



**2007**

**Annual Report**  
**Southwestern Power Administration**

# 2007 ANNUAL REPORT

## Southwestern Power Administration

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**The Honorable Dr. Steven Chu**

Secretary of Energy  
Washington, D.C. 20585

Dear Secretary Chu,

“Renewable energy” isn’t just a catchphrase at Southwestern Power Administration (Southwestern). It describes the hydroelectric energy we market, and the energy that Southwestern’s employees bring to work every day, constantly challenging themselves to become more effective and efficient in providing affordable, environmentally clean power to the American people.

As Southwestern’s new Administrator, I have had the opportunity to view our operations from a fresh perspective, and I’m proud to share with you how a focus on continual improvement has been evident in accomplishments throughout the agency during fiscal year (FY) 2007.

When the North American Electric Reliability Corporation (NERC) implemented new reliability standards, we met applicable implementation dates and exceeded NERC’s control performance standards throughout the year. When tasked with reducing the agency’s carbon footprint, we found ways to achieve an 8.7% reduction in energy intensity from last year without impacting our operational capabilities. And when faced with record-breaking inflows into the reservoir projects from which we market power, we capitalized on the opportunity to provide customers with significant



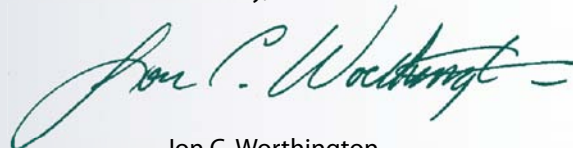
**Jon Worthington**  
Southwestern Administrator

quantities of supplemental energy. Our supplemental sales this year not only saved customers over \$122 million, but increased Southwestern's revenues -- a huge win-win for Southwestern's ratepayers and the Nation's taxpayers alike.

Southwestern is proud of its role in protecting National and economic security by contributing to the diverse supply of domestically produced energy, operating and maintaining a safe and reliable transmission system, and ensuring good stewardship of our Nation's water resources and environment. In FY 2007, Southwestern continued to repay all power costs to the American taxpayers by marketing and delivering approximately 5.6 billion kilowatthours of hydropower at cost-based rates to customers in our six-state region. This energy was generated from the 24 Federal hydroelectric projects in our marketing region, producing annual revenues of \$161 million.

In this time of rising energy costs, the Nation's need for renewable energy has never been greater. Hydropower – and the people of Southwestern – stand ready to help meet that need.

Sincerely,



Jon C. Worthington  
Administrator

Former Southwestern Administrator  
Mike Deihl congratulates Jon  
Worthington on his appointment  
at Southwestern's headquarters in  
December 2007.



# ABOUT SOUTHWESTERN

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

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

By law, Southwestern's power is marketed and delivered to not-for-profit municipal utilities and rural electric cooperatives. Southwestern has over one hundred such "preference" customers, and these entities ultimately serve over eight million end-use customers.

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

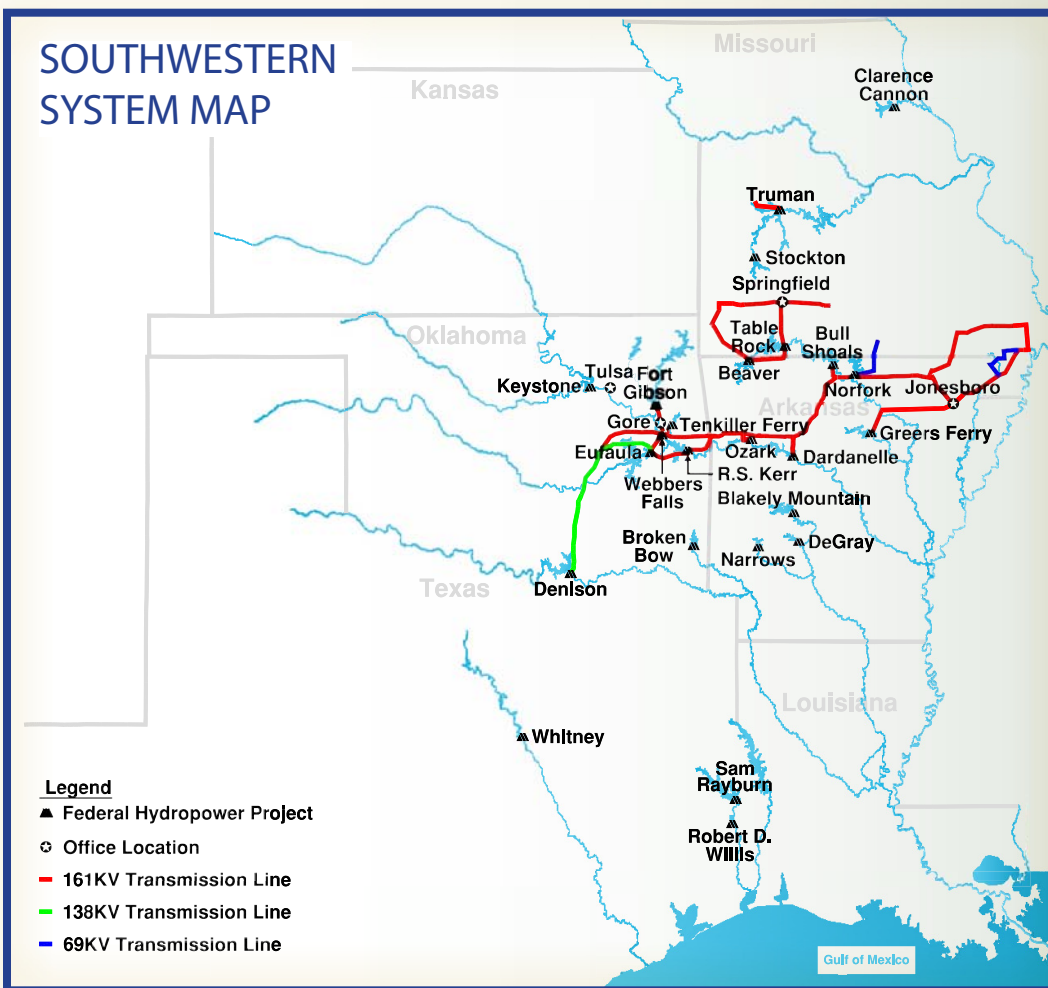
Power scheduling and plant dispatching are conducted

on a 24-hour basis by staff in the Springfield Operations Center.

Annual revenue for Southwestern has averaged approximately \$133 million over the last five years. This revenue is used to pay the cost of operating and maintaining the generation and transmission facilities and to repay the principal and interest on the Federal investment.

## MISSION

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





2007 marked the 50th Anniversary of the Southwestern Power Resources Association (SPRA), a voluntary organization of consumer-owned electric systems in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas, which are customers of Southwestern.

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

## VISION

Southwestern has an open and trusting partnership with its customers in meeting their business expectations for operation of the Federal hydropower system, and with the American public in meeting its financial obligations while providing good stewardship of regional water resources. The Southwestern work force is cost-conscious, team-based, and empowered to meet customer expectations.

## AUTHORIZATION

The Flood Control Act of 1944 (58 Stat. 887, 890; 16 U.S.C.A. 825s) is Southwestern's main authorizing

legislation. Through Section 5 of this Act and a series of Executive Orders, Southwestern's Administrator is authorized to "transmit and dispose of ... power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles." Southwestern is also authorized to draw up rate schedules for such power and energy, with the goal of recovering, with interest, the investment of the American people. Preference in the sale of the power Southwestern markets is given to not-for-profit entities, such as municipally owned utilities and rural electric cooperatives.

**5.6 billion kWh of hydropower  
= 9.3 million barrels of oil**

**Southwestern hydropower supports domestic energy security.**

Source: Southwestern Power Administration, Division of Resources and Rates

## FY 2007 ACCOMPLISHMENTS

Southwestern markets hydropower, the Nation's foremost renewable energy. Hydroelectric energy accounts for over 70% of electricity generated from renewable sources in the United States<sup>1</sup>. The importance of hydropower in the Nation's energy portfolio is one of the main reasons Southwestern strives to operate its power system in an effective, energy-efficient, and cost-conscious manner every day. We contribute to the Federal hydropower purpose by providing not only stewardship of renewable resources but also leadership in system reliability, fiscal responsibility, and regional partnerships.

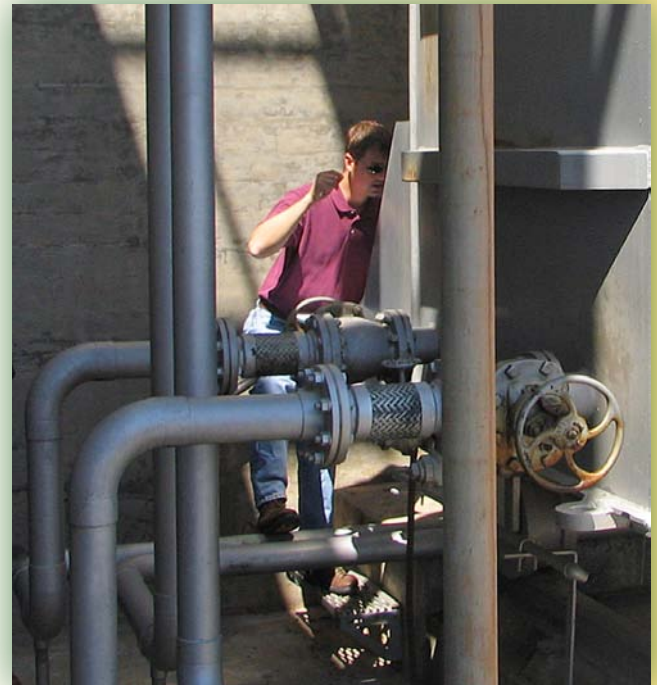
### STEWARDSHIP Renewing Our Environment

Each year, environmental concerns and the need for energy independence are of increasing importance.

In FY 2007, the 5.6 billion kilowatthours (kWh) of renewable hydropower marketed by Southwestern saved



Southwestern coordinated with other entities to improve nesting conditions for the endangered Interior Least Tern.



Southwestern worked with our customers and the Corps to prioritize the secondary oil containment needs of power transformers at Corps projects in Southwestern's marketing area.

the Nation the equivalent of an estimated 2.7 million tons of coal, or 56.9 billion cubic feet of gas, or 9.3 million barrels of oil, and avoided the emission of greenhouse gases equivalent to up to 4.7 million tons of carbon dioxide, 14.0 thousand tons of sulfur dioxide, and 11.2 thousand tons of nitrogen oxides.

Southwestern's environmental efforts went beyond providing renewable energy. We worked with Federal, state, and local agencies to ensure that concerns about water quality and quantity were adequately addressed, and coordinated with other public and private

<sup>1</sup> Source: Energy Information Administration, Renewable Energy Consumption and Electricity Preliminary 2007 Statistics, Table 1: U.S. Energy Consumption by Energy Source, 2003-2007 (May 2008)

entities to minimize hydropower impacts to fish and bird populations and their habitats.

In a joint environmental protection effort with the U.S. Army Corps of Engineers (Corps) and the Southwestern Power Resources Association (SPRA), Southwestern developed a risk-based ranking process to determine the need for power transformer secondary oil containment at Corps facilities from which we market power. Based on the results of this analysis we proactively began the funding process for the most critical containment projects identified.

Southwestern also became “greener” in its own operations. We responded to Executive Order 13423 (EO 13423), “Strengthening Federal Environmental, Energy, and Transportation Management,” by reducing energy intensity 8.7% from a baseline established in 2006, exceeding the required annual 3% minimum. Gains were made through a variety of measures, such as replacing air conditioning systems and lighting fixtures, and upgrading insulation and windows. In association with this effort, we began the process of updating our Environmental Management System to incorporate a renewed emphasis on measuring and improving operational energy efficiency.

Other efforts that contributed to reducing Southwestern’s carbon footprint included purchasing printer paper that contains at least 30% post-consumer fiber; using flat panel computer monitors that are rated “Silver” or higher by the Electronic Product Environmental

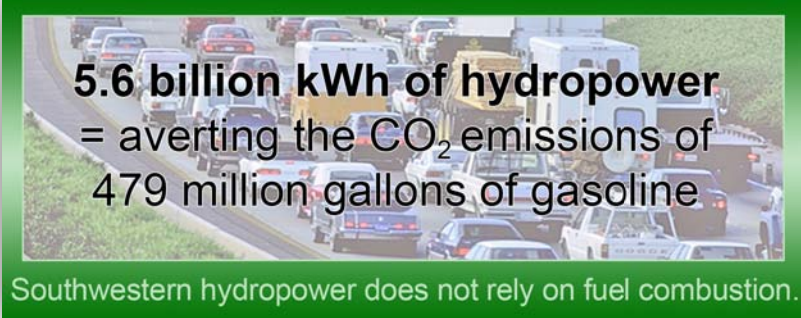
Assessment Tool (EPEAT); employing waste diversion targets comparable to those in EO 13423; and maintaining a toxic and hazardous materials reduction plan.

## RELIABILITY

### Re-energizing Our Business

Southwestern’s system reliability is often tested by weather extremes, transmission constraints, and regional industry changes, but we continue to make reliability a priority in our day-to-day business.

In FY 2007, Southwestern efficiently dispatched Federal resources under both drought conditions in the first quarter, and flood operations in the third. We energized the Hilltop Interconnection, a new 161-kV regional interconnection, to improve power system reliability in northwest Arkansas, one of the fastest growing regions in the country. Additionally, we continued to encourage competitive markets via open access to our transmission system by continually striving to meet or exceed the requirements of the Federal Energy Regulatory Commission (FERC).



**5.6 billion kWh of hydropower**  
**= averting the CO<sub>2</sub> emissions of**  
**479 million gallons of gasoline**

Southwestern hydropower does not rely on fuel combustion.

Source: Environmental Protection Agency, Greenhouse Gas Equivalencies Calculator



Southwestern provides 24-hour coverage of scheduling and dispatch functions with power system dispatchers certified by the North American Electric Reliability Corporation (NERC). In FY 2007, we performed above the control performance standards (CPS) established by NERC for balancing generation to load, with average ratings of 199.48 for CPS1 (industry average is 176.1) and 99.58 for CPS2 (industry average is 96.7). We successfully completed a Readiness Assessment for NERC's Compliance Monitoring and Enforcement Program, garnering 11 Positive Observations and one Example of Excellence in the auditor's final report.

Responding to industry changes, we reorganized to consolidate similar agency functions and address impending reliability requirements, including the creation of a NERC compliance position at our Springfield Operations Center.

Southwestern made tremendous progress in expanding the communications network across its transmission system by constructing three microwave radio towers and extending communications to additional sites. Our maintenance crews exceeded their goals for transmission line upkeep, and substation service and repair.

All of Southwestern's efforts paid off, as we achieved a year of error-free switching performance,

with no preventable outages (outages over which Southwestern has sole control) to our customers and their end-users.

Behind the scenes, we continually assure the security of our power system, facilities, and information technology (IT) systems. We successfully completed Phase II of the implementation plan for a NERC-required alternate control center, met Department of Energy (DOE) cyber security reporting requirements, and continued



The Hilltop Interconnection was completed to improve regional transmission reliability in northwest Arkansas.

Southwestern's maintenance crews worked efficiently and professionally in FY 2007 to contribute to Southwestern's superior safety record.



to maintain a Plan of Action and Milestone process. The security posture of Southwestern's IT operations was cited by an independent IT security auditor as one of the strongest they had evaluated.

Reliability also depends on a commitment to safety. In FY 2007, we operated and maintained our transmission system with a Recordable Accident Frequency Rate of only 4.14 recordable injuries for every 200,000 hours worked, less than the national average of 4.50 for electrical utilities as determined by the Bureau of Labor Statistics. FY 2007 also marked Southwestern's 15th consecutive year – nearly five million man-hours worked – without any electrical-related recordable accidents. We are already expanding efforts to ensure even greater employee safety in the future.

## FISCAL RESPONSIBILITY Repaying America's Trust

Southwestern repays the American taxpayers' investment in the hydropower facilities in its marketing

area while providing energy at the lowest possible cost-based rates.

We marketed 5.6 billion kWh of hydropower to our customers in FY 2007, met all of our power sales contract obligations, and marketed 100% of firm capacity and energy in accordance with our marketing plan. The gross revenues of \$161 million that we produced for the Nation satisfied our repayment goals on all annual operations and maintenance expenses, interest, and principal investment in the hydropower facilities. Additionally, our successful implementation of the first year of a three-year payback of energy deferred by customers



**5.6 billion kWh of hydropower  
= 2.7 million tons of coal**

Southwestern hydropower is a carbon-free energy resource.

Source: Southwestern Power Administration, Division of Resources and Rates

who participated in Southwestern's 2006 Peaking Energy Deferral Program, meant that our system was well on its way to recovering from the severe 2005-2006 drought. In fact, FY 2007 brought record-breaking inflows during the May-August period, enabling Southwestern to increase supplemental energy deliveries to customers. Capitalizing on this opportunity increased our revenues and helped our customers save over \$122 million over the course of the year -- a huge win-win for Southwestern's ratepayers and the Nation's taxpayers alike.

In addition to providing creative solutions to increase efficiency, we utilize in-house knowledge and labor whenever practicable to effectively maintain the Federal system.

For example, in FY 2007 Southwestern completed nearly three thousand man-hours in maintaining Corps property, which saved over \$500,000 in otherwise-contracted maintenance costs. We also used our own crews to build out critical fiber optic communications,

which saved nearly \$100,000 compared to outsourcing the work. Additionally, our ongoing partnership with our customers to fund right-of-way maintenance programs saved Southwestern nearly \$440,000 in appropriated funds.

Finally, proof that Southwestern demonstrated its commitment to efficiency and fiscal responsibility in FY 2007 can be seen in our score of "Green" on the DOE eGovernment Internal Scorecard for Capital Planning and Investment Control, Enterprise Architecture, Human Capital Initiative, Cyber Security, and the eGov Implementation and Alignment Milestones.

## PARTNERSHIPS

### Reinforcing Our Commitment

Collaborating to solve problems is how we reinforce our commitment to the public and to the regional power industry. Southwestern is an active participant in regional and Federal hydropower conferences. We also attend quarterly meetings with



The Power Operations Training Center at Southwestern's Springfield, Missouri, office continues to provide cost-effective training to the region's dispatchers.

customers to keep them apprised of impending changes to our operations and activities, and meet regularly with environmental and regulatory stakeholders to ensure our participation in National and regional initiatives.

In FY 2007, Southwestern made progress on several important initiatives. We provided expert support to customers regarding changes required to “pool” their resources and loads and to meet new NERC compliance standards. Through customer-funding agreements, Southwestern facilitated nearly \$30 million of non-routine maintenance items at Corps power plants, which directly supported the operable status of over half of our marketable capacity and helped to ensure system reliability. We also successfully negotiated a new agreement to continue our participation in the SPP Regional Transmission Organization while maintaining compliance with Federal statutes and regulations. As part of our efforts to be more accessible to the public, our customers, and other stakeholders, Southwestern revamped its external Web site to update content and improve online navigation.

Southwestern also successfully continued other joint ventures. We promoted safety and reliability in the electric utility industry by providing 3,285 NERC Continuing Education Hours to staff from 11 electric utilities in our marketing area as well as to Southwestern staff through our power operations training center. This



Ron Bowen, General Manager of Southwestern customer City Water & Light of Jonesboro, Arkansas, addresses Federal power stakeholders at the 2007 Southwestern Regional Hydropower Conference in Vicksburg, Mississippi.

was also the fifth year of our productive partnership with Wyandotte Net Tel, a Native American-owned small business providing administrative, environmental, and information technology services. Overall, Southwestern supported national entrepreneurship by awarding nearly 83% (\$9.7 million) of its procurement contracts (\$11.7 million) to small businesses, including disadvantaged, minority-owned, and veteran-owned businesses.

**5.6 billion kWh of hydropower  
= 56.9 billion cubic feet  
of natural gas**

**Southwestern hydropower reduces fossil fuel consumption.**

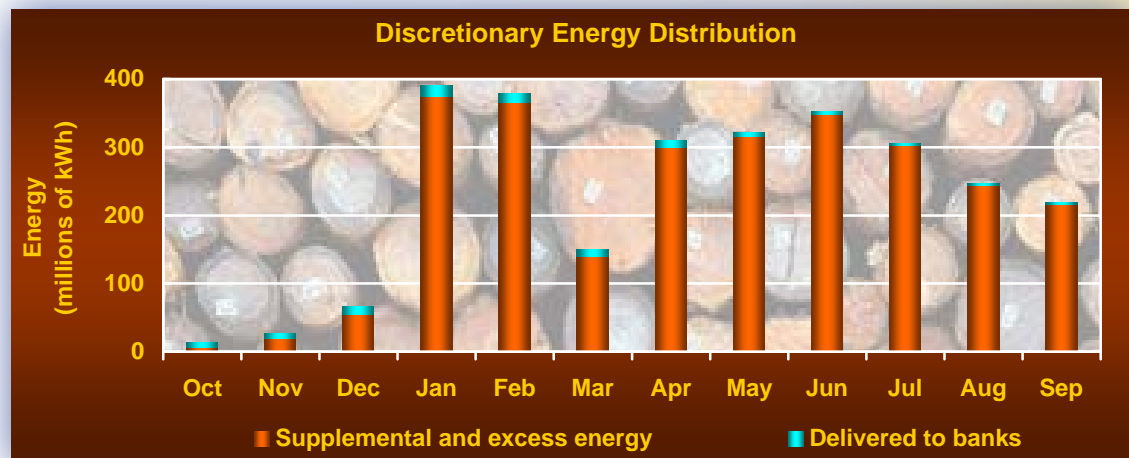
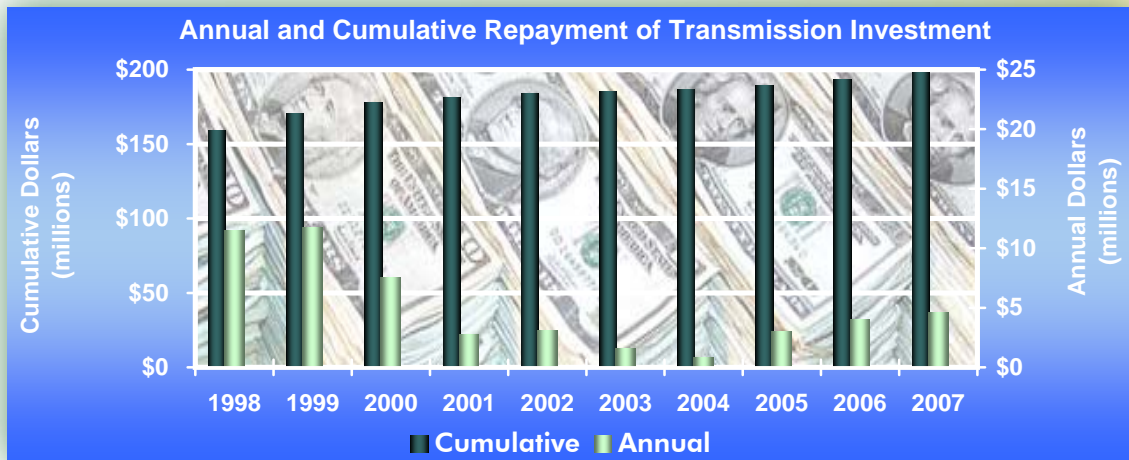
Source: Southwestern Power Administration, Division of Resources and Rates

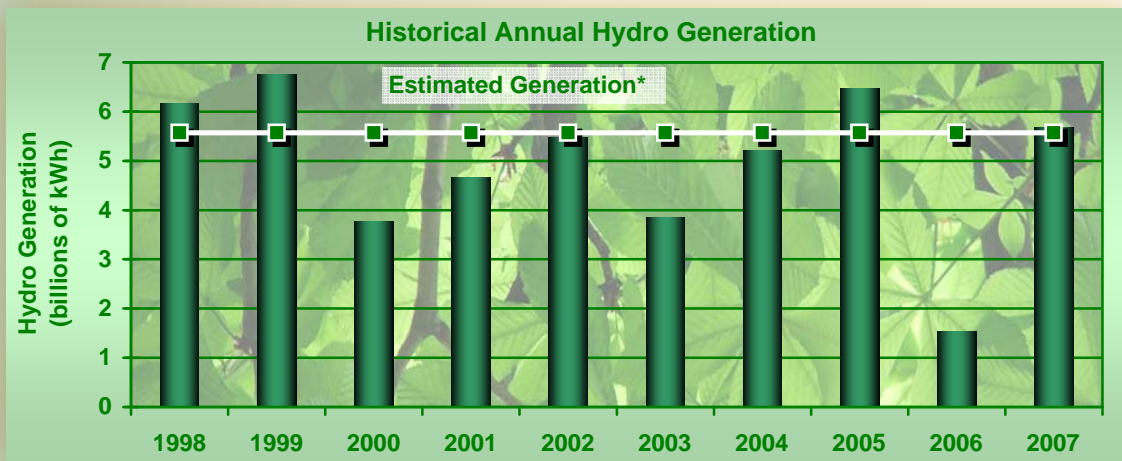
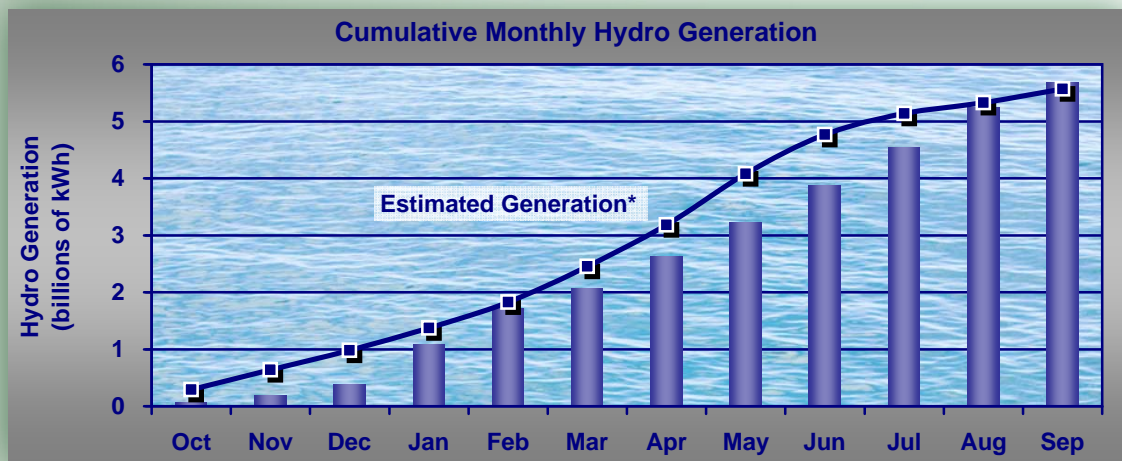
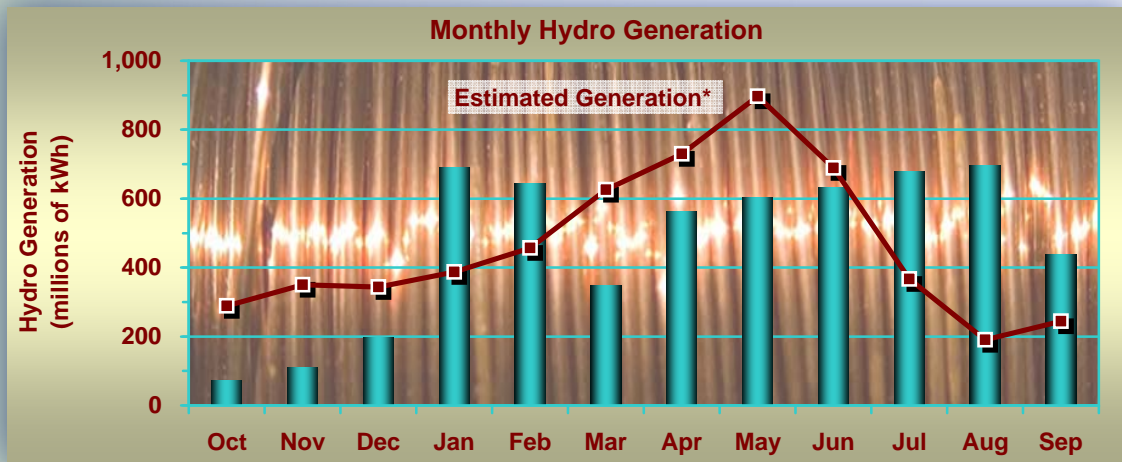
# FY 2007 SUPPLEMENTARY INFORMATION

Southwestern tracks detailed information regarding hydropower generation, marketing activities, and customer billing in order to properly monitor the effectiveness of our programs in accordance with sound business principles, and to adjust rate schedules and

other parameters to ensure we are successful in meeting the strategic goals of the agency. This unaudited data provides a broad overview of Southwestern's yearly operations that supplements the agency's accomplishments during FY 2007.

## Generation and Transmission Statistics





\* For each of the 24 projects in Southwestern's marketing area, a planning study was conducted by the U.S. Army Corps of Engineers prior to construction to forecast the quantity of energy that could be produced under average hydrological conditions. The term "Estimated Generation" used in the charts above represents the combined quantity of this forecasted energy on a monthly, cumulative, and annual basis.

## Annual Repayment Status

	2007	2006
Revenues	\$53,944,718	\$105,612,556
Expenses		
Operations and Maintenance	27,067,112	23,741,110
Purchased Power and Service Charge	19,287,886	74,946,533
Interest	<u>2,985,000</u>	<u>2,908,715</u>
<b>Total Expenses</b>	<b><u>\$49,339,998</u></b>	<b><u>\$101,596,358</u></b>
Revenue Applied to Amortization (Annual Amortization)	\$4,604,720	\$4,016,198



## Federal Investment in Transmission Facilities in Service

	2007	2006
Total Cumulative Repayable Investment	\$260,508,866	\$251,455,908
Total Cumulative Unpaid Investment	\$62,395,481	\$57,947,243
Total Cumulative Investment Paid	\$198,113,385	\$193,508,665

## Source and Distribution of Energy

Energy Source	Millions kWh	% of Total
Generated by Corps Plants	5,677.3	95.7%
Interchange	56.8	1.0%
Losses Purchases	76.2	1.3%
Direct Purchases	<u>115.8</u>	<u>2.0%</u>
<b>Total Sources</b>	<b><u>5,926.2</u></b>	<b><u>100.0%</u></b>

Energy Distribution	Millions kWh	% of Total
Cooperatives	3,899.7	65.9%
Municipalities	1,587.5	26.8%
Interchange	55.4	0.9%
Losses	242.2	4.1%
Government Agencies	120.7	2.0%
Contract Exchange	18.8	0.3%
Utility Companies / Others	<u>1.8</u>	<u>0.0%</u>
<b>Total Distribution</b>	<b><u>5,926.2</u></b>	<b><u>100.0%</u></b>

These pages contain unaudited supplementary information.

# Southwestern Federal Power System Energy Production

Project	Fiscal Year On-line Date	Installed Capacity (kW)	Estimated Annual Energy* (Millions kWh)	Actual Net Energy (Millions kWh)
Beaver	1965	112,000	172	108
Blakely Mountain	1956	75,000	169	159
Broken Bow	1970	100,000	129	175
Bull Shoals	1953	340,000	785	518
Clarence Cannon	1985	58,000	90	64
Dardanelle	1965	140,000	613	700
DeGray	1972	68,000	97	85
Denison	1945	70,000	219	376
Eufaula	1965	90,000	260	364
Fort Gibson	1953	45,000	191	243
Greers Ferry	1964	96,000	189	182
Harry S Truman	1982	**160,000	244	327
Keystone	1968	70,000	228	298
Narrows	1950	25,500	30	40
Norfork	1944	80,550	184	195
Ozark	1973	100,000	429	317
Robert D Willis	1989	7,350	37	3
Robert S Kerr	1971	110,000	459	624
Sam Rayburn	1966	52,000	114	145
Stockton	1973	45,200	55	59
Table Rock	1959	200,000	495	375
Tenkiller	1954	39,100	95	108
Webbers Falls	1974	60,000	213	97
Whitney	1955	30,000	73	113
<b>Total</b>		<b><u>2,173,700</u></b>	<b><u>5,570</u></b>	<b><u>5,677</u></b>

\* For each of the 24 projects in Southwestern's marketing area, a planning study was conducted by the U.S. Army Corps of Engineers prior to construction to forecast the quantity of energy that could be produced under average hydrological conditions. The term "Estimated Annual Energy" used in the table above represents the quantity of this forecasted energy on an annual basis.

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

Record-breaking inflows during May-August 2007 allowed Southwestern to increase supplemental energy output, which helped customers save over \$122 million throughout the year.





## Detail of Billings to Customers

	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
<b>Distribution Cooperatives</b>			
Beauregard Electric Cooperative, Inc	7,900	20,264,918	524,166
Claiborne Electric Cooperative, Inc	4,900	12,569,382	325,116
Concordia Electric Cooperative, Inc	4,300	11,030,272	285,305
Dixie Electric Membership Corporation	16,300	41,812,424	1,081,507
Jefferson Davis Electric Cooperative, Inc	3,600	9,234,646	238,860
Kaw Valley Electric Cooperative, Inc	1,000	2,692,000	68,050
Nemaha-Marshall Electric Cooperative Association	1,000	2,691,000	68,990
Northeast Louisiana Power Cooperative, Inc	4,100	10,517,237	272,035
Pointe Coupee Electric Membership Corporation	2,700	6,925,985	179,145
South Louisiana Electric Cooperative Association	8,000	20,521,436	530,801
Southwest Louisiana Electric Membership Corporation	22,400	57,460,020	1,486,243
Valley Electric Membership Corporation	9,400	24,112,689	623,691
Washington-St Tammany Electric Cooperative, Inc	7,800	20,008,402	517,531
<b>Total</b>	<b><u>93,400</u></b>	<b><u>239,840,411</u></b>	<b><u>6,201,440</u></b>
<b>Generation and Transmission Cooperatives</b>			
Arkansas Electric Cooperative Corporation	189,000	520,963,000	13,244,237
Associated Electric Cooperative, Inc	478,000	1,206,146,000	30,977,178
Brazos Electric Power Cooperative, Inc	35,200	126,468,000	2,244,073
Kansas Electric Power Cooperative, Inc	100,000	264,269,000	6,735,909
Northeast Texas Electric Cooperative, Inc	127,500	313,765,000	8,191,416
Rayburn Country Electric Cooperative, Inc	44,125	234,541,690	3,097,312
Sam Rayburn Dam Electric Cooperative, Inc	52,000	145,296,000	2,816,064
Tex-La Electric Cooperative of Texas, Inc	28,175	150,641,310	1,978,509
Western Farmers Electric Cooperative	260,000	697,809,000	17,827,613
<b>Total</b>	<b><u>1,314,000</u></b>	<b><u>3,659,899,000</u></b>	<b><u>87,112,310</u></b>
<b>Joint Action Agencies</b>			
Kansas Municipal Energy Agency*	11,200	29,817,000	760,218
Louisiana Energy and Power Authority**	12,900	32,034,000	858,081
Sam Rayburn Municipal Power Agency***	7,350	3,304,890	773,709
<b>Total</b>	<b><u>31,450</u></b>	<b><u>65,155,890</u></b>	<b><u>2,392,008</u></b>
<b>Military Installations</b>			
Fort Sill Military Reservation, Fort Sill, Oklahoma	36,700	97,984,638	2,495,663
McAlester Army Ammunition Plant, McAlester, Oklahoma	2,688	7,176,642	182,789
Vance Air Force Base, Enid, Oklahoma	5,900	15,511,560	397,716
<b>Total</b>	<b><u>45,288</u></b>	<b><u>120,672,840</u></b>	<b><u>3,076,167</u></b>
<b>SPP Reserve Sharing Companies</b>			
SPP Reserve Sharing Companies	0	1,816,000	128,642
<b>Total</b>	<b><u>0</u></b>	<b><u>1,816,000</u></b>	<b><u>128,642</u></b>

\* Served 24 Municipals with Federal Allocations in FY 2007.

\*\* Served 7 Municipals with Federal Allocations in FY 2007.

\*\*\* Has Federal Allocation.

<b>Municipalities</b>	<b>Capacity (kW)</b>	<b>Energy Delivered (kWh)</b>	<b>Billings for Power Sales (Dollars)</b>
Alexandria, Louisiana	10,700	29,104,000	741,139
Anthony, Kansas	300	798,000	20,358
Augusta, Arkansas	3,700	10,192,000	257,801
Bentonville, Arkansas	18,000	47,906,000	1,219,971
Carthage, Missouri	7,000	19,592,000	525,155
Clarksville, Arkansas	19,100	51,111,000	1,297,865
Coffeyville, Kansas	1,900	5,287,000	134,093
Comanche, Oklahoma	4,200	11,488,001	289,498
Copan, Oklahoma	2,500	6,838,094	172,320
Duncan, Oklahoma	32,500	88,895,243	2,240,166
Eldorado, Oklahoma	1,300	3,555,808	89,607
Fulton, Missouri	3,000	8,512,000	213,788
Goltry, Oklahoma	900	2,461,711	62,035
Granite, Oklahoma	2,300	6,291,049	158,535
Hermann, Missouri	5,800	15,538,000	391,803
Higginsville, Missouri	3,000	7,967,000	202,282
Hominy, Oklahoma	10,000	27,352,382	689,282
Jonesboro, Arkansas	80,000	220,966,851	7,834,971
Jonesville, Louisiana	500	1,282,589	33,175
Kansas City, Kansas	38,600	102,096,000	2,619,443
Kennett, Missouri	11,000	28,210,000	766,443
Lafayette, Louisiana	18,600	32,025,000	1,203,533
Lamar, Missouri	12,000	32,036,000	812,792
Lexington, Oklahoma	4,100	11,214,475	282,606
Malden, Missouri	5,000	13,431,368	362,714
Manitou, Oklahoma	600	1,641,142	41,357
Minden, Louisiana	2,400	6,551,000	164,283
Natchitoches, Louisiana	2,600	6,700,000	175,656
New Madrid, Missouri	4,500	11,700,000	313,413
Nixa, Missouri	5,300	14,101,000	380,174
Olustee, Oklahoma	700	1,914,665	48,250
Paragould, Arkansas	50,500	137,642,496	3,688,035
Paris, Arkansas	10,800	30,115,540	761,419
Piggott, Arkansas	4,900	13,492,199	361,861
Poplar Bluff, Missouri	39,500	107,837,090	3,008,841
Purcell, Oklahoma	14,500	40,432,900	1,022,275
Ruston, Louisiana	4,900	13,939,000	340,955
Ryan, Oklahoma	1,900	5,196,953	130,964
Sikeston, Missouri	33,800	93,633,000	2,619,077
Skiatook, Oklahoma	11,000	29,325,000	750,941
Spiro, Oklahoma	4,000	10,940,952	275,713
Springfield, Missouri	50,000	133,021,000	3,406,482
Thayer, Missouri	2,800	7,609,000	194,395
Walters, Oklahoma	6,400	17,505,526	441,140
West Plains, Missouri	15,000	37,698,000	1,024,114
Wetumka, Oklahoma	2,600	7,111,619	179,213
Yale, Oklahoma	3,700	10,120,380	255,034
<b>Total</b>	<b><u>568,400</u></b>	<b><u>1,522,380,033</u></b>	<b><u>42,204,968</u></b>

**Total Capacity (kW): 2,052,538**

**Total Energy (kWh): 5,609,764,174**

**Total Billings (\$): 141,115,535**

These pages contain unaudited supplementary information.



November 4, 2008

To the Users of the Southwestern Power Administration Financial Statements:

As reported in the FY 2004 – 2006 Annual Report, previously the Financial Statements included in the Annual Report of the Southwestern Power Administration (Southwestern) have combined the financial results of Southwestern and the power portion of the hydro generating facilities operated by the U.S. Army Corps of Engineers (Corps) in six districts. The Financial Statements for FY 2007 will not include the Combining Financial Statements due to the following circumstances:

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

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

To keep you updated on Southwestern's financial status, we are publishing Southwestern's Annual Report with stand-alone Financial Statements for Southwestern for FY 2007. These statements are free of material findings or recommendations.

Respectfully,

A handwritten signature in black ink that reads "Gary L. Swartzlander". The signature is written in a cursive, flowing style.

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



**KPMG LLP**  
Suite 310  
100 West Fifth Street  
Tulsa, OK 74103

## **Independent Accountants' Review Report**

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

We have reviewed the accompanying statements of assets, Federal investment and liabilities of the Southwestern Power Administration as of September 30, 2007 and 2006, and the related statements of operations and accumulated net revenues and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Southwestern Power Administration.

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

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

**KPMG LLP**

November 4, 2008

**SOUTHWESTERN POWER ADMINISTRATION**

Statement of Assets, Federal Investment and Liabilities

For Fiscal Years Ending September 30, 2007 and 2006

Assets	2007	2006
Utility plant:		
Plant in service	\$ 260,508,866	251,455,908
Accumulated depreciation	(118,999,239)	(110,697,849)
Construction work in progress	<u>18,534,234</u>	<u>19,574,942</u>
Net utility plant	<u>160,043,861</u>	<u>160,333,001</u>
Current assets:		
Unexpended appropriations	33,866,520	36,111,590
Accounts receivable	14,953,653	10,305,597
Materials and supplies	<u>2,650,311</u>	<u>2,700,813</u>
Total current assets	<u>51,470,484</u>	<u>49,118,000</u>
Banking exchange receivables	1,412,075	704,909
Deferred workers' compensation	3,788,316	3,566,282
Purchase power and banking exchange deferral	20,273,405	47,087,994
Non-fund deferred activity	17,584,239	5,582,793
Other assets	<u>416,287</u>	<u>379,105</u>
	<u>43,474,322</u>	<u>57,321,083</u>
Total assets	<u><u>254,988,667</u></u>	<u><u>266,772,084</u></u>
<b>Federal Investment and Liabilities</b>		
Federal investments:		
Congressional appropriations	929,019,577	899,021,237
Interest on Federal investment	68,445,347	63,123,175
Transfer from other Federal agencies	<u>(97,776,715)</u>	<u>(59,179,913)</u>
Gross Federal investment	899,688,209	902,964,499
Funds returned to U.S. Treasury	<u>(745,855,837)</u>	<u>(734,893,502)</u>
Investment of U.S. Government	153,832,372	168,070,997
Accumulated net revenues	<u>79,114,146</u>	<u>82,810,816</u>
Total Federal investment	<u>232,946,518</u>	<u>250,881,813</u>
Current liabilities:		
Accounts payable and accrued liabilities	6,648,757	8,324,230
Accrued workers' compensation	4,632,955	4,359,987
Advances for construction	<u>10,760,437</u>	<u>3,206,054</u>
Total liabilities	22,042,149	15,890,271
Commitments and contingencies		
Total Federal investment and liabilities	\$ <u><u>254,988,667</u></u>	<u><u>266,772,084</u></u>

## SOUTHWESTERN POWER ADMINISTRATION

### Statement of Operations and Accumulated Net Revenues

For Fiscal Years Ending September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Sales of electric power:		
Cooperatives	\$ 93,188,224	65,720,879
Municipalities	44,570,290	31,310,489
Federal and state agencies	3,034,909	2,161,665
Investor owned utilities	117,442	109,615
Banking exchange	(2,188,371)	23,153
Transmission service charges for others	20,468,023	16,669,442
Other operating income	2,252,195	400,868
Total operating revenues before deferrals and revenue distributed to Corps	161,442,712	116,396,111
Net purchase power credit and banking exchange - deferral	(19,865,517)	64,868,517
Revenue distributed to Corps	<u>(87,632,477)</u>	<u>(75,652,072)</u>
Total operating revenues	53,944,718	105,612,556
Operating expenses:		
Operation and maintenance	20,131,610	18,618,469
Purchase power and banking exchange	16,228,918	71,886,468
Depreciation	11,180,415	11,073,268
Transmission service charges by others	3,058,968	3,060,065
Benefit expense	4,056,476	4,016,735
Total operating expenses, excluding interest	<u>54,656,387</u>	<u>108,655,005</u>
Net operating expenses in excess of operating revenues	<u>(711,669)</u>	<u>(3,042,449)</u>
Interest on Federal investment	3,867,004	3,884,898
Allowance for funds used during construction	<u>(882,003)</u>	<u>(976,183)</u>
Net interest expense	<u>2,985,001</u>	<u>2,908,715</u>
Net revenues (deficit)	(3,696,670)	(5,951,164)
Accumulated net revenues:		
Balance, beginning of year	<u>82,810,816</u>	<u>88,761,980</u>
Balance, end of year	<u>\$ 79,114,146</u>	<u>82,810,816</u>

See accompanying notes to financial statements and accountants' review report.

## SOUTHWESTERN POWER ADMINISTRATION

### Statement of Cash Flows

For Fiscal Years Ending September 30, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Cash provided by operating activities:		
Net deficit	\$ (3,696,670)	(5,951,164)
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Revenue distributed to Corps	87,632,477	75,652,072
Depreciation	11,180,415	11,073,268
Benefit expense paid by other Federal agencies	1,367,115	1,348,305
Interest expense for Federal investment	5,322,172	4,458,113
Allowance for funds used during construction	(882,003)	(976,183)
(Increase) decrease in assets:		
Accounts receivable	(4,648,056)	3,125,581
Materials and supplies	50,502	134,792
Banking exchange receivables	(707,166)	4,339,066
Purchase power and banking exchange deferral	26,814,589	(47,087,994)
Deferred workers' compensation	(222,034)	(80,125)
Other assets and non-fund deferred activity	(12,038,628)	973,805
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,675,473)	2,169,742
Accrued workers' compensation	272,968	87,420
Purchase power and banking exchange deferral	—	(18,485,056)
Advances for construction	7,554,383	(1,199,540)
Net cash provided by operating activities	116,324,591	29,582,102
Cash used in investing activities:		
Additions to utility plant	(10,009,272)	(11,664,634)
Cash used in capital financing activities;		
Congressional appropriations	29,998,340	29,864,340
Funds returned to U.S. Treasury	(98,594,812)	(12,740,582)
Transfer to Corps and other Federal agencies	(39,963,917)	(19,879,469)
Net cash used in capital financing activities	(108,560,389)	(2,755,711)
Net (decrease) increase in cash	(2,245,070)	15,161,757
Cash, beginning of year	36,111,590	20,949,833
Cash, end of year	\$ 33,866,520	36,111,590

See accompanying notes to financial statements and accountants' review report.

## SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2007 and 2006

### (1) Summary of Significant Accounting Policies

#### (a) *General Information and Basis of Preparation of Financial Statements*

The accompanying statements of assets, Federal investment and liabilities and operations and accumulated net revenues as of September 30, 2007 and 2006 have been prepared from the books and records of Southwestern Power Administration (Southwestern), a unit of the U.S. Department of Energy (DOE). Southwestern, as designated by the Secretary of Energy, transmits and markets power generated from the hydroelectric generation plants and power operations of the U.S. Army Corp of Engineers (Corps), a unit of the U.S. Department of Defense (DOD). Southwestern and the Corps are separately managed and financed and each maintains its own accounting records.

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

#### (b) *Confirmation and Approval of New Rates*

Southwestern is not a public utility within the jurisdiction of FERC under the Federal Power Act. Under a Delegation Order issued by the Secretary of Energy, the Administrator of Southwestern has the authority to develop power and transmission rates for Southwestern's Federal power system. Such rates can be approved on an interim basis by the Deputy Secretary of Energy. FERC has the exclusive authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove, rates developed by the Administrator. FERC's review is limited to: 1) whether the rates are the lowest possible consistent with sound business principles; 2) whether the revenue level generated are sufficient to recover the costs of producing and transmitting electric energy including repayment within the period permitted by law; and 3) the assumptions and projections used in developing the rates. FERC shall reject decisions of the Administrator only if it finds them to be arbitrary, capricious or in violation of the law.

The Integrated System rate schedules placed into effect October 1, 2006, were approved on a final basis by the FERC on February 27, 2007. These rate schedules incorporated a three year phase-in of a 27.7 percent revenue increase.

The Robert D. Willis project rate increase was approved and confirmed by the FERC on February 23 2007, for the period January 1, 2007 through September 30, 2010. The Sam Rayburn Dam rate required no rate action during FY 2007. The current rate remains in effect from January 1, 2006 through September 30, 2009, which was confirmed and approved by the FERC on the final basis June 21, 2006.



## SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2007 and 2006

(c) ***Utility, Plant and Depreciation***

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

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

(d) ***Unexpended Appropriations***

Unexpended Appropriations consists of the unexpended balance of funds appropriated by Congress for construction and operation and maintenance purposes and customer advances. Such funds are maintained by the U.S. Treasury for Southwestern's use. Cash received from the sale of power is deposited directly with the U.S. Treasury and is reflected as "Funds returned to U.S. Treasury" in the accompanying financial statements. For purposes of the statement of cash flows, unexpended appropriations are considered to be cash.

(e) ***Congressional Appropriations***

Southwestern receives Congressional Appropriations through DOE to finance its operation. In accordance with the Flood Control Act of 1944, Southwestern is responsible for repayment to the federal government, with interest, of its appropriations, and the portion of Congressional Appropriations allocated to the Corps for construction and operations of the power projects.

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

Southwestern utilizes a separate rate component (adder) to recover the cost of purchased power based upon the average purchased power costs over the past several years. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through rates. Likewise, if the expense is less than the adder, the excess revenue is deferred.

Southwestern has arrangements with certain customers in which excess power generated by the Corps is banked with the customer until needed by the power system and the customer has power available. The power system records a receivable for the power banked at the cost specified in the marketing arrangement. The net revenue or expense associated with banking activity is deferred.

(g) ***Operating Revenues***

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

## SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2007 and 2006

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

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation and the related recovery of the U.S. Treasury’s investment in utility plant. Southwestern is a Federal entity, thus at any given time the accumulated net revenue, to the extent available, is committed to the repayment of the federal investments.

The practices followed by Southwestern are in conformity with the accounting practices and standards established by the DOE and the requirements of specific legislation and executive directives issued by government agencies. Based upon guidelines established in DOE Order RA 6120.2 revenues distributed to the Corps cover annual operating expenses, with the remainder applied to the amortization of unpaid generation investment.

(h) ***Interest of Federal Investment***

Interest on repayable Federal investment is a cost mandated by the Secretary of Energy and by the FERC. Southwestern computes interest in accordance with DOE Order RA 6120.2, which provides that interest be computed on the remaining investment after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment bearing the highest interest rate.

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

The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate making process over the repayment life of the related property through increased revenues resulting from higher recoverable investment. The interest rates used are established by law, administrative order or administrative policy for the fiscal year during which the construction commenced (4.875 percent for the fiscal year 2007 and 4.625 percent for fiscal year 2006).

(j) ***Retirement Benefits***

Southwestern employees participate in either the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS), both contributory defined benefit plans and are not covered under the Employee Retirement Security Act of 1974. Agency contributions are based on eligible employee compensation and are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). Based on statutory contribution rates, the FY 2007 retirement benefit expenses under CSRS is 25 percent of eligible employee compensation, the same for FY 2006. The FY 2007 cost factor under FERS is 12 percent, also the same for FY 2006. The contribution levels, however, are legislatively mandated and do not reflect the full cost requirements to fund the plans. Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program which the cost factor is \$5,572 and \$5,229 per enrolled employee, as of FY 2007 and 2006, respectively, and the Federal Employee Group Life Insurance Program for which the FY 2007 cost factor is 0.02 percent of eligible employee compensation, the same as for FY 2006.

## SOUTHWESTERN POWER ADMINISTRATION

### Notes to Financial Statements

September 30, 2007 and 2006

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government* (SFFAS No. 5), requires the Federal employer entity to recognize pension expense and other retirement benefit expense in its financial report equal to the service cost for its employees for the accounting period, less the amount contributed by the employees, if any. In accordance with SFFAS No. 5, Southwestern has recorded \$1,367,115 and \$1,348,305 of annual pension and retirement benefits expense, as of September 30, 2007 and 2006, respectively. Pension and retirement benefits expense is included in benefits expense.

(k) ***Workers' Compensation***

Workers' compensation consists of two elements: actuarial liability associated with workers' compensation cases incurred for which additional claims may still be made in the future (future claims) and a liability for expenses associated with actual claims incurred and paid by the Department of Labor (DOL), the program administrator, to whom Southwestern must reimburse. In conjunction with the adoption of SFFAS No. 5, the DOL and the DOE determine Southwestern's actuarial liability associated with workers' compensation cases. The actuarial liability for future claims was determined using historical benefit payment patterns and the U.S. Treasury discount rates.

The recovery of these future claims will be deferred for purposes of the rate-making process until such time as the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as deferred workers compensation in the statement of assets, Federal investment, and liabilities in accordance with SFAS No. 71 to reflect the effects of the rate-making process. Southwestern's cumulative unpaid expenses associated with actual claims incurred are \$3,788,316 and \$3,566,282 as of September 30, 2007 and 2006, respectively.

(l) ***Income Taxes***

Southwestern's income and facilities are exempt from taxation.

(m) ***Use of Estimates***

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

(n) ***Accounts Receivable***

Southwestern's accounts receivable consists generally of receivables for electricity sold to its customers who are primarily public bodies and cooperatives. Southwestern provides for uncollectible accounts if collection is in doubt. At September 30, 2007, no allowance for uncollectible accounts was considered necessary.

## SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2007 and 2006

### (2) Regulatory Assets and Liabilities

Southwestern's regulatory assets and liabilities at September 30, 2007 and 2006, consists of the following:

	<u>2007</u>	<u>2006</u>
Regulatory assets:		
Nonfund deferred activity	\$ 17,584,239	5,582,793
Interchange energy deferral	20,273,406	47,087,994
Deferred workers' compensation	<u>3,788,316</u>	<u>3,566,282</u>
Total	<u>\$ 41,645,961</u>	<u>56,237,069</u>

Southwestern has established an alternative financing program to fund maintenance, rehabilitation, and modernization of Southwestern's Federal power system facilities. The maintenance projects will be completed over the long-term. Upon completion, the majority of the non-fund deferred funds will create capitalized assets.

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

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

### (3) Investment of U.S. Government

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

Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 2007. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayments of the highest interest-bearing investment first. Interest rates applied to the unamortized initial investment of the U.S. Government in the Corps' hydroelectric plants range from 2.5 percent to 6.0 percent for unpaid facilities in service prior to 2007 and 4.875 percent for facilities placed in service during 2007. The rates have been set either by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

## SOUTHWESTERN POWER ADMINISTRATION

Notes to Financial Statements

September 30, 2007 and 2006

### (4) Commitments and Contingencies

Based on the 2007 Integrated System Power Repayment Study prepared as of September 30, 2007, the projected increase in capital investment in 2008 is \$69,385,433, which includes \$11,419,500 for transmission facilities and \$57,965,933 for generating facilities. The five-year investment increase projected in the 2007 Integrated System Power Repayment Study for 2008 through 2012 is estimated to cost \$391,677,832.

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

Southwestern is a party to certain claims and legal actions in the ordinary course of business. In management's opinion, these actions will not have a material adverse effect on the financial condition or results of operations of Southwestern during FY 2008.

### (5) Leases

Southwestern is obligated under various non-cancelable operating leases, primarily for office space, that expire in 2008, with a five-year option to continue the lease at the end of 2008. Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2007 are:

Year ended September 30

2008	\$ <u>633,000</u>
2009	681,000
2010	697,000
2011	<u>713,000</u>
Total future minimum lease payments	<u>\$ 2,724,000</u>

Rent expense for operating leases during the year ended September 30, 2007 and 2006 was \$623,000 and \$415,000, respectively.

## SOUTHWESTERN POWER ADMINISTRATION ADDRESSES

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U.S. DEPARTMENT OF  
**ENERGY**