Southwest Power Pool, Inc.

Accountants' Report and Financial Statements

December 31, 2007 and 2006

Southwest Power Pool, Inc.

December 31, 2007 and 2006

Contents

Independent Accountants' Report

Board of Directors
Southwest Power Pool, Inc.
Little Rock, Arkansas

We have audited the accompanying balance sheets of Southwest Power Pool, Inc. as of December 31, 2007 and 2006, and the related statements of operations, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 financial statements referred to above present fairly, in all material respects, the financial position of Southwest Power Pool, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 5*, Southwest Power Pool, Inc. adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans- An Amendment to FASB Statements No. 87, 88, 106 and 132(R)*, effective December 31, 2007.

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Southwest Power Pool, Inc.

Balance Sheets
(In Thousands)
December 31, 2007 and 2006

Assets

	2007	2006
Current Assets		
Cash and cash equivalents	$ 33,779	$ 12,512
Restricted cash deposits	14,644	15,703
Accounts receivable	7,686	5,703
Prepaid expenses and other	2,196	2,700
Total current assets	58,305	36,618
Property and Equipment, At Cost		
Land	328	328
Building	5,966	—
Furniture and fixtures	4,422	3,162
Equipment and machinery	11,973	7,378
Leasehold improvements	658	500
Software	52,866	18,634
Software in development	1,771	32,092
Construction in progress	2,487	6,139
	80,471	68,233
Less accumulated depreciation and amortization	37,484	22,219
	42,987	46,014
Other Assets, Net	1,087	1,550
	$ 102,379	$ 84,182

See Notes to Financial Statements

Liabilities and Members' Equity

	2007	2006
Current Liabilities		
Accounts payable	$ 6,717	$ 4,141
Customer deposits	14,644	15,703
Current maturities of long-term debt *(Note 3)*	12,206	10,000
Accrued expenses	13,199	13,980
Deferred revenue	2,226	2,226
Total current liabilities	48,992	46,050
Long-term Debt *(Note 3)*	37,780	25,000
Other Long-term Liabilities	5,322	257
Members' Equity	10,285	12,875
	$ 102,379	$ 84,182

Southwest Power Pool, Inc.

Statements of Operations
(In Thousands)
Years Ended December 31, 2007 and 2006

	2007	2006
Operating Income		
Tariff fees and member assessments	$ 68,818	$ 57,328
Other member services	19,066	6,140
	87,884	63,468
Operating Expenses		
Salaries and benefits	34,519	25,551
Employee travel	1,094	898
Administrative	1,775	1,719
Regulatory assessment	7,710	10,384
Meetings	566	404
Communications system	2,160	2,335
Leases	883	830
Maintenance	3,833	3,868
Consulting services	15,176	13,734
Depreciation and amortization	15,389	3,726
Impairment loss *(Note 9)*	—	1,473
	83,105	64,922
Operating Income (Loss)	4,779	(1,454)
Other Income (Expense)		
Recovery of bad debt	—	2
Interest income	1,360	1,172
Interest expense	(3,725)	(616)
Other income (expense)	(8)	3
	(2,373)	561
Income (Loss) Before Effect of Adoption of FAS 158	2,406	(893)
Effect of Adoption of FAS 158	(4,996)	—
Net Loss	$ (2,590)	$ (893)

Southwest Power Pool, Inc.

Statements of Members' Equity
(In Thousands)
Years Ended December 31, 2007 and 2006

	2007	2006
Balance, Beginning of Year	$ 12,875	$ 13,768
Net loss	(2,590)	(893)
Balance, End of Year	$ 10,285	$ 12,875

Southwest Power Pool, Inc.

Statements of Cash Flows
(In Thousands)

Years Ended December 31, 2007 and 2006

	2007	2006
Operating Activities		
Net loss	$ (2,590)	$ (893)
Items not requiring cash		
Depreciation and amortization	15,389	3,726
Impairment loss	—	1,473
Loss on disposal of property and equipment	—	4
Effect of FAS 158 adoption	4,996	—
Changes in assets and liabilities		
Accounts receivable	(1,983)	1
Prepaid expenses and other	504	166
Other assets	(1,194)	(894)
Accounts payable	2,576	3,858
Accrued expenses	(771)	5,079
Other long-term liabilities	1,686	—
Net cash provided by operating activities	18,613	12,520
Investing Activities		
Acquisition of property and equipment	(12,332)	(20,519)
Net cash used in investing activities	(12,332)	(20,519)
Financing Activities		
Repayments of long-term debt	(10,154)	(5,000)
Issuance of long-term debt	25,140	—
Net cash provided by (used in) financing activities	14,986	(5,000)
Increase (Decrease) in Cash and Cash Equivalents	21,267	(12,999)
Cash and Cash Equivalents, Beginning of Year	12,512	25,511
Cash and Cash Equivalents, End of Year	$ 33,779	$ 12,512
Supplemental Cash Flow Information		
Interest paid (net of interest capitalized of $99 and $1,575 in 2007 and 2006, respectively)	$ 2,169	$ 557

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Southwest Power Pool, Inc, (the Company) is a not-for-profit entity formed in 1941 and incorporated in 1994. The Company is a Federal Energy Regulatory Commission (FERC)-approved regional transmission organization (RTO) serving more than four million ultimate customers across all or parts of eight southwestern states. The Company's membership consists of investor owned utilities, municipal systems, generation and transmission cooperatives, state authorities, independent power producers, contract participants, power marketers and independent transmission companies.

Major services provided by the Company to its members and customers include tariff administration, electric reliability coordination, regional transmission scheduling, energy imbalance service (EIS), market operations (effective February 1, 2007) and regional transmission expansion planning.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Deposits

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. The Company's cash and cash equivalents, including restricted deposits, are invested primarily in money market funds, mutual funds and repurchase agreements. These investments are typically revalued to the market each day and, in the case of repurchase agreements, are collateralized by U.S. government and federal agency securities. The Company's cash and cash equivalents consist primarily of funds accumulated for general operating purposes. Restricted cash deposits consist primarily of customer security deposits, amounts deposited for engineering studies and funds held in escrow for disputed invoices.

Income Taxes

The Company is exempt from income taxes under Section 501c(6) of the Internal Revenue Code and a similar provision of state law.

Accounts Receivable

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date bear interest at a rate set by FERC. Interest continues to accrue until the account is paid or deemed uncollectible.

Property and Equipment (In Thousands)

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. The estimated useful lives are as follows:

Building	20 years
Furniture and fixtures	5 years
Equipment and machinery	3 years
Software	3 years
Leasehold improvements	Shorter of useful life or lease term

The Company capitalizes interest cost incurred on funds used to construct property, plant, and equipment in accordance with Statement of Financial Accounting Standards No. 34, *Capitalization of Interest Costs*. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was $99 and $1,575 in 2007 and 2006, respectively.

The Company capitalizes development costs, including interest, for internal use software costs in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These costs are included in software and software in development. Management of the Company is of the opinion that all costs capitalized in association with the software in development, except for those 2006 costs impaired as discussed in *Note 9*, are fully recoverable over the anticipated life of the asset.

Revenue Recognition

Revenues, consisting of member assessments, tariff administrative fees, contract services, and miscellaneous revenues, are recognized when earned and expenses are recognized when incurred.

Customer Deposits

Customers may be required to make deposits with the Company prior to the performance of transmission services and engineering studies. These amounts are typically held for the duration of the service and applied to the customer's final invoice. An offsetting liability equal to the deposit balance is recorded in current liabilities. Funds held in escrow related to disputed invoices are also recorded as a customer deposit under current liabilities.

Tariff Fees and Member Assessments

An administrative charge is applied to all transmission service under the Company's tariff to cover the expenses related to the administration of the tariff. The charge is calculated in accordance with the terms of the Company's Open Access Transmission Tariff. The administrative rate used for the calculation is established by the Board of Directors.

Members are assessed monthly based on their prior year average 12 month peak demand multiplied by the total hours in a month and by the monthly assessment rate as established by the Board. A member's monthly assessment is offset dollar for dollar for qualifying tariff administrative fees collected from a member in any given assessment period.

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the Board of Directors of the Company. For 2006, non-load serving members paid an annual fee of $6,000 and load serving members were subject to a fee based on their annual "Net Energy for Load" for the preceding year. For 2007, all members paid a $6,000 membership fee.

The Company also bills transmission customers and transmission owners a charge under schedule 12 on all energy delivered under point to point transmission service and network integration transmission service. This provides a mechanism for recovering from transmission customers and transmission owners the annual charges the Company pays to FERC. The rate is developed by FERC in the prior calendar year and applied to energy transmitted in the second prior calendar year.

Other Member Services

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis.

Withdrawing Members

Members wishing to withdraw their membership from the Company must provide 12 months written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal, and the member's share of long term obligations and related interest.

Concentration of Credit Risk

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash equivalent balances. From time to time in 2007 and 2006, the Company maintained cash balances that exceeded the insurance limits of the Federal Deposit Insurance Corporation. However, the financial institutions in which the Company carries cash balances are rated AA or better by the nationally recognized rating agencies.

Because the Company considers all accounts receivable to be of highly probable collection, a reserve for doubtful accounts in not maintained. The Company requires its customers to meet certain minimum standards of financial statement preparation and creditworthiness to receive unsecured credit from the Company. If these standards cannot be met by a counterparty, the Company requires the posting of defined financial security instruments to cover potential liabilities.

Note 2: Line of Credit (In Thousands)

The Company has an $8,000 revolving line of credit expiring in 2008. At December 31, 2007 and 2006, no amounts were borrowed against this line. The agreement requires maintenance of a fixed charge coverage ratio as well as numerous reporting requirements. The Company was in compliance with the covenant and reporting requirements during 2007 and 2006. The agreement has a variable interest rate equal to either the bank's prime rate or the London Interbank Offered Rate (LIBOR) plus a credit margin.

Note 3: Long-term Debt and Interest Rate Swaps (In Thousands)

Long-term Debt

	2007	2006
7.50% Term Notes due 2008 (A)	$ 5,000	$ 10,000
4.78% Term Notes due 2011 (B)	20,000	25,000
Variable Rate Term Note due 2027 (C)	4,986	—
Variable Rate Term Note due 2014 (D)	20,000	—
	49,986	35,000
Less current maturities	12,206	10,000
	$ 37,780	$ 25,000

(A) Due March 15, 2008; principal payable $5,000 annually, interest payable semi-annually at 7.5%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements during 2007 and 2006. The note agreement also requires mandatory prepayments of outstanding principal upon withdrawal from the Company of various aggregates of membership. The Company was not subject to any mandatory prepayments during 2007 and 2006. Note proceeds were used to fund development of market settlement software. The notes are unsecured.

(B) Due May 11, 2011; principal payable $5,000 annually, beginning on June 25, 2007, interest payable semi-annually at 4.78%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenants and reporting requirements during 2007 and 2006. The note agreement also requires mandatory prepayments of outstanding principal upon withdrawal from the Company of various aggregates of membership. The Company was not subject to any mandatory prepayments during 2007 and 2006. Proceeds were used to fund general corporate activities. The notes are unsecured.

(C) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization to commence on May 1, 2007. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.85%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenants and reporting requirements during 2007. The note is secured by a first mortgage on the Company's operation facility.

(D) Due December 25, 2014; interest is payable monthly and principal is payable quarterly based on a seven year amortization. Payments are to commence on March 25, 2008. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.30%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenants and reporting requirements during 2007. Proceeds were used to fund development of an energy trading market and other capital expenditures. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2007 are:

2008	$ 12,206
2009	8,206
2010	9,206
2011	10,206
2012	5,206
Thereafter	4,956
	$ 49,986

Interest Rate Swaps

On September 15, 2006, the Company entered into an interest rate swap agreement with a financial institution. The swap agreement has an effective date of March 1, 2007, with a notional principal amount of $5,100. The Company pays the swap counterparty a fixed interest rate of 5.51% and in return, the counterparty pays the Company a variable rate of interest based on LIBOR. The notional amount amortizes evenly over 20 years and interest is settled quarterly. The swap was established to hedge the floating rate on Loan (C).

On August 23, 2007, the Company entered into an interest rate swap agreement with a financial institution. The swap agreement has an effective date of March 25, 2008, with a notional principal amount of $29,500. The Company pays the swap counterparty a fixed interest rate of 5.31% and in return, the counterparty pays the Company a variable rate of interest based on LIBOR. The notional amount amortizes evenly over seven years and interest is settled monthly. The swap was established to hedge the floating rate on Loan (D).

The Company is exposed to risk should the counterparty fail to perform under the swap contract as a result of either default or early termination of the agreement. However, the Company does not anticipate a failure by the counterparty. The agreement is recorded at its market value with subsequent changes in market value included in income. The market value of the swaps at December 31, 2007 and 2006, was a net payable of approximately $1,733 and $168, respectively, and is recorded on the balance sheet in other long-term liabilities. Interest expense in the statement of operations for the years ended December 31, 2007 and 2006, includes expense of $1,570 and $168, respectively, related to the swap agreements.

Note 4: Operating Leases (In Thousands)

The Company has noncancellable operating leases for office space and certain office equipment which expire at various times through 2012. The Company incurred lease expense related to these operating leases of $883 and $830 in 2007 and 2006, respectively.

Future minimum lease payments at December 31, 2007, were:

2008	$	962
2009		956
2010		950
2011		699
2012		7
	$	3,574

Note 5: Employee Benefit Plans (In Thousands)

Pension and Other Post-retirement Benefit Plans

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately $3,000 to the plan in 2008.

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees including those retiring between the ages of 55-65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the defined post retirement health care plan. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately $629 to the plan in 2008.

The Company uses a December 31 measurement date for the plans. Information about the plans' funded status follows:

	Pension Benefits		Post-Retirement Health Care Benefits	
	2007	2006	2007	2006
Benefit obligation	$ 16,424	$ 11,414	$ 4,046	$ 3,893
Fair value of plan assets	13,045	8,925	4,363	3,524
Funded status	$ (3,379)	$ (2,489)	$ 317	$ (369)

Amounts recognized in the balance sheets:

	Pension Benefits		Post-Retirement Health Care Benefits	
	2007	2006	2007	2006
Noncurrent assets	$ —	$ 1,329	$ 317	$ 30
Noncurrent liabilities	(3,379)	—	—	—
	$ (3,379)	$ 1,329	$ 317	$ 30

Amounts recognized in members equity not yet recognized as components of net periodic benefit cost as of December 31, 2007, consist of:

	Pension Benefits	Post-Retirement Health Care Benefits
Net loss (gain)	$ 5,096	$ (344)
Prior service cost	(17)	—
Transition obligation	214	47
	$ 5,293	$ (297)

The accumulated benefit obligation for the defined benefit pension plan was $12,098 and $8,788 at December 31, 2007 and 2006, respectively.

Other significant balances and costs are:

	Pension Benefits		Post-Retirement Health Care Benefits	
	2007	2006	2007	2006
Employer contributions	$ 2,500	$ 2,234	$ 629	$ 549
Benefits paid	$ 121	$ 110	$ —	$ —
Benefit costs	$ 1,914	$ 1,414	$ 629	$ 629

The following amounts have been recognized in the statements of operations for the year ended December 31, 2007:

	Pension Benefits	Post-Retirement Health Care Benefits
Amounts arising during the period:		
Net gain	$ 1,051	$ 682
Net prior service cost	2,390	911
Amounts recognized as components of net periodic benefit cost of the period:		
Net loss	198	—
Net prior service cost	1	—
Net transition obligation	16	4

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit cost over the next fiscal year are $216, $1 and $16, respectively. There is no prior service credit for the defined benefit post-retirement healthcare plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year.

Weighted-average assumptions used to determine benefit obligations and costs:

	Pension Benefits		**Post-Retirement Health Care Benefits**	
	2007	**2006**	**2007**	**2006**
Discount rate	6.5%	7.0%	6.5%	6.5%
Expected return on plan assets	7.0%	7.0%	7.0%	7.0%
Rate of compensation increase	4.5%	4.5%		

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007 and 2006. The rate was assumed to decrease gradually to 5% by the year 2010 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The Company has not determined whether its plan provides benefits that are actuarially equivalent to Medicare Part D.

Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2005*, requires federal subsidies, if any, attributable to past service to be accounted for as an actuarial gain and federal subsidies, if any, attributable to current service to be accounted for as a reduction of net periodic benefit cost. The measures of projected benefit obligation and periodic benefit costs do not reflect any amounts associated with the subsidy because the Company has been unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D. The effect of adopting Staff Position 106-2, if and when the Company makes such a determination, is not expected to be material.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31:

	Pension Benefits	Post-Retirement Health Care Benefits
2008	$ 125	$ 23
2009	128	29
2010	128	30
2011	144	36
2012	251	63
2013 – 2017	3,495	1,140

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long-term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30% allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plans must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement is reviewed annually. At December 31, 2007 and 2006, plan assets by category are as follows:

	Pension Plan Assets		Post Retirement Health Care Plan Assets	
	2007	2006	2007	2006
Fixed income securities	13%	19%	25%	25%
Equity securities	70	64	65	72
Cash and equivalents	17	17	10	3
	100%	100%	100%	100%

The Company adopted the provisions of Statement of Financial Accounting Standards No. 158 (FAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment to FASB Statements No. 87, 88, 106 and 132(R),* effective December 31, 2007.

The following amounts reflect the incremental effect of the initial application of FAS 158:

	Before Application of FAS 158	Adjustments	After Application of FAS 158
Other assets, net	$ 2,713	$ (1,626)	$ 1,087
Total assets	$ 104,005	$ (1,626)	$ 102,379
Accrued expenses	$ 13,208	$ (9)	$ 13,199
Other long-term liabilities	$ 1,943	$ 3,379	$ 5,322
Total liabilities	$ 88,724	$ 3,370	$ 92,094
Members equity	$ 15,281	$ (4,996)	$ 10,285

Defined Contribution Plans

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company contributes funds to the Plan on behalf of plan participants equal to 75% of the participants' elective deferrals up to 6% of deferred compensation. Contributions to the plan were $866 and $670 for 2007 and 2006, respectively.

In 2006, the Company established a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees, and therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA. Employee contributions of $210 and $89 are recorded in other long-term liabilities at December 31, 2007 and 2006, respectively.

Note 6: Related Party Transactions (In Thousands)

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled $6,150 and $4,801 as of December 31, 2007 and 2006, respectively. The Company recognized revenues of $67,035 and $58,773, including assessments and tariff administrative fees, from members for the years ended December 31, 2007 and 2006, respectively.

The Southwest Power Pool Regional State committee (RSC) was incorporated on April 7, 2004, in the State of Arkansas. The RSC is comprised of commissioners from public service commissions, or equivalent, having regulatory authority over Company members. FERC, in its February 20, 2004, order regarding the Company's RTO application stated, "the RSC should have primary responsibility for determining regional proposals and the transition process for funding of regional transmission enhancements, rate structure for a regional access charge and allocation of transmission rights." The RSC prepares budgets annually for the expected costs of its operations. This budget is submitted to the Company's Board of Directors for approval. The Company includes, in its annual budget, funds sufficient to cover 100% of the operating costs of the RSC. During 2007 and 2006, the Company incurred $101 and $72, respectively, in expenses attributable to RSC operations. Management of the company expects such expenditures for 2008 to be approximately $703.

Note 7: Open Access Transmission and EIS Market Operations (In Thousands)

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 13 providers in eight southwestern states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owner on a monthly basis. Billings for these transmission services are not included in the statements of operations. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's statements of operations. For the years ended December 31, 2007 and 2006, the Company billed transmission customers $391,842 and $279,688, respectively. For the years ended December 31, 2007 and 2006, the Company remitted to transmission owners $352,649 and $241,095, respectively. At December 31, 2007 and 2006, the Company was due to collect from customers and remit to owners transmission service charges of $32,043 and $26,083, respectively.

The Company's EIS market is a wholesale market that operates under a tariff approved by the FERC and is consistent with the mandate of the FERC Order No. 2000, which requires RTOs to provide real-time energy imbalance services and market monitoring functions. Weekly settlements of market participants' energy transactions are not reflected in the Company's statements of operations since they do not represent revenues or expenses of the Company, as the Company merely acts as an intermediary in the settlement process. In this role, the Company receives and disburses funds to/from market participants on a weekly basis.

Note 8: Commitments and Contingencies (In Thousands)

Commitments

The Company entered into an agreement for application management and support services related to its Commercial Operations Systems, a component of the imbalance energy market system. Remaining commitments under this agreement are approximately $3,439 in 2008.

Litigation and Regulatory Matters

The Company is engaged in various legal and regulatory proceedings at both the federal and state levels. The resolution of these matters is not expected to have a material adverse impact on the Company's financial position, cash flows or results of operations.

Note 9: Asset Impairment (In Thousands)

As discussed in *Note 1*, the Company capitalizes interest cost related to software in development. During 2006 management of the Company assessed the recoverability of the capitalized cost of such software and determined that future revenues will not recover the portion of the software cost attributable to capitalized interest. Accordingly, impairment losses of $1,473, representing interest capitalized, were charged to income in 2006.

Note 10: Subsequent Events (In Thousands)

On January 31, 2008, the Company entered into a $20,000 unsecured revolving line of credit that expires in 2013. This replaces the $8,000 revolving line of credit mentioned in *Note 2*.

Note 11: Disclosures About Fair Value of Financial Instruments

The following methods were used to estimate fair value of financial statements.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves uncertainties and significant judgments by management. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

Restricted Cash Deposits

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Customer Deposits

The carrying amount is a reasonable estimate of fair value.

Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

Interest Rate Swap Agreement

The fair value is estimated by a third party.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2007 and 2006.

	2007		2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Cash and cash equivalents	$ 33,779	$ 33,779	$ 12,512	$ 12,512
Restricted cash deposits	14,644	14,644	15,703	15,703
Financial liabilities				
Customer deposits	14,644	14,644	15,703	15,703
Long-term debt	49,986	47,458	35,000	32,176
Interest rate swap agreement	1,733	1,733	168	168