



# CONNECTED

WESTERN AREA POWER ADMINISTRATION  
ANNUAL REPORT 2009

## STAYING CONNECTED

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Here at Western, our job revolves around connectivity. Through the more than 17,000 miles of transmission line we maintain throughout the West, we're connected to customers. Our customers in turn are connected to millions of consumers who use the energy transmitted through that connection to light and power their homes and businesses.

This year's theme, "Connected," celebrates our successes in partnering with customers to manage, maintain and operate the dependable energy network we've all come to rely upon. Our employees are part of the thousands of invisible hands that ensure the lights and machines pop on as soon as you flip the switch.



## MISSION

Market and deliver clean, renewable, reliable, cost-based Federal hydroelectric power and related services

## VISION

Provide premier power marketing and transmission services

## ABOUT WESTERN

Western is a Federal agency under the Department of Energy that markets and transmits wholesale electrical power through an integrated 17,000-circuit mile, high-voltage transmission system across 15 western states.

Employees work around the clock to sell power, operate transmission and provide maintenance and engineering services to:

- Cooperatives
- Federal and state agencies
- Municipalities
- Native American tribes
- Other energy service providers
- Public utility and irrigation districts

In turn, our customers provide electric service to millions of people from as far south as Texas all the way north to the Dakotas, and from the plains of Minnesota to the California coastline.

In 2009, Congress expanded Western's role to include the Transmission Infrastructure Program. Through funding partnerships, TIP will develop transmission infrastructure that delivers renewable energy across the grid in the West.

For more than 30 years, Western employees have been dedicated to providing public service, such as promoting environmental stewardship, energy efficiency and renewable energy, as well as implementing new technologies to ensure our transmission system continues to be the most reliable possible.

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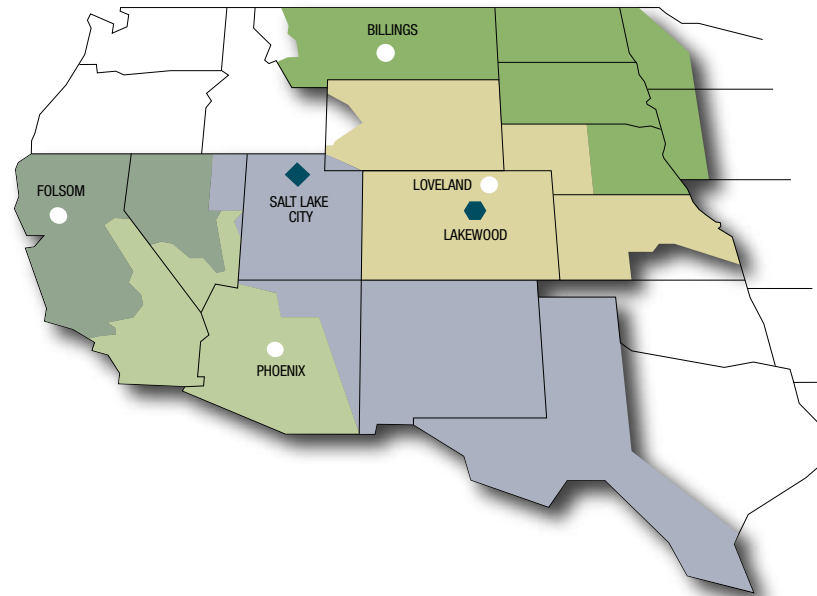
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# SERVICE AND MARKETING AREAS



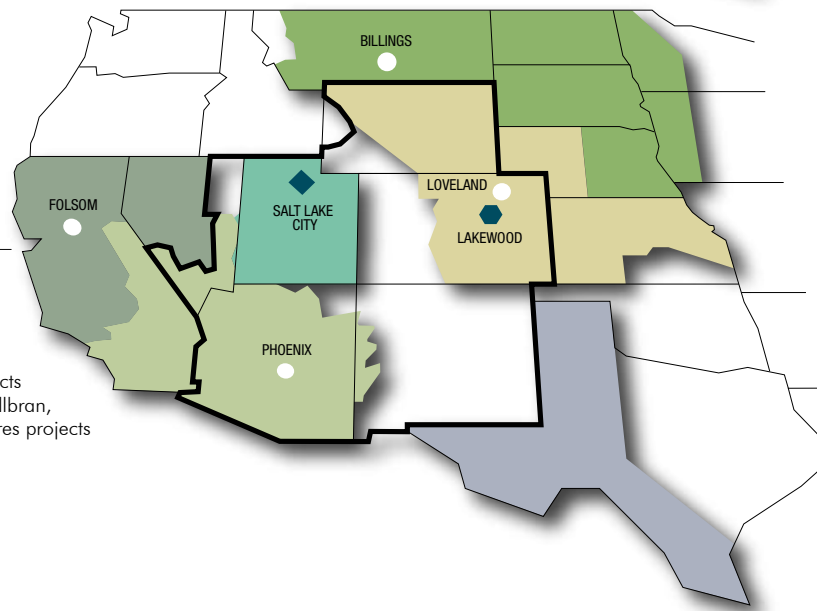
## SERVICE AREAS

- Sierra Nevada Region
- CRSP Management Center
- Upper Great Plains Region
- Desert Southwest Region
- Rocky Mountain Region
- State boundaries
- Regional office
- ◆ Corporate Services Office
- ◆ CRSP Management Center



## MARKETING AREAS

- Central Valley and Washoe projects
- Parker-Davis, Boulder Canyon and Central Arizona projects
- Falcon-Amistad Project
- Provo River Project
- Loveland Area Projects
- Pick-Sloan Missouri Basin Program—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, Seedskadee and Dolores projects
- State Boundaries
- Regional Office
- ◆ Corporate Services Office
- ◆ CRSP Management Center



Western's role in delivering power also includes managing 10 rate-setting systems. These rate systems are made up of 13 multipurpose water resource projects, one coal-fired project and one transmission project. The systems include Western's transmission facilities along with power generation facilities owned and operated by the U.S. Bureau of Reclamation, the U.S. Army Corps of Engineers and the U.S. State Department's International Boundary and Water Commission. We set power rates which recover all costs associated with our reimbursable activities, such as annual operating costs, the specific and allocated multipurpose costs associated with recovering the Federal investment in the generation facilities (with interest) and certain other costs assigned to power for repayment, such as aid to irrigation development.

# WESTERN AT A GLANCE (unaudited)

## MARKETING PROFILE FY 2009

Long-term energy sales	32 billion kWh
Other energy sales	4.2 billion kWh
Total	36.2 billion kWh

## FINANCIAL PROFILE

Sales of electric power	\$1,014.2 million
Total operating revenues	\$1,363.7 million
Total operating expenses	\$1,231.9 million
Purchased power and transmission expenses	\$618.2 million

## ASSETS

Powerplants	57
Installed capacity (MW)	10,489
Substations	306
Transmission line miles	17,107

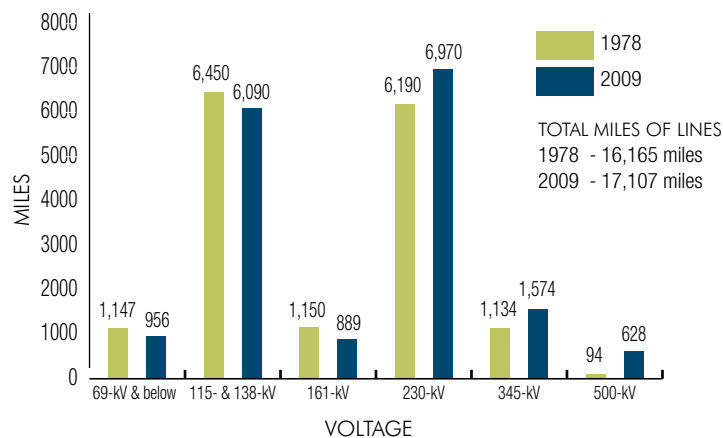
## OUR PEOPLE

Customers	687
Employees	1,427

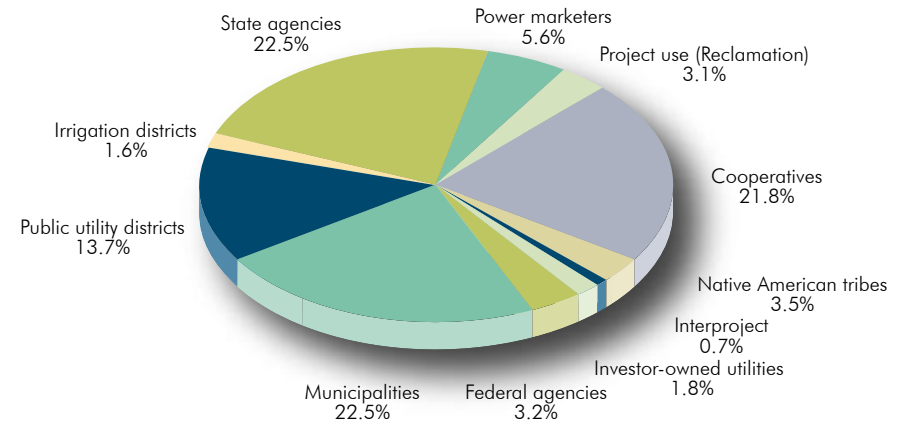
## PEAK LOAD

July 14, 2009	6,534 MW
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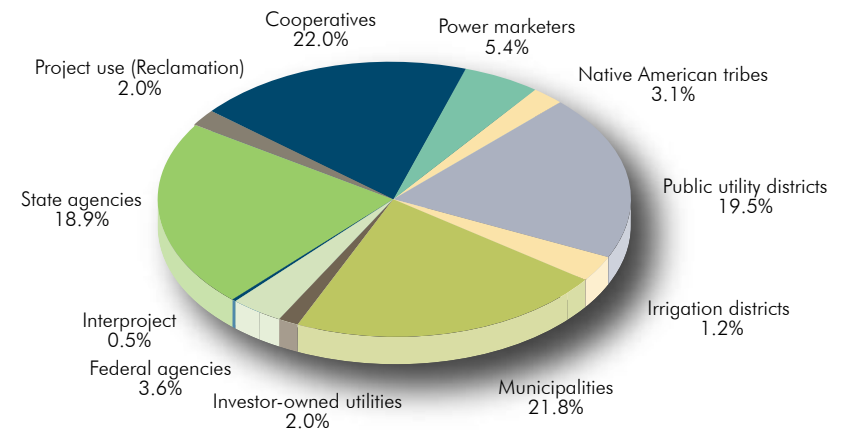
TRANSMISSION LINES IN SERVICE  
as of Sept. 30, 2009



WHERE OUR ENERGY GOES (MWh)



WHERE OUR REVENUES COME FROM (\$)



## ADMINISTRATOR'S LETTER

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As America continues to rebuild its economic strength from the recession, Western's roadmap remains the same...connecting communities throughout the West with renewable, reliable energy.

Reliable and affordable electricity is a key factor in our economic and national security. Dependable electricity drives our economy and provides quality of life to millions in small and large communities, Native American reservations, universities, military bases and hospitals. In many ways, this power is the lifeblood of the West.

It's the electrical grid supporting the constant flow of power that connects us. It connects us to generators, our neighbors and industry partners. In fact, it's our connectivity that ensures our success as an industry and as a Nation.

### **STRONG PARTNERSHIPS, EFFECTIVE PLANNING**

Once again, our partnerships with customers served as a strong foundation for our continued success in maintaining the reliability of our electric transmission system. With customer support of nearly \$76.5 million supplementing our Federal appropriations, we were able to fund the operation, maintenance, and on-going rehabilitation of our Federal transmission grid in FY 2009.

After seeking input from our customers, we finalized a new strategic plan—the result of a rigorous review of our business operations by our senior executive team. Through that review, we reaffirmed our focus to control and contain costs while we meet our customers' needs by maximizing the value of the Federal hydropower resource, ensuring the reliability and availability of Western's transmission system, and providing, clean, renewable, reliable, cost-based energy.

The plan lays out specifics in four primary areas: energy security; energy infrastructure and industry; customer partnerships/funding; and organizational excellence. Our employees truly embody the last strategic goal, through their round-the-clock dedication to ensuring system availability.



## WEATHERING THE STORMS

In 2009, Western employees demonstrated what organizational excellence means. Throughout the year, Western's system endured several major storms. After every storm, our staff—from linemen and electricians to dispatchers and engineers—worked side-by-side to get the system put together again. As a good neighbor, several of our crews from the Upper Great Plains and Rocky Mountain regions dedicated their nights and weekends to help our sister agency, Southwestern Power Administration, piece together more than 20 miles of downed transmission lines in less than a month.

## MISSION EXPANDED

In addition to our core mission, Western is doing its part to support America's efforts to diversify our energy supply and modernize our energy infrastructure. This last year thrust Western into the national spotlight with the passage of the American Recovery and Reinvestment Act. The Recovery Act gives Western the responsibility and authority to further the nation's goals of creating jobs and bringing renewable energy to market by allowing Western to borrow from the U.S. Treasury to finance transmission lines used to deliver, or facilitate the delivery of, power generated by new renewable energy resources.

This new mission is exciting, but we won't let it divert our attention from our core mission of delivering reliable, cost-based Federal hydropower to our customers. As we have since 1977—the year we were established as an agency—we'll continue to stay the course, allied with our customers and other industry partners in delivering dependable energy to the West.

**CONNECTING COMMUNITIES  
WITH RENEWABLE, RELIABLE ENERGY.**

Sincerely,



Tim Meeks

# CONNECTED

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## WE'RE ALL CONNECTED —

**C**onnected to the land, connected to the grid, and connected to each other through the energy we use for our everyday activities. Whether we're harnessing hydropower to run our offices or heat our homes, it takes partnerships to deliver that power to consumers—our communities and neighbors.

A Sierra Nevada lineman signals to the helicopter (just out of sight) to bring the overhead static wire it is holding closer to him. He is replacing the static wire along the Captain Jack-to-Olinda, 500-kV line as part of routine maintenance.

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# TRANSMISSION CONNECTION

## STRONG ENERGY TIES DEPEND ON EMPLOYEES

The backbone of Western—more than 17,000 miles of transmission line—connects the area between the dams, wind and solar farms, and coal-fired plants to deliver the right amount of electricity to cities, towns and communities throughout the West.

Last year, our crews kept the system humming by upgrading several hundred miles of lines throughout Western's service territory and ensuring Western stays connected within the larger bulk interconnected power grid. Further, every time a wind, ice or snow storm swept through, our crews were on the scene as soon as it was safe to get the lines restored and electricity flowing normally again.

In addition to repairs on our own lines, our crews partnered with other agencies to restore their lines, too! Our crews assisted customers with storm repair jobs, including the ice storm that swept through southeast Missouri and northeast Arkansas in late January 2009, which took down more than 30,000 utility poles and left thousands without power for three or more weeks. Southwestern Power Administration Craft Superintendent Kenny Broadaway described the magnitude of storm damage. "In the 28 years I've been here, this is the most devastating disaster we've ever had at SWPA. We've had tornados tear down 15 structures at a time, but we've never had this number of miles down at one time."

Western joined SWPA and contract crews working sun up to sun down repairing line after line. Western's crews started their work in Malden, Mo., on the Malden-to-Piggott 69-kV line. They worked structure by structure from one end, while SWPA and contractor crews worked from the other end. "We were assigned to a 21-mile section, and our goal was to work from Malden to Piggott. The whole line was on the ground, which meant there were 136 structures down—all of them wood H-frame structures. We, along with three SWPA crews and contractors, repaired the 136 structures and damaged conductor and re-energized the substation for them."

Once that line was energized, crews moved on to restoring the New Madrid-Malden 69-kV line where 154 structures came down. It took from Feb. 8 to March 3 to get those poles back up, averaging five to seven poles a day.

For Rapid City Journeyman Lineman Greg Mathiowetz, their efforts were worth it, knowing that they were restoring a community. "It's a feeling of accomplishment when helping people who need it," he said.

Dennis Graves, Western's Rapid City crew foreman II, echoed Mathiowetz's sentiments: "This is what a PMA should do—when somebody needs help, you should put a call out and put the power back on. We could be in the same boat tomorrow. Our main emphasis is the customer and trying to get power back on. While electricity used to be a luxury, now it's a necessity."

**All lined up and ready to go... it takes manpower and teamwork to keep Western's transmission system in superior working order. Western's line crews from across South Dakota, Montana and Wyoming are gathered and ready to install fiber optic overhead groundwire on the 230-kV transmission line from VT Hanlon Substation to Sioux Falls Substation.**



“THIS IS WHAT A PMA SHOULD DO—WHEN SOMEBODY NEEDS HELP, YOU SHOULD PUT A CALL OUT AND PUT THE POWER BACK ON. WHILE ELECTRICITY USED TO BE A LUXURY, **NOW IT’S A NECESSITY.**”

Night time falls at the Williston 2 Substation in North Dakota, yet the energy keeps on humming and Western’s crews continue their work ensuring the grid’s integrity.



## CUSTOMER CONNECTION

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### DELIVERING ENERGY TOGETHER

Brought together by the common goal of delivering energy to millions of homes and businesses in the West, Western's connection with customers is strong and vital. In fiscal year 2009, Western's partnerships with our customers ensured maintenance of the interwoven network of transmission lines that connect citizens from Minnesota to California.

Through our partnerships in 2009, we brought wind energy to market. In fact, Western received 40 new requests for generation interconnection and provided the connection to move more renewable energy generation to the grid. Now, to-date we have 19 wind installations on our system, churning out more than 470 megawatts of generation.

### PARTNERSHIP: A BREEZE

Western made its first-ever purchase of wind power through an agreement with Basin Electric Power Cooperative. The three-year contract, which started Jan. 1, 2010, allows Western to purchase the output from an existing 50-MW wind farm—generation that Basin includes in its resource mix. The purchase of wind energy, capacity and renewable attributes from Basin's existing wind generation will help Western offset the effects of prolonged drought in the Missouri River Basin, where both organizations market and deliver power.

"The severe and prolonged drought in the Missouri River Basin has presented many challenges for Western to honor contract commitments to the preference power customers," said Jody Sundsted, Western's Upper Great Plains' Power Marketing manager. "Our greatest challenge is to purchase replacement energy at the least cost to our customers and also minimize our exposure to short-term market risks."

Sundsted continued, "After reviewing alternatives in the market, this short-term, three-year purchase from Basin Electric fit very well with our power purchase strategies. It also helps us meet Western's contractual commitments for power and energy at the lowest cost possible, but at the same time helps further our nation's goal for increased renewable energy use and development."

Wayne Backman, Basin Electric's senior vice president of Generation, credited Western and Basin's long-standing relationship for the joint project. "Basin Electric and Western have a long history of working together," he said. "Without a critical agreement almost 50 years

**Basin Electric's Wilton Wind Farm, left, in North Dakota is one of eight wind farms providing wind generation to Basin Electric. Western will purchase the output to supplement Pick-Sloan hydropower.**

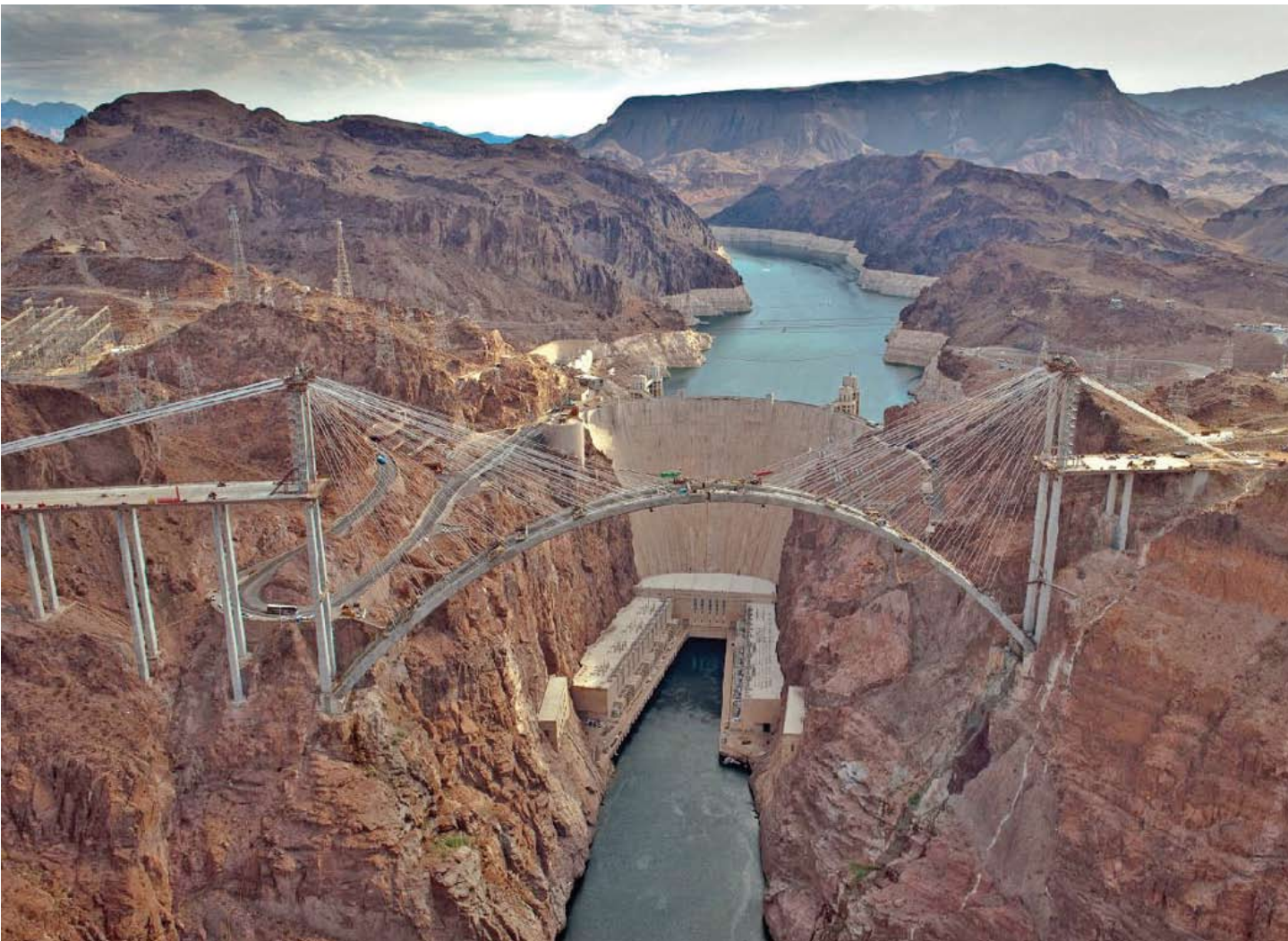
ago with the Bureau of Reclamation—Western's predecessor—Basin Electric would not have been formed. That was the beginning of a relationship with Western that Basin Electric values very much.

"Since then, we've worked together on many projects, and the contract to provide Western with wind energy from our existing resources continues that long-term, good working relationship," Backman said.

## CONNECTING CALIFORNIA TO ENERGY SECURITY

Relying upon our connection with our West Coast customers, we implemented solutions to correct the market design flaws that caused the California energy crisis in 2000 and 2001. With the California Independent System Operator's deployment of the new Market Redesign Technology Upgrade, MRTU, on April 1, 2009, Western's Sierra Nevada Region, SN, stepped up to make sure its business processes and systems seamlessly transferred and operated in the newly redesigned market with minimal impacts to our customers.

Western's SN Regional Manager Tom Boyko attributes the successful transition to teamwork and strong leadership. "It takes a team effort to be successful, as everyone must pull the oars in the same direction and at the same time," observed Boyko. "I was gratified to see that so many people stepped up to ensure that SN's MRTU go-live transition went smoothly." Under MRTU, California's power prices are now calculated using a market-based, economic dispatch methodology known as Locational Marginal Pricing.



## POOLING POWER FOR MAXIMUM BENEFIT

In California, Western's Sierra Nevada Region is developing the criteria for allocating the 2015 resource pool, which will give new and existing customers access to the most wide-spread use of reliable, renewable Federal hydropower.

Through the resource pool, allotted as part of Western's power contracts, selected requestors will receive the benefit of Federal hydropower. To establish the resource pool, Western will withdraw two percent of SN's marketable power resource from existing customers. In FY 2009, SN put out a call for interested parties to participate in the 2015 resource pool.

More than 40 customers and a dozen other interested parties responded to the opportunity. Those selected will each get a portion of the two percent of SN's marketable power resource from 2015 to 2025.

**Western continues to connect more consumers to the original renewable energy resource—hydropower. Hoover Dam, pictured with its nearly complete highway bypass addition, is just one of the many generation sources that provides clean, renewable hydropower to our customers.**

# HYDROPOWER CONNECTION

## HYDROPOWER: THE ORIGINAL RENEWABLE ENERGY

### MEETING THE NEED

In FY 2009, Western marketed more than 27,000 gigawatthours of renewable, reliable hydropower. Although our service territory was still in the midst of a very long and persistent drought, we were able to deliver 6 percent more hydroelectric power in FY 2009 than we did in FY 2008. While we're still short of fully meeting our firm power contract obligations solely with water-generated electricity, we supplemented the shortfall by purchasing additional power to make up the difference between what we had to market in generation and our customers' contractual energy needs.

Marketing Federal hydroelectric power connects us with the generating agencies—the Bureau of Reclamation, the Army Corps of Engineers and the International Boundary and Water Commission—and ultimately, mother nature.

Rocky Mountain Federal Power Programs Manager Dave Neumayer explains the importance of hydropower for our communities. “Hydropower is the original renewable energy,” said Neumayer. “The dams that hold back the water support recreation and regional water storage needs. As the water is released, turbines generate electricity from potential energy that would otherwise be wasted. Western then markets this at cost-based rates according to the legislation that made it all happen. The cheap, clean energy is spread wide across the public power community. Few understand the full extent of the benefit these projects brought about, yet we enjoy them none the less.”

According to the Energy Information Administration, hydropower produces the most renewable energy in the United States. In 2008, it accounted for 67 percent of energy generated from renewable sources. Reliability, adaptability, low outage rates and generator longevity, make hydro-electric generation one of our nation's greatest treasures. “Hydropower is the most efficient converter of energy presently available and can provide energy upon a moment's notice,” said Colorado River Storage Project Rates Manager Rodney Bailey. “In fact, Western marketed more than 27,000 gigawatthours of water-generated power. That's enough energy to keep 11 million homes with televisions and laptops humming every year.”



Aerial view of Seminole Dam.

## DROUGHT ENDING?

With more rain and snow-pack run-off last year, some western river systems are starting to recover from the more than 10-year drought. While most of the West is still considered to be in a drought, water levels are improving.

“There’s more water run-off and more rain filling up the reservoirs, which is great to see,” said Upper Great Plains Public Utilities Specialist Jana Lockie.

The tributaries of the Missouri River in Wyoming and the Upper Colorado headwaters have both seen above average reservoir inflows over the past two years. The resulting reservoir storage was above average at the end of 2009, and the Rocky Mountain Region’s Loveland Area Projects are officially considered out of the drought. The 2010 snow pack is, however, well-below average and drought conditions will return if dry weather prevails through the upcoming summer and into next winter.

## BETTER WATER YEAR FILLS LAKES

Other river systems had better water years and are making headway on drought conditions. The Colorado River’s main stem is still impacted by the drought as Lake Powell’s elevation ended the season at just 144 feet above the minimum generation level. And while Upper Great Plains saw increases in water along the Missouri River, it was not enough to pull the system out of drought conditions. However, the largest October storm since 1962 and other rain provided Sierra Nevada a better water year as well, ensuring the major reservoirs generation ended the water year at 72 percent of the historical average.

Unfortunately, several other river systems are still struggling with dry weather. Desert Southwest’s reservoirs, including Hoover, are still greatly impacted by the drought. The drought has reduced Lake Mead’s elevation to a point that is currently within 9 feet of triggering water shortage criteria. This precedent-setting event would significantly reduce water releases, and ultimately generated power, from Hoover.

Even though the hydrology continues to improve, the drought is not over yet. “Just like it took a while for the drought conditions to deplete the water system, it will take a while for the reservoirs to fill up,” explained Lockie. “However, we must remember that even during a normal year, purchase power is necessary to make up for system river flows and load requirement.”

## HYDROPOWER FLOWS THROUGHOUT THE WEST

Western’s hydropower resources are produced at Federal dams in 11 states. Our power projects, in general, match up with specific river systems, including:

**AMISTAD-FALCON:** Shared and operated by separate powerplants on each side of the Rio Grande River, the generation is evenly divided between the United States and Mexico, providing Western with 98 MW of hydropower to market in south Texas.

**BOULDER CANYON:** Hoover Dam straddles the Colorado River near the Arizona-Nevada border. Its powerplant produces about 2,074 MW—enough electricity for nearly 8 million people.

**CENTRAL VALLEY:** In California’s Central Valley, 18 dams create reservoirs that can store 13 million acre-feet of water along seven rivers—American, Clear Creek Tunnel, Sacramento, San Luis Creek, Spring Creek Tunnel, Stanislaus and Trinity rivers.

**LOVELAND AREA PROJECTS:** The projects draw on the resources of seven rivers, including the Arkansas, Blue, Big Horn, North Platte, Shoshone, Colorado-Big Thompson and Wind rivers.

**PARKER-DAVIS:** Below Hoover Dam along the Colorado River, Western also markets energy from the powerplants at Parker and Davis dams.

**PICK-SLOAN MISSOURI BASIN—EASTERN DIVISION:** Markets power generated along the Missouri River from eight dams and powerplants that have the installed capacity of 2,675 MW.

**PROVO RIVER:** Authorized in 1935, the project includes Deer Creek Dam and Powerplant on the Provo River in Utah.

**SALT LAKE CITY AREA/INTEGRATED PROJECTS:** Combining power from the Colorado River Storage Project plants with that from the Collbran and Rio Grande projects, this project markets hydropower from seven rivers—the Colorado, Dolores, Green, Gunnison, Plateau Creek, Rio Grande and San Juan rivers.

**WASHOE:** This west-central Nevada/east-central California project regulates the runoff from the Truckee and Carson river systems and provides water for municipal, industrial and fishery use.



These river systems produce the energy Western markets and the power that lights homes and businesses.

# FUTURE CONNECTIONS

## ENERGY INFRASTRUCTURE TO TAKE US INTO THE FUTURE

As the energy landscape continues to change, our future energy security requires new transmission lines and connections to diverse generation resources. Partnerships are key to getting the transmission system, or energy superhighway, in place to transport renewables. Western's Assistant Administrator for Washington Liaison Jack Dodd said, "This new mission for our agency is one of the most important developments to have occurred in Western's history."

In February 2009, the American Recovery and Reinvestment Act—Recovery Act for short—empowered Western with \$3.25 billion in borrowing authority to upgrade the grid for renewable energy delivery. Fast-forward six months, and Western's new Transmission Infrastructure Program, TIP, is established, fully-staffed and evaluating projects that will move the nation one step closer to energy independence, as directed by the Recovery Act.

Then in November 2009, Western Administrator Tim Meeks stood with Montana Governor Brian Schweitzer and project senior executives to celebrate the groundbreaking of Montana Alberta Tie Ltd, or MATL, the first project being built using Western's Recovery Act borrowing authority. The 214-mile project will include 133 miles in the United States and 81 miles in Canada. The 300 MW of capacity can be delivered in either direction between an existing NorthWestern Energy 230-kV switchyard at Great Falls, Mont., and a new substation northeast of Lethbridge, Alberta, Canada.

### CREATING JOBS

The Recovery Act was signed into law to jumpstart our economy and create and save millions of jobs. The Recovery Act includes measures to modernize our nation's transmission infrastructure and enhance energy independence, which is where Western comes in.

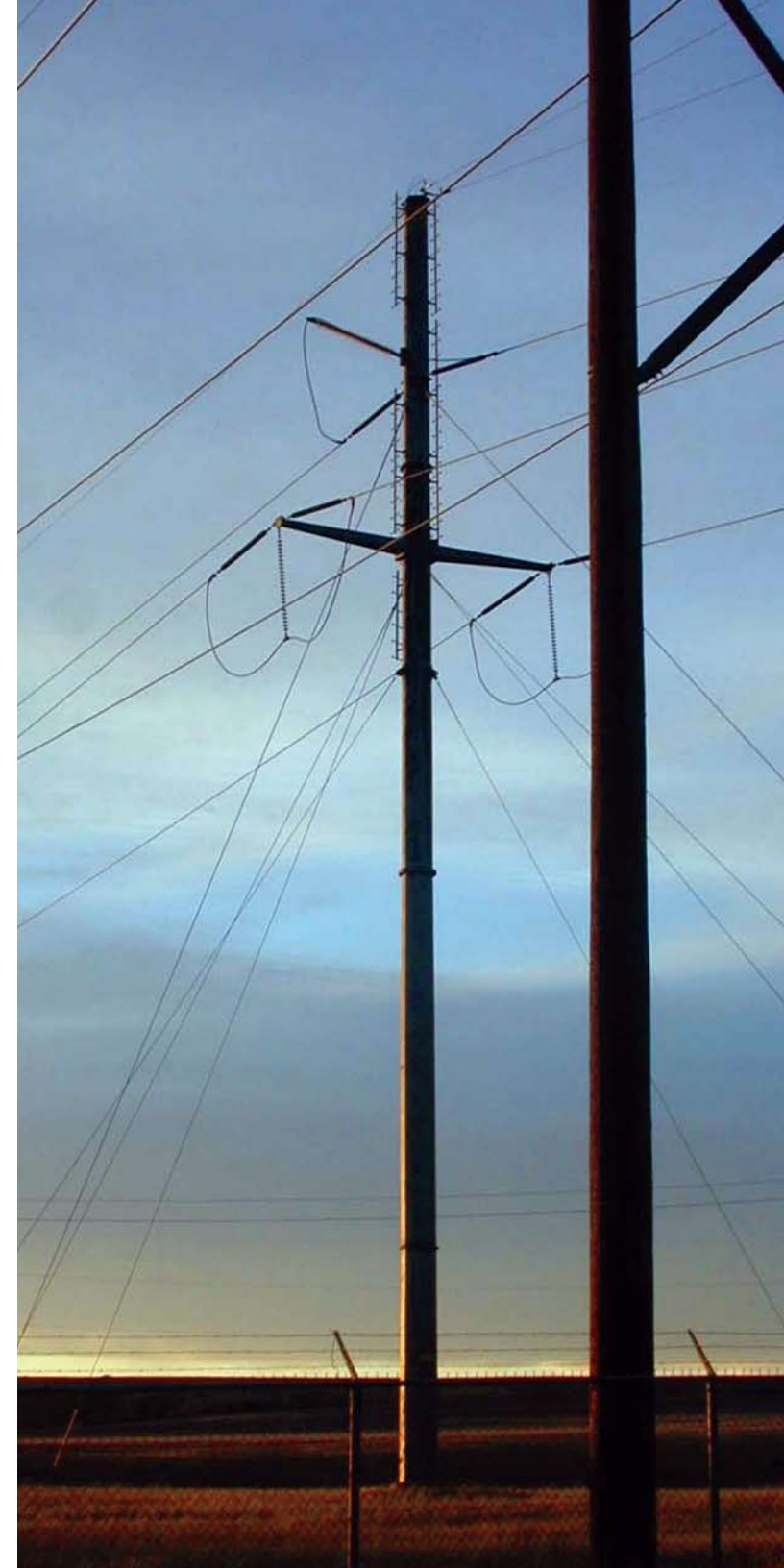
TIP is focused on meeting the Recovery Act's goal of creating American jobs, through project construction, as well as the manufacturing of equipment. "The MATL project will be constructed by a U.S. workforce using U.S.-produced materials when available," said TIP Manager Craig Knoell.

As TIP moves forward, Western will continue to seek out projects that support the goal of getting more renewable energy connected to the market through an expanded and improved transmission grid.

### TRANSMISSION: ENERGY HIGHWAY

Connecting renewable energy is like building a highway. "We need the highway to get product to market," TIP Manager Craig Knoell explained. "There's a lot of renewable energy in remote locations, but we need the transmission to get it to where the energy is needed.

"It's just like growing and distributing food. Farmers are growing corn in Nebraska to feed the residents in Denver," Knoell continued. "Similarly, TIP is here to get wires in the air and get that product to populated areas."





## OFF AND RUNNING— IMPLEMENTING RECOVERY ACT

2009

FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER
Recovery Act passed, giving Western borrowing authority under Section 402	Public processes held to: 1 Structure the new program 2 Request transmission project proposals	Received more than 200 proposals for transmission projects <hr/> Signed MOU for funding projects <hr/> Business systems modified to track Recovery Act work	Transmission Infrastructure Program formally created			Craig Knoell named TIP Manager	MATL announced as 1st TIP project	TIP office fully staffed	MATL broke ground

## COMMUNITY CONNECTION

### MAINTAINING OUR COMMUNITY TIES

Western employees' dedication goes beyond the job to serve the communities and towns in which they live. In FY 2009, Western employees banded together, even during an economic downturn, to donate more than \$180,000 to charitable organizations through the Combined Federal Campaign.

Employees went beyond giving money to hold quarterly blood donations and support special projects in their communities.



Rishi Kulkarni, right, reacts to getting a question right during the 2009 national competition as teammates Sriram Pendyala, far left, Edward Lee and Andrew Chen smile. (Photo by Dennis Brack, DOE)

### INSPIRING THE NEXT GENERATION

As part of the Department of Energy, Western and its employees are committed to furthering education in the sciences and applied technology fields. Western sponsors six regional science bowls every year—in Arizona, California, Colorado, Montana, North Dakota and South Dakota—bringing hundreds of employees and community members together to encourage the next generation of scientists and engineers.

In May 2009, Western sent six talented teams to the DOE-sponsored National Science Bowl in Washington, D.C. to face-off against 60 other high school teams from across the nation. In the end, Mira Loma High School in Sacramento, Calif.—from the Western-sponsored Sacramento Regional Science Bowl—claimed the title of National Science Bowl champions.

Energy Secretary Steven Chu was supportive of the students' initiative and drive. "The students in this competition displayed an impressive level of skill in a variety of scientific and technical subjects...and these students embody the excitement and dedication to science that will be a critical factor in transforming the way we use and produce energy."

Mira Loma Coach James Hill gave credit to Western for all the help and support given to lead the team to victory. "We want to thank Western and DOE for all the support because it's a huge undertaking. We thank you for your support of the kids."

### WHEN EMERGENCIES CALL, EMPLOYEES ANSWER

In addition to offering their talent at Western, several employees use their skills to support those in need when it's most critical. After Hurricane Gustav ravaged Louisiana Sept. 1, 2008, team members from the DOE's Emergency Support Function No. 12 were called in to help, including David Waag, a power systems dispatcher in Watertown and a member of ESF-12.

Waag shared some of his recent experiences: "Working for ESF-12 is a lot like dispatching—sometimes there is nothing going on, and other times you're swamped with requests. And like dispatching, we get all kinds of unique requests that somehow deal with energy but may not have come up in past disasters."

Louisiana had 1.2 million customers out of power, second only to Hurricane Katrina, but not by much. This was the worst ever outage for the city of Baton Rouge. The 1.2 million included about 800,000 Entergy Corporation customers and 400,000 customers of 19 other smaller companies, rural electric cooperatives and municipalities.

“The other ESF-12 folks are somewhat limited when it comes to dealing with the power companies and rely on Western people who ‘speak the language,’ as my boss would say, to help them,” Waag continued.

Waag explained how his group helped meet the needs for more power. One of their primary tasks was to coordinate the delivery of helicopters, which were used to lift lines back in place. “Energy requested a heavy-lift helicopter capable of lifting 21,000 pounds. We procured a CH-47 twin rotor helicopter from the National Guard.”

Just a year later, Sept. 30, 2009, Pete Miller, a dispatcher and trainer in Sierra Nevada, was winging his way to Pago Pago to help restore the power system in the South Pacific after an 8.3 magnitude earthquake and a series of tsunamis hit American Samoa.

Miller is another member of the DOE/Federal Emergency Management Agency’s Emergency Support Function, which is mobilized to assist local authorities to deal with the consequences, and begin restoring normalcy to an impacted area. Miller was assigned to a team that located and assessed damage to power generation and transmission/distribution facilities and determined how to restore electric service to “blacked out” areas. Then he helped the local utility stabilize the remaining energized electrical system.

### ‘WE CARE’

Upper Great Plains employees around the region volunteered in their local communities to commemorate the annual “Day of Caring.” For some, it was their seventh year participating in the cause.

Volunteers did everything from painting benches and playgrounds, to washing windows and trimming bushes.

### REACHING OUT INTERNATIONALLY

Since 1998, Sierra Nevada employees have brightened the lives of dozens of needy children outside the United States by sponsoring care packages. Employees sent canned goods and 101 shoeboxes full of presents to children at a school in the Philippines. Lovingly wrapped up, the packages arrive around Christmas, where a local “Santa” personally delivers them attired in his red suit.

Whether locally, nationally or internationally Western employees take part in their communities.

Sierra Nevada employees from left to right *Dara Fout, Maria Hirota, Raul Cupino, Dean Steele and Walt Nichols* stand over the shipping boxes destined for the Philippines that contain the shoebox care packages they assembled.



### EMPLOYEES: A PART OF COMMUNITY

Western employees are committed to communities, because they belong to those cities, towns and local neighborhoods that receive the energy we market. Your home town could be their home town. They are more than just employees working day-in and day-out to ensure that the energy gets to consumers; they are dedicated to giving their time and efforts and financial support for a better future and stronger communities.

**W**estern's continued success stems from the progress we make year after year in our day-to-day operations. In fiscal year 2009, our employees met challenges head-on with decisive solutions and thought ahead to find solutions for future issues. These highlights outline some of our major achievements in FY 2009.

### **COUNTING HYDROPOWER IN RENEWABLE PORTFOLIOS**

Western established its membership in the Western Resource Energy Generation Information System in April 2009. Western's Sierra Nevada Region trial membership, if proven beneficial, could be expanded Westernwide. The system allows preference power customers to use hydropower generation allocations to count toward national and/or state renewable energy portfolio standards.

### **WESTERN SECURES BORROWING AUTHORITY**

To get the new Transmission Infrastructure Program started, Western's Washington Liaison Office, Finance Office and other employees developed a structure and agreement for borrowing money from the U.S. Treasury to fund projects in support of the American Recovery and Reinvestment Act of 2009.

Less than two months after the President signed the Recovery Act, Western and the Treasury had an agreement in place to fund up to \$3.25 billion for transmission projects that will move renewable energy across the grid in the West. Under this borrowing arrangement, Western can fund qualified projects quickly.

### **WESTERN FILES REVISED OATT**

Western submitted a revised open access transmission service tariff, Sept. 30, 2009, with the Federal Energy Regulatory Commission, also known as FERC. The new tariff was effective Dec. 1, 2009 and complies with FERC Order No. 890, as well as Western's statutory and regulatory requirements. The tariff addresses changes in transmission services and planning.

It also includes minor revisions to Western's Large Generator and Interconnection Agreements and Procedures and Small Generator Agreements and Procedures. With this filing, Western maintains its safe harbor status, so it is not denied transmission service by other public utilities under FERC's jurisdiction.

### **OPERATIONS CONSOLIDATION PROGRESS CONTINUED**

Western continues to make progress in consolidating operational functions of its Desert Southwest and Rocky Mountain regions. The project, expected to save an estimated \$2.1 million annually after implementation and optimize limited resources, identified common tools and reorganized the Operations, Transmission Planning and Supervisory Control and Data Acquisition, or SCADA, offices of both regions into a single organization. Specifically, the project allows the two regions to act as alternative control centers for each other, reducing backup SCADA infrastructure and eliminating the need to build and maintain other facilities.

The project will continue to improve Western's effectiveness by reducing overall resources needed and optimizing transmission planning and workload. It will also consolidate Western's compliance efforts while ensuring Western meets North American Electric Reliability Corporation and Western Electricity Coordination Council reliability standards.

## STRATEGIC PLAN PUBLISHED

In June 2009, Western published its revised Strategic Plan; it is a guide for how we will do business in the coming years. By implementing this plan, Western will continue to provide premier power marketing and transmission services to our firm electric service customers, as well as contribute to enhancing America's energy security and sustaining our nation's economic vitality.

The big picture includes four strategic themes:

1. **ENERGY SECURITY THROUGH PRODUCTS AND SERVICES**—Provide cost-based power and transmission services for our firm electric service customers, thereby reducing their vulnerability to supply disruption and increasing their flexibility to meet consumers' needs for electricity.
2. **ENERGY INFRASTRUCTURE AND INDUSTRY**—Contribute to creating a more reliable, flexible and robust U.S. energy infrastructure, ensuring our efforts are funded and paid for by the beneficiaries.
3. **CUSTOMER PARTNERSHIPS/FUNDING**—Further develop partnerships with our customers, including Native American tribes. Secure adequate funding.
4. **ORGANIZATIONAL EXCELLENCE THROUGH PEOPLE**—Ensure we have the organizational capabilities and resources to satisfy growing demands.

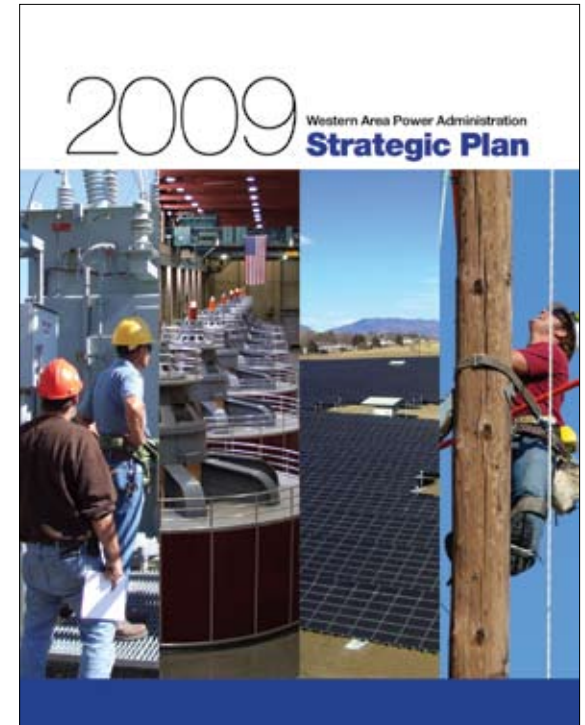
## OPERATIONS MAINTAINS HIGH RELIABILITY STANDARDS

Western maintains compliance with all applicable standards required by the Federal Energy Regulatory Commission and the North American Electric Reliability Corporation, NERC. In fact, all Western regions have completed and passed onsite NERC audits. Further, Western's consolidation of operations in the Desert Southwest and Rocky Mountain regions will improve the Compliance Program's efficiency.

Even as standards are revised or new standards are created, Western is committed to ensuring our system meets or exceeds the expectations. In fact, Western has received fewer violations than most utilities audited during the past three years. Currently, Western is working to ensure critical infrastructure protection standards are implemented effectively.

## PASSING RELIABILITY PERFORMANCE STANDARDS

Once again, all four of Western's control areas—also known as balancing authorities—passed North American Electric Reliability Corporation's control performance standards, a.k.a. CPS 1 and 2. These standards are set to ensure system reliability by reducing errors in balancing loads and resources, system frequency and accountable outages. In FY 2009, Western achieved averages of 188.45 for CPS 1 and 99.45 for CPS 2, indicating our ability to operate the power system efficiently. Western's success in exceeding industry averages with respect to these standards means fewer accountable outages for customers and a more reliable system for the nation.





## 11 YEARS FLYING ACCIDENT-FREE

For the past 11 years, Western's aviation program has supported operations and maintenance activities without an accident. In FY 2009, Western's helicopter pilots logged 1,656 hours in the sky—a record-setting number of flight hours—ensuring the integrity and operation of Western's 17,107 miles of transmission line. In fact, a DOE audit of Western's aviation program found Western's program to be one of the best in the Department of Energy.

## STANDARDIZING THE POWER BILLING SYSTEM

Western is moving forward to consolidate four power billing programs into one agency-wide system, known as Western's Power Transmission Billing System. The in-house system currently used by Upper Great Plains Region provides the base for the Westernwide system. Once complete the system will provide consistent billing and reporting capability for all regions. Maintaining a single system is expected to save costs. During Fiscal Year 2010, Western added the Rocky Mountain Region to the system, and plans to add the Desert Southwest and Sierra Nevada regions during the next few years.

Western's Desert Southwest helicopter is one of three helicopters that Western uses to survey lines and transport personnel to support Western's maintenance crews in maintaining more than 17,000 miles of transmission lines and supporting facilities.

## SAVED \$700,000 WITH SIERRA NEVADA DISPLACEMENT PROGRAM

As part of its Market Redesign Technology Upgrade implementation efforts, Sierra Nevada, or SN, developed the Base Resource Displacement Program. First deployed on June 3, 2009, this program saved participating customers nearly \$700,000. As designed, the program allows preference power customers outside of SN's sub-balancing authority to exchange their Base Resource allocation originating from within the sub-balancing authority for energy supplies originating within the California Independent System Operator's balancing authority. This saved customers money by avoiding uplift, price differentials in energy and other transaction-related costs.

## MANAGING VEGETATION ALONG RIGHTS OF WAY

The Energy Policy Act of 2005 and North American Electric Reliability Corporation standards for vegetation management have led Western and other utilities to begin transitioning from reactive to proactive programs. As a result, Western is more actively managing vegetation before it becomes a problem to ensure that the transmission system remains safe, secure and reliable. In FY 2009, Western's Upper Great Plains Region continued its aggressive vegetation management on the right of way by devoting more than 3,230 crew hours and contracting out \$609,000 for tree trimming.

Further, Western is actively engaged with stakeholders to help them understand why it's important to change industry practices. Through open discussions with environmental groups, local, state and Federal parties, communities and others in the utility industry, Western shows others how vegetation management protects natural resources and electrical systems.





To ensure safety of transmission lines, as well as protect wildlife and natural habitats, Western manages vegetation under and near the power lines it maintains from the coast of California to the plains of Minnesota.

### HUMAN CAPITAL MANAGEMENT 'SETS THE BAR'

When the Department of Energy and the Office of Personnel Management audited Western's Human Resources Program in 2009 they remarked on Western's success. In the best audit since DOE began the Human Capital Management Program in 2006, auditors said Western set the bar for future audits in providing pre-audit information. They added that this audit showed remarkable achievements, progress and improvements; especially in light of the reorganization and consolidation of Western's HR program. The Human Capital Management programs and systems help achieve Western's mission and strategic goals, while improving management in general, which ultimately improves service to Western's customers, as well as taxpayers.

### HIRING NEXT GENERATION OF SKILLED WORKERS

Western continues to seek the best talent for its workforce by keeping vacancy announcements continuously open for mission-critical positions. This allows us to streamline how we hire skilled workers.

We are also continuing the "50-5-5" hiring initiative to hire 50 trainees in five years at a cost of \$5 million. Started two years ago, Western currently has 28 trainees on board as a result of this initiative. Ultimately, this planning process will ensure that Western will have the talent needed to continue meeting customer needs in an exemplary manner.



In just two years, Western has passed the halfway mark by hiring 28 trainees before FY 2010. Under the "50-5-5" hiring initiative, we will hire an additional 22 trainees by FY 2012.

## RESOURCE CONNECTION

Western's Integrated Resource Planning, or IRP, requirements outlined in Section 114 of the Energy Policy Act of 1992, gives customers several options to meet these requirements. The requirements, which were updated in 2000, recognize the changes occurring in the utility industry and our customer's varying size and structure. These changes also streamlined the reporting requirements without sacrificing the Energy Policy Act's intent.

Customers must submit annual progress reports and new integrated resource plans every five years, either individually or cooperatively.

The 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 validate their reports on predicted performance to determine whether they met IRP objectives. Instead, they can submit a brief description of measurement strategies for the options identified in the IRP.

Western also accepts three other IRP alternatives, including:

- Small customer plan: Members of Member Based Associations and joint action agencies may now file a small customer plan if their sales/use is under 25 GWh per year.
- Minimum investment report: Customers can also submit minimum investment report in place of an IRP, if they are required by a state, tribal or Federal regulation to make minimum financial/resource investment in demand-side management or renewable programs. The minimum investment report must include an initial report and an annual letter.

### TRACKING THE TRENDS

Customers reported the following trends in their IRPs:

- More investment in renewables, audits, efficiency and demand-side management activities, also called DSM activities
- Increased attention being given to potential carbon tax and other environmental and climate change regulations (from communications)
- Increased demand for renewable energy technologies in all (commercial, industrial, residential and institutional) market segments
- Increased requests for education and information transfer on DSM, energy efficiency and renewable energy technologies
- Water management issues including efficient use, conservation, irrigation and pumping efficiency
- Increased exchange of ideas among energy service providers

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

- Lighting technologies
- HVAC technologies with emphasis on cooling and ventilation
- Audits for residential, commercial and industrial facilities
- Domestic hot water technologies
- Irrigation system improvements

The top five renewable energy resource choices are:

- Small scale hydro
- Wind generation
- Solar—photovoltaic
- Geothermal (all types – Ground source heat pump, heat pump water heaters, generation)
- Green Power Purchase Agreements



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

All firm power customers have met Western's IRP requirements using one of these options. In FY 2009, Western received 111 IRPs from individual customers, 31 plans from cooperatives, 76 minimum investment reports, 123 small customer plans and 4 energy efficiency/renewable energy reports.

IRPs are driven by customer need and requests. Cost and reliability used to be the major priorities and they still are, but climate change and environmental issues, national security, and social, economic and political issues have joined the list. The potential for additional regulation of emissions is another factor that will certainly influence the results of many IRPs.

#### FY 2009 CUSTOMER IRP ACCOMPLISHMENTS (unaudited)

ITEM	REGION					TOTAL
	CRSP	DSW	RM	SN	UGP	
DSM SAVINGS <sup>1</sup> (kW)	3,740	223,591,180	217,708	51,452	1,121,963	224,986,043
DSM SAVINGS (kWh)	43,064,939	476,497,845	225,371,973	254,186,162	15,573,190	1,014,694,109
DSM EXPENDITURE	\$1,774,198	\$134,339,771	\$10,898,908	\$31,600,091	\$65,444,587	\$244,057,555
DSM DEVIATIONS <sup>2</sup>	\$38,182	\$18,778,207	\$1,943,583	\$1,046,789	\$27,142,423	\$48,949,184
RENEWABLES (kW)	75,144	702,369	406,808	901,608	499,757	8,842,686
RENEWABLES (kWh)	357,945,150	2,379,281,645	1,117,112,415	3,445,983,376	1,502,734,320	8,803,056,906
RENEWABLE EXPENDITURE	\$3,029,844	\$136,602,192	\$42,307,966	\$63,159,758	\$145,139,035	\$390,238,795
RENEWABLE PROGRAM TYPES	Solar, wind, solid waste, small scale hydro, renewable fuel source	Small hydro, Solar (PV), geothermal, biomass, rebates, RECs <sup>3</sup> , wind	Small hydro, wind, solar	Solar, biomass, small hydro, fuel cells, wind, geothermal	Medium/large wind, WTE <sup>4</sup> , biomass, cogen.	Solar, wind, Small hydro, WTE, geothermal, biomass
TOP 5 MOST FREQUENT DSM ACTIVITIES	Comm/Ind. lighting, HVAC, domestic hot water, audits, irrigation	Irrigation pump upgrades, lighting, HVAC, auditing, equipment imp.	Audits, lighting, energy eff., bldg. Env., residential refrigerators	Audits, lighting, HVAC eff., load mgmt., motor eff.	Residential heating, domestic HW, GSHP <sup>5</sup> , load control, lighting	Lighting, audits, domestic hot water, irrigation, HVAC
TOP 5 RENEWABLE ENERGY ACTIVITIES	Solar, wind, solid waste, small hydro, renewable fuel source	Solar (PV), Small hydro, green purchase agreements, RECs <sup>3</sup> , biomass	Wind, small scale hydro, solar	Solar, biomass, small hydro, wind, geothermal	Large wind, WTH, small wind, WTE <sup>4</sup> , biomass	Wind, solar, hydro, biomass, Geothermal, green PPAs
TOP 3 CUSTOMER REPORTED TRENDS	Renewables, efficiency, audits	Renewable purchases; renewable system rebates, eff. lighting	DSM, energy eff., audits, renewables	Lighting, HVAC, audits	Heat pumps, DSM, load control	Renewables, DSM, audits, efficiency, Lighting

<sup>1</sup> DSM refers to demand-side management activities the utility conducts to change customer energy use.

<sup>2</sup> Deviations are any difference from the customer's Integrated Resource Plan.

<sup>3</sup> RECs are Renewable Energy Credits.

<sup>4</sup> WTE means waste to energy.

<sup>5</sup> GSHP refers to ground source heat pump.

## INDEPENDENT AUDITORS' REPORT

**The Administrator of Western Area Power Administration and  
the U.S. Department of Energy Office of the Inspector General:**

We have audited the accompanying combined balance sheets of Western Area Power Administration (Western), a component of the U.S. Department of Energy (DOE), as of September 30, 2009 and 2008, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended. As described in note 1 (a), the combined financial statement presentation includes the hydroelectric generation functions of other federal agencies for which Western markets and transmits power (hereinafter referred to as the generating agencies). These combined financial statements are the responsibility of managements of Western and the generating agencies. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Western's and the generating agencies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Western Area Power Administration's combined power systems as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on Western's combined financial statements taken as a whole. The supplementary information in schedules 1 and 2 is presented for purposes of additional analysis of the combined financial statements and is not a required part of the basic combined financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the combined financial statements taken as a whole.

**KPMG LLP**

August 25, 2010

## WESTERN COMBINED BALANCE SHEETS

As of September 30, 2009 and 2008 (in thousands)

	2009	2008
<b>Assets</b>		
Completed utility plant	\$6,298,833	\$6,167,447
Accumulated depreciation	<u>(3,060,507)</u>	<u>(2,969,771)</u>
Net completed plant	3,238,326	3,197,676
Construction work-in-progress	<u>349,180</u>	<u>265,017</u>
Net utility plant	3,587,506	3,462,693
Cash	863,933	775,032
Accounts receivable, net	146,829	127,715
Regulatory assets	107,304	123,706
Other assets	85,526	85,923
<b>Total assets</b>	<b>\$4,791,098</b>	<b>\$4,575,069</b>
Commitments and contingencies (notes 1, 10 and 11)		
<b>Liabilities</b>		
Long-term liabilities	152,609	161,496
Customer advances and other liabilities	197,993	191,225
Accounts payable	77,387	69,954
Contingent liabilities	18,612	18,612
<b>Total liabilities</b>	<b>\$446,601</b>	<b>\$441,287</b>
<b>Capitalization</b>		
Payable to U.S. Treasury	4,794,841	4,525,067
Accumulated net deficit	<u>(450,344)</u>	<u>(391,285)</u>
<b>Total capitalization</b>	<b>4,344,497</b>	<b>4,133,782</b>
<b>Total liabilities and capitalization</b>	<b>\$4,791,098</b>	<b>\$4,575,069</b>

See accompanying notes to combined financial statements.

## WESTERN COMBINED STATEMENTS OF REVENUES AND EXPENSES

For the years ended September 30, 2009 and 2008 (in thousands)

	2009	2008
<b>Operating revenues</b>		
Sales of electric power	\$1,014,157	\$1,006,545
Transmission and other operating revenues	349,574	354,041
<b>Total operating revenues</b>	<b>\$1,363,731</b>	<b>\$1,360,586</b>
<b>Operating expenses</b>		
Operation and maintenance	454,146	442,862
Purchased power	555,470	663,487
Purchased transmission services	62,778	83,377
Depreciation	108,550	95,198
Administration and general	50,911	49,378
<b>Total operating expenses</b>	<b>1,231,855</b>	<b>1,334,302</b>
<b>Net operating revenues</b>	<b>\$131,876</b>	<b>\$26,284</b>
<b>Interest expenses</b>		
Interest on payable to U.S. Treasury	230,091	199,771
Allowance for funds used during construction	<u>(15,169)</u>	<u>(10,735)</u>
Net interest on payable to U.S. Treasury	214,922	189,036
Interest on non-Federal liabilities	9,966	10,730
<b>Net interest expense</b>	<b>224,888</b>	<b>199,766</b>
<b>Net deficit</b>	<b>\$(93,012)</b>	<b>\$(173,482)</b>

See accompanying notes to combined financial statements.

## WESTERN COMBINED STATEMENTS OF CHANGES IN CAPITALIZATION

As of September 30, 2008 and 2009 (in thousands)

	Payable to U.S. Treasury	Accumulated net deficit	Total capitalization
<b>Total capitalization as of September 30, 2007:</b>	<b>\$4,196,894</b>	<b>\$(261,499)</b>	<b>\$3,935,395</b>
<i>Additions:</i>			
Congressional appropriations	615,379	43,696	659,075
Interest	199,771	0	199,771
<b>Total additions to capitalization</b>	<b>\$815,150</b>	<b>\$43,696</b>	<b>\$858,846</b>
<i>Deductions:</i>			
Payments to U.S. Treasury	(482,641)	0	(482,641)
Transfers of property and services, net	(4,336)	0	(4,336)
<b>Total deductions to capitalization</b>	<b>(486,977)</b>	<b>0</b>	<b>(486,977)</b>
<b>Net deficit for the year ended September 30, 2008</b>	<b>0</b>	<b>(173,482)</b>	<b>(173,482)</b>
<b>Total capitalization as of September 30, 2008:</b>	<b>\$4,525,067</b>	<b>\$(391,285)</b>	<b>\$4,133,782</b>
<i>Additions:</i>			
Congressional appropriations	519,967	33,953	553,920
Interest	230,091	0	230,091
<b>Total additions to capitalization</b>	<b>\$750,058</b>	<b>\$33,953</b>	<b>\$784,011</b>
<i>Deductions:</i>			
Payments to U.S. Treasury	(478,641)	0	(478,641)
Transfers of property and services, net	(1,643)	0	(1,643)
<b>Total deductions to capitalization</b>	<b>\$(480,284)</b>	<b>\$0</b>	<b>\$(480,284)</b>
<b>Net deficit for the year ended September 30, 2009</b>	<b>0</b>	<b>(93,012)</b>	<b>(93,012)</b>
<b>Total capitalization as of September 30, 2009:</b>	<b>\$4,794,841</b>	<b>\$(450,344)</b>	<b>\$4,344,497</b>

See accompanying notes to combined financial statements.

## WESTERN COMBINED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2009 and 2008 (in thousands)

	2009	2008
<b>Cash flows from operating activities:</b>		
Net deficit	\$ (93,012)	\$ (173,482)
Adjustments to reconcile net deficit to net cash provided by operating activities:		
Depreciation	108,550	95,198
Interest on payable to U.S. Treasury	214,922	189,036
Gain/loss on disposition of assets	5,988	1,315
Unfunded post retirement benefits	7,413	21,445
Unfunded FECA liability	(516)	800
Unfunded reimbursements to the U.S. Treasury judgment fund	700	0
(Increase) decrease in assets:		
Accounts receivable	(19,114)	16,439
Regulatory assets	2,279	1,710
Other assets	485	21,168
Increase (decrease) in liabilities:		
Accounts payable	7,433	2,630
Customer advances and other liabilities	5,972	(45,020)
<b>Net cash provided by operating activities:</b>	<b>241,100</b>	<b>131,239</b>
<b>Cash flows from investing activities:</b>		
<b>Investment in utility plant</b>	<b>(237,194)</b>	<b>(179,056)</b>

	2009	2008
<b>Cash flows from financing activities:</b>		
Congressional appropriations	573,040	640,045
Payments to U.S. Treasury	(478,641)	(482,641)
Principal payments on customer funded financing	(10,302)	(14,002)
Proceeds from non-Federally financed funding	898	3,371
<b>Net cash provided by financing activities</b>	<b>84,995</b>	<b>146,773</b>
<b>Net increase in cash</b>	<b>88,901</b>	<b>98,956</b>
<b>Cash, beginning of year</b>	<b>775,032</b>	<b>676,076</b>
<b>Cash, end of year</b>	<b>\$ 863,933</b>	<b>\$ 775,032</b>

### Supplemental schedule of noncash investing and financing activities

Capitalized interest	15,169	10,735
Transfer of construction work-in-progress to completed plant	167,185	160,423
Adjustments and changes in the allocation and assignment of generating agency balances to hydroelectric power generation and other changes in the use of appropriations:		
Construction work-in-progress and completed plant, net	13,279	12,538
Payable to U.S. Treasury	(42,551)	(42,563)
Regulatory assets	14,968	(6,001)
Other assets	(355)	213
Customer advances and other liabilities	284	0
Changes in actuarially determined workers' compensation liability	4,587	2,006
Change in unfunded regulatory assets and liabilities	5,432	19,316

See accompanying notes to combined financial statements.

# Notes to Western Combined Financial Statements

For the years ended September 30, 2009 and 2008

## (1) Basis of Presentation and Summary of Significant Accounting Policies

### (a) Principles of Combination

The combined financial statements include the combined financial position, results of operations and cash flows of Western Area Power Administration (Western), an agency of the U.S. Department of Energy (DOE), and the hydroelectric power generating functions of the U.S. Department of the Interior (DOI), 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 referred to as the generating agencies). For the generating agencies, only the individual power systems for which Western markets and transmits hydroelectric power are included in the combined financial statements. Western, a Federal power marketing administration, markets and transmits hydroelectric power generated from these power systems, which are operated and maintained by the generating agencies, throughout 15 western states.

The combined financial statements are prepared following accounting principles generally accepted in the United States of America (U.S. GAAP). Accounts are also subject to Federal Energy Regulatory Commission (FERC) regulations, FERC's prescribed uniform system of accounts for electric utilities and DOE's accounting practices.

For purposes of financial reporting, the hydroelectric power facilities and related operations of Western and the generating agencies are considered one entity. All material intra-entity balances and transactions have been eliminated from the combined financial statements.

The combined financial statements include project use energy relating to Western and the generating agencies. Project use energy is the amount of hydroelectric energy required to deliver project water to project water customers and other project-specific authorizations such as irrigation and fish and wildlife needs. Project use energy capital costs may be reimbursed through the power rates, through the generating agencies' water rates, depending on the agreement with the generating agency, or may be deemed non-reimbursable (see note 6(a)). Project use capital costs represent an allocation of total power capital assets necessary to generate and transmit hydroelectric power sufficient for project use needs. Although some project use capital costs may not be recovered through the power rates, the activity is included in the combined financial statements because it is directly related to hydroelectric power generation and transmission and is necessary to reflect the full financial activity of the power systems.

The September 30, 2008 combined hydroelectric power systems financial statements were limited in scope and included only the reimbursable hydroelectric activities of Western and the generating agencies. Accordingly, the fiscal year 2008 balances included in the fiscal year 2009 combined financial statements have been updated to conform to the current year presentation for purposes of comparability.

The combined financial statements contain three types of business activities, which are separately reported in the accompanying schedules to the combined financial statements. The three types of business activities are the hydroelectric power systems of Western and the generating agencies; the Transmission Infrastructure Program of Western (TIP); and other activities of Western. Amounts reflected as hydroelectric power systems activity represent power activity of Western and the generating agencies that are generally reimbursable for purposes of repayment to the U.S. Treasury. These amounts include project use energy and may include generating agencies' activity related to the American Recovery and Reinvestment Act (Recovery Act).

Amounts reflected as Transmission Infrastructure Program (TIP) activity in the accompanying schedules to the combined financial statements represent Western activity related to Section 402 of the Recovery Act, Public Law No.111-5, which was signed into law on February 17, 2009. Section 402 of the Recovery Act gives Western's Administrator the discretion to borrow up to \$3.25 billion from the U.S. Treasury for the purposes of: (1) constructing, financing, facilitating, planning, operating, maintaining, or studying construction of new or upgraded electric power transmission lines and related facilities that have at least one terminus within the area served by Western and (2) delivering or facilitating the delivery of power generated by renewable energy resources constructed or reasonably expected to be constructed after the Recovery Act was enacted. In addition, Western received a non-reimbursable appropriation for \$10 million to administer the new program.

The other activities represent those Western activities that are not reimbursable through the rate-setting process. This primarily consists of funds received from the Federal Communications Commission (FCC) to change Western's bandwidth (referred to as the Spectrum Relocation fund). The Spectrum Relocation fund paid for the cost of Western to relocate its bandwidth when the FCC sold the former bandwidth. The remaining reimbursable asset and liability balances primarily consist of agreements Western has with Federal and non-Federal customers to provide services on a fee basis. The majority of the operating revenues and expenses are a result of services provided through specific agreements with customers, and are excluded from the rate-making process. The remaining other activities revenues are those collected by Western which are not part of the rate-setting process such as agent activities conducted by Western on behalf of other government entities.

### (b) Allocation of Costs to Hydroelectric Power

Certain amounts included in the combined financial statements represent reimbursable power activities of the generating agencies for repayment to the U.S. Treasury. The costs of multi-purpose Reclamation and Corps projects are assigned to specific hydroelectric power functions through a cost allocation process. Reclamation hydroelectric power amounts are allocated to the combined financial statements based on power repayment responsibility (see Note 6(b)). Reclamation has power only facilities that are fully reimbursable, and has certain multi-purpose water resource projects where the costs are allocated among project activities, which primarily include power, irrigation, recreation, municipal and industrial water, navigation and flood control. Completed utility plant costs are allocated based upon the hydroelectric power portion of the Statement of Project Construction Cost and Repayment (SPCCR) based on studies prepared

by Reclamation economists. The allocation method developed from the SPCCRs is applied to all multi-purpose utility plant and construction work-in-progress balances. Current assets and liabilities, excluding cash, are allocated based upon the amounts directly recorded to power accounts. Revenue and expense accounts are also allocated based on the amounts directly recorded to power activities or amounts attributed to power repayment by Reclamation.

Corps and IBWC hydroelectric power amounts are allocated based on legislatively-determined rates of power repayment responsibility. The Corps and IBWC have built in processes in their financial system to track and allocate costs to be recovered from Western's customers.

Cash balances for the generating agencies represent fund balances at the U.S. Treasury and estimates of the amount of funds required to satisfy current hydroelectric power obligations.

To the extent possible, the generating agencies identify costs as direct costs. Direct costs are those which can be specifically identified to a power system, program or activity. In some cases, costs benefit two or more power systems, programs or activities; in these situations, it is not economically feasible to identify these costs as direct costs. Such costs include administrative support costs, space rental, utilities and office equipment. These costs are accumulated in indirect cost pools and allocated to the benefiting activities through a labor surcharge rate, based on direct labor charges.

### **(c) Confirmation and Approval of Rates**

Western is not a public utility within the jurisdiction of FERC under the Federal Power Act. The Secretary of Energy (Secretary) has delegated authority to Western's Administrator to develop hydroelectric power and transmission rates for the individual power systems included in the combined financial statements. The Deputy Secretary of Energy has the authority to confirm, approve and place such rates in effect on an interim basis. FERC has the exclusive authority to confirm, approve and place into effect on a final basis, to remand or to disapprove rates developed by Western's Administrator. FERC's review is limited to: 1) whether the rates are the lowest possible consistent with sound business principles; 2) whether the revenue levels 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 Western's Administrator only if it finds them to be arbitrary, capricious or in violation of the law. 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 such refunds have been required or made in 2009 and 2008 and none are anticipated in connection with rates approved on an interim basis through September 30, 2009. As of September 30, 2009, two of Western's power systems were awaiting final rate approval and were subsequently approved without required funds.

Accounting policies also reflect specific legislation and executive directives issued by departments of the Federal government. Certain balances within the combined financial statements are accounted for under the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. The

provisions of the ASC Topic 980 require, among other things, that regulated enterprises reflect the regulator's rate actions in its financial statements, when appropriate. The rate actions of Western's Administrator, subject to the limited authority of FERC, can provide reasonable assurance of the existence of an asset; reduce, eliminate or amortize the value of an asset; or impose a liability on a regulated enterprise.

### **(d) Operating Revenues and Accumulated Net Deficit**

Operating revenues are recognized when goods or services are provided to the public or another government agency. Except for power systems using revolving funds and customer advances, cash received from sales is deposited directly with the U.S. Treasury and is reflected as repayments to the U.S. Treasury, which is included in the Payable to U.S. Treasury in the combined balance sheets. As such, these funds are unavailable for power system operating needs. For power systems using revolving funds and customer advances, cash received is deposited in the U.S. Treasury and remains available to the power system. Cash collected into revolving funds in excess of operating requirements is used for repayment of the Payable to U.S. Treasury (see Note 6(a)).

Approved hydroelectric 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 10(b)). Costs allocated to power include repayment to the U.S. Treasury in power facilities and associated interest. Rates are structured to provide for repayment of the payable in power facilities, generally over 50 years, while operating expenses and interest on the payable are recovered annually. Replacements of utility plant are generally to be repaid over their expected service lives.

Western and the generating agencies are nonprofit Federal agencies; therefore, accumulated net revenues, to the extent that they are available, are committed to repayment. However, as of September 30, 2009 and 2008, the combined financial statements have an accumulated net deficit.

Western provides purchasing, selling, scheduling, billing, and other ancillary services on behalf of other Federal and non-Federal entities. The agent transactions are evaluated under the provisions of FASB ASC Subtopic 605.45, *Revenue Recognition—Principal Agent Considerations*, to determine whether the transactions should be reported at the gross or net value. Generally, Western's policy is to record agent activity at gross because Western typically shares in the risks and rewards of the transaction. One notable exception is the Central Arizona Project (CAP), for which Western acts as a billing agent on behalf of Reclamation, who owns the project. In this case, Western does not meet the majority indicators of gross reporting and, therefore, Western's CAP activity is reported at net value within the combined statements of revenue and expenses.

Western may provide multiple services to any one customer, with distinguishable rates, terms, and delivery schedules. Western accounts for these arrangements in accordance with the provisions of FASB ASC Subtopic 605-25, *Revenue Recognition—Multiple Element Arrangements*.

Transmission and other operating revenues include items such as transmission services, power wheeling, and recreational fees. Other operating revenues also consist of fee-for-service arrangements, typically on a reimbursement basis, for services performed by Western that are not a part of its core mission of marketing and transmitting hydroelectric power generated by the combined power systems.

**(e) Cash**

Cash held by Western and the generating agencies represents the undisbursed balance of funds authorized by Congress, customer advances and revolving fund balances at the U.S. Treasury.

**(f) Accounts Receivable, Net**

Accounts receivable, net represents amounts billed to customers but not collected as of September 30, 2009 and 2008, net of the related allowance. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances. There was no allowance amount in 2009 or 2008. Interest is charged on the principal portion of delinquent receivables based on rates published by the U.S. Treasury for the period in which the debt became delinquent. Delinquent accounts are written off when they are determined to be uncollectible.

Billing methods used by Western include net billing and bill crediting. Net billing is a two-way agreement between Western and a customer, whereby both parties buy and sell power to each other. Monthly sales and purchases, including any customer advances received, are netted between the two parties and the customer is provided either an invoice or a credit. Bill crediting involves a three-way net billing arrangement among Western, a customer and a third party whereby all three parties are involved in purchase and sales transactions. Under both billing methods, purchase and sales transactions are reported "gross" in the combined financial statements.

**(g) Stores Inventory**

Inventory consists of hardware, maintenance parts and supplies and is included in other assets on the combined balance sheets. Inventory is valued using the average cost method. When stock is received, the cost is averaged based on the number of items purchased at each different value. The average cost is charged for subsequent issues.

**(h) Utility Plant, Moveable Equipment and Internal use Software**

Utility plant includes items such as dams, spillways, generators, turbines, substations and related components, and transmission lines and related components. Under FERC guidelines, utility plant is stated at original cost, net of contributions from external entities. Costs include direct labor and materials; payments to contractors; indirect charges for engineering, supervision, and overhead; and interest during construction. The costs of additions, major replacements and betterments are capitalized; whereas, repairs and maintenance are charged to operation and maintenance expense as incurred.

Plant assets of the combined power systems are currently depreciated using the straight-line method over the estimated service lives ranging from 8 to 50 years for transmission assets and 10 to 100 years for generation assets. Power rights are amortized over 40 years. The service lives of utility plant may be different between financial reporting and repayment measures. The cost of retired utility plant, net of accumulated depreciation, is charged to operation and maintenance expense as a gain (loss), net of cash proceeds, if any.

Moveable equipment includes computers, copiers, cranes, energy testing equipment, helicopters, trucks and wood chippers. Moveable equipment is currently depreciated using the straight-line method over the estimated service lives ranging from 3 to 20 years. Moveable equipment is classified as other assets on the combined balance sheets (see Note 4).

Internal use software includes software purchased from commercial vendors "off the shelf" and internally developed software. Western's internal use software is depreciated over 5 years, using the straight-line method. Internal use software is classified as other assets on the combined balance sheets (see Note 4).

Western is subject to ASC Topic 980 (see Note 3). Most completed utility plant, as required by law, is recovered through the rates regardless of whether an asset is abandoned, loses value, is disposed of significantly before the end of its estimated useful life or is destroyed. Consequently, the cash flow is not impaired regardless of the condition of the asset. Western maintains all assets under established maintenance protocols to ensure the highest level of reliability.

The policy of Western and the generating agencies is to move capitalized costs into completed utility plant at the time a project or feature of a project is deemed to be substantially complete. A project is substantially complete when it is providing benefits and services for the intended purpose, and is generating project purpose revenue, where applicable.

**(i) Interest on the Payable to U.S. Treasury**

Interest, a component of total capitalization, is accrued annually on the Payable to U.S. Treasury, based on Federal statutes and power system legislation. Such interest is reflected as an expense in the combined financial statements. Western calculates interest annually based on the unpaid balances owed to the U.S. Treasury using rates set by law, administrative orders following law or administrative policies. Interest rates on unpaid balances ranged from 2.50 to 11.38 percent and 2.50 to 11.375 percent for the years ended September 30, 2009 and 2008, respectively.

As provided by Federal law, interest is not assessed on unpaid balances in irrigation facilities anticipated to be repaid through power sales (see Note 10(b)).

**(j) Allowance for Funds used During Construction**

Allowance for funds used during construction (AFUDC) represents interest on funds borrowed from the U.S. Treasury during the construction of all generation and transmission facilities including assets allocated to project use energy. Western and the generating agencies calculate AFUDC based on the average annual outstanding balance of construction work-in-progress and is calculated through the date in which assets are placed in service. AFUDC is capitalized and recovered over the repayment period of the related plant asset. Applicable interest rates ranged from 4.50 to 8.32 percent and 4.62 and 8.54 percent for the years ended September 30, 2009 and 2008, respectively, depending on the year in which construction on the transmission and generation facilities was initiated and requirements of the authorizing legislation.

**(k) Transfer of Property and Services, Net**

Transfer of property and services, net, is a component of total capitalization that represents the cumulative receipt of unfunded transfers of assets or costs offset by the cumulative receipt of unfunded transfers of revenues. Transfers are recognized upon physical delivery of the asset or



performance of the service. Transfers occur between projects, project types and other Federal entities. Transfers between Western and the generating agencies eliminate upon combination.

#### **(l) Pension and Other Post-retirement Benefits**

Western and generating agency 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 7.0 percent for CSRS and up to 11.2 percent for FERS. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). Western and generating agency contributions for the two plans amounted to \$19.2 million and \$23.2 million for the years ended September 30, 2009 and 2008, respectively. The contribution levels, as legislatively mandated, do not reflect the full cost requirements to fund the CSRS or FERS pension plans. The additional cost of providing CSRS and FERS benefits is approximately 25.8 and 12.3 percent of base salary, respectively, and is funded by OPM.

Other post-retirement benefits administered and partially funded by OPM are the Federal Employees Health and Benefits Program (FEHB) and the Federal Employee Group Life Insurance Program (FEGLI). FEHB is calculated at \$5,756 and \$5,220 per employee in fiscal years 2009 and 2008, respectively, and FEGLI is based on 0.02 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 and the generating agencies recorded an expense and related liability for the pension and other post-retirement benefits in the combined financial statements of \$7.6 million and \$21.7 million for the years ended September 30, 2009 and 2008, respectively. This amount reflects the contribution made on behalf of Western and the generating agencies by OPM to the benefit program trust funds. This expense will be recovered from power customers through the future sale of power.

As a Federal agency, all post-retirement activity is managed by OPM, therefore, neither the assets of the plans nor the actuarial data with respect to the accumulated plan benefits relative to Western and generating agency employees are included in this report.

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

Management of Western and the generating agencies have used estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these combined financial statements in conformity with U.S. GAAP. Significant items subject to such estimates and assumptions include the useful lives of completed utility plant; allowances for doubtful accounts; employee benefit obligations; environmental liabilities; and other contingencies. Estimates have also been used in allocating the reimbursable power activity of generating agencies for the purpose of repayment to the U.S. Treasury, and for allocating capital assets to project use energy. Actual results could differ significantly from these estimates.

#### **(n) Derivative and Hedging Activities**

Western analyzes derivative financial instruments under FASB ASC Topic 815, *Derivatives and Hedging*. This standard requires that all derivative instruments, as defined by ASC Topic 815, be recorded on the balance sheet at fair value, unless exempted. Changes in a derivative instrument's

fair value must be recognized currently in the combined statement of revenues and expenses, unless the derivative has been designated in a qualifying hedging relationship. The application of hedge accounting allows a derivative instrument's gains and losses to offset related results of the hedged item in the combined statement of revenue and expense to the extent effective. ASC Topic 815 requires that the hedging relationship be highly effective and that an organization formally designate a hedging relationship at the inception of the contract to apply hedge accounting.

Western enters into contracts for the purchase and sale of electricity for use in its business operations. ASC Topic 815 requires Western to evaluate these contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted from ASC Topic 815 as normal purchases or normal sales. Normal purchases and sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented and exempted from the accounting and reporting requirements of ASC Topic 815.

Western's policy is to fulfill all derivative and hedging contracts by either providing power to a third party or by taking delivery of power from a third party as provided for in each contract. Western's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond Western's estimated capacity to deliver or receive power. Accordingly, Western evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under U.S. GAAP. As of September 30, 2009 and 2008, Western has no contracts accounted for as derivatives.

#### **(o) Concentrations of Credit Risk**

Financial instruments, which potentially subject Western and the generating agencies to credit risk, include accounts receivable for customer purchases of power, transmission or other products and services. These receivables are primarily held with a group of diverse customers that are generally large, stable and established organizations which do not represent a significant credit risk. Although Western and the generating agencies are affected by the business environment of the utility industry, management does not believe a significant risk of loss from a concentration of credit exists.

#### **(p) Regulatory Assets (see Note 3)**

Regulatory assets are assets that result from rate actions of Western's Administrator and other regulatory agencies. These assets arise from specific costs that would have been included in the determination of net revenue or deficit in one period, but are deferred until a different period for purposes of developing rates to charge for services, per the requirements of ASC Topic 980. Western defers costs as regulatory assets so that the costs will be recovered through the rates during the periods when the costs are scheduled to be repaid. This ensures the matching of revenues and expenses. Western does not earn a rate of return on its regulatory assets. The assets listed below are regulatory in nature:

### **Workers' Compensation Actuarial Cost**

The U.S. Department of Labor (DOL) determines an actuarial liability associated with cases incurred for which additional future claims may be made on an annual basis. DOL determines 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.

The recovery of future claims is deferred for rate-making purposes until such time as the claims are submitted to and paid by DOL. Therefore, the recognition of the expense associated with the actuarially determined liability has been deferred as a regulatory asset in the combined balance sheets to reflect the effects of the rate-making process.

### **Abandoned Project Costs, Net**

Occasionally, Congressionally-authorized projects originally planned for service are discontinued due to political and/or economic reasons. Per the requirements of ASC Topic 980, Western classifies these discontinued projects based on Congressional action as abandoned projects and amortizes them in the same manner as that used for rate-making purposes. The amortization period is a maximum of 50 years. These abandoned projects are considered regulatory assets because the costs are amortized into the power rates over a period of time, rather than being expensed in the year of the Congressional action. The discount rate on Western's abandoned projects is 3 percent.

### **Environmental Liabilities (see Note 10(g))**

Environmental liabilities are recorded when the future remediation costs are known and estimable. The estimated remediation cost is recorded as a regulatory asset, which will be amortized according to a predetermined schedule incorporated into the rate-making process.

### **Recovery Implementation Program (RIP)**

Section 8 of the Colorado River Storage Project (CRSP) Act of 1956, as amended, mandates that DOI establish and implement programs to conserve fish and wildlife. Under this Act and other legislation, Reclamation has established programs to preserve the habitat and otherwise aid endangered fish and wildlife. The RIP is an example of such a program and is managed by the U.S. Fish and Wildlife Service.

On October 30, 2000, Congress passed Public Law 106-392 that authorized additional funding to Reclamation to continue the RIP. The legislation specifies that a total of \$17.0 million is to be collected by Western from its power customers and provided to Reclamation to finance capital costs. Amounts borrowed from the State of Colorado for the RIP are currently accruing interest, but Western will not begin repayment of the debt until October 1, 2012. Before beginning repayment, accrued interest charges are accreted into the outstanding principal balance. Preservation costs are classified as a regulatory asset until repayment begins, at which time costs will be amortized to expense.

### **Accrued Annual Leave**

Accrued annual leave represents benefits that will be paid out to employees upon retirement or separation from employment with the government. The amount not funded by revolving funds has been deferred as a regulatory asset to reflect the effects of the rate-making process.

### **Transmission Termination Settlement**

Western renegotiated certain CRSP long-term contractual obligations with third-party power providers in 2007. Under the terms of the settlement agreements, annual payments of \$0.6 million will be made through 2017 to PacifiCorp for a total of \$6 million. The unpaid portion of the settlements has been deferred as a regulatory asset to reflect the effects of the rate-making process.

### **(q) Interchange Energy and Energy Exchange (see Note 4)**

Western's power contracts may include a provision for energy transfers and exchanges between Western and a supplier that result in claims or obligations to be settled at a future date, based on contractual obligations. Energy claims or obligations represent the valuation of excess energy delivered or received under the energy interchange and exchange contract provisions. The energy balance is recorded either as an other asset when Western is the net supplier, or as an other liability when Western is the net user. Transactions reflect the fair-market value, under the provisions of ASC Topic 845, *Nonmonetary Transactions*, and are netted within purchase power expense as incurred under FERC regulations and rulings.

### **(r) Customer Advances**

Customer advances represent the current balance of advance payments received from power customers under co-sponsoring agreements with entities for construction, operation and maintenance or other furnished items. Subsidiary accounts are maintained by customer to reflect the status of each advance. Also included are revenue financing contracts that provide advanced customer funds for construction, maintenance or purchase power expenses. For these contracts, the customer is provided revenue credits on future power bills up to the amount of the advanced funds and, if applicable, any interest or fees. Revenue is recognized upon application of bill credits.

### **(s) Taxes**

As agencies of the U.S. Government, Western and the generating agencies are exempt from all income taxes imposed by any governing body, whether it is a Federal, state or commonwealth of the United States or a local or foreign government.

### **(t) Recently Issued Accounting Standards**

In September 2006, the FASB issued FASB ASC Topic 820, *Fair Value Measurement and Disclosures*. ASC Topic 820 defines fair value, establishes a framework for measuring fair value by generally accepted accounting principles, and expands disclosures about fair value measurements. In November 2007, the FASB proposed a one-year deferral of ASC Topic 820's fair-value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. ASC Topic 820 is effective for Western in fiscal year 2009. Western has determined that it does not own investments in equities or debt securities, nor does it hold any derivative instruments. Accordingly, the adoption of ASC Topic 820 did not have a significant impact on the combined financial statements as of September 30, 2009.

In March 2008, the FASB issued FASB ASC Topic 815, *Derivatives Hedging*. ASC Topic 815 requires enhanced disclosures about an entity's derivative and hedging activities to improve financial reporting transparency. ASC Topic 815 is effective for Western in fiscal year 2009. As of September

30, 2009, Western has not participated in any derivative instruments or hedging activities under ASC Topic 815; therefore, the adoption of ASC Topic 815 did not have a significant impact on the combined financial statements as of September 30, 2009. (See Note 1(n))

In May 2009, the FASB issued FASB Topic ASC 855, *Subsequent Events*, subsequently amended by Accounting Standards Update 2009-10, *Amendments to Certain Recognition and Disclosure Requirements*. FASB ASC 855, as amended, establishes the general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This standard is effective for Western in fiscal year 2009. Western has included in its footnote disclosure the date through which subsequent events are evaluated—the date the combined financial statements were available to be issued (see Note 11).

## (2) Hydroelectric Power Systems and Generating agencies

Western markets and transmits hydroelectric power for 14 power systems. The expenses and net assets of the 14 power systems, which are generally expected to be recovered, are included in the accompanying combined financial statements along with activity of the TIP program and other activity disclosed in Note 1(a). Reclamation generates power for all power systems with the exception of Amistad-Falcon. The Pick-Sloan power system is unique in that both Reclamation and the Corps generate hydroelectric power for the power system. IBWC is Western's sole generation partner for the Amistad-Falcon power system. The Pacific Northwest-Pacific Southwest Intertie (Intertie) has only transmission facilities. A listing of these power systems by generating agency includes:

### Reclamation Power Systems

- Boulder Canyon
- Central Valley
- Collbran
- Colorado River Storage Project
- Dolores
- Fryingpan-Arkansas
- Pacific Northwest-Pacific Southwest
- Parker-Davis
- Pick-Sloan Missouri River Basin
- Provo River
- Rio Grande
- Seedskadee
- Washoe

### Corps Power System

- Pick-Sloan Missouri River Basin

### IBWC Power System

- Amistad-Falcon

TIP activities are distinct from the hydroelectric power systems. As of September 30, 2009, \$0 has been borrowed from the U.S. Treasury under Western's borrowing authority relating to the Recovery Act. See Note 11 for subsequent events relating to TIP.

## (3) Regulatory Assets

Regulatory Assets (see Note 1(p)) as of September 30, 2009 and 2008 consist of the following (in thousands):

	2009	2008
Workers' compensation actuarial cost	\$44,830	\$49,370
Abandoned project costs, net	10,139	26,089
Environmental liability (see note 10(g))	16,751	18,612
Recovery implementation program	13,802	13,285
Accrued annual leave	17,182	11,150
Transmission termination settlement	4,600	5,200
<b>Total regulatory assets</b>	<b>\$107,304</b>	<b>\$123,706</b>

As of September 30, 2009, abandoned project costs, net include the Celilo-Mead transmission line, which is being amortized over 23 years, through 2019.

## (4) Other Assets

Other assets as of September 30, 2009 and 2008 consist of the following (in thousands):

	2009	2008
Moveable equipment, net (see Note 1(h))	\$39,968	\$35,660
Stores inventory (see Note 1(g))	15,633	15,137
Interchange energy and energy exchange (see Note 1(q))	20,572	26,318
Internal use software, net (see Note 1(h))	6,324	7,067
Other	3,029	1,741
<b>Total other assets</b>	<b>\$85,526</b>	<b>\$85,923</b>

Under FERC requirements, the net revenue and expense activity in interchange energy and energy exchange is included in purchased power expense in the combined financial statements. The net activity included in purchased power expense was \$5.8 million and \$3.6 million for the years ended September 30, 2009 and 2008, respectively.

## (5) Utility Plant

Utility plant as of September 30, 2009 and 2008 consists of the following (in thousands):

Utility plant	2009	2008
Structures and facilities	\$5,592,759	\$5,473,183
Buildings	361,943	359,574
Land	179,990	171,826
Power rights	164,141	162,864
Gross completed plant	6,298,833	6,167,447
Less: Accumulated depreciation	(3,060,507)	(2,969,771)
<b>Net completed plant</b>	<b>\$3,238,326</b>	<b>\$3,197,676</b>
Construction work-in-progress	349,180	265,017
<b>Net utility plant</b>	<b>\$3,587,506</b>	<b>\$3,462,693</b>

In accordance with FERC guidelines, Western excludes contributed plant within the combined balance sheets to eliminate the impact on power and transmission rates. As of September 30, 2009, and 2008, contributed plant, net, used in Western's operations totaled \$286 million and \$243 million, respectively.

The balances shown above include project use utility plant amounts used to provide project benefits to water customers. In addition to water benefits, the project includes other authorized benefits, such as support for fish and wildlife needs. All of the hydroelectric power systems have capital project use balances with the exception of Fryingpan-Arkansas, Pacific Northwest-Pacific Southwest Intertie, Provo River, Rio Grande, and Boulder Canyon.

## (6) Capitalization and Cost Allocation

### (a) General

Capitalization consists of congressional appropriations and accumulated interest on unpaid balances, less net transfers of property and services from other Federal agencies and repayments to the U.S. Treasury, and accumulated net deficit. Congressional appropriations are comprised of the cumulative appropriations received, net of expenses legislatively deemed non-reimbursable. All power systems, except Dolores, Seedskaadee, Boulder Canyon and the operations and maintenance and purchased power programs of the Colorado River Storage Project (CRSP), are primarily financed through congressional appropriations. Dolores, Seedskaadee, Boulder Canyon and the operations and maintenance programs of CRSP are funded through the use of a revolving fund. Revolving funds allow Western and Reclamation to utilize resources for reinvestment in power operations without congressional appropriations. A portion of construction and rehabilitation, operation and maintenance and purchased power expenditures are financed through other methods, such as advances from non-Federal entities, reimbursements from other Federal agencies, use of receipts authorization and alternative billing methods, such as net billing and bill crediting or any combination of these methods.

Although most of the appropriations received by Western and the generating agencies are expected to be repaid through the collection of the power rate, some costs are not recoverable through the power rate. When costs are deemed not recoverable through the power rate, the funding for these amounts are not included in the payable to U.S Treasury. These costs may be recovered through the water rate charged by Reclamation or may be deemed non-reimbursable by legislation; however, such recovery is not reflected in these combined financial statements. The amount of capital project use assets not recovered through the power rate as of September 30, 2009 and 2008 was \$606.2 million and \$591.6 million, respectively. Project use operation and maintenance costs not recovered through power rates are excluded from the combined financial statements.

Operating expenses (excluding depreciation expense) and interest on the unpaid balances are generally repaid annually. In cases where revenues are not available for repayment, unpaid annual net deficits become payable from the future years' revenues. Interest is accrued on cumulative annual net deficits until paid. Deficits for operating expenses begin to accrue interest in the year they occur, while interest expense deficits begin to accrue interest in the following year. In cases where funds are available, unless otherwise required by legislation, repayment of balances is applied first to the increment bearing the highest interest rate.

### (b) Capitalization in Multi-purpose Facilities

Capitalization in certain multipurpose facilities, primarily dams and structures integral to hydroelectric power generation required to be repaid from the power revenues, has been determined from preliminary cost allocation studies based on project evaluation standards approved by Congress. Allocations between power and non-power activities may be changed in future years; however, the project evaluation standards cannot be changed unless approved by Congress.

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

With final cost allocation studies still pending for many of the individual power systems, the potential exists for significant future adjustment in the Payable to U.S. Treasury for the cost of multi-purpose facilities allocated to power and the related accrued interest on the unpaid balance. Such reallocations could affect the future individual power system rates.

## (7) Long-term Liabilities (in thousands)

Long-term liabilities (September 30, 2009)	Principal	Accrued Interest	Total
Long-term construction financing	\$138,179	\$628	\$138,807
State of Colorado loan (see Note 1(p))	13,802	0	13,802
<b>Total long-term liabilities</b>	<b>\$151,981</b>	<b>\$628</b>	<b>\$152,609</b>

Long-term liabilities (September 30, 2008)	Principal	Accrued Interest	Total
Long-term construction financing	\$147,725	\$486	\$148,211
State of Colorado loan (see Note 1(p))	13,285	0	13,285
<b>Total long-term liabilities</b>	<b>\$161,010</b>	<b>\$486</b>	<b>\$161,496</b>

### Long-term Construction Financing

The majority of long-term construction financing consists of three significant contractual arrangements. The first significant arrangement provides customer financing for the Boulder Canyon power system to upgrade each of the generating units at Hoover Dam. The obligation to these customers began in 1987 and is scheduled to be satisfied through issuing credits on power bills through fiscal year 2017. Interest rates ranged between 5.2 and 7.3 percent and between 5.1 and 7.2 percent during fiscal years 2009 and 2008, respectively. As of September 30, 2009 and 2008, the outstanding obligation was \$86.9 million and \$95.8 million, respectively.

The second significant arrangement consists of the principal payable to the State of Wyoming for providing partial financing for improvements at the Buffalo Bill Dam (Pick-Sloan Missouri Basin power system) and associated hydroelectric power plants. This liability is being repaid over a period of 35 years, which began in 1996, at an approximate interest rate of 11.1 percent. The outstanding obligation amounted to \$20.1 million and \$20.3 million, as of September 30, 2009 and 2008, respectively.

The third significant arrangement is principal due to Griffith Energy LLC for providing financing for the construction of the Griffith-McConnico and Griffith-Peacock transmission lines along with certain assets at Peacock Substation and McConnico Switching Station within the Intertie and Parker-Davis power systems. Repayment is through power bill credits beginning in 2001 and ending in 2018. The interest rate is 8.5 percent. As of September 30, 2009 and 2008 the outstanding obligation totaled \$18.6 million and \$20 million, respectively.

Other components of long-term financing include Mohave Electric Cooperative, Inc., which provided \$8.9 million in financing to Western to construct the network upgrades required for the Zorb Project within the Parker-Davis power system. Repayment through crediting of transmission service bills begins in January 2013. The monthly amounts are unknown at this time, as the rates have yet to be established for that period. However, based on estimates, repayment should be completed within a 20-year period, with an estimated monthly bill credit of \$37 thousand. The balance of long-term construction financing is related to the modification of the Parker and Valley Farms substations. As of September 30, 2009 and 2008, the outstanding balance on those projects is \$3.4 million.

#### State of Colorado Loan

Western received a loan from the State of Colorado for \$5.5 million in December 2002 at an interest rate of 4.5 percent per year. Another \$5.9 million was received in December 2004 with an interest rate of 3.25 percent. The purpose of these loans was to fund Reclamation's endangered fish recovery implementation programs (see Note 1(p)). Interest began accruing at the time loans were granted and is accreted into the outstanding principal balance until repayment begins. The loan will be repaid through power revenues beginning in 2012.

Outstanding long-term liabilities, as of September 30, 2009 are scheduled to be credited or repaid as follows (in thousands):

Year ending September 30:	Principal	Interest	Total
2010	\$14,844	\$9,037	\$23,881
2011	12,387	8,419	20,806
2012	13,085	7,749	20,834
2013	14,163	7,614	21,778
2014	15,066	6,830	21,896
2015 and thereafter	82,436	40,622	123,057
<b>Total outstanding long term liabilities</b>	<b>\$151,981</b>	<b>\$80,271</b>	<b>\$232,252</b>

#### (8) Customer Advances and Other Liabilities (in thousands):

	2009	2008
Customer advances (see Note 1(r))	\$101,473	\$96,873
Workers' compensation actuarial liability	45,117	49,704
Accrued annual leave	16,950	11,150
Accrued payroll benefits	12,841	10,774
Workers' compensation accrual	8,697	9,218
Due to other Federal agencies	7,052	8,142
Transmission termination settlement	4,600	5,200
Other	1,263	164
<b>Total customer advances and other liabilities</b>	<b>\$197,993</b>	<b>\$191,225</b>

#### (9) Lease Commitments

Western has a non-cancelable operating lease that expires in 2015 for Western's Electric Power Training Center. The lease represents an annual expense of approximately \$247 thousand. There is also a non-cancelable operating lease for two rooms in the Blake Street Building in Salida, Colo. This lease is for a term of 3 years, with a 3 year renewal option, at an annual cost of approximately \$9 thousand.

Non-cancelable lease commitments (in thousands):

Year ending September 30:	Cost
2010	\$256
2011	288
2012	279
2013	279
2014	279
2015 and thereafter	279
<b>Total non-cancelable lease commitments</b>	<b>\$1,660</b>

Western and the generating agencies have several cancelable operating leases, primarily for general purpose motor vehicles, office, and warehouse space that expire during the next 15 years. The right to relinquish space on cancelable leases is available with 120-day notice to terminate. The General Services Administration is generally the leaseholder for all cancelable equipment and building leases.

These leases generally contain renewal options for periods ranging from three- to five-years and require the lessee to pay all costs, such as maintenance and insurance.

Rental expense for operating leases was approximately \$7.7 million and \$7.5 million for the years ended September 30, 2009 and 2008, respectively.

## (10) Commitments and Contingencies

### (a) General

Western and the generating agencies are involved in various claims, suits and complaints routine to the nature of their business. These Federal government organizations are self-insured for claims pertaining to litigation, unemployment, long-term disability and health and life insurance. Liabilities for these claims, as reported in the combined financial statements, are based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis (see Note 1(p)). It is management's opinion that the ultimate disposition of these claims will not have a material adverse effect on the combined financial statements.

### (b) Irrigation Assistance

Federal statute requires that certain individual power systems repay the U.S. Treasury the 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. As a result, Western has included these capital costs in each respective power system's power repayment study. Western intends to collect the necessary revenue from power customers in accordance with the required repayment periods based on legislation, which generally does not exceed a maximum period of 50 years. These repayment amounts do not incur or accumulate interest from the date that Reclamation determines the irrigators' inability to pay. Although these repayments will be recovered through power sales, they do not represent an operating cost of the individual power systems and are treated as distributions from accumulated net revenues (deficit) in the combined statements of revenue and expenses at the time of repayment. Legislation provisions require that other costs have priority for recovery through power rates before irrigation capital costs including, but not limited to, higher interest investments and operation and maintenance and purchased power expenses. Anticipated irrigation assistance payments are not recorded as a liability on the combined balance sheets because of the following factors: 1) Western's ability to make anticipated payments is contingent on future rates and revenues, which are driven by highly variable factors such as water levels and the generating agencies' ability to produce hydroelectric power; and 2) Western is capable of deferring the period of repayment to unspecified periods in the future.

Power repayment studies are one year in arrears. Therefore, through September 30, 2008, anticipated irrigation assistance totaled approximately \$2.3 billion which may be repaid from future power revenues. The 2009 power repayment studies have not been completed as of the date of this report. Western made no irrigation assistance payments on behalf of Reclamation for the years ended September 30, 2009 and 2008.

Anticipated irrigation assistance payments (in thousands)

Year ending September 30:	Amount
2010	\$0
2011	0
2012	0
2013	78,302
2014	10,054
2015 and thereafter	2,199,653
<b>Total anticipated irrigation assistance payments</b>	<b>\$2,288,009</b>

### (c) Power Contract Commitments

Western has entered into various agreements for power and transmission purchases that vary in length but generally do not exceed 20 years. Western's long-term commitments for these power and transmission contracts, subject to the availability of Federal funds and contingent upon annual appropriations from Congress, are as follows (in thousands):

Year ending September 30:	Purchased power	Purchased transmission	Total
2010	\$124,965	\$13,841	\$138,806
2011	122,337	13,841	136,178
2012	85,102	13,841	98,943
2013	129,845	13,841	143,686
2014	37,138	13,841	50,979
2015 and thereafter	0	153,193	153,193
<b>Total</b>	<b>\$499,387</b>	<b>\$222,398</b>	<b>\$721,785</b>

In addition to these contracts, Western maintains other long-term contracts which provide the ability to purchase unspecified quantities of transmission services within a contractually determined range and rate. To fulfill its contractual obligations to deliver power, Western has historically had to purchase a certain level of transmission services under these agreements.

### (d) Quechan Indian Tribes vs. United States

Western is a party to a case brought under the Federal Tort Claims Act in Federal District Court which may ultimately result in a settlement or decisions adverse to the Federal government. Any loss that may occur may be paid from the U.S. Treasury Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Federal government. The contingent liability estimate for this case is \$9.4 million, which would be paid out of the Judgment Fund. In this instance, Western will not be required to repay funds expended from the Judgment Fund.

As of September 30, 2009, Reclamation had a liability of \$700,000 resulting from a dispute with the contractor over the contract amount for the Boulder Canyon visitor center. This liability was paid out of the Judgment Fund in October 2009.

**(e) Roosevelt Irrigation District v. Salt River Project Agricultural Improvement and Power District, et al.**

On February 9, 2010, the Roosevelt Irrigation District (RID) filed a complaint under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) against Western and 93 other defendants, alleging a release or threatened release of hazardous substances into groundwater in the Phoenix, Arizona area. Due to the very early stage of this litigation, the uncertainty of an ultimate allocation of responsibility, the large number of named parties, and the lack of details and approval of RID's proposed early response plan, a range of potential loss cannot be determined at this point. However, any damages which may be sought by RID and allocated to Western may be paid from the U.S. Treasury Judgment Fund (Judgment Fund). Western would not be required to repay funds expended from the Judgment Fund.

**(f) Construction in Abeyance**

Construction in abeyance refers to long-term construction projects that have been suspended for a period of time due to legal, political or other reasons. There are several Reclamation construction projects that were placed in abeyance in the past. The Auburn dam, power plant and reservoir project was placed in abeyance due to a risk of major damage to the dam as a result of an earthquake in 1975. Although Reclamation has allocated a portion of the initial construction costs to hydroelectric power, these costs continue to be excluded from Western's rate-making processes until a final determination is made by Congress as to whether the project will be revised or deauthorized. As of September 30, 2009, power repayment is considered remote and, therefore, construction costs of \$46.2 million, including AFUDC, are not included in the combined financial statements. If the project is ultimately completed, there is a possibility that the associated costs may be repaid through future hydroelectric power rates.

**(g) Environmental Liabilities**

The Desert Southwest Region of Western has been engaged since 1991 in remediating the Basic Substation, located in Henderson, Nev. This site, which was built in 1942 to provide power to a local magnesium plant, was decommissioned in 2002. Rather than address all contamination at the site at once, the remediation has been pursued in a staged process, in parallel with demolition work to reduce the impact on annual budgets. As of September 30, 2009 and 2008, the estimated liability to remediate the Basic Substation was \$18.6 million. A contract for remediation of the site should be awarded in late 2010. Remediation should be completed about 18 months after the contract is awarded (see Note 11 (b)).

**(11) Subsequent Events**

Western has evaluated subsequent events through the date the financial statements were available to be issued of August 25, 2010, and identified the following subsequent events.

(a) Montana Alberta Tie Ltd. (MATL) Project—On October 27, 2009, Western signed an agreement with Tonbridge Power Inc. (Tonbridge) to finance up to \$161 million for the construction of the MATL transmission line project. This project is for the construction of a 214-mile, 230-kV power transmission line between Great Falls, Mont., and Lethbridge, Alberta. The line will have the capacity to deliver 300 megawatts of wind-generated power in either direction. Western is funding this project with borrowing authority from the U.S. Treasury, granted by the Recovery Act. As of June 30, 2010, Western borrowed \$87.6 million from the U.S. Treasury to begin funding MATL's construction costs.

(b) Basic Substation Remediation—On October 28, 2009, \$18.6 million in non-reimbursable funding was approved in the fiscal year 2010 budget to cover environmental remediation needs with the decommissioning of the Basic Substation in Nevada (see Note 10 (g)). Consequently, in fiscal year 2010, the balance was reclassified from regulatory assets, as the remediation costs no longer require recovery and, as such, no longer impact the power rates. The condition encompassing the change in funding mechanism was not known until fiscal year 2010.

## COMBINING SCHEDULES OF BALANCE SHEET DATA

## SCHEDULE 1

As of September 30, 2009 and 2008 (in thousands)

	2009				2008			
	Hydroelectric Power Systems	Transmission Infrastructure Program	Other Activities	Total	Hydroelectric Power Systems	Transmission Infrastructure Program	Other Activities	Total
<b>Assets</b>								
Completed utility plant	\$6,281,080	\$0	\$17,753	\$6,298,833	\$6,157,915	\$0	\$9,532	\$6,167,447
Accumulated depreciation	<u>(3,059,015)</u>	<u>0</u>	<u>(1,492)</u>	<u>(3,060,507)</u>	<u>(2,968,202)</u>	<u>0</u>	<u>(1,569)</u>	<u>(2,969,771)</u>
Net completed plant	3,222,065	0	16,261	3,238,326	3,189,713	0	7,963	3,197,676
Construction work-in-progress	<u>314,696</u>	<u>0</u>	<u>34,484</u>	<u>349,180</u>	<u>241,743</u>	<u>0</u>	<u>23,274</u>	<u>265,017</u>
Net utility plant	3,536,761	0	50,745	3,587,506	3,431,456	0	31,237	3,462,693
Cash	695,287	8,519	160,127	863,933	600,853	0	174,179	775,032
Accounts receivable, net	144,421	0	2,408	146,829	123,219	0	4,496	127,715
Regulatory assets	107,304	0	0	107,304	123,377	0	329	123,706
Other assets	79,562	0	5,964	85,526	79,757	0	6,166	85,923
<b>Total assets</b>	<b>\$4,563,335</b>	<b>\$8,519</b>	<b>\$219,244</b>	<b>\$4,791,098</b>	<b>\$4,358,662</b>	<b>\$0</b>	<b>\$216,407</b>	<b>\$4,575,069</b>
<b>Liabilities</b>								
Long term liabilities	152,609	0	0	152,609	161,496	0	0	161,496
Customer advances and other liabilities	118,555	98	79,340	197,993	114,317	0	76,908	191,225
Accounts payable	72,799	173	4,415	77,387	65,366	0	4,588	69,954
Contingent liabilities	18,612	0	0	18,612	18,612	0	0	18,612
<b>Total liabilities</b>	<b>362,575</b>	<b>271</b>	<b>83,755</b>	<b>446,601</b>	<b>359,791</b>	<b>0</b>	<b>81,496</b>	<b>441,287</b>
<b>Capitalization</b>								
Payable to U.S. Treasury	4,792,112	0	2,729	4,794,841	4,522,499	0	2,568	4,525,067
Accumulated net revenues (deficit)	<u>(591,352)</u>	8,248	132,760	<u>(450,344)</u>	<u>(523,628)</u>	0	132,343	<u>(391,285)</u>
<b>Total capitalization</b>	<b>\$4,200,760</b>	<b>\$8,248</b>	<b>\$135,489</b>	<b>\$4,344,497</b>	<b>\$3,998,871</b>	<b>\$0</b>	<b>\$134,911</b>	<b>\$4,133,782</b>
<b>Total liabilities and capitalization</b>	<b>\$4,563,335</b>	<b>\$8,519</b>	<b>\$219,244</b>	<b>\$4,791,098</b>	<b>\$4,358,662</b>	<b>\$0</b>	<b>\$216,407</b>	<b>\$4,575,069</b>

See accompanying independent auditors' report.



## COMBINING SCHEDULES OF REVENUES AND EXPENSES DATA

## SCHEDULE 2

For the years ended September 30, 2009 and 2008 (in thousands)

	2009				2008			
	Hydroelectric Power Systems	Transmission Infrastructure Program	Other Activities	Total	Hydroelectric Power Systems	Transmission Infrastructure Program	Other Activities	Total
<b>Operating revenues</b>								
Sales of electric power	\$816,122	\$0	\$198,035	\$1,014,157	793,328	0	213,217	\$1,006,545
Transmission and other operating revenues	278,174	0	71,400	349,574	285,519	0	68,522	354,041
<b>Total operating revenues</b>	<b>\$1,094,296</b>	<b>\$0</b>	<b>\$269,435</b>	<b>\$1,363,731</b>	<b>\$1,078,847</b>	<b>\$0</b>	<b>\$281,739</b>	<b>\$1,360,586</b>
<b>Operating expenses</b>								
Operation and maintenance	384,598	1,628	67,920	454,146	385,716	0	57,146	442,862
Purchased power	355,007	0	200,463	555,470	452,947	0	210,540	663,487
Purchased transmission services	57,339	0	5,439	62,778	65,727	0	17,650	83,377
Depreciation	108,595	0	(45)	108,550	96,515	0	(1,317)	95,198
Administration and general	46,204	124	4,583	50,911	45,347	0	4,031	49,378
<b>Total operating expenses</b>	<b>\$951,743</b>	<b>\$1,752</b>	<b>\$278,360</b>	<b>\$1,231,855</b>	<b>\$1,046,252</b>	<b>\$0</b>	<b>\$288,050</b>	<b>\$1,334,302</b>
<b>Net operating revenues</b>	<b>\$142,553</b>	<b>\$(1,752)</b>	<b>\$(8,925)</b>	<b>\$131,876</b>	<b>\$32,595</b>	<b>\$0</b>	<b>\$(6,311)</b>	<b>\$26,284</b>
<b>Interest expenses</b>								
Interest on payable to U.S. Treasury	230,095	0	(4)	230,091	199,908	0	(137)	199,771
Allowance for funds used during construction	(15,169)	0	0	(15,169)	(10,741)	0	6	(10,735)
Net interest on payable to U.S. Treasury	214,926	0	(4)	214,922	189,167	0	(131)	189,036
Interest on non-federal liabilities	9,966	0	0	9,966	10,730	0	0	10,730
<b>Net interest expense</b>	<b>224,892</b>	<b>0</b>	<b>(4)</b>	<b>224,888</b>	<b>199,897</b>	<b>0</b>	<b>(131)</b>	<b>199,766</b>
<b>Net deficit</b>	<b>\$(82,339)</b>	<b>\$(1,752)</b>	<b>\$(8,921)</b>	<b>\$(93,012)</b>	<b>\$(167,302)</b>	<b>\$0</b>	<b>\$(6,180)</b>	<b>\$(173,482)</b>

See accompanying independent auditors' report.

# WESTERN'S SENIOR MANAGEMENT TEAM\*

## ADMINISTRATOR

TIM MEEKS

## WASHINGTON LIAISON

Assistant Administrator for  
Washington Liaison

JACK DODD

## REGIONAL MANAGERS

Colorado River Storage  
Project Management Center

LAVERNE KYRISS

Desert Southwest Region

DARRICK MOE

Rocky Mountain Region

BRAD WARREN

Sierra Nevada Region

TOM BOYKO

Upper Great Plains Region

BOB HARRIS

## CORPORATE SERVICES OFFICE MANAGERS

General Counsel

LIOVA JUÁREZ

Senior Planning Advisor

THERESA WILLIAMS

Equal Employment  
Opportunity Officer

CHARLES MARQUEZ

Chief Operating Officer

TONY MONTOYA

Chief Information Officer

EUN MOREDOCK

Chief Financial Officer

HARRY PEASE

TIP Program Manager

CRAIG KNOELL



TIM  
MEEKS



JACK  
DODD



LAVERNE  
KYRISS



DARRICK  
MOE



BRAD  
WARREN



TOM  
BOYKO



BOB  
HARRIS



LIOVA  
JUÁREZ



THERESA  
WILLIAMS



CHARLES  
MARQUEZ



TONY  
MONTOYA



EUN  
MOREDOCK



HARRY  
PEASE



CRAIG  
KNOELL

\*Note: While included in the FY 2009 Annual Report, this information reflects the current Senior Management Team.

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# CONTACT WESTERN

Call or write your local Western office or Corporate Communications 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.

## WESTERN AREA POWER ADMINISTRATION

P.O. Box 281213  
Lakewood, CO 80228-8213  
720-962-7050

## UPPER GREAT PLAINS REGIONAL OFFICE

P.O. Box 35800  
Billings, MT 59107-5800  
406-247-7405

## ROCKY MOUNTAIN REGIONAL OFFICE

P.O. Box 3700  
Loveland, CO 80539-3003  
970-461-7200

## DESERT SOUTHWEST REGIONAL OFFICE

P.O. Box 6457  
Phoenix, AZ 85005-6457  
602-605-2525

## SIERRA NEVADA REGIONAL OFFICE

114 Parkshore Drive  
Folsom, CA 95630-4710  
916-353-4416

## CRSP MANAGEMENT CENTER

150 East Social Hall Avenue, Suite 300  
Salt Lake City, UT 84111-1580  
801-524-5493

## ELECTRIC POWER TRAINING CENTER

P.O. Box 281213  
Lakewood, CO 80228-8213  
800-867-2617

## 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 site at [www.wapa.gov](http://www.wapa.gov)  
Send e-mail to [CorpComm@wapa.gov](mailto:CorpComm@wapa.gov)

For no-cost energy-related technical assistance within Western's service territory,  
call 1-800-POWERLN (1-800-769-3756), or log on to [www.wapa.gov/es](http://www.wapa.gov/es).

# STAYING CONNECTED



WESTERN AREA POWER ADMINISTRATION  
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U.S. DEPARTMENT OF  
**ENERGY**