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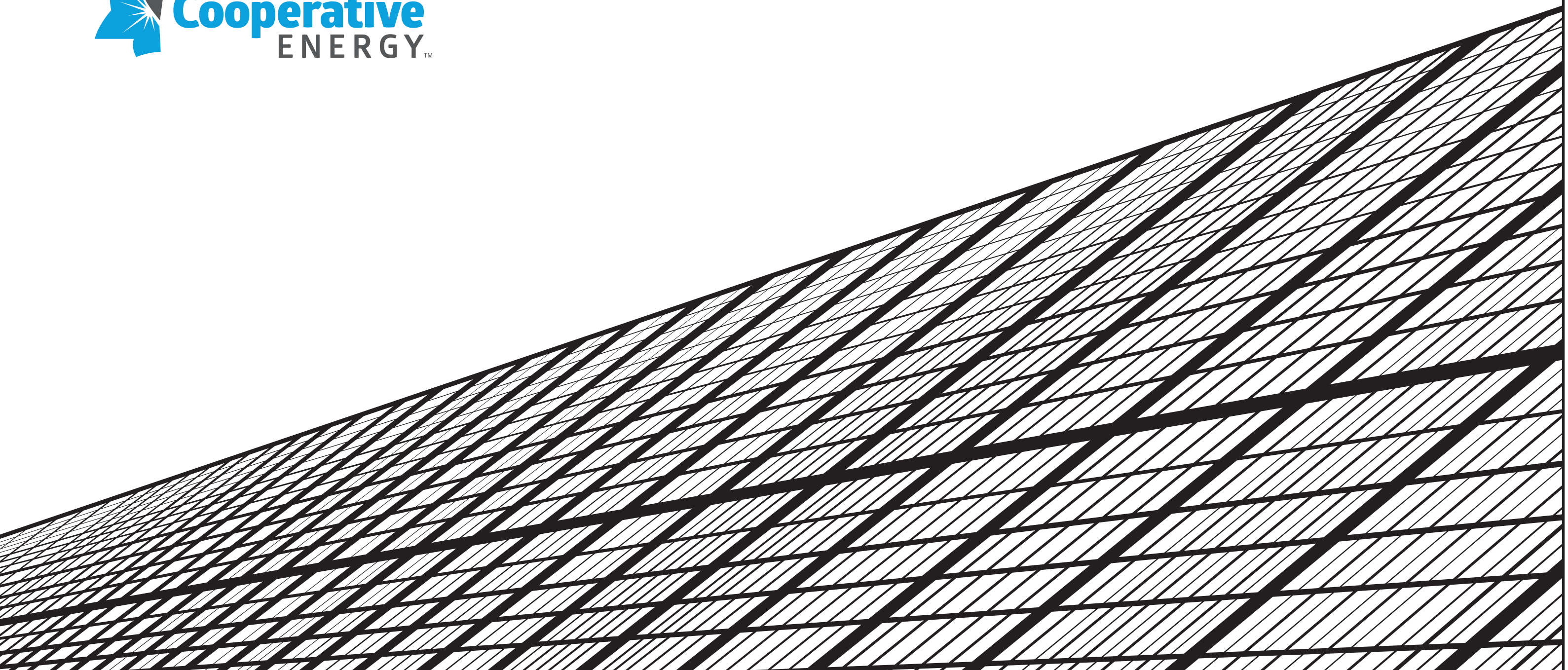
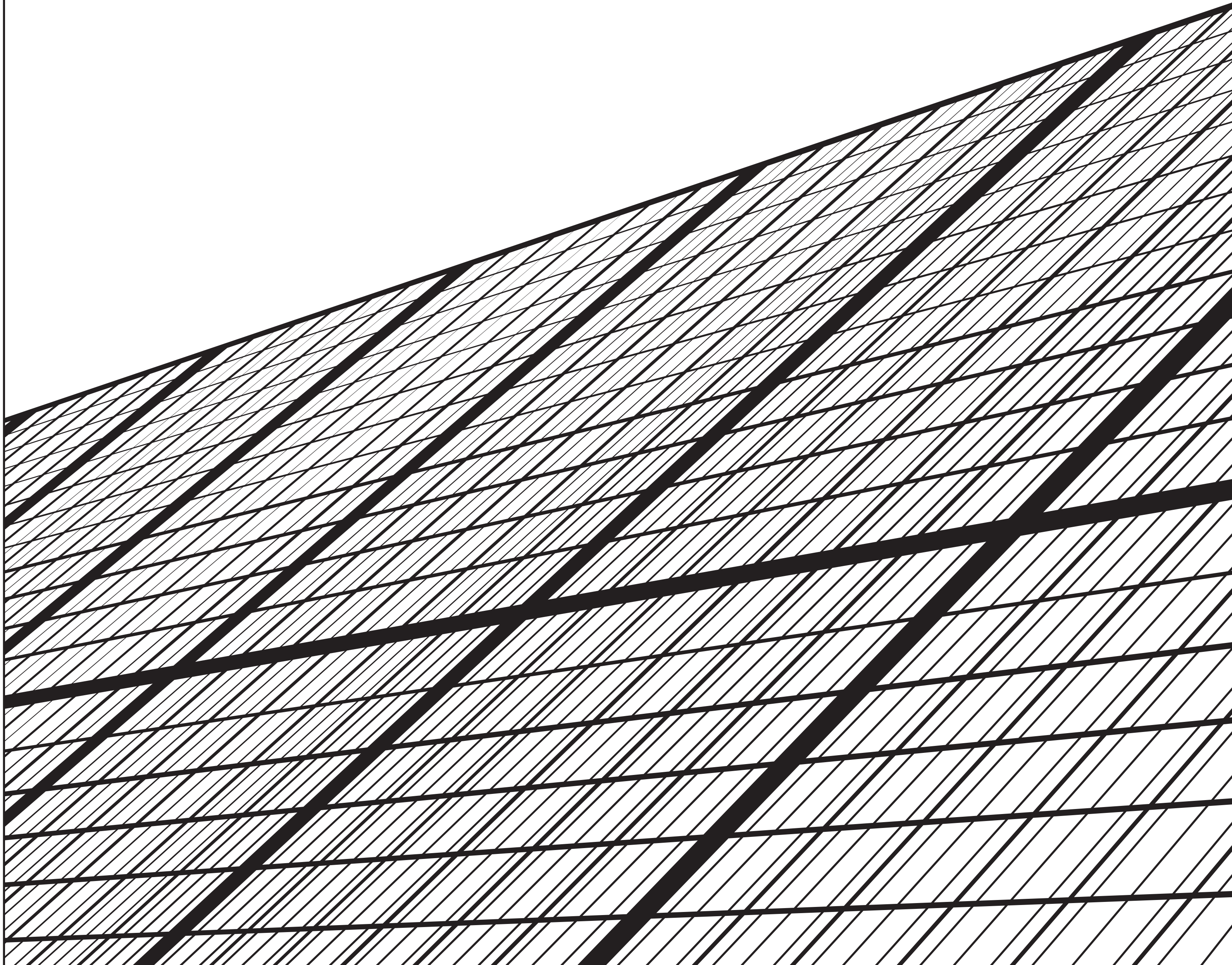
Cooperative ENERGY™



The Cooperative Way 2017 Annual Report



Street Sign at entrance
to Headquarters Career Center

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The Cooperative Way: Annual Report 2017

Where People Meet Power

Southwest Area Serviceman Matt Simpson

Where Rugged Meets Reliable

Left: Circuit Breaker at the J.T. Dudley, Sr. Generation Complex Switch Yard
Right: Lineman II Michael Bolton *(Left)* | Lineman II Jared Davis *(Right)*

The Cooperative Way is the foundation of our success. It is the time-tested way we conduct business and the crossroads where our communities meet safe, reliable, affordable power and all the possibilities it brings. We are a Member-owned, not-for-profit cooperative utility formed to deliver electricity, and with it, the opportunity for growth, primarily to Mississippians located in underserved rural areas.

As a generation and transmission cooperative, we provide electricity to our 11 Member distribution cooperatives. In turn, they then distribute the power to their members, the end users.

Carrying out this lofty mission has not always been easy and there have been roadblocks and challenges. But by working in partnership — in a cooperative spirit — Cooperative Energy has achieved success for 76 years.

Today, the Cooperative Energy system includes more than 1,800 miles of transmission lines that connect with our Members' 56,000 miles of distribution lines. This partnership powers the lives of approximately one million Mississippians in 55 of our state's 82 counties.

Our energy portfolio has expanded over the years and today includes gas, coal, nuclear, hydro, and solar. In 2017, we coordinated with Origis Energy to begin generation at one of the state's largest solar sites. We are using the sun to produce environmentally friendly energy for Mississippians. Why? Because it is the right thing to do and our Members asked for it. We listened and we delivered. This is The Cooperative Way.

Our vision is to continue working together to provide Members safe, reliable, and affordable electricity. This is The Cooperative Way.


HEDMAN
HEDDERS

Where Energy Meets Responsibility

Left: Relay Technician I Jason McCardle
Right: Turbine Generator at the J.T. Dudley, Sr. Generation Complex

Mission Statement

Cooperative Energy's Mission is to deliver to our Members reliable and affordable energy in a safe and environmentally responsible manner.

Inherent in this commitment is a set of core **Values**, which guide our everyday activities:

- Member Focus
- Transparency and Responsiveness
- Fiscal, Regulatory, and Environmental Compliance
- Safety and Reliability
- Serve as a Trusted and Value-Adding Resource for Member-Owners

---

Core **Strengths** include:

- An Experienced, Skilled Workforce
- A Long-Term Contractual Relationship with Member Systems
- Financial Health, including that of Members
- Long-Range Planning for Cost-Effective Generation Resources
- Fuel Diversity in Generation Resources

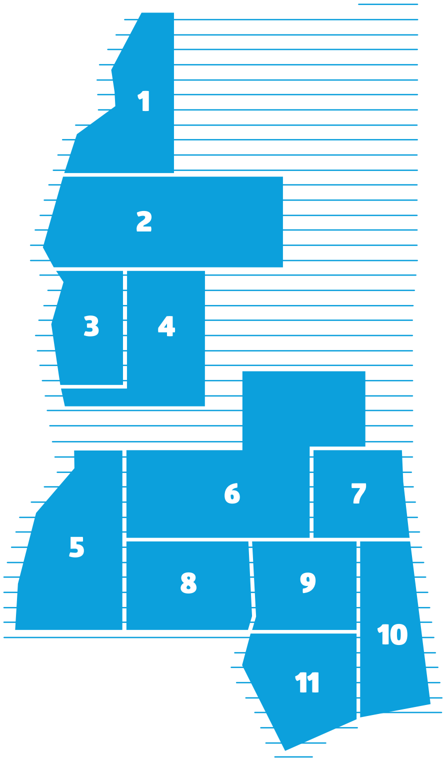
Where Teamwork Meets Trust

Left: Heavy Equipment Operator I Danny Simmons *(Left)* | Lineman II Zac Luckey *(Middle)* | Construction Inspector Corey Bond *(Right)*
Right: Treasury Analyst Tonia Ware

Cooperative Energy Distribution Members: The Power of 12

We are 12 electric cooperatives working together to bring safe, reliable, affordable power to more than one million Mississippians from the Delta to the Coast.

1. **Coahoma Electric Power Association** (7,925 Meters Served)
   1,611 Miles of Line | 4.9 Meters Per Mile of Line
2. **Delta Electric Power Association** (28,133 Meters Served)
   6,017 Miles of Line | 4.7 Meters Per Mile of Line
3. **Twin County Electric Power Association** (12,659 Meters Served)
   2,376 Miles of Line | 5.32 Meters Per Mile of Line
4. **Yazoo Valley Electric Power Association** (10,401 Meters Served)
   2,181 Miles of Line | 4.76 Meters Per Mile of Line
5. **Southwest Electric Cooperative** (25,429 Meters Served)
   4,202 Miles of Line | 6.05 Meters Per Mile of Line
6. **Southern Pine Electric Cooperative** (67,184 Meters Served)
   10,348 Miles of Line | 6.5 Meters Per Mile of Line
7. **Dixie Electric Power Association** (38,934 Meters Served)
   4,980 Miles of Line | 7.8 Meters Per Mile of Line
8. **Magnolia Electric Power** (31,651 Meters Served)
   4,768 Miles of Line | 6.6 Meters Per Mile of Line
9. **Pearl River Valley Electric Power Association** (49,269 Meters Served)
   6,087 Miles of Line | 8.09 Meters Per Mile of Line
10. **Singing River Electric Cooperative** (73,964 Meters Served)
    7,345 Miles of Line | 10.07 Meters Per Mile of Line
11. **Coast Electric Power Association** (82,004 Meters Served)
    6,847 Miles of Line | 11.97 Meters Per Mile of Line



Where Independence Meets Innovation

Left: Batesville Generating Station
Right: Substation Technician III Caleb Spiers

Generation Resources

Owned Generation

Batesville Generating Station Commercial Operation: 2000 ▪ 39 Employees
▪ Natural Gas ▪ Three Units ▪ 837 MW Combined Capacity

J.T. Dudley, Sr. Generation Complex Commercial Operation: 1970 ▪ 64 Employees
▪ Natural Gas ▪ Two Combined-Cycle Units ▪ Two Combustion Turbines ▪ One Steam Unit ▪ 516 MW Combined Capacity

R.D. Morrow, Sr. Generating Station Commercial Operation: 1978 ▪ 77 Employees
▪ Coal ▪ Two Units ▪ 400 MW Combined Capacity

Grand Gulf Nuclear Station *(10% owner)* Commercial Operation: 1985
▪ Nuclear ▪ One Unit ▪ Cooperative Energy Share of Capacity: 144 MW

George B. Taylor Generating Station Commercial Operation: 2003 ▪ 2 Employees
▪ Natural Gas ▪ Three Units ▪ 250 MW Combined Capacity

Sylvarena Station Commercial Operation: 2003 ▪ 2 Employees ▪ Natural Gas ▪ Three Units ▪ 141 MW Combined Capacity

Paulding Station Commercial Operation: 1972 ▪ Diesel Fuel ▪ One Unit ▪ 20 MW Capacity ▪ Retired August 31, 2017

Benndale Station Commercial Operation: 1969 ▪ Natural Gas ▪ One Unit ▪ 16 MW Capacity ▪ Retired March 30, 2018

Solar Sites (One Solar Array Located at Site: Greenwood, Kiln, Lucedale, Lyon, and Taylorsville)
▪ Approximately 378 Photovoltaic Panels Per Array ▪ 100 kW Capacity

Purchased Power

Southeastern Power Administration (Georgia-Alabama-South Carolina) ▪ Hydropower ▪ 68 MW Capacity
▪ Counterparty: Southeastern Power Administration

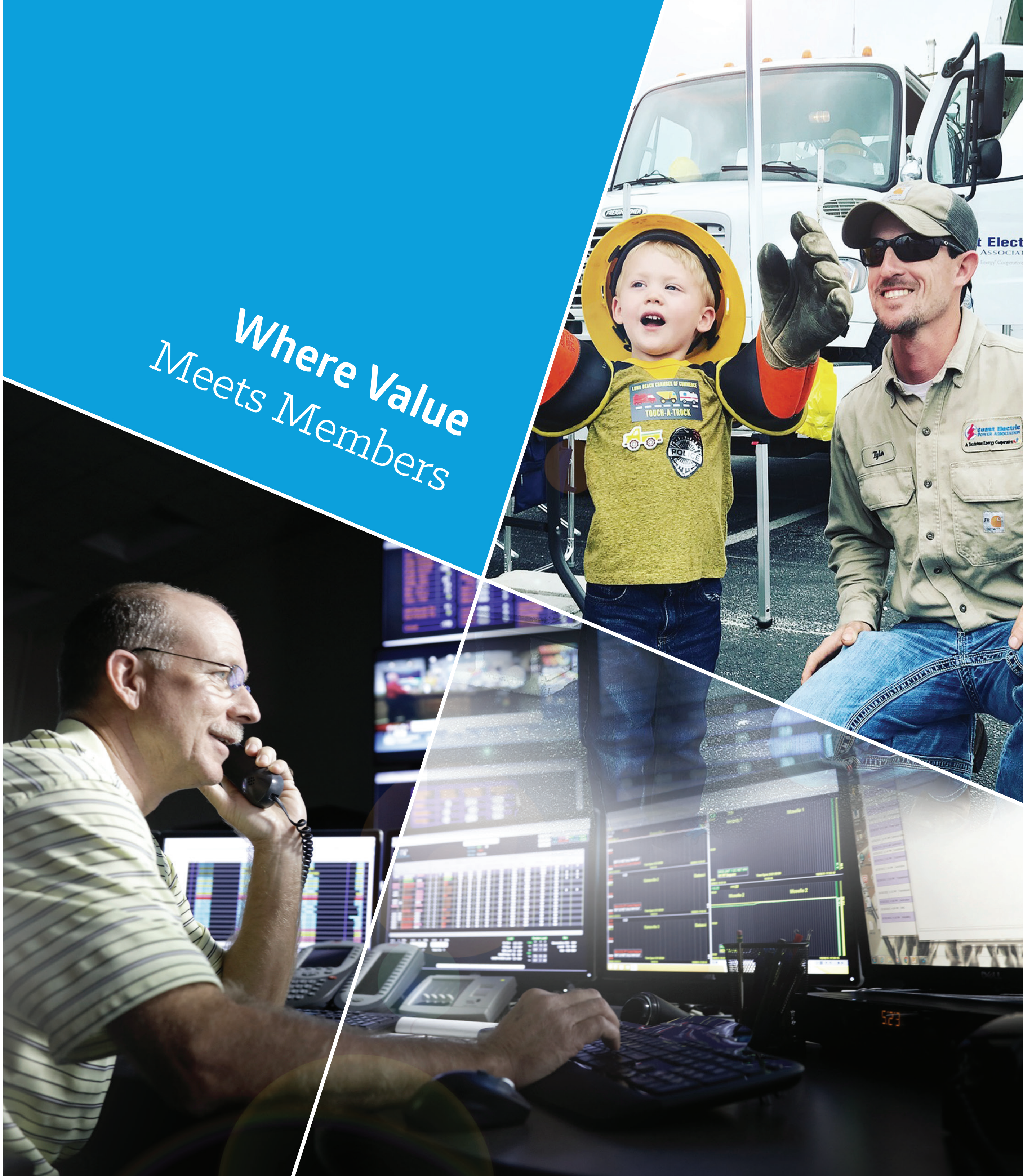
Southeastern Power Administration (Cumberland) ▪ Hydropower ▪ 51 MW Capacity
▪ Counterparty: Southeastern Power Administration

Mississippi Power Company Power Supply Agreement ▪ Natural Gas ▪ Coal ▪ 86 MW Capacity
▪ Counterparty: Mississippi Power Company

Plum Point Energy Station ▪ Coal ▪ 202 MW Capacity ▪ Counterparty: Plum Point Energy Associates

Mississippi Solar 3 ▪ Solar ▪ 52 MW Capacity ▪ Counterparty: Origis Energy

Where Value Meets Members



Left: Lead System Operator Pat Simmons
Right: Coast Electric Power Association Employee's Child Peyton Cuevas *(Left)* | Coast Electric Power Association Employee Tyler Necaise *(Right)*

Condensed Operating Statement

(in millions)	2017	2016	2015
Total Operating Revenues	**$ 778**	**$ 811**	**$ 842**
Operating Expenses			
Fuel and Purchased Power	$ 483	$ 504	$ 548
Other Operating Expense	170	165	158
Depreciation and Amortization	68	76	67
Total Operating Expenses	**$ 721**	**$ 745**	**$ 773**
Operating Margin Before Interest & Other	**$ 57**	**$ 66**	**$ 69**
Interest Expense: Net & Other Deductions	51	54	58
Operating Margin	**$ 6**	**$ 12**	**$ 11**
Interest and Other Income	14	11	14
Net Margin	**$ 20**	**$ 23**	**$ 25**
Equity as a % of Assets	20.4%	19.3%	18.9%
Margins-for-Interest Ratio (MFI)	1.46	1.51	1.50
Debt Service Coverage Ratio (DSC)	1.60	1.72	1.32
Average Cost of Debt	3.91%	4.09%	4.03%

2017 by the Numbers

$778
Million Annual Revenue

427,147
Meters Served

11,353,707
MWh in Total Sales

1,812
Miles of Transmission Lines

64.2%
Annual Coincident Peak Load Factor

56,762
Miles of Distribution Lines

6.98
Meters/Mile Avg. Density

System Characteristics:

89.62%
Residential

10.38%
Commercial & Industrial

Where Purpose Meets Achievement

Left: MS Solar 3
Right: Substation Technician 1 Chris House

2017 Milestones

2017 was a year characterized by challenges and successes within Cooperative Energy and across the electric utility industry. We again faced regulatory uncertainty and other obstacles to providing our Members with affordable, reliable electricity. We made great strides in our commitment to our Members and our environment by providing yet more economical, environmentally friendly solar-generated electricity. The crossroads where our challenges become opportunities for success is where our purpose meets achievement. This is The Cooperative Way.

Left: Batesville Generating Station
Right: Delta Electric Power Association Solar Site

2017 Milestones

- Returned $5,148,686 in patronage capital to Members
- Closed an unsecured, five-year $300,000,000 Amended and Restated Credit Agreement with a group of banks led by National Rural Utilities Cooperative Finance Corporation
- Redesigned the company intranet and branded it The GRID
- Implemented Adobe Sign, an electronic document signature program
- Developed a dynamically created and updated organizational chart
- Created a compensation workbench module to manage employee compensation
- Processed 6,451 standard purchase orders for a total value of $44,818,319.61
- Maintained a less than .01-percent discrepancy rate for 15,800 inventory line items across five warehouse locations with a total value of $23,471,941.34
- Issued first employee benefits enrollment guide
- Conducted first-ever performance management evaluation calibration sessions
- Provided employees with a Short-Term Income Protection Plan
- Utilized Halogen to automatically enroll new hires and supervisors in training
- Established new CEO communication tools, Compton Communication and CEO Update
- Awarded Spotlight on Excellence and PRism Awards for Sunny Days Ahead solar events and materials
- Implemented LanguageLine Solutions Program for Members
- Conducted a comprehensive Member safety multimedia campaign
- Installed a bronze statue and Circle of Service courtyard on Headquarters campus dedicated to all employees
- Constructed Line 592 to provide loop transmission service to transmission taps serving Singing River Electric delivery points
- Placed the Northwest Perry and the MS Solar 3 substations in service
- Reconstructed 25 miles of Lines 42 and 43 to provide transmission service to MS Solar 3
- Reconstructed 8.4 miles of Lines 37A and B between Wiggins GOAB and Big Level Substation
- Operated all owned generation units safely and reliably
- Completed remote switching and communications installations at all Entergy Mississippi-area locations
- Transferred operational responsibility for the George B. Taylor Generating Station to the staff of the R.D. Morrow, Sr. Generating Station
- Completed overall assessment and received board approval to proceed with Wärtsilä Smart Power Generation plant at Benndale Station
- Enacted the Shared Services Agreement with Mississippi Power

Company and completed communication to the sites, allowing Cooperative Energy to serve a portion of all MRA rate delivery points in the Mississippi Power Company area

- Completed Power Supply Options Study and other supporting studies to evaluate solutions to meet the long-term generation resource needs for Cooperative Energy, including the evaluation of replacement units at Benndale Station and a detailed study of options for the R.D. Morrow, Sr. Generating Station
- Developed a Generating Facilities Operator Training and Testing Program
- Operated the units at the R.D. Morrow, Sr. Generating Station infrequently due to economics, with Unit 2 remaining idle for five consecutive months. Units started successfully during operation.
- Increased availability at the Batesville Generating Station for the fourth consecutive year, achieving 82-percent availability
- Conducted comprehensive reviews of the financial and operating parameters at each of Cooperative Energy's generation facilities to ensure actual costs are captured and incorporated into the unit bidding parameters in the MISO market
- Implemented the Smart Thermostat Pilot program with Coast Electric, Singing River Electric, and Pearl River Valley Electric
- Developed a Business Advantage Program concept and implemented a Poultry House Lighting Pilot project with Southern Pine Electric
- Reduced annual gas usage to 35-billion cubic feet at an average delivered cost of $3.26/MMBtu
- Ended the year with 80,282 tons of coal in the pile at the R.D. Morrow, Sr. Generating Station, the lowest level since 2005, and observed record-low coal consumption at 44,331 tons

The Cooperative Way defines how Cooperative Energy and our 11 Member electric distribution systems operate every day. The Cooperative Way means that our focus is on our Members and our commitment to provide them with electricity that is safe, reliable, affordable, and responsible. It means we work side by side and grow together. The Cooperative Way was our key to success in 2017 and will be the key to our success in the future.

Safe

Our employees continued their commitment to personal and public safety in 2017 as we experienced no lost time accidents. Our employees ended the year with 1,745,697 man hours without a lost time accident. Our worker's compensation experience modifier decreased slightly to 0.57, while our Occupational Safety and Health Administration reportable incidents increased to four from one the previous year. The Total Case Incident Rate was 0.97, and the Days Away Restricted Transferred increased to 0.24, but remains 86 percent below the national average.

A daily focus on safety:
This is The Cooperative Way.

Reliable

In 2017 we emphasized improving transmission reliability for Members, especially in southwest Mississippi. Cooperative Energy assumed ownership and/or operational control of the majority of the Entergy Mississippi assets that serve six of Cooperative Energy's Member systems on January 1. Prior to the acquisition, these six systems experienced more frequent and more prolonged outages than those experienced by other Cooperative Energy Members. System improvements implemented throughout the year are expected to result in a noticeable improvement in reliability for these Members.

Cooperative Energy further enhanced reliability for our Members in southwest Mississippi by establishing an office and workforce in McComb. This crew is leading our efforts to improve transmission service in the area through more rapid response during outages.

We ended the year with a focus on generation efficiency and blackstart capability. On December 20, the Cooperative Energy Board of Directors approved a contract for the engineering, procurement, and construction of a new Wärtsilä Smart Power Generation plant featuring two 20-cylinder 31SG units to be located at Benndale Station. The simple-cycle units are twice as efficient as the nearly 49-year-old combustion turbine unit they will replace. In addition to providing more affordable electricity, the units will enhance reliability as they are able to reach full load in less than five minutes, ramp rapidly, and are blackstart capable.

Constantly striving to improve our service to our Members: This is The Cooperative Way.

Affordable

Cooperative Energy joined MISO, a regional transmission organization, in December 2013, in part to provide Members with greater affordability and reliability. In July 2017, at the request of the Mississippi Public Service Commission, our staff conducted an analysis to quantify the benefits of MISO membership. The analysis revealed that participation in MISO saved Cooperative Energy Members $140 million in the first three years. Outside of MISO, the cost of service would have been $46.7 million higher per year. This reaffirms our belief that membership in MISO is in the best interest of our Members.

The wholesale rate to Members increased 1.7 percent from 2016 to 73.39 mills. The impact to our Members, however, is mitigated by the fact that rates in 2016 and 2017 were the lowest in 10 years.

Affordability also means money back in our Members' pockets. We returned $4.4 million in capital credits to our Members in 2017 — our third consecutive year to do so.

Returning money to Members: This is a practice unique to the cooperative business model. This is The Cooperative Way.

Responsible

Being good, responsible stewards of the place our Members and our employees call home is another hallmark of The Cooperative Way. In recent years, our Members have asked for renewable energy to be a bigger part of the energy we provide, and we have responded.

In December 2017, Cooperative Energy commissioned its 196th member-owned residential solar system. These small-scale solar units have a 2-MW combined generating capacity. Once the solar unit is commissioned, Cooperative Energy purchases any excess solar-generated electricity from the owner and uses it to provide solar power for other Members.

Cooperative Energy made a significant commitment to the environment in 2017 with the construction and commercial operation of MS Solar 3. The 52-MW solar site is a joint project, coordinated with Origis Energy. The site's more than 206,000 panels use the best, most efficient, most environmentally responsible solar technology available to provide electricity to serve more than 11,400 of our Members' homes on an annual basis.

Good stewards of our environment: This is The Cooperative Way.

Growing

The number of meters served by our Members increased by 4,500 (1.1 percent) in 2017. Future long-term load growth is projected to be 0.64 percent per year, and although smaller than historical growth, it is growth.

Growing the communities our Members serve: This is The Cooperative Way.

The Cooperative Way

The Cooperative Way is people coming together to achieve a common goal. At Cooperative Energy, our Board of Directors, our employees, and the boards and employees of our 11 Member systems work together to achieve a common goal — to provide our 427,000 Members with electricity that is reliable, affordable, and responsible.

This is The Cooperative Way.

Senior Management Team

Top Row (Left to Right):
Ray Haley, Senior Vice President, Chief Financial Officer; **Nathan Brown,** Senior Vice President, Chief Operating Officer; **Jim Compton,** President, Chief Executive Officer; **Terry Lee,** Executive Vice President

Bottom Row (Left to Right):
Steve McElhaney, Senior Vice President, Compliance; **Christa Bishop,** Senior Vice President, Communication; **Jeff Bowman,** Senior Vice President, Chief Administrative Officer; **Brad Wolfe,** Senior Vice President, Power Delivery

Where Service Meets Commitment

Management Team

Top Row (Left to Right):

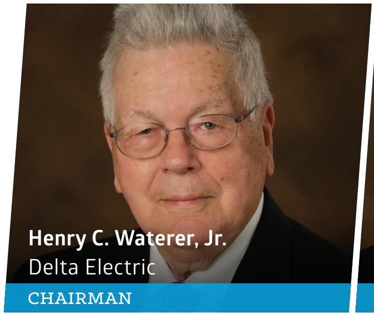
John Gilbertson, Director Substation Engineering; **Mike McCrary,** Director Finance and Risk Management;
Joey Ward, Director Environmental Affairs and Fuels; **Chris Rhodes,** Director External Affairs;
Gary Hutson, Vice President Power Supply; **Allen Keene,** Director Supply Chain; **Chris Roberts,** Director Transmission Engineering;
Kevin Grace, Controller; **Alan Wilson,** Director Wholesale Services

Bottom Row (Left to Right):

Tommy Clark, Director Control and Computer Systems; **Brad Edwards,** Vice President Power Production;
Phyllis Seal, Director Human Resources; **Trip Farris,** Plant Superintendent *(Batesville)*; **Mark Smith,** Plant Superintendent *(Morrow)*;
Bobby Vinson, Vice President Accounting Financial Planning; **Don Hinton,** Director Legal Affairs;
Ron Repsher, Director Power Marketing; **Patsy Horan,** Director Safety Compliance; **James Evans,** Director Transmission Maintenance

Not Pictured:

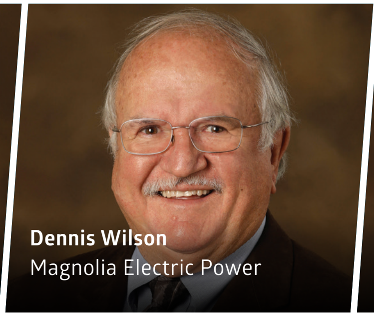
Jesse Torres, Director Business Information Systems; **Greg Chancellor,** Plant Superintendent *(Moselle)*


Henry C. Waterer, Jr.
Delta Electric
CHAIRMAN


William Hardin
Coahoma Electric
VICE CHAIRMAN


Mack Mauldin
Dixie Electric
SECRETARY


James Ginn
Coast Electric


Dennis Wilson
Magnolia Electric Power


Ben Hudson
Pearl River Valley Electric

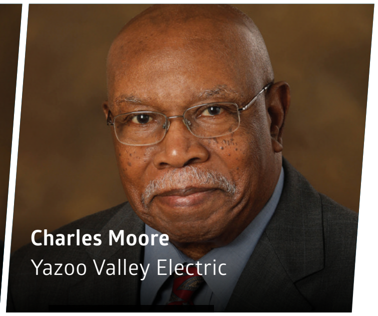

Howard Davis
Singing River Electric

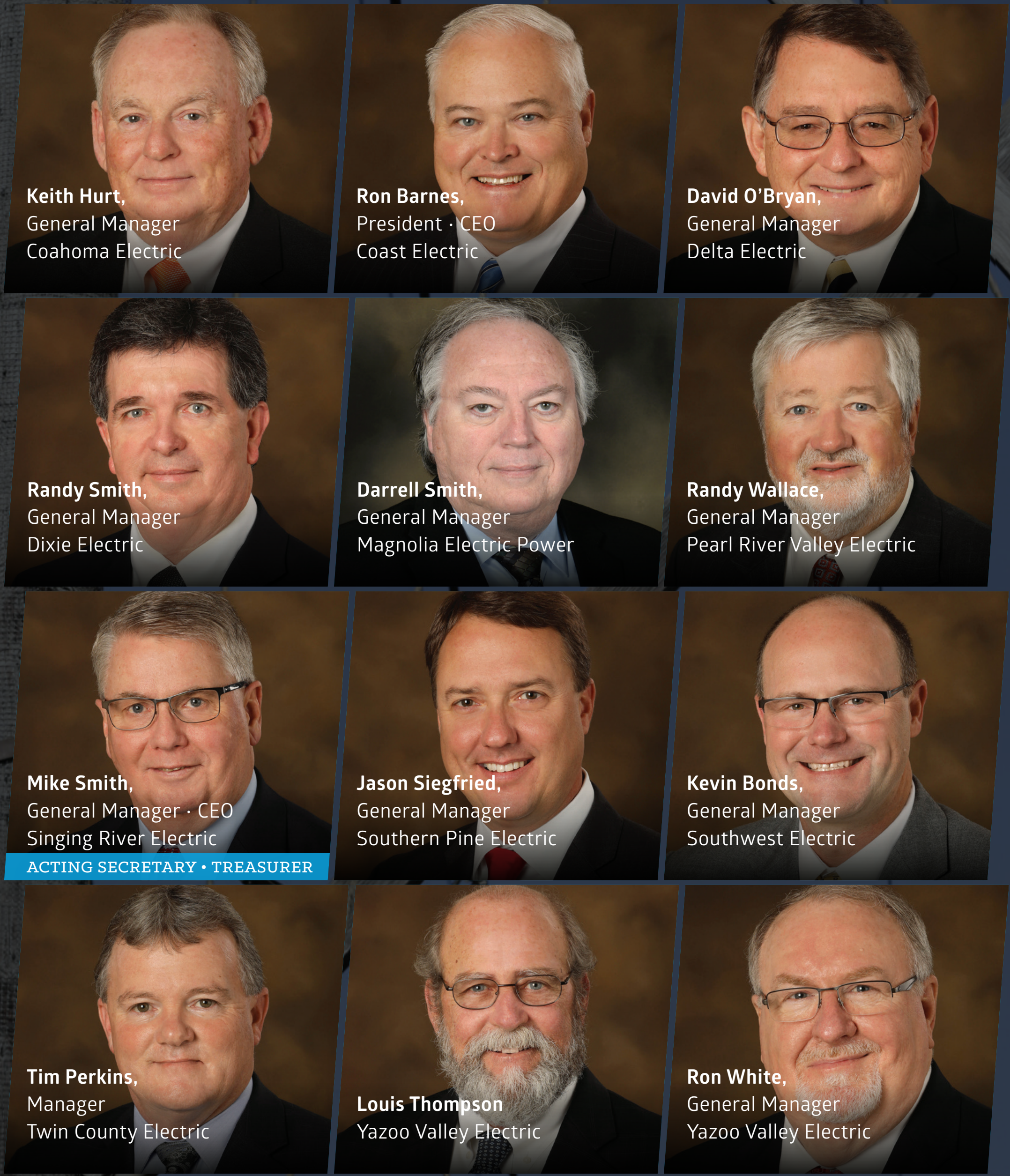

Richard Thoms
Southern Pine Electric


Elizabeth Mosby
Southwest Electric


James Ventress
Southwest Electric


Jack Reed
Twin County Electric


Charles Moore
Yazoo Valley Electric



Keith Hurt,
General Manager
Coahoma Electric

Ron Barnes,
President · CEO
Coast Electric

David O'Bryan,
General Manager
Delta Electric

Randy Smith,
General Manager
Dixie Electric

Darrell Smith,
General Manager
Magnolia Electric Power

Randy Wallace,
General Manager
Pearl River Valley Electric

Mike Smith,
General Manager · CEO
Singing River Electric
ACTING SECRETARY • TREASURER

Jason Siegfried,
General Manager
Southern Pine Electric

Kevin Bonds,
General Manager
Southwest Electric

Tim Perkins,
Manager
Twin County Electric

Louis Thompson
Yazoo Valley Electric

Ron White,
General Manager
Yazoo Valley Electric

Cooperative Energy Employee Golf Tournament

Retirees 2017

Jim Craig
2 years of service

Joe Fortenberry
40 years of service

Phil Horvath
4 years of service

Wayne Keen
40 years of service

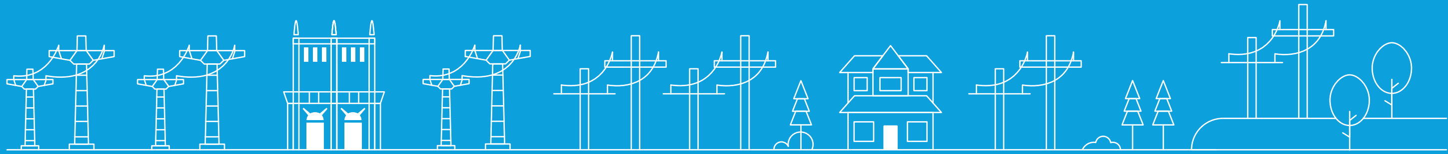
Paul Patterson
4 years of service

James "Wish" Tillson
34 years of service

Mitch Westberry
41 years of service

Cooperative ENERGY™

2017 General Facts and Figures



Transmission Relays Upgraded 34 | **Substations** 246 | **Transmission Lines Added** 20 Miles | **Total Transmission Lines** 1,812 Miles | **Transmission Structures** Replaced 46 Poles & 59 Cross Arms

Achieved 1,745,696.52 Man Hours with No Lost Time Accidents

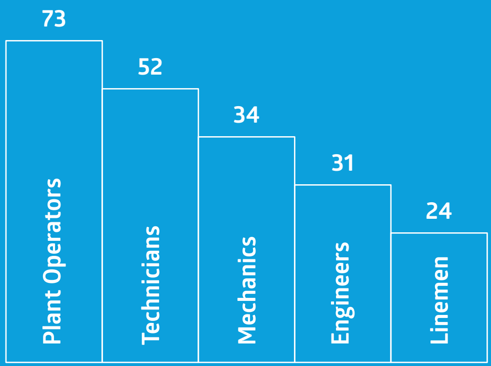
Man Hours Worked 816,371.07

New Hires 31

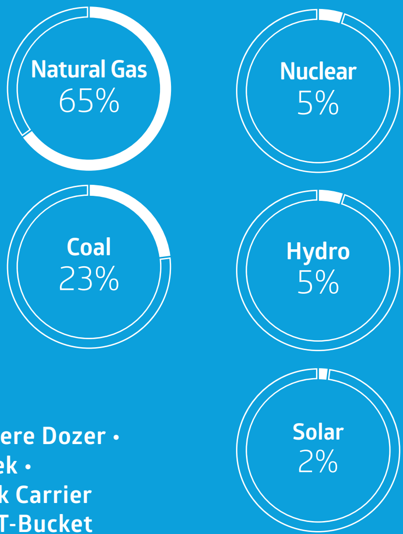
Employees by Work Location

Headquarters • 156
Field Operations Center • 102
Morrow • 77
Moselle • 64
Batesville • 39
McComb • 3
Greenwood • 2
Sylvarena • 2
Silver Creek • 2
Jackson • 4

Top 5 Job Titles



Owned and Contracted Generation Capacity by Fuel Type



Number of Years • Service Breakdown

0–5 • 173	**6–10** • 86
11–15 • 53	**16–25** • 67
26–30 • 26	**31–35** • 17
36–40 • 23	**Over 40** • 3

Equipment

40-ton Mantis Crane • CAT D6N Dozer • 650 John Deere Dozer • CAT Backhoe • GT800 All Terrain Go-Tract • Hydratrek • SoftTrack carrier with 65' General Derrick • SoftTrack Carrier with Aerial Bucket • Prinoth Panther T-16 Altec A77 T-Bucket

Gasoline Used: 110,000 Gallons | **Diesel Used:** 36,000 Gallons

38 Passenger Vehicles · 11 Full-Size Vans · 12 Side-by-Side Off Road · 21 1–2½ Ton Trucks · 12 Bucket Trucks | Digger Derricks · 65 Pick-Up Trucks · 3 ATV 4-Wheelers

The Cooperative Way 2017 Financial Report

(With Independent Auditors' Report Thereon)

Cooperative ENERGY

December 31, 2017 and 2016

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Results of Operation

Cooperative Energy provides generation and transmission services to 11 member distribution cooperatives (Members) located in southern and western portions of Mississippi under individual all-requirements wholesale power contracts that expire in 2055. Cooperative Energy's financial results from operations in 2017 were sufficient to ensure compliance with financial covenants and maintenance of an adequate liquidity position. A condensed statement of revenues and expenses is presented on page 11 of this report.

Revenues and Energy Sales

2017 vs. 2016

Operating revenues in 2017 decreased 4.1% from the prior year, to $778 million. This decrease was attributed to lower electric energy revenue from Members and a decrease in other electric energy revenue.

Electric energy revenue from Members was $718 million in 2017, a decrease of 1.3% as compared with 2016 due to lower volume of energy sold to Members and a higher effective rate. The average billed Member rate increased 1.2 mills/kWh, or 1.7%, to 73.39 mills/kWh in 2017. The Member rate schedule was adjusted in June 2017 with a 2.0 mill increase in the PCA component of the rate schedule. Member revenues in 2017 also reflect a net $12.6 million accretion of deferred revenue.

Energy sales to Members decreased 3.7% to 9.6 million MWh in 2017 compared with the prior year. During January 2017 Cooperative Energy recorded its yearly peak demand of 2,256MW which was 12.1% above the prior year peak of 2,012MW that occurred during July 2016. Sales to Member large power customers decreased approximately 4.5% in 2017 from the prior year due to lower sales to fuel pumping stations, natural gas storage facilities, and enhanced oil recovery operations. Large power customers represented 12.2% and 12.3% of the total Member load in 2017 and 2016, respectively.

Other electric energy revenue is comprised of net sales to the Midcontinent Independent System Operator, Inc. (MISO) in 2017. Revenues from net sales to MISO decreased $2.9 million to $52.8 million in 2017 from the prior year due to a lower volume of sales in 2017 which was partially offset by higher average selling prices. In 2016 other electric energy revenue also included $19.2 million from a sales contract that expired in May 2016.

Fuel and Purchased Power Expenses

Fuel expense is affected by a number of factors, including the volume of energy generated by owned facilities, the mix of units utilized, and commodity prices for fuels. The volume of generation is influenced by the relative competitive position of Cooperative Energy's owned generation facilities in MISO's economic dispatch model and the level of energy demand. Transmission congestion costs and unit reliability also affect dispatch volume and fuel expense.

Purchased power expenses depend upon the demand or capacity costs and the energy price for contracted resources, the quantity of energy purchased, and pricing of economy power purchased in the MISO market. Cooperative Energy seeks to minimize the cost of energy supplied to Members through the economic dispatch of available resources. To the extent that Cooperative Energy's sales to MISO and purchases from MISO offset each other, the cost to serve Member load largely reflects Cooperative Energy's production cost and purchased power cost for contracted resources.

Resources for a portion of Member load are provided by Mississippi Power Company (MPC) through all requirements contracts under which MPC supplies the all-requirements needs at certain Member delivery points. The delivery points are served under a municipal and rural association (MRA) cost-based rate that is subject to Federal Energy Regulatory Commission (FERC) approval. The MRA rate includes a fuel cost adjustment that is revised annually.

2017 vs. 2016

Combined fuel and purchased-power costs were $483 million and $504 million in 2017 and 2016, respectively. These costs represent 66.9% and 67.7% of total operating expenses in 2017 and 2016, respectively. The decrease in the aggregate cost of fuel and purchased power in 2017 is attributable to the lower volume of energy supplied to Members and MISO compared with the prior year.

Fuel expense declined $32.9 million, or 20.5%, in 2017 as compared with the previous year due to a 25.2% decrease in energy volume produced from owned facilities. The decrease in generation from owned facilities in 2017 was attributable to lower dispatch of Cooperative Energy's Batesville Generating Station, R.D. Morrow, Sr. Generating Station (Plant Morrow), Sylvarena Station, and the J.T. Dudley, Sr. Generation Complex (Plant Moselle) partially offset by higher dispatch of Grand Gulf Nuclear Station (GGNS) and the George B Taylor, Sr. Generating Station (Silver Creek). The combined-cycle units at Batesville Generating Station and Plant Moselle accounted for approximately 29.0% and 7.4%, respectively, of Cooperative Energy's total energy available for sale from all sources during 2017.

The cost of natural gas purchased for owned units averaged $3.26/MMBtu during 2017, inclusive of hedge and gas storage costs, as compared with $2.98/MMBtu during 2016.

Purchased power costs increased 3.4% during 2017 to $355 million due to a 2.5% increase in the average unit price, while the volume of purchased energy increased 0.9% compared with the prior year. The average cost of purchased power during 2017 was $58.27/MWh compared to $56.84/MWh during 2016. The total cost of energy purchased from MPC under the MRA contracts decreased 0.8% in 2017 compared to the prior year due to a 4.6% reduction in volume largely offset by higher average prices. The average rate paid to MPC during 2017 under the MRA contracts was $70.54/MWh compared to $67.80/MWh in 2016. Energy supplied to Members under the MRA contracts comprised approximately 27.3% of total Member load during the year. Energy purchases from Plum Point decreased 23.9% in 2017 compared to the prior year due to lower plant availability. The average cost of power from Plum Point during 2017 was $76.54/MWh compared to $58.06/MWh in 2016. Cooperative Energy's costs for net energy purchases of economy energy from MISO increased $19.7 million, or 84.9%, during 2017 to $42.8 million due primarily to higher volume. The average rate paid to MISO during 2017 was $25.25/MWh compared to $24.35/MWh in 2016. Net energy purchases from MISO comprised approximately 17.6% of total Member load in 2017 compared with 9.5% in 2016.

Cost of Fuel for Owned and Contracted Generation (*) ($/MWh)	**2017**	**2016**
Coal	$ 18.23	23.30
Nuclear	10.62	4.96
Natural Gas	25.40	22.89

(*) Contracted generation refers to resources under contracts with Plum Point Energy Associates (PPEA), Louisiana Generating (LA Gen), Power Sale Agreement with Mississippi Power Company (MPC PSA), and Southeastern Power Administration (SEPA). The LA Gen contract expired on March 31, 2016.

Energy Supplies

Sources of Supply (1000 MWh)	2017	2016	2017 over 2016 Increase/(Decrease)	2017 over 2016 % change
Total Owned and Contracted Generation (*)	7,099	9,451	(2,352)	(24.9%)
Net Purchases from MISO	1,697	951	746	78.4%
MPCo All-Requirement Contracts	2,627	2,755	(128)	(4.6%)
Other Purchased Power	0	9	(9)	100.0%
Total Energy Available	11,423	13,166	(1,743)	(13.2%)
Energy Losses	69	58	11	219.0%
Total Sales	11,354	13,108	(1,754)	(12.3%)

(*) Contracted generation refers to resources under contract with PPEA, LA Gen, MPC PSA, and SEPA.

Sources of Owned Generation (1000 MWh)	2017	2016	2017 over 2016 Increase/(Decrease)	2017 over 2016 % change
Batesville Generation Station	3,313	4,322	(1,009)	(23.3%)
Plant Moselle	871	1,503	(632)	(42.0%)
GGNS	743	597	146	24.5%
Plant Morrow	96	392	(296)	(75.7%)
Other Owned Generation	309	315	(6)	(1.9%)
Total Owned Generation	5,332	7,129	(1,797)	(25.2%)

Energy Supplied from Owned and Contracted Resources (excluding MRA contract and MISO purchases) by Fuel Type	2017	2016
Natural Gas	68.2%	69.7%
Coal	18.1%	21.3%
Nuclear	10.5%	6.3%
Renewables	3.2%	2.7%
	100.0%	100.0%

Other Operating Expenses

2017

Other operating expenses are comprised of non-fuel operating and maintenance expenses related to generation, transmission expenses, and administrative and general costs. Other operating expenses represented $15.05/MWh and $12.55/MWh in 2017 and 2016, respectively. The increase in cost on a $/MWh basis in 2017 compared to the prior year is due to a lower volume of total energy sales to Members and non-Members and a $6.6 million increase in Grand Gulf operations and maintenance expense. Grand Gulf experienced planned and forced outages during 2017 that resulted in increased expenses and lower output than planned.

Interest expense of $46.6 million, net of approximately $0.5 million in capitalized interest, in 2017 was 2.2% lower compared to the prior year, despite a 1.7% increase in the daily average balance of debt outstanding. Cooperative Energy's average cost of debt was 3.91% in 2017.

Non-Operating Margin

2017

Interest income was $12.6 million in 2017 compared to $9.8 million in 2016 due to the higher average balance of interest-bearing deposits in 2017 compared with the prior year. Interest-bearing deposits include the Rural Utilities Service (RUS) "cushion of credit" program.

Financial Condition

Cooperative Energy's financial plan targets a number of key financial metrics that are intended to ensure sufficient cash flow to meet obligations as they become due and capital to meet Members' future resource needs. One such financial target is that the annual cash coverage of interest and scheduled principal payments (debt service coverage ratio or DSC) be equal to or greater than 1.20 times. Cooperative Energy's DSC ratio in 2017 and 2016 was 1.60 and 1.72, respectively.

Cooperative Energy's net margin for the year ended December 31, 2017, was $20.1 million compared to $23.3 million for 2016. In formulating budgets and long-term financial plans, Cooperative Energy considers its annual "margins for interest" (MFI) ratio that is defined in Cooperative Energy's mortgage indenture. Cooperative Energy's indenture requires the maintenance of a MFI ratio of 1.10 times in order to be permitted to issue additional secured obligations. Cooperative Energy's credit agreements with banks also have a financial covenant that Cooperative Energy maintain an annual MFI ratio no less than 1.10 times. Cooperative Energy's MFI ratio was 1.46 and 1.51 for 2017 and 2016, respectively.

A strong balance sheet provides assurance to Members and other stakeholders that Cooperative Energy has the financial resources to meet its obligations. Cooperative Energy has a medium term goal to increase equity as a percentage of assets to 20%. At year-end 2017, the equity-to-assets ratio improved to 20.4% compared to 19.3% at the prior year-end.

The rate schedule for Members that is adopted each year in Cooperative Energy's annual budget is intended to cover Cooperative Energy's cost of service and meet or exceed target financial ratios. Cooperative Energy reviews its financial position each month with the board of directors, which may make adjustments to Member rates during the year in order to achieve financial targets and other objectives. An example of a mid-year adjustment is the 2.0 mill/kWh rate increase that was approved by the board and took effect on June 1, 2017. The change in Member rates and the overall composition of demand and energy charges resulted in an average Member rate of 73.39 mills/kWh in 2017, 1.7% higher than the 2016 average rate of 72.19 mills/kWh.

Investment Activities

Cooperative Energy's total assets at year-end 2017 decreased $34 million to $1.9 billion. Capital expenditures in 2017 were $48 million and were primarily attributable to improvements to Cooperative Energy's transmission system and to generation system compliance projects. Cooperative Energy's deposits in the RUS "cushion of credit" decreased $11.5 million to $243 million at year-end 2017. The cushion of credit balance is available to meet future scheduled principal and interest payments on RUS and Federal Financing Bank debt as the payments are due.

Cash Flow from Operations

Cash provided by operating activities amounted to $72 million in 2017 compared to $113 million in 2016. Net margins and non-cash depreciation expense totaled $92 million in 2017 and $104 million in 2016. Changes in current assets and liabilities, excluding cash and current maturities, decreased cash flow from operations by $17 million in 2017 and increased cash flow from operations by $18 million in 2016.

Financing Activities

During 2017, Cooperative Energy received $24 million in loan disbursements from RUS under loan contracts. These RUS loan advances provide long-term financing for various transmission system improvement and generation system improvement projects. The RUS loan advances are generally for a 20-to 30-year period and carry interest rates that are fixed at the time of the advance. The interest rate for the RUS loan advance made in 2017 is 2.51%. At year-end 2017, Cooperative Energy had $6 million in undrawn commitments available from RUS under one loan contract.

During 2016, RUS notified Cooperative Energy that the $88.7 million 'AE8' loan for transmission system and generation system improvements had been approved. Documentation of this facility is expected to close during 2018, with funding to take place in 2018 and 2019.

Liquidity

At year-end 2017, Cooperative Energy had $281 million in available undrawn commitments under unsecured credit facilities. The credit facilities have various final maturities between July 2019 and October 2022. Cooperative Energy believes it has adequate access to bank markets to renew or replace the credit facilities in due course as appropriate.

Liquidity available to meet Cooperative Energy's funding requirements is comprised of unrestricted cash-on-hand and amounts available under the committed bank facilities described above. Unrestricted cash and committed credit facilities available for immediate funding at year-end 2017 represented 179 days coverage of the average daily operating cash expense in 2017.

Credit Ratings

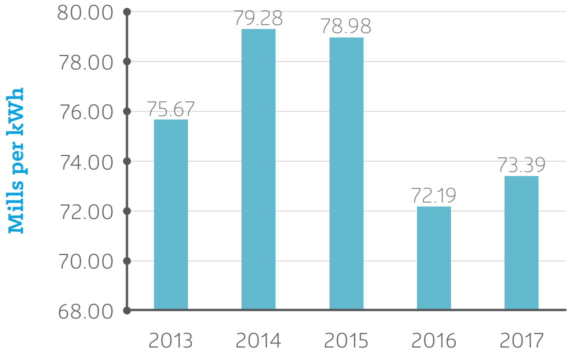
As of year-end 2017, Cooperative Energy was assigned the following credit ratings:

	S&P	Moody's	Fitch
Senior Secured Debt	A/Stable	A2/Stable	A/Stable
Issuer Credit Rating	A/Stable	A3/Stable	—

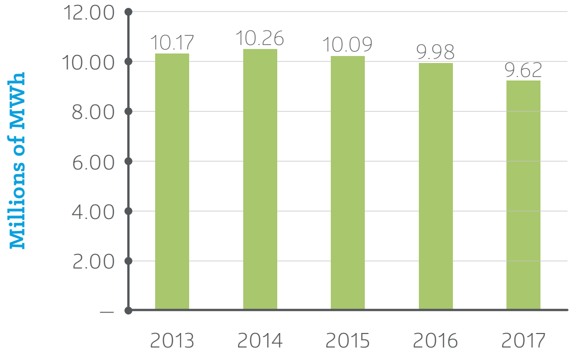
Five-Year Financial Summary

In thousands, as of December 31	2017	2016	2015	2014	2013
SUMMARY OF OPERATIONS					
Total Operating Revenues	$ 778,162	$ 811,298	$ 841,987	$ 903,371	$ 802,145
Operating Expenses:					
Fuel	$ 127,946	$ 160,842	$ 162,159	$ 177,824	$ 164,817
Production	41,317	36,238	39,950	39,628	42,041
Purchased Power	354,885	343,136	385,516	438,451	370,264
Transmission	49,423	49,873	47,634	44,701	37,032
Administrative and General	27,350	25,462	21,461	17,567	16,028
Maintenance	52,738	52,884	49,116	48,759	30,833
Depreciation and Amortization	67,686	76,301	66,773	63,874	61,524
Total Operating Expenses	$ 721,345	$ 744,736	$ 772,609	$830,804	$ 722,539
Operating Margin	$ 56,817	$ 66,562	$ 69,378	$ 72,567	$ 79,606
Interest Expenses	46,624	47,676	51,847	54,775	52,732
Other Deductions	4,064	6,342	6,840	7,042	3,662
Nonoperating Margin	13,956	10,762	13,963	14,308	9,080
Net Margin	$ 20,085	$ 23,306	$ 24,654	$ 25,058	$ 32,292
ELECTRIC UTILITY PLANT					
In Service – at Cost	$ 2,287,182	$ 2,247,265	$ 2,185,836	$ 2,122,629	$ 2,087,912
Electric Plant Held for Future Use	—	—	—	44,084	44,084
Construction Work in Process	35,359	36,708	60,968	59,787	36,262
Total	2,322,541	2,283,973	2,246,804	2,226,500	2,168,258
Less Accumulated Depreciation	998,578	940,570	872,389	811,304	751,015
Net Utility Plant	$ 1,323,963	$ 1,343,403	$ 1,374,415	$ 1,415,196	$ 1,417,243
TOTAL ASSETS	$ 1,902,551	$ 1,936,516	$ 1,876,634	$ 2,116,421	$ 1,948,815
TOTAL EQUITY AND PATRONAGE CAPITAL	$ 388,472	$ 373,563	$ 354,633	$ 337,588	$ 312,530
ENERGY SOURCES – MWH					
Generated	5,331,989	7,129,313	6,983,110	5,237,503	5,040,794
Purchased	6,090,468	6,037,018	6,036,120	7,005,008	5,731,387
Total Available for Sale	11,422,457	13,166,331	13,019,230	12,242,511	10,772,181
ENERGY SALES – MWH					
Member Cooperatives	9,616,043	9,984,821	10,086,777	10,257,114	10,166,882
Non-members	1,737,664	3,123,088	2,882,728	1,935,289	409,986
Total Sales	11,353,707	13,107,909	12,969,505	12,192,403	10,576,868
Wholesale Rate to Members (mills/kWh)	73.39	72.19	78.98	79.28	75.67
Total System Coincident Peak Demand (MW)	2,256	2,012	2,385	2,521	1,998

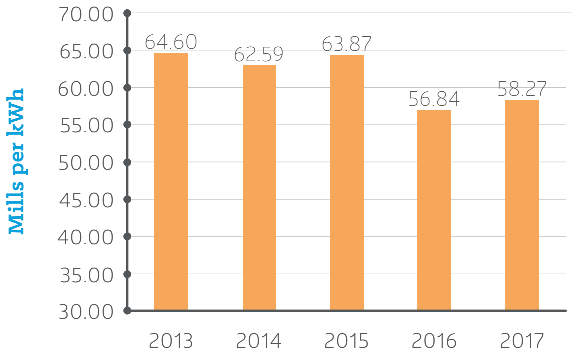
Wholesale Rate to Members



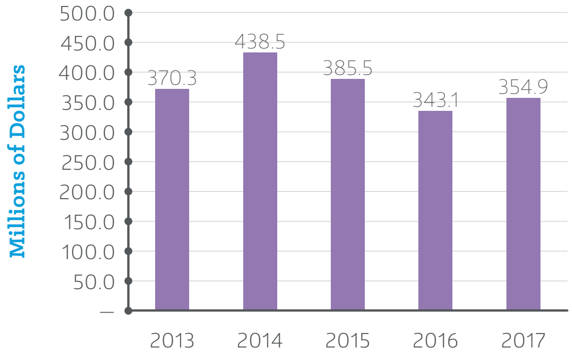
Sales to Members



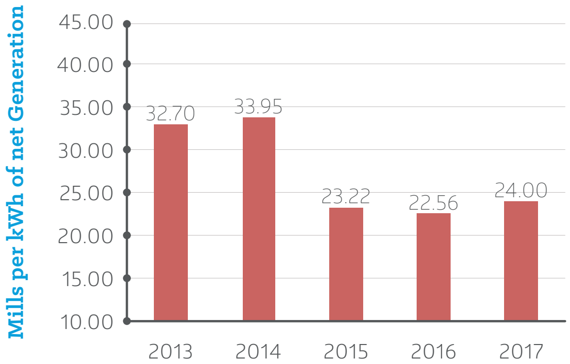
Average Cost of Purchased Power



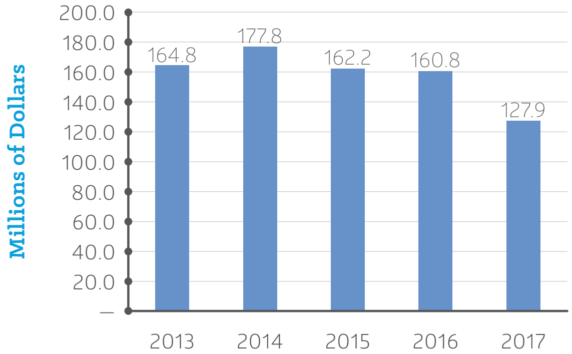
Total Cost of Purchased Power



Average Cost of Fuel for Owned Generation



Total Cost of Fuel



Independent Auditors' Report

The Board of Directors of Cooperative Energy:

We have audited the accompanying financial statements of Cooperative Energy, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Cooperative Energy as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Jackson, Mississippi
March 15, 2018

Balance Sheets | December 31, 2017 and 2016 | (In thousands)

Assets		2017	2016
Electric utility plant:			
In service – at cost	$	2,287,182	2,247,265
Construction work in progress		35,359	36,708
		2,322,541	2,283,973
Less accumulated depreciation		998,578	940,570
Net electric utility plant		1,323,963	1,343,403
Investments:			
Investments in associated organizations and other investments		12,982	13,600
Decommissioning trust investments		75,954	64,427
Debt service and other prepayments		242,789	254,311
Total investments		331,725	332,338
Current assets:			
Cash and cash equivalents		40,332	41,349
Accounts receivable from Members		66,692	60,355
Accounts receivable from others		1,878	4,250
Inventories (at average cost):			
Coal and other fuels		11,279	12,326
Emission allowances		3,486	3,491
Materials and supplies		35,173	33,119
Other		6,751	6,341
Total current assets		165,591	161,231
Deferred charges		81,272	99,544
Total assets	$	1,902,551	1,936,516
Equities and Liabilities:			
Equities:			
Patronage capital	$	387,937	373,001
Donated capital		535	535
Total equities		388,472	373,536
Long-term debt (excluding current maturities)		1,136,159	1,174,774
Accrued decommissioning obligation		106,588	100,850
Deferred credits and other long-term liabilities		87,892	104,709
Current liabilities:			
Accounts payable		65,621	57,924
Accrued interest		9,402	9,715
Other accrued expenses		6,662	6,381
Current maturities of long-term debt		49,941	38,669
Energy prepayments from Members		51,814	69,958
Total current liabilities		183,440	182,647
Commitments and contingencies (notes 3, 14, and 15)			
Total equities and liabilities	$	1,902,551	1,936,516

See accompanying notes to financial statements.

Statements of Revenues, Expenses, and Patronage Capital |

Years ended December 31, 2017 and 2016 | (In thousands)

		2017	2016
Operating revenues:			
Electric energy revenue from Members	$	718,379	727,969
Other electric energy revenue		52,787	74,914
Other – net		6,996	8,415
Total operating revenues		778,162	811,298
Operating expenses:			
Fuel		127,946	160,842
Production		41,317	36,238
Purchased power		354,885	343,136
Transmission		49,423	49,873
Administrative and general		27,350	25,462
Maintenance expenses:			
Production		40,892	40,727
Transmission		4,199	5,159
General		7,647	6,998
Depreciation and amortization		67,686	76,301
Total operating expenses		721,345	744,736
Operating margin before interest and other deductions		56,817	66,562
Interest and other:			
Interest, net of amounts capitalized		46,624	47,676
Other		4,064	6,342
Total interest and other		50,688	54,018
Operating margin		6,129	12,544
Nonoperating margin:			
Interest income		12,594	9,815
Other		1,362	947
Total nonoperating margin		13,956	10,762
Net margin		20,085	23,306
Patronage capital at beginning of year		373,001	354,098
Patronage distributions		(5,149)	(4,403)
Patronage capital at end of year	$	387,937	373,001

See accompanying notes to financial statements.

Statements of Cash Flows | Years ended December 31, 2017 and 2016 | (In thousands)

		2017	2016
Operating activities:			
Net margin	$	20,085	23,306
Adjustments necessary to reconcile net margin to net cash provided by operating activities:			
Depreciation, amortization, and decommissioning		71,874	80,704
Gain on sale of electric utility plant assets		(75)	(36)
Gain on sale of available for sale securities		(2,131)	(1,567)
Other noncash charges		1	1
Change in current assets		(5,379)	20,928
Change in deferred energy		1,889	(7,116)
Change in current liabilities other than current maturities		(11,225)	(3,003)
Change in deferred charges, credits, and other long-term liabilities		(3,320)	(554)
Net cash provided by operating activities		71,719	112,663
Investing activities:			
Proceeds from sale of utility plant		75	36
Purchases of available for sale securities		(27,079)	(24,405)
Proceeds from sale of available for sale securities		20,915	22,218
Change in other investments		5,367	(1,294)
Investment in nuclear decommissioning trust fund		(3,600)	(2,800)
Electric plant additions		(48,466)	(46,299)
Debt service deposits		11,522	(85,390)
Net cash used in investing activities		(41,266)	(137,934)
Financing activities:			
Scheduled principal payments on long-term debt		(38,771)	(31,751)
Elective principal payments of long-term debt		—	(27,019)
Proceeds from issuance of long-term debt		23,540	35,164
Change in lines of credit		(11,836)	72,721
Payment of Patronage Capital		(4,403)	(7,609)
Net cash provided by (used in) financing activities		(31,470)	41,506
Net change in cash and cash equivalents		(1,017)	16,235
Cash and cash equivalents at beginning of year		41,349	25,114
Cash and cash equivalents at end of year	$	40,332	41,349
Additional cash flow disclosures:			
Interest paid, net of amount capitalized	$	45,792	37,904
Noncash adjustment to accrued decommissioning obligation		595	—

See accompanying notes to financial statements.

1. Nature of Operations

Cooperative Energy is a member-owned, not-for-profit electric generation and transmission cooperative that supplies wholesale electricity and other services to its 11 member distribution cooperatives (the Members), which, in turn, provide retail electric service to consumers in certain areas of Mississippi through approximately 427,000 meters. Under long-term wholesale power contracts with each of its Members, Cooperative Energy is obligated to provide all of the power required by the Member systems. Financing assistance is provided by the United States Department of Agriculture, Rural Utilities Service (RUS). In addition to being subject to regulation by its own governing board of directors, Cooperative Energy is subject to certain rules and regulations promulgated for rural electric borrowers by RUS. Cooperative Energy maintains its accounting records in accordance with the Federal Energy Regulatory Commission's (FERC) Chart of Accounts, as modified and adopted by RUS. Revenue is generally recognized when power is delivered to its Members. However, as a regulated utility, the methods of allocating costs and revenue to time periods may differ from those principles generally applied to nonregulated companies.

During 2016, in conjunction with its 75th anniversary, South Mississippi Electric Power Association changed its name to Cooperative Energy. The name change followed a lengthy consideration process and was implemented to better reflect the cooperative's mission and broader business model in the energy sector. Cooperative Energy owns a 10% undivided interest in a nuclear generating plant known as Grand Gulf Unit 1 (Grand Gulf). System Energy Resources, Inc. (SERI), a subsidiary of Entergy Corporation (Entergy), owns the remaining 90%, either outright or through leasehold interests. Entergy Operations, also a subsidiary of Entergy, operates the plant along with other nuclear plants owned by Entergy, subject to owner oversight. Grand Gulf commenced commercial operation on July 1, 1985.

2. Summary of Significant Accounting Principles

a. Electric Utility Plant and Depreciation

Electric utility plant is stated at cost, which includes contract work, materials, and direct labor, allowance for funds used during construction, and allocable overhead costs. The cost of electric generating stations and related facilities also includes costs of training and production incurred, less revenue earned, prior to the date of commercial operation.

Depreciation is provided by straight-line group method for electric utility plant in service at the following annual composite rates:

Nuclear generation plant	1.26%
Nonnuclear generation plant	0.6% to 4.55%
Transmission plant	2.75%
General plant and transportation equipment	2% to 25%

At the time that units of the electric utility plant are retired, their original cost and cost of removal, less salvage value, are charged to accumulated depreciation. Replacements of the electric utility plant involving less than a designated unit of property are charged to maintenance expense. With the exception of turbine inspections, repair and maintenance costs incurred during a planned major maintenance outage are expensed when incurred. Costs associated with turbine inspections are recorded as regulatory assets and amortized over the periods between inspections.

Cooperative Energy evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable, based upon expectations of undiscounted cash flows and operating income. No impairments were incurred in 2017 or 2016.

b. Allowance for Funds Used during Construction

Cooperative Energy capitalizes interest on certain significant construction and development projects while the projects are under construction. The interest cost capitalized related to debt specifically borrowed for construction and development projects during construction is reflected as a reduction of interest expense. The imputed interest cost related to construction and development projects funded without specific borrowings during construction is reflected as allowance for funds used during construction. During 2017 and 2016, total interest cost amounted to $47.1 million and $48.4 million, respectively, with $0.5 million and $0.8 million, respectively, capitalized as part of the electric utility plant.

c. Cost of Decommissioning Nuclear Plant

Cooperative Energy's portion of the estimated decommissioning cost of Grand Gulf (see note 3) is charged to operating expenses over the estimated service life of the plant. In December 2011, the Nuclear Regulatory Commission (NRC) accepted a License Renewal Application (LRA) for Grand Gulf Unit No. 1 and commenced a process to review the requested extension of the operating license to 2044. The renewal of the operating license was issued in December 2016. The operating license from the NRC expires in 2044.

d. Investment Securities

Debt service and other prepayment amounts represent debt service prepayments deposited in the RUS Cushion of Credit Program. Investment deposits are voluntary and earn interest while on deposit. Interest bearing deposits are recorded at cost. These investments are utilized for required debt service payments as directed by Cooperative Energy. The funds are restricted for RUS debt service and are not available for general operating purposes.

Decommissioning trust investments are categorized as available for sale and are carried at fair value. In 2009, the Board of Directors authorized Cooperative Energy to refund or recover any trust investment gains or losses through future rates. In accordance with the regulatory treatment for such decommissioning trust funds, beginning in 2009, Cooperative Energy records a regulatory liability or asset for the amount of unrealized losses or unrealized gains, respectively.

The primary components that determine a debt security's fair value are its coupon rate, maturity, and credit characteristics. When the fair value of a security falls below amortized cost, an evaluation must be made to determine if the unrealized loss is a temporary or other-than-temporary impairment. Securities that are deemed to be other than temporarily impaired are written down to net realizable value by a charge to expense. Premiums and discounts are amortized and accreted to operations using the level yield method, adjusted for prepayments as applicable. Gains and losses on sales of investment securities are computed using the specific identification method.

e. Cash and Cash Equivalents

For purposes of reporting cash flows, all temporary investments with original maturities of three months or less are deemed to be cash equivalents.

f. Inventories

Inventories of coal and other fuels and materials and supplies are valued using the rolling weighted average realizable value, and any inventories that are obsolete or excess are written down to their estimated disposal value.

g. Emission Allowances

Cooperative Energy maintains an inventory of Sulfur Dioxide Emission allowances for the acid rain program. These allowances are valued using the rolling weighted average cost method.

h. Regulatory Accounting

Cooperative Energy's accounting policies include compliance with Accounting Standards Codification (ASC) No. 980, *Regulated Operations*. Regulatory assets represent probable future reductions in revenues, or increase in expenses, associated with certain items that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future revenues associated with amounts that are expected to be credited to customers through the ratemaking process. In the event that Cooperative Energy is no longer able to comply with ASC 980 as the result of a change in regulation or effects of competition, Cooperative Energy would be required to recognize the effects of its regulatory assets and liabilities currently in its statements of revenues, expenses, and patronage capital.

Periodically, the Board of Directors will set a benchmark power cost adjustment rate to be collected from Members in order to more closely match revenues with actual and forecasted fuel and purchased power costs consistent with the cooperative not-for-profit operation of Cooperative Energy. Material variances between these revenues and costs may cause the recognition of deferred credits or deferred charges from one year to the next in accordance with how these revenues and/or costs are expected to be recovered or refunded.

Additional details regarding regulatory assets and liabilities are included in notes 7 and 10.

i. Patronage Capital

The bylaws of Cooperative Energy provide that any excess of revenues over expenses and accumulated prior-year deficits shall be treated as advances of capital by the Member patrons and credited to them on the basis of their patronage.

j. Income Taxes

Cooperative Energy is exempt from United States income taxes pursuant to Section 501(c)(12) of the Internal Revenue Code, which requires that at least 85% of Cooperative Energy's gross income be derived from its Members.

k. Derivative Financial Instruments

Derivative and hedge accounting requires that all derivatives be recognized in the balance sheet either as an asset or liability, measured at fair value, unless they meet the normal purchases and sales exemption criteria. Contracts in which Cooperative Energy is effectively hedging the variability of cash flows relate to forecasted natural gas purchases, transmission congestion cost, and interest rates. Any gains or losses resulting from the fair value measurement of natural gas hedges, energy sales, and transmission congestion cost hedges are passed through to Members using the mechanisms of the benchmark power cost adjustment rate. Therefore, these derivative instruments are recorded at fair value in the accompanying balance sheets, along with a corresponding offsetting regulatory asset or liability. See note 11 for the values of the derivatives and the financial statement line item in which the derivatives are reported in the financial statements, and for further disclosure related to the interest rate cap agreement.

l. Electric Energy Revenues

Revenues are recorded when power is delivered to a Member or Midcontinent Independent System Operator (MISO), a Regional Transmission Organization (RTO). MISO acts as a centralized market in which Cooperative Energy and other MISO participants sell all their energy to MISO and purchase all their energy requirements to serve their load from MISO at market clearing prices. During hours in which Cooperative Energy sells more energy into MISO than purchased from MISO to meet the energy requirements for our 11 Member cooperatives, Cooperative Energy recognizes these excess sales, also referred to as net sales, as other electric energy revenues on the statements of revenues, expenses, and patronage capital. Uncollectible accounts have historically been negligible, so Cooperative Energy does not provide an allowance for doubtful accounts.

m. Use of Estimates

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

n. Recently Issued Accounting Standards

During 2014 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-10, *Revenue from Contracts with Customers*. This standard requires entities to recognize revenue in the amount to which the entity is entitled when the transfer of goods and services to customers occurs. Cooperative Energy is evaluating the impact of this new standard and plans to adopt the standard in 2019.

During 2016, the FASB issued ASU 2016-02, *Leases*. This standard revised accounting criteria for leasing arrangements. The standard requires many leases, currently recorded as operating leases, to be recorded on the Balance Sheet. Cooperative Energy is evaluating the impact of this new standard and plans to adopt the standard during 2020.

o. Bond and Debt Issuance Costs

Bond and debt issue costs are being amortized by the straight-line method, which does not differ materially from the interest method, over the term of the related debt. The amortization during the period of construction is capitalized.

p. Other

During September 2015, Cooperative Energy entered into a purchase power agreement with MS Solar 3, LLC for approximately 52 MW of solar energy. Under terms of the agreement, which has a 25-year term, Cooperative Energy has the option to extend the purchase power agreement for five years, or purchase the solar equipment at the higher of fair market value, or a minimum purchase price that varies each year after nine years. While the agreement would normally be accounted for as a capital lease, there are no required minimum payments. Cooperative Energy only pays for actual energy received from the facility. Thus, payments made under the agreement are expensed and charged to purchased power, similar to an operating lease. During 2017, Cooperative Energy paid $0.27 million for energy from this facility.

q. Subsequent Events

Cooperative Energy has evaluated subsequent events through March 15, 2018, the date these financial statements were available to be issued.

3. Commitments and Contingencies Regarding Grand Gulf

Cooperative Energy and SERI are co-licensees and parties to a joint ownership contract that sets forth the rights and obligations of the Grand Gulf owners, with Cooperative Energy generally obligated to pay 10% of all operating and capital costs and entitled to receive 10% of the electricity generated by the plant. Cooperative Energy paid $39.1 million and

$33.0 million under the contract in 2017 and 2016, respectively. During 2016, Cooperative Energy received a $2.2 million fuel cost credit as part of the proceeds received by SERI from the Department of Energy (DOE). SERI had filed suit against the DOE for refusal to accept spent nuclear fuel during the period 2005–2011, inclusive, while charging operators a fee for disposition.

Cooperative Energy is also responsible for 10% of the estimated cost to decommission Grand Gulf. Entergy provides information to the NRC on behalf of Cooperative Energy that demonstrates that sufficient financial resources will be available at the time it becomes necessary to decommission. In addition, Cooperative Energy received approval from the Internal Revenue Service to establish a "tax-free" grantor trust as a vehicle to fund the estimated decommissioning costs. Cooperative Energy contributed $3.6 million to the trust in 2017 and $2.8 million in 2016. Cooperative Energy expects to fund the trust on an as-needed basis through at least 2044, based on investment performance and revisions to the estimated decommissioning liability.

Cooperative Energy has recorded an accrued decommissioning obligation for Grand Gulf. The liability is recorded at the present value of the estimated future outflows, with an accompanying addition to the recorded cost of the long-lived asset, which is then depreciated over its useful life. The accrual for this Grand Gulf obligation was $95.8 million and $94.9 million at December 31, 2017 and 2016, respectively. The accrued decommissioning obligation is based on estimated future costs to remediate the site. During 2017, Entergy updated the estimated decommissioning cost for Grand Gulf. As a result of estimated decommissioning cost reported in these studies, Cooperative Energy's portion of the liability decreased by $4.0 million during 2017. Accordingly, as with any estimates, precision of the estimate and unasserted claims can have a material impact on future cost. Also see note 14 for additional discussion.

Cooperative Energy could be assessed for other costs of this facility relative to insurance coverage for the public in the event of a nuclear power plant incident. The Price-Anderson Act requires that reactor licensees purchase insurance and participate in a secondary insurance pool that provides insurance coverage for the public in the event of a nuclear power plant accident. The costs of this insurance are borne by the nuclear power industry. Within the secondary pool, each nuclear reactor has a contingent obligation to pay a retrospective premium, equal to its proportionate share of the loss in excess of the primary level, regardless of proximity to the incident or fault. Cooperative Energy's share of such premium could be up to a maximum of approximately $12.7 million for each nuclear incident involving licensed reactors, payable at a rate of $1.9 million per year per incident per nuclear power reactor. In addition, under a property damage and accidental outage insurance program, Cooperative Energy could be assessed up to $2.2 million maximum per occurrence for property damage, decontamination, or premature decommissioning expense involving nuclear generation plants owned by others. No such incidents were incurred in either 2017 or 2016.

4. Electric Utility Plant

Electric utility plant consisted of the following:

		Cost		Accumulated depreciation	
		December 31		December 31	
		2017	2016	2017	2016
		(In thousands)		(In thousands)	
Grand Gulf Nuclear	$	562,873	559,303	363,501	359,579
Morrow steam		331,450	325,858	189,078	178,911
Moselle steam		32,837	33,217	23,735	22,797
Moselle combined cycle		211,676	210,692	34,307	27,981
Moselle gas turbines		60,394	60,394	26,232	24,421
Batesville combined cycle		256,378	276,839	47,702	36,812
Silver Creek/Sylvarena gas turbines		203,417	202,781	82,592	76,680
Benndale/Paulding gas turbines		4,847	4,847	4,796	4,787
Solar sites		1,558	1,458	104	42
Total generating plant		1,665,430	1,675,389	772,047	732,010
Transmission plant		416,814	374,896	136,254	129,595
General plant and equipment		201,885	196,189	90,487	78,929
Electric plant leased to others		3,053	791	401	423
Electric plant in service		2,287,182	2,247,265	999,189	940,957
Construction work in process		35,359	36,708	(611)	(387)
Total electric utility plant	$	2,322,541	2,283,973	998,578	940,570

Depreciation expense was $65.9 million and $74.8 million during 2017 and 2016, respectively.

At December 31, 2017, Cooperative Energy has commitments of approximately $4.5 million related to construction work in process.

5. Investments in Associated Organizations and Other Investments

Investments in associated organizations and other investments are stated at cost and consisted of the following:

		December 31	
		2017	2016
		(In thousands)	
National Rural Utilities Cooperative Finance Corporation (CFC) Patronage Capital and Term Certificates	$	6,994	6,965
Economic Development Loans		1,945	2,013
Other		4,043	4,622
	$	12,982	13,600

CFC term certificates bear interest at 5.00% and mature in 2070 through 2080.

6. Decommissioning Trust Investments

The cost or amortized cost and estimated fair value of investments securities were as follows:

		December 31, 2017			
		Cost or amortized cost	Gross unrealized Gains	Gross unrealized Losses	Estimated fair value
		(In thousands)			
Decommissioning trust:					
Corporate bonds	$	7,280	73	(14)	7,339
Equity mutual funds and exchange-traded funds		29,701	6,861	(14)	36,548
Common stocks		4,534	1,883	(37)	6,380
Fixed income mutual funds and exchange-traded funds		15,830	58	(80)	15,808
U.S. government obligations		974	—	—	974
Fixed income – Foreign		549	15	—	564
International funds and exchange-traded funds		7,129	479	—	7,608
Money market funds		733	—	—	733
	$	66,730	9,369	(145)	75,954

		December 31, 2016			
		Cost or amortized cost	Gross unrealized		Estimated fair value
			Gains	Losses	
		(In thousands)			
Decommissioning trust:					
Corporate bonds	$	2,100	45	(14)	2,131
Equity mutual funds and exchange-traded funds		33,422	3,637	(496)	36,563
Common stocks		5,113	1,782	(55)	6,840
Fixed income mutual funds and exchange-traded funds		16,071	52	(112)	16,011
U.S. government obligations		1,000	1	—	1,001
Money market funds		1,881	—	—	1,881
	$	59,587	5,517	(677)	64,427

Proceeds from sales of securities available for sale were $20.9 million in 2017 and $22.2 million in 2016, respectively. Related gross realized gains and losses in 2017 were $2.2 million and $0.1 million, respectively, and in 2016 were $1.8 million and $0.2 million, respectively. Fair market value of decommissioning trust investments is based on quoted prices in active markets.

7. Deferred Charges (Including Regulatory Assets)

The following is a summary of amounts recorded as deferred charges, including regulatory assets:

		December 31	
		2017	2016
		(In thousands)	
Regulatory assets:			
Nuclear outage maintenance cost	$	880	2,748
Postretirement medical benefit regulatory asset		3,431	4,727
Unamortized investment in Grand Gulf Unit 2		39,780	41,985
Deferred turbine overhaul costs		13,081	16,030
Unamortized penalties on repriced debt		185	504
Deferred cost of buyout of Batesville wholesale power contract		3,079	4,105
Development fees – Panola Partnership		2,988	3,225
Batesville acquisition costs		1,388	1,469
Pension plan accelerated funding		8,641	9,306
Unrealized loss on gas hedges		2,618	—
Unamortized penalties on required debt		511	1,025
	$	76,582	85,124

		December 31	
		2017	2016
		(In thousands)	
Other deferred charges:			
Advance payment on Plum Point power purchase agreement	$	2,776	2,899
Natural gas hedge asset		—	8,614
Transmission congestion hedge asset		450	1,314
Other		1,464	1,593
	$	81,272	99,544

Nuclear outage maintenance costs represent Cooperative Energy's 10% share of Grand Gulf's incremental maintenance costs associated with refueling outages. These costs are recorded as a regulatory asset when incurred and are amortized by the straight-line method over the 22 to 23 months between scheduled outages.

Cooperative Energy capped its investment in construction of the Grand Gulf Unit 2 nuclear generating plant at $101.1 million, and majority owner, SERI, subsequently abandoned construction of Grand Gulf Unit 2 generating plant during the late 1980s. Cooperative Energy carried the unamortized investment balance in the deferred loss from disposition of utility plant and amortized this investment during the years 1989 to 2005 resulting in a remaining balance of $44.1 million. During 2006, Cooperative Energy received approval from RUS to cease amortization of the investment based on the possibility that a part of the abandoned plant may have value for a potential new nuclear unit to be constructed at the Grand Gulf site. RUS also approved reclassification of the investment balance from deferred loss from disposition of utility plant to electric plant held for future use. The majority owner, SERI, discontinued efforts to obtain permitting for an additional nuclear unit for the site in 2015. During 2015, Cooperative Energy arranged for an independent appraisal of the abandoned plant and the independent appraiser concluded that there was no potential value for the plant site. Accordingly, as a rate-regulated entity qualifying for Regulatory Accounting, per ASC Topic 980, Cooperative Energy reclassified the $44.1 million balance from electric plant held for future use, to regulatory assets in 2015. This accounting was also approved by RUS. Cooperative Energy plans to amortize this balance during the periods from 2016 to 2036. See note 2(c) and note 3, for additional information regarding the Grand Gulf nuclear generating facility.

As stated in note 2, Cooperative Energy hedges the variability of cash flows related to forecasted natural gas purchases and energy sales. The fair value of these derivative financial instruments is carried on the balance sheets. Realized gains or losses incurred with these instruments are passed through as part of the wholesale rate to Members.

Turbine overhaul costs are recorded as regulatory assets when incurred and amortized into rates during the period between scheduled overhauls, typically five to six years.

Cooperative Energy repriced or refinanced significant amounts of its outstanding debt prior to 1995 and prepaid debt in 2016. As a condition of the transactions, Cooperative Energy paid various prepayment penalties, which are treated as deferred charges to be amortized over the remaining life of the debt. Amortization of all such penalties was $0.8 million in 2017 and $0.8 million in 2016.

In 2005, Cooperative Energy renegotiated its contract for rights to the output of a 279-megawatt gas-fired, combined-cycle combustion turbine-generator located near Batesville, Mississippi. In so doing, Cooperative Energy paid approximately $16.0 million to buy out the remaining 15-year commitment with a wholesale power distributor. During December 2012, Cooperative Energy purchased the Batesville facility. The $16.0 million buy-out payment has been amortized down to $3.1 million as of year-end 2017, and will continue to be amortized and recovered in rates over the life of the original power purchase contract.

The development fees – Panola Partnership represent fees paid under an inducement agreement and use agreements for the Batesville Generating Facility. The payment will be amortized and recovered in rates over the life of the agreement or the period from December 2013 through July 2031.

The NRECA Board of Directors approved an option to allow participating cooperatives in the Retirement Security Plan (RS Plan), a defined benefit multiemployer pension plan, to make an accelerated payment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned using the RS Plan's actuarial valuation assumptions. After making the prepayment, the billing rate was reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns, and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period. During February 2013, Cooperative Energy made an $11.9 million payment under this option. In accordance with RUS guidance, the payment is being amortized over an 18-year period based on the difference in the normal Plan retirement age and average age of the Cooperative Energy workforce.

During 2006, Cooperative Energy paid $3.5 million as a refinancing cost under terms of the Plum Point power purchase agreement; this payment was made in lieu of an increase in the reservation payments associated with power purchased under this contract. During 2008, $0.5 million of preliminary survey costs associated with this power purchase agreement were also recorded as a deferred charge. During 2010, Cooperative Energy paid $6.2 million as its share of costs associated with transmission system interconnections at this facility. These funds will be amortized into rates over the life of the power purchase agreement, which began during 2010 when the related plant came online. During 2011, Cooperative Energy was refunded $2.4 million as transmission service credits relating to payments of the transmission system interconnect cost.

8. Patronage Capital

Patronage capital consisted of the following:

		December 31	
		2017	2016
		(In thousands)	
Cumulative margins	$	410,952	390,867
Less retirements to date		23,015	17,866
	$	387,937	373,001

The return to Members of contributed capital is permitted under terms described in Cooperative Energy's Indenture of Deed of Trust, Security Agreement, and Financing Statement (Indenture), the security document governing first mortgage obligations. Equity of Cooperative Energy represents 24.7% and 23.5% of the aggregate long-term debt and equity at December 31, 2017 and 2016, respectively.

9. Debt

The listing below details Cooperative Energy's committed unsecured credit agreements:

		Unsecured revolving credit agreements		
		Commitment amount	Outstanding balance as of December 31, 2017	Expiration Date
		(In thousands)		
Trustmark National Bank	$	25,000	18,997	July 1, 2019
BancorpSouth		20,000	15,000	July 1, 2019
Syndicated Line of Credit		300,000	30,000	October 30, 2022
Total	$	345,000	63,997	

These revolving credit agreements bear interest at variable rates generally based on LIBOR or Prime. At December 31, 2017, $64.0 million was outstanding under the revolving credit agreements at variable interest rates. At December 31, 2017, all revolving credit agreements are classified as long-term debt given the maturity dates are beyond one year.

Cooperative Energy also has a $25.0 million letter of credit facility with National Rural Utilities Cooperative Finance Corporation (CFC). At December 31, 2017, there was $18.5 million outstanding under this facility. A $10.5 million letter of credit is utilized to satisfy security requirements of the Plum Point power purchase agreement, and a $8.0 million letter of credit is utilized as financial security for certain transactions with MISO.

Long-term debt consisted of the following:

		December 31	
		2017	2016
		(In thousands)	
Mortgage notes payable in quarterly installments to Federal Financing Bank (FFB) at interest rates varying from 2.094% to 5.728%, through 2050	$	942,171	950,346
Mortgage notes payable in quarterly installments to CFC (2.5% at December 31, 2017 and 2.9% December 31, 2016), maturing in 2020		485	638
RUS mortgage notes payable in monthly installments (5.125% to 5.75%), maturing in 2020		1,213	1,607
RUS Economic Development notes payable in monthly installments at 0%; maturing in 2026 [(1)]		1,926	2,000
2009 Gulf Opportunity Zone Bonds, fixed interest to maturity, annual sinking fund payments commence 2011, maturing 2024 and 2037, 4.70%, and 5.0%, respectively		33,335	34,405
First Mortgage Bonds, Series 2010A Bonds – $40 million at 4.08%, maturing December 9, 2030, $110 million at 5.40%, maturing December 9, 2040		137,964	142,167
CoBank note payable in quarterly installments maturing in 2023, fixed interest rate [(1)]		7,024	8,186
Bancorp South revolving line of credit, matures July 2019, variable interest rate [(1)]		15,000	10,000
Trustmark National Bank revolving line of credit, matures July 2019, variable interest rate [(1)]		18,997	10,833
Syndicated line of credit, matures October 2022, variable interest rate [(1)]		30,000	55,000
	$	1,188,115	1,215,182
Less:			
Debt issuance cost		2,015	1,739
Current maturities		49,941	38,669
Long-term debt (excluding current maturities)	$	1,136,159	1,174,774

[(1)] *Denotes an unsecured agreement.*

During 2015, funding became available for a FFB loan guaranteed by RUS in the amount of $54.3 million, for capital expenditures. The remaining unadvanced commitment was $5.8 million and $29.3 million at December 31, 2017 and 2016, respectively. Substantially all assets of Cooperative Energy are pledged as collateral for long-term debt that is secured under the Indenture agreement.

Approximate annual maturities (scheduled periodic principal payments) of long-term debt for the next five years are as follows (in thousands):

2018	$	49,941
2019		42,883
2020		44,350
2021		36,003
2022		46,499

Cooperative Energy is required by debt compliance covenants to maintain certain levels of patronage capital, maintain certain financial ratios of interest coverage and annual debt service coverage, and to limit the amount of unsecured indebtedness. Cooperative Energy's management believes they were in compliance with such requirements at December 31, 2017 and 2016.

10. Deferred Credits and Other Long-Term Liabilities (Including Regulatory Liabilities)

The following is a summary of deferred credits and other long-term liabilities, including regulatory liabilities:

		December 31	
		2017	2016
		(In thousands)	
Regulatory liabilities:			
Regulatory liability for deferred revenue from power cost adjustments	$	22,165	24,776
Power Supply Development Fund		25,000	35,000
Amortization and Depreciation Fund		10,000	10,000
Unrealized gain on Decommissioning Trust		8,800	4,584
Unrealized gain on gas hedges		—	9,167
Unrealized gain on transmission congestion hedge		450	1,314
Unrealized gain on interest rate cap		15	—
		66,430	84,841
Other deferred credits and long-term liabilities:			
Reserve for economic development contributions		4,110	4,276
Medical insurance claim funding		1,940	1,928
Capital lease		934	1,020
Natural gas hedge liability		2,567	—
Postretirement benefit obligation (other than pensions)		11,911	12,644
	$	87,892	104,709

Included in the 2016 liability for deferred revenue from power cost adjustments is $20.3 million collected from Members during 2016 and recognized as revenue in 2017 and $4.5 million collected from Members in 2015, and recognized as revenue in 2017. Accordingly, the $22.2 million liability recorded in 2017 represents amounts collected from Members during 2017, and is expected to be recognized as revenue in 2018.

The Power Supply Development Fund (PSDF) was created by the Board of Directors in 2009 with a Board Resolution. The fund was established to facilitate the funding of future capital projects needed to supply the increasing requirements of Members with additional generation sources and to comply with changes in environmental regulation. The initial $25.0 million regulatory liability for the PSDF was collected from Members in 2010. An additional $10.0 million collected from Members during 2015 was deposited in the fund. During 2017, $10.0 million from the PSDF was amortized into revenue. The PSDF is expected to be recognized as costs associated with large generation and environmental projects impact rates are incurred in future periods.

The $10 million liability for the Amortization and Depreciation Fund represents amounts collected from Members during 2015 and is expected to be fully accreted into revenue no later than year 2036. This fund, created by the Board of Directors, will offset expenses related to the amortization of the investment in Grand Gulf Unit II.

During 2009, the Cooperative Energy Board authorized transfer of the balance of unrealized gains and losses in the Grand Gulf Decommissioning Trust Fund from the equity section of the balance sheet to the regulatory liability or asset section of the balance sheet. The balance in the regulatory account will be amortized into rates over the remaining license life of Grand Gulf. The initial transfer into the regulatory asset account during 2009 amounted to approximately $8.0 million, with $0.2 million and $0.3 million amortized into 2017 and 2016 rates, respectively.

See notes 2(k) and 11(a) for additional information regarding accounting for annual gas and energy sale hedges.

As described in note 12(c), Cooperative Energy sponsors a defined benefit plan that provides certain health insurance benefits to employees hired prior to January 1, 1995, and to their eligible dependents. The long-term accumulated postretirement benefit obligation for this benefit plan at December 31, 2017, was $10.8 million. In addition to the postretirement health insurance benefit plan, the postretirement benefit obligation amount reported in the other long-term liability table includes $1.1 million related to certain other employee benefit plan arrangements.

11. Financial Instruments

a. Derivative Financial Instruments

Cooperative Energy enters into financial hedging arrangements for natural gas used in owned and contracted generating units. Cooperative Energy enters into these hedging arrangements to lessen the impact of natural gas price fluctuations on the cost of service. Under terms of the three agreements, Cooperative Energy is allowed credit exposures of up to $115.0 million. Physical purchases, actual natural gas usage, and financial hedge positions are considered when calculating amounts due to the counterparty. At December 31, 2017, approximately $2.6 million of natural gas financial hedges were in a net liability position based on the fair value of the derivative. At December 31, 2016, approximately $8.6 million of natural gas financial hedges were in a net asset position based on the fair value of the derivative. Cooperative Energy does not apply hedge accounting to these financial hedging instruments. At December 31, 2017 and 2016, Cooperative Energy had posted no collateral with a counterparty.

As of December 31, 2017, Cooperative Energy has acquired financial hedges to cover approximately 30% of forecasted natural gas consumption for 2018, and 13% of forecasted natural gas consumption for 2019. Additionally, Cooperative Energy has acquired financial hedges to cover approximately 12% and 6%, respectively, of forecasted natural gas consumption for years 2020 and 2021.

During 2009, pursuant to the bankruptcy of Lehman Brothers Special Financing, Inc., and the reissue of the Gulf Opportunity Zone Bonds, the Cooperative Energy Board determined it in the best interest of Cooperative Energy to take steps to terminate the Series 2007 swap agreement for the bonds. This hedge was originally entered into in order to hedge interest rate fluctuations for the aforementioned debt. Accordingly, Cooperative Energy accrued a $4.0 million charge in 2009. This charge was included as interest expense in 2009. During 2016, Cooperative Energy and the Lehman estate negotiated a final settlement of this agreement amounting to $4.9 million. The $0.9 million difference in the actual settlement and the liability recorded in 2009 was charged to other expense during 2016. During 2017, in order to mitigate potential interest rate increases on funds borrowed for deposit into the RUS Cushion of Credit Program, Cooperative Energy paid approximately $40,000 for an interest rate cap agreement. Notional amount is $100 million, and the option expires during January 2021. The notional amount declines throughout the 2 year period beginning January 2019. The benchmark index in the 3 month LIBOR and the strike rate is 4%. Cooperative Energy has no further liability for this derivative.

The table below reports the value of the derivatives, and the financial statement line item in which the derivatives are reported in the accompanying financial statements:

	Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)		*(In thousands)*	
Derivatives not designated as hedging instruments:				
Natural gas hedge	Long-term liabilities	$ (2,567)	Deferred charges	$ 8,614
Interest rate cap	Deferred charges	15	—	—
Transmission congestion cost hedge	Deferred charges	450	Deferred charges	1,314
Total derivatives		$ (2,102)		$ 9,928

The effect of derivative instruments on the statements of revenues, expenses, and patronage capital for the years ended December 31, 2017 and 2016 was as follows:

		Amount of derivative gain (loss) recognized in opererating margin	
Location of gain (loss) recognized in operating margin		2017	2016
		(In thousands)	
Natural gas hedges	Fuel expense	$ 1,715	$ (12,190)
Energy sales hedge	Sales to non-members, fuel, & purchased power expense	—	991
Interest rate swap	Interest expense	—	(1,065)
Transmission congestion cost hedge	Purchased power expense & other electric energy revenue	163	4,430

b. Other Financial Instruments

Cash and cash equivalents, investments, notes payable, and long-term debt are considered financial instruments. The carrying amounts reported in the balance sheets for cash and cash equivalents and for notes payable approximate fair value due to the short maturity of these instruments. The fair values for debt and equity securities are based on quoted market prices when available and the present value of future cash flows discounted at a commensurate market rate. Medium-term CFC obligations, included as a component of securities to be held to maturity, have been estimated based upon published terms of recent issues of comparable instruments since quoted market prices are not available. See note 5 for additional information. The fair value of investments in associated organizations is not estimable since these instruments must be held by Cooperative Energy and can only be returned to CFC. CFC requires Cooperative Energy to hold these investments as a condition of CFC financing.

The fair values of Cooperative Energy's long-term debt are estimated using discounted cash flow analyses based on Cooperative Energy's current incremental borrowing rates for similar types of borrowing arrangements and rates that would be charged by the applicable issuer, where appropriate.

The carrying amounts and approximate fair values of long-term debt, including current maturities, are as follows at December 31:

		2017		2016	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
		(In thousands)		*(In thousands)*	
FFB	$	942,171	990,732	950,346	976,411
RUS mortgage notes		1,213	1,289	1,607	2,288
Gulf Opportunity Zone Bonds		33,335	45,372	34,405	47,261
First mortgage bonds		137,964	172,804	142,167	216,256
Other advances and notes		73,432	73,432	86,657	86,657
	$	1,188,115	1,283,629	1,215,182	1,328,873

There was no material difference between the contract or notional amount and the estimated fair value of loan commitments. The aggregate estimated fair value amounts presented do not represent the underlying value of Cooperative Energy and may not be indicative of amounts that might ultimately be realized upon disposition or settlement of these assets and liabilities.

12. Employee Benefits

a. Managed Care Program

Cooperative Energy provides medical benefits to current employees through a managed care program. Beginning in March 2011, Cooperative Energy began making payments into a designated bank account from which claims and expenses approved by the plan administrator are paid. Cooperative Energy recorded expenses amounting to $4.9 million and $3.9 million, respectively, for each of the years ended December 31, 2017 and 2016.

b. Multiemployer Plans

Substantially all of Cooperative Energy's employees participate in the National Rural Electric Cooperative Association (NRECA) retirement programs, which include both, the RS Plan, a defined benefit pension plan, and a defined contribution pension plan. Both plans are qualified under Section 401 and are tax-exempt under Section 501(a) of the Internal Revenue Code. The RS Plan is a multiemployer plan available to all member cooperatives of NRECA. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Cooperative Energy incurred $6.3 million in pension expense for the defined benefit pension plan in 2017 and $6.0 million in 2016. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. Cooperative Energy's contributions to the RS Plan in 2017 and in 2016 represented less than 5.0% of the total contributions made to the plan by all participating employers.

In the NRECA defined benefit retirement plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Plan was over 80% funded on January 1, 2017, and over 80% funded at January 1, 2016, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the NRECA defined benefit retirement plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

There were no significant changes to the Plan during 2017 that affect the comparability of 2017 and 2016 contributions.

Cooperative Energy makes monthly payments to NRECA for the benefit of those employees who voluntarily participate in the 401(k) pension plan. Cooperative Energy expenses the payments as they are accrued, and such 401(k) pension expense amounted to $1.9 million and $1.8 million, respectively, for 2017 and 2016.

c. Postretirement Health Care Benefit Plan

Cooperative Energy sponsors a defined benefit plan that provides certain health insurance benefits to retired employees hired prior to January 1, 1995, and to their eligible dependents. The plan also provides life insurance benefits to a closed group with one surviving employee who retired prior to January 1, 1990. The estimated costs of these benefits were accrued over the years that the employees rendered service. Payments relating to postretirement benefits other than pensions were approximately $0.4 million and $0.3 million in 2017 and 2016, respectively. During 2017 and 2016, retirees paid approximately $0.4 million and $0.3 million, respectively, for coverage under the plan.

The FASB issued ASC 715, *Compensation – Retirement Benefits*, which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheets.

The following amounts related to the ASC 715 regulatory asset were recognized as components of net periodic postretirement benefit cost in 2017 and 2016:

		December 31	
		2017	2016
		(In thousands)	
Defined benefit postretirement plan:			
Prior service cost	$	121	121
Total	$	**121**	**121**

The approximate periodic expense for postretirement benefits, other than pensions, as well as the changes in the accumulated postretirement benefit obligation (APBO), is as follows:

		December 31	
		2017	2016
		(In thousands)	
Service cost of benefits earned	$	352	447
Interest cost on accumulated benefit obligation		387	444
Amortization of prior service cost		121	121
Amortization of actuarial loss		61	211
Net periodic postretirement benefit cost		**921**	**1,223**
Accrued benefit obligation at beginning of year		12,166	11,098
Benefits paid		(532)	(505)
Accrued postretirement benefit obligation at end of year		**12,555**	**11,816**
Unrecognized actuarial loss/(gain)		(1,156)	350
Accumulated postretirement benefit obligation	$	**11,399**	**12,166**

Of the accumulated postretirement benefit obligation, $10.8 million is recorded as an unfunded long-term liability, with the remaining $0.6 million recorded as a current liability at December 31, 2017. The weighted average discount rate used in determining the 2017 APBO and the net benefit cost was 3.40% and 3.83%, respectively. The weighted average discount rate used in determining the 2016 APBO and the net benefit cost was 3.83% and 3.95%, respectively. The assumed healthcare cost trend rate of increase used in measuring the APBO is 7.5% for pre-age 65 medical in 2017 declining to 5.0% by 2027. The healthcare cost trend rate of increase assumption has a significant effect on the APBO and periodic expense. If the healthcare cost trend rate assumptions were increased by 1.0%, the APBO as of December 31, 2017 would be increased by 8.2%. Benefits expected to be paid in 2018–2022 are $0.6 million, $0.6 million, $0.6 million, $0.7 million, and $0.7 million, respectively.

Benefits expected to be paid in the years 2023–2027 total $3.8 million. Cooperative Energy expects to fund payments as they become due. In developing demographic assumptions, as of December 31, 2017, the RPH-2014 tables, projected generationally with scale MP-2017 separately for males and females, were used for healthy lives and the RP-2014 Table was used for disabled lives.

13. Fair Value Measurements

Cooperative Energy utilizes the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that Cooperative Energy has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of financial instruments such as the investments held in the decommissioning trust.

Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 primarily include nonexchange-traded gas hedges.

Level 3: Unobservable inputs for the asset or liability, including situations in which there is little, if any, market activity for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

The following table summarizes Cooperative Energy's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016:

		December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In thousands)		
Decommissioning trust investments (note 6)	$	75,954	75,954	—	—
Derivatives (note 11)		(2,102)	—	(2,102)	—
Total financial assets	$	73,852	75,954	(2,102)	—

		December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In thousands)		
Decommissioning trust investments (note 6)	$	64,427	64,427	—	—
Derivatives (note 11)		9,928	—	9,928	—
Total financial assets	$	74,355	64,427	9,928	—

14. Asset Retirement Obligations

Asset retirement obligations represent legal obligations associated with retirement of tangible long-lived assets. These amounts, recorded in the liabilities section of the balance sheet, are developed utilizing estimated closure, and post-closure monitoring, costs, adjusted for inflation, and discounted utilizing a credit-adjusted, risk-free interest rate. An accompanying addition to the recorded cost of the long-lived asset is recorded and depreciated over its useful life.

As discussed in note 3, Cooperative Energy is responsible for 10% of costs to decommission the Grand Gulf nuclear generating facility. During 2017, Entergy updated the estimated decommissioning cost for Grand Gulf to reflect extension of the operating license approved in 2016. As a result of this study, the liability was decreased by $4.0 million.

During April 2015, the disposal of Coal Combustion Residuals (CCR) from Electric Utilities final rule was published in the Federal Register. The rule establishes a set of requirements for disposal of CCRs, commonly known as coal ash. Accordingly, during 2015, Cooperative Energy recorded an asset retirement obligation in the amount of $5.3 million for the coal ash landfill at Plant Morrow. During 2017, Cooperative Energy updated the estimated closure cost for this landfill. As a result of this update the liability increased by $4.6 million.

A reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations as of December 31, 2017 and 2016, follows (in thousands):

		2017	2016
Balance – beginning of year	$	100,850	94,896
Revisions to estimated cash flows		595	—
Asset retirement obligation accretion expense		5,143	5,954
Balance – end of year	$	106,588	100,850

15. Commitments and Contingencies

In the normal course of business, Cooperative Energy has entered into contractual commitments for coal transportation that extend through the year 2019 and for purchased power that extend through the year 2040. All such contractual costs are expected to be recovered through normal operating revenue.

Cooperative Energy uses natural gas as the fuel for several of its generating units and also purchases power from others that use natural gas as fuel. A portion of natural gas purchases are subject to short-term changes in the market price for gas, and such market prices can be quite volatile. In the normal course of operations, Cooperative Energy enters into forward purchase commitments for certain over-the-counter financial swap contracts that extend through the year 2021. All such commitments are expected to be recovered through normal operating revenue.

On July 31, 2006, Cooperative Energy entered into a 30-year power purchase agreement with Plum Point Energy Associates (Plum Point) for the purchase of 200 megawatts of capacity and associated energy out of a nominal 665-megawatt coal-fired electric generation facility that was constructed by Plum Point in Mississippi County, Arkansas. A capacity charge began in 2010 and escalates annually through the initial 30-year term that began on the commercial operation date, which was September 1, 2010. At the end of the initial term, Cooperative Energy has options to extend the contract an additional 10 years at a reduced capacity charge or to purchase 200 megawatts at the then-market value.

The Environmental Protection Agency (EPA) has promulgated and proposed several regulations that will have major impacts on electric utilities, and ultimately energy consumers, due to the massive amounts of capital, and ongoing operating and maintenance costs that may be required to bring coal-fired generating facilities into compliance with these regulations. Specifically, EPA has promulgated the Clean Power Plan (CPP) regulating carbon dioxide emissions for new, modified, and existing electric utility generators. This rule is being scrutinized by affected parties and will be subjected to a full vetting of judicial review. On February 9, 2016, the Supreme Court issued a stay of the CPP. The stay specifically prohibits the EPA from implementing the rule until all legal proceedings have concluded. The Mercury and Air Toxics Standards (MATS) for coal- and oil-fired utility boilers took effect during April 2015. Cooperative Energy received a one-year extension to the compliance deadline. Cooperative Energy has installed controls on its coal-fired Morrow generating plant to comply with the MATS rule. Commissioning and initial compliance demonstration occurred the first quarter of 2016, and Cooperative Energy is fully compliant with rule. Additionally, the EPA has issued final rules for Coal Combustion Residuals (CCR) that required new and additional investment in groundwater monitoring associated with facilities which produce coal combustion wastes (fly ash, bottom ash, and synthetic gypsum). Cooperative Energy has installed the required monitoring wells and is in compliance with the regulatory schedule associated with the CCR rule. The EPA has also published its Effluent Limitations Guidelines (ELG) rule, which will result in significant investment in wastewater treatment at coal-fired generating plants. The ELG rule is currently in litigation in federal court. Cooperative Energy will continue to monitor developments associated with these regulations and evaluate the most economical methods to achieve compliance.

Cooperative Energy is a defendant in certain litigation incurred in the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate resolution of such litigation will not have a material adverse effect on Cooperative Energy's financial statements.

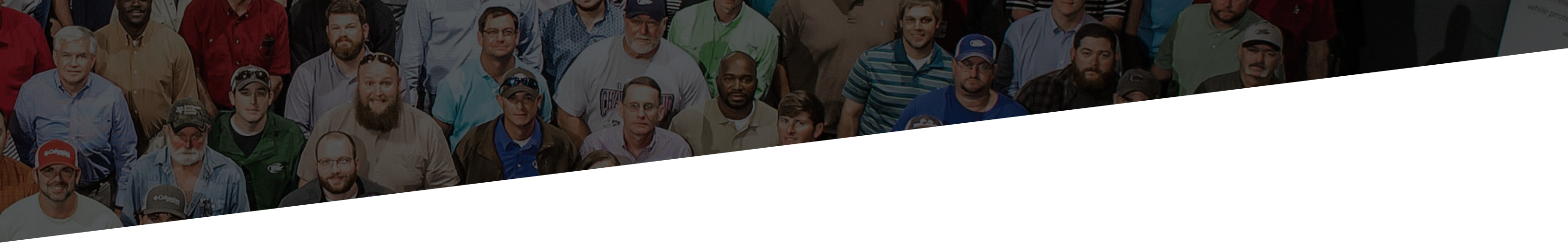
Top: Cooperative Energy All-Employee Meeting
Bottom: 75th Anniversary Employee Statue

Where Opportunity Meets Community

Cooperative Energy is an Equal Opportunity Employer.

Employment is based upon personal capabilities and qualifications without regard to race, color, sex, sexual orientation, gender identity, age, religion, national origin, disability (mental or physical), genetic information, veteran's status, or any other protected characteristic as established by law. This policy applies to all areas of employment including recruitment, hiring, training and development, promotion, transfer, termination, compensation, benefits, and all other conditions and privileges of employment. In addition, the Cooperative is committed to furthering the principles of equal employment opportunity through its continuing Affirmative Action Program (AAP). The full AAP is available for inspection upon request and may be viewed during normal work hours at the Cooperative's Human Resources offices.

James Compton, President/Chief Executive Officer of Cooperative Energy, is responsible for coordinating the organization's nondiscrimination compliance efforts. All supervisors and managers are responsible for creating an atmosphere free of discrim-



ination. Further, each employee is expected to maintain a productive and non-discriminatory work environment and to treat all colleagues with respect and professionalism. Any employee who engages in discrimination will be subject to disciplinary action, up to and including termination.

Employees who believe they have experienced conduct that is prohibited by the Cooperative's discrimination policy are encouraged to first inform their supervisor. If their supervisor is named in the complaint, or directly involved in the discriminatory conduct, the employee should inform their second-level supervisor or Department Head, who will in turn contact the Human Resources Director. Alternatively, employees may contact the Human Resources Director directly, or any other Department Head.

Any applicant or specific class of individuals who believe they have been subjected to discrimination may file a complaint with the Cooperative's Director of Human Resources as soon as possible after the alleged discrimination occurs. If appropriate action does not result, a report should be made to the President/CEO.

Complaints must be filed within 180 days after the alleged discriminatory action, or by such later date if extended. Retaliation for filing a claim or participating in an investigation is strictly prohibited.

Statement of Nondiscrimination U.S. Department of Agriculture Programs

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA *(not all bases apply to all programs)*. Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at *http://www.ascr.usda.gov/complaint_filing_cust.html* and at any USDA office, or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by:

1. mail: U.S. Department of Agriculture
   Office of the Assistant Secretary for Civil Rights
   1400 Independence Avenue, SW
   Washington, D.C. 20250-9410;
2. fax: (202) 690-7442; or
3. email: program.intake@usda.gov

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