

UPDATE

JANUARY - MARCH 2006



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The **UPDATE** is published by and for customers, retirees, and employees of Southwestern Power Administration like:



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Tracey Stewart
Cathy Stillson
Gary Swartzlander
Carlos Valencia
Aleta Wallace
Rutha Williams
&
Mike Carver, Fort Worth District COE

Drought – A Challenge for Everyone

With rainfall at record lows since the spring of 2005, water levels in the Federal reservoirs from which Southwestern markets power are showing the telltale signs of a severe lack of inflow. Drought conditions in Arkansas, Oklahoma, and Missouri have reached the “severe” to “extreme” status according to the Palmer Drought Severity Index. The National Weather Service’s Climate Prediction Center forecasts equally dry times ahead, with the drought persisting in this region through the spring and summer of 2006.



EUFULA DAM DISPLAYS A CONSPICUOUS WATERLINE, INDICATING WHERE THE LAKE ELEVATIONS USED TO BE IN WETTER TIMES.

Despite a few recent cold fronts that have brought some scattered showers, the ongoing reduction of inflows into the lakes is a cause of concern for all stakeholders. Southwestern Administrator Mike Deihl says he believes at times like these it is crucial for the agency to work closely with the U.S. Army Corps of Engineers (Corps), which owns and operates the multiple-purpose reservoirs, as well as with Southwestern’s customers and other water users, to formulate a regional approach to mitigating the effects of a continued shortage of available water resources.

“Even in the best of times, the water in these reservoirs is in great demand,” says Deihl. “When the levels drop, everyone feels the pinch, and it’s important for us to work together to make sure we are doing everything we can to address the concerns of all water users at the projects.”

Southwestern’s Drought Operations

Although drought conditions force a higher dependence on the water storage at the projects, Southwestern’s marketing and operating strategies are planned to prevent water storage from being completely depleted, in order to preserve marketable capacity.

“To meet our contract obligations and marketing requirements, we must have an operating strategy that preserves the electrical capacity at the projects,” says George Robbins,

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Lead Hydraulic Engineer at Southwestern. "Our operating strategy is actually designed to maintain sufficiently high water elevations to preserve that capacity."

At the onset of drought conditions, Southwestern begins to purchase energy to help meet the Federal contractual obligations for electricity. That purchased energy replaces hydropower production from the projects and conserves water in the lakes. As the drought continues, the amount of energy purchased increases, replacing more and more of the hydropower.

According to Robbins, such external purchases are required so that system capacity will remain sufficient throughout the demanding summer months. "We make these purchases so that we will have adequate capacity in the system to meet our customers' peak demands," he says.

Energy purchased since July 2005 has resulted in less hydropower production and thus less water usage from the lakes. Through February 2006, these purchases have, depending on the shape and depth of the reservoir, preserved five to twelve feet of storage in each lake.

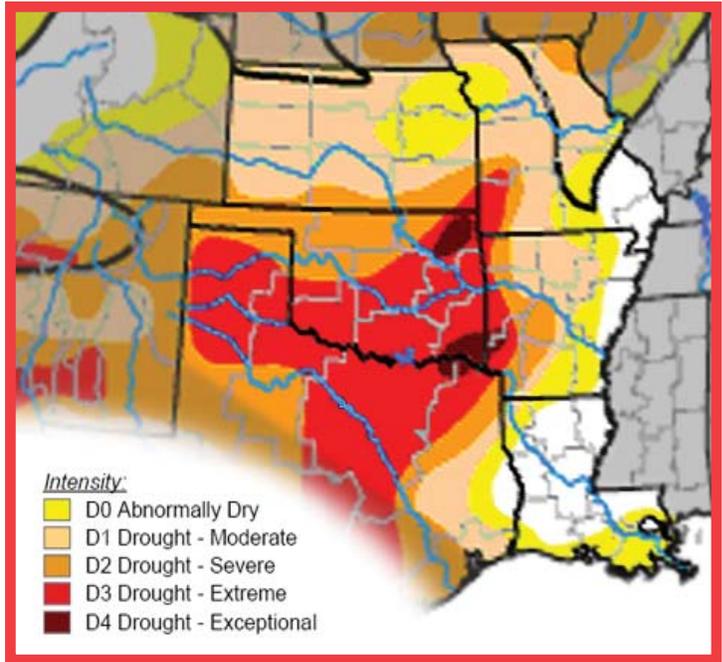
Because of electrical transmission limitations, funding restrictions, and marketing considerations, it is not possible to purchase all the energy needed to fulfill Southwestern's contractual obligations. Some hydropower must continue to be produced at the lakes. In addition, some water releases through generation are requested to support other authorized purposes downstream of the projects.

In recognition of the potential impacts that low lake levels can have and in an attempt to be equitable, Southwestern tries, to the extent possible, to balance the percent of water storage used at each project in its interconnected system. Although Southwestern has some flexibility in the operation of the projects, it must adhere to various regulations and requirements, such as Corps guidelines and Endangered Species Act requirements.

Regional Cooperation

As the drought wears on, recreational interests at the multi-purpose reservoirs have begun taking an active interest in how the water at the lakes is being used for navigation, water supply, hydropower, and other purposes. Southwestern is working together with various Corps districts, as well as water associations, marina operators, its customers, and others to discuss additional drought management alternatives in response to worsening drought conditions.

Stakeholder concerns reflect the diversity of interests in the lakes and rivers. Low water levels not only affect the ability to generate hydropower for customers



THE CURRENT DROUGHT IS CENTERED ON SOUTHWESTERN'S MARKETING AREA, AS SHOWN IN THIS IMAGE BASED ON MAP DATA DATED MARCH 14, 2006, FROM THE NATIONAL OCEANIC & ATMOSPHERIC ADMINISTRATION.



SOUTHWESTERN HYDRAULIC ENGINEER DAVID KANNADY SPEAKS TO REPRESENTATIVES FROM VARIOUS CITIZEN GROUPS AT A CORPS-SPONSORED LISTENING SESSION IN EUFAULA, OK, FEBRUARY 28, 2006.

throughout the region, but they also impact boat access at marinas, the spawning patterns and survival of various fish species, and intake systems for municipal drinking water supplies.

Southwestern has also developed internal initiatives to help with conservation. The agency is currently implementing a plan for water conservation among its customers to increase pool levels before the arrival of hot summer weather. Because drought conditions have reduced the amount of required releases typically made from the dams, Southwestern has responded by allowing customers to use less than the contractually required monthly minimum of 60 hours of peaking energy in March 2006. Working individually with each customer, and amending contracts where necessary, Southwestern will carry over the unused peaking energy into subsequent contract years. If the drought continues as forecast, similar changes to minimum requirements for April and May of 2006 will be considered. In the meantime, Southwestern will continue to develop innovative ways to meet the many challenges presented by the current drought. 💧

2005-2006 Drought Statistical Snapshots

31% – PERCENT OF MEDIAN INFLOWS INTO SYSTEM STORAGE PROJECTS, MARCH 2005 - FEBRUARY 2006

49% – PERCENT OF AVERAGE HYDROPOWER GENERATION AT SYSTEM STORAGE PROJECTS, MARCH 2005 - FEBRUARY 2006

\$30 MILLION – AMOUNT SPENT BY SOUTHWESTERN TO PURCHASE ENERGY IN AN EFFORT TO CONSERVE LAKE STORAGE, JULY 2005 - FEBRUARY 2006



MIKE DEIHL PROUDLY PRESENTS THE DOE'S DISTINGUISHED CAREER SERVICE AWARD TO RETIREE BETHEL HERROLD.

Herrold Honored for Distinguished Service

Bethel Herrold, Lead Hydraulic Engineer at Southwestern, was awarded the Department of Energy's Distinguished Career Service Award upon his retirement on January 3, 2006. Administrator Mike Deihl announced the award at an employee gathering in Herrold's honor at the Tulsa office.

"It is a great honor and privilege to present Bethel with this award," says Deihl. "He is an incredibly dedicated professional that has knowledge of the Corps [U.S. Army Corps of Engineers] and hydro projects that you can't learn from a classroom, a book, or historical files."

"Southwestern, our customers, and I will miss Bethel," Deihl added. "When Bethel spoke, we all listened and learned. This void will be hard to replace!"

Herrold was being recognized for his leadership and guidance as an expert in hydroelectric power, particularly in the areas of operations, storage allocations and reallocations, and customer alternative financing. The award, conferred by Energy Secretary Samuel Bodman, notes Herrold's "extraordinary and invaluable" abilities to evaluate, justify, and defend the Federal hydropower program, and acknowledges his significant contributions to the nation during a career that spanned 13 years with the Tulsa District of the Corps and 20 years at Southwestern.

"It is quite an honor to get this kind of recognition. It's rather humbling," says Herrold. "I'm proud of the work I've been able to accomplish and I've enjoyed working with the folks at the Corps and Southwestern all these years. It's a job I've loved doing."

At the Corps, Herrold spent three years in hydrology and hydraulics, and the rest in the planning division. He joined Southwestern as a Hydraulic Engineer in 1986 and has served as Lead Hydraulic Engineer since September 2002. 💧

Rayburn Revamped

The switchyard at Sam Rayburn Powerhouse near Jasper, Texas, is getting something of a makeover as much of the older equipment is being upgraded or replaced to make the facility more reliable and efficient. The much-needed rehabilitation includes not only prominent items such as circuit breakers and instrument transformers, but also a large number of switches, insulators, and other equipment.

The project was undertaken as preventive maintenance. Rayburn's existing oil circuit breakers are part of the original 39-year-old switchyard equipment. Replacement parts have become difficult and expensive to obtain, so that failure of a breaker could have resulted in an extensive outage or caused damage to the generating equipment at the powerhouse. Furthermore, the oil-filled circuit breakers presented more of an environmental risk if they were ever to leak than do the newer models, which are filled with compressed sulfur-hexafluoride gas.

Surrounded by evergreen trees in the piney woods of Texas, crews from both the Jonesboro and Gore maintenance units will be working through the warm spring weather to get the job done. In addition to the new circuit breakers, the work at Rayburn will entail the installation of disconnect switches, current transformers, coupling capacitor potential devices, and a large number of station post insulators. The new post insulators, which are grayish in color, replace the familiar reddish-brown cap and pin insulators that are still common in many switchyards.

Mike Carver, Rayburn Power Plant Superintendent with the Fort Worth District of the U.S. Corps of Engineers (Corps), is pleased with the progress being made. "I am in awe of the way Southwestern's team works efficiently



NEW RENOVATIONS ARE DISTINGUISHED IN THIS PHOTO BY THE COLOR OF INSULATOR. THE NEWER GRAY INSULATORS ON THE RIGHT CONTRAST WITH THE BROWN INSULATORS OF THE OLDER EQUIPMENT.



ELECTRICIAN JARROD SIMPSON ATTACHES A PERSONAL GROUND TO BUSWORK BEFORE THE DAY'S WORK BEGINS.



FROM LEFT TO RIGHT: GENERAL ENGINEER CARLOS VALENCIA, SUBSTATION FOREMAN TONY COCHRAN, EQUIPMENT OPERATOR JACK WAYER, SUBSTATION FOREMAN LADELL BUTTS, ASSISTANT ADMINISTRATOR DALLAS COOPER, SYSTEM ELECTRICAL CONTROL CRAFTSMAN GEORGE BAXLEY, ELECTRICIAN ROBERT VAN BRUNT, ELECTRICIAN MECHANIC RYAN HOOG, ELECTRICIAN JARROD SIMPSON, DIVISION DIRECTOR TOM GREEN, MAINTENANCE WORKER FOREMAN C.L. SEARS, CRAFT SUPERINTENDENT JERRY MURR.

and expertly to get a project finished! They are way ahead of schedule," he says. "Southwestern is a very capable organization from the top down. We are totally confident in the quality that we are getting from the engineering staff and from the team on the ground doing the installation."

The work at Rayburn, funded in early 2005, is being performed under a 2004 Memorandum of Understanding between Southwestern and the Fort Worth District of the Corps, which provides for Southwestern to assist the District in the provision of requested switchyard maintenance. 💧

Fiber Pulling Finished

Everything is sagged and clipped. Time to start splicing.

Crews from the Gore Maintenance Office, with help from Jonesboro and Springfield, pulled and clipped the last section of fiber optic cables that form the backbone of Southwestern's new communications network. The mild winter has facilitated their work, and the last leg of the fiber, between Weleetka, Oklahoma, and Denison, Texas, is now complete. The fiber cable, or Optical Ground Wire, provides high-speed data communications, increases



TOP: LINE EQUIPMENT OPERATOR MICHAEL KOENIG AND LINEMAN GARY GREGORY CUT A SECTION OF FIBER AT THE EXPLORER TAP TO COMPLETE THE OPTICAL GROUNDWIRE AND MICROWAVE COMMUNICATIONS SYSTEM STARTED 11 YEARS AGO.

LEFT: ELECTRONICS TECHNICIAN DAVE REYNOLDS POINTS OUT THE GRAPHIC REPRESENTATION OF A HEALTHY FIBER.

BOTTOM: LINEMEN RONNIE McCARTY, TOMMY YATES AND ROSS MURRAY SUIT UP FOR SAFETY AFTER THEIR EARLY MORNING TAILGATE SAFETY MEETING.



efficiency and reliability, and reduces costs. The new system will completely replace Southwestern's analog microwave network.

The Weleetka-Denison fiber, along with some digital microwave components that have yet to be installed, is part of a network "ring" that will backtrack northeastward through Broken Bow, Oklahoma, to the Van Buren substation in Arkansas. The purpose of the network ring is to provide redundancy: if communication in one direction fails, the system automatically routes information in the other direction around the ring.

The fiber is scheduled to be fully installed and spliced by June 2006. 💧



Rates Director Retires

Jim Sherwood, Director of Southwestern's Division of Rates and Repayment, announced his retirement effective March 3, 2006.

Sherwood started his career at Southwestern in 1988 as a Public Utilities Specialist in what was then known as the Branch of Rates and Repayment. In 1992 he was officially named Branch Chief, which became the Director position following a 1994 reorganization.

Nearly 100 friends, family, and coworkers gathered at Sherwood's home on March 11, 2006, to wish him well in his retirement and to honor his outstanding contributions to Southwestern and the industry in general over the years. Southwestern's own Gary Swartzlander, Director of the Division of Financial Management, acted as Master of Ceremonies to introduce the various guest speakers.

Nick Brown, President and CEO of Southwest Power Pool, Inc. (SPP), started things off by presenting Sherwood with dual awards. The first was a commendation from SPP's Market and Operations Policy Committee recognizing Sherwood's contributions to one of the main groups involved in helping SPP transition from a reliability council to a full-fledged Regional Transmission Organization. The second was a more personal thank you from Brown himself – a plaque citing Sherwood's ability to turn "coworkers into friends and friends into family."

Next up was Southwestern Administrator Mike Deihl, who emphasized Sherwood's superior leadership skills before presenting him with a Career Appreciation plaque for his many years of service to the agency. Former Southwestern General Counsel Charles Borchardt, now Administrator of Southeastern Power Administration, followed with his own thanks and a special poem he had written in Sherwood's honor.



JIM SHERWOOD (L) RECEIVES A CAREER APPRECIATION PLAQUE FROM ADMINISTRATOR MIKE DEIHL.



JANIECE SHERWOOD JOINS HUSBAND JIM'S FRIENDS AND COLLEAGUES IN CELEBRATING HIS RETIREMENT.

Sherwood's employees in the Division of Rates and Repayment, Stephanie Bradley, Tracey Stewart, and Cathy Stillson, with the assistance of Southwestern Power Resources Association (SPRA) Member Services Coordinator Barbara DelGrosso and Gary Swartzlander, arranged for the next item to be presented to Sherwood – a memory book containing photographs and notes contributed by Southwestern employees and friends. Stewart and DelGrosso claimed the honor of presenting the book on behalf of everyone who contributed.

Last up was Stephanie Bradley, who in a nod to Sherwood's very public affinity for his alma mater, Oklahoma State University, presented him with a framed picture of Boone Pickens Stadium, home of Sherwood's beloved Cowboys, signed by Southwestern employees.

In addition to Sherwood's family and the many former and current employees of Southwestern in attendance, several special guests made the trip to give their best wishes to the guest of honor, including VP of Planning, Rates, and Dispatch of the Arkansas Electric Cooperative Corp. Ricky Bittle, former Southwestern Assistant Administrator Francis Gajan, Southwestern Washington Liaison Jon Worthington, and SPP's Director of Transmission Policy Pat Bourne, all of whom worked with Sherwood for many years over the course of his career at Southwestern.

During the celebration, guests were treated to a video montage of Sherwood's many activities while at Southwestern, including his participation in SPRA meetings and other customer functions, his time spent as a mentor in Southwestern's Employee Development Program, and his support of Southwestern's Combined Federal Campaign to benefit the United Way and other charitable organizations. 💧

SPARKS OF INTEREST

APRIL 11-13, 2006 – SOUTHWESTERN POWER RESOURCES ASSOCIATION’S (SPRA) 49TH ANNUAL MEETING

will be held at the Downtown DoubleTree in Tulsa, Oklahoma. Mr. Kiel Weaver, Staff Director of the Subcommittee on Water and Power, House Resources Committee, is scheduled as the guest speaker. For registration and meeting information, contact Barbara DelGrosso at 918-622-7800, or e-mail bdg18@sbcglobal.net.

SOUTHWESTERN REGIONAL HYDROPOWER COUNCIL AND CONFERENCE WILL MEET JUNE 6-8, 2006, at the Embassy Suites Hotel in Kansas City, Missouri. The Council meeting convenes at 1 p.m. on June 6th to review and prioritize proposed FY 2007 non-routine work items that are to be funded through the Jonesboro Memorandum of Agreement. The Conference convenes at 1 p.m. on June 7th to communicate actions, concerns, and needs related to the Corps’ hydropower business line in Southwestern’s region. The Kansas City District of the U.S. Army Corps of Engineers is hosting the event. For registration and meeting information, contact Pete Hentschel at 816-983-3641 or pete.w.hentschel@nwk02.usace.army.mil.

SOUTHWESTERN’S INTEGRATED SYSTEM RATES have been confirmed and approved on an interim basis by the Deputy Secretary of the Department of Energy, effective February 1, 2006. The P-05 Wholesale Rates for Hydro Peaking Power, NFTS-05 Wholesale Rates for Non-Federal Transmission/Interconnection Facilities Service, and the EE-05 Wholesale Rates for Excess Energy were submitted to the Federal Energy Regulatory Commission (FERC) on February 3, 2006. The revised rates are based on Southwestern’s 2005 Revised Power Repayment Study, which indicated a need for a revenue increase primarily to recover increased expenditures in Operations and Maintenance and investment. Additionally, due to increased direct purchases resulting from drought conditions and a depleted Purchased Power Account, an increase in the net Purchased Power Adder was indicated. For more information about the revised Integrated System Rates, visit FERC’s web site at http://elibrary.ferc.gov/idmws/docket_search.asp. In the Docket Number text box, type in “EF06-4011” and then click Submit at the bottom of the screen to bring up documents related to Southwestern’s Integrated System Rate filing with FERC.

A NOTICE OF FILING ON SOUTHWESTERN’S SUBMISSION OF REVISIONS TO ITS OPEN ACCESS TRANSMISSION TARIFF (OATT) was issued by FERC on February 6, 2006. The purpose of the revisions, submitted on January 25, 2006, was to conform the OATT to the terms and conditions of an agreement dated March 31, 2005, between Southwestern and the Regional Transmission Organization of the Southwest Power Pool, Inc. (SPP). On March 21, 2006 FERC granted Southwestern’s petition for declaratory order, accepting the OATT revisions subject to Southwestern’s filing a revised OATT complying with FERC Order Nos. 2003 and 2006. For more information on the revised OATT, visit FERC’s web site at http://elibrary.ferc.gov/idmws/docket_search.asp. In the Docket Number text box, type in “NJ06-4” and then click Submit at the bottom of the screen to bring up documents related to Southwestern’s revised OATT.



POWER MARKETING ADMINISTRATORS (L-R) STEVE WRIGHT (BONNEVILLE), MIKE HACSKEYLO (WESTERN), MIKE DEIHL (SOUTHWESTERN), AND CHARLES BORCHARDT (SOUTHEASTERN) ADDRESS THE SUBCOMMITTEE ON WATER AND POWER IN WASHINGTON, D.C., ON MARCH 1, 2006.

ADMINISTRATORS TESTIFY ON PMA BUDGETS

Southwestern Administrator Mike Deihl joined administrators from the other Power Marketing Administrations (PMAs) in Washington, D.C., on March 1, 2006, to testify before the Congressional Subcommittee on Water and Power regarding the Energy Policy Act of 2005 and the President’s FY 2007 budget proposal, which was submitted to Congress on February 6, 2006.

Southwestern’s portion of the President’s budget proposal includes appropriations in the amount of \$20.8 million for Program Direction, \$7.1 million for Operations and Maintenance, and \$3.6 million for Construction. Southwestern’s budget request provides for maintenance, additions, replacements, and interconnections to assure a dependable and reliable Federal power system, considered to be an integral part of the Nation’s electrical grid.

Included in Southwestern’s portion of the President’s budget proposal is the request that Federal power receipts in the amount of \$3.0 million be used for Purchased Power and Wheeling activities. These receipts would fund a portion of the expenses related to the purchase and delivery of energy and power to meet contractual obligations in the event of a shortage of Federal hydropower, and would also partially compensate for transmission line losses from the delivery of power on the Federal system.

Southwestern’s budget request shows a modest increase over FY 2006, allowing Southwestern to maintain its aging transmission system while still meeting the demands of increased regional power loads and alleviating power flow constraints. 💧

NEW EMPLOYEES

SCOTT CARPENTER, PUBLIC UTILITIES SPECIALIST
DIVISION OF CUSTOMER SERVICE, TULSA, OK

JIM HUNT, CONTRACT SPECIALIST
DIVISION OF ACQUISITION & FACILITIES SERVICES, TULSA, OK

ANGELA WALL, SECRETARY
OFFICE OF CORPORATE OPERATIONS, TULSA, OK

RETIREMENTS

BETHEL HERROLD, LEAD HYDRAULIC ENGINEER
DIVISION OF SCHEDULING AND OPERATIONS, TULSA, OK

JIM SHERWOOD, DIRECTOR
DIVISION OF RATES AND REPAYMENT, TULSA, OK

LINDA WELLS, PUBLIC UTILITIES SPECIALIST
DIVISION OF SCHEDULING AND OPERATIONS, TULSA, OK

JAN WOOLVERTON, PUBLIC UTILITIES SPECIALIST
DIVISION OF SCHEDULING AND OPERATIONS, TULSA, OK

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