

Southwestern Power Administration

2004-2006
Annual Report

Southwestern Power Administration 2004-2006 Annual Report

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Cover Photo: Bull Shoals Dam and Powerplant, located on the White River in northern Arkansas. Bull Shoals produces average annual energy of 785 million kilowatt-hours.



The Honorable Samuel W. Bodman

Secretary of Energy
Washington, D.C. 20585

Dear Secretary Bodman,

Confidence. Commitment. Cooperation. These are words that spring to mind regarding Southwestern Power Administration's performance during fiscal years (FY) 2004-2006. By offering innovative, customer-oriented service, working to improve system reliability and efficiency, and partnering with customers and other Federal power stakeholders, Southwestern has certainly exhibited all three of these qualities during these challenging yet productive years.

In fact, our cooperative working relationships were critical to our success during the severe and widespread drought conditions which prevailed throughout Southwestern's marketing area for much of 2005-2006. When we proposed a temporary energy deferral program, our customers came on board by voluntarily taking less Federal hydropower than they were entitled to, enabling us to preserve system storage and fulfill our contract obligations during the crucial summer months of 2006. The U.S. Army Corps of Engineers (Corps) also helped improve our drought situation by allowing Southwestern more operational flexibility on a regional level.

Despite the challenges this critical drought period presented, Southwestern remained committed to fulfilling our mission and strategic goals. From FY 2004 through FY 2006, we marketed and delivered all available Federal hydropower while meeting and even exceeding the reliability standards of the North American Electric Reliability Corporation (NERC). Our Power Operations Training Center in Springfield, Missouri, was cited as an "Example of Excellence" during a NERC readiness audit in October 2006; and as we have every year since NERC began measuring, Southwestern far exceeded the accepted NERC compliance ratings for power system operations reliability.

Our commitment to excellence and accountability has kept our repayment goals on target as well. Revenues were sufficient to repay all annual expenses and the required principal investment in the Federal hydropower facilities. Furthermore, the original investment in the Blakely Mountain Dam project in Arkansas was fully repaid at the end of FY 2006, just in time for the dam's 50th birthday.



In addition to fostering strong customer relationships and dependable performance, Southwestern is also committed to serving the National interest as an efficient and responsible public agency. In FY 2004, we answered the President's call for more accountability in government through the President's Management Agenda by developing new long-term and short-term performance goals and targets, as recommended by the Office of Management and Budget (OMB). We are proud to report that as of the end of FY 2006, all DOE and OMB performance measures are on target and "green" for Southwestern.

As we adapt to new and changing technologies and industry requirements, Southwestern continues to look for innovative ways to enhance our service, improve our efficiency, and strengthen our partnerships. Over the past three years, we have successfully executed agreements with Southwest Power Pool, Inc. (SPP) to permit our continued participation in the SPP Regional Transmission Organization while maintaining compliance with Federal statutes and regulations. Another milestone of innovation, efficiency, and cooperation was the successful installation in FY 2006 of a new supervisory control and data acquisition system, developed in partnership with Western Area Power Administration.

We here at Southwestern remain steadfast in our mission to market and deliver reliable, renewable, and domestically produced hydropower. Our strong partnerships with DOE, our customers, the Corps, and other stakeholders; our commitment to continually improving efficiency and performance; and our ability to proactively and creatively respond to the many challenges we face in the performance of our duties make us confident that we can offer many years of continued service to the Nation.

On behalf of the Southwestern Power Administration, I am pleased to present this FY 2004-2006 Annual Report.

Michael A. Deihl
Administrator

Southwestern was established in 1943 by the Secretary of the Interior as a Federal Agency that today operates within the Department of Energy as authorized by Section 5 of the Flood Control Act of 1944.

As one of four Power Marketing Administrations in the United States, Southwestern markets hydroelectric power in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas from 24 U.S. Army Corps of Engineers multipurpose dams with a generating capacity of approximately 2,174 MW.

By law, Southwestern's power is marketed and delivered primarily to public bodies and rural electric cooperatives. Southwestern has over one hundred such "preference" customers, and these entities ultimately serve 7.5 million end-use customers.

Southwestern operates and maintains 1,380 miles (2,220 km) of high-voltage transmission lines, 24 substations, and a communications system that includes microwave, VHF radio, and state-of-the-art fiber optics. Staff members (179 full-time equivalents) work from offices located in Gore, Oklahoma; Jonesboro, Arkansas; Springfield, Missouri; and Tulsa, Oklahoma. Around-the-clock power scheduling and dispatching are conducted by staff in the Springfield Operations Center.

Annual revenue for Southwestern has averaged about \$126 million over the last five years. This revenue is used to pay the cost of operating and maintaining the generation and transmission facilities and to repay the principal and interest on the Federal investment.



The Flood Control Act of 1944 (58 Stat. 887, 890; 16 U.S.C.A. 825s) clearly states Southwestern's mission of marketing and delivering reliable, affordable power for the Nation:

"Electric power and energy generated at reservoir projects under the control of the Department of the Army and in the opinion of the Secretary of the Army not required in the operation of such projects shall be delivered to the Secretary of the Interior, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles, the rate schedules to become effective upon confirmation and approval by the Federal Power Commission. Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years. Preference in the sale of such power and energy shall be given to public bodies and cooperatives. The Secretary of the Interior is authorized, from funds to be appropriated by the Congress, to construct or acquire, by purchase or other agreement, only such transmission lines and related facilities as may be necessary in order to make the power and energy generated at said projects available in wholesale quantities for sale on fair and reasonable terms and conditions to facilities owned by the Federal Government, public bodies, cooperatives, and privately owned companies. All moneys received from such sales shall be deposited in the Treasury of the United States as miscellaneous receipts."

Southwestern Power Administration's mission is to market and reliably deliver Federal hydroelectric power with preference to public bodies and cooperatives.

This is accomplished by maximizing the use of Federal assets to repay the Federal investment and participating with other water resource users in an effort to balance their diverse interests with power needs within broad parameters set by the U.S. Army Corps of Engineers, and implementing public policy.

We have open and trusting partnerships with our customers in meeting their business expectations for operation of the Federal hydroelectric power system, and with the American public in meeting our financial obligations. The Southwestern work force is cost-conscious, team-based, and empowered to meet customer expectations.

Southwestern Power Administration System Map



LEGEND

- ⊛ Office Locations
- ▄ Power Projects
- Transmission Lines
- Customer Locations



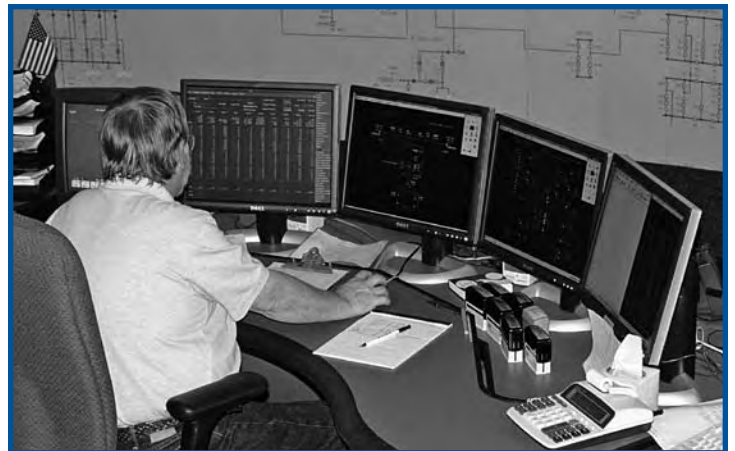
Power Marketing

Southwestern continued to meet all power sales contract obligations in FY 2006, and marketed 100% of firm capacity and energy in accordance with our marketing plan. In FY 2006, we marketed and delivered 2.3 billion kilowatt-hours (kWh) of hydropower energy to municipal, cooperative, and military customers for revenues of over \$116 million.

Environmental Stewardship

In FY 2006, our hard work saved the Nation the equivalent of an estimated 2.5 million barrels of oil, 0.7 million tons of coal, or 15.6 billion cubic feet of gas through the generation of hydroelectric power, and prevented the emission of greenhouse gases equivalent to 1.3 million tons of carbon dioxide, 3.8 thousand tons of sulfur dioxide, and 3.1 thousand tons of nitrogen oxide.

Southwestern dispatchers multi-task to maximize the benefit of all marketable power resources.



Operating Costs

Despite drought conditions, Southwestern continued to ensure that our operating and maintenance costs per kWh remained below the National average for hydropower, and that any increases in operating costs per kWh remained below the average annual rate of inflation.

Repayment

We met all repayment goals on the Federal investment for FY 2004-2006, producing revenues sufficient to repay to the American taxpayers all annual expenses and required principal investment in the hydropower facilities. In FY 2006, original debt service was retired on the Blakely Mountain Dam hydroelectric project as that facility turned 50 years old.

Partnerships

Maintaining strong working relationships with our customers and other Federal power stakeholders is essential for Southwestern to effectively meet our strategic goals.

Customer Drought Response

In March 2005, Southwestern's marketing area began to experience severe drought conditions that eventually lasted over 17 months. For the storage projects that represent over 95% of our total storage, inflows were the lowest recorded in nearly 80 years, making this period one of the most critical droughts of record in this part of the country. In response to continued drought predictions and related reductions in energy production at the storage projects, Southwestern developed and implemented a successful voluntary Deferral of Peaking Energy Program with our customers.



Under the Deferral Program, participating customers representing over 90 percent of our load agreed to voluntarily limit their use of peaking energy during the critical summer months of June through September 2006 and during their current contract years, thus preserving much-needed electrical capacity and conserving energy at the hydropower projects. The cooperation from our customers allowed Southwestern to satisfy our contractual obligations with the limited resources available and fulfill our Federal hydropower mission. Throughout this period of high system load

Environmental Responsibility

Southwestern executed a Programmatic Agreement in 2005 with the Oklahoma and Missouri State Historic Preservation Offices (SHPO) and the national Advisory Council for Historic Preservation to streamline the environmental review process for cultural resources, an initiative for which the Agency received a Citation of Merit from the Oklahoma SHPO.



demands and extreme weather, further compounded by funding issues, non-Federal transmission grid constraints, and volatile post-Katrina energy prices, Southwestern successfully made all power deliveries within the reliability standards of the North American Electric Reliability Corporation (NERC).

Low reservoir levels, evidenced by visible water lines at projects such as Eufaula Dam, prompted Southwestern to take action to preserve capacity by partnering with customers in an innovative energy deferral program.

Federal Cooperation

In FY 2006, Southwestern completed installation of a new supervisory control and data acquisition system that meets new NERC requirements for improved alarming capabilities and situational awareness. The system was developed in partnership with Western Area Power Administration under the Department of Energy (DOE) Enterprise Architecture common line of business, saving an initial \$800,000 and an estimated \$100,000 per year as we cost-share enhancements and application-testing.

Regional Initiatives

Southwestern encourages competitive electric power markets through implementation of reliability-centered open access policies, such as our open access transmission service tariff and our relationship with the Southwest Power Pool, Inc. (SPP). We participate in the SPP regional reliability council and the SPP Regional Transmission Organization (RTO), comprised of public power transmission owners, transmission customers, investor-owned utilities, and other stakeholders located across the south-central United States. In FY 2005, Southwestern executed a contract with SPP to facilitate our participation in the RTO and permit SPP's administration of our tariff while maintaining compliance with Federal statutes and regulations.

Regional power system operators frequently attend conferences and NERC-certified classes at Southwestern's Power Operations Training Center in Springfield, Missouri.



System Reliability

Maintaining a reliable system is critical to our customers, who rely on low-cost Federal energy for their consumers. In FY 2006, Southwestern once again surpassed the reliability requirements of NERC and SPP

while also providing 24-hour coverage of our scheduling and dispatch functions with NERC-certified power system dispatchers. We achieved another year of error-free switching performance, with no preventable outages (outages over which Southwestern has sole control) to our customers and their end-users. Furthermore, our crews consistently exceed their maintenance goals out in the field. In FY 2006, we exceeded planned work units for transmission line maintenance (128%), substation service and repair (223%), mechanical clearing (176%), and vegetation control (200%) in our transmission corridors.

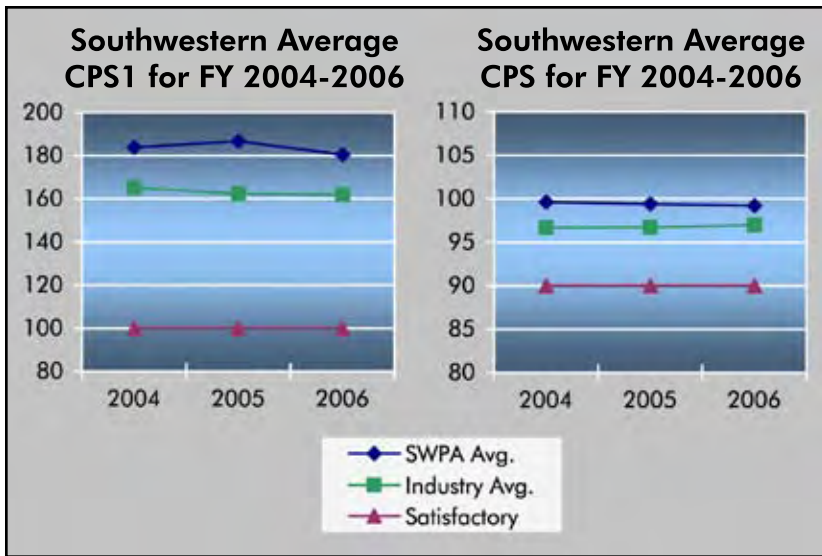


Maintenance Efficiency

Southwestern was recognized by a 2005 DOE Aviation Audit as having one of the strongest commercial aviation service (CAS) operations in DOE in terms of efficiency, effectiveness, and safety. We contract with CAS providers to provide direct support for the Agency's mission, such as performance of right-of-way clearing and line patrols.

Control Performance Standards

Southwestern also performed above NERC's control performance standards (CPS) for



Southwestern outperformed the industry average in FY 2004-2006 for generation scheduling, surpassing NERC's Control Performance Standards (CPS) by a wide margin. Higher CPS values represent greater efficiency and load-balancing.

balancing generation to load in FY 2006, with average ratings of 180.51 for CPS1, and 99.21 for CPS2. Both ratings are not only above NERC's "satisfactory" level of 100 for CPS1, and 90 for CPS2, but they are also higher than the industry averages of 161.82 and 96.99, respectively.

Right-of-Way Clearing

Southwestern continued to partner with customers to fund right-of-way maintenance programs, including line patrols and aerial side clearing with helicopters, which saved Southwestern nearly \$830,000 in appropriated funds in FY 2006.

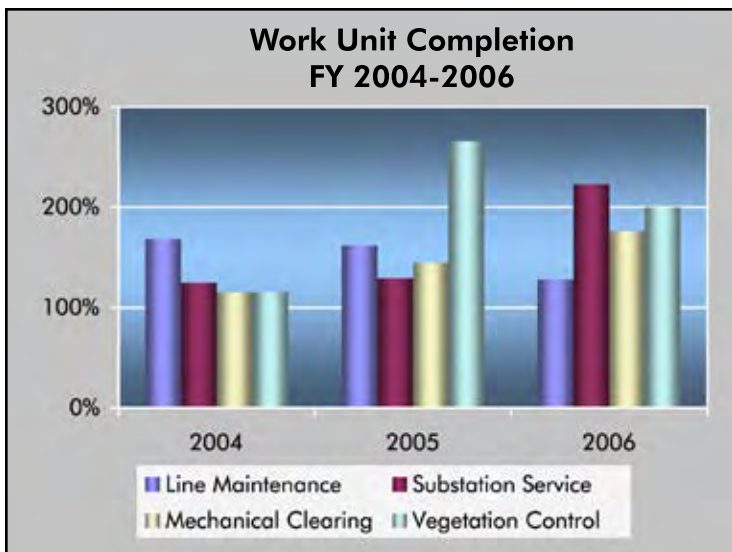
Replacements and Repair

We installed new large power transformers at our Springfield and Norfolk Substations to maintain system efficiency, and completed

over 5,500 man-hours of power system work at U.S. Army Corps of Engineers (Corps) facilities, which saved over \$1 million in otherwise-contracted maintenance costs.

Safety

Southwestern received a third place award for our size category in the American Public Power Association's national safety record competition in calendar year 2005, citing a Recordable Accident Frequency Rate (RAFR) of only 1.3 recordable injuries for every 200,000 hours worked, which is well below the Bureau of Labor Statistics' figure of 4.5 cited as the national average for electrical utilities. Additionally, FY 2006 marks Southwestern's fourteenth consecutive year – over 4.3 million man-hours worked – without any electrical-related recordable accidents.



Southwestern crews routinely exceed their planned work units as part of a vigorous and proactive maintenance schedule that improves efficiency and system reliability.

Regular maintenance performed by Southwestern crews at Corps switchyards, such as replacing outdated circuit breakers, helps ensure the reliability of the regional grid.



Emergency Preparedness

Southwestern always stands ready to respond to line breaks, system outages, and other difficulties, drawing on the strengths of our personnel, policies, and practices to restore power flow quickly and efficiently. This preparedness pays off. Following hurricane Rita in the fall of 2005, Southwestern coordinated efforts among local cooperatives, cities, and the Corps to help restore power to over 20,000 Texas residents using Federal power from the Sam Rayburn Dam until regular service could be reestablished. During the 2006 severe storm season, we responded to two tornado-related line outages, restoring each system in less than 48 hours.

Fiber Optics

In FY 2006, Southwestern finished the build-out of our fiber optic communications system, which provides system redundancy and high

speed data communications capability and greatly reduces the need for leased analog lines. The enhanced system enables us to carry data communications from Corps powerplants and to partner with other area utilities to reduce operational costs and increase regional reliability.

Information Technology and Security

As part of Southwestern's commitment to enhanced system security and reliability, we assured the security of our power system, facilities, and information technology (IT) assets by completing the Risk Assessment Methodology for Electric Power Transmission developed by Sandia National Laboratories in FY 2004, and certified and accredited all of our major IT systems. Southwestern continues to meet DOE cyber security reporting requirements and maintains a Plan of Action and Milestone process. In FY 2005 we completed the installation of a communications infrastructure for our Alternate Control Center, which will serve as a backup to the Springfield Operations Center. Providing such redundant control is an important part of Southwestern's Continuity of Operations (COOP) Plan, and so are recent network upgrades at the Springfield Operations Center which ensure continuous reporting of operations data in the event of a communications outage. Under our ongoing Testing and Exercise Program, Southwestern reviewed the COOP plan in FY 2006 and conducted table-top exercises to evaluate its effectiveness.



IT Excellence

Southwestern earned a Secretarial Recognition award from DOE in FY 2004 for our contributions in the Electronic Government area of the President's Management Agenda Initiatives, including standardizing our IT infrastructure, utilizing business practices that follow new policies and procedures, and certifying and accrediting our IT systems.



Human Resources Specialist Lynn King describes Southwestern's recruitment policies and needs to members of the Tulsa Mayor's Hispanic Affairs Commission.

In FY 2006, Southwestern continued to aggressively address future skills gap issues through the use of student hiring authority, upward mobility, and competitive recruitment. We also continued to implement the 45-day hiring model of the Office of Personnel Management, which expedites the process of obtaining the most qualified people to support our mission.

Employee Development

Southwestern's innovative Employee Development Program, which pairs more experienced managers with employees striving to gain competency in critical areas

of the Agency, ensures that valuable business knowledge used to support our mission can be sustained and strengthened. Additionally, we have expanded our "one-stop shopping" of Human Resources and Equal Employment Opportunity (EEO) information to enable all of Southwestern's employees to manage their own time and attendance, benefits, and personal information through an easy-to-use intranet interface.

A Technical Assessment Review of the Agency's EEO program by DOE in FY 2005 identified two items that are now considered "Best Practices" for other DOE offices.

Small Business and Public Service

Southwestern continued to support national entrepreneurship by awarding nearly 64% (\$7.8 million) of our total procurement contracts (\$12.2 million) to small businesses in FY 2006, including disadvantaged, minority-owned, and veteran-owned businesses, which significantly exceeded both our internal goal of 53% and also the overall goal of 23% established for Federal agencies by the Small Business Administration. Additionally, we continued our productive partnership with Wyandotte Net Tel, a Native American-owned small business that provides the Agency with administrative, environmental, and information technology services.

As part of our service to the public, Southwestern upgraded our telephone generation hotline in 2006 to a bilingual, voice-activated system that is more responsive to the needs of resource users requesting generation schedules.

Service Innovation

Southwestern upgraded our telephone generation hotline to be more responsive to the needs of resource users such as fishermen. Hydropower generation schedules can impact fishing since cold water releases provide good habitat in tailwaters below the dams.

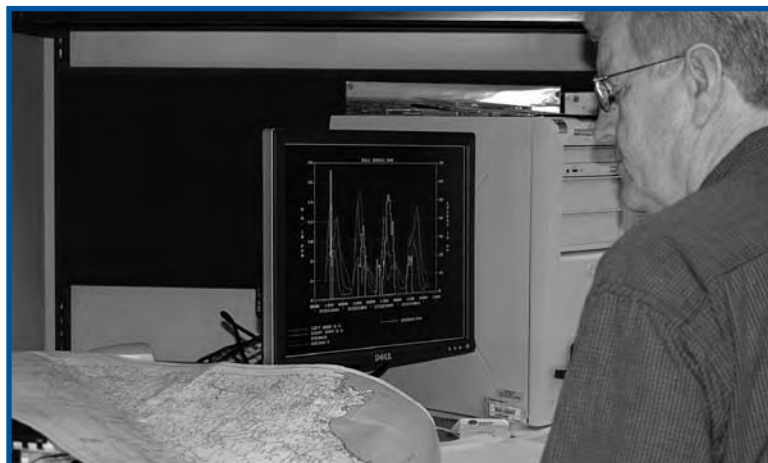


FY 2004-2006 Generation Statistics

Southwestern Federal Power System Energy Production

Project	Fiscal Year On-line	Installed Capacity (kW)	Estimated Average Annual Energy (Millions kWh)	Actual Net Energy Production (Millions kWh)		
				2004	2005	2006
Beaver	1965	112,000	172	123	160	17
Blakely Mountain	1956	75,000	169	150	178	68
Broken Bow	1970	100,000	129	82	132	29
Bull Shoals	1953	340,000	785	598	819	179
Clarence Cannon	1985	58,000	90	82	107	22
Dardanelle	1965	140,000	613	732	777	209
DeGray	1972	68,000	97	75	74	36
Denison	1945	70,000	219	109	189	60
Eufaula	1965	90,000	260	99	286	13
Fort Gibson	1953	45,000	191	217	292	46
Greers Ferry	1964	96,000	189	163	185	49
Harry S Truman	1982	¹ 160,000	244	265	367	39
Keystone	1968	70,000	228	322	335	113
Narrows	1950	25,500	30	29	34	14
Norfolk	1944	80,550	184	168	201	104
Ozark	1973	100,000	429	345	333	106
Robert D Willis	1989	7,350	37	26	20	13
Robert S Kerr	1971	110,000	459	608	719	159
Sam Rayburn	1966	52,000	114	167	173	42
Stockton	1973	45,200	55	37	65	0
Table Rock	1959	200,000	495	386	555	99
Tenkiller	1954	39,100	95	105	122	21
Webbers Falls	1974	60,000	213	284	267	77
Whitney	1955	30,000	73	37	72	21
Total		2,173,700	5,570	5,212	6,463	1,536

¹ Only 53,300 kW have been declared in commercial operation.

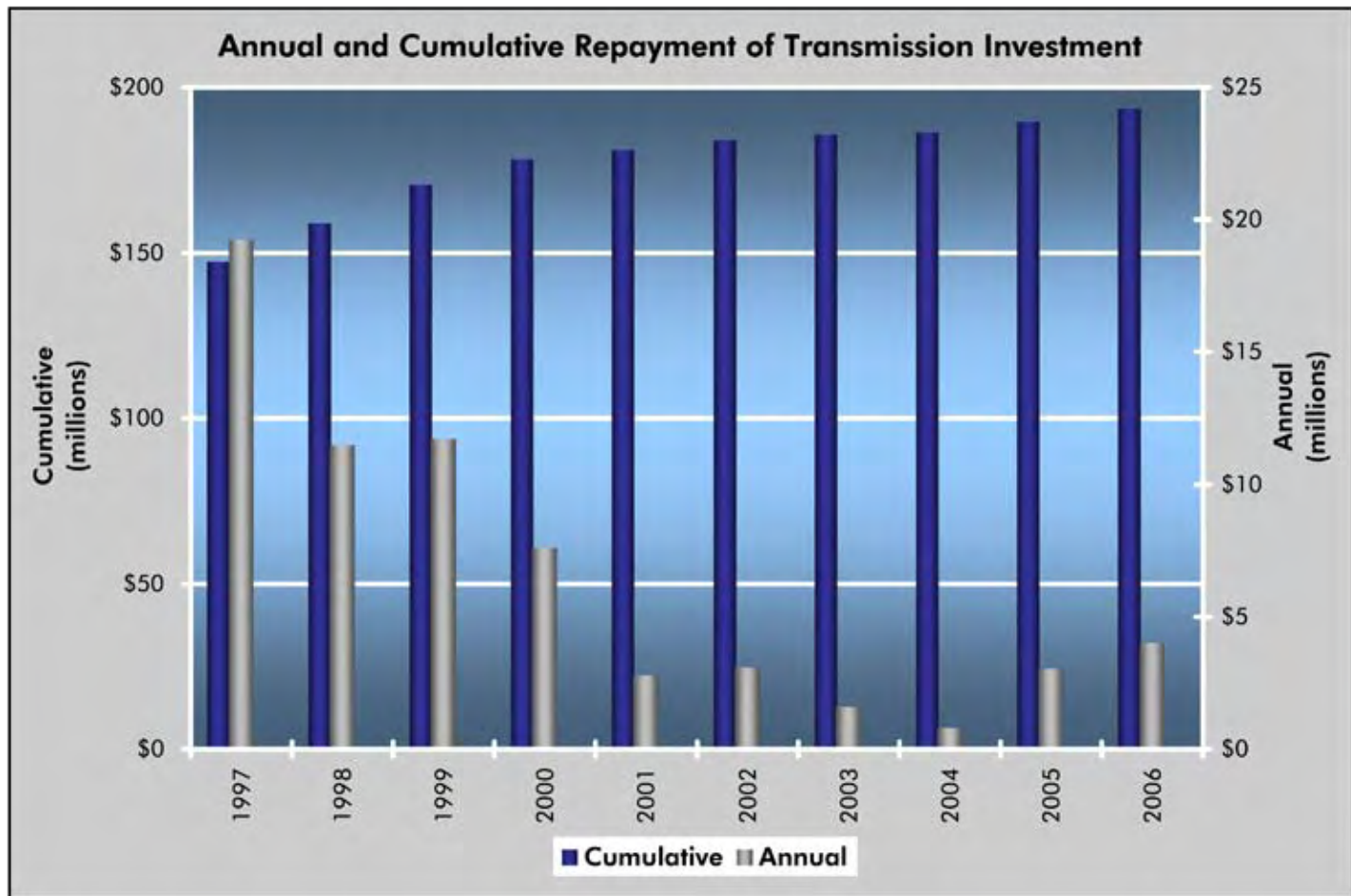


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FY 2004-2006 Investment and Repayment

Federal Investment in Transmission Facilities in Service

	2004	2005	2006
Total Cumulative Repayable Investment	\$232,035,836	\$244,651,803	\$251,455,908
Total Cumulative Unpaid Investment	<u>\$45,581,654</u>	<u>\$55,159,336</u>	<u>\$57,947,243</u>
Total Cumulative Investment Paid	<u>\$186,454,182</u>	<u>\$189,492,467</u>	<u>\$193,508,665</u>



Annual Repayment Status

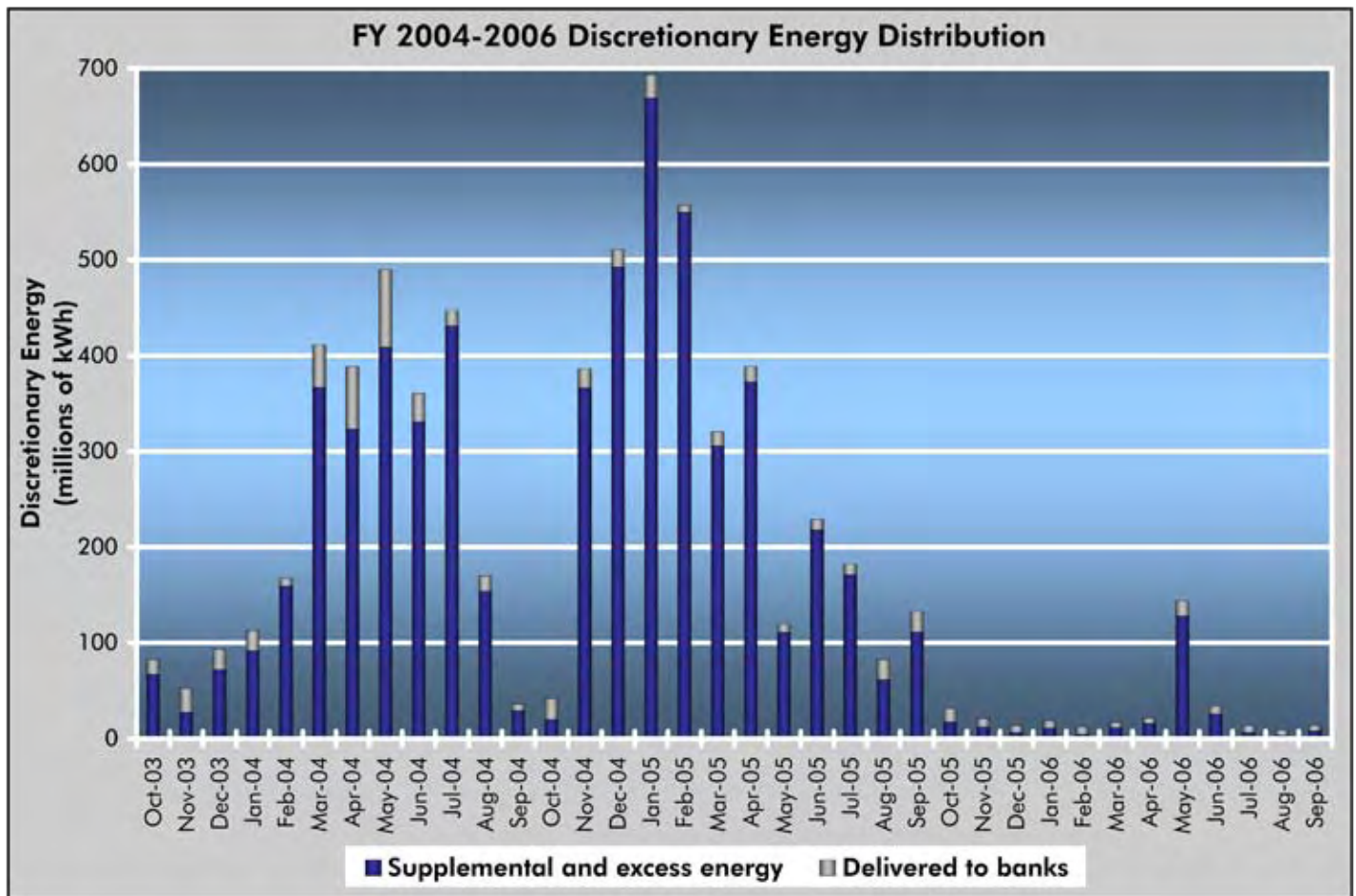
	2004	2005	2006
Revenues	\$42,482,472	\$36,160,172	\$105,612,556
Expenses			
Operations and Maintenance	(31,268,953)	(22,064,821)	(23,741,110)
Purchased Power and Service Charge	(8,357,253)	(8,471,385)	(74,946,533)
Interest	(2,054,493)	(2,585,681)	(2,908,715)
Total Expenses	<u>(\$41,680,699)</u>	<u>(\$33,121,887)</u>	<u>(\$101,596,358)</u>
Revenue Applied to Amortization			
(Annual Amortization)	<u>\$801,773</u>	<u>\$3,038,285</u>	<u>\$4,016,198</u>

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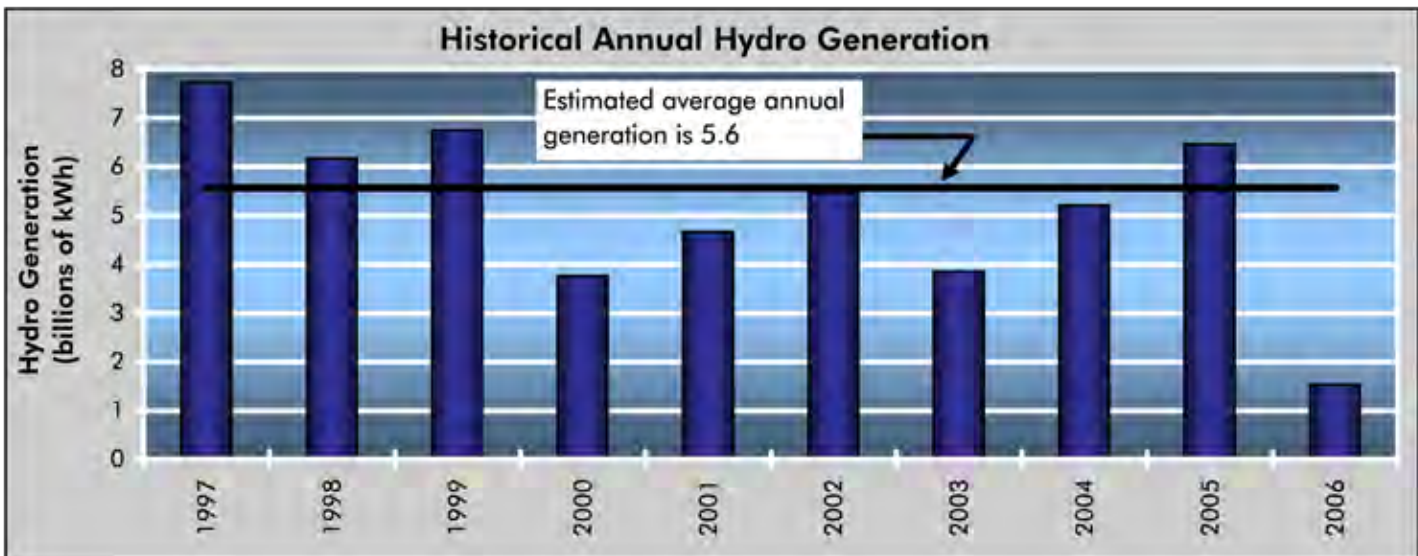
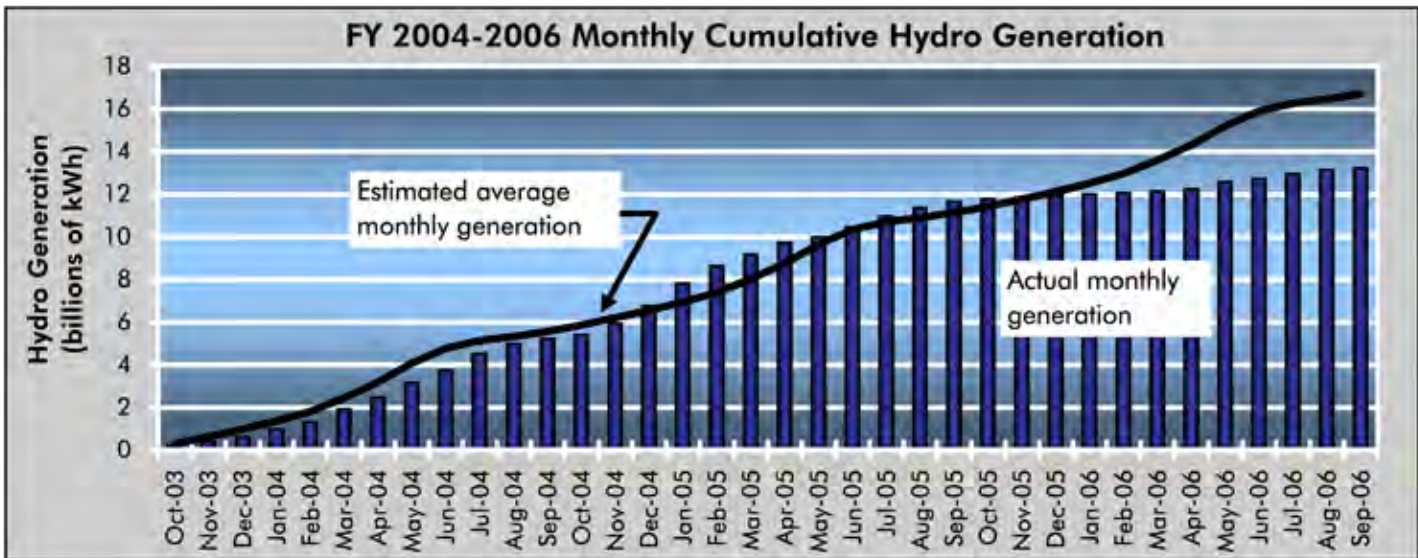
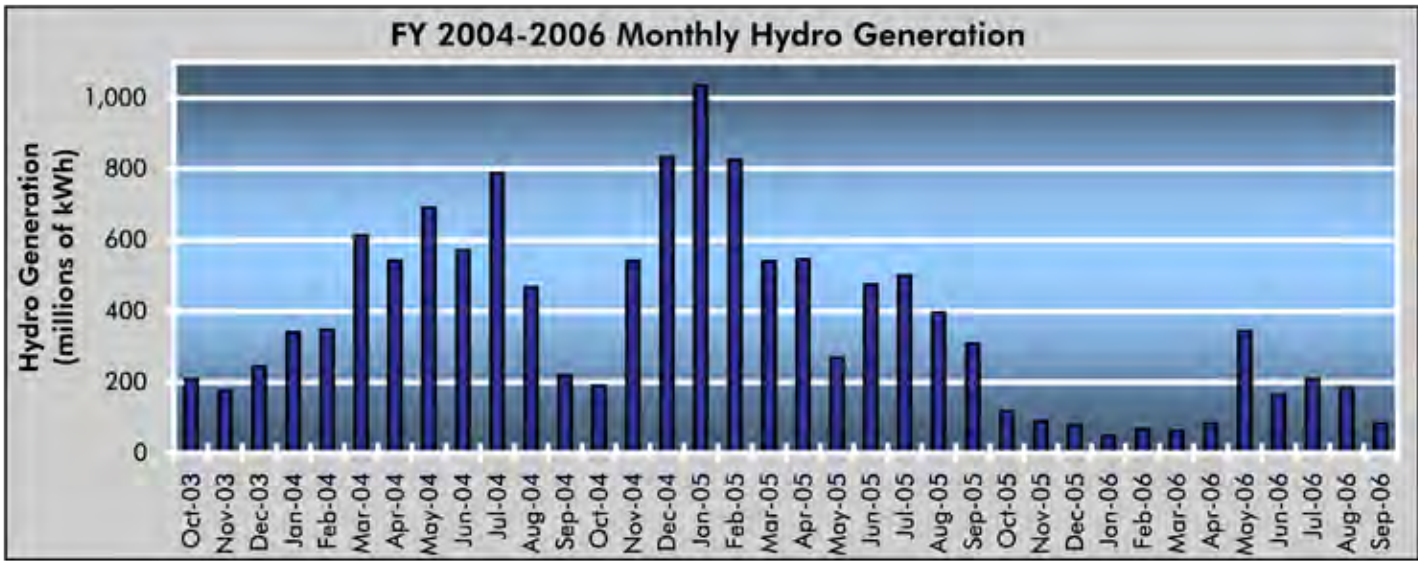
FY 2004-2006 Source and Distribution of Energy

Energy Source	2004		2005		2006	
	Millions kWh	%	Millions kWh	%	Millions kWh	%
Generated by Corps Plants	5,212.2	95.2	6,463.1	97.5	1,535.6	55.3
Interchange	135.7	2.5	122.0	1.8	231.9	8.3
Losses Purchase	120.0	2.2	5.7	0.1	195.4	7.0
Contract Exchange	3.1	0.1	0.0	0.0	121.5	4.4
Direct Purchase	0.5	0.0	41.3	0.6	693.7	25.0
Total	5,471.5	100.0	6632.1	100.0	2,778.1	100.0

Energy Distribution	2004		2005		2006	
	Millions kWh	%	Millions kWh	%	Millions kWh	%
Cooperatives	3,432.9	62.7	4,357.8	65.7	1,578.8	56.8
Municipalities	1,497.4	27.4	1,808.5	27.3	683.8	24.6
Interchange	259.3	4.7	121.0	1.8	115.9	4.2
Losses	164.6	3.0	176.5	2.7	400.0	12.2
Contract Exchange	0.0	0.0	27.3	0.4	0.0	0.0
Government Agencies	115.7	2.1	139.2	2.1	58.0	2.1
Utility Companies / Others	1.6	0.1	1.8	0.0	1.6	0.1
Total	5,471.5	100.0	6,632.1	100.0	2,778.1	100.0



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FY 2004 - Detail of Billings to Customers

Distribution Cooperatives	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Beauregard Electric Cooperative, Inc	7,900	19,871,266	380,960
Claiborne Electric Cooperative, Inc	4,900	12,325,217	236,292
Concordia Electric Cooperative, Inc	4,300	10,816,003	207,358
Dixie Electric Membership Corporation	16,300	41,000,207	786,031
Jefferson Davis Electric Cooperative, Inc	3,600	9,055,263	173,602
Kaw Valley Electric Cooperative, Inc	1,000	2,539,000	48,519
Nemaha-Marshall Electric Cooperative Association	1,000	2,522,000	50,784
Northeast Louisiana Power Cooperative, Inc	4,100	10,312,935	197,713
Pointe Coupee Electric Membership Corporation	2,700	6,791,445	130,202
South Louisiana Electric Cooperative Association	8,000	20,122,800	385,782
Southwest Louisiana Electric Membership Corporation	22,400	56,343,842	1,080,190
Valley Electric Membership Corporation	9,400	23,644,290	453,294
Washington-St Tammany Electric Cooperative, Inc	7,800	19,619,732	376,138
Total	<u>93,400</u>	<u>234,964,000</u>	<u>4,506,865</u>

Generation and Transmission Cooperatives	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Arkansas Electric Cooperative Corporation	189,000	476,902,000	9,139,372
Associated Electric Cooperative, Inc	478,000	1,171,268,000	22,855,633
Brazos Electric Power Cooperative, Inc	35,200	49,840,000	1,414,352
Kansas Electric Power Cooperative, Inc	100,000	255,515,000	4,855,015
Northeast Texas Electric Cooperative, Inc	127,500	292,866,000	5,945,639
Rayburn Country Electric Cooperative, Inc	44,125	70,148,372	1,795,997
Sam Rayburn Dam Electric Cooperative, Inc	52,000	167,264,000	2,013,024
Tex-La Electric Cooperative of Texas, Inc	28,175	44,494,628	1,144,299
Western Farmers Electric Cooperative	260,000	669,603,000	12,678,246
Total	<u>1,314,000</u>	<u>3,197,901,000</u>	<u>61,841,577</u>

Joint Action Agencies	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Kansas Municipal Energy Agency*	11,200	28,990,000	547,566
Louisiana Energy and Power Authority**	13,400	33,328,000	783,057
Sam Rayburn Municipal Power Agency***	7,350	26,443,220	444,681
Total	<u>31,950</u>	<u>88,761,220</u>	<u>1,775,304</u>

Military Installations	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Fort Sill Military Reservation, Ft Sill, Oklahoma	36,700	93,339,838	1,779,633
McAlester Army Ammunition Plant, McAlester, Oklahoma	2,688	6,836,442	130,345
Vance Air Force Base, Enid, Oklahoma	6,000	15,492,270	292,494
Total	<u>45,388</u>	<u>115,668,550</u>	<u>2,202,472</u>

SPP Reserve Sharing Companies	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
SPP Reserve Sharing Companies	0	1,623,000	59,294
Total	<u>0</u>	<u>1,623,000</u>	<u>59,294</u>

* Served 24 Municipals with Federal Allocations in FY 2004.

** Served 7 Municipals with Federal Allocations in FY 2004.

*** Has Federal Allocation.

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FY 2004 - Detail of Billings to Customers

Municipalities	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Alexandria, Louisiana	10,700	20,548,000	391,180
Anthony, Kansas	300	764,000	14,545
Augusta, Arkansas	3,700	9,509,000	180,420
Bentonville, Arkansas	18,000	45,696,000	872,419
Carthage, Missouri	7,000	17,981,000	368,886
Clarksville, Arkansas	19,100	48,558,000	928,699
Coffeyville, Kansas	1,900	4,875,000	92,346
Comanche, Oklahoma	4,200	10,583,676	203,239
Copan, Oklahoma	2,500	6,299,805	120,976
Duncan, Oklahoma	32,500	81,897,488	1,572,682
Eldorado, Oklahoma	1,300	3,275,899	62,907
Fulton, Missouri	3,000	7,930,000	147,073
Goltry, Oklahoma	900	2,267,930	43,551
Granite, Oklahoma	2,300	5,795,825	111,298
Hermann, Missouri	5,800	14,745,000	282,101
Higginsville, Missouri	3,000	7,319,000	143,918
Hominy, Oklahoma	10,000	25,199,228	483,902
Jonesboro, Arkansas	80,000	195,660,000	3,897,852
Kansas City, Kansas	38,600	101,135,000	1,892,722
Kennett, Missouri	11,000	27,387,000	576,526
Lafayette, Louisiana	18,600	33,610,000	834,529
Lamar, Missouri	12,000	30,390,000	581,843
Lexington, Oklahoma	4,100	10,331,685	198,400
Malden, Missouri	5,000	12,226,000	260,392
Manitou, Oklahoma	600	1,511,952	29,034
Minden, Louisiana	2,400	5,931,000	115,516
Natchitoches, Louisiana	2,500	6,429,000	121,626
New Madrid, Missouri	4,500	10,495,000	226,727
Nixa, Missouri	5,300	13,312,000	277,463
Olustee, Oklahoma	700	1,763,946	33,873
Paragould, Arkansas	50,500	124,919,000	2,640,397
Paris, Arkansas	10,800	27,886,082	526,489
Piggott, Arkansas	4,900	12,376,000	258,147
Poplar Bluff, Missouri	39,500	97,161,000	2,061,346
Purcell, Oklahoma	14,500	37,439,648	706,861
Ruston, Louisiana	4,900	11,708,000	192,421
Ryan, Oklahoma	1,900	4,787,852	91,942
Sikeston, Missouri	33,800	90,905,000	1,823,346
Skiatook, Oklahoma	11,000	28,536,000	536,198
Spiro, Oklahoma	4,000	10,079,693	193,561
Springfield, Missouri	50,000	125,578,000	2,449,560
Thayer, Missouri	2,800	7,105,000	135,676
Walters, Oklahoma	6,400	16,127,506	309,697
West Plains, Missouri	15,000	34,770,000	754,821
Wetumka, Oklahoma	2,600	6,551,801	125,815
Yale, Oklahoma	3,700	9,323,714	179,044
Total	567,800	1,408,681,730	28,051,966

2004 TOTALS

Capacity: 2,052,538 kW
Energy: 5,047,599,500 kWh
Billings: \$98,437,478 Dollars

This page contains unaudited supplementary information.

FY 2005 - Detail of Billings to Customers

Distribution Cooperatives	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Beauregard Electric Cooperative, Inc	7,900	24,207,970	425,433
Claiborne Electric Cooperative, Inc	4,900	15,015,070	263,876
Concordia Electric Cooperative, Inc	4,300	13,176,490	231,565
Dixie Electric Membership Corporation	16,300	49,948,088	877,792
Jefferson Davis Electric Cooperative, Inc	3,600	11,031,479	193,868
Kaw Valley Electric Cooperative, Inc	1,000	3,028,000	53,620
Nemaha-Marshall Electric Cooperative Association	1,000	3,033,000	56,043
Northeast Louisiana Power Cooperative, Inc	4,100	12,563,628	220,794
Pointe Coupee Electric Membership Corporation	2,700	8,273,608	145,401
South Louisiana Electric Cooperative Association	8,000	24,514,398	430,818
Southwest Louisiana Electric Membership Corporation	22,400	68,640,314	1,206,291
Valley Electric Membership Corporation	9,400	28,804,418	506,211
Washington-St Tammany Electric Cooperative, Inc	7,800	23,901,537	420,048
Total	93,400	286,138,000	5,031,762

Generation and Transmission Cooperatives	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Arkansas Electric Cooperative Corporation	189,000	583,201,000	10,213,399
Associated Electric Cooperative, Inc	478,000	1,586,795,000	26,808,874
Brazos Electric Power Cooperative, Inc	35,200	86,399,000	1,664,260
Kansas Electric Power Cooperative, Inc	100,000	306,697,000	5,384,847
Northeast Texas Electric Cooperative, Inc	127,500	349,124,000	6,525,579
Rayburn Country Electric Cooperative, Inc	44,125	119,941,580	2,209,156
Sam Rayburn Dam Electric Cooperative, Inc	52,000	172,746,000	2,388,531
Tex-La Electric Cooperative of Texas, Inc	28,175	76,441,420	1,409,202
Western Farmers Electric Cooperative	260,000	790,281,000	13,869,174
Total	1,314,000	4,071,626,000	70,473,022

Joint Action Agencies	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Kansas Municipal Energy Agency*	11,200	32,809,000	595,061
Louisiana Energy and Power Authority**	13,400	36,132,000	694,734
Sam Rayburn Municipal Power Agency***	7,350	20,300,620	452,952
Total	31,950	89,241,620	1,742,747

Military Installations	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Fort Sill Military Reservation, Ft Sill, Oklahoma	36,700	112,694,010	1,979,785
McAlester Army Ammunition Plant, McAlester, Oklahoma	2,688	8,253,990	145,004
Vance Air Force Base, Enid, Oklahoma	6,000	18,289,650	322,462
Total	45,388	139,237,650	2,447,251

SPP Reserve Sharing Companies	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
SPP Reserve Sharing Companies	0	1,776,000	98,236
Total	0	1,776,000	98,236

* Served 24 Municipals with Federal Allocations in FY 2005.

** Served 7 Municipals with Federal Allocations in FY 2005.

*** Has Federal Allocation.

This page contains unaudited supplementary information.

FY 2005 - Detail of Billings to Customers

Municipalities	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Alexandria, Louisiana	10,700	35,845,000	593,599
Anthony, Kansas	300	910,000	16,085
Augusta, Arkansas	3,700	11,033,000	197,534
Bentonville, Arkansas	18,000	55,321,000	970,110
Carthage, Missouri	7,000	20,678,000	403,099
Clarksville, Arkansas	19,100	56,454,000	1,009,123
Coffeyville, Kansas	1,900	5,815,000	102,211
Comanche, Oklahoma	4,200	12,657,406	225,908
Copan, Oklahoma	2,500	7,534,171	134,469
Duncan, Oklahoma	32,500	97,944,210	1,748,094
Eldorado, Oklahoma	1,300	3,917,768	69,924
Fulton, Missouri	3,000	9,044,000	160,635
Goltry, Oklahoma	900	2,712,302	48,409
Granite, Oklahoma	2,300	6,931,434	123,711
Hermann, Missouri	5,800	17,425,000	309,186
Higginsville, Missouri	3,000	9,208,000	161,205
Hominy, Oklahoma	10,000	30,136,680	537,875
Jonesboro, Arkansas	80,000	240,641,000	4,354,825
Kansas City, Kansas	38,600	123,303,000	2,110,537
Kennett, Missouri	11,000	32,724,000	638,257
Lafayette, Louisiana	18,600	39,324,000	910,360
Lamar, Missouri	12,000	36,151,000	640,789
Lexington, Oklahoma	4,100	12,356,041	220,529
Malden, Missouri	5,000	15,058,000	289,309
Manitou, Oklahoma	600	1,808,202	32,273
Minden, Louisiana	2,400	7,119,000	127,969
Natchitoches, Louisiana	2,500	7,405,000	133,223
New Madrid, Missouri	4,500	14,606,000	266,120
Nixa, Missouri	5,300	16,101,000	308,873
Olustee, Oklahoma	700	2,109,568	37,651
Paragould, Arkansas	50,500	156,633,000	2,972,700
Paris, Arkansas	10,800	32,921,366	580,432
Piggott, Arkansas	4,900	14,818,000	284,213
Poplar Bluff, Missouri	39,500	122,181,000	2,321,214
Purcell, Oklahoma	14,500	44,199,984	779,283
Ruston, Louisiana	4,900	14,386,000	257,920
Ryan, Oklahoma	1,900	5,725,968	102,196
Sikeston, Missouri	33,800	102,932,000	1,988,718
Skiatook, Oklahoma	11,000	34,083,000	593,308
Spiro, Oklahoma	4,000	12,054,671	215,150
Springfield, Missouri	50,000	151,908,000	2,746,236
Thayer, Missouri	2,800	8,243,000	149,023
Walters, Oklahoma	6,400	19,287,475	344,240
West Plains, Missouri	15,000	48,600,000	890,103
Wetumka, Oklahoma	2,600	7,835,535	139,847
Yale, Oklahoma	3,700	11,150,570	199,014
Total	<u>567,800</u>	<u>1,719,232,351</u>	<u>31,445,487</u>

2005 TOTALS

Capacity: 2,052,538 kW
Energy: 6,307,251,621 kWh
Billings: \$111,238,505 Dollars

This page contains unaudited supplementary information.

FY 2006 - Detail of Billings to Customers

Distribution Cooperatives	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Beauregard Electric Cooperative, Inc	7,900	10,206,186	382,666
Claiborne Electric Cooperative, Inc	4,900	6,330,420	237,350
Concordia Electric Cooperative, Inc	4,300	5,555,264	208,286
Dixie Electric Membership Corporation	16,300	21,058,332	789,551
Jefferson Davis Electric Cooperative, Inc	3,600	4,650,918	174,379
Kaw Valley Electric Cooperative, Inc	1,000	1,276,000	48,734
Nemaha-Marshall Electric Cooperative Association	1,000	1,276,000	51,134
Northeast Louisiana Power Cooperative, Inc	4,100	5,296,882	198,599
Pointe Coupee Electric Membership Corporation	2,700	3,488,193	130,784
South Louisiana Electric Cooperative Association	8,000	10,335,377	387,510
Southwest Louisiana Electric Membership Corporation	22,400	28,939,062	1,085,027
Valley Electric Membership Corporation	9,400	12,144,070	455,324
Washington-St Tammany Electric Cooperative, Inc	7,800	10,076,994	377,822
Total	93,400	120,633,698	4,527,164

Generation and Transmission Cooperatives	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Arkansas Electric Cooperative Corporation	189,000	227,436,000	8,982,721
Associated Electric Cooperative, Inc	478,000	503,739,000	22,227,897
Brazos Electric Power Cooperative, Inc	35,200	26,577,000	1,467,909
Kansas Electric Power Cooperative, Inc	100,000	120,261,000	4,749,221
Northeast Texas Electric Cooperative, Inc	127,500	145,862,000	5,947,142
Rayburn Country Electric Cooperative, Inc	44,125	38,477,524	1,848,194
Sam Rayburn Dam Electric Cooperative, Inc	52,000	41,500,000	2,740,473
Tex-La Electric Cooperative of Texas, Inc	28,175	24,472,476	1,178,317
Western Farmers Electric Cooperative	260,000	329,803,000	12,559,325
Total	1,314,000	1,458,128,000	61,701,198

Joint Action Agencies	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Kansas Municipal Energy Agency*	11,200	13,114,000	529,384
Louisiana Energy and Power Authority**	12,900	17,934,000	642,657
Sam Rayburn Municipal Power Agency***	7,350	12,794,230	599,310
Total	31,450	43,842,230	1,771,350

Military Installations	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Fort Sill Military Reservation, Ft Sill, Oklahoma	36,700	46,410,087	1,761,851
McAlester Army Ammunition Plant, McAlester, Oklahoma	2,688	3,399,193	129,042
Vance Air Force Base, Enid, Oklahoma	5,900	8,231,502	296,587
Total	45,288	58,040,782	2,187,480

SPP Reserve Sharing Companies	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
SPP Reserve Sharing Companies	0	1,616,000	133,566
Total	0	1,616,000	133,566

* Served 24 Municipals with Federal Allocations in FY 2006.

** Served 6 Municipals with Federal Allocations in FY 2006.

*** Has Federal Allocation.

This page contains unaudited supplementary information.

FY 2006 - Detail of Billings to Customers

Municipalities	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Alexandria, Louisiana	10,700	13,297,000	514,190
Anthony, Kansas	300	380,000	14,522
Augusta, Arkansas	3,700	4,541,000	177,669
Bentonville, Arkansas	18,000	22,268,000	858,674
Carthage, Missouri	7,000	7,948,000	360,813
Clarksville, Arkansas	19,100	23,877,000	922,631
Coffeyville, Kansas	1,900	2,309,000	90,369
Comanche, Oklahoma	4,200	4,629,242	196,298
Copan, Oklahoma	2,500	2,755,502	116,844
Duncan, Oklahoma	32,500	35,821,525	1,518,976
Eldorado, Oklahoma	1,300	1,432,862	60,759
Fulton, Missouri	3,000	3,437,000	141,455
Goltry, Oklahoma	900	991,981	42,064
Granite, Oklahoma	2,300	2,535,061	107,497
Hermann, Missouri	5,800	6,520,000	272,482
Higginsville, Missouri	3,000	3,464,000	141,447
Hominy, Oklahoma	10,000	11,022,008	467,377
Jonesboro, Arkansas	80,000	81,025,000	5,773,440
Jonesville, Louisiana	500	471,302	18,667
Kansas City, Kansas	38,600	48,151,000	1,857,495
Kennett, Missouri	11,000	11,323,000	556,058
Lafayette, Louisiana	18,600	21,033,000	873,383
Lamar, Missouri	12,000	13,774,000	565,480
Lexington, Oklahoma	4,100	4,519,023	191,625
Malden, Missouri	5,000	5,270,000	253,913
Manitou, Oklahoma	600	661,321	28,043
Minden, Louisiana	2,400	2,781,000	113,833
Natchitoches, Louisiana	2,600	3,178,000	120,832
New Madrid, Missouri	4,500	4,829,000	224,748
Nixa, Missouri	5,300	5,900,000	272,567
Olustee, Oklahoma	700	771,541	32,716
Paragould, Arkansas	50,500	55,186,000	2,588,870
Paris, Arkansas	10,800	13,131,818	515,154
Piggott, Arkansas	4,900	5,399,000	251,178
Poplar Bluff, Missouri	39,500	40,610,000	1,999,204
Purcell, Oklahoma	14,500	17,630,680	691,643
Ruston, Louisiana	4,900	5,915,000	233,751
Ryan, Oklahoma	1,900	2,094,182	88,802
Sikeston, Missouri	33,800	40,165,000	1,731,337
Skiatook, Oklahoma	11,000	14,278,000	535,240
Spiro, Oklahoma	4,000	4,408,804	186,951
Springfield, Missouri	50,000	55,661,000	2,391,386
Thayer, Missouri	2,800	3,545,000	135,160
Walters, Oklahoma	6,400	7,054,084	299,121
West Plains, Missouri	15,000	16,989,000	758,332
Wetumka, Oklahoma	2,600	2,865,721	121,518
Yale, Oklahoma	3,700	4,078,143	172,930
Total	<u>568,400</u>	<u>639,927,800</u>	<u>29,587,440</u>

2006 TOTALS

Capacity: 2,052,538 kW
Energy: 2,322,188,510 kWh
Billings: \$99,908,199 Dollars

This page contains unaudited supplementary information.



March 29, 2007

To the Users of the Southwestern Power Administration Financial Statements:

In previous years, the Financial Statements included in the Annual Report of the Southwestern Power Administration (Southwestern) have combined the financial results of Southwestern and the power portion of the hydro generating facilities operated by the U.S. Army Corps of Engineers (Corps) in six districts. The Financial Statements for FY 2006-2005 will not include the Combining Financial Statements due to the following circumstances:

During FY 2004, the Inspector General's (IG) Office of the Department of Defense identified issues with the Corps' accounting system for fixed assets. As a result, the Corps, in conjunction with the IG Office, is in the process of an audit to determine the validity of the Corps' accounting records.

As soon as the Corps and IG have completed their review into these matters, we will assess the situation with our current audit firm, KPMG LLP, and determine the proper course of action. It is our goal to again publish audited combined Southwestern and Corps' Combining Financial Statements.

To keep you updated on Southwestern's financial status, we are publishing Southwestern's Annual Report with stand-alone Financial Statements for Southwestern for FY 2006-2005. These statements are free of material findings or recommendations.

Respectfully,

A handwritten signature in black ink that reads "Gary L. Swartzlander".

Gary L. Swartzlander
Assistant Administrator
Office of Corporate Services / CFO



Independent Accountants' Review Report

To the Administrator of Southwestern Power Administration
United States Department of Energy:

We have reviewed the accompanying statement of assets, Federal investment and liabilities of the Southwestern Power Administration as of September 30, 2006 and 2005, and the related statements of operations and accumulated net revenues and cash flows for the years then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Southwestern Power Administration.

A review consists principally of inquiries of Administration personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

KPMG LLP

December 15, 2006

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

SOUTHWESTERN POWER ADMINISTRATION

Statement of Assets, Federal Investment and Liabilities

September 30, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Utility plant:		
Plant in service	\$ 251,455,908	244,651,802
Accumulated depreciation	(110,697,849)	(100,730,486)
Construction and retirement work in progress	19,574,942	14,844,136
Net utility plant	<u>160,333,001</u>	<u>158,765,452</u>
Current assets:		
Unexpended appropriations	36,111,590	20,949,833
Accounts receivable	10,305,597	13,431,178
Materials and supplies, at average cost	2,700,813	2,835,605
Total current assets	<u>49,118,000</u>	<u>37,216,616</u>
Banking exchange receivables	704,909	5,043,975
Deferred workers' compensation	3,566,282	3,486,157
Purchase power and banking exchange deferral	47,087,994	—
Other assets	5,961,898	6,935,703
Total assets	<u><u>266,772,084</u></u>	<u><u>211,447,903</u></u>
Federal Investment and Liabilities		
Federal investments:		
Congressional appropriations	899,021,237	869,156,897
Interest on Federal investment	63,123,175	58,665,062
Transfer from other Federal agencies	(59,179,913)	(40,648,749)
Gross Federal investment	902,964,499	887,173,210
Funds returned to U.S. Treasury	(734,893,502)	(797,804,992)
Investment of U.S. Government	168,070,997	89,368,218
Accumulated net revenues	82,810,816	88,761,980
Total Federal investment	<u>250,881,813</u>	<u>178,130,198</u>
Current liabilities:		
Accounts payable and accrued liabilities	8,324,230	6,154,488
Accrued workers' compensation	4,359,987	4,272,567
Purchase power and banking exchange deferral	—	18,485,056
Advances for construction	3,206,054	4,405,594
Total liabilities	15,890,271	33,317,705
Commitments and contingencies (notes 4 and 5)		
Total Federal investment and liabilities	<u>\$ 266,772,084</u>	<u>211,447,903</u>

See Notes to Financial Statements and accompanying Independent Accountants' Review Report.

SOUTHWESTERN POWER ADMINISTRATION

Statement of Operations and Accumulated Net Revenues

For Fiscal Years Ending September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Sales of electric power:		
Cooperatives	\$ 65,720,879	75,547,416
Municipalities	31,310,489	33,077,724
Federal and state agencies	2,161,665	2,438,999
Investor owned utilities	109,615	84,976
Banking exchange	23,153	1,828,128
Transmission service charges for others	16,669,442	14,749,155
Other operating income	400,868	500,538
Total operating revenues before deferrals	<u>116,396,111</u>	<u>128,226,936</u>
Net purchase power credit and banking exchange	64,868,517	(1,556,418)
Revenue distributed to Corps	<u>(75,652,072)</u>	<u>(90,510,347)</u>
Total operating revenues	105,612,556	36,160,171
Operating expenses:		
Operation and maintenance	18,618,469	16,810,641
Purchase power and banking exchange	71,886,468	5,413,525
Depreciation	11,073,268	10,632,477
Transmission service charges by others	3,060,065	3,057,860
Benefit expense	4,016,735	4,192,464
Total operating expenses, excluding interest	<u>108,655,005</u>	<u>40,106,967</u>
Net operating expenses in excess of operating revenues	<u>(3,042,449)</u>	<u>(3,946,796)</u>
Interest on Federal investment	3,884,898	3,456,768
Allowance for funds used during construction	<u>(976,183)</u>	<u>(871,087)</u>
Net interest expense	<u>2,908,715</u>	<u>2,585,681</u>
Net deficit	<u>(5,951,164)</u>	<u>(6,532,477)</u>
Accumulated net revenues:		
Balance, beginning of year	<u>88,761,980</u>	<u>95,294,457</u>
Balance, end of year	<u>\$ 82,810,816</u>	<u>88,761,980</u>

See Notes to Financial Statements and accompanying Independent Accountants' Review Report.

SOUTHWESTERN POWER ADMINISTRATION

Statement of Cash Flows

For Fiscal Years Ending September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash provided by operating activities:		
Net deficit	\$ (5,951,164)	(6,532,477)
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Revenue distributed to Corps	75,652,072	90,510,347
Depreciation	11,073,268	10,632,477
Benefit expense paid by other Federal agencies	1,348,305	1,667,798
Interest expense for Federal investment	4,458,113	3,455,560
Allowance for funds used during construction	(976,183)	(871,087)
(Increase) decrease in assets:		
Accounts receivable	3,125,581	(3,999,748)
Materials and supplies	134,792	169,558
Banking and purchase power exchange receivables	4,339,066	208,342
Purchase power and banking exchange deferral	(47,087,994)	—
Deferred workers' compensation	(80,125)	359,277
Other assets	973,805	64,187
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	2,169,742	34,579
Accrued workers' compensation	87,420	(381,800)
Purchase power and banking exchange deferral	(18,485,056)	1,924,917
Advances for construction	(1,199,540)	1,867,316
Net cash provided by operating activities	<u>29,582,102</u>	<u>99,109,246</u>
Cash used in investing activities:		
Additions to utility plant	<u>(11,664,634)</u>	<u>(13,110,736)</u>
Cash provided by (used in) capital financing activities:		
Congressional appropriations	29,864,340	28,799,353
Funds returned to U.S. Treasury	(12,740,582)	(90,168,858)
Transfer to Corps and other Federal agencies	<u>(19,879,469)</u>	<u>(21,565,583)</u>
Net cash used in capital financing activities	<u>(2,755,711)</u>	<u>(82,935,088)</u>
Net increase in cash	15,161,757	3,063,422
Cash, beginning of year	<u>20,949,833</u>	<u>17,886,411</u>
Cash, end of year	<u>\$ 36,111,590</u>	<u>20,949,833</u>

See Notes to Financial Statements and accompanying Independent Accountants' Review Report.

SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies**(a) General Information and Basis of Preparation of Financial Statements**

The accompanying statements of assets, Federal investment and liabilities and operations and accumulated net revenues as of September 30, 2006 and 2005 have been prepared from the books and records of Southwestern Power Administration (Southwestern), a unit of the U.S. Department of Energy (DOE). Southwestern, as designated by the Secretary of Energy, purchases, transmits and markets power generated from the hydroelectric generating plants and power operations of the U.S. Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense (DOD). Southwestern and the Corps are separately managed and financed and each maintains its own accounting records.

Southwestern is subject to the regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with accounting principles generally accepted in the United States of America as established by Financial Accounting Standards Board (FASB) and Federal Accounting Standards Advisory Board (FASAB), the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE, and the requirements of specific legislation and executive directives issued by government agencies. Southwestern's financial Statements follow the accounting and reporting guidance contained in Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. Allocation of costs and revenues to accounting periods for ratemaking and regulatory purposes may differ from bases generally applied by nonregulated companies. Such allocations to meet regulatory accounting requirements are considered to be accounting principles generally accepted in the United States of America for regulated utilities provided that there is a demonstrable ability to recover any deferred costs in future rates.

(b) Confirmation and Approval of New Rates

The Integrated System rate schedules placed into effect February 1, 2006, were approved on an interim basis by the Deputy Secretary, and will remain in effect through September 30, 2009.

The Sam Rayburn Dam rate became effective January 1, 2006, and was confirmed and approved on a final basis June 15, 2006, by the FERC. The Sam Rayburn Dam rate increased by 12% and is in effect through September 30, 2009. The Robert D. Willis project rate increased by 43.1% and will remain in effect through September 30, 2009, as confirmed on a final basis by the FERC June 21, 2006.

(c) Accounts Receivable

Southwestern's accounts receivable consist generally of receivables for electricity sold to its customers who are primarily public bodies and cooperatives. Southwestern provides for uncollectible accounts if collection is in doubt. At September 30, 2006, no allowance for uncollectible accounts was considered necessary.

(Continued)

SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2006 and 2005

(d) *Utility Plant and Depreciation*

Utility plant is stated at original cost or at appraisal value for property transferred from other government agencies. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and minor replacements are charged to operation and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage is charged to accumulated depreciation when the property is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Service lives currently range from 5 to 100 years for transmission plant and generating plant components.

(e) *Unexpended Appropriations*

Unexpended appropriations consists of the unexpended balance of funds appropriated by Congress for construction and operation and maintenance and are maintained by the U.S. Treasury. Southwestern's records are reconciled to the Treasury balance. For purposes of the statement of cash flows, unexpended appropriations are considered to be cash.

(f) *Purchased Power and Banking Exchange Deferral and Receivable*

A separate rate component (adder) recovers the cost of purchased power based upon the average purchased power costs over the past several years. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through rates. Likewise, if the expense is less than the adder, the excess revenue is deferred for rate-making purposes in accordance with SFAS No. 71.

Southwestern has arrangements with certain customers in which excess power generated by the Corps is banked with the customer until needed by the power system and the customer has power available. The power system records a receivable for the power banked at the customers' cost of generation. The net revenue or expense associated with banking activity is deferred for rate-making purposes in accordance with SFAS No. 71.

(g) *Operating Revenues*

Operating revenues are recorded on the basis of service rendered. Rates are established under requirements of the Flood Control Act of 1944, related legislation and executive departmental directives, and are to provide sufficient revenues to meet all required payments for system costs, including operation and maintenance expenses less depreciation, interest, and payment to the U.S. Treasury for the Federal investment in utility plant. Rates are intended to provide for recovery of the Federal investment in transmission and generating facilities within the service lives of the assets, not to exceed 50 years from the date placed in service, while operation and maintenance costs and interest on Federal investment are intended to be recovered annually.

(Continued)

SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2006 and 2005

As set forth in "Utility Plant and Depreciation" above, assets are being depreciated for financial reporting purposes using the straight-line method over their estimated service lives which currently range from 5 to 100 years for transmission and generating plant components. Accordingly, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of generating facilities, continue beyond the period within which such costs will have been recovered through rates.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation and the related recovery of the U.S. Treasury's investment in utility plant. Southwestern is a Federal entity, thus at any given time the accumulated net revenue (deficit) balance is deemed to represent deferred revenue or expense, respectively.

The practice followed by Southwestern is in conformity with the accounting practices and standards established by the DOE and the requirements of specific legislation and executive directives issued by government agencies.

(h) Interest of Federal Investment

Interest on repayable Federal investment is a cost mandated by the Secretary of the Department of Energy and by the FERC. Southwestern computes interest in accordance with DOE Order RA 6120.2, which provides that interest be computed on the remaining investment after revenue has been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment bearing the highest interest rate (see note 3). Such interest is reflected as an expense in the Statement of Operations and Accumulated Net Revenue with the corresponding increase in Federal Investment.

(i) Allowance for Funds Used During Construction (AFUDC)

The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate making process over the repayment life of the related property through increased revenues resulting from higher recoverable investment. The interest rates used are established by law, administrative order or administrative policy for the fiscal year during which the construction commenced (4.625% for the fiscal year 2006 and 5.125% for fiscal year 2005).

(Continued)

SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2006 and 2005

(j) Retirement Benefits

Southwestern employees participate in either the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS), both contributory defined benefit plans. Agency contributions are based on eligible employee compensation and are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). The contribution levels, however, are legislatively mandated and do not reflect the full cost requirements to fund the plans. Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program and the Federal Employee Group Life Insurance Program.

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government (SFFAS No. 5)*, requires the Federal employer entity to recognize pension expense and other retirement benefit expenses in its financial report equal to the service cost for its employees for the accounting period, less the amount contributed by the employees, if any. In accordance with SFFAS No. 5, Southwestern has recorded \$1,348,305 and \$1,667,798 of annual pension and retirement benefits expense, as of September 30, 2006 and 2005, respectively. Pension and retirement benefits expense is included as part of benefits expense.

(k) Workers' Compensation

Workers' compensation consists of two elements: actuarial liability associated with workers' compensation cases incurred for which additional claims may still be made in the future (future claims) and a liability for expenses associated with actual claims incurred and paid by the Department of Labor (DOL), the program administrator, to whom Southwestern must reimburse. The actuarial liability for future claims is determined using historical benefit payment patterns and U.S. Treasury discount rates.

The recovery of these future claims will be deferred for purposes of the rate-making process until such time as the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as deferred workers compensation in the statement of assets, Federal investment, and liabilities in accordance with SFAS No. 71 to reflect the effects of the rate-making process. Southwestern's cumulative unpaid expenses associated with actual claims incurred are \$3,566,282 and \$3,486,157 as of September 30, 2006 and 2005, respectively.

(l) Income Taxes

Southwestern's income and facilities are exempt from taxation.

(m) Use of Estimates

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

(Continued)

SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2006 and 2005

(2) Regulatory Assets and Liabilities

Southwestern's regulatory assets at September 30, 2006 and 2005, consists of the following:

	2006	2005
Regulatory assets:		
Alternative financing	\$ 5,582,793	6,267,341
Interchange energy deferral	47,087,994	—
Deferred workers' compensation	3,566,282	3,486,157
Total	\$ 56,237,069	9,753,498
Regulatory liabilities:		
Interchange energy deferral	—	18,485,056
Total	\$ —	18,485,056

Southwestern has established an alternative financing program to fund maintenance, rehabilitation, and modernization at hydroelectric facilities. Under this arrangement, Southwestern uses bill crediting with a customer to allow for the availability of alternative funding for maintenance projects. The maintenance projects will be completed over the long-term. Upon completion, the majority of the alternative financing funds will create capitalized assets.

Southwestern has arrangements with certain customers in which excess power generated by the Corps is banked with the customer until needed by the power system and the customer has power available. The power system records an interchange energy receivable for the power banked at the customers' cost of generation. The net revenue or expense associated with banking activity is deferred.

The deferred workers' compensation represents a regulatory asset that will be expensed as future claims are actually submitted and paid by the DOL (see note 1(k)).

(3) Investment of U.S. Government

Construction and operation of Southwestern's transmission system is financed primarily through Congressional appropriations, except for the Robert D. Willis project which had its construction financed by non-Federal parties and other capital assets funded through the alternative financing arrangements discussed in note 2. The U.S. Government's investment in each generating project and each year's investment in the transmission system is to be repaid to the U.S. Treasury within the service lives of the assets, not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis.

(Continued)

SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2006 and 2005

Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 2006. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayments of the highest interest-bearing investment first. Interest rates applied to the unamortized initial investment of the U.S. Government in the Corps' hydroelectric plants range from 2.5% to 6.0% for unpaid facilities in service at the beginning of the year and 4.625% for facilities placed in service during 2006. The rates have been set either by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

(4) Leases

Southwestern is obligated under various non-cancelable operating leases, primarily for office space, that expire in 2008, with a five-year option to continue the lease at the end of 2008. Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2006 are:

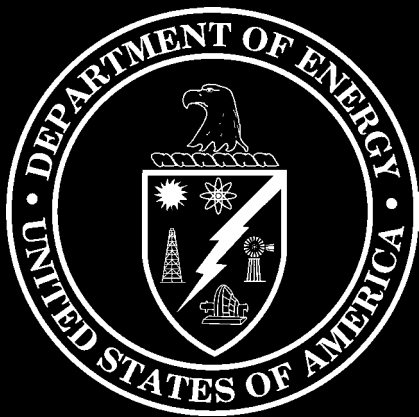
Year ended September 30		
2007	\$	623,000
2008		633,000
2009		681,000
		681,000
Total future minimum lease payments	\$	1,937,000

(5) Commitments and Contingencies

Based on the fiscal 2006 Integrated System Power Repayment Study prepared as of September 30, 2005, the projected increase in capital investment in 2007 is \$48,912,284, which includes \$10,324,200 for transmission facilities and \$38,588,084 for generating facilities. The five-year investment increase projected in the 2006 Integrated System Power Repayment Study for 2007 through 2011 is estimated to cost \$305,400,520.

Southwestern sells power to customers under long-term sales contracts which range from 10 to 15 years and require Southwestern to provide a minimum of 1,200 kilowatt hours per kilowatt of peaking contract demand per year, subject to scheduling constraints outlined in each customers' contract. If sufficient power is unavailable to Southwestern from Corps hydroelectric facilities to meet these commitments, Southwestern may be required to purchase power from other sources to meet these commitments. The cost to purchase such power is recovered through the power adder discussed more fully in notes 1 and 2.

Southwestern is a party to certain claims and legal actions arising in the ordinary course of business. In management's opinion, these actions will not have a material adverse effect on the financial condition or results of operations of Southwestern.



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