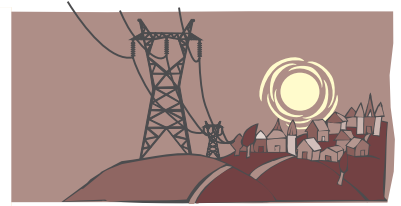


Annual Report

2001



Western Area Power Administration

Contents

Administrator's letter	4
Western profile	5
Project marketing areas map	7
The power of community	8
Accomplishments	21
Year in review	22
IRP summary	26
Repayment summary	28
Financial summary	29
Customer service territories map	30
Financial data (FY 1999 and FY 2000)	31
Independent auditors' report	32
Financial statements	33
Organizational chart	42

The Power of Community

This FY 2001 Annual Report from Western Area Power Administration focuses on the strength of community both within and outside the organization. While our service territory is large, we recognize the value of each community that we serve, whether it's a small-town university, a youth center, a military base or a Native American tribe.

This report highlights Western programs and projects that benefit those many varied communities within our 15 states. These include power allocations to Native American tribes; partnerships with local schools to promote energy efficiency; Science Bowl competitions among high school youth; support of small and disadvantaged businesses; and partnerships to relieve transmission bottlenecks in California.

In light of the terrorist attacks on our nation on Sept. 11, 2001, we recognize even more the value of working together to make our communities more cohesive and strong. While we help to power the communities we serve, we also draw strength from the power we receive from them.

Note: This annual report includes unaudited 2001 operations data and audited 2000 and 1999 financial data.

Western at a Glance

Marketing Profile

Firm energy revenue	\$586.2 million
Nonfirm energy revenue	\$289.6 million
Total energy sales	40.8 billion kWh
Composite firm rate	14.67 mills
Coincident peak load (est.)	6,376 MW

Customer Profile

	Number	Sales (billion kWh)	Energy revenue (million \$)
Municipalities	291	11.0	191.1
Cooperatives	61	7.4	140.1
Public utility districts	18	3.7	74.0
Federal agencies	41	1.9	33.8
State agencies	55	10.5	169.8
Irrigation districts	44	0.8	13.2
Native American service ¹	32	0.2	2.9
Investor-owned utilities	27	2.3	149.3
Power marketers	42	1.4	72.1
Project use (Reclamation)	77	1.5	13.5
Interproject	–	0.1	16.0
Total	688	40.8	875.8
Firm customers	601	36.2	586.2
Nonfirm customers	87 ²	4.6	289.6
Total customers	688	40.8	875.8

¹ Power sales and revenues for eight of these Native American customers are included in the Federal agency category and one is listed in the municipal category.

² Excludes 69 firm power customers who also purchased nonfirm power.

IRP Profile

IRPs submitted	153 ³
Small customer plans submitted	101
Customers and members represented	624

³ Includes progress reports, IRPs and minimum investment reports.

Repayment Profile

Principal repaid in FY 2001	\$16 million
Total investment	\$8.9 billion
Total repaid	\$2.77 billion

Resource Profile

Hydro powerplants	55
Thermal powerplants	1
Total powerplants	56
Actual operating capability on 7/1/01	9,597 MW
Total units	181
Net generation	29,058 GWh
Purchased power	13,559,484 MWh

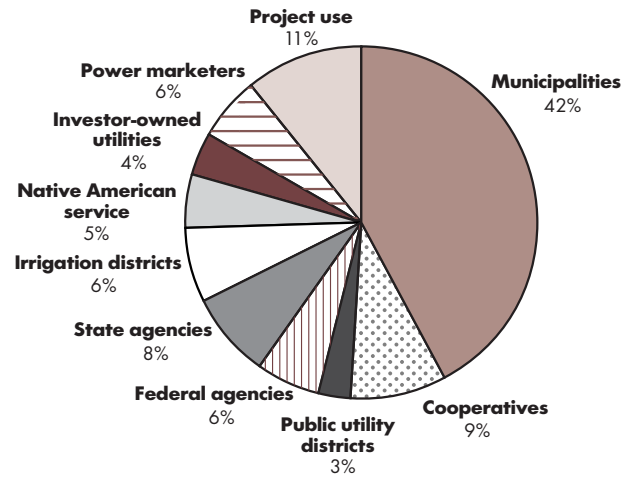
Transmission System Profile

Communication sites	369
Substations	260
Transmission lines	16,867 miles
Transformer capacity	26,820,182 kVa

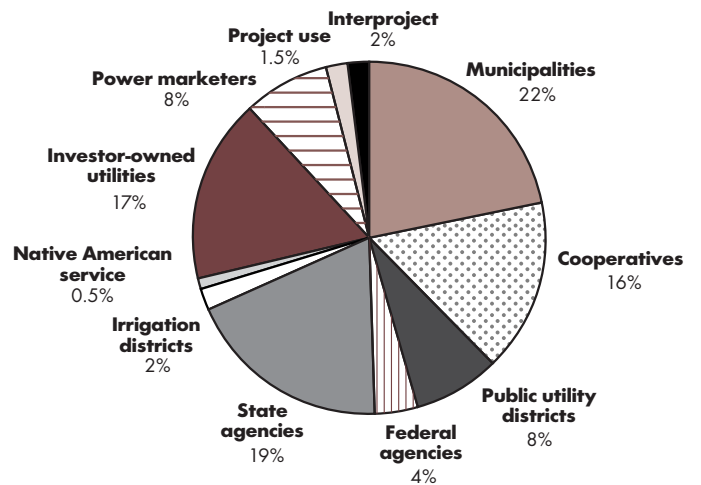
Employee Profile

Federal FTE	1,290
Contractor usage	220

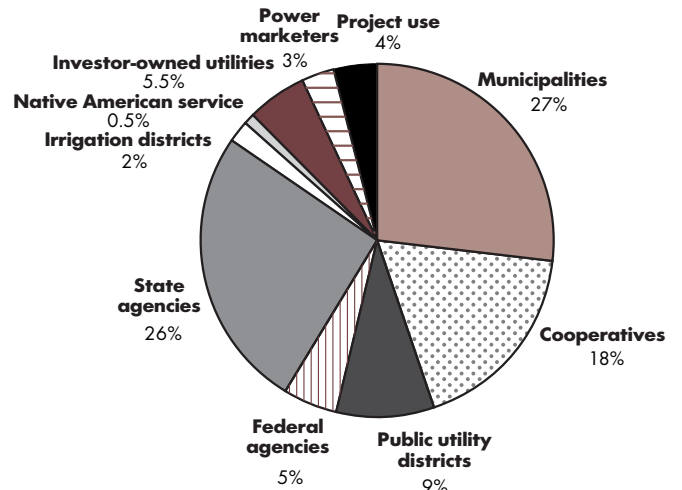
Customer Mix



Where our revenues come from (\$)



Where our energy goes (kWh)



Administrator's letter

The Honorable Spencer Abraham
Secretary of Energy
Washington, D.C. 20585

Dear Secretary Abraham:

I am pleased to submit to you Western's Annual Report for 2001. As I review the year, I can see how the power of community helped to strengthen and restore our Western family.

We kept focused on community as our employees worked to ensure the future viability of our power system, including hundreds of requests to interconnect to our system. We accepted leadership of the Path 15 upgrade project in central California, which will relieve transmission line congestion and enhance the state's power system reliability. We maintained government-to-government relations with Native Americans as we began implementing our new tribal allocation program, which will extend the benefit of Federal hydropower to about 83 tribal organizations in our service territory. We helped California residents by responding to the Independent System Operator's numerous requests for emergency energy to keep power flowing to the many communities throughout the Golden State.

Last year, we witnessed many examples of employees reaching out not only to our customers, but also to members of our local communities. Our employees quickly responded and donated to local blood drives and relief funds after the Sept. 11 terrorist attacks. In addition, they donated in record numbers to the Combined Federal Campaign to help local and national charities assist those in need. They gave their time and resources to high school students competing at nine regional Science Bowls that Western sponsored last year.

Western's community-minded focus also extends to our environment. In Fiscal Year 2001, the Environmental Protection Agency recognized Western as a charter member of the National Achievement Track Program for implementing proactive environmental management programs. We worked closely with the U.S. Fish and Wildlife Service to protect future generations of threatened and endangered species.

We focused on the future as we helped public power utilities find the best ways to use natural resources. Our Non-Hydro Renewable Resource Program helped initiate the Public Renewable Partnerships Team in FY 2001 to assist our customers and other public power utilities collectively explore the benefits of renewable energy. Our Energy Services Program helped customers daily to analyze how to maximize their energy resources.

We began examining our internal community this year as well, as we implemented a Human Capital Management Initiative. This initiative will help us ensure that we have a talented and technically diverse group of employees well into the future, despite an aging workforce.

We know Fiscal Year 2002 will bring new opportunities to improve the lives of those we serve with Federal hydropower. I know our employees will also seek out any opportunities to ensure our surrounding communities remain cohesive and strong.



Michael S. HacsKaylo
Michael S. HacsKaylo
Administrator

Western profile

Western Area Power Administration annually markets and transmits approximately 10,000 megawatts of power from 55 hydropower plants. We sell about 40 percent of regional hydroelectric generation. Western also markets the United States' 547-MW entitlement from the coal-fired Navajo Generating Station near Page, Ariz.

Western's service area covers 1.3 million square miles in 15 states. We sell power to 688 wholesale customers including 291 municipalities, 61 cooperatives, 18 public utility and 44 irrigation districts, 41 Federal and 55 state agencies, 27 investor-owned utilities (only one of which purchases firm power from Western), 42 marketers, 32 Native American tribes and 77 Reclamation customers that purchase project use power. They, in turn, provide retail electric service to millions of consumers in: Arizona, California, Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Texas, Utah and Wyoming.

Western operates and maintains an extensive, integrated and complex high-voltage power transmission system to deliver power to our customers. Using this 16,867 circuit-mile Federal transmission system, Western markets and delivers reliable electric power to most of the western half of the United States.

Except for the Central Arizona Project's Navajo generation, these power facilities are part of 11 rate-setting systems. These are made up of 14 multipurpose water resource projects and one transmission project. The systems include Western's transmission facilities along with power generation facilities owned and operated primarily by the U.S. Bureau of Reclamation, the U.S. Army Corps of Engineers and the International Boundary and Water Commission.

Western and the generation entities are separately managed and financed. Each project maintains a separate financial system and records. Each entity operates and maintains its portion of the multipurpose projects and allocates its operating expenses among the projects. Costs are allocated among individual project purposes including navigation, irrigation, flood control, power, fish and wildlife, recreation and municipal and industrial water supply. Western's financial statements include only the costs assigned to power for repayment.

Power sales, transmission operations and maintenance and engineering services for our system are accomplished by our employees at 52 duty stations located throughout our service area. These include our Corporate Services Office in Lakewood, Colo., and four Customer Service Regions with



offices in Billings, Mont.; Loveland, Colo.; Phoenix, Ariz.; and Folsom, Calif. We also market power from our Management Center in Salt Lake City, Utah, and manage system operations and maintenance from offices in Bismarck, N.D.; Fort Peck, Mont.; Huron, S.D.; and Watertown, S.D.

Legislative authority

Congress established Western on Dec. 21, 1977, under Section 302 of the Department of Energy Organization Act. Under this statute, power marketing responsibilities and the transmission system assets previously managed by Reclamation were transferred to Western.

Financing methods

Our power marketing program includes three principal activities: operation and maintenance; purchase power and wheeling; and construction and rehabilitation. Each year, Congress appropriates funds to finance expenses for most of our power systems, including the Pick-Sloan Missouri Basin Program, Central Valley Project, Parker-Davis Project and the Pacific Northwest-Pacific Southwest Intertie Project.

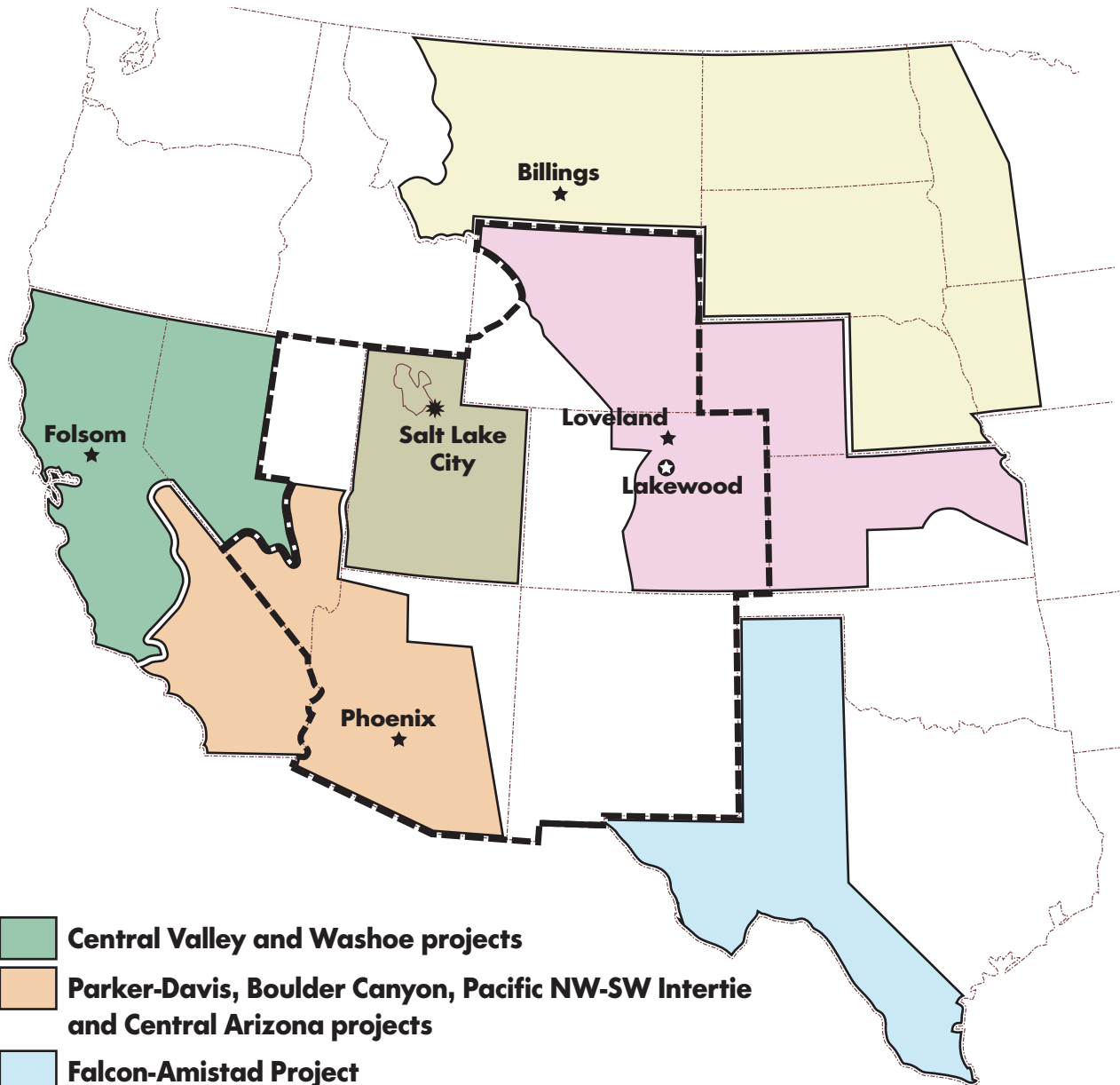
Our appropriation also includes an annual contribution for the Utah Reclamation Mitigation and Conservation Account as specified in the Reclamation Projects Authorization and Adjustment Act of 1992. Existing legislation allows for the Colorado River Storage, Central Arizona, Seedska-dee, Dolores and Fort Peck projects to operate with power receipts through a revolving fund. In accordance with the Foreign Relations Authorization Act for FY 1994 and FY 1995, a separate appropriation is provided to operate and maintain Falcon and Amistad project facilities for the International Boundary and Water Commission.

While Western receives annual appropriations to finance our operations, power rates are set to recover all costs associated with our activities, as well as repay the Federal investment in power facilities, with interest, and certain costs assigned to power for repayment, such as aid to irrigation development.

In FY 2001, Western obtained new authority to fund portions of the purchase power and wheeling activities from receipts. The new receipt funding authority, combined with traditional alternative financing methods, such as net billing, bill crediting and customer advanced funding, eliminated the need for an annual appropriation to meet planned PPW program needs. The PPW program, however, experienced unprecedented growth due to a combination of water, generation and market constraints. To finance the increased PPW program, Western activated its continuing fund authorities and expanded its alternative financing with customers.

Boulder Canyon Project is financed through permanent appropriations of receipts from the Colorado River Dam Fund. Parker-Davis Project and Central Valley Project customers also provide advance funding to finance certain power system expenses and capital improvements, respectively. We also do work for other Federal and non-Federal organizations under authority of the Economy Act, the Contributed Funds Act and the Interior Department Appropriations Act of 1928.

Project marketing areas



- Central Valley and Washoe projects**
- Parker-Davis, Boulder Canyon, Pacific NW-SW Intertie and Central Arizona projects**
- Falcon-Amistad Project**
- Provo River Project**
- Loveland Area Projects**
(Pick-Sloan Missouri Basin—Western Division and Fryingpan-Arkansas Project)
- Pick-Sloan Missouri Basin Program—Eastern Division**
- Salt Lake City Area/Integrated Projects**
(Colorado River Storage Project, Collbran, Rio Grande, Seedskaadee and Dolores projects)

- State Boundaries
- ★ Regional Office
- ★ Corporate Services Office
- ★ CRSP Management Center

The power of community

Federal allocations help give power to tribes

On a diverse terrain of rolling grasslands and acres of spotted pine lies the Pine Ridge Reservation in South Dakota. Home to the Oglala Sioux Tribe, the reservation is surrounded by natural beauty but struggles with economic self-sufficiency. Helping to turn that situation around is the goal of Western's new tribal allocation program.

Because Western is committed to helping Native Americans like the Oglala Nation develop and manage their community resources, we began delivering power to tribes as we implement the Energy Planning and Management Program's Power Marketing Initiative. In 2001, 24 tribes in the Upper Great Plains region began receiving 65 MW of power from the Pick-Sloan Missouri Basin Program—Eastern Division. Beginning in 2004, 51 tribes in the Colorado River Storage Project marketing territory and five tribes in the Rocky Mountain Region will receive Federal power from Western when existing commitments expire. Four tribes are allocated 4 MW of power from the Sierra Nevada Region in 2005.

"These allocations bring economically affordable, environmentally friendly power into these economically disadvantaged Native American communities," said **Steve Warner**, Western's lands manager and point of contact for Indian issues. "The benefit to the tribes is the opportunity to develop their resources," Warner said.



Fred Mousseaux, Oglala Sioux Tribe Utility assistant project manager, left, Tom Clifford, OST project manager and **Greg Vaselaar**, UGP field representative, meet to discuss tribal allocations at the OST offices in South Dakota.

Giving the tribes these types of opportunities is critical, especially since many Native Americans either lack access to electric power or sometimes pay more because of their remote locations. The Energy Information Administration found that 14.2 percent of Indian households on reservations had no access to electricity in 2000, compared to only 1.4 percent of all U.S. households.

Western is trying to change that situation. When developing marketing plans, Western allocates a percentage of the hydropower resource to new customers. To qualify for an allocation, a potential new customer must be a preference entity, as defined in U.S. Reclamation law, and be within the currently established project marketing area.

Utility status has also been required for most entities in the past. But because we sought to allocate hydropower benefits directly to tribal consumers, EPAMP waived the utility status requirement for tribes applying for Western power.

This approach promotes the Department of Energy American Indian policy. This policy—derived from Federal law, treaties and Western’s trust responsibility as a Federal agency to consider tribal rights and interests in decision making—outlines our interaction with Federally recognized American Indian tribes and promotes partnerships among Federal agencies and the tribes.

“Not requiring the tribes to form utilities has several benefits. Forming a utility is a lengthy and expensive process,” said **Bob Fullerton**, Western’s power marketing advisor. “Waiving the utility formation requirement allows the tribes to enjoy the economic benefits of cost-based hydropower without the costs and time delays of utility formation,” he said. Of course, some tribes already own utilities, and many tribes are also currently served by member-owned cooperatives, noted Upper Great Plains Region Field Representative **Greg Vaselaar**.

Western has also provided benefits to the tribes by offering an alternative benefit delivery program called bill crediting. “Because most of the tribes aren’t utilities, we work out the benefit of their Federal power allocation through the rates they pay their suppliers,” said **Burt Hawkes**, CRSP Management Center Contracts and Energy Services manager. “We have those utility companies pass the benefit of the Western allocation to the tribes in a monthly credit on their power bills.”

“The tribes can designate certain loads, or facilities, as beneficiaries for these credits on their power bills,” said **Doug Hellekson**, UGP Contracts and Energy Services manager. “Some tribes like Oglala distribute this benefit across the entire reservation so all consumers realize a credit on their monthly power bills. Other tribes have chosen to designate individual tribal facilities, such as administration buildings, a nursing home or their health care facility.”

Such flexible arrangements demonstrate Western’s commitment to tribal self-sufficiency. “We also try to show our commitment by providing frequent consultation opportunities, which help us nurture our emerging relationships with tribal organizations,” said Hawkes. From meetings and one-on-one contact to mailings and telephone calls, Western is committed to getting the tribes’ feedback.

“To the tribes, consultation is everything,” said **Lyle Johnson**, a public utilities specialist at the CRSP MC who visits regularly with tribes. “It’s the key to getting to know who they are, as Indians work on a very personal level. Consultation is the key to developing trust, which means everything to them,” he said.

“They have a real, emerging interest in self-determination and they realize the importance of energy to helping them become self sufficient,” said Johnson. “Many have renewable energy resources that could be developed. Some stretch the limits of what we can do to develop those resources.

“Because we could be a significant power supplier for some of these tribes, they see the potential to save a lot of money. If we could help them control their energy costs, that could help them control their futures,” Johnson concluded.

For the Oglala Tribe at Pine Ridge, that future includes economic self-sufficiency. The Tribe’s goals are to significantly decrease its 85 percent unemployment rate; improve the educational system; help its tribal businesses, from a community college to a radio station to a health care facility, thrive; establish a telecommunications system; increase availability of electric power and develop renewable resources; upgrade roads, highways and public safety; and improve the legal system.

“The Oglala Sioux Tribe views Western’s allocation of preference power as part of the aid for civilization promised in 1877. The Western allocation will assist the Tribe in achieving economic self-sufficiency in the 21st century,” said Mario Gonzales, general counsel of the tribe.

Western extends hand to small businesses

Architect Anthony Trujillo took a risk when he left the Big Apple in 1989 to start his own business out West. Ten years later, as he watched employees of his company, MCDS Holdings, work from scaffolding above the Rocky Mountain Region dispatch center, Trujillo realized that he had reached new heights in his career.

As he continues to seek opportunities to help his Denver-based business grow, his path often leads to Western. The successful bidder of six Western contracts that provide architectural, engineering, construction, transformers or facility management services, Trujillo’s company is just one of many small, minority-owned, woman-owned, veteran-owned or small disadvantaged (8(a)) businesses Western supports each year. Helping small businesses thrive in their respective communities is an important goal of Western’s Procurement program.

“We feel great about helping these small companies increase their employment opportunities and attract investments in economic development,” said **Judy Madsen**, Western’s Small Business program manager. “I love watching them grow and seeing their enthusiasm,” she said.

Following legislation, Federal Acquisition Regulations and DOE policy, Western’s procurement



Judy Madsen, second from left, and **John Rynerson**, second from right, explain contracting opportunities to small business owners, including Anthony Trujillo, far right, at the DOE Small Business Conference in Las Vegas in May 2001.

program assists six major categories of small businesses defined in the Small Business Act. These categories include: small; small disadvantaged; woman-owned businesses; HUBZone (historically underutilized businesses zones); service disabled; and veteran-owned businesses.

Being small or located in economically disadvantaged areas presents challenges, but often the biggest challenge for these companies is wading through government contracting requirements, such as preparing cost proposals or submitting vouchers.

“Often we have to groom these companies and teach them how to do business with us,” said Madsen. “We hand out brochures on how to do business with Western, direct them to other government resources or our Web site. We work really hard to convey that we care and want them to fit into our world of high-voltage, hydroelectric power,” she said.

The Procurement staff also works hard to identify small businesses that provide the products and services Western requires. They network with minority business development centers, coalitions and chambers of commerce; participate in Economic Empowerment breakfasts sponsored by the Small Business Administration; and attend numerous small and disadvantaged business opportunity trade fairs. In addition, Procurement staff posts an advance procurement plan to Western’s Web site at the beginning of each fiscal year that identifies anticipated contract needs.

These efforts have helped Western exceed many of its goals of promoting and supporting economic development of these small businesses. For example, all Western support services contracts were awarded to small, disadvantaged businesses and electrical and switchgear and switchboard requirements were set aside for these same types of firms. In fiscal year 2001, 73.5 percent of the \$78.4 million Western spent on contracts went to small businesses.

“Western’s presence in many large and small western U.S. communities has increased their knowledge of Western and has assisted in their economic growth,” said **Debra Bean**, Western’s Procurement and Human Resources manager. “Both sides benefit in this relationship,” she said, noting that the Department annually recognizes Western for supporting socioeconomic goals.

Western’s annual efforts to help these businesses succeed in their communities has also caught the attention of SBA, Madsen said. SBA’s Region Eight Administrator presented Western with two awards in July 2001 for supporting the small business community in Colorado, Montana, North Dakota, South Dakota, Utah and Wyoming. One award recognized Madsen for contributing to SBA’s socioeconomic programs. The other award was for Western’s overall focus and support of the small business community.

“Western’s presence in many large and small western U.S. communities has increased their knowledge of Western and has assisted in their economic growth.” **Debra Bean**, Western’s Procurement and Human Resources manager

“Increased regional participation is of great significance because of Western’s presence in remote locations, which provides contracting opportunities in communities in need of economic stability or development,” said Administrator **Mike HacsKaylo**.

Such awards have resulted from the commitment of employees Westernwide to our socioeconomic program. HacsKaylo encourages all employees to ensure contract opportunities are available to small businesses. “Whether it is a small dollar purchase of office supplies or the multimillion dollar acquisition of construction, each procurement action processed impacts Western’s objective to achieve our socioeconomic goals,” HacsKaylo said to employees in a December annual policy statement.

This commitment, in turn, impacts businesses like Trujillo’s, which employs 26 people in four locations. Already having completed installation of a telecommunications system at the CSO and fire detection and suppression system in RM’s dispatch building, MCDS begins work this year to design and manufacture power transformers in the RM. “Our continued growth will come from our commitment to providing clients with the highest possible level of service,” Trujillo said. “It’s rewarding for us to serve the government in this capacity.”

Western helps school district learn energy-efficient language

Students in the Poudre Valley School District in Fort Collins, Colo., are learning a new language, thanks to Western and its customer, the city of Fort Collins. They are learning the language of energy efficiency.

By helping upgrade heating, ventilation and air conditioning systems, Western is helping the Poudre Valley School District pass back energy savings into the classroom and into the community, said Stu Reeve, the school district's energy manager.

"We spend about \$4.5 million a year on energy, so we appreciate the support in helping us manage costs," he said. "For example, Western supplies technical information and moral support or helps us tap into resources," he said. "The \$225,000 we save annually from energy-efficiency projects is passed on to our 25,000 students—it impacts their lives one way or another," said Reeve.

Such success stories drive Western's Energy Services Program, managed locally from each customer service region. Energy services specialists help customers improve energy efficiency, explore and use renewable energy options, find new technologies and learn about programs and techniques at other utilities. Services include an equipment loan program, peer matches, technical assistance and a full menu of publications available online and in printed version.

"Energy efficiency is getting a new life among many of our customers," said **Peggy Plate**, RM energy services manager. "It can dampen the impacts of energy cost spikes experienced in the last two years and keep those energy dollars in our schools and our community." That's what school district officials learned after Western's Energy Services Program directed them to the experts who could improve the operating efficiency of the heating, air conditioning and ventilation system at the Fort Collins High School.

Reeve is grateful that energy efficiency has become the newest motto in the school district, thanks to Western and its customers. "Without these partnerships, we wouldn't be where we are today," Reeve said.



Stu Reeve, Poudre Valley School District energy manager, and **Peggy Plate**, RM energy services manager, study new operations strategies to save more energy at Poudre Valley High School in Fort Collins, Colo. With Western's help, during the 2000/2001 season the school district saved more than 610 kW of capacity and 497,193 kWh of energy and 14,400 ccf of natural gas compared to last year's season.

Customers often find money-saving resources on Western's Energy Services Web site—at www.es.wapa.gov—resources that they often pass on to their own customers. “We like giving our customers information that’s not readily available, whether it’s from our Energy Services Web site or Western staff,” Plate said. “Our relationship with Poudre Valley Schools was built on a lot of good information,” she said. “Sometimes an idea doesn’t come into fruition for five to six years, so that’s why it’s important to feed customers information regularly.”

Building a sense of community among Western customers is something Plate works on every day. In fact, in 2001 Plate earned Western's highest honor, the Exceptional Service Award, for providing customers with value-added services so that they can compete in the new marketplace.

However, she isn't alone in this quest. Energy services specialists in Western's other regions have formed relationships with customers in their regions by regular site visits, phone contact, on-site demonstrations or resource facilitation. “A lot of times the help we provide is introducing customers to the experts,” Plate said.

That type of facilitation has helped students as well. Last year Plate encouraged Electric Power Training Center Manager **Dennis Schurman** to share his expertise on hydropower generation with hundreds of elementary school students in the Fort Collins and Loveland school districts. On May 22, Schurman gave nine “Turning Water Into Electricity” presentations at the Fort Collins Water Festival at Colorado State University. On Oct. 18, he gave the demonstration to third-graders attending a Water Festival at Thompson Valley High School in Loveland, Colo.

“I like to bring models that show an electrical arc or that demonstrate how electricity powers a lightbulb,” he said. “It’s fun to watch their eyes light up, and it’s a challenge to take theories and put them into terms youngsters can understand,” said Schurman, an electrical engineer who specializes in teaching students of all ages about the power industry. “They ask some tough questions, and I encourage them to pursue more knowledge about the subject,” he said.

Western's Energy Services Program is motivated by these students, as well, Plate said. “Our kids go to school there, too,” she said, referring to the children of employees in Western's Rocky Mountain Region. “It’s important that we spend money on the schools. Why spend money on electricity when you can spend it on computers and books?” she concluded.

Western leads effort to improve quality of life for central California

In the heat of central California, where oleander shrubs divide the highway and citrus trees and grapevines grow plentifully, farmers have more things to worry about than reliable electric power. Yet these consumers keep Western focused on leading the effort to eliminate a transmission bottleneck in their backyards.

Western is leading a public-private partnership to upgrade Path 15, a critical transmission



Grapevines grow plentifully in the Tumey Hills area of Central California, which is part of the proposed corridor for the Path 15 upgrade that will help ensure Californians have reliable electric power.

path between Los Banos and Coalinga in California's Central Valley that connects the state's northern and southern regions. This bottleneck, which contributed to rolling blackouts last winter and spring, threatens the region and the state's energy reliability and future economic development.

"This Federal initiative represents the first concrete steps to relieve congestion on the state's power grid," said Energy Secretary Spencer Abraham. He noted that constructing a new transmission line to the area is the equivalent to adding lanes on Interstate 5, but "instead of relieving traffic jams, we will be relieving electricity congestion in the state that results in high power rates and even blackouts," he said.

Such relief is sure to please local farmers, businesses, industries and homeowners, who voluntarily or involuntarily worked around last year's power shortages. A new 500-kV transmission line will help the state avoid future problems by allowing generation from southern California to be successfully transferred up north, especially during peak demand. It will complement the existing two 500-kV transmission lines in the Los Banos-to-Gates corridor and complete the remainder of the AC Intertie in California, which has three 500-kV transmission lines.

"Without an upgrade, the transmission paths between northern and southern California will remain seriously congested despite efforts to site, build and locate new generating facilities in both northern and southern California," said Western's Administrator **Mike HacsKaylo**.

The upgrade will increase capacity from 3,900 MW to 5,400 MW, allowing an additional 1,500 megawatts (roughly enough to power 1.5 million households) to be transmitted across the state. It will take three to four years to construct.

A Path 15 upgrade was initially considered in the late 1980s as part of the California-Oregon Transmission Project, which Western helped build, but Pacific Gas and Electric determined it could provide the necessary transmission over its existing system. Since then, demand has increased and industry restructuring has changed the way the power flows on the transmission system.

For these reasons, President George W. Bush's National Energy Policy recommended that the Department of Energy take action to explore relieving the Path 15 constraints. In May, Secretary Abraham directed Western to complete the planning to relieve Path 15 constraints and determine whether investors would be interested in financing the upgrade construction.

Western is now leading a public and private partnership to fund the project, which will cost about \$300 million. "We have pledged to continue working together to do everything we can to keep the lights on in the Golden State," said **Tom Boyko**, Western's Path 15 project manager.

For those who live and work in the Central Valley, that pledge means that they can shift their focus back where it belongs: on their quality of life.

Science Bowl brings community together

They have gone on to graduate from prestigious colleges like MIT, Stanford and Creighton and have pursued careers in physics, software development, electrical engineering and biochemistry. These bright young people keep Western employees dedicated year after year to the Department of Energy's Science Bowl competitions.

The Science Bowl is a tournament-style competition that challenges and recognizes high school students' knowledge in science and math. Students answer questions in categories such as astronomy, biology, physics, chemistry, computer science, math, earth science and general science in both round-robin and double elimination formats.

Each February and March, Western sponsors eight or nine regional competitions at various locations throughout our 15-state service territory. Teams of four to five students compete at these local matches for a chance to advance to the National Science Bowl in Washington, D.C., in May. The top five teams at the national competition earn scholarships and other prizes. Last year, Sierra Nevada Region volunteers proudly watched the Mira Loma, Calif., High School team earn a fifth-place win at nationals.

Devotion to the participants is what draws Western employees into volunteering as event coordinators, judges, timekeepers and scorekeepers. In 2001, employees showed their commitment to more than 700 students from Redding, Calif., to Phoenix, Ariz., to Bismarck, N.D., in all types of weather.

"I am personally committed to the event to see our young adults in a very positive way," said RM Science Bowl regional coordinator **John Crowfoot**, an electrical engineer in Western's Rocky Mountain Region. "I love to see how they deal with problem-solving and rapid-fire thinking.

While there is a continuing need for ambitious and dedicated people such as these high school students, Western does not always have the opportunity to interact with them. During this competition, we are afforded that opportunity,” he noted.

That interaction is what motivates **Loyce Richards**, a computer assistant in the Desert Southwest Region, to help with set-up, registration and clean-up at the Arizona Regional. “I get a kick out of seeing the student’s enthusiasm and challenge for competition,” she said, of volunteering for the past five years. “Each and every one wants to be the best. You hear so much about kids on drugs or in trouble, yet here we see bright minds at work. No matter who wins the competition, everyone really wins,” she said.

To prepare for the nine competitions Western sponsored last year, employees worked tirelessly to review questions, purchase supplies, arrange for lodging, meeting rooms, equipment and meals, make phone calls and notify local media. At the events, volunteers register teams and ensure students, teachers and coaches have what they need to successfully compete. Western employees also serve as judges and timekeepers during the competitions.

“I enjoy how everything comes together on the big day,” said Huron Regional Science Bowl volunteer **Carol Milbrandt**, an engineering technician in UGP. “It takes a lot of time and coordi-



Loyce Richards, foreground, a DSW computer assistant, is up before dawn to help distribute T-shirts at the 2001 Arizona Regional Science Bowl in Phoenix. Richards and many other Western employees volunteer at the regional competitions each year to promote math and science careers among high school youth.

nation, but we have a hard-working committee and everyone knows what needs to be done. More new schools are registering each year, so we know the word is getting out and the interest is there.”

The interest is also present among the families of Western employees. Upper Great Plains Regional Field Representative **Greg Vaselaar** and his wife, **Lila Vaselaar**, a UGP general engineer, made volunteering such a family affair that their two oldest sons not only participated in the South Dakota Regional, but helped their teams become champions in 1999, 2000 and 2001. Their youngest son is a volunteer and hopes to also compete some day.

First-time volunteer **Tim Calkins**, DSW dispatch manager for operations, also encouraged his wife and his in-laws to help out. They worked as timekeepers and scorekeepers at the Arizona Regional last year. “Our business is electric power systems. The least we can do is to encourage our young people,” Calkins said. “One way to do that is to hold these community events.”

DSW Regional Manager **Tyler Carlson’s** enthusiasm for the cause is what motivates many employees to volunteer each year. “It’s encouraging to see young people so focused, strong and competitive, yet exhibit outstanding competitive manners,” he said. “Their energy and effort demonstrate the positive and healthy state of this generation and dispel much of the negative in the media. Science Bowl is just one more way Western shows its commitment to community and the development of the nation’s young people,” he said.

Richards agrees. “Too many times we get bogged down in our own ‘little’ world. I think this event gives volunteers a feeling of giving something back to the community,” she concluded.

Western examines internal community to ensure continuity of qualified workforce

A strong sense of community within Western is what senior managers hope to preserve through the newly launched Human Capital Management Initiative. This initiative will help ensure that Western retains qualified employees well into the future, despite an aging workforce. Many potential retirements, combined with fewer younger employees, have led to concerns about retaining employees’ technical skills.

“During the next five years, Western faces a potential crisis resulting from changes in our workforce composition,” said Human Capital Initiatives Manager **Mike Watkins**. “It will be challenging to replace significant numbers of talented employees in a competitive market for skilled workers,” he said. “Western’s workforce represents the largest portion of our operating costs, so it is critical that we recruit, develop and retain talented employees and use their skills effectively.”

As of Dec. 31, 2001, the average age of Western Federal employees was 47. Only 9 percent of the workforce is under 35. By Jan. 1, 2003, 37 percent of Western’s workforce will be eligible for voluntary or early retirement. This will increase to 54 percent by January 2007.

Attracting younger workers will be particularly challenging since the newest generation of high technology employees now has more employment options and different career expectations. Surveys of young adults entering the workforce indicate that fewer are interested in working for the government. Western is already finding it difficult to compete with utility companies' salaries and benefits for engineers, dispatchers, computer specialists and other highly skilled workers. This trend is expected to worsen as the baby boomer generation of workers, which now makes up the largest segment of the workforce, reaches retirement age.

To address these issues, Energy Secretary Spencer Abraham held a Human Capital Summit in July 2001 for all Department of Energy agencies. He asked senior executives to develop a Human Capital Management Plan to rebuild the workforce. Such initiatives comply with the Government Performance Results Act of 1993, which requires Federal agencies to adopt strategic plans, set goals and collect performance information to measure program effectiveness.

The goal of Western's plan, which is scheduled to be completed in early 2002, is to make our organization an employer of choice that attracts and retains employees by helping them maximize their talents. After extensively reviewing human resource programs within and outside of



Preserving Western's talented workforce, represented here by CSO employees at the groundbreaking of their Lakewood, Colo., office building, is the goal of Western's new Human Capital Management Initiative.

Western, Watkins and regional administrative officers identified five areas for action:

- Performance management
- Recruitment and retention
- Diversity
- Employee development
- Leadership development and succession planning

Some of these actions will build on existing Western programs. For example, we are piloting a Web-based automated recruitment program called Quickhire that reaches more applicants and accelerates the hiring process. We have also implemented a Management Succession Program—a three-year effort to develop and prepare potential future leaders.

“Western is fortunate to have high-caliber employees, but this was not achieved by accident,” Watkins said. “A commitment to excellence in our hiring and developmental programs has been the critical factor in being an employer of choice for many people.”

To accomplish our goals we still have a lot of work to do, including offering employees ample opportunities to gain new skills and be recognized for their contributions, he said.

“In the decade ahead, we will give the highest priority to Human Capital Management issues,” Watkins explained. While much of what we need to achieve our goal is available under current laws, Western may need additional regulatory flexibility and even new legal authority to achieve our objectives, he added.

“Programs or policies that were effective in the past may not be appropriate for the workforce of tomorrow,” Watkins said. “We will need to continually monitor workforce needs to be flexible in response to labor market demands.”



Accomplishments

2001: The Year in Review

BIDSS/Maximo implementation and upgrade

Information technology staff continued to improve Western's integrated financial support system (BIDSS), maintenance information system (Maximo) and time and attendance system (RITA). Western completed a major upgrade to Maximo, designed to make the system more user-friendly for maintenance staff and to help them prepare for eventual upgrade to an Internet version.

Bonus Program goals

As senior managers keep raising the bar, reaching Bonus Program goals gets more challenging. In FY 2001, Western employees achieved 100 percent of the Bonus Goal of reducing motor vehicle accidents to eight or fewer and 50 percent of the goal of decreasing accountable outages to 27 or fewer. Employees did not achieve the cost containment goal of keeping program costs to \$134.5 million or less or safety goals of reducing recordable injuries or reducing lost or restricted workdays.

Cyber Security

In FY 2001, Western significantly improved protection of its mission-critical Supervisory Control and Data Acquisition/Automatic Generation Control computer systems by implementing intrusion detection systems at all network entry points. Western also implemented multilayer virus protection across the organization and developed policies for virus protection and information technology system backup and recovery.

Endangered species studies

Western and the U.S. Fish and Wildlife Service are studying why piping plovers, a threatened species, have been found dead under transmission lines in North Dakota at the Audubon causeway that passes through Audubon National Wildfire Refuge. The studies will determine if the birds fly into and collide with the lines or are hit by vehicles on a nearby highway. Western has also formed a partnership with the Rural Utilities Service, the U.S. Fish and Wildlife Service and several nongovernmental organizations to provide workshops on bird mortality associated with electric facilities.

Energy Services

Western's Energy Services Program continued to help customers improve energy efficiency by expanding its equipment loan program, Power Line/Energy Information Clearinghouse services and Web site features. Special projects conducted through the clearinghouse in FY 2001 included the addition of an air conditioning calculator, heating system fuel cost calculator and e-mail handling software for the *Energy Services Bulletin* and *Energy-Ag Newsbrief*.

Human Capital Management Initiative

Last spring, Western's newly appointed Human Capital Initiatives manager began a multiyear effort to help Western retain qualified employees well into the future, despite an aging workforce. Many potential retirements, combined with fewer younger employees joining Western, have led to concerns about retaining employees' technical skills in a competitive market for skilled workers. Five

areas were identified for action to address in Western's plan: performance management; recruitment and retention; diversity; employee development; leadership development and succession planning.

Integrated Resource Planning

Because Western revised the criteria for integrated resource planning requirements, 624 firm power customers and customer members tailored their IRP reports in FY 2001. Western received 107 IRP progress reports from individual customers, 25 integrated resource plans from cooperatives, 21 minimum investment reports and 101 small customer plans.

Interconnections

Western currently manages more than 30 requests for interconnection to our transmission system—requests that in some cases may require system upgrades to accommodate additional capacity. These proposed interconnections include requests from merchant plants, which sell generation directly into the market. In Western's service territory, about 14 merchant plants with generating capacity of 7,775 MW are planned or under construction. Of this, about 760 MW is proposed wind generation. In FY 2001, two merchant plants in two regions were in the process of interconnecting with our system. Two began commercial service in FY 2001: the Sutter Power Plant (525 MW) near Yuba City, Calif., and the Southpoint Energy plant (520 MW) in Topock, Ariz. Under Western's existing General Requirements for Interconnection, entities requesting new interconnections must fund the incremental costs of interconnection.

National Achievement Track

The Environmental Protection Agency's Region 8 officials recognized Western as a charter member of the National Achievement Track Program on Feb. 21, 2001. The program recognizes an organization's commitment to instituting proactive environmental management programs. As a program participant, Western will benefit from reduced reporting requirements and streamlined administrative procedures.

Navy assistance

Western's Desert Southwest Region worked with the U.S. Navy Department in southern California to develop power supply alternatives to reduce the agency's soaring energy costs. Through an interagency agreement with the Department of Defense, Western helped the Naval Facilities Engineering Command-Southwest Division and the Marine Corps' Public Works Center in San Diego determine optimum purchase power quantities and helped negotiate price reductions with the Navy's supplier. Western helped the Navy to contract with the supplier for a long-term purchase of energy for up to four years, which will stabilize 70 percent of the Navy's energy costs in Southern California.

Non-Hydro Renewable Resource Program

Western's Non-Hydro Renewable Resource Program continued to provide industry leadership in FY 2001. Subscribers to the program's *Green Power and Market Research* newsletter increased to 1,100 last year. Western continued to act as utility outreach advisor on the Department's Wind Powering America Program and GeoPowering the West Program strategy teams. In addition, Western is leading a Power Partnership Program effort for DOE with the National Rural Electric Cooperative Association and the American Public Power Association. Western helped to develop the Public Renewable Partnerships. The group received about \$6 million from the California Energy Commission to investigate renewable energy development opportunities for California. PRP also received a \$75,000 grant from APPA to support its Web

site development. The program communicates with a variety of stakeholders, including Western utility customers, renewable energy developers, state and Federal representatives.

Path 15

Energy Secretary Spencer Abraham directed Western in May to lead construction of Path 15, a critical transmission path between Los Banos and Coalinga, Calif., that connects the northern and southern parts of the state. A new 500-kV line will help the state avoid the rolling blackouts that occurred in early 2001 because it will allow power to be transferred up north, especially during peak demand. The new line will increase the capacity from 3,900 MW to 5,400 MW. In FY 2001, Western prepared a *Federal Register* Notice seeking statements of interest to provide non-Federal financing.

PG&E Section 205 case

PG&E filed a request with the Federal Energy Regulatory Commission seeking approval to amend its integration contract with Western under Section 205 of the Federal Power Act to recover costs associated with its 1967 integration contract with Western, which expires Dec. 31, 2004. In its filing, PG&E proposed numerous changes to contract terms, rates and charges, including calculating the rates for energy purchases not on average thermal production costs but on market-based rates. On Sept. 21, 2001, FERC issued a summary judgment in Western's favor, saying PG&E did not have the right to change the energy pricing under the contract. The contract requires the parties to jointly review cost-of-service data before PG&E can make a filing.

PMA peer review

In collaboration with the Department's Chief Information Office and Inspector General, Western and Bonneville Power Administration successfully conducted peer reviews of each other's mission-critical systems (Supervisory Control and Data Acquisition/automatic generation control) to comply with the Government Information Security Reform Act. The Department's Acting Chief Information Officer endorsed the idea, and the Inspector General agreed to proceed with the in-house review, resulting in cost savings for the Department of about \$500,000. While the team found no major vulnerabilities, Western's Information Technology staff is now working on enhancing existing cyber security tools, plans and procedures. Because of the team's success, future peer reviews are planned.

Rate changes

Western's overall rates strategy is to establish and meet targets for each project that match customer needs and cost-recovery requirements. FY 2001 rates for the Parker-Davis Project decreased from 7.63 mills per kWh in FY 2000 to 2.97 mills per kWh without firm power transmission and 5.45 mills with firm power transmission. They are projected to remain the same until Sept. 30, 2002. Boulder Canyon Project rates increased in FY 2000 from 8.89 mills/kWh to 9.75 mills in FY 2001. Rates for the Pick-Sloan/Missouri Basin Program (14.54 mills) and Loveland Area Projects (21.70 mills) are projected to remain the same until Sept. 30, 2003. Salt Lake City Area Integrated Project rates (17.57 mills) are projected to remain in effect until Oct. 1, 2003. Central Valley Project rates increased to 20.08 mills/kWh (with transmission revenue requirement included) on April 1, 2001 from 18.56 mills/kWh during the first half of FY 2001 and are projected to increase in FY 2002 due to higher purchase power expenses.

Regional transmission entities

Western actively participated in or monitored several evolving regional transmission entities, including regional transmission organizations, independent system operators and independent transmission compa-

nies in FY 2001. RTOs, ISOs and ITCs are independent entities that operate and manage access to regional transmission. Western continues to evaluate existing and evolving regional transmission entities, such as the California Independent System Operator, the Midwest Independent System Operator, TransLink ITC, Crescent Moon RTO, WestConnect RTO (formerly Desert STAR), RTO West and TransConnect ITC. Before joining an RTO, ISO or ITC, Western would conduct a public process, including environmental and economic evaluations.

Western actively participates in the formation of the Western Electricity Coordinating Council. WECC is being formed through the merger of the Western Systems Coordinating Council, the Western Regional Transmission Association and the Southwest Regional Transmission Association. WECC's mission is to ensure the reliability of and the nondiscriminatory access to transmission in the Western Interconnection.

Responding to the California energy crisis

To help the state avert rolling blackouts last winter, Western responded to the California Independent System Operator's emergency requests for energy. When the ISO declared Stage III emergencies, which are called when electricity reserves dip below 1.5 percent, Western responded by offering additional energy in coordination with the U.S. Bureau of Reclamation or asking customers to shed load. For example, on Dec. 20, 2000, Western offered an additional 550 MW of emergency energy from the Central Valley Project. On Jan. 17, 2001, we asked customers to shed load, in addition to offering 2,629 MWh of emergency energy. On Jan. 18, 2001, we offered 2,996 MWh of emergency energy. On Jan. 19, 2001, we offered 1,768 MWh from Trinity River powerplants and an additional 740 MWh from the New Melones powerplant. About 400 MW of emergency assistance from Glen Canyon powerplant was also made available to California to prevent blackout conditions within the state, following certain emergency release criteria agreed to between Western and Reclamation.

Tribal allocations

Under the Power Marketing Initiative of Western's Energy Planning and Management Program, Western began delivering the benefits of Federal power to tribes in FY 2001. Twenty-four tribes in the Upper Great Plains Region began receiving 65 MW of power from the Pick Sloan Missouri Basin Program—Eastern Division. Allocation efforts also continued in FY 2001. Fifty-one allocations were proposed for tribes in the Salt Lake City Area Integrated Projects marketing territory and five allocations to Native Americans were proposed in the Rocky Mountain Region, with service beginning in 2004 when existing commitments expire. Four tribes have signed contracts for 4 MW of power from Western's Sierra Nevada Region; deliveries will start in 2005.

Windsource Program

Western's Corporate Services Office joined 30 other agencies of the Denver Federal Executive Board to purchase 100-kWh "blocks" of windpower through Xcel Energy's Windsource Program for an additional 2.5 cents per kWh. These agencies joined to commit to a combined 10-megawatt wind energy purchase. Western agreed to purchase 500 wind energy "blocks" for a total of 50,000 kWh for CSO's 97,000-square-foot building in Lakewood, Colo. This represents about 25 percent of CSO's 200,000 kWh monthly energy use.

IRP summary

Western updated the Integrated Resource Planning requirements outlined in Section 114 of the Energy Policy Act of 1992, giving customers several additional options to meet or streamline these requirements. The updated requirements now better reflect changes in the utility industry and customers' varying size and structure. These changes also streamlined the reporting requirements without sacrificing the EPAct's intent.

Customers must submit annual progress reports and new integrated resource plans every five years, but they may now submit them individually or cooperatively when they belong to member-based associations.

The new IRP regulations allow customers to set action plan timelines (instead of a five-year minimum) to better correspond with their own situations. The regulations no longer require customers to provide a complete load forecast, only a brief summary verifying that one was conducted. Customers no longer must provide methods of validating predicted performance to determine whether IRP objectives were being met. Instead, a brief description of measurement strategies for the options identified in the IRP is adequate.

Additional changes were also made to IRP alternatives. Members of MBAs and Joint Action Agencies may now file a small customer plan if their sales/use is under 25 GWH per year.

Another alternative to the IRP is the minimum investment report. Customers under state, tribal or Federal regulation to make a mandated minimum financial/resource investment in demand-side-management or renewable energy programs may file a minimum investment report consisting of an initial report and an annual letter.

The Energy Efficiency/Renewable Energy Report allows state, tribal or Federal end-use customers required by state, tribal or Federal mandate to conduct energy efficiency/renewable energy programs to provide an initial report and an annual report on these activities to comply with Western's requirements.

All firm power customers have submitted one of these options. In FY 2001, Western received 107 IRP progress reports from individual customers, 25 integrated resource plans from cooperatives, 21 minimum investment reports and 101 small customer plans. These plans represent 624 long-term firm power customers and customer members.

Customer-reported trends include:

- Re-emergence of demand-side-management activities/programs.
- More support for renewable programs.
- More support for public power.

The most frequent demand-side-management activities cited by Western’s customers are:

- Energy/load management systems
- Energy-efficient construction
- Commercial/industrial/residential audits
- Pump efficiency measures
- Lighting retrofits/upgrades

The top five renewable energy activities are:

- Wind
- Large and small scale hydro
- Solar PV
- Fuel cells
- Geothermal

Several trends are surfacing in the renewable energy arena. Deregulation-related events from around the country have renewed interest in energy issues. For example, public opinion/interest with regard to energy issues is more favorable, new resources are being researched and developed and renewable energy technologies are becoming more affordable.

FY 2001 Customer IRP Accomplishments

	CRSP	DSW	RM	SN	UGP
DSM kW savings	16,339 kW	112,063 kW	62,867 kW	54,054 kW	655,815 kW
DSM kWh savings	83,494,945 kWh	131,571,620 kWh	62,334,322 kWh	161,419,000 kWh	2,087,589,236 kWh
DSM expenditures	\$1,334,884	\$9,154,465	\$7,471,976	\$46,425,000	\$20,671,388
DSM deviations	-\$742,422	+\$7,793,986	+\$6,111,244	+\$247,000	+\$7,003,316
kW renewables	57,282 kW	1,711,432 kW	70,918 kW	1,297,288 kW	168,998 kW
kWh renewables	301,696,729 kWh	2,684,638,638 kWh	195,068,246 kWh	4,747,440,000 kWh	534,045,833 kWh
Renewable expenditures	\$10,102,263	\$20,340,429	\$4,342,227	\$92,151,000	\$280,028
Renewable program types	Hydro Solar-PV Wind Geothermal	Hydro Solar-PV Solar-thermal Geothermal	Hydro Solar-PV Wind Fuel Cell	Hydro Solar-PV Wind Geothermal	Hydro Solar-PV Wind Geothermal

Repayment summary

Status of Repayment as of September 30, 2001

(dollars in millions)

	Cumulative 2000	Adjustments	Annual 2001	Cumulative 2001
Revenue:				
Gross operating revenue	17,215	60	1,130	18,405
Income transfers (net)	(698)	(8)	(100)	(806)
Total operating revenue	16,517	52	1,030	17,599
Expenses:				
O & M and other	6,120	(3)	320	6,438
Purchase power and other	4,537	(27)	628	5,138
Interest				
Federally financed	3,047	10	139	3,196
Non-Federally financed	143	(1)	10	152
Total interest	3,190	9	149	3,348
Total expense	13,847	(21)	1,098	14,924
(Deficit)/surplus revenue	(56)	32	(78)	(103)
Investment:				
Federally financed power	4,965	31	163	5,160
Non-Federally financed power	194	0	1	195
Nonpower	3,564	0	16	3,580
Total investment	8,723	32	180	8,935
Investment repaid:				
Federally financed power	2,643	35	8	2,686
Non-Federally financed power	39	3	4	46
Nonpower	36	0	4	40
Total investment repaid	2,718	38	16	2,772
Investment unpaid:				
Federally financed power	2,322	(4)	155	2,474
Non-Federally financed power	155	(3)	(3)	149
Nonpower	3,528	0	12	3,540
Total investment unpaid	6,005	(7)	164	6,163
Fund balances:				
Colorado River Development	8	2	(5)	5
Working capital	1	0	0	1
Percent of investment repaid to date:				
Federal	53.23%			52.05%
Non-Federal	20.10%			23.59%
Nonpower	1.01%			1.12%

Note: Repayment status is based on unaudited data as of 9/30/01.

Financial summary

Western implemented a new financial management system on Nov. 2, 1998. Throughout FY 1999, 2000 and 2001, Western has addressed operational deficiencies in the system. A plan was developed that focused Western's resources to address and correct system and operational issues/weaknesses. Financial and technical staff worked diligently to address major problem areas. As a result, Western's independent auditors completed the audit of our FY 1999 and FY 2000 financial statements. Those audited financial statements are contained in the financial data section of this report (pages 31 to 35).

FY 1999 vs. FY 1998:¹

- Operating revenues for FY 1999 totaled \$795.4 million. This was an increase of \$22.9 million (3 percent) when compared to FY 1998 revenues. Electric power sales for FY 1999 were up \$21.5 million (3.1 percent) from FY 1998 due to increased nonfirm power rates.
- Total operating expenses for FY 1999 of \$629.8 million, down \$73.5 million (10.5 percent) from FY 1998, can be attributed to:
 - Fiscal Year 1999 depreciation expense decreased \$90.6 million (41.4 percent) from FY 1998 levels largely because of the U.S. Army Corps of Engineers' change in the estimated service lives for assets, which increased FY 1998 depreciation significantly.
 - Purchased power expense in FY 1999 increased \$12.7 million (8.3 percent) from FY 1998. Lower generation (reduced water flow) in FY 1999 made it necessary to purchase more power (934,439 MWh) to meet Western's contractual obligations.

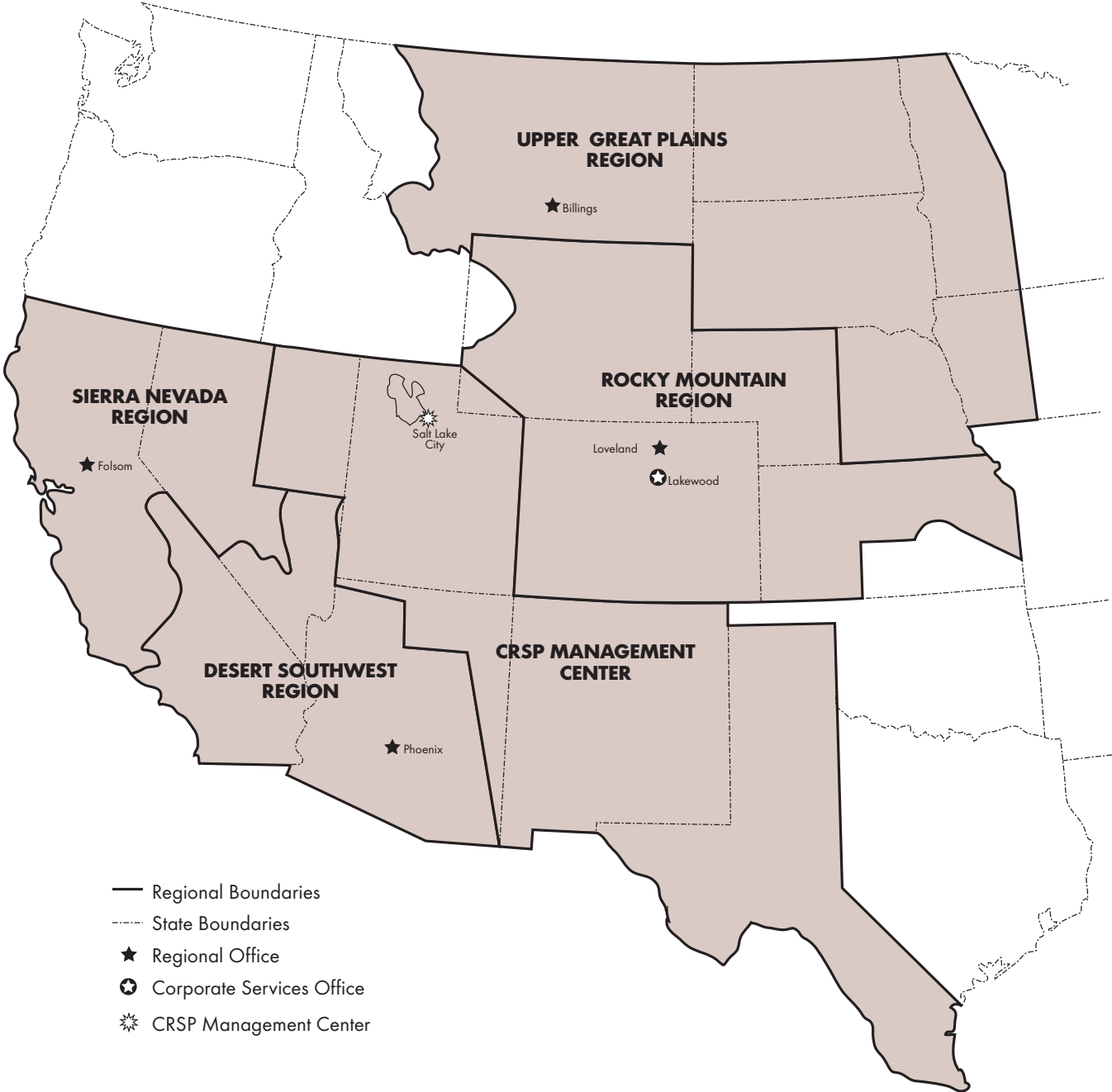
FY 2000 vs. FY 1999:¹

- Total operating revenues for FY 2000 were \$869.7 million, up \$74.3 million (9.3 percent) from FY 1999. Operating revenues for FY 2000 increased due to the following:
 - Increases in FY 2000 nonfirm power rates and nonfirm energy sold (552,550 MWh) drove revenues from sales of electric power up \$44.6 million (6.2 percent) from FY 1999.
 - Fiscal Year 2000 other operating income (mostly wheeling) increased \$37.2 million (21.9 percent) from FY 1999. Factors such as the California energy crisis resulted in an increased demand for Western's transmission services.
- Operating expenses for FY 2000 totaled \$790.6 million. This was up \$160.7 million (25.5 percent) when compared to FY 1999 operating expenses. Operating expenses for FY 2000 increased due to:
 - Operation and Maintenance expense in FY 2000 increased \$34.7 million (13.7 percent) from FY 1999. This increase was the result of a U.S. Bureau of Reclamation one-time adjustment to expense numerous construction-work-in-progress assets.
 - Fiscal Year 2000 purchased power expense increased significantly, up \$129.9 million (78.4 percent) from FY 1999. Lower than average generation (reduced water flow) in FY 2000 made it necessary to purchase more power (3,666,586 MWh) to meet Western's contractual obligations.

Fiscal Year 2001 financial information is not contained within this report. Fiscal Year 2001 audit work is in progress and will be reported in our FY 2002 Annual Report.

¹ This financial information is combined data for both Western and the generating agencies.

Customer service territories





Financial data

Includes FY 1999 and FY 2000 audited financial data

Independent auditors' report

The Administrator
Western Area Power Administration
United States Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment, and liabilities of the Western Area Power Administration, (Western), an agency of the U.S. Department of Energy, and the power generating function of the U.S. Department of the Interior, Bureau of Reclamation; the U.S. Department of Defense, Army Corps of Engineers; and U.S. Department of State, International Boundary and Water Commission (collectively, the generating agencies) as of September 30, 2000 and 1999, and the related combined statements of revenues, expenses, and accumulated net revenues and cash flows for the year ended September 30, 2000 and the related combined statement of revenues, expenses, and accumulated net revenues for the year ended September 30, 1999. These combined financial statements are the responsibility of Western and the generating agencies management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Western and the generating agencies declined to present a combined statement of cash flows for the year ended September 30, 1999. Presentation of such statement summarizing Western and the generating agencies operating, investing, and financing activities is required by accounting principles generally accepted in the United States of America. Additionally, written reports on compliance and internal controls are not included as of September 30, 2000 and 1999 as required by Government Auditing Standards.

In our opinion, except that the omission of the 1999 combined statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of Western and the generating agencies as of September 30, 2000 and 1999, and the results of their operations and changes in accumulated net revenues for the years then ended and their cash flows for the year ended September 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

November 16, 2001

Combined Power System Statements of Assets, Federal Investment and Liabilities

September 30, 2000 and 1999

(In thousands)

	<u>2000</u>	<u>1999</u>
Assets		
Utility plant:		
Completed plant	\$ 5,322,524	5,220,782
Accumulated depreciation	<u>(2,117,603)</u>	<u>(2,031,432)</u>
	3,204,921	3,189,350
Construction work-in-progress	<u>167,080</u>	<u>184,885</u>
Net utility plant	<u>3,372,001</u>	<u>3,374,235</u>
Cash	297,875	283,971
Accounts receivable	118,465	122,945
Other assets	<u>172,171</u>	<u>166,616</u>
Total assets	<u>\$ 3,960,512</u>	<u>3,947,767</u>
Federal investments and liabilities		
Federal investment:		
Congressional appropriations	\$ 9,531,283	9,195,134
Interest on Federal investment	3,663,885	3,497,391
Transfer of property and services, net	<u>457,819</u>	<u>481,909</u>
Gross Federal investment	13,652,987	13,174,434
Funds returned to U.S. Treasury	<u>(10,264,795)</u>	<u>(9,842,345)</u>
Net outstanding Federal investment	3,388,192	3,332,089
Accumulated net revenues	<u>201,344</u>	<u>280,143</u>
Total Federal investment	<u>3,589,536</u>	<u>3,612,232</u>
Commitments and contingencies (notes 5, 7, 8 and 9):		
Liabilities		
Accounts payable	84,630	69,648
Other liabilities	<u>286,346</u>	<u>265,887</u>
Total liabilities	<u>370,976</u>	<u>335,535</u>
Total Federal investment and liabilities	<u>\$ 3,960,512</u>	<u>3,947,767</u>

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

Combined Power System Statements of Revenues, Expenses and Accumulated Net Revenues

September 30, 2000 and 1999

(In thousands)

	<u>2000</u>	<u>1999</u>
Operating revenues:		
Sales of electric power	\$ 766,428	721,865
Other operating income	207,407	170,186
	<u>973,835</u>	<u>892,051</u>
Income transfers, net	(104,112)	(96,603)
Total operating revenues	<u>869,723</u>	<u>795,448</u>
Operating expenses:		
Operation and maintenance	287,937	253,264
Administration and general	46,034	37,813
Purchased power	295,517	165,661
Purchased transmission services	35,204	45,107
Depreciation	125,885	127,987
	<u>790,577</u>	<u>629,832</u>
Total operating expenses	<u>790,577</u>	<u>629,832</u>
Net operating revenues	<u>79,146</u>	<u>165,616</u>
Interest on Federal investment:		
Interest on Federal investment	178,844	156,663
Allowance for funds used during construction	(20,899)	(537)
	<u>157,945</u>	<u>156,126</u>
Net interest expense	<u>157,945</u>	<u>156,126</u>
Net revenues (deficit)	<u>(78,799)</u>	<u>9,490</u>
Accumulated net revenues:		
Balance, beginning of year	<u>280,143</u>	<u>270,653</u>
Balance, end of year	<u>\$ 201,344</u>	<u>280,143</u>

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

Combined Power System Statements of Cash Flows

Year ended September 30, 2000

(In thousands)

Cash flows from operating activities:

Net deficit	\$ (78,799)
Adjustments to reconcile net revenues/(deficit) to net cash provided by operating activities:	
Depreciation	125,885
Interest on Federal investment	147,052
Loss on disposition of assets	5,074
(Increase)/decrease in assets:	
Accounts receivable	4,480
Other assets	(8,053)
Increase in liabilities:	
Accounts payable	14,982
Other liabilities	23,385

Net cash provided by operating activities

234,006

Cash flows used in investing activities:

Investment in utility plant	(64,754)
-----------------------------	----------

Cash flows from financing activities:

Congressional appropriations	270,028
Funds returned to U.S. Treasury	(422,450)
Principal payments to upraters	(2,926)

Net cash used in financing activities

(155,348)

Increase in cash	13,904
Cash at beginning of year	283,971
Cash at end of year	\$ 297,875

Supplemental schedule of noncash investing and financing activities

Transfer of construction work-in-progress to completed plant	\$ 76,761
Capitalized interest during construction	20,899

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

Notes to Combined Power System Financial Statements

September 30, 2000 and 1999

(1) Basis of Preparation of Combined Power System Financial Statements and Summary of Significant Accounting Policies

(a) Principles of Combination

The combined power system financial statements include the financial position and results of operations of Western Area Power Administration, (Western), an agency of the U.S. Department of Energy (DOE), and the power generating function of the U.S. Department of Interior, Bureau of Reclamation (Reclamation); the U.S. Department of Defense, Army Corps of Engineers (Corps); and the U.S. Department of State, International Boundary and Water Commission (IBWC) (collectively known as the generating agencies). The combined power system financial statements combine the financial position and operating results of Western and the generating agencies for the individual power systems listed in Note 2 of these statements. Western is the Federal power marketing administration authorized to market and transmit power generated from these power systems. Except for the Central Arizona Project (CAP) and the Pacific Northwest-Pacific Southwest Intertie (Intertie), these power systems are part of multipurpose water resource projects and include certain Western transmission facilities and certain generating agency facilities.

Western markets and transmits power throughout 15 western states that is produced by hydropower plants operated by Reclamation, the Corps and IBWC. Each are separately managed and financed and maintain separate accounting records. Reclamation, the Corps and IBWC operate and maintain generating facilities that are part of multipurpose water resource projects and, accordingly, allocate certain operating expenses and net assets among projects' activities. Costs of the multipurpose projects are allocated to individual purposes (principally power, irrigation, municipal and industrial water, navigation and flood control) through cost allocation processes (see Note 5b). The accompanying combined power system financial statements include only those expenses and net assets which are expected to be recovered through the sale of power and other related income.

Although Reclamation holds an entitlement to power from the Navajo Generating Station and capacity from the CAP transmission facilities, the Federal government has no ownership in these facilities. As such, neither the CAP assets nor the associated entitlements are included in the combined power system financial statements.

Accounts are maintained in accordance with generally accepted accounting principles (GAAP) and the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) for electric utilities. Accounting policies also reflect specific legislation and executive directives issued by departments of the Federal government. The combined power system financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effect of Certain Types of Regulation*. The provisions of SFAS No. 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their combined power system financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

All material intercompany accounts and transactions have been eliminated from the combined financial statements. Elimination entries are a

result of power sales between power systems for \$7.1 million and \$2.4 million for the years ending Sept. 30, 2000 and 1999, respectively.

(b) Confirmation and Approval of Rates

The Secretary of Energy (Secretary) has delegated authority to Western's Administrator to develop power and transmission rates for the power systems. The Deputy Secretary of Energy has the authority to confirm, approve and place such rates in effect on an interim basis. The Secretary delegated to FERC the authority to confirm, approve and place such rates in effect on a final basis; to remand; or to disapprove such rates. Refunds with interest, as determined by FERC, are authorized if rates finally approved are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. No refunds are anticipated in connection with rates approved on an interim basis through Sept. 30, 2000.

(c) Operating Revenues

Operating revenues are recorded on the basis of power and services provided. Except for power systems using revolving funds, cash received is deposited directly with the U.S. Department of the Treasury (U.S. Treasury) and is reflected as "Funds Returned to U.S. Treasury" in the accompanying Combined Power System Statements of Assets, Federal Investment and Liabilities. For power systems using revolving funds, cash received is deposited in the U.S. Treasury and remains available to the power system for operation and maintenance expenses. Cash collected in excess of expenditures is used for repayment of investment and interest to the U.S. Treasury.

Power and transmission rates are established under requirements of the power systems' authorizing legislation and related Federal statutes and are intended to provide sufficient revenue to recover all costs allocated to power and, in some power systems, a portion of irrigation-related costs (see Note 8b). Costs allocated to power include repayment to the U.S. Treasury of investment in power facilities and associated interest. Rates are structured to provide for repayment of investment in power facilities, generally over 50 years, while operation and maintenance costs and interest on Federal investment are recovered annually. Replacements to Federal investment are generally to be repaid over their expected service lives.

The power systems' enacting legislation does not recognize annual depreciation based on actual service lives as a measure of the required repayment for investment in utility plant. This results in some assets being fully depreciated before costs are recovered whereas annual depreciation costs on other assets continue after such costs have been recovered through revenues. Western matches these costs and revenues by deferring the unmatched portion of the revenues as accumulated net revenues. Because Western is a nonprofit Federal agency, accumulated net revenues are committed to Federal investment repayment.

Income transfers, net, represent the amount of funds collected but subsequently transferred to Reclamation. This amount relates to the surplus generation billed from the Navajo Generating Station by Western, on behalf of Reclamation's CAP.

For the Central Valley Power System (CVP), the net revenue forecasted in the rate case is compared to the actual net revenue by December 31 for the previous fiscal year. If the actual net revenue is less than the pro-

jected net revenue, a surcharge may be assessed. If the actual net revenue is greater than the projected net revenue, a credit may be granted. The surcharge or credit is then applied to CVP firm power customers' bills from January through September.

(d) Cash

For purposes of reporting cash flows, cash consists principally of the unexpended balance of funds authorized by Congress, customer advances and revolving fund revenues at the U.S. Treasury.

(e) Utility Plant

Utility plant is stated at original cost, net of contributions in aid of construction by entities outside of the combined power system. Costs include direct labor and materials; payments to contractors; indirect charges for engineering, supervision and administrative and general expense; and interest during construction (IDC). The costs of additions, major replacements and betterments are capitalized, with the exception of replacements at the Boulder Canyon Power System (BC), which are charged to operation and maintenance expense. Repairs are charged to operation and maintenance expense.

The cost of retired utility plant, net of accumulated depreciation, is charged to operation and maintenance expense as a gain/loss and the net of removal costs and salvage credits are capitalized as part of the direct replacement asset. If there is not a replacement asset, the net of removal costs and salvage credits are charged to operation and maintenance expense. Plant assets of the combined power system are currently depreciated using the straight-line method over estimated service lives ranging from 10 to 100 years.

(f) Interest on Federal Investment

Interest is accrued annually on the Federal investment based on Western and the generating agencies' interpretation of Federal statute and system legislation. Such interest is reflected as an annual expense in the accompanying statements of revenues, expenses and accumulated net revenues with a corresponding increase in the gross Federal investment. Western and the generating agencies calculate interest on Federal investment based on the annual unpaid balance owed to the U.S. Treasury using rates set by law, administrative orders pursuant to law or administrative policies. All power systems, except for the CAP, recognize an annual interest credit for payments of accrued interest made monthly on obligations that are due annually to the U.S. Treasury. Interest rates range from 2.5 to 12.4 percent, depending on the year in which construction on the transmission and generation facilities was initiated or on the authorizing legislation.

As allowed under Federal law, interest is not accrued on Federal investment in irrigation facilities anticipated to be repaid through power sales (see Note 8b).

(g) Interest During Construction

The practice of capitalizing interest (IDC or Allowance for Funds Used During Construction) is followed for all generating and transmission facilities and represents interest on funds borrowed from the U.S. Treasury during the construction of utility plant. Western calculates IDC based on the average annual outstanding balance of construction work-in-progress. Western and the generating agencies' policy is to capitalize IDC through the end of the fiscal year in which assets are placed in service. IDC is recovered over the repayment period of the related plant asset through increased revenues resulting from higher investment. Applicable interest rates ranged from 5.8 to 11.4 and 6.0

to 11.4 percent for the years ended Sept. 30, 2000 and 1999, respectively.

(h) Pension and Other Retirement Benefits

Statement of Federal Financial Accounting Standards (SFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* and No. 5, *Accounting for Liabilities of the Federal Government*, direct the full cost reporting of employment benefits by employing entity. These statements require Western and the generating agencies to record the costs to the Federal government of providing pension, life and health insurance and other post-employment benefits (severance payment, counseling and training, workers' compensation benefits, etc.) regardless of whether the benefits are funded by the reporting entity or by direct appropriations to the Office of Personnel Management (OPM) trust fund (see Note 9b).

(i) Income Taxes

The facilities and income included in these combined power system financial statements are exempt from taxation.

(j) Use of Estimates

Management of the combined power system has made many estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these combined power system financial statements in conformity with GAAP. Actual results could differ significantly from those estimates.

(k) Fair Value of Financial Instruments

The carrying value for certain short-term financial instruments approximates fair value. These financial instruments include: cash, accounts receivable and accounts payable.

(l) Credit Risks

Financial instruments, which potentially subject Western and the generating agencies to credit risk, include accounts receivable for customer purchases of capacity, energy, or other products and services. These receivables are primarily with a group of diverse customers who are generally large, stable and established organizations that do not represent a significant credit risk. Additionally, Western is in the process of refining and updating its credit policy to meet the changing needs of the industry and in doing so cultivate long-term partnerships that help minimize credit risk. Although Western and the generating agencies are affected by the well being of the utility industry, any credit risk associated with accounts receivable is mitigated by the nature of Western and the generating agencies' customer base and on-going assessments made by management of that customer base.

(m) Recent Accounting Pronouncements

In June of 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133, as issued, requires the recording of derivative instruments on the balance sheet as assets or liabilities and the measure of those instruments at fair value. Additionally, agencies must recognize any changes in the derivatives fair value in current earnings. SFAS No. 137 later deferred the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2001. SFAS No. 138 amended certain derivative instruments and hedging activities in SFAS No. 133. Western and the generating agencies do not believe at this time that it holds derivative instruments or engages in hedging activities as defined in these standards and expects that the adoption of SFAS No. 133 and

SFAS No. 138 will not have a material impact on the combined power system statements.

(2) Power Systems and Authorizing Legislation

The combined power system financial statements include the financial position, results of operations and cash flows of 15 separate power systems. The following is a list of the Federal power systems and related authorizing legislation. Transmission and generating facilities are operated as individual integrated power systems with the financial results combined in these combined power system financial statements:

Boulder Canyon Power System

Boulder Canyon Project Act of 1928, as amended

Central Arizona Project

Colorado River Basin Project Act of 1968, as amended

Central Valley Power System

Act of Aug. 26, 1937, as amended

Collbran Power System

Act of July 3, 1952

Colorado River Storage Power System

Colorado River Storage Project Act of April 11, 1956, as amended

Dolores Power System

As a participating project of the Colorado River Storage Power System, it utilizes the same authorizing legislation

Falcon-Amistad Power System

Treaty between the United States and Mexico, February 3, 1944; Acts of Oct. 5, 1949, June 18, 1954 and July 7, 1960

Fryingpan-Arkansas Power System

Act of Aug. 16, 1962, as amended

Pacific Northwest-Pacific Southwest Intertie Project

Act of Aug. 31, 1964

Parker-Davis Power System

Act of May 28, 1954

Pick-Sloan Missouri Basin Power System

Flood Control Act of 1944, as amended

Provo River Power System

Finding of Feasibility by the Secretary of the Interior, Nov. 13, 1935

Rio Grande Power System

Act of Feb. 25, 1905

Seedskaelee Power System

As a participating project of the Colorado River Storage Power System, it utilizes the same authorizing legislation

Washoe Power System

Act of Aug. 1, 1956

(3) Other Assets

Other assets as of Sept. 30, 2000 and 1999, consist of the following (in thousands):

	2000	1999
Moveable equipment, net	\$ 50,283	\$ 51,629
Workers' compensation (see note 6)	37,802	26,162
Abandoned project costs, net	24,341	29,181
Interchange energy	18,248	8,759
Miscellaneous deferred debits	12,900	23,405
Stores inventory	12,584	14,514
Deposit funds available	6,059	4,862
Energy banking deferral	5,954	3,504
Purchase power termination settlement	4,000	4,600
Total	\$ 172,171	\$ 166,616

The abandoned project costs include the Celio-Mead transmission line of \$17.0 million and \$17.7 million for fiscal year (FY) 2000 and 1999, respectively, which is being amortized over 22 years and Bonneville investigation costs associated with the Bonneville Unit of the Central Utah Project of \$7.3 million and \$11.5 million for FY 2000 and 1999, respectively, which is being amortized over 10 years and recovered through power rates.

The energy banking deferral is an arrangement with certain customers in which excess power and/or transmission capacity is banked with the customers until additional power is needed by Western to meet contractual obligations. Western records an other asset for the banked power and/or transmission services provided at a contractually agreed-upon amount. The net revenue or expense associated with the banking activity is deferred as an other liability.

(4) Utility Plant

Major classes of utility plant and related accumulated depreciation by agency as of Sept. 30, 2000 and 1999, consist of the following (in thousands):

	2000			1999		
	Western	Generating agencies	Total	Western	Generating agencies	Total
Completed plant	\$ 2,480,733*	2,841,791	5,322,524	2,444,258*	2,776,524	5,220,782
Accumulated depreciation	(939,035)	(1,178,568)	(2,117,603)	(880,937)	(1,150,495)	(2,031,432)
	1,541,698	1,663,223	3,204,921	1,563,321	1,626,029	3,189,350
Construction work-in-progress:	132,785	34,295	167,080	134,706	50,179	184,885
Net utility plant	\$ 1,674,483	1,697,518	3,372,001	1,698,027	1,676,208	3,374,235

* Includes \$162.6 million of power rights as of Sept. 30, 2000 and 1999.

ed in additional costs, ranging from \$0 to \$416 million (depending on the assumptions of the cost methodologies used). Such a reallocation change could substantially affect P-SMBP power rates.

(5) Federal Investment and Cost Allocation

(a) General

Federal investment consists of congressional appropriations, accumulated interest on unpaid Federal investment and the net transfers of property and costs from other Federal agencies. The congressional appropriations component is comprised of cumulative appropriations received net of expenses legislatively deemed nonreimbursable and post retirement benefits (see Note 9b). All power systems (except Dolores, Seedskaadee, Boulder Canyon (BC) and the operations and maintenance and purchased power programs of the Colorado River Storage Project (CRSP) Power System) are primarily financed through congressional appropriations for operation and maintenance, construction and rehabilitation and purchased power expenditures. A portion of construction and rehabilitation and purchased power expenditures are financed through other mechanisms, such as advances from non-federal entities; reimbursements from other Federal agencies; and alternative methods such as net billing and bill crediting; or any combination thereof.

The Federal investment in the combined power systems' utility plant is to be repaid to the U.S. Treasury within 50 years from the time the facilities are placed in service. Replacements to Federal investments are generally to be repaid over their expected service lives. Operating expenses (excluding depreciation expense) and interest on the unpaid Federal investment should be paid annually. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenue prior to any repayment of Federal investment. Interest is accrued on cumulative annual net deficits until paid. Deficits for operating expenses, net of depreciation expense, begin to accrue interest in the year they occur. Interest expense deficits begin to accrue interest in the year following occurrence. As of Sept. 30, 2000 and 1999, the cumulative unpaid annual operating expenses (excluding depreciation expense) and interest on Federal investment were about \$63 and \$43 million, respectively.

(b) Federal Investment in Multipurpose Facilities

The Federal investment in certain multipurpose facilities (primarily dams and appurtenant structures integral to the generation of power), required to be repaid from the sale of power, has been determined from preliminary cost allocation studies based on standards approved by Congress. Allocations between power and nonpower activities may be changed in future years; however, the allocation standards cannot be changed unless approved by Congress.

Final studies will be performed by Reclamation and the Corps, as appropriate, upon completion of each individual power project and are still pending for all but the Fryingpan-Arkansas Power System (FryArk). Reclamation completed the final FryArk study in 1993. The Boulder Canyon and Parker-Davis power systems are not subject to cost allocation studies since these power systems' enacting legislation require the total costs of the dams and appurtenant structures to be repaid through power revenues.

With final cost allocation studies still pending for many of the individual power systems comprising the combined power system, potential exists for significant future adjustment in the Federal investment for the cost of multi-purpose facilities allocated to power and the related accrued interest on unpaid investment. Previously, Reclamation studied the implications of a cost reallocation of the Pick-Sloan Missouri Basin Program (P-SMBP) on existing water and power rates. Reclamation's study result-

(6) Other Liabilities

Other liabilities as of Sept. 30, 2000 and 1999, consist of the following (in thousands):

	<u>2000</u>	<u>1999</u>
Customer advances	\$ 183,884	182,721
Workers' compensation	40,962	28,994
Interchange energy	18,248	8,759
Accrued annual leave	11,948	11,010
Accrued payroll benefits	10,019	8,155
Energy banking deferral (see Note 3)	5,954	3,504
Deposit funds available	4,000	6,358
Purchased power termination settlement	4,000	4,600
Cooperative and reimbursable work	3,823	3,822
Miscellaneous deferred credits	3,508	7,964
Total	<u>\$ 286,346</u>	<u>265,887</u>

Customer advances primarily consist of two components. The first is principal and interest payable to customers of the BC Power System that provided financing to upgrade each of the generating units at Hoover Dam. The liability to these customers is being satisfied through issuance of credits on subsequent power bills. The obligation is scheduled to be relieved over a period through and including FY 2017, at interest rates ranging between 5.5 and 8.2 percent. The second component consists of the principal payable to the State of Wyoming for providing partial financing for improvements at the Buffalo Bill Dam (P-SMBP Power System) and associated powerplants. This liability is scheduled to be relieved over a period of 35 years beginning in 1996, at an approximate interest rate of 11.1 percent.

Workers' compensation consists of two elements: a liability for expenses from actual claims incurred and paid by the Department of Labor (DOL) as the program administrator (that Western and the generating agencies must reimburse) and the actuarial liability associated with cases incurred for which additional future claims may be made. In conjunction with SFFAS No. 4 and No. 5, DOL determined the actuarial liability associated with future claims using historical benefit payment patterns discounted to present value (37 years) using economic assumptions for 10-year U.S. Treasury notes and bonds. Western and the generating agencies included \$37.8 million and \$26.2 million as an other liability for future claims in the Combined Power System Statements of Assets, Federal Investment and Liabilities as of Sept. 30, 2000 and 1999, respectively.

The recovery of future claims will be deferred for rate-making purposes until such time they are actually submitted and paid by DOL. Therefore, the recognition of the expense associated with the actuarially-determined liability has been deferred as an other asset in the Combined Power System Statements of Assets, Federal Investment and Liabilities in accordance with SFAS No. 71 (see Note 3) to reflect the effects of the rate-making process. Western's cumulative unpaid expenses associated with actual claims incurred are \$3.2 million and \$2.8 million as of Sept. 30, 2000 and 1999, respectively. (Reclamation data was unavailable.)

Western renegotiated certain CRSP long-term contractual obligations with third party power providers. Under the terms of the settlement agreements, payments of \$600,000 will be made through the year 2007. The recovery of these payment obligations will be deferred for rate-making purposes until the obligations become due. Therefore, the recognition of the expense associated with the settlements has been deferred as an other asset in the Combined Power System Statements of Assets, Federal Investment and Liabilities in accordance with SFAS No. 71 to reflect the effects of the rate-making process.

(7) Lease Commitments

Western has several cancelable operating leases, primarily for office and warehouse space that expire over the next 15 years and two non-cancelable leases. The non-cancelable leases expire in 2004 and 2009 for the Electric Power Training Center (EPTC) and Western's Corporate Service Office, respectively and represent an annual expense of approximately \$2.3 million. The General Services Administration is the leaseholder for all locations with the exception of the EPTC to which Western is the leaseholder. The right to relinquish space on cancelable leases is available with 120-day notice to terminate. These leases generally contain renewal options for periods ranging from three to five years and require the organization to pay all executory costs such as maintenance and insurance. Rental expense for operating leases was approximately \$3.6 million and \$4.0 million for the years ended Sept. 30, 2000 and 1999, respectively. (Generating agency data was unavailable.)

(8) Commitments and Contingencies

(a) General

Western, Reclamation, the Corps and IBWC are involved in various claims, suits and complaints routine to the nature of their business. These Federal government organizations are also fully self-insured for claims pertaining to unemployment, long-term disability and health and life insurance. Liabilities for these claims, as reported in the accompanying combined power system financial statements, are based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis. The above entities are contingently liable with respect to claims beyond those actuarially projected. It is management's opinion that such claims will not have a material adverse affect to the combined power system financial statements.

The construction contractor for the Hoover Dam visitor center and parking structure, PCL Construction (PCL), submitted a \$32.3 million breach of contract claim to Reclamation on July 28, 1995. In FY 2000, the U.S. Court of Federal Claims ruled against PCL on its breach of contract claim, finding no liability for contract breach on the part of the government. PCL also sought the return of \$1.3 million retained by the government for PCL's uncompleted work and for liquidated damages following PCL's termination for default in October 1995. The court has ruled that PCL's termination was justified, but has not issued a ruling with regard to the return of retained funds.

In the meantime, the government has counter sued PCL because of defects in the visitor center theater turntable system that have rendered the system inoperable. PCL has admitted liability for those defects and negotiations are ongoing to resolve that aspect of the case without further litigation. The parties are also submitting briefs on PCL's retained funds/liquidated damages claim, which will be considered by the court in early 2002. Once final judgements have been issued for all of the claims related to this project, an appeal of the court's breach of contract determination is likely.

The City of Tacoma sued Western alleging Western violated the Administrative Procedure Act and claimed breach of contract for the purchase of electric power. The U.S. Department of Justice (DOJ), representing Western on this issue, settled this suit and determined that payment of settlement costs should be made from the DOJ Judgment Fund. DOJ determined Western is not required to reimburse the Judgement Fund, absent of specific statutory authorization. Accordingly, the settlement costs of \$35 million have been excluded from the Combined Power System Statement of Revenues, Expenses and Accumulated Net Revenue.

(b) Irrigation Assistance

Federal statute requires the use of the combined power systems' net revenues to repay the U.S. Treasury that portion of Reclamation's project capital costs allocated to irrigation purposes determined by the Secretary of the Interior to be beyond the ability of the irrigation customers to repay. Although these costs may be paid through power sales, these costs do not represent an operating cost of the combined power system. No payments were made for the years ended Sept. 30, 2000 and 1999. The most current power repayment studies prepared by Western indicate that approximately \$3.5 billion and \$3.8 billion of existing non-power Federal investment will be repaid from future power revenues for fiscal years ended Sept. 30, 2000 and 1999, respectively. Western is scheduled to begin repayment for irrigation assistance in FY 2001.

(c) Financing of Boulder Canyon Power System Improvements

In 1987, Reclamation initiated a project designed to increase (uprate) the generating capacity of the BC. Certain BC customers agreed to provide funding for these improvements, primarily through the issuance of long-term bonds. In some cases, proceeds from the bonds exceeded the amount required to fund the improvements.

For purposes of measuring the liability related to the Upgrading Program (the Program), Reclamation reports only the total amount of the advances received from customers in the accompanying Combined Power System Statements of Assets, Federal Investment and Liabilities (see Note 6). Bond issuance costs are being included in the determination of annual interest expense to be recognized over the term of debt repayment. Net proceeds from the issuance of the debt, in excess of the amount advanced to Reclamation, have similarly been excluded from the assets of the Project. Interest expense on the liability is measured based on the total outstanding bonded indebtedness. Interest income from excess proceeds reduce interest costs subject to arbitrage regulations. Until any remaining excess funds are applied against outstanding debt, the total interest cost of financing the Program will be subject to uncertainty.

(d) Colorado River Storage Project

In October 1992, Congress passed the Grand Canyon Protection Act of 1992 (the Act) to "protect . . . and improve the values for which the Grand Canyon National Park and Glen Canyon National Recreation Area were established."

The Act relieves CRSP power customers of repayment obligations for costs equivalent to certain expenses of environmental impact studies, associated purchased power and other miscellaneous expenses related to the Glen Canyon Dam. However, in connection with this legislation, Congress included a provision that such costs could become the responsibility of the power customers if the overall provisions of the Act

cause net offsetting receipts to decrease from FY 1993 through FY 1997. Beginning in FY 1998, power customers receive credit to outstanding obligations equal to their spending on the aforementioned environmental expenses.

In FY 2000, Reclamation, as defined by the provisions of the Act, made a final determination of the reimbursability of environmental funding for FY 1993 through FY 1997. Of the \$81.7 million in total costs incurred between those years, \$47.3 million was deemed to be non-reimbursable. Through FY 1998, \$42.8 million had been previously recognized as a reduction to operation and maintenance expense and congressional appropriations with \$4.5 million and \$0 million removed for FY 2000 and FY 1999, respectively as it relates to the expenses incurred during the period of FY 1993 to FY 1997.

For the fiscal years ended September 30, 2000 and 1999, Western and Reclamation combined incurred \$29.2 million and \$7.2 million, respectively, in environmental costs which were deemed non-reimbursable. Accordingly, such costs have been recognized as a reduction of congressional appropriations in the accompanying Combined Power System Statements of Assets, Federal Investment and Liabilities.

(e) Power Contract Commitments

Western has entered into various long-term agreements for power and transmission purchases to meet its contractual obligations. For the years ended Sept. 30, 2000 and 1999, purchased power expenses totaled \$295.5 million and \$165.7 million, respectively; and purchased transmission service expenses totaled \$35.2 million and \$45.1 million, respectively. Western's long-term commitments for power and transmission, subject to the availability of Federal funds and contingent upon annual appropriations from Congress, have various termination dates and are as follows (in thousands):

Year ended Sept. 30:	Purchased power	Purchased transmission	Total
2001	\$ 16,561	8,922	25,483
2002	3,906	8,922	12,828
2003	4,050	8,215	12,265
2004	4,199	7,707	11,906
2005	7,333	7,707	15,040
Thereafter	91,129	31,595	122,724
Total	\$ 127,178	73,068	200,246

expense plus interest of \$3.1 million and net unpaid Federal investment of \$4.5 million as of Sept. 30, 1999. Western has proposed in the CVP marketing plan for 2004 to integrate Washoe with CVP to ensure repayment.

(b) Pension and Other Retirement Benefits

Western, Reclamation, the Corps, and IBWC employees participate in one of the following contributory defined benefit plans: the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). Agency contributions are based on eligible employee compensation and total 8.51 percent for CSRS and up to 11.5 percent for FERS. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). Western contributions (generating agencies contributions were not available) for the two plans amount to \$9.2 million and \$8.6 million for the years ended September 30, 2000 and 1999, respectively.

The contribution levels as legislatively mandated do not reflect the full cost requirements to fund the CSRS pension plan (approximately 24.2 percent). Other post-retirement benefits administered and partially funded by the OPM are the Federal Employees Health and Benefits Program (FEHB) and the Federal Employee Group Life Insurance Program (FEGLI). FEHB is calculated at \$2,733 and \$2,731 per employee in FY 2000 and FY 1999, respectively, and FEGLI is based on .02 percent of base salary for each employee enrolled in these programs. In addition to the amounts contributed to the CSRS and FERS as stated above, Western recorded operation and maintenance expense for the pension and other retirement benefits in the combined power system statements of revenues, expenses, and accumulated net revenues of \$11.4 million for the year ended September 30, 2000 and \$11.3 million for the year ended September 30, 1999. This amount reflects the contribution made on behalf of Western and the generating agencies by OPM to the trust funds.

(10) Subsequent Event

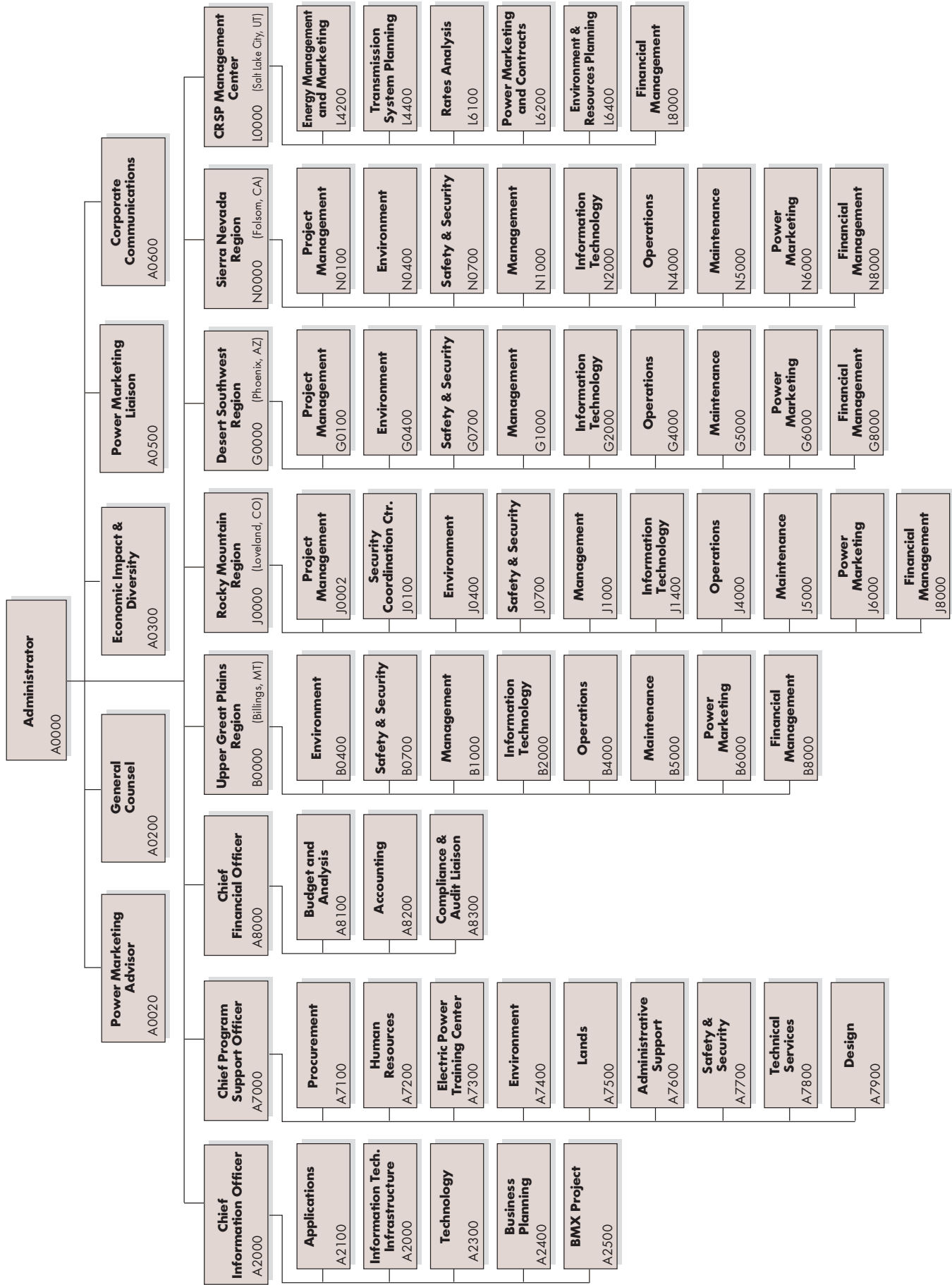
Under the terms of the integration contract between Pacific Gas and Electric Company (PG&E) and Western, Western pays PG&E an estimated rate each year for energy purchases and records this amount as purchased power expense in the combined statement of revenues, expenses and accumulated net revenues. On February 25, 2002 the PG&E filed with the FERC to accept a true-up of the costs of energy purchases made by Western between 1998 and 2000. The proposed cost adjustment of \$37 million was accepted by FERC on March 20, 2002. Accordingly, Western's CVP power system will reduce purchased power expense in 2001 to reflect this change in accounting estimate.

(9) Other

(a) Washoe Power System

The most recent Washoe Power Repayment Study indicates the power system requires a rate of at least 62 mills per kWh to cover annual operating expenses (excluding depreciation expense) plus interest to repay the Federal investment in project facilities allocated to power. In FY 2000, Western sold the output of the Stampede powerplant at an average price of 18.18 mills per kWh.

Washoe Power System (Washoe) facilities cumulative unpaid annual operating expenses plus interest totals approximately \$3.4 million. Net unpaid Federal investment totals approximately \$4.6 million as of Sept. 30, 2000. This compares with cumulative unpaid annual operating



Western Area Power Administration

To reach us . . .

Call or write your local Western office or the Corporate Communications Office at our Corporate Services Office in Lakewood, Colo., to share your comments or to find out more about Western. Our addresses and phone numbers are listed below.

Corporate Communications

Western Area Power Administration
P.O. Box 281213
Lakewood, CO 80228-8213
720-962-7050

Sierra Nevada Regional Office

Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630-4710
916-353-4416

Upper Great Plains Regional Office

Western Area Power Administration
P.O. Box 35800
Billings, MT 59107-5800
406-247-7405

CRSP Management Center

Western Area Power Administration
P.O. Box 11606
Salt Lake City, UT 84147-0606
801-524-5493

Rocky Mountain Regional Office

Western Area Power Administration
P.O. Box 3700
Loveland, CO 80539-3003
970-461-7200

Electric Power Training Center

Western Area Power Administration
P.O. Box 281213
Lakewood, CO 80228-8213
800-867-2617

Desert Southwest Regional Office

Western Area Power Administration
P.O. Box 6457
Phoenix, AZ 85005-6457
602-352-2525

Power Marketing Liaison Office

U.S. Department of Energy
Room 8G-027, Forrestal Building
1000 Independence Avenue, SW
Washington, DC 20585-0001
202-586-5581

Visit our web page at <http://www.wapa.gov>

Send e-mail correspondence to CorpComm@wapa.gov

For no-cost energy-related technical assistance within Western's service territory,
call **1-800-POWERLN (1-800-769-3756)**

