

**WARM SPRINGS
POWER & WATER ENTERPRISES**



**2011
ANNUAL REPORT**



WARM SPRINGS POWER & WATER ENTERPRISES

To Tribal Council and Community Members:

2011 proved to be a year of challenges for Warm Springs Power & Water Enterprises. We started the year with plenty of snow in the Cascades, which is essentially the fuel supply for our hydroelectric system. In January of 2011, we were 125% of average for snowpack. By mid-year we began to see the impact Natural Gas prices had on the energy rates we were getting for hydro power. We are in a very dynamic industry today where one energy resource does impact the others. As we watched Natural Gas prices drop we saw the value of the energy we sell drop as well.

There are other factors that have impacted the revenue we receive for our energy. Renewable energy development in the Northwest has grown three fold. Bonneville Power Administration now manages 5,000 Mw's of wind energy. This growing resource impacts power prices by producing more energy than there is a demand for which in turn impacts the market price of the hydro power we produce. The other big factor is the amount of power being used is down, due in most part to a depressed economy. We will be reviewing ways to minimize impacts from the market during the coming year.

In 2011 we saw a drop in support necessary to go forward with a long term energy project we had been requested to complete. After nearly 10 years of work on a Biomass plant, it was decided that this project didn't fit within Tribal acceptance. We are forging ahead to review other energy projects that will bring value to the tribes and we will proceed with caution to insure we are in step with what is acceptable. We recently completed a comprehensive review of energy development opportunities and will explore how to advance those potentials.

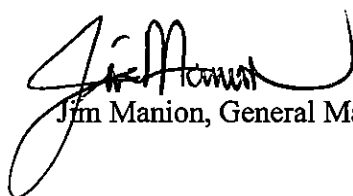
On a positive note, the Pelton Project continues to perform at the level we anticipated. Unit availability is at 90% or higher, meaning the generators produced energy when called upon. Generator replacements have been performed on all three generators at the Round Butte Powerhouse and two of the three turbines were upgraded. These improvements enabled us to generate more energy without any additional water.

We have been able to hire Tribal Members to work on the Project in positions with Portland General Electric. The employment opportunities are limited but we currently have five Tribal Members working on the project. We will continue to look at ways to expand employment opportunities and will hopefully see more openings with Portland General Electric as current employees retire.

We are beginning to see the return of salmon and steelhead that were planted in the upper basin. We continue to work with our neighbors to explore ways to enhance the basin to establish a successful reintroduction of the fish population in the upper basin. It was a clear objective that taking an ownership role in this hydroelectric project was a means to reach the goal of developing a potential fishery above the project for future generations. We have invested over \$42 million dollars in restoration work as a result of owning a portion of the Pelton Project. This was invested over the last 10 years. We have seen improvements in our area and will continue to engage in opportunities that strengthen our natural environment for years to come.

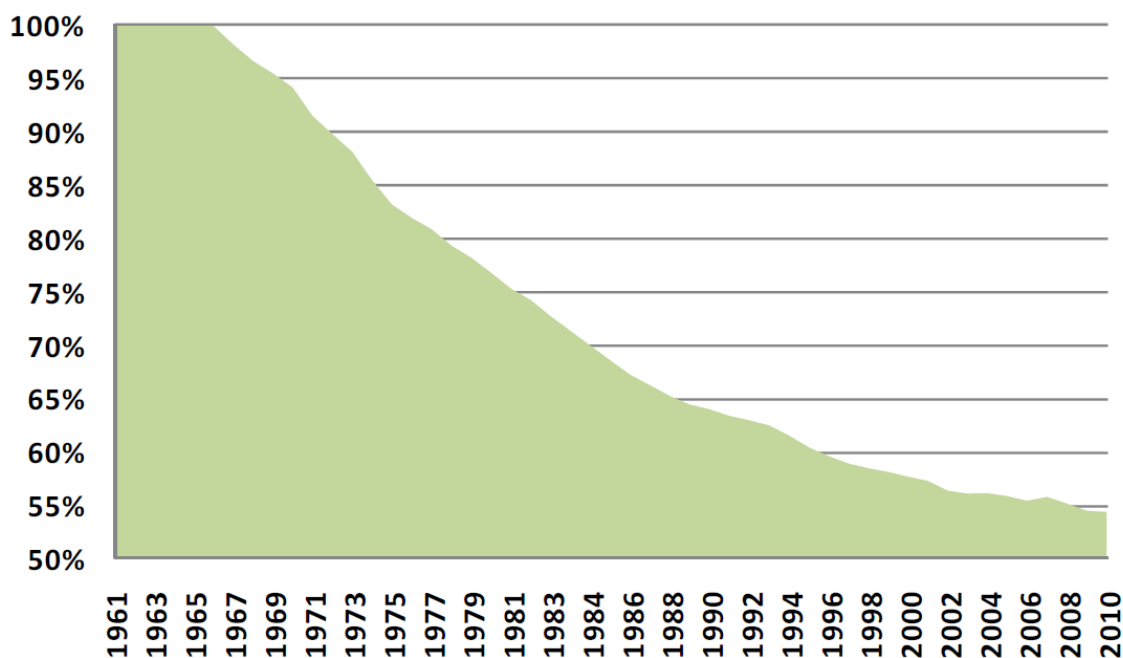
As we look into the future we see opportunities and challenges as we explore potential projects that will help in building a sustainable tomorrow for The Confederated Tribes of Warm Springs.

Sincerely,



Jim Manion, General Manager

Hydro Generation as Percent of Total NW Generation – 5-Year Moving Average



The Pacific Northwest¹ traditionally has benefitted from a large hydroelectricity generation portfolio. Forty years ago, 90% of northwest energy came from these facilities. With an average capacity factor of approximately 40%, the projects' capabilities greatly exceeded regional needs for decades.²

The chart above presents a history of hydroelectricity generation as a percentage of total Northwest Electricity generation, taken from (PNUCC) Northwest Regional Forecasts.

The chart shows that hydroelectric generation represents only 55% of the total energy generated in the Northwest today as compared to 50 years ago when hydro was 100% of the total energy generated. This has impacted our power prices.

¹ Defined as the states of Idaho, Oregon, Montana west of the Continental Divide and Washington.

² Capacity factor is calculated as the average hourly generation level across the year divided by the capacity level.

WARM SPRINGS POWER & WATER ENTERPRISES

BALANCE SHEET

DECEMBER 31, 2011 & 2010

<u>ASSETS</u>	2011	2010
CURRENT ASSETS:		
CASH	\$5,218,895	\$1,050,017
INVESTMENTS	7,407,438	7,735,577
DUE FROM TRIBE	-	-
RECEIVABLES – TRADE	1,749,732	1,829,383
OPERATING TRUST ACCOUNT	-	-
PREPAID EXPENSES	172,762	170,013
	14,548,827	10,784,990
ELECTRIC UTILITY PLANT:		
PLANT IN-SERVICE	136,156,562	136,038,871
LESS ACCUMULATED DEPRECIATION	(48,842,312)	(45,936,902)
	87,314,250	90,101,969
CONSTRUCTION IN PROGRESS	5,551,531	4,210,842
	92,865,781	94,312,811
OTHER ASSETS:		
RESTRICTED INVESTMENTS	14,219,834	11,794,026
	14,219,834	11,794,026
TOTAL ASSETS	\$121,634,442	\$116,891,827

WARM SPRINGS POWER & WATER ENTERPRISES
BALANCE SHEET
(CONTINUED)

DECEMBER 31, 2011 & 2010

<u>LIABILITIES</u>	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	\$ 181,477	\$ 224,825
GRANT DRAW PAYABLE TO DEPT. OF AG.	4,669,575	-
OPERATING TRUST ACCOUNT	652,638	1,603,617
DUE TO TRIBE	3,686	4,634
ACCRUED INTEREST PAYABLE	348,013	360,271
CURRENT PORTION OF DEBT	1,015,000	940,000
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TOTAL CURRENT LIABILITIES	6,870,389	3,133,347
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LONG-TERM DEBT, LESS DISCOUNT AND DEFERRED AMOUNT ON REFUNDING	49,479,391	49,750,275
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TOTAL LIABILITIES	56,349,780	52,883,622
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<u>NET ASSETS</u>		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT UNRESTRICTED	70,133,552 (4,848,890)	71,580,581 (7,572,376)
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TOTAL NET ASSETS	65,284,662	64,008,205
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TOTAL LIABILITIES AND NET ASSETS	\$121,634,442	\$116,891,827
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WARM SPRINGS POWER & WATER ENTERPRISES
STATEMENT OF REVENUES

DECEMBER 31, 2011 & 2010

	2011	2010
OPERATING REVENUES		
POWER SALES	\$18,116,486	\$20,352,867
OTHER OPERATING REVENUES	166,755	94,200
	18,283,241	20,447,067
OPERATING EXPENSES		
ADMINISTRATIVE EXPENSES	2,941,595	2,689,329
OPERATION AND MAINTENANCE	4,203,081	4,050,955
DEPRECIATION	2,975,037	2,549,272
	10,119,713	9,289,556
OPERATING INCOME	8,163,528	11,157,511
NON-OPERATING REVENUES (EXPENSES)		
INVESTMENT INCOME	(181,544)	1,048,195
INTEREST EXPENSE	(4,729,711)	(4,584,357)
GRANT REVENUE	-	2,816
	(4,911,255)	(3,533,346)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(4,911,255)	(3,533,346)
INCOME BEFORE DIVIDEND TO TRIBE	3,252,273	7,624,165
OTHER AFFILIATE TRANSFERS	24,184	(578,232)
DIVIDEND TO TRIBE	(2,000,000)	(7,500,000)
	1,276,457	(454,067)
CHANGE IN NET ASSETS	1,276,457	(454,067)
TOTAL NET ASSETS – BEGINNING OF YEAR	64,008,205	64,462,272
TOTAL NET ASSETS – END OF YEAR	\$65,284,662	\$64,008,205

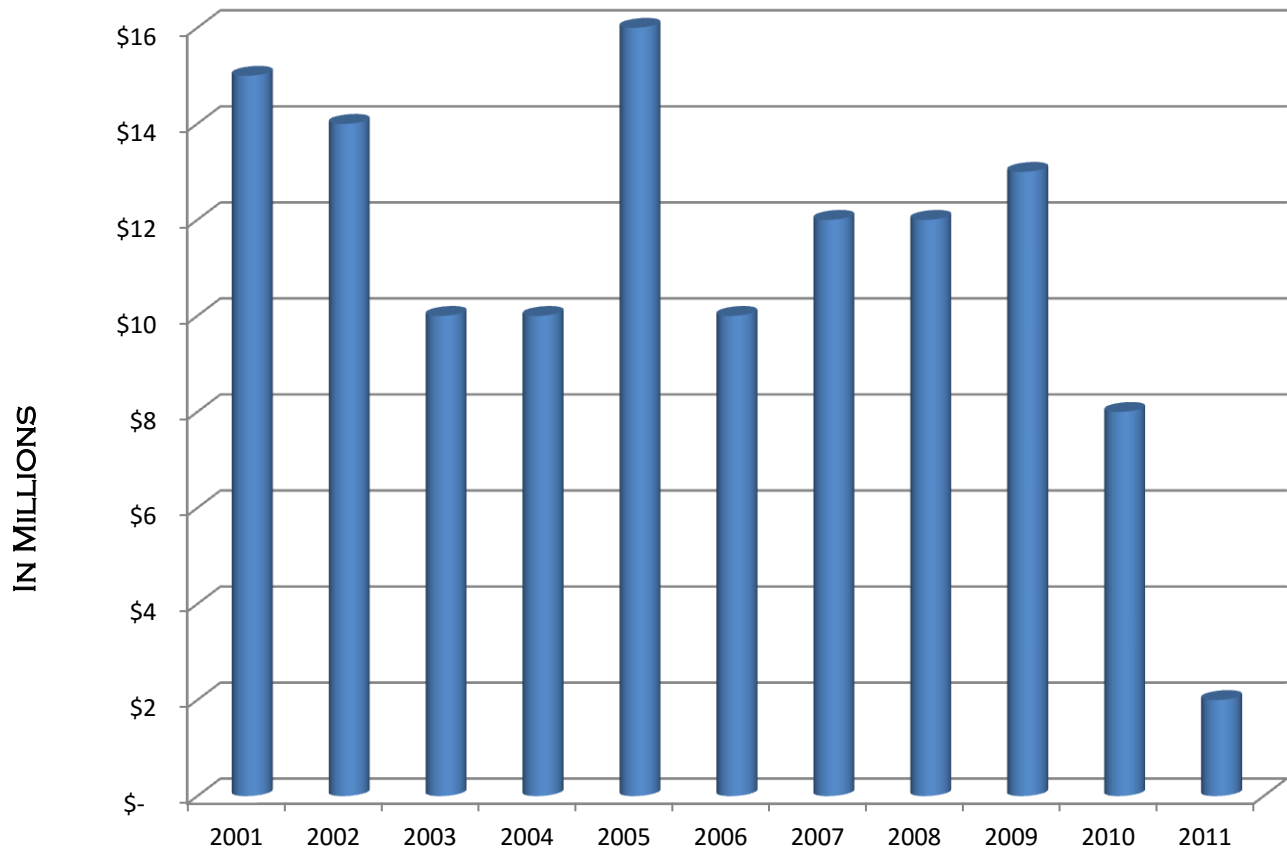
WARM SPRINGS POWER & WATER ENTERPRISES

STATEMENT OF CASH FLOWS

DECEMBER 31, 2011 & 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
RECEIVED FROM POWER SALES	\$ 18,362,892	\$20,985,639
PAYMENTS TO EMPLOYEES FOR SERVICES	(508,666)	(506,533)
PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(2,624,331)	(2,341,938)
PAYMENTS TO PROJECT OPERATOR	(5,009,702)	(3,380,215)
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,220,193	14,756,953
CASH FLOWS USED BY NON-CAPITAL FINANCING ACTIVITIES		
DIVIDEND PAID TO TRIBE	(2,000,000)	(7,500,000)
GRANT RECEIPTS	4,669,575	49,081
TRANSFERS AFFILIATE	24,184	(578,232)
NET CASH PROVIDED (USED) NONCAPITAL FINANCING ACTIVITIES	2,693,759	(8,029,151)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
COST OF ISSUANCE	-	(49,191)
PRINCIPAL PAID ON LONG-TERM DEBT	(940,000)	(940,000)
INTEREST PAID	(4,323,263)	(4,107,425)
CASH PAID FOR CONSTRUCTION IN PROGRESS AND PLANT ACQUISITIONS	(2,228,005)	(2,185,591)
INSURANCE PROCEEDS	1,025,404	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(6,465,864)	(7,282,207)
CASH FLOWS FROM INVESTING ACTIVITIES		
INVESTMENT INCOME RECEIVED	312,015	312,214
PROCEEDS FROM SALE OF INVESTMENTS	13,419,578	20,138,834
CASH USED TO PURCHASE INVESTMENTS	(16,010,803)	(18,988,707)
NET CASH USED BY INVESTING ACTIVITIES	(2,279,210)	1,462,341
NET INCREASE (DECREASE) IN CASH	4,168,878	907,936
CASH AT BEGINNING OF YEAR	1,050,017	142,081
CASH AT END OF YEAR	\$ 5,218,895	\$ 1,050,017

DIVIDEND TO TRIBE FROM PELTON PROJECT



The dividend to the Tribes from the Pelton project is revenue generated through energy sales at the Reregulating powerhouse, which is owned entirely by CTWS and from the sale of energy from the Tribes' share of the Pelton/Round Butte Project.



This is the first returning adult Spring Chinook, captured at the reregulating fish facility. This fish was initially released as a small fry in the upper basin above the Round Butte Dam. It migrated down and out to the ocean and returned three years later. This is first step in a long process to reestablish a tribal fishery above the Pelton Project.

Crews lining North Units main feed irrigation canal up near Bend, OR. This process will allow for the Middle Deschutes to increase summertime flows by sealing the banks, less seepage occurs and less water is needed to deliver irrigation water to the fields. The Pelton Project assisted in funding this effort. It is required in our license to assist in funding upper basin projects, which in turn helps with salmon reintroduction.



Ellis Langley was recently hired to work with Portland General Electric in a Hydro Maintenance Position on the Pelton Round Butte Project.

There are currently four Warm Springs Tribal Members employed by Portland General Electric working in various positions on the project.

WARM SPRINGS POWER & WATER ENTERPRISES BOARD OF DIRECTORS



Carlos Smith (appointed April 2012), Ralph Minnick, Don Godard,
Morris Holliday and Ed Tarbell



Atwai Benson Heath served on the Warm Springs Power and Water Enterprises Board of Directors from 2003 to 2006 and then again from 2009 until the time he passed.

Benny served on the Wasco Electric Cooperative Board from 1989 until 2006. With his knowledge gained from many years with Wasco Electric combined with his knowledge from 34 years working within the Tribes Personnel Department, Benny was a valuable asset to WSPWE's endeavors. Being raised within a traditional family, Benny's unique prospective helped to guide the decisions that the Board of Directors made for the Tribes.

Aside from all of the above mentioned contributions to WSPWE, Benny was also a great asset to have on the WSPWE golf scramble team. He will be missed.