GDS Associates, Inc.
Engineers and Consultants

ANNUAL ENGINEERING REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2016

Prepared for:
SAM RAYBURN MUNICIPAL POWER AGENCY

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DISCLAIMER

This report was prepared by GDS Associates expressly for the purposes set forth herein. In preparing this report, GDS Associates has relied upon certain information furnished by Sam Rayburn Municipal Power Agency ("SRMPA"), and derived from data reported to regulatory authorities and reports of SRMPA's Independent Auditors and other independent consultants, all of which are believed to be reliable, accurate, and reasonable for purposes of this report. Given that this report contains observations, evaluations, analyses, projections, summary statements, opinions and/or conclusions that are based on what GDS Associates believes are reliable information and reasonable assumptions and conditions, GDS Associates makes no assurances with respect thereto. Accordingly, GDS Associates in no way warrants or represents that any such observations, evaluations, analyses, projections, summary statements, opinions and/or conclusions will not vary as a result of changes in such assumptions or conditions.

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EXECUTIVE SUMMARY

Pursuant to its duties as Consulting Engineer to Sam Rayburn Municipal Power Agency ("SRMPA"), GDS Associates, Inc. ("GDS Associates") has prepared an annual engineering report for the Fiscal Year ended September 30, 2016 ("Fiscal Year 2016") in accordance with SRMPA's Bond Indenture and Power Sales Contracts. Such report includes, to the extent applicable: (i) a report on the operations of the System (as defined herein); (ii) a report on the sufficiency of rates and charges to pay for System costs; (iii) requirements for future power and energy; and (iv) recommendations concerning changes in operation and the making of repairs, renewals, replacements, extensions, betterments and improvements to all or part of the System required pursuant to the applicable Project Agreements; the estimated effect of such changes on the cost of power and energy, if any; and as to the appropriate amounts of reserves for the foregoing.

The following are summaries of various subjects of the report:

Operations of the System. In October 2016, SRMPA made the scheduled principal payment of approximately $11,565,000 on its outstanding debt. SRMPA did not issue any additional debt during Fiscal Year 2016. As of September 30, 2016, SRMPA had only one series of bonds outstanding, the Series 2012 Bonds, in an aggregate principal amount of $79,070,000 million. The Series 2012 Bonds have been assigned ratings of BBB+ by Fitch Ratings and BBB+ by Standard & Poors Rating Services, and such ratings were not withdrawn or revised by the rating agencies during the Fiscal Year 2016.

During Fiscal Year 2016, SRMPA collected $28,659,680 in operating revenues from the Members, exclusive of $4,201,292 from Boomerang, and $656,400 from sales to SRG&T, $166,723 from hydroelectric sales to MISO and earned $130,543 in interest income, resulting in a total collection of $29,613,345 to meet operating expenses and debt service requirements, exclusive of $3,686,964 power supply costs for Boomerang. The debt service coverage ratio for the period during Fiscal Year 2016 was 1.26, which satisfied the debt service coverage requirement under the Indenture.

Sufficiency of Rates and Charges. For Fiscal Year 2016, a new energy rate of $78.50 per MWh went into effect to provide revenues to meet SRMPA's required coverage target of 1.20 or more by the end of the Fiscal Year. SRMPA has met the budgeted revenue amounts and it is sufficiently above the expected cumulative revenue collections requirement level as of the end of the Fiscal Year 2016. The wholesale cost of power, net of excess coverage refunded to the Members, is conservatively projected, based on a 1.20 debt service coverage ratio, to be approximately 86.7 mills per kWh for Fiscal Year 2017 and is expected to continue in the 86-92 mills per kWh range through Fiscal Year 2021.

Requirements for Future Power Supply. SRMPA's Fiscal Year 2016 annual peak demand was 97.6 MW with energy sales of 341,234 MWh, inclusive of the City of Liberty's Boomerang load. SRMPA's actual energy requirement in Fiscal Year 2016 was slightly lower due to the decreased production at Boomerang. Besides that increase, the total Members' demand and energy requirements were slightly higher due to the combination of a hotter summer and a milder winter weather. The Sam Rayburn Hydro Project and the R. D. Willis Hydro Project provided approximately 12 percent of SRMPA's total energy requirements, while the Entergy (RPSA) purchases provided for the remaining 88 percent. SRMPA's RPSA related energy

consumption is projected to increase at an average annual rate of about 0.3 percent. The projected annual actual growth rates in energy sales for the individual Members' ranges from a low of approximately 0.1 percent for the City of Jasper, Texas, to 0.7 percent for the City of Livingston, Texas. While actual purchases will fall above or below the trend line in some years, overall long-term energy purchases should trend with the projections.

Findings as to Changes in Operation and Capital Improvements. Based on our review of the information provided by SRMPA and others as described in this Report, we find that:

1. There are significant renewals, extraordinary repairs, replacements, modifications, capital additions and betterments that are currently planned for the Sam Rayburn Dam Project and the Robert Douglas Willis Hydro Project the cost of which, if any, would be chargeable to SRMPA. The step-up transformer on Sam Rayburn Unit No. 2 failed on April 25, 2014. On July 22, 2015, the Secretary of the Army accepted a gift from the Sam Rayburn Dam Electric Cooperative, Inc. ("SRDEC") for two 50 MVA replacement transformers installed at the Sam Rayburn Hydro Project along with ancillary projects totaling approximately $6.25 million. The SRDEC's gift accelerated the in-service date by over twelve months with the in-service of the first of the two replacement transformers on November 18, 2016 and the second on February 2, 2017recouping approximately $1.5 million in lost market revenue from Sam Rayburn Unit No. 2. The U. S. Army Corps of Engineers has also initiated studies to rehabilitate the turbines and generators at Sam Rayburn beginning as early as 2020. The rehabilitation project at both Sam Rayburn Units Nos. 1 and 2 is expected to increase the generation capacity by 30 – 50 percent. The U. S. Army Corps of Engineers, at the request of SRMPA, has initiated a study of the disposition of the R.D. Willis hydropower units that have been in forced outage since November 19, 2015 due to a transformer bushing failure and subsequent failure of the station service transformer.

2. There are significant renewals, extraordinary repairs, replacements, modifications, capital additions and betterments that are currently planned and installed for Sam Rayburn Municipal substations. SRMPA has order six new 50 MVA substation from Delta Star at a total cost of approximately $4,000,000 for installation over a two year period in SRMPA Member Cities' distribution substations. The first transformer was installed and energized on November 4, 2016 and the final transformer is scheduled to be installed in the third quarter of 2018. SRMPA has chosen to invest current excess funds from the Cambridge Project into this proactive reliability project prior to experiencing issues with the substation transformers as they approach the end of their useful life over the coming years.

3. SRMPA and its management, consisting of SRMPA's Board of Directors and other supervisory personnel, to our knowledge (i) have conformed to the requirements and covenants of the Bond Indenture and Power Sales Contracts, and (ii) as of September 30, 2016, were not in default with respect to any of the covenants, agreements, or conditions on their part contained in the Bond Indenture and Power Sales Contract.

1 PURPOSE AND BACKGROUND

1.1 PURPOSE AND SCOPE

This Annual Engineering Report ("Report") for the Fiscal Year Ended September 30, 2016 ("Fiscal Year 2016") has been prepared by GDS Associates, Inc. ("Consulting Engineer") in accordance with the requirements set forth in the Bond Indenture and the Power Sales Contracts of the Sam Rayburn Municipal Power Agency ("SRMPA"). The September 1, 2012 Indenture ("2012 Indenture" or "Indenture") became effective in conjunction with the September 19, 2012 issuance of $108,940,000 of Power Supply System Revenue Refunding Bonds, Series 2012 Bonds ("Series 2012 Bonds"). The Series 2012 Bonds were issued under a refunding plan to refinance under a new indenture all of SRMPA's outstanding debt at the time of the issuance. SRMPA's outstanding debt prior to this refunding consisted of $136,225,000 of Power Supply System Revenue Refunding Bonds, Series 2002A, and Series 2002B (collectively, the "Series 2002 Bonds"). Prior to the 2012 Indenture, the 2002 Indenture was in effect, having become effective in conjunction with the July 25, 2002 issuance of the Power Supply System Revenue Refunding Bonds, Series 2002 Bonds. The Series 2002 Bonds were issued under a refunding plan to refinance under a new indenture all of SRMPA's debt that was outstanding at the time of the issuance of the Series 2002 Bonds.

The 2012 Indenture, in pertinent part, requires that:

> The Issuer (SRMPA) shall cause the Consulting Engineer to prepare and file with it and the Trustee no later than 150 days following the end of each Fiscal Year, a report or survey with respect to the management of each Project, the operation and maintenance of the properties constituting such Project, the making of necessary and proper renewals and replacements thereof and the status of the Annual System Budget and the construction budget applicable to any part of any Project which is under construction. Such report or survey must contain information as is necessary to comply with the applicable Power Sales Contracts and must be in sufficient detail to show whether the Issuer (SRMPA) has performed and complied with the covenants contained in this Indenture relating to such matters and must state whether, to the knowledge of the signer, after an investigation undertaken in good faith and with due diligence, the Issuer (SRMPA) is in default with respect to any of the covenants, agreements, or conditions on its part contained herein, and, if so, the nature of such default.

In addition to the requirements under the 2012 Indenture, the Consulting Engineer is required to prepare a comprehensive annual report pursuant to the Power Sales Contracts between SRMPA and the Cities of Jasper, Liberty, and Livingston, Texas (collectively, the "Members") with respect to the System. The 2012 Indenture defines the System as follows:

> "System" means the Project, as now or hereafter existing and used for or pertaining to the generation, transmission, or transformation (or any combination of the foregoing) of power and energy and including general plant and administrative facilities of the Issuer (SRMPA) and all the interest of the Issuer (SRMPA) in the electric generation, transmission, or transformation facilities, general plant and administrative facilities of the Issuer (SRMPA), together with all additions, betterments, extensions, and improvements to the Issuer's (SRMPA) power and energy system or any part thereof hereafter made and together with all lands, easements, and rights-of-way of the Issuer (SRMPA) and all other works, property, or structures of the Issuer (SRMPA) and contract rights and other tangible and intangible assets of the Issuer (SRMPA) in

> connection with or related to the Issuer's (SRMPA) power and energy system, and power supply contracts between the Issuer (SRMPA) and any supplier of power and energy to the Issuer (SRMPA). Notwithstanding the prior sentence, the term "System" does not include any project, properties or facilities of the Issuer (SRMPA), or any interest therein, which the Issuer (SRMPA) determines does not constitute a part of the System for the purposes of the Power Sales Contracts.

Section 21 of the Power Sales Contracts requires the Consulting Engineer to prepare a report with respect to the System (tangible and intangible assets of SRMPA) which shall include a report in reasonable detail, for the preceding contract year (Fiscal Year), reviewing the following:

1. the operations of the System;
2. the sufficiency of rates and charges to pay current System costs;
3. requirements for future power and energy; and
4. recommendations concerning changes in operation and the making of repairs, and renewals, replacements, extensions, betterments, and improvements.

Section 21 of the Power Sales Contract further states that:

> If, in the performance of its duties, the Consulting Engineer becomes aware of the fact that the Agency (SRMPA) in any material way shall have failed to perform or comply with the covenants and agreements contained in this Contract or the Indenture, or the Agency (SRMPA) or any other party in any material way shall have failed to perform or comply with such party's covenants and agreements contained in this Contract or the Indenture, the Project Agreements or any other contractual commitment thereof pertaining, directly or indirectly, to the System, such report shall specify the details of such failure. In the wording of such report, the Consulting Engineer may rely, unless the Consulting Engineer has reason to believe that any of the reports or findings are not accurate, upon the audit report of the independent certified public accountants to the Agency (SRMPA), reports of Gulf States Utilities Company ("GSU") with respect to other Projects, and the reports and findings of qualified independent consultants to the Agency (SRMPA) having special skill, knowledge and experience with respect to the matters relied upon.

Any capitalized term used in this Report, to the extent not defined herein, indicates that such term is defined in the particular agreement or document being discussed. Any summary descriptions of agreements or other documents in this Report are (i) based on our understanding of such agreements, (ii) are not to be regarded as full statements, and consequently do not purport to be complete in every respect, and (iii) are qualified by reference to such agreement or document.

1.2 HISTORY OF SRMPA

SRMPA is a municipal corporation and political subdivision and body politic and corporate of the State of Texas organized under the laws of the State of Texas. It was created in 1979 by concurrent ordinances adopted by the governing bodies of its Members, the Cities of Jasper, Liberty, and Livingston, Texas. SRMPA was formed to undertake the planning, financing, development, acquisition, and operation of projects for the generation and transmission of electric power and energy to supply the present and future needs of its participants, including

the Members and the Town of Vinton, Louisiana, through the Vinton Public Power Authority ("VPPA").

Prior to November 1980, the Members and VPPA obtained all of their power requirements from the SRDEC. SRDEC supplied such power from its entitlement to the output of 52 megawatts ("MW") of hydroelectric power from the federally-owned Sam Rayburn Dam Hydro Project ("Sam Rayburn Dam Project"), marketed by the Southwestern Power Administration ("SWPA"), United States Department of Energy ("DOE"), and from wholesale power purchased from GSU, now known as Entergy Louisiana, L.L.C. ("ELL") and Entergy Texas, Inc. ("ETI"). Beginning in 1980, the Members and VPPA purchased all of their power and energy requirements from SRMPA. SRDEC now delivers Sam Rayburn Dam Project federal hydropower to SRMPA for delivery to the Members, while VPPA receives Sam Rayburn Dam Project hydropower directly from SRDEC effective in 2002. VPPA also began in 2002 to purchase its power and energy requirements directly from Entergy Corporation ("Entergy") and SWPA.

On June 6, 1980, SRMPA entered into the Joint Ownership Participation and Operating Agreement ("Joint Ownership Agreement") with GSU and Sam Rayburn G&T Electric Cooperative, Inc. ("SRG&T"), which allowed SRMPA to acquire a 20 percent undivided interest in the Nelson Coal Power Station Unit No. 6 ("Nelson 6"). At that time, SRMPA also entered into agreements with GSU, which provided for: (i) the transmission by Entergy of the output of Nelson 6 and the Sam Rayburn Dam Project to SRMPA's delivery points; (ii) the sale by GSU of the supplemental power and energy required to satisfy SRMPA's current load and normal load growth in excess of SRMPA's resources; and (iii) the supply by GSU of reserve capacity, backup energy, and replacement energy.

In 1985, SRMPA issued bonds to finance the acquisition of Nelson 6 Excepted Facilities and the construction of the Town Bluff Hydropower Project, later renamed the Robert D. Willis Hydro Project ("R. D. Willis Project"). The acquisition of Nelson 6 Excepted Facilities was consummated on June 18, 1992.

On December 1, 1989, SRMPA began selling 24.89 percent of the power received from the R. D. Willis Project to SRG&T under the Town Bluff Hydro Project Power Assignment Agreement ("SRG&T Agreement"). This agreement is in place for a 32-year period ending December 1, 2021. The R. D. Willis Project is detailed in Section 3.5 of this Report.

On December 18, 1992, SRMPA transferred the title to its 20 percent undivided interest in Nelson 6 and the associated Excepted Facilities to VPPA. Concurrently, SRMPA and VPPA entered into the Unit Power Sales Agreement ("UPS Agreement"). Under the UPS Agreement, SRMPA secured rights from VPPA to the net electrical output of Nelson 6, and, in return, paid all charges billed by GSU related to Nelson 6. In 1994, Entergy merged with GSU and reformed the operating entity as Entergy Gulf States, Inc. ("EGSI"). EGSI became responsible for all outstanding contracts between GSU, SRDEC and SRMPA. In 2007, EGSI was split into two entities, ETI and Entergy Gulf States LLC ("EGSL"), splitting the assets and operations along state lines. EGSL became the Entergy entity responsible for the UPS Agreement. In 2015, EGSL merged with ELL and ELL became the Entergy entity responsible for the UPS Agreement.

During Fiscal Year 1998, SRMPA exited the generation business and signed the Requirements Power Supply Agreement ("RPSA") with Entergy Power Marketing Corporation ("EPMC"), now assigned without novation to Entergy Wholesale Operations Marketing, L.P. ("EWOM").

EPMC merged into Entergy-Koch Trading L.P. ("EKT") before the assignment to EWOM. EKT remained responsible for the underlying obligation to serve SRMPA in accordance with the RPSA. In November 2004, EKT became part of Merrill Lynch Global Commodities. The RPSA remains in effect as before and SRMPA continues to be served by Entergy through these same entities, and administered by EWOM. The Report will hereafter reference EWOM as the Entergy entity responsible for the RPSA.

The RPSA became effective on November 1, 1998. Under the RPSA, SRMPA purchases capacity from EPMC, now EKT, administered by Entergy Asset Management ("EAM"), for a lump sum payment in 1998 and continues purchases of delivered power and energy sufficient to meet Member requirements under a set price schedule. This price schedule escalates at an average of approximately 1.6 percent per annum from the effective date through September 30, 2021. Under the RPSA, EWOM is required to meet SRMPA's load and normal load growth requirements as measured from SRMPA's benchmark load, contractually set under the RPSA at 70.676 MW.[1] SRMPA's allowable load growth that EWOM is required to serve under the RPSA increases by an average of three percent per year in excess of the stipulated SRMPA benchmark load, with the maximum load service obligation based on a five-year forward rolling average of the escalating load service obligation value,[2] normalized for weather. EWOM's maximum load service obligation is available to serve SRMPA's new load through its Member's retail customers and cannot be marketed externally as excess capacity. EWOM is required to supply energy needed to meet all load served by SRMPA under the RPSA, with purchases under the RPSA offset by SRMPA's entitlement to its hydropower resources.

In Fiscal Year 1998, SRMPA also negotiated the System Capacity Sales Agreement ("SCSA") with EPMC, then merged into EKT, which resulted in SRMPA selling all 110 MW of excess system capacity provided by the RPSA to EKT in return for a lump sum payment. All costs associated with Nelson 6 were recovered under the SCSA through charges to EKT for the cost of all energy associated with this capacity on an ongoing basis. The charges billed to EKT were equal in amount to charges billed by EGSI to VPPA and SRMPA under the UPS Agreement. The SCSA eliminated all risks to SRMPA associated with Nelson 6 and effectively released SRMPA from its responsibility for its share of Nelson 6, except for administrative responsibility for the charges and billings discussed above. The SCSA and the UPS Agreement ended as of October 1, 2003 when the title to Nelson 6 transferred out of escrow to a third party nominee of Entergy Power, Inc. ("EPI").

On November 1, 1998, SRMPA began obtaining its required power and energy from SRDEC, SWPA, and EKT, under the RPSA. The RPSA allowed SRMPA to reduce electricity rates to its Members from an annual average of 76 mills per kilowatt hour ("kWh") to 70 mills per kWh in Fiscal Year 1998. SRMPA further decreased its rates to the Members during Fiscal Year 2001. Implementation of the RPSA eliminated income variability caused by Nelson 6 operations and maintenance risk. It allowed SRMPA to stabilize wholesale power costs at 70 mills per kWh and further reduced it to as low as 65 mills per kWh at the beginning of Fiscal Year 2001 due to the expenses, operating fund levels and the power supply rates outlined in the RPSA.

[1] Under the RPSA, the total benchmark load is designated as 78 MW, with SRMPA entitled to 70.676 MW of benchmark load, and VPPA entitled to 7.324 MW of benchmark load.

[2] Inclusive of the five-year forward rolling average, EWOM's maximum load service obligation to SRMPA was 124.039 MW in Fiscal Year 2016, and EWOM's maximum load service obligation to VPPA was 12.854 MW in Fiscal Year 2016, with both values escalating at three percent per fiscal year through the term of the RPSA.

In 1998, EPMC entered into a Power Purchase and Sale Agreement ("PPSA") with EPI, to purchase generation sufficient to meet EPMC's obligations to SRMPA under the RPSA. SRMPA holds a perfected purchase money security interest ("PMSI") in the PPSA equal to SRMPA's $59,605,565 capacity prepayment made under the RPSA. Entergy supplied SRMPA with a Support Agreement pledging not to allow EPI, its wholly owned subsidiary, to divest itself of generating assets sufficient to serve SRMPA load under the PPSA. In addition, SRMPA received a Guaranty from Entergy of up to $35,000,000 supporting the contract performance of both EPMC and EPI, subject to the prior application of benefits due to SRMPA under the terms of the PMSI. The payable amount of the Guaranty is subject to a net present value adjustment which factors the remaining term of the RPSA and the market price of power over the then remaining term and contract fixed price of the RPSA. Under the RPSA, EPMC is obligated to serve SRMPA from all contracted sources, which is broader than the PPSA. The PPSA was designed to give a point of security to SRMPA for EPMC's contract performance. The Guaranty confirms that security by supporting EPI's performance under the PPSA and PMSI.

On June 1, 2001, SRMPA filed with the Public Utility Commission of Texas ("PUCT") an application to certify the Sam Rayburn Dam Project and the R. D. Willis Project as existing renewable resources and nominate them for Renewable Energy Credits ("REC"). The Public Utility Regulatory Act established a renewable energy credits trading program requiring that 2,000 MW of new renewable energy capacity be built in Texas by 2009. Although SRMPA is not obligated to purchase RECs if not participating in retail competition, generation of renewable resources and RECs may be sold by such a resource to competitive retailers. SRMPA's REC application was approved in August 2001. SRMPA is entitled to earn the 44,711 MWh and 26,374 MWh of annual RECs for the Sam Rayburn Dam Project and the R. D. Willis Project, respectively, as nominated. The PUCT's Senate Bill 20, enacted in August 2005, expanded the goal from 2,000 MW to 5,000 MW of new renewable energy capacity to be built by 2015 and includes a target of 500 MW of renewable capacity from non-wind renewable resources.

In July 2007, the PUCT amended Senate Bill 20's §25.173 rules regarding renewable energy resources and enhanced the goal set out in Senate Bill 20 by raising the ceiling for qualification of hydropower as a small producer from 2 MW to 10 MW. For a renewable energy facility to be eligible to produce RECs, it must be either a new facility or a small power producer. Under this definition, existing small hydropower units under 10 MW are eligible to produce RECs. The R. D. Willis Project qualifies as a small hydroelectric facility. RECs can be generated, transferred, and retired by renewable energy power generators. In January 2011, an additional proposal for rulemaking by the PUCT addressing the removal of RECs at both hydropower facilities and re-registration and treatment as RECs was commented on by SRMPA in support of this proposal to the PUCT. As of July 2011 (six months after the order), no action was taken, causing the proposal to become automatically considered closed. There has been no indication by the PUCT that the program will be revived in the near future. Therefore, SRMPA continues to hold RECs for each hydro as before until further notice.

As of July 2010, EWOM and SRMPA entered into the SRMPA Full Requirements Power Supply Agreement to serve the City of Liberty's Boomerang Tube, L.L.C. ("Boomerang") customer load. Boomerang is a large industrial customer with a steel pipe and tube production facility in the City of Liberty. Boomerang currently has an electrical load of approximately 25 MW during full operation. SRMPA entered into this agreement, in parallel to the RPSA, to supply Liberty with the electric energy that Liberty needs to satisfy its obligation to serve Boomerang. The agreement to serve Liberty's Boomerang facility will be in effect until

September 30, 2021. Power sale revenues under this agreement approximated $4,201,292 and $6,113,000 for the years ended September 30, 2016 and 2015, respectively; while power purchases approximated $3,686,964 and $5,722,000, respectively. The power sale revenues and power purchases related to the Boomerang Retail Contract, as discussed in Section 3 of this Report, are not includable as "revenues" or "cost of revenues" under the 2012 Indenture and are not pledged as "net revenues" securing the Series 2012 Bonds.

1.3 POWER SALES CONTRACTS

Under virtually identical Power Sales Contracts, as amended and restated as of July 1, 2002, with the Members, SRMPA has agreed to sell, and each Member has agreed to buy on a "take or pay" basis, all the power and energy required by the Member for the operation of its electric system. Under each of these contracts, a Member agrees to take or pay for all power and energy required by its retail electric system. Such contracts have been in effect since 1981, and by their terms will remain in force at least until all of the Bonds have been paid or discharged. The maximum amount of power and energy required to be sold and delivered by SRMPA and purchased and taken by the Members under the Power Sales Contract shall not exceed the owned or contracted power supply resources available to SRMPA and shall not include off-system sales by the Members. None of the Members have defaulted under their contracts.

For each Member, the obligation under its take-or-pay Power Sales Contract with SRMPA requires payment of its proportional share, based on energy demand, of (i) SRMPA's debt service on outstanding Bonds and (ii) all other SRMPA costs of operating the System.

The Power Sales Contracts require SRMPA to adopt rates and charges for electric power and energy and other services to be paid by the Members adequate to pay all System costs of SRMPA, including all payments of principal and interest on SRMPA Bonds, all costs of operating and maintaining the System, and all amounts necessary to meet the requirements of any rate covenants of SRMPA.

Each Member agrees in its Power Sales Contract to maintain and collect rates and charges for the electric service provided to its customers which will produce revenues sufficient, together with other revenues and receipts available to its electric system and available electric system financial reserves, to enable it to pay to SRMPA all amounts payable by such Member under its Power Sales Contract and to pay all other amounts payable from, or which might constitute a lien on, the revenues and receipts from its electric system.

1.4 INDUSTRY HISTORY OF DEREGULATION AND RETAIL COMPETITION

The electric industry in Texas has been in a period of transition since the beginning of retail competition in January 2002. The PUCT established requirements for wholesale and retail utility systems operating within the Electric Reliability Council of Texas ("ERCOT"). The ERCOT system encompasses much of Texas except for portions of East Texas and the Texas Panhandle. SRMPA is located outside of ERCOT and within Entergy's transmission system in East Texas. These areas outside of ERCOT were once included within the Southwest Power Pool ("SPP"). However, in 1998, Entergy abandoned the SPP in favor of joining the SERC Reliability Corporation ("SERC"). The ERCOT system is electrically isolated within the borders of Texas and does not interconnect across state lines with synchronous transmission to import or export power with neighboring states. Therefore, ERCOT does not fall under the Federal Energy Regulatory Commission's ("FERC") jurisdiction. ERCOT is the only Independent System Operator under the jurisdiction of its state commission. Since the Members are not physically a part of ERCOT, they are not impacted by the PUCT transmission

regulations directed at the ERCOT system. In the East Texas portion of SERC, the PUCT regulates only retail utility operations other than those of municipal utilities and certain electric cooperatives.

Deregulation of the electric industry in Texas was initiated by the State Legislature. In June 1999, then Governor George W. Bush signed into law Senate Bill 7 ("SB-7"), the electric industry-restructuring bill that reorganized the electric industry in Texas. A principal focus of SB-7 was customer choice and the implementation of retail competition. With the exception of transmission and distribution services, all aspects of the electric industry are deregulated within ERCOT. Outside ERCOT, where the FERC regulates transmission and wholesale power sales, SB-7 deregulation applies only to retail sales and distribution services. Since SRMPA's Members have not elected to deregulate, SB-7 does not apply.

Under SB-7, the PUCT could delay competition within a region if the region is unable to offer fair and reliable service to all customers. The PUCT can also delay competition if a region does not meet three requirements: (i) transmission reliability overseen by an independent organization; (ii) openly accessible transmission and distribution systems; and (iii) generation ownership and control by any one entity limited to 20 percent. In 2001, the PUCT staff determined that retail competition was not economically feasible in East Texas within SERC and decided not to begin retail competition for customers in East Texas served by Entergy. EGSI also went through the generation divestiture process only to find it did not produce asset market values at levels that would encourage other power producers to invest in the market. New power providers have been reluctant to come into the East Texas region due to existing transmission constraints and limited markets resulting in a low value on generation assets.

SB-7 has had limited or no effect on SRMPA's operations because: (i) it is a wholesale power supplier not engaged in retail sales; and (ii) SRMPA's municipal members engaged in retail sales have not elected to participate in retail competition. In addition, within the respective annexed dual certified areas of each municipal member, competition has been ongoing for years with the surrounding cooperatives in Jasper and Livingston, and with ETI in Liberty. These dual certified areas are not open to other competition. Further, each of the Members is party to a requirements power supply contract with SRMPA. Under this contract, the power is priced to include all the costs of SRMPA including debt service and administrative expenses. The Members remain liable for SRMPA's obligations regardless whether they elect to engage in retail competition within their municipal boundaries, including dual certified areas. Jasper and Livingston are surrounded by the service areas of cooperatives, which currently sell power and energy at lower rates and are not required to participate in retail competition under SB-7. Similarly, ETI surrounds Liberty and, has not been competitive with Liberty in Liberty's dual certified area. As a result, the Members have (i) already engaged in retail competition with the dual certified annexed portions of their municipal service areas, (ii) experienced and withstood retail competition at their retail service area boundaries, and (iii) retained loads in their respective single certified portions of their respective service areas sufficient to meet their obligations.

In 2002, retail competition was further delayed by the FERC when it decided that an adequate competitive wholesale market in Southeast Texas could only exist when a Regional Transmission Organization ("RTO") was formed. In 2003, lacking an RTO, the FERC was working with Entergy to develop interim solution with new market protocols and appropriate market rules and governance needed to encourage competition in East Texas. The completion of the market rules and procedures and the creation of a regional RTO were anticipated to occur in late 2004. In late 2003, the sponsors of SeTrans RTO, which include Entergy,

suspended their effort to develop the RTO due to their lack of confidence in securing consensus support and approvals from the state and Federal agencies involved. Early in 2004, Entergy also began seeking a third party overseer for its portion of transmission system that serves southeast Texas focused on ensuring a fair and independent operation as a means to help facilitate competition in that region. In mid-2004, the PUCT rejected Entergy's plans to implement an RTO. The PUCT believed that a FERC approved RTO needed to be in place and that the Entergy RTO plan would not encourage retail competition on the system. Entergy was compelled to suspend its pilot RTO plan for southeast Texas.

Competition within ERCOT began on January 1, 2002, at which time customers of most investor-owned utilities in Texas had a choice of retail electric service providers. The affiliated retail electric service provider of the utility that served the retail customer on December 31, 2001, continued to serve customers who did not select another electric service provider. Effective January 1, 2002, municipally owned utilities and electric cooperatives had the option to elect "opt-in" to retail competition. Municipally owned utilities and electric cooperatives could elect to participate in retail competition in the future by action of their governing body or board.

Outside ERCOT, in Southeast Texas, where the SERC governs electric reliability, the view of potential success of deregulation going forward remains mixed. Some experts believe that states still considering deregulation, such as Texas, could face the same problems as those experienced by California and the states in the Northeast. Many states, Louisiana for example, have taken a deliberately cautious approach to deregulation and have delayed their plans while waiting to see how successfully Texas performs and whether other neighboring states now considering deregulation effectively move forward. Possible deregulation flaws, similar to those that helped cause problems with the California plan, and that could still occur in Texas, include possible shortage of supply, unforeseen increases in demand, and low margins in cost of power, price signaling and market structure issues, as well as political and regulatory risks.

1.5 INDUSTRY HISTORY OF REGULATION

The FERC issued a series of orders since 1995 addressing wholesale competition issues in terms of transmission and generation. FERC Order Nos. 888, 889, and 890 were issued to enhance access to the wholesale market. Requirements included in the FERC Order Nos. 888, 889 and 890 were: (i) development of open access, non-discriminatory transmission tariffs; (ii) separation of transmission and wholesale power market functions from regulated generation activity; (iii) creation of Open Access Same Time Information Systems; (iv) greater consistency and transparency in available transmission capacity calculators; and (v) open, coordinated and transparent planning. The introduction of these new requirements to existing transmission system providers is projected to enhance the opportunity for development of a dynamic and competitive wholesale power marketplace.

In January 2000, the FERC issued Order No. 2000, which encouraged public utilities to form RTOs. An RTO acts as an independent operator and controller of the electric transmission grid over which electric generation is transmitted. Opening the wholesale power market is expected to contribute to market-based pricing in future years that is likely to be below previous cost-of-service tariff-based levels. Increased access to the wholesale market resulting from the changes in the transmission system access and pricing is also expected to increase access by any entity interested in potential opportunities of buying and selling capacity and energy. The RTO would operate and control interstate transmission systems.

In December 2007, the President signed the Energy Independence and Security Act ("EISA") of 2007, requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (i) integrated resource planning; (ii) rate design modifications to promote energy efficiency investments; (iii) smart grid investments; and (iv) smart grid information. SRMPA studied technologies that would allow implementation of standards, as modified to fit its needs and has completed the regulatory assessment as required under the EISA. Municipal utilities, such as SRMPA, are designated as "non-regulated" under EISA, as well as the Energy Policy Act of 2005 ("2005 Energy Policy Act"), because those utilities are not regulated by state utility commissions.

On August 8, 2005, the 2005 Energy Policy Act was signed into law. Provisions in the 2005 Policy Act included: (i) repeal of existing Public Utility Holding Company Act requirements; (ii) conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production; (iii) expansion of the FERC's merger review authority; (iv) re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass and authorization of new incentives for landfill gas; (v) incentives for development of new commercial nuclear power plants and other non- or low-carbon emitting technologies; (vi) establishment of a 7.5 percent goal for increased renewable energy use by the federal government by 2013, and of a 20 percent required reduction in energy use by federal buildings by 2015; and (vii) increased funding for weatherization of low-income homes and for state energy efficiency programs. The 2005 Energy Policy Act also amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that municipal utilities must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation. Furthermore, Sections 221 and 222 of the 2005 Energy Policy Act preclude entities (including entities not generally subject to the FERC's rate jurisdiction) from reporting false information relating to the price of electricity sold at wholesale or the availability of transmission capacity or engaging in market manipulation in connection with the purchase or sale of electric energy or transmission services.

On July 21, 2011, the FERC issued Order No. 1000, which among other things required public utility transmission providers to participate in a regional transmission planning process that produces a regional transmission plan and that incorporates a regional and inter-regional cost allocation methodology. Similar to Order No. 890, the FERC stated that it will implement its authority under Section 211A on a case-by-case basis. However, in Order No. 1000, the FERC appeared to expand upon the current reciprocity provisions. Further, the FERC stated that is has the authority to allocate costs to beneficiaries of services provided by specific transmission facilities even in the absence of a contractual relationship between the owner of the transmission facilities and the identified beneficiary.

Although Order Nos. 888, 889, 890, 2000 and 1000 (collectively, the "FERC Rules") do not directly regulate municipally owned utilities and other non-FERC regulated utilities, such as SRMPA, the FERC Rules have a significant impact on such utilities' operations. The RPSA protects SRMPA from changes in wholesale generation and transmission costs due to changes in the FERC Rules. The FERC Rules have significantly changed the competitive climate in which the non-FERC regulated utilities operate, giving their customers much greater access to alternative sources of electric transmission services. The rules require them to provide open access transmission service conforming to the requirements for jurisdictional utilities whenever they are properly requested to do so under the 2005 Energy Policy Act or as a condition of taking transmission service from a FERC regulated utility. In certain circumstances, the non-FERC regulated utilities are required to pay compensation to their present suppliers of

wholesale power and energy for stranded costs that may arise when the non-FERC regulated utilities exercise their option to switch to an alternative supplier of electricity.

Historically, electric utilities operating in the ERCOT area of Texas have not had any interstate connections other than in certain emergency situations, and hence electric generation and transmission facilities within the ERCOT area of Texas have not been subject to the FERC regulatory or licensing requirements on the basis of such interstate connections. Over the past several years, various efforts have been made to provide some interstate connections. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. The FERC has issued orders, which, among other things, permit the ERCOT members to avoid federal regulations of rates as the result of the ordered interconnections with another interstate connected utility.

In May 2011, each of Entergy's operating companies filed a report with their respective state commissions outlining the expected benefits of joining the Midwest Independent Transmission System Operator ("MISO"), a regional transmission organization serving 15 states. In late 2011, the Entergy operating companies formally asked for approval to transfer operational control of their transmission facilities to MISO with a target implementation date of December 2013. ETI filed an application in April 2012 for approval to join the MISO RTO. ETI requested approval from the PUCT to transfer operational control of its system to MISO. ETI projected that there would be significant benefits to joining MISO, including providing centralized commitment and dispatch for electric generating units and operating both day-ahead and real-time markets for energy and operating reserves. In addition, within the MISO region, the RTO ensures grid reliability and performs transmission planning. The PUCT approved ETI's application with conditions at the end of October 2012. Entergy contended that joining MISO was the best option for its customers and would provide the largest customer benefits. According to Entergy, customers would obtain the benefits of a combined operation of a larger pool of power resources across an even larger footprint, while also maintaining access to low-cost, clean and reliable power resources. On December 19, 2013, Entergy formally integrated its four-state footprint into the MISO control area. With the addition of the Entergy operating companies, the MISO region, renamed the Midcontinent Independent System Operator, now stretches from Canada to the Gulf of Mexico.

With the execution of the RPSA with EPMC, SRMPA acquired a delivered fixed cost power supply. As a result, SRMPA is not faced with market-driven increases in power supply or delivery costs. SRMPA is in a good position to withstand any potential impacts from Texas retail competition and from the FERC changes in wholesale power markets and transmission services. The FERC regulatory changes pertaining to wholesale power supply and transmission access do not currently affect SRMPA, because the RPSA with Entergy calls for a fixed-price delivered requirements power supply through September 30, 2021, without fuel, transmission, or other cost adjustments. As the term of the RPSA meets its end in 2021 and wholesale power supplies become more significant, the principal on current debt will be repaid in full thereby eliminating the debt service, the largest cost component of SRMPA's total wholesale power cost. SRMPA believes that the above factors will enable it to maintain a competitive position as it continues to meet current and future obligations.

1.6 SRMPA HISTORICAL ACTIVITIES

SRMPA has taken several active steps to reduce and stabilize wholesale power costs to its Members. During Fiscal Year 1998, SRMPA negotiated a long-term RPSA with EPMC, which merged with EKT. At the same time, SRMPA also negotiated the SCSA with EKT. The SCSA eliminated all risks to SRMPA associated with Nelson 6 and effectively released SRMPA from

responsibility for Nelson 6, along with all costs associated with Nelson 6, including all risk associated with environmental regulations and issues. Further, all such Nelson 6 costs, as well as fuel and operating costs, were recovered by SRMPA in its price for the sale of excess system capacity to EKT under the SCSA. As of October 1, 2003, Nelson 6 was transferred out of escrow to a third party nominee of EPI thereby terminating the SCSA and is no longer an administrative issue for SRMPA.

SRMPA purchases all requirements to meet load and load growth from Entergy under the RPSA as assigned without novation to EWOM, and administered by EAM, net of SRMPA's share of federal hydroelectric power from the R. D. Willis Project and the Sam Rayburn Dam Project. The RPSA allowed SRMPA to reduce wholesale power costs to its Members from an annual average of approximately 76 mills per kWh in Fiscal Years 1996 through 1998, to approximately 70 mills per kWh in Fiscal Year 1999, due to the savings realized by SRMPA through the transfer of the operations, maintenance, fuel and transmission costs, and risk associated with Nelson 6 to EKT, through the SCSA, and the fixed power supply costs achieved under the RPSA. SRMPA rates under the RPSA became effective on November 1, 1998. On January 1, 2001, SRMPA authorized the utilization of available funds and savings to reduce further its average wholesale power cost to as low as 65 mills per kWh.

As discussed earlier, in September 2012, SRMPA issued the Series 2012 Bonds under a new indenture that were used to defease all of SRMPA's then outstanding Series 2002 Bonds. Issuance of the Series 2012 Bonds allowed SRMPA to: (i) revise certain bond covenants, including reduction of SRMPA's required cash holdings, allowing those funds to be utilized for the repayment of principal coincident with issuance of the Series 2012 Bonds; and (ii) make the repayment period of the Series 2012 Bonds coterminous with SRMPA's RPSA in 2021. In addition, the issuance of the Series 2012 Bonds resulted in reduced debt service requirements.

In October 2002, SRMPA adopted an Economic Development Rate plan that offered incentive for SRMPA to enhance its competitive and financial position. The plan provided each of the Members with the potential to attract new customers and stimulate load growth thereby lowering their overall average cost of service. The rate plan was designed to operate independently from the current rate structure. The rate plan applied to new commercial or industrial loads. SRMPA's associated charge to the Members recovered the cost of power supply under the RPSA, plus 10 mills per kWh for the new load additions. Retail customers meeting certain criteria were designated this classification for participation on a non-discriminatory basis for a single two year term with an option to renew as assessed by SRMPA. SRMPA does not currently serve any customers under this rate plan.

In January 2005, SRMPA continued its efforts to reduce overall power costs to its Members and strive for increased retail load growth by implementing two additional incentive-based rate plans called the Large Load Economic Development Rate and the Large Load Rate plans. The Large Load Economic Development Rate and the Large Load Rate plans offered incentive for load growth through lower wholesale rates to each of the Members and provided each the potential to attract new and previous retail customers, stimulate load expansion, and retain existing retail customers; thereby lowering SRMPA's overall average wholesale cost of service. The reduction in SRMPA's overall average wholesale cost of service was accomplished by increasing load and increasing SRMPA's net revenues available for debt service.

The Large Load Economic Development Rate and the Large Load Rate plans were two distinct plans adopted concurrently but implemented sequentially. The Large Load Economic Development Rate plan was implemented first, followed by the Large Load Rate plan. The

decision regarding whether to implement the Large Load Rate plan was based on its economic benefit foreseen at that time as a function of the additional load acquired under the Large Load Economic Development Rate plan. As more new load was subscribed over the term of the Large Load Economic Development Rate plan, the anticipated benefits under the subsequent Large Load Rate plan became more apparent and made effective accordingly. The Large Load Economic Development Rate plan was similar in structure to the Economic Development Rate. The Large Load Rate plan was a new rate offered as a discount to the Members with qualified large load customer subscribers. The Large Load Economic Development Rate and Large Load Rate plans applied to certain types of large commercial or industrial loads within the Members' service areas. The rate plan targeted large loads of at least 500 kW at an 8 mill adder to further encourage load growth. The initial Large Load Economic Development Rate charge recovered SRMPA's cost of power plus an adder on energy usage over the initial term of five years. At the end of the initial term, the Large Load Rate charge then became a function of the amount of new, expanded, and returned previous customers that were captured over the initial term under the Large Load Economic Development Rate. Potential Large Load Economic Development Rate and Large Load Rate customers meeting certain load level and industry type may have qualified. SRMPA made the Large Load Economic Development Rate and Large Load Rate available under a long-term non-discriminatory agreement for service with the Members regarding nominated qualified customers. In June 2008, both the Large Load Economic Development Rate and Large Load Rate were suspended. The Board approved a new economic development rate in October 2012, which is further discussed in Section 4.4.

The Members continued to review the reliability of the electric systems at each of the Members in response to the emergency created by Hurricane Rita in 2005 and from Hurricanes Ike and Gustav in 2008. In particular, the City of Jasper, identified alternatives that could enhance the level of reliability of their system during similar emergency conditions in the future. Several alternatives to increase Jasper's reliability were identified: (i) additional switching; (ii) black start operation at the Sam Rayburn Dam Hydropower Project; (iii) backup generation at select customer locations or at select substations; and (iv) adding supply lines to certain city substations. Any review included regional planning reports and discussions regarding operations and repairs with the EGSL and ETI. For example, the outage durations for each city were dependent upon both the level of physical damage and Entergy's scheduling and emergency repair capability and policies. The comprehensive review, which addressed the level of reliability, the estimated costs and the schedule for implementation associated with each alternative, was completed and presented to the SRMPA's Board for consideration. The cost of these alternatives varied between a small or fractional percentage of annual costs to no cost at all. SRMPA funded the capital costs by using cash on hand and excess revenues collected above the coverage requirement. These improvements did not warrant the issuance of additional debt.

In July 2010, EWOM and SRMPA entered into the SRMPA Full Requirements Power Supply Agreement for the City of Liberty's Boomerang load. The City of Liberty and Boomerang are parties to the certain Retail Power Purchase Agreement (the "Boomerang Retail Contract") to which the City of Liberty provides Boomerang with all electrical loads up to 35 MW, or upon request such greater amount not to exceed 40 MW, required by Boomerang to operate its steel pipe and tube production facility. SRMPA entered into this agreement, in parallel to the RPSA, to supply the City of Liberty with the electric energy that it needs to satisfy its obligations under the Boomerang Retail Contract. The rate schedules included both a short-term rate schedule and a long-term rate schedule. The short-term rate schedule allowed the City of Liberty to provide an immediate response to the customer for electric service. Subsequently, the short-

term rate schedule was superseded by the long-term rate schedule. The long-term rate schedule is cost-based and will be revised each year. The long-term, cost-based rate agreement to serve Boomerang will be in effect until September 30, 2021.

1.7 SRMPA CURRENT ACTIVITIES – CAMBRIDGE PROJECT

SRMPA and VPPA began conceptual development of a separate wholesale power enterprise called the "Cambridge Project" prior to 2010. The Cambridge Project is distinct and separate from SRMPA's primary wholesale power supply mission of serving its Members, although the project compliments SRMPA's performance. SRMPA's revenues, funds, and accounts established under the Indenture are not comingled with Cambridge Project accounts and are not available to the Cambridge Project enterprise. The Cambridge Project is independent from SRMPA's existing operations that secure SRMPA's payment obligations to holders of the Series 2012 Bonds. Preparation of a report by the Consulting Engineer is not required for the Cambridge Project, and reporting on this project is beyond the scope of this Report. However, due to the potential impact of the Cambridge Project on SRMPA and its Members a limited discussion of the Cambridge Project is provided in this section.

During Fiscal Years 2010 and 2011, SRMPA and VPPA were engaged in discussions with Entergy operating companies regarding additional power supply and purchase arrangements that became effective on December 1, 2011. The new power supply contractual arrangements (i) enable the Cambridge Project to obtain four new wholesale loads, and (ii) provide SRMPA with firm power supply for the next 25 years to serve its Members (under the Supplemental Requirements Power Supply Agreement ("SRPSA")). The four wholesale loads of SRMPA consist of two large oil refineries, a chemical company and ETI. The two oil refineries and chemical company are served through VPPA. The Cambridge Project supplements the existing SRMPA and the VPPA Systems under the RPSA.

Under the SRPSA with EWOM, SRMPA reduced the right to increase purchases for load growth at a maximum 3 percent annual rate to a 2 percent annual growth rate, which is more in line with anticipated growth rates. The SRPSA assures an energy supply to SRMPA beyond the 2021 termination of the RPSA to 2035, and provides that if SRMPA has load growth above the anticipated rate, EWOM will provide service for such load. Should any of the Cambridge Project contractual arrangements be terminated, all Cambridge contracts will terminate and SRMPA and VPPA Systems will revert to their original condition with wholesale energy provided under the RPSA for SRMPA to serve its participating Members. The four VPPA retail customers that are served by VPPA in the default situation, as well as ETI, which may elect to be served by VPPA in the default situation. The additional power supply resources to the Cambridge Project include generation from third parties and power supply purchases from EGSL and from EWOM. In addition, SRMPA entered into contractual arrangements with EGSL and EWOM for power supply management and delivery.

The Cambridge Project load requirements consist of approximately 325 MWs of high load factor industrial load and a 225 MW block load sale to ETI. The supply portfolio consists of 220 MWs from EWOM, 110 MWs from EGSL, 220 MWs from the Nelson Industrial Steam Company and 5 MWs from City Water & Light, Jonesboro, Arkansas.

The objective of the Cambridge Project is to consistently meet the service obligations of SRMPA and VPPA and to provide for competitively priced long-term wholesale power supply to 2035 under the SRPSA. Any potential income in excess of costs derived from the Cambridge Project may be used to reduce long-term power supply costs to the Members, build reserves

and make transfers to SRMPA for potential distribution to the Members and to capture the value of the unused portion of the "headroom" embedded in the original RPSA.

1.8 FUNDS ESTABLISHED UNDER THE INDENTURE

The Indenture established special funds to hold proceeds from debt issuances, for purposes of establishing and maintaining certain reserves. The Indenture also established special funds into which revenues from Members are to be deposited and from which operating costs, debt service and other specified payments are to be made. The following table summarizes the funds established pursuant to the Indenture.

Table 1-1: Funds Established Pursuant to the Indenture

Fund	Held By
Revenue Fund	Trustee[1]
Operating Fund	SRMPA
Bond Fund	Trustee[1]
Debt Service Account	
Reserve Account	
Rebate Fund	Trustee[1]
Operations Reserve Fund	SRMPA
Subordinated Indebtedness Fund	Trustee[1]
Rate Stabilization Fund	SRMPA
Refund Fund	Trustee[1]
General Fund	SRMPA

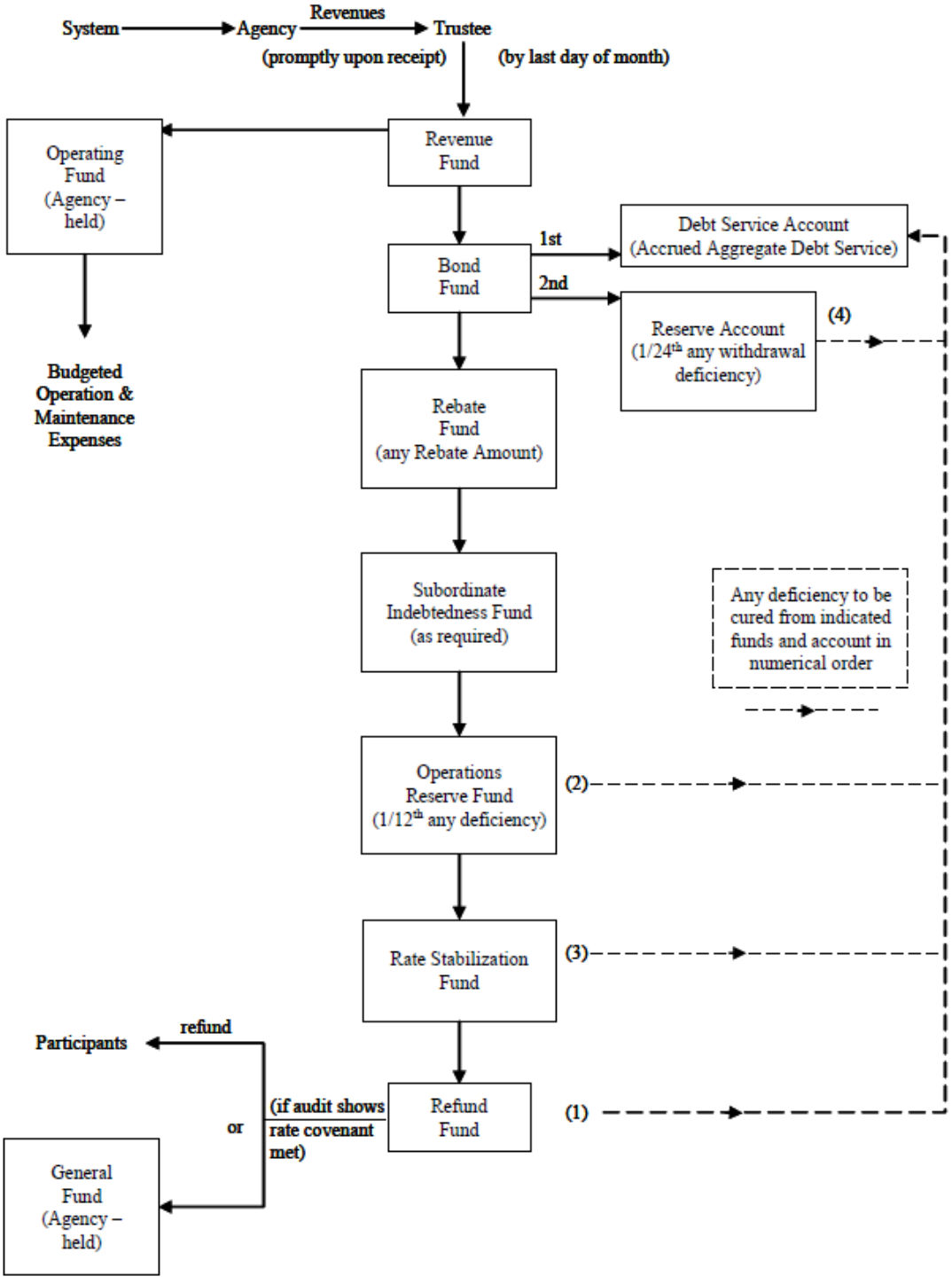
[1] The Trustee at September 30, 2016 was the Bank of New York Mellon Trust Company, N.A.

SRMPA deposits all Revenues upon receipt thereof to the credit of the Revenue Fund. As soon as practicable in each month after the deposit of Revenues into the Revenue Fund, the Trustee makes the following transfers from the Revenue Fund in the following order in the amounts required to be deposited for such intention as provided in the Indenture:

1. to SRMPA for deposit into the Operating Fund (to pay operating expenses);
2. to the Bond Fund (to pay debt service on bonds);
3. to the Rebate Fund (to pay Rebate owed to the Internal Revenue Service);
4. to any Subordinate Indebtedness Fund (to pay debt service on subordinated debt);
5. to the Operations Reserve Fund (for purposes described further in this section);
6. to the Rate Stabilization Fund (for purposes described further in this section);
7. to the Refund Fund (for purposes described further in this section); and
8. thereafter to the General Fund (for purposes described further in this section).

The payments to the Trustee by SRMPA of its Revenues and the monthly application by the Trustee of such Revenues in accordance with the Indenture are reflected in the following figure.

Figure 1-1: Primary Flow of Funds



1.8.1 SUBORDINATE INDEBTEDNESS

Under the Indenture SRMPA may, at any time, issue Subordinated Indebtedness payable out of, and which may be secured by a security interest in and pledge and assignment of, such amounts in any Subordinated Indebtedness Fund or the General Fund as may be available for the purpose of payment thereof. However, any security interest and pledge and assignment must be subordinate in all respects to the security interest in and pledge and assignment of the

Trust Estate created by the Indenture as security for the Bonds. Any Subordinated Indebtedness issued under the Indenture may not be accelerated unless all Outstanding Bonds under the Indenture have been accelerated. As of September 30, 2016, SRMPA did not have any outstanding Subordinated Indebtedness.

1.8.2 BOND FUND - RESERVE ACCOUNT

In the event that amounts in the Bond Fund - Debt Service Account are insufficient for the purposes of paying the principal of, premium, if any, and interest on the Bonds when due, the deficiency shall be made up from the Reserve Account after giving effect to the amounts in the Refund Fund and the Operations Reserve Account.

SRMPA is required, pursuant to the Indenture, to fund a Reserve Account in the Bond Fund in an amount equal to the Reserve Requirement, which is defined as the lesser of (i) 10 percent of the par amount of the Bonds, as such amount is permitted to be adjusted by the Internal Revenue Code, (ii) the Maximum Annual Aggregate Debt Service coming due on Outstanding Bonds in the current or any future Fiscal Year, but excluding interest to be paid from deposits in the Debt Service Account in the Bond Fund made from the proceeds of Bonds or Subordinated Indebtedness, or (iii) 125 percent of the average annual Debt Service on the Bonds (the "Reserve Requirement").

If the amount on deposit in the Reserve Account exceeds the Reserve Account Requirement, the excess may be withdrawn to pay or provide for payment of the outstanding Bonds in accordance with the Indenture.

According to SRMPA, the Reserve Account Requirement at September 30, 2016 was $12,401,008.

1.8.3 RATE STABILIZATION FUND

SRMPA is required, pursuant to the Indenture, to have on deposit an amount equal to 10 percent of the aggregate annual debt service coming due in the Fiscal Year beginning October 1, 2012, and thereafter from time to time SRMPA may deposit in the Rate Stabilization Fund such amounts as SRMPA shall determine necessary to maintain a balance equal to 10 percent of the aggregate annual debt service coming due on the Outstanding Bonds in the current or any future Fiscal Year. No deposit of Revenues to the Rate Stabilization Fund may be made to the extent withdrawals of Revenues for any Fiscal Year to be deposited in the Rate Stabilization Fund would have reduced the debt service ratio computed pursuant to the Indenture for such Fiscal Year below 1.10.

To the extent that amounts in the Operations Reserve Fund (as described further in this section) are insufficient to make any payment from the Operating Fund the amounts from the Rate Stabilization Fund may be applied, as necessary, to make good the deficiency.

Whenever the money on deposit in the Rate Stabilization Fund exceeds the maximum annual debt service coming due on the Outstanding Bonds in the current or any future Fiscal Year, the excess may be withdrawn and deposited in the Refund Fund. All Interest or other earnings on deposit in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Revenues.

According to SRMPA, the deposit in the Rate Stabilization Fund balance at September 30, 2016 was $1,606,323.

1.8.4 OPERATIONS RESERVE FUND

SRMPA is required, pursuant to the Indenture, to deposit the Operations Reserve Requirement to the Operations Reserve Fund sourced with proceeds from the previously issued Series 2002 Bonds and amounts transferred from SRMPA's General Fund or otherwise lawfully available to SRMPA. The "Operations Reserve Requirement," as defined in the Indenture, means an amount equal to 45 days of Operation and Maintenance Expenses, measured on a straight line basis for the prior Fiscal Year as set forth in the most recent audited financial statements. Within 120 days after SRMPA's audited annual financial statements become available, if the balance of the Operations Reserve Fund is less than the Operations Reserve Requirement, then SRMPA shall deposit to the Operations Reserve Fund amounts which after twelve equal monthly installments will equal such deficiency.

To the extent that amounts in the Refund Fund are insufficient to provide for any such insufficiency, if (i) at any time or from time to time amounts in the Operating Fund are insufficient to make any payment from the Operating Fund required, or (ii) if on the final business day of any month the amount in the Debt Service Account is insufficient to equal the amount required to be in that Account, then in either case the Trustee must apply amounts from the Operations Reserve Fund to the extent necessary to make good the deficiency.

Whenever the money on in the Operations Reserve Fund exceeds the Operations Reserve Requirement, the excess may be withdrawn therefrom by written request of SRMPA and applied pursuant to the Indenture.

According to SRMPA, the balance in the Operations Reserve Fund at September 30, 2016 was $2,465,028.

1.8.5 REBATE FUND

SRMPA is required, pursuant to the Indenture, to establish a Rebate Fund. The Rebate Fund shall be applied for payment of any Rebate Amount as defined in the Indenture. If SRMPA directs the Trustee to make payments from the Rebate Fund on any date and the amounts therein are insufficient to make such payments, the Trustee shall request additional deposits from SRMPA in the amount of any deficiency.

According to SRMPA, there was no balance in the Rebate Fund at September 30, 2016.

1.8.6 REFUND FUND

SRMPA is required pursuant to the Indenture, to establish a Refund Fund. After all deposits from the Revenue Fund are made to the various Funds and Accounts established pursuant to the Indenture, but prior to any deposit to the General Fund, the Trustee applies any remaining amounts in the Revenue Fund to the Refund Fund.

Not later than the last business day of each month, prior to application of any amounts in the Reserve Fund or the Operations Reserve Fund, the Trustee applies amounts then held in the Refund Fund to Funds and Accounts held under the Indenture to the extent of any deficiency in the amount of any scheduled deposits from the Revenue Fund.

According to SRMPA, the balance in the Refund Fund at September 30, 2016 was $2,208,694.

1.8.7 GENERAL FUND

SRMPA is required, pursuant to the Indenture, to establish a General Fund whereby the amounts in the General Fund may be used for: (i) the purchase or redemption of Bonds, and expenses related thereto; (ii) payment of any Rebate Amount; (iii) improvements, extensions, betterments, renewals, and replacements of the System; (iv) payments to the Subordinated Indebtedness Fund or for payments of principal or redemption price of and interest on any Subordinated Indebtedness; or (v) any other lawful purposes of SRMPA.

1.9 BONDS OUTSTANDING/SUMMARY OF BOND ISSUANCES

Table 1-2 shows that, as of September 30, 2016, SRMPA had issued eleven separate series of Bonds in aggregate principal amount of $1.080 billion, of which ten series were no longer outstanding. After giving effect to approximately $873 million in aggregate principal amount of Bonds that have been refunded and approximately $128 million in aggregate principal amount of Bonds that have been paid at maturity, the net amount of Bonds outstanding as of September 30, 2016, was an aggregate principal amount of $79 million.

Table 1-2: Bonds Issued and Outstanding as of September 30, 2016

Amounts Shown in ($000)

Series	Principal Amount Issued	Refunded/ Defeased	Paid At Maturity	Outstanding as of September 30, 2016
1981	$ 157,250	$ 152,565 [1]	$ 4,685	$ -
1982	162,140	153,140 [2]	9,000	-
1985 [3]	179,696	173,491 [4]	6,205	-
1985A	43,900	42,400	1,500	-
1993A	153,420	132,220	21,200	-
1993B	89,595	83,320	6,275	-
2002A	117,605	96,225	21,380	-
2002B	52,660	40,000	12,660	-
2002C [5]	10,705	-	10,705	-
2002D [5]	4,340	-	4,340	-
2012	108,940	-	29,870	79,070
Total	**$ 1,080,251**	**$ 873,361**	**$ 127,820**	**$ 79,070**

[1] Includes $3,880,000 of principal amount of bonds defeased with proceeds from the sale of government securities held by SRMPA.

[2] Includes $5,885,000 of principal amount of bonds defeased with proceeds from the sale of government securities held by SRMPA.

[3] Amounts do not reflect accretion on the portion of these bonds that were issued as Capital Appreciation Bonds.

[4] Includes $11,715,000 of principal amount of bonds defeased with proceeds from the sale of government securities held by SRMPA.

[5] All or a portion of these Bonds were issued as federally taxable.

All Bonds issued through September 30, 2016, have been issued to finance: (i) the acquisition and construction of Nelson Coal Unit No. 6 and the cost of related transmission facilities; (ii) the Robert Douglas Willis Hydropower Project; (iii) the purchase of SRMPA's share of the Excepted Facilities from GSU; (iv) certain fund deposits required under the Indenture; (v) costs and expenses associated with issuance of such Bonds; or (vi) the refunding of Bonds.

Table 1-3 sets forth the total annual debt service requirements for all outstanding Bonds issued through September 30, 2016 that are expected to paid from revenues.

Table 1-3: Total Debt Service Requirement for Bonds Issued Through September 30, 2016

Amounts Shown in ($000)

Period Ending October 1,	Principal Installments	Interest Payments	Total Debt Service
2016	$ 11,565	$ 3,954	$ 15,519
2017	12,215	3,375	15,590
2018	12,830	2,765	15,595
2019	13,470	2,123	15,593
2020	14,140	1,450	15,590
2021	14,850	743	15,593
Total	**$ 79,070**		

1.10 BOND RATINGS

SRMPA has received ratings on its Bonds from two investment services groups comprising of Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") and Fitch IBCA, Inc. ("Fitch").

Table 1-4 shows the ratings that SRMPA's Bonds have been assigned as of September 30, 2016 by the two investment services groups identified above:

Table 1-4: Bond Ratings

	Standard & Poor's	Fitch
Rating	BBB+	BBB+
Outlook	Stable	Stable

The ratings by Standard & Poor's and Fitch reflect only the views of such organizations and any desired explanations of the significance of such ratings and any outlooks should be obtained only from the respective organizations. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the respective rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of SRMPA's outstanding indebtedness.

2 OPERATIONS OF SRMPA

2.1 AUTHORIZED ACTIVITIES

SRMPA is a municipal corporation and political subdivision and body politic and corporate of the State of Texas organized under the laws of the State of Texas. SRMPA was created in 1979 by concurrent ordinances adopted by the governing bodies of the Cities of Jasper, Liberty, and Livingston, Texas. The purpose for forming SRMPA was to undertake the planning, financing and operation of resources for supplying electric power and energy needs to the participants, including the three Members and the Town of Vinton, Louisiana, through VPPA. SRMPA is organized pursuant to Texas Utilities Code, Sections 163.051 through 163.102, as amended (the "Enabling Act"). The Enabling Act authorizes SRMPA to, among other things: (i) acquire, own and operate electric facilities and engage in the generation and transmission of electric power and energy in or outside of Texas; (ii) issue revenue bonds and pledge SRMPA's net revenues for the payment of revenue bonds; (iii) sell, purchase or exchange electric power and energy to, from, or with electric utilities located in or outside of Texas; and (iv) establish and collect rates and charges necessary to produce revenues sufficient to pay all operation and maintenance expenses, debt service requirements on all revenue bonds issued, and other charges necessary to fulfill its contractual commitments.

2.2 BOARD OF DIRECTORS

SRMPA is governed by a Board of Directors, consisting of six directors who serve without compensation. The governing body of each of the three Members appoints two individuals to serve on the Board. Under the concurrent ordinances that created SRMPA, the terms of the members of the Board are two years, with the term of one member from each city expiring annually. The majority vote of a quorum is required for the Board to take action. Four directors constitutes a quorum. The Board of Directors sets SRMPA's policies and administrative procedures. The elected members of the Board, as of September 30, 2016, are listed below:

Table 2-1: Board of Directors

City	Name	Office	Municipal Title
Jasper, TX	Mike Lout	Vice President/Director	City Representative
Jasper, TX	Randy Sayers	Director	Mayor
Liberty, TX	Carl Pickett	Director	Mayor
Liberty, TX	Gary Broz	Director	City Manager
Livingston, TX	Clarke Evans	Secretary-Treasurer/Director	Mayor
Livingston, TX	Marilyn Sutton	President/Director	City Manager

Below is a brief description of the background of the Board's officers:

Ms. Marilyn Sutton, President of SRMPA. Mrs. Sutton was hired by the City of Livingston in 1974 and has served as City Secretary, Finance Officer and Assistant to the City Manager until her appointment as City Manager on April 1, 2005. In addition to her duties as City Manager, she continues to serve as Finance Officer for the City of Livingston. Ms. Sutton is a 1973 graduate of Stephen F. Austin State University in Nacogdoches with a Bachelor of Science in Education. She is a member of the Texas City Management Association and Government Finance Officers Association of Texas. She is active in community organizations in Livingston

and currently serves on the Livingston Main Street Advisory Board, the Main Street Organizations and Promotions Committee, and the Polk County Economic and Industrial Development Board. She represents the City of Livingston as an ex-officio member of the Board of the Livingston/Polk County Chamber of Commerce. Ms. Sutton was elected President of SRMPA in April 2013.

Mr. Mike Lout, Vice President of SRMPA. Mr. Lout presently serves as Mayor of the City of Jasper and was elected to office in May 2009. Mr. Lout is a 1974 graduate of Jasper High School who has worked in the broadcasting and communications industry for many years. He has worked as a communications technician for Temple-Eastex Forest that, up until a few years ago, was the largest private landowner in the State of Texas, and operates paper mills and building product-manufacturing operations. He also worked for many years for LTS Wireless, a company based in Lumberton Texas that builds radio towers, cellular systems and two way and microwave circuits both on and off shore for the oil and gas industry. Mr. Lout currently owns KJAS Radio in Jasper, Texas and KWUD Radio in Woodville. In 1999, he received the Texas Broadcasters Association's Broadcaster of the Year Award. He has been a ham radio operator since the age of 15 and is a private pilot and commercial radio and radar technician. Mr. Lout was elected Vice President of SRMPA in 2009.

Mr. Clarke Evans, Secretary-Treasurer of SRMPA. Mr. Evans was elected Mayor of the City of Livingston on May 10, 2008. He was elected as an Alderman in May 2003 and served as Mayor Pro-Tem from June 13, 2006 through June 12, 2007. He attended Livingston High School and graduated with honors from Sam Houston State University with a Bachelor of Science in Education and a Master of Education. He is a lifelong member of First United Methodist Church of Livingston and served on the Administrative Board, Finance Committee, and Board of Trustees and Building Committee. He served for nine years on Livingston ISD Board of Trustees and was Chairman and director of the Polk County Appraisal District. He is a member of Livingston Lion's Club and of the Houston Livestock Show and Rodeo. Mr. Evans is a former member of the Livingston Volunteer Fire Department and of the Polk County Appraisal Review Board. He is a veteran of the United States Army with rank of Captain and is owner of Evans & Associates real estate firm specializing in commercial real estate development. Mr. Evans also participates in a number of local clubs and community activities. Mr. Evans was elected Secretary-Treasurer of SRMPA in 2009.

2.3 MANAGEMENT

The Board retains E. Bruce Mintz, C.P.A. and attorney, in Liberty, Texas to serve as the Executive Director of SRMPA. The Executive Director, at the direction of the Board of Directors, corresponds with accountants, attorneys, and engineers representing SRMPA, as needed, prepares and forwards invoices to the Members for their respective share of power purchased, prepares invoices for and monitors other receivables due to SRMPA, prepares accounts payables for approval by the Board of Directors and payment, oversees SRMPA's compliance with the Texas Open Meetings Act, and other day-to-day business affairs of SRMPA.

The following table reflects the firms that provide professional services to SRMPA.

Table 2-2: Professional Services

Company	Service
Fulbright & Jaworski L.L.P., Houston, TX	General Counsel
Fulbright & Jaworski L.L.P., Houston, TX	Bond Counsel
GDS Associates Inc., Marietta, GA	Consulting Engineer
Nowlin & Associates, Inc., Natchitoches, LA	Engineer
Axley & Rode, L.L.P., Lufkin, TX	Independent Auditor
Raymond James | Morgan Keegan, New York, NY	Financial Advisor

2.4 MANAGEMENT CONTROLS

Under the Power Sales Contracts, SRMPA's management is required to submit to the Members the following quarterly reports:

1. A financial and operating statement relating to the System;
2. A status report of the current annual System budget;
3. A report on the status of the construction budget for all projects currently under construction; and
4. A status report on operations of the System.

The Power Sales Contracts require SRMPA to retain a Consulting Engineer to assist, advise and make recommendations to SRMPA on matters relating to electric power generation, transmission, power supply, electric utility operations, rates and billing charges, monitoring of SRMPA performance and annual budgets. Under the Power Sales Contracts, the Consulting Engineer is to prepare, within 150 days following the close of each Fiscal Year, a report reviewing:

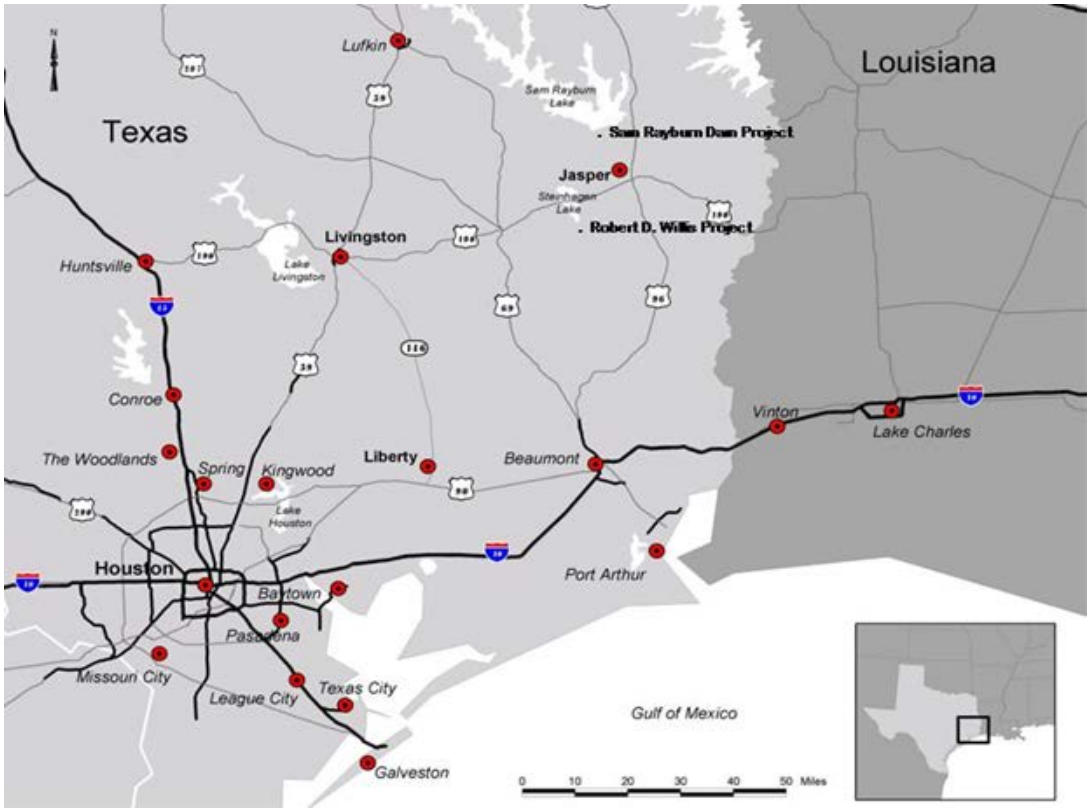
1. The operations of the System;
2. The sufficiency of SRMPA's rates and charges; and
3. The requirements for future power and energy.

In addition, the Consulting Engineer is to submit any recommendations concerning changes in operation and the making of repairs, renewals, replacements, extensions, betterments, and improvements. SRMPA is required to develop, in conjunction with the Consulting Engineer, an annual forecast of its power and energy requirements for the next ten years. Based upon the forecast, SRMPA will prepare a power and energy plan including a schedule of power and energy resource acquisition and operating plans. SRMPA is also required to retain an independent certified public accountant and to submit financial statements audited by such an independent certified public accountant to the Trustee and Members within 90 days after the end of each Fiscal Year. The Fiscal Year 2016 audit was made available to SRMPA. The independent certified public accountant's financial statements for Fiscal Years 2016 and 2015 are included in Appendix A of this Report.

2.5 CITY ECONOMIC AND CUSTOMER INFORMATION

The Cities of Jasper, Liberty, and Livingston, Texas are located in Southeast Texas. The following map indicates the location of the Cities, the R. D. Willis Project site, the Sam Rayburn Dam Project site, and the major cities in the general vicinity.

Figure 2-1: Map of Members



The Members independently own and operate their respective electric systems and distribute electric power and energy at retail to residential, commercial, and industrial customers and for municipal and public use within their service areas. The dominant industrial and commercial activities in the region include agriculture, timber and related paper industries, retailing, recreation and oil and gas.

2.5.1 CITY OF JASPER

The following description and information was provided by the City of Jasper.

The City of Jasper is located in Southeast Texas, inside Jasper County, and is approximately 135 miles northeast of Houston and 72 miles north of Beaumont. The municipal boundaries of Jasper cover approximately 10.6 square miles. According to the 2010 federal census, the City of Jasper had a population of 7,590. Jasper County is bordered on the north by San Augustine and Sabine counties, on the east by Newton County, on the south by Orange County, and on the west by Hardin and Tyler counties. The construction of Sam Rayburn Reservoir in the mid-1960s near Jasper brought the county a new industry, as water again proved a valuable resource. The Angelina River and its tributaries feed the reservoir, which attracts boaters, fishermen, and tourists. Jasper County is the 86th largest in population of the

254 counties in Texas, with a population of 35,506 in 2016. The county consists of 970 square miles. The following table presents the historical population statistics for the City of Jasper.

Table 2-3: City of Jasper's Historical Population Statistics

Year	City Population	County Population	State Population
1960	4,489	22,100	9,580,000
1970	6,251	24,692	11,198,655
1980	6,959	30,781	14,229,191
1990	7,160	31,102	16,986,510
2000	8,247	35,604	20,851,820
2010	7,590 [1]	35,710	25,145,561
2011	7,590 [1]	36,296	25,674,681
2012	7,590 [1]	35,927	25,613,722
2013	7,656	35,639	26,448,193
2014	7,656	35,649	26,448,193
2015	7,637	35,552	26,956,958
2016	7,619	35,506	27,469,114

[1] Based on the 2010 federal census.

The City of Jasper's economy is based primarily on forest products. Jasper County consistently ranks among the top five forest products producing counties in Texas, with over 480,000 acres of timberland. The production of feed and fiber products is also a major factor in the City of Jasper's economy. The Sam Rayburn Reservoir, the largest man-made reservoir wholly within the State of Texas, is located approximately ten miles north of the City of Jasper and is a popular recreational area. The construction of retirement and second homes near the reservoir has contributed to the City of Jasper's economy. The City of Jasper, as the largest city within a 60-mile radius, serves as a regional retail shopping and services center for an estimated 15,000 to 20,000 people.

The City of Jasper expects expansion of its local economy and job base during the next few years. The Jasper Economic Development Corporation ("JEDCO") pursues goals of job base generation and job diversification that will be advanced by the completion of two industrial parks. In 2002, JEDCO completed the unique Jasper Airport Industrial Park, which connects to the Jasper County Airport. Offering direct runway access, the Jasper Airport Industrial Park attracted Mobile Specialty Vehicles. In addition, the Jasper Rail Park was further developed with North Star Resources, a wood processor and WATCO Transportation Services, a short-line rail company. During Fiscal Year 2016, JEDCO assisted with following economic development projects:

- Purchased and began renovations on a building to house the JEDCO and Chamber of Commerce offices to create the tourism center for the City of Jasper.
- Agreed to assist the Jasper Youth Baseball Association with improvements to the ball park to include a concession stand and new restrooms.
- Agreed to split the cost of Phase I of the Downtown Revitalization Project with the City of Jasper.
- Completed an economic development agreement with Affinity Hospice to move their corporate office to the Jasper Airport Industrial Park creating approximately 50 jobs.

- Agreed to assist with the cost of the extension of a gas line to Harbor Hospice's inpatient facility in the City of Jasper which will create approximately 35 jobs.
- Approved infrastructure assistance for Terra BioChem.
- Approved assistance for equipment purchase for ETEX Fiber.

Approved the installation of high speed internet at the Jasper Airport Industrial Park. The following tables set forth certain information provided by the Texas Workforce Commission, with respect to the annual average workforce, employment, and economic data for Jasper County or the City of Jasper for the calendar years indicated.

Table 2-4: County of Jasper's Workforce and Employment Data

Source: Texas Workforce Commission, City of Jasper

Year	Civilian Labor Force	Employment	Unemployment	County Rate	State Rate
2007	15,891	14,869	967	6.1%	4.3%
2008	15,963	14,945	1,018	6.4%	4.8%
2009	16,246	14,316	1,930	11.9%	8.2%
2010	15,907	14,010	1,897	11.9%	7.9%
2011	15,672	13,990	1,682	10.7%	7.2%
2012	16,019	14,498	1,521	9.5%	6.0%
2013	15,730	14,212	1,518	9.7%	6.1%
2014	15,479	14,326	1,153	6.9%	5.1%
2015	14,293	13,299	994	7.0%	4.2%
2016	13,462	12,336	1,126	8.4%	4.6%

Table 2-5: City of Jasper's Economic Statistics

Year	Building Permits	Assessed Valuation	Retail Sales	Sales Tax Receipts
2007	$ 6,072,300	$240,678,630	$240,795,012	$3,796,300
2008	$ 5,567,000	$254,748,766	$240,897,705	$3,948,694
2009	$10,726,130	$273,473,461	$241,971,773	$4,100,308
2010	$10,758,184	$276,783,095	$241,008,387	$3,851,780
2011	$ 3,027,088	$283,052,752	$253,488,321	$3,851,263
2012	$ 8,653,996	$286,909,609	$250,052,395	$3,831,529
2013	$ 9,837,052	$293,992,942	$255,970,769	$4,053,708
2014	$ 6,807,965	$305,577,587	$259,226,354	$4,073,997
2015	$ 9,613,288	$309,667,359	$260,483,658	$4,113,286
2016	$ 6,429,360	$307,198,176	$275,536,502	$3,507,421

The City of Jasper's electric system was established in 1938. The system consists of two substations, one mile of 138 kilovolts ("kV") sub-transmission line and approximately 159 miles of 13.8 kV distribution lines. The City of Jasper's electric department maintains approximately 4,388 customers in a service area of approximately 35.5 square miles. In addition to the Jasper electric system retail service within the original single-certified part of the City of Jasper, the Jasper-Newton Electric Cooperative, Inc. also serves customers in the remaining

dual certified areas in the City of Jasper. The City of Jasper electric system serves approximately 25 of the 122 residential customers and 1 of the 14 commercial customers in the City of Jasper's dual certified area. The City of Jasper electric department serves all other customers within the City of Jasper's single certified service area. Currently there are approximately 300 acres of developable property in the City of Jasper's dual certified area. In addition, the City of Jasper electric department serves approximately 546 customers outside of the Jasper city limits.

The City of Jasper offers competitive utility rates to attract new residential, commercial, and industrial developments. The following tables present a summary of operating statistics relating to the electric utility system of the City of Jasper.

Table 2-6: City of Jasper's Electric System Number of Customers

Year	Residential	Commercial	Industrial	City Total
2007	3,478	962	8	4,448
2008	3,418	979	7	4,404
2009	3,536	880	5	4,421
2010	3,519	901	3	4,423
2011	3,531	922	3	4,456
2012	3,522	936	5	4,463
2013	3,523	993	5	4,521
2014	3,514	968	5	4,487
2015	3,482	988	5	4,475
2016	3,460	922	6	4,388

Table 2-7: City of Jasper's Electric Sales

	Megawatt Hour Sales				
Year	Residential	Commercial & Industrial	City Total	Total Revenue	Revenue/MWh
2007	44,539	51,625	96,164	$10,327,184	$107.40
2008	45,396	52,675	98,071	$10,689,026	$109.00
2009	45,656	49,173	94,828	$11,221,048	$118.30
2010	49,492	53,840	103,332	$12,154,141	$117.60
2011	48,725	51,179	99,904	$12,198,446	$122.10
2012	47,069	51,152	98,3919 9,904	$11,273,378	$114.60
2013	46,511	51,322	97,663	$11,609,299	$118.90
2014	48,371	51,004	99,375	$12,292,735	$123.70
2015	48,864	49,803	98,667	$12,605,494	$127.76
2016	45,455	49,424	94,879	$12,466,220	$131.39

The following table sets forth the five largest electric customers of the City of Jasper for the Fiscal Year ended September 30, 2016.

Table 2-8: City of Jasper's Five Largest Electric Customers

Customer	Business	Annual Energy (MWh)
Christus Jasper Memorial Hospital	Healthcare	3,920
Jasper Independent School District	Education	3,687
Terra BioChem	Manufacturing	2,640
Brookshire Brothers	Groceries	1,854
Hart Lumber	Lumber	1,629

2.5.2 CITY OF LIBERTY

The following description and information was provided by the City of Liberty.

The City of Liberty, the county seat of Liberty County, is located on U.S. Highway 90 approximately 30 miles east of Houston Intercontinental Airport, 45 miles northeast of Houston and 45 miles west of Beaumont. The municipal boundaries of the City of Liberty cover over 45 square miles. Easy access to these metropolitan areas, a low cost of living, high quality of life, and a rich heritage make the City of Liberty a great place to be a permanent citizen. The City of Liberty offers residents a small town atmosphere while providing all the modern services one expects from larger cities. According to the 2010 federal census, the City of Liberty has a population of 8,397. The Big Thicket National Preserve, in the northern part of the county, provides recreation with its trails and paths that afford a myriad of bird watching opportunities and a place to enjoy nature. The City of Liberty is home to the Sam Houston Regional Library and Research Center, which opened in 1977, and has seven municipal parks. The City of Liberty annually celebrates the Liberty Jubilee - Family Fun Fest the fourth Friday and Saturday of March, the Celebration of Independence Day held on July 3rd in the Liberty Municipal Park, the Trinity Valley Exposition and Fair in October, and the Christmas parade in late November or early December. Liberty County is the 47th largest in population of the 254 counties in Texas, with a population of 79,654 in 2016. The county consists of 1,176 square miles. The following table presents the historical population statistics for the City of Liberty.

Table 2-9: City of Liberty's Historical Population Statistics

Year	City Population	County Population	State Population
1960	6,127	31,595	9,580,000
1970	5,591	33,014	11,198,655
1980	7,945	47,088	14,229,191
1990	7,690	52,726	16,986,510
2000	8,033	70,154	20,851,820
2010	8,397	75,840	25,145,561
2011	N/A	75,945	25,674,681
2012	N/A	76,571	25,613,722
2013	8,743	N/A	26,448,193
2014	8,836	76,907	26,448,193
2015	8,919	78,117	26,956,958
2016	9,039	79,654	27,469,114

The City of Liberty's economy is based on manufacturing, retail activities, agriculture, chemical production, and oil and gas extraction. The City of Liberty has seen growth based on its close proximity to the larger metropolitan areas of Southeast Texas. Houston and Beaumont are a short drive in either direction along U.S. 90.

The following tables set forth certain information provided by the Texas Workforce Commission, with respect to the annual average workforce, employment, and economic data for Liberty County or the city of Liberty for the calendar years indicated.

Table 2-10: County of Liberty's Workforce and Employment Data

Source: Texas Workforce Commission, City of Liberty

Year	Civilian Labor Force	Employment	Unemployment	County Rate	State Rate
2007	33,057	31,370	1,687	5.1%	4.3%
2008	32,199	30,314	1,885	5.9%	4.8%
2009	32,628	29,001	3,627	11.1%	8.2%
2010	32,463	29,096	3,367	10.4%	7.9%
2011	33,082	30,082	3,300	10.0%	7.2%
2012	33,057	30,452	2,605	7.9%	6.0%
2013	33,338	30,882	2,456	7.4%	6.1%
2014	31,466	29,293	2,173	6.9%	5.1%
2015	31,311	29,096	2,215	7.1%	4.5%
2016	31,371	29,006	2,365	7.5%	5.0%

Table 2-11: City of Liberty's Economic Statistics

Year	Building Permits	Assessed Valuation	Retail Sales	Sales Tax Receipts
2007	$ 2,987,879	$410,445,078	$231,972,824	$1,986,525
2008	N/A	$444,257,451	$221,876,586	$2,142,069
2009	$ 6,425,700	$442,043,438	$206,939,002	$1,987,989
2010	$25,331,740	$443,378,162	$206,883,494	$1,756,434
2011	$ 2,503,500	$482,496,738	$226,180,588	$2,052,692
2012	$ 2,119,500	$523,999,255	$233,747,528	$2,002,343
2013	$ 6,901,013	$558,347,602	$235,461,921	$2,024,017
2014	$ 8,612,869	$579,147,941	$250,379,596	$2,255,012
2015	$ 7,388,507	$551,071,528	$248,383,937	$2,034,082
2016	$22,072,074	$587,306,311	$249,071,942	$1,942,455

The City of Liberty's electric distribution system, established in 1939, consists of approximately 80 miles of 13.8 kV distribution lines, 3 miles of 69 kV distribution lines, two substations owned and operated by SRMPA and one substation owned and operated by the City of Liberty, interconnected to 138 kV transmission lines of EGSI, which supply power and energy to the City of Liberty's system. The City of Liberty has the exclusive right to furnish electric service to its customer solely within its original single certified service area. Customers located in areas annexed by the City of Liberty who were served by other utility systems prior to annexation continue to receive service for such other utility system, consistent with the Texas Public

Utilities Regulatory Act. The City of Liberty's two competitors outside the single certified service area are ETI and Sam Houston Electric Cooperative ("SHECO") in respective dual-certified areas. The City of Liberty's system has a combined total of approximately 3,698 residential, commercial, and industrial customers in 2016. ETI currently serves approximately 470 customers within the City of Liberty. SHECO currently serves one customer within the City of Liberty.

The City of Liberty offers competitive utility rates to attract new residential, commercial, and industrial developments. The following tables present a summary of operating statistics relating to the electric utility system of the City of Liberty.

Table 2-12: City of Liberty's Electric System Number of Customers

Year	Residential	Commercial	Industrial	City Total
2007	2,805	840	-	3,645
2008	2,710	894	-	3,604
2009	3,002	895	-	3,897
2010	2,770	837	1	3,608
2011	2,817	830	1	3,648
2012	2,727	828	1	3,556
2013	2,816	827	1	3,644
2014	2,814	834	1	3,649
2015	2,861	776	1	3,638
2016	2,863	834	1	3,698

Table 2-13: City of Liberty's Electric Sales

	Megawatt Hour Sales				
Year	Residential	Commercial & Industrial	City Total	Total Revenue	Revenue/MWh
2007	40,109	58,613	98,722	$ 9,930,965	$100.60
2008	40,062	62,889	102,951	$10,446,780	$101.50
2009	42,555	60,322	102,877	$10,383,546	$100.90
2010	40,775	58,080	98,855	$10,968,231	$111.00
2011	41,909	123,684	165,593	$16,956,294	$102.40
2012	39,576	153,847	193,423	$17,679,763	$ 91.40
2013	40,983	157,037	198,020	$16,894,645	$ 85.30
2014	41,773	165,036	206,809	$17,363,684	$ 83.96
2015	41,684	132,377	174,061	$17,348,117	$ 99.67
2016	39,820	98,630	138,450	$14,957,108	$108.03

The following table sets forth the five largest electric customers of the City of Liberty for the Fiscal Year ended September 30, 2016.

Table 2-14: City of Liberty's Five Largest Electric Customers

Customer	Business	Annual Energy (MWh)
Boomerang Tube, LLC	Manufacturing	43,072
Wal-Mart	Retail	6,056
Liberty Forge	Manufacturing	2,592
Brookshire Brothers	Grocery	2,188
Liberty ISD (Middle School)	School	1,703

2.5.3 CITY OF LIVINGSTON

The following description and information was provided by the City of Livingston.

The City of Livingston, the county seat and principal commercial center of Polk County, is located approximately 70 miles north of Houston on U.S. Highway 59. The municipal boundaries of Livingston cover 8.5 square miles. Tourism, lumbering, ranching and the production of gas and oil continue to be important economically to the City of Livingston. The City of Livingston's 2010 population was 5,335 according to the federal census. Polk County is in the East Texas Timberlands region on the east bank of the Trinity River. The Neches and Trinity rivers border the county. Lake Livingston, a man-made reservoir on the Trinity River, covers 82,600 acres. It is located west of Livingston on U.S. Highway 190. Lake Livingston is an important tourist attraction and an economic asset to the city. A wide range of public and commercial recreational facilities, including full-service marinas, camping and motel accommodations are located along the shoreline. Polk County is the 71st largest of the 254 counties in Texas in population, with a population of 46,972 in 2016. The county consists of 1,110 square miles.

The following table presents the historical population statistics for the City of Livingston.

Table 2-15: City of Livingston's Historical Population Statistics

Year	City Population	County Population	State Population
1960	3,398	13,861	9,580,000
1970	3,965	14,457	11,198,655
1980	4,928	24,407	14,229,191
1990	5,019	30,687	16,986,510
2000	5,433	41,133	20,851,820
2010	5,335	45,413	25,145,561
2011	N/A	45,725	25,674,681
2012	5,238	45,580	25,613,722
2013	5,250	45,656	26,448,193
2014	5,200	45,790	26,448,193
2015	5,169	46,079	26,956,958
2016	5,172	46,972	27,469,114

The City of Livingston's sales tax revenue, a major indicator of the economic condition of the area, increased by 3.03 percent or $109,024 from the previous year. General Fund revenues that increased this past year include: grant funds, sanitation service fees, and recreation and library user fees.

The City of Livingston's Utility Fund revenues were affected by both temperatures and rainfall this past year. The combined total of electric sales revenue and water and sewer revenues increased in a 2.9% from the previous year.

The City of Livingston issued a total of 79 building permits for commercial and residential construction projects in 2016 with a total construction value of $5,067,989.

There are various projects and issues which will continue to affect the future economic outlook of the City of Livingston in a very positive manner including:

- The Angelina College satellite campus in the City of Livingston, which had a Fall 2015 enrollment of 306 students. This campus will improve education, job training and employment skills for the residents of the City of Livingston.
- The designation of the U.S. Highway 190 East/West corridor through the City of Livingston as a future interstate highway (I-14), which will increase the growth and development of the community.
- In May 2016, the casino on the Alabama-Coushatta reservation opened, which is located 17 miles east of the City of Livingston on U.S. Highway 190. This gaming facility has increased tourism and employment in the area.
- The construction of the $235,000,000 Roy O. Martin project, a new state-of-the-art oriented strand board facility, which will provide more than 1,000 jobs over a 20-month period and 165 permanent jobs once it opens in the fall of 2017.
- The construction of the R.C. "Joe" Thomas hydroelectric generating facility on the Lake Livingston dam, which currently provides construction jobs and will have a generating capacity of 24 MW. The facility will operate on a "run of the river" basis and is expected to be completed in 2018.

The following tables set forth certain information provided by the Texas Workforce Commission, with respect to the annual average workforce and employment data for Polk County or the City of Livingston for the calendar years indicated.

Table 2-16: County of Polk's Workforce and Employment Data

Source: Texas Workforce Commission, City of Livingston

Year	Civilian Labor Force	Employment	Unemployment	County Rate	State Rate
2007	17,042	15,818	1,224	7.2%	4.3%
2008	16,691	15,608	1,084	6.5%	4.8%
2009	17,748	15,919	1,829	10.3%	8.2%
2010	18,392	16,611	1,781	9.7%	7.9%
2011	18,233	16,590	1,643	9.0%	7.2%
2012	18,275	16,889	1,386	7.6%	6.0%
2013	17,939	16,628	1,311	7.3%	6.1%
2014	17,955	16,846	1,109	6.2%	5.1%
2015	16,925	15,906	1,019	6.0%	4.3%
2016	16,884	15,867	1,017	6.0%	4.7%

Table 2-17: City of Livingston's Economic Statistics

Year	Building Permits	Assessed Valuation	Retail Sales	Sales Tax Receipts
2007	$ 25,240,407	$381,313,685	$214,368,467	$3,215,527
2008	$ 7,317,952	$416,592,823	$215,469,133	$3,232,037
2009	$ 77,806,658	$457,462,152	$217,767,667	$3,266,515
2010	$ 24,685,515	$462,301,785	$203,450,467	$3,051,757
2011	$ 15,722,342	$457,989,421	$214,335,000	$3,215,025
2012	$ 11,348,948	$469,807,185	$223,147,533	$3,347,213
2013	$ 5,694,144	$469,968,449	$248,714,733	$3,730,721
2014	$ 9,473,160	$483,038,851	$228,759,934	$3,431,399
2015	$ 6,762,540	$487,364,377	$232,565,000	$3,488,475
2016	$ 5,067,989	$507,304,981	$239,833,267	$3,597,499

The City of Livingston's electric system, established in 1922, consists of two substations interconnected to two separate 138 kV transmission lines of ETI and approximately 150 miles of 13.8 kV distribution lines. The City of Livingston serves about 3,320 customers in a service area of approximately 8.5 square miles. The City of Livingston is the sole supplier of retail electric service solely within the single certified area of the original city limits. Customers located in areas annexed by the City of Livingston who were served by another utility prior to annexation may continue to receive service from such other utility system, pursuant to the Texas Public Utilities Regulatory Act. SHECO serves approximately 3 of the 8 residential customers and 5 of the 69 commercial customers within the City of Livingston's dual certified area.

The City of Livingston offers competitive utility rates to attract new residential, commercial, and industrial developments. The following table presents a summary of operating statistics relating to the electric utility system of the City of Livingston.

Table 2-18: City of Livingston's Electric System Number of Customers

Year	Residential	Commercial	Industrial	City Total
2007	2,358	948	-	3,306
2008	2,360	969	-	3,329
2009	2,351	980	-	3,331
2010	2,319	977	-	3,296
2011	2,276	968	-	3,244
2012	2,328	967	-	3,295
2013	2,292	989	-	3,281
2014	2,326	994	-	3,320
2015	2,316	1,000	-	3,316
2016	2,316	998	-	3,314

Table 2-19: City of Livingston's Electric Sales

	Megawatt Hour Sales				
Year	Residential	Commercial & Industrial	City Total	Total Revenue	Revenue/MWh
2007	29,746	50,877	80,623	$ 7,257,278	$ 90.00
2008	30,605	54,333	84,938	$ 8,216,734	$ 96.70
2009	29,640	52,454	82,094	$ 8,418,324	$102.60
2010	32,131	54,899	87,030	$ 9,501,366	$109.20
2011	31,818	57,575	89,393	$10,012,821	$112.00
2012	28,116	54,775	82,891	$ 9,279,739	$111.90
2013	28,901	55,815	84,716	$ 9,585,562	$113.10
2014	29,358	55,428	84,786	$ 9,593,788	$113.15
2015	29,363	56,282	85,645	$ 9,729,073	$113.59
2016	28,567	54,728	83,295	$ 9,637,304	$115.70

The following table sets forth the five largest electric customers of the City of Livingston for the Fiscal Year ended September 30, 2016.

Table 2-20: City of Livingston's Five Largest Electric Customers

Customer	Business	Annual Energy (MWh)
Livingston Independent School	Education	8,560
County of Polk	Government	3,038
Brookshire Brothers	Grocery	2,384
Lowe's	Building Supply	2,253
H.E.B. Pantry Foods	Grocery	1,880

3 RESOURCES AND MAJOR PROJECTS

3.1 HISTORICAL RESOURCES

Prior to November 1980, the Members and VPPA obtained all of their power requirements from the SRDEC. The SRDEC supplied such power from its entitlement to the output of 52 MW of hydroelectric power from the federally-owned Sam Rayburn Dam Project, marketed by the SWPA, under the DOE, and from wholesale power purchased from GSU, now ETI. In November 1980, the Members and VPPA began purchasing all of their power and energy requirements from SRMPA. Beginning in 2002, VPPA started purchasing its wholesale power requirements directly from Entergy and SWPA.

On June 6, 1980, SRMPA entered into the Joint Ownership Agreement with GSU and SRG&T, which provided for SRMPA to acquire a 20 percent undivided interest in the Nelson 6 unit. At that time, SRMPA also entered into agreements with GSU which provided for: (i) the transmission by GSU of the output of Nelson 6 and the Sam Rayburn Dam Project to SRMPA's delivery points; (ii) the sale by GSU of the supplemental power and energy required to satisfy SRMPA's load and load growth in excess of SRMPA's resources; and (iii) the supply by GSU of reserve capacity, backup energy and replacement energy. Nelson 6 is a 550 MW coal-fired, steam electric generating facility constructed by EGSI at the Roy S. Nelson Station located on the Houston River near West Lake, Louisiana. The unit was placed into commercial operation on May 31, 1982. EGSI, as Project Manager, operates and maintains the unit as majority owner and agent for the minority co-owners.[3]

In 1985, SRMPA issued bonds to finance the acquisition of Nelson 6 Excepted Facilities and the construction of the Town Bluff Hydropower Project, later renamed the R. D. Willis Project. The acquisition of Nelson 6 Excepted Facilities was consummated on June 18, 1992. On December 1, 1989, SRMPA began selling 24.89 percent of the power received from the R. D. Willis Project to SRG&T under the SRG&T Agreement. This agreement is in place for a 32-year period ending December 1, 2021.

On December 18, 1992, SRMPA transferred title to its 20 percent undivided interest in Nelson 6 and the associated Excepted Facilities to VPPA. Concurrently, SRMPA and VPPA entered into a UPS Agreement. Under the UPS Agreement, SRMPA secured rights from VPPA, which were designed to provide SRMPA with the net electrical output of Nelson 6. The value received by SRMPA from the sale was used to make a prepayment to VPPA for power charged for the output of Nelson 6 over its remaining life, to 2021. SRMPA paid EGSI, on behalf of VPPA, a monthly energy charge on an on-going basis. This charge included fuel costs, operations and maintenance expenses, renewals and replacement costs, station service expenses, transmission, and charges for support facilities. The energy charge was based on actual charges billed to VPPA by Entergy. SRMPA paid VPPA for the energy charge and simultaneously VPPA returned the payment to SRMPA so SRMPA could pay the same amount to Entergy as VPPA's irrevocable agent. The principal purpose of these transactions was to enable SRMPA to charge lower-cost, non-discriminatory and more stable rates to its Members.

During Fiscal Year 1998, SRMPA exited the generation business and signed the RPSA with EPMC, now assigned without novation to EWOM. EPMC was merged into EKT before the assignment to EWOM. The RPSA became effective on November 1, 1998.

[3] VPPA's 20 percent undivided ownership interest in Nelson 6 was transferred from escrow to a third party nominee of EPI on October 1, 2003.

In November 1998, SRMPA, VPPA, and EPI entered into a sales agreement by the terms of which VPPA agreed to sell, and EPI agreed to buy, VPPA's undivided ownership interest in the Nelson 6 Project. On November 1, 1998, SRMPA entered into a SCSA with EPMC, which merged with EKT. Under the SCSA, SRMPA sold excess system capacity to EKT for a lump sum payment while variable costs continued to be charged to EKT. Effective November 1, 1998, SRMPA purchased its requirements power supply, net of federal hydroelectric power, from EKT, under the RPSA. All Nelson 6 costs, as well as fuel and operating costs, were recovered by SRMPA in its pricing for the sale of excess system capacity to EKT under the SCSA. The SCSA effectively released SRMPA from its responsibility for its share of Nelson 6, except for administrative responsibility for charges and billings, which ended when VPPA's 20 percent undivided ownership interest in Nelson 6 was transferred out of escrow to a third party nominee of EPI on October 1, 2003. Upon which event SRMPA's purchase of VPPA's Nelson 6 output terminated along with the SCSA with EKT.

SRMPA currently neither owns nor assumes any risk associated with Nelson 6 operations. Prior to October 1, 2003, implementation of the RPSA eliminated all Agency risk associated with variability in Nelson 6 operations and maintenance expenses and related costs, and, on that date, the title to SRMPA's and VPPA's 20 percent undivided ownership interest in Nelson 6 transferred from the escrow to EPI's nominee.

3.2 REQUIREMENTS POWER SUPPLY AGREEMENT

Since November 1, 1998, SRMPA has obtained its required power and energy from: (i) SRDEC through the Sam Rayburn Dam Project; (ii) SWPA through the R. D. Willis Project; and (iii) EKT, under the RPSA, which was assigned, with SRMPA consent, without novation to EWOM in early Fiscal Year 2001. During Fiscal Year 1998, SRMPA exited the generation business and signed the RPSA with EPMC, which merged into EKT. The RPSA became effective on November 1, 1998. Under the RPSA, SRMPA purchases capacity from EKT for a lump sum payment and charges for continuing purchases of delivered power and energy sufficient to meet the Member requirements under a set price schedule. The price schedule escalates at an average of approximately 1.6 percent per annum, from the effective date through September 30, 2021. Effective November 1, 1998, SRMPA's demand, and energy requirements for Members, in excess of generation from the Sam Rayburn Dam Project and the R. D. Willis Project, are being met by the RPSA through EKT.

Under the RPSA, SRMPA contracted with EWOM, for a requirements power supply delivered to the Members' delivery points through September 30, 2021. SRMPA prepaid the capacity value of the RPSA in the amount of $59,605,565. Energy charges, inclusive of all transmission costs and losses, are assessed based on Member usage.

The RPSA obligates EWOM to serve SRMPA's load net of SRMPA's allocation of federal hydropower, and includes the delivery of such federal hydropower to SRMPA's Members within the Entergy transmission system. SRMPA incurs no separate transmission charges within the Entergy transmission system and is not subject to fuel adjustments or other pass-throughs under the RPSA. The RPSA designates a fixed price schedule for delivered power and energy. In addition, the RPSA obligates EWOM to serve SRMPA's base load and normal load growth, as measured from SRMPA's benchmark load, contractually set as 70.676 MW.[4]

[4] The total benchmark load under the RPSA is 78 MW. Under the Exit Agreement, SRMPA is entitled to 70.676 MW of benchmark load, and VPPA is entitled to 7.324 MW of benchmark load.

Load growth was stipulated to be three percent over a five-year future rolling average compounded annually from the 70.676 MW benchmark, regardless of actual load growth.

Factoring in the five-year forward rolling average allowable load growth, the maximum load service obligation under the RPSA that was available to SRMPA in Fiscal Year 1999 was 75.045 MW,[5] with this value escalating at three percent annually through Fiscal Year 2021. For Fiscal Year 2016, the maximum load service obligation under the RPSA was 124.039 MW. The load available above the Fiscal Year 2016 SRMPA load (70.39 MW without the Boomerang coincident peak load of 16.83 MW) was roughly 54 MW. A breakout of Entergy's service obligations under the RPSA to SRMPA's Members is shown in the following table.

Table 3-1: EWOM Obligation to SRMPA Members Under the RPSA

Fiscal Year	Maximum Load Service Obligation under RPSA (MW) [1]	Fiscal Year	Maximum Load Service Obligation under RPSA (MW) [1]
1999	75.045	**2011**	106.997
2000	77.297	**2012**	110.207
2001	79.616	**2013**	113.513
2002	82.004	**2014**	116.918
2003	84.464	**2015**	120.426
2004	86.998	**2016**	124.039
2005	89.608	**2017**	127.760
2006	92.296	**2018**	131.593
2007	95.065	**2019**	135.540
2008	97.917	**2020**	139.607
2009	100.855	**2021**	143.795
2010	103.881		

[1] VPPA's share of the RPSA is excluded.

While SRMPA's load has grown at less than three percent annually, capacity is available to meet potential SRMPA annual load growth in excess of three percent per annum. This available capacity can only be utilized by the Members and cannot be marketed externally as excess capacity. This available capacity benchmark will enable SRMPA to offer incentive rates to the Members sufficient to attract new load from large commercial and industrial consumers. Any additional loads or customers within the Members will increase SRMPA's revenues, lower average rates and improve the economic health of the Members.

Under the terms of the Exit Agreement, VPPA exited SRMPA upon completion of the 2002 refunding, and received entitlement to 9.39 percent of power and energy under the RPSA. VPPA's percentage share is based on the five-year non-coincident peak demand for VPPA versus the five-year non-coincident peak demand for SRMPA as a whole, calculated by determining the peak demand for each Member for each Fiscal Year. This percentage share reflects the actual peak demand of each Member and allocates available capacity based on individual Member demand.

[5] EWOM's maximum load service obligation in Fiscal Year 1999 under the RPSA formulation is 82.823 MW. Under the Exit Agreement, EWOM's maximum load service obligation to SRMPA was 75.045 MW in Fiscal Year 1999, escalating at three percent annually, and EWOM's maximum load service obligation to VPPA was 7.777 MW in Fiscal Year 1999, also escalating at three percent annually.

As previously discussed, through the Cambridge Project, SRMPA and VPPA began additional power supply and purchase arrangements that became effective on December 1, 2011. The power supply contractual arrangements provide SRMPA with firm power supply beyond the term of the bonds (2021) for the next 25 years to serve its Members under the SRPSA. Under the SRPSA with EWOM, SRMPA reduced the right to increase purchases for load growth at a maximum 3 percent annual rate to a 2 percent annual growth rate, which is more in line with anticipated growth rates. The SRPSA assures an energy supply to SRMPA to 2035 (beyond the 2021 termination of the RPSA), and provides that if SRMPA has load growth above the anticipated rate, EWOM will provide service for such load. Should the contractual arrangements be terminated, all related contracts will terminate and SRMPA and VPPA Systems will revert to their original condition with wholesale energy provided under the RPSA for SRMPA to serve its participating Members. The objective of the SRPSA is to consistently meet the service obligations of SRMPA and to provide for competitively priced long-term wholesale power supply until 2035.

3.3 REQUIREMENTS POWER SUPPLY AGREEMENT FOR THE CITY OF LIBERTY AND BOOMERANG

As of July 2010, EWOM and SRMPA entered into the SRMPA Full Requirements Power Supply Agreement for the City of Liberty and Boomerang load. The Boomerang Retail Contract states that the City of Liberty provides Boomerang with all electrical loads up to 35 MW, or upon request such greater amount not to exceed 40 MW, required by Boomerang to operate its steel pipe and tube production facility. SRMPA entered into this agreement, in parallel to the RPSA, to supply the City of Liberty with the electric energy that it needs to satisfy its obligations under the Boomerang Retail Contract. The rate schedules include both a short-term rate schedule and a long-term rate schedule. The short-term rate schedule allows the City of Liberty to provide an immediate response to the customer for electric service. Subsequently, the short-term rate schedule was superseded by the long-term rate schedule. The long-term rate schedule is cost-based and will apply and be revised each year thereafter. The long-term, cost-based rate agreement to serve Boomerang will be in effect until September 30, 2021.

Under this agreement for both short and long-term rates, electric service is available to the City of Liberty at the Liberty Substation at a three phase primary voltage of 138 kV and frequency of 60 cycles per second for electrical loads up to a maximum of 35 MW, or upon request, a greater amount not to exceed 40 MW. The following charges are described in detail in the agreement:

1. A capacity charge, as modified from time to time, multiplied by the peak demand, as adjusted for power factor and applicable losses, equal to the greater of (i) the peak demand for the current month and (ii) the largest peak demand for the immediately preceding eleven month period;

2. A reserve charge, as modified from time to time, multiplied by 15 percent of the peak demand, as adjusted for power factor and applicable losses, equal to the greater of (i) the peak demand for the current month and (ii) the largest peak demand for the immediately preceding eleven month period, a fuel charge for fuel, as modified from time to time, multiplied by the total kWh of energy delivered, as adjusted for applicable losses; and

3. A transmission charge subject to the provisions of the Entergy Open Access Transmission Tariff and based on Entergy's Network Transmission Service Tariff

inclusive of ancillary services, scheduling and operational costs required for such delivery, net of transmission energy imbalance charges.

All transmission system rate increases, and directly assigned transmission and delivery-related costs are passed through to the City of Liberty as incurred, without adders. The delivery point is at the Liberty Substation at a voltage of 138 kV, and an administrative charge of $0.001 per kWh is added to recover administrative costs incurred by SRMPA. In addition, the City of Liberty is required to maintain a level of service quality for all its customers based on prudent industry standards. The kW peak demand is adjusted by dividing by the actual power factor and multiplying by 0.90. For a leading power factor, a power factor of 1.0 is used for the actual power factor. During any hour that the voltage level at the City of Liberty's meter is less than 138 kV, an adjustment for transformer losses of 1.5 percent on all applicable charges apply. During any hour that the voltage level at the City of Liberty's meter is equal to or greater than 138 kV, no adjustment for transformer losses will apply. The City of Liberty's Boomerang energy usage for Fiscal Year 2016 was 42,518 MWh, and its coincident peak with the City of Liberty was 16.83 MW inclusive of transformer losses.

3.4 SAM RAYBURN DAM HYDRO PROJECT

The Sam Rayburn Dam Project consists of a powerhouse and associated equipment located at the Sam Rayburn Dam on the Angelina River, 10 miles northwest of Jasper, Texas. The project came online in 1966 with two 26,000 kW generating units and operates as a storage facility with a hydraulic capacity of 9,900 cubic feet per second ("cfs"). The project is owned, operated, and maintained by the United States Army Corps of Engineers ("USACE"), Fort Worth District.

In 1963, the SRDEC was organized under the Electric Cooperative Corporation Act, Texas Utilities Code, Chapter 161. The members of SRDEC are the Cities of Jasper, Liberty, and Livingston, Texas, the Town of Vinton, Louisiana, three rural electric cooperatives including the Jasper-Newton Electric Cooperative, Inc., the Sam Houston Electric Cooperative, Inc., and the Houston County Electric Cooperative, Inc., which joined SRDEC effective April 1, 1984. In 1964, SRDEC entered into a contract with the SWPA whereby SRDEC received an allocation of the output of the Sam Rayburn Dam Project. SRDEC also entered into a contract with GSU under which GSU agreed to schedule and dispatch the Sam Rayburn Dam Project power and to provide supplemental wholesale power to satisfy the remaining power requirements of the members of SRDEC. SRDEC's contract for Sam Rayburn Dam Project output was renewed in 2014 and expires on September 30, 2027.

Under the current Sam Rayburn Dam Project Contract, SRMPA receives approximately 15.3 MW[6] on behalf of the Members. The Amended and Restated Tripartite Agreement, dated January 1, 1991, among SRDEC, SRG&T and SRMPA, serves as the arrangement whereby SRDEC holds the Sam Rayburn Dam Project allocation and serves as agent for SRMPA and SRG&T in the receipt and billing for the purchase of the hydropower output of the Sam Rayburn Dam Project from SWPA.

[6] Prior to implementation of the Exit Agreement, SRMPA was entitled to one-third, or about 17.3 MW, of the hydropower output from the Sam Rayburn Dam Project. VPPA is entitled to 2 MW under the SWPA allocation of federal hydropower to municipal preference customers in Louisiana, and receives its entitlement from SRMPA under the Exit Agreement. In return, VPPA pays for its share of operations and maintenance expenses, plus additions, betterments, improvements, and a share of joint-use costs as billed by the SWPA, calculated as 11.54 percent (2 MW/(1/3 of 52 MW)) of SRMPA's charge for its allocation of Sam Rayburn Dam Project power and energy.

The annual generation at the Sam Rayburn Dam Project for Fiscal Year 2016, net of station service, was 130,610 MWh, as reported by the SWPA, of which SRMPA retained 38,505 MWh, as reported by Entergy, exclusive of VPPA's share. The Entergy figures are used for accounting and billing purposes within SRMPA. SRMPA retained amount from the Sam Rayburn Dam Project offset purchases of generation from EWOM under the RPSA. Generation from the Sam Rayburn Dam Project interconnects directly with the Entergy transmission system.

The USACE is responsible for making adequate renewals and replacements and maintaining the project in accordance with good utility practice. The cost of operating and maintaining the Sam Rayburn Dam Project is charged to SRMPA through rates set by SWPA. In Fiscal Year 2016, SWPA charged SRMPA a fixed cost of $112,120 per month for operations and maintenance at the Sam Rayburn Dam Project, exclusive of VPPA's share, extending the prior charge for another fiscal year. The step-up transformer on Sam Rayburn Unit No. 2 failed on April 25, 2014. The USACE has accepted a gift from SRDEC to (i) replace the step-up transformers on both Sam Rayburn Units Nos. 1 and 2 and (ii) implement various related ancillary projects at a cost of $6.25 million in 2016. SRMPA contributed to SRDEC during Fiscal Years 2015, 2016 and plans to contribute in 2017 approximately $1,8450,00 over this three year period towards the cost of replacement of the generating facilities being installed by the USACE. The USACE has also initiated studies to rehabilitate both turbines and generators at Sam Rayburn beginning as early as 2020. The rehabilitation project at both Sam Rayburn Units Nos. 1 and 2 is expected to increase the generation capacity by 30 – 50 percent.

The associated dam and impoundment, known as Sam Rayburn Dam and Lake, was completed in 1965, and is owned by the USACE. The impoundment is formed by a 12,400-foot-long and 176-foot-high combined earthen fill and concrete dam. Overtopping of the structure is controlled by a 640-foot-long uncontrolled labyrinth spillway with a stilling basin. The controlled low-flow outlet works consist of two 10 x 20 foot gated control conduits and two 18 x 26 foot power conduits. The project controls a drainage area of 3,449 square-miles and provides 6,336,200 acre-feet of total storage capacity.

3.5 ROBERT DOUGLAS WILLIS HYDRO PROJECT

The R. D. Willis Project consists of a powerhouse and associated equipment located at the Town Bluff Dam on the Neches River, southwest of Jasper, Texas. The project came online in 1989, is equipped with two 4,000 kW generating units, and operates as a run-of-river facility with a hydraulic capacity of 4,500 cfs. Although the total nameplate capacity of the project is 8 MW, hydraulic limitations hold the overall project capacity to 4.5 MW.[7] The R. D. Willis Project was financed by SRMPA and constructed by the USACE, Fort Worth District. The USACE owns, operates, and maintains the project, and its power is marketed through SWPA. In return for financing the construction of the R. D. Willis Project, SRMPA received a 50-year output contract extending to 2037. Under this contract, SRMPA pays for R. D. Willis Project

[7] After the Exit Agreement became effective, VPPA received 7.05 percent of power and energy, calculated as 75.11 percent of 9.39 percent, from the R. D. Willis Project. This calculation holds while the R. D. Willis Power Assignment Agreement with the SRG&T remains in effect through December 1, 2021. VPPA pays 9.39 percent of R. D. Willis Project operations and maintenance charges billed by the SWPA, and receives 9.39 percent of revenues from sales of power and energy from the R. D. Willis Project to the SRG&T under the SRG&T Agreement while that agreement is in effect. SRMPA's share of net R. D. Willis Project output is now 68.06 percent, calculated as 75.11 percent of 90.61 percent, while the SRG&T Agreement is in effect, and 90.61 percent after termination of the SRG&T Agreement.

operations and maintenance, required additions, renewals and replacements, and general administrative overhead under rates designed by SWPA.

SRMPA is responsible for providing transmission facilities to take delivery of the output of the R. D. Willis Project at the dam site and delivery of that output to the Entergy transmission system, where transmission responsibilities are then covered under the RPSA. The USACE is only responsible for those transmission facilities necessary to make the interconnection at the dam. SRMPA meets its transmission responsibility through contractual arrangements with the Jasper-Newton Electric Cooperative, Inc. ("JNEC") and Entergy. Since the R. D. Willis Project is in JNEC's service area, SRMPA contracted with JNEC to construct the necessary transmission facilities to receive, transmit, and deliver the power and energy from the R. D. Willis Project to Entergy's transmission system in return for payment for such service. These facilities were completed in November 1989. Once delivered to the Entergy transmission system, power and energy from the R. D. Willis Project is treated as SRMPA generation under the RPSA.

Pursuant to the SRG&T Agreement, SRMPA agreed to sell SRG&T a 24.89 percent share of the output, net station service, of the R. D. Willis Project for a term of 32 years ending December 1, 2021. Under the SRG&T Agreement, SRG&T pays 24.89 percent of all SRMPA's cost and expenses in any way incurred in connection with the R. D. Willis Project, including debt service related to project construction, during the term of the agreement. In return, the SRG&T receives 24.89 percent of net power and energy made available to SRMPA from the R. D. Willis Project each month.

The annual generation at the R. D. Willis Project for Fiscal Year 2016, net of station service, was 3,394 MWh as reported by the SWPA, of which SRMPA retained 2,310 MWh, as reported by Entergy, exclusive of VPPA's share. The amount of power SRMPA retains from the R. D. Willis Project offsets purchases of generation from EWOM under the RPSA. The USACE is responsible for making adequate renewals and replacements and maintaining the project in accordance with good utility practice. The cost of operating and maintaining the project is charged to SRMPA through rates set by SWPA. For Fiscal Year 2016, SWPA charged SRMPA a fixed cost of $87,806 per month (October through December) and $91,573 per month (January through September) for operations and maintenance at the R. D. Willis Project, exclusive of VPPA's share. For Calendar Years 2017 and 2018, SWPA will charge SRMPA a fixed cost of $99,375 per month. The U. S. Army Corps of Engineers at the request of SRMPA has initiated a study of the disposition of the R.D. Willis hydropower units that have been in forced outage since November 19, 2015 due to a transformer bushing failure and subsequent failure of the station service transformer.

The associated dam and impoundment, known as the B.A. Steinhagen Lake and Town Bluff Dam Project, was completed in 1951 and is owned by the USACE. The impoundment is formed by a 6,698-foot-long and 45-foot-high combined concrete and steel dam. Overtopping of the structure is controlled by a 6,100-foot-long uncontrolled spillway. The controlled low-flow outlet works consist of six 40 x 35 foot tainter gates. The project controls a drainage area of 7,573 square-miles and provides 306,400 acre-feet of storage.

3.6 SRMPA SUBSTATIONS

In May 1989, SRMPA purchased all the substations serving the Members at that time. The purchase price was $4,748,019, which was funded using surplus bond proceeds. The substations were leased back to each Member. These leases were later extended from 2005 to 2015, and are subject to another 10-year extension by the respective lessees out to 2025.

SRMPA has an agreement with each individual Member for the operation and maintenance of their respective substation facilities.

Since 1995, the substations for each Member have been either replaced or significantly upgraded, with recent substation construction activities providing a higher level of quality of service. Substations have also been added to better serve each Member. Each Member is currently served by two substations, and all substations are owned by SRMPA and leased to the Members. Transmission lines separately serving each substation and/or using two transformers at each substation increasingly provide a favorable level of redundancy that augments reliability and safety.

SRMPA annually budgets for the maintenance and repair of its substation facilities. The budget includes funds for the repair of equipment and systems experiencing minor operating problems. Funds are also included for routine preventive maintenance of power transformers, circuit breakers and other related equipment. The budget also includes a contingency fund for unplanned maintenance and repairs, which must be handled on an emergency basis by each Member.

The engineering firm of Nowlin and Associates, Inc. advises SRMPA with regard to the maintenance and upkeep of these substation projects. Nowlin and Associates, Inc. has advised the Consulting Engineer that these facilities have been maintained in good working order and in accordance with good utility practice.

With the assistance of engineering firm of Nowlin and Associates, Inc., SRMPA has proactively ordered and purchased six replacement substation transformers from the manufacturer Delta Star at a total cost of approximately $8,000,000 for installation over a two year period in SRMPA Member Cities' distribution substations. The SRMPA Board canceled an order for a seventh 138/69 KV transformer as a result of a recommendation by Nowlin and Associates, Inc. to construct a new 1.5 mile long express feeder on the Liberty distribution system instead. SRMPA is funding the transformer project from the Cambridge Fund. SRMPA has chosen to invest current excess funds into this proactive reliability project prior to experiencing issues with the substation transformers as they approach the end of their useful life over the coming years. As of September 30, 2016, SRMPA has expended approximately $1,900,000 on these projects.

The substation transformers are being constructed and shipped to the member cities for installation on a staggered basis over two years. The scheduled delivery of the new substation transformers is shown in the following table:

Table 3-2: Substation Transformer Delivery Schedule

Substation	Installation Date or Expected Installation Date	Energized Date
Liberty Sub – T1	11/4/2016	12/27/2016
Livingston Sub – T1	1/6/2017	1/21/2017
Jason Sub– T1, Jasper, TX	5/5/2017	
Liberty Sub – T2	9/1/2017	
Livingston Sub – T2	2/16/2018	
Jason Sub– T2, Jasper, TX	6/28/2018	

Each Members' electric supply system and substation equipment configuration are currently designed at a capacity level to accommodate the existing load and the expected load growth, even with a single transformer contingency, through Fiscal Year 2021. Each Member could accommodate more than twice its estimated load throughout the term of the RPSA under this contingency. At full substation capacity, a Member could accommodate the entire remaining load allowed under the RPSA above the currently estimated total load projected for all Members through Fiscal Year 2021.

3.6.1 JASPER SUBSTATIONS

The City of Jasper, Texas, receives power and energy at the Jason Substation, which is interconnected to the Entergy transmission system at the 138 kV level. The Jason Substation contains: (i) two 25/33/44 MVA, 138 kV - 12.5 kV power transformers; and (ii) associated structures, buses, switches, metering, and relaying systems.

Several improvement projects completed during Fiscal Year 2016 included:

1. The replacement of six bushings on the Jason Substation transformers T1 and T2;
2. The replacement of relays at Jason Substation; and
3. The replacement of Current Transformers at Lindsey Substation.

The Jason Substation Transformer T-1 is scheduled to be replace in the second quarter of 2017 and T-2 in the third quarter of 2018.

In addition to improvements to the Jason Substation, an additional substation, named the Lindsey Substation, was constructed in 1995 to serve the city's load center in the southwest area of the city. The Lindsey Substation consists of: (i) one 15/20/25 MVA 138 kV-12.5 kV power transformer; and (ii) associated structures.

The Lindsey Substation is served by a 138 kV transmission line that extends nearly 3 miles from the Jason Substation.

3.6.2 LIBERTY SUBSTATIONS

The City of Liberty, Texas, takes delivery of power and energy at the Liberty Substation, which is interconnected to the Entergy transmission system at the 138 kV level. The Liberty Substation is also interconnected with the Beaumont Avenue Substation by a 69 kV transmission line.

The City of Liberty, Texas, was originally served by the National Substation and the Beaumont Avenue Substation. The SRMPA completed a rebuild of the existing Beaumont Avenue Substation in January 1998. The replacement substation is located on the same site as the old Beaumont Avenue Substation and connected with National Substation over the existing 69 kV transmission line.

The Beaumont Avenue Substation currently contains: (i) two 15/20/25 MVA, 69 kV - 13.8 kV LTC power transformers; (ii) six 13.8 kV distribution feeder circuits; and (iii) associated structures, buses, switches, metering, and relaying equipment.

In June 2001, the SRMPA constructed an additional substation, named the Liberty Substation, in Liberty, Texas, to replace the National Substation. The Liberty Substation is located next to the original National Substation and consists of the following:

1. Two 12/16/20 MVA, 138 kV-13.8 kV power transformers (from National Substation);
2. Two 30/40/50 MVA, 138 kV-69 kV power transformers (one from National Substation);
3. Seven 13.8 kV power circuit breakers;
4. Two 69 kV power circuit breakers (two from National Substation); and
5. Substation structures, busses, switches, grounding systems, metering, relaying and control systems; and miscellaneous equipment.

As listed above, some of the equipment used in the Liberty Substation was removed from the National Substation and used at the Liberty Substation. All equipment relocated from the National Substation was tested and reconditioned, if necessary, prior to being energized in the new Liberty Substation. Upon completion of the Liberty Substation in Fiscal Year 2002, the Entergy transmission connections to National Substation were removed. The Liberty Substation is now connected to the Entergy transmission system through dual 138 kV line feeds into Entergy's Dayton and Raywood Substations.

The City of Liberty completed a new 138 kV – 13.8 kV substation (Boomerang Substation) that is fed from the same 138 kV bus on the delivery side at the Liberty Substation. The City of Liberty transferred Boomerang's load from Liberty Substation to the new substation in the fourth quarter of 2013.

During Fiscal Year 2012, one 30/40/50 MVA 138 kV – 69 kV power transformer purchased from Waukesha for the Liberty substation was reconditioned and de-rated to 28/37.33/46.66 MVA and was placed into service in the second quarter of 2014. Also, the RTU was upgraded in the first quarter of 2014 and the lockout relay was replaced in the fourth quarter of 2014.

Several improvement projects completed during Fiscal Year 2016 included:

1. Replacement of the damaged T-2 bushing and lightning arrestors along with wildlife protection.
2. Replacement of the station battery bank
3. Installation of the new 50 MVA T-1 transformer at Liberty Substation was placed on the pad on November 8, 2016 to complete assembly, connection and in-service which was achieved on December 16, 2016.

The Liberty Substation transformer T-2 is scheduled to be replaced in the third quarter of 2017.

3.6.3 LIVINGSTON SUBSTATION

The City of Livingston, Texas, receives power and energy at the Livingston Substation, which is interconnected to the Entergy transmission system at 138 kV. The Livingston Substation consists of: (i) two 15/20/25 MVA, 138 kV - 13.8 kV power transformers; and (ii) associated structures, buses, switches, metering, and relaying systems.

The Ogletree Substation, was constructed and completed during Fiscal Year 1995 to serve load growth on the opposite side of the City of Livingston. The Ogletree Substation consists of: (i) one 15/20/25 MVA, 138 kV - 13.8 kV power transformer with three feeder exits; and (ii) associated structures, buses, switches, metering, and relaying systems.

The Ogletree Substation is served at 138 kV by a transmission line extending approximately 4.6 miles from the Livingston Substation.

During Fiscal Year 1997, Entergy extended its 138 kV Line from the Livingston Substation to Entergy's Rich Substation located south of the city. This project converted the transmission service to Livingston Substation from a single radial to a redundant line configuration inside the city. As a result of these transmission improvements, SRMPA implemented certain improvements to the Livingston Substation. These improvements were required to accommodate the dual 138 kV line connections in the substation and were completed in 1999. The completion of the Entergy transmission line extension improved the reliability of transmission service to the City of Livingston, Texas.

During Fiscal Year 2012, SRMPA approved the construction of an express feeder to extend from Livingston Substation to the Ogletree substation to provide an alternative feed to the existing distribution feeders to improve reliability. This project was placed in service in the fourth quarter of 2014. Also, Ogletree feeder breaker repairs were completed in 2015. The relays in Livingston substation were replaced during Fiscal Year 2016. The Livingston Substation transformer T-1 was installed and energized on January 17, 2017 and the Livingston Substation transformer T-2 is scheduled to be replace in the first quarter of 2018.

3.7 SUBSTATION MAINTENANCE BUDGET

SRMPA has established an annual budget for the maintenance and repair of its substation facilities. The budget includes funds for the repair of equipment and systems experiencing minor operating problems. Funds are also included for routine preventive maintenance of power transformers, circuit breakers and other related equipment. The budget includes a contingency fund for unplanned maintenance and repairs, which must be handled on an emergency basis by each Member. The budget for scheduled maintenance and renewals for SRMPA substations during Fiscal Year 2016 was approximately $240,000. This figure includes the annual testing and maintenance program implemented by an electrical contractor and the subsequent repairs that were identified in the maintenance program. It also includes a number of unscheduled maintenance projects that occurred during the Fiscal Year and substation insurance. It does not include renewal and replacement projects that carried over from the previous Fiscal Year.

4 SUFFICIENCY OF RATES AND CHARGES

4.1 REQUIREMENTS OF THE BOND INDENTURE

According Section 7.14 of the 2012 Indenture:

> The Issuer (SRMPA) shall, at all times while any of the Bonds are outstanding, establish, fix, prescribe and collect rates and charges for the sale or use of electric power and energy or related services produced, transmitted, distributed, or furnished by the System which are reasonably expected to yield income sufficient to satisfy the greatest of each of the following requirements, irrespective of whether the power or energy to be furnished by the System is suspended, interrupted or reduced: (a) Net Revenues for each Fiscal Year must be equal to at least the product of the Adjusted Aggregate Debt Service for that Fiscal Year times 1.20; (b) Revenues must be at least equal to the amount of all deposits required by the terms of the Indenture to be made into the Funds and Accounts held and not otherwise provided for; and (c) Revenues and other amounts available for such purpose must be sufficient to pay the sum of: (i) all Operation and Maintenance Expenses and all taxes, assessments, or other governmental charges lawfully imposed on the System or the Revenues there from, or payments in lieu thereof, payable by the Issuer (SRMPA); (ii) the principal of, premium, if any, and interest on the Bonds; (iii) the amount, if any, to be paid during such Fiscal Year into the Reserve Account of the Bond Fund and the Operations Reserve Fund; (iv) the amount, if any, to be paid into the Subordinated Indebtedness Fund during such Fiscal Year; (v) the costs to the Issuer (SRMPA) of the prevention or correction of any unusual loss or damage and of major repairs, renewals and replacements and of capital additions, betterments, improvements and extensions less that part, if any, of such costs as is provided for by insurance, by amounts available therefore in the General Fund or by reason of the sale of Bonds issued in accordance with this Indenture; and (vi) all other charges or obligations against the Revenues of whatever nature and whether now or hereafter imposed by this Indenture or by law or contract which the Issuer (SRMPA) expects to pay from Revenues.
>
> Promptly upon any material change in the circumstances which were contemplated at the time the rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the Issuer (SRMPA) shall review the rates and charges for electric power and energy and related services and shall promptly revise the rates and charges as necessary to comply with the foregoing requirement so that the rates and charges produce money sufficient to enable the Issuer (SRMPA) to comply with all its covenants under this Indenture. The Issuer (SRMPA) further covenants that its rates, charges and income shall in any event produce Revenues sufficient to enable the Issuer (SRMPA) to comply with all of its covenants under this Indenture and to pay all obligations of the System, and will segregate and apply such Revenues or cause the same to be segregated and applied as provided in this Indenture.

4.2 REVENUES AND EXPENSES

SRMPA issued the Series 2012 Bonds in order to provide funds to refund or defease all of SRMPA's then outstanding Series 2002 Bonds, and to pay the issuance costs of the Series 2012 Bonds. Issuance of the Series 2012 Bonds allowed SRMPA to:

1. Revise certain bond covenants, including reduction of SRMPA's required cash holdings, allowing those funds to be utilized for the repayment of principal coincident with issuance of the Series 2012 Bonds;
2. Make the repayment period of the Series 2012 Bonds coterminous with SRMPA's current RPSA in 2021;
3. Reduce debt service requirements; and

In Fiscal Year 2016, SRMPA collected $28,659,679 in operating revenues from the Members, exclusive of $4,201,292 from Boomerang, and $656,400 from sales to SRG&T, $166,723 from hydroelectric sales to MISO, and earned $130,543 in interest income, resulting in a total collection of $29,613,345 to meet operating expenses and debt service requirements, exclusive of $3,686,964 power supply costs for Boomerang. The debt service coverage ratio with the Rate Stabilization Fund for the period during Fiscal Year 2016 was 1.26, which satisfied the debt service coverage requirement under the Indenture.

The forecasted and actual revenues are monitored quarterly by SRMPA and the Consulting Engineer. Review and analysis on changes in load, revenues, expenses, and other external factors are reported to SRMPA. Rate changes will be recommended by the Consulting Engineer if net revenues do not or anticipated to not meet forecasted expectations. For Fiscal Year 2016, a new energy rate of $78.50 per MWh went into effect to provide revenues to meet SRMPA's required coverage target of 1.20 or more by the end of the Fiscal Year. SRMPA has met the budgeted revenue amounts and it is sufficiently above the expected cumulative revenue collections requirement level as of the end of the Fiscal Year 2016.

As shown in the following table, the revenues and expenditures are broken into major income and cost items and compare the relative percentage change of each item to SRMPA's totals for Fiscal Year 2016. In Fiscal Year 2016, SRMPA retained 38,505 MWh from the Sam Rayburn Dam Project, for which it paid an estimated $1,320,849. Hydroelectric generation at the Sam Rayburn Dam Project was higher than forecasted in the Fiscal Year 2016 Operating Budget, as based on historical average generation. In Fiscal Year 2016, SRMPA retained 2,310 MWh of generation from the R. D. Willis Project, for which it actually paid $1,219,503 inclusive of SRG&T's cost share. The SRG&T was assigned 845 MWh from the R. D. Willis Project. Hydroelectric generation at the R. D. Willis Project, as reported by the SWPA, was lower than forecasted in the Fiscal Year 2016 Operating Budget, as based on historical average generation due to combination of the failures of a high-side transformer bushing and the station service transformer.

Table 4-1: Fiscal Year 2016 Revenue and Expense Breakdown

Description [1]	Member Cities Budgeted	Member Cities Actual	Percentage Change (%)	Boomerang Actual
Operating Revenues:				
Sales to Members				
City of Jasper	$ 10,292,801	$ 10,046,458	(2.4)	
City of Liberty:				
RPSA	10,443,417	9,972,639	(4.5)	
Boomerang				$ 4,201,292
City of Livingston	8,711,481	8,640,582	(0.8)	
Sales to SRG&T – R. D. Willis	643,200	656,400	2.1	
MISO Revenues – R. D. Willis	354,972	166,723	(53.0)	
Total Operating Revenues	$ 30,445,871	$ 29,482,802	(3.2)	$ 4,201,292
Purchased Power & Operating Costs:				
EWOM – Hydro and Other	$ 11,458,031	$ 10,677,426	(6.8)	$ -
JNEC Transmission	38,000	22,195	(41.6)	
EWOM – Boomerang Load	-	-	-	3,686,964
Total Production Expenses	$ 11,496,031	$ 10,699,622	(6.9)	$ 3,686,964
Other Expenses:				
Substation Maintenance and Insurance	$ 240,000	$ 357,065	48.8	$ -
General and Administrative	280,642	259,307	(7.6)	
Outside Consultants	356,500	303,368	(14.9)	
Other Studies and Fees	78,552	-	(100.0)	
Subtotal Other Expenses	$ 955,694	$ 919,740	(3.8)	
Total Operating Deductions	$ 12,451,725	$ 11,619,362	(6.7)	$ 3,686,964
Net Operating Revenues	$ 17,994,146	$ 17,863,440	(0.7)	$ 514,328
Plus: Interest Income	36,000	130,543	262.6	
Minus: Substation Renewal Funds	60,000	-	(100.0)	
Net Available for Debt Service	17,970,146	17,993,983	0.1	
Plus: Rate Stabilization Fund	1,551,850	1,606,323	3.5	
Total Available for Debt Service	$ 19,521,996	$ 19,600,306	0.4	
Debt Service	$ 15,518,500	$ 15,518,508	-	
Actual Net Coverage	1.16	1.16		
Actual Coverage with Rate Stabilization Fund	1.26	1.26		
Balance of Revenues	$ 4,003,496	$ 4,081,798	2.0	

[1] The SRG&T continues to pay SRMPA for their entire share of generation from the R. D. Willis Project. Correspondingly, the DOE and SWPA and JNEC continue to invoice SRMPA for all expenses associated with the Sam Rayburn Dam and R. D. Willis Projects. The payments from SRG&T to SRMPA and charges paid to the SWPA by SRMPA are inclusive of VPPA's respective share over the entire fiscal period and included in the Fiscal Year 2016 financials. Separately, SRMPA invoices VPPA for their respective charges net of revenues received from SRG&T.

4.3 SRMPA RATES

Each Fiscal Year, SRMPA sets rates for sales to Members under the Power Sales Contracts. For Fiscal Year 2016, the rates were set at $10.76 per kW of monthly-billed demand and 78.5 mills per kWh for energy usage. Voltage discounts of $2.42 per kW of monthly billed demand and 1.39 mills per kWh for energy delivered at 138 kV are applied to power delivered at 138 kV, which includes the vast majority of energy delivered to the Members. For Fiscal Year 2016, the net wholesale power cost was approximately 93 mills per kWh. Rates are set based on reasonable assumptions but changes in weather and load conditions can affect the actual rate. Rates are adjusted if such a change adversely affects SRMPA revenues.

On the retail side, due to the spikes and fluctuations in fuel prices in Texas in recent years, the Members have been more competitive with respect to other local utilities since they no longer have the added costs of a fuel charge or fuel adjustment to consider as is the case with other utilities. The recent decrease in natural gas prices have provided some increased competitiveness to the other local utilities. For the past ten years, SRMPA's Members rates have remained relatively stable and competitive with most other utilities in the area.

The following table summarizes the retail cost of power charged by the Members to their customers, not including Boomerang, along with other municipal utilities, investor-owned utilities, and cooperatives in Texas for 2016 and shows that the Members' power costs are comparable to other entities in the region.

Table 4-2: Comparison of Average Monthly Electric Rates – 2016

Amounts Shown in ($) [1]

Utility	Residential Service		Commercial Service		Industrial Service
	500 kWh	1,000 kWh	7,500 kWh at 35 kW	15,000 kWh at 35 kW	145,000 kWh at 500 kW
Texas Municipalities:					
Jasper	$ 61.80	$ 123.60	$ 978.75	$ 1,957.50	$ 15,515.00
Liberty	54.34	106.52	923.38	1,531.16	N/A
Livingston	68.75	127.50	883.75	1,618.75	16,335.00
Austin Energy (City of Austin)	$ 46.30	$ 103.07	$ 989.62	$ 1,459.58	$ 15,962.84
CPS (San Antonio)	56.45	106.78	801.40	1,316.57	N/A
City of San Marcos	51.45	93.64	641.93	1,239.44	11,947.37
Investor Owned:					
El Paso Electric	$ 59.69	$ 114.23	$ 904.49	$ 1,310.93	$ 14,815.31
Entergy Texas	57.68	108.34	684.17	1,091.91	10,581.26
Southwest Public Service	53.81	98.74	675.59	887.53	9,471.26
Southwestern Electric Power	52.97	95.99	646.23	991.39	10,581.26
Cooperatives:					
Magic Valley EC	$ 57.02	$ 94.03	$ 579.39	$ 1,131.27	$ 11,818.21
Upshur- Rural EC	59.63	103.26	687.11	1,271.09	11,343.17
Victoria EC	65.92	109.96	680.94	1,340.11	13,294.51

[1] All data is from the Public Utility Commission of Texas, except for SRMPA Member data. Commercial and Industrial power costs are based on kVA, assuming an 85 percent power factor. The City of Liberty rate for Boomerang is under a separate contract.

4.4 ECONOMIC DEVELOPMENT RATES

On October 23, 2012, SRMPA adopted the Economic Development Rate ("EDRP") plan that offers incentive for SRMPA to enhance its competitive position and financial worthiness. The EDRP provides each of the Members with the potential to attract new customers and stimulate load additions which, thereby, results in the lowering of their overall average cost of service. The EDRP is designed to operate independently from the standard rate structure currently implemented. The EDRP applies to new commercial or industrial loads or current customers with an existing facility where the facility is expanded by at least 10 percent over the peak load (kW) of the prior twelve months at that facility, for only the additional load as served exclusively by a separate demand meter and any vacant existing facility has not been vacant for less than six months. SRMPA's associated charge to the Members recovers the cost of power, plus 40 mills per kWh for load additions. Customers meeting certain criteria will be designated this classification for participation on a non-discriminatory basis for a single two year term. A Member will charge the customer a marginal rate over the current year's RPSA energy wholesale cost rate, and in turn will be able to sell such energy to large commercial or industrial customers at rates lower than the current retail rate. This rate plan offers additional incentive for SRMPA's Members to enhance their competitive position by providing a rate with the potential to attract additional load, which, thereby, results in the lowering of SRMPA's average wholesale cost of power.

For Fiscal Year 2016, the Members held the following participating customers in the EDRP: (i) Dow Emergency Clinic – City of Livingston; (ii) TerraBioChem – City of Jasper and (iii) Traeger – City of Jasper.

SRMPA's load forecast, the maximum load service obligation under the RPSA, and the resulting capacity anticipated to be available for these incentive rates are shown in the following table.

Table 4-3: Capacity Available Under the RPSA

Fiscal Year	Maximum Load Service Obligation Under RPSA (MW)	Forecasted Agency Load (MW)	Load Service Available Above Forecasted Agency Load (MW)	Cost of Power Under RPSA (Mills/kWh)
2017	127.760	71.725	56.035	31.91
2018	131.593	72.090	59.503	32.33
2019	135.540	72.455	63.075	32.76
2020	139.607	72.820	66.787	33.19
2021	143.795	73.185	70.610	33.62

4.5 PROJECTED OPERATING RESULTS

Projections of SRMPA's operating results have been prepared on a Fiscal Year basis for the period 2017 through 2021, inclusive. The following table shows annual revenues and expenses of SRMPA. These revenues and expense estimates are based on the energy forecast discussed herein, along with historical estimates of other SRMPA expenses, and interest earnings based on current-day rates of return while other assumptions utilized for development of these projected wholesale power costs are noted. Debt service on Series 2012 Bonds, funds available for debt service, and coverage ratios are also shown. Under the terms of the 2012 Indenture, SRMPA may refund to its Members, debt service coverage in excess of SRMPA requirements

after the calculation of annual debt service coverage is completed by SRMPA's Independent CPA, and such calculation shows coverage of at least 1.20 times debt service. Wholesale power costs presented show both gross wholesale power costs and wholesale power costs net of that anticipated refund of prior year's coverage. The following Figures 4-1 and 4-2 show the sources and uses of revenues for SRMPA during Fiscal Year 2016.

Figure 4-1: Sources of Revenue

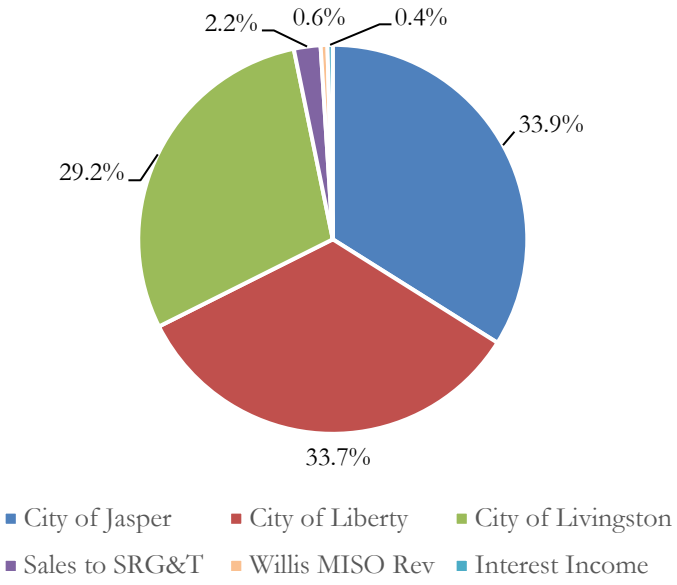
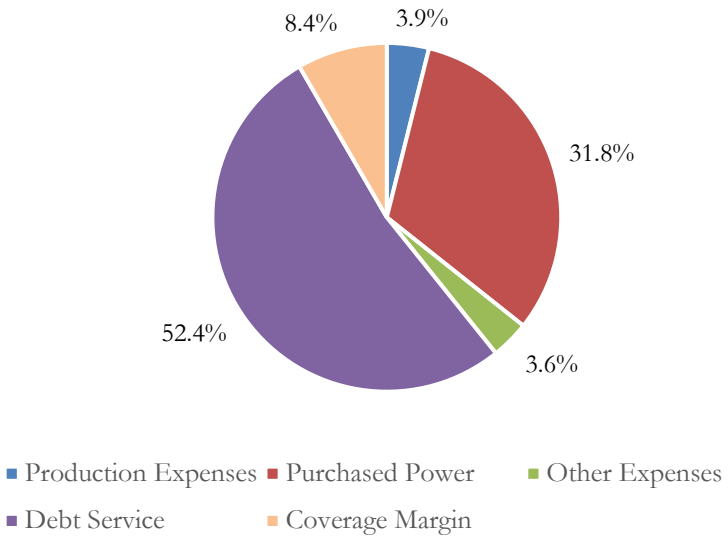


Figure 4-2: Uses of Revenue



The following table shows SRMPA's projected operating results for the period 2017 – 2021.

Table 4-4: Projected Operating Results

Amounts Shown in ($000)

Line	Description	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]
	Operating Revenues					
1	Total Sales to Members [2]	$34,129	$34,477	$34,768	$35,088	$35,435
2	Sales to Members (RPSA) [3]	29,158	29,406	29,653	29,901	30,159
3	City of Jasper	10,128	10,174	10,220	10,266	10,316
4	City of Liberty	10,436	10,548	10,660	10,773	10,889
5	Large Industrial (Boomerang) [4][5]	4,971	5,071	5,115	5,187	5,275
6	City of Livingston	8,594	8,683	8,772	8,862	8,955
7	R.D. Willis MISO Revenue [6]	238	252	257	266	278
8	Sales to SRG&T [7]	673	690	707	725	743
9	Total Operating Revenues [8]	$35,040	$35,419	$35,732	$36,078	$36,455
10	Total Oper. Revenues (excl. Boomerang) [5]	30,069	30,348	30,617	30,892	31,180
	Operating Expenses:					
11	RPSA Purchased Power Rate ($/MWh) [9]	31.91	32.33	32.76	33.19	33.62
	Energy Requirement (GWh):					
12	City of Jasper, TX [10]	107	107	107	107	107
13	City of Liberty, TX [10]	110	111	112	112	113
14	City of Livingston, TX [10]	91	91	92	92	93
15	Total *SRMPA*/RPSA Energy Req. [10]	307	309	310	312	313
	Less: (GWh)					
16	Energy from Sam Rayburn Dam Hydro[11]	10	10	10	10	10
17	Energy from R. D. Willis Hydro [11]	7	7	7	7	7
18	Net Entergy/RPSA Power Purchases (GWh)[10]	290	291	293	294	296
19	Energy Req., Boomerang (GWh) [10]	77	77	77	77	77
20	Total SRMPA Energy Req. (GWh) [10]	366	368	370	371	373
	Power Supply & Production Expenses:					
21	Cost of Power from Entergy RPSA [10]	$9,865	$10,063	$10,252	$10,452	$10,661
22	Cost of Power from Entergy Boomerang [5][10]	4,894	4,995	5,039	5,110	5,199
23	O&M at Sam Rayburn Dam Hydro [11]	1,354	1,388	1,422	1,458	1,494
24	MISO Revenue Netted on Sam Rayburn Dam	(355)	(375)	(383)	(396)	(414)
25	O&M at R. D. Willis Hydro [11]	1,327	1,360	1,394	1,429	1,464
26	JNEC Transmission [12]	23	23	24	24	25
27	Total Cost of Power	$17,098	$17,453	$17,748	$18,077	$18,430
28	Total Cost of Power (excl. Boomerang) [5]	$12,204	$12,458	$12,709	$12,967	$13,231
	Other Expenses:					
29	Substation Maintenance [12]	$50	$52	$53	$54	$56
30	G&A and Outside Consultants [12]	736	754	773	792	821
31	Total Operating Expenses [12]	$17,885	$18,259	$18,574	$18,924	$19,298
32	**Net Operating Revenue**	$17,155	$17,160	$17,158	$17,155	$17,158
33	Plus: Interest Income [13]	131	131	131	131	131
34	Minus: Substation Renewal Fund [14]	60	60	60	60	60
35	Net Income [15]	$17,226	$17,231	$17,229	$17,225	$17,228
36	Less: Net Income from Boomerang	77	77	77	77	77
37	Net Available for Debt Service [15]	$17,149	$17,154	$17,152	$17,148	$17,152
38	Rate Stabilization Fund Balance [15]	1,559	1,559	1,559	1,559	1,559
39	Total Available for Debt Service [15]	$18,708	$18,713	$18,712	$18,707	$18,711
40	Debt Service [15]	$15,590	$15,595	$15,593	$15,590	$15,593
41	Required Coverage Ratio [15]	1.20	1.20	1.20	1.20	1.20
42	Debt Service and Coverage [15]	$18,708	$18,713	$18,712	$18,707	$18,711
43	Actual Net Coverage (Overall) [15]	1.10	1.10	1.10	1.10	1.10
44	Actual Coverage (Overall) [15]	1.20	1.20	1.20	1.20	1.20
45	Billed Wholesale Power Cost ($/MWh) [16]	$94.93	$95.25	$95.57	$95.88	$96.22
46	Prev. Yr.'s Coverage Refunded to Cities[17]	$2,515	$ 1,559	$ 1,559	$ 1,559	$ 1,559
47	Cost of Power, Net of Refund	$26,643	$27,847	$28,093	$28,342	$28,601
48	Whsle Pwr Cost, Net of Refund ($/MWh)[18]	$86.74	$90.20	$90.54	$90.88	$91.25

[1] Fiscal Year Ending September 30th and assumes inflation used general expenses of 2.5%
[2] Reflects total SRMPA sales for all billed at wholesale.
[3] Reflects total SRMPA / RPSA sales at the billed wholesale power cost.
[4] Reflects the sales to the City of Liberty customer (Boomerang) at the billed wholesale power cost under a separate agreement.
[5] Boomerang revenues and expenses are illustrated separately.
[6] Reflects SRMPA's 68.06 percent of R. D. Willis Hydro generation sold to MISO at the ETEC load zone.
[7] Reflects the sale of 24.89 percent of R. D. Willis Hydro generation to SRG&T, net of VPPA's revenues from this sale.
[8] Reflects total SRMPA sales for all billed wholesale power including sales to MISO and SRG&T.
[9] Per SRMPA's RPSA contract with Entergy.
[10] Per the Fiscal Year 2016 Engineering Report.
[11] Supplied by SWPA, and reflect SRMPA's share of hydro generation from these projects.
[12] Per SRMPA's Fiscal Year 2017 Annual System Budget.
[13] Reflects interest income from debt service reserves and other holdings.
[14] Reflects estimated capital expenditures for substation renewal.
[15] Reflects debt service and coverage on SRMPA's Series 2012 Bonds.
[16] Reflects the average billing rate requirement.
[17] Reflects the refund amount from excess collections from the prior Fiscal Year.
[18] Reflects the average billing rate requirement, net of the refund from the prior year's collections.

The wholesale cost of power, net of excess coverage refunded to the Members, is projected, based on a 1.20 debt service coverage ratio, to be approximately 86.7 mills per kWh for Fiscal Year 2017 and is expected to continue in the 86-92 mills per kWh range through Fiscal Year 2021. The wholesale cost of power under the RPSA is the delivered cost of power to the city substations, includes transmission and transmission losses, and is not subject to any fuel adjustments or capital costs associated with the supplier.

The projected operating results illustrate the projected sales to Boomerang at the billed wholesale power cost under a separate wholesale power supply requirements agreement. The load for Boomerang is projected to remain stable at an average of 25 MW annually and have a capacity factor of 35 percent representing 76.7 GWh annually. Boomerang's pipe production has declined by approximately one-third from the prior fiscal year due to the dramatic decrease in oil prices and reductions in Exploration and Production activities in the United States. An administrative charge of $0.001 per kWh is included in SRMPA charges to the City of Liberty and reflected in SRMPA's revenues.

The Consulting Engineer develops actual energy and demand rates and the corresponding wholesale power cost on an annual basis as part of SRMPA's budgeting process. The Consulting Engineer will also monitor energy and demand, gross revenues, and net revenues, and will report the results of this monitoring to SRMPA on a quarterly basis. If warranted by reduced energy purchases, reduced hydropower generation, or other draws on net income that may cause SRMPA to fall below coverage requirements, the Consulting Engineer will develop within the year Operating Budget revisions, including new forecasts for usage, revenues, and expenses, and will develop revised energy and demand charges for immediate SRMPA adoption.

5 POWER SUPPLY

5.1 CURRENT RESOURCES

SRMPA's demand, and energy requirements, not served by the R. D. Willis Project and Sam Rayburn Dam Project, are served through the RPSA. The following table shows SRMPA's balance of capacity and energy requirements compared to actual operations and generation resources in Fiscal Year 2016.

Table 5-1: Fiscal Year 2016 Resources and Requirements

Description [1]	Capacity (MW)	Energy (MWh)
Generation Requirements:		
System Demand and Energy:		
Excluding Boomerang	70.39	298,716
Boomerang	27.16	42,518
Total	97.55	341,234
Generation Resources:		
RPSA	62.08	258,045
Entergy Contract (Liberty/Boomerang)	27.16	42,518
Sam Rayburn Hydro Project	15.33	38,505
R. D. Willis Hydro Project	4.08	2,310
Total Resources	108.65	341,378
Net Purchase (Net Transfer)	(11.10)	(144)
Surplus	-	-

[1] The generation resources provide sufficient energy and capacity for SRMPA to meet its needs; therefore, no transferable surplus capacity or energy exists. In addition, SRMPA's transfer of energy to SRG&T from R. D. Willis is 845 (3,394 x (1-0.7511)) based on the DOE and SWPA figures.

5.2 DEMAND AND ENERGY REQUIREMENTS

SRMPA's Fiscal Year 2016 annual peak demand was 97.55 MW with energy sales of 341,234 MWh, inclusive of the Boomerang load. SRMPA's actual peak demand and energy requirement in Fiscal Year 2016 was slightly lower due to the decreased load at Boomerang and the total Members demand and energy requirements were slightly lower due to very mild winter weather.

The following table presents the projected and actual demand and energy requirements for each of the Members and SRMPA for Fiscal Year 2016.

Table 5-2: Fiscal Year 2016 Projected and Actual Load

Description [1]	Projected Budget	Actual	Percentage Change Actual to Projected (%)
Energy Requirements (kWh):			
Jasper	105,899	104,190	(1.61)
Liberty:			
Main	107,150	103,187	(3.70)
South	83	39	(53.42)
Liberty Total	107,233	103,226	(3.74)
Livingston	91,452	91,300	(0.17)
Total	304,584	298,716	(1.93)
Capacity Requirements (kW):			
Jasper	25,053	23,885	(4.66)
Liberty:			
Main	25,284	25,944	2.61
South	200	62	(69.00)
Liberty Total	25,484	26,006	2.05
Livingston	20,725	20,558	(0.81)
Total	71,262	70,449	(1.14)
Generation Resources:			
Sam Rayburn Hydro Project	10,416	38,505	269.67
Robert Douglas Willis Hydro Project	14,508	2,310	(84.08)
Entergy Purchases	277,185	257,901	(6.96)
Total	302,109	298,716	(1.12)

[1] The capacity and energy requirements above do not include the City of Liberty Boomerang load.

The historical and forecasted demand and energy requirements for the Members and SRMPA are presented in the following table. The table projects SRMPA's RPSA-related energy consumption increasing at an average annual rate of about 0.3 percent. The projected energy growth rates remain low based upon historical growth characteristics experienced in prior fiscal years. The projected annual actual growth rates in energy sales for the individual Members ranges from a low of approximately 0.1 percent for the City of Jasper, Texas, to 0.7 percent for the City of Livingston, Texas. While actual purchases will fall above or below the trend line in some years, overall long-term energy purchases should trend with these projections. In addition to the projected loads discussed above, Boomerang is projected to be an average of 25 MW annually and have a capacity factor of 35 percent or 76.7 GWh annually. The following table shows the actual peak demand (coincident with the City of Liberty peak) and energy usage for Boomerang in Fiscal Year 2016.

Table 5-3: Boomerang Load – Fiscal Year 2016

Coincident Peak Demand (MW)	Peak Demand (MW)	Energy Usage (kWh)
16.83	27.16	42,518

The long-term projected growth is based on a historical analysis of energy usage, accounting for annual heating and cooling degree-days and average annual load factors. This analysis also accounts for certain annual gains and losses, weighting the effect of individual years where energy for any period was significantly changed. The primary reason for this weighting is to account for sudden, extraordinary load gains or losses that are unlikely to reoccur. These were one-time events; and therefore, the effects of these single events were reduced to develop a general trend line.

Since the majority of SRMPA's load is residential, weather or temperature has a strong impact on demand and energy. Heating and cooling degree days are important factors in the calculation of SRMPA's expected load, in that residential demand and energy use is a function of the heating or cooling required. Load Factor is also important in that the relationship between peak demand and energy usage is also a function of weather; a steadily warm or cold period will yield a higher load factor versus a period where temperatures fluctuates, with sudden temperature extremes captured by peak demand while average degree days and energy usage remain steady. Fiscal Year 2015 exhibited slightly higher than normal cooling degree-days and lower than normal heating degree-days. Normal averages are determined by the National Weather Service based on long-term averages. Looking at recent data, weather comparisons indicate that cooling degree-days have increased while and the heating degree-days have dropped over the past year. Thus, the winter temperatures in effect have been mild (around 65 degrees) with respect to the recent historical amounts. The Energy Information Administration's most recent projections of residential load in the West South Central region assumes that energy usage throughout the United States will grow at an average of about 0.8 percent per annum over the period 2016 through 2040. By comparison, SRMPA's load growth has typically been about half of the projected load growth for the United States. The current expected growth rate for SRMPA is roughly 0.3 percent per year.

Table 5-4: Historical and Forecasted Loads (Fiscal Years 1998 – 2028)

Fiscal Year [1]	Jasper		Liberty		Livingston		SRMPA	
	kW	MWh	kW	MWh	kW	MWh	kW	MWh
1998	28,494	126,805	22,976	99,359	20,280	89,752	71,750	315,916
1999	28,278	120,924	24,255	100,556	19,404	89,383	71,937	310,863
2000	27,900	118,888	24,809	101,629	20,496	82,391	73,205	302,908
2001	26,910	112,316	25,302	95,908	19,224	83,711	71,436	291,935
2002	25,110	107,195	23,666	105,200	18,780	83,363	67,556	295,758
2003	25,434	106,847	24,824	104,978	19,764	84,561	70,022	296,386
2004	24,678	105,283	25,017	105,531	19,440	86,171	69,135	296,985
2005	24,966	106,672	24,958	106,655	20,376	88,826	70,300	302,153
2006	26,082	108,483	25,330	111,167	21,108	89,696	72,520	309,346
2007	25,794	107,463	25,430	110,059	19,992	89,205	71,216	306,727
2008	23,976	106,036	25,247	107,443	20,316	89,614	69,539	303,093
2009	25,056	106,816	25,336	108,648	20,724	91,085	71,116	306,549
2010	25,164	111,560	25,897	112,209	21,372	94,367	72,433	318,136
2011	26,190	112,492	26,888	112,259	21,504	95,645	74,582	320,396
2012	23,799	106,335	25,247	107,443	20,316	89,614	69,362	303,392
2013	23,891	105,990	25,197	104,393	20,698	90,792	69,786	301,175
2014	25,417	106,933	25,460	107,111	19,668	92,188	70,545	306,231
2015	25,446	107,211	26,699	104,802	20,636	93,865	72,781	305,878
2016	23,885	104,190	25,951	103,226	20,558	91,300	70,394	298,716
Weather Normalization								
2016	24,485	106,432	25,611	108,318	21,151	92,432	71,247	307,182
FY 2017 Budget	25,053	105,965	25,699	105,950	20,725	91,264	71,477	303,179
2017	24,544	106,689	25,993	109,934	20,860	90,528	71,397	307,151
2018	24,574	106,818	26,184	110,742	21,005	91,161	71,762	308,720
2019	24,603	106,946	26,375	111,549	21,149	91,794	72,128	310,289
2020	24,633	107,074	26,566	112,357	21,294	92,427	72,493	311,859
2021	24,662	107,203	26,757	113,165	21,439	93,060	72,858	313,428
2022	24,692	107,331	26,948	113,973	21,584	93,693	73,224	314,997
2023	24,721	107,459	27,139	114,781	21,729	94,326	73,589	316,566
2024	24,751	107,588	27,330	115,589	21,874	94,959	73,955	318,136
2025	24,780	107,716	27,521	116,396	22,019	95,592	74,320	319,705
2026	24,810	107,845	27,712	117,204	22,163	96,225	74,685	321,274
2027	24,839	107,973	27,903	118,012	22,308	96,858	75,051	322,843
2028	24,869	108,101	28,094	118,820	22,453	97,491	75,416	324,413
Average Annual Compound Growth (2017 – 2028)								
Percentage/Year Normalized	0.1%	0.1%	0.7%	0.7%	0.7%	0.7%	0.3%	0.3%

[1] The capacity and energy projections above do not include Boomerang's load. The projections remain conservative for wholesale rate calculating. The statistical trending and weather normalization characteristics used in the projections above cause a difference in the reported projections between this Report and the Budget for Fiscal Year 2017.

5.3 PROJECTED CAPACITY REQUIREMENTS AND RESOURCES

SRMPA has pre-purchased capacity and purchases energy through the RPSA. As discussed previously, SRMPA has entered into a separate power purchase agreement with EWOM to serve Boomerang's load. A projection of SRMPA's capacity requirements and resources through Fiscal Year 2021 are shown in the following table. This load projection illustrates the annual demand purchases associated with the power supply resources. Resources available exactly meet the projected capacity requirements leaving no excess capacity through 2021.

Table 5-5: Projected Capacity Requirements and Resources

Fiscal Year	2017	2018	2019	2020	2021
Capacity Requirements (MW):					
Projected Peak Demand:					
RPSA	71.40	71.76	72.13	72.49	72.86
Liberty/Boomerang	25.00	25.00	25.00	25.00	25.00
Capacity Transfers (MW):					
Sam Rayburn Dam Project Capacity to Entergy	15.33	15.33	15.33	15.33	15.33
R. D. Willis Projected Capacity to SRG&T	1.01	1.01	1.01	1.01	1.01
Total Capacity Transferred	16.34	16.34	16.34	16.34	16.34
Total Requirements and Transfers	112.74	113.10	113.47	113.83	114.20
Resources (MW):					
Entergy – RPSA	68.33	68.69	69.06	69.42	69.79
Entergy – Liberty/Boomerang	25.00	25.00	25.00	25.00	25.00
Sam Rayburn Dam Project	15.33	15.33	15.33	15.33	15.33
R.D Willis Hydro Project	4.08	4.08	4.08	4.08	4.08
Total Resources	112.74	113.10	113.47	113.83	114.20
Excess Capacity	-	-	-	-	-

APPENDIX A: INDEPENDENT AUDITOR'S REPORT FOR 2016

SAM RAYBURN MUNICIPAL POWER AGENCY
Financial Statements and Schedules
September, 2016 and 2015
(With Report of Independent Auditor Thereon)

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sam Rayburn Municipal Power Agency

We have audited the accompanying financial statements of each major proprietary fund of Sam Rayburn Municipal Power Agency (the "Agency") which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the fiscal 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Sam Rayburn Municipal Power Agency as of September 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Generally accepted accounting principles in the United States of America require the Management's Discussion and Analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information in the accompanying Schedules of Debt Service Coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
March 13, 2017

Financial Statements Overview

This discussion and analysis of Sam Rayburn Municipal Power Agency's (the Agency) financial performance provides an overview of the Agency's activities for the fiscal years ended September 30, 2016 and 2015. The information presented should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

The Agency follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Agency's basic financial statements include the statements of net position for each major fund and the related statements of revenues, expenses and changes in net position, the statements of cash flows, and notes to the financial statements.

The Statements of Net Position provide information about the nature and amount of assets and obligations (liabilities) of the Agency as of the end of each year being reported. The Statements of Revenues, Expenses, and Changes in Net Position report revenues and expenses for each year being reported. The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

Financial Highlights

As further explained in footnote 7 to the financial statements, the Agency entered into a series of power purchase and sale agreements referred to as the Cambridge Project in fiscal year 2012. The operations of this project are reported in a separate proprietary fund that is separately disclosed in the financial statements. The operations of the Cambridge Project are included in the condensed financial statements presented in this discussion and analysis.

Comparison of 2016 to 2015

The following table summarizes the net position of the Agency as of September 30:

Condensed Statements of Net Position

	2016	2015	DOLLAR CHANGE	PERCENTAGE CHANGE
Capital assets, net	$ 11 627 760	$ 10 843 376	$ 784 384	7.2%
Current assets	46 378 636	57 202 191	(10 823 555)	(18.9)%
Other noncurrent assets	46 571 623	50 561 181	(3 989 558)	(7.9)%
TOTAL ASSETS	104 578 019	118 606 748	(14 028 729)	(11.8)%
Deferred outflows	47 691 997	47 464 669	227 328	0.5%
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 152 270 016	$ 166 071 417	$ (13 801 401)	(8.3)%
Current liabilities	$ 31 795 780	$ 45 094 964	$ (13 299 184)	(29.5)%
Long-term liabilities	67 505 000	79 070 000	(11 565 000)	(14.6)%
TOTAL LIABILITIES	99 300 780	124 164 964	(24 864 184)	(20.0)%
Deferred inflows	5 458 109	7 471 013	(2 012 904)	(26.9)%
TOTAL LIABILITIES AND DEFERRED INFLOWS	104 758 889	131 635 977	(26 877 088)	(20.4)%
Net Position:				
Invested in capital assets, net of related debt	(12 295 792)	(23 729 816)	11 434 024	48.2%
Restricted	29 776 740	31 373 999	(1 597 259)	(5.1)%
Unrestricted	30 030 179	26 791 257	3 238 922	12.1%
TOTAL NET POSITION	47 511 127	34 435 440	13 075 687	38.0%
TOTAL LIABILITIES AND NET POSITION	$ 152 270 016	$ 166 071 417	$ (13 801 401)	(8.3)%

Condensed statement of net position highlights are as follows:

- The assets of the Agency exceeded its liabilities at the close of 2016 by approximately $47.5 million as compared to $34.4 million at the end of 2015. This was the result of a combined net change in position of approximately $13.1 million of which the Cambridge Project contributed approximately $3.8 million.

- Current assets decreased by approximately $10.8 million from 2015 to 2016. Current assets include cash and cash equivalents, prepaid expenses, power sales receivables, and marketable securities. The Cambridge Project had a combined decrease in cash, receivables, and marketable securities of approximately $11.3 million, which was the primary reason for the decrease.

- Other noncurrent assets decreased by approximately $4 million from 2015 to 2016. This was due to several factors: 1) amortization of the Requirements Power Supply Agreement of approximating $2.6 million and 2) decrease in restricted cash of approximately $1.4 million. Other noncurrent assets primarily include restricted cash and cash equivalents being used for operating, maintenance, working capital, debt, and construction needs of the Agency. Additionally, other noncurrent assets include the Requirements Power Supply Agreement.

- Capital assets, net increased by approximately $784 thousand during 2016 due primarily to ongoing capital improvement projects.

- Deferred outflows increased by approximately $227 thousand from 2015 to 2016. Deferred outflows includes deferred charges and the cost of debt issued in excess of debt refunded, net of related amortization. The increase was the net of $2.3 million in additions over amortization.

- Current liabilities decreased by approximately $13.3 million from 2015 to 2016, which was due to a combination of factors: 1) decrease in accounts payable of approximately $1.6 million, 2) increase of $555 thousand in current bonds payable, 3) decrease of $275 thousand in accrued interest on bonds and 4) decrease in amount due to members of approximately $12 million. Current liabilities include payables for purchased power, other vendor payables, accrued interest payable, and short-term bonds payable.

- Long-term liabilities decreased by approximately $11.6 million from 2015 to 2016, which was due entirely to debt payments made during the year. Long-term liabilities represent bonds issued by the Agency.

- Deferred inflows decreased by approximately $2.0 million from 2015 to 2016, which was due entirely to amortization on the $15.0 million bond premium incurred as result of the 2012 refunding. Deferred inflows represent the premium on bonds issued by the Agency, net of related amortization.

Comparison of 2015 to 2014

The following table summarizes the net position of the Agency as of September 30:

Condensed Statements of Net Position

	2015	2014	DOLLAR CHANGE	PERCENTAGE CHANGE
Capital assets, net	$ 10 843 376	$ 11 776 671	$ (933 295)	(7.9)%
Current assets	57 202 191	47 461 041	9 741 150	20.5%
Other noncurrent assets	50 561 181	50 556 912	4 269	0.1%
TOTAL ASSETS	118 606 748	109 794 624	8 812 124	8.0%
Deferred outflows	47 464 669	47 009 048	455 621	1.0%
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 166 071 417	$ 156 803 672	$ 9 267 745	5.9%
Current liabilities	$ 45 094 964	$ 35 260 657	$ 9 834 307	27.9%
Long-term liabilities	79 070 000	90 080 000	(11 010 000)	(12.2)%
TOTAL LIABILITIES	124 164 964	125 340 657	(1 175 693)	(0.9)%
Deferred inflows	7 471 013	9 736 721	(2 265 708)	(23.3)%
TOTAL LIABILITIES AND DEFERRED INFLOWS	131 635 977	135 077 378	(3 441 401)	(2.6)%
Net Position:				
Invested in capital assets, net of related debt	(23 729 816)	(32 912 258)	9 182 442	(27.9)%
Restricted	31 373 999	28 910 484	2 463 515	8.5%
Unrestricted	26 791 257	25 728 068	1 063 189	4.1%
TOTAL NET POSITION	34 435 440	21 726 294	12 709 146	58.5%
TOTAL LIABILITIES AND NET POSITION	$ 166 071 417	$ 156 803 672	$ 9 267 745	5.9%

Condensed statement of net position highlights are as follows:

- The assets of the Agency exceeded its liabilities at the close of 2015 by approximately $34 million as compared to $22 million at the end of 2014. This was the result of a combined net change in position of approximately $12.7 million of which the Cambridge Project contributed approximately $5.0 million.

- Current assets increased by approximately $9.7 million from 2014 to 2015. Current assets include cash and cash equivalents, prepaid expenses, and power sales receivables. The Cambridge Project had an increase in cash and receivables of approximately $11.0 million and this was the primary reason for the increase.

- Other noncurrent assets increased by approximately $4 thousand from 2014 to 2015. This was due to several factors: 1) amortization of the Requirements Power Supply Agreement of approximating $2.6 million and 2) increase in restricted cash of approximately $2.6 million. Other noncurrent assets primarily include restricted cash and cash equivalents being used for operating, maintenance, working capital, debt, and construction needs of the Agency. Additionally, other noncurrent assets include the Requirements Power Supply Agreement.

- Capital assets, net decreased by approximately $933 thousand during 2015 due primarily to depreciation.

- Deferred outflows increased by approximately $456 thousand from 2014 to 2015. Deferred outflows includes deferred charges and the cost of debt issued in excess of debt refunded, net of related amortization. The increase was the net of $3.1 million in additions over amortization.

- Current liabilities increased by approximately $9.8 million from 2014 to 2015, which was due to a combination of factors: 1) decrease in accounts payable of approximately $2.5 million, 2) increase of $1.0 million in current bonds payable, 3) decrease of $250 thousand in accrued interest on bonds and 4) increase in amount due to members of approximately $11.3 million. Current liabilities include payables for purchased power, other vendor payables, accrued interest payable, and short-term bonds payable.

- Long-term liabilities decreased by approximately $11.0 million from 2014 to 2015 and this was due entirely to debt payments made during the year. Long-term liabilities represent the bonds issued by the Agency.

- Deferred inflows decreased by approximately $2.3 million from 2014 to 2015 and this was due entirely to amortization on the $15.0 million bond premium incurred as result of the 2012 refunding. Deferred inflows represent the premium on bonds issued by the Agency, net of related amortization.

The following table summarizes the changes in net position of the Agency for the years ended September 30, 2016 and 2015:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015	DOLLAR CHANGE	PERCENTAGE CHANGE
Operating revenues, power sales	$ 242 151 384	$ 257 547 825	$ (15 396 441)	(6.0)%
Other nonoperating revenues	235 001	53 853	181 148	336.4%
TOTAL REVENUES	242 386 385	257 601 678	(15 215 293)	(5.9)%
Operating expenses	213 723 344	213 464 050	259 294	0.1%
Other nonoperating expenses	15 587 354	31 428 482	(15 841 128)	(50.4)%
TOTAL EXPENSES	229 310 698	244 892 532	(15 581 834)	(6.4)%
CHANGE IN NET POSITION	13 075 687	12 709 146	366 541	2.9%
Beginning net position	34 435 440	21 726 294	12 709 146	58.5%
ENDING NET POSITION	$ 47 511 127	$ 34 435 440	$ 13 075 687	38.0%

Condensed statements of revenues, expenses, and changes in net position highlights are as follows:

- Operating revenues decreased by $15.4 million from 2015 to 2016 primarily as a result of a $13.4 million decrease in power sales from the Cambridge Project. The RPSA funds power sales decreased by $2.0 million. Accordingly, the operating expense increase of approximately $259 thousand from 2015 to 2016 resulted primarily from the decrease in purchased power costs of $876 thousand and the increase in outside services of $1.0 million.

- Other nonoperating revenues increased due to the Agency holding additional types of investments, resulting in additional interest and investment income.

- Other nonoperating expenses decreased $15.8 million, primarily as a result of a decrease in refunds paid to member cities of approximately $14.8 million.

The following table summarizes the changes in net position of the Agency for the years ended September 30, 2015 and 2014:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2015	2014	DOLLAR CHANGE	PERCENTAGE CHANGE
Operating revenues, power sales	$ 257 547 825	$ 284 302 794	$ (26 754 969)	(9.4)%
Other nonoperating revenues	53 853	34 949	18 904	54.1%
TOTAL REVENUES	257 601 678	284 337 743	(26 736 065)	(9.4)%
Operating expenses	213 464 050	257 128 528	(43 664 478)	(17.0)%
Other nonoperating expenses	31 428 482	14 984 803	16 443 679	109.7%
TOTAL EXPENSES	244 892 532	272 113 331	(27 220 799)	(10.0)%
CHANGE IN NET POSITION	12 709 146	12 224 412	484 734	4.0%
Beginning net position	21 726 294	9 501 882	12 224 412	128.7%
ENDING NET POSITION	$ 34 435 440	$ 21 726 294	$ 12 709 146	58.5%

Condensed statements of revenues, expenses, and changes in net position highlights are as follows:

- Operating revenues decreased by $26.8 million from 2014 to 2015 primarily as a result of a $25.5 million decrease in power sales from the Cambridge Project. The RPSA funds power sales decreased by $1.25 million. Accordingly, the operating expense decrease of approximately $43.6 million from 2014 to 2015 resulted primarily from the decrease in purchased power costs of $42.9 million.

- Other nonoperating revenues increased due to the increased cash balances, resulting in additional interest income.

- Other nonoperating expenses increased $16.4 million, primarily as a result of an increase in refunds paid to member cities of approximately $17.9 million.

Capital Asset and Debt Administration

As of September 30, 2016, the Agency had net capital assets of approximately $11.6 million, which consisted primarily of hydro-electric plant, substations, and lines. Refer to Note 2 for detail of activity.

As of September 30, 2016, the Agency had total debt outstanding of approximately $79 million. Refer to Note 5 for detail of activity.

Requests for Information

This financial report is provided as an overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the office of the Executive Director, Sam Rayburn Municipal Power Agency, 1517 Trinity Street, Liberty, Texas 77575.

FINANCIAL STATEMENTS

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION
September 30, 2016

	RPSA FUND 2016	CAMBRIDGE FUND 2016	TOTAL 2016
Noncurrent Assets:			
Requirements power supply agreement, net - Value of contract with Entergy	$ 12 912 560	$ -	$ 12 912 560
Capital Assets:			
Electric plant	21 956 269	-	21 956 269
Substations and lines	21 318 057	-	21 318 057
Furniture and fixtures	2 195	-	2 195
Less accumulated depreciation	(31 648 761)	-	(31 648 761)
TOTAL CAPITAL ASSETS, NET	11 627 760	-	11 627 760
Restricted Assets:			
Cash and cash equivalents	33 522 037	-	33 522 037
Cash and cash equivalents - Reserved	-	137 026	137 026
TOTAL RESTRICTED ASSETS	33 522 037	137 026	33 659 063
TOTAL NONCURRENT ASSETS	58 062 357	137 026	58 199 383
Current Unrestricted Assets:			
Cash and cash equivalents	697 225	3 417 012	4 114 237
Cash and cash equivalents - Reserved	-	6 795 750	6 795 750
Marketable securities, at fair value	-	12 780 602	12 780 602
Accounts receivable	4 144 124	17 780 931	21 925 055
Due from Vinton Public Power Authority	-	539 976	539 976
Due from other fund	193 454	-	193 454
Prepaid expenses	29 562	-	29 562
TOTAL CURRENT UNRESTRICTED ASSETS	5 064 365	41 314 271	46 378 636
TOTAL ASSETS	63 126 722	41 451 297	104 578 019
Deferred Outflows:			
Cost of debt issued in excess of debt refunded	35 392 720	-	35 392 720
Costs to be recovered from future revenues	7 088 706	5 210 571	12 299 277
TOTAL DEFERRED OUTFLOWS	42 481 426	5 210 571	47 691 997
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 105 608 148	$ 46 661 868	$ 152 270 016
Liabilities:			
Long-term debt, net of current portion	$ 67 505 000	$ -	$ 67 505 000
Current Liabilities:			
Accounts payable from unrestricted assets	456 088	15 698 915	16 155 003
Due to other fund	-	193 454	193 454
Due to Members	-	-	-
Current Liabilities from Restricted Assets:			
Accounts payable	1 768 542	-	1 768 542
Accrued interest payable	1 976 755	-	1 976 755
Due to Vinton Public Power Authority	-	137 026	137 026
Current portion of long-term debt	11 565 000	-	11 565 000
TOTAL CURRENT LIABILITIES FROM RESTRICTED ASSETS	15 310 297	137 026	15 447 323
TOTAL CURRENT LIABILITIES	15 766 385	16 029 395	31 795 780
Deferred Inflows:			
Bond premium	5 458 109	-	5 458 109
TOTAL CURRENT LIABILITIES AND DEFERRED INFLOWS	21 224 494	16 029 395	37 253 889
Net Position:			
Invested in capital assets and deferred outflows net of related debt and deferred inflows	(17 506 363)	5 210 571	(12 295 792)
Restricted assets net of related liabilities	29 776 740	-	29 776 740
Unrestricted assets net of related liabilities	4 608 277	25 421 902	30 030 179
TOTAL NET POSITION	16 878 654	30 632 473	47 511 127
TOTAL LIABILITIES AND NET POSITION	$ 105 608 148	$ 46 661 868	$ 152 270 016

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF NET POSITION
September 30, 2015

	RPSA FUND 2015	CAMBRIDGE FUND 2015	TOTAL 2015
Noncurrent Assets:			
Requirements power supply agreement, net - Value of contract with Entergy	$ 15 513 152	$ -	$ 15 513 152
Capital Assets:			
Electric plant	21 956 269	-	21 956 269
Substations and lines	19 306 788	-	19 306 788
Furniture and fixtures	2 195	-	2 195
Less accumulated depreciation	(30 421 876)	-	(30 421 876)
TOTAL CAPITAL ASSETS, NET	10 843 376	-	10 843 376
Restricted Assets:			
Cash and cash equivalents	34 911 872	-	34 911 872
Cash and cash equivalents - Reserved	-	136 157	136 157
TOTAL RESTRICTED ASSETS	34 911 872	136 157	35 048 029
TOTAL NONCURRENT ASSETS	61 268 400	136 157	61 404 557
Current Unrestricted Assets:			
Cash and cash equivalents	696 082	27 025 812	27 721 894
Cash and cash equivalents - Reserved	-	5 436 600	5 436 600
Marketable securities, at fair value	-	-	-
Accounts receivable	3 847 127	20 138 417	23 985 544
Due from Vinton Public Power Authority	-	-	-
Due from other fund	33 466	-	33 466
Prepaid expenses	24 687	-	24 687
TOTAL CURRENT UNRESTRICTED ASSETS	4 601 362	52 600 829	57 202 191
TOTAL ASSETS	65 869 762	52 736 986	118 606 748
Deferred Outflows:			
Cost of debt issued in excess of debt refunded	36 561 646	-	36 561 646
Costs to be recovered from future revenues	6 465 997	4 437 026	10 903 023
TOTAL DEFERRED OUTFLOWS	43 027 643	4 437 026	47 464 669
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 108 897 405	$ 57 174 012	$ 166 071 417
Liabilities:			
Long-term debt, net of current portion	$ 79 070 000	$ -	$ 79 070 000
Current Liabilities:			
Accounts payable from unrestricted assets	248 581	18 128 887	18 377 468
Due to other fund	-	33 466	33 466
Due to Members	-	12 000 000	12 000 000
Current Liabilities from Restricted Assets:			
Accounts payable	1 285 873	-	1 285 873
Accrued interest payable	2 252 000	-	2 252 000
Due to Vinton Public Power Authority	-	136 157	136 157
Current portion of long-term debt	11 010 000	-	11 010 000
TOTAL CURRENT LIABILITIES FROM RESTRICTED ASSETS	14 547 873	136 157	14 684 030
TOTAL CURRENT LIABILITIES	14 796 454	30 298 510	45 094 964
Deferred Inflows:			
Bond premium	7 471 013	-	7 471 013
TOTAL CURRENT LIABILITIES AND DEFERRED INFLOWS	22 267 467	30 298 510	52 565 977
Net Position:			
Invested in capital assets and deferred outflows net of related debt and deferred inflows	(28 166 842)	4 437 026	(23 729 816)
Restricted assets net of related liabilities	31 373 999	-	31 373 999
Unrestricted assets net of related liabilities	4 352 781	22 438 476	26 791 257
TOTAL NET POSITION	7 559 938	26 875 502	34 435 440
TOTAL LIABILITIES AND NET POSITION	$ 108 897 405	$ 57 174 012	$ 166 071 417

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended September 30, 2016

	RPSA FUND 2016	CAMBRIDGE FUND 2016	TOTAL 2016
Operating revenues	$ 33 684 094	$ 208 467 290	$ 242 151 384
Operating Expenses:			
Purchased power	13 230 797	188 462 773	201 693 570
Operations and maintenance	1 512 854	-	1 512 854
General and administrative	259 307	200	259 507
Outside services	303 368	6 126 568	6 429 936
Depreciation and amortization	3 827 477	-	3 827 477
TOTAL OPERATING EXPENSES	19 133 803	194 589 541	213 723 344
OPERATING INCOME	14 550 291	13 877 749	28 428 040
Nonoperating Revenues (Expenses):			
Interest and investment income	130 543	104 458	235 001
Interest expense	(3 953 508)	-	(3 953 508)
Amortization of bond premium	2 012 904	-	2 012 904
Refunds and distributions to Members	(4 120 442)	(7 500 000)	(11 620 442)
Amortization of the cost of debt issued in excess of debt refunded	(1 168 926)	-	(1 168 926)
Costs to be recovered from future revenues	(857 382)	-	(857 382)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7 956 811)	(7 395 542)	(15 352 353)
TRANSFERS	2 725 236	(2 725 236)	-
CHANGE IN NET POSITION	9 318 716	3 756 971	13 075 687
Total net position, beginning of year	7 559 938	26 875 502	34 435 440
TOTAL NET POSITION, END OF YEAR	$ 16 878 654	$ 30 632 473	$ 47 511 127

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended September 30, 2015

	RPSA FUND 2015	CAMBRIDGE FUND 2015	TOTAL 2015
Operating revenues	$ 35 707 626	$ 221 840 199	$ 257 547 825
Operating Expenses:			
Purchased power	15 082 536	187 486 628	202 569 164
Operations and maintenance	1 328 699	-	1 328 699
General and administrative	376 878	-	376 878
Outside services	58 871	5 330 061	5 388 932
Depreciation and amortization	3 800 377	-	3 800 377
TOTAL OPERATING EXPENSES	20 647 361	192 816 689	213 464 050
OPERATING INCOME	15 060 265	29 023 510	44 083 775
Nonoperating Revenues (Expenses):			
Interest and investment income	53 853	-	53 853
Interest expense	(4 504 000)	-	(4 504 000)
Amortization of bond premium	2 265 708	-	2 265 708
Refunds and distributions to Members	(2 414 664)	(24 000 000)	(26 414 664)
Amortization of the cost of debt issued in excess of debt refunded	(1 991 941)	-	(1 991 941)
Costs to be recovered from future revenues	(783 585)	-	(783 585)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7 374 629)	(24 000 000)	(31 374 629)
TRANSFERS	-	-	-
CHANGE IN NET POSITION	7 685 636	5 023 510	12 709 146
Total net position, beginning of year	(125 698)	21 851 992	21 726 294
TOTAL NET POSITION, END OF YEAR	$ 7 559 938	$ 26 875 502	$ 34 435 440

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
For the Year Ended September 30, 2016

	RPSA FUND 2016	CAMBRIDGE FUND 2016	TOTAL 2016
Cash Flows from Operating Activities:			
Received from Members and participants	$ 33 387 097	$ 210 284 800	$ 243 671 897
Payments to employees	(242 970)	-	(242 970)
Payments to suppliers	(14 572 701)	(197 018 644)	(211 591 345)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18 571 426	13 266 156	31 837 582
Cash Flows from Noncapital Financing Activities:			
Increase (decrease) in due to other fund	(159 988)	159 988	-
Operating transfers in (out)	2 725 236	(2 725 236)	-
Refunds and distributions to Members	(4 120 442)	(19 500 000)	(23 620 442)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(1 555 194)	(22 065 248)	(23 620 442)
Cash Flows from Capital and Related Financing Activities:			
Principal paid on bonds	(11 010 000)	-	(11 010 000)
Payment of interest	(4 228 753)	-	(4 228 753)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15 238 753)	-	(15 238 753)
Cash Flows from Investing Activities:			
Purchases of substations and lines	(2 011 269)	-	(2 011 269)
Net proceeds (purchases) from marketable securities transactions	-	(12 772 724)	(12 772 724)
Payment for charges deferred to be recovered	(1 285 445)	(773 545)	(2 058 990)
Interest received	130 543	96 580	227 123
NET CASH USED BY INVESTING ACTIVITIES	(3 166 171)	(13 449 689)	(16 615 860)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1 388 692)	(22 248 781)	(23 637 473)
Cash and cash equivalents at beginning of year	35 607 954	32 598 569	68 206 523
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 34 219 262	$ 10 349 788	$ 44 569 050
Cash Components:			
Cash and cash equivalents	$ 697 225	$ 10 212 762	$ 10 909 987
Restricted cash and cash equivalents	33 522 037	137 026	33 659 063
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 34 219 262	$ 10 349 788	$ 44 569 050
Cash Flows from Operating Activities:			
Operating income	$ 14 550 291	$ 13 877 749	$ 28 428 040
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3 827 477	-	3 827 477
Changes in Assets and Liabilities:			
Accounts receivable	(296 997)	1 817 510	1 520 513
Prepaid expenses - Unrestricted assets	(4 875)	-	(4 875)
Accounts payable - Restricted assets	482 669	869	483 538
Accounts payable - Unrestricted assets	12 861	(2 429 972)	(2 417 111)
TOTAL ADJUSTMENTS	4 021 135	(611 593)	3 409 542
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18 571 426	$ 13 266 156	$ 31 837 582
Supplemental Disclosures of Cash Flow Information:			
Noncash Investing and Financing Activities:			
Amounts payable for charges deferred to be recovered	$ 194 646	$ -	$ 194 646
Unrealized investment income	$ -	$ 7 878	$ 7 878

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

SAM RAYBURN MUNICIPAL POWER AGENCY
STATEMENTS OF CASH FLOWS
For the Year Ended September 30, 2015

	RPSA FUND 2015	CAMBRIDGE FUND 2015	TOTAL 2015
Cash Flows from Operating Activities:			
Received from Members and participants	$ 36 690 992	$ 223 757 156	$ 260 448 148
Payments to employees	(239 708)	-	(239 708)
Payments to suppliers	(16 252 524)	(195 306 874)	(211 559 398)
NET CASH PROVIDED BY OPERATING ACTIVITIES	20 198 760	28 450 282	48 649 042
Cash Flows from Noncapital Financing Activities:			
Increase (decrease) in due to other fund	78 435	(78 435)	-
Refunds and distributions to Members	(2 414 664)	(12 698 562)	(15 113 226)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(2 336 229)	(12 776 997)	(15 113 226)
Cash Flows from Capital and Related Financing Activities:			
Principal paid on bonds	(9 995 000)	-	(9 995 000)
Payment of interest	(4 753 875)	-	(4 753 875)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(14 748 875)	-	(14 748 875)
Cash Flows from Investing Activities:			
Purchases of substations and lines	(266 490)	-	(266 490)
Payment for charges deferred to be recovered	(295 000)	(2 936 147)	(3 231 147)
Interest received	53 853	-	53 853
NET CASH USED BY INVESTING ACTIVITIES	(507 637)	(2 936 147)	(3 443 784)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2 606 019	12 737 138	15 421 592
Cash and cash equivalents at beginning of year	33 001 935	19 861 431	52 863 366
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 35 607 954	$ 32 598 569	$ 68 206 523
Cash Components:			
Cash and cash equivalents	$ 696 082	$ 32 462 412	$ 33 158 494
Restricted cash and cash equivalents	34 911 872	136 157	35 048 029
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 35 607 954	$ 32 598 569	$ 68 206 523
Cash Flows from Operating Activities:			
Operating income	$ 15 060 265	$ 29 023 510	$ 44 083 775
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3 800 377	-	3 800 377
Changes in Assets and Liabilities:			
Accounts receivable	983 366	1 916 957	2 900 323
Prepaid expenses - Unrestricted assets	18 388	-	18 388
Accounts payable - Restricted assets	391 221	-	391 221
Accounts payable - Unrestricted assets	(54 857)	(2 490 185)	(2 545 042)
TOTAL ADJUSTMENTS	5 138 495	(573 228)	4 565 267
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 20 198 760	$ 28 450 282	$ 48 649 042

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

Sam Rayburn Municipal Power Agency (the "Agency") was created in October 1979 by concurrent ordinances of the Texas cities of Jasper, Liberty and Livingston (the "Members") pursuant to Chapter 166, Acts of the 63rd Legislature of Texas, Regular Session, 1973 as amended by Chapter 143, Acts of the 64th Legislature, Regular Session, 1975, now codified at Utilities Code Section 163.001, *et seq.* (Vernon) (the "Act"). Under the provisions of the Act, the Agency is a separate municipal corporation, a political subdivision of the state, and body politic and corporate.

The Agency was created to act on behalf of the Members for the purpose of supplying the energy needs of its Members and participants including the Vinton Public Power Authority ("VPPA"), a Louisiana political subdivision created by the Town of Vinton, Louisiana.

In 1980, the Agency executed a Joint Ownership Participation and Operating Agreement to acquire a 20% undivided ownership interest in Nelson Coal Unit No. 6, a 550 megawatt coal-fired steam electric generating unit located near the Houston River near Westlake, Louisiana constructed by Gulf States Utilities Company ("Gulf States"), which became a wholly-owned subsidiary of Entergy Corporation in 1994.

In November 1998, the Agency sold its 20% interest in the Nelson Coal Unit No. 6 and exited the generation business. On November 1, 1998, the Agency entered into a Requirements Power Supply Agreement (the "RPSA") with Entergy Power Marketing Corp. (EPMC), which is now EWO Marketing, L.P. ("EWOM"). The RPSA allows the Agency to purchase its power requirements at a fixed price sufficient to service the retail loads and normal load growth of the Members it currently serves under the terms of its existing contracts until September 30, 2021 (Notes 6 and 7). There are additional contractual arrangements for power supply as further discussed in Note 7.

During 2002, VPPA and the Agency entered into a participation exit agreement in conjunction with the Agency's refunding of outstanding bonds (Note 5). In consideration of the payment of $15,778,548 by VPPA, along with the assignment of certain power supply resources, the power sales agreement between the VPPA and the Agency was terminated. The payment of $15,778,548 was placed into an escrow account and used to defease the 1993 bonds (Note 5).

In June 1985, the Agency entered into an agreement with the United States of America whereby the U.S. Army Corps of Engineers constructed a facility consisting of two hydroelectric generating units totaling eight nameplate megawatts at Town Bluff Dam on the Neches River (the Robert Douglas Willis Hydro Project). In return, the Agency entered into a fifty-year purchasing agreement with the Southwestern Power Administration of the U.S. Department of Energy effective December 1, 1989, to purchase the power generated by the Robert Douglas Willis Hydro Project at rates that will cover the cost of operating and maintaining the generating system. In addition, the Agency as a member of the Sam Rayburn Dam Electric Cooperative ("SRDEC") receives approximately 30% of the hydro-electric power output from the Corps of Engineers fifty-two megawatt Sam Rayburn Dam located on the Angelina River near Jasper, Texas under contract with Southwestern Power Administration.

In December, 2011, the Agency finalized the "Cambridge Project", which allowed it to enter into contractual power supply and purchase arrangements with Entergy operating companies and Entergy affiliates. It also resulted in the Agency obtaining a supplemental arrangement to the afore-mentioned RPSA. This resulted in the Agency being able to obtain new wholesale loads and provide firm power supply for its Member cities. The Cambridge Project is further explained in Note 7.

Basis of Accounting

The Agency follows the Federal Energy Regulatory Commission's Uniform System of Accounts and maintains accounting records on an accrual basis in accordance with U.S. generally accepted accounting principles, including the application of Financial Accounting Standards Board Codification Section 980 (formerly SFAS No. 71), *Accounting for the Effect of Certain Types of Regulation*, as it relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Agency complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*, the Agency has adopted the option to apply Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict GASB pronouncements.

Funds

In years prior to fiscal year 2012, the Agency utilized only one proprietary fund, which is designated in the financial statements as the *"RPSA"* fund. This fund has been and will continue to be utilized for all financial transactions associated with operations of the Agency under the *Required Power Supply Agreement* with EWOM and the hydro-electric power agreements discussed in Notes 1 and 5. The Agency's long-term debt is required to be recorded in and serviced from this fund.

During the year ended September 30, 2012, the Board of Directors approved the "*Cambridge"* fund. This proprietary fund is used to account for the operations of the Cambridge Project, which was implemented in fiscal year 2012 and is further explained in Note 7.

Capital Assets

Capital assets are recorded at cost, including capitalized interest on borrowed funds during construction. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets. The cost of electrical plants and related equipment are depreciated over 30 to 34 years. Depreciation expense for the years ended September 30, 2016 and 2015 was $1,226,885 and $1,199,785, respectively.

Capitalized Interest

The Agency capitalizes interest in connection with major construction projects. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. The Agency did not have any capitalized interest for the years ended September 30, 2016 and 2015.

Restricted Cash and Cash Equivalents

The Agency's bond resolution requires the segregation of bond proceeds and prescribes the application of the Agency's revenues. Amounts classified as restricted cash and cash equivalents on the Statements of Net Position for the RPSA Fund represent cash and cash equivalents whose use is restricted by the bond resolution. Restricted cash in the Cambridge Fund represents amounts due to Vinton Public Power Authority.

Accounts Receivable and Revenue Recognition

Accounts receivable consist primarily of billings for power supplied to Members and Customers. No allowance for doubtful accounts has been provided because management considers all amounts to be fully collectible. The Agency recognizes revenue on sales when the electricity is provided to and used by the Members and Customers.

The Agency has a $539,976 receivable from VPPA as of September 30, 2016. This amount, included in the Cambridge Fund accounts receivable on the statement of net position, represents VPPA's portion (9.39%) of the required transmission facility upgrades by Entergy for the MISO system. See Note 4 for additional details regarding upgrades.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cost of Debt Issued in Excess of Debt Refunded and Costs to be Recovered from Future Revenues

The Agency meets the criteria and, accordingly, follows the reporting and accounting requirements of Financial Accounting Standards Board Codification Section 980 (ASC 980). Pursuant to ASC 980, certain costs, primarily depreciation of property and equipment and the amortization of the cost of debt issued in excess of debt refunded, do not require current funding and are not included as costs in the determination of current rates. To the extent that these costs will be recovered through future rates, the Agency defers these costs. Cost of debt in excess of debt refunded is amortized under the provisions of ASC 980 utilizing a regulatory method based on the bonds outstanding method over the life of the related bond issue. Other costs to be recovered from future revenues are either amortized by this same method or they are amortized based on the straight-line method. The Agency's management makes an annual assessment of the continued application of ASC 980 and the ability of the Agency to recover these deferred costs in future rates.

Bond Premium

The premium on the 2012 bonds is amortized using the effective interest method over the life of the bond issue. Premium amortization is required by generally accepted accounting principles to be recognized as a component of interest expense. Amortization approximated $2,013,000 and $2,266,000 in fiscal years 2016 and 2015, respectively.

Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand, certificates of deposit, and money market accounts for both restricted and unrestricted assets.

Rates

Rates and charges for providing wholesale power supply are reviewed and adopted by the Agency's board of directors. Power supply services by the Agency are not subject to state or federal regulation.

Operating and Non-Operating Expenses

The Agency distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal operations. The principal operating revenues of the Agency are charges to Members and participants for sales and services. Operating expenses for the Agency include costs of sales and services, general and administrative services, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Income Taxes

As a political subdivision of the State of Texas, any income of the Agency is exempt from federal and state income tax under the controlling laws and regulations.

Marketable Securities

GASB Statement No. 72 (GASB No. 72), *Fair Value Measurement and Application,* requires investments to be reported at fair value based upon an established hierarchy of inputs. The Agency therefore reports marketable securities held at year-end at fair value. GASB Statement No. 31 (GASB No. 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires any changes in fair value during the period to be reported as income. The Agency therefore reports any changes in fair value of marketable securities held during the year in interest/investment income. See Note 3 for additional information.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

Refunds and Distributions to Member Cities

In accordance with the 2012 bond indenture of trust, if the Agency meets its covenant of net revenues being greater than 1.2 times the aggregate debt service requirements, Member cities are eligible to receive a refund from the RPSA fund of certain amounts contained in the refund account held by the Bank of New York. Refunds during the years ended September 30, 2016 and 2015 amounted to $4,120,442 and $2,414,664, respectively.

As further explained in Note 7, the Cambridge fund provides additional resources to the Member cities. The Agency has made distributions from the Cambridge fund to the Member cities amounting to $7,500,000 and $24,000,000 during the years ended September 30, 2016 and 2015, respectively, of which $-0- and $12,000,000 were recorded as due to members at September 30, 2016 and 2015, respectively. The Agency accounts for the distributions as non-operating expenses on the accompanying statement of revenue and expenses.

Deferred Inflows and Outflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Subsequent Events

Management has evaluated subsequent events through March 13, 2017, the date the financial statements were available to be issued.

NOTE 2 - CAPITAL ASSETS

Capital assets activity was as follows:

2016	BALANCE 10/01/2015	ADDITIONS	DELETIONS	BALANCE 09/30/2016
Capital Assets Being Depreciated:				
Hydroelectric plant	$ 21 956 269	$ -	$ -	$ 21 956 269
Substations and transmission	19 306 788	2 011 269	-	21 318 057
Furniture and fixtures	2 195	-	-	2 195
TOTAL CAPITAL ASSETS BEING DEPRECIATED	41 265 252	2 011 269	-	43 276 521
Less accumulated depreciation for assets in service	(30 421 876)	(1 226 885)	-	(31 648 761)
TOTAL CAPITAL ASSETS, NET	$ 10 843 376	$ 784 384	$ -	$ 11 627 760

NOTE 2 - CAPITAL ASSETS - CONTINUED

2015	BALANCE 10/01/2014	ADDITIONS	DELETIONS	BALANCE 09/30/2015
Capital Assets Being Depreciated:				
Hydroelectric plant	$ 21 956 269	$ -	$ -	$ 21 956 269
Substations and transmission	19 040 298	266 490	-	19 306 788
Furniture and fixtures	2 195	-	-	2 195
TOTAL CAPITAL ASSETS BEING DEPRECIATED	40 998 762	266 490	-	41 265 252
Less accumulated depreciation for assets in service	(29 222 091)	(1 199 785)	-	(30 421 876)
TOTAL CAPITAL ASSETS, NET	$ 11 776 671	$ (933 295)	$ -	$ 10 843 376

In 1989, the Agency purchased substations, which included the related equipment belonging to each Member. The associated substation of each Member was leased back to the Member for an initial lease term of 10 years at a nominal rate of $10 per year. At any time, the Members may repurchase the substations from the Agency at the original amount paid plus capital improvements made by the Agency, less the accumulated depreciation on such assets.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The bond resolution, under which the 2012 Revenue Bonds were issued, provides for the creation and maintenance of certain funds and accounts. The funds and accounts consist principally of deposits and investments in accordance with the bond resolution and applicable state law. The aggregate amount of assets in each of the Agency's funds and accounts is as follows:

	SEPTEMBER 30, 2016		
UNRESTRICTED FUNDS	RPSA FUND	CAMBRIDGE FUND	TOTAL
Held by Agency:			
Demand Deposit Accounts	$ 397 225	$ -	$ 397 225
Certificates of Deposit	300 000	-	300 000
Cash management fund	-	10 212 762	10 212 762
Marketable securities	-	12 780 602	12 780 602
	$ 697 225	$ 22 993 364	$ 23 690 589
RESTRICTED FUNDS			
Held by the Agency:			
Cash management fund	$ -	$ 137 026	$ 137 026
Demand Deposit Account	60 759	-	60 759
	$ 60 759	$ 137 026	$ 197 785
Held by the Trustee:			
Revenue Fund Account	$ 34 660	$ -	$ 34 660
Operating Reserve Fund Account	2 465 028	-	2 465 028
Bond Fund Debt Service Account	13 549 297	-	13 549 297
Bond Fund Reserve Account	12 585 227	-	12 585 227
Rate Stabilization Account	1 606 323	-	1 606 323
Operating Fund Account	1 012 049	-	1 012 049
Bond Escrow Fund Account	-	-	-
Rebate Fund	-	-	-
Refund Fund Account	2 208 694	-	2 208 694
TOTAL	$ 33 461 278	$ -	$ 33 461 278
Restricted Funds are Comprised of:			
Cash and cash equivalents	$ 33 522 037	$ 137 026	$ 33 659 063
	$ 33 522 037	$ 137 026	$ 33 659 063

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

	SEPTEMBER 30, 2015		
UNRESTRICTED FUNDS	RPSA FUND	CAMBRIDGE FUND	TOTAL
Held by Agency:			
Demand Deposit Accounts	$ 396 082	$ -	$ 396 082
Certificates of Deposit	300 000	-	300 000
Cash management fund	-	32 462 412	32 462 412
	$ 696 082	$ 32 462 412	$ 33 158 494
RESTRICTED FUNDS			
Held by the Agency:			
Cash management fund	$ -	$ 136 157	$ 136 157
Demand Deposit Account	125 130	-	125 130
	$ 125 130	$ 136 157	$ 261 287
Held by the Trustee:			
Revenue Fund Account	$ -	$ -	$ -
Operating Reserve Fund Account	2 449 482	-	2 449 482
Bond Fund Debt Service Account	13 219 062	-	13 219 062
Bond Fund Reserve Account	12 493 614	-	12 493 614
Rate Stabilization Account	1 551 854	-	1 551 854
Operating Fund Account	952 284	-	952 284
Bond Escrow Fund Account	5	-	5
Rebate Fund	-	-	-
Refund Fund Account	4 120 441	-	4 120 441
TOTAL	$ 34 786 742	$ -	$ 34 786 742
Restricted Funds are Comprised of:			
Cash and cash equivalents	$ 34 911 872	$ 136 157	$ 35 048 029

Interest rate risk is the risk that the fair value of investments will be adversely affected by a change in interest rates. The Agency's investment policy requires that funds are generally invested to match the anticipated cash flow and all accounts have a specified maximum maturity for investments. The majority of the Agency's funds are required to be invested for less than five years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's. The Agency's cash and cash equivalents held by the Trustee are comprised of cash management funds that are invested primarily in U.S. Treasury securities. The cash management funds held by the Agency are also invested primarily in U.S. Treasury securities. The Agency's marketable securities consist of U.S. Agency obligations with original maturities of less than five years. As of September 30, 2016, these securities held credit ratings of Aaa from Moody's and AA+ from Standard & Poor's.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of the investments, collateral securities, or deposits that are in the possession of the counterparty. All demand deposits accounts and certificates of deposit accounts held by the Agency are in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At September 30, 2016, the Agency had approximately $125,000 of demand deposits that were not within the insurable limits established by the FDIC nor were they covered by pledged collateral.

Restricted assets held by the Trustee in the Bond Fund Debt Service Account and the Bond Fund Reserve Account are only available to meet the principal and interest payments on revenue bonds. Other assets held by the Trustee are available to meet the operating, operating reserve, and reserve and contingency requirements of its bond indenture agreements.

Fair Value Measurements

The Agency's investments are reported at fair value in the accompanying statements of net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, Level 1 measurements, and the lowest priority to measurements involving significant unobservable inputs, Level 3 measurements. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value; Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

The fair values for the Agency's investments for the years ended 2016 and 2015 are based on quoted market prices in active markets for identical assets which are considered Level 1 fair value measurements as defined by professional accounting standards. Fair values of assets and liabilities presented on the balance sheet measured on a recurring basis are as follows:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
September 30, 2016				
U.S. government agencies	$ 12 780 602	$ 12 780 602	$ -	$ -
September 30, 2015				
U.S. government agencies	$ -	$ -	$ -	$ -

Maturities for investments held at year-end are as follows:

	2016	2015
Due in one year or less	$ 5 990 466	$ -
Due after one year but less than five years	6 790 136	-
Due after five years but less than ten years	-	-
Due after ten years	-	-
	$ 12 780 602	$ -

NOTE 4 - COST OF DEBT ISSUED IN EXCESS OF DEBT REFUNDED AND COSTS TO BE RECOVERED FROM FUTURE REVENUES

	SEPTEMBER 30,	
	2016	2015
Cost of debt issued in excess of debt refunded (Note 5)	$ 46 365 237	$ 46 365 237
Less accumulated amortization	(10 972 517)	(9 803 591)
	$ 35 392 720	$ 36 561 646

Costs to be recovered from future revenues are comprised of the following:

	SEPTEMBER 30,	
	2016	2015
Beaumont Avenue transformer major repair	$ 255 958	$ 309 844
Deferred depreciation on R.D. Willis hydroelectric plant	5 057 657	5 861 153
Advances to SRDEC for generating facilities at Sam Rayburn Dam (Note 8)	1 775 091	295 000
Transmission facilities upgrade by Entergy for MISO system - Cambridge Fund	5 210 571	4 437 026
	$ 12 299 277	$ 10 903 023

NOTE 4 - COST OF DEBT ISSUED IN EXCESS OF DEBT REFUNDED AND COSTS TO BE RECOVERED FROM FUTURE REVENUES - CONTINUED

The Beaumont Avenue transformer major repair was incurred in fiscal year ended September 30, 2011 and is being amortized straight-line over a period of 10 years. Amortization was $53,886 in fiscal years 2016 and 2015, respectively.

Depreciation on the R.D. Willis hydroelectric plant is being deferred based on regulatory accounting methods pursuant to FASB ASC 980 (formerly FAS 71). Deferrals will cease in 2021 when the 2012 bond issue is fully matured. Amortized deferrals were $803,496 and $729,999 in fiscal years 2016 and 2015, respectively.

Advances to SRDEC (Sam Rayburn Dam Electric Cooperative)(refer to Note 1) for generating facilities at Sam Rayburn Dam represent contributions by the Agency to fund replacement generating facilities at Sam Rayburn Dam by the U.S. Army Corps of Engineers. SRDEC entered into an agreement with the Corps to fund the cost of these facilities in exchange for the Corps not passing the costs thru to SRDEC via a rate increase. The Agency receives approximately 30% of the electrical output from the Dam thru SRDEC and SRG&T receives the remainder. The Agency expects to fund an additional $67,000 towards this project (Note 8). Amortization will commence upon completion and it is expected to be straight-line over a period not to exceed 45 years.

Transmission facilities upgrade by Entergy for the MISO system (Note 8) represent costs incurred by the Agency in 2014, 2015, and 2016 for upgrades to facilities owned by Entergy, but used by the Agency for transmission of energy to its industrial customers in the Cambridge Project (Note 7). As the upgrades were considered effectively complete as of September 30, 2016, the costs will begin amortizing in 2017 on a straight-line basis over 20 years.

NOTE 5 - LONG-TERM DEBT

Bonds outstanding are as follows:

	SEPTEMBER 30,	
	2016	2015
2012 Bonds:		
Serial Bonds, 5.00%, due October 1, 2013 to 2021	$ 79 070 000	$ 90 080 000
TOTAL BONDS	79 070 000	90 080 000
Less: Current maturities	(11 565 000)	(11 010 000)
	$ 67 505 000	$ 79 070 000
Unamortized Premium	$ 5 458 109	$ 7 471 013

Principal and interest on bonds are payable from and secured by a pledge of the revenues of the Agency and assignment of a security interest in certain restricted funds.

On January 1, 1993, the Agency issued $153,420,000 of Power Supply System Revenue Refunding Bonds, Series 1993A (the 1993A Bonds). The net proceeds, after issuance costs, from the 1993A Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest on $5,225,000 in 1982 Bonds and $123,400,765 in 1985 Bonds previously issued by the Agency.

Subsequently, on February 15, 1993, the Agency issued $89,595,000 of Power Supply System Revenue Refunding Bonds, Series 1993N (the 1993B Bonds). The net proceeds, after issuance costs, from the 1993B Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest of $38,375,000 in 1985 Bonds and $42,400,000 in 1985A Bonds.

NOTE 5 - LONG-TERM DEBT - CONTINUED

On July 25, 2002, the Agency issued $185,310,000 of Power Supply System Revenue Refunding Bonds, Series 2002A through 2002D (the 2002 Bonds). The net proceeds, after issuance costs, from the 2002 Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest on $132,220,000 in Series 1993A Bonds and $83,320,000 in Series 1993B Bonds previously issued by the Agency. The Series 2002A Bonds and the Series 2002B Bonds were subject to optional redemption on October 1, 2013.

On September 19, 2012, the Agency issued $124,010,077 of Power Supply System Revenue Refunding Bonds, Series 2012 (the 2012 Bonds). The net proceeds, after issuance costs, from the 2012 Bonds were used to purchase government obligations that were held in an escrow account and have matured and been used to pay the principal, redemption premium, and interest on $104,580,000 in Series 2002A Bonds and $40,000,000 in Series 2002B Bonds previously issued by the Agency. The Agency estimates the 2012 refunding will result in approximately $28,122,000 of net savings in debt service over the life of the issue and an economic gain of approximately $21,222,000.

As a result of the above mentioned transactions, the Agency defeased all of its remaining previously issued bonds. The difference between the carrying amounts of the respective bonds defeased and the net cost of defeasance as well as the unamortized costs of the prior refundings was deferred for recovery in future periods. The unamortized portion of this deferral is reflected on the statement of net position under Deferred Outflows as "Cost of Debt Issued in Excess of Debt Refunded".

Debt service requirements on the outstanding bonds are as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2016	$ 11 565 000	$ 3 953 500	$ 15 518 500
2017	12 215 000	3 375 250	15 590 250
2018	12 830 000	2 764 500	15 594 500
2019	13 470 000	2 123 000	15 593 000
2020	14 140 000	1 449 500	15 589 500
2021	14 850 000	742 500	15 592 500
TOTAL	$ 79 070 000	$ 14 408 250	$ 93 478 250

Long-term liability activity for the years ended September 30, 2016 and 2015 was as follows:

LONG-TERM LIABILITIES AS OF SEPTEMBER 30, 2016	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Bonds Payable:				
2012 Bonds	$ 90 080 000	$ -	$ (11 010 000)	$ 79 070 000
LONG-TERM LIABILITIES	$ 90 080 000	$ -	$ (11 010 000)	$ 79 070 000

LONG-TERM LIABILITIES AS OF SEPTEMBER 30, 2015	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Bonds Payable:				
2012 Bonds	$ 100 075 000	$ -	$ (9 995 000)	$ 90 080 000
LONG-TERM LIABILITIES	$ 100 075 000	$ -	$ (9 995 000)	$ 90 080 000

Management asserts that the Agency has satisfied all covenants related to debt outstanding for the periods presented. See page 32 for calculation of related ratios.

NOTE 6 - POWER SALES CONTRACTS

Power sales contracts exist with each of the Agency's Members for the sale of electric power that the Members require for the operation of their respective systems. The contracts will remain in effect until all outstanding bonds of the Agency have been retired (Note 5). Thereafter, the contracts will extend until either the Agency or a Member has given three years notice of the intent to cancel. In no event will the contracts expire before October 1, 2021. The power sales by the Agency to the Members were $32,860,971 and $34,678,960 for the years ended September 30, 2016 and 2015, respectively.

NOTE 6 - POWER SALES CONTRACTS - CONTINUED

As further explained in Note 7, in 2012, the Agency entered into four additional contracts for the sale of power acquired under the terms of the Cambridge Project. These contracts are for wholesale power to service industrial loads for two refineries - Citgo Petroleum Corporation and ConocoPhillips Company, a chemical company - Sasol North America, Inc. and an electric power provider - Entergy Texas, Inc. The contracts extend through October 1, 2035.

NOTE 7 - REQUIREMENTS POWER SUPPLY AGREEMENTS (*RPSA, Supplemental RPSA and Cambridge)*

RPSA

In November 1998, the Agency entered into a *Requirements Power Supply Agreement* (the "RPSA") with Entergy Power Marketing Corp. (EPMC), which later became a part of Entergy Koch Trading, L.P. (EKT). The RPSA allows the Agency to purchase its power requirements at a fixed price sufficient to service the retail loads and normal load growth of the Members it currently serves under the terms of its existing power sales contracts (Note 6) until September 30, 2021. The Agency currently purchases all power not supplied by the Robert Douglas Willis Hydro Project and Sam Rayburn Dam Project from EKT through EKT's assignee without novation, EWO Marketing, L.P. (EWOM), under the RPSA. Power supplies delivered under the RPSA are now administered by Entergy Asset Management (EAM). The value assigned to the RPSA of $59,605,565 is being amortized on a straight-line basis over the life of the agreement. Amortization expense for each of the years ended September 30, 2016 and 2015 totaled $2,600,592.

In July 2010, the Agency and EWOM entered into the SRMPA Full Requirements Power Supply Agreement for the City of Liberty/Boomerang Load. Liberty and Boomerang Tube, L.L.C. ("Boomerang"), a large industrial customer of Liberty, are parties to the certain Retail Power Purchase Agreement (the "Boomerang Retail Contract") to which Liberty will provide Boomerang with all electrical loads up to 35 MW, or upon request such greater amount not to exceed 40 MW, required by Boomerang to operate its steel pipe and tube production facility. The Agency entered into this agreement, in parallel to the RPSA, to supply Liberty with the electric energy that Liberty needs to satisfy its obligations under the Boomerang Retail Contract. The cost-based agreement will be in effect until September 30, 2021. Power sales under this agreement approximated $4,201,000 and $5,687,000 for the years ended September 30, 2016 and 2015, respectively; power purchases approximated $3,687,000 and $5,144,000, respectively. The power sale revenues and power purchases related to the Boomerang Retail Contract are not includable as "revenues" or "cost of revenues" under the Series 2012 bonds indenture (Note 5) and are not pledged as "net revenues" securing the 2012 Bonds.

Supplemental RPSA and Cambridge Project

The terms of the RPSA obligate EPMC to serve the Agency's load, net of the above-mentioned hydro-electric power arrangements, and normal load growth measured from a benchmark of 78 MW of which the Agency is entitled to 70.676 MW and VPPA, as part of the exit agreement mentioned in Note 1, is entitled to 7.324 MW. Load growth was stipulated to be 3% over a 5-year future rolling average compounded annually from the 70.676 MW benchmark, regardless of actual load growth. Since the Agency's load growth has grown at a rate of less than 3% annually since fiscal year 1999, capacity equal to the difference between the Agency's actual growth and growth at 3% per annum became available to meet future Agency annual load growth in excess of 3%.

NOTE 7 - REQUIREMENTS POWER SUPPLY AGREEMENTS (*RPSA, Supplemental RPSA and Cambridge)* - CONTINUED

During fiscal years 2010 and 2011, the Agency and VPPA engaged in negotiations with Entergy operating companies and Entergy affiliates regarding additional power supply arrangements, which could utilize the above-mentioned RPSA excess capacity. These negotiations were known as the "Cambridge Project", and from the project, new contractual power supply and purchase arrangements were entered into and became effective in December, 2011. The negotiations also resulted in the Agency being able to obtain a supplemental arrangement to its existing RPSA (*Supplemental RPSA or SRPSA*) with EWOM. The new contracts enabled the Agency to obtain four new wholesale loads and provide the Agency firm power supply for the next 25 years to serve its three Member cities (under the SRPSA). The four wholesale loads are two large oil refineries, a chemical company, and Entergy Texas, Inc. ("ETI") (Note 6). The two oil refineries and the chemical company are served and will continue to be served through VPPA. The additional power supply resources to the Agency include unit generation from third parties and power supply purchases from Entergy Gulf States Louisiana, LLC ("EGSL") and from EWOM. In addition, the Agency entered into contractual arrangements with EGSL and EWOM for power supply management and delivery.

The Cambridge Project supplements the existing Agency systems and the VPPA systems. VPPA will serve the three industrial loads with power provided by the Agency and purchased from an Entergy company. Under the Cambridge Project, the wholesale power supply to VPPA for the industrial load was reconfigured in part. Under the SRPSA with EWOM, the Agency replaced the right to increase purchases for load growth under the RPSA at a maximum 3% annual rate to a 2% annual growth rate, which is more in line with anticipated load growth rate. The 2% annual growth rate is applied to the 2010 reference year's peak load as the basis for determining the maximum load service obligation. The SRPSA assures an energy supply to the Agency beyond the 2021 termination of the RPSA to 2035, and provides that if the Agency has load growth above the anticipated rate, EWOM will provide service for such load. Should any of the Cambridge Project contractual arrangements be terminated, all Cambridge contracts will terminate and the Agency and VPPA systems will revert to their original condition with wholesale energy provided under the RPSA for the Agency to serve its participating Member cities.

The Cambridge Project is independent from the Agency's existing operations that secure the Agency's debt service obligations to holders of the 2012 Bonds (Note 5). The Agency's Net Revenues and funds and accounts established under the 2012 Bond Indenture are not commingled with Cambridge Project accounts and are not available to the Cambridge Project. Cambridge funds do not secure the 2012 Bonds.

In accordance with the afore-mentioned load arrangements, the Agency is obligated to VPPA for 9.39% of the Cambridge Project's net revenues, computed without regard to VPPA's portion. The Agency accounts for 100% of the revenues and expenses of the Cambridge Project and records as a power supply expense the 9.39% of net revenues allocable to VPPA.

In accordance with a protocol agreement between the Agency and VPPA, $1.5 million of net revenues from the Cambridge Project will be placed in operating reserves for each of the next 5 years to be maintained through the life of the contracts; however, this agreement is subject to change by mutual consent of the two parties. As of September 30, 2016, the Agency had $6,795,750 cash reserved in unrestricted assets and $137,026 (representing VPPA's portion) reserved in restricted assets for a total of $6,932,776 reserved under this agreement.

Refer to Note 11 for subsequent events related to the Cambridge Project.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state, and local standards and procedures that regulate the environmental impact of electric utilities are subject to change. These changes may arise from legislative, regulatory, and continuous judicial action regarding such standards and procedures. The Agency does not own nor lease any generation and is not aware of any noncompliance with current environmental regulations with respect to any of the units constituting its contract power supply.

Regulation

Electric Utility Restructuring

In 1999, the Texas Legislature approved Senate Bill 7, *Electric Utility Restructuring* (SB7), which provided for the restructuring of the Texas electric industry for the purpose of creating a competitive electric power market. The legislation provided that the pricing and supply of the generation of electricity would be unregulated beginning in January 2002. Under special provisions for cooperatives and municipally-owned utilities, the Agency's rates for the sale of wholesale power are no longer regulated by the Public Utility Commission of Texas ("PUCT"). Similarly, the rates of the Members for the sale of electricity are no longer regulated by the PUCT. The law permits the respective boards of directors to set rates.

Investor-owned utilities in the Electric Reliability Council of Texas ("ERCOT") were required to allow their retail customers to select generation suppliers of electricity as of January 2002. The law gives municipally-owned utilities boards of directors sole authority to allow, or not allow, generating suppliers to attempt to sell electricity to retail customers of a municipally-owned utility. Allowing retail customer choice is called "opting in". Even if a municipally-owned utilities board decides to opt in, retail customers will continue to use the transmission and distribution facilities of the utility. The Agency will closely monitor whether any of its Members will decide to opt in and thus evaluate the potential effects of a change in generation sales. The law allows the Agency to recover stranded costs if it experiences a loss of load which would impair payment of debt service and payment of purchased power fixed charges. As of September 30, 2016, none of the Members who are served by the Agency have elected to opt in.

In consideration of the aforementioned, it should be noted that Jasper and Livingston are surrounded by the service areas of electric cooperatives, which, as noted above, are not required to participate in retail competition under SB7, but which also have competed for years with these Members by proximity of their service areas. Similarly, EGS surrounds Liberty and, although having already made its SB7 rate reduction, EGS continues to be noncompetitive with Liberty in Liberty's *dual certified* area. As a result, the Members have 1) already engaged in retail competition with the *dual certified* annexed portions of their municipal service areas, 2) experienced and withstood retail competition at their retail service area boundaries, and 3) retained loads in their respective single certified portions of their respective service areas sufficient to meet their obligations.

Renewable Energy Credits

On June 1, 2001, the Agency filed with the PUCT an application to certify the Sam Rayburn Dam Project and the R. D. Willis Project as existing renewable resources and nominate the Renewable Energy Credit (REC) offsets. The Public Utility Regulatory Act established a renewable energy credits trading program that will ensure that 2,000MW of new renewable energy capacity is built in Texas as of 2009. Although the Agency is not obligated to purchase REC offsets if not participating in retail competition, generation of renewable resources and REC offsets may be sold by such a resource to competitive retailers. The application was approved in August 2001. The Agency is entitled to earn the 44,711 MWh and 26,374 MWh annual REC offsets for the Sam Rayburn Dam Project and the R.D. Willis Project respectively, as nominated. Senate Bill 20, enacted in August 2005, expanded the goal from 2,000 MW to 5,000 MW of new renewable energy capacity to be built by 2015 and includes a target of 500 MW of renewable capacity from non-wind renewable resources. The PUCT had requested comments be filed for the purpose of conducting rulemaking to implement Senate Bill 20. The Agency had filed comments in response to this request.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - CONTINUED

PUCT legal comments have since amended §25.173 rules regarding renewable energy resources and enhanced the goal set out in Senate Bill 20 by raising the ceiling for qualification of hydropower as a small producer from 2 MW to 10 MW. For a renewable energy facility to be eligible to produce RECs for use in the renewable energy credits trading program, it must be either a new facility or a small power producer. Under the new definition, existing small hydropower units under 10 MW will be eligible to produce RECs and are no longer limited to election as REC Offsets. The R.D. Willis Project qualifies as a small hydroelectric facility and is eligible for participation in the renewable energy credits trading program. Renewable energy credits may be generated, transferred, and retired by renewable energy power generators. The Agency was in the process of considering an application to the PUCT for the R.D. Willis Project to participate in the renewable energy credits trading program. In January 2011, an additional proposal for rulemaking by the PUCT addressing the removal of REC Offsets at both hydropower facilities and re-registration and treatment as REC's was commented on by the Agency in support of this proposal to the PUCT. As of July 2011 (six months after the order), no action had been taken, causing the project to become automatically considered closed. The PUCT believes it will not be revived in the near future; therefore, the Agency will continue to hold the REC Offsets for each hydro as before until any further future updates occur.

Transmission

The regulated energy industry continues to experience significant changes. The Midcontinent Independent System Operator's (MISO) is the FERC-approved Regional Transmission Organization (RTO) responsible for coordinating transmission service, maintaining reliability, and administering wholesale power markets. FERC continues to support the establishment of large RTOs, which affect the structure of the wholesale market. To this end, on December 19, 2013, a four-state region of the electric grid across the South integrated into MISO's existing footprint in the Midwest adding over 18,000 miles of transmission and 50,000 megawatts of generation capacity. The integration added 10 new transmission owning companies, six local balancing authorities, and 33 new market participants from Mississippi, Louisiana, Arkansas, Texas, and Missouri to MISO. This new region - referred to as MISO South - includes the following transmission owners and local balancing authorities: Entergy (Arkansas, Mississippi, Louisiana, Texas, Gulf States, and New Orleans), CLECO Corp., Lafayette Utilities System, Louisiana Energy and Power Authority, Louisiana Generating, South Mississippi Electric Power Association, and East Texas Electric Cooperative. Also on December 19, 2013, among other market participants, the Agency entered MISO South as a load serving entity member on behalf of the cities of Jasper, Liberty and Livingston, Texas, plus Vinton, Louisiana. MISO membership will provide the Agency and its customers with a reliable, cost-effective option for its operations. Customers will obtain the benefits of a combined operation of a larger pool of power resources across a larger footprint, while also maintaining access to low-cost, clean and reliable power resources.

Among other functions, MISO administers a market-based platform for valuing transmission congestion premised upon a Locational Marginal Price (LMP) system. The LMP system includes the ability to mitigate or eliminate congestion costs through Auction Revenue Rights (ARRs) and Financial Transmission Rights (FTRs). ARRs are allocated to market participants by MISO and FTRs are purchased through auctions. The resulting ARR valuation and the secured FTRs are expected to mitigate transmission congestion risk for the period covered by the ARR/FTR. The Agency endeavors to secure sufficient ARRs to mitigate transmission congestion risk associated with scheduled deliveries from the Agency's generation resources to its load. The Agency does not otherwise engage in FTR-related transactions. Although the Agency has reserved firm transmission from its generation resources to serve its load and believes it is fully hedged against congestion costs, given the way in which ARRs are allocated under current MISO rules there is an inherent, unavoidable risk that the Agency potentially could be exposed at a given time to an ARR shortfall. The Agency believes the completion of certain transmission upgrades on the Entergy system (for which it has already paid) will further mitigate the Agency's exposure to congestion costs.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Power Supply

The RPSA and Supplemental RPSA, further explained in Note 7, provide the Agency with a delivered fixed cost power supply. As a result, the Agency is not faced with market driven increases in power supply, fuel, or delivery costs. In addition, that power supply backs up the Agency's hydropower supply. Management believes that the above factors will enable it to meet current and future obligations.

Power Costs

The Agency was able to reduce its annual debt service requirements through the refundings of its debt in 2002 and again in 2012. The Agency adjusts its coverage requirements to collect true coverage on debt service in order to demonstrate financial responsibility. The Agency also retains the right to refund all collections above those needed to meet operating requirements and debt service to its Members on an annual basis. The Agency's wholesale power cost is therefore a function of monthly energy and demand charges as well as this refund.

Other Commitments

During the fiscal year ended September 30, 2015, the Agency's Board of Directors approved a 3-year plan to replace 7 of the Agency's transformers. During the fiscal year ended September 30, 2016, the Agency's Board of Directors modified this plan to instead include the replacement of 6 transformers and the construction of an express feeder. The cost is expected to approximate $8,000,000. As of September 30, 2016, the Agency has expended approximately $1,900,000 on these projects. The Agency anticipates that the costs will be funded from the Cambridge Fund.

The Agency committed to Sam Rayburn Dam Electric Cooperative, Inc. during the fiscal year ended September 30, 2015 to contribute approximately $1,100,000 towards the cost of replacement generating facilities being installed by the U.S. Army Corps of Engineers at the Sam Rayburn Dam generating plant. The Agency has advanced approximately $1,780,000 as of September 30, 2016. These costs are being recorded as deferred outflows. The Agency made an additional payment of approximately $69,000 subsequent to year end, which is anticipated to be the Agency's final contribution. Upon completion of the project, the Agency will begin amortizing the costs over a period of no less than 45 years (Note 4).

In September 2016, the Board approved a restatement of the SRMPA Full Requirements Power Supply Agreement regarding the Boomerang load, offering Boomerang Tube, L.L.C. a discount from EWOM of $500,000 to be allowed ratably on a monthly basis for twelve months. This discount, granted by EWOM, will be passed through to Boomerang Tube L.L.C. by the Agency, and is therefore reported as a receivable and payable for the year ended September 30, 2016.

NOTE 9 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

NOTE 10 - TRANSFERS AND INTERFUND BALANCES

During the fiscal year ended September 30, 2016, funds net of $2,725,236 were transferred from the Cambridge Fund to the RPSA Fund to be used for ongoing capital projects. The Agency also reported $193,454 and $33,466 as due from the Cambridge Fund to the RPSA Fund as of September 30, 2016 and 2015, respectively. This interfund balance is related to expenses of the Cambridge Fund which were paid by the RPSA Fund, and are expected to be repaid within one year.

NOTE 11 - SUBSEQUENT EVENTS

In October 2016, the Agency approved the distribution of $6 million to the Member Cities from the Cambridge Fund.

In December, 2016, the Agency was notified that the Louisiana Public Service Commission will be conducting a review (Docket No. S-34332) of Special Order 01-2001 to determine if it remains in the best interest of Louisiana ratepayers. The review of this order will encompass the provisions of the Cambridge Project (Note 7). While the Agency cannot predict with certainty when the review will be completed or the outcome, there is a possibility that it could adversely impact the continuation of the Cambridge Project.

SUPPLEMENTARY INFORMATION

SAM RAYBURN MUNICIPAL POWER AGENCY
SCHEDULES OF DEBT SERVICE COVERAGE
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues	$ 29 482 802	$ 30 020 203
Interest income	130 543	53 853
TOTAL INCOME	26 613 345	30 074 056
Cost of revenues less depreciation and amortization	11 619 362	11 703 451
NET REVENUES	$ 17 993 983	$ 18 370 605
Rate Stabilization Fund	$ 1 606 323	$ 1 551 854
Aggregate Debt Service Requirements:		
Interest on long-term debt	$ 3 953 508	$ 4 504 000
Principal on long-term debt	11 565 000	11 010 000
TOTAL AGGREGATE DEBT SERVICE REQUIREMENTS	$ 15 518 508	$ 15 514 000
Ratio of Net Revenues to Aggregate Debt Service Requirements	1.16	1.18
Ratio of Net Revenues and Rate Stabilization Fund to Aggregate Debt Service Requirements	1.26	1.28

The terms of the 2012 Bond Indenture require net revenues to be at least equal to the sum of the aggregate debt service times 1.20 beginning with the 2013 fiscal year. Also, pursuant to the terms of the 2012 Bond Indenture, the Agency is allowed to utilize the amount held in its Rate Stabilization Fund in the above calculation if the ratio of net revenues is at least 1.10, but less than 1.20. The Agency is required by the 2012 Bond Indenture to service the debt from the operations of the RPSA Fund. The above covenant is a requirement of the RPSA Fund. As explained in Note 5, the net revenues from the Boomerang contract are not included in the above calculation.

See independent auditors' report.