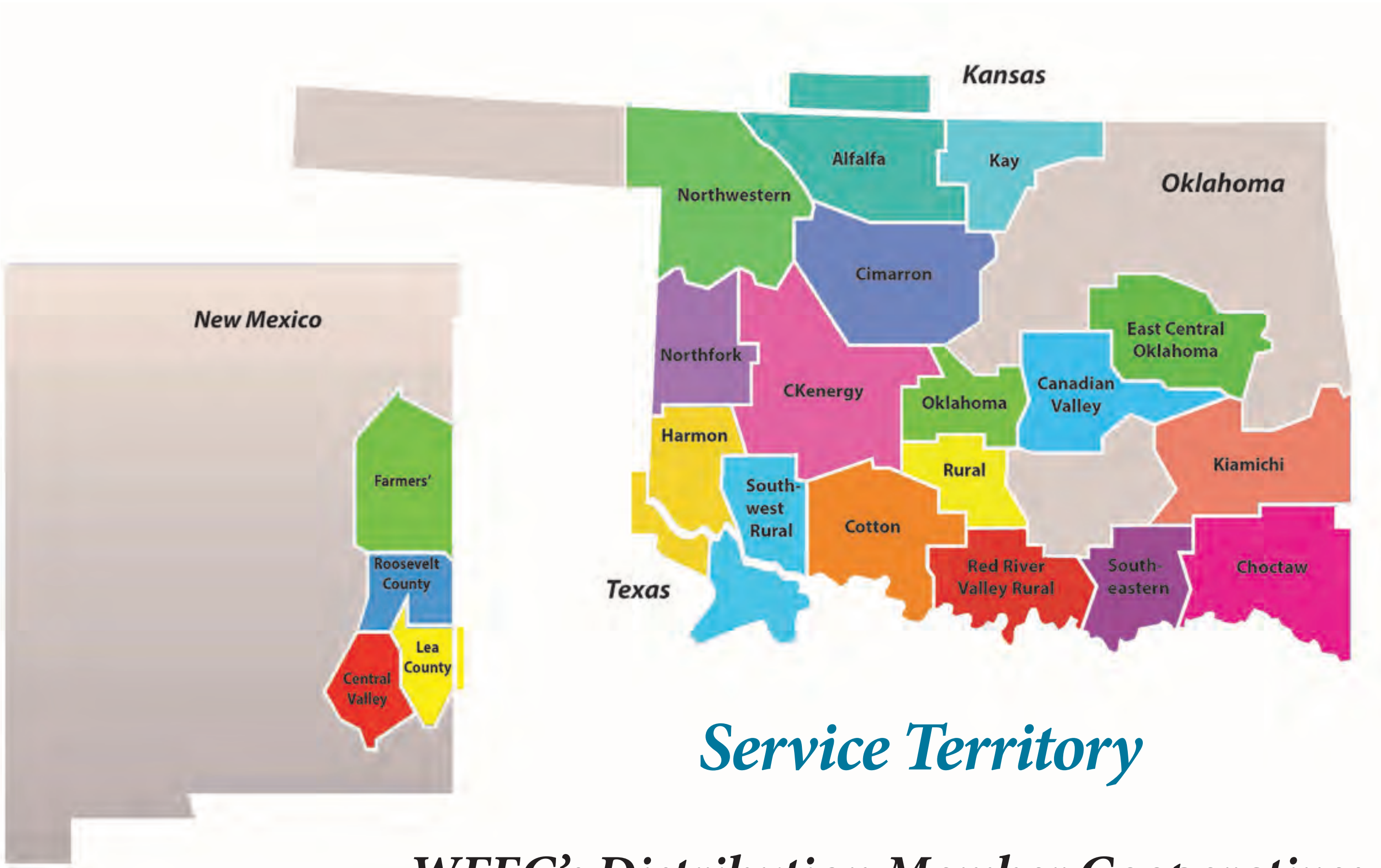
The Road to New OPPORTUNITY

Annual Report 2018

OPPORTUNITY: *Providing reliable service across area*



Service Territory

WFEC's Distribution Member Cooperatives

Alfalfa Electric Cooperative	Cherokee, Okla.
Canadian Valley Electric Cooperative	Seminole, Okla.
Central Valley Electric Cooperative	Artesia, N.M.
Choctaw Electric Cooperative	Hugo, Okla.
Cimarron Electric Cooperative	Kingfisher, Okla.
CKenergy Electric Cooperative	Binger, Okla.
Cotton Electric Cooperative	Walters, Okla.
East Central Okla. Electric Cooperative	Okmulgee, Okla.
Farmers' Electric Cooperative	Clovis, N.M.
Harmon Electric Association	Hollis, Okla.
Kay Electric Cooperative	Blackwell, Okla.
Kiamichi Electric Cooperative	Wilburton, Okla.
Lea County Electric Cooperative	Lovington, N.M.
Northfork Electric Cooperative	Sayre, Okla.
Northwestern Electric Cooperative	Woodward, Okla.
Oklahoma Electric Cooperative	Norman, Okla.
Red River Valley Rural Electric Assoc.	Marietta, Okla.
Roosevelt County Electric Cooperative	Portales, N.M.
Rural Electric Cooperative	Lindsay, Okla.
Southeastern Electric Cooperative	Durant, Okla.
Southwest Rural Electric Association	Tipton, Okla.

WFEC supplies the electric needs of 17 member distribution cooperatives and Altus Air Force Base in Oklahoma, plus four cooperatives in New Mexico. Some service territories extend into Kansas and Texas.

OPPORTUNITY: *Steady growth & fuel diversity*

Energy Sales (Member & Contract Sales)	$623 million
Total Operating Revenue	$716 million
Net Margins	$14 million
Assets	$1,408 million
Members	22
Member Consumer Meters Served	321,699 (est.)
Member Population Served	553,655 (est.)
System Peak Demand	2,003 MW
Miles of Transmission Line	3,776 miles
Substations&SwitchStations	over 330
Number of Employees	408

megawatts (MW)

Fuel Mix

Generating Capacity:	
Gas-Fired (Oklahoma)	891 MW
Gas-Fired (New Mexico)	43 MW
Coal-Fired (Oklahoma)	436 MW
Total Generating Capacity	1,370 MW
Power Purchases:	
Gas-Fired	250 MW
Hydro	260 MW
Portfolio of GRDA assets (Grand River Dam Authority)	200 MW
New Mexico Contracts - Portfolio	258 MW
Total Purchase Power	968 MW
SPP Accredited Solar/Wind: (summer)	132 MW
Total Combined Capacity	**2,470 MW**
Wind*:	
Oklahoma	615 MW
New Mexico	90 MW
Total Wind	**705 MW**
2019 - planned wind - Oklahoma	250 MW
Solar*:	
New Mexico	30 MW
Oklahoma	21 MW
Total Solar	**51 MW**
2022 - planned solar - New Mexico	220 MW

**WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

OPPORTUNITY: *Providing diverse generation resources*

About WFEC

Western Farmers Electric Cooperative (WFEC) is a generation and transmission (G&T) cooperative that provides electric service to 21 member cooperatives and Altus Air Force Base. These members are located primarily in Oklahoma and New Mexico, with some service areas extending into parts of Texas and Kansas.

WFEC was organized in 1941 when western Oklahoma rural electric distribution cooperatives found it necessary to secure an adequate power supply at rates farmers and rural industrial developers could afford. Today, WFEC continues to deliver safe, reliable and competitively priced wholesale energy across its large service territory, while strengthening the organization, its member cooperatives and its employees. Strong member support and unity ensure mutual success.

WFEC is led by an experienced management group, with years of industry experience, and is governed by a 22-member Board of Trustees.

Now in its 78th year of operation, the Anadarko-based G&T has seven generating facilities, located at Mooreland, Anadarko and Hugo, Okla., and Lovington, N.M., with a total power capacity of almost 2,500 megawatts (MW), including hydropower allocation, accredited solar and wind, and other contract power purchases.

With a well-balanced and diversified portfolio of generation resources, WFEC is able to reduce exposure to changing market conditions, which helps to keep rates competitive. This blend reflects a mix of technologies and fuel types, including owned facilities and capacity, in addition to energy provided through contracts and power purchase agreements (PPAs).

WFEC owns and maintains 3,776 miles of transmission line to more than 330 substations and switch stations across the service territory.

Line Type (as built)	Miles
345 kV	152
161 kV	7
138 kV	2,244
69 kV	1,373
Total	**3,776**

Anadarko Headquarters

Location: Anadarko, Okla.
First Office at New HQ Site: 1954
New Building Addition: 1968
Four-Story Addition: 1980
Employees at Headquarters & Transmission & Distribution Crews: 226

Moore Business Office

Location: Moore, Okla.
New Office Building Complete & Ready to be Occupied: April 2019
WFEC Office Opened for Business in adjacent building: 2016
Employees at Moore: 25

WFEC's Mission Statement

To honorably serve our members with reliable, competitively priced energy and related services while providing a quality work environment and being responsive to the needs of our members and the community.

WFEC's Generation Facilities

Anadarko Plant

Location: Anadarko, Okla.
In-Service Years: 1953-1959
Capacity: (3 units) 40 MW
Fuel: Gas Steam

In-Service Year: 1977
Capacity: (3 units) 289 MW
Fuel: Gas Combined Cycle

Employees at Anadarko Plant: 47

Mooreland Plant

Location: Mooreland, Okla.
In-Service Years: 1964-1975
Capacity: (3 units) 329 MW
Fuel: Gas Steam
Employees at Mooreland: 32

GenCo Plant

Location: Anadarko, Okla.
In-Service Year: 2001
Capacity: (2 units) 92 MW
Fuel: Gas Combustion Turbine

Hugo Plant

Location: Hugo, Okla.
In-Service Year: 1982
Capacity: 436 MW Fuel: Coal
Employees at Hugo: 81

Orme Plant

Location: Anadarko, Okla.
In-Service Year: 2009
Capacity (3 units): 141 MW
Fuel: Gas Combustion Turbine

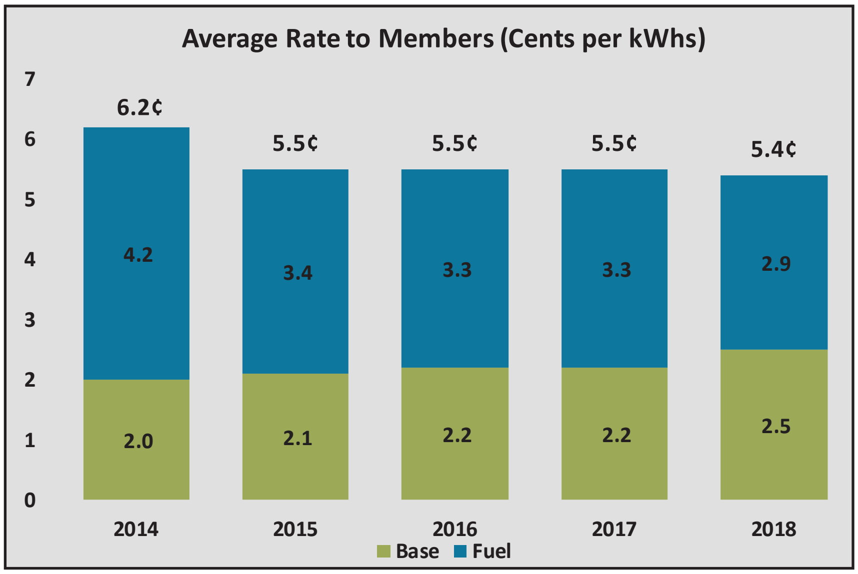
LCEC Generation Plant

Location: Lovington, N.M.
In-Service Year: 2012
Capacity (5 units): 43 MW
Fuel: Gas

Following the Road to New Opportunities Offers a Bright Future for WFEC, members

The electric utility industry is constantly changing as new opportunities present themselves. Since its formation in 1941, when a group of electric cooperatives founded this organization, Western Farmers Electric Cooperative (WFEC) has always maintained a constant eye on the future, focusing particularly on fulfilling the mission of enhancing value for its members.

WFEC has and will continue to pave the road to new opportunities, well into the future, with innovative ideas and programs to react to the quickly changing industry. From member load growth to additional renewable energy sources to education and promotional opportunities within the electric vehicle (EV) market, opportunities will always exist.

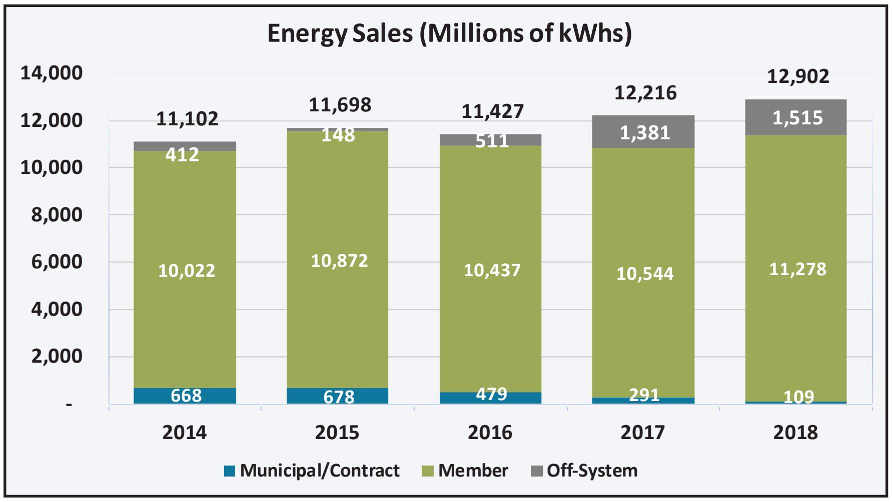


For the last four years, the average wholesale cost to members has banded tightly in the mid five-cent per kWh range aided by abundant low-cost renewable resources, slow but steady load growth and the continued evolution of the Southwest Power Pool (SPP) Regional Transmission Organization and its Integrated Marketplace.

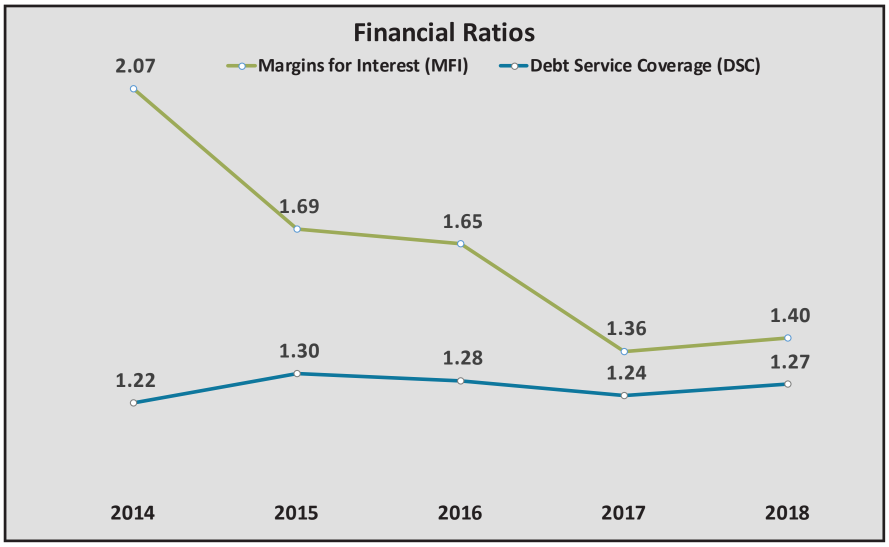
Wholesale Rates:

For the fourth consecutive year, WFEC's wholesale power cost to members continued at approximately the same average cost per kilowatt-hour (kWh). This stability has been fostered by abundant low-cost renewable resources, slow but steady load growth and the continued evolution of the Southwest Power Pool (SPP) Regional Transmission Organization (RTO) and the SPP Integrated Marketplace. Based on the 2018 cost of service, WFEC unbundled costs were 1.2 cents per kWh for fixed generation, .58 cents for variable generation and 2.94 cents for fuel. Transmission cost was .43 cents per kWh and distribution

Pine Ridge Solar Farm & Blue Canyon Wind Farm service provided by WFEC was .25 cents per kWh. The total delivered wholesale power cost to members was 5.4 cents per kWh.



2018 MWh sales to members increased almost 7% primarily due to strong sales related to oil and gas activity in several members' service areas.



Board-targeted financial ratios were achieved, demonstrating sound financial performance and enabling continuing access to financing.

*Renewable Energy**:

In order to keep wholesale power cost low, WFEC added three new resources, including one wind farm in 2018, an additional wind facility set for 2019, and a solar facility to become operational in 2022.

The Minco IV Wind Farm, a 100-megawatt (MW) nameplate facility, was declared commercial in November 2018. This facility near Hinton, Okla., was WFEC's 12th Renewable Energy Purchase Agreement (REPA)signed with a wind farm developer (NextEra Energy Resources Development, LLC), which brought WFEC's wind total to 705 MW by year's end.

WFEC also negotiated a REPA with NextEra Energy Resources Development, LLC for the purchase of energy produced by Skeleton Creek Wind, LLC. This wind farm will be located in Alfalfa, Major and Garfield counties of Oklahoma. This facility, with a completion date set for late 2019, will consist of a 250 MW nameplate capacity.

Solar energy is also on track to become a greater portion of WFEC's overall fuel mix in the next few years. Currently, WFEC owns or contracts almost 51 MW of solar, which includes 18 MW from five utility-scale solar farms in Oklahoma; 30 MW from two utility-scale sites in New Mexico; and almost 3 MW from 13 community solar locations.

However, the current 51 MW purchase is about to make a drastic leap as WFEC has negotiated a long-term REPA with Invenergy LLC for the purchase of energy, capacity rights and renewable energy attributes from the Tip Top Solar Energy Center to be located in southeast New Mexico. This proposed project is projected to be a 220 MW nameplate capacity site, to be commercially operational by December 2022.

> **WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

From major plant overhauls to new line and substation construction, 2018 was a busy year for WFEC crews working to maintain excellent reliability and member service, while supporting opportunities for member growth. Outage response was prioritized and handled in a safe manner in order to help restore power to WFEC's member cooperatives and their members as quickly as possible.

These projects, once commercial, will help further diversify WFEC's generation portfolio to consist of 271 MW of solar generation, 955 MW of wind generation and 260 MW of hydroelectric generation. Also, when completed, over 40% of WFEC nameplate capacity will include facilities generating electricity by wind, solar or hydroelectric power.

Financials:

With a solid financial performance, WFEC met all the Board of Trustee equity, margin, debt service coverage, and other financial goals in 2018. With a commitment to strong liquidity, the Board authorized a five-year extension of a $200 million committed line of credit with a syndication of financial institutions to provide support for general corporate purposes.

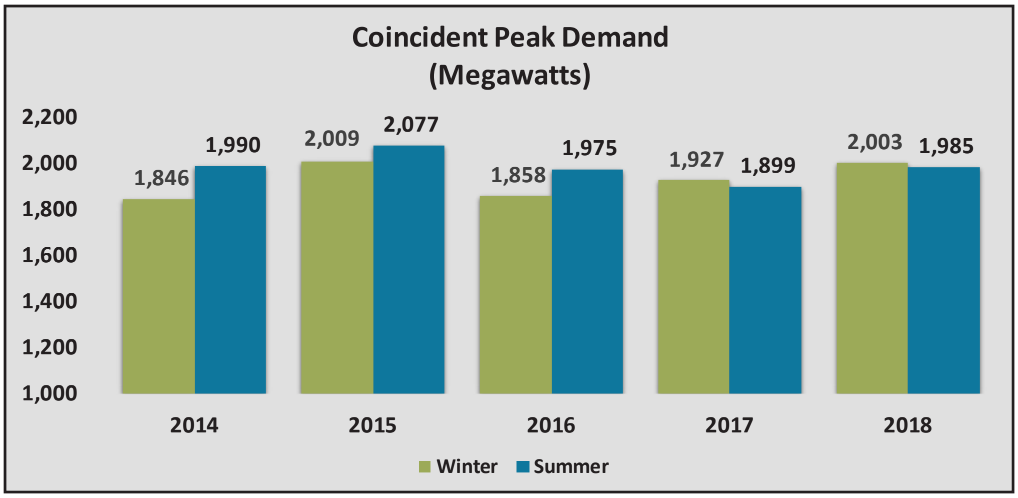
Confirming WFEC's focus on measures that matter, the credit rating agencies that monitor WFEC's performance affirmed its A- rating and stable outlook.

Agreement Termination:

Effective Dec. 31, 2018, WFEC and three of the four New Mexico member cooperatives, including Farmers', Lea County and Roosevelt County, mutually agreed to terminate their respective Transition Agreements (Agreements) early. The Agreements were signed upon joining WFEC in 2010 and were scheduled to terminate in 2026. During this time, the new members in eastern New Mexico began a transition process to fully transfer all their load and resources to WFEC.

The Agreements provided for a separate segregated rate and for each New Mexico member to contribute equity to WFEC in a manner and amount similar to equity contributed by prior existing members.

In late 2018, because WFEC wholesale costs were projected to be lower than their incumbent power provider, three of the cooperatives elected to transition fully at the beginning of 2019 and moved to the rate common with other members of WFEC.



WFEC set a winter coincident peak demand in January 2018, a solid increase over 2017, albeit less than the five-year high set in 2015, reflecting slowing oil and gas production in certain areas and improvements in efficiency for consumers.

Moore Office:

Construction continued on a new Moore Office facility throughout 2018. This new site is located directly south of WFEC's leased suite of offices at Riverwalk Place that were first occupied by WFEC employees in July 2016.

This new construction project began in late 2017, and was nearing completion by the end of 2018, with occupancy planned for early 2019.

During 2018, construction continued on the new Moore Office facility, which should be ready for occupancy in April 2019. Weather was a factor when preparing and paving the parking lot, which caused delays both inside with deliveries and outside construction.

The Moore Office will not replace the headquarters facility in Anadarko, Okla., however, it will be an alternative office site. When occupied, the office is expected to house over 40 full-time employees. With the existing site in Anadarko, plus the Moore location, WFEC will take advantage of the opportunity to attract the next generation of employees to guide WFEC into the future.

Wireless Communications:

In the summer of 2018, WFEC purchased a 700 MHz A Block radio frequency (RF) spectrum capable of providing coverage to a significant portion of WFEC's service territory in Oklahoma, Texas, Kansas and New Mexico. The RF will be used to support metering, supervisory control and data acquisition, protective relaying and other requirements related to WFEC's generation and transmission assets.

Electric Vehicles:

The road to new opportunities also leads to the expanding electric vehicle (EV) market with not only individuals getting on board, but companies as well, including WFEC and several of its member cooperatives. During 2018, WFEC continued its member education process regarding EVs and program development around what is possibly a game changer for the electric utility industry.

Much of 2018 was spent emphasizing the EV learning curve, as a coordinated effort that continued into 2019, with plans for additional participation from member cooperatives.

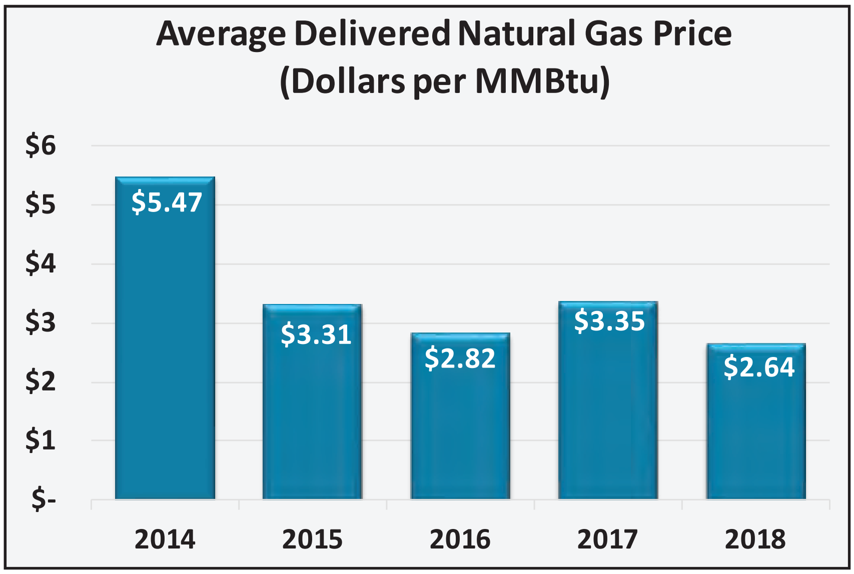
Several promotional events hosted by WFEC during 2018 focused not only on EV education, but actually showcased the vehicles for up-close viewing and in some instances a ride-and-drive opportunity.

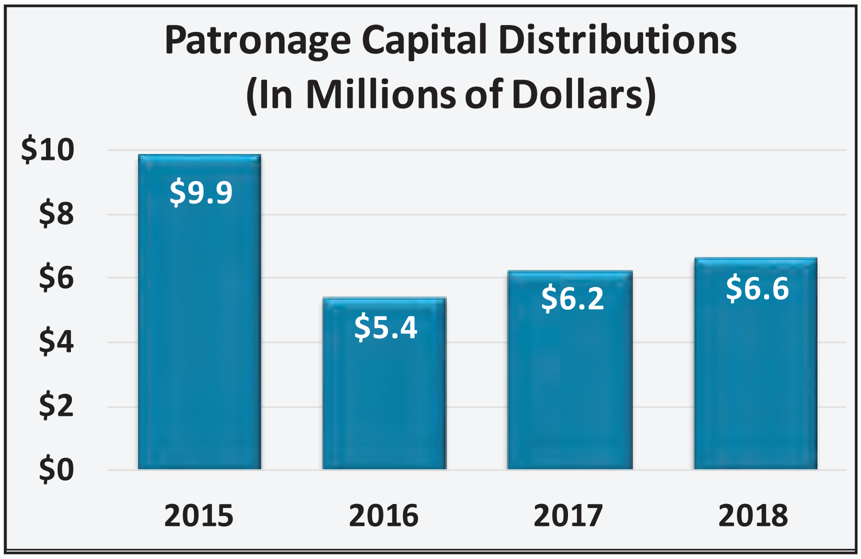
Information regarding the development of a statewide charging infrastructure was also highlighted during 2018, with top locations being reviewed. While focusing primarily on major highways and interstates that offer a higher traffic volume, rural areas aren't being left out, as they too will likely offer charging stations in the future. With a growing network of charging stations across the state, EVs will likely become a more attractive alternative.

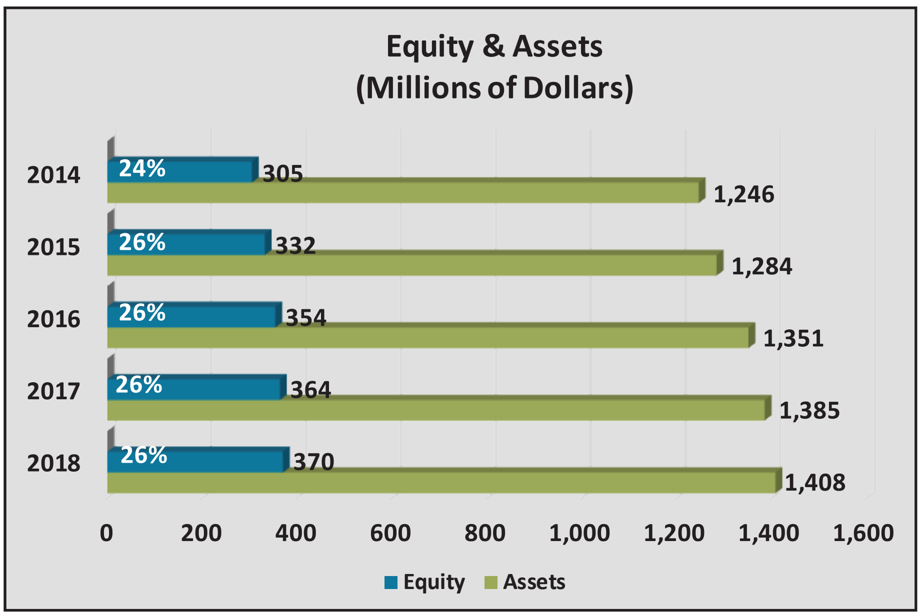
With the future in mind, WFEC began transitioning to a partial fleet of EVs in late 2018

Shown above is an electric vehicle recently added to WFEC's fleet, as it is charged at a location along an Oklahoma interstate highway. A statewide charging network is being planned and developed in high-traffic areas as a way to encourage more drivers to purchase EVs. While focusing on major highways and interstates, populated rural areas are also being targeted for EV charger installations.

Several events hosted by WFEC during 2018 emphasized the growing electric vehicle market, with area EV owners invited to showcase their vehicles and take part in a ride-and-drive event.







and will continue this trend as older vehicles need to be replaced. WFEC is also adding EV charging facilities at each of its power plant and office locations.

With WFEC's venture into the EV market, plus its continued investment in renewable projects, a strong commitment to a cleaner and more efficient future is evident.

So, as WFEC travels the road to new opportunities, the steps of preparing for the future - environmentally, safely, reliably and through sound financial operations - will continue for many years to come.

wfec

(top)
Delivered natural gas prices are one of the primary determinants of the total average rate to members. The last four-year average price has been a stabilizing factor for wholesale rates.

(middle)
WFEC's Board of Trustees has authorized patronage capital distributions to members for four consecutive years.

(bottom)
WFEC has maintained financial strength with a consistent equity-to-asset ratio as capital investments continue. The Board's financial goals provide margins sufficient to grow equity and cash reserves that enable the cooperative to better manage its projected capital expenditures for the benefit of its members at reasonable interest costs.

WFEC Board of Trustees

Charles Hickey
Northfork Electric Cooperative

President
Trustee since: July 2005

Mike Lebeda
Kay Electric Cooperative

Vice President
Trustee since: April 2001

King Martin
Red River Valley Rural Electric Association

Secretary-Treasurer
Trustee since: Sept. 2011

Donnie Bidegain
Farmers' Electric Cooperative (N.M.)

Asst. Secretary-Treasurer
Trustee since: April 2013

Greg Goetz
Alfalfa Electric Cooperative

Trustee since: Oct. 2016

Gary Crain
Canadian Valley Electric Cooperative

Trustee since: April 2005

Charles G. Wagner
Central Valley Electric Cooperative (N.M.)

Trustee since: Oct. 2010

George Burns
Choctaw Electric Cooperative

Trustee since: Oct. 2016

Gene Peters
Cimarron Electric Cooperative

Trustee since: Aug. 2012

Clint Pack
CKenergy Electric Cooperative

Trustee since: Jan. 2016

Charles Spencer
Cotton Electric Cooperative

Trustee since: Jan. 2011

Max Shoemake
East Central Oklahoma Electric Cooperative

Trustee since: April 2015

OPPORTUNITY: *Serving the interests of members*

Jean Pence
Harmon Electric Association

Trustee since: April 2015

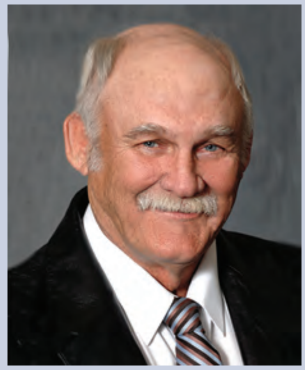
David Ray
Kiamichi Electric Cooperative

Trustee since: April 2007

John Graham
Lea County Electric Cooperative (N.M.)

Trustee since: April 2016

Ray O. Smith
Northwestern Electric Cooperative



Trustee since: April 1991

Rusty Grissom
Oklahoma Electric Cooperative

Trustee since: April 2005

Antonio Sanchez Jr.
Roosevelt Co. Electric Cooperative (N.M.)

Trustee since: Oct. 2017

Gary Jones
Rural Electric Cooperative

Trustee since: Dec. 2002

Jeff Willingham
Southeastern Electric Cooperative

Trustee since: April 2015

Don Ellis
Southwest Rural Electric Association

Trustee since: March 2014

WFEC is governed by a 22-member Board of Trustees, including a representative from each member cooperative and Altus Air Force Base. It is the objective of the Board to establish and define the duties of the Board to ensure effective management, administration and regulation of the business and affairs of WFEC. Among their duties are to periodically review policies, evaluate and employ a Chief Executive Officer, retain Board Counsel and continuously examine and evaluate the financial conditions of WFEC and be aware of operating conditions.

WFEC Senior Management

A qualifed senior management level staff, with combined experience of some 215 years of service with WFEC, oversees the daily operations of the G&T cooperative.

Each vice president and senior manager has particular areas of expertise within the electric utility industry, providing valuable experience for WFEC overall and for its member distribution cooperatives.

Gary Roulet

Chief Executive Officer
(since 2003)

Began career with WFEC in 1974.

Ron Cunningham

Exec. Vice Pres., Power Delivery & Technology

Began career with WFEC in 1974.

Jane Lafferty

Vice President & Chief Financial Officer

Began career with WFEC in 1984.

Gary Gilleland

Vice President, Generation

Began career with WFEC in 2007.

Mark Faulkenberry

Vice President, Marketing & Member Relations

Began career with WFEC in 2000.

David Sonntag

Vice President, Special Projects

Began career with WFEC in 2000.

Matt Caves

Sr. Manager, Legal & Regul. Compliance

Began career with WFEC in 2014.

Rodney Palesano

Sr. Manager, Human Resources

Began career with WFEC in 1995.

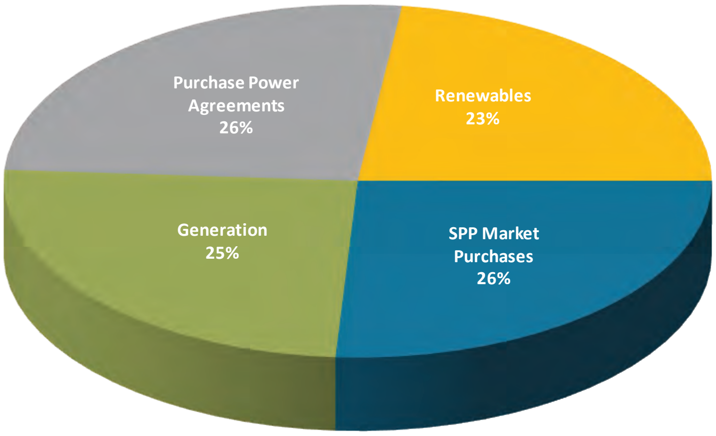
Michael Meason

Sr. Manager, Information & Security

Began career with WFEC in 2009.

WFEC CEO Gary Roulet (left) visits with Jim Matheson, CEO, National Rural Electric Cooperative Association, and Chris Meyers, general manager, Oklahoma Association of Electric Cooperatives, prior to a recent national meeting. Cooperative leaders keep up with happenings at the local, state and national levels of the electric utility industry.

WFEC *Resources Utilized to Support 2018 Energy Sales*



Renewables*

Wind - 17%
Solar - 1%
Hydro - 5 %

Generation

Coal - 12%
Natural Gas - 13%

Power Purchase Agreements**

Oneta Power Plant
Grand River Dam Authority
Southwestern Public Service

Southwest Power Pool Market Purchases**

**Includes a blend of resources.

**WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

OPPORTUNITY: *Looking Forward with Renewables*

Wind Energy*

Blue Canyon Wind Farm - 74 MW
Location: Near Lawton, Okla.
Began commercial operation in December 2003

Buffalo Bear Wind Farm - 19 MW
Location: Near Fort Supply, Okla.
Began commercial operation in December 2008

Red Hills Wind Farm - 123 MW
Location: Near Elk City, Okla.
Began commercial operation in June 2009

Rocky Ridge Wind Project - 149 MW
Location: Near Rocky, Okla.
Began commercial operation in June 2012

Wildcat Wind Farm - 25 MW
Location: Near Lovington, N.M.
Began commercial operation in July 2012

Brahms BEP Wind I & II - 10 MW each
Location: Near Grady, NM
Began commercial operation in February 2014

Anderson Wind Project I & II - 5 & 10 MW
Location: Chaves County, N.M.
Began commercial operation in December 2014

Balko Wind Project - 100 MW
Location: Near Balko, Okla.
Began commercial operation in August 2015

Grant Wind Project - 50 MW
Location: Grant County, Okla.
Began commercial operation in April 2016

Sterling Wind Farm - 30 MW
Location: Near Tatum, N.M.
Began commercial operation in July 2017

Minco Wind IV Wind Farm – 100 MW
Location: Canadian & Caddo counties (Okla.)
Began commercial operation in November 2018

Oklahoma	**615 MW**
New Mexico	**90 MW**
Total Wind Energy (2018)	**705 MW**

Future Wind Projects:

Skeleton Creek Wind – 250 MW
Location: Alfalfa, Major & Garfield counties (Okla.)
Commercial operation by end of 2019
(Renewable Energy Purchase Agreement signed in 2018)

Total Wind Energy (2019) 955 MW

Solar Generation*

Oklahoma - 21 MW

Utility-Scale Solar Farms - 18 MW total

Cyril (5 MW) Tuttle (4 MW)
Pine Ridge - Hinton - Marietta (3 MW each)

Community Solar - 3 MW total

13 sites range from 0.125 MW to 0.25 MW
11 WFEC member cooperatives participate

WFEC, under a lease agreement, maintains the utility-scale and the community solar sites in Oklahoma.

New Mexico - 30 MW

Utility-Scale Solar Farms - 30 MW total

Caprock Solar Facility (25 MW) - Tucumcari, N.M.
Middle Daisy Solar Facility (5 MW) - Lovington, N.M.

WFEC purchases all output from each of these sites under long-term REPA's.

Total Solar Generation (2018) 51 MW

Future Solar Projects:

Tip Top Solar Energy Center – 220 MW
Location: Southeast New Mexico
Commercial operation planned by end of 2022
(Purchase Power Agreement signed in 2018)

Total Solar Generation (2022) 271 MW

**WFEC purchases or produces energy from various wind & solar resources. However, WFEC has not historically, nor may not in the future, retain or retire all of the renewable energy certificates associated with the energy production from these facilities.*

KPMG LLP
210 Park Avenue, Suite 2650
Oklahoma City, OK 73102-5683

Independent Auditors' Report

The Board of Trustees
Western Farmers Electric Cooperative:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Western Farmers Electric Cooperative (WFEC) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of WFEC and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Oklahoma City, Oklahoma
March 11, 2019

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Balance Sheets

December 31, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Electric utility plant, at cost:			
In-service	$	1,784,326	1,732,899
Construction work-in-progress		60,258	45,419
Total electric utility plant		1,844,584	1,778,318
Less accumulated depreciation and amortization		750,566	715,450
Net electric utility plant		1,094,018	1,062,868
Investments in associated organizations and other investments, at cost		18,549	17,674
Current assets:			
Cash and cash equivalents		14,106	11,173
Restricted cash		44,972	54,706
Accounts receivable from energy sales		53,665	52,231
Other accounts receivable		9,368	9,641
Inventories, at average cost:			
Coal, natural gas, and oil		11,951	11,826
Material and supplies		58,893	54,630
Other		2,320	2,129
Total current assets		195,275	196,336
Noncurrent restricted cash		44,721	30,799
Deferred debits		55,548	77,210
Total assets	$	1,408,111	1,384,887
Members’ Equity and Liabilities			
Capitalization:			
Patronage capital	$	303,497	295,848
Contributed capital		53,911	55,643
Other capital		12,781	12,781
Long-term debt		793,444	813,059
Total capitalization		1,163,633	1,177,331
Current liabilities:			
Current portion of long-term debt		94,808	49,239
Accounts payable and accrued liabilities		82,380	82,921
Total current liabilities		177,188	132,160
Other liabilities		67,290	75,396
Commitments and contingencies (note 3, 13, and 14)		—	—
Total members’ equity and liabilities	$	1,408,111	1,384,887

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Operations

Y ears ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Operating revenues:			
Power sales to members, cities, and other	$	623,306	599,081
Other power sales and operating revenues		92,640	87,499
Total operating revenues		715,946	686,580
Operating expenses:			
Operations:			
Production		107,745	133,796
Purchased and interchanged power		382,157	347,691
Transmission		83,115	68,918
Distribution		6,966	6,342
General and administrative		14,821	14,219
Maintenance		24,103	21,047
Depreciation and amortization		53,908	49,708
Total operating expenses		672,815	641,721
Operating margin before interest		43,131	44,859
Interest expense, less amounts capitalized during construction of approximately $1,190 and $684 in 2018 and 2017, respectively		(37,315)	(39,596)
Interest income		5,036	6,174
Operating margin		10,852	11,437
Other nonoperating (loss), net		(279)	(1,570)
Patronage capital assigned by associated organizations		3,765	3,645
Net margin	$	14,338	13,512

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Comprehensive Income

Y ears ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Net Margin	$	14,338	13,512
Other comprehensive income, net of tax:			
Pension and other postretirement benefit plans:			
Net actuarial loss		(44)	(57)
Less amortization of prior service cost included in net periodic pension cost		(46)	(57)
Pension and other postretirement benefit plans		(90)	(114)
Other comprehensive loss		(90)	(114)
Total comprehensive income	$	14,248	13,398

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Changes in Members' Equity

Y ears ended December 31, 2018 and 2017

(In thousands)

		Memberships	Patronage capital	Contributed capital	Other capital	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2016	$	3	287,641	53,063	12,781	993	354,481
Net margin		—	13,512	—	—	—	13,512
Patronage capital retired		—	(6,187)	—	—	—	(6,187)
Contributed capital		—	—	2,580	—	—	2,580
Net other comprehensive loss		—	—	—	—	(114)	(114)
Balance, December 31, 2017		3	294,966	55,643	12,781	879	364,272
Net margin		—	14,338	—	—	—	14,338
Patronage capital retired		—	(6,599)	—	—	—	(6,599)
Contributed (refunded) capital, net		—	—	(1,732)	—	—	(1,732)
Net other comprehensive loss		—	—	—	—	(90)	(90)
Balance, December 31, 2018	$	3	302,705	53,911	12,781	789	370,189

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Cash Flows

Y ears ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Net margin	$	14,338	13,512
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation		50,873	46,673
Other depreciation and amortization included in operating expenses		4,110	4,061
Amortization of regulatory asset expense		3,035	3,035
Accretion of asset retirement obligation		611	580
Changes in assets and liabilities:			
Restricted cash		(4,188)	(4,614)
Accounts receivable from energy sales		(1,434)	187
Other accounts receivable		273	(2,746)
Coal, natural gas, and oil inventory		(125)	12,356
Materials and supplies inventory		(4,263)	3,504
Other current assets		(192)	(359)
Deferred debits and other (Includes SPP attachment Z2 credits)		2,149	262
Accounts payable and accrued liabilities		(1,987)	3,460
Other assets and liabilities (Includes SPP attachment Z2 credits)		(9,547)	(6,891)
Net cash provided by operating activities		53,653	73,020
Cash flows from investing activity:			
Net extension and replacement of electric utility plant		(85,808)	(61,645)
Proceeds from receivable from third party		13,813	—
Net cash used in investing activity		(71,995)	(61,645)
Cash flows from financing activities:			
Advances of long-term debt		661,027	380,878
Payments on long-term debt		(635,073)	(386,761)
Contributed capital		1,920	2,580
Patronage capital retired		(6,599)	(6,187)
Net cash provided by (used in) financing activities		21,275	(9,490)
Net increase in cash and cash equivalents		2,933	1,885
Cash and cash equivalents, beginning of year		11,173	9,288
Cash and cash equivalents, end of year	$	14,106	11,173
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$	41,271	38,613
Noncash investing and financing activities:			
Electric utility plant acquired through capital lease	$	—	31,722

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

Western Farmers Electric Cooperative (WFEC) is a generation and transmission cooperative headquartered in Anadarko, Oklahoma. WFEC owns and operates six generating plants, fueled by coal and gas, located in Anadarko, Mooreland and Hugo, Oklahoma, and Lovington, New Mexico. WFEC also owns and maintains approximately 3,800 miles of transmission line as well as substations and switch stations primarily located in Oklahoma. WFEC has a combined capacity of approximately 2,500 megawatts (MW), including hydropower allocation and other contract power purchases. Member-owners consist of 21 distribution cooperatives, 17 in Oklahoma and four in New Mexico, and a United States Air Force base. Substantially all revenue is related to Oklahoma and New Mexico operations. See note 13 for further information related to the addition of and sales to the New Mexico cooperatives.

(b) Basis of Presentation

WFEC maintains its accounting records in accordance with the Uniform System of Accounts of the United States Department of Agriculture Rural Development Utilities Programs (RDUP), formerly known as the Rural Utilities Service, which conforms with U.S. generally accepted accounting principles in all material respects. These consolidated financial statements reflect the transactions of WFEC and its wholly owned subsidiaries, WFEC Railroad Company and WFEC EnergyCo, LLC (EnergyCo). All significant intercompany balances and transactions have been eliminated upon consolidation. The more significant accounting policies of WFEC are described below.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

(d) Electric Utility Plant

Electric utility plant is stated at original cost. The capitalized cost of additions to electric utility plant includes the cost of material, direct labor, contract services, and various other indirect charges, such as engineering, supervision and overhead costs, and interest on funds used during construction. Retirements or other dispositions of electric utility plant are based on an average unit cost that is deducted from plant and, together with removal costs less salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense in the period incurred.

Provision for depreciation of electric utility plant is computed on the straight-line method at rates based on estimated service lives and salvage values of the class of property. These rates are applied on a composite class basis. Annual depreciation rates used in 2018 and 2017 are as follows:

Production plant	1.10–3.10%
Transmission plant	2.75–10.00%
Distribution plant	2.88–10.00%
General plant	3.00–33.33%

Depreciation and amortization for the year ended December 31, 2018 was $58,018,000, of which $50,873,000 was charged to depreciation expense, $2,319,000 was included in fuel and other operating expenses, $1,791,000 was included in employee pension and benefits, and $3,035,000 was charged to amortization of regulatory assets. Depreciation and amortization for the year ended December 31, 2017 was $53,769,000, of which $46,673,000 was charged to depreciation expense, $2,270,000 was included in fuel and other operating expenses, $1,791,000 was included in employee pension and benefits, and $3,035,000 was charged to amortization of regulatory assets.

WFEC periodically reviews the carrying values of its utility plant assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable through the future net cash flows expected to be generated by the asset or group of assets. If such assets are considered impaired, the impairment is recognized by the extent that carrying value exceeds fair value. There were no impairment charges for 2018 and 2017.

(e) Capitalization of Interest

Interest costs are capitalized as part of the cost of various capital assets under construction. WFEC uses the weighted average rate of interest associated with long-term borrowings. Interest capitalized during 2018 and 2017 totaled $1,190,000 and $684,000, respectively.

(f) Restricted Cash

Restricted cash consists of the following:

- WFEC has a Contingent Cash Reserve (CCR) that is restricted by WFEC Board Policy to be utilized based upon certain significant events or other approved uses as determined by the Board. The CCR had a balance of $50,732,000 and $48,272,000 as of December 31, 2018 and 2017, respectively.
- WFEC has a Cushion of Credit (Unapplied Advance Payment) account with the RDUP. As an RDUP borrower, WFEC may participate in the RDUP Cushion of Credit Program, which allows voluntary prepayment of debt. These advance payments are held on behalf of WFEC and earn interest at 5% per annum. The prepaid account balance and earned interest may only be used for debt service on loans made or guaranteed under the Rural Electrification Act. As of December 31, 2018 and 2017, the Cushion of Credit account had a balance of $87,758,000, of which $50,732,000 represents CCR funds and $83,570,000, of which $48,272,000 represents CCR funds, respectively. The current portion of restricted cash is what will be available to satisfy the debt service in the next fiscal year.

(Continued)

- The Cushion of Credit Program with RDUP was amended via the Agriculture Improvement Act of 2018 (Act). Under the provision of the Act as of December 20, 2018, no new deposits will be accepted. The current fixed interest rate of 5% per annum earned by the account holder will continue to be earned until the end of fiscal year 2020. In fiscal year 2021 the rate will reduce to 4% per annum. Thereafter the rate will earn the applicable 1-year Treasury rate. The 1-year Treasury rate was 2.63% as of December 31, 2018. The Act allows for borrowers to prepay associated RDUP debt through fiscal year 2020 without penalty.
- At December 31, 2018, a portion of the CCR funds satisfied RDUP's requirement to segregate cash in an amount equal to the balance of WFEC's revenue deferral plan, which as of December 31, 2018 and 2017 was approximately $21,803,000 and $29,070,000, respectively (see note 5).

(g) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash on hand and investments purchased with original maturities of three months or less.

(h) Investments in Associated Organizations

Investments in associated organizations are stated at cost plus WFEC's share of patronage capital credits allocated, reduced by distributions received (see note 4).

(i) Inventories

Inventories of coal, natural gas, oil, and materials and supplies of WFEC are valued at average cost. These inventories are consumed by WFEC's operations or utilized as additions to electric utility plant and are not held for resale.

(j) Emission Allowances and Renewable Energy Credits

As a result of the operation of its generating resources and renewable energy purchase agreements, WFEC generates or is allocated SO2 (sulfur dioxide) and NOx (nitrogen oxide) allowances and renewable energy credits (RECs) under various environmental regulations. The SO2 allowances and RECs have no cost basis and therefore do not result in an expense when used nor are they recorded on the balance sheet. NOx allowances are also purchased and the cost is assigned to inventory. As NOx allowances are used or no longer have value, inventory is expensed on an average unit cost basis. Proceeds from the sales of allowances and RECs in excess of average unit cost and fees are recorded as a gain.

(k) Electric Rates

The Board of Trustees of WFEC has full authority to establish the electric rates charged to members, subject to approval by RDUP.

WFEC bills its members fuel costs as a component of electric rates. The fuel billing rate is designed to accumulate and maintain an over recovered fuel account balance. An over recovery of approximately $9,400,000 and $13,240,000 at December 31, 2018 and 2017, respectively, was recorded in accounts payable and accrued liabilities.

(l) Regulatory Assets and Liabilities

WFEC defers certain expenses that will be recovered through WFEC's future rates (see note 5) in accordance with accounting principles generally accepted in the United States of America applicable to rate-regulated enterprises. Regulatory assets are charged as an expense, if and when future recovery in rates of that asset is no longer probable. WFEC also defers certain revenue and recognizes unearned revenue over future periods for rate making purposes.

(m) Revenues

Revenues from the sale of electricity are recorded based on energy provided, including actual cost of fuel, to customers and on contracts and scheduled power usages, as appropriate.

(n) Derivative Instruments and Hedging Activities

WFEC's activities expose it to a variety of market risks, including interest rates and commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on its operating results. These policies and strategies include the use of derivative instruments for hedging purposes. If hedge treatment is obtained, unrealized gains or losses resulting from these instruments are deferred as a component of accumulated other comprehensive income (loss) until the corresponding item being hedged is settled, at which time the gain or loss is recognized (see note 12).

(o) Related Parties

The members of WFEC purchase power from WFEC. The terms of transactions are based upon formal long-term contracts approved by WFEC's Board of Trustees and are settled monthly, generally requiring the members to purchase 100% of the members' purchased power requirements from WFEC. The contracts allow the Board of Trustees to establish base energy rates that allow recovery of cost of utility plant, fuel, and other operating costs incurred by WFEC. The only exception relates to four New Mexico members with Transition Agreements providing that during the transition period, WFEC shall maintain a separate cost of service based rate for the New Mexico members. Immediate and short-term power requirements for these four members are provided from a combination of existing contracts with Southwestern Public Service Company (SPS), at prescribed contract quantities and periods, and WFEC, with WFEC's obligation to provide power and energy increasing as the quantities of power and energy from the SPS contracts decrease over time. WFEC's obligation increased from 91 MW to the New Mexico members in 2016 to 172 MW on June 1, 2017. All New Mexico member third-party supplier contracts and generation capacity were assigned to WFEC. No collateral is pledged to WFEC from its members to collateralize the outstanding accounts receivable.

At December 31, 2018, WFEC has Wholesale Power Contracts (WPC) with its 21 distribution cooperative members through the year 2065. WFEC's power sales to members for 2018 and 2017 was approximately 90% of total sales.

Effective December 31, 2018, WFEC and three of the four New Mexico members mutually agreed to terminate their respective Transition Agreements early and beginning January 2019, these members will be billed the member rate consistent with the Wholesale Power Contract (see note 13).

(Continued)

(p) Concentration of Credit Risk

Concentration of credit risk exists with respect to trade accounts receivable of which approximately 99% and 98% of accounts receivable from energy sales at December 31, 2018 and 2017, respectively, is from power sales to WFEC's members. The credit risk for accounts receivable from nonmember sales is managed through monitoring procedures.

(q) Regional Transmission Organization Accounting

WFEC is a participant in the Southwest Power Pool (SPP) Regional Transmission Organization (RTO), which serves a multi-state area including generally all of the service territories of WFEC's members. As a federally regulated RTO, the SPP must act independently and impartially in managing the regional transmission system and the wholesale electricity market while ensuring the reliability of the centrally dispatched grid. WFEC records RTO transactions on an hour-to-hour basis. Transactions within each individual hour are netted to a single purchase or sale based on actual load and net megawatt hour generation.

(r) Comprehensive Income

Comprehensive income consists of net margin, changes in the fair value of derivatives that are designated as hedges and changes in the net actuarial gains (losses) and amortization of prior service costs on the defined benefit retirement plan.

(s) Fair Value Measurements

WFEC utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. WFEC determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(Continued)

(t) Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall*. The amendments in this update address certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The amendments are effective for fiscal years beginning December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for nonpublic entities only for the amendment that eliminates the requirement to disclose fair value of financial instruments measured at amortized cost. WFEC elected early adoption of this amendment and therefore has not disclosed the fair value of debt in the notes to the accompanying financial statements. WFEC is currently evaluating the impact of the remaining amendments in this accounting update.

(u) Recently Issued Accounting Pronouncements

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The effective date for ASU 2014-09 was delayed through the issuance of ASU 2015-14 to annual and interim periods beginning in 2019, with early adoption permitted in 2018. WFEC is currently evaluating the impact on its financials.

The FASB issued ASU 2016-02, *Leases (Topic 842)*. Its objective is to increase transparency and comparability among organizations. This ASU provides guidance requiring lessees to recognize most leases on their balance sheet. Lessor accounting does not significantly change, except for some changes made to align with new revenue recognition requirements. This ASU is effective for WFEC in 2020. Early adoption is permitted. WFEC is continuing to evaluate the impact this ASU will have on its consolidated financial statements and related disclosures and does not plan on early adopting.

The FASB issued ASU 2018-01, *Leases* (Topic 842). It provides practical expedients when implementing ASC 842 Leases, which would allow entities to continue their current accounting treatment for existing land easements. Upon adoption of ASC 842, only new land easements entered into after that date would be evaluated under ASC 842. This ASC is effective for WFEC in 2020. Early adoption is permitted. WFEC is continuing to evaluate the impact this ASU will have on its consolidated financial statements and related disclosures and does not plan on early adopting.

The FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230). The amendment requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASC is effective for WFEC in 2019. Early adoption is permitted. WFEC is continuing to evaluate the impact this ASU will have on its consolidated financial statements and related disclosures and does not plan on early adopting.

(Continued)

(2) Electric Utility Plant

Major classes of electric utility plant as of December 31 are as follows:

		2018	2017
		(In thousands)	
Production plant	$	986,008	967,166
Transmission plant		467,799	440,522
Distribution plant		210,391	196,662
General plant		102,520	97,464
Unclassified plant		17,608	31,085
Electric utility plant-in-service		1,784,326	1,732,899
Construction work-in-progress		60,258	45,419
Total electric utility plant	$	1,844,584	1,778,318

(3) Leases

In 2017, WFEC entered into a capital lease as a lessee for multiple solar generation facilities. The lease agreement expires in 2026, at which time WFEC has the option to purchase the solar generation sites . The gross amount of the lease was $32,604,000 at December 31, 2018 and 2017, with accumulated amortization of $2,978,000 and $882,000 at December 31, 2018 and 2017, respectively. The principal and interest payments were $3,429,000 for 2018, of which $2,096,000 is for amortization of the right-of-use asset and $1,333,000 for interest. The principal and interest payments were $1,487,000 for 2017, of which $882,000 is for amortization of the right-of-use asset and $605,000 for interest. Lease payments are being treated as a production expense and the timing of the expense is evenly recognized over the lease term to conform with rate treatment under ASC 980-842-45, *Regulated Operations – Leases Other Presentation Matters*.

(Continued)

The schedule of future minimum lease payments for WFEC's capital lease as of December 31, 2018, is as follows (in thousands):

2019	$	3,166
2020		3,166
2021		3,166
2022		3,166
2023		3,166
Thereafter		10,911
Total minimum lease payments		26,741
Amounts representing interest		(6,877)
Present value of minimum lease payments		19,864
Current maturities		(2,017)
Long-term capital lease obligations		17,847
Bargain Purchase Option		9,764
Long-term capital lease obligations net	$	27,611

The current and long-term portions of the capital lease obligations are included in accounts payable and accrued liabilities and other liabilities, respectively, in the consolidated balance sheets.

(4) Investments in Associated Organizations and Other Investments

		2018	2017
		(In thousands)	
National Rural Utilities Cooperative Finance:			
Corporation (CFC):			
3% capital term certificates	$	300	300
5% capital term certificates		6,130	6,130
Patronage capital certificates		1,573	1,527
CoBank Class A stock		9,269	8,454
ACES		1,234	1,220
Other		43	43
	$	18,549	17,674

WFEC purchased capital term certificates and stock as required by institutions under borrowing arrangements. Fair value of the certificates and stock is not readily determinable.

In 2002, WFEC joined ACES as a member. As of December 31, 2018, WFEC owned 4.76% of ACES equity. The investment in the partnership is accounted for using the equity method of accounting.

(Continued)

(5) Regulatory Assets, Regulatory Liabilities, Other Assets, and Other Liabilities

WFEC is subject to the provisions of ASC 980, *Regulated Operations*. Regulatory assets represent probable future revenue to WFEC associated with certain costs which will be recovered from customers through the ratemaking process. Deferred debits and credits at December 31 contained the following:

		2018	2017
		(In thousands)	
Regulatory assets:			
Unamortized cost associated with lease/leaseback	$	23,653	26,688
Other assets:			
Unamortized RS Prepayment (see note 10)		7,165	8,956
Receivable from third party		—	13,813
Preliminary survey and investigation charges		257	163
Unamortized debt expense		442	98
Premiums on debt refinancing		20,257	22,098
Receivable for SPP Attachment Z2 Credits		3,774	5,394
	$	55,548	77,210

		2018	2017
		(In thousands)	
Regulatory liabilities:			
Deferred revenue	$	21,803	29,070
Other liabilities:			
Unearned revenue		1,430	3,602
Early Termination of Transition Agreements (see note 13)		2,921	—
	$	26,154	32,672

As of December 31, 2018, WFEC's regulatory assets are being reflected in rates charged to customers over 8 years.

The regulatory and other assets are reflected in deferred debits and the regulatory and other liabilities are in other liabilities in the accompanying consolidated balance sheets.

In 2013, a long-term lease-leaseback transaction reflected as a financing for financial reporting purposes was terminated. WFEC received Board and RDUP authority to defer and amortize as a regulatory asset the net impact of the termination on a straight line basis through 2026, which approximates $3,035,000 of annual amortization. WFEC's electric rates are designed to recover this cost.

(Continued)

In 2014, WFEC sold certain natural gas pipeline assets to a third-party purchaser. The purchaser agreed to pay the balance due in the future, that payment was received in 2018. The balance was $0 and $13,813,000 as of December 31, 2018 and 2017, respectively. Associated interest related to this transaction is recognized in interest income on the accompanying consolidated statement of operations.

Premiums on early extinguishment of debt arising from refinancing transactions are being amortized over approximately 12 years, the remaining life of the replacement debt, using the straight-line method.

With Board and RDUP approval, in 2016 WFEC deferred recognition of $33,459,000 of revenue from the net credit due for Attachment Z2 of the Southwest Power Pool (SPP) Open Access Transmission Tariff (OATT) for the period of March 1, 2008 through August 31, 2016. Attachment Z2 of the OATT contains the provisions for the revenue credits which are designed to compensate entities that pay for certain assets that are subsequently used to provide transmission service to other parties. In October 2016, WFEC was informed by SPP that it was due $33,459,000 of reimbursement from SPP participants related to these transmission services provided. The revenue will be accreted into income ratably from 2017 through 2021. In 2017, SPP resettled the original period under the Attachment Z2 of the SPP OATT, which resulted in WFEC being due an additional $2,303,000. WFEC received Board and RDUP approval to defer and accrete the additional balance over the remainder of the original deferral period through 2021. In 2017, as part of the resettlement, WFEC received $653,000 in cash of the total revenue with the remaining $1,650,000 plus interest due in quarterly payments through 2021. Cash equal to the balance of the deferred revenue is segregated and restricted until a like amount is subsequently accreted into revenue (see note 1 (f)).

On February 28, 2019, the Federal Energy Regulatory Commission (FERC) issued an order on remand that reverses the settlement for Attachment Z2 of the SPP OATT for the periods of March 1, 2008 through August 31, 2016 with exception of the twelve months preceding the billing date of that settlement, which was October 31, 2016. As a result of this order WFEC estimates it will be required to refund approximately $26,000,000, plus interest calculated at the FERC interest rate, in 2019. This refund will eliminate the regulatory liability remaining for the Z2 credits and we anticipate refunded amounts in excess of the regulatory liability will be deferred as a regulatory asset and recovered over a period of time yet to be determined. The treatment of this refund will be subject to regulatory approval.

(6) Patronage Capital

WFEC's bylaws state that patronage allocations are based on WFEC's net income as determined for federal income tax purposes. Patronage allocations are assigned to patrons' accounts as credits on a patronage basis. Using this allocation method, there was no patronage capital allocated for the year ended December 31, 2017. The allocation for 2018 is estimated to be $146,000. For financial reporting purposes, net margins are assigned to members on a patronage basis.

WFEC's Indenture (see note 7) contains restrictions on distributions of capital. The Board of Trustees authorized a patronage capital retirement for 2018 and 2017 of $6,599,000 and $6,187,000, respectively.

(7) Debt

Long-term debt at December 31 consisted of the following:

		2018	2017
		(In thousands)	
First mortgage notes:			
Notes payable to Federal Financing Bank (FFB), interest from 1.31% to 10.45%, a weighted average of 3.46%, due in quarterly installments through 2049	$	517,416	524,677
Notes payable to the RDUP, interest from 4.75% to 5.00%, a weighted average of 4.76%, due in monthly and quarterly installments through 2025		4,755	5,332
Note payable to CoBank, interest at 5.71%, due in quarterly installments through January 2019		374	1,779
Note payable to CoBank, interest at 6.22%, due in monthly installments through November 2025		1,859	2,050
Notes payable to CoBank, interest from 5.33% to 6.37%, a weighted average of 6.36%, due in quarterly installments through April 2038		103,717	106,334
Notes payable to CFC with varying amounts, interest from 4.15% to 4.55%, a weighted average of 4.37% due in quarterly installments through June 2024		6,426	8,404
Notes payable to CoBank, interest from 4.42% to 4.76%, a weighted average of 4.52%, due in quarterly installments through October 2042		53,977	55,188
Notes payable to CoBank, interest at 8.35%, due in annual installments through January 2027, with a balloon payment due in 2027		30,752	31,266
Notes payable to CoBank, interest at 3.5%, due in quarterly installments through December 2029		99,430	106,569
Other notes:			
Notes payable to CFC, interest from 5.55% to 5.65%, a weighted average of 5.61%, due in quarterly installments through 2023		8,225	9,612
Syndicated line of credit, interest from 3.5% to 5.5% a weighted average of 4.09% at December 31, 2018		52,000	—
Note payable to CoBank, interest at 3.70%, due in quarterly installments through July 2023		9,321	11,087
		888,252	862,298
Less current portion of long-term debt		94,808	49,239
Total long-term debt	$	793,444	813,059

(Continued)

Annual payments of long-term debt for subsequent years are as follows (in thousands):

2019	$	94,808
2020		42,559
2021		41,728
2022		43,703
2023		44,987
Thereafter		620,467
	$	888,252

WFEC executed an Indenture, dated as of April 8, 2011, between WFEC, as grantor, and U.S. Bank National Association, as trustee (the Indenture). Effective that date, all of the first mortgage notes listed above are secured equally and ratably under the Indenture by a first priority lien on substantially all of the assets of WFEC, subject to certain exceptions and limitations. Under the terms of the Indenture, substantially all of the after-acquired assets of WFEC become subject to the lien of the Indenture. Also, under the terms of the Indenture, the RDUP Loan Contract and other loan agreements, WFEC must maintain certain financial covenants. Management believes WFEC was in compliance with these financial covenants at December 31, 2018.

WFEC has a $100,000,000 five-year committed revolving line of credit agreement with CFC for general corporate purposes through October 2021. No advances were outstanding on the CFC line of credit at December 31, 2018 and 2017. Letters of credit totaling $27,765,000 and $28,570,000 had been issued under this arrangement at December 31, 2018 and 2017, respectively.

WFEC has a $200,000,000 credit agreement with a syndication of financial institutions to provide a committed line of credit as support for general corporate purposes with a term through November 2023. The outstanding balance on this credit agreement at December 31, 2018 and 2017 was $52,000,000 and $0, respectively.

Approximately $148,000,000 and $200,000,000 of borrowing capacity was available on the syndicated line of credit at December 31, 2018 and 2017, respectively. Approximately $72,235,000 and $71,430,000 of borrowing capacity was available on the CFC lines of credit at December 31, 2018 and 2017, respectively.

WFEC had $0 and $23,253,000 of unadvanced funds available at December 31, 2018 and 2017, respectively, from FFB notes previously executed for transmission and distribution additions.

During 2017, RDUP approved a loan guarantee commitment in the amount of $382,514,000 for the purpose of financing certain WFEC projects for the 2016-2019 construction work plan period. The amount consists of $239,020,000 for transmission and distribution additions and replacements and $143,494,000 for generation system improvement projects.

(Continued)

(8) Production Expenses

WFEC's production expenses for the years ended December 31 include the following:

		2018	2017
		(In thousands)	
Fuel	$	80,466	108,461
Other production expenses		27,279	25,335
Total production expenses	$	107,745	133,796

As disclosed in note 1, under WFEC's contracts with its members, costs of fuel are recovered through rates charged to members.

(9) Income Taxes

WFEC is a nonexempt cooperative subject to federal and state income taxes and files a consolidated tax return. As a cooperative, WFEC is entitled to exclude patronage dividends from taxable income. WFEC's bylaws require it to declare patronage dividends in an aggregate amount equal to WFEC's federal taxable income from its furnishing of electric energy and other services to its member-patrons. Accordingly, such income will not be subject to income taxes.

Nonmember operations are subject to federal income taxes. Historically, WFEC's nonmember operations have generated tax losses. The primary differences between WFEC's book income and WFEC's nonmember tax losses are the result of tax depreciation and tax patronage allocations.

As of December 31, 2018 and 2017, WFEC's deferred tax asset before valuation allowance was approximately $2,886,000 and $2,983,000, respectively. Based on WFEC's historical results, management does not believe that it is more likely than not that WFEC will be able to realize the benefit of the deferred tax asset, which includes net operating loss carryforwards of approximately $15,300,000, which expire in 2018 and thereafter.

No income tax expense was provided in 2018 and 2017, due to the availability of net operating loss carryforwards to offset nonmember income for tax purposes. On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was signed into legislation. The Act reduces the U.S. federal corporate income tax rate from 34% to 21%. WFEC revised its estimated effective tax rate for the nonmember operations to reflect the change in the federal statutory rate.

(Continued)

The approximate net deferred tax asset and valuation allowance at December 31 were as follows:

		2018	2017
		(In thousands)	
Tax-effected gross deductible temporary differences	$	2,886	2,983
Deferred tax asset		2,886	2,983
Less valuation allowance		(2,886)	(2,983)
Net deferred tax asset	$	—	—

(10) Retirement Plans

Substantially all employees of WFEC participate in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan). The RS Plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

WFEC contributions to the RS Plan in 2018 and 2017 represented less than 5% of the total contributions made to the RS Plan by all participating employers. WFEC makes annual contributions to the RS Plan equal to the amounts accrued for pension expense, which is dependent on the employee's date of hire. These contributions to the plan were approximately $7,372,000 and $7,313,000 in 2018 and 2017, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2018 and 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

(Continued)

At the December 2012 meeting, the Insurance and Financial Services Committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period. On April 17, 2013, the Board approved a prepayment of $17,913,000 to the NRECA RS Plan. WFEC is amortizing this amount over 10 years to employee pensions and benefits which, in turn, is allocated to applicable functional operations, maintenance, administrative, construction, and retirement activities. The balance of the prepayment of $7,165,000 and $8,956,000 as of December 31, 2018 and 2017, respectively, was recorded in deferred debits.

Substantially all employees of WFEC also participate in the NRECA 401(k) Pension Plan option. Under the plan, WFEC contributes amounts not to exceed 8% of the respective employee's base pay to the plan, dependent on the employee's level of participation and the employee's date of hire. Employees may contribute up to the Internal Revenue Service prescribed limit of their base pay to the plan. Contributions are immediately 100% vested. Benefits paid under the plan are limited to the sum of the employee's and WFEC's contributions and investment earnings or losses on those contributions. WFEC contributed approximately $1,977,000 and $1,806,000 to the plan in 2018 and 2017, respectively.

(11) Fair Value of Financial Instruments

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis at December 31, 2018 and 2017:

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2018
Assets:					
Commodity derivatives	$	—	170,000	—	170,000
Total assets	$	—	170,000	—	170,000

(Continued)

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2017
Assets:					
Commodity derivatives	$	—	(656,000)	—	(656,000)
Total assets	$	—	(656,000)	—	(656,000)

(12) Derivative Instruments and Hedging Activities

WFEC periodically enters into commodity swap, collar and option contracts for a portion of its anticipated natural gas or power purchases, to manage the price risk associated with fluctuations in market prices. These contracts limit the unfavorable effect that price increases will have on natural gas or power purchases. WFEC has elected to not designate its commodity contracts as cash flow hedges; therefore, changes in the fair value of the commodity contracts are recorded as an asset or liability and as an increase or reduction to production or purchased power expense. In accordance with ASC 980-10, *Regulated Operations Overall*, gains and losses from price management activities are included in WFEC's fuel cost recovered from members as part of WFEC's rate-making policy. As such, an asset or liability, that offsets the change in the fair value of the commodity contracts recorded in production or purchased power expense, is established to record the amount of fuel costs over collected from or unbilled to members of WFEC. The fair value of the commodity swaps resulted in an asset and a related payable to members (through future decreased fuel charges) of $170,000 as of December 31, 2018. The fair value of the commodity swaps resulted in a liability and a related receivable from members (through future increased fuel charges) of $656,000 as of December 31, 2017. WFEC has entered into derivative type commodity contracts for future transactions with terms expiring through December 2019.

(13) Commitments and Contingencies

(a) Addition of and Sales to New Mexico Cooperatives

In 2010, four New Mexico distribution cooperatives (Cooperative, collectively Cooperatives) were added to the membership of WFEC. Each Cooperative executed a Wholesale Power Contract (WPC) and has one vote on the Board of Trustees through their respective representative. Together, the Cooperatives currently have approximately 400 MW of load. Their service territories are adjacent to one another in southeastern New Mexico and are located in the Southwest Power Pool (SPP) footprint, as is WFEC. The Cooperatives will continue to own and maintain their respective delivery systems and have delivery points on the utility from which they have historically purchased their power needs. Transmission service for WFEC to serve the cooperative across that utility will be provided through the SPP Open Access Transmission Tariff.

(Continued)

WFEC and the Cooperatives also executed a Transition Agreement (Agreement), effective in 2010 and terminating June 1, 2026. During this transition period, the Cooperatives are members of WFEC with all rights, privileges, and obligations of membership, but with a separate cost of service rate (Segregated Rate). The Segregated Rate shall generate sufficient revenue to cover the Cooperative's cost of service as well as produce sufficient revenues that when combined with all other WFEC revenues, meet WFEC Board-determined reserves. During the transition period, each Cooperative shall be responsible for (1) costs, which are directly and uniquely related to the supply and delivery of electric power and energy to that respective Cooperative, (2) its share of costs common to the Cooperatives located in New Mexico, and (3) its share of costs common to all members of WFEC. After the transition period and for the remaining term of the WPC, the Segregated Rate shall no longer be used, and the Cooperatives shall be a member with a then applicable cost of service rate or rates common with other members of WFEC (Member Rate) and consistent with the WPC.

Immediate and short-term generation requirements of the Cooperatives will continue to be provided from a combination of existing contracts with Southwestern Public Service Company (SPS) and WFEC. The SPS contracts provide that the power and energy available from SPS will reduce in four increments, the first two occurred in 2012 and 2017 with the remaining increments in 2022 and 2024, then the contracts terminate in the spring of 2026. WFEC provided 91 MW in 2016, increased to approximately 172 MW in 2017, and will be responsible for providing 320 MW in 2022, 370 MW in 2024, and fully responsible for all needs of the Cooperatives after the SPS contracts terminate in 2026.

On May 1, 2014, the Cooperatives' third-party supplier contracts and generation resources were assigned to WFEC. Per the Agreement, the Cooperatives shall, through May 31, 2026, continue to pay all charges and costs arising from the third-party supplied contracts and contributed generation as part of the Segregated Rate.

Each Cooperative will contribute equity to WFEC in a manner and amount such that, as of June 1, 2026, the Cooperative has contributed equity to WFEC comparable to the amount of equity contributed to WFEC by prior existing members. These equity contribution payments are generally determined by each cooperative's ratio of coincident peak load to the total existing members' coincident peak load multiplied by the projected target equity, and are collected and paid to WFEC through the Segregated Rate. The contributed equity of each Cooperative is assigned to their respective patronage account.

Effective December 31, 2018, WFEC and three of the four Cooperatives mutually agreed to terminate their respective Agreements. Beginning January 2019, these Cooperatives representing approximately 304MW of the New Mexico load, will be billed the Member Rate consistent with the WPC. An equity contribution true-up amount was determined for each respective Cooperative which will be paid by WFEC in equal monthly amounts over a five-year period (2019-2023). Members' Equity Contributed Capital was reduced by $3,651,000 as of December 31, 2018, representing an over collection of equity by WFEC for these Cooperatives.

(b) Purchase Requirements

WFEC has a long-term standby power contract with Southwestern Power Administration under which it is obligated to purchase a minimum quantity of power annually through May 2028. At the prescribed 2019 rates, the minimum requirement approximates $19,092,000. During 2018 and 2017, WFEC purchased $22,100,000 and $22,528,000, respectively.

WFEC has a long-term purchased power contract with a party through December 2025 under which it is obligated to purchase a minimum quantity of power on a monthly basis. Based on contract information and power cost adjustment information currently published, the annual obligation for 2019 is estimated at $62,453,000. During 2018 and 2017, WFEC purchased $57,241,000 and $63,163,000, respectively.

WFEC has long-term purchase power contracts with a party through May of 2026, under which it is obligated to purchase decreasing minimum monthly quantities of power at prescribed contract intervals. These contracts are load-following with no minimum energy obligation. The current projection for the minimum contract commitment is $19,989,000 for 2019. During 2018 and 2017, WFEC purchased $95,664,000 and $99,617,000, respectively.

WFEC negotiated multiyear contracts to acquire and transport coal for the Hugo Generating Station annually through December 2019. The current projection for the minimum contract commitment for coal and coal transportation is approximately $32,000,000 in 2019. WFEC's costs for both coal and transportation purchases were approximately $34,000,000 and $39,000,000 for the years ended December 31, 2018 and 2017, respectively.

WFEC has a long-term purchased power contract with a party through December 2035, under which it is obligated to purchase increasing minimum monthly quantities of power at prescribed contract intervals. The current projection for the minimum contract commitment is $24,441,000 in 2019. During 2018 and 2017, WFEC purchased $40,492,000 and $27,579,000, respectively.

In 2014, WFEC negotiated multiyear contracts for the transportation and storage of a portion of its Anadarko and Mooreland Generating Station gas requirements through February 2044. The current projection for the minimum contract commitments for gas transportation and storage is approximately $7,975,000 in 2019. WFEC's costs for both transportation and storage purchases were approximately $9,121,000 and $8,977,000 for 2018 and 2017, respectively.

WFEC has long-term power agreements for the purchase of 735 MW of wind and solar energy from various power suppliers. WFEC does not have fixed cost obligations and pays only for the energy produced at fixed prices for the term of the agreements. The agreements have varying terms, and some have extension options. The longest contract term extends to 2053. WFEC's expense for energy purchased under these agreements was $83,635,000 and $78,500,000 in 2018 and 2017, respectively.

(c) Environmental

WFEC, as is common with other electric utilities, is subject to stringent existing environmental laws, rules, and regulations by federal, state, and local authorities with regard to air and water quality control, solid and hazardous waste disposal, hazardous material management, and toxic substance control. Management believes it is in substantial compliance with all existing laws, rules, and regulations.

The Environmental Protection Agency issued the final Coal Combustion Residue (CCR) rule effective October of 2015 and the new EPA Effluent Limitation Guidelines (ELG) became effective January 2016.

(Continued)

In 2016, WFEC revised previous estimates and added new liabilities to the forecasted cash flows related to asset retirement obligations and, as a result, increased the obligations and corresponding assets in electric plant in service by approximately $9,678,000. WFEC evaluated current operations with the CCR and ELG rules and determined, that for 2018, no revision was needed to the prior estimates. The liabilities are estimates based on various assumptions including, but not limited to, closure and post-closure cost estimates, timing of expenditures, escalation factors and discount rates (see note 14).

(d) Legal

WFEC is involved in various other legal actions arising in the ordinary course of business. In the opinion of management, after consultation with counsel, the ultimate disposition of these matters will not have a material adverse effect on WFEC's financial position or the results of future operations.

(14) Asset Retirement Obligation

WFEC has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time that certain machinery and equipment is disposed. The liability is initially measured at its discounted fair value and subsequently adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. Activity for the asset retirement obligations, included in accounts payable and accrued liabilities in the accompanying balance sheets, for the years ended December 31 is as follows:

		2018	2017
		(In thousands)	
Beginning balance	$	11,738	11,158
Additional liabilities incurred		—	—
Retirement of liability		—	—
Revisions to estimates		—	—
Accretion expense		611	580
Ending balance	$	12,349	11,738

(15) Comprehensive Income

The accumulated balance of other comprehensive income is as follows:

		Pension and postretirement benefit plans (In thousands)
Balance, December 31, 2016	$	993
Net current period change		(114)
Balance, December 31, 2017		879
Net current period change		(90)
Balance, December 31, 2018	$	789

(16) Subsequent Events

WFEC has evaluated subsequent events from the balance sheet date through March 11, 2019, the date at which the consolidated financial statements were available to be issued.