

EPRI Financial Report

Consolidated Statements of Financial Position, December 31 (thousands of dollars)

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$55,659	\$39,063
Investments (Note 2)	2,090	67,179
Receivables—members, net of reserves	15,020	16,419
Receivables—supplemental funding, net of reserves	15,407	18,816
Other current assets	10,295	4,276
Total current assets	98,471	145,753
Long term investments (Note 2)	50,198	1,814
Property, facilities, building improvements and equipment (Note 3)	36,775	32,323
Total assets	\$185,444	\$179,890
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable (primarily research and development)	\$54,071	\$41,235
Deferred revenue	92,953	75,203
Accrued liabilities (Note 4)	20,754	16,983
Obligation under capital leases—current portion	190	307
Total current liabilities	167,968	133,728
Long-term research and development expenses payable and other deposits	171	193
Accumulated postretirement benefit obligation (Note 6)	9,148	8,888
Unearned prepaid rent	863	1,953
Obligation under capital leases	—	190
Total liabilities	178,150	144,952
Contingencies and commitments (Note 7)		
Net assets, unrestricted (Note 5)		
Designated for Future Research	7,294	—
Undesignated	—	34,938
Total net assets	7,294	34,938
Total liabilities and net assets	\$185,444	\$179,890

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Activities, Years Ended December 31 (thousands of dollars)

	2007	2006
<i>CHANGES IN NET ASSETS</i>		
Revenues:		
Membership	\$179,786	\$162,575
Supplemental funding	107,148	109,892
Other income	4,958	6,756
Total revenues	291,892	279,223
Expenses:		
Environment	32,535	36,326
Power Delivery and Markets	56,539	53,837
Generation	67,400	57,587
Nuclear	105,318	93,694
Technology Innovation Activities	32,168	25,178
Total expenses	293,960	266,622
<i>EXCESS OF REVENUES OVER EXPENSES</i>	(2,068)	12,601
Other:		
Interest income	\$7,584	\$5,180
Gain (Loss) on Investments and Asset Disposals	(33,160)	611
Total other	(25,576)	5,791
<i>CHANGE IN NET ASSETS, unrestricted, before cumulative effect of change in accounting principle</i>	(27,644)	18,392
<i>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NOTE 6)</i>	—	1,467
<i>CHANGE IN NET ASSETS, UNRESTRICTED</i>	(27,644)	16,925
<i>NET ASSETS, UNRESTRICTED, AT BEGINNING OF YEAR</i>	34,938	18,013
<i>NET ASSETS, UNRESTRICTED, AT END OF YEAR</i>	\$7,294	\$34,938

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows, Years Ended December 31 (thousands of dollars)

	2007	2006
Cash flows from operating activities:		
Change in net assets	(\$27,644)	\$16,925
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in accounting principle	—	1,467
Depreciation and amortization	5,157	4,300
Amortization of prepaid rent received on leased buildings	(1,090)	(1,067)
Gain from sale of building and other assets	—	(1,003)
Loss on retirement of equipment and other changes in properties	289	513
Loss on investments	33,257	181
Realized gain on investments (AMSC)	(386)	—
Allowance for doubtful accounts	(22)	398
Amortization of basis difference in acquisition	—	(102)
Changes in assets and liabilities:		
Receivables—members	1,399	(14,124)
Receivables—supplemental funding	3,431	6,870
Other current assets	(6,019)	3,114
Accounts payable	16,568	(717)
Deferred revenue	17,750	(4,112)
Accrued liabilities	(446)	(1,585)
Accumulated postretirement benefit obligation	260	(335)
Long-term research and development expenses payable and other deposits	(22)	(4)
Net cash provided by operating activities	42,482	10,719
Cash flows from investing activities:		
Cash received from sale of assets	4	819
Capital expenditures	(9,902)	(14,230)
Purchases of investments	(57,507)	(43,820)
Proceeds from sale and maturity of investments	41,341	53,631
Net cash used in investing activities	(26,064)	(3,600)
Cash flows from financing activities:		
Accounts payable	485	844
Obligation under capital leases	(307)	(283)
Net cash provided by financing activities	178	561
Net increase in cash and cash equivalents	16,596	7,680
Cash and cash equivalents at beginning of year	39,063	31,383
Cash and cash equivalents at end of year	\$55,659	\$39,063
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid for income taxes	\$254	\$876
Properties, facilities and equipment purchased in accounts payable	\$1,465	\$538

See accompanying notes to financial statements.

Notes to Financial Statements

Note 1—Description of Organization and Summary of Significant Accounting Policies

Organization

The Electric Power Research Institute, Inc. (EPRI) was organized in 1972 under the District of Columbia Nonprofit Corporation Act. The purpose of EPRI is to conduct a research and development program relating to the production, transmission, distribution, and utilization of electric energy. EPRI's activities include technological assessment of both near-term and long-term research needs, their arrangement into an orderly strategic plan, the assignment of priorities and allocation of funds, the implementation and management of the resulting projects, and the integration and dissemination of the information gained. These activities are carried out primarily under the sponsorship of the public, private, and cooperative sectors of the U.S. and international electric utility industries.

EPRI has been determined to be exempt from federal taxes as a scientific organization under Section 501(c)(3) of the Internal Revenue Code (the Code). Hence, only unrelated business income, as defined in the Code, is subject to federal income taxes. In 2007, as in prior years, EPRI had no significant taxable income.

The financial statements are consolidated to include the accounts of EPRI and its wholly owned subsidiaries. All intercompany accounts have been eliminated. The EPRI subsidiaries are EPRI Solutions, Inc. (ESI) and EPRI International, Inc. (EI) is a wholly owned for-profit subsidiary (*incorporated in Delaware*) and includes the accounts of its for-profit subsidiaries (i) EPRI International S.A. (Brussels/Belgium, 99% owned by EI and 1% by EPRI), and (ii) Beijing Electric Power Technology Company, Ltd. (China, Beijing, 100% owned by EI).

In May 2006, ESI sold the assets of its Market Intelligence Business Unit which was formally Primen, Inc. The Market Intelligence Business operations are included in ESI's financial results up to and including May 26, 2006.

On December 31, 2006, certain assets and obligations of ESI were transferred to EPRI, and EPRI presently maintains many of the operations and functions formerly fulfilled by ESI. The final contractual obligations of ESI were transferred to EPRI at the end of January 2008.

Summary of Significant Accounting Policies

Cash and Cash Equivalents: EPRI considers all highly liquid investment instruments with an initial or remaining maturity of three months or less at the time of purchase to be cash equivalents.

Investments are generally carried at fair value or amortized cost which approximates fair value. Investments in which EPRI maintains an ownership in excess of 20% are reflected under the equity method. Cash is concentrated with the Bank of America, while investments are diversified principally among three investment managers. Realized and unrealized gains or losses on investments are reflected in the statements of activities.

Fair Value of Financial Instruments: Unless otherwise noted, the fair value of EPRI's financial instruments at December 31, 2007 and 2006 was approximately equal to their recorded value.

Property, Facilities, Building Improvements and Equipment: The cost of buildings under capitalized lease and land leaseholds used in the management of research projects is amortized over the respective lease terms. Buildings and improvements are depreciated over various lives, ranging from 10 to 30 years, principally by the straight-line method. Equipment is depreciated over various lives, ranging from 4 to 5 years, by the straight-line method. Leasehold improvements are amortized over shorter of the terms of the respective leases by the straight-line method or their economic life. Internal use software is capitalized, if appropriate, based on the project stage. Equipment that is highly specialized and offers no alternative future use to EPRI or its contractors is expensed as incurred. Costs associated with individual research and development projects conducted at the facilities are charged to expense as incurred. Any gain or loss from the sale or other disposition of property, facilities, and equipment is recorded in Other Income.

Other Assets: Other assets consist primarily of prepaid expenses, miscellaneous receivables and cash and cash equivalents restricted for workers' compensation.

Revenue Recognition: Revenue from memberships is generally recognized over the annual membership period. Supplemental funding and other contract services are considered exchange transactions. Revenue for those projects is recorded on the percentage of completion basis, upon execution of a funding agreement and determination that collection of the resulting receivables is reasonably assured. Advances on projects are reflected as deferred revenue. Supplemental funding included \$71,000 for EPRI in 2007 and \$603,000 in 2006 of contractual revenue where funding had not yet been received by EPRI but related costs had been incurred on cofunding projects. Revenue is concentrated among members of the U.S. electric utility industry. EPRI maintains reserves for doubtful accounts and other collection issues for membership and supplemental funding on the basis of historical experience and an analysis of specific accounts. Such reserves amounted to \$280,000 and \$302,000 at December 31, 2007 and 2006, respectively.

Accounts Payable: Certain research contracts provide for the retainage of contract payments by EPRI until completion of the contract. Retainage amounts where the scheduled contract completion date is beyond one year are recorded as Long-Term Research and Development Expenses Payable.

Basis of Presentation: EPRI's financial statements are prepared on the accrual basis of accounting and in conformity with accounting principles applicable to not-for-profit organizations. Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of 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 vary from those estimates. Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the change in net assets or total net assets.

Note 2— Investments

The aggregate carrying amounts of investments, including cash and cash equivalents, at December 31, 2007 and 2006, were as follows:

		2007	2006
		<i>(thousands of dollars)</i>	
Money market accounts and cash		\$ 3,349	\$ 5,115
Commercial paper		52,310	33,948
Cash and cash equivalents		55,659	39,063
Government securities	Student Loan ARS	-	23,600
	Other ARS	-	7,950
	Other	-	3,600
Total Government Securities		-	35,150
Auction Rate Securities	CDOs	-	11,900
	CLNs	-	7,800
	ARPs	-	5,450
	Other ARS	-	1,500
Total Auction Rate Securities		-	26,650
Other		2,090	5,379
Total short term investments		2,090	67,179
Investments in other companies		105	242
Long term investments	CDOs	14,406	-
	CLNs	21,296	-
	ARPs	14,391	-
	Other	-	1,572
Total long term investments		50,198	1,814
Total		\$107,947	\$108,056

“Other” short term investments include fixed time deposits of \$428,000 and \$357,000 in 2007 and 2006, respectively. There are also fixed time deposits of \$372,000 in “Other” long term investments in 2006. Net realized

and unrealized losses on investments of \$32,871,000 and \$181,000, were recognized and included in Other Income in 2007 and 2006, respectively.

Long term investments at December 31, 2007 consist mainly of Auction Rate Securities "ARS". Auction rate securities are structured with short-term interest rate reset dates of generally less than ninety days, but with contractual maturities that can be well in excess of ten years. At the end of each reset period, which occurs every seven to thirty-five days, investors can sell or continue to hold the securities at par. At December 31, 2007, EPRI held three types of Auction Rate Securities: Collateralized Debt Obligations "CDOs", Credit Linked Notes "CLNs", and Auction Rate Preferreds "ARPs". EPRI had actively traded ARS for the past 15 years without incident until August 2007 when EPRI experienced "failed auctions" or the inability to settle as scheduled. EPRI received indicative quotes and modeled marks from the underwriters of these securities; however, the underwriters have stated they are in no way making a commitment to purchase or sell at these indications. Accordingly, EPRI has determined it was not reasonable to rely solely upon these price quotes. Instead, EPRI developed a Discounted Cash Flow Model to estimate the respective fair value of each security.

CDOs are notes issued by trusts holding pools of mortgage-backed or asset-backed securities, synthetic securities, medium and long-term notes, and in a few cases, interests in other CDOs. The information used for valuing the CDOs was as follows:

- The major contractual and economic aspects of the securities that have a bearing on the future cash flows that EPRI can expect from the CDOs.
- The specific rights and privileges of the different classes of notes issued by the trusts that hold the collateral, as well as specific instructions to the trustees and collateral managers for the ongoing management of the trusts.
- The trustees charged with maintaining the books and records of the trusts, as well as with collecting and disbursing cash, publish periodic reports that provide EPRI with the details of the collateral. Critically, these reports also detail tests of various covenants included in the indentures that govern the terms of the notes.

This information was used for each CDO in order to establish the trends in key elements that will influence the future cash flows; including, but not limited to, repayments of collateral, repayments of the various classes of the notes, changes in credit ratings of the collateral, over collateralization, interest coverage ratios, covenants and the average life of collateral securities.

Proceeds from the sale of the CLNs to investors flow to a Master Trust that acquires collateral, typically medium term, high credit quality floating rate notes. The interest earned on the collateral is then paid to Deutsche Bank who in turn pays the interest payments due to the ARS holders based on rates set in auctions. Deutsche Bank also buys credit default insurance from the trust. This credit default insurance identifies 125 corporate bonds as reference entities and an associated notional dollar value of purchased insurance for each entity. Upon the occurrence of an event of default by one or more of the reference entities, the trust will remit to Deutsche Bank a portion of the collateral equal to the loss in notional value associated with the defaults. The information used for valuing the CLNs was as follows:

- The intrinsic value of a given CLN, that is, a discounted cash flow model given uncertain future cash flows.
- The credit rating agencies expert opinion of the probability of default on any reference obligation. Extrapolating from the historical probability of default for a security of a given credit rating, one can estimate the likely terminal value of the collateral available to repay note holders as of the final maturity in 2017.
- The expected terminal collateral value and the interest income accruing in the event of positive terminal collateral value.
- The overall credit rating of the underlying reference obligations and the time left to maturity. As the credit ratings erode the modeled value falls. As the time to maturity shrinks, the modeled value rises.

- Additionally, the modeled discounted cash flow valuation of each CLN was further discounted to account for the potential increased likelihood for credit default as indicated by recent ratings downgrades among the reference securities and a further discount to reflect the illiquidity in the market for these securities.

ARPs represent a partnership interest in a trust. The trusts are special purpose entities formed solely for the purpose of issuing the ARP, acquiring a diversified portfolio of short-term, high credit quality commercial paper, entering into a put agreement with Ambac Assurance Corporation, and purchasing, at the option of Ambac Assurance, the perpetual preferred stock of Ambac Assurance, pursuant to the put agreement. The information used for valuing the ARPs was the credit ratings, the protection provisions of the preferred stock, and the structure of the ARP.

As of December 31, 2007, auction rate securities with a cost value of \$83,350,000 continued to fail auction due to sell orders exceeding buy orders. Based on an analysis of current fair value, we have recorded an unrealized loss of \$33,257,000 related to these auction rate securities. This temporary impairment is reflected in our Statement of Activities. The funds associated with failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process or the underlying securities have matured. As a result, we have classified those securities with failed auctions as long-term assets in our consolidated Statement of Financial Position.

Because an active market with quoted prices does not exist for the auction rate securities, the value of these investments as estimated by management may not necessarily be indicative of the value that other market participants would ascribe to these securities or represent the price that EPRI would have received upon selling or otherwise disposing of the investments as of December 31, 2007.

We do not anticipate having to sell these securities in order to operate our business. We believe that, based on our current unrestricted cash, cash equivalents and short term investments of \$57,749,000 at December 31, 2007, the current lack of liquidity with the auction rate securities will not have a material impact on our liquidity, cash flow or our ability to fund our operations.

Note 3— Properties, Facilities, Building Improvements and Equipment

	2007	2006
	<i>(thousands of dollars)</i>	
Buildings and land leases	\$51,383	\$51,278
Equipment and leasehold improvements	19,234	12,735
Software and computer equipment	17,358	15,823
	87,975	79,836
Accumulated depreciation and amortization	(51,200)	(47,513)
	<u>\$36,775</u>	<u>\$32,323</u>

The depreciation expense for the years ended December 31, 2007 and 2006, was \$5,157,000 and \$4,300,000 respectively. As of December 31, 2007, EPRI held \$34,105,000 of fully depreciated assets.

Note 4— Accrued Liabilities

	2007	2006
	<i>(thousands of dollars)</i>	
Accrued compensation	\$14,858	\$11,222
Accrued vacation	3,450	3,048
Other	2,446	2,713
	<u>\$20,754</u>	<u>\$16,983</u>

Note 5—Net Assets, Unrestricted

EPRI's net assets at December 31, 2007 and 2006, and all activities for each year then ended are unrestricted. \$4,906,208 and \$5,317,000 of net assets were appropriated as Tailored Collaboration matching, as of December 31, 2007 and 2006, respectively. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. As of December 31, 2007 the Board of Directors has designated \$7,294,000 for member directed Research and Development.

Note 6—Benefit Plans

EPRI has a defined contribution pension plan for its employees. It is EPRI's policy to fund pension costs accrued. The pension expense was \$8,376,000 for 2007 and \$8,227,000 for 2006.

EPRI provides an unfunded postretirement health care benefit plan that covers all employees who retire on or after age 55 with a minimum of 5 years of service and whose aggregate years of service plus age total 70 years or more. In addition, the age plus service as of 12/31/06 must equal or exceed 50 and the hire / rehire date must be prior to January 1, 2007. Spouses of eligible participants are also covered. Each non officer participant and spouse receives up to \$75 monthly for medical insurance premium reimbursement or up to \$125 if under the early retirement incentive program. Officers, who attained officer status before 01/01/07, are required to pay 15% of the actual premium cost of the medical plan of their choice. EPRI pays the remaining 85% of the premium cost. For officers, health care costs are assumed to increase at a rate of 9.0% for 2008, then grade down by 1% per year to an ultimate trend rate of 5% for 2012 and later.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.0% in 2007 and 5.5% in 2006. The health care trend is assumed to be between 5.00% - 9.00% per year for all future years.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158 (FAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. FAS 158 requires organizations to recognize a net liability or asset to report the funded status of their defined benefit pension and other post retirement benefit plans in their statement of financial position. It also requires that plan assets and benefit obligations be measured as of the date of an employer's statement of financial position. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, EPRI elected for early adoption of this statement and adopted this statement as of December 31, 2006. In addition, FAS 158 requires EPRI to adjust its measurement date to its fiscal year end date beginning in fiscal year 2008.

The measurement date for the required disclosures shown below is September 30.

	2007	2006
	<i>(thousands of dollars)</i>	
<i>Change in Benefit Obligation</i>		
Benefit obligation at end of prior year	\$9,518	\$10,774
Service cost	181	186
Interest cost	521	492
Actuarial (gain) loss	215	(1,501)
Benefits paid, 10/1 – 9/30	<u>(459)</u>	<u>(433)</u>
Benefits obligation at end of year	\$9,976	\$9,518
<i>Change in Plan Assets</i>		
Employer contributions, 10/1 – 9/30	459	433
Benefits paid, 10/1 – 9/30	<u>(459)</u>	<u>(433)</u>
<i>Funded status at 9/30</i>	9,976	9,518
Estimated contributions, 9/30 – 12/31	(115)	(108)

EPRI Solutions Accrual	-	58
Funded status at 12/31	<u>\$9,862</u>	<u>\$9,468</u>
Amounts recognized in statement of financial position:		
Current liabilities	\$714	\$580
Noncurrent liabilities	<u>9,148</u>	<u>8,888</u>
	<u>\$9,862</u>	<u>\$9,468</u>
Change in accounting principle:		
Net loss	-	\$1,467
	<u>\$0</u>	<u>\$1,467</u>
Net periodic benefit costs:		
Service cost	\$181	\$186
Interest cost	521	492
Amortization of net loss	<u>65</u>	<u>81</u>
Net periodic benefit cost	<u>\$767</u>	<u>\$759</u>

Note 7— Commitments and Contingencies

Occasionally, EPRI is involved in lawsuits arising in the ordinary course of its operation. While the ultimate liabilities cannot now be determined due to uncertainties that exist, management believes the ultimate resolution of these lawsuits is not expected to have a material effect on EPRI's financial position.

EPRI provides limited indemnifications in the ordinary course of business, such as to its Board in connection with their service on the Board. Based upon the nature of the indemnifications provided, management has determined they have minimal value.

EPRI has three standby letters of credit with a bank which provides for security for total obligations of \$988,500.

There was no balance outstanding under the letters of credit at either December 31, 2007 or 2006. Two letters totaling \$909,000 expire on June 30, 2008 and one letter in the amount of \$79,500 expires on December 31, 2008.

EPRI has entered into lease arrangements under operating leases for research, office, and storage facilities and for equipment. Rental expense under these leases was \$1,508,000 in 2007 and \$1,500,000 in 2006. The terms included in certain of these leases provide that EPRI is responsible for property taxes, insurance, and maintenance expenses, and in certain cases renewal options are included.

EPRI leases certain buildings under a long-term noncancelable capital lease. The current lease has been extended to January 31, 2019. The ten year extension is being accounted for as an operating lease. The capitalized cost of these buildings as of December 31, 2007 was \$3,807,000 with a current net book value of zero.

Future minimum lease commitments by year and in the aggregate, under the capital leases and non-cancelable operating leases with initial terms of one year or more, at December 31, 2007, are as follows:

	Capital Leases	Operating Leases	Total
	<i>(thousands of dollars)</i>		
2008	\$199	\$1,317	\$1,516
2009	-	1,390	1,390
2010	-	1,365	1,365
2011	-	1,363	1,363
Thereafter	-	4,479	4,479
	<u>\$199</u>	<u>\$9,914</u>	<u>\$10,113</u>

Less amount representing interest	(9)

Present value of the minimum capital lease commitments	190
Less current portion	(190)

Present value of the long-term obligation under capital leases	\$ -

In 2005, a long-term lease to a third party was entered into for three buildings until 2018, which resulted in a prepayment of the first three years of rent of \$3,278,000. The sum of future lessee payments is \$21,068,000 as of December 31, 2007.

Annually, EPRI authorizes the maximum amounts that may be expended on research projects. EPRI negotiates research contracts on those projects with companies and organizations that result in a contractual commitment for a given year. Such commitments cannot exceed the cumulative authorization. At December 31, 2007, EPRI had commitments with contractors to reimburse their future research costs in the amount of approximately \$66,344,000. Generally, EPRI has the right to cancel research and development contract commitments on 30 days' notice, subject to the payment of certain termination costs.

Certain research contracts are funded from federal government sources. Amounts received from these contracts are subject to audit by the awarding agencies. To date, no significant cost disallowances have resulted from such audits.

Note 8—Income Taxes

EPRI's for-profit subsidiaries account for income taxes under the asset and liability method. Income tax expense was \$123,000 in 2007 and \$1,201,000 in 2006. Deferred tax assets and liabilities are recognized for future tax consequences of carrying differences between financial statement and tax bases of assets and liabilities. Income tax expense and deferred taxes are not significant; however, for tax purposes as of December 31, 2007, EPRI subsidiaries have net operating loss ('NOL') carryovers available to offset future federal taxable income as follows:

Year Generated	Year of Expiration	Total
		<i>(thousands of dollars)</i>
2000	2020	\$2,411
2001	2021	703
2002	2022	1,270
		\$4,384

These NOL carryovers provide a potential future income tax benefit of \$1,491,000. For financial reporting purposes, a valuation allowance of \$1,339,000 has been recognized to offset a portion of the deferred tax assets relating to these NOL carryovers, since their use is limited and a portion is expected to expire before being fully utilized. There was no change in the valuation allowance in 2007.

Note 9—Related Party Transactions

Substantially all of EPRI's revenues are derived from members of EPRI. A number of EPRI's Board members are affiliated with companies that are members of EPRI. In addition to membership funding, such member companies have also provided supplemental funding to EPRI for certain research projects. Those members provided approximately 52% and 40% of the membership funding for the years ended December 31, 2007 and 2006.

Note 10—Subsequent Events

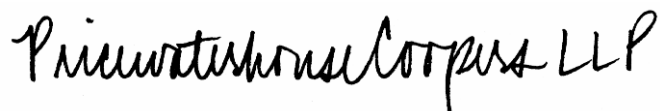
In arriving at the estimated fair value of the auction rate securities, events subsequent to December 31, 2007 such as downgrades in 2008 have been taken into account.

Report of Independent Auditors

To the Board of Directors of EPRI

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of the Electric Power Research Institute (EPRI) at December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of EPRI's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 6 to the consolidated financial statements, in 2006 EPRI changed the manner in which it accounts for its postretirement benefit plan.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

San Francisco, California

July 9, 2008