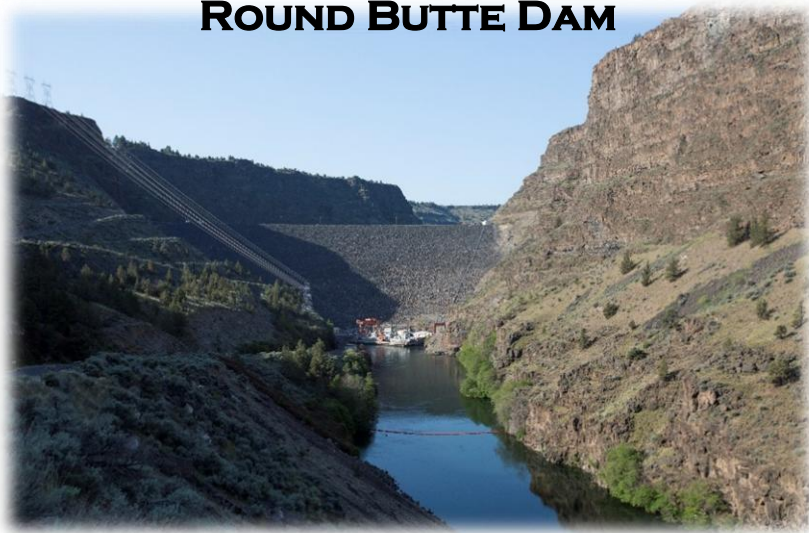


**WARM SPRINGS
POWER & WATER ENTERPRISES**

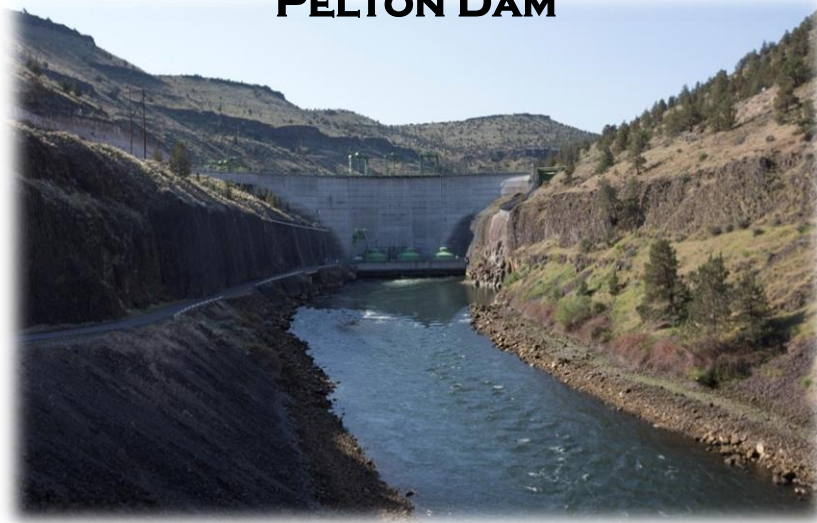


**2015
ANNUAL REPORT**

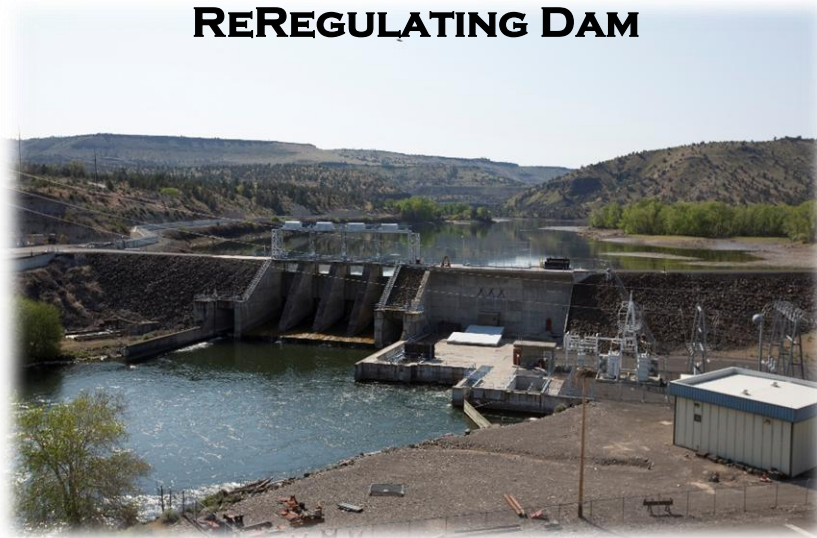
ROUND BUTTE DAM



PELTON DAM



REREGULATING DAM



A Message to the Membership

During the past five years we have experienced unprecedented price drops in the wholesale energy market in the Northwest. There are several factors that have changed the landscape for energy producers in the Northwest. The two biggest factors are renewable energy resources and natural gas. At any given hour we can see wind generation go from zero Megawatts to 4,000 Megawatts. This has a big impact on market prices and affects all available energy to meet demand. The other renewable resource affecting the market price is solar power, this resource is coming on strong and we will see more and more solar in the coming years. The number of new renewable energy developments has increased in the Northwest and by all accounts will continue to increase through the next decade. The other large influence causing energy prices to remain low is the current price of natural gas, another fuel supply for power stations in the region. Right now natural gas prices are at the same levels they were back in 1991. A new method for extraction through a process called fracking has increased the supply, making it more economical to generate power with Combined Cycle Combustion Turbines. Because of a large supply of low cost fuel, gas fired plants are running at lower operating costs, which in turn drives energy market pricing down.

In 2015, we struggled due to the price drops and the dividend payment was met with reserve funds from Warm Springs Power & Water Enterprises (WSPWE) investments. We will be hard pressed based on what we know today to continue using reserves to pay a dividend. The Board of Directors has made it very clear we must take drastic measures to insure we as an operating division of the Tribes stay financially solvent. With that, the dividend payment will be potentially reduced to levels not typical from WSPWE.

We will continue to explore other generating opportunities and see if we can put together a viable project that will be needed in the renewable energy requirements that the large utilities will be required to have in the near future. We received a grant to explore our renewable energy potential here on the reservation. This year we did some surface work to identify where the highest potential may be for a geothermal resource for a power plant. That information yielded enough positive information to submit a request to further our exploration and drill at a few sites in the Warm Springs River Basin area upstream from Kah-Nee-Ta.

Tribal Council has also authorized us to explore the consumptive water rights we have in the Deschutes basin. That is underway and a report for Tribal Council will be delivered in 2016.

We continue to be optimistic that this business will survive if we manage it prudently. Declaring dividends from surplus revenue and not reserves is something that the Enterprise is going back to and will place a high level of importance on extracting the most value out of this project as possible. Hydroelectric power will continue to have a place in the Northwest energy market, it has operating characteristics that wind and thermal plants don't.

The Pelton Project continues to follow the resource management requirements as described in the Federal License we were issued. There are many objectives described in the license that we must follow. We, along with our partner PGE, have invested over \$16 million in habitat restoration in the basin. We also have improvements that need to be undertaken to keep the powerhouses up-to-date and operating reliably. These two expenses are a necessity to insure we are being prudent and responsible operators on the river.

WARM SPRINGS POWER & WATER ENTERPRISES

Balance Sheets December 31, 2015 and 2014

| | 2015 | 2014 |
|---|----------------|----------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 926,749 | \$ 648,791 |
| Investments | 5,441,415 | 7,339,523 |
| Accounts receivables – trade | 1,271,911 | 1,622,988 |
| Prepaid expenses | 187,502 | 190,118 |
| Total current assets | 7,827,577 | 9,801,420 |
| Capital Assets: | | |
| Capital assets being depreciated | 154,888,756 | 151,876,197 |
| Less accumulated depreciation | (61,830,941) | (57,609,864) |
| | 93,057,815 | 94,266,333 |
| Capital assets not being depreciated | 2,444,272 | 3,843,604 |
| Capital assets, net | 95,502,087 | 98,109,937 |
| Other Assets: | | |
| Restricted investments | 13,075,886 | 13,418,307 |
| Total assets | \$ 116,405,550 | \$ 121,329,664 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | \$ 31,053 | \$ 3,739 |
| Operating Trust Account | 2,004,059 | 2,219,146 |
| Due to Tribe | 2,568 | 22,443 |
| Accrued interest payable | 353,092 | 288,678 |
| Current portion of debt | 1,395,000 | 1,285,000 |
| Total current liabilities | 3,785,772 | 3,819,006 |
| Bonds payable (net of unamortized discount) | 49,668,280 | 50,887,954 |
| Total liabilities | 53,454,052 | 54,706,960 |
| NET POSITION | | |
| Net investment in capital assets | 74,054,856 | 76,567,707 |
| Unrestricted | (11,103,358) | (9,945,003) |
| Total net position | 62,951,498 | 66,622,704 |
| Total liabilities and net position | \$ 116,405,550 | \$ 121,329,664 |

WARM SPRINGS POWER & WATER ENTERPRISES

Statement of Revenue, Expenses and Changes in Net Position Years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------|---------------|
| Operating Revenues: | | |
| Power sales | \$ 12,225,337 | \$ 19,143,735 |
| Payments under exclusive agreement | 4,000,000 | - |
| Other operating revenues | 173,244 | 196,162 |
| Total operating revenues | 16,398,581 | 19,339,897 |
| Operating Expenses: | | |
| Administration | 929,303 | 1,061,891 |
| Operation and maintenance | 5,675,454 | 5,293,591 |
| Strategic planning | 324,044 | 72,649 |
| Depreciation | 4,719,953 | 3,468,086 |
| Total operating expenses | 11,648,754 | 9,896,217 |
| Operating Income | 4,749,827 | 9,443,680 |
| Nonoperating revenues (expenses): | | |
| Investment income (loss) | (112,250) | 415,883 |
| Interest expense | (4,082,520) | (3,960,189) |
| Grant revenue – geothermal study | 273,737 | - |
| Total nonoperating revenues (expenses) | (3,921,033) | (3,544,306) |
| Income before transfers and dividend to Tribe | 828,794 | 5,899,374 |
| Dividend to Tribe | (4,500,000) | (3,650,000) |
| Change in net position | (3,671,206) | 2,249,374 |
| Net position – beginning of year | 66,622,704 | 64,373,330 |
| Net position – end of year | \$ 62,951,498 | \$ 66,622,704 |

WARM SPRINGS POWER & WATER ENTERPRISES

BOARD OF DIRECTORS

Olney Patt, Jr., Chairman
Don Godard, Vice-Chairman
Ed Tarbell
Carlos Smith
Kahseuss Jackson



PLEASE CONTACT WSPWE AT 541-553-1046 IF YOU HAVE ANY QUESTIONS.