulative net margins, and \$142 million related to land recovery. As provided in Georgia Transmission's Bylaws, any excess of revenue over expenses from operations is treated as advances of capital by the Member Systems and Oglethorpe, and is allocated to each of them on the basis of their transmission services purchased from Georgia Transmission. Under the Georgia Transmission Indenture, Georgia Transmission is required to achieve a margins-for-interest (MFI) ratio for each fiscal year equal to at least 1.10.

Any distributions of patronage capital are subject to the requirements under Georgia Transmission's Indenture and the discretion of the Board of Directors. Under the Indenture, Georgia Transmission is prohibited from making any distribution of patronage capital to the Member Systems and Oglethorpe if, at the time thereof or after giving effect to the distribution: (i) an event of default exists under the Indenture, (ii) Georgia Transmission's equity as of the end of the immediately preceding fiscal quarter is less than 20% of Georgia Transmission's total capitalization, or (iii) the aggregate amount expended for distributions on or after the date on which Georgia Transmission's equity first reaches 20% of Georgia Transmission's total capitalization

exceeds 35% of Georgia Transmission's aggregate net margins earned after such date. The restrictions set forth in (ii) and (iii), however, will not apply if, after giving effect to such distribution, Georgia Transmission's equity as of the end of the immediately preceding fiscal quarter is not less than 30% of Georgia Transmission's total capitalization. If so, then 100% of the current year margin, upon board approval, could be returned to the Member Systems.

d. Operating revenues

Operating revenues are derived primarily from sales of transmission services pursuant to the long-term transmission service agreements Georgia Transmission maintains with each of the Member Systems. These agreements extend to December 31, 2060. These transmission contracts obligate each of the Member Systems to pay Georgia Transmission for transmission service furnished to it in accordance with rates Georgia Transmission establishes.

Network services revenues include transmission services revenues from the Member Systems and Oglethorpe, and are recognized in accordance with the Transmission Service Tariff (the Tariff) discussed below.

Other transmission revenues include revenues from transmission services provided to Oglethorpe and certain third parties, and are recognized as those services are provided. Other transmission revenues also include revenues from the performance of operation and maintenance services for certain generation interconnection facilities and storm-related repairs. These revenues are also recognized as services are provided. Georgia Transmission constructs certain generation interconnection facilities for the Member Systems, Oglethorpe and third parties. Georgia Transmission bills the user for Georgia Transmission's costs for construction and enters into an interconnection and operation and maintenance agreement for the facility. (See Notes 1(f) and 6 for a discussion of the accounting for the construction of the facilities.)

Georgia Transmission has a Member Transmission Service Agreement (MTSA) with each of the Member Systems under which Georgia Transmission provides transmission services to the Member System. These MTSA's state Member Systems are responsible, on a joint-and-several basis, for all of Georgia Transmission's obligations relating to the transmission business.

Rates charged for transmission services are described in the Tariff, and are designed to recover all of Georgia Transmission's costs and expenses. These rates expressly include, in the description of costs to be recovered, all principal and interest on Georgia Transmission's indebtedness, including the principal and interest payments on debt related to the purchase of land and land rights. The rates further provide for the accumulation of net margins to satisfy an MFI ratio for each fiscal year equal to at least 1.10 as required in the Indenture. In addition, the Tariff requires that any amount by which Georgia Transmission exceeds a 1.20 MFI ratio, after reduction for recovery of land costs, will be refunded to the Member Systems and Oglethorpe. Amounts between 1.10 and 1.20 may be retained, after reduction for recovery of land costs, subject to approval by the Board of Directors. For this reason, Georgia Transmission reviews its annual budget and rates at least once every year and at such intervals as it deems appropriate. In addition, from time to time, board-approved budget adjustments are made to achieve required margin levels.

Georgia Transmission has also entered into a transmission service agreement with Oglethorpe to provide network service to Oglethorpe's headquarters and certain generating facilities. This agreement is substantially similar to the other MTSA's except Oglethorpe, unlike the Member Systems, is not obligated to cover any revenue shortfall resulting from a payment default by a Member System or any other transmission customer. Oglethorpe also makes point-to-point purchases from Georgia Transmission under this arrangement.

Members with contributions that are greater than or equal to 10% of our total operating revenue as well as their contribution percentages for the last three years are listed in the table on the right. Revenues from non-members accounted for 1.0% of our total operating revenues for all years: 2019, 2018, and 2017.

Contribution to Total Operating Revenue	2019	2018	2017
Jackson EMC	12.0%	11.8%	11.8%
Oglethorpe	11.5%	10.6%	10.3%
Cobb EMC*	7.4%	10.0%	10.3%

*Cobb EMC's contribution to Total Operating Revenue was either greater than or equal to 10% in 2018 and 2017. In 2019, there was a shift in costs among the Member Systems caused by the effects of unusual winter peaks on our normally summer-peaking system.

e. Depreciation

Depreciation is computed on eligible assets when they are placed in service using the composite straight-line method. Annual depreciation rates in effect in 2019, 2018, and 2017, using RUS-prescribed rates, were as shown in the table on the right.

	2019	2018	2017
Transmission	2.75%	2.75%	2.75%
Distribution	2.88%	2.88%	2.88%
General plant and other	2.00-33.33%	2.00-33.33%	2.00-33.33%

Georgia Transmission's depreciation rates include a component that addresses the cost of removal and salvage. Provisions for the cost of removal, net salvage, are included in accumulated depreciation.

f. Electric plant

Electric plant is stated at original cost, which is the cost of the plant when first dedicated to public service plus the cost of any subsequent additions. Electric plant includes direct labor and materials, allocated overheads and contract labor, and is reduced by any contribution in aid of construction. Original cost includes an allowance for the cost of equity and debt funds used during construction. Georgia Transmission calculates the weighted cost of equity and debt funds at the embedded cost of all such funds. The weighted cost of equity and debt funds for 2019 was 1.0% and 3.2%, respectively, for a total weighted cost of 4.2%. The weighted cost of equity and debt funds for 2018 was 1.0% and 3.1%, respectively, for a total weighted cost of 4.1%. The plant acquisition adjustments represent the excess of the cost of the plant to Georgia Transmission over the original cost, less accumulated depreciation at the time of acquisition, and are amortized over periods ranging from 10 to 40 years.

Maintenance and repairs of property as well as replacements and renewals of items determined to be less-than-complete retirement units are charged to expense. Replacements and renewals of items considered to be complete retirement units are charged to the plant accounts. When properties are disposed, the original cost plus the cost of removal, less any salvage of such property, is charged to the accumulated provision for depreciation.

g. Cash and cash equivalents

Georgia Transmission considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. Georgia Transmission maintains substantially all of its cash and cash equivalents in commercial paper with short-term maturities.

h. Cushion of Credit

RUS offers a Cushion of Credit (COC) program allowing its borrowers to deposit Federal Financing Bank (FFB) debt service payments prior to their scheduled due dates. Deposits maintained in the COC program are considered restricted cash for the purposes of presentation in the financial statements. The restriction on the cash is permanent until such time the deposits are used to pay FFB debt service payments. At December 31, 2018, Georgia Transmission had a balance of \$206 million in a COC account. During 2019, Georgia Transmission made no new deposits and received \$7 million in interest. Subsequent withdrawals of debt service payments for \$153 million resulted in a balance of \$60 million as of December 31, 2019. During 2018 and 2019, these funds earned interest income for borrowers at an annual fixed rate of 5%.

i. Accounts receivable

Accounts receivable includes Georgia Transmission's members' outstanding monthly billings as well as charges for wheeling revenues, which are carried at invoiced amounts. Management determined that all billings are collectible as billed and, thus, no allowance for doubtful accounts has been recorded.

j. Inventories

Georgia Transmission maintains inventories of new and replacement parts for its transmission network. These inventories are stated at their weighted average cost on the accompanying balance sheets. Obsolete items are written off as identified.

k. Regulatory assets and liabilities

The table on the right represents Georgia Transmission's regulatory assets and liabilities as of December 31, 2019, and 2018. Georgia Transmission is subject to the provisions of Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future expenses that are expected to be recoverable by Georgia Transmission from the Member Systems, Oglethorpe and third parties through the rate-making process. Regulatory liabilities represent probable future revenues associated with amounts to be credited to the Member Systems, Oglethorpe and third parties through the rate-making process. Regulatory assets include unamortized losses on reacquired debt, unamortized and unrealized losses on interest rate hedges, accruals for paid time off (PTO) and unobligated FEMA assistance. Regulatory liabilities include unamortized gains on reacquired debt and unamortized gains on interest rate hedges.

<i>(dollars in thousands)</i>	12/31/19	12/31/18
Regulatory assets:		
Unamortized loss - reacquired debt	\$16,376	\$17,479
Loss on interest rate hedges, being amortized	18,908	19,886
PTO accrual	3,519	3,672
Unobligated FEMA assistance	1,350	944
Total assets	<u>\$40,153</u>	<u>\$41,981</u>
Regulatory liabilities:		
Unamortized gain - reacquired debt	\$ 34	\$ 73
Gain on interest rate hedges, being amortized	2,589	2,862
Total liabilities	<u>\$ 2,623</u>	<u>\$ 2,935</u>

l. Parity

Georgia Transmission incurs transmission parity expense or receives transmission parity revenue for use of the ITS and related transmission interfaces in accordance with an ITS Agreement between Georgia Transmission and Georgia Power. In December 2006, Georgia Transmission and Georgia Power provided each other with letters committing to continue the ITS Agreement through at least December 31, 2027, which is an additional 15 years from the previous earliest opt-out date. Similar letters were exchanged between Georgia Power and MEAG Power, and between Georgia Power and Dalton Utilities. Georgia Transmission earns parity revenues from other ITS participants to the extent Georgia Transmission's percentage of investment in the ITS exceeds its percentage use of the system. Georgia Transmission incurs transmission parity expense if its percentage use of the system exceeds its percentage investment in the ITS. Since 2000, Georgia Transmission has incurred parity expense. Amounts billed or received for parity for the contract year are subject to adjustment, based on review by the ITS Joint Committee for Planning and Operations, of actual investment in the ITS and the investment responsibility of each party. Based upon such review, payments and credits are adjusted for the contract year. Georgia Transmission records the actual amounts billed (or paid) for the period as parity revenue (expense), net, and adjusts this amount for its estimate of the ultimate amount receivable or payable for the period.

m. Derivatives

Authoritative guidance regarding Derivatives and Hedging Activities requires derivative financial instruments be recorded as assets or liabilities on the balance sheet at their fair value. Georgia Transmission's interest rate hedge arrangements are designated as cash flow hedges. The fair value of Georgia Transmission's cash flow hedges is estimated based on inputs other than quoted prices that are observable for the interest rate hedge arrangement, which includes LIBOR swap rates and yield curves that are observable at commonly quoted intervals for the full terms of the swap (Level 2). See Note 2(a) for a discussion of fair value measurement, including definitions of Levels 1-3.

Authoritative guidance regarding Derivatives and Hedging Activities also requires specific disclosures regarding the location and amounts of derivative instruments in a corporation's financial statements, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect a corporation's financial position, financial performance and cash flows. Georgia Transmission has not elected to use hedge accounting for its derivative instruments but instead has elected to use the guidance of Accounting for the Effects of Certain Types of Regulation to record these arrangements as regulatory assets and liabilities.

n. Asset retirement obligations

Authoritative guidance regarding Asset Retirement Obligations requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and to capitalize that amount as part of the book value of the long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Georgia Transmission has concluded it does not have any significant legal obligations that require accrual under the related guidance.

2. FINANCIAL INSTRUMENTS:

a. Fair value measurements

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in the pricing of an asset or liability. Through a three-tier hierarchy that separates inputs into valuation categories, observable inputs are maximized and unobservable inputs are minimized for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data other than those included in Level 1 that are either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions by a corporation of what a market participant would use in pricing an asset or liability. If there is little available market data, then the corporation's own assumptions are considered the best available information. Georgia Transmission has no assets or liabilities that are categorized as Level 3.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy at which the fair value measurement is reported.

The tables on the right summarize Georgia Transmission's assets and liabilities aggregated by levels within the fair value hierarchy as of December 31, 2019, and December 31, 2018.

(dollars in thousands)				
December 31, 2019				
	Reported Value	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable (Level 2)
Assets:				
Cash and cash equivalents	\$ 41,931	\$ 41,931	\$ 41,931	\$ —
Cushion of Credit	60,486	60,486	60,486	—
Total assets	\$ 102,417	\$ 102,417	\$ 102,417	\$ —
Liabilities:				
Commercial paper	\$ 92,000	\$ 92,000	\$ 92,000	\$ —
Long-term debt	2,148,782	2,449,514	—	2,449,514
Total liabilities	\$2,240,782	\$2,541,514	\$ 92,000	\$2,449,514

(dollars in thousands)				
December 31, 2018				
	Reported Value	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable (Level 2)
Assets:				
Cash and cash equivalents	\$ 41,466	\$ 41,466	\$ 41,466	\$ —
Cushion of Credit	206,391	206,391	206,391	—
Total assets	\$ 247,857	\$ 247,857	\$ 247,857	\$ —
Liabilities:				
Commercial paper	\$ 174,000	\$ 174,000	\$ 174,000	\$ —
Long-term debt	2,216,949	2,352,900	—	2,352,900
Total liabilities	\$2,390,949	\$2,526,900	\$ 174,000	\$2,352,900

b. Derivative instruments and hedging activities

Cash settlements related to interest rate derivatives from previous years are accumulated in deferred charges and deferred credits. They are amortized as a component of interest expense during the life of the associated debt. At December 31, 2019, and 2018, the remaining unamortized balance in deferred charges were \$18.9 million and \$19.9 million, respectively, and the remaining unamortized balance in the deferred credits were \$2.6 million and \$2.9 million, respectively.

In 2019 and 2018, the net amortization expenses for the aforementioned cash-settled interest rate hedges were \$705,000 and \$794,000, respectively. See Note 2(a) for the fair value of Georgia Transmission's derivative instruments as reflected in the balance sheet.

3. INVESTMENTS:

Investments in associated organizations include equities allocated to Georgia Transmission in the form of patronage capital and capital term certificates. The patronage capital and capital term certificates investments are a result of Georgia Transmission's membership in various organizations. Investments at December 31, 2019, and 2018, are shown in the table on the right.

<i>(dollars in thousands)</i>	2019	2018
CFC	\$19,783	\$20,305
CoBank	4,851	4,289
Federated Insurance	321	300
Gresco Utility Supply	344	300
Total	<u>\$25,299</u>	<u>\$25,194</u>

The investments in CFC include \$10 million in CFC Member Capital Securities. These securities have an interest rate of 5.0% payable semi-annually with a maturity date of April 23, 2044, and are callable by CFC by April 23, 2024, at 100%. The remaining investments in CFC and CoBank, ACB (CoBank) are similar to compensating bank balances in that they are required to maintain current financing arrangements. Federated Insurance and Gresco Utility Supply investments consist of patronage capital.

All investments in associated organizations are accounted for using the cost method for investments because there is no market for these investments, and it is not practicable to estimate their fair values. Under this method, the fair value of an investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on its fair value. Georgia Transmission annually reviews all of its "cost method investments" to determine if there are any other than temporary impairments that need to be recognized. During the years ended December 31, 2019, and 2018, there were no identified events or changes in circumstances that were determined to have a significant adverse effect on the fair value of these investments or that resulted in other than temporary impairments.

4. INCOME TAXES:

Georgia Transmission is a 501(c)(12) cooperative and is exempt from federal and state income taxes, provided revenues from its Member Systems and Oglethorpe are at least 85% of Georgia Transmission's total revenues. For all years since Georgia Transmission began operation, Georgia Transmission has met this requirement.

Financial Accounting Standards Board (FASB) issued guidance on Accounting for Uncertainty in Income Taxes. Georgia Transmission adopted this guidance for the year ended December 31, 2009. Management has examined Georgia Transmission's tax positions and concluded Georgia Transmission has taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance.

5. DEBT:

Long-term debt consists of mortgage notes payable to the United States of America acting through FFB and the RUS, mortgage notes payable issued in conjunction with the sale by public authorities of pollution control revenue bonds (PCBs) and notes payable to CoBank, CFC, and private placement debt holders. In connection with the corporate restructuring of Oglethorpe, Georgia Transmission assumed responsibility for payment of a portion of Oglethorpe's mortgage notes issued in conjunction with the sale by public authorities of PCBs. Substantially all of the owned tangible and certain of the intangible assets of Georgia Transmission are pledged as collateral under the Indenture for FFB and RUS notes, the CoBank and CFC notes, private placement notes, and the notes issued in conjunction with the sale of PCBs. The detail of the notes is included in the Statements of Capitalization.

Georgia Transmission has RUS-guaranteed FFB notes under which the outstanding principal amounts were \$1.7 billion and \$1.6 billion at both December 31, 2019, and 2018, respectively, with rates ranging from 1.79% to 8.21%.

During 2019, Georgia Transmission advanced approximately \$141 million from existing RUS-guaranteed FFB loans to fund construction costs related to transmission projects. In addition, Georgia Transmission received approval for another RUS-guaranteed FFB loan for approximately \$78 million related to constructed transmission projects to be completed in 2019. No advances on this loan have occurred to date.

During 2019, Georgia Transmission executed a private placement debt transaction of approximately \$73 million with a final maturity of approximately 31 years. The purpose of this transaction was to replace certain long-term FFB debt that had relatively high interest rates and were being retired early using COC deposits without incurring prepayment penalties.

During 2012, Georgia Transmission refinanced debt related to certain outstanding PCBs and a CoBank bridge loan through the issuance of the Development Authority of Burke County PCBs (Georgia Transmission Corporation Vogtle Project), Series 2012, in the principal amount of approximately \$94.5 million. Georgia Transmission is the sole obligor with respect to the debt associated with these refinanced PCBs, which have a final maturity date of January 1, 2052. The PCBs had an original fixed term rate of 1.25% and an initial mandatory tender date of May 1, 2015. Subsequently, Georgia Transmission remarketed the PCBs in 2015 and, again, during 2018, retaining the structure and tenor (three years) of the original bonds. The fixed term rate on the latest remarketed PCBs is 2.5%. The next mandatory tender date is May 3, 2021.

Georgia Transmission has a \$230 million shelf loan facility from CFC. The purpose of the shelf loan is to fund a portion of Georgia Transmission's projected capital expenditures, primarily those that are not eligible for RUS funding. Advances under the new facility are available for a five-year term (through 2021) and may be extended for an additional five years. Georgia Transmission did not advance funds from this facility during 2018; however, in 2019, an advance of approximately \$20 million was received.

During 2017, Georgia Transmission replaced its existing \$325 million revolving credit agreement with CoBank, originally scheduled to terminate in late 2018, with a similar five-year agreement with CoBank for the same amount scheduled to terminate in 2022. Like the original, the new agreement is an active source for liquidity and funding project construction as well as general corporate purposes. The agreement may also be used as support for Georgia Transmission's commercial paper program. As of December 31, 2019, and December 31, 2018, Georgia Transmission had \$0 and \$165 million outstanding on the CoBank agreement, respectively.

Georgia Transmission has a committed \$240 million credit facility provided by a group of banks led by CFC. Like the CoBank-led credit agreement, the facility was established to fund general corporate purposes and as a backup for Georgia Transmission's commercial paper program. Because Georgia Transmission uses both committed credit facilities to fully back its commercial paper program, the combined borrowing capacity for both facilities is limited to the amount of commercial paper outstanding. As of December 31, 2019, and December 31, 2018, commercial paper outstanding amounts were \$92 million and \$174 million, respectively. There were no outstanding amounts on the CFC-led facility as of December 31, 2019, or December 31, 2018.

Georgia Transmission has a \$20 million uncommitted short-term line of credit with CFC with no outstanding amounts as of December 31, 2019, or December 31, 2018.

Maturities for long-term and short-term debt through 2024, excluding commercial paper, are as shown in the table on the right.

	Maturity Schedule						
(dollars in thousands)	2020	2021	2022	2023	2024	Thereafter	Total
FFB	\$ 48,782	\$ 48,972	\$ 44,559	\$ 46,215	\$ 47,812	\$1,425,011	\$1,661,351
CFC	5,615	5,683	4,552	5,082	10,163	36,367	67,462
PCB	—	—	—	—	—	94,465	94,465
Private placement	15,946	15,995	13,112	9,212	13,316	257,923	325,504
Total	<u>\$ 70,343</u>	<u>\$ 70,650</u>	<u>\$ 62,223</u>	<u>\$ 60,509</u>	<u>\$ 71,291</u>	<u>\$1,813,766</u>	<u>\$2,148,782</u>

6. ELECTRIC PLANT AND RELATED AGREEMENTS:

A summary of Georgia Transmission's transmission and distribution investments and related accumulated depreciation as of December 31, 2019, and December 31, 2018, is shown in the table on the right.

Georgia Transmission has entered into interconnection and operation and maintenance agreements with the owners of various generation facilities. Generally, the initial terms of these agreements coincide with the expected life of each generation facility. These agreements typically provide for Georgia Transmission to build, operate and maintain a switching station and related interconnection facilities that allow the generation facility access to the ITS. Although Georgia Transmission is reimbursed for the cost of building the interconnection facilities and all related operation and maintenance expenses, Georgia Transmission retains legal ownership of the interconnection facilities other than those incidental to the generation facilities, which the generator will own. Georgia Transmission accounts for these transactions on its balance sheet by recording the switching station at cost with an offsetting amount recorded to contribution in aid of construction, and, thus, the station is carried with a zero net book value. No revenues or expenses are recorded for such construction because all amounts are reimbursed. The majority of these generation facilities are designated network resources of Georgia Transmission's Member Systems and Oglethorpe, and, as such, Georgia Transmission does not collect revenues from the generation facilities for the transmission services Georgia Transmission provides. Georgia Transmission earns revenues from operation and maintenance on these interconnection facilities. See Note 1(d) for further discussion.

<i>(dollars in thousands)</i>		
Plant	2019 Investment	2018 Investment
In service		
Transmission lines	\$ 1,652,585	\$ 1,630,168
Transmission substations	725,413	695,867
Distribution substations	959,815	933,093
General plant and other	74,562	66,871
Plant held for future use	40,537	38,243
Total utility plant in service	<u>\$ 3,452,912</u>	<u>\$ 3,364,242</u>
Construction work in progress		
Transmission lines	\$ 11,733	\$ 10,674
Transmission substations	11,755	10,125
Distribution substations	15,005	17,327
General plant and other	12,250	3,515
Plant held for future use	3,474	113
Total construction work in progress	<u>\$ 54,217</u>	<u>\$ 41,754</u>
	2019 Accumulated Depreciation & Amortization	2018 Accumulated Depreciation & Amortization
Plant		
In service		
Transmission lines	\$ 566,595	\$ 528,954
Transmission substations	199,672	183,324
Distribution substations	324,529	305,437
General plant and other	25,428	23,750
Total in service	<u>\$ 1,116,224</u>	<u>\$ 1,041,465</u>

7. EMPLOYEE BENEFIT PLANS:

The Georgia Transmission Retirement Plan's 401(k) feature covers substantially all employees. An employee may contribute, subject to Internal Revenue Service (IRS) limitations, up to 60% of his/her eligible annual compensation. Georgia Transmission has the discretion to match a portion of the first 6% of the employee's contribution and has done so each year of the plan's existence. Georgia Transmission's current policy is to match the employee's contribution as long as there is sufficient margin to do so. The match, which is calculated each pay period, may be equal to as much as three-quarters of the first 6% of the employee's annual contribution, depending on the amount and timing of the employee's contribution. Georgia Transmission's contributions to the matching feature of the plan were approximately \$1.4 million, \$1.4 million, and \$1.3 million in 2019, 2018, and 2017, respectively.

Under the Georgia Transmission Retirement Plan's employer retirement contribution feature of the 401(k) plan, Georgia Transmission contributes 11%, subject to IRS limitations, of each employee's eligible annual compensation. Georgia Transmission's contributions to the employer retirement contribution feature of the 401(k) plan were approximately \$3.8 million, \$3.6 million, and \$3.6 million, in 2019, 2018, and 2017, respectively.

Georgia Transmission also sponsors three deferred compensation plans for eligible employees. Eligible employees are defined as highly compensated individuals within the definition of Internal Revenue Code (IRC) section 414(q). The three plans are the Georgia Transmission Deferred Compensation Plan for Employees administered by the National Rural Electric

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Cooperative Association (NRECA), the Georgia Transmission Deferred Compensation Plan offering investment options from Fidelity Investments (Fidelity) and administered by Fidelity, and the Georgia Transmission 457(f) Deferred Compensation Plan administered in-house. The Georgia Transmission Deferred Compensation Plans offer investment options to all eligible participants without regard to salary limits under IRC section 401(a)(17). In addition, the Fidelity plan also enables Georgia Transmission to continue contributions via its employer retirement contribution to the highly compensated employees who exceed the IRS salary limits on retirement plan contributions under IRC section 401(a)(17).

The annual deferral to the two deferred compensation plans is calculated in accordance with IRC section 457, subject to changes under IRC section 457(b). The 457(f) Plan enables Georgia Transmission to continue company contributions that exceed the annual limit for the 457(b) Plan. The value of the NRECA and Fidelity plans is recorded as an asset and an equal offsetting liability with balances of \$2.9 million and \$2.4 million as of December 31, 2019, and December 31, 2018, respectively.

8. COMMITMENTS AND CONTINGENCIES:

Georgia Transmission has entered into four contracts with Georgia Power covering certain operation services, maintenance services, spare parts and equipment requirements, and planning services. Either party may cancel one or more of these contracts upon two years' notice. As of December 31, 2019, neither party had issued a cancellation notice. Purchases and uses of the services by Georgia Transmission under each of these contracts are optional. However, each contract is subject to a minimum annual payment. Future charges are tied to escalation factors based on Bureau of Labor statistics indices and changes to Georgia Transmission's ownership percentage in the ITS.

Georgia Transmission also has agreements with Oglethorpe and GSOC for certain administrative, general and control center services, as discussed further in Note 9.

Georgia Transmission has agreements with certain executive officers that provide for severance compensation upon termination following a change of control. These agreements contain certain automatic renewal provisions.

Georgia Transmission is subject to legal claims arising in the ordinary course of business. Georgia Transmission does not believe any legal claims exist that would have a material adverse effect on its operating results, financial position, or cash flows. As a result, no provision is made in the financial statements for any contingent liabilities.

9. RELATED PARTY TRANSACTIONS:

Georgia Transmission is party to certain agreements with Oglethorpe and GSOC for the recovery of certain costs incurred by them on behalf of Georgia Transmission. Oglethorpe charges Georgia Transmission for use of office space (under a lease renewable annually), use of certain facilities and equipment, and other services. Amounts paid to Oglethorpe for such services were \$4.3 million, \$4.1 million, and \$4.1 million for 2019, 2018, and 2017, respectively, and are allocated to Georgia Transmission based on square footage. The amount due to Oglethorpe for both December 31, 2019, and December 31, 2018, was \$700,000.

Georgia Transmission is also party to agreements for shared services and control center operations GSOC provides. Under these agreements, GSOC performs certain administrative, general and control center services on behalf of Georgia Transmission. GSOC bills Georgia Transmission for such services at its cost plus a required margin. Amounts paid by Georgia Transmission to GSOC for such services were \$35.8 million, \$34.0 million, and \$34.0 million, for 2019, 2018, and 2017, respectively. Amounts due to GSOC were \$2.1 million and \$2.3 million as of December 31, 2019, and December 31 2018, respectively.

The agreement with Oglethorpe renews each year, unless terminated by either party by giving 180 days' notice. See Note 6 for additional information on related party transactions with Oglethorpe. The GSOC shared services agreement renews each year, unless terminated by either party giving 180 days' notice. The GSOC operations agreement has a one-year notice provision.

10. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

Georgia Transmission adopted ASU 2016-18, Statements of Cash Flows (Topic 230): Restricted Cash, in the first quarter of 2019 using the full retrospective method. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result of this ASU, Georgia Transmission's statements of cash flows include changes in restricted cash, such as changes in the portions of the Cushion of Credit deposits held in cash.

11. SUBSEQUENT EVENTS:

In January 2020, FEMA obligated and paid \$1.3 million to Georgia Transmission related to storm damage caused by Hurricane Michael during October 2018.

In February 2020, Georgia Transmission amended and extended its \$240 million syndicated line of credit. The facility, which previously was scheduled to terminate in late 2020, has a new maturity date of February 28, 2025. The three banks participating in the syndication are CFC, Bank of America, and CoBank.

REPORT OF MANAGEMENT

The management of Georgia Transmission Corporation has prepared this report and is responsible for the financial statements and related information. These statements were prepared in conformity with accounting principles generally accepted in the United States of America and appropriate in the circumstances and necessarily include amounts that are based on best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

Georgia Transmission maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed its benefits. Georgia Transmission believes that its system of internal accounting controls, together with an internal auditing function, maintains appropriate cost/benefit relations.

Georgia Transmission's system of internal control is evaluated on an ongoing basis by its qualified internal audit staff. Georgia Transmission's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements; however, this report of management is not required to be, and was not, subject to attestation by our independent public accountants.

The independent public accountants also provide an objective assessment of how well management meets its responsibility for fair financial reporting. Management believes that its policies and procedures provide reasonable assurance that Georgia Transmission's operations are conducted with a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Georgia Transmission.

Jerry L. Donovan
 President and Chief Executive Officer

Barbara E. Hampton
 Sr. Vice President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
 Georgia Transmission Corporation
 Tucker, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Georgia Transmission Corporation, which are comprised of the balance sheets and statements of capitalization as of December 31, 2019 and 2018, and the related statements of revenue and expenses, patronage capital and membership fees, and cash flows for the years ended December 31, 2019, 2018 and 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Georgia Transmission Corporation as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years ended December 31, 2019, 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Morehead City, North Carolina
 March 18, 2020