ELECTRIC POWER
RESEARCH INSTITUTE

CHRISTIAN B. LARSEN
Senior Vice President
Operations

April 24, 2012

I am pleased to present the 2011 audited Financial Statements of the Electric Power Research Institute. The audit was performed by Deloitte & Touche in accordance with generally accepted auditing standards. At the conclusion of the audit, Deloitte & Touche:

- Issued an unqualified audit opinion
- Identified "no deficiencies…which would constitute a material weakness in internal controls over financial statements and federal awards"

Should you have any questions regarding the assumptions or conclusions made in this year's statement, please do not hesitate to contact me.

Sincerely,

Chris Larsen
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CL:kes

Electric Power Research Institute (EPRI)

Consolidated Financial Statements for the
Years Ended December 31, 2011 and 2010,
Independent Auditors' Report, and Schedule of
Expenditures of Federal Awards and OMB
Circular A-133 Compliance Reports for the
Year Ended December 31, 2011

ELECTRIC POWER RESEARCH INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Electric Power Research Institute
Palo Alto, California

We have audited the accompanying consolidated statements of financial position of Electric Power Research Institute and subsidiaries (the "Institute" or "EPRI") as of December 31, 2011 and 2010, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Institute as of December 31, 2011 and 2010, 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.

Our audits were performed for the purpose of forming an opinion on the basic 2011 consolidated financial statements of the Institute, taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2011, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the Institute's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2011 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2011 consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2012, on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

April 17, 2012

ELECTRIC POWER RESEARCH INSTITUTE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010
(Dollars in thousands)

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,515	$ 24,693
Investments	137,688	108,956
Receivables — members	7,962	7,561
Receivables — supplemental funding	23,556	29,398
Receivables — other	6,210	6,826
Other current assets	5,693	5,136
Total current assets	194,624	182,570
LONG-TERM INVESTMENTS	40,800	34,449
DEFERRED RENT RECEIVABLE	2,947	2,658
OTHER LONG-TERM ASSETS	162	5,637
PROPERTY, FACILITIES, BUILDING IMPROVEMENTS, AND EQUIPMENT — Net	44,181	36,451
TOTAL	$ 282,714	$ 261,765
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 41,114	$ 42,193
Deferred revenue	148,621	136,292
Accrued liabilities	26,366	27,491
Total current liabilities	216,101	205,976
LONG-TERM RESEARCH AND DEVELOPMENT EXPENSES PAYABLE AND OTHER DEPOSITS	157	210
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION	12,709	11,376
LONG-TERM DEFERRED SUPPLEMENTAL REVENUE	3,920	3,956
Total liabilities	232,887	221,518
COMMITMENTS AND CONTINGENCIES (Note 8)		
TOTAL UNRESTRICTED NET ASSETS	49,827	40,247
TOTAL	$ 282,714	$ 261,765

See notes to consolidated financial statements.

ELECTRIC POWER RESEARCH INSTITUTE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollars in thousands)

	2011	2010
CHANGES IN NET ASSETS:		
Revenues:		
Membership	$ 179,054	$ 179,418
Supplemental funding	181,907	182,769
Other	6,362	23,972
Total revenues	367,323	386,159
Expenses:		
Environment	40,360	38,055
Power delivery and utilization	85,492	79,287
Generation	66,237	69,875
Nuclear	138,466	126,285
Technology innovation activities	28,268	29,087
Total expenses	358,823	342,589
EXCESS OF REVENUES OVER EXPENSES	8,500	43,570
OTHER INCOME (EXPENSE):		
Interest income	1,164	1,101
(Loss) gain on investments and asset disposals — net	(84)	3,856
Total other	1,080	4,957
INCREASE IN NET ASSETS — Unrestricted	9,580	48,527
NET ASSETS — Unrestricted — beginning of year	40,247	(8,280)
NET ASSETS — Unrestricted — end of year	$ 49,827	$ 40,247

See notes to consolidated financial statements.

ELECTRIC POWER RESEARCH INSTITUTE

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollars in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 9,580	$ 48,527
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,457	7,328
Loss on retirement of equipment	73	3
Loss (gain) on investments	13	(3,859)
Allowance for doubtful accounts	(28)	58
Changes in assets and liabilities:		
Receivables — members	(401)	(4,999)
Receivables — supplemental funding	5,870	(6,245)
Receivables — other	616	(6,826)
Other current assets	(557)	1,569
Deferred rent receivable	(289)	(431)
Other long-term assets	5,475	(5,637)
Accounts payable	(4,001)	(2,527)
Deferred revenue	12,293	13,228
Accrued liabilities	(1,125)	1,523
Accumulated postretirement benefit obligation	1,333	1,169
Long-term research and development expenses payable and other deposits	(53)	83
Net cash provided by operating activities	36,256	42,964
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(12,338)	(5,401)
Purchases of investments	(166,221)	(354,343)
Proceeds from sale and maturity of investments	131,125	289,510
Net cash used in investing activities	(47,434)	(70,234)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,178)	(27,270)
CASH AND CASH EQUIVALENTS — Beginning of year	24,693	51,963
CASH AND CASH EQUIVALENTS — End of year	$ 13,515	$ 24,693
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Capital expenditures in accounts payable	$ 3,023	$ 388

See notes to consolidated financial statements.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The Electric Power Research Institute, Inc.'s (the "Institute" or EPRI) mission is to conduct research and development through science and technology with a view of providing benefits to its members, customers, and the U.S. public. To accomplish this objective, EPRI develops and manages research and development programs for improving energy generation, delivery, and usage. Program service expenses are direct charges to the research programs.

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 2011, as in prior years, EPRI anticipates 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., EPRI International, Inc., and Electricity Innovation Institute.

Summary of Significant Accounting Policies:

Basis of Presentation — EPRI's consolidated financial statements are prepared on the accrual basis of accounting and in conformity with accounting principles applicable to not-for-profit organizations. Subsequent events were evaluated through April 17, 2012, the date when the consolidated financial statements were available to be issued.

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 — Investments are carried at fair value. Cash is concentrated with Bank of America, while Union Bank of California is the custodian for EPRI's investments. Realized and unrealized gains or losses on investments are reflected in the consolidated statements of activities and changes in net assets.

Property, Facilities, Building Improvements, and Equipment — Buildings and improvements are depreciated over various lives, ranging from 10 to 30 years, principally by the straight-line method. Equipment is depreciated using the straight-line method over various lives, ranging from four to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the terms of the respective leases or their economic life. 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.

Deferred Rent — Deferred rent consists of rental revenue for three buildings through 2018. EPRI records lease revenue on a straight-line basis over the lease term.

Other Long-term Assets — In 2010, other long-term assets consisted of royalties. In 2011, it consisted of miscellaneous deposits and other long-term prepaids.

Membership Revenue — Revenue from memberships is recognized straight line over the annual membership period.

Supplemental Revenue — Supplemental funding and other contract services are considered exchange transactions. Revenue for those projects is recorded when the funding agreement is executed, costs are incurred, and the collection of the resulting receivables is reasonably assured. Advances on projects are reflected as deferred revenue. Supplemental funding for EPRI included $3,096,000 in 2011 and $7,551,000 in 2010 of contractual revenue where funding had not yet been received, but related costs had been incurred on co-funding projects.

Other Revenue — Other revenue includes rental revenue, royalty revenue, and sales of EPRI reports. Rental revenue is recognized on a straight-line basis over the term of the lease. Royalty revenue is recognized as received as EPRI believes that the revenue is not fixed or determinable at the end of each reporting period.

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 $272,000 and $300,000 at December 31, 2011 and 2010, 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.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value Measurements and Disclosures — In January 2010, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update No. 2010-06, providing amendments to Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, with additional disclosure requirements about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. The new disclosures and clarifications to the existing disclosures were adopted for the year ended December 31, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3. Those disclosures were adopted for the year ended December 31, 2011. As a result of the adoption of this amendment, the Institute has enhanced its disclosures as noted in Note 3. The adoption of this amendment did not have a material impact on the Institute's consolidated financial statements.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The aggregate carrying amounts of investments, including cash and cash equivalents, as of December 31, 2011 and 2010, were as follows (dollars in thousands):

	2011	2010
Money market accounts and cash	$ 13,515	$ 21,694
Commercial paper/treasury bills*		2,999
Cash and cash equivalents	13,515	24,693
Short-term investments	137,688	108,956
Long-term investments:		
Equity securities	31	44
Auction rate securities	5,709	5,709
Commercial paper/treasury bills	35,060	28,696
Total long-term investments	40,800	34,449
Total	$ 192,003	$ 168,098

*Investments that have original maturity of 90 days or less

Short-term and long-term investments consist primarily of corporate debt securities (*commercial paper*) and U.S. government securities.

EPRI has long-term investments in auction rate securities (ARSs). ARSs are structured with short-term interest rate reset dates of generally less than 90 days, but with contractual maturities that can be well in excess of 10 years. At the end of each reset period, investors can sell at an auction or continue to hold the securities at par. In December 2010, EPRI sold certain auction rate preferred securities for proceeds of $1,093,625 and a realized gain in 2010 of $1,093,625. However, because the investments were revalued downward in prior years on EPRI's consolidated statement of financial position from an original cost value of $16,825,000 to $0, the cumulative effect of the sale was a realized loss of $15,731,375. EPRI did not sell any ARS investments in 2011.

Fair Value Hierarchy — EPRI follows the guidance offered by ASC 820-10 to estimate the fair value of its investments at December 31, 2011. ASC 820-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. As a result of the continuing negative credit conditions in the global credit markets and the specific failure of the ARS auction process, the ARS held by EPRI have been classified as Level 3 for valuation purposes based upon the following:

Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 — Inputs are unobservable inputs for the assets or liabilities. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available. Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data.

The valuation of the Institute's investments per ASC 820-10 fair value hierarchy levels as of December 31, 2011 and 2010, are summarized as follows (dollars in thousands):

	Fair Value at Reporting Date Using			
2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
U.S. government securities	$ 68,630	$ -	$ -	$ 68,630
Corporate debt securities	93,517			93,517
Certificate of deposit	10,601			10,601
Equity securities	31			31
Auction rate securities			5,709	5,709
Total	$172,779	$ -	$ 5,709	$178,488

	Fair Value at Reporting Date Using			
2010	**Quoted Active for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
U.S. government securities	$ 99,390	$ -	$ -	$ 99,390
Corporate debt securities	36,512			36,512
Certificate of deposit	1,750			1,750
Equity securities	44			44
Auction rate securities			5,709	5,709
Total	$137,696	$ -	$ 5,709	$143,405

For the years ended December 31, 2011 and 2010, there were no significant transfers in or out of Levels 1, 2, or 3.

A reconciliation of Level 3 investments during the years ended December 31, 2011 and 2010, are summarized as follows (dollars in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Auction Rate Securities
Balance as of December 31, 2010	$ 5,709
Net realized and unrealized gains	
Purchases and sales:	
Purchases	
Sales	
Balance as of December 31, 2011	$ 5,709

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Auction Rate Securities
Balance as of December 31, 2009	$ 2,945
Net realized and unrealized (losses)/gains	3,854
Net sales	(1,090)
Balance as of December 31, 2010	$ 5,709

U.S. Government Securities — U.S. government securities (U.S. Treasury bills, AA-AAA rated notes, etc.) are actively traded; the quoted price from New York Stock Exchange (NYSE) and other large public markets is used.

Corporate Debt Securities — Corporate debt consists of corporate bonds. All corporate debt are actively traded exchange-traded funds, the quoted price from NYSE and other large public markets is used.

Certificates of Deposit — Certificates of deposit are actively traded; the quoted price from NYSE and other large public markets is used.

ARSs — Management relied on a qualitative approach to estimate the fair value of the ARS investments as of December 31, 2011 and 2010.

To develop Level 3 inputs for the 2011 valuation estimate, EPRI engaged an independent adviser to review the securities and the markets in which they would potentially trade in an effort to help EPRI identify a reasonable valuation methodology based upon information currently available. Management concluded that based on current market conditions the most appropriate indicative valuation methodology would consider a range of qualitative inputs, including broker quotes, collateral risk evaluations, and review of various rights and obligations of the underlying investments.

During 2011 and 2010, EPRI held the following type of ARS investments:

Collateralized Debt Obligations (CDOs) — CDOs are notes issued by trusts holding pools of mortgage-backed or asset-backed securities; synthetic securities; medium and long-term notes; in a few cases, interests in other CDOs. The 2011 and 2010 information used for valuing EPRI's CDOs included review of CDO-structured securities market, investment documentation, and discussions with brokers.

As of December 31, 2011, EPRI's ARSs with a cost value of $38,525,000 continued to fail auction. Some of these investments continued to pay interest based upon monthly/quarterly interest reset rates. Based on the aforementioned analysis of their current fair value, EPRI recognized no change in the fair value during 2011, and recorded an unrealized gain of $2,764,000 related to ARSs in 2010, respectively. This impairment is reflected in EPRI's consolidated statements of activities and changes in net assets. 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, EPRI has classified the residual ARS investment balance of $5,709,000 as long-term assets in its consolidated statements of financial position.

4. PROPERTIES, FACILITIES, BUILDING IMPROVEMENTS, AND EQUIPMENT

Properties, facilities, building improvements, and equipment as of December 31, 2011 and 2010, were as follows (dollars in thousands):

	2011	2010
Buildings and land leases	$ 62,688	$ 57,017
Equipment and leasehold improvements	25,821	22,386
Software and computer equipment	27,780	23,658
Total properties, facilities, building improvements, and equipment	116,289	103,061
Accumulated depreciation and amortization	(72,108)	(66,610)
Properties, facilities, building improvements, and equipment — net	$ 44,181	$ 36,451

The depreciation expense for the years ended December 31, 2011 and 2010, was $7,457,000 and $7,328,000, respectively.

5. ACCRUED LIABILITIES

Accrued liabilities as of December 31, 2011 and 2010, were as follows (dollars in thousands):

	2011	2010
Accrued compensation	$ 20,391	$ 21,059
Accrued vacation	4,518	4,537
Other	1,457	1,895
Total accrued liabilities	$ 26,366	$ 27,491

6. NET ASSETS — UNRESTRICTED

EPRI's net assets at December 31, 2011 and 2010, and all activities for the years then ended are unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. As of December 31, 2011 and 2010, no net assets were designated by the Board of Directors.

7. BENEFIT PLANS

EPRI has a defined contribution pension plan for its employees. It is EPRI's policy to fund pension costs as earned by employees. The pension expense was $10,462,000 for 2011 and $9,956,000 for 2010.

EPRI provides an unfunded postretirement health care benefit plan to employees meeting certain requirements. Prior to January 1, 2007, all employees who retired on or after age 55 with a minimum of five years of service and whose aggregate years of service, plus age totaled 70 years or more were covered by the plan. Effective January 1, 2007, employees are eligible only if the sum of their age, plus years of service equaled or exceeded 50 years as of December 31, 2006, and, if upon their retirement from EPRI, they have completed a minimum of five years of service; have attained a minimum of age 55; and their aggregate age, plus years of service totaled 70 years or more. No employee hired or rehired on or after January 1, 2007, is eligible for the benefit. Spouses of eligible participants are also covered. Each nonofficer participant and spouse receive up to $75 monthly for medical insurance premium reimbursement. Officers who attained officer status before January 1, 2007, are required to pay 20% of the actual premium cost of the medical plan of their choice. EPRI pays the remaining 80% of the premium cost. For officers, health care costs are assumed to increase by 8% for 2012 and 7.2% for 2013 and then remain at approximately 7.2% increases per year through 2019.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.06% in 2011 and 5.17% in 2010. The health care trend is assumed to be between 7.1%-8.0% per year for all future years.

ASC 715-30, *Defined Benefit Plans — Pension Recognition,* requires organizations to recognize a net liability or asset and report the funded status of their defined benefit pension and other postretirement 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 provide the required disclosures as of the end of the fiscal year (dollars in thousands).

	2011	**2010**
Change in benefit obligation:		
Benefit obligation at end of prior year	$ 12,089	$ 10,984
Service cost	111	108
Interest cost	608	595
Actuarial loss	982	845
Benefits paid	(357)	(443)
Benefits obligation at end of year	$ 13,433	$ 12,089
Change in plan assets:		
Employer contributions	$ 357	$ 443
Benefits paid	(357)	(443)
Funded status at end of year	$ 13,433	$ 12,089
Amounts recognized in consolidated statement of financial position:		
Current liabilities	$ 724	$ 713
Noncurrent liabilities	12,709	11,376
	$ 13,433	$ 12,089
Net periodic benefit costs:		
Service cost	$ 111	$ 108
Interest cost	608	595
Amortization of net loss	195	91
Net periodic benefit cost	$ 914	$ 794

Expected benefit payments to retirees under the postretirement plan, over the next 10 years are summarized below (in thousands):

Years Ending December 31	**Amount**
2012	$ 723
2013	760
2014	781
2015	805
2016	818
2017–2021	4,250
Total	$ 8,137

8. COMMITMENTS AND CONTINGENCIES

As a matter of business practice, EPRI extends indemnification to its members, funders, and collaborators for certain contractual risks; furthermore, EPRI is required to provide certain indemnifications arising through EPRI's government contracts. In addition, through its bylaws and/or by operation of law, EPRI may owe indemnification in certain matters to members of its Board of Directors, officers, and employees.

EPRI has three "deposit accounts for cash-secured letters of credit" in the amount of $414,000 with Bank of America. The letters of credit are mandated by the State of California and required for EPRI's disability and workers' compensation programs. There was no balance outstanding under the letters of credit at either December 31, 2011 or 2010. Two letters totaling $250,000 (workers' compensation) expire on June 30, 2012, and one letter in the amount of $164,000 (self-insured disability) expires on December 31, 2012.

EPRI has entered into lease arrangements under operating leases for research, office, and storage facilities and for equipment. Rental expense under these leases was $1,781,000 and $1,825,000 in 2011 and 2010, respectively. The terms included in certain of these leases provide that EPRI is responsible for property taxes, insurance, and maintenance expenses, and in certain leases renewal options are included.

EPRI leases certain buildings under a long-term noncancelable operating lease**.** The current lease for the Palo Alto location was extended in 2007 to January 31, 2019. The 10-year extension is being accounted for as an operating lease.

Future minimum noncancelable operating lease commitments (by year) with initial terms of one year or more as of December 31, 2011, are as follows (dollars in thousands):

Years Ending December 31	Amount
2012	$ 1,399
2013	1,411
2014	943
2015	646
2016	505
Thereafter	928
Total	$ 5,832

In 2005, a long-term operating sublease to a third party was entered into for three buildings. The lease expires in 2018. In 2011, EPRI entered into a long-term operating sublease to a third party for a building located in Charlotte, North Carolina. This lease expires in 2016. The sum of the two future lease payments to be received by EPRI is $18,380,000 as of December 31, 2011, as follows (dollars in thousands):

Years Ending December 31	Amount
2012	$ 2,532
2013	2,597
2014	2,665
2015	2,734
2016	2,718
Thereafter	5,134
Total	$ 18,380

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 without amending the original agreement. At December 31, 2011, EPRI had commitments with contractors to reimburse their future research costs in the amount of approximately $79,514,000. Generally, EPRI has the right to cancel research and development contract commitments at 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.

Actions arising from the normal course of business are pending against the Institute. While the outcome of these matters is not presently determinable, in the opinion of management, these matters are not expected to have a material effect on the financial position or results of operations of the Institute, and accordingly no provision has been made in the financial statements.

9. RELATED-PARTY TRANSACTIONS

During 2011, 27 of the 33 seats on EPRI's Board of Directors were filled by individuals who were affiliated with companies that are members of EPRI. In addition to membership funding, these member companies may also have provided supplemental funding to EPRI for certain research projects. Those member companies with representation on the Board of Directors during 2011 and 2010 provided approximately 55% of membership revenue.

* * * * * *

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OMB CIRCULAR A-133 COMPLIANCE REPORTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Electric Power Research Institute
Palo Alto, California

We have audited the consolidated financial statements of Electric Power Research Institute (the "Institute" or "EPRI") as of and for the year ended December 31, 2011, and have issued our report thereon dated April 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Institute is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Institute, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

April 17, 2012

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Electric Power Research Institute
Palo Alto, California

Compliance

We have audited the compliance of Electric Power Research Institute (the "Institute" or "EPRI") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Institute's major federal programs for the year ended December 31, 2011. The Institute's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2011.

Internal Control over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with the requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the Institute, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

April 17, 2012

ELECTRIC POWER RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

CFDA Number	Agency / Recipient	Federal Contract Number	Expenditures	Non-Federal Expenditures	Total
AMERICAN REINVESTMENT AND RECOVERY ACT					
Department of Energy					
81.086	Un of Central Florida (Under DOE-ARRA DE-EE0003848)	SubK# 211144	$ -	$ 20,640	$ 20,640
81.086	Univ. of Central Florida Encumbrance No.: 211144	under DE-EE0003848	130,468		130,468
			130,468	20,640	151,108
81.087	Illinois Institute of Technology	SA413-0210-6757 (DE-EE0002979)	29,605	527	30,132
81.087	South Coast Air Quality Management District	10659 (DE-EE0002549)	1,797,900	1,540,936	3,338,836
81.087	U.S. Dept. of Energy	DE-EE0001377	118,525	2,337	120,862
81.087	U.S. Dept. of Energy (General Motors LLC)	Teaming Agreement under DOE/GM #DE-EE-0002628		5,098,439	5,098,439
81.087	Virginia Tech	429278-19903 (DE-EE0002062)	82,008	41,071	123,079
			2,028,038	6,683,310	8,711,348
81.122	Entergy Services, Inc. (DOE-ARRA)	SubK# 10285120 under DE-OE0000375 (DE-FOA-0000058)	84,950	86,617	171,567
81.122	New York ISO Prime to USDOE-ARRA	PONo. 10461 (DE-FOA-0000058)	43,903	593	44,496
81.122	New York Power Authority	4500191194 (DE-OE0000317)	145,216	194,945	340,161
81.122	New York State Electric & Gas (USDOE)	CF016322-11873 (DE-FOA0000036)	137,774	1,758	139,532
81.122	PG&E Prime to USDOE/NETL	CF016638-12056 (under DE-OE0000198)(DE-FOA0000036)	26,443	3,862	30,305
			438,286	287,775	726,061
81.135	ITN Energy Systems	DE-AR0000019		120,732	120,732
81.135	Wildcat Discovery Technologies Inc	SubK# 10-00112, Under LBNL ARPA-E CA#DE-AR0000103 (DE-FOA0000208)	15,567	15,561	31,128
			15,567	136,293	151,860
Department of Commerce/National Institute of Standards and Technology (NIST)					
11.SB1241-09-CN0099	EnerNex Corporation		50,174	8,245	58,419
			50,174	8,245	58,419
11.1078904	Sandia National Labs	Funder Purchase Order No.: 1078904	9,297	38,520	47,817
			9,297	38,520	47,817
ARRA Total			$ 2,671,830	$ 7,174,783	$ 9,846,613

(Continued)

ELECTRIC POWER RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

CFDA Number	Agency / Recipient	Federal Contract Number	Expenditures	Non-Federal Expenditures	Total
DIRECT:					
U.S. Department of Agriculture, Natural Resources Conservation Service (U.S. Dept of Agriculture)					
10.912	U.S. Dept of Agriculture	NRCS 69-3A75-11-178	$ -	$ 484	$ 484
10.912	U.S. Dept of Agriculture	NRCS 69-3A75-9-167	12,135	63,536	75,671
10.912	U.S. Dept of Agriculture	NRCS 69-3A75-11-17	6,404		6,404
			18,539	64,020	82,559
Environmental Protection Agency					
66.439	Environmental Protection Agency	WS-00E72601	364,715	114	364,829
			364,715	114	364,829
U.S. Nuclear Regulatory Commission					
77.009	U.S. Nuclear Regulatory Commission	NRC-04-09-144	343,410		343,410
77.009	U.S. Nuclear Regulatory Commission	NRC-04-10-0150	562,379	62,570	624,949
			905,789	62,570	968,359
U.S. Department of Energy (U.S. Dept. of Energy)					
81.049	U.S. Dept. of Energy	DE-SC0005312	618,257		618,257
			618,257		618,257
81.087	U.S. Dept. of Energy	DE-EE0002659	46,213		46,213
81.087	U.S. Dept. of Energy	DE-EE0002662	272,586		272,586
81.087	U.S. Dept. of Energy	DE-EE0002666	994,236	198,995	1,193,231
81.087	U.S. Dept. of Energy	DE-FG36-08GO18167	230,088	263,705	493,793
81.087	U.S. Dept. of Energy	DE-FG36-08GO18173	105,538	1,371	106,909
			1,648,661	464,071	2,112,732
81.089	U.S. Dept. of Energy	DE-FC26-03NT41902		17,537	17,537
81.089	U.S. Dept. of Energy	DE-FC26-05NT42303		2,165	2,165
81.089	U.S. Dept. of Energy	DE-FC26-07NT43096	285,735	107,410	393,145
			285,735	127,112	412,847

(Continued)

ELECTRIC POWER RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

CFDA Number	Agency / Recipient	Federal Contract Number	Expenditures	Non-Federal Expenditures	Total
81.121	U.S. Dept. of Energy	DE-FG07-08ID14908	$ 361,715	$ 771,217	$ 1,132,932
			361,715	771,217	1,132,932
81.122	U.S. Dept. of Energy	DE-FC02-06CH11354		105,885	105,885
81.122	U.S. Dept. of Energy	DE-OE0000128		2,074	2,074
81.122	U.S. Dept. of Energy	DE-OE0000128		14,374	14,374
81.122	U.S. Dept. of Energy	DE-OE0000524 (DE-FOA-0000245)	955,755	590,327	1,546,082
			955,755	712,660	1,668,415
82.122	U.S. Dept. of Energy	DE-OE0000128	202,924		202,924
			202,924		202,924
Department of Homeland Security					
97.HSHQDC-08-C-00197	U.S. Dept of Homeland Security		6,120,284	2,799,093	8,919,377
			6,120,284	2,799,093	8,919,377
DIRECT Total			$11,482,374	$ 5,000,857	$16,483,231
PASS-THROUGH					
Department of Energy					
81.049	Intelligent Fiber Optic Systems Corp.	IFOS-093011-GRID-EPRI (DOE DE-SC0004655)	$ 1,721	$ 345	$ 2,066
			1,721	345	2,066
81.086	Ford Motor Company	RQ09-071R01 (DE-FC26-08NT04384	316,145	466,278	782,423
			316,145	466,278	782,423
81.087	Energy Industries of Ohio	EIO Subcontract Effective 10/01/2001 (DE-FG26-01NT41175)	142,838	26,965	169,803
			142,838	26,965	169,803

(Continued)

ELECTRIC POWER RESEARCH INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

CFDA Number	Agency / Recipient	Federal Contract Number	Expenditures	Non-Federal Expenditures	Total
81.089	Air Products & Chemicals	79-584-P-R (DOE/Air Prod. DE-FC26-98FT40343)	$ -	$ 308,209	$ 308,209
81.089	California Energy Commission	500-05-030		1,576	1,576
81.089	Energy Industries of Ohio	EIO Subcontract Effective 10/01/2005 (DE-FC26-05NT42442)	218,129	19,005	237,134
81.089	Membrane Technology & Research	349-DOE-NT-05312-EPRI	38,797	14,648	53,445
81.089	Southern States Energy Board	SSEB-SECARB3-973-T13EPRI-T1AR-2007 (DE-FC26-05NT4259(	3,819,926	4,360,655	8,180,581
			4,076,852	4,704,093	8,780,945
81.121	UT Battelle/ORNL Subcontract 4000103065	DE-AC05-00OR22725	294,671	191,912	486,583
			294,671	191,912	486,583
81.122	Telcordia Technologies, Inc	20114938 (DE-OE-0000518)	49,354	11,639	60,993
			49,354	11,639	60,993
PASS-THROUGH TOTAL			4,881,581	5,401,232	10,282,813
TOTAL — RESEARCH AND DEVELOPMENT			$19,035,785	$17,576,872	$36,612,657

(Concluded)

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") has been prepared from Electric Power Research Institute's (the "Institute's" or "EPRI's") accounting records and is presented on the accrual basis of accounting in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The purpose of the Schedule is to present a summary of those activities of EPRI for the year ended December 31, 2011, which have been partially financed by the U.S. government (federal awards). Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations,* wherein certain types of expenditures are not allowed or are limited as to reimbursements. For purposes of the Schedule, federal awards include all assistance entered into directly between EPRI and the federal government, between EPRI and other primary recipients of federal government funding (pass-throughs), and between EPRI and other industry members of EPRI. Amounts included in the Schedule include both federal portions of the award as well as the nonfederal portion representing EPRI's cost sharing related to those awards. Because the Schedule presents only a selected portion of the activities of the Institute, it is not intended to, and does not, present either the financial position, changes in net assets, or cash flows of the Institute.

2. NONCASH FEDERAL AWARDS

During the year ended December 31, 2011, the Institute did not receive any nonmonetary assistance.

3. SUBRECIPIENTS

Included in the federal expenditures presented in the Schedule, EPRI provided awards funds to subrecipients as follows:

Agency / Recipient	Federal Catalog of Federal Domestic Assistance Number	Federal Contract Number	Subrecipients Federal Amount Provided to	Non-Federal Amount Provided to Subrecipients	Total Amount Provided to Subrecipients
Air Products & Chemicals	81.089	79-584-P-R (DOE/Air Prod. DE-FC26-98FT40343)	$ -	$ 109,307	$ 109,307
Environmental Protection Agency	66.439	WS-00E72601		269,020	269,020
ITN Energy Systems	81.135	DE-AR0000019		564	564
Membrane Technology & Research	81.089	349-DOE-NT-05312-EPRI	13,423	3,888	17,311
New York Power Authority	81.122	4500191194 (DE-OE0000317)	34,551	12,774	47,325
South Coast Air Quality Management District	81.087	10659 (DE-EE0002549)		1,865,318	1,865,318
Southern States Energy Board	81.089	SSEB-SECARB3-973-T13EPRI-T1AR-2007 (DE-FC26-05NT4259(		(425,875)	(425,875)
U.S. Dept of Homeland Security	97.HSHQDC-08-C-00197	HSHQDC-08-C-00197	24,609	770,423	795,032
U.S. Dept. of Agriculture	10.912	NRCS 69-3A75-9-167		(4,640)	(4,640)
U.S. Dept. of Energy	81.049	DE-SC0005312		425,194	425,194
U.S. Dept. of Energy	81.087	DE-EE0001377		74,703	74,703
U.S. Dept. of Energy	81.087	DE-EE0002659		14,314	14,314
U.S. Dept. of Energy	81.087	DE-EE0002662		203,564	203,564
U.S. Dept. of Energy	81.087	DE-EE0002666	576,233	242,753	818,986
U.S. Dept. of Energy	81.087	DE-FG36-08GO18167	153,822	180,923	334,745
U.S. Dept. of Energy	81.087	DE-FG36-08GO18173		62,250	62,250
U.S. Dept. of Energy	81.089	DE-FC26-03NT41902		1,223	1,223
U.S. Dept. of Energy	81.089	DE-FC26-07NT43096	185,883	69,237	255,120
U.S. Dept. of Energy	81.121	DE-FG07-08ID14908	287,510	462,063	749,573
U.S. Dept. of Energy	81.122	DE-OE0000128		116,410	116,410
U.S. Dept. of Energy (General Motors LLC)	81.087	Teaming Agreement under DOE/GM #DE-EE-0002628		701,424	701,424
U.S. DOE/NETL	81.122	DE-OE0000524 (DE-FOA-0000245)	826,802	1	826,803
U.S. Nuclear Regulatory Commission	77.009	NRC-04-09-144		280,848	280,848
U.S. Nuclear Regulatory Commission	77.009	NRC-04-10-0150	280,030	3,532	283,562
US Department of Agriculture — Natural Resources Conservation Service	10.912	NRCS 69-3A75-11-17		5,015	5,015
UT Battelle/ORNL Subcontract 4000103065 under	81.121	DE-AC05-00OR22725		8,854	8,854
Total Subrecipients Expenditures			$2,382,863	$5,453,087	$7,835,950

The Institute is also the subrecipient of federal funds, which have been reported as expenditures and listed as federal pass-through funds.

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ELECTRIC POWER RESEARCH INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____yes	_X__no
• Significant deficiency(ies) identified?	_____yes	_X__none reported
Noncompliance material to financial statements noted?	_____yes	_X__no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____yes	_X__no
• Significant deficiency(ies) identified that are not considered to be a material weakness	_____yes	_X__none reported
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____yes	_X__no

Identification of major programs:

Name of Federal Program	Number
Research and development cluster	Various

Dollar threshold used to distinguish between Type A and Type B programs:	$ 571,074	
Auditee qualified as low-risk auditee?	_X___yes	____no

SECTION II — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION

No matters are reportable.