ONE

MEAG POWER

2007 ANNUAL REPORT

BUSINESS DESCRIPTION

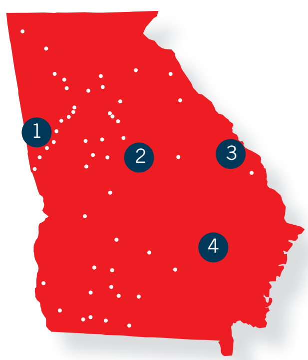
The Municipal Electric Authority of Georgia (MEAG Power) exists for one primary reason: to generate and transmit reliable and economical wholesale electric power to our 49 Participants. We have addressed this requirement successfully in our more than three decades of service since being chartered by the Georgia General Assembly as a public power corporation. We provide power through our co-ownership of two nuclear and two coal-fired generating plants, sole ownership of a combined cycle facility, as well as ownership of over 1,300 miles of high voltage transmission lines and nearly 200 substations. MEAG Power also monitors and advocates on energy issues at the state and federal levels on behalf of our Participants. In addition, through separate business units, MEAG Power offers our Participants technical support, training, pricing strategies, joint purchasing, energy services, meter testing and economic development assistance.

MEAG Power is among the country's leading joint action agencies, with one of the most diversified fuel portfolios in the Southeast. We were also one of the first public power organizations to extend our power sales contracts, thus providing for the continued operation and financing of our generation and transmission assets in the most efficient manner.

As a public power enterprise, MEAG Power was created to serve our Participants. It is for their benefit, not shareholders', that we exist; it is their decisions at the local level that drive our long-term operations; and it is by combining their voices into one that we help protect their interests as energy policies and legislation are discussed and enacted.

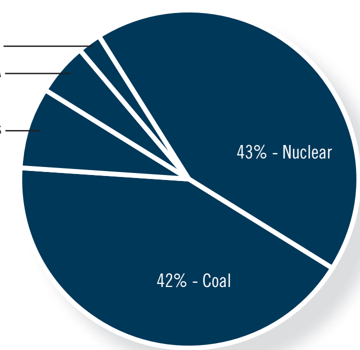
MEAG POWER PARTICIPANTS AND GENERATION PLANTS

Acworth
Adel
Albany
Barnesville
Blakely
Brinson
Buford
Cairo
Calhoun
Camilla
Cartersville
College Park
Commerce
Covington
Crisp County
Doerun
Douglas
East Point
Elberton
Ellaville
Fairburn
Fitzgerald
Forsyth
Fort Valley
Grantville
Griffin
Hogansville
Jackson
LaFayette
LaGrange
Lawrenceville
Mansfield
Marietta
Monroe
Monticello
Moultrie
Newnan
Norcross
Oxford
Palmetto
Quitman
Sandersville
Sylvania
Sylvester
Thomaston
Thomasville
Washington
West Point
Whigham



1 Plant Wansley and Wansley Combined Cycle Facility
2 Plant Scherer
3 Plant Vogtle
4 Plant Hatch

DELIVERED ENERGY BY SOURCE - 2007



MEAG POWER FINANCIAL HIGHLIGHTS

Three-Year Summary of Selected Financial and Operating Data

(Dollars in thousands)	**2007**	2006	2005
Total revenues	**$ 736,039**	$ 721,484	$ 703,775
Total assets	**$ 4,647,852**	$ 4,911,720	$ 4,878,920
Property, plant and equipment – net	**$ 2,157,543**	$ 2,135,771	$ 2,158,531
Debt outstanding (excluding defeased bonds)	**$ 3,892,421**	$ 4,099,819	$ 4,027,879
Annual weighted average interest cost	**4.72%**	4.85%	4.45%
Total delivered energy to MEAG Power Participants (MWh)(1)	**10,767,616**	10,484,380	10,463,171
Cost to MEAG Power Participants (cents per kWh):(2)			
Total cost(1)	**5.45**	5.45	4.99
Bulk power cost	**5.35**	5.43	5.06
SEPA cost(1)	**7.49**	5.67	4.10
Peak demand (MW)	**2,117**	1,992	1,979
Total nominal generating capacity in service (MW)	**2,069**	2,069	2,069

(1) Participants purchase energy directly from the Southeastern Power Administration (SEPA). Such energy is included in these calculations.
(2) Cost related to MEAG Power's electric generating projects.

While there is strength in numbers, that power becomes even more formidable when the many become one. The Participants of MEAG Power understand the wisdom of unity and have used it throughout the years to accomplish much.

ONE team 1

College Park

JOINING TOGETHER TO

Sandersville

Supply diversity is critically important when it comes to electric service. The preferred generation portfolio provides a variety and balance of fuel resources. While this is difficult for one community to achieve alone, by partnering, as MEAG Power's Participants have done, such diversity becomes reality. In fact, today, MEAG Power communities enjoy the flexibility and cost-efficiency benefits of one of the most diversified fuel portfolios in the Southeast. Similarly, each individual community benefits from a mix of electric energy resources that meets the diversified power demands that occur during a day. By joining together, MEAG Power Participants are accomplishing this goal, remixing generation resources among themselves and, in the process, mitigating market risk and stabilizing cost of supply.

Lawrenceville

Fairburn

Palmetto

OPTIMIZE RESOURCES

When MEAG Power was formed, Participants made decisions as to what amount of generation resources they needed to meet their customers' demand. Over time, however, a community's energy needs can grow and change. Buying and selling electric energy in the open wholesale market provides an avenue for balancing needs versus resources. However, the cost is uncertain and can be risky. Recently, prices have been extremely volatile.

As a result, in 2007, several Participants evaluated the benefits of resource remixing in order to mitigate the risks of energy purchases from the market. Working with MEAG Power, these communities transferred 33 MW of output among themselves. For example, College Park transferred portions of its resources to Lawrenceville and Sandersville under long-term contracts, and Newnan rebalanced its mix by transferring output to Fairburn and Palmetto. With the inter-Participant remixing of resources, buyers and sellers reduce market risk and can budget with more certainty.

Barnesville

Thomaston

Newnan

1 ONE entity


Mansfield

Coming Together TO CREATE FINANCIAL


Albany

Cartersville

MEAG Power Participants have seen the financial benefits unity can deliver. The most obvious manifestation is the low cost they have consistently enjoyed for the generation and transmission of wholesale electric power. In 2007, the cost per kilowatt-hour was 5.45 cents – a price that compares very favorably with other Southeast providers'. Moreover, in spite of rising fuel expenses, the cost is the same as in 2006. Uniting as MEAG Power has also enabled funding for capital projects to be secured at more attractive rates than any single community could have obtained. Likewise, forming the Municipal Competitive Trust (Competitive Trust) improved access to liquidity, credit support and bond insurance, all of which reduces costs. The unanimous approval by Participants in 2004 to extend their power sales contracts with MEAG Power further strengthened their financial positions.

Camilla


Griffin

Cairo

STRENGTH

As a result of extending the power sales contracts, annual transmission billing charges were reduced by a total of $10.7 million in 2007. By 2026, the reductions should total approximately $135 million. The reductions provide an opportunity for each Participant to have increased funds for future power supply resource requirements and electric system improvements.

Competitive Trust funds will begin to be applied to Participants' power sales contract billings for Project One and the General Resolution Projects in 2009. This is the result of an amendment to the Competitive Trust that was recently affirmed by all Participants. The amendment also establishes an additional account within the Competitive Trust. This account provides Participants an opportunity to reserve funds and direct their use to the acquisition and/or construction of future generation projects. As communities take advantage of this option, they reduce the costs of participation in new facilities and thus make access to additional generating resources more affordable.

Participants also invest a portion of their portfolios through the Competitive Trust. This investment partnership has generated solid returns for many years. In 2007, the Competitive Trust earned $36.9 million in investment income for Participants.

Whigham

Norcross


Covington

Brinson

ONE focus

ACTING TOGETHER TO

Doerun

Forsyth

Throughout the years, MEAG Power Participants' cooperative efforts have resulted in substantial savings. In the early 2000s, Participants supported expanding their power supply options by construction of the wholly owned Wansley Combined Cycle Facility. This facility is a state-of-the-art, low-emission, highly efficient unit that benefits the Participants by reducing exposure to market risk. In addition to generation savings made possible by the diverse fuel portfolio, transmission savings have also been secured by planning together. The recent Integrated Transmission System contract extension is estimated to avoid approximately $500 million in additional transmission costs, and ensures a seamless transmission grid throughout the State.


East Point


Ellaville


Elberton

SAVE MILLIONS

In 2006, the Federal Energy Regulatory Commission (FERC) issued numerous compliance standards that have become mandatory for utility transmission systems. While MEAG Power and our Participants support efforts to make the country's transmission grid more reliable and secure, obligating each MEAG Power community to comply with FERC's multiple complex standards did not make sense. A concerted campaign by MEAG Power and our Participants convinced FERC of such, and the Participants were excluded. We estimate (using FERC's own calculations) that this coordinated action saved Participants $80 million in compliance costs.

In 2007, Participants furthered their joint cost-saving capabilities with the opening of a new, hands-on Transmission Training Center in Forsyth, Georgia. This new facility's classes are open to all Participant utility personnel, and the training provided will improve electric reliability and Participant operating personnel safety. In addition, the Center can be used as a convenient meeting facility for our Participants.

Participants have also saved thousands of dollars by leveraging the efficiencies of MEAG Power's Distribution and Marketing Business Units. By sharing various resources and expertise in energy audits, load analyses, cost-of-service studies and more, Participants have been able to garner economies of scale and achieve savings through joint activities such as material purchasing.


Fitzgerald


Commerce

ONE voice

Jackson

SPEAKING TOGETHER


Sylvania

The focus on global climate change and, more specifically, greenhouse gas emissions, has continued to intensify. In addition, programs to increase the use of renewable fuels are being considered at the federal and state levels. As these concerns and projects move forward, MEAG Power and the Participants continue to emphasize the consensus viewpoint of our communities pertaining to these issues.


LaFayette


Calhoun

Blakely

Fort Valley

Thomasville

Oxford


Grantville

Courtesy of The (Newnan) Times-Herald

TO SPEAK LOUDER

Throughout 2007, MEAG Power Participants remained united in their stance that any new federal energy legislation not include a one-size-meets-all renewable energy requirement. The opportunities for renewable power generation vary significantly across the country, and any legislation needs to recognize these differences. In December, when H.R. 6, The Energy Independence and Security Act of 2007, was signed into law, there was no such renewable requirement. The concerted lobbying MEAG Power and our allies around the country have undertaken allows more time to fully analyze the impact of renewable energy programs across the United States.

To highlight that Participants have one of the lowest-emitting generating portfolios in the Southeast, MEAG Power published data to illustrate an admirable track record in emissions reduction – slightly over 50 percent of the energy mix Participants receive comes from non-emitting sources, compared to the industry's 30 percent. The information also underscored the fact that while the communities overall were meeting increased demand with increased energy from fossil fuel generation – actually doubling the amount from 1990-2006 – the SO_2 and NO_x emission rates from these plants were reduced 69 percent and 64 percent, respectively.

At the State capitol, as well as in Washington, D.C., MEAG Power advocates policy positions in support of Participants and all municipal electric systems. Specifically, MEAG Power continues to caution against any cap and trade program that does not take into consideration such critical factors as unproven technologies for CO_2 emission capture and underground storage or sequestration of these emissions. Most importantly, through MEAG Power, Participants voice their opinion that a cap and trade program include a safety valve to establish a maximum price of CO_2 emissions, since there is no proven technology that would provide this cost cap. Additionally, environmental and energy policymakers are being informed of the challenges that the Southeast and Georgia areas face in meeting renewable standards since wind- and solar-powered energy do not perform well in these regions.


Quitman

Moultrie

Q AND A WITH THE CHAIRMAN OF THE BOARD AND THE PRESIDENT

L. Keith Brady

L. KEITH BRADY
Chairman of the Board

RP Johnston

ROBERT P. JOHNSTON
President and Chief Executive Officer

WHAT WERE THE HIGHLIGHTS OF 2007?

In an environment fraught with rising costs, MEAG Power was able to come in under our 2007 budget. Moreover, we continued to deliver cost-competitive wholesale electricity to our Participants, compared to other utilities in our region. We are very proud of these achievements. Our diverse fuel portfolio – something we have worked hard to maintain and that, we believe, is among the best in the Southeast – can be credited for much of this success. Our nuclear generation continues to provide a source of energy at a stable cost. Through our risk management program we reduce the impact of highly volatile natural gas prices, and our contracting strategy on coal minimized the cost impact of this fuel. All of this helped us manage through a very difficult power resource environment.

The turmoil in financial markets has impacted our investment portfolio in a positive way, as the Federal Reserve has reduced short-term interest rates, thereby increasing the value of our investments. Many issuers have been impacted by the credit deterioration of the bond insurance companies that insure certain types of variable-rate debt. We have maintained diversity in the type of variable-rate debt instruments, which finance a portion of our capital needs, to reduce MEAG Power's exposure to market disruptions in any one type of variable-rate instrument. This diversity in funding vehicles continues to provide budget stability to our Participants.

In 2007, MEAG Power also was involved in a number of successful "remixing" projects. Our Participants transferred output allocations among one another and were able to better balance their needs and resources while reducing exposure to market price volatility.

Q AND A WHAT ISSUES WERE FRONT AND CENTER?

Much of 2007 was directed toward decisions concerning the possible Plant Vogtle nuclear expansion project. Our Participants are facing a once-in-a-generation decision concerning an asset that could run well into the 2070s. The Participants are again making a decision based on a long-term view of their needs, similar to the formative days of MEAG Power. No matter what, we must address our Participants' need for more energy. There are no risk-free supply options. These risks include fuel cost volatility, emissions reduction feasibility and construction cost variables.

Another important issue for MEAG Power is the impact of greenhouse gas emissions. It now appears likely that greenhouse gas emission control legislation is on the horizon. All the major Presidential candidates support such legislation, although their exact positions remain in flux. We do know, however, that burning fossil fuel is becoming more expensive. In the past decade, MEAG Power's largest capital investment has been in emission control technology at our coal plants, but we are reaching a point of diminishing returns – capturing that last molecule of greenhouse gas can entail enormous expenditures relative to results. It is also important to understand that, at this point, the infrastructure cost liability to capture and sequester CO_2 is beyond calculation.

The drought that affected Georgia this summer also demanded our attention and we closely monitored the water situations that impacted our plants. Fortunately, none of our facilities were jeopardized.

Q AND A WHERE DOES MEAG POWER STAND IN TERMS OF RENEWABLE ENERGY?

We have definitely stepped up our efforts to identify renewable energy resources. Unfortunately, Georgia is not blessed with favorable wind or solar opportunities. We are analyzing all sources of renewable energy, such as biomass, to the extent possible, but this option will not be enough to satisfy all required generation growth. In the future, if legislation mandates that a percentage of generation come from renewables, we will look to satisfy that mandate by acquiring or building assets at the lowest cost. That focus – economical generation – along with our emphasis on providing reliable wholesale electricity has been at the heart of MEAG Power's mission since our inception. It will continue to be so.

MAY 2008

Board Of Directors

left to right

Robert W. Lewis, General Manager, Marietta Board of Lights and Water

Robert C. Sosebee, Businessman and City Council Member, Commerce

Patrick C. Bowie, Jr., Utility Director, LaGrange

Kelly E. Cornwell, Director of Utilities, Calhoun

L. Keith Brady, Chairman - Mayor, Newnan

left to right

Roland C. Stubbs, Jr., Vice-Chairman - Businessman, Sylvania

John H. Flythe, Director of Economic Development, Fitzgerald

Kerry S. Waldron, Secretary-Treasurer - Director of Economic Development, Adel

Steve A. Rentfrow, General Manager, Crisp County Power Commission

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left to right

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James E. Fuller, Senior Vice President, Chief Financial Officer

Charles B. Manning, Jr., Senior Vice President, Participant and Corporate Affairs

Gary M. Schaeff, Vice President, Transmission

Mary G. Jackson, Senior Vice President, Chief Accounting Officer

J. Scott Jones, Vice President, Audit and Risk Management

Steven M. Jackson, Vice President, Power Supply

2007 Financial REVIEW

Adel

Sylvester


Washington

Buford

Marietta


West Point

Introduction

The Municipal Electric Authority of Georgia (MEAG Power) is comprised of the Electric Projects (defined below), the Telecommunications Project (Telecom), as well as the Distribution Services and Marketing Services Business Units (the Business Units). Forty-eight cities and one county of the State of Georgia (Electric Utility Participants) have contracted with MEAG Power for bulk electric power supply needs. MEAG Power also offers specialized services to the Electric Utility Participants through Telecom and the Business Units.

Overview of the Consolidated Financial Statements

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

The Balance Sheet summarizes information on all of MEAG Power's assets and liabilities.

Revenue and expense information is presented in the Statement of Net Revenues. Revenue represents billings for wholesale electricity sales to the Electric Utility Participants and sales of electricity to unrelated parties, as well as billings of Telecom and the Business Units. Expenses primarily include operating costs and debt service-related charges.

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

The Notes to Financial Statements (Notes) are an integral part of MEAG Power's basic consolidated financial statements and provide additional information on certain components of these statements.

MEAG Power's basic consolidated financial statements include the Electric Projects, Telecom and the Business Units. The Electric Projects consist of:

- Project One (financed under the Power Revenue Bond Resolution);
- Projects Two, Three and Four (the General Resolution Projects, financed under the General Power Revenue Bond Resolution);
- The Combined Cycle Project (the CC Project, initially financed under the Combustion Turbine Project Bond Resolution, subsequently amended as the Combined Cycle Project Bond Resolution); and
- The Municipal Competitive Trust (Competitive Trust) and the Deferred Lease Financing Trust, herein collectively referred to as the Trust Funds.

Vogtle Expansion Project

In May 2005, MEAG Power and the other co-owners of Plant Vogtle entered into a joint agreement authorizing the potential expansion of up to two additional nuclear units at Plant Vogtle (Additional Units). During December 2005, MEAG Power notified the other co-owners of Plant Vogtle as to its initial election to participate in the potential expansion project at a 22.7% ownership interest. Under the terms of the joint agreement, MEAG Power has the right to reduce its level of participation, including totally withdrawing from the proposed project, at any time prior to July 1, 2008. In the event that MEAG Power withdraws from the proposed project prior to July 1, 2008, it will be reimbursed certain preliminary design and development costs incurred by it, including carrying expenses, from inception through the date of withdrawal. Such expenditures, which are accounted for as preliminary survey costs in materials, supplies and other assets in Project One on the Balance Sheet, totaled $12.4 million and $4.5 million as of December 31, 2007 and 2006, respectively, and will be capitalized as part of the cost of the Additional Units if MEAG Power does not elect to withdraw from the proposed project.

Additionally, in April 2006, MEAG Power and the other co-owners of Plant Vogtle entered into ownership and operating agreements relating to the proposed Additional Units. MEAG Power also has the right to withdraw as a party from both of these agreements at any time prior to July 1, 2008.

In the event that MEAG Power continues its participation beyond the July 1, 2008 withdrawal date, it has an additional opportunity to withdraw from the expansion project at any time prior to December 1, 2008, but it may not withdraw to the extent of any portion of its interest in the Additional Units that is committed to the PPAs referred to below, without the consent of the PPA buyers. In the event that MEAG Power withdraws after July 1, 2008 but prior to December 1, 2008, it will not be reimbursed any amounts funded in regard to the Additional Units, but it will have no responsibility for project costs incurred after the date of withdrawal.

MEAG Power is currently working with the other co-owners to address permitting and licensing matters. On March 31, 2008, Southern Nuclear Operating Company, a subsidiary of Southern Company, filed, on behalf of the co-owners, an application with the Nuclear Regulatory Commission (NRC) for a Combined Construction and Operating License (COL) for the Additional Units. The COL is the critical step in the NRC's new, streamlined licensing process designed to reduce regulatory uncertainty by completing the process in stages. A COL is a one-step licensing process by which the NRC approves and issues a license to build and operate a new nuclear power plant.

On April 8, 2008, Georgia Power Company, also a subsidiary of Southern Company, on behalf of the co-owners, entered into an Engineering, Procurement and Construction (EPC) agreement with a consortium consisting of Westinghouse Electric Company LLC and Stone & Webster, Inc. for the engineering, procurement, construction and testing of two AP1000 nuclear units with electric generating capacity of approximately 1,100 megawatts each and related facilities. Under the EPC agreement, the consortium will supply and construct the entire facility with the exception of certain items provided by the co-owners. MEAG Power will submit the terms and conditions of the proposal to the Electric Utility Participants, who will have the option of participating in the proposed project. MEAG Power's estimated in-service cost including financing expenses, assuming it does not elect to reduce its 22.7% share of the proposed project, is approximately $3.1 billion.

Each of the Electric Utility Participants has the option of participating in the proposed expansion project at Plant Vogtle and determining the level, if any, at which it chooses to participate (including the portion, if any, of its chosen level of participation that it elects to commit to the PPAs referred to below), subject to maximum individual levels of participation established by MEAG Power. MEAG Power has begun the process of seeking binding contractual commitments from the Electric Utility Participants with respect to participation in the proposed project, and the process is expected to be completed by June 15, 2008. MEAG Power's ultimate level of participation in the proposed project will be equal to the sum of the individual levels of participation chosen by the Electric Utility Participants. No indication can be given as to whether the proposed expansion project at Plant Vogtle will proceed to completion, or the level, if any, at which MEAG Power ultimately will participate in such expansion project. If the proposed expansion project at Plant Vogtle proceeds to completion, commercial operation is planned for 2016 and 2017, respectively, for each of the Additional Units.

On May 12, 2008, MEAG Power entered into Power Purchase Agreements (PPAs) with two buyers to sell up to approximately 71% of MEAG Power's maximum share of output from the Additional Units. The PPAs relate to the first 20 years of commercial operation of each Additional Unit and require the buyers to pay the following related to their purchased share of output: operating costs; annual debt service costs on bonds to be issued by MEAG Power to finance construction costs; annual decommissioning costs; as well as certain other payments. The amount, if any, of the output of MEAG Power's interest in the Additional Units to be sold to the buyers under the PPAs will depend upon whether some or all of the Electric Utility Participants elect to commit all or any portion of their individual entitlements in MEAG Power's interest in the Additional Units to the PPAs.

MEAG Power anticipates that it will establish a separate project to finance the costs associated with that portion, if any, of its interest in the Additional Units that is not committed to either PPA, and separate projects to finance the costs associated with each portion, if any, of its interest in the Additional Units that is committed to a PPA.

Trust Amendment

In June 2006, MEAG Power distributed to the Electric Utility Participants for their consideration a proposed amendment to the terms of the Competitive Trust. The proposed amendment would authorize MEAG Power to apply funds from certain Competitive Trust accounts, either through debt retirements or as a credit to the power sales contract billings of the Electric Utility Participants, for the purpose of lowering the annual generation billings from MEAG Power during the period 2009 through 2018. The proposed amendment also authorizes the establishment of an additional account within the Competitive Trust to permit the Electric Utility Participants to fund their share of the acquisition and construction costs of any future MEAG Power generation project joined by such Electric Utility Participants. As of March 31, 2008, all of the Electric Utility Participants have agreed to the proposed amendment.

Financial Condition Overview

MEAG Power's Consolidated Balance Sheet as of December 31, 2007, 2006 and 2005 is summarized as follows (in thousands):

	2007	2006	2005
ASSETS:			
Property, plant and equipment – net	**$2,157,543**	$2,135,771	$2,158,531
Other non-current assets	**1,326,489**	1,242,468	1,186,529
Current assets	**789,942**	1,044,785	895,360
Deferred debits	**373,878**	488,696	638,500
Total Assets	**$4,647,852**	$4,911,720	$4,878,920
LIABILITIES:			
Long-term debt	**$3,432,399**	$3,662,611	$3,632,901
Lease finance obligation	**286,400**	274,019	262,174
Other non-current liabilities	**346,729**	322,331	352,703
Current liabilities	**582,324**	652,759	631,142
Total Liabilities	**$4,647,852**	$4,911,720	$4,878,920

The primary changes in MEAG Power's consolidated financial condition as of December 31, 2007 and 2006 were as follows:

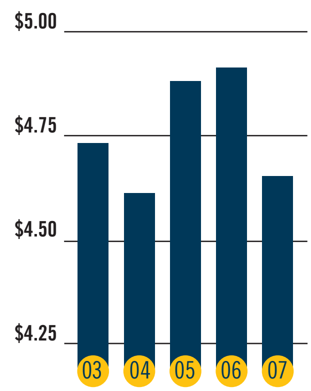
2007 Compared to 2006

Assets

- Property, plant and equipment increased $21.8 million due mainly to environmental improvements of $32.9 million, various equipment upgrades and replacements at the generating plants totaling $26.6 million, and transmission additions of $14.0 million. A net increase of $10.2 million in nuclear fuel was due to reloads. These increases were partially offset by accumulated depreciation increases totaling $62.4 million.
- Other non-current assets increased $84.0 million due to an increase in special funds primarily from interest earnings and additional funding in decommissioning, environmental facilities and Competitive Trust accounts, as well as proceeds from commercial paper (CP) borrowings.
- Decreases of $158.8 million in special funds and $109.8 million in securities lending were the primary factors in a $254.8 million decrease in current assets. Special funds decreased mainly due to debt payments of $195.9 million made in addition to normal scheduled debt service payments, by utilizing 2006 CP borrowings. Remaining escrow proceeds of $25.6 million from a previous bond refunding were also used to retire long-term debt. These decreases were partially offset by Electric Utility Participant contributions and interest earnings in the Competitive Trust accounts. Securities lending activity decreased due to the general decline in overall market and economic conditions. An increase of $15.2 million in materials, supplies and other assets was due primarily to increases in preliminary survey costs and plant maintenance materials.
- A decrease of $114.8 million in deferred debits was mainly due to debt service billings to the Electric Utility Participants exceeding depreciation expense, as well as certain investment income. These decreases were partially offset by an increase in amortization of debt discount and expense, as well as asset retirement obligations.

TOTAL ASSETS

(in billions of dollars)



Total assets decreased $263.9 million in 2007 due mainly to decreases in deferred debits and securities lending activity, as well as a decrease in special funds related to debt payments.

2007 Compared to 2006 (Continued)

Liabilities

- Long-term debt decreased $230.2 million due primarily to bond principal payments of $382.4 million and net payments of $26.0 million in CP. These reductions were partially offset by bond issuances of $171.3 million (see "Financing Activities" below).
- Normal accretion of the purchase option, as described in Note 2 (C), "Trust Funds — Deferred Lease Financing Trust," accounted for an increase of $12.4 million in the lease finance obligation.
- Other non-current liabilities increased $24.4 million due mainly to increases in asset retirement obligations of $19.0 million as well as $10.2 million in interest rate swap obligations related to a change in fair value.
- A decrease in current liabilities of $70.4 million was due primarily to the decrease of $109.8 million in securities lending activity discussed above. This decrease was partially offset by increases in accounts payable of $11.5 million, related to excess revenue received from the Electric Utility Participants, and construction liabilities of $8.9 million due to timing differences. Borrowings under lines of credit also increased $6.0 million. An increase of $14.0 million in Funds held for the Participants in the Trust Funds was due to an increase in Electric Utility Participant contributions, net of withdrawals, and interest earnings.

2006 Compared to 2005

Assets

- During 2006, property, plant and equipment decreased $22.8 million due to annual depreciation expense exceeding property additions by $43.2 million. An increase of $20.4 million in net nuclear fuel due to reloads, primarily in Project One, partially offset the decline in net property additions.
- An increase of $55.9 million in other non-current assets was due to special funds increasing from CP note proceeds, as well as additional funding and market appreciation in decommissioning and Competitive Trust accounts.
- Current assets increased $149.4 million due primarily to a $129.1 million increase in special funds also resulting mainly from the CP note proceeds, which were partially offset by escrow payments as discussed below. Fuel stocks increased $7.8 million and $10.8 million in Project One and the General Resolution Projects, respectively, to overcome a reduction in 2005 coal deliveries. Materials, supplies and other assets increased $6.4 million due primarily to increases in plant maintenance materials and preliminary survey costs.
- Deferred debits decreased $149.8 million due mainly to debt service billings to the Electric Utility Participants exceeding depreciation expense, as well as certain investment income and reductions in asset retirement obligations.

Liabilities

- Long-term debt increased $29.7 million due primarily to the issuance of CP notes mentioned above, which were partially offset by principal payments and the retirement of debt with escrow proceeds from a previous refunding.
- An increase of $11.8 million in the lease finance obligation was due to normal accretion of the purchase option, as described in Note 2 (C), "Trust Funds — Deferred Lease Financing Trust."
- Other non-current liabilities decreased $30.4 million, primarily due to a decrease in asset retirement obligations of $28.3 million and $3.0 million in Project One and the General Resolution Projects, respectively, resulting from a change in accounting estimate due to a new site-specific decommissioning study.
- Current liabilities increased $21.6 million due primarily to increases in the current portion of long-term debt of $12.0 million and $13.6 million in Project One and the General Resolution Projects, respectively. Funds held for the Participants in the Trust Funds increased $10.8 million due to contributions and earnings. These increases were partially offset by reductions of certain accounts payables totaling $15.8 million, in part related to a decrease in purchased power.

Results of Operations

MEAG Power's Consolidated Statement of Net Revenues for the years ended December 31, 2007, 2006 and 2005 is summarized as follows (in thousands):

	2007	2006	2005
Revenues:			
Participant	**$586,950**	$571,342	$533,042
Other	**149,089**	150,142	170,733
Total revenues	**736,039**	721,484	703,775
Operating expenses	**505,403**	485,786	478,327
Net operating revenues	**230,636**	235,698	225,448
Interest expense, net	**129,003**	146,674	170,464
Decrease in net costs to be recovered from future billings to Participants	**101,633**	89,024	54,984
Total other expenses, net	**230,636**	235,698	225,448
Net Revenues	**$ —**	$ —	$ —

The primary changes in MEAG Power's results of operations for the years ended December 31, 2007 and 2006 were as follows:

2007 Compared to 2006

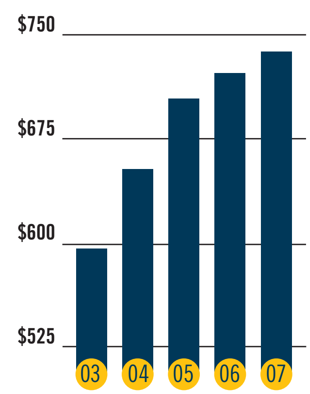
Revenues

Total revenues increased 2.0% during 2007 to $736.0 million from $721.5 million in 2006. Factors involved were:

- A $15.6 million increase in Participant revenues due to higher Participant billings for fuel related primarily to a 2.7% increase in delivered energy. A slight decrease in debt service billings partially offset the higher fuel billings.
- A slight decline in other revenues due to a $5.7 million decrease in revenues related to the expiration of a long-term energy contract and a $2.6 million decrease in contractual capacity sales to GPC. These were partially offset by an increase of $7.0 million in off-system energy sales, primarily in the CC Project, related mostly to volume.

TOTAL REVENUES

(in millions of dollars)



Total 2007 revenues increased $14.6 million primarily due to a 2.7% increase in delivered energy and increased billings for fuel cost.

Operating Expenses

Operating expenses for 2007 increased 4.0% to $505.4 million, compared to $485.8 in 2006. Main components were:

- Fuel which increased $24.3 million. Coal cost increased $11.6 million primarily due to higher quantity burned as a result of the elimination of coal conservation measures implemented in 2006 to build up inventory, as well as increased energy delivered related to record-setting heat. An increase of $8.2 million in natural gas expense, net of gas hedges, was also primarily attributable to the record temperatures. Higher unit prices of coal and natural gas also contributed to the increase in fuel cost.
- Slight decreases in purchased power, other generating or operating expenses, as well as depreciation and amortization.

2007 Compared to 2006 (Continued)

Net Interest Expense

During 2007, net interest expense, which includes stated interest expense and other related components such as amortization of debt discount and expense, interest income, net change in the fair value of financial instruments, and interest capitalized, totaled $129.0 million. This 12.1% decrease from the total of $146.7 million for 2006 is due primarily to changes in the following components of net interest expense:

- A $9.5 million decrease in interest expense is due primarily to lower amounts of debt outstanding.
- Interest income increased $10.4 million mainly resulting from higher interest rates and higher average invested balances.
- The fair value of financial instruments decreased by $4.8 million. This was primarily due to a $16.6 million decline related to the value of outstanding swap agreements and decommissioning investments, which was partially offset by improvements of $9.4 million in the value of investments in the Trust Funds.

Net Costs to be Recovered

The decrease in net costs to be recovered from future billings to Participants totaled $101.6 million for the year ended December 31, 2007 compared with $89.0 million for 2006 with the difference attributable to certain investment income, debt service billings and funding for certain property additions.

2006 Compared to 2005

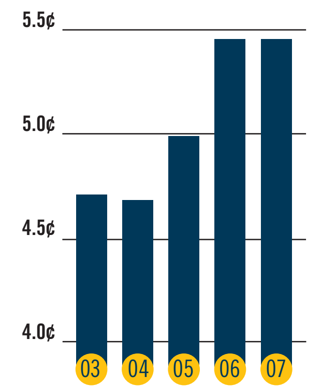
Revenues

In 2006, total revenues increased $17.7 million or 2.5% to $721.5 million from $703.8 million in 2005 due to an increase of $38.3 million in Participant revenues, which was partially offset by a decrease of $20.6 million in other revenues. Primary factors were as follows:

- Increases in Electric Utility Participant billings for debt service of $21.2 million and operating expenses (see below), excluding depreciation and amortization, for Project One, the General Resolution Projects and the CC Project.
- Other revenues decreased 12.1% due to an $18.0 million decline in off-system energy sales, mainly in Project One and the CC Project, related approximately 85% to price and 15% to volume.
- Energy delivered to Electric Utility Participants declined slightly due to slower than expected economic growth, partially offset by an increase in cooling degree hours.

COST TO PARTICIPANTS

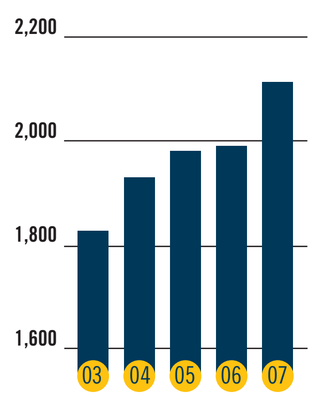
(cents/kWh)



Despite an increase in fuel cost, cents per kWh remained steady in 2007 at 5.45, due to the increase in delivered energy.

PEAK DEMAND

(in megawatts)



The summer peak increased 6.3% due to record-setting heat in August 2007, the hottest month on record in the State of Georgia.

2006 Compared to 2005 (Continued)

Operating Expenses

Operating expenses totaled $485.8 million during 2006 compared to $478.3 million in 2005, an increase of $7.5 million or 1.6% and were impacted by the following factors:

- Coal costs increased $15.6 million due to price, and were partially offset by a decrease in natural gas expense for the CC Project of $10.7 million. Coal consumption was down about 3% and gas consumption increased about 10%; however, the price of natural gas declined by almost 30%.
- A decrease in purchased power expense in Project One of $5.5 million due primarily to lower energy prices and volume.
- Other generating or operating expenses increased $6.0 million due in part to a planned major inspection outage of the Wansley Combined Cycle Facility.

Net Interest Expense

Net interest expense totaled $146.7 million during 2006. This 14.0% decrease from the total of $170.5 million for 2005 is due primarily to changes in the following components of net interest expense:

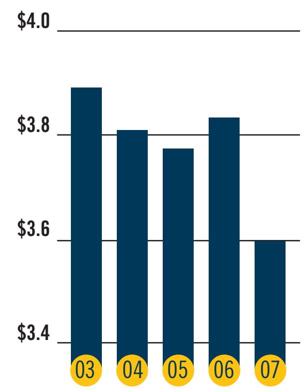
- Interest expense increased $11.7 million, primarily in Project One, due to higher interest rates and the issuance of additional CP notes mentioned above.
- Interest income increased $9.2 million, primarily in the General Resolution Projects and the Trust Funds, also due to higher interest rates as well as the increase in special funds discussed above.
- The fair value of financial instruments improved by $23.5 million, mainly in Project One and the Trust Funds. An increase in the value of decommissioning investments, partially offset by declines in the value of outstanding swap agreements, accounted for the improvement in Project One. Within the Trust Funds, the change is attributable to an increase in the value of Competitive Trust investments.

Net Costs to be Recovered

The amount of net costs to be recovered from future billings to Participants was reduced by $34.0 million in 2006, primarily in Project One, the CC Project and the Trust Funds, due mainly to fair value improvements, debt service billings to the Participants exceeding depreciation expense, and growth in Competitive Trust accounts.

BONDS OUTSTANDING(1)

(in billions of dollars)



(1) Includes Bond Anticipation Notes

Bond payments related to refunding transactions, in addition to normal debt service payments, were the primary factor in a $225.8 million decrease in bonds outstanding during 2007. These were partially offset by bond issuances of $171.3 million.

Financing Activities

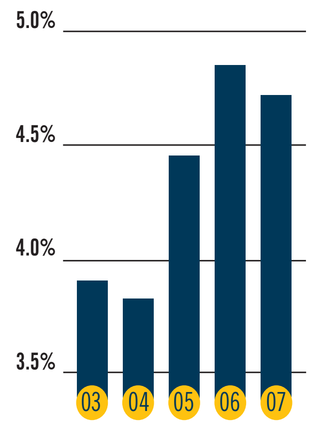
MEAG Power continues to implement strategies to further improve its competitive position and financial flexibility. These actions include: (1) an amendment to the Competitive Trust, as discussed above in "Trust Amendment," (2) refunding fixed and variable rate debt for debt service savings and (3) conversion of variable rate debt in auction rate mode to different interest rate modes or refinancing with fixed rate debt and/or CP to reduce interest expense related to these debt instruments.

Following is a brief description of significant financing transactions during 2007:

- In January 2007, MEAG Power issued $126.3 million of Project One subordinated bonds to refund previously issued tax-exempt CP notes. Of the total, $79.6 million are fixed rate bonds and $46.7 million bear interest at variable rates. In conjunction with the issuance of these bonds, MEAG Power entered into four separate interest rate swap transactions, one with respect to each maturity of the variable rate bonds.
- MEAG Power issued $45.0 million of taxable subordinated bonds in June 2007. Proceeds from these fixed rate bonds will be used to finance a portion of certain environmental improvements to the coal units at Plants Scherer and Wansley.
- During 2007, MEAG Power had a net decrease in CP notes of $26.0 million.

ANNUAL WEIGHTED AVERAGE INTEREST COST

(in percent)



Weighted average interest cost decreased as a result of lower amounts of debt outstanding.

The turmoil in the financial markets relating to the sub prime mortgage crisis has impacted the credit rating of certain municipal bond insurance companies who insure a portion of MEAG Power's variable rate debt that is currently in an auction rate mode. As a result, and as discussed above, MEAG Power is considering its options with respect to this debt which include refunding a portion of such variable rate debt, converting a portion of such variable rate debt to a different interest mode and/or issuing CP to refund a portion of such debt. As of December 31, 2007, MEAG Power had variable rate debt in auction rate 28 day reset mode as follows:

- $155.3 million in Project One subordinated bonds,
- $57.2 million in General Resolution Projects subordinated bonds,
- $75.7 million in CC Project bonds, and
- $24.9 million in Telecom bonds.

An additional $147.7 million in Project One subordinated auction rate bonds were in seven day reset mode as of December 31, 2007 and were refunded with a new $150.0 million line of credit facility in March 2008.

Due to the financial market conditions described above, an increasing percentage of the auctions for auction rate bonds, including some MEAG Power auctions, have failed to receive sufficient bids to set new interest rates. In such instances, the issuer is obligated to pay a formulaic failed auction rate until such time as sufficient bids are received at a scheduled auction. For MEAG Power, the interest rates resulting from failed auctions are based on a formulaic rate which takes into consideration the ratings of the bonds or a predetermined maximum rate. For the period December 31, 2007 through April 30, 2008, failed auction rates for MEAG Power have ranged from 3.80% to 5.70%. Continued and prolonged illiquidity in the auction rate market could increase MEAG Power's interest costs. The average interest rate on MEAG Power's variable rate debt in auction rate mode was 4.79% as of April 30, 2008, a slight reduction from 4.80% as of December 31, 2007.

Funds generated from operations are estimated to provide approximately 1%–13% of construction expenditures over the next three years. The remaining expenditures will be met by issuing long-term bonds and utilizing MEAG Power's existing CP program. To meet short-term cash needs and contingencies, $90.7 million of unused credit was available through arrangements with banks as of December 31, 2007, as described in Note 2 (M), "Long-Term Debt—Subordinated Debt and Other Debt."

The current unenhanced ratings assigned to the Electric Projects' senior lien and subordinated debt obligations (except for the CC Project senior debt, which is rated A by Standard & Poor's) are as follows:

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Senior lien debt	A+	A1	A+
Subordinated debt	A+	A2	A
Outlook/trend	Stable	Stable	Stable

Liquidity and Capital Resources

Net cash used by MEAG Power during 2007 was $65.9 million. This decrease in cash was primarily due to net cash used in capital and related financing activities of $516.2 million. Such outflows were primarily related to retirement of long-term debt and interest payments, which totaled $686.7 million, as well as property additions totaling $111.1 million. Issuances of long-term debt in 2007 provided proceeds of $275.6 million. Net cash provided by operating and investing activities yielded $314.7 million and $135.6 million, respectively.

During 2008 through 2010, maturities of long-term debt and sinking fund redemptions are expected to total $580.7 million. These requirements will be included in the appropriate year's budgeted revenue requirements and collected from the Electric Utility Participants and Telecom participants.

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

During 2007, capital additions related to capital improvements at existing generating plants and transmission facilities, as well as purchases of nuclear fuel, totaled $84.2 million. Construction work in progress as of December 31, 2007 totaled $90.7 million.

Construction expenditures are estimated to be $169.9 million, $141.1 million and $105.4 million for the years 2008, 2009 and 2010, respectively. These expenditures are related to capital improvements at existing generating plants and investment in transmission facilities. Also included in the estimates are the costs necessary to comply with certain environmental regulations, as described in Note 2 (Q), "Commitments and Contingencies — Environmental Regulation." Actual construction costs may vary from the estimates because of factors such as changes in economic conditions; revised environmental regulations; changes to existing plants to meet regulatory requirements; updated load forecasts; and the cost of construction labor, equipment and materials.

Consolidated Balance Sheet

December 31, 2007	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
ASSETS (in thousands)								
Property, plant and equipment, at cost:								
In service	$ 2,674,108	$ 860,973	$ 313,460	$ —	$ —	$ 3,848,541	$ 32,654	$ 3,881,195
Less accumulated depreciation	(1,394,388)	(457,745)	(30,627)	—	—	(1,882,760)	(19,429)	(1,902,189)
Property in service – net	1,279,720	403,228	282,833	—	—	1,965,781	13,225	1,979,006
Construction work in progress	58,926	31,288	276	—	—	90,490	200	90,690
Nuclear fuel, net of accumulated amortization	76,311	11,536	—	—	—	87,847	—	87,847
Total property, plant and equipment – net	1,414,957	446,052	283,109	—	—	2,144,118	13,425	2,157,543
Other non-current assets:								
Investment in Alliance	7,344	—	104	—	—	7,448	—	7,448
Special funds, including cash and cash equivalents	450,427	202,589	55,340	799,583	(188,898)	1,319,041	—	1,319,041
Total other non-current assets	457,771	202,589	55,444	799,583	(188,898)	1,326,489	—	1,326,489
Current assets:								
Special funds, including cash and cash equivalents	215,875	99,640	27,095	127,778	—	470,388	5,164	475,552
Supplemental power account, including cash and cash equivalents	814	—	—	—	—	814	—	814
Securities lending collateral	56,623	6,582	—	88,862	—	152,067	—	152,067
Receivables from Participants	35,163	12,752	(239)	181	—	47,857	797	48,654
Other receivables	10,783	6,417	302	1,438	(4,886)	14,054	85	14,139
Fuel stocks, at average cost	9,240	12,334	—	—	—	21,574	—	21,574
Materials, supplies and other assets	57,878	9,803	9,453	—	—	77,134	8	77,142
Total current assets	386,376	147,528	36,611	218,259	(4,886)	783,888	6,054	789,942
Deferred debits:								
Net costs to be recovered from future billings to Participants	556,452	132,639	(326)	(512,884)	—	175,881	8,115	183,996
Other deferred debits	113,315	54,566	21,284	396	—	189,561	321	189,882
Total deferred debits	669,767	187,205	20,958	(512,488)	—	365,442	8,436	373,878
Total Assets	$ 2,928,871	$ 983,374	$ 396,122	$ 505,354	$(193,784)	$ 4,619,937	$ 27,915	$ 4,647,852

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

Consolidated Balance Sheet

December 31, 2007	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
LIABILITIES (in thousands)								
Long-term debt:								
Power Revenue bonds	$ 740,062	$ —	$ —	$ —	$ —	$ 740,062	$ —	$ 740,062
General Power Revenue bonds	—	361,146	—	—	—	361,146	—	361,146
Combined Cycle Project Revenue bonds	—	—	362,920	—	—	362,920	—	362,920
Telecommunications Project Revenue bonds	—	—	—	—	—	—	22,605	22,605
Unamortized (discount) premium	1,631	6,270	6,839	—	—	14,740	—	14,740
Total Revenue bonds	741,693	367,416	369,759	—	—	1,478,868	22,605	1,501,473
Subordinated debt	1,625,352	477,470	—	—	(188,898)	1,913,924	—	1,913,924
Unamortized (discount) premium	17,001	1	—	—	—	17,002	—	17,002
Total subordinated debt	1,642,353	477,471	—	—	(188,898)	1,930,926	—	1,930,926
Total long-term debt	2,384,046	844,887	369,759	—	(188,898)	3,409,794	22,605	3,432,399
Lease finance obligation	—	—	—	286,400	—	286,400	—	286,400
Other non-current liabilities	296,391	48,581	—	787	—	345,759	970	346,729
Current liabilities:								
Accounts payable	42,246	14,283	7,253	19	(4,886)	58,915	1,940	60,855
Construction liabilities	5,379	5,586	14	—	—	10,979	—	10,979
Securities lending collateral	56,623	6,582	—	88,862	—	152,067	—	152,067
Current portion of long-term debt	101,133	44,394	16,440	—	—	161,967	2,315	164,282
Borrowings under lines of credit	4,200	5,140	—	—	—	9,340	—	9,340
Flexible trust funds held for Participants	—	—	—	129,286	—	129,286	—	129,286
Accrued interest	38,853	13,921	2,656	—	—	55,430	85	55,515
Total current liabilities	248,434	89,906	26,363	218,167	(4,886)	577,984	4,340	582,324
Commitments and contingencies	—	—	—	—	—	—	—	—
Total Liabilities	$2,928,871	$ 983,374	$396,122	$505,354	$(193,784)	$4,619,937	$27,915	$4,647,852

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

Consolidated Statement of Net Revenues

For the Year Ended December 31, 2007	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
(in thousands)								
Revenues:								
Participant	$348,808	$162,201	$ 68,409	$ —	$ —	$579,418	$7,532	$586,950
Other	83,453	34,652	31,714	—	(997)	148,822	267	149,089
Total revenues	432,261	196,853	100,123	—	(997)	728,240	7,799	736,039
Operating expenses:								
Fuel	89,090	76,320	47,750	—	(997)	212,163	—	212,163
Purchased power	16,151	—	—	—	—	16,151	—	16,151
Other generating or operating expense	112,334	42,625	14,276	210	—	169,445	4,374	173,819
Transmission	10,438	—	—	—	—	10,438	—	10,438
Depreciation and amortization	64,241	18,305	8,904	—	—	91,450	1,382	92,832
Total operating expenses	292,254	137,250	70,930	210	(997)	499,647	5,756	505,403
Net operating revenues (loss)	140,007	59,603	29,193	(210)	—	228,593	2,043	230,636
Interest expense (income), net:								
Interest expense	140,377	52,369	18,299	5,342	(11,530)	204,857	1,003	205,860
Amortization of debt discount and expense	1,847	827	987	12,381	—	16,042	75	16,117
Interest income	(32,410)	(13,126)	(3,970)	(42,254)	11,530	(80,230)	(175)	(80,405)
Net change in the fair value of financial instruments	2,541	(115)	(447)	(13,188)	—	(11,209)	1,023	(10,186)
Interest capitalized	(1,959)	(416)	—	—	—	(2,375)	(8)	(2,383)
Total interest expense (income), net	110,396	39,539	14,869	(37,719)	—	127,085	1,918	129,003
Decrease in net costs to be recovered from future billings to Participants	29,611	20,064	14,324	37,509	—	101,508	125	101,633
Total other expenses (income), net	140,007	59,603	29,193	(210)	—	228,593	2,043	230,636
Net Revenues	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2007	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
(in thousands)								
Cash flows from operating activities:								
Cash received from Participants	$ 358,896	$ 162,315	$ 68,473	$ 7,261	$ —	$ 596,945	$ 7,506	$ 604,451
Cash received from others	56,693	34,237	31,514	—	(997)	121,447	299	121,746
Cash paid for operating expenses	(225,272)	(119,847)	(62,707)	(370)	997	(407,199)	(4,336)	(411,535)
Net cash provided by operating activities	190,317	76,705	37,280	6,891	—	311,193	3,469	314,662
Cash flows from investing activities:								
Sales and maturities of investment securities	305,669	158,752	56,158	253,738	—	774,317	434	774,751
Purchase of investment securities	(297,936)	(164,203)	(41,890)	(222,903)	—	(726,932)	(408)	(727,340)
Interest receipts	21,521	4,956	2,069	42,779	(11,530)	59,795	136	59,931
Distribution from Alliance	28,284	—	—	—	—	28,284	—	28,284
Business Unit reserves	—	—	—	—	—	—	21	21
Net cash provided by (used in) investing activities	57,538	(495)	16,337	73,614	(11,530)	135,464	183	135,647
Cash flows from capital and related financing activities:								
Property additions	(85,250)	(25,451)	(215)	—	—	(110,916)	(222)	(111,138)
Net proceeds from lines of credit	4,000	2,040	—	—	—	6,040	—	6,040
Proceeds from issuance of long-term debt	229,105	46,507	—	—	—	275,612	—	275,612
Retirement of long-term debt	(416,574)	(63,325)	(15,680)	—	—	(495,579)	(1,015)	(496,594)
Interest payments	(121,960)	(55,044)	(18,325)	(5,342)	11,530	(189,141)	(1,007)	(190,148)
Net cash used in capital and related financing activities	(390,679)	(95,273)	(34,220)	(5,342)	11,530	(513,984)	(2,244)	(516,228)
(Decrease) increase in cash and cash equivalents	(142,824)	(19,063)	19,397	75,163	—	(67,327)	1,408	(65,919)
Cash and cash equivalents at beginning of year	502,402	228,191	39,086	120,833	—	890,512	3,649	894,161
Cash and cash equivalents at end of year	359,578	209,128	58,483	195,996	—	823,185	5,057	828,242
Other investment securities and accrued interest receivable at end of year	364,161	99,683	23,952	820,227	(188,898)	1,119,125	107	1,119,232
Special funds, Supplemental power account and Securities lending collateral at end of year	$ 723,739	$ 308,811	$ 82,435	$1,016,223	$(188,898)	$1,942,310	$ 5,164	$1,947,474
Reconciliation of net operating revenues (loss) to net cash provided by operating activities:								
Net operating revenues (loss)	$ 140,007	$ 59,603	$ 29,193	$ (210)	$ —	$ 228,593	$ 2,043	$ 230,636
Adjustments to reconcile net operating revenues (loss) to net cash from operating activities:								
Depreciation and amortization	86,682	21,796	8,904	—	—	117,382	1,382	118,764
Share of net revenues from Alliance	(28,686)	—	—	—	—	(28,686)	—	(28,686)
Change in current assets and liabilities:								
Accounts receivable	275	(622)	378	777	—	808	(137)	671
Fuel stocks	1,275	1,078	—	—	—	2,353	—	2,353
Materials, supplies and other assets	(13,704)	(1,004)	(529)	—	—	(15,237)	1	(15,236)
Accounts payable and other liabilities	4,468	(4,146)	(666)	6,324	—	5,980	180	6,160
Net cash provided by operating activities	$ 190,317	$ 76,705	$ 37,280	$ 6,891	$ —	$ 311,193	$ 3,469	$ 314,662

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

Consolidated Balance Sheet

December 31, 2006	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
ASSETS (in thousands)								
Property, plant and equipment, at cost:								
In service	$ 2,655,175	$ 859,658	$313,406	$ —	$ —	$ 3,828,239	$ 32,073	$ 3,860,312
Less accumulated depreciation	(1,356,401)	(443,621)	(21,741)	—	—	(1,821,763)	(18,047)	(1,839,810)
Property in service – net	1,298,774	416,037	291,665	—	—	2,006,476	14,026	2,020,502
Construction work in progress	27,995	8,973	133	—	—	37,101	552	37,653
Nuclear fuel, net of accumulated amortization	67,224	10,392	—	—	—	77,616	—	77,616
Total property, plant and equipment – net	1,393,993	435,402	291,798	—	—	2,121,193	14,578	2,135,771
Other non-current assets:								
Investment in Alliance	6,943	—	104	—	—	7,047	—	7,047
Special funds, including cash and cash equivalents	427,830	187,140	48,832	748,987	(177,368)	1,235,421	—	1,235,421
Total other non-current assets	434,773	187,140	48,936	748,987	(177,368)	1,242,468	—	1,242,468
Current assets:								
Special funds, including cash and cash equivalents	372,525	118,889	26,126	113,114	—	630,654	3,744	634,398
Supplemental power account, including cash and cash equivalents	1,362	—	—	—	—	1,362	—	1,362
Securities lending collateral	125,263	14,384	—	122,233	—	261,880	—	261,880
Receivables from Participants	33,513	12,546	29	53	—	46,141	629	46,770
Other receivables	12,708	6,001	749	2,343	(7,412)	14,389	116	14,505
Fuel stocks, at average cost	10,515	13,412	—	—	—	23,927	—	23,927
Materials, supplies and other assets	44,174	8,839	8,921	—	—	61,934	9	61,943
Total current assets	600,060	174,071	35,825	237,743	(7,412)	1,040,287	4,498	1,044,785
Deferred debits:								
Net costs to be recovered from future billings to Participants	581,869	151,603	13,998	(474,868)	—	272,602	8,128	280,730
Other deferred debits	123,975	59,665	23,534	397	—	207,571	395	207,966
Total deferred debits	705,844	211,268	37,532	(474,471)	—	480,173	8,523	488,696
Total Assets	$ 3,134,670	$1,007,881	$414,091	$ 512,259	$(184,780)	$ 4,884,121	$ 27,599	$ 4,911,720

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

Consolidated Balance Sheet

December 31, 2006	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
LIABILITIES (in thousands)								
Long-term debt:								
Power Revenue bonds	$ 806,877	$ —	$ —	$ —	$ —	$ 806,877	$ —	$ 806,877
General Power Revenue bonds	—	397,711	—	—	—	397,711	—	397,711
Combined Cycle Project Revenue bonds	—	—	379,360	—	—	379,360	—	379,360
Telecommunications Project Revenue bonds	—	—	—	—	—	—	24,920	24,920
Unamortized (discount) premium	1,329	6,586	8,101	—	—	16,016	—	16,016
Total Revenue bonds	808,206	404,297	387,461	—	—	1,599,964	24,920	1,624,884
Subordinated debt	1,739,915	463,300	—	—	(177,368)	2,025,847	—	2,025,847
Unamortized (discount) premium	12,502	(622)	—	—	—	11,880	—	11,880
Total subordinated debt	1,752,417	462,678	—	—	(177,368)	2,037,727	—	2,037,727
Total long-term debt	2,560,623	866,975	387,461	—	(177,368)	3,637,691	24,920	3,662,611
Lease finance obligation	—	—	—	274,019	—	274,019	—	274,019
Other non-current liabilities	272,900	44,458	4,559	600	—	322,517	(186)	322,331
Current liabilities:								
Accounts payable	33,832	17,407	3,695	80	(7,412)	47,602	1,760	49,362
Construction liabilities	579	1,526	14	—	—	2,119	—	2,119
Securities lending collateral	125,263	14,384	—	122,233	—	261,880	—	261,880
Current portion of long-term debt	97,529	45,665	15,680	—	—	158,874	1,015	159,889
Borrowings under lines of credit	200	3,100	—	—	—	3,300	—	3,300
Flexible trust funds held for Participants	—	—	—	115,327	—	115,327	—	115,327
Accrued interest	43,744	14,366	2,682	—	—	60,792	90	60,882
Total current liabilities	301,147	96,448	22,071	237,640	(7,412)	649,894	2,865	652,759
Commitments and contingencies	—	—	—	—	—	—	—	—
Total Liabilities	$3,134,670	$1,007,881	$414,091	$512,259	$(184,780)	$4,884,121	$27,599	$4,911,720

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

Consolidated Statement of Net Revenues

For the Year Ended December 31, 2006	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
(in thousands)								
Revenues:								
Participant	$342,004	$158,603	$64,676	$ —	$ —	$565,283	$6,059	$571,342
Other	91,950	36,445	21,574	—	—	149,969	173	150,142
Total revenues	433,954	195,048	86,250	—	—	715,252	6,232	721,484
Operating expenses:								
Fuel	78,723	70,642	38,500	—	—	187,865	—	187,865
Purchased power	17,576	—	—	—	—	17,576	—	17,576
Other generating or operating expense	113,893	41,526	15,528	673	—	171,620	4,286	175,906
Transmission	9,789	—	—	—	—	9,789	—	9,789
Depreciation and amortization	65,551	18,391	8,952	—	—	92,894	1,756	94,650
Total operating expenses	285,532	130,559	62,980	673	—	479,744	6,042	485,786
Net operating revenues (loss)	148,422	64,489	23,270	(673)	—	235,508	190	235,698
Interest expense (income), net:								
Interest expense	143,013	50,146	18,646	6,701	(4,203)	214,303	1,026	215,329
Amortization of debt discount and expense	3,877	1,471	908	11,845	—	18,101	81	18,182
Interest income	(23,703)	(7,635)	(3,105)	(39,581)	4,203	(69,821)	(142)	(69,963)
Net change in the fair value of financial instruments	(9,948)	(1,612)	446	(3,795)	—	(14,909)	(103)	(15,012)
Interest capitalized	(1,484)	(376)	—	—	—	(1,860)	(2)	(1,862)
Total interest expense (income), net	111,755	41,994	16,895	(24,830)	—	145,814	860	146,674
Decrease (increase) in net costs to be recovered from future billings to Participants	36,667	22,495	6,375	24,157	—	89,694	(670)	89,024
Total other expenses (income), net	148,422	64,489	23,270	(673)	—	235,508	190	235,698
Net Revenues	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2006	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Eliminations	Total Electric Projects	Telecom and Business Units	Total
(in thousands)								
Cash flows from operating activities:								
Cash received from Participants	$ 344,388	$ 158,605	$ 63,645	$ 4,077	$ —	$ 570,715	$ 6,033	$ 576,748
Cash received from others	61,925	34,015	22,717	—	—	118,657	218	118,875
Cash paid for operating expenses	(223,118)	(120,194)	(55,912)	(1,102)	—	(400,326)	(4,299)	(404,625)
Net cash provided by operating activities	183,195	72,426	30,450	2,975	—	289,046	1,952	290,998
Cash flows from investing activities:								
Sales and maturities of investment securities	356,089	81,094	57,684	422,137	—	917,004	584	917,588
Purchase of investment securities	(254,445)	(88,582)	(46,871)	(340,706)	177,368	(553,236)	(642)	(553,878)
Interest receipts	16,196	2,875	1,442	43,164	(4,203)	59,474	110	59,584
Distribution from Alliance	26,600	—	—	—	—	26,600	—	26,600
Business Unit reserves	—	—	—	—	—	—	99	99
Net cash provided by (used in) investing activities	144,440	(4,613)	12,255	124,595	173,165	449,842	151	449,993
Cash flows from capital and related financing activities:								
Property additions	(71,886)	(14,470)	(115)	—	—	(86,471)	(306)	(86,777)
Net proceeds from lines of credit	100	3,100	—	—	—	3,200	—	3,200
Proceeds from issuance of long-term debt	305,813	130,280	—	—	(177,368)	258,725	—	258,725
Retirement of long-term debt	(155,499)	(38,562)	(15,080)	—	—	(209,141)	(1,200)	(210,341)
Interest payments	(124,762)	(38,179)	(18,705)	(6,701)	4,203	(184,144)	(1,009)	(185,153)
Environmental facilities reserve funding	32,536	45,678	—	(81,752)	—	(3,538)	—	(3,538)
Net cash provided by (used in) capital and related financing activities	(13,698)	87,847	(33,900)	(88,453)	(173,165)	(221,369)	(2,515)	(223,884)
Increase (decrease) in cash and cash equivalents	313,937	155,660	8,805	39,117	—	517,519	(412)	517,107
Cash and cash equivalents at beginning of year	188,465	72,531	30,281	81,716	—	372,993	4,061	377,054
Cash and cash equivalents at end of year	502,402	228,191	39,086	120,833	—	890,512	3,649	894,161
Other investment securities and accrued interest receivable at end of year	424,578	92,222	35,872	863,501	(177,368)	1,238,805	95	1,238,900
Special funds, Supplemental power account and Securities lending collateral at end of year	$ 926,980	$ 320,413	$ 74,958	$ 984,334	$(177,368)	$2,129,317	$ 3,744	$2,133,061
Reconciliation of net operating revenues (loss) to net cash provided by operating activities:								
Net operating revenues (loss)	$ 148,422	$ 64,489	$ 23,270	$ (673)	$ —	$ 235,508	$ 190	$ 235,698
Adjustments to reconcile net operating revenues (loss) to net cash from operating activities:								
Depreciation and amortization	84,792	21,231	8,952	—	—	114,975	1,757	116,732
Share of net revenues from Alliance	(27,596)	—	—	—	—	(27,596)	—	(27,596)
Change in current assets and liabilities:								
Accounts receivable	2,069	(2,455)	899	(420)	—	93	(48)	45
Fuel stocks	(7,843)	(10,805)	—	—	—	(18,648)	—	(18,648)
Materials, supplies and other assets	(5,484)	(1,126)	(748)	—	—	(7,358)	(4)	(7,362)
Accounts payable and other liabilities	(11,165)	1,092	(1,923)	4,068	—	(7,928)	57	(7,871)
Net cash provided by operating activities	$ 183,195	$ 72,426	$ 30,450	$ 2,975	$ —	$ 289,046	$ 1,952	$ 290,998

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

1. General Matters

(A) Organization

The Municipal Electric Authority of Georgia (MEAG Power) is a public corporation and an instrumentality of the State of Georgia (the State), created by an Act of the General Assembly of the State (the Act) to supply electricity to local government electric distribution systems. The Act provides that MEAG Power will establish rates and charges so as to produce revenues sufficient to cover its costs, including debt service, but it may not operate any of its projects for profit, unless any such profit inures to the benefit of the public. Forty-eight cities and one county of the State (Electric Utility Participants) have contracted with MEAG Power for bulk electric power supply needs.

MEAG Power is comprised of the Electric Projects as well as the Telecommunications Project and two business units. The Electric Projects consist of Project One, the General Resolution Projects, the Combined Cycle Project and the Trust Funds, all defined in Note 2, "Electric Projects." The Telecommunications Project (Telecom) as well as the Distribution Services and Marketing Services Business Units (the Business Units) are discussed beginning in Note 3, "Telecommunications Project and the Business Units."

(B) Basis of Accounting

The electric utility accounts of MEAG Power are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), as provided by the power sales contracts with the Electric Utility Participants. Telecom accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Communications Commission. A separate set of accounts is maintained for each of the Electric Projects, as well as Telecom and the Business Units. All such accounts are in conformity with accounting principles generally accepted in the United States (GAAP). MEAG Power has chosen the option permitted by the Governmental Accounting Standards Board (GASB) in Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting" (GASB Statement No. 20), to implement all Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict GASB pronouncements.

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

- Certain investment, long-term debt, interest income and interest expense balances, as discussed in Note 2 (M), "Long-Term Debt — Subordinated Debt and Other Debt;"
- Revenue and expense related to emission allowance transfers between generating plants; and
- Receivables and payables.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the consolidated financial statements and the related disclosures in these Notes. Actual results could differ from those estimates.

(C) Statement of Cash Flows

In accordance with GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments" (GASB Statement 34), the Statement of Cash Flows is presented using the direct method. For reporting cash flows, highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents except for securities lending investments, as discussed in Note 2 (L), "Special Funds and Supplemental Power Account — Securities Lending."

(D) Property, Plant and Equipment

The cost of property, plant and equipment includes both direct and overhead costs, capitalized interest and the cost of major property replacements. Costs are recorded in construction work in progress (CWIP) and capitalized as the plant asset is placed in service; hence, most of the plant additions are transfers from CWIP. Repairs and replacement of minor items of property are charged to maintenance expense. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with the cost of removal less salvage, is charged to accumulated depreciation, with no gain or loss recorded.

In accordance with FASB Statement No. 34, "Capitalization of Interest Cost," MEAG Power capitalizes interest, which relates primarily to nuclear fuel costs and transmission facilities. The amounts capitalized reflect interest expense, offset by the earnings on the related construction funds.

(E) New Accounting Pronouncements

In November 2007, GASB issued Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments." This Statement establishes standards for the reporting of land and other real estate held as investments at fair value and becomes effective for MEAG Power on January 1, 2009. MEAG Power does not anticipate a significant impact on its financial reporting.

GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" in June 2007. This statement addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and software. This statement is effective for MEAG Power on January 1, 2010. MEAG Power does not anticipate a significant impact on its financial reporting.

In May 2007, GASB issued Statement No. 50, "Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27," which specifies certain reporting requirements for pension plans. This statement became effective for MEAG Power on January 1, 2008. Based on the disclosures in Note 2 (P), "Retirement Plan," MEAG Power believes it is in compliance with this statement.

In April 2007, FASB issued Interpretation 39-1, "Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts" (FIN 39-1), which permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FIN 39-1 became effective for MEAG Power on January 1, 2008. MEAG Power is currently evaluating the effect of FIN 39-1 on its financial reporting and does not anticipate any significant impact.

In February 2007 and September 2006, FASB issued Statement No. 159, "Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" and Statement No. 157, "Fair Value Measurements," respectively. These statements address various measurement and disclosure aspects pertaining to fair value and became effective for MEAG Power on January 1, 2008. MEAG Power is currently evaluating the statements' effect on its financial reporting and does not anticipate any significant impact.

GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" in November 2006. This statement, which became effective for MEAG Power on January 1, 2008, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. MEAG Power is currently evaluating the statement's effect on its financial reporting and does not anticipate any significant impact.

In July 2006, FASB issued Interpretation 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 became effective for MEAG Power on January 1, 2007 and did not have an impact on MEAG Power's financial statements.

In November 2005, FASB issued Staff Position (FSP) 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," which became effective for MEAG Power on January 1, 2006. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. It would impact MEAG Power's financial statements if an investment, mainly in the Decommissioning Trust funds, became other-than-temporarily impaired, which has not occurred as of December 31, 2007. As discussed in Note 2 (G), "Asset Retirement Obligations and Decommissioning," such funds are held by a trustee and the investment management is directed by external investment managers under Nuclear Regulatory Commission (NRC) guidelines.

During 2004, the GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which were effective for MEAG Power on January 1, 2006 and 2007, respectively. These statements address certain reporting and accounting standards for health and other non-pension benefits offered to retirees and did not have a significant impact on MEAG Power's financial statements.

(F) Vogtle Expansion Project

In May 2005, MEAG Power and the other co-owners of Plant Vogtle entered into a joint agreement authorizing the potential expansion of up to two additional nuclear units at Plant Vogtle (Additional Units). During December 2005, MEAG Power notified the other co-owners of Plant Vogtle as to its initial election to participate in the potential expansion project at a 22.7% ownership interest. Under the terms of the joint agreement, MEAG Power has the right to reduce its level of participation, including totally withdrawing from the proposed project, at any time prior to July 1, 2008. In the event that MEAG Power withdraws from the proposed project prior to July 1, 2008, it will be reimbursed certain preliminary design and development costs incurred by it, including carrying expenses, from inception through the date of withdrawal. Such expenditures, which are accounted for as preliminary survey costs in materials, supplies and other assets in Project One on the Balance Sheet, totaled $12.4 million and $4.5 million as of December 31, 2007 and 2006, respectively, and will be capitalized as part of the cost of the Additional Units if MEAG Power does not elect to withdraw from the proposed project.

Additionally, in April 2006, MEAG Power and the other co-owners of Plant Vogtle entered into ownership and operating agreements relating to the proposed Additional Units. MEAG Power also has the right to withdraw as a party from both of these agreements at any time prior to July 1, 2008.

In the event that MEAG Power continues its participation beyond the July 1, 2008 withdrawal date, it has an additional opportunity to withdraw from the expansion project at any time prior to December 1, 2008, but it may not withdraw to the extent of any portion of its interest in the Additional Units that is committed to the PPAs referred to below, without the consent of the PPA buyers. In the event that MEAG Power withdraws after July 1, 2008 but prior to December 1, 2008, it will not be reimbursed any amounts funded in regard to the Additional Units, but it will have no responsibility for project costs incurred after the date of withdrawal.

MEAG Power is currently working with the other co-owners to address permitting and licensing matters. On March 31, 2008, Southern Nuclear Operating Company, a subsidiary of Southern Company, filed, on behalf of the co-owners, an application with the NRC for a Combined Construction and Operating License (COL) for the Additional Units. The COL is the critical step in the NRC's new, streamlined licensing process designed to reduce regulatory uncertainty by completing the process in stages. A COL is a one-step licensing process by which the NRC approves and issues a license to build and operate a new nuclear power plant.

On April 8, 2008, Georgia Power Company (GPC), also a subsidiary of Southern Company, on behalf of the co-owners, entered into an Engineering, Procurement and Construction (EPC) agreement with a consortium consisting of Westinghouse Electric Company LLC and Stone & Webster, Inc. for the engineering, procurement, construction and testing of two AP1000 nuclear units with electric generating capacity of approximately 1,100 megawatts each and related facilities. Under the EPC agreement, the consortium will supply and construct the entire facility with the exception of certain items provided by the co-owners. MEAG Power will submit the terms and conditions of the proposal to the Electric Utility Participants, who will have the option of participating in the proposed project. MEAG Power's estimated in-service cost including financing expenses, assuming it does not elect to reduce its 22.7% share of the proposed project, is approximately $3.1 billion.

Each of the Electric Utility Participants has the option of participating in the proposed expansion project at Plant Vogtle and determining the level, if any, at which it chooses to participate (including the portion, if any, of its chosen level of participation that it elects to commit to the PPAs referred to below), subject to maximum individual levels of participation established by MEAG Power. MEAG Power has begun the process of seeking binding contractual commitments from the Electric Utility Participants with respect to participation in the proposed project, and the process is expected to be completed by June 15, 2008. MEAG Power's ultimate level of participation in the proposed project will be equal to the sum of the individual levels of participation chosen by the Electric Utility Participants. No indication can be given as to whether the proposed expansion project at Plant Vogtle will proceed to completion, or the level, if any, at which MEAG Power ultimately will participate in such expansion project. If the proposed expansion project at Plant Vogtle proceeds to completion, commercial operation is planned for 2016 and 2017, respectively, for each of the Additional Units.

On May 12, 2008, MEAG Power entered into Power Purchase Agreements (PPAs) with two buyers to sell up to approximately 71% of MEAG Power's maximum share of output from the Additional Units. The PPAs relate to the first 20 years of commercial operation of each Additional Unit and require the buyers to pay the following related to their purchased share of output: operating costs; annual debt service costs on bonds to be issued by MEAG Power to finance construction costs; annual decommissioning costs; as well as certain other payments. The amount, if any, of the output of MEAG Power's interest in the Additional Units to be sold to the buyers under the PPAs will depend upon whether some or all of the Electric Utility Participants elect to commit all or any portion of their individual entitlements in MEAG Power's interest in the Additional Units to the PPAs.

MEAG Power anticipates that it will establish a separate project to finance the costs associated with that portion, if any, of its interest in the Additional Units that is not committed to either PPA, and separate projects to finance the costs associated with each portion, if any, of its interest in the Additional Units that is committed to a PPA.

2. Electric Projects

(A) Project One and the General Resolution Projects

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

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

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

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

Inter-Participant agreements (IP agreements) are utilized by the Electric Utility Participants to improve their respective power supply resource mix. The obligation of the selling Electric Utility Participant to pay its share of operating and debt service costs under its Project One power sales contract is not affected. In 2007, three Electric Utility Participants signed long-term, life-of-the-facility IP agreements that provided the buyers the rights to 24 MW of Project One output.

(B) Combined Cycle Project

Thirty-two of the Electric Utility Participants were in the original Combined Cycle Project (CC Project), which began commercial operation in 2004. During 2007 and early 2008, three other Electric Utility Participants entered into life-of-the-facility assignment agreements (similar to the IP agreements for Project One discussed above) acquiring the rights to seven MW of CC Project output. They also executed a CC Project power sales contract increasing the total of MEAG Power's communities participating in the CC Project to 35. The CC Project is wholly owned by MEAG Power and is also known as the Wansley Combined Cycle Facility.

(C) Trust Funds

The financial statements include account balances of the Municipal Competitive Trust and the Deferred Lease Financing Trust, collectively referred to as Trust Funds. The Trust Funds are not fiduciary in nature as they are held for the benefit of Project One, the General Resolution Projects and the CC Project, and accordingly, are accounted for with the Electric Projects. They are not considered trust funds in the context of GASB Statement 34.

The Municipal Competitive Trust

The Municipal Competitive Trust (the Competitive Trust) was established in 1999, to accumulate and grow through common investment a substantial fund, to be utilized by the Electric Utility Participants to mitigate the high fixed cost related to Plant Vogtle and the impacts that may result from the deregulation of the electric industry in Georgia. It was funded with certain rate stabilization and debt service reserve funds totaling approximately $441 million and is comprised of the Reserve Funded Debt, Credit Support Operating and Flexible Operating accounts. Related earnings on investments in these accounts are retained and accounted for as part of the Competitive Trust. Investments of the Competitive Trust have increased to $738.5 million at December 31, 2007 due to investment earnings and additional Electric Utility Participants' contributions.

Except for the Flexible Operating account and for certain limited uses of the Credit Support Operating account prior to the commencement of electric retail competition in the State, the funds in the Competitive Trust will be retained and invested. If such competition is approved in Georgia by the General Assembly, funds in the Competitive Trust may be applied only as a reduction to the Electric Utility Participants' costs under the power sales contracts, when necessary to maintain retail competitiveness. If not otherwise expended, monies in the Credit Support Operating account and Reserve Funded Debt account may be withdrawn on or after December 31, 2018 and 2025, respectively. An external trustee holds the funds in the Competitive Trust and maintains balances on an individual Electric Utility Participant basis. All of the Electric Utility Participants participate in the Competitive Trust.

In June 2006, MEAG Power distributed to the Electric Utility Participants for their consideration a proposed amendment to the terms of the Competitive Trust. The proposed amendment would authorize MEAG Power to apply funds from certain Competitive Trust accounts, either through debt retirements or as a credit to the power sales contract billings of the Electric Utility Participants, for the purpose of lowering the annual generation billings from MEAG Power during the period 2009 through 2018. The proposed amendment also authorizes the establishment of an additional account within the Competitive Trust to permit the Electric Utility Participants to fund their share of the acquisition and construction costs of any future MEAG Power generation project joined by such Electric Utility Participants. As of March 31, 2008, all of the Electric Utility Participants have agreed to the proposed amendment.

Deferred Lease Financing Trust

In June 2000, MEAG Power completed a long-term lease transaction (Lease) with a third party (Lessor) with respect to MEAG Power's total 30.2% undivided interest in Units 1 and 2 of Plant Scherer and its total 15.1% undivided interest in Units 1 and 2 of Plant Wansley and related common facilities at each plant (together, the Undivided Interest). Under the Lease, MEAG Power has leased the Undivided Interest for a term of approximately 50 years. All rent under the Lease was paid by the Lessor at the commencement of the Lease. The Undivided Interest did not include the coal stockpile, inventories, intangibles, and unit trains owned by MEAG Power at the sites.

The Lessor has subleased the Undivided Interest back to MEAG Power under a sublease for a term of approximately 30 years. Under the sublease, MEAG Power was required to pay the entire balance of the rent due thereunder six months after the commencement of the sublease. During the term of the sublease, MEAG Power will continue to operate and maintain the Undivided Interest and will continue to receive all the output from the Undivided Interest. At the end of the sublease, MEAG Power will have an option to buy out the remaining term of the Lease for a fixed price determined at the commencement of the Lease. This purchase option is being accreted throughout the term of the sublease and was $286.4 million as of December 31, 2007. As a result of the transaction, investments totaling $188.9 million as of December 31, 2007 were available to settle this future obligation. MEAG Power expects that it will have sufficient funds available at the end of the term of the sublease to enable it to exercise its purchase option should it elect to do so. The Lease also addresses the rights and obligations of the parties in the event it is terminated early.

In May 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the 2005 Tax Act). Among other provisions, the 2005 Tax Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions. Based on the official guidance available to date with respect to the application and interpretation of the 2005 Tax Act, MEAG Power does not believe that it will owe any amounts under this excise tax with respect to the Lease. As discussed above in Note 1(E), "New Accounting Pronouncements," the adoption of FIN 48 did not have an impact on MEAG Power's financial statements.

(D) Billings to Electric Utility Participants and Deferred Debits

Wholesale electric sales to Electric Utility Participants are recorded as Participant revenue on an accrual basis. In accordance with the power sales contracts, at the end of each year, MEAG Power determines if the aggregate amount of revenue received from the Electric Utility Participants to provide recovery of costs incurred was in the proper amount. Any excess or deficit amounts resulting in adjustment of billings are refunded or collected from the Electric Utility Participants in the following year. For the years ended December 31, 2007 and 2006, the excess revenue received from Electric Utility Participants was $20.6 million and $9.8 million, respectively, and was included in accounts payable.

Billings to Electric Utility Participants accounted for 79.6% and 79.0% of the Electric Projects' revenues in the years ended December 31, 2007 and 2006, respectively, with sales to other utilities and power marketers, which are also recorded on an accrual basis, comprising other revenues. Three Electric Utility Participants collectively accounted for approximately 25% and 27% of the revenues from Electric Utility Participants in 2007 and 2006, respectively. One of these Electric Utility Participants accounted for 10.9% of Participant revenue in 2007 and 12.0% in 2006. As of December 31, 2007 and 2006, The Energy Authority, as discussed in Note 2 (O), "Investment in Alliance," comprised $11.9 million and $9.9 million, respectively, of current other receivables.

Billings to Electric Utility Participants are designed to recover certain costs, as defined by the bond resolutions and power sales contracts, and principally include current operating costs, scheduled debt principal and interest payments and deposits in certain funds. Timing differences between amounts billed and expenses determined in accordance with GAAP are charged or credited to net costs to be recovered from future billings to Participants in deferred debits on the Balance Sheet. Depreciation and certain debt service billings are examples of such timing differences. All costs are billed to Electric Utility Participants over the period of the power sales contracts. Certain investment income represents earnings on funds not subject to year-end adjustment of billings.

At December 31, 2007 and 2006, net costs to be recovered from future billings to Participants consisted of the following (in thousands):

December 31, 2007	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Total
Depreciation, amortization and accretion	**$ 2,237,619**	**$ 593,131**	**$ 61,805**	**$ 81,110**	**$ 2,973,665**
Billings to Participants for debt principal	**(1,273,573)**	**(405,009)**	**(59,748)**	—	**(1,738,330)**
Certain investment income	**(483,358)**	**(75,340)**	**(10,841)**	**(69,326)**	**(638,865)**
Participant contributions	—	—	**(7,200)**	—	**(7,200)**
Asset retirement obligations	**129,246**	**23,041**	—	—	**152,287**
Credit Support Operating Trust	—	—	—	**(219,939)**	**(219,939)**
Reserve Funded Debt Trust	—	—	—	**(390,050)**	**(390,050)**
Environmental Facilities Reserve	**(35,239)**	**(48,467)**	—	**81,752**	**(1,954)**
Other, net	**(18,243)**	**45,283**	**15,658**	**3,569**	**46,267**
Net costs to be recovered from future billings to Participants	**$ 556,452**	**$ 132,639**	**$ (326)**	**$(512,884)**	**$ 175,881**

December 31, 2006	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Total
Depreciation, amortization and accretion	$ 2,157,913	$ 560,870	$ 51,914	$ 68,729	$ 2,839,426
Billings to Participants for debt principal	(1,168,898)	(359,425)	(43,022)	—	(1,571,345)
Certain investment income	(464,408)	(65,264)	(7,374)	(57,795)	(594,841)
Participant contributions	—	—	(7,200)	—	(7,200)
Asset retirement obligations	113,246	20,713	—	—	133,959
Credit Support Operating Trust	—	—	—	(205,460)	(205,460)
Reserve Funded Debt Trust	—	—	—	(365,663)	(365,663)
Environmental Facilities Reserve	(34,046)	(47,706)	—	81,752	—
Other, net	(21,938)	42,415	19,680	3,569	43,726
Net costs to be recovered from future billings to Participants	$ 581,869	$ 151,603	$ 13,998	$(474,868)	$ 272,602

Other deferred debits consist of unamortized debt costs, resulting from the issuance and refunding of bonds and other deferred charges that are amortized and recovered in future years through billings to Electric Utility Participants.

(E) Materials, Supplies and Other Assets

Materials and supplies include the cost of transmission materials and the average cost of generating plant materials, which are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate. Emission allowances are included at average cost and are expensed as used. Other assets consist primarily of prepaid assets and preliminary survey costs.

(F) Property, Plant and Equipment

Property, plant and equipment activity for the years ended December 31, 2007 and 2006 is shown (in thousands) in the following table. Land is included in the electric component at a non-depreciable cost basis of $31.5 million and $30.8 million as of December 31, 2007 and 2006, respectively. In 2007, capital additions totaled $83.9 million. These amounts were used for capital improvements at existing generating plants and transmission facilities, as well as purchases of nuclear fuel.

Property, Plant and Equipment	As of December 31, 2005	Increases	Decreases	As of December 31, 2006	Increases	Decreases	**As of December 31, 2007**
Project One:							
Electric utility plant in service	$ 2,645,497	$ 24,541	$(14,863)	$ 2,655,175	$ 31,712	$(12,779)	**$ 2,674,108**
Less accumulated depreciation	(1,311,664)	(49,857)	5,120	(1,356,401)	(49,115)	11,128	**(1,394,388)**
Electric utility depreciable plant, net	1,333,833	(25,316)	(9,743)	1,298,774	(17,403)	(1,651)	**1,279,720**
Construction work in progress	16,421	35,957	(24,383)	27,995	61,366	(30,435)	**58,926**
Nuclear fuel, net	50,598	16,626	—	67,224	9,087	—	**76,311**
Total Project One	1,400,852	27,267	(34,126)	1,393,993	53,050	(32,086)	**1,414,957**
General Resolution Projects:							
Electric utility plant in service	859,504	2,934	(2,780)	859,658	3,097	(1,782)	**860,973**
Less accumulated depreciation	(428,626)	(16,154)	1,159	(443,621)	(15,906)	1,782	**(457,745)**
Electric utility depreciable plant, net	430,878	(13,220)	(1,621)	416,037	(12,809)	—	**403,228**
Construction work in progress	3,520	8,064	(2,611)	8,973	25,362	(3,047)	**31,288**
Nuclear fuel, net	6,619	3,773	—	10,392	1,144	—	**11,536**
Total General Resolution Projects	441,017	(1,383)	(4,232)	435,402	13,697	(3,047)	**446,052**
Combined Cycle Project:							
Electric utility plant in service	313,324	82	—	313,406	72	(18)	**313,460**
Less accumulated depreciation	(12,789)	(8,952)	—	(21,741)	(8,904)	18	**(30,627)**
Electric utility depreciable plant, net	300,535	(8,870)	—	291,665	(8,832)	—	**282,833**
Construction work in progress	100	115	(82)	133	214	(71)	**276**
Total Combined Cycle Project	300,635	(8,755)	(82)	291,798	(8,618)	(71)	**283,109**
Total property, plant and equipment – net	$ 2,142,504	$ 17,129	$(38,440)	$ 2,121,193	$ 58,129	$(35,204)	**$ 2,144,118**

(G) Asset Retirement Obligations and Decommissioning

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

The recognition of retirement obligations is driven primarily by decommissioning costs associated with Plants Hatch and Vogtle (the Nuclear Units) and also costs associated with landfill sites and ash ponds related to Plants Scherer and Wansley (the Coal Units).

Future costs of decommissioning are recognized through the accretion of retirement obligations as part of depreciation expense. For 2007 and 2006, such accretions totaled $15.0 million and $15.9 million, respectively, for Project One and $2.5 million and $2.6 million, respectively, for the General Resolution Projects. Effective December 31, 2006, MEAG Power reduced the liability for asset retirement obligations by $49.7 million based on December 2006 site-specific engineering studies pertaining to the Nuclear Units.

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

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

	Plant Hatch	Plant Vogtle
Decommissioning period	2034–2061	2027–2051
Estimated future costs (2006 dollars)	$208,565	$285,324
Amount expensed in 2007	$ 6,505	$ 10,731
Accumulated provision in external funds	$138,802	$137,813

A significant factor used in estimating future decommissioning costs was the extension of the Plant Hatch operating license. In January 2002, both Units 1 and 2 received a 20-year operating license extension from the NRC which permits their operation until 2034 and 2038, respectively. As discussed in Note 2 (J), "Generation and Transmission Facilities—Jointly Owned Generation Facilities," GPC is the operator of the Nuclear Units. In June 2007, GPC filed an application with the NRC to extend the licenses for Plant Vogtle Units 1 and 2 for an additional 20 years and anticipates a decision by early 2009. The possibility of an extension is not factored into the above estimates.

Actual decommissioning costs may vary due to changes in the assumed dates of decommissioning, NRC funding requirements, regulatory requirements, costs of labor and equipment, or other assumptions used in determining the estimates. Earnings and inflation assumptions of 5.75% and 4.60%, respectively, were used to determine decommissioning-related billings to Electric Utility Participants for 2008 budget purposes, based on NRC minimum funding levels. The above information is used only for purposes of calculating the funding needs pursuant to NRC guidelines.

(H) Depreciation

Depreciation of plant is computed using the straight-line composite method over the expected life of the plant. Annual depreciation provisions, expressed as a percentage of average depreciable property, are shown below for both 2007 and 2006 as applicable in Project One, the General Resolution Projects and the CC Project. The composite electric utility plant depreciation rates are based on engineering studies updated periodically, most recently in 2004. Depreciation expense for both 2007 and 2006 totaled $71.1 million and is included in depreciation and amortization in the accompanying Statement of Net Revenues.

Generating Plants	Fuel	Rate
Hatch	Nuclear	1.7%
Scherer	Coal	1.8%
Vogtle	Nuclear	1.6%
Wansley	Coal	2.5%
Wansley Combined Cycle Facility	Natural gas	2.9%

Other Property, Plant and Equipment	Rate
Transmission Plant	2.3%
Distribution Plant	3.2%
General/Other Plant	2.5%–33.0%

(I) Fuel Costs

Amortization of nuclear fuel is calculated on a units of production basis. Estimated spent nuclear fuel disposal costs, required under the Nuclear Waste Policy Act of 1982, are included in operating expenses and totaled $5.5 million for Project One in 2007 and $5.4 million in 2006, and $0.9 million for the General Resolution Projects in both years.

Per contracts GPC has with the U.S. Department of Energy (DOE), permanent disposal of spent nuclear fuel was to begin in 1998. This has not occurred and GPC is pursuing legal remedies against the U.S. Government for breach of contract. On July 9, 2007, the U.S. Court of Federal Claims awarded Southern Company damages, representing all of the direct costs of the spent nuclear fuel storage facilities from 1998 through 2004. MEAG Power's share of the award is $10.7 million. The U.S. Government filed an appeal on January 2, 2008. No amounts have been recognized in the financial statements as of December 31, 2007. The final outcome of this matter cannot be determined at this time.

Plant Vogtle has sufficient pool storage capacity for spent fuel to maintain full-core discharge capability for both units into 2014. An on-site dry storage facility at Plant Vogtle is scheduled for construction in sufficient time to maintain pool full-core discharge capability. Such a facility became operational at Plant Hatch in 2000 and can be expanded to accommodate spent fuel through the life of the plant.

The Energy Policy Act of 1992 created a Uranium Enrichment Decontamination and Decommissioning Fund which requires annual funding by all domestic utilities that have purchased enriched uranium from the DOE. This fund will be used by the DOE for the cleanup of its nuclear enrichment facilities. Such funding was paid over a 15-year period with the final installment of $1.0 million occurring in 2006.

Fuel stocks, which are stated at average cost, are recorded as inventory when purchased and expensed as burned. Emission allowances are expensed as used on an expected average cost basis. Emission allowances granted by the U.S. Environmental Protection Agency (USEPA) are included in inventory at zero cost. MEAG Power purchased $4.2 million and $3.4 million of emission allowances during the years ended December 31, 2007 and 2006, and expensed $3.9 million and $3.4 million, respectively.

(J) Generation and Transmission Facilities

Jointly Owned Generation Facilities

At December 31, 2007, MEAG Power's ownership percentages in jointly owned generation facilities were as follows:

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

MEAG Power, GPC, Oglethorpe Power Corporation (OPC) and the City of Dalton, Georgia (Dalton) jointly own the facilities. GPC has contracted to operate and maintain the jointly owned facilities as agent for the respective co-owners. MEAG Power's proportionate share of plant operating expenses is included in the corresponding operating expense items in the accompanying Statement of Net Revenues.

MEAG Power and GPC are parties to agreements governing the ownership and operation of electric generating and transmission facilities. GPC is agent for the operation of the generating and transmission facilities. In addition, there is an agreement that provides for the sale by MEAG Power to GPC of a portion of the output of each generating unit at Plant Vogtle. Sales to GPC, included in other revenues, were $49.2 million in 2007 and $51.2 million in 2006 for Project One, and $13.9 million in 2007 and $14.4 million in 2006 for the General Resolution Projects.

Transmission Facilities

MEAG Power, GPC, Georgia Transmission Corporation, an affiliate of OPC, and Dalton each own transmission system facilities which together comprise a statewide, integrated transmission system (ITS). MEAG Power and each other entity may use all transmission system facilities included in the ITS, regardless of ownership, in serving its customers. Bulk power supply is furnished by MEAG Power to the Electric Utility Participants through the ITS. MEAG Power's ITS facilities are included in Project One.

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

(K) Derivative Financial Instruments

Derivative financial instruments used in the management of interest rate exposure through swap transactions are governed by MEAG Power's Asset/Liability Management Policy (the Investment Policy) and accounted for in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." These derivatives are not held or issued for trading purposes and MEAG Power management has designated the swaps as hedge instruments. The swap agreements are marked-to-market monthly with the associated gain or loss recognized as a change in fair value of financial instruments and included in net costs to be recovered from future billings to Participants. If the instrument is terminated before the end of the agreement's term, any gain or loss is amortized over a period consistent with the underlying liability.

The counterparties to derivative transactions are major financial institutions with either high investment grade credit ratings or agreements to collateralize their net positions. MEAG Power will be exposed to additional interest rate exposure if a counterparty to a swap transaction defaults or if the swap is terminated. Any termination of the swap agreements may also result in MEAG Power making or receiving a settlement payment. Note 2 (M), "Long-Term Debt—Other Financing Transactions," includes a summary of swap agreements outstanding as of December 31, 2007 and 2006.

MEAG Power also uses fuel-related derivative financial instruments to manage specific risks associated with procurement of natural gas for the CC Project. Such strategies are governed by MEAG Power's Natural Gas Risk Management Policy and primarily include hedging transactions used to manage MEAG Power's natural gas cost. Hedging instruments are marked-to-market monthly and had a fair market value of $0.1 million and $(1.0) million as of December 31, 2007 and 2006, respectively.

(L) Special Funds and Supplemental Power Account

Investment Policy

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

MEAG Power assumes that callable securities in its investment portfolio will not be called. All of MEAG Power's investments are recorded and carried at fair value. Quoted market prices are used to determine the fair value of all investments. Unrealized gains/losses on investment securities are reported in net change in the fair value of financial instruments in the Statement of Net Revenues.

Credit Risk

Credit risk is the risk that MEAG Power will be unable to recover its investments either by an inability to withdraw the funds through insolvency or nonperformance of a counterparty or an inability to recover collateral. In accordance with the Investment Policy, MEAG Power manages exposure to credit risk by restricting investments to issuers that meet certain qualifications and therefore limits any potential credit exposure. In addition, all repurchase agreements must be collateralized using securities permissible under the Investment Policy at 102% of the market value of principal and accrued interest. As of December 31, 2007, all of MEAG Power's investments in mortgage-backed securities and U.S. Government agencies were rated AAA by Standard and Poor's (S&P). These percentages exclude the securities lending program for which the credit risk aspect is discussed in "Securities Lending" below. Investments in money market mutual funds were rated AAAm by S&P and Aaa by Moody's Investors Service (Moody's). Common equity investment trusts are not rated.

Custodial Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the chance of a loss due to the magnitude of MEAG Power's investment in a single issuer. Under the Investment Policy, MEAG Power restricts possible concentration of credit risk by placing maximum exposure restrictions by security type. The Investment Policy also requires diversification to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer or bank. External investments with one issuer that comprised 5% or more of the Electric Projects' portfolio (excluding those issued or explicitly guaranteed by the U.S. Government, as well as mutual funds) as of December 31, 2007 were (in thousands):

Issuer	Fair Value	Percentage of Portfolio
Federal National Mortgage Association	$426,545	22.0%
Federal Home Loan Bank	$425,633	21.9%
Federal Home Loan Mortgage Corporation	$412,274	21.2%

Securities Lending

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

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

At December 31, 2007, MEAG Power had no credit risk exposure to borrowers because the fair value of the collateral was greater than the fair value of the securities lent. Contracts with the lending agent require them to indemnify MEAG Power if the borrowers fail to return the securities and the collateral is inadequate to replace the securities lent or fail to pay MEAG Power for income distributions while the securities are on loan. There were no violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year. There were no income distributions owing on the securities lent.

All securities loans can be terminated on demand by either MEAG Power or the borrower. MEAG Power is not exposed to custodial credit risk as the collateral securities and cash collateral are held in MEAG Power's name. Cash collateral is invested in short-term securities that generally match the obligations of the investments on loan; a portion of the investments are specifically matched to the loans. As of December 31, 2007 and 2006, the fair value of the securities lent was as follows (in thousands):

Securities Lent	**2007**	2006
U.S. Government securities	**$128,566**	$221,667
U.S. Government agency securities	**19,160**	34,877
Corporate notes	**4,341**	—
Total	**$152,067**	$256,544

Interest Rate Risk

All fixed income investments are exposed to interest rate risk. MEAG Power's investments would be subject to losses due to potential increases in interest rates. The Investment Policy describes the maximum maturity limitations and performance benchmarks for each account in the funds established under the various bond resolutions and agreements pertaining to the Trust Funds. These limits are based upon the underlying use of the monies deposited into each account. The maturity restrictions are designed to ensure the assets are not invested longer than the intended use of the funds. The Investment Policy prohibits leveraged floating rate notes, as well as interest only and principal only securities, investments that are highly sensitive to interest rate changes. As of December 31, 2007, maturities of special funds, the supplemental power account and securities lending, as applicable, were as follows (in thousands):

	Maturities (in years):							
Investment Type	Under One	One – Three	Three – Seven	Seven – Ten	Over Ten	No Specific Maturity	Elimination	Total
U.S. Government securities	$ 117,627	$113,866	$ 16,737	$ 8,720	$ —	$ —	$ —	$ 256,950
U.S. Government agency:								
Discount notes	651,146	—	—	—	—	—	—	651,146
Securities	232,056	105,665	164,755	35,037	11,478	—	—	548,991
Mortgage-backed securities	6,456	37,427	33,394	6,497	40,669	—	—	124,443
Money market mutual funds	60,786	—	—	—	—	—	—	60,786
Common equity investment trusts	—	—	—	—	—	78,645	—	78,645
Municipal bonds	—	—	—	—	188,898	—	(188,898)	—
Repurchase agreements	91,212	—	—	—	—	—	—	91,212
Asset-backed securities	6,356	—	—	—	—	—	—	6,356
Corporate notes	16,157	25,015	33,825	16,807	539	—	—	92,343
Bank notes	—	8,000	—	—	—	—	—	8,000
Certificates of deposit	—	23,999	—	—	—	—	—	23,999
Cash	—	—	—	—	—	(561)	—	(561)
Total Special funds, Supplemental power account and Securities lending collateral	$1,181,796	$313,972	$248,711	$67,061	$241,584	$78,084	$ (188,898)	$1,942,310

Environmental Facilities Reserve Accounts

In August 2006, MEAG Power established separate Environmental Facilities Reserve accounts, one for Project One and the others with respect to the General Resolution Projects. These accounts were established in order to mitigate future planned environmental costs at the Coal Units and were funded initially with $77.9 million of the proceeds received from the Lease involving MEAG Power's ownership interest in the Coal Units, discussed in Note 2 (C), "Trust Funds—Deferred Lease Financing Trust." Additional funding will be provided from billings to the Electric Utility Participants. Amounts on deposit in the Environmental Facilities Reserve accounts may be applied to any lawful purpose of MEAG Power related to the Coal Units or, to the extent not so applied, to the payment of debt service on any bonds issued with respect to the Coal Units.

Classification

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

- Construction funds are established to maintain funds for the payment of all costs and expenses related to the cost of acquisition and construction of a project which MEAG Power is permitted to finance through the issuance of debt.
- Revenue and Operating funds are used for the purpose of depositing all revenues and disbursement of the debt service, operating expenses and required fund deposits of the projects.
- Reserve and Contingency funds are used to accumulate and maintain a reserve for payment of the costs of major renewals, replacements, repairs, additions, betterments and improvements for the projects.
- Debt Service accounts are established for the purpose of accumulating funds for the payment of interest and principal on each payment date of the bonds issued for the projects.

At December 31, 2007 and 2006, the fair value of all investments in special funds, the supplemental power account and securities lending as classified in the Balance Sheet were as follows (in thousands):

December 31, 2007	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Elimination	Total
Special funds, non-current:						
Decommissioning Trust	$247,807	$ 28,808	$ —	$ —	$ —	$ 276,615
Construction fund	139,325	108,456	2,398	—	—	250,179
Debt Service fund:						
Reserve and Retirement accounts	—	—	39,543	—	—	39,543
Debt Service account	1,327	2,693	—	—	—	4,020
Revenue and Operating fund	—	—	10,315	—	—	10,315
Reserve and Contingency fund	25,774	12,672	3,084	—	—	41,530
Environmental Facilities Reserve account	36,194	49,960	—	—	—	86,154
Competitive Trust:						
Credit Support Operating account	—	—	—	219,837	—	219,837
Reserve Funded Debt account	—	—	—	390,848	—	390,848
Deferred Lease Financing Trust	—	—	—	188,898	(188,898)	—
Total Special funds, non-current	450,427	202,589	55,340	799,583	(188,898)	1,319,041
Special funds, current:						
Revenue and Operating fund	51,024	29,513	21,702	—	—	102,239
Debt Service fund – Debt Service account	95,218	50,223	4,609	—	—	150,050
Subordinated Debt Service fund – Debt Service account	49,737	8,069	784	—	—	58,590
Construction fund	19,896	11,835	—	—	—	31,731
Competitive Trust – Flexible Operating account	—	—	—	127,778	—	127,778
Total Special funds, current	215,875	99,640	27,095	127,778	—	470,388
Supplemental power account	814	—	—	—	—	814
Securities lending collateral	56,623	6,582	—	88,862	—	152,067
Total Special funds, Supplemental power account and Securities lending collateral	$723,739	$308,811	$82,435	$1,016,223	$(188,898)	$1,942,310

December 31, 2006	Project One	General Resolution Projects	Combined Cycle Project	Trust Funds	Elimination	Total
Special funds, non-current:						
Decommissioning Trust	$231,202	$ 26,548	$ —	$ —	$ —	$ 257,750
Construction fund	149,323	105,544	2,213	—	—	257,080
Debt Service fund – Reserve and Retirement accounts	—	—	37,403	—	—	37,403
Revenue and Operating fund	—	—	6,988	—	—	6,988
Reserve and Contingency fund	14,505	8,997	2,228	—	—	25,730
Environmental Facilities Reserve account	32,800	46,051	—	—	—	78,851
Competitive Trust:						
Credit Support Operating account	—	—	—	205,297	—	205,297
Reserve Funded Debt account	—	—	—	366,284	—	366,284
Deferred Lease Financing Trust	—	—	—	177,406	(177,368)	38
Total Special funds, non-current	427,830	187,140	48,832	748,987	(177,368)	1,235,421
Special funds, current:						
Revenue and Operating fund	36,159	22,529	20,829	—	—	79,517
Debt Service fund – Debt Service account	95,646	40,453	4,572	—	—	140,671
Subordinated Debt Service fund – Debt Service account	210,084	54,315	725	—	—	265,124
Construction fund	30,636	1,592	—	—	—	32,228
Competitive Trust – Flexible Operating account	—	—	—	113,114	—	113,114
Total Special funds, current	372,525	118,889	26,126	113,114	—	630,654
Supplemental power account	1,362	—	—	—	—	1,362
Securities lending collateral	125,263	14,384	—	122,233	—	261,880
Total Special funds, Supplemental power account and Securities lending collateral	$926,980	$320,413	$74,958	$984,334	$(177,368)	$2,129,317

(M) Long-Term Debt

Power Revenue Bonds and General Power Revenue Bonds

As of December 31, 2007, MEAG Power had validated by court judgments $8.0 billion in Power Revenue bonds for the purpose of financing Project One and $3.4 billion in General Power Revenue bonds for the purpose of financing the General Resolution Projects. Reference to “court judgments” for these bonds, as well as for the bonds described below, indicates that MEAG Power is authorized to issue such bonds up to the validated amount. The resolutions permit the issuance of additional bonds for certain purposes.

Bonds issued under the resolutions are secured by a pledge of electric power revenues attributable to the respective projects after payment of operating costs, as well as by pledges of the assets in the funds established by the bond resolutions. Each Electric Utility Participant’s payment obligations under the power sales contracts are general obligations to which each Electric Utility Participant’s full faith and credit are pledged. No scheduled debt maturity for any project extends beyond June 2054, the expiration of the power sales contracts for the respective project - see Note 2 (A), “Project One and the General Resolution Projects.”

Various bond issues were defeased in previous years by creating separate irrevocable trust funds. New debt was issued and the proceeds used to purchase U. S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Balance Sheet of Project One and the General Resolution Projects. As of December 31, 2007, the amount held in escrow to defease debt removed from the Balance Sheet amounted to $174.3 million. As of December 31, 2007, $8.5 billion aggregate principal amount of Power Revenue bonds, General Power Revenue bonds and subordinated debt has been refunded of which $6.9 billion was defeased.

Combined Cycle Project Revenue Bonds

As of December 31, 2007, MEAG Power had validated by court judgments $1.3 billion of CC Project bonds, which includes $200 million for prepayment of fuel costs.

Subordinated Debt and Other Debt

As of December 31, 2007, MEAG Power had validated by court judgments subordinated bonds totaling $3.4 billion for Project One and $1.0 billion for the General Resolution Projects. The resolutions permit the issuance of additional bonds for certain purposes.

Debt issued under the subordinated bond resolutions is subordinate in all respects to the Power Revenue bonds. A principal amount of validated but unissued Power Revenue bonds of not less than the amount of subordinated bonds issued as bond anticipation notes is required to be maintained.

Up to $410.0 million in tax-exempt and taxable CP notes may be issued. The CP notes issued and outstanding as of December 31, 2007 in the amount of $355.8 million are supported by direct pay letters of credit issued by three commercial banks pursuant to a related reimbursement agreement between MEAG Power and the commercial banks. Any amounts drawn under the letters of credit would be payable by MEAG Power on a semi-annual basis over a three-year period using the banks' interest rates.

Certain subordinated bonds issued as variable rate demand obligations and outstanding as of December 31, 2007 totaled $569.4 million. Bondholders may require repurchase of these subordinated bonds at the time of periodic interest rate adjustments. Agreements have been entered into to provide for the remarketing of the subordinated bonds if such repurchase is required. Agreements have also been entered into with certain banks, which generally provide for the purchase by those banks of subordinated bonds which are not remarketed. Under the terms of these agreements, any bonds purchased by the banks would be payable by MEAG Power on a semi-annual basis over periods generally ranging over five to six years using the banks' interest rates.

In order to finance a portion of MEAG Power's share of the estimated costs of future environmental improvements at the Coal Units, in August 2006, Project One and Projects Two and Three of the General Resolution Projects sold, through a negotiated private placement, $173.2 million of Capital Appreciation Bonds (CABs), which were purchased by the Deferred Lease Financing Trust component of the Trust Funds as an investment. The accretion of the CABs results in interest expense to Projects One, Two and Three with corresponding interest income in the Trust Funds. Such amounts, along with the Trust Funds' investment and the liability of Projects One, Two and Three in the CABs, are eliminated from MEAG Power's consolidated financial statements.

In January 2007, MEAG Power issued $126.3 million of Project One subordinated bonds to refund previously issued tax-exempt CP notes. Of the total, $79.6 million are fixed rate bonds and $46.7 million, maturing 2019 through 2022 (CPI Bonds), bear interest at variable rates (MUNI-CPI Rate) linked to changes in the Consumer Price Index (CPI), as reported by the Bureau of Labor Statistics of the U.S. Department of Labor. As noted below in "Other Financing Transactions," in conjunction with the issuance of these bonds, MEAG Power entered into four separate interest rate swap transactions, one with respect to each maturity of the CPI Bonds.

MEAG Power issued $45.0 million of taxable subordinated bonds in June 2007. Proceeds from these fixed rate bonds will be used to finance a portion of certain environmental improvements to the Coal Units.

MEAG Power and a consortium of banks have entered into agreements providing for revolving credit lines aggregating $100.0 million. The agreements, which expire in September 2008, generally provide for interest at taxable rates. Changes in lines of credit borrowings during the years ended December 31, 2007 and 2006 were (in thousands):

Borrowings Under Lines of Credit	Balance December 31, 2005	Proceeds	Payments	Balance December 31, 2006	Proceeds	Payments	**Balance December 31, 2007**
Project One	$100	$25,210	$25,110	$ 200	$14,360	$10,360	**$4,200**
General Resolution Projects	—	3,100	—	3,100	3,240	1,200	**5,140**
Total	$100	$28,310	$25,110	$3,300	$17,600	$11,560	**$9,340**

Effective March 2008, MEAG Power entered into an agreement providing for an additional revolving credit line aggregating $150.0 million. The agreement expires in September 2008 and generally provides for interest at taxable rates. As discussed below in "Long-Term Debt by Series," this new credit line was used in March 2008 to refund $147.7 million in Project One subordinated auction rate bonds.

Other Financing Transactions

The information presented below pertains to MEAG Power's swap agreements, outstanding as of December 31, 2007 and 2006, with fair market value amounts corresponding to the market value as of the end of each year as included in other non-current liabilities on the Balance Sheet (dollars in thousands):

	2007	2006
Tax-Exempt		
Notional amount	**$224,880**	$298,640
Remaining term	**11–40 years**	13–41 years
Rate MEAG Power:		
Received	**3.4%**	3.4%
Paid (weighted average rate)	**4.1%**	4.0%
Fair market value	**$ (11,520)**	$ (6,062)
Taxable		
Notional amount	**$193,000**	$253,000
Remaining term	**1–4 years**	2–5 years
Rate MEAG Power:		
Received	**5.3%**	5.1%
Paid (weighted average rate)	**5.4%**	5.4%
Fair market value	**$ (5,713)**	$ (2,010)

In January 2007, MEAG Power entered into four separate interest rate swap transactions in a total notional amount of $46.7 million, to convert the MUNI-CPI Rate obligation of the CPI Bonds to a fixed rate obligation. The swaps became effective January 12, 2007 and terminate at various dates from January 1, 2019 through January 1, 2022. MEAG Power is required, with respect to each maturity of the CPI Bonds, to pay a fixed interest rate and is entitled to receive the MUNI CPI Rate (determined in accordance with terms of the CPI Bonds), each based on a notional amount equal to the principal amount of the CPI Bonds of such maturity.

Under certain circumstances, each of the aforementioned swap transactions is subject to early termination prior to its scheduled termination and prior to the maturity of the related bonds, in which event, MEAG Power may be obligated to make or receive a substantial payment to or from the counterparty.

Bonds and Subordinated Debt Activity

Changes in bonds and subordinated debt during the years ended December 31, 2007 and 2006 were (in thousands):

Bonds and Subordinated Debt	As of December 31, 2005	Increases	Decreases	As of December 31, 2006	Increases	Decreases	**As of December 31, 2007**
Project One:							
Power Revenue Bonds	$ 939,571	$ 6,142	$ (68,193)	$ 877,520	$ 5,202	$ (70,643)	**$ 812,079**
Unamortized (discount) premium, net	2,293	—	(964)	1,329	302	—	**1,631**
Subordinated debt	1,547,631	306,476	(87,306)	1,766,801	233,598	(345,931)	**1,654,468**
Unamortized (discount) premium, net	13,812	873	(2,183)	12,502	6,802	(2,303)	**17,001**
Total Project One	2,503,307	313,491	(158,646)	2,658,152	245,904	(418,877)	**2,485,179**
General Resolution Projects:							
General Power Revenue Bonds	451,742	3,794	(28,545)	426,991	2,860	(29,280)	**400,571**
Unamortized (discount) premium, net	7,685	—	(1,099)	6,586	—	(316)	**6,270**
Subordinated debt	356,744	132,959	(10,018)	479,685	53,519	(50,765)	**482,439**
Unamortized (discount) premium, net	(663)	66	(25)	(622)	674	(51)	**1**
Total General Resolution Projects	815,508	136,819	(39,687)	912,640	57,053	(80,412)	**889,281**
Combined Cycle Project:							
Combined Cycle Project Revenue Bonds	410,120	—	(15,080)	395,040	—	(15,680)	**379,360**
Unamortized (discount) premium, net	9,535	—	(1,434)	8,101	—	(1,262)	**6,839**
Total Combined Cycle Project	419,655	—	(16,514)	403,141	—	(16,942)	**386,199**
Total Bonds and Subordinated Debt	$3,738,470	$450,310	$(214,847)	$3,973,933	$302,957	$(516,231)	**$3,760,659**

Long-Term Debt by Series

All Power Revenue bonds and General Power Revenue bonds except CABs bear interest at fixed rates. Certain subordinated and CC Project bonds have variable interest rates. At December 31, 2007 and 2006, MEAG Power's long-term debt consisted of the following (in thousands):

Project One	**2007**	2006
Power Revenue Bonds:		
Series L – CABs	$ 2,410	$ 5,762
Series Q – CABs	9,159	9,159
Series U – CABs	1,968	1,968
Series V	50,590	54,225
Series W	52,350	62,350
Series X	52,855	53,310
Series Y	228,825	229,565
Series Z	224,360	234,345
Taxable Series Two	5,930	6,655
Series BB	27,460	27,665
Series CC	4,265	29,530
Series DD	24,485	26,440
Series EE	38,125	38,125
Series FF	36,320	36,640
Total	759,102	815,739
Accretion of CABs	52,977	61,781
Unamortized (discount) premium, net	1,631	1,329
Total Power Revenue bonds outstanding	813,710	878,849
Subordinated Debt:		
Series 1985A – Variable rate	45,420	45,420
Series 1985B – Variable rate	72,900	72,900
Series 1994B – Variable rate	25,000	25,000
Series 1994C – Variable rate	25,000	25,000
Series 1994D – Variable rate	50,000	50,000
Series 1994E – Variable rate	78,445	100,000
Series 1996A – Fixed rate	3,635	13,255
Series 1997A – Fixed rate	3,685	122,385
Series 1997B – Fixed rate	4,180	49,305
Series 1998A – Fixed rate	75,960	78,345
Series 2000A – Taxable variable rate	77,650	79,200
Series 2000B – Taxable variable rate	77,650	79,200
Series 2000C – Variable rate	46,095	49,400
Series 2000D – Variable rate	46,095	49,400
Series 2000E – Variable rate	39,325	42,115
Series 2003A – Fixed rate	19,845	19,845
Series 2003B:		
Variable rate	123,975	123,975
Taxable fixed rate	4,525	4,525
Series 2005A-1 – Taxable fixed rate	75,835	76,750
Series 2005A-2 – CABs	6,627	6,627
Series 2005B – Variable rate	73,825	73,825
Series 2005C – Variable rate	73,825	73,825
Series 2005D – Fixed rate	51,065	51,065
Series 2005E – Fixed rate	28,845	28,845
Series 2005F – Taxable fixed rate	42,580	47,800
Series 2006A – CABs	75,626	75,626
Series 2007A-1 and A-2:		
Fixed rate	79,550	—
Variable rate	46,725	—
Series 2007B – Taxable fixed rate	15,000	—
Series A and B bond anticipation notes:		
CP	212,885	279,486
Taxable CP	44,622	21,075
Total	1,646,395	1,764,194
Accretion of CABs	8,073	2,607
Unamortized (discount) premium, net	17,001	12,502
Total subordinated debt	1,671,469	1,779,303
Total bonds and subordinated debt	2,485,179	2,658,152
Current portion of long-term debt	(101,133)	(97,529)
Total Project One long-term debt	$ 2,384,046	$2,560,623

General Resolution Projects	**2007**	2006
General Power Revenue Bonds:		
Series 1989B – CABs	$ 11,823	$ 16,818
Series 1992A	45,320	45,575
Series 1992B	176,130	178,670
Series 1993A	6,055	6,055
Series 1993B	210	255
Series 1993C	23,395	33,115
Series 2002A	107,025	107,025
Total	369,958	387,513
Accretion of CABs	30,613	39,478
Unamortized (discount) premium, net	6,270	6,586
Total General Power Revenue bonds outstanding	406,841	433,577
Subordinated Debt:		
Series 1985A – Variable rate	23,050	23,050
Series 1985B – Variable rate	47,000	47,000
Series 1985C – Variable rate	47,000	47,000
Series 1997A – Fixed rate	—	35,795
Series 1998A – Fixed rate	3,375	3,775
Series 2000A – Taxable variable rate	57,200	62,800
Series 2000B – Variable rate	24,100	24,100
Series 2005A – Taxable fixed rate	46,025	54,995
Series 2006A – CABs	97,539	97,539
Series 2007A – Taxable fixed rate	30,000	—
Series A and B bond anticipation notes:		
CP	47,221	41,196
Taxable CP	51,067	40,067
Total	473,577	477,317
Accretion of CABs	8,862	2,368
Unamortized (discount) premium, net	1	(622)
Total subordinated debt	482,440	479,063
Total bonds and subordinated debt	889,281	912,640
Current portion of long-term debt	(44,394)	(45,665)
Total General Resolution Projects long-term debt	$844,887	$866,975

Combined Cycle Project	**2007**	2006
Revenue Bonds:		
Series 2002 A – Fixed rate	$228,360	$237,850
Series 2002 B – Variable rate	75,690	79,250
Series 2003 A – Fixed rate	75,310	77,940
Total	379,360	395,040
Unamortized (discount) premium, net	6,839	8,101
Total bonds outstanding	386,199	403,141
Current portion of long-term debt	(16,440)	(15,680)
Total Combined Cycle Project long-term debt	$369,759	$387,461

The turmoil in the financial markets relating to the sub prime mortgage crisis has impacted the credit rating of certain municipal bond insurance companies who insure a portion of MEAG Power's variable rate debt that is currently in an auction rate mode. As a result, MEAG Power is considering its options with respect to this debt which include refunding a portion of such variable rate debt, converting a portion of such variable rate debt to a different interest mode and/or issuing CP to refund a portion of such debt. As of December 31, 2007, MEAG Power's Electric Projects had variable rate debt in auction rate 28 day reset mode as follows:

- $155.3 million in Project One subordinated bonds,
- $57.2 million in General Resolution Projects subordinated bonds, and
- $75.7 million in CC Project bonds.

An additional $147.7 million in Project One subordinated auction rate bonds were in seven day reset mode as of December 31, 2007 and were refunded with a new $150.0 million line of credit facility in March 2008, as discussed above in "Subordinated Debt and Other Debt."

Due to the financial market conditions described above, an increasing percentage of the auctions for auction rate bonds, including some MEAG Power auctions, have failed to receive sufficient bids to set new interest rates. In such instances, the issuer is obligated to pay a formulaic failed auction rate until such time as sufficient bids are received at a scheduled auction. For MEAG Power, the interest rates resulting from failed auctions are based on a formulaic rate which takes into consideration the ratings of the bonds or a predetermined maximum rate. For the period December 31, 2007 through April 30, 2008, failed auction rates for the Electric Projects have ranged from 3.80% to 5.70%. Continued and prolonged illiquidity in the auction rate market could increase MEAG Power's interest costs. The average interest rate on MEAG Power's variable rate debt in auction rate mode was 4.79% as of April 30, 2008, a slight reduction from 4.80% as of December 31, 2007.

Debt Service

At December 31, 2007, annual debt service costs to maturity of Power Revenue, General Power Revenue and CC Project bonds, including CABs, which are accreted through December 31, 2007, were as follows (in thousands):

	Project One		General Resolution Projects		Combined Cycle Project		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	$ 72,017	$ 46,156	$ 39,425	$ 17,436	$ 16,440	$ 18,083	$ 209,557
2009	53,094	43,350	26,145	5,675	17,190	16,961	162,415
2010	77,673	40,841	28,450	28,453	17,615	16,265	209,297
2011	81,086	35,904	30,230	32,406	18,015	15,500	213,141
2012	54,958	31,737	31,800	31,800	18,475	14,687	183,457
2013–2017	377,441	90,658	183,986	189,632	100,080	60,176	1,001,973
2018–2022	31,070	26,020	59,665	61,387	112,370	34,655	325,167
2023–2027	64,740	10,374	870	813	55,430	9,213	141,440
2028–2032	—	—	—	—	23,745	796	24,541
Total	$812,079	$325,040	$400,571	$367,602	$379,360	$186,336	$2,470,988

The stated coupon rates on Power Revenue, General Power Revenue and CC Project Bonds outstanding at December 31, 2007 ranged from 2.50% to 10.00% on the tax-exempt series and 3.69% to 4.79% on the taxable series during 2007.

At December 31, 2007, annual debt service costs to maturity of subordinated debt were as follows (in thousands):

	Project One		General Resolution Projects		
Year	Principal	Interest	Principal	Interest	Total
2008	$ 29,116	$ 64,858	$ 4,969	$ 14,557	$ 113,500
2009	117,293	67,416	18,045	15,318	218,072
2010	36,238	58,377	19,782	14,454	128,851
2011	45,660	57,696	22,617	14,024	139,997
2012	75,570	60,141	25,272	13,000	173,983
2013–2017	245,409	275,786	91,273	49,853	662,321
2018–2022	477,627	246,748	140,565	26,089	891,029
2023–2027	189,310	126,752	25,525	11,083	352,670
2028–2032	128,649	70,356	116,775	18,276	334,056
2033–2037	46,743	62,803	6,616	9,151	125,313
2038–2042	62,480	48,305	—	2,888	113,673
2043–2047	77,258	33,638	—	2,888	113,784
2048–2052	78,310	17,226	—	2,888	98,424
2053–2054	44,805	2,745	11,000	1,155	59,705
Total	$1,654,468	$1,192,847	$482,439	$195,624	$3,525,378

The interest rates on subordinated debt outstanding at December 31, 2007 ranged from 2.75% to 5.95% on the tax-exempt series and 3.72% to 6.40% on the taxable series during 2007. Interest on variable rate debt is based on various methods including auction-mode, money-market-mode, weekly-mode, the London Interbank Offered Rate (LIBOR) and the Federal funds rate, and is reset in time increments ranging from one day to 180 days.

Fair Value

The fair value of long-term debt is estimated based on the quoted market prices available for debt obligations with similar characteristics. At December 31, 2007 and 2006, the carrying amounts and estimated fair values of bonds outstanding and subordinated debt were as follows (in thousands):

	2007		2006	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Project One	**$2,466,547**	**$2,493,957**	$2,644,321	$2,764,794
General Resolution Projects	**883,010**	**812,252**	906,676	940,493
Combined Cycle Project	**379,360**	**391,492**	395,040	412,142
Total	**$3,728,917**	**$3,697,701**	$3,946,037	$4,117,429

(N) Business Unit Obligations to the Electric Projects

MEAG Power offers specialized services to the Electric Utility Participants and other communities through its Business Units. Membership in the Business Units is by separate contracts between MEAG Power and the participating communities. Each Business Unit has a governing body to set policy upon authority delegated by the Board.

As of December 31, 2007 and 2006, the Electric Projects had receivables related to advances to the Distribution Services Business Unit (Distribution) of $300,000. These advances are supported by the Distribution participants (certain Electric Utility Participants which elect to participate as well as non-Electric Utility Participants) and are in addition to the power sales contract debt obligations of the Electric Utility Participants described in Note 2 (M), “Long-Term Debt—Subordinated Debt and Other Debt.”

(O) Investment in Alliance

Investment in Alliance reflects MEAG Power’s investment in The Energy Authority (TEA), a governmental nonprofit power marketing corporation comprised of six Members: MEAG Power, JEA (formerly known as the Jacksonville Electric Authority), South Carolina Public Service Authority, Nebraska Public Power District, Gainesville (Florida) Regional Utilities, and City Utilities of Springfield, Missouri. TEA provides energy products and resource management services to Members and non-members and allocates transaction savings and operating expenses to Members pursuant to Settlement Procedures under the Operating Agreement.

In July 2006, TEA completed an acquisition of Power Resource Managers, LLP, a public power marketing organization that operated in the western United States. As a result, TEA has access to approximately 25,000 MW of its Members’ and non-members’ generation resources.

In the accompanying consolidated financial statements, for the years ended December 31, 2007 and 2006, an aggregate of $4.9 million and $5.8 million, respectively, of net revenues received from TEA were netted against related fuel, transmission and operating expenses, based on Board-approved methodology for the application of off-system sales revenues. Remaining net revenues of TEA were allocated as sales margins as follows (in thousands):

	2007	2006
Project One	**$ 7,326**	$ 7,246
General Resolution Projects	**9,037**	9,296
Combined Cycle Project	**7,398**	5,244
Total	**$23,761**	$21,786

In addition to $2.7 million of contributed capital, MEAG Power has committed an additional $52.3 million through a combination of guarantees. TEA evaluates its credit needs periodically and requests Members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of its Members. Such guarantees would require the Members to make payments to TEA’s counterparties if TEA failed to deliver energy, capacity or natural gas as required by contract with a counterparty, or if TEA failed to make payment for purchases of such commodities. If guaranty payments are required, MEAG Power has rights with other Members that such payments would be apportioned based on certain criteria.

The guarantees generally have indefinite terms; however, MEAG Power can terminate its guaranty obligations by providing notice to counterparties and others, as required by the agreements. Such termination would not pertain to any transactions TEA entered into prior to notice being given.

TEA’s accounting records are maintained in conformity with the pronouncements of the GASB. In accordance with GASB Statement No. 20, TEA has elected to adopt all applicable FASB statements and interpretations except those that conflict with or contradict GASB pronouncements.

The table below contains the condensed financial information for TEA for the years ended or as of December 31, 2007 and 2006 (in thousands):

	2007	2006
Revenues	$1,651,747	$1,587,238
Gross Margin	$ 165,349	$ 159,612
Increase in Net Assets	$ 135,633	$ 134,548
Member Distributions	$ 134,134	$ 129,813
Current assets	$ 109,696	$ 131,467
Restricted and non-current assets	15,204	9,686
Total Assets	$ 124,900	$ 141,153
Current liabilities	$ 86,613	$ 105,154
Long-term liabilities	3,750	2,961
Net assets	34,537	33,038
Total Liabilities and Net Assets	$ 124,900	$ 141,153

(P) Retirement Plan

MEAG Power is the sponsor and administrator of a single employer non-contributory retirement plan which provides a defined benefit to employees based on years of service and average earnings. The Municipal Electric Authority of Georgia Retirement Plan (the Plan) was established by the Board, and the Plan benefits can only be amended or terminated by Board action. The Plan is funded through a tax-exempt trust fund qualified under sections of the Internal Revenue Code. MEAG Power uses an independent actuarial firm to calculate the Plan's annual required contribution (ARC), which is approved by the Board, fully funded and included as part of the annual system budget. In accordance with disclosure requirements of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," additional Plan information is presented below.

For the years ended December 31, 2007, 2006 and 2005, MEAG Power's annual pension cost of $1.3 million, $1.3 million and $1.2 million, respectively, equaled the ARC, which was determined based on actuarial valuations as of January 1 of each year, using the Aggregate Actuarial Cost Method. Under this method: (a) the extent to which the present value of the benefits exceeds the assets is funded on a level percent of pay basis over the average future working lifetime for all participants on an open basis, (b) unfunded actuarial liabilities are not identified or separately amortized, and (c) gains and losses are spread over the future normal costs of the Plan.

Significant actuarial assumptions include: (a) 8.0% investment rate of return, (b) projected annual salary increases of 5.0%, and (c) life expectancy based on the 1994 Group Annuity Mortality Table. The actuarial value of the assets was determined using a method which smoothes the impact of short-term market value volatility over a four-year period.

Certain other financial information concerning the Plan can be obtained by writing to: MEAG Power Retirement Plan, 1470 Riveredge Parkway NW, Atlanta, Georgia 30328-4686.

(Q) Commitments and Contingencies

Nuclear Insurance

Under the Price-Anderson Act, which was renewed as part of the Energy Policy Act of 2005, MEAG Power is afforded certain indemnities, and has certain obligations, as an owner of nuclear power plants. The Price-Anderson Act provisions, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the nuclear power plants in which MEAG Power has an ownership interest. The Price-Anderson Act provides for the payment of funds up to a maximum of $10.8 billion for public liability claims that could arise from a single nuclear incident. Each nuclear plant is insured against this liability to a maximum of $300 million by American Nuclear Insurers (ANI). The remaining coverage is provided by a mandatory program of deferred premiums that would be assessed, after a nuclear incident, against all owners of nuclear reactors. The owners of a nuclear power plant could be assessed up to $101 million per incident for each licensed reactor they operate, but not more than an aggregate of $15 million per reactor, per incident would be required to be paid in a calendar year. MEAG Power's share of the potential ANI deferred premiums could be up to $81.3 million, with an annual limit of $12.1 million. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due by August 31, 2008.

GPC, on behalf of all the co-owners of the Nuclear Units, is a member of the Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance for members' nuclear generating facilities. MEAG Power is also a member of NEIL in its capacity to provide insurance to cover members' costs of replacement power and other costs, which might be incurred during a prolonged accidental outage. Terrorist acts against commercial nuclear power stations are covered under the ANI and NEIL insurance subject to normal policy limits. Prior to expiration of the Terrorism Risk Insurance Act (TRIA), on December 26, 2007, the Terrorism Risk Insurance Revision and Extension Act of 2007 was signed into law. The program was extended for seven years and domestic acts of terrorism are now included in its scope. Other than those two elements, the program remains largely unchanged from the 2005 TRIA renewal. The NEIL aggregate limitation over a 12-month period is $3.2 billion plus any amounts available through reinsurance or indemnity from an outside source.

Under various liability, property and replacement power insurance programs covering MEAG Power's ownership interests in the Nuclear Units, including the Price-Anderson Act, MEAG Power could be assessed deferred premiums to a maximum of $30.1 million for each incident in any one year.

Fuel

Project One and the General Resolution Projects, through GPC, are obligated by various long-term commitments for the procurement of fossil and nuclear fuel to supply a portion of the fuel requirements of its generating plants. Fuel commitments for the years beginning 2008 total $154.0 million for coal through 2013 and $129.6 million for nuclear through 2014. These commitments are calculated based on MEAG Power's ownership percentage of jointly owned generation facilities per operating agreements with GPC, as discussed in Note 2 (J), "Generation and Transmission Facilities—Jointly Owned Generation Facilities." Also discussed within that Note is information regarding sales by MEAG Power to GPC of a portion of the output of each generating unit at Plant Vogtle, which have the effect of reducing MEAG Power's gross commitments for nuclear fuel. Railcar lease commitments through mid-2015 total $3.1 million. In general, most if not all of the contracted material and services reflected in these estimates could be sold on the market thereby reducing MEAG Power's liability.

MEAG Power has a long-term gas purchase agreement with Main Street Natural Gas, Inc. (Main Street). Under the terms of the agreement, MEAG Power will purchase, on a "take and pay" basis, for a term of 15 years, which commenced on February 1, 2007, an average of approximately 2,200 million British thermal units per day of natural gas from Main Street. Such purchases are structured to match the usage in the peak operating season and are expected to equal approximately 20% - 30% of MEAG Power's natural gas requirements for its native load. The price paid by MEAG Power is based on a discount from a natural gas index. The volatility of the natural gas market precludes MEAG Power from estimating a cost for the 15 year period; however, the commitment is expected to be significant. As described in Note 2 (K), "Derivative Financial Instruments," MEAG Power's natural gas hedges for the CC Project had a fair market value of $0.1 million and $(1.0) million as of December 31, 2007 and 2006, respectively. Natural gas pipeline and storage commitments through early 2023 total $56.9 million. Additional commitments for fuel supply will be required in the future.

In January 2008, MEAG Power entered into a 20 year power purchase agreement with West Georgia Generating Company, LLC for the output and services of a combustion turbine nominally rated at 150 MW. The effective date of the power purchase agreement is May 1, 2009. The annual capacity charge will vary depending upon the demonstrated capability of the unit, but in nominal terms, is expected to be $6.8 million per year beginning on the effective date. In addition, there will be a fixed operations and maintenance charge of $1.8 million per year, beginning on the effective date and escalating with the CPI each year thereafter.

Environmental Regulation

The Nuclear Units and the Coal Units, as well as the CC Project, are subject to Federal, State, and local air and water quality requirements. The USEPA and the Georgia Environmental Protection Division (EPD) of the Department of Natural Resources have primary responsibility for developing and enforcing the requirements pursuant to statutes such as the Federal Clean Air Act (CAA).

To achieve compliance with newly effective requirements, MEAG Power has invested $119.3 million from 2000 through 2007 in plant environmental enhancements, including a switch to lower sulfur coal at Plant Scherer Units 1 and 2 and installing technology to reduce nitrogen oxides emissions at Plant Wansley Units 1 and 2. Installation of additional emissions control technologies at Plant Scherer Units 1 and 2 as well as at Plant Wansley Units 1 and 2 is currently in progress. To control overall compliance costs, MEAG Power participates in emissions-averaging and allowance trading plans. Compliance going forward will require significant additional capital investment by MEAG Power.

In 2007, EPD finalized several air quality regulations affecting MEAG Power's fossil generating units. The new Georgia regulations include the Clean Air Interstate Rule NOx Annual Trading Program, the Clean Air Interstate Rule SO_2 Annual Trading Program, the Clean Air Mercury Annual Trading Program rule, and the Multipollutant Control for Electric Utility Steam Generating Units rule. The three Trading Program regulations establish allowance-based emissions trading programs affecting MEAG Power's fossil units, with the mercury trading regulations only affecting MEAG Power's coal units. The multipollutant control rule establishes dates by which specific emissions control technologies must be installed. MEAG Power anticipates that to comply with these Georgia regulations, the total capital investment for necessary equipment additions for the years 2008 through 2014 will be approximately $467.5 million.

In February 2008, the U.S. Court of Appeals for the District of Columbia held that USEPA unlawfully delisted electric generating units from regulation under Section 112 of the CAA, invalidating the Federal Clean Air Mercury Rule's mercury cap and trade program set up by USEPA under Section 111 of the CAA. This ruling effectively invalidated Georgia's Clean Air Mercury Annual Trading Program rule, but did not disturb mercury regulation under Georgia's Multipollutant Control for Electric Utility Steam Generating Units rule.

USEPA and EPD are continuing steps to revise the National Ambient Air Quality Standards (NAAQS) and associated implementing regulations. EPD is anticipated to issue a State Implementation Plan (SIP) revision in 2008 for the fine particulate (PM-2.5) NAAQS set by USEPA in 1997. This SIP revision is not anticipated to require actions by MEAG Power beyond those required by the 2007 Georgia air regulation changes discussed above. USEPA revised the fine particulate NAAQS in 2006, making the 24-hour standard more stringent. After USEPA issues an implementation guidance rule for states, EPD will need to revise its SIP to reflect the 2006 revised fine particulate NAAQS. The financial and operational impact on MEAG Power from a revised SIP cannot be determined at this time.

In 2007, EPD issued a SIP revision, covering the section of Georgia that includes Plant Scherer, for maintaining attainment of the eight-hour ozone NAAQS set by USEPA in 1997. That SIP revision tightened the ozone season NOx emission limits at Plant Scherer, but did not require the installation of additional technological controls. EPD is anticipated to issue a SIP revision in 2008 covering the metropolitan Atlanta ozone non-attainment area. This SIP revision is not anticipated to require actions by MEAG Power beyond those already required by existing Georgia air regulations.

In March 2008, USEPA revised the eight-hour ozone NAAQS, making the standard more stringent. The financial and operational impact of the revised ozone NAAQS on MEAG Power cannot be determined at this time.

Various bills have been introduced in the U.S. Senate and House of Representatives to address concerns regarding global climate change. Some of these bills would directly or indirectly regulate carbon dioxide and other greenhouse gas emissions from power plants and other emission sources. Since no global climate change bill has been passed by either branch of Congress or has been enacted to date, no financial or operational impact on MEAG Power of global climate legislation can be determined at this time.

In April 2007, the U.S. Supreme Court held that the USEPA has the statutory authority under the CAA to regulate emissions of greenhouse gases from new motor vehicles. In the 5-4 decision, the Supreme Court stated that greenhouse gases fit well within the CAA's broad definition of "air pollutant." The Supreme Court further stated that the USEPA did not offer reasoned explanation for its refusal to decide whether greenhouse gases cause or contribute to climate change, and that this lack of reasoned explanation was therefore "arbitrary, capricious, … or otherwise not in accordance with law." In response to the Court, USEPA has not yet made a judgment of whether greenhouse gas emissions from new motor vehicles cause or contribute to air pollution that is reasonably anticipated to endanger public health or welfare. If USEPA judges that such endangerment exists, it could then regulate stationary sources of greenhouse gas emissions such as power plants. In March 2008, USEPA announced it was going to solicit public comment on the matter by means of an Advance Notice of Proposed Rulemaking (ANPR). According to USEPA, the ANPR would present and request comments on the best available science, including specific and quantifiable effects of greenhouse gases relevant to making an endangerment finding and the implications of this finding with regard to the regulation of both mobile and stationary sources. In April 2008, a Petition for Writ of Mandamus was filed with the U.S. Court of Appeals for the District of Columbia, requesting the court to order USEPA to issue a determination on endangerment within 60 days. The financial and operational impact on MEAG Power of the Supreme Court decision, a Court of Appeals decision, or any USEPA regulatory response cannot be determined at this time.

Also, as part of the Federal Fiscal Year 2008 Consolidated Appropriations Act, USEPA was directed to develop and publish a rule to require mandatory reporting of greenhouse gas emissions above appropriate thresholds in all sectors of the economy of the United States. The financial and operational impact on MEAG Power of the rule cannot be determined at this time.

In response to a 2004 Georgia statute, EPD prepared in 2007 and the Georgia Water Council approved in 2008 a Georgia Comprehensive State-wide Water Management Plan (Plan). The Plan was ratified by the Georgia General Assembly in 2008 and is a blueprint intended to guide future decisions about water management in Georgia. The Plan recognizes that, in order to support Georgia's economy, to protect public health and natural systems, and to enhance quality of life, Georgia must protect the ability of the state's water resources to meet all reasonable current and future water needs of the state. The Plan is to be implemented in conjunction with Georgia's existing Drought Management Plan and other statutes and regulations that guide responses to droughts and other emergency circumstances. The Plan calls for development of regional water plans based on regional water forecasts that employ management practices following state policies and guidelines. The financial and operational impact of the Plan on MEAG Power cannot be determined at this time.

Legislative and Regulatory Issues

In recent years, a variety of proposals to restructure the electric industry have been introduced at the Federal level and in certain state jurisdictions. Restructuring initiatives have the potential for materially affecting revenues, operations and financial results and condition. The nature of these effects will depend on the content of any legislative or regulatory actions that may be applicable to Project One, the General Resolution Projects, the CC Project, or Electric Utility Participants and cannot be identified with any degree of certainty at the current time.

MEAG Power is not a FERC-jurisdictional utility; however, it is affected by certain FERC rulemakings, including Open Access Transmission Tariffs (OATT) and Standards of Conduct for Transmission Providers. In February 2007, FERC issued Order 890 amending the regulations and the pro forma OATT adopted in Orders 888 and 889. Order 890's requirements include: (i) greater consistency and transparency in available transmission capacity calculations; (ii) open, coordinated and transparent planning; (iii) reforms of energy imbalance penalties; (iv) reform of rollover rights policy; (v) clarification of tariff ambiguities; and (vi) increased transparency and customer access to information.

FERC reaffirmed many of the core elements of Order 888's pro forma OATT in Order 890 including: (i) comparability; (ii) continuance of the protection of native load customer's transmission service rights; and (iii) FERC's current approach to reciprocity for nonjurisdictional transmission owners, which include MEAG Power, was retained and broadened such that, if a Regional Transmission Organization (RTO) or Independent System Operator (ISO) is the transmission provider, reciprocity is owed to all members of the RTO or ISO.

Section 211A of the Federal Power Act, which was added by the 2005 Energy Policy Act, authorized, but did not require, FERC to order non-public utilities (or "unregulated transmitting utilities," which include MEAG Power) to provide transmission services. In Order 890, FERC elected to apply Section 211A's provisions on a case-by-case basis. MEAG Power believes that its current OATT satisfies the "reciprocity" requirements; however, MEAG Power plans some amendments to better conform its OATT to Order 890. MEAG Power also has a native load service obligation that is afforded protections in its existing OATT. Such protections will be retained in any amendments. MEAG Power has participated in a joint transmission planning process for decades and has notified FERC that it is willing to co-sponsor and participate in a new regional and inter-regional planning process that is sponsored by many of the major transmission owners registered by the SERC Reliability Corporation (or SERC, formerly known as the Southeastern Electric Reliability Council), as called for in Order 890.

In March 2007, FERC issued Order 693 entitled "Mandatory Reliability Standards for the Bulk-Power System." In this order, FERC approved 83 of 107 proposed reliability standards developed by the North American Electric Reliability Corporation (NERC), which FERC has certified as the Electric Reliability Organization responsible for developing and enforcing mandatory reliability standards. The mandatory standards were effective June 18, 2007.

In August 2006, the SERC conducted an audit of MEAG Power's level of compliance with certain NERC standards. Based in part on the audit results, MEAG Power believes it generally is in compliance with the NERC reliability standards approved in Order 693. Compliance with these standards is not expected to have a material effect on MEAG Power's costs.

In January 2008, FERC issued Order 706 approving eight NERC reliability standards which require certain users, owners, and operators of the Bulk-Power System, including MEAG Power, to comply with specific requirements to identify and safeguard their critical cyber assets. Since these are new reliability standards, FERC also adopted a compliance timeline. Compliance with these cyber security standards in accordance with the timeline, as such were approved in Order 706, is not expected to have a material effect on MEAG Power's costs.

MEAG Power's ownership in TEA, as discussed in Note 2 (O), "Investment in Alliance," satisfies a standard of conduct requirement, which has the effect of requiring MEAG Power to establish a wholesale marketing organization separate and apart from its operating group that controls operations of its generation and transmission facilities.

In November 2006, Georgia voters approved an amendment to the Constitution of the State that repeals a previous amendment to the Georgia Constitution that expressly authorized the transfer of property acquired by eminent domain to private enterprises for private uses. This amendment, which has the effect of requiring approval by an elected governing authority for any redevelopment project where eminent domain is applicable, has had no impact on MEAG Power's operations.

Mutual Aid Agreement

MEAG Power has entered into a mutual aid agreement with seven Florida utilities for provision of replacement power during an extended outage of certain defined baseload generating units. In the event of an outage of Scherer Units 1 or 2 that extends beyond 60 days, MEAG Power will receive 100 MW at a price based upon a fixed heat rate and a published gas price index. If a counterparty had an extended outage, MEAG Power would provide between 8 MW and 18 MW for a maximum of 305 days. This agreement expires in October 2012.

Litigation

Several lawsuits are pending that may have an impact on water storage and related issues at Lake Lanier, Georgia. In December 2000, Southeastern Federal Power Customers, Inc., a coalition of municipal and cooperative utilities, filed suit in Federal district court for the District of Columbia against the U.S. Army Corps of Engineers (the Army Corps) alleging a duty by the Army Corps under the Flood Control Act to manage Lake Lanier in a manner giving preference to the provision of hydropower. The case was mediated and a Settlement Agreement reached. The Settlement Agreement permits the potential use of storage at Lake Lanier for water supply by the local communities while lowering the price the hydropower customers will pay for power generated at the Buford Dam project. The District Court for the District of Columbia approved the Settlement Agreement. The States of Florida and Alabama appealed to the DC Circuit. In February 2008, the DC Circuit Court accepted the arguments of the States of Florida and Alabama and agreed that the Army Corps had no authority (absent Congressional approval) to allocate the water in Lake Lanier that is committed to meet the Settlement Agreement. Therefore, it could not approve the Settlement Agreement. Additional proceedings respecting the use of, and rights to, water in Lake Lanier are expected.

There have been ongoing discussions between the Governors of Florida, Alabama and Georgia, which have been chaired by the Secretary of the Department of Interior and officials from the Army Corps. There was a deadline of February 15, 2008 set by the group for resolution of at least the 2007–2008 drought issues. There was no resolution reached by such date and it is expected that another deadline will be established for some future date. If another deadline is established, it is unknown whether any resolution will be reached by such deadline.

MEAG Power has contested certain amounts of ad valorem taxes pertaining to Plant Scherer assessed by Monroe County, Georgia for the years 2003 through 2007. As indicated in Note 2 (J), "Generation and Transmission Facilities — Jointly Owned Generation Facilities," MEAG Power has joint ownership interests in Plant Scherer Units 1 and 2. MEAG Power has filed the appropriate appeals and has paid the amount of uncontested taxes assessed for all years. In January 2008, the Georgia Supreme Court ruled in favor of GPC in a declaratory judgment action against Monroe County involving the same substantive legal issue as MEAG Power's appeals. In May 2008, the Monroe County Board of Commissioners approved a settlement resulting in a slight refund to MEAG Power.

In 2002, the Sierra Club and other plaintiffs filed a civil complaint in U.S. District Court against GPC. The complaint alleged violations of the CAA at Plant Wansley including several counts involving the coal generation units of which MEAG Power is a joint owner. In January 2007, the District Court ruled in favor of GPC, granting GPC's motion for summary judgment on the claims relating to the coal generation units. Therefore, this matter was concluded with no financial statement impact to MEAG Power.

In 2001, MEAG Power was named along with various other electric utilities as a defendant in a lawsuit brought by certain property owners in Georgia. The lawsuit challenged whether the standard easement agreement between an electric utility company and a property owner allows for the installation of fiber-optic telecommunication lines. After various court rulings and related appeals, the plaintiffs filed a Petition for Certiorari to the Georgia Supreme Court, which was denied in May 2006. In October 2006, the trial court granted summary judgment in favor of the defendants. No appeal was filed from the October 2006 Order and the case is concluded.

3. Telecommunications Project and the Business Units

As described in Notes 4–6, "Telecommunications Project," "Distribution Services Business Unit" and "Marketing Services Business Unit," respectively, MEAG Power offers specialized services to the Electric Utility Participants through Telecom and the Business Units. In the case of the Business Units, such services are also offered to non-Electric Utility Participants. Condensed Balance Sheets and Statements of Net Revenues and Cash Flows of Telecom and the Business Units as of and for the years ended December 31, 2007 and 2006 are presented as follows:

CONDENSED BALANCE SHEET

	December 31, 2007				December 31, 2006			
(in thousands)	Telecom	Distribution	Marketing	Telecom and Business Units	Telecom	Distribution	Marketing	Telecom and Business Units
ASSETS:								
Property, plant and equipment – net	$13,152	$ 265	$ 8	$13,425	$14,242	$ 333	$ 3	$14,578
Current assets	3,690	1,032	1,332	6,054	2,657	803	1,038	4,498
Deferred debits	8,436	—	—	8,436	8,523	—	—	8,523
Total Assets	$25,278	$1,297	$1,340	$27,915	$25,422	$1,136	$1,041	$27,599
LIABILITIES:								
Long-term debt	$22,605	$ —	$ —	$22,605	$24,920	$ —	$ —	$24,920
Other non-current liabilities	(121)	701	390	970	(1,143)	606	351	(186)
Current liabilities	2,794	596	950	4,340	1,645	530	690	2,865
Total Liabilities	$25,278	$1,297	$1,340	$27,915	$25,422	$1,136	$1,041	$27,599

CONDENSED STATEMENT OF NET REVENUES
For the Years Ended:

	December 31, 2007				December 31, 2006			
(in thousands)	Telecom	Distribution	Marketing	Telecom and Business Units	Telecom	Distribution	Marketing	Telecom and Business Units
Revenues:								
Participant	$ 3,414	$3,009	$1,109	$7,532	$ 2,171	$ 2,792	$1,096	$6,059
Other	91	176	—	267	91	82	—	173
Total revenues	3,505	3,185	1,109	7,799	2,262	2,874	1,096	6,232
Operating expenses	1,512	3,110	1,134	5,756	1,919	3,010	1,113	6,042
Net operating revenues (loss)	1,993	75	(25)	2,043	343	(136)	(17)	190
Net interest expense (income)	1,980	(19)	(43)	1,918	909	(17)	(32)	860
Decrease (increase) in net costs to be recovered from future billings to Participants	13	94	18	125	(566)	(119)	15	(670)
Total other expenses (income), net	1,993	75	(25)	2,043	343	(136)	(17)	190
Net Revenues	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

CONDENSED STATEMENT OF CASH FLOWS

For the Years Ended:

(in thousands)	December 31, 2007 Telecom	Distribution	Marketing	Telecom and Business Units	December 31, 2006 Telecom	Distribution	Marketing	Telecom and Business Units
Net cash provided by operating activities	$ 3,070	$ 137	$ 262	$ 3,469	$ 1,715	$ 201	$ 36	$ 1,952
Net cash provided by (used in) investing activities	93	26	64	183	(1)	21	131	151
Net cash used in capital and related financing activities	(2,160)	(74)	(10)	(2,244)	(2,416)	(99)	—	(2,515)
Increase (decrease) in cash and cash equivalents	1,003	89	316	1,408	(702)	123	167	(412)
Cash and cash equivalents at beginning of year	2,269	560	820	3,649	2,971	437	653	4,061
Cash and cash equivalents at end of year	3,272	649	1,136	5,057	2,269	560	820	3,649
Other investment securities at end of year	107	—	—	107	95	—	—	95
Special funds at end of year	$ 3,379	$ 649	$1,136	$ 5,164	$ 2,364	$ 560	$820	$ 3,744

4. Telecommunications Project

(A) General Matters

As of December 31, 2007 and 2006, 32 of the 49 MEAG Power Electric Utility Participants (the "participants" for purposes of this Note) had contracts with Telecom (Telecom contracts), which commenced operations in 1997, to: (1) provide advanced internal telecommunications services to MEAG Power, (2) enhance the education proficiencies of the participants through the deployment of state-of-the-art telecommunications and (3) foster economic growth and development of the participants throughout Georgia by providing competitive access services in conjunction with local municipal fiber-optic networks.

(B) Master Agreement

MEAG Power has a Master Agreement with Georgia Public Web (GPW) under which all operational control of Telecom's fixed assets was transferred to GPW. GPW is a Georgia nonprofit corporation formed by the 32 participants. The Master Agreement also entitles GPW to derive revenue from the Telecom assets. In exchange for control of these assets, GPW assumed certain ongoing obligations of Telecom for the operation and maintenance of the Telecom assets. In addition, GPW pays Project One a monthly payment for use of rights-of-way.

(C) Revenues and Billings to Participants

Telecom's revenues are derived from contractual cost-recovery billings to participants, primarily related to costs of debt service and certain operating costs not assumed by GPW. Revenues are recognized as corresponding costs are incurred.

Billings to participants are designed to recover certain costs, as defined by the Telecom contracts, which principally include operating and scheduled debt service costs. In accordance with the Telecom contracts, a true-up of costs is performed annually. During 2007 and 2006, Telecom revenues exceeded expenses by approximately $305,000 and $365,000, respectively. These amounts are included in the Balance Sheet in current liabilities. Refunds to participants for 2007 will be processed in the second quarter of 2008. Timing differences between amounts billed and expenses determined in accordance with GAAP are charged or credited to net costs to be recovered from future billings to participants.

At December 31, 2007 and 2006, net costs to be recovered from future billings to participants consisted of the following (in thousands):

	2007	2006
Differences between amounts billed and expenses determined in accordance with GAAP:		
Depreciation expense of telecommunications plant	**$19,624**	$18,308
Billings to participants for debt principal	**(9,070)**	(6,755)
Other deferred costs	**1,292**	290
Billings to participants for telecommunications construction costs	**(3,730)**	(3,715)
Net costs to be recovered from future billings to participants	**8,116**	8,128
Other deferred debits	**320**	395
Total deferred debits	**$ 8,436**	$ 8,523

(D) Property, Plant and Equipment

As of December 31, 2007 and 2006, the Telecom fiber-optic network encompassed over 1,500 miles of fiber. Telecom has entered into agreements that convey the rights to the use of certain fiber-optic cable owned by others. Telecom's costs under these agreements have been recorded as capital lease assets.

Telecommunications property, plant and equipment activity for the years ended December 31, 2007 and 2006 was (in thousands):

Property, Plant and Equipment	As of December 31, 2005	Increases	Decreases	As of December 31, 2006	Increases	Decreases	**As of December 31, 2007**
Fiber-optic cable – owned	$ 10,571	$ —	$ —	$ 10,571	$ 330	$ —	**$ 10,901**
Fiber-optic cable – capital leases	6,397	—	—	6,397	—	—	**6,397**
Electronic systems	13,293	—	—	13,293	173	—	**13,466**
Other	1,042	17	—	1,059	—	—	**1,059**
Telecommunications plant in service	31,303	17	—	31,320	503	—	**31,823**
Less accumulated depreciation	(16,006)	(1,624)	—	(17,630)	(1,242)	—	**(18,872)**
Telecommunications depreciable plant, net	15,297	(1,607)	—	13,690	(739)	—	**12,951**
Construction work in progress	356	196	—	552	(351)	—	**201**
Total property, plant and equipment – net	$ 15,653	$(1,411)	$ —	$ 14,242	$ (1,090)	$ —	**$ 13,152**

Depreciation of telecommunications plant, which consists mainly of fiber-optic cable and network systems, is computed using the straight-line method over the expected life of the plant. The composite depreciation rates for both 2007 and 2006 were as follows:

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

(E) Special Funds

Pursuant to the Telecom Bond Resolution, certain special funds listed below were established during 2003 in conjunction with the placement of Telecom Bonds as described below in "Long-Term Debt." Based on the requirements of this resolution, special funds are considered restricted assets as defined by GASB Statement 34. The non-liened funds are not pledged to the bondholders. Special fund balances at December 31, 2007 and 2006 were as follows (in thousands):

Special Funds	**2007**	2006
Construction fund:		
Liened	**$ 413**	$ 394
Non-liened	**34**	18
Revenue and operating fund:		
Liened	**475**	620
Non-liened	**59**	103
Debt service fund	**2,398**	1,229
Total Special funds	**$3,379**	$2,364

The Investment Policy also pertains to Telecom's investments, as do the various risk aspects discussed in Note 2 (L), "Special Funds and Supplemental Power Account." All of Telecom's investments are recorded and carried at fair value based on quoted market prices. Unrealized gains/losses on investment securities are reported in net change in the fair value of financial instruments. As of December 31, 2007:

- All of Telecom's investments in U.S. Government agencies were rated AAA by S&P, with investments in money market mutual funds rated AAAm by S&P and Aaa by Moody's.
- All of Telecom's investments mature in less than one year and were comprised of the following types of financial instruments (in thousands):

Investment Type	Fair Value
U.S. Government agency securities	$1,899
Money market mutual funds	1,480
Total	$3,379

Investments with one issuer that comprised 5% or more of Telecom's portfolio (excluding those issued or explicitly guaranteed by the U.S. Government, as well as mutual funds) as of December 31, 2007 were (in thousands):

Issuer	Fair Value	Percentage of Portfolio
Federal National Mortgage Association	$1,596	47.2%
Federal Home Loan Mortgage Corporation	$ 305	9.0%

(F) Long-Term Debt

As of December 31, 2007, MEAG Power had validated by court judgment $35 million of bonds pertaining to Telecom for the purpose of acquisition and construction of the Telecom network. Reference to "court judgment" indicates that MEAG Power is authorized to issue such bonds up to the validated amount. Telecom was initially financed through advances totaling $31.3 million under the Power Revenue Bond Resolution (Project One). The borrowings were used primarily for construction of network facilities and were repaid pursuant to the placement of $32.8 million of auction rate Telecom Revenue Bonds (the Telecom Bonds) in April 2003. In addition to repaying amounts owed to Project One, funds from this financing were also used to pay previously deferred costs of Telecom as well as the establishment of working capital funds.

The Telecom Bonds were issued to provide permanent financing for Telecom. Each participant's payment obligations under the Telecom contracts are general obligations to which each participant's full faith and credit are pledged.

Changes in long-term debt during the years ended December 31, 2007 and 2006 are shown below (in thousands):

Long-Term Debt	Balance December 31, 2005	Additions	Principal Payments	Balance December 31, 2006	Additions	Principal Payments	**Balance December 31, 2007**	**Current Portion**
Revenue Bonds, Taxable Series 2003	$27,135	$ —	$1,200	$25,935	$ —	$1,015	**$24,920**	**$2,315**

At December 31, 2007, annual debt service costs to maturity of the Telecom Bonds are shown below (in thousands):

Year	Principal	Interest	Total
2008	$ 2,315	$1,255	$ 3,570
2009	2,405	1,006	3,411
2010	2,460	835	3,295
2011	2,650	734	3,384
2012	2,755	625	3,380
2013–2015	12,335	1,313	13,648
Total	$24,920	$5,769	$30,689

The Telecom Bonds were issued as variable rate debt. In conjunction with the bond placement, MEAG Power entered into an interest rate swap agreement with a counterparty which synthetically fixed the rate. This swap was for the same amount ($32.8 million) and through the same maturity (2015) as the Telecom Bonds. The mark-to-market adjustment on the swap agreement is included in other non-current liabilities on the Balance Sheet. It is adjusted monthly with the associated gain or loss recognized as a change in fair value of financial instruments and included in net costs to be recovered from future billings to participants. If the instrument is terminated before the end of the agreement's term, any gain or loss would be amortized over a period consistent with the underlying liability. MEAG Power pays a rate of 4.09% and receives LIBOR under the swap agreement. As of December 31, 2007 and 2006, the fair market value of the Telecom swap was $0.1 million and $1.1 million, respectively.

In December 2007, MEAG Power distributed to the participants for their consideration a proposed amendment regarding the prepayment and defeasance terms of the Telecom Bonds. The amendment to the Telecom contracts and the Second Amended and Restated Bond Resolution was filed with MEAG Power's Trustee and became effective in May 2008. MEAG Power has received the consent of the municipal bond insurance company insuring the Telecom Bonds with respect to the proposed changes. In May 2008, MEAG Power redeemed $13.0 million of the Telecom Bonds. A corresponding portion of the Telecom swap was also terminated at a cost of $123,000.

As discussed in Note 2 (M), "Long-Term Debt—Long-Term Debt by Series," the recent conditions in financial markets have impacted the credit rating of certain municipal bond insurance companies who insure a portion of MEAG Power's variable rate debt that is currently in an auction rate mode. The Telecom Bonds are auction rate bonds in 28 day reset mode. As of April 30, 2008, MEAG Power had not experienced any failed auctions related to these bonds.

5. Distribution Services Business Unit

(A) General Matters

The purpose of Distribution, which commenced operations in 1999, is to provide services to local government electric distribution systems that improve electric utility infrastructure, reduce costs through consolidation of resources and enhance service standards. These basic and premium services are provided to the Electric Utility Participants and non-Electric Utility Participants, both groups referred to as “participants” for purposes of this Note.

The basic services include technical support, joint purchasing, training and safety, and meter testing. These services are functionally unbundled so that each can be offered and provided independently of the other basic services. Premium services are offered primarily through the use of consultants and contractors, including tree trimming, pole inspection and padmount inspection services. Distribution establishes the parameters for joint contracting and functions primarily as the facilitator for such services. Similar to the basic services, each of the premium services can be offered and provided independently of the other premium services.

Distribution provided services to 50 participants in both 2007 and 2006. The contracts for these services are for an initial term of three years and are renewable annually thereafter. Distribution was established and is financed through borrowings from Project One.

(B) Revenues and Billings to Participants

Distribution revenues are primarily derived from billings to participants designed to recover the total cost of services provided. Revenues applicable to such billings are recognized as corresponding costs are incurred. Timing differences between amounts billed and expenses determined in accordance with GAAP are charged or credited to billings in excess of costs. In accordance with the Distribution contracts, a true-up of costs for each service is performed annually. Distribution collected revenues of approximately $29,000 and $66,000 in excess of costs during 2007 and 2006, respectively. Approximately $21,000 and $54,000 of the over collection amount that is to be refunded is included on the Balance Sheet in current liabilities as of December 31, 2007 and 2006, respectively. The remaining $8,000 and $12,000 as of December 31, 2007 and 2006, respectively, was reserved for future use and is reflected on the Balance Sheet in other non-current liabilities. At December 31, 2007 and 2006, billings in excess of costs consisted of the following (in thousands):

	2007	2006
Reserves applicable to future capital projects	**$227**	$276
Other reserves	**474**	330
Billings in excess of costs	**$701**	$606

(C) Property, Plant and Equipment

Property, plant and equipment activity for the years ended December 31, 2007 and 2006 is shown below (in thousands). Depreciation is computed on a straight-line basis over a three-year period.

Property, Plant and Equipment	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006	Increases	Decreases	**Balance December 31, 2007**
Computer, transportation and maintenance equipment	$ 638	$ 95	$ —	$ 733	$ 67	$ —	**$ 800**
Less accumulated depreciation	(274)	(126)	—	(400)	(135)	—	**(535)**
Total property, plant and equipment—net	$ 364	$ (31)	$ —	$ 333	$ (68)	$ —	**$ 265**

(D) Advances from Project One

Included in current liabilities is an obligation owed by Distribution to Project One. The interest rate on the borrowings outstanding at December 31, 2007 ranged from 2.75% to 6.25% during 2007. Changes in advances outstanding at December 31, 2007 and 2006 were (in thousands):

	Balance December 31, 2005	Additions	Principal Payments	Balance December 31, 2006	Additions	Principal Payments	**Balance December 31, 2007**
Advances from Project One	$100	$200	$ —	$300	$ —	$ —	**$300**

At December 31, 2007, annual debt service costs of advances outstanding were as follows (in thousands):

Year	Principal	Interest	Total
2008	$219	$14	$233
2009	19	3	22
2010	20	2	22
2011	21	2	23
2012	21	1	22
Total	$300	$22	$322

6. Marketing Services Business Unit

The Marketing Services Business Unit (Marketing) commenced operations in 2000. The purpose of Marketing is to provide services to assist the Electric Utility Participants and non-Electric Utility Participants (both groups referred to as “participants” for purposes of this Note) in adding new customers, retaining existing customers and building partnerships that add value to that customer relationship. The services include pricing and sales support, energy services and major accounts. Additional services are offered through Hometown Connections, a subsidiary of the American Public Power Association.

In 2007 and 2006, Marketing provided services to 47 participants. Billings to the Electric Projects for services accounted for approximately 9% and 10% of Marketing’s revenue for 2007 and 2006, respectively. As of December 31, 2007 and 2006, two participants comprised 14% and 21% of accounts receivable, respectively.

Marketing revenues are primarily derived from billings to participants designed to recover the total cost of services provided. Revenues applicable to such billings are recognized as corresponding costs are incurred. In accordance with the Marketing contracts, a true-up of costs for each service is performed annually. During 2007 and 2006, Marketing billed approximately $801,000 and $541,000, respectively, in excess of costs. Refunds to participants for 2007 will be processed in the second quarter of 2008. In both years, a corresponding liability was included in current liabilities.

Report of Independent Auditors

To the Board of Directors
Municipal Electric Authority of Georgia:

In our opinion, the accompanying balance sheets and the related statements of net revenues and of cash flows present fairly, in all material respects, the respective financial position of the Municipal Electric Authority of Georgia's Project One major fund (Power Revenue Bond Resolution Project), the General Resolution Projects major fund (General Power Revenue Bond Resolution Projects Two, Three and Four), the Combined Cycle Project major fund and the Trust Funds major fund (Municipal Competitive Trust and Deferred Lease Financing Trust) and the aggregate nonmajor funds (Telecommunications Project, Distribution Services and Marketing Services) (collectively, "MEAG Power") at December 31, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of MEAG Power's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The management's discussion and analysis on pages 14 through 23 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

Atlanta, Georgia
May 16, 2008

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