Southwestern
Power
Administration
1995
Annual
Report

Performance Measures

On Measuring Performance

They say you can't get where you're going if you don't know where you've been.

At Southwestern, we agree with that adage. We've begun a more focused effort to measure our accomplishments as well as our shortcomings. By measuring our performance throughout the organization, we will know much more clearly where improvements are needed, and if they are needed. If they are needed, we have some of the best resources to accomplish the tasks . . . our employees.

Our benchmarking efforts established our foundation for Performance Measurements. It is now up to us, the people of Southwestern Power Administration, to move forward, to build improvement upon improvement. The future is now, and our mission is to serve both reliably and responsibly. We will continue to do that, and do it well.

You can count on it. And you can measure it.

Cover: The undulating patterns produced in the eye of the oscilloscope provide units of measurement to determine efficiency, productivity and potential.

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Secretary of Energy

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Letter to the Secretary

Honorable Hazel R. O'Leary
Secretary of Energy
Washington, D. C. 20585

Dear Madam Secretary:

Our \$114.3 million in revenues produced during fiscal year 1995 was distinguished as the second highest earned in our agency's 52-year history. These revenues allowed \$36.5 million to be repaid on the Federal investment, raising the total cumulative repayment to \$366.4 million. We are again very fortunate that the abundance of rainfall experienced by our region this year produced greater-than-average inflows to the reservoirs. And notably, our hydropower generation production of 7.8 billion kilowatthours for the fiscal year was the fifth highest produced in Southwestern's history.

The Administration's proposed sale of the Power Marketing Administrations was a central issue of concern throughout all of fiscal year 1995, both with us and with our customers. Many communications ensued with the Department, with our customers, with members of Congress, and with our employees. We also dealt with numerous inquiries and information requests from special interest groups nationwide. During this period of uncertainty, we were able to maintain our professional business environment and continued to meet our business obligations.

Because our customers are of great importance to us, we conducted a comprehensive customer survey this year. We found that our customers are very satisfied with Southwestern's services. Most importantly, we are using those survey results to make improvements for the future. Surveying customer satisfaction is now an ongoing project and is one goal of our five new umbrella core business measurements. These Performance Measurement goals were established by a benchmarking team created to help us identify ways that Southwestern can measure and improve its operating processes. The team's concerted efforts provided us with a "starting point" so we can continue our quality journey toward greater efficiency. We will begin using the new measurements agency-wide with fiscal year 1996.

Competing uses for the water in the multi-purpose projects continues to be a major consideration in the operation of our system. There are numerous demands for the water resources which Southwestern must balance in order to assure long-term generation of hydroelectric power and energy. The competing uses, including water supply, flood control, fishing and fisheries, and other recreational uses, require constant attention. We remain very involved with representatives from various Federal and State agencies, with local groups, and with our customers to see that the lines of communication remain open. We accommodate requests of these groups when possible, while strongly defending hydropower benefits, thus ensuring that our customers continue to obtain their contracted power and energy.

An important upgrade and most significant to the reliability to our system was the installation of the long-awaited SCADA/EMS (Supervisory Control and Data Acquisition/Energy Management System) at our new Springfield Operations and Maintenance Center. Other technological upgrades, incorporated or completed during the year, are the installation of fiber optic equipment and videoconferencing, an unprecedented opportunity to save money and communicate more effectively with our geographically dispersed facilities and personnel.

We developed a 10-point focus for improvement early in 1995 to redirect our efforts and re-evaluate our priorities and future challenges. Ten areas are being evaluated to help us make our organization even more efficient. Cross-functional teams were established to study the specific areas and make recommendations. The goal is to continue to find better ways to practice "good business."

We also completed a Total Quality Management baseline self-assessment. The results indicate that Southwestern's score on the Malcolm Baldrige and Presidential scale was a very pleasing 762 which, according to the scale, provides that a score of 800 points indicates a world-class quality management organization. We are using this baseline to assess our continuing quality efforts.

As the fiscal year closes, we are reminded that the challenges of 1995 have been turned into opportunities for the future. And though we are pleased with our many past accomplishments, we eagerly anticipate moving successfully into Southwestern's 53rd year. I appreciate this opportunity, as Southwestern's new Administrator, to continue the agency's tradition in serving our customers with pride, integrity and commitment.

Sincerely,

Michael A. Deihl
Administrator

Financial Statement Presentation

1. The combined financial statements have been prepared to report the financial position and results of operations of the Southwestern Federal Power System pursuant to the requirements of the Chief Financial Officers Act of 1990.
2. While the statements have been prepared from the books and records of the Southwestern Power Administration and the related U.S. Army Corps of Engineers in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
3. The combined financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Performance Measurements

Performance measurements which are used to determine effectiveness and efficiency of programs in the areas of financial performance and program performance are:

- Debt service coverage ratio
- Cumulative principal payments as a percent of total Federal investment
- Percent variance of actual from planned annual principal payments
- Net cash flow to the Treasury
- Lost work day case rate
- Total recordable case rate
- Motor vehicle accident rate
- Transmission system performance index
- Total kilograms (pounds) of polychlorinated biphenyl (PCB) disposed

(See page 26 for detailed performance measurements.)

Southwestern's new Operations and Maintenance Center in Springfield, Missouri.

National Performance Review

Southwestern is developing plans in response to the National Performance Review mandate which directs specific areas of reform within the Government. Those reforms target reducing the Federal budget and increasing net income by:

- decreasing Federal employment,
- increasing employee-to-supervisor ratios,
- reducing service contracts by 20 percent,
- decreasing the number of directives and regulations by half, and
- increasing net income from the Power Marketing Administrations.

Government agencies have been allowed three to five years to comply with the individual mandates.

Competing Uses of the Water Remains in Forefront of Issues

One of Southwestern's greatest challenges lies in working with other users who share our nation's valuable water resources. Many users have a vested interest in the Federal multi-purpose water resource projects that Southwestern relies on to fulfill its Federal power sales contract obligations. The water released from the projects for electrical power and energy generation impacts the users of the projects, such as lake concessionaires, downstream flood control interests (farmers and communities), fishing and fishery interests, municipal and industrial water supply users, navigation interests, waterfowl interests, and others.

In many cases, operation of the projects to meet the needs of the other users reduces Southwestern's electric power revenues which are used as payments to the U.S. Treasury for the project costs assigned to hydropower.

At Bull Shoals and Norfolk Dams in the White River Basin, the operational measures taken during 1995 to enhance downstream fisheries resulted in estimated energy losses of approximately 20.8 million kilowatthours (kWh) of energy and revenue losses of \$108,000. At Broken Bow, the estimated losses associated with the downstream fisheries were 5.6 million kWh of energy and \$29,000 in revenues. The combined estimated losses at all of Southwestern's projects due to fisheries in 1995 totaled 36.1 million kWh and \$188,000 in revenues.

Southwestern's efforts are critical to balance and meet both power and non-power uses from the multi-purpose projects. The agency dedicates significant effort in coordinating its operational activities with Federal and State resource agencies as well as other project interest groups.

In 1995, Southwestern's involvement in water resource management included:

- Serving on the White River Dissolved Oxygen Committee and as chair of the Operation Subcommittee for development of an annual interim plan for the operation of the Bull Shoals and Norfolk projects. The plan is an effort to maintain both a viable downstream trout fishery and the authorized hydroelectric power and energy production. Southwestern is also working with the Tennessee Valley Authority to develop and evaluate alternatives that will allow for greater power production while maintaining sufficient dissolved oxygen levels downstream.
- Serving on the White River Ad Hoc Work Group to help evaluate various flood control operat-

A Year To Remember

As Southwestern entered fiscal year 1995, one of the most eventful years in the history of the organization was beginning to unfold.

With the efforts of President Clinton, the National Performance Review, and the focus of "reinventing government," the Power Marketing Administrations (PMAs) were in the forefront of the nation to be sold in order to help

balance the overall national budget.

A series of Congressional hearings regarding the sale occurred with representatives testifying from many special interest groups including the National Rural Electric Cooperative Association, the American Public Power Association and investor-owned utilities.

Simultaneously, the Department of Energy was in the process of streamlining and its restructuring included the sale of four of the PMAs.

The year-long process was a unique one for Southwestern's employees and its customers. Although the issue was unresolved by the end of the fiscal year, contracts continued to be written, issues addressed, and most importantly, power was produced and marketed to the 92 electric power and energy customers of Southwestern.

ing plans that will maintain the benefits of the projects' authorized purposes while providing additional benefits to other users of the water resource.

- Working with the U.S. Army Corps of Engineers (Corps) as they evaluate the reallocation of water storage space at the Beaver, Greers Ferry and Blakely Mountain projects for municipal water supply. Southwestern's focus is on assuring that the proper amount and type of storage is reallocated to provide a reliable supply of water for domestic use while guaranteeing that dependable hydroelectric power and energy production continues and that the power purpose is properly credited for any losses.
- Evaluating the impacts of a trout fishery located below Broken Bow Dam, through the use of the project's generation, to maintain the colder water temperatures required downstream for the survival of the trout. Southwestern is involved with the Corps in developing a seasonal pool plan that will partially offset the adverse impacts of the fishery on power production.
- Working with the Corps and the Arkansas Game and Fish Commission on completion of the Narrows (Lake Greeson) project to improve temperature and dissolved oxygen in water releases.
- Participation in regional organizations such as the Arkansas-White-Red Basin Interagency Committee and the White River Basin Coordinating Committee that allow for the coordination of basin activities among the many and diverse water resource interest groups.

Fiber Optics Elevate Communications Capabilities

The Nixa-to-Springfield leg of fiber optic cable installation marks not only a continuation of the project to upgrade system-wide communications, but a new way of accomplishing the task.

Of significance was Southwestern's use of its own line crews to install the eight-miles of fiber optics while concurrently inspecting and maintaining the line. Historically, contract labor crews were hired to accomplish such specialized tasks. Contracted crews were used for installation of the first 60 miles of fiber optics between substations in Jonesboro, Center Hill and Paragould, Arkansas, and Kennett and Piggott, Missouri, in late 1994 and into 1995.

Fiber optics are fine, glass fibers which conduct light rather than electrical current. This allows immunity to the electrical interference generated from sources such as lightning and power system equipment that can cause outages on other types of communications systems. Fiber optics provide a very high capacity, high security medium for communication of data the necessary for the management of the power system. It permits data to be transferred at more than a thousand times the rate presently allowed by the power line carrier system.

Fiber optic cable will be used on many of Southwestern's critical power system functions such as the SCADA, for remote terminal unit (RTU) communications, for power system relaying and for voice communications at substations.

In the future, fiber optics may be used for metering, relaying and other electronic devices in the substations and to extend the wide area network (WAN) into the substations to provide site access from desktop personal computers. The agency is exploring the feasibility of entering into joint projects with other public or investor-owned utilities in order to reduce costs and increase benefits.

Fiber optics, combined with digital microwave, will form the backbone of Southwestern's power system communications network. Fiber optics, as do the transmission lines, have a minimum life expectancy of 40 years.

An electronics technician demonstrates the critical alignment of two ends of optical fiber in preparation for fusion splicing. The 12-fiber optical cable is presently being installed on Southwestern's system and will interface with the agency's new SCADA/EMS to provide a greater degree of reliability in the operations and management of dams and substations in the Federal system.

Videoconferencing
Comes to
Southwestern

Videoconferencing equipment was purchased and installed by late 1995 at all of Southwestern's field and headquarters offices to improve communication at less cost.

The new equipment allows face-to-face communication with significant reduction in travel expenses.

Videoconferencing is more effective as people, who may not otherwise be able to attend meetings, can be a part of the discussion process.

Videoconferencing also facilitates mandated training of field personnel at considerable savings.

The equipment is also compatible with the equipment in Southwestern's Power Marketing Liaison Office in Washington, D. C. The final phase of this new technology was the installation of a "bridge" that is used to connect Southwestern's six sites.

Equipment Replacements are Focal Point of Construction Program

Southwestern's construction program continued to emphasize maintaining and enhancing the agency's transmission system for both safety and reliability. With a \$9.5 million budget for 1995, \$7 million was spent on related equipment replacements and \$2.5 million was used for power system reliability and environmental improvements and for a joint participation project with one of Southwestern's customers.

Three areas were concentrated upon for the replacement of deteriorated or obsolete transmission equipment:

- At substation and switchyard facilities, where \$4 million was allocated to the replacement of aging equipment such as power transformers, circuit breakers, disconnect switches, current and potential transformers, and surge arresters were replaced. These replacements prevent the overloading of equipment due to system growth and also reduce exposure to environmental contamination from oil spills containing PCBs (polychlorinated biphenyls).
- Obsolete mechanical relay terminals, at a cost of \$1 million, were replaced with the industry standard microprocessor-based relay systems which cost less and have enhanced capabilities. Relaying for 20 line terminals and two transformers was replaced at nine locations on the Southwestern Federal Power System.
- \$2 million in communications equipment included replacement of existing overhead ground wire on 161-kV transmission lines and outdated power line carrier equipment with optical overhead ground wire to establish communications between sites.

Changes Involve Transmission Services

Open access to transmission facilities, initiated by Congress in 1992, is one of the biggest changes ever to occur in the electric utility industry. During fiscal year 1995, Southwestern entered into nine contracts with power marketers who are preparing for the more competitive markets.

Southwestern has historically maintained an open transmission system policy to move non-Federal electricity.

In addition to open access, the implementation of the Federal Energy Regulatory Commission's (FERC) Notice of Proposed Rule Making (NOPR, a.k.a. Mega-NOPR), may cause the revamping of Southwestern's rate structure to assign costs more specifically for transmission and other services provided by Southwestern. Currently, Southwestern's rates for Federal power and energy are bundled to include transmission-related costs.

The Department of Energy has determined that from a policy standpoint, it is appropriate for Southwestern to meet the comparability requirements of the Mega-NOPR as it is finally issued.

Southwestern's new SCADA system is timely in that it will allow the process of implementing the requirements of open access and the FERC Mega-NOPR to be more easily managed and operated.

Southwestern's environmental program focuses on the protection of both people and property. This year, the Missouri Bladder-pod, deemed an endangered species by the U.S. Fish and Wildlife Service, was in the limelight as Southwestern prepared to add herbicidal spray to its brush control program.

Southwestern Again Honored for System Reliability

Southwestern was again named to the North American Electric Reliability Council's "Control Performance Honor Roll." Southwestern is one of 14 utilities in the region which achieved a greater than 95 percent accuracy in matching generation with load. In 1995, Southwestern achieved a 97.5 percent compliance which greatly contributed to the region's ability to serve loads reliably. 1995 marks the fifth straight year that Southwestern has achieved "honor roll" status.

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INDEPENDENT AUDITORS' REPORT

The Administrator of
Southwestern Power Administration
U.S. Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment, and liabilities of the Southwestern Federal Power System (SWFPS) as of September 30, 1995, and 1994, and the related combined statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended as described in Note 1. These combined financial statements are the responsibility of SWFPS' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the SWFPS as of September 30, 1995, and 1994, and the results of its operations and changes in accumulated net revenues, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 1995, on our consideration of the SWFPS' internal control structure, and a report dated December 29, 1995, on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the combined financial statements referred to in the first paragraph of this report, taken as a whole. The accompanying combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of individual projects. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

The information presented in management's *Overview and Performance Measurements* is not a required part of the combined financial statements, but is supplementary information required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's *Overview and Performance Measurements* is addressed in our auditors' report on the internal control structure in accordance with OMB Bulletin 93-06.

This report is intended for the information of the management of the Southwestern Power Administration, the U.S. Army Corps of Engineers, and the U.S. Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Tulsa, Oklahoma
December 29, 1995

KPMG Peat Marwick LLP

Member Firm of
Klynveld Peat Marwick Goerdeler

SOUTHWESTERN FEDERAL POWER SYSTEM
Combined Statements of Assets, Federal Investment, and Liabilities
September 30, 1995, and 1994

<u>Assets</u>	<u>1995</u>	<u>1994</u>
Utility plant:		
Plant in service	\$ 1,058,911,719	1,037,732,999
Accumulated depreciation	(273,942,832)	(262,106,439)
Construction work in progress	45,351,831	33,892,080
Retirement work in progress	(349,673)	94,123
Net utility plant	<u>829,971,045</u>	<u>809,612,763</u>
Current assets:		
Unexpended appropriations	31,019,959	45,888,368
Accounts receivable	15,484,614	10,308,906
Materials and supplies, at average cost	6,363,435	5,539,947
	<u>52,868,008</u>	<u>61,737,221</u>
Banking exchange receivable	15,111,062	16,144,112
Other assets	907,921	982,814
	<u>\$ 898,858,036</u>	<u>888,476,910</u>

Federal Investment and Liabilities

Federal investment:		
Congressional appropriations	\$ 1,989,518,289	1,924,187,761
Interest on Federal investment	638,860,346	619,894,268
Transfers from other federal agencies	26,869,060	26,723,735
Gross Federal investment	2,655,247,695	2,570,805,764
Funds returned to U.S. Treasury	(1,895,286,471)	(1,797,143,072)
Net outstanding Federal investment	759,961,224	773,662,692
Accumulated net revenues	92,478,305	67,782,348
Total Federal investment	<u>852,439,529</u>	<u>841,445,040</u>
Current liabilities - accounts payable and accrued liabilities	13,107,202	11,121,248
Purchase power and banking exchange deferral	32,994,983	35,608,965
Hydropower revenue deferral	316,322	301,657
Commitments and contingencies (Notes 3 and 5)		
Total liabilities	<u>46,418,507</u>	<u>47,031,870</u>
Total Federal investment and liabilities	<u>\$ 898,858,036</u>	<u>888,476,910</u>

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

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1995, and 1994

	<u>1995</u>	<u>1994</u>
Operating revenues:		
Sales of electric power:		
Cooperatives	\$ 69,395,297	66,795,409
Municipalities	29,090,080	27,054,771
Federal and state agencies	3,809,122	4,347,196
Investor owned utilities	24,544	1,300
Banking exchange	4,175,241	6,381,237
Transmission service charges for others	3,217,493	3,015,334
Other	631,888	306,513
Total operating revenues before deferrals	<u>110,343,665</u>	<u>107,901,760</u>
Net purchase power credit and banking exchange	<u>3,920,513</u>	<u>1,501,755</u>
Total operating revenues	<u>114,264,178</u>	<u>109,403,515</u>
Operating expenses:		
Operation and maintenance	49,435,490	47,657,576
Purchase power and banking exchange	6,569,731	7,751,565
Depreciation	12,774,661	12,634,514
Transmission service charges by others	3,605,947	2,645,019
Other	<u>(2,644)</u>	<u>(19,909)</u>
Total operating expenses excluding interest	<u>72,383,185</u>	<u>70,668,765</u>
Net operating revenues	<u>41,880,993</u>	<u>38,734,750</u>
Interest on Federal investment	20,272,609	19,750,066
Allowance for funds used during construction (AFUDC)	<u>(3,087,573)</u>	<u>(1,652,928)</u>
Net interest expense	<u>17,185,036</u>	<u>18,097,138</u>
Net revenues	24,695,957	20,637,612
Accumulated net revenues:		
Balance, beginning of year	<u>67,782,348</u>	<u>47,144,736</u>
Balance, end of year	<u>\$ 92,478,305</u>	<u>67,782,348</u>

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

SOUTHWESTERN FEDERAL POWER SYSTEM
Combined Statements of Cash Flows
Years ended September 30, 1995, and 1994

	<u>1995</u>	<u>1994</u>
Cash provided by operating activities:		
Net revenues	\$ 24,695,957	20,637,612
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	12,774,661	12,634,514
Interest expense on Federal investment	20,272,609	19,750,066
(Increase) decrease in:		
Accounts receivable	(5,175,708)	130,813
Materials and supplies	(823,488)	(1,614,128)
Banking exchange receivable	1,033,050	(564,527)
Other assets	74,893	(331,997)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,985,954	1,842,362
Purchase power and banking exchange deferral	(2,613,982)	(138,411)
Hydropower revenue deferral	<u>14,665</u>	<u>17,292</u>
Net cash provided by operating activities	<u>52,238,611</u>	<u>52,363,596</u>
Cash used in investing activities:		
Additions to utility plant	(29,900,045)	(22,764,265)
Allowance for funds used during construction	<u>(3,087,573)</u>	<u>(1,652,928)</u>
Net cash used in investing activities	<u>(32,987,618)</u>	<u>(24,417,193)</u>
Cash provided by (used in) capital financing activities:		
Congressional appropriations	65,330,528	79,790,562
Funds returned to U.S. Treasury	(98,143,399)	(99,506,613)
Interest on Federal investment - purchase power deferral	<u>(1,306,531)</u>	<u>(1,317,422)</u>
Net cash used in capital financing activities	<u>(34,119,402)</u>	<u>(21,033,473)</u>
Net increase (decrease) in cash	(14,868,409)	6,912,930
Cash at beginning of year	<u>45,888,368</u>	<u>38,975,438</u>
Cash at end of year	\$ <u><u>31,019,959</u></u>	<u><u>45,888,368</u></u>
Noncash investing activities and other transactions -		
Transfer of plant in service from other Federal agencies	\$ <u><u>145,325</u></u>	<u><u>518,988</u></u>
AFUDC included in interest expense on Federal investment	\$ <u><u>3,087,573</u></u>	<u><u>1,652,928</u></u>

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

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 1995, and 1994

(1) Summary of Significant Accounting Policies

General Information and Basis of Preparation of Financial Statements

The accompanying combined financial statements of the Southwestern Federal Power System (SWFPS) include the accounts of the Southwestern Power Administration (Southwestern), a unit of the U.S. Department of Energy (DOE), and the accounts of the Southwestern hydroelectric generating plants and power operations of the U.S. Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense. Southwestern and the Corps are separately managed and financed and each maintains its own accounting records. For purposes of financial and operational reporting, the facilities and related operations are considered one entity.

The Corps has constructed and operates hydroelectric generating plants in the states of Oklahoma, Missouri, Arkansas, and Texas. Costs of multi-purpose Corps projects are allocated to power and non-power purposes. The portion of such project costs allocated to power is included in the financial statements. Southwestern, as designated by the Secretary of the DOE, purchases, transmits, and markets power.

The SWFPS is subject to the regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with generally accepted accounting principles, the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE, and the requirements of specific legislation and executive directives issued by government agencies. The SWFPS' financial statements are prepared in accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS No. 71), which requires that the effects of the rate-making process be recorded. Such effects can provide reasonable assurance about the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Confirmation and Approval of New Rates

Integrated system rate schedules were confirmed and approved by the FERC on a final basis on September 18, 1991. These rates were placed into effect on a two-step incrementally increasing basis for the period October 1, 1990, through September 30, 1994. The final increase of 5.7 percent became effective April 1, 1992. On August 29, 1994, the rates were extended through September 30, 1995, by the Deputy Secretary of Energy. The Sam Rayburn and Robert Douglas Willis projects are presently under rates which were confirmed and approved by FERC on a final basis on August 11, 1993, and are in effect from

October 1, 1993, through September 30, 1997.

Utility Plant and Depreciation

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

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Service lives are currently estimated to average approximately 41 years for transmission plant and 93 years for generating plant.

Unexpended Appropriations

Unexpended appropriations consist of the unexpended balance of funds appropriated by Congress for construction and operation and maintenance purposes and are maintained by the U.S. Treasury. For purposes of the statements of cash flows, unexpended appropriations are considered to be cash.

Congressional Appropriations

Congressional appropriations received by the Corps are authorized and allocated to individual projects on a total project basis. These total project allocations are further distributed between power and non-power purposes at the discretion of project management. Power purpose allocations may vary from actual amounts expended during the year. It is the intent of the Corps' project management to distribute congressional appropriations in amounts approximating estimated current year expenses and to adjust the distribution as necessary within the limits of the transfer authority residing at the district level.

Purchase Power and Banking Exchange Deferral and Receivable

A separate rate component (adder) recovers the cost of purchased power based upon the average purchased power costs over the past several years. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through rates. Likewise, if the expense is less than the adder, the excess revenue is deferred. In 1988, the SWFPS determined that the deferred revenue accumulated from

the adder exceeded estimated requirements. As a result, refunds of the adder have been accomplished by including a purchase power credit in the rate schedules approved for the period July 1, 1988, through September 30, 1995. The SWFPS calculates interest on the purchased power deferral at the applicable current interest rate established in the fiscal year of the deferral. Such interest is deferred to offset future purchase power costs.

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

Operating Revenues

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

As set forth in "Utility Plant and Depreciation" above, assets are being depreciated for financial reporting purposes using the straight-line method over their estimated service lives which currently average approximately 41 years for transmission facilities and 93 years for generating facilities. Accordingly, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of generating facilities, continue beyond the period within which such costs will have been recovered through rates.

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

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

Interest on Federal Investment

Interest on Federal investment is a cost mandated by the

Secretaries of the Departments of Energy and Defense and the FERC. Southwestern computes interest in accordance with DOE Order RA 6120.2 which provides that interest be computed on the remaining investment after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment bearing the highest interest rate (see Note 4).

Allowance for Funds Used During Construction (AFUDC)

The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate making process over the repayment life of the related property through increased revenues resulting from higher recoverable investment. The interest rates used are established by law, administrative order or administrative policy for the fiscal year during which the construction commenced (7.25 percent for fiscal year 1995).

Retirement Benefits

The SWFPS employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), both of which are contributory defined benefit pension plans. Retirement benefit expenses under the CSRS are equivalent to 7 percent of eligible employee compensation. Under the FERS, expenses are variable based on the options chosen by the participant, but do not exceed 18.4 percent of eligible employee compensation. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM).

The contribution levels as legislatively mandated do not reflect the total current cost/full cost requirements to fund the pension plans. Additional sources of funding include direct appropriations as provided to the OPM, not the individual agencies. The costs of health and life insurance benefit programs are similarly administered and paid through the OPM.

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, directs the full cost reporting of employment benefits by employing entity. Under this concept, Southwestern (and the agencies identified above comprising the reporting entity) will be required to accrue the costs to the Federal government of providing pension, life, health, and other post-employment benefits (severance payments, counseling and training, workers compensation benefits, etc.), "regardless of whether the benefits are funded by the reporting entity or by direct appropriations to the trust funds". SFFAS No. 4 will be effective after September 30, 1996.

Income Taxes

The SWFPS' income and facilities are exempt from taxation.

Reclassifications

Certain 1994 amounts in the accompanying statement of cash flows have been reclassified to conform to the 1995 combined financial statement presentation.

(2) Utility Plant

Plant in service and construction and retirement work in progress consist principally of generating and transmission facilities as follows:

	<u>1995</u>	<u>1994</u>
Generating facilities	\$ 940,862,978	926,360,391
Transmission facilities	163,050,899	145,358,811
	<u>\$1,103,913,877</u>	<u>1,071,719,202</u>

(3) Tentative Cost Allocations

Allocations of plant cost and operation and maintenance expense between power and non-power purposes for four of the Corps' operating projects are presently based on tentative allocations. At September 30, 1995, total plant costs for these four projects were \$1,191,205,221, of which \$313,725,865 was tentatively allocated to power and subject to adjustment. The amount of adjustments that may be necessary when final allocations are approved for these projects is not presently determinable. When final allocations are made, the cumulative effect will be determined and reflected as an adjustment to the financial statements at that time.

The Harry S. Truman project has a tentative cost allocation of \$157,767,168. Since being placed in service, this project's operations have been restricted because of limited water flow. The restrictions have prevented the project from producing power to its design capacity. A final determination of when, if ever, the project can reach full generating capacity has not yet been made. If the restriction on generating capacity is not removed, some change in allocation of cost may be required. If such a change in allocation is required, the cumulative effect will be determined and reflected as an adjustment to the financial statements at that time.

(4) Investment of U.S. Government

Construction and operation of the SWFPS transmission system and the Corps' generating plants and operations are financed through Congressional appropriations, except for the Robert Douglas Willis project which is financed by other parties. The U.S. Government's investment in each generating project and each year's investment in the transmission system is to be repaid to the U.S. Treasury within the service lives of the assets, not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis. Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 1995. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accom-

plished by repayment of the highest interest-bearing investment first. Interest rates applied to the unamortized initial investment of the U.S. Government in the Corps' hydroelectric plants range from 2.5 percent to 3.125 percent for facilities in service at the beginning of the year and 7.25 percent for facilities placed in service during 1995. Interest rates applied to the unamortized investment of the U.S. Government in Southwestern transmission facilities are approximately 2.5 percent for facilities in service at the beginning of the year and 7.25 percent for facilities placed in service during 1995. The rates have been set either by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

(5) Commitments and Contingencies

Based on the 1995 Integrated System Power Repayment Study, the projected increase in capital investment in 1996 is \$11,382,400 which includes \$6,588,100 for transmission facilities and \$4,794,300 for generating facilities. The 5 year investment increase projected in the 1995 Power Repayment Study for 1996 through 2000 is estimated to cost \$96,605,957.

The SWFPS is a party to certain claims and legal actions arising in the ordinary course of business. In addition, the Corps has begun studies for the purpose of determining whether possible environmental contamination exists at various dam locations. The cost of remediation, if any, at these sites is unknown. In management's opinion, these actions will not have a material adverse effect on the financial condition or results of operations of the SWFPS.

(6) Restatement of Federal Investment

It was not determined how to properly recognize interest on Federal investment for power assets placed into service by the Corps districts within the SWFPS between 1970 and 1988. Interior Department Order 2929 was issued in 1970 and generally requires the use of annual interest rates as set by the U.S. Treasury Department for new power projects. The Corps and the DOE agreed in 1983 to begin using the U.S. Treasury interest rate in the calculation of the interest on the Federal investment related to new power projects. The agreement also stipulated that the interest rates from 1970 to 1983 be analyzed to insure compliance with the agreement. No Corps district had implemented the U.S. Treasury interest rate provisions prior to fiscal year 1989.

Additional interest, if any, on Federal investment for the period 1970 to 1988 has not been included in the accompanying financial statements. Resolution of this matter may require additional interest on Federal investment to be recognized.

SOUTHWESTERN FEDERAL POWER SYSTEM
Combining Statements of Assets, Federal Investment, and Liabilities
September 30, 1995

<u>Assets</u>	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 126,152,967	932,758,752	1,058,911,719
Accumulated depreciation	(31,563,665)	(242,379,167)	(273,942,832)
Construction work in progress	37,247,605	8,104,226	45,351,831
Retirement work in progress	(349,673)	-	(349,673)
Net utility plant	<u>131,487,234</u>	<u>698,483,811</u>	<u>829,971,045</u>
Current assets:			
Unexpended appropriations	19,901,806	11,118,153	31,019,959
Accounts receivable	15,447,141	37,473	15,484,614
Materials and supplies, at average cost	<u>6,363,435</u>	<u>-</u>	<u>6,363,435</u>
	<u>41,712,382</u>	<u>11,155,626</u>	<u>52,868,008</u>
Banking exchange receivable	15,111,062	-	15,111,062
Other assets	<u>22,591</u>	<u>885,330</u>	<u>907,921</u>
	<u>\$ 188,333,269</u>	<u>710,524,767</u>	<u>898,858,036</u>
<u>Federal Investment and Liabilities</u>			
Federal investment:			
Investment of U.S. Government:			
Congressional appropriations	\$ 589,384,453	1,400,133,836	1,989,518,289
Interest on Federal investment	35,903,899	602,956,447	638,860,346
Transfers from other federal agencies	<u>14,574,521</u>	<u>12,294,539</u>	<u>26,869,060</u>
Gross Federal investments	<u>639,862,873</u>	<u>2,015,384,822</u>	<u>2,655,247,695</u>
Funds returned to U.S. Treasury	<u>(575,482,361)</u>	<u>(1,319,804,110)</u>	<u>(1,895,286,471)</u>
Net investment of U.S. Government	64,380,512	695,580,712	759,961,224
Accumulated net revenues	<u>83,660,315</u>	<u>8,817,990</u>	<u>92,478,305</u>
Total Federal investment	<u>148,040,827</u>	<u>704,398,702</u>	<u>852,439,529</u>
Current liabilities - accounts payable and accrued liabilities	6,981,137	6,126,065	13,107,202
Purchase power and banking exchange deferral	32,994,983	-	32,994,983
Hydropower revenue deferral	<u>316,322</u>	<u>-</u>	<u>316,322</u>
Total liabilities	<u>40,292,442</u>	<u>6,126,065</u>	<u>46,418,507</u>
Total Federal investment and liabilities	<u>\$ 188,333,269</u>	<u>710,524,767</u>	<u>898,858,036</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Assets, Federal Investment, and Liabilities

September 30, 1994

<u>Assets</u>	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 120,109,786	917,623,213	1,037,732,999
Accumulated depreciation	(29,439,979)	(232,666,460)	(262,106,439)
Construction work in progress	25,154,902	8,737,178	33,892,080
Retirement work in progress	94,123	-	94,123
Net utility plant	<u>115,918,832</u>	<u>693,693,931</u>	<u>809,612,763</u>
Current assets:			
Unexpended appropriations	32,999,214	12,889,154	45,888,368
Accounts receivable	10,272,363	36,543	10,308,906
Materials and supplies, at average cost	5,539,947	-	5,539,947
	<u>48,811,524</u>	<u>12,925,697</u>	<u>61,737,221</u>
Banking exchange receivable	16,144,112	-	16,144,112
Other assets	10,493	972,321	982,814
	<u>\$ 180,884,961</u>	<u>707,591,949</u>	<u>888,476,910</u>
 <u>Federal Investment and Liabilities</u>			
Federal investment:			
Investment of U.S. Government:			
Congressional appropriations	\$ 568,068,452	1,356,119,309	1,924,187,761
Interest on Federal investment	34,528,451	585,365,817	619,894,268
Transfers from other federal agencies	14,574,521	12,149,214	26,723,735
Gross Federal investment	617,171,424	1,953,634,340	2,570,805,764
Funds returned to U.S. Treasury	(549,989,294)	(1,247,153,778)	(1,797,143,072)
Net investment of U.S. Government	67,182,130	706,480,562	773,662,692
Accumulated net revenues (deficit)	71,021,891	(3,239,543)	67,782,348
Total Federal investment	<u>138,204,021</u>	<u>703,241,019</u>	<u>841,445,040</u>
Current liabilities - accounts payable and accrued liabilities	6,770,318	4,350,930	11,121,248
Purchase power and banking exchange deferral	35,608,965	-	35,608,965
Hydropower revenue deferral	301,657	-	301,657
Total liabilities	<u>42,680,940</u>	<u>4,350,930</u>	<u>47,031,870</u>
Total Federal investment and liabilities	<u>\$ 180,884,961</u>	<u>707,591,949</u>	<u>888,476,910</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Revenues, Expenses, and Accumulated Net Revenues

Year ended September 30, 1995

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 69,395,297	-	69,395,297
Municipalities	29,090,080	-	29,090,080
Federal and state agencies	3,809,122	-	3,809,122
Investor owned utilities	24,544	-	24,544
Banking exchange	4,175,241	-	4,175,241
Transmission service charges for others	3,217,493	-	3,217,493
Other	87,189	544,699	631,888
Total operating revenues before deferrals	109,798,966	544,699	110,343,665
Net purchase power credit and banking exchange	3,920,513	-	3,920,513
Revenue distributed to Corps	(71,181,999)	71,181,999	-
Total operating revenues	42,537,480	71,726,698	114,264,178
Operating expenses:			
Operation and maintenance	16,621,233	32,814,257	49,435,490
Purchase power and banking exchange	6,569,731	-	6,569,731
Depreciation	2,912,747	9,861,914	12,774,661
Transmission service charges by others	3,605,947	-	3,605,947
Other	-	(2,644)	(2,644)
Total operating expenses excluding interest	29,709,658	42,673,527	72,383,185
Net operating revenues	12,827,822	29,053,171	41,880,993
Interest expense on Federal investment	2,681,979	17,590,630	20,272,609
Allowance for funds used during construction (AFUDC)	(2,492,581)	(594,992)	(3,087,573)
Net interest expense	189,398	16,995,638	17,185,036
Net revenues	12,638,424	12,057,533	24,695,957
Accumulated net revenues (deficits):			
Balance, beginning of year	71,021,891	(3,239,543)	67,782,348
Balance, end of year	\$ 83,660,315	8,817,990	92,478,305

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Revenues, Expenses, and Accumulated Net Revenues

Year ended September 30, 1994

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 66,795,409	-	66,795,409
Municipalities	27,054,771	-	27,054,771
Federal and state agencies	4,347,196	-	4,347,196
Investor owned utilities	1,300	-	1,300
Banking exchange	6,381,237	-	6,381,237
Transmission service charges for others	3,015,334	-	3,015,334
Other	86,054	220,459	306,513
Total operating revenues before deferrals	107,681,301	220,459	107,901,760
Net purchase power credit and banking exchange	1,501,755	-	1,501,755
Revenue distributed to Corps	(66,600,549)	66,600,549	-
Total operating revenues	42,582,507	66,821,008	109,403,515
Operating expenses:			
Operation and maintenance	15,870,616	31,786,960	47,657,576
Purchase power and banking exchange	7,751,565	-	7,751,565
Depreciation	2,932,757	9,701,757	12,634,514
Transmission service charges by others	2,645,019	-	2,645,019
Other	-	(19,909)	(19,909)
Total operating expenses excluding interest	29,199,957	41,468,808	70,668,765
Net operating revenues	13,382,550	25,352,200	38,734,750
Interest expense on Federal investment	2,153,907	17,596,159	19,750,066
Allowance for funds used during construction (AFUDC)	(1,652,928)	-	(1,652,928)
Net interest expense	500,979	17,596,159	18,097,138
Net revenues	12,881,571	7,756,041	20,637,612
Accumulated net revenues (deficits):			
Balance, beginning of year	58,140,320	(10,995,584)	47,144,736
Balance, end of year	\$ 71,021,891	(3,239,543)	67,782,348

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Cash Flows

Year ended September 30, 1995

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash provided by (used in) operating activities:			
Net revenues	\$ 12,638,424	12,057,533	24,695,957
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	71,181,999	(71,181,999)	-
Depreciation	2,912,747	9,861,914	12,774,661
Interest expense on Federal investment	2,681,979	17,590,630	20,272,609
(Increase) decrease in:			
Accounts receivable	(5,174,778)	(930)	(5,175,708)
Materials and supplies	(823,488)	-	(823,488)
Banking exchange receivable	1,033,050	-	1,033,050
Other assets	(12,098)	86,991	74,893
Increase (decrease) in:			
Accounts payable and accrued liabilities	210,819	1,775,135	1,985,954
Purchase power and banking exchange deferral	(2,613,982)	-	(2,613,982)
Hydropower revenue deferral	14,665	-	14,665
Cash provided by (used in) operating activities	<u>82,049,337</u>	<u>(29,810,726)</u>	<u>52,238,611</u>
Cash used in investing activities:			
Additions to utility plant	(15,988,568)	(13,911,477)	(29,900,045)
Allowance for funds used during construction	<u>(2,492,581)</u>	<u>(594,992)</u>	<u>(3,087,573)</u>
Cash used in investing activities	<u>(18,481,149)</u>	<u>(14,506,469)</u>	<u>(32,987,618)</u>
Cash provided by (used in) capital financing activities:			
Congressional appropriations	21,316,001	44,014,527	65,330,528
Funds returned to U.S. Treasury	(96,675,066)	(1,468,333)	(98,143,399)
Interest on Federal investment - purchase power deferral	<u>(1,306,531)</u>	<u>-</u>	<u>(1,306,531)</u>
Cash provided by (used in) capital financing activities	<u>(76,665,596)</u>	<u>42,546,194</u>	<u>(34,119,402)</u>
Net decrease in cash	(13,097,408)	(1,771,001)	(14,868,409)
Cash at beginning of year	<u>32,999,214</u>	<u>12,889,154</u>	<u>45,888,368</u>
Cash at end of year	\$ <u>19,901,806</u>	<u>11,118,153</u>	<u>31,019,959</u>
Noncash investing activities and other transactions -			
Transfer of plant in service from other Federal agencies	\$ <u>-</u>	<u>145,325</u>	<u>145,325</u>
AFUDC included in interest expense on Federal investment	\$ <u>2,492,581</u>	<u>594,992</u>	<u>3,087,573</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Cash Flows

Year ended September 30, 1994

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash provided by (used in) operating activities:			
Net revenues	\$ 12,881,571	7,756,041	20,637,612
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	66,600,549	(66,600,549)	-
Depreciation	2,932,757	9,701,757	12,634,514
Interest expense on Federal investment	2,153,907	17,596,159	19,750,066
(Increase) decrease in:			
Accounts receivable	138,122	(7,309)	130,813
Materials and supplies	(1,614,128)	-	(1,614,128)
Banking exchange receivable	(564,527)	-	(564,527)
Other assets	(10,493)	(321,504)	(331,997)
Increase (decrease) in:			
Accounts payable and accrued liabilities	450,238	1,392,124	1,842,362
Purchase power and banking exchange deferral	(138,411)	-	(138,411)
Hydropower revenue deferral	<u>17,292</u>	<u>-</u>	<u>17,292</u>
Cash provided by (used in) operating activities	<u>82,846,877</u>	<u>(30,483,281)</u>	<u>52,363,596</u>
Cash used in investing activities:			
Additions to utility plant	(12,850,982)	(9,913,283)	(22,764,265)
Allowance for funds used during construction	<u>(1,652,928)</u>	<u>-</u>	<u>(1,652,928)</u>
Cash used in investing activities	<u>(14,503,910)</u>	<u>(9,913,283)</u>	<u>(24,417,193)</u>
Cash provided by (used in) capital financing activities:			
Congressional appropriations	33,586,999	46,203,563	79,790,562
Funds returned to U.S. Treasury	(98,498,904)	(1,007,709)	(99,506,613)
Interest on Federal investment - purchase power deferral	<u>(1,363,629)</u>	<u>46,207</u>	<u>(1,317,422)</u>
Cash provided by (used in) capital financing activities	<u>(66,275,534)</u>	<u>45,242,061</u>	<u>(21,033,473)</u>
Net increase in cash	2,067,433	4,845,497	6,912,930
Cash at beginning of year	<u>30,931,781</u>	<u>8,043,657</u>	<u>38,975,438</u>
Cash at end of year	\$ <u><u>32,999,214</u></u>	<u><u>12,889,154</u></u>	<u><u>45,888,368</u></u>
Noncash investing activities and other transactions -			
Transfer of plant in service (to) from other Federal agencies	\$ <u><u>(2,472)</u></u>	<u><u>521,460</u></u>	<u><u>518,988</u></u>
AFUDC included in interest expense on Federal investment	\$ <u><u>1,652,928</u></u>	<u><u>-</u></u>	<u><u>1,652,928</u></u>

Southwestern Power Administration, in conjunction with the Department of Energy and the other four Power Marketing Administrations, developed a list of common and program-specific performance measurements as required in the Chief Financial Officers (CFO) Act of 1990 to help monitor specific areas of interest.

Southwestern's nine performance measurements are grouped into two categories: Financial Performance Measures and Program Performance Measures. The Program Performance Measures consist of Transmission System Performance Measures and Environmental Performance Measures.

Financial Performance Measures

Southwestern has developed four financial performance measures for the past 9 years. These measures, used as management tools, include the debt service coverage ratio, cumulative principal payments as a percent of total Federal investment, percent variance of actual from planned annual principal payments, and net cash flow to the Treasury. The past 5 years' summarization of these measures is as follows:

	Fiscal Year				
	1991	1992	1993	1994	1995
1. Debt service coverage ratio	0.834	1.053	1.332	1.194	1.185
2. Cumulative principal payments as a percent of total Federal investment	22.84%	25.36%	29.86%	32.74%	36.38%
3. Percent variance of actual from planned annual principal payments	(8.90)%	13.08%	66.15%	35.98%	42.45%
4. Net cash flow to the Treasury (000's)	\$ 17,504	\$ 32,324	\$ 38,162	\$ 25,599	\$ 10,745

1. Debt service coverage ratio

Southwestern shares a statutory and administrative requirement to establish rates that repay the U.S. Treasury for the Federal investment of its hydroelectric power systems. Rates are designed under average water conditions to provide for a 1.0 or higher debt service coverage ratio. Generally, this ratio is recognized as a direct measure of the sufficiency of cash flows to cover planned payments of both principal and interest to the U.S. Treasury.

Five-year Analysis: Southwestern's debt service coverage ratio for 4 of the past 5 years has exceeded the 1.0 target, indicating that annual revenues were sufficient to service the agency's planned payments.

2. Cumulative principal payments as a percent of total Federal investment

This measure provides information showing the relationship between the cumulative amount of principal Southwestern has repaid to date and the total Federal investment to be repaid. While analysis of this indicator does not necessarily provide conclusive information without further analysis of additional factors such as the average of the system, relative interest rates, and other contractual commitments, the measure nevertheless provides information on the status of repayment.

Five-year Analysis: The measure illustrates that Southwestern has made continual progress toward the repayment of its total investment.

3. Percent variance of actual from planned annual principal payments

This measure provides direct information as to the agency's ability to meet its planned payments to the U.S. Treasury in any given year. As with other indicators that are influenced by current period revenues, a substantial variability will result in the amount of annual revenues being applied due to the variability caused primarily by water conditions of hydro-based systems.

Five-year Analysis: The variances cited above show that the agency's ability to match its planned principal payments is directly and significantly impacted by water conditions.

Reinventing Government, Southwestern Style

As a member of the Department's Procurement Streamlining and Electronic Commerce Committee, Southwestern was part of an effort which culminated in a 1995 project to develop an automated acquisition system. This effort has changed the way the agency does business by adding the efficiency of private industry with today's technology.

With the automated acquisition system, contracts of \$100,000 or less are awarded 75 percent faster than previously because of the streamlining of regulations. Another example of the system's efficiency is the comparison of man-hours required to make a contract award: an average of 17 with the new automated system as opposed to an

average of 399 before its development. This computes to approximately \$320 per action compared to \$5,200 previously.

With these and other process improvements in procurement and contracting, Southwestern was labeled "Best in Class" in three of nine survey categories by the Procurement Management Assessment Team based upon a survey from all Department procurement organizations. These successes demonstrate Southwestern's commitment to total quality in the workplace.

4. Net cash flow to the Treasury

This provides a measure of, among other things, the actual net cash flows (inflows less outflows) to the U.S. Treasury for a fiscal year. It provides a measure of either a cash sufficiency or deficiency. Variations in annual expenses and water conditions have a diluting impact on the efficiency of the measurement. Therefore, this measure should be used in conjunction with the other financial measures listed above to evaluate financial performances.

Five-year Analysis: In each of the past 5 years, Southwestern has been able to provide for the U.S. Treasury a positive net cash flow.

Program Performance Measures

Southwestern Power Administration's Program Performance Measures of Transmission System and Environmental Program Performance Measures were developed for the first time in fiscal year 1992. Therefore, the only established baseline to historically evaluate these performance measures is a 3 year comparison. However, Southwestern plans to establish benchmarks for each program category for maximum effectiveness in evaluating performance.

Transmission System Performance

Occupational Health and Safety Measures:

5. Lost work day case rate

This rate represents a ratio of the number of days away from work compared to total man-hours worked per year. This measure was established by the Bureau of Labor Statistics. Southwestern's rate for 1995 was 3.40 cases per 100 employees compared to 2.59 and 2.24 cases in 1994 and 1993, respectively.

6. Total recordable case rate

This rate represents a ratio of the number of all work-related injuries which result in loss of consciousness, restrictions of work or motion, transfer to another job, or medical treatment beyond first aid compared to the total man hours worked. This measure was established by the Bureau of Labor Statistics. Southwestern's rate in 1995 was 3.97 cases per 100 employees compared to 4.14 and 7.27 cases in 1994 and 1993, respectively.

7. Motor vehicle accident rate

This rate represents a ratio of all work-related motor vehicle accidents compared to the total vehicle miles driven. Southwestern's rate in 1995 was 2.52 accidents per one million miles driven compared to 3.67 and 4.93 in 1994 and 1993, respectively.

8. Transmission system performance index

Transmission system reliability is a fundamental requirement of every electrical utility operation to provide the desired electrical services. Determination of reliability is complex. Southwestern is monitoring criteria established by the North America Electric Reliability Council in an effort to measure this complex issue. The criteria in 1994 was identified as matching generation with its load obligation. In 1995, Southwestern had a 97.8 performance index compared to 96.5 percent reported in both 1994 and 1993.

Environmental Performance

9. Total kilograms (pounds) of Polychlorinated Biphenyl (PCB) disposed

While maintaining a competitive ability to serve Southwestern's customers, the mission must be completed in an environmentally safe manner. Disposal of any contaminated substances will be completed in a prompt and efficient manner. Southwestern will track this environmentally related information for compliance goals. Disposal of PCB-contaminated substances by Southwestern at a disposal facility approved by the Environmental Protection Agency amounted to zero kilograms (zero pounds) in 1995 compared to 3,744 kilograms (8,246 pounds) and 950 kilograms (2,093 pounds) in 1994 and 1993, respectively.

These pages are not a part of the auditor's report.

Fiscal Year 1995 Financial and Statistical Report

Summary of Results

Revenues for FY 1995 were \$114.3 million compared to \$109.4 million in FY 1994. This is the second highest revenue-producing year in Southwestern's 52-year history. Expenses, excluding depreciation, were \$76.8 million of which \$17.2 million was payment of interest on the investment.

Southwestern credited \$36.5 million to repayment in FY 1995 raising cumulative repayment of investment to \$366.4 million. This represents 36 percent of the total investment.

Southwestern's objectives are to:

- repay the initial power investment in each power project within 50 years of the project's on-line date (the start of commercial generation);
- repay the initial cost of each portion of the transmission system within 45 years of construction;
- repay the cost of replacements of such equipment within the service life of the equipment; and
- pay all costs associated with the operation and maintenance of the projects and the transmission system.

Annual Revenues and Expenses

millions of dollars

Annual and Cumulative Repayment of Capital Investment

millions of dollars

During FY 1995, the initial power investment in Southwestern's first power projects, Norfolk and Denison, were fully repaid. Initial power investment in the most recent of Southwestern's projects, Clarence Cannon, will be fully repaid by FY 2036. Initial capital costs of the Robert D. Willis project, which came on-line in FY 1990, were paid in advance by the non-Federal sponsor, the Sam Rayburn Municipal Power Agency.

(continued)

Discretionary Energy Distribution and Banking Activity

By month - millions of kilowatthours

Energy Generation

By month - millions of kilowatthours

Fiscal year 1995 again brought favorable water conditions. Energy production of 7,755 gigawatthours was well above the average generation of 5,570 gigawatthours and in fact, was the fifth highest in Southwestern's history.

Historical Hydroelectric Energy Generation

By year - billions of kilowatthours

Net Hydropower Generation

By month - millions of kilowatthours

September 30, 1995

Federal Investment in Generating and Transmission Facilities in Service

	1995	1994
Generating facilities	\$ 932,758,752	\$ 917,623,213
Transmission facilities	126,152,967	120,109,786
Total Investment	<u>\$1,058,911,719</u>	<u>\$1,037,732,999</u>
Adjustments:		
Retirement work-in-progress	(349,673)	94,123
Truman adjustment*	(31,012,966)	(30,190,906)
Dam Safety adjustment**	(20,217,749)	
Total repayable investment	<u>\$1,007,331,331</u>	<u>\$1,007,636,216</u>

*Adjustment reflecting Harry S. Truman's limited operating conditions and interim cost allocation rates.

**Dam Safety work not repayable per P.L. 99-662

Cumulative Repayment Status

	Robert D. Willis	Sam Rayburn	Integrated System	Total SWFPS
Revenues	<u>\$2,018,112</u>	<u>\$40,499,070</u>	<u>\$2,223,253,883</u>	<u>\$2,265,771,065</u>
Expenses				
Operations and Maintenance	1,789,774	15,170,043	770,335,734	787,295,551
Purchased power and service charge			540,612,291	540,612,291
Interest	(8,680)	14,717,261	556,733,505	571,442,086
Total expenses	<u>\$1,781,094</u>	<u>\$29,887,304</u>	<u>\$1,867,681,530</u>	<u>\$1,899,349,928</u>
Revenue applied to amortization (Cumulative amortization)	<u>\$ 237,018</u>	<u>\$10,611,766</u>	<u>\$ 355,572,353</u>	<u>\$ 366,421,137</u>
Total unpaid investment	<u>(\$ 237,018)</u>	<u>\$14,447,459</u>	<u>\$ 626,699,753</u>	<u>\$ 640,910,194</u>

Ten Year Statistical Summary*

September 30, 1995

	1995	1994	1993	1992
Revenue				
Annual gross revenue	\$ 114,264,178	\$ 109,403,515	\$ 115,748,101	\$ 103,077,010
Annual expense other than depreciation	(76,793,560)	(76,131,389)	(69,720,606)	(73,782,628)
Net (deficiency) revenues available for repayment	\$ 37,470,618	\$ 33,272,126	\$ 46,027,495	\$ 29,294,382
Less: Retirement losses	(938,268)	(1,067,273)	(197,259)	(1,076,739)
Cost allocation adjustment	—	—	—	—
Amount available for repayment	\$ 36,532,350	\$ 32,204,853	\$ 45,830,236	\$ 28,217,643
Repayable Investment				
Generation	\$ 881,528,037	\$ 887,432,307	\$ 884,193,326	\$ 882,954,779
Transmission	125,803,294	120,203,909	112,591,097	110,354,891
Total repayable investment in completed plant	\$1,007,331,331	\$1,007,636,216	\$ 996,784,423	\$ 993,309,670
System Statistics				
Total number of plants (hydro projects)	24	24	24	24
Number of kilometers of transmission line	2,220	2,220	2,220	2,220
Generating capacity (MW)	2,158	2,158	2,158	2,158
Cost of generating plant investment per kW	\$409	\$410	\$410	\$409
Number of customers	95	94	96	95
Number of full-time equivalent (FTE)***	196	203	192	192

Source and Disposition of Energy

Fiscal Year 1995

Where it Came From	Millions kWh	%	Where it Went	Millions kWh	%
Direct purchase	0	0.0	Losses	72.7	0.8
Interchange	658.1	7.8	Interchange	409.5	4.8
Borderline purchases	22.3	0.3	Contract exchange	236.6	2.8
Generated by hydro- electric plants of U.S. Army Corps of Engineers	7,754.6	91.9	Municipalities	2,181.9	25.9
Total	8,435.0	100.0	Government agencies	191.6	2.3
			Cooperatives	5,338.0	63.3
			Investor owned utility	4.7	0.1
			Total	8,435.0	100.0

1991	1990	1989	1988	1987	1986
\$ 94,862,623 (73,339,420)	\$ 95,460,791 (69,519,811)	\$ 91,006,581 (66,774,205)	\$ 91,226,822 (70,732,940)	\$ 90,561,574 (68,001,438)	\$ 102,825,673 (69,298,943)
\$ 21,523,203 (1,122,841)	\$ 25,940,980 (1,365,527)	\$ 24,232,376 (552,722)	\$ 20,493,882 (262,133)	\$ 22,560,136 (2,095,097)	\$ 33,526,730 (3,480,182) (88,355)
\$ 20,400,362	\$ 24,575,453	\$ 23,679,654	\$ 20,231,749	\$ 20,465,039	\$ 29,958,193
\$ 878,400,716 100,805,653	\$ 871,730,097 89,465,988	\$ 867,763,880 83,411,218	\$ 860,096,340 81,134,595	\$ 854,803,680 76,744,225	\$ 851,619,613 70,018,954
\$ 979,206,369	\$ 961,196,085	\$ 951,175,098	\$ 941,230,935	\$ 931,547,905	\$ 921,638,567
24	24	23	23	23	23
2,220	2,220	2,220	2,220	2,220	2,220
2,158	2,158	2,150	2,150	2,150	2,150
\$407 94	\$404 94	\$404 95	\$400 93	\$398 93	\$396 93
192	184	195	192	193	193

Source and Disposition of Revenue Dollar

Fiscal Year 1995

Where it Came From	\$000	%	Where it Went	\$000	%
Miscellaneous	3,849	3.4	Available for repayment	36,532	32.0
Deferred revenue	3,921	3.4	Interest expense	17,185	15.0
Investor owned utility	25	0.1	Purchased power and bank exchange	6,570	5.7
Government agencies	3,809	3.2	Transmission service charge	3,606	3.2
Municipalities	29,090	25.5	Operations, maintenance & other**	50,371	44.1
Cooperatives	69,395	60.7			
Banking exchange	4,175	3.7			
Total	114,264	100.0	Total	114,264	100.0

*The Financial Statistical Summary has been restated to reflect data used in Southwestern's Power Repayment Studies which include prior years' adjustments.

**Includes losses on retirement of assets booked through the depreciation reserve.

***Beginning 1994, student employees are included in FTE totals.

Detail of Power Sales

Fiscal Year 1995

Customer	Capacity kW	Energy Delivered (000) kWh	Revenue from Power Sales (Dollars)
Cooperatives			
Arkansas Electric Cooperative Corporation	189,000	706,287	\$ 8,990,067
Associated Electric Cooperative, Inc.	519,000	1,700,601	24,537,685
Brazos Electric Power Cooperative, Inc.	35,200	111,164	1,632,187
Cajun Electric Power Cooperative, Inc.	91,400	352,418	4,411,196
Kansas Electric Power Cooperative, Inc.	100,000	367,125	4,728,414
Kaw Valley Electric Cooperative, Inc.	1,000	3,790	47,916
Northeast Texas Electric Cooperative, Inc.	127,500	422,233	5,842,962
Rayburn Country Electric Cooperative, Inc.	44,100	284,115	2,807,693
Sam Rayburn Dam Electric Cooperative, Inc.	52,000	222,736	2,168,136
Tex-La Electric Cooperative of Texas, Inc.	28,200	182,645	1,801,083
Western Farmers Electric Cooperative	260,000	984,901	12,427,958
Total Cooperatives (11 customers)	1,447,400	5,338,015	\$ 69,395,297
Government Agencies			
Department of the Army, Ft. Sill, OK	36,700	157,701	\$ 3,233,216
Army Ammunition Plant, McAlester, OK	2,688	9,310	218,679
Grand River Dam Authority	0	900	4,680
Vance Air Force Base, Enid, OK	6,600	23,685	352,547
Total Government Agencies (4 customers)	45,988	191,596	\$ 3,809,122
Municipalities			
Anthony, Kansas	300	1,076	\$ 14,061
Augusta, Arkansas	3,700	13,388	173,865
Bentonville, Arkansas	18,000	66,796	854,629
Carthage, Missouri	7,000	26,558	344,079
Clarksville, Arkansas	19,100	79,099	953,014
Coffeyville, Kansas	1,900	7,147	90,814
Comanche, Oklahoma	4,200	15,590	227,356
Copan, Oklahoma	2,500	9,280	135,331
Duncan, Oklahoma	32,500	120,634	1,759,301
Eldorado, Oklahoma	1,300	4,825	70,372
Fulton, Missouri	3,000	10,971	141,868
Goltry, Oklahoma	900	3,315	48,601
Granite, Oklahoma	2,300	8,537	124,504
Hermann, Missouri	5,800	20,075	267,158
Higginsville, Missouri	3,000	10,798	140,780
Hominy, Oklahoma	10,000	37,118	541,324
Jonesboro, Arkansas	80,000	296,368	3,796,314
Kansas City, Kansas	38,600	142,410	1,828,762

Customer	Capacity kW	Energy Delivered (000) kWh	Revenue from Power Sales (Dollars)
Kansas Municipal Energy Agency (Topeka) (Serves 24 municipals)	11,200	39,282	\$ 519,994
Kennett, Missouri	11,000	41,524	540,934
Lafayette, Louisiana	18,000	42,894	730,980
Lamar, Missouri	12,000	46,043	576,280
Lexington, Oklahoma	4,100	15,103	221,404
Louisiana Energy & Power Authority (Serves 9 municipals)	29,000	109,844	1,433,978
Malden, Missouri	5,000	18,073	242,136
Manitou, Oklahoma	600	1,425	35,798
Minden, Oklahoma	2,400	3,407	39,478
Natchitoches, Louisiana	2,500	5,958	101,525
New Madrid, Missouri	4,500	15,000	210,847
Nixa, Missouri	5,300	19,090	256,201
Olustee, Oklahoma	700	2,598	37,893
Paragould, Arkansas	50,500	182,118	2,443,430
Paris, Arkansas	10,800	38,758	576,895
Piggott, Arkansas	4,900	17,588	262,051
Poplar Bluff, Missouri	39,500	143,130	1,914,767
Purcell, Oklahoma	14,500	52,036	774,534
Ryan, Oklahoma	1,900	7,052	102,852
Sam Rayburn Municipal Power Agency	7,350	30,021	294,312
Sikeston, Missouri	33,800	130,362	1,641,786
Skiatook, Oklahoma	11,000	42,229	525,039
Spiro, Oklahoma	4,000	14,735	216,004
Springfield, Missouri	50,000	180,081	2,344,921
Thayer, Missouri	2,800	10,396	132,995
Walters, Oklahoma	6,400	23,756	346,447
West Plains, Missouri	15,000	52,137	713,918
Wetumka, Oklahoma	2,600	9,651	140,744
Yale, Oklahoma	3,700	13,629	199,804
Total Municipalities (78 customers)	599,150	2,181,905	\$ 29,090,080
Utility Companies*			
Empire District Electric Company	0	2,820	\$ 14,664
Union Electric Company	0	1,900	\$ 9,880
Total Utility Companies (2 customers)	0	4,720	\$ 24,544
Total Southwestern Sales of Electric Power and Energy (95 customers)	2,092,538	7,716,236	\$102,319,043

*Sales to Utility Companies include only excess energy.

Power and Financial Data Summary

SOUTHWESTERN FEDERAL POWER SYSTEM

September 30, 1995

Project	FY On-Line Date	Installed Capacity kW	Est. Average Annual Energy (million kWh)	Net Energy Production (million kWh)	Cost Assigned to Power **	Total Project Cost **	Percent Cos Assigned to Power
Beaver (AR)	1965	112,000	172	211	\$ 59,376,872	\$ 86,866,281	68.4%
Blakely Mountain (AR)	1956	75,000	169	193	27,666,216	43,927,368	63.0%
Broken Bow (OK)	1970	100,000	129	166	25,287,324	47,225,818	53.5%
Bull Shoals (AR)	1953	340,000	785	1,069	70,360,019	107,375,509	65.5%
Clarence Cannon (MO)	1985	58,000	90	139	108,889,599	378,940,869	28.7%
Dardanelle (AR)	1965	124,000	613	724	48,157,868	97,431,371	49.4%
DeGray (AR)	1972	68,000	97	82	23,622,050	78,354,241	30.1%
Denison (OK/TX)	1945	70,000	219	462	23,244,623	73,978,391	31.4%
Eufaula (OK)	1965	90,000	260	443	37,436,540	137,946,794	27.1%
Ft. Gibson (OK)	1953	45,000	191	278	17,679,815	47,946,564	36.9%
Greers Ferry (AR)	1964	96,000	189	191	36,164,909	56,780,946	63.7%
Harry S. Truman (MO)	1982	*160,000	244	309	159,278,415	626,900,659	25.4%
Keystone (OK)	1968	70,000	228	368	28,116,777	130,881,239	21.5%
Narrows (AR)	1950	25,500	30	37	8,038,565	20,376,593	39.4%
Norfork (AR)	1944	80,550	184	252	19,111,531	75,966,801	25.2%
Ozark (AR)	1973	100,000	429	404	43,662,399	101,444,787	43.0%
Robert D. Willis (TX)	1989	7,350	37	30	0	8,129,140	0.0%
Robert S. Kerr (OK)	1971	110,000	459	744	45,849,473	107,659,201	42.6%
Sam Rayburn (TX)	1966	52,000	114	223	25,734,203	97,935,626	26.3%
Stockton (MO)	1973	45,200	55	97	19,823,649	87,428,067	22.7%
Table Rock (MO)	1959	200,000	495	736	54,424,907	81,343,301	66.9%
Tenkiller Ferry (OK)	1954	39,100	95	191	13,732,105	28,660,774	47.9%
Webbers Falls (OK)	1974	60,000	213	312	34,417,219	98,308,040	35.0%
Whitney (TX)	1955	30,000	73	94	10,787,900	51,629,717	20.9%
Totals		2,157,700	5,570	7,755	\$ 940,862,978	\$ 2,673,438,097	35.2%

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

**Includes construction work in progress with plant in service less contributions in aid of construction.

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