

A TIME OF EXPONENTIAL CHANGE

ANNUAL REPORT 2012

WESTERN AREA POWER ADMINISTRATION



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-plus circuit mile, high-voltage transmission system across a 15-state marketing area.

Employees work around the clock to sell power and both operate and maintain the transmission system that provides energy to:

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

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

Western's responsibilities include the Transmission Infrastructure Program. TIP develops transmission infrastructure that delivers renewable energy across the grid in the West.

For 35 years, Western employees have been dedicated to public service and the promotion of environmental stewardship, energy efficiency and renewable energy, as well as implementing new technologies to ensure the transmission system continues to be ready and available to meet the needs of those we serve.

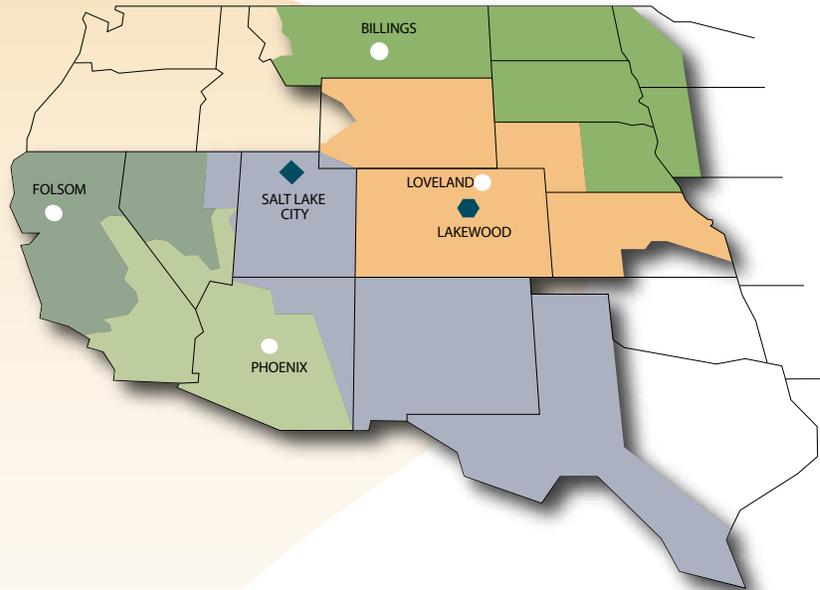
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SERVICE AND MARKETING AREAS

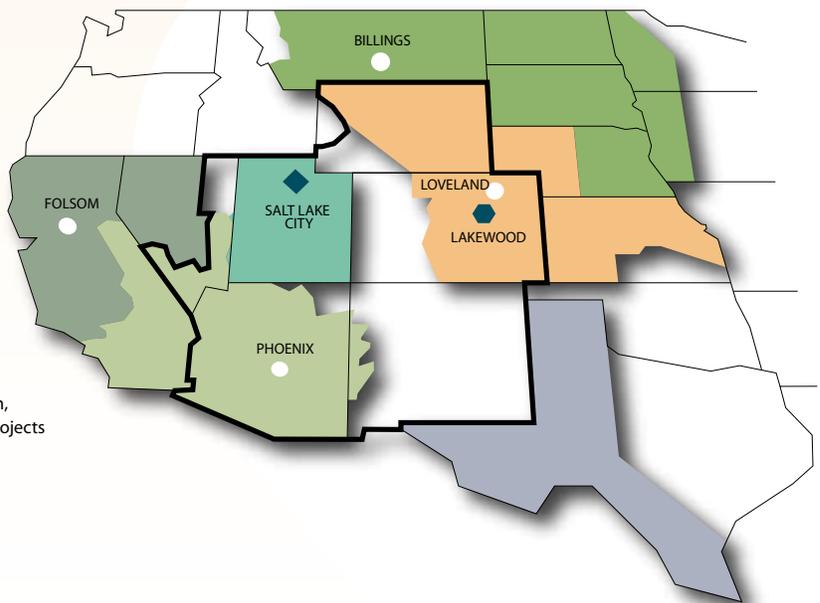
SERVICE AREAS

- 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 includes managing 10 rate-setting projects. These projects 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 generating 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. Power rates are set to recover all costs associated with our power delivery 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 2012

Long-term energy sales	33.5 billion kWh
Pass-through energy sales	1.2 billion kWh
Other energy sales	6.2 billion kWh
Total	40.9 billion kWh

FINANCIAL PROFILE

Sales of electric power	\$925.9 million
Total operating revenues	\$1,294.8 million
Total operating expenses	\$1,008.3 million
Purchased power and transmission expenses	\$278.4 million

ASSETS

Powerplants ¹	57
Installed capacity (MW)	10,505
Net generation 2012 (GWh)	37,776
Substations	328
Transmission line miles	17,060

OUR PEOPLE

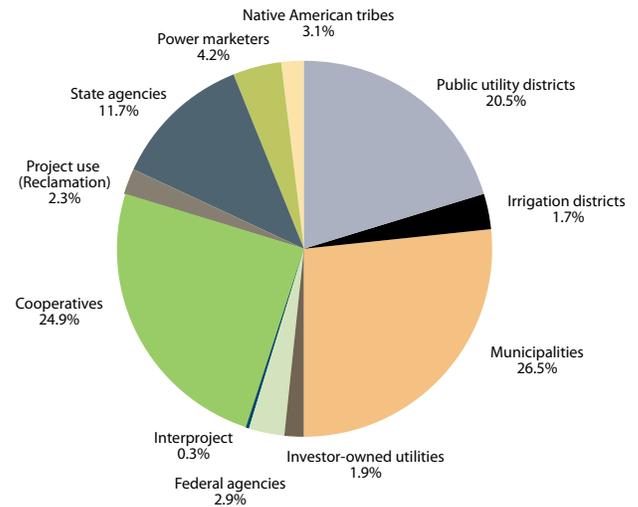
Customers	690
Employees	1,416

PEAK LOAD

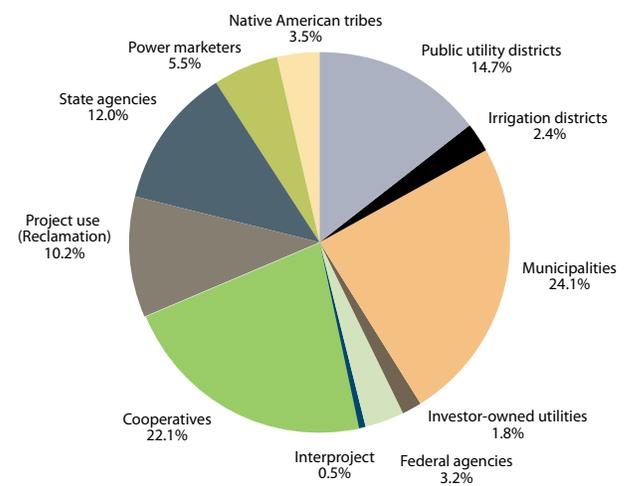
July 9, 2012	6,427 MW
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¹ Includes 56 hydropower and 1 coal-fired powerplants

WHERE OUR REVENUES COME FROM (\$)

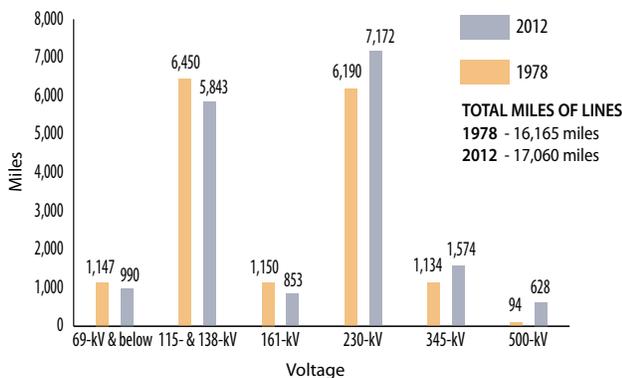


WHERE OUR ENERGY GOES (MWh)



TRANSMISSION LINES IN SERVICE

as of Oct. 1, 2012



ADMINISTRATOR'S LETTER

For the past 35 years, Western has delivered clean, renewable, cost-based, reliable hydroelectric power and related services throughout the West. It is a mission in which we take pride – and one we try to improve upon every day to reduce costs and provide the continuous flow of power Western's regions require to be secure and successful.

Through our professionalism, excellence and dedication to our mission and as an open-access transmission provider, we strive to provide premier service that is the envy of the industry. However, that is something we cannot do alone.

We were able to meet the power needs in the West because of the strong relationships with our 690 power customers who helped us fund our Federal hydropower program in FY2012. The partnerships we share continue to be the bedrock of our success, and we appreciate the continued support and advocacy from our customers.

Time of change

Fiscal Year 2012 was a "time of exponential change" for Western and serves as the theme of this year's Annual Report. Flipping through these pages, you will read about our efforts to find efficiencies and improve service. You will see how we continued to modernize and secure the grid against the effects of weather, age and cyber threats, and successfully closed out the first Transmission Infrastructure Program project.

Western leveraged its hydropower to reduce or stabilize energy costs at a time when higher costs for other necessities seemed prevalent throughout the country. Western safely delivered more than 37,700 gigawatt hours to customers that powered some 25 million businesses and households across the central and western U.S.

With a focus on reliability, Western decreased accountable outages by nearly 60 percent last year, passed three reliability audits and answered the call to restore power when and where the system went dark.

Maintenance crews work with Environment to install line-marking devices on the Garrison-to-Mallard 115-kilovolt line just north of Cole Harbor, N.D., outside the Audubon National Wildlife Refuge. This effort was part of a research project to test the effectiveness and durability of line-marking devices. (Photo by *Misti Sporer*)



More change coming

We know the industry is in a period of dynamic change. In the coming year, Western will build on the lessons learned in 2012 to continuously improve operations and be engaged as the industry continues to evolve.

We are going to tackle some tough issues, including:

- Protecting the value of hydropower
- Assessing the operational condition of our assets and prioritizing our maintenance and construction activities
- Managing the risks we face in our business decisions
- Ensuring the long-term ability of Western and its customers to maintain a reliable grid
- Ensuring we have the funds necessary to keep Western healthy

We look forward to continuing this journey with our customers and industry partners.

Sincerely,



Anita J. Decker
Acting Administrator



A TIME OF EXPONENTIAL CHANGE

Fiscal Year 2012 brought some tumultuous and uncertain times to Western. The utility industry and technology continued to evolve, and the demand for constant flow of power and transmission system reliability continued to increase. Western kept pace by continuing to deliver reliable, cost-based hydropower while reviewing and updating business practices that took into account how the energy industry is evolving.

During this time of exponential change, Western tackled many challenges, including:

- Reviewing the Transmission Infrastructure Program processes and procedures
- Responding to Secretary of Energy Steven Chu's memorandum to create a modern, efficient and reliable transmission grid
- Weathering record-breaking natural disasters in our service territory
- Completing our role in TIP's flagship project—the Montana Alberta Tie Ltd. transmission line
- Incorporating new, far-reaching regulations and industry trends

Western employees powered through the changes and uncertainty with exemplary professionalism and dedication to achieving Western's critical mission of marketing and delivering hydropower to 690 customers in the central and western U.S. It is Western employees who continue to ensure power and transmission services are there when and where they are needed.

A construction crew works on the Charlie Creek-to-Watford City transmission line rebuild project in fall 2011. The rebuild will improve reliable transmission service in North Dakota by upgrading the capacity from 115 kV to 230 kV. (Photo by Richard Anderson)



STUDYING CHANGES TO OPERATIONS, EFFORTS

Western took time in 2012 to review its operations and analyze what would be needed in the future. Three distinct efforts summarize much of the analysis, including the Transmission Infrastructure Program Optimization effort, Joint Outreach Team endeavor and Operations Study.

Transmission Infrastructure Program Optimization

Since its start in 2009 through the American Recovery and Reinvestment Act, the Transmission Infrastructure Program has ramped up quickly and evolved from a start-up program to a more mature program.

Part of TIP's maturation is an initiative to streamline the process by which TIP evaluates project proposals. This initiative, sponsored by Western and DOE and known as the TIP Optimization Team, aims to:

- Evaluate and streamline the project development process.
- Implement criteria for screening and prioritizing potential projects.
- Increase the transparency of the vetting process for potential projects.
- Improve communication with applicants.

Outcomes from this process are expected in mid-2013.

The Sierra Nevada Region's dispatch center in Folsom, Calif., monitors the health of the transmission system in the sub-balancing authority every second of every day. In addition to this sub-BA, Western dispatch centers also monitor four other full-sized BAs in its service territory. (Staff photo)



Customers and stakeholders listen to speakers at the “Design of Transmission Services” Joint Outreach Team public workshop in Sioux Falls, S.D., Aug. 2, 2012. More than 70 people attended the workshop and about 100 attended the listening session to discuss Secretary Chu’s March 16, 2012 Memorandum and possible recommendations. (Photo by Lisa Meiman)

Joint Outreach Team

The Joint Outreach Team was formed in response to Secretary of Energy Steven Chu’s memo to the power marketing administrations on March 16, 2012, which directed the PMAs to lead the way for a modern, secure and reliable electric transmission grid while maintaining or reducing energy costs for consumers.

The Joint Outreach Team’s mission was to work with customers and industry stakeholders to identify opportunities and develop strategies to ensure Western’s viability, sustainability and resiliency to continue to meet its core mission and respond to the energy challenges of the 21st century. The guiding principles for this work were to: consider the unique attributes of Western’s regions, ensure the beneficiary pays and ensure that Western remains within the limits of its authority.

To read the Secretary’s memo, and learn more about the final recommendations, visit ww2.wapa.gov/sites/western/about/Pages/Definingfuture.aspx

Operations Study

In summer of 2011, Western commissioned a study to examine our operations. As trustworthy stewards of our regions’ valuable resources, we wanted to ensure they are being operated as efficiently and effectively as possible.

The study documented Western’s current practices, benchmarked the practices of other utilities comparable to Western, examined future industry trends and presented alternatives for Western’s consideration.

Western released the report in August 2012 for public comment. Due to the number and complexity of initiatives, and in light of the potential for competing resources and priorities between the Operations Study and the work of the Joint Outreach Team recommendations, Western elected to postpone further exploration of the Operations Study.

RESPONDING TO THE CALL

Mother Nature showed an ugly side in 2012, from wildfires in Colorado, to monsoons in the Southwest and wicked snowstorms in northern California. Customers experienced power outages and transmission facilities suffered damage. That is when Western's employees shone brightest. Whether diligently working to repair its own system or heeding a call for mutual aid and assistance from other utilities, Western crews demonstrated grit, dedication and expertise in bringing communities back online and proudly represented Western across the country.

"There's definitely a sense of duty when it comes to outages. There's a community in the dark, and you want to help," said Lineman Dave Horton.

Northern California winter storm requires mutual aid

On Jan. 20, 2012, Sierra Nevada's Redding, Calif., crew responded to a call for help from neighboring utility customer Trinity Public Utilities District after an unexpectedly severe winter storm extensively damaged the local distribution system and plunged about 8,000 citizens into darkness.

The six-member crew worked for two days, first repairing a damaged Western transmission line, then joining TPUD's small crew to restore a 40-mile distribution line nearly destroyed by fallen trees. The crew racked up 76 hours of overtime each with zero safety incidents. "When you have customers without power in nasty weather conditions, you have to get out as fast as possible and fix the lines," said Brian Adams, a foreman III who supports SN's line crews.



Ice weighs down a transmission line conductor near Rush Lake in Perham, Minn. Weather-related damage on transmission lines can cause outages, and Western line crews deploy to repair the damage often before the inclement weather has passed. (Staff photo)

Wind, dust slam Arizona

On June 27, 2012, several dust storms with wind gusts reaching 40 to 50 mph swept through parts of Arizona, causing hundreds of outages to homes and businesses and destroying 29 transmission poles along a 2.5-mile stretch on Western's 115-kilovolt Electrical District 2-to-Saguaro Steam 2 line.

More than 10 linemen from the Desert Southwest immediately left another work site to repair the damage. Power was rerouted via another transmission line so the customer didn't notice an outage. It took 10 days to put the line back in service with new "hurricane-proof" structures and additional guy wiring to stabilize the line.

"The crews did an amazing job—as usual—under really tough working conditions," said DSW Foreman III Mark DePoe. "The guys worked through the weekend in 110-degree heat to ensure the line was restored as quickly as possible."

Wildfires blaze through Colorado

Late in June 2012, several wildfires raged in Colorado, including the Last Chance prairie fire that burned 44,000 acres in the eastern part of the state, earning it the distinction of fourth-largest wildfire in Colorado history. The Last Chance fire burned for 31 hours, charring farmland, grassland and ranchland, while destroying residences and 55 structures along Western's 115-kV Beaver Creek-to-Big Sandy line.

In response, 28 Rocky Mountain Region crew members from seven different field offices and a few Upper Great Plains linemen worked nine 14-hour days in smoky conditions to repair the line, sometimes borrowing equipment and supplies from Western maintenance offices as far away as Gering, Neb. Western was able to minimize outages by re-routing power through alternate paths.

When it was all said and done, Eastern Colorado Field Maintenance Manager Larry Hill praised the crews by saying, "These crews are dedicated to their jobs and take a lot of pride in their work. It's just amazing the amount of work they got done in such a short amount of time."



Late in June 2012, Colorado experienced the fourth-largest wildfire in its history, the Last Chance fire. The prairie fire burned 44,000 acres including 55 Western structures. (Photo courtesy of Tri-State Generation and Transmission Association)

SUCCESS IN INTEGRATING RENEWABLES

In just the past year, Western's Transmission Infrastructure Program office has successfully completed its role in its first project, continued funding two projects, entered into advance funding agreements with two new developers and embarked on an effort to optimize TIP's existing processes and procedures.

Here are some of the major achievements for the program in FY 2012:

First project deemed success

TIP's role in its initial project, the Montana Alberta Tie Ltd. Project, came to a successful close in August 2012 when project developer Enbridge repaid TIP's \$151 million investment in the project. In a public statement, Enbridge Executive Vice President J. Richard Bird said, "Funding from [Western] was essential to getting the MATL power transmission project off the ground. Their continued support has been of great assistance during the development phase of the project."

The line will interconnect a 189-megawatt wind farm in Cut Bank, Mont., across 214 miles to Lethbridge, Alberta, Canada.

Successful partnership paves way for solar power

The Electrical District No. 5-to-Palo Verde Hub Project is a 109-mile long transmission project in Arizona that will provide a bidirectional path between the active energy marketplace at the Palo Verde Hub and the Electrical District No. 5 Substation. The project, authorized to spend up to \$91 million, will support the delivery of emerging renewable resources in the area.



Renewable Energy Systems Americas work on the Montana Alberta Tie Ltd. transmission line in Montana. MATL was the Transmission Infrastructure Program's first project. Western's role successfully ended in August 2012 with the repayment of TIP's \$151 million loan by the project developer. (Photo courtesy of RES Americas)



ED5-PVH milestones in FY 2012:

- Nov. 9, 2011—Western received \$10.1 million in first draw of funding from Treasury.
- Dec. 28, 2011—Recorded deed for ED5 Substation land acquisition.
- April 17, 2012—Federal Energy Regulatory Commission approved Transmission Electric Power filing.
- July 3, 2012—Contract awarded for government-furnished circuit breakers.
- Aug. 6, 2012—Contract awarded for government-furnished transformer.
- Aug. 17, 2012—Contract awarded for construction of ED5-Thornton Road Line.

Palo Alto Wind Farm

ED5-PVH represents the first partnership with a Federal power customer to use TIP borrowing authority and illustrates the benefits of TIP and preference customer partnerships to meet Western's 10-Year Capital Program needs.

Developing project to deliver Wyoming wind to the West

The TransWest Express Project is a 725-mile, 3,000-MW, 600-kV, direct-current transmission system that would deliver power from wind energy resources in Wyoming to population centers in California, Arizona and Nevada. The line would provide improved electricity capacity, reliability and stability for the Western Interconnection. TIP and TWE will each provide \$25 million to complete the development phase of the project.

TWE milestones in FY 2012:

- April 2012—TransWest re-initiated Phase 2 of its path rating studies.
- July 2012—Western and TransWest met with the California Independent System Operator to discuss project integration issues and impact to the Project's path rating.

TWE was identified in a Western Electricity Coordinating Council 10-year regional plan as the most economic transmission project to deliver renewable energy to California.

New frontier in financing

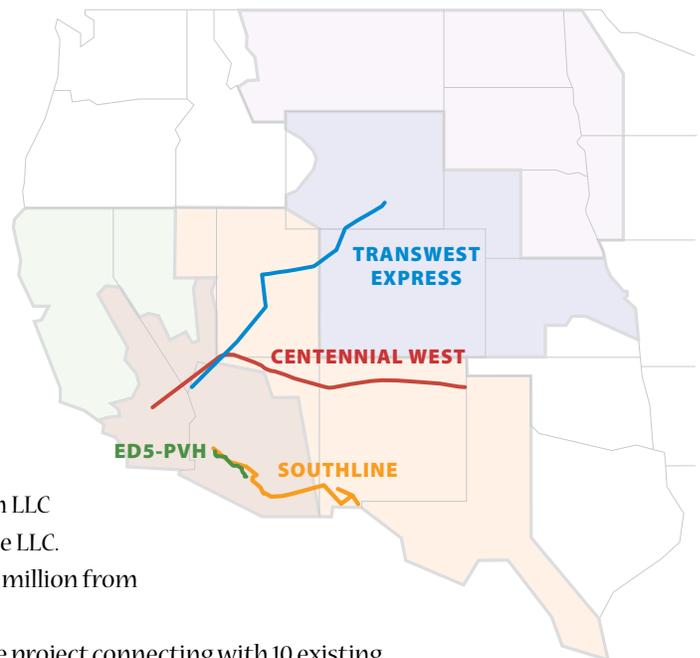
TIP incorporated advance funding agreements, or AFAs, as a new element to the program in FY 2012. TIP's use of AFAs allows a developer to access Western resources to develop a project at no cost to the taxpayers or Western's ratepayers. Instead, the project developer pays TIP—in advance—for its services during a project's development phase, which can include environmental review and Western Electricity Coordinating Council path rating work, among other things. TIP executed two AFAs in FY 2012—one with Southline Transmission LLC and another with Centennial West Clean Line LLC. During FY 2012, Western received less than \$1 million from AFAs with Southline and Centennial West.

Southline is a 360-mile transmission line project connecting with 10 existing substations in Arizona and New Mexico. The project has two segments: a new 240-mile, 345-kV, double-circuit transmission line and an upgrade of about 120 miles of an existing Western line. In total, this project would add about 1,000 MW of capacity.

- Status: Environmental Impact Statement scoping period completed in July 2012; scoping report published in September 2012
- Next milestone: Draft EIS in spring 2013

Centennial West is a 900-mile project that would bring renewable power from northeastern New Mexico to parts of California and the West using overhead, high-voltage, direct-current transmission lines. The completed lines and associated converter stations would be capable of transferring 3,500 MW of power.

- Status: Preparing environmental review process and continuing technical studies for the Western Electricity Coordinating Council path rating process



A NEW WORLD FOR TRANSMISSION PROVIDERS

The electric industry as a whole has undergone rapid transformation in terms of reliability and power delivery. The Western Interconnection, where Western operates, has become a tightly interconnected and highly interdependent system where events in one area can affect another area hundreds of miles away, sometimes with devastating consequences as demonstrated by the Southwest power outage on Sept. 8, 2011.

As a result, transmission service providers operating under Open Access Transmission Tariffs have encountered increased regulations and more stringent standards for operations, transmission planning, regulatory compliance and cyber security. There are also demands to make the transmission grid and its operations more efficient, cost effective and resilient under new market designs. Western is a critical player in keeping this grid robust, stable and efficient for all transmission customers and neighbors.

In 2012, Western worked internally and with other utilities and customers within and adjacent to its service territory to keep pace with the dynamic environment to the benefit of the entire Interconnection. Efforts included:

- FERC Order 1000
- FERC Order 764
- Cyber security
- Market design
- Reliability

Complying with FERC Order 1000

Federal Energy Regulatory Commission Order No. 1000 required each public utility transmission provider to participate in a regional transmission planning process that produced a regional transmission plan by Oct. 11, 2012. However, Western is not subject to FERC's jurisdiction under Sections 205 and 206 of the Federal Power Act;

Hoover Dam generating units.
(Photo by Tiffani DeFore)



Construction crews often work long hours to take advantage of warm weather, especially in the short construction season in North Dakota for the Charlie Creek-to-Waterford City project shown here. (Photo by Richard Anderson)

therefore, Western is not generally required to abide by the compliance timelines established in rulemaking orders, such as Order No. 1000. Though not subject to FERC's timeline, to maintain its safe harbor OATT, Western must ensure the provisions of its OATT substantially conform, or are superior, to the pro forma OATT as revised by Order No. 1000.

Toward this end, Western formed a team of subject matter experts, referred to as the Order No. 1000 Team, to ensure that Western is either monitoring or actively involved in the regional and interregional groups whose transmission planning and cost allocation discussions might affect Western as a result of FERC Order No. 1000.

Western began the process of reviewing the Mid-Continent Area Power Pool and WestConnect regional transmission planning and cost allocation proposals to determine whether Western can adopt them into its OATT. Western remains committed to voluntarily maintaining its OATT on file with FERC.

New order requires 15-minute scheduling

Western was an early adopter of the 30-minute power and transmission scheduling initiative as part of the Joint Initiative Group in July 2011. FERC then issued Order No. 764 on June 22, 2012, which calls for 15-minute intervals when scheduling transmission services by summer 2013. In response, Western joined the Western Electricity Coordinating Council Joint Guidance Committee 764 Task Force to work with industry peers on compliance and continues to work toward meeting the implementation deadline.

Cyber security program tested

Western is continuously evaluating and improving its cyber security posture and operational monitoring measures through

ACCOUNTABLE OUTAGES

Although Western and other utilities strive to “keep the lights on,” the average American will experience about 100 minutes in power outages per year. Some outages are beyond our control, like those caused by natural disasters; other types of outages, called accountable outages, could be prevented if we had taken a different course of action. Western has a proven success rate of limiting these accountable outages. In 2012, Western had only 16 accountable outages, coming in much lower than the DOE’s performance measure of 26.

a comprehensive and consolidated cyber security program to protect Western’s critical systems from ever-evolving cyber threats. In FY 2012, Western’s regions and headquarters completed DOE’s Electricity Subsector Cyber Security Capability Maturity Model and determined what actions were needed to fully develop Western’s cyber security program across the agency.

Exploring new market designs

Western explored many different market designs throughout the Western Interconnection during FY 2012. The largest of these was an Energy Imbalance Market in the Western Interconnection designed to maximize transmission and power generation resources across the entire Interconnection through a centralized market operator. In February 2012, Western studied the funding and staffing requirements needed to implement the EIM; however, as the year went on, stakeholders focused more on regional or sub-regional market designs within the Interconnection. Western’s regions each participated in these more individual evaluations and will continue to do so in FY 2013.

Reliability performance proved above standard

There are two distinct components to reliability. First, we must generate enough power and have enough transmission to meet our customer needs and contractual obligations. Second, we need to ensure we can withstand unexpected events, such as lightning strikes, fires and animals that may interfere with the system. We must be able to take a hit and keep the lights on.

Western proved again that its system is prepared by passing WECC compliance audits. In FY 2012 three of Western’s regions—Desert Southwest, Sierra Nevada and Rocky Mountain—successfully completed WECC audits for reliability, including meeting a new element—Critical Infrastructure Protection standards, which provide a framework for the identification and protection of critical cyber assets to support the reliable operation of the bulk electric system.

All four of Western’s balancing authorities also passed North American Electric Reliability Corporation’s control performance standards, a.k.a. CPS 1 and 2. These ensure system reliability by reducing errors in balancing loads and resources and maintaining system frequency.

In FY 2012, Western exceeded NERC’s requirements, which are 100 percent for CPS-1 and 90 percent for CPS-2, by achieving averages of 165.7 percent for CPS-1 and 92 percent for CPS-2. These results indicate our ability to operate the power system efficiently. Western’s success in exceeding industry averages with respect to these standards means fewer outages for customers and a more reliable system for the nation.

FY 2012 OPERATIONAL HIGHLIGHTS

Western's dedicated workforce weathered many storms and operational changes in Fiscal Year 2012. With an unwavering spirit, employees demonstrated commitment to Western's mission, customers and community. The following accomplishments are just a glimpse of achievements made amid these changing times.

Participation in Colorado River analysis garners award

Western won a "Partners in Conservation" award for its participation in the Colorado River Basin Water Supply and Demand Study. The Department of Interior recognized Western's efforts in the study through the Adaptive Management Work Group, a joint effort among more than 70 Federal and state agencies, Native American tribes, environmental groups and other organizations to establish a common foundation for resolving future water supply and demand imbalances. According to Interior, it is the largest, most comprehensive basinwide analysis ever undertaken and will serve as a model for watershed planning and planning for future growth and climate change affecting the Colorado River.



Hoover Dam (Photo by Tiffani DeFore)

Inconsistent precipitation led to average hydropower year

The river systems in Western's service territory experienced below-average water levels during FY 2012; however, this low production was offset by the unusually high water year in FY 2011. The balance meant our net generation was average for the second consecutive year after more than a decade of drought in most regions.

The beginning of FY 2012 brought above-average precipitation to most of Western's service territory, requiring both the Bureau of Reclamation and the Army Corps of Engineers to pre-emptively reduce reservoir storage for flood control. These early trends did not continue and, as a result, the ending FY 2012 reservoir storage volume decreased from 75 percent to 64 percent of capacity when compared to FY 2011.

New turbine increases efficiency

The Bureau of Reclamation commissioned a new wide-head turbine for Hoover Dam's generating unit N8 in May 2012. The generating unit immediately exhibited a 2-percent efficiency gain. Before receiving its new turbine, N8 was rarely used due to inefficient operation. The new N8 turbine gave Desert Southwest 119 MW of additional capacity to market.

Synchrophasers stabilize grid

Synchrophasers provide grid measurements by using data collected from monitors called Phasor Measurement Units, or PMUs. Synchrophasor technology allows high-speed PMU measurements to be taken—120 times more per second over the technology before it, giving system operators more precise data more quickly, and therefore providing a more comprehensive view of the entire interconnection. Synchrophasers can give better indications of grid stress, allowing operators to be more proactive when corrective actions are necessary.

Regions invest in upgrades

Three of Western's regions—Desert Southwest, Rocky Mountain and Sierra Nevada—participated in the Western Interconnection Synchrophasor Program in FY 2012, a Western Electricity Coordinating Council program funded by a three-year, \$108-million grant from the American Recovery and Reinvestment Act. The program's goal is to install 250 to 300 new or upgraded PMUs across the western U.S.

The synchrophasor network will transform all phases of operations, including early planning, real-time operations and after-the-fact analysis. To make this project a reality, the three regions with existing PMUs agreed to jointly fund replacement of the old PMUs.

Upgrades made in 2012 supplied data to test applications that will give Western's system operators earlier warning of potential problems, help them have a bigger and better picture of overall system health and, ultimately, prevent blackouts. Through this initiative, Western will help stabilize the power grid for millions of consumers who use the bulk power system interconnection to power their homes and businesses.

Region streams data, improves efficiency

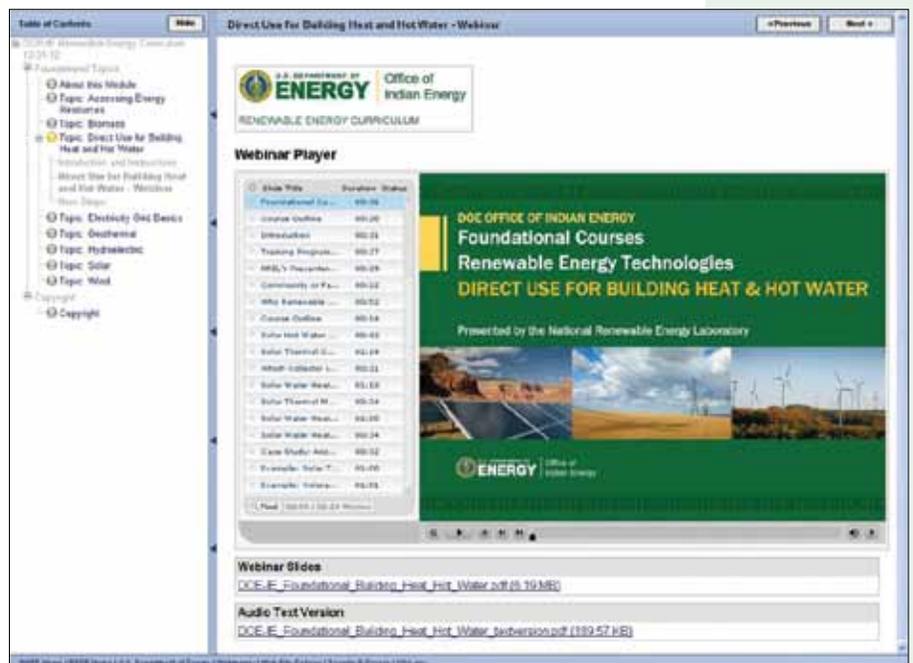
The Upper Great Plains Region is working with the Midwest Independent System Operator on another synchrophasor project, funded by DOE. By the end of FY 2012, they were streaming data to MISO from two PMUs at two different locations. MISO receives similar data from other participating stakeholders, resulting in a more widespread system view and increased reliability and interconnection.

Webinars teach tribes about renewables

Western's Renewable Resources program is responsible for encouraging customers, including Native American tribes, to use renewable energy and consider renewable energy projects. Western partners with DOE's Office of Indian Energy Policy and Programs and the Tribal Energy Program to share information about developing renewable energy projects and technology with tribes.

Western hosted 12 webinars in FY 2012—eight developed specifically for tribes—reaching about 1,000 participants. Marketed to a broad range of stakeholders, both tribal and nontribal, the webinars brought in speakers from across the industry to cover topics like an "Overview of U.S. Department of Energy Power Marketing Administrations," "Unwinding Transmission Policy," and "Today's Energy Supply—Yesterday's Grid."

Screen shot of the tribe-focused renewable energy curriculum homepage.



FY 2012 OPERATIONAL HIGHLIGHTS



Desert Southwest employees “rescue” the maintenance office test dummy, Rescue Randy, by helicopter during hands-on tower rescue training. (Photo by Dave Katich)

Aviation supports radar testing, rescue training

Western’s Aviation program uses highly sophisticated, low-level helicopter operations to conduct electric transmission line patrol and aerial reconnaissance. In 2012, helicopters lent support to many additional projects. Two noteworthy projects were:

Helicopter helps test radar technologies

With an increasing number of wind farms popping up, the Federal Aviation Administration, the Department of Defense and the Department of Homeland Security are concerned about how wind turbines could affect radar systems. In May 2012, Western flew one of its Bell 407 helicopters around wind farms in Minnesota to test if the turbines masked the helicopter’s radar signal. Western appreciated the opportunity to support these tests and help other Federal agencies.

Short-haul carries people, equipment for safety, efficiency

Western has been using helicopters to support maintenance work for 35 years. To minimize impact in environmentally sensitive locations, gain access to difficult areas and conserve both time and energy in climbing towers, using helicopter short-haul procedures to carry both people and equipment to towers is an excellent option. Late in the fall of 2011 the Desert Southwest Region trained employees to perform tower rescues using helicopter-assisted, short-haul procedures. If a worker is in danger on a tower, especially in a remote location, these skills allow workers to get a victim to urgent care safely and quickly.

Western demonstrates commitment to community

Western is committed to serving communities, not only with electric power, but by addressing other fundamental needs, such as education. Employees from Western’s regions and field offices participated in many community-oriented events; here are some examples of the most rewarding:

Gary Hoffman and Diana Marlowe use an educational display to teach children and their mentors how fuel cells turn water into power at Big Brothers and Big Sisters of Colorado in Denver, Colo., Aug. 11, 2012.



Big Brothers Big Sisters

Several Western employees volunteered their time at a Big Brothers Big Sisters of Colorado event in August 2012 to educate participants about electricity: how it travels from its generation point to homes and businesses and how to both save money and conserve energy in their homes. Participants also had the opportunity to use infrared cameras, see a Tesla Coil and watch a fluorescent lamp light up in their hands.

2012 Science Bowl

Since 1991, DOE has made math and science fun for students by sponsoring the National Science Bowl, a highly competitive science education and academic event. The goal of the competition is to encourage students to pursue studies and careers in math and science. In 2012, Western employees participated in six regional Science Bowls throughout our territory, volunteering as judges, timers, runners, scorekeepers and announcers.

Mira Loma High School, which began the 2012 competition in Western's Sacramento Regional Science Bowl, placed third at the final competition. They have established a reputation for themselves in the Science Bowl community, placing first, second or third every year since 2008.

STRIPES streamlines procurement process

Feb. 1, 2012, marked Western's launch of the Strategic Integrated Procurement Enterprise System, or STRIPES, program. DOE chose the procurement and contracts program to be used agencywide as part of the electronic government initiative. STRIPES will improve efficiency, streamline workload and reduce environmental impact by moving Western's contractual documents into one electronic system.

Minimizing our environmental impact

Western's transmission lines cross forests, wetlands, grasslands, deserts and tribal lands in 13 states. We understand that our assets and work affect the environment around us and take pride in being a good neighbor and environmental steward. While achieving our mission we are also committed to protecting hydropower resources and the environment around our transmission lines, reducing bird strikes on our transmission lines and protecting our water project ecosystems. In FY 2012, Western completed several environmental assessments and environmental impact statements.

Here are just two examples of work Western performed to protect our assets and their surrounding environments:

Line-marking devices protect birds

In January 2012, Desert Southwest maintenance crews took a proactive approach to make transmission lines more visible to birds near Watson Lake outside of Prescott, Ariz. Local residents had shared concerns about birds colliding with the lines, and although there was no evidence of any bird casualties, Western's Environment and Maintenance staff developed and executed a plan to reduce the chances of any collisions.

Line-marking devices were clamped onto overhead ground wires 50 feet apart from one another along the Prescott-to-Pinnacle Peak 230-kV line. Made of light plastic and reflective material, they swivel in the wind, making the lines more visible to birds.



Desert Southwest Apprentice Lineman Horacio Adriano installs line-marking devices on Western's Prescott-to-Pinnacle Peak 230-kV line. (Photo courtesy of Mark DePoe)

FY 2012 OPERATIONAL HIGHLIGHTS



Glen Canyon Dam. (Staff photo)

Balancing power generation, ecosystem at Glen Canyon Dam

To improve the status of endangered fish, maintain the trout sport fishery and minimize impact to hydropower production at Glen Canyon Dam, Western continued its participation in the Glen Canyon Adaptive Management Program. Western provided about \$10 million in power revenue funding for the group's research and monitoring activities downstream of the dam in the Grand Canyon. Through this research, Western and its partners in the program hope to establish a balance in water use that protects the important ecosystem in the Grand Canyon and serves preference customers' needs for hydropower.

Safety remains high priority for agency

In FY 2012, Western saw an increase in the number of safety incidents from FY 2011. Although the number of restricted works days remained the same at 206, the injuries were less severe, which resulted in an 86 percent decrease in the number of lost work days compared to FY 2011.

Western continues to enhance its culture of safety toward the goal of zero incidents and affirm its commitment to getting people home safely every day.

Three of Western's four regions had reason to boast in FY 2012—their employees had zero lost work days.

Improved strategy to manage, mitigate risk

In 2012, Western embraced a strategic approach to build an Enterprise Risk Management program. ERM addresses the full spectrum of Western's risks, manages the combined impact of those risks and provides a disciplined process for identifying, managing, communicating and limiting risks.

Western also consulted with industry counterparts about ERM best practices, provided training to Western leadership and several employees and adopted a governance charter for the ERM program. This formalized, agencywide approach ensures that enterprise risk management practices will support Western's actions, decisions and strategies.

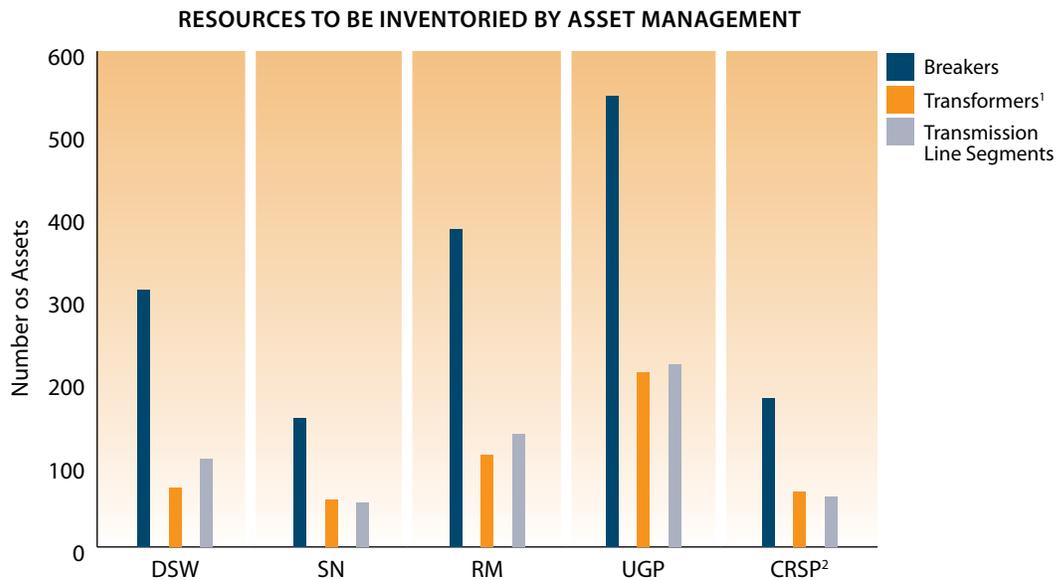
Formalized approach to evaluating assets, projecting costs

Though Western has been monitoring its assets since 1977, in June 2011 the agency launched a formal project to examine its process to track, measure and evaluate the condition of its infrastructure. The need to formalize the Asset Management Program was born out of two primary drivers: 1) the current condition of aging assets and 2) the continued demand for increased capacity and reliability.

The program focuses on improving how Western manages transmission assets by evaluating asset condition and then identifying and quantifying adverse consequences resulting from asset failures. This process will ensure that Western's future funding allocations are focused on fixing or replacing those assets that, if they failed, carry the most significant risk to the public, customers and stakeholders.

The formal Asset Management Program was established in FY 2012 and will take two years to complete the initial analysis on three critical assets in Western's transmission system: power circuit breakers, power transformers and transmission lines. Staff supporting the program will begin assessing the operational condition of critical assets and engage stakeholders in identifying risks in FY 2013.

When complete, this program will save money by planning for replacements in advance, ensure stronger reliability, limit failure of critical assets and better justify funding requests to maintain the health of Western's system.



¹ Transformers are counted by individual phases, for a single-phase bank.

² CRSP assets are maintained by RM and DSW.

Social media brings Western's story to life

Social media has enhanced Western's ability to communicate and interact with customers, industry partners and the public, in many cases allowing for more of a dialogue. In FY 2012, Western's public website was redesigned and the agency added Flickr and YouTube channels to easily share photos and videos, respectively, to help tell the story of how we deliver hydropower.

FY 2012 CUSTOMER IRP SUMMARY

Western's Integrated Resource Planning requirements outlined in Section 114 of the Energy Policy Act of 1992 give customers several options to meet these requirements. The requirements, which were updated in 2000, recognize the changes occurring in the utility industry and our customers' varying size and structure. These changes also streamlined the reporting requirements without sacrificing the intent of EPAct 92.

Customers must submit annual progress reports and new integrated resource plans every five years, but they may now submit them individually or cooperatively.

The IRP regulations allow customers to set action plan timelines to correspond with their own situations. The regulations require customers to provide a brief summary verifying that a load forecast study was conducted. Customers can submit a brief description of measurement strategies for the options identified in the IRP.

Western also accepts other IRP alternatives. Member-based associations and joint-action agencies may now file a small customer plan if their sales/use is less than 25 gigawatt hours per year.

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

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 submitted one of these options. In FY 2012, Western received 84 IRPs from individual customers, 38 minimum investment reports and 78 small customer plans.

Customer trends include:

- Integration of the various technologies adds complexity to the energy delivery system.
- Increased investment in renewables—up 239 percent from FY 2011.
- Increased demand for renewable energy technologies in all market segments (commercial, industrial, residential and institutional). Renewables are a hedge against volatility in energy prices.
- Increased requests for education and information transfer on demand-side management, energy efficiency and renewable energy technologies.
- Increased exchange of ideas among energy service providers.

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

- Load management
- Lighting technologies
- Rebates
- Audits
- Motor technologies – adjustable speed drives

The top five renewable energy resource choices in order of priority are:

- Solar - photovoltaic
- Wind generation
- Small-scale hydro
- Biomass/gas
- Green tags

IRPs are driven by customer need and requests. Cost and reliability used to be the only major priorities, but several others have climbed up the priority list including climate change, environmental issues and national security. Social, economic and political issues are also driving IRP decisions. The potential for additional regulation on emissions is another factor that will continue to influence the results of many IRPs in the future.

FY2012 CUSTOMER IRP ACCOMPLISHMENTS

Item	CRSP	DSW	RM	SN	UGP	TOTALS
DSM ¹ KW SAVINGS	22,862	2,235,927	260,029	5,564,653	860,976	8,944,447
DSM KWH SAVINGS	16,609,443	683,358,558	363,164,523	303,616,504	211,552,057	1,578,301,085
DSM EXPENDITURE	2,072,774	72,427,929	12,710,291	38,751,356	54,688,334	180,650,684
DSM DEVIATIONS ²	-3,699	-2,784,256	-1,487,938	308,013	1,663,990	-2,303,890
KW RENEWABLES	95,193	428,549	561,424	969,564	722,324	2,777,054
KWH RENEWABLES	217,735,309	2,001,984,086	2,221,988,314	8,058,908,032	2,940,889,431	15,441,505,172
RENEWABLE EXPENDITURE	4,639,990	57,469,077	90,259,990	370,817,143	51,158,026	574,344,226
RENEWABLE PROGRAM TYPES	Solar, wind, small hydro, biomass/gas	Solar, wind, small hydro, biogas, geothermal, fuel cells, green/white tags	Wind, solar, small hydro, green tags, biogas, biomass	Solar, small hydro, wind, green tags, biogas, geothermal, biomass, fuel cells	Wind, biogas, biomass, small hydro, solar, green tags	Solar, wind, small hydro, biomass/gas, green tags, geothermal, fuel cells
TOP 5 MOST FREQUENT DSM ACTIVITIES	Load management, HVAC, residential cooking, rebates, audits	Load management, water heating, audits, refrigerator measures, ventilation	Load management, heating, water heating, lighting, refrigerator/freezer measures	Lighting, rebates, AC, motor/ASD ³ , refrigerator/freezer measures	Lighting, rebates, motor/ASD, ventilation, AC, audits	Load management, lighting, rebates, audits, motor/ASD
TOP 5 RENEWABLE ENERGY ACTIVITIES	Solar, wind, small hydro, biomass/gas	Solar, wind, small hydro, geothermal, biogas	Wind, solar, small hydro, green tags, biogas	Solar, small hydro, wind, green tags, biogas	Wind, biomass/gas, small hydro, solar	Solar, wind, small hydro, biomass/gas
TOP 3 CUSTOMER-REPORTED TRENDS	DSM, Efficiency, Renewables	Renewables, DSM, Efficiency	Renewables, Efficiency, DSM	Renewables, Efficiency, DSM	Renewables, Efficiency, DSM	Renewables, Efficiency, DSM
# OF IRPS - INDIVIDUAL CUSTOMERS	16	17	20	12	19	84
# OF IRPS - COOPERATIVES	0	0	0	0	0	0
# OF MINIMUM INVESTMENT REPORTS	0	2	4	3	29	38
# OF SMALL CUSTOMER PLANS	0	12	16	28	22	78
# OF ENERGY EFFICIENCY/ RENEWABLE ENERGY REPORTS	0	0	0	0	0	0

¹ DSM refers to demand-side management activities the utility conducts to change customer energy use

² Deviations are any difference from the customer's Integrated Resource Plan

³ ASD refers to adjustable speed drive

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 the Western Area Power Administration (Western), a component of the U.S. Department of Energy (DOE), as of September 30, 2012 and 2011, 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 system as of September 30, 2012 and 2011, 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 combined financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

March 15, 2013

COMBINED BALANCE SHEETS

September 30, 2012 and 2011 (in thousands)

	2012	2011
Assets		
Completed utility plant	\$6,917,444	\$6,751,132
Accumulated depreciation	<u>(3,394,775)</u>	<u>(3,280,459)</u>
Net completed plant	3,522,669	3,470,673
Construction work in progress	<u>397,569</u>	<u>314,229</u>
Net utility plant	3,920,238	3,784,902
Cash	1,409,436	1,064,915
Accounts receivable, net	169,133	182,408
Construction financing receivable	—	153,344
Regulatory assets	102,216	99,782
Other assets	87,837	76,804
Total assets	\$5,688,860	\$5,362,155
Total Liabilities and Capitalization		
Liabilities:		
Long-term liabilities	\$316,279	\$298,125
Customer advances and other liabilities	218,024	209,987
Accounts payable	90,171	66,302
Environmental cleanup liabilities	3,740	12,214
Total liabilities	628,214	586,628
Capitalization:		
Payable to U.S. Treasury	5,069,195	4,975,080
Accumulated net deficit	(8,549)	(199,553)
Total capitalization	5,060,646	4,775,527
Commitments and contingencies (notes 9 and 11)		
Total liabilities and capitalization	\$5,688,860	\$5,362,155

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF REVENUES AND EXPENSES

Years ended September 30, 2012 and 2011 (in thousands)

	2012	2011
Operating revenues:		
Sales of electric power	\$925,877	\$999,897
Transmission and other operating revenues	368,926	346,499
Total operating revenues	1,294,803	1,346,396
Operating expenses:		
Operation and maintenance	539,603	472,930
Purchased power	210,620	253,239
Purchased transmission services	67,778	66,945
Depreciation	132,716	133,266
Administration and general	57,618	54,995
Total operating expenses	1,008,335	981,375
Net operating revenues	286,468	365,021
Interest expenses:		
Interest on payable to U.S. Treasury	206,376	208,911
Allowance for funds used during construction	<u>(14,199)</u>	<u>(15,061)</u>
Net interest on payable to U.S. Treasury	192,177	193,850
Interest on long-term liabilities	8,523	9,174
Net interest expense	200,700	203,024
Net revenues	\$85,768	\$161,997

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF CHANGES IN CAPITALIZATION

Years ended September 30, 2012 and 2011 (in thousands)

	Payable to U.S. Treasury	Accumulated net deficit	Total capitalization
Total capitalization as of September 30, 2010	\$4,966,310	(\$392,923)	\$4,573,387
<i>Additions:</i>			
Congressional appropriations	498,754	31,373	530,127
Interest	208,911	0	208,911
Total additions to capitalization	707,665	31,373	739,038
<i>Deductions:</i>			
Payments to U.S. Treasury	(679,588)	0	(679,588)
Transfers of property and services, net	(19,307)	0	(19,307)
Total deductions to capitalization	(698,895)	0	(698,895)
Net revenues for the year ended September 30, 2011	0	161,997	161,997
Total capitalization as of September 30, 2011	4,975,080	(199,553)	4,775,527
<i>Additions:</i>			
Congressional appropriations	550,076	113,445	663,521
Interest	206,376	0	206,376
Total additions to capitalization	756,452	113,445	869,897
<i>Deductions:</i>			
Payments to U.S. Treasury	(659,051)	0	(659,051)
Transfers of property and services, net	(3,286)	0	(3,286)
Irrigation assistance	0	(8,209)	(8,209)
Total deductions to capitalization	(662,337)	(8,209)	(670,546)
Net revenues for the year ended September 30, 2012	0	85,768	85,768
Total capitalization as of September 30, 2012	\$5,069,195	(\$8,549)	\$5,060,646

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS

Years ended September 30, 2012 and 2011 (in thousands)

	2012	2011
Cash flows from operating activities:		
Net revenues	\$85,768	\$161,997
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	132,716	133,266
Interest on payable to U.S. Treasury	192,177	193,850
Loss on disposition of assets	18,013	4,394
Unfunded postretirement benefits	19,960	21,095
Bill credits applied against long-term liabilities	(14,905)	(14,167)
Accreted interest on construction financing receivable	(2,328)	(2,478)
Amortization of regulatory assets	508	493
Change in unfunded FECA liability	63	978
(Increase) decrease in assets:		
Accounts receivable, net	13,275	(14,297)
Regulatory assets	(3,037)	(7,312)
Other assets	(11,401)	2,487
Increase (decrease) in liabilities:		
Customer advances and other liabilities	8,315	15,268
Accounts payable	869	1,025
Environmental cleanup liabilities	(8,474)	6,474
Net cash provided by operating activities	431,519	503,073
Cash flows from investing activities:		
Investment in utility plant	(232,974)	(211,872)
Issuance of construction financing	0	(83,687)
Principal collected on construction financing	155,672	0
Net cash used in investing activities	(77,302)	(295,559)
Cash flows from financing activities:		
Congressional appropriations	608,878	480,230
Payments to U.S. Treasury	(642,843)	(661,290)
Irrigation assistance	(8,209)	0
Proceeds from long-term liabilities	414,565	373,000
Principal payments on long-term liabilities	(382,087)	(295,124)
Net cash used in financing activities	(9,696)	(103,184)
Net increase in cash	344,521	104,330
Cash, beginning of year	1,064,915	960,585
Cash, end of year	\$1,409,436	\$1,064,915
Cash paid for interest		
	194,353	196,283
Supplemental cash flow information:		
Capitalized interest	14,199	15,061
Transfer of construction work in progress to completed plant	193,158	258,835
Constructive payment to U.S. Treasury	16,208	18,298
Plant acquired by long-term financing	—	5,887
Accreted interest on long-term liabilities	581	560
Changes in the allocation and assignment of generating agency balances to hydroelectric power generation affecting net utility plant	(6,395)	8,201

See accompanying notes to combined financial statements.

Western Area Power Administration Notes to Combined Financial Statements September 30, 2012 and 2011

(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). The combined financial statements also reflect 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 nonreimbursable (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 combined financial statements contain three types of business activities: the hydroelectric power systems of Western and the generating agencies; the Transmission Infrastructure Program of Western (TIP); and other activities of Western. Hydroelectric power systems activity represents 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.

TIP activity represents Western activity related to Section 402 of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Public Law No. 111-5, which was signed into law on February 17, 2009. Section 402 of the Recovery Act amended Section 301 of the Hoover Power Plant Act of 1984 (Public Law No. 98-381) to give 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 nonreimbursable appropriation in 2009 for \$10 million to administer the new program, of which \$9.9 million and \$8.7 million had been expended as of September 30, 2012 and 2011, respectively.

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 activity primarily consists 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.

(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 multipurpose generating agency 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 (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 to 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 (note 1(e)), 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 processes in their financial systems to track and allocate costs to be recovered from Western's customers.

To the extent possible, the generating agencies identify costs as direct costs. Direct costs are those that 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, and 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 final rates 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 2012 and 2011. As of September 30, 2012, none of Western's power systems were awaiting final rate approval.

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 (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 (note 11(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, 2012 and 2011, 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. In the event Western does not meet the majority indicators of gross reporting, Western records the activity at net value within the combined statements of revenue and expenses.

Western may provide multiple services to any one customer. Significant services may include the sale of electric power, ancillary services and the purchase and resale of electric power and transmission services. Western accounts for these arrangements in accordance with the provisions of FASB ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements, subsequently updated by FASB Accounting Standards Update (ASU) No. 2009-13, Multiple-Deliverable Revenue Arrangements. Services qualify as separate units of accounting with distinguishable rates, terms, and delivery schedules. Services are provided to meet customer load requirements and revenues are recognized when services are provided.

Transmission and other operating revenues include items such as transmission services, power wheeling, and recreational fees. Other operating revenues consist of fee-for-service arrangements, typically on a reimbursable 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, revolving fund balances at the U.S. Treasury, and estimates of the amount of funds required to satisfy current hydroelectric power obligations.

(f) Accounts Receivable, Net

Accounts receivable, net represents amounts billed to customers but not collected, net of the related allowance of \$127 thousand and \$129 thousand as of September 30, 2012 and September 30, 2011, respectively. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances. 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 receivables are charged off against the allowance once they are deemed uncollectible. Generally, all delinquent receivables are charged off once the delinquency exceeds two years or the debtor has filed for bankruptcy.

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) Construction Financing Receivable

Pursuant to the Recovery Act, Western has entered into public-private agreements to finance capital investments in transmission facilities that will assist in delivering renewable energy. Interest is accrued based on the terms of the financing agreement. As of September 30, 2012, there are no construction financing receivables outstanding as the September 30, 2011 outstanding balance was repaid in September 2012. As of September 30, 2011, there were no delinquent amounts due on outstanding construction financing receivables.

(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 (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 five years, using the straight-line method. Internal use software is classified as other assets on the combined balance sheets (note 4).

Western is subject to ASC Topic 980 (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.

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 2.500% to 11.375% for the years ended September 30, 2012 and 2011.

As provided by Federal law, interest is not assessed on unpaid balances in irrigation facilities anticipated to be repaid through power sales (note 11(b)).

(j) Allowance for Funds Used during Construction

Allowance for funds used during construction (AFUDC or interest during construction) 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 3.75% to 8.27% for the years ended September 30, 2012 and 2011, depending on the year in which construction on the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(k) Transfers of Property and Services, Net

Transfers of property and services, net is a component of total capitalization that represents the receipt of unfunded transfers of assets or costs offset by the 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 Postretirement 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% for CSRS and up to 11.9% 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 \$29.0 million and \$27.6 million for the years ended September 30, 2012 and 2011, 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 29.8% and 13.7% of base salary, respectively, and is funded by OPM.

Other postretirement 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 \$5,187 and \$6,027 per employee in fiscal years 2012 and 2011, respectively, and FEGLI is based on 0.02% 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 for the pension and other postretirement benefits in the combined financial statements of \$20.0 million and \$21.1 million for the years ended September 30, 2012 and 2011, 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 postretirement 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 cleanup 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*, subsequently updated by ASU No. 2010-11, *Scope Exception Related to Embedded Credit Derivatives*. This standard requires that all derivative instruments, as defined by ASC Topic 815, be recorded on the combined balance sheets at fair value, unless exempted. Changes in a derivative instrument's fair value must be recognized currently in the combined statements 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 statements of revenues and expenses 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, 2012 and 2011, 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.

For TIP financed projects, risk exists at the individual project level and includes, but is not limited to: construction delays, cost overruns, contractor disputes, land acquisition and land right of way negotiations, weather-related delays and limitations, and regulatory review and approvals. Risk is mitigated through the application of due diligence efforts focused on the project developer. At the project level, this includes securitization of assets (first lien), parental guarantees, letters of credit and continuous monitoring of construction, financial and other material risks.

(p) Regulatory Assets (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 actuarial expense associated with hydroelectric power operations has been deferred as a regulatory asset in the combined balance sheets to reflect the effects of the rate-making process. The actuarial cost associated with TIP and other activities is expensed as incurred.

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%.

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. Once repayment begins, the costs will be amortized to expense over the repayment period of 30 years.

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. Deferred annual leave costs are expensed as used.

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.

Extraordinary Maintenance

Extraordinary maintenance represents costs that occur infrequently, involve relatively large amounts of funds, and ensure the future economic usefulness of the asset. Criteria used to determine if a cost is extraordinary and should be treated as a regulatory asset include the total cost of the program, the rate impact the cost would have if recovered as a normal maintenance expense in one year, the current water conditions for the project, and whether significant rate increases had taken place over the previous 10 years.

(q) Interchange Energy and Energy Exchange (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 provisions. 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 another liability when Western is the net user. Transactions are recorded at the market value on the date of the transaction, 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 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 the 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 government.

(t) Fair Value of Financial Instruments

FASB ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial instruments. Fair value estimation methods for individual classes of financial instruments are described below.

Short-term Financial Instruments

The carrying (recorded) value of short-term financial instruments, including cash, accounts receivable, other assets, excluding moveable equipment and internal use software, accounts payable, certain customer advances and other liabilities, and environmental cleanup liabilities, approximates the fair value of these instruments. The fair value of certain unfunded and actuarially based liabilities cannot be determined as the future payout dates have yet to be determined.

Construction Financing Receivable

Fair value is estimated by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year end. The fair value of construction financing receivable was \$0 and \$119.4 million as of September 30, 2012 and 2011, respectively.

Long-term Liabilities

Fair value is estimated by computing the present value of future payments discounted at prevailing U.S. Treasury interest rates at year end. The fair value of long-term liabilities was \$348.7 million and \$333.9 million as of September 30, 2012 and 2011, respectively.

(u) Recent Accounting Pronouncements

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU No. 2010-20 updates ASC Subtopic 310-10, *Receivables Overall*, to enhance disclosures about the credit quality of financing receivables and the allowance for credit losses. ASU No. 2010-20 was effective for Western for fiscal year 2012. Adoption of ASU No. 2010-20 had no significant impact to Western's combined financial statements.

In May 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. ASU No. 2011-02 updates ASC Subtopic 310-40, *Troubled Debt Restructurings by Creditors*, to clarify guidance on whether a restructuring constitutes a troubled debt restructuring. ASU No. 2011-02 is effective for fiscal years ending on or after December 15, 2012. Western is determining the extent to which the restructuring guidance will impact Western's combined financial statements; however, as of September 30, 2012 and 2011, Western has no financing arrangements subject to restructuring guidance provided by ASU No. 2011-02.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11 updates ASC Subtopic 210-20, *Balance Sheet-Offsetting*, to provide quantitative disclosures about offsetting financial instruments and derivative instruments. Additionally, this guidance requires qualitative and quantitative disclosures about master netting agreements or similar agreements when the financial instruments and derivative instruments are not offset. ASU No. 2011-11 is effective for fiscal years ending on or after January 1, 2013. Western is evaluating the extent to which ASU No. 2011-11 will impact Western's combined financial statements.

(v) Reclassifications

Certain 2011 amounts have been reclassified to conform to the current year presentation.

(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 through rates, 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 and Pacific Northwest-Pacific Southwest Intertie, which has only transmission facilities. 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 Falcon-Amistad power system. 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
- Parker-Davis
- Pick-Sloan Missouri River Basin
- Provo River
- Rio Grande
- Seedskaadee
- Washoe

Corps Power System

- Pick-Sloan Missouri River Basin

IBWC Power System

- Falcon-Amistad

(3) Regulatory assets

(note 1(p)) as of September 30, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Workers' compensation actuarial cost	\$43,705	\$46,059
Accrued annual leave	19,401	17,078
Recovery implementation program	15,480	14,899
Extraordinary maintenance	13,424	10,001
Abandoned project costs, net	7,406	8,345
Transmission termination settlement	2,800	3,400
Total regulatory assets	\$102,216	\$99,782

As of September 30, 2012 and 2011, 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, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Moveable equipment, net (note 1(h))	\$48,624	\$44,829
Stores inventory	19,115	16,609
Interchange energy and energy exchange (note 1(q))	7,557	8,027
Assets under development	3,827	—
Other	2,013	1,919
Internal use software, net (note 1(h))	5,246	3,067
Advances to others	1,455	2,353
Total other assets	\$87,837	\$76,804

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 \$0.5 million and \$4.2 million for the years ended September 30, 2012 and 2011, respectively.

(5) Utility Plant

Utility plant as of September 30, 2012 and 2011 consists of the following (in thousands):

Utility plant:	2012	2011
Structures and facilities	\$6,109,576	\$5,971,189
Buildings	437,257	415,276
Land	202,393	197,047
Power rights	168,218	167,620
Gross completed plant	6,917,444	6,751,132
Accumulated depreciation	(3,394,775)	(3,280,459)
Net completed plant	3,522,669	3,470,673
Construction work in progress	397,569	314,229
Net utility plant	\$3,920,238	\$3,784,902

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, 2012 and 2011, contributed plant, net used in Western's operations totaled \$321.8 million and \$296.0 million, respectively.

The balances shown above include project use utility plant amounts used to provide project benefits to water customers (note 6(a)). In addition to water benefits, the projects include other authorized benefits, such as support for fish and wildlife needs.

(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. Appropriations are allocated to the payable to U.S. Treasury or net deficit, based on expected use in reimbursable and nonreimbursable activities. All power systems, except Dolores, Seedskafee, 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, Seedskafee, 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 is 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 nonreimbursable 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 rates as of September 30, 2012 and 2011 was \$747.2 million and \$659.1 million, respectively. Generating agency project use operation and maintenance costs not recovered through revenues 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 nonpower 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

Long-term liabilities, as of September 30, 2012 and 2011, consist of the following (in thousands):

Long-term liabilities:	2012	2011
Long-term construction financing	\$109,629	\$122,226
State of Colorado loan (note 1(p))	15,480	14,899
Transmission Infrastructure Program	191,170	161,000
Total long-term liabilities	\$316,279	\$298,125

Outstanding long-term liabilities, as of September 30, 2012, are scheduled to be credited or repaid as follows (in thousands):

Year ending September 30:	Principal	Interest	Total
2013	\$207,004	\$8,076	\$215,080
2014	16,372	7,185	23,557
2015	16,479	6,330	22,809
2016	17,585	5,435	23,020
2017	14,090	3,919	18,009
2018 and thereafter	44,749	23,936	68,685
Total outstanding long-term liabilities	\$316,279	\$54,881	\$371,160

(a) 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 7.7% and between 5.2% and 7.6% during fiscal years 2012 and 2011, respectively. As of September 30, 2012 and 2011, the outstanding obligation was \$57.1 million and \$67.6 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%. The outstanding obligation amounted to \$19.1 million and \$19.5 million, as of September 30, 2012 and 2011, 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%. As of September 30, 2012 and 2011, the outstanding obligation totaled \$13.7 million and \$15.5 million, respectively.

Other components of long-term financing include Mohave Electric Cooperative, Inc., which provided 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 is anticipated to begin in March 2014. 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 annual bill credit of \$454 thousand. As of September 30, 2012 and 2011, the outstanding obligation totaled \$7.6 million. There is also an outstanding obligation with the Arizona Public Service Company for the construction of facilities for the Flagstaff 345-kV interconnection project in the Desert Southwest Colorado River Storage Project. As of September 30, 2012 and 2011, the outstanding obligation totaled \$8.7 million and \$6.0 million, respectively. Repayment through net billing arrangements will begin after construction is completed, around January of 2014. The balance of long-term construction financing is primarily related to the modification of the Parker and Valley Farms substations. As of September 30, 2012 and 2011, the outstanding balance on those projects totaled \$3.4 million and \$6.0 million, respectively.

(b) 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% per year. Another \$5.9 million was received in December 2004 with an interest rate of 3.25%. The purpose of these loans was to fund Reclamation's endangered fish recovery implementation programs (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 through 2041.

(c) Transmission Infrastructure Program (TIP)

In fiscal year 2009, Western signed an agreement with Tonbridge Power Inc. (Tonbridge), acquired as a subsidiary of Enbridge, Inc. in November 2011, to finance up to \$161 million for the construction of the Montana Alberta Tie Ltd. (MATL) transmission line project. This project was for the construction of a 214-mile, 230-kV power transmission line between Great Falls, Montana and Lethbridge, Alberta. When complete and fully operational, the line will have the capacity to deliver 300 megawatts of wind-generated power in either direction. Western funded this project with borrowing authority from the U.S. Treasury granted by the Recovery Act. As of September 30, 2012 and 2011, Western borrowed \$161.0 million from the U.S. Treasury to fund MATL's construction costs. Interest rates on the loan ranged from 0.104% to 0.165% and were 0.021% for the fiscal years ended September 30, 2012 and 2011, respectively. In December 2012, Western repaid the U.S. Treasury the September 30, 2012 outstanding balance of \$161.0 million.

In fiscal year 2012, Western borrowed \$21.6 million from the U.S. Treasury for the Trans West Express (TWE) project. The TWE project is a 725-mile, 600-kV DC transmission line from south central Wyoming to the El Dorado Valley south of Las Vegas, a transmission gateway to California. The Office of Management and Budget (OMB) has authorized use of \$25 million in borrowing authority to finance TIP's 50% portion of the \$50 million for the development phase of the project. Interest rates on the loan range from 0.104% to 0.143% for the fiscal year ended September 30, 2012. Costs incurred relative to TWE are expensed as incurred, as the project activities are considered investigatory for the year ended September 30, 2012.

In fiscal year 2012, Western borrowed \$8.5 million from the U.S. Treasury for the Electrical District No. 5 to Palo Verde Hub (ED5-PVH) project. The ED5-PVH project consists of building 45 circuit-miles of new and upgraded Western transmission line and purchasing capacity rights on 64 miles of the new Southeast Valley Project 500-kV transmission line. The OMB has authorized use of up to \$91 million in borrowing authority to finance the construction of the ED5-PVH project. Interest rates on the loan range from 0.104% to 0.143% for the fiscal year ended September 30, 2012.

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

	2012	2011
Customer advances (note 1(r))	\$113,475	\$89,977
Workers' compensation actuarial liability	44,138	46,527
Accrued annual leave	19,401	17,078
Accrued payroll benefits	16,339	16,340
Due to other federal agencies	11,965	20,639
Workers' compensation accrual	9,012	9,589
Transmission termination settlement	2,800	3,400
Other	894	2,223
Contingent liabilities	0	4,214
Total customer advances and other liabilities	\$218,024	\$209,987

(9) Lease Commitments

Western has a noncancelable operating lease that expires in 2015 for Western's Electric Power Training Center. The lease represents an annual expense of approximately \$279 thousand through 2015. There is also a noncancelable operating lease for two rooms in the Blake Street Building in Salida, Colorado. This lease is for a term of three years, with a three-year renewal option, at an annual cost of approximately \$10 thousand.

Western has 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 \$8.0 million and \$7.5 million for the years ended September 30, 2012 and 2011, respectively.

(10) Environmental Cleanup Liability

The Desert Southwest Region of Western has been engaged in remediating the Basic Substation located in Henderson, Nevada since 1991. 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. The remediation was financed with non-reimbursable funding in 2010; therefore, it has no impact on the power rates. The estimated liability to remediate the Basic Substation was \$3.7 million and \$12.2 million as of September 30, 2012 and 2011, respectively.

(11) 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. It is management's opinion that the ultimate disposition of these claims will not have a material adverse effect on the combined financial statements. Power-related claims whose ultimate disposition will be paid by the U.S. Treasury Judgment Fund (Judgment Fund) and are not subject to reimbursement from power revenues are excluded from the combined financial statements and related note disclosures.

(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 changes in capitalization 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. As of September 30, 2012, anticipated irrigation assistance totaled approximately \$1.9 billion, which may be repaid from future power revenues. The 2012 power repayment studies have not been completed as of the date of this report.

Anticipated irrigation assistance payments are as follows (in thousands):

<u>Year ending September 30:</u>	<u>Amount</u>
2013	\$80,347
2014	10,053
2015	32,507
2016	24,073
2017	5,618
2018 and thereafter	1,784,431
Total anticipated irrigation assistance payments	\$1,937,029

(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. The current period purchased power and purchased transmission costs are included in the combined statements of revenues and expenses. 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):

<u>Year ending September 30:</u>	<u>Purchased power</u>	<u>Purchased transmission</u>	<u>Total</u>
2013	\$89,272	12,944	\$102,216
2014	56,208	12,944	69,152
2015	43,667	12,944	56,611
2016	24,967	12,669	37,636
2017	4,350	12,669	17,019
2018 and thereafter	0	166,179	166,179
Total	\$218,464	230,349	\$448,813

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) 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, 2012, power repayment is considered remote, and therefore, construction costs of \$46.3 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.

(12) Subsequent Events

Western has evaluated subsequent events through the date the combined financial statements were available to be issued of March 15, 2013 and identified the following subsequent event:

Western repaid \$161.0 million in borrowed funds to the U.S. Treasury on December 31, 2012. The funds were borrowed to finance construction costs on the MATL project (note 7(c)). As of December 31, 2012, Western no longer has an interest in the MATL project.

COMBINING SCHEDULES OF BALANCE SHEET DATA

SCHEDULE 1

September 30, 2012 (in thousands)

	Hydroelectric power systems	Transmission infrastructure program	Other activities	Total
Assets				
Completed utility plant	\$6,855,480	0	\$61,964	\$6,917,444
Accumulated depreciation	(3,387,991)	0	(6,784)	(3,394,775)
Net completed plant	3,467,489	0	55,180	3,522,669
Construction work in progress	359,587	18,647	19,335	397,569
Net utility plant	3,827,076	18,647	74,515	3,920,238
Cash	1,098,748	173,853	136,835	1,409,436
Accounts receivable, net	161,350	12	7,771	169,133
Regulatory assets	102,216	0	0	102,216
Other assets	84,857	0	2,980	87,837
Total assets	\$5,274,247	\$192,512	\$222,101	\$5,688,860
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	\$125,109	\$191,170	0	\$316,279
Customer advances and other liabilities	129,976	539	87,509	218,024
Accounts payable	77,595	7,194	5,382	90,171
Environmental cleanup liabilities	0	0	3,740	3,740
Total liabilities	332,680	198,903	96,631	628,214
Capitalization:				
Payable to U.S. Treasury	5,063,583	0	5,612	5,069,195
Accumulated net (deficit) revenues	(122,016)	(6,391)	119,858	(8,549)
Total capitalization	4,941,567	(6,391)	125,470	5,060,646
Total liabilities and capitalization	\$5,274,247	\$192,512	\$222,101	\$5,688,860

See accompanying independent auditors' report.

COMBINING SCHEDULES OF BALANCE SHEET DATA

SCHEDULE 1

September 30, 2011 (in thousands)

	Hydroelectric power systems	Transmission infrastructure program	Other activities	Total
Assets				
Completed utility plant	\$6,707,461	0	\$43,671	\$6,751,132
Accumulated depreciation	(3,275,773)	0	(4,686)	(3,280,459)
Net completed plant	3,431,688	0	38,985	3,470,673
Construction work in progress	280,667	0	33,562	314,229
Net utility plant	3,712,355	0	72,547	3,784,902
Cash	912,012	13,333	139,570	1,064,915
Accounts receivable, net	164,993	0	17,415	182,408
Construction financing receivable	0	153,344	0	153,344
Regulatory assets	99,782	0	0	99,782
Other assets	74,270	0	2,534	76,804
Total assets	\$4,963,412	\$166,677	\$232,066	\$5,362,155
Total Liabilities and Capitalization				
Liabilities:				
Long-term liabilities	\$137,125	\$161,000	0	\$298,125
Customer advances and other liabilities	121,392	242	88,353	209,987
Accounts payable	62,016	673	3,613	66,302
Environmental cleanup liabilities	0	0	12,214	12,214
Total liabilities	320,533	161,915	104,180	586,628
Capitalization:				
Payable to U.S. Treasury	4,960,856	0	14,224	4,975,080
Accumulated net (deficit) revenues	(317,977)	4,762	113,662	(199,553)
Total capitalization	4,642,879	4,762	127,886	4,775,527
Total liabilities and capitalization	\$4,963,412	\$166,677	\$232,066	\$5,362,155

See accompanying independent auditors' report.

COMBINING SCHEDULES OF REVENUES AND EXPENSES DATA

SCHEDULE 2

Year ended September 30, 2012 (in thousands)

	Hydroelectric power systems	Transmission infrastructure program	Other activities	Total
Operating revenues:				
Sales of electric power	\$872,492	0	\$53,385	\$925,877
Transmission and other operating revenues	308,494	5,755	54,677	368,926
Total operating revenues	1,180,986	5,755	108,062	1,294,803
Operating expenses:				
Operation and maintenance	468,644	16,541	54,418	539,603
Purchased power	157,148	0	53,472	210,620
Purchased transmission services	66,029	0	1,749	67,778
Depreciation	130,406	0	2,310	132,716
Administration and general	51,963	340	5,315	57,618
Total operating expenses	874,190	16,881	117,264	1,008,335
Net operating revenues (expenses)	306,796	(11,126)	(9,202)	286,468
Interest expenses:				
Interest on payable to U.S. Treasury	206,188	0	188	206,376
Allowance for funds used during construction	(14,199)	0	0	(14,199)
Net interest on payable to U.S. Treasury	191,989	0	188	192,177
Interest on long-term liabilities	8,384	139	0	8,523
Net interest expense	200,373	139	188	200,700
Net revenues (deficit)	\$106,423	(\$11,265)	(\$9,390)	\$85,768

See accompanying independent auditors' report.

COMBINING SCHEDULES OF REVENUES AND EXPENSES DATA

SCHEDULE 2

Year ended September 30, 2011 (in thousands)

	Hydroelectric power systems	Transmission infrastructure program	Other activities	Total
Operating revenues:				
Sales of electric power	\$938,186	0	\$61,711	\$999,897
Transmission and other operating revenues	285,079	2,478	58,942	346,499
Total operating revenues	1,223,265	2,478	120,653	1,346,396
Operating expenses:				
Operation and maintenance	420,132	3,430	49,368	472,930
Purchased power	192,420	0	60,819	253,239
Purchased transmission services	64,723	0	2,222	66,945
Depreciation	131,079	0	2,187	133,266
Administration and general	50,336	249	4,410	54,995
Total operating expenses	858,690	3,679	119,006	981,375
Net operating revenues (expenses)	364,575	(1,201)	1,647	365,021
Interest expenses:				
Interest on payable to U.S. Treasury	208,911	0	0	208,911
Allowance for funds used during construction	(15,061)	0	0	(15,061)
Net interest on payable to U.S. Treasury	193,850	0	0	193,850
Interest on long-term liabilities	8,934	240	0	9,174
Net interest expense	202,784	240	0	203,024
Net revenues (deficit)	\$161,791	(\$1,441)	\$1,647	\$161,997

See accompanying independent auditors' report.

WESTERN'S SENIOR MANAGEMENT TEAM*

**ADMINISTRATOR
ACTING ADMINISTRATOR**

MARK GABRIEL
ANITA DECKER

WASHINGTON LIAISON

Assistant Administrator for Corporate Liaison

MIKE McELHANY

REGIONAL MANAGERS

Colorado River Storage Project Management Center
Desert Southwest Region
Rocky Mountain Region
Sierra Nevada Region
Upper Great Plains Region

LYNN JEKA
DARRICK MOE
BRAD WARREN
TOM BOYKO
BOB HARRIS

CORPORATE SERVICES OFFICE MANAGERS

General Counsel
Chief Strategy Officer
Chief Risk Officer
Equal Employment Opportunity Officer
Chief Operating Officer
Chief Information Officer
Chief Financial Officer
Transmission Infrastructure Program Manager

JOHN BREMER
THERESA WILLIAMS
MATT MILLER
CHARLES MARQUEZ
TONY MONTOYA
VACANT
LINDA KIMBERLING
CRAIG KNOELL



MARK
GABRIEL



ANITA
DECKER



MIKE
MCELHANY



LYNN
JEKA



DARRICK
MOE



BRAD
WARREN



TOM
BOYKO



BOB
HARRIS



JOHN
BREMER



THERESA
WILLIAMS



MATT
MILLER



CHARLES
MARQUEZ



TONY
MONTOYA



LINDA
KIMBERLING



CRAIG
KNOELL

*Note: Although included in the FY 2012 Annual Report, this information reflects the Senior Management Team as of April 4, 2013.

CONTACT WESTERN

Call or write your local Western office or Public Affairs 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.

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720-962-7050

UPPER GREAT PLAINS REGIONAL OFFICE

P.O. Box 35800
Billings, MT 59107-5800
406-255-2800

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
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COLORADO RIVER STORAGE PROJECT MANAGEMENT CENTER

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ELECTRIC POWER TRAINING CENTER

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Visit our website at www.wapa.gov
Send email to publicaffairs@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.



WESTERN AREA POWER ADMINISTRATION
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U.S. DEPARTMENT OF
ENERGY