

**WARM SPRINGS
POWER & WATER ENTERPRISES**



**2007
ANNUAL REPORT**

To Tribal Council and Community Members:

Warm Springs Power & Water Enterprises (WSPWE) has been engaged in several different activities during the last few years. We are, as you will see in the financials, beginning to implement the mitigation measures as agreed in the new Federal Energy Regulatory Commission license for the Pelton Hydroelectric Project. The most significant activity that has been taking place over this year, and for the next two years, will be building the new Selective Water Withdraw Structure at the Round Butte Powerhouse, this will allow for the reintroduction of salmon above the hydroelectric complex.

Other activities we have been involved in include the renewal of the Bonneville Power Administration southern transmission line Right of Way. We have also been engaged in investigating other energy projects such as wind energy development and biomass. Renewable power generation is extremely attractive to utilities in the Northwest. Standards are being implemented by the three Northwestern states and California, which in short require the utilities to add renewable energy to their supply.

We are working with the Warm Springs Natural Resource Branch on reviewing the possibility of siting a natural gas transmission line across the reservation. This has come about as a result of increased natural gas demands in the Willamette Valley. The large pipeline that carries natural gas from Canada to Southern California is just east of the reservation. There is currently a new line being proposed to feed west into the Willamette Valley.

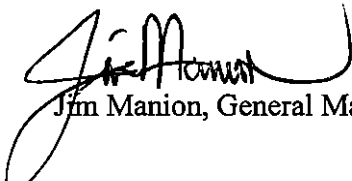
Tribal Council has instructed us to review what siting a natural gas pipeline across the reservation could provide us with and what the impacts and benefits would be. We will be involved in identifying those items along with the Natural Resources Branch. It isn't clear what and if this is something we want to recommend until we fully explore the benefits and risks.

On March 21, 2006 our name was changed, we are now Warm Springs Power & Water Enterprises. This change was made by Tribal Council Resolution No. 10607, when direction was given to explore and identify what opportunities we should be looking at when we begin to utilize our water rights. We have the largest untapped consumptive water right in the Northwest. This brings with it an immense responsibility to look at what that means and how can we utilize it over the years ahead. It is very clear in the revised Plan of Operations that WSPWE is to study and explore what opportunities there are for utilizing our water rights with no authority to implement. We will report our findings to Tribal Council and they will have the final decision on implementing any use.

The future for WSPWE looks bright with many things to explore for future development. The Pelton Project will continue to be a very important part of the Tribes overall economic viability. We will continue to watch over this project with that in the forefront. The reintroduction of Steelhead and Salmon into the upper basin will be an exciting development, but with this comes the large responsibility to insure the Tribes interest for restoration becomes a reality. We have, along with our Pelton partner Portland General Electric, committed to spend in excess of \$100 million dollars to see that become a reality.

Sincerely,


Ralph Minnick, Chairman of the Board


Jim Manion, General Manager

WARM SPRINGS POWER & WATER ENTERPRISES BOARD OF DIRECTORS



Ginger Smith, Ed Tarbell, Don Godard, Ralph Minnick and Morris Holliday

RALPH MINNICK

Board Chairman

WSPWE Board Member from 1985 – 2005, and since 2007

DON GODARD

Board Vice-Chairman

WSPWE Board Member since 2006

EDWARD TARBELL

WSPWE Board Member since 1997

MORRIS HOLLIDAY

WSPWE Board Member since 2005

GINGER SMITH

WSPWE Board Member since 2006

**WARM SPRINGS POWER & WATER ENTERPRISES
STAFF MEMBERS**



Heather Alford, Laurie Danzuka, Jim Manion, Mark Johnson, Jr. and Mike Lofting

JIM MANION, GENERAL MANAGER

with WSPWE since 1981

HEATHER ALFORD, EXECUTIVE SECRETARY

with WSPWE since 1997

MARK JOHNSON, JR., ENERGY SUPPORT TECHNICIAN

with WSPWE since 2007

MIKE LOFTING, CONTROLLER

with WSPWE since 1989

LAURIE DANZUKA, STAFF ACCOUNTANT

with WSPWE since 2007

**WARM SPRINGS POWER & WATER ENTERPRISES
BALANCE SHEET**

DECEMBER 31, 2007 & 2006

ASSETS	2007	2006
CURRENT ASSETS:		
CASH	\$2,519,778	\$2,330,399
INVESTMENTS	18,366,343	22,697,942
DUE FROM TRIBE	-	-
RECEIVABLES – TRADE	2,947,793	3,058,011
OPERATING TRUST ACCOUNT	-	-
PREPAID EXPENSES	170,101	158,826
	24,004,015	28,245,178
ELECTRIC UTILITY PLANT:		
PLANT IN-SERVICE	87,939,408	86,668,325
LESS ACCUMULATED DEPRECIATION	(40,457,696)	(38,826,120)
	47,481,712	47,842,205
CONSTRUCTION IN PROGRESS	14,728,983	3,559,754
	62,210,695	51,401,959
OTHER ASSETS:		
RESTRICTED INVESTMENTS	22,676,640	20,518,315
BOND ISSUANCE COST, NET OF ACCUMULATED AMORTIZATION	2,065,572	2,247,420
PREPAID BOND INSURANCE	3,697,821	4,020,366
	28,440,033	26,786,101
TOTAL ASSETS	\$114,654,743	\$106,433,238

**WARM SPRINGS POWER & WATER ENTERPRISES
BALANCE SHEET
(CONTINUED)**

DECEMBER 31, 2007 & 2006

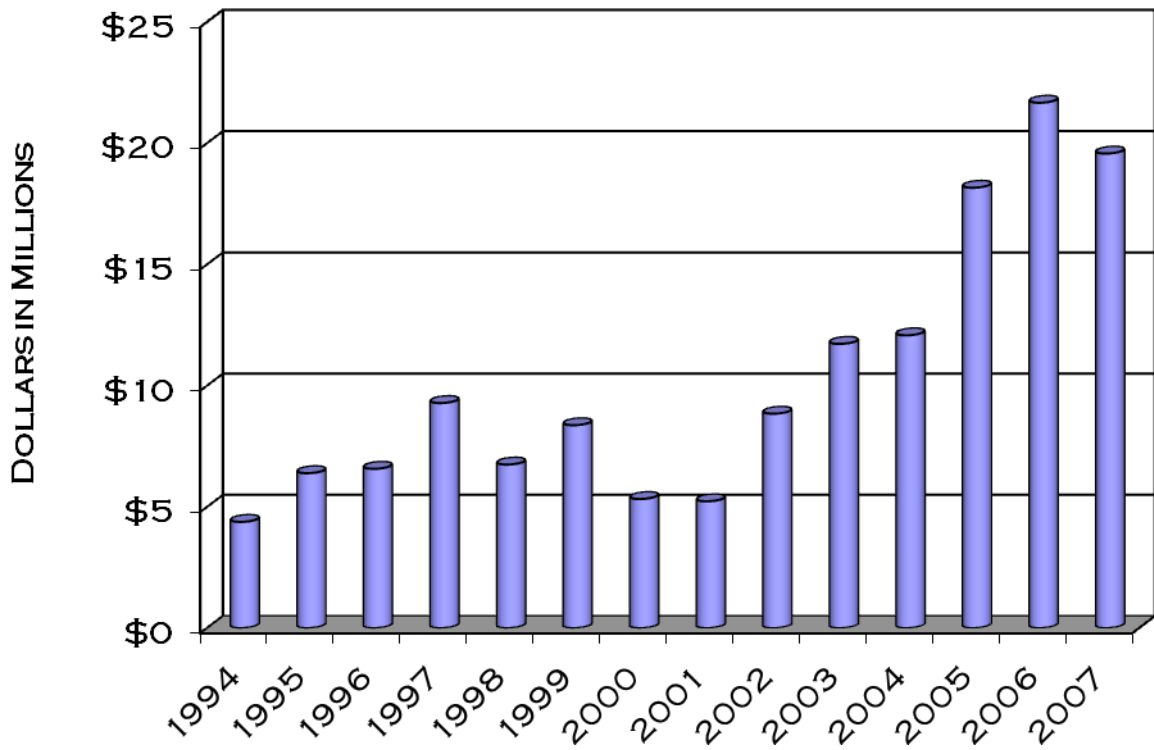
LIABILITIES	2007	2006
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	\$ 140,709	\$ 80,829
OPERATING TRUST ACCOUNT	1,314,175	406,733
DUE TO TRIBE	15,949	74,248
ACCRUED INTEREST PAYABLE	28,338	13,887
CURRENT PORTION OF DEBT	900,000	800,000
TOTAL CURRENT LIABILITIES	2,399,171	1,375,697
LONG-TERM DEBT, LESS CURRENT PORTION	46,800,000	47,700,000
TOTAL LIABILITIES	49,199,171	49,075,697
<u>NET ASSETS</u>		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	45,459,252	34,650,516
UNRESTRICTED	19,996,320	22,707,025
TOTAL NET ASSETS	65,455,572	57,357,541
TOTAL LIABILITIES AND NET ASSETS	\$114,654,743	\$106,433,238

WARM SPRINGS POWER & WATER ENTERPRISES
STATEMENT OF REVENUES

DECEMBER 31, 2007 & 2006

	2007	2006
OPERATING REVENUES		
POWER SALES	\$29,339,366	\$29,563,109
OTHER OPERATING REVENUES	216,008	92,471
	29,555,374	29,655,580
OPERATING EXPENSES		
ADMINISTRATIVE EXPENSES	1,282,628	1,129,520
OPERATION AND MAINTENANCE	4,599,102	3,593,111
DEPRECIATION	1,910,042	2,172,265
	7,791,772	6,894,896
OPERATING INCOME	21,763,602	22,760,684
NON-OPERATING REVENUES (EXPENSES)		
INVESTMENT INCOME	985,674	2,045,642
INTEREST EXPENSE	(2,673,377)	(2,595,797)
AMORTIZATION OF PREPAID BOND INSURANCE	(322,545)	(347,345)
AMORTIZATION OF BOND ISSUANCE COST	(181,848)	(195,869)
	(2,192,096)	(1,093,369)
INCOME BEFORE DIVIDEND TO TRIBE	19,571,506	21,667,315
DIVIDEND TO TRIBE	(11,473,475)	(10,000,000)
	8,098,031	11,667,315
CHANGE IN NET ASSETS	8,098,031	11,667,315
TOTAL NET ASSETS – BEGINNING OF YEAR	57,357,541	45,690,226
	\$65,455,572	\$57,357,541
TOTAL NET ASSETS – END OF YEAR	\$65,455,572	\$57,357,541

HISTORICAL NET INCOME

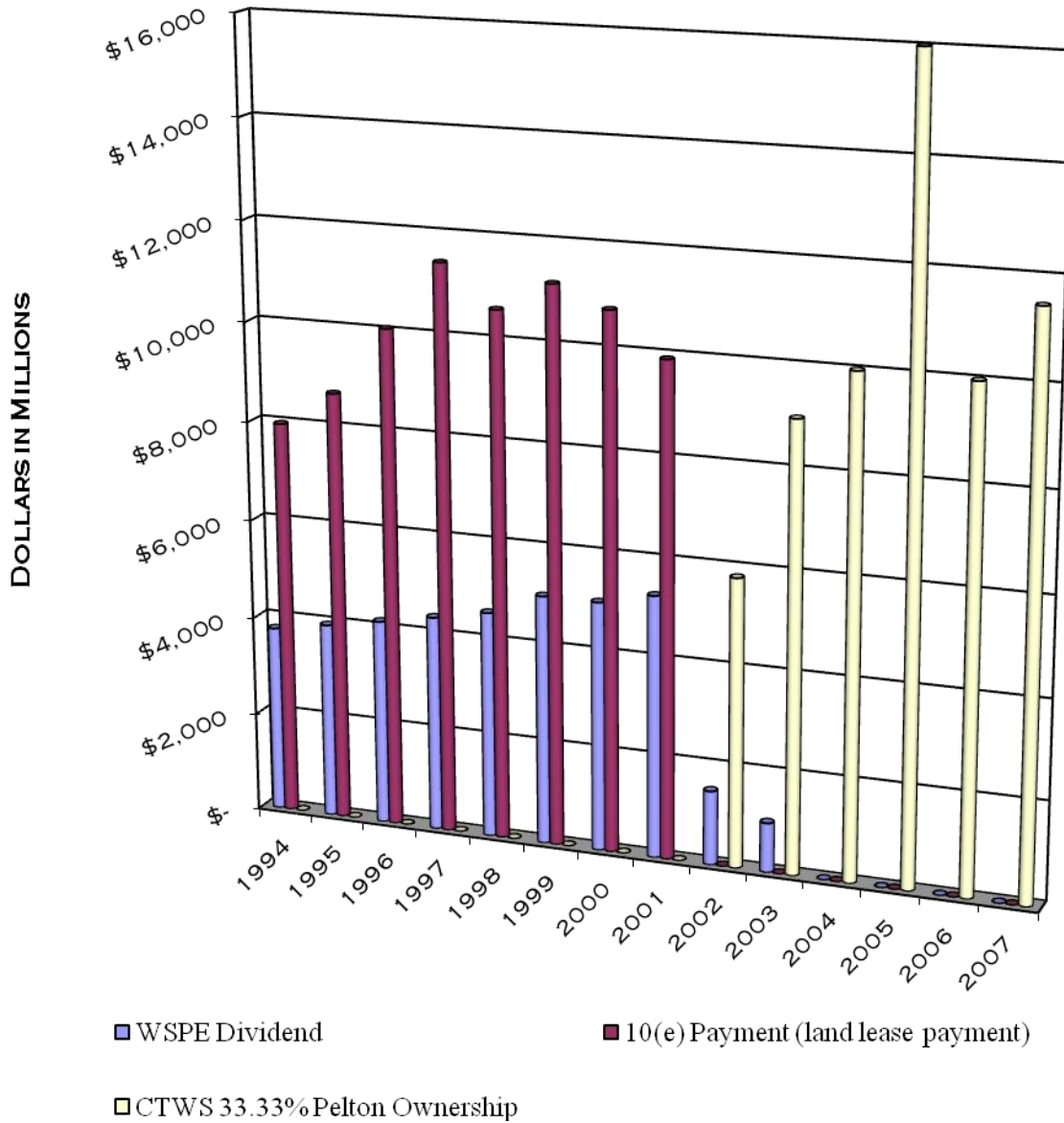


WARM SPRINGS POWER & WATER ENTERPRISES
STATEMENT OF CASH FLOWS

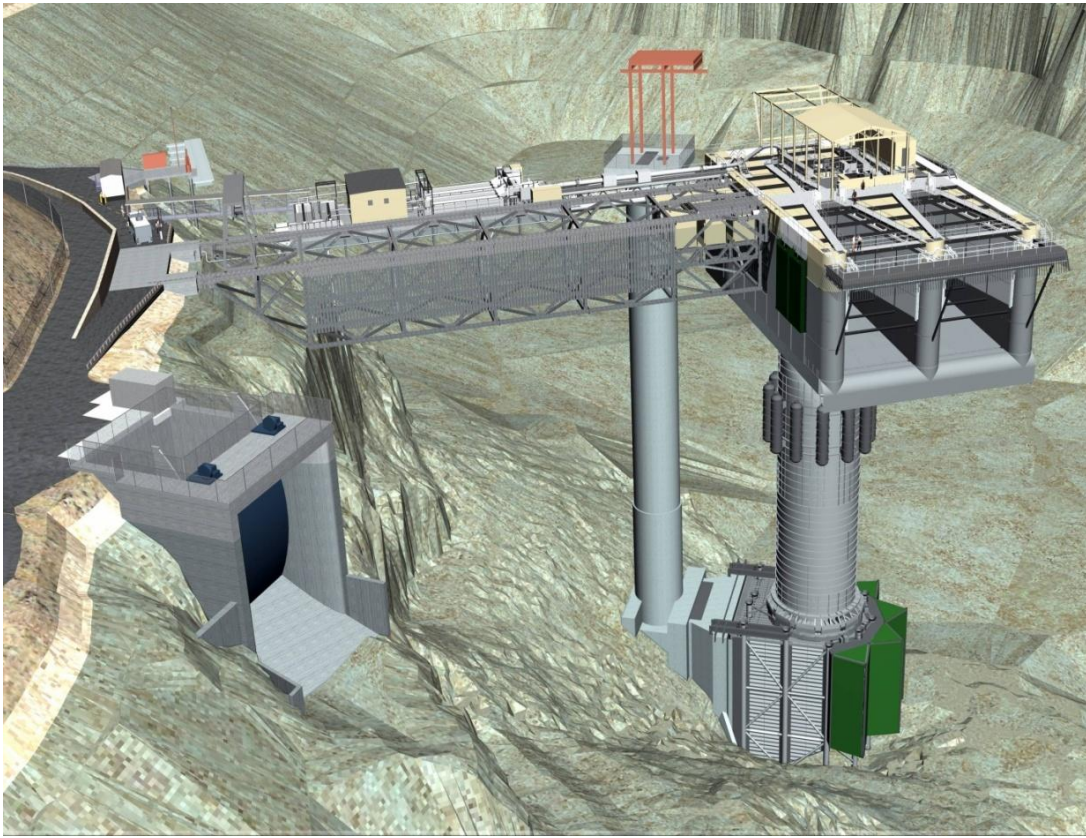
DECEMBER 31, 2007 & 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
RECEIVED FROM POWER SALES	\$ 29,665,592	\$30,771,232
PAYMENTS TO EMPLOYEES FOR SERVICES	(324,545)	(260,060)
PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(2,335,696)	(2,077,546)
PAYMENTS TO PROJECT OPERATOR	(2,270,454)	(2,567,363)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,734,897	25,866,263
CASH FLOWS USED BY NON-CAPITAL FINANCING ACTIVITIES		
DIVIDEND PAID TO TRIBE	(11,473,475)	(10,000,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PRINCIPAL PAID ON LONG-TERM DEBT	(800,000)	(800,000)
INTEREST PAID	(2,658,926)	(2,589,093)
CASH PAID FOR CONSTRUCTION IN PROGRESS AND PLANT ACQUISITIONS	(12,772,066)	(2,872,575)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(16,230,992)	(6,261,668)
CASH FLOWS FROM INVESTING ACTIVITIES		
INVESTMENT INCOME RECEIVED	2,340,475	1,723,488
PROCEEDS FROM SALE OF INVESTMENTS	32,171,126	25,244,898
CASH USED TO PURCHASE INVESTMENTS	(31,352,652)	(35,100,927)
NET CASH USED BY INVESTING ACTIVITIES	3,158,949	(8,132,541)
NET INCREASE (DECREASE) IN CASH	189,379	1,472,054
CASH AT BEGINNING OF YEAR	2,330,399	858,345
CASH AT END OF YEAR	\$ 2,519,778	\$ 2,330,399

CTWS HYDROELECTRIC DIVIDEND HISTORY



1. WSPW dividend is revenue generated through energy sales at the Reregulating powerhouse, which is owned entirely by CTWS.
2. 10(e) is a section in the Federal Power Act that addresses the compensation received by the Tribes and paid by PGE for use of tribal lands. This was the form of payment received for the time period between 1964 and 2001.
3. Revenues are currently generated through the sale of energy from the Tribes' share of the Pelton/Round Butte powerhouses and the Tribes' Reregulating powerhouse. This revenue satisfies the 10(e) requirement for tribal compensation.



A conceptual drawing of the selective water withdrawal tower currently under construction above the Round Butte Dam in Lake Billy Chinook.



Crane barge used to erect the temporary platform for the construction of the intake structure on the selective water withdrawal tower.



A crane barge excavating 250 feet below the surface of Lake Billy Chinook at the Round Butte Powerhouse intake structure.



Temporary barge platform used to construct the bottom structure.
It will also be used to construct the vertical flow conduit.

RENEWABLE ENERGY

WIND

Since 2002 WSPWE has been assessing the wind power potential on the Warm Springs Reservation. It has been identified that the Mutton Mountain area, located on the northern side of Warm Springs, has a 29-33% wind factor. Currently WSPWE is working on a feasibility and cost assessment for a 100MW wind farm.



Tribal Council and Committees stand in front of a wind turbine blade at the Biglow Wind Farm in Condon, Oregon.

GEOTHERMAL

WSPWE, along with GeothermEX, Inc., has done a feasibility assessment for a potential geothermal plant on the Warm Springs Reservation. A previous study done in the early 1990s concluded that the Warm Springs Reservation had a high potential for a geothermal power source near Mt. Jefferson on the southeast part of the Reservation. Currently WSPWE is pursuing a grant to drill three test holes in that area for further study.

View of Geothermal Resource site looking north from Lion's Head.



BIOMASS

WSPWE and WSFPI are currently working on a plan to build a 20MW biomass plant that would run off wood waste. A Biomass plant would be beneficial in many ways to the Warm Springs Reservation. It would help generate cash flow, provide employment and help improve forest health turning dead logs and logs infected by parasites into fuel.



**WARM SPRINGS POWER & WATER ENTERPRISES
OFFICE BUILDING**