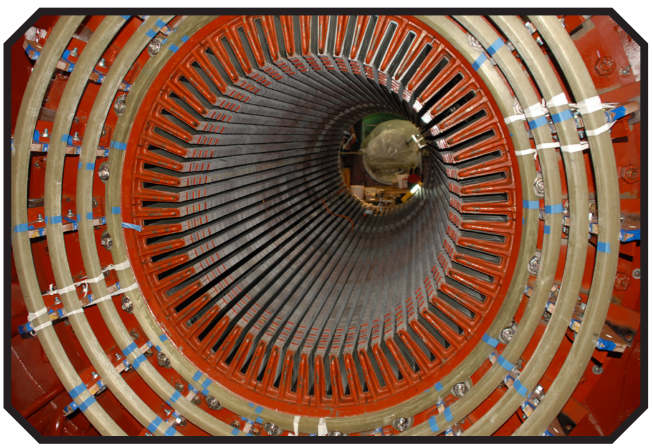
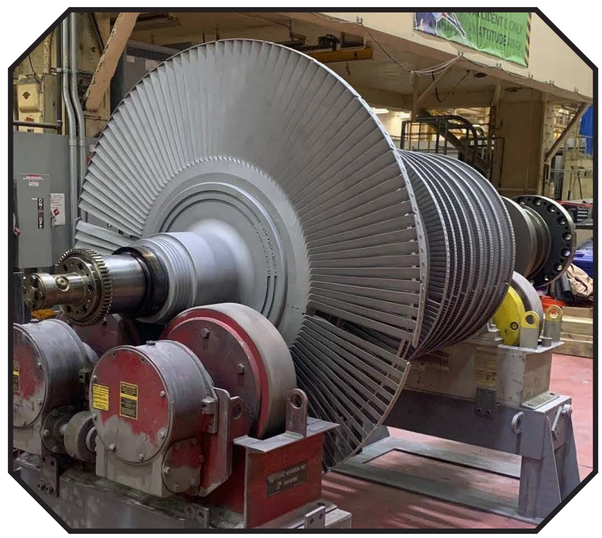
Generating *for the* Future

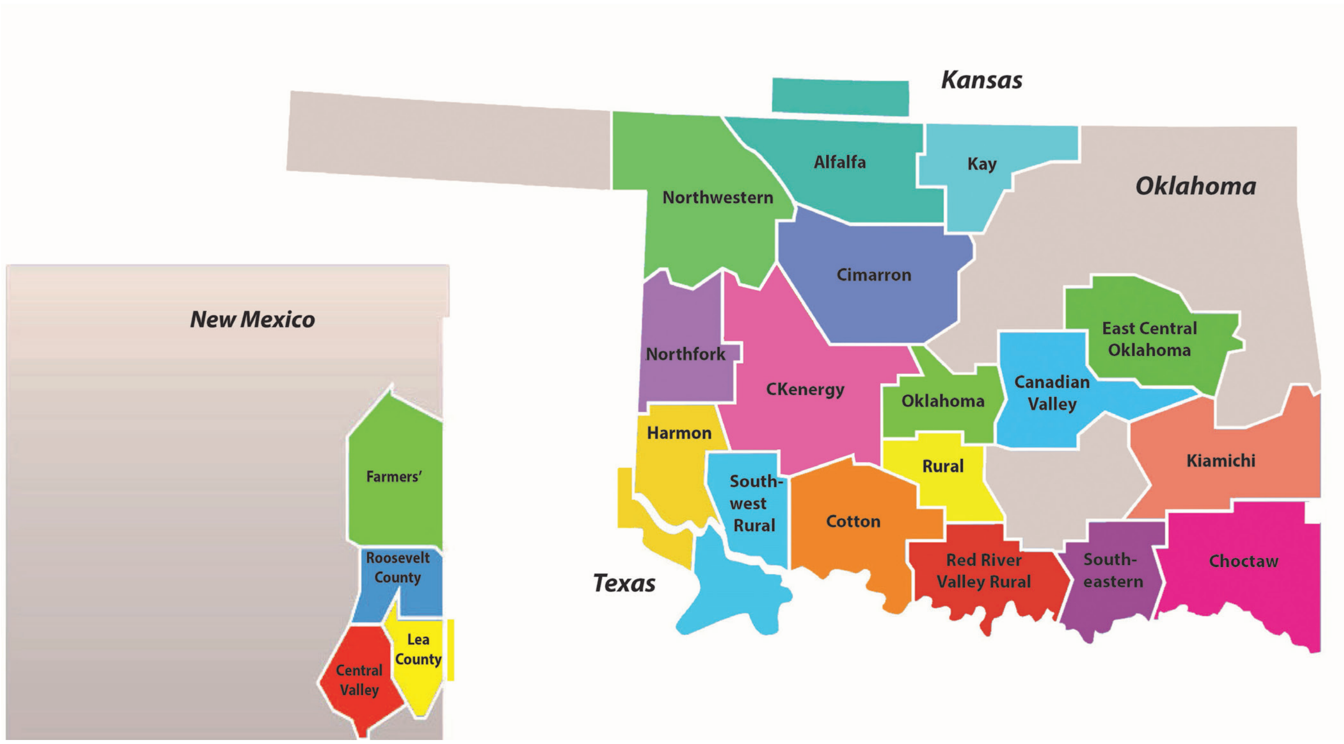




wfec
western farmers
electric cooperative

2021 Annual Report

WFEC's Service Territory



WFEC's 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.

Photos throughout the Annual Report were taken by several WFEC employees.

Overview & fuel diversity

Energy Sales (Member & Contract Sales)	$738 million
Total Operating Revenue	$862 million
Net Margins	$16 million
Assets	$1,648 million
Members	21
Member Consumer Meters Served	332,000 (est.)
Member Population Served	553,000 (est.)
System Peak Demand	2,058 MW
Miles of Transmission Line	3,839 miles
Substations & Switch Stations	over 330
Number of Employees	405

megawatts (MW)

Fuel Mix

Generating Capacity:	
Gas-Fired (Oklahoma)	892 MW
Gas-Fired (New Mexico)	43 MW
Coal-Fired (Oklahoma)	400 MW
Total Generating Capacity	1,335 MW
Power Purchases:	
Gas-Fired	280 MW
Hydro	270 MW
Portfolio of GRDA assets (Grand River Dam Authority)	200 MW
New Mexico Contracts - Portfolio	267 MW
Total Purchase Power	1,017 MW
SPP Accredited Solar/Wind: (summer)	152 MW
Total Combined Capacity	**2,504 MW**
Wind*:	
Oklahoma	864 MW
New Mexico	92 MW
Total Wind	**956 MW**
Solar*:	
New Mexico	30 MW
Oklahoma	23 MW
Total Solar	**53 MW**

2022 - planned solar - New Mexico	*30 MW*
2023 - planned solar - Oklahoma & 800 MWh battery storage	*250 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.*

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 and is now in its 81st year of operation. 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. WFEC is led by a management group with years of industry experience, and is governed by a 22-member Board of Trustees.

WFEC owns and operates a diverse power generation fleet consisting of six steam and gas turbine power generation sites, five utility-scale solar farms and 13 community solar farms. In addition, WFEC has power purchase agreements for wind, solar, natural gas and hydroelectric generation. The total combined capacity for owned and contracted assets is over 2,500 megawatts (MW), all located in Oklahoma and New Mexico.

WFEC has a large renewable energy presence, with some 956 MW of wind energy, from 14 sites, and 53 MW of solar, from 21 sites, including both utility-scale, community and purchase agreements.

Anadarko Headquarters

Location: Anadarko, Okla.
First Office at New HQ Site: 1954
New Building Addition: 1968
Four-Story Addition: 1980

Moore Business Office

Location: Moore, Okla.
Newest Office Building
Occupied: April 2019

Line Type (as built)	Miles
345 kV	152
161 kV	7
138 kV	2,334
69 kV	1,346
Total	**3,839**

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

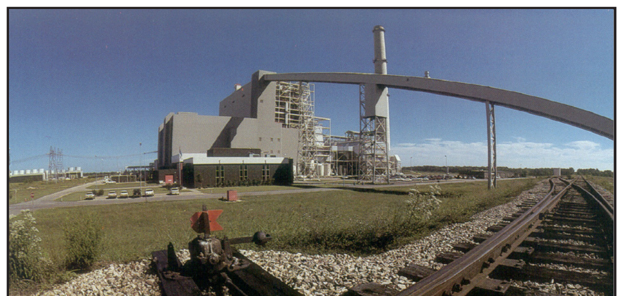
Mooreland Plant

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

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: 400 MW
Fuel: Coal

Orme Plant

Location: Anadarko, Okla.
In-Service Year: 2009
Capacity (3 units): 142 MW
Fuel: Gas Combustion Turbine

LCEC Generation Plant

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

CEO Report

The year 2021 was certainly not routine. COVID-19 was still lingering, and significant weather events were creating havoc for Western Farmers Electric Cooperative (WFEC), its member distribution cooperatives, and the overall utility industry.

But, on the other side, positive load growth was experienced, particularly with non-traditional loads, leading to the development of new tariffs and policies.

COVID-19 continued to have an impact on sales and operations during the year. Overall, megawatt-hour (MWh) sales increased slightly, but slow sales prevailed.

On an encouraging note, the oil and natural gas industry began to show slow improvement in the fourth quarter of 2021, with signs of an optimistic future continuing into early 2022.

During the past several years, with the legalization of medicinal marijuana in Oklahoma, growth and production facilities have increased significantly, leading to increases in load across the state. Cannabis sales did begin to slow in the fourth quarter, a trend continuing into 2022.

Extreme weather conditions topped the list, with the most significant event of the year being Winter Storm Uri (the "Event"). During a 10-day period in mid-February, some of the coldest weather ever recorded in WFEC's service territory occurred across much of the state. Record-breaking temperatures and other conditions led to extraordinary increases in costs for utilities across Oklahoma. As natural gas wells froze, gas availability was severely reduced, not only regionally but across the service territory of the Southwest Power Pool (SPP). Pricing for this restrained fuel resource soared to above $1,200/MMBtu.

The excessive and unexpected costs associated with the Event resulted in two financing periods for WFEC.

The initial period included additional short-term liquidity for payment of fuel suppliers and the SPP market invoices. At this step, the total dollar magnitude of the Event's impact was difficult to estimate as SPP settlement and re-settlement statements continued to be received throughout the year. A short-term financing was negotiated which provided WFEC, and therefore its members, adequate liquidity to meet immediate obligations.

CEO Gary Roulet

The second period included long-term financing of costs and determination of a rate recovery period. Members were provided financing options ranging from self-financing all or a portion of their allocated cost share to participating in WFEC's five-year term financing with a matching 60-month recovery period. Approximately one-third was self-financed by distribution members with two-thirds financed by WFEC.

The lessons learned from the Event led to new programs to manage load curtailments, improve information transfer during critical events with revised communication programs, and directed changes in the way WFEC hedges fuel and purchase power during these extreme events.

At the beginning of the fourth quarter of 2021, WFEC, the Board of Trustees, and distribution cooperative managers began an education process that will lead to a 20-year capital planning process that should conclude during mid-2022. This practice will also lead to an annual capital requirement plan that includes existing and new transmission and generation, along with other capital requirements. This plan will be a blueprint for managing capital over the upcoming 20-year period, with annual reviews and updates.

Photo taken at the Anadarko Plant during Winter Storm Uri. During a 10-day period in mid-February, some of the coldest weather ever recorded occurred in WFEC's service territory.

WFEC staff also developed two new wholesale tariffs during 2021, which gained the approval of Trustees. The first was a stand-by, back-up rider to the wholesale tariff for consumers that place generation behind the retail meter. The second was an interruptible tariff, generally applicable to consumers that want to trade interruption of load for a cheaper wholesale cost.

Finally, the fuel portion of wholesale power bills increased slightly over 20% in the second half of 2021. SPP market prices increased significantly during this period, primarily led by higher natural gas prices. These upsurges carried into 2022 and will likely continue at high levels.

WFEC ended 2021 with sound financials and maintained an A- credit rating from its rating agencies. Overall, the year posed various challenges, but through leadership from the Board of Trustees and dedicated efforts by the staff, WFEC addressed these challenges with a member-focused approach.

wfec

Growth & production facilities for medical marijuana increased significantly over the past few years, leading to load growth in some areas.

WFEC's Fuel Diversity - 2021

Renewables* - 31%

Wind - 26%
Solar - 1%
Hydro - 4 %

Generation - 11%

Coal - 7%
Natural Gas - 4%

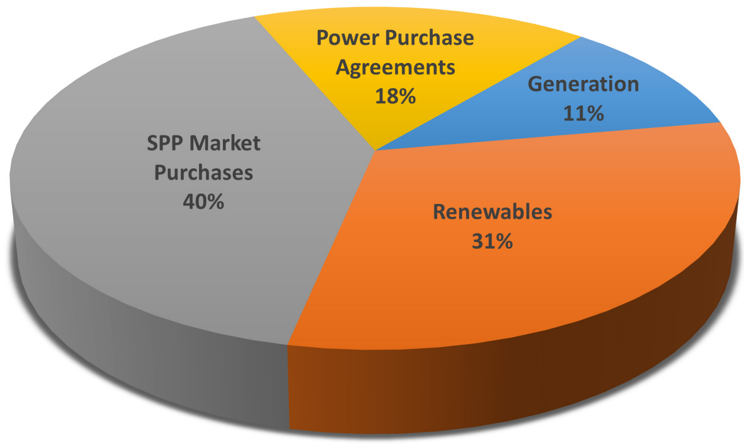
Power Purchase Agreements - 18%

Grand River Dam Authority
Oneta Power Plant
Southwestern Public Service

Southwest Power Pool Market Purchases - 40%**

**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.*



Western Farmers Electric Cooperative (WFEC) owns and operates a diverse power generation fleet consisting of gas and coal generation, in addition to solar and wind facilities. WFEC also has power purchase agreements for wind, solar, natural gas and hydroelectric generation.

The percentages listed represent an average of WFEC's kilowatt-hour (kWh) input into the Southwest Power Pool (SPP) Market for 2021. All kWhs are then purchased from the market at SPP's blend of power.

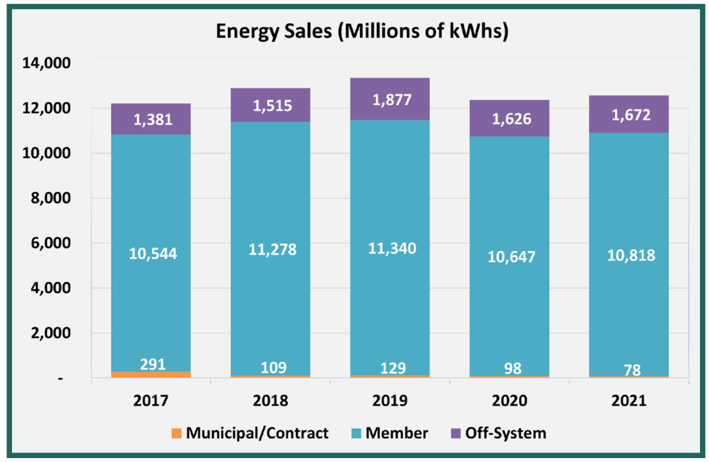
Generation proved strong in 2021

Generating power is crucial - particularly in the electric utility industry - in which no generation - means no electricity. As we all attempt to remove ourselves from the challenges of previous years, generating electricity remains vital to a society that strives for new technology, while living in a digitalized global age. Despite the continuation of a worldwide pandemic and major weather-related challenges of 2021, Western Farmers Electric Cooperative (WFEC) has kept on generating.

Winter Storm Uri

Winter Storm Uri (the "Event") was among the year's major topics, as it brought below-freezing temperatures and snow to some 26 states. During February, record low freezing temperatures and snowfall amounts were a part of the arctic blast that brought frigid air across the Central U.S., including states unaccustomed to severe winter conditions, causing millions of people to temporarily lose electricity. The gas market supply available to WFEC and others saw very high demand and faced severe physical constraints. The resulting impact was natural gas pricing reaching extraordinary levels causing elevated cost of power across much of the Southwest Power Pool's (SPP) southern footprint and sweeping deep into the Texas ERCOT region.

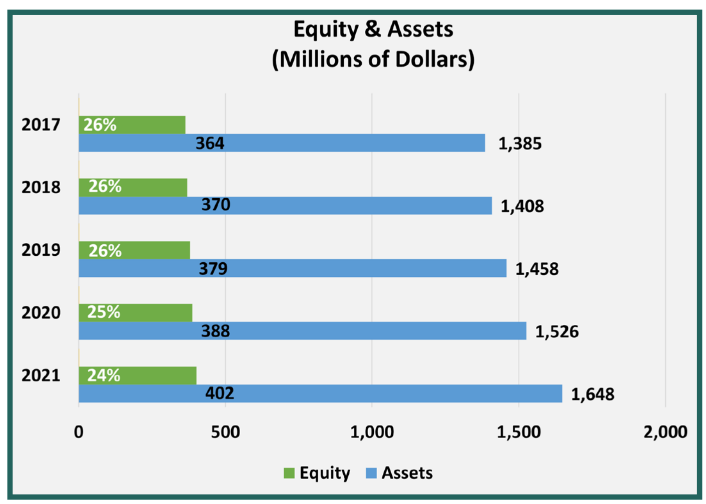
Numerous WFEC employees played an active role in maintaining reliable operations for the duration of the Event, addressing immediate liquidity needs as a result of heightened storm related pricing, selecting a source and term for long-term financing of costs and ultimately identifying and implementing improvements for lessons learned.



Energy sales in 2021 were impacted by a combination of a small rebound from COVID-19, commodity prices and slow improvement in the oil and natural gas industry in the fourth quarter.

Reliable Operations

During the Event, the SPP Regional Transmission Organization (RTO) faced crucial situations requiring last-minute decisions to help preserve the power grid by relaying quick and clear communications to its transmission operators, such as WFEC, to react appropriately. Following its emergency operating



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.

Not only did Winter Storm Uri result in staggering snow amounts, but also froze some of the outdoor platforms and other equipment at all plant locations. However, despite these conditions, plant crews kept units generating.

procedures and to prevent a severe system failure, SPP directed its transmission operators to temporarily reduce regional electricity use twice during the storm's time span by about 1.5% for 50 minutes on Feb. 15 and by about 6.5% for approximately three hours on Feb. 16.

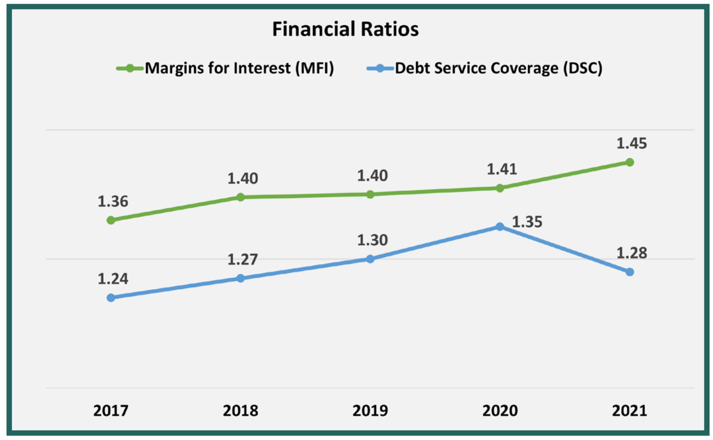
WFEC Transmission & Distribution (T&D) Operations and Services staff worked cohesively in the field and in operations to mitigate the effects of the Event. Field staff dealt with transformers operating at or near capacity levels while the operations group worked to manage rolling curtailments as dictated by the SPP.

For the most part, the extreme temperatures during the polar vortex spared the overall substation and transmission system, which experienced only minimal issues that were quickly addressed. With the alarmingly cold temperatures, even though the nameplate rating of some transformers was exceeded, no major damage occurred. Station Services crews regularly retrieved oil samples for dissolved gas analysis and completed infrared inspections to verify transformer performance and health.

With weather forecasts of dangerously cold temperatures for an extended period, employees brought WFEC's owned generation units online early in cautious anticipation. Due to WFEC' s experienced and dedicated employees and proactive winterization measures, its power plants ran very well when natural gas was available at all locations including Anadarko, Mooreland and Hugo, Okla. and Lovington, N.M.

Liquidity Needs

Although WFEC maintains cash and access to additional liquidity in the form of lines of credit, the total dollar magnitude the Event's impact was difficult to estimate pending receipt of SPP settlement and re-settlement statements that continued throughout the year. Tactically, in February the Board authorized an additional $200 million one-year revolving line of credit to support early in-house estimates. Ultimately, a waiver of certain SPP tariff requirements for posting collateral which was heavily weighted on current outstanding invoices was waived for a two-week time period allowing the collateral postings to return to a more normalized level. WFEC was able to maintain sufficient liquidity to meet financial needs until long-term financing was established.



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

Long Term Financing & Recovery

The Board determined to assign storm costs based on each member's respective February 2021 kWh consumption consistent with WFEC's tariff. In addition, members were provided options to self-finance all or a portion of their assigned Event cost and/or participate in a WFEC matching five-year financing and rate recovery period. For those that participated, an expense deferral plan was created to enable rate recovery of costs over 60 months beginning with the January 2022 invoice.

In total, the Event resulted in just shy of $149 million of cost in net fuel, purchased power, and SPP extraordinary unplanned costs. Through normal billing of WFEC's tariffs and members who elected to self-finance all or a portion of their assigned costs, $60 million was recovered in 2021. This left $89 million to be recovered from members participating in WFEC's financing. Based on projections WFEC estimates the deferred Event cost will average $2.38/MWh during the recovery period, which represents a 4.4% increase over the average 2020 Member Rate.

With a new day, the Orme Plant, which is among several units at the Anadarko Headquarters complex, stands ready to generate.

Lessons Learned

After any major event, identifying and implementing improvements based on lessons learned is critical planning for potential future events. To eliminate all risk of winter storms is neither available nor affordable, but risk management around weather events was evaluated and several improvements were implemented.

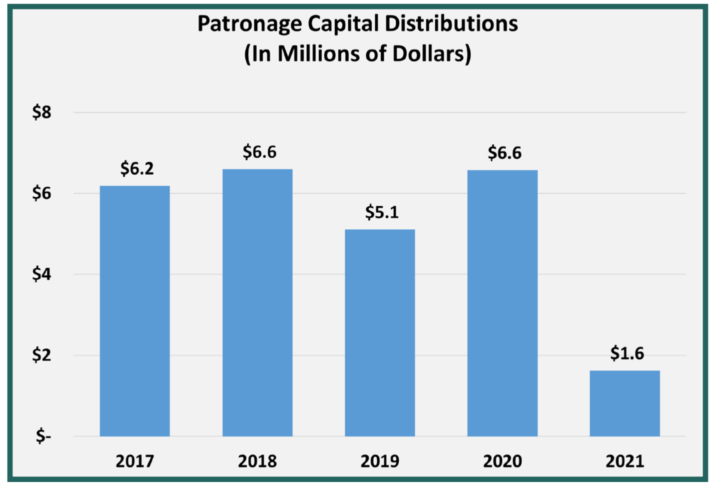
Since WFEC benefits from its diversity of resources for intermittency of renewables and reliability, the best hedge is to be operationally prepared to run WFEC units and contract for firm fuel access to reduce exposure to high costs. To this end, WFEC worked with ACES to modify hedging strategies (physical and financial), enhanced gas storage and withdrawal capability, and budgeted for increased funding for these activities.

Generation staff understand that a winterization plan is a living document requiring review on a regular basis. This has allowed opportunities to consider operational changes and improved technology that can enhance protections for severe weather.

Since the February polar vortex, WFEC's T&D Operations group have worked with member distribution cooperatives to identify and prioritize summer and winter non-critical circuits that could be shed in specific increments if called on by SPP. New automated rotational load shedding software has been implemented that will greatly enhance WFEC's capability to manage rolling curtailments, should future conditions warrant.

An extensive Emergency Communication Plan, focusing on contact with SPP during crisis situations, was developed and shared with member cooperatives. Working through conditions, such as those experienced with the Event guided the plan development that will allow improved communication and increased timeliness of distributed information.

DERs on the grid have led to numerous changes. DERs are small-scale power generation or storage technologies that can provide an alternative to or an enhancement of the traditional electric power system. These can be located on an electric utility's distribution system, a subsystem of the utility's distribution system or behind a customer meter. They may include resources such as small-scale solar arrays.



WFEC's Board of Trustees has consistently authorized patronage capital distributions to members. In 2021, the Board was conservative due to the financial impact of Winter Storm Uri.

Communication staff prepared customizable news articles, social media posts, graphics, educational background on SPP and the meaning of Energy Emergency Alert levels, prerecorded emergency alert messages, and a radio plan to cover Oklahoma and New Mexico.

New Wholesale Rate Rider & Tariff

In preparing for the future, the Board implemented several tariffs to help cooperative members accommodate new technology, comply with regulations, and serve new types of load.

Even though electric cooperatives have a history of integrating distributed energy resources (DER), the rapidly growing presence of DER on the grid has led to numerous changes in the industry. DERs are small-scale power generation or storage technologies that can provide an alternative to or an enhancement of the traditional electric power system. These can be located on an electric utility's distribution system, a subsystem of the utility's distribution system or behind a customer meter.

They may include resources such as small-scale solar arrays and battery installations, plus, electric storage, intermittent generation, distributed generation, demand response, energy efficiency, thermal storage or electric vehicles and their charging equipment.

Net metering policies include a mechanism that allows residential or commercial customers to use their own grid-connected DER from on-site renewable energy systems to offset a portion of their electric energy consumption.

In 2021, the Federal Energy Regulatory Commission (FERC) approved an historic final rule, Order 2222, enabling DER aggregators to compete in all regional organized wholesale electric markets. This action empowers new technologies to come online and participate on a level playing field, further enhancing competition, and encouraging innovation.

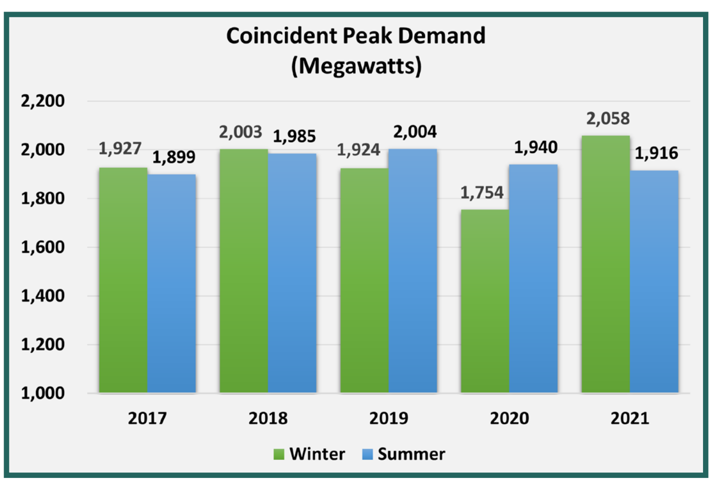
DER rules proposed in FERC Orders 745 and 2222 are intended to incorporate load reduction aggregations and distributed generation (DG) into the SPP Integrated Market. Their incorporation would treat these resources similarly to generation and market participants today. With that in mind, adding additional resources and load management tools to an existing market would very likely add efficiency (utilization of non-included resources), reduce the need for additional generation, and add to market reliability in unstable times.

In anticipation of implementation, WFEC developed a Standby Rider to the wholesale tariff designed to equitably recover infrastructure costs from these partial requirements consumers that would not be collected under the current tariff. By properly pricing the unbundled services, the consumer can effectively evaluate the economics of DER and net metering.

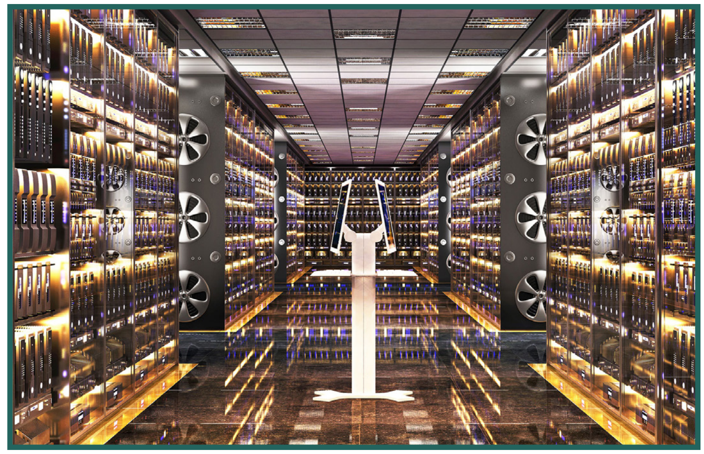
The Standby Rider assists WFEC members in discussions with retail consumers considering these investments, continues adequate recovery from transmission and distribution tariffs, and allows for recording and documenting these type of loads so WFEC can maintain and recover costs for providing backup generation. In addition, the Standby Rider addresses changing rules in both New Mexico and Oklahoma applicable to DER.

The new STC-22 Tariff was designed to serve loads exceeding 1,000 kilowatts (kW), which might otherwise create operational challenges to reliable electric power and energy supply and create excess demands on currently existing capacity.

The tariff accommodates interruptible loads that desire to pay a lower price for electricity and neither need or want to pay for capacity. For instance, a consumer manufacturing products that are volatile in sales price linked to the price of energy or the facilities have significant business risk or are transitory and can move from place to place easily.



Although the impact of COVID-19 still lingered and the oil and natural gas industry showed some fourth quarter recovery, the 2021 winter coincident peak demand set in February was driven by Winter Storm Uri.



Several of WFEC's member cooperative have been contacted about data mining facilities being built in their service territories. These loads, including data rooms, (shown above) use an extraordinary amount of power.

Since generation capacity is expensive and takes a long time to build or buy, this rate helps avoid building or buying long-term capacity for these type loads and reduces WFEC's risk to stranded costs. STC-22 will provide cooperative members the opportunity to serve new loads, such as data mining facilities or cannabis grow houses.

The solar industry became more aggressive over the year, with the cost of solar equipment and installation trending down. This solar activity led to proposed commercial interconnect installations in both Oklahoma and Texas, with installations ranging in size from 30 kW to 10 MW.

Load growth

Many parts of the Oklahoma economy are close to or have recovered to pre-COVID levels. Some (manufacturing, wholesale trade, professional services) continue at lower levels. The oil and gas industry is beginning to recover from the 2020 pre-COVID decline in activity due primarily to low commodity pricing at that time. In Oklahoma, the recovery is still below the levels from early 2020 but began to show slow improvement in the fourth quarter, with signs of an optimistic future continuing into early 2022.

The New Mexico economy has not returned to pre-COVID levels for most parts of the economy. New Mexico was "locked down" far longer than many states in the region, including Oklahoma. It is beginning to recover, but is still well below previous levels. The bright spot in the New Mexico economy has been the return of the oil and gas industry. Oil production in the Permian Basin is at record high levels.

WFEC's expectations for 2022 and beyond is a continued slow recovery. It may take a good part of 2022 to recover to pre-COVID levels. With COVID still having impacts on the Oklahoma and New Mexico economies, slow/low growth rates are expected for 2022 and 2023.

There continues to be uncertainty with projections associated with the pricing and demand for oil, length and severity of COVID, diminishing government fiscal support, and residential behavior as a result of the pandemic.

A number of WFEC member cooperatives are experiencing larger loads in their service territories, with data mining groups and cannabis grow houses now dotting the rural areas of the state. These industries utilize a great deal of electricity on a daily basis, which has created both positive and negative situations for some cooperatives. Data analysis has been collected and developed on cannabis growing sites' aggregate load profiles to understand industry needs and service requirements.

Transmission & Distribution

WFEC worked on several construction projects in Transmission & Distribution (T&D), some that were assigned by the SPP and others requested by members. Work continues on rebuilding transmission lines and switch stations to meet load growth in the region. New substations were built and others were upgraded to a larger capacity to meet member's load growth requirements.

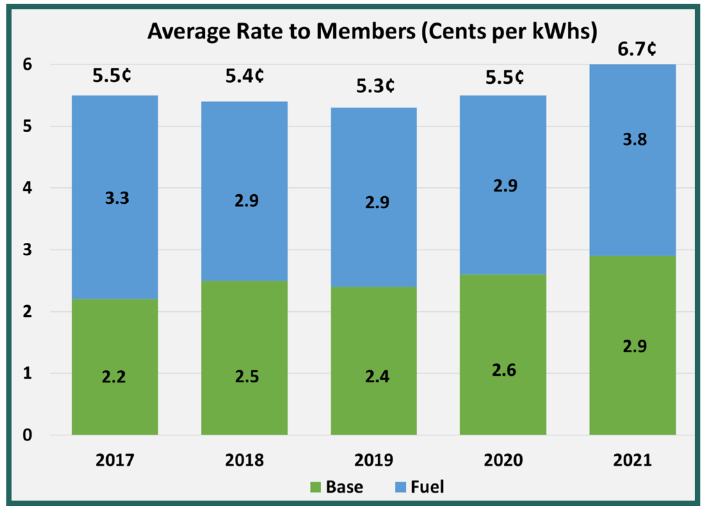
Capacity

WFEC expects to have sufficient generation capacity to meet capacity and planning reserve requirements for several years. Strategies for meeting future requirements are under continuous review.

Fuel

It is critical to understand that the $60 million of cost recovered applicable to Storm Uri is included in the 6.7¢/kWh as shown in the Average Rate to Members chart. Also contributing were fuel prices and the cost of power from the SPP Integrated Market throughout 2021. As shown by the Average Delivered Natural Gas Price, the price per delivered MMBTU of natural gas was $48.56, when including costs from the Event. Without the cost impact

A new Mooreland Switch Station was among projects being built in 2021. This new facility will help WFEC to be better prepared for the future in northwest Oklahoma.



The average wholesale cost to members has banded tightly in the mid five-cent per kWh range, aided by abundant low-cost renewable resources, the continued evolution of the SPP Regional Transmission Organization and its Integrated Marketplace the last few years. In 2021, the rate increase was driven by rising natural gas prices and Winter Storm Uri.

of the Event, delivered natural gas was still near $5.00, which is a significant increase over prior years. Natural gas costs increased due to increased demand, limited supply, declining fuel stores, and shifting investment priorities in the face of climate change.

Specific to WFEC, more cost was allocated to risk management; therefore securing a price acceptable to WFEC in order to avoid potential elevated prices particularly beginning in the winter of 2021 leading into 2022. Additionally, as sales across the SPP footprint began to rebound from the pandemic it led to more units being called on to generate. The more generators that are brought on, the higher the SPP market costs, as the last generator brought on is the price that sets the market.

Renewables

WFEC will be purchasing additional solar power by the end of 2022 through a Renewable Energy Purchase Agreement (REPA) signed in October 2021. Chaves County Solar II, with a 30 MW nameplate capacity, will be located near Roswell, N.M. and will bring WFEC's total solar in New Mexico to 60 MW*.

With this project and existing solar and wind projects already in service, WFEC is well positioned to meet New Mexico's renewable energy requirements, one of which sets zero-carbon resource standards for rural electric cooperatives by 2050.

**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.*

Electric Vehicles

During the past year, the use and purchase of electric vehicles (EV) appeared to remain steady throughout WFEC's service territory. WFEC and its member distribution cooperatives continued to promote the benefits of EVs, while the ongoing development of the EV infrastructure continued across Oklahoma and parts of New Mexico. Some cooperatives across the country have been considering or are already involved with electric school bus programs.

COVID-19

The pandemic impacts on employees and WFEC continued in 2021, as new cases and strains continued to rise for most of the year. The supply chain disruption and shortages caused by COVID-19 have been manageable with staff scheduling for longer manufacturing lead times on materials for construction projects and topping off inventory stock levels more frequently. Impacts have also been encountered for maintenance materials, work tools and vehicles. Many of the service vehicles have replacement lead times of one year or longer causing units to continue in service past their scheduled replacement dates.

After demonstrating that many administrative work requirements could be timely and successfully completed via telework schedules, WFEC implemented a formal telework procedure. Management evaluated positions eligible for telework, and then staff created forms, checklists, and schedules for implementing the process.

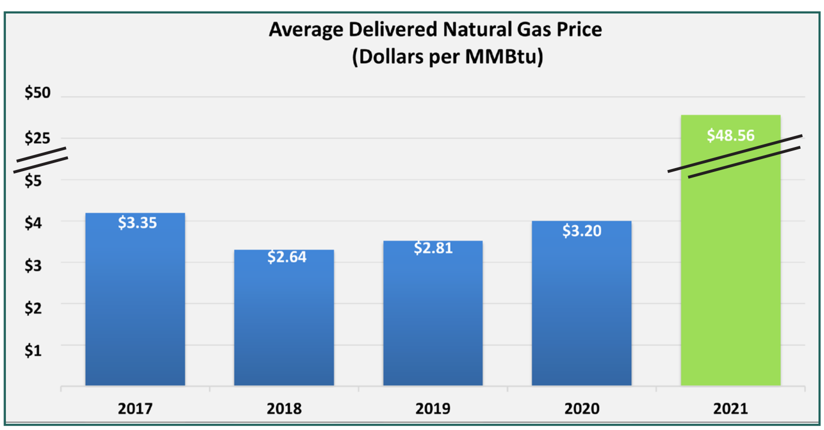
Cyber Security

Mindful of increasing cyber security threats, actions were taken to protect electronic assets from unauthorized use. Controls were developed and implemented to support the transition to what began as mandatory COVID-related remote work, which has now transitioned into a hybrid of office and remote work environment. Projects were also initiated for upgrading and modernizing major network and phone communications systems.

During 2021, enhancements were made to the way WFEC handles corporate Virtual Private Network (VPN) access, which establishes a tunnel for remote access into WFEC networks. This step involved an additional layer of security through a two-factor user authentication process for the protection of both the employee and WFEC.

Later in the year, another project to encrypt all WFEC laptops was introduced and fully implemented in early 2022. Once the encryption was enabled on a system drive, a PIN was required at start-up to unlock the drive - acting as a second authentication factor. Requiring a PIN at startup is a useful security feature that makes it virtually impossible for a potential attacker to access or modify user data and system files.

Also, during the year, steps were taken for the modernization of major information technology systems such as maintenance management systems at the generation plants.



Delivered natural gas prices are one of the primary determinants of the total average rate to members. The last four-year average price was a stabilizing factor for wholesale rates. Winter Storm Uri, along with rising natural gas prices significantly drove up the average price in 2021.

Summary

Overall, 2021 had its challenges, but as a power supplier, WFEC continued its commitment to ensure that electricity remained affordable and reliable to meet the ever-changing needs of its member distribution cooperatives.

Generating power will remain an important responsibility for WFEC - well into the future.

wfec

WFEC Board of Trustees

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

President
Trustee since: April 2013

David Ray
Kiamichi Electric Cooperative

Vice President
Trustee since: April 2007

King Martin
Red River Valley Rural Electric Association

Secretary-Treasurer
Trustee since: Sept. 2011

Jeff Willingham
Southeastern Electric Cooperative

Asst. Secretary-Treasurer
Trustee since: April 2015

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

Ken Autry
Choctaw Electric Cooperative

Trustee since: Oct. 2020

Gene Peters
Cimarron Electric Cooperative

Trustee since: Aug. 2012

Clint Pack
CKenergy Electric Cooperative

Trustee since: Jan. 2016

Brian DeMarcus
Cotton Electric Cooperative

Trustee since: Feb. 2021

Max Shoemake
East Central Oklahoma Electric Cooperative

Trustee since: April 2015

Jean Pence
Harmon Electric Association

Trustee since: April 2015

Mike Lebeda
Kay Electric Cooperative

Trustee since: April 2001

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

Trustee since: April 2016

Charles Hickey
Northfork Electric Cooperative

Trustee since: July 2005

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

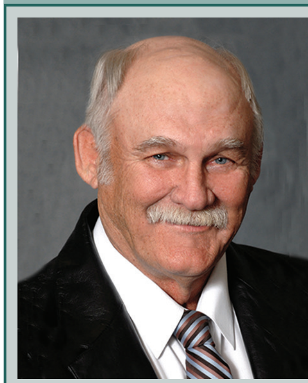
Trustee since: Dec. 2002

Don Ellis
Southwest Rural Electric Association

Trustee since: March 2014

In Memoriam

Ray O. Smith
Northwestern Electric Cooperative



Trustee since: April 1991

Ray Owen Smith served as a member of WFEC's Board of Trustees for 30 years, beginning in April 1991. He passed away January 14, 2022 at the age of 78. Smith represented Northwestern Electric Cooperative on WFEC's Board.

At the time of his death, he was the longest serving member on WFEC's Board. His dedicated service to WFEC and the cooperative family was greatly appreciated.

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 condition of WFEC and be aware of operating conditions.

WFEC Senior Management Team

Gary Roulet
Chief Executive Officer
(since 2003)

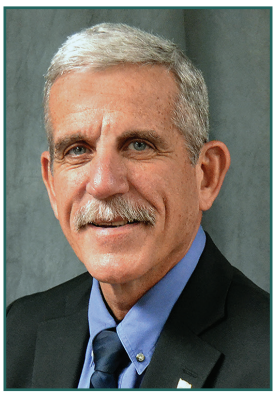
Began career with
WFEC in 1974.

Ron Cunningham
Exec. Vice Pres.,
Power Delivery & Tech.

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,
Mktg. & Member Relations

Began career with
WFEC in 2000.

David Sonntag
Vice President,
Special Projects

Began career with
WFEC in 2000.

Matt Caves
SeniorManager, Legal &
Regulatory Compliance

Began career with
WFEC in 2014.

Rodney Palesano
Senior Manager,
Human Resources

Began career with
WFEC in 1995.

Mike Meason
Senior Manager,
Information & Security

Began career with
WFEC in 2009.

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 - 27 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

Skeleton Creek Wind Project – 249 MW
Location: Alfalfa, Major & Garfield counties (Okla.)
Began commercial operation in December 2020

Oklahoma	**864 MW**
New Mexico	**92 MW**

Total Wind Energy (2021)
956 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.*

Solar Generation*

Oklahoma - 23 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 0.250 MW
11 WFEC member cooperatives participate
(not included in WFEC's solar total)

Norman Solar Park - 2 MW

Total Solar Generation (2021)
53 MW

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.

Future Solar Projects:

Skeleton Creek Solar - 250 MW
w/ 800 MWh battery storage
Location: Garfield County (Okla.)
Commercial operation by end of 2023
(Renewable Energy Purchase Agreement signed in 2019)

Chaves County Solar II - New Mexico - 30 MW
Commercial operation in 2022
(Renewable Energy Purchase Agreement Signed in 2021.)

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

Independent Auditors' Report

The Board of Trustees
Western Farmers Electric Cooperative

Opinion

We have audited the consolidated financial statements of Western Farmers Electric Cooperative (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Oklahoma City, Oklahoma
March 11, 2022

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Balance Sheets

December 31, 2021 and 2020

(In thousands)

Assets		**2021**	**2020**
Electric utility plant, at cost:			
In-service	$	1,936,760	1,888,624
Construction work-in-progress		46,428	55,085
Total electric utility plant		1,983,188	1,943,709
Less accumulated depreciation and amortization		848,086	817,494
Net electric utility plant		1,135,102	1,126,215
Investments in associated organizations and other investments, at cost		21,473	20,350
Current assets:			
Cash and cash equivalents		201,187	69,943
Investments		—	95,285
Accounts receivable from energy sales		65,840	55,886
Other accounts receivable		13,272	8,528
Inventories, at average cost:			
Coal, natural gas, and oil		16,975	20,904
Material and supplies		69,945	74,634
Other		3,820	2,801
Total current assets		371,039	327,981
Deferred debits		120,665	51,900
Total assets	$	1,648,279	1,526,446
Members' Equity and Liabilities			
Capitalization:			
Patronage capital	$	335,302	320,936
Contributed capital		54,051	54,051
Other capital		12,781	12,781
Long-term debt		979,833	924,091
Total capitalization		1,381,967	1,311,859
Current liabilities:			
Current portion of long-term debt		79,934	47,418
Accounts payable and accrued liabilities		155,298	126,383
Total current liabilities		235,232	173,801
Other liabilities		31,080	40,786
Commitments and contingencies (note 3, 13, and 14)			
Total members' equity and liabilities	$	1,648,279	1,526,446

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Operations

Years ended December 31, 2021 and 2020

(In thousands)

		2021	2020
Operating revenues:			
Power sales to members, cities, and other	$	737,900	580,136
Other power sales and operating revenues		124,583	84,912
Total operating revenues		862,483	665,048
Operating expenses:			
Operations:			
Production		169,071	52,563
Purchased and interchanged power		436,437	377,753
Transmission		106,716	85,430
Distribution		7,433	6,586
General and administrative		14,211	14,302
Maintenance		20,778	25,094
Depreciation and amortization		58,868	58,099
Total operating expenses		813,514	619,827
Operating margin before interest		48,969	45,221
Interest expense, less amounts capitalized during construction of approximately $997 and $1,393 in 2021 and 2020, respectively		(37,032)	(36,772)
Interest income		658	3,968
Operating margin		12,595	12,417
Other nonoperating, net		333	(413)
Patronage capital assigned by associated organizations		3,075	3,021
Net margin	$	16,003	15,025

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Comprehensive Income

Years ended December 31, 2021 and 2020

(In thousands)

		2021	2020
Net Margin	$	16,003	15,025
Other comprehensive income, net of tax:			
Pension and other postretirement benefit plans:			
Net actuarial loss		11	(23)
Less amortization of prior service cost included in net periodic pension cost		(26)	(25)
Pension and other postretirement benefit plans		(15)	(48)
Other comprehensive loss		(15)	(48)
Total comprehensive income	$	15,988	14,977

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Changes in Members' Equity

Years ended December 31, 2021 and 2020

(In thousands)

		Memberships	Patronage capital	Contributed capital	Other capital	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2019	$	3	311,992	54,051	12,781	538	379,365
Net margin		—	15,025	—	—	—	15,025
Patronage capital retired		—	(6,574)	—	—	—	(6,574)
Net other comprehensive loss		—	—	—	—	(48)	(48)
Balance, December 31, 2020		3	320,443	54,051	12,781	490	387,768
Net margin		—	16,003	—	—	—	16,003
Patronage capital retired		—	(1,622)	—	—	—	(1,622)
Net other comprehensive loss		—	—	—	—	(15)	(15)
Balance, December 31, 2021	$	3	334,824	54,051	12,781	475	402,134

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

(In thousands)

		2021	2020
Cash flows from operating activities:			
Net margin	$	16,003	15,025
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation		55,121	54,388
Other depreciation and amortization included in operating expenses		6,120	6,325
Amortization of regulatory asset expense		3,035	3,035
Accretion of asset retirement obligation		712	676
Changes in assets and liabilities:			
Accounts receivable from energy sales		(9,954)	263
Other accounts receivable		(4,744)	(3,310)
Coal, natural gas, and oil inventory		3,929	(4,689)
Materials and supplies inventory		4,689	(7,503)
Other current assets		(1,019)	(85)
Deferred debits and other (includes 2021 Storm Uri)		(76,422)	(2,503)
Accounts payable and accrued liabilities		25,054	9,038
Other assets and liabilities (includes SPP attachment Z2 credits)		(8,159)	(5,352)
Net cash provided by operating activities		14,365	65,308
Cash flows from investing activities:			
Net extension and replacement of electric utility plant		(64,312)	(64,242)
Purchase of investments		(17,311)	(152,740)
Proceeds from investments		112,596	57,455
Net cash provided (used) in investing activities		30,973	(159,527)
Cash flows from financing activities:			
Advances of long-term debt		310,086	350,006
Payments on long-term debt		(221,828)	(286,011)
Advances of short-term debt		107,000	—
Payments on short-term debt		(107,000)	—
Contributed capital		(730)	(730)
Patronage capital retired		(1,622)	(6,574)
Net cash provided by financing activities		85,906	56,691
Net increase (decrease) in cash, cash equivalents, and restricted cash		131,244	(37,528)
Cash, cash equivalents, and restricted cash at beginning of year		69,943	107,471
Cash, cash equivalents, and restricted cash at end of year	$	201,187	69,943
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$	31,892	36,184

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 3,900 miles of transmission line as well as substations and switch stations primarily located in Oklahoma. WFEC has a combined capacity of approximately 2,400 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 prescribed by the Rural Utilities Service (RUS), 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 2021 and 2020 are as follows:

Production plant	3.00 – 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, 2021 was $63,280,000 of which $55,833,000 was charged to depreciation expense, $2,621,000 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, 2020 was $62,491,000, of which $55,064,000 was charged to depreciation expense, $2,601,000 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 2021 and 2020.

(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 2021 and 2020 totaled $997,000 and $1,393,000, respectively.

(f) Restricted Cash and Investments

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 $55,262,000 and $55,141,000 as of December 31, 2021 and 2020, respectively. The CCR is included in cash and cash equivalents as of December 31, 2021 and investments as of December 31, 2020.
- WFEC had a Cushion of Credit (Unapplied Advance Payment) account with the RUS. As an RUS borrower, WFEC was eligible to participate in the RUS Cushion of Credit Program, which allowed voluntary prepayment of debt. These advance payments were held on behalf of WFEC and earned interest at 5% per annum. The prepaid account balance and earned interest could only be used for debt service on loans made or guaranteed under the Rural Electrification Act. The Cushion of Credit Program with RUS was amended via the Agriculture Improvement Act of 2019 (Act). Under the provision of the Act as of December 20, 2019, no new deposits were accepted. The fixed interest rate of 5% per annum earned by the account holder continued to be earned until the end of

the federal government's fiscal year 2020. In fiscal year 2021 the rate reduced to 4% per annum. Thereafter the rate will earn the applicable 1-year Treasury rate. The Act allows for borrowers to prepay associated RUS debt through fiscal year 2020 without penalty. In September 2020, WFEC terminated its use of the Cushion of Credit Program via the Act by utilizing its account balance of approximately $95,400,000 to prepay Federal Financing Bank (FFB) debt. As of December 31, 2021 and 2020, the Cushion of Credit account had a balance of $0 and $0, respectively.

- A 2019 revenue deferral plan implemented to mitigate potential rate impacts of future capacity expansion projects, potential environmental regulation, and other industry activities was approved by RUS. WFEC deferred $5,600,000 to be recognized no later than 2029. The WFEC Board authorized use of $4,000,000 of the deferral during 2021 to mitigate the rate impact of reduced load in 2020 associated with COVID-19. At December 31, 2021 an investment satisfied RUS's requirement to segregate cash in an amount equal to the balance of WFEC's revenue deferral plan of approximately $1,600,000 and $5,600,000 as of December 31, 2021 and 2020, respectively (see note 5).

(g) Cash and Cash Equivalents and Investments

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. The fair value of cash equivalents approximates their carrying values due to their short-term maturity.

Current investments with maturities less than 12 months that do not qualify as cash equivalents are comprised of commercial paper.

The following table provides a reconciliation of cash, cash equivalents and restricted cash and investments reported within the consolidated balance sheets:

		2021	2020
		(In thousands)	
Cash and cash equivalents	$	201,187	69,943
Current investments		—	95,285
Cash and cash equivalents and investments	$	201,187	165,228

(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 RUS.

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 $9,374,000 and $9,199,000 at December 31, 2021 and 2020, 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) Revenue Recognition

(i) General

WFEC recognizes revenue from electric sales when power is delivered to customers. WFEC recognizes revenue from demand availability ratably over the reporting period as it is a standby ready performance obligation earned with the passage of time. The performance obligation to deliver electricity is generally created and satisfied simultaneously, and the provisions of the Board-approved electric rate determine the charges WFEC may bill the customer, payment due date and other pertinent rights and obligations of both parties. WFEC reads its customers' meters and sends bills to its members at the end of each month. As a result, there is no material amount of customers' electricity consumption that has not been billed at the end of each month.

(ii) Integrated Marketplace and Transmission

Formed as a generation and transmission (G&T) electric cooperative, WFEC owns and operates G&T facilities and is a member of the Southwest Power Pool (SPP) Regional Transmission Organization (RTO). The SPP has implemented Federal Energy Regulatory Commission (FERC)-approved regional day ahead and real-time markets for energy and operating services, as well as associated transmission congestion rights. Collectively the three markets operate together under the global name, SPP Integrated Marketplace (IM). WFEC represents owned and contracted generation assets and customer load in the SPP IM for the sole benefit of its customers. WFEC does not participate in the SPP IM for speculative trading purposes. WFEC records the SPP IM transactions per FERC Order 668, which requires that purchases and sales be recorded on a net hourly basis for each settlement period of the SPP IM. Purchases and sales are based on the fixed transaction price determined by the market at the time of the purchase or sale and the megawatt hour (MWh) quantity purchased or sold. These results are reported as Power sales to members, cities, and other in the accompanying consolidated financial statements. WFEC revenues, expenses, assets and liabilities may be adversely affected by changes in the organization, operation and regulation by the FERC or the SPP.

As a member of the SPP RTO, WFEC has transferred operational authority, but not ownership, of WFEC's transmission facilities to the SPP. WFEC's transmission revenues are generated by the use of WFEC's transmission network by the SPP, which operates the network on behalf of transmission owners. WFEC recognizes revenue on the sale of transmission service to customers over time as the service is provided in the amount WFEC has a right to invoice. Transmission service to the SPP is billed monthly based on a fixed transaction price determined by WFEC's FERC-approved formula transmission rates along with other SPP specific charges and the MW quantity reserved.

The following table disaggregates the Cooperative's revenues from contracts by classification.

		2021	2020
		(In thousands)	
Members	$	733,160	575,067
Nonmember		5,707	6,030
System sales revenues		738,867	581,097
Integrated marketplace		65,099	30,366
Transmission		52,114	50,452
Revenue from contracts with customers		856,080	661,915
Other		6,403	3,133
Total revenues	$	862,483	665,048

(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 one New Mexico member with a Transition Agreement providing that during the transition period, WFEC shall maintain a separate cost of service-based rate for the New Mexico member. Immediate and short-term power requirements for this member are provided from a combination of an existing contract 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 contract decreases over time. The New Mexico member's third-party supplier contract was assigned to WFEC (see note 13(a)). No collateral is pledged to WFEC from its members to collateralize the outstanding accounts receivable.

At December 31, 2021, WFEC has Wholesale Power Contracts (WPC) with its 21 distribution cooperative members through the year 2065. WFEC's power sales to members for 2021 and 2020 was approximately 90% and 94% of total sales, respectively.

(p) Concentration of Credit Risk

Concentration of credit risk exists with respect to trade accounts receivable of which approximately 99% of accounts receivable from energy sales at December 31, 2021 and 2020 is from power sales to WFEC's members. The credit risk for accounts receivable from nonmember sales is managed through monitoring procedures.

(q) 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.

(r) 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.

(s) Recently Issued Accounting Pronouncements

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 2022. 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 2022. 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.

(2) Electric Utility Plant

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

		2021	2020
		(In thousands)	
Production plant	$	1,010,320	1,005,999
Transmission plant		543,967	524,964
Distribution plant		237,833	232,745
General plant		127,308	123,926
Unclassified plant		17,332	990
Electric utility plant-in-service		1,936,760	1,888,624
Construction work-in-progress		46,428	55,085
Total electric utility plant	$	1,983,188	1,943,709

(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, 2021 and 2020, with accumulated amortization of $9,280,000 and $7,095,000 at December 31, 2021 and 2020, respectively. The principal and interest payments were $3,166,000 for 2021, of which $2,185,000 is for amortization of the right-of-use asset and $981,000 for interest. The principal and interest payments were $3,166,000 for 2020, of which $2,100,000 is for amortization of the right-of-use asset and $1,066,000 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*.

The schedule of future minimum lease payments for WFEC's capital lease as of December 31, 2021, is as follows (in thousands):

2022	$	3,166
2023		3,166
2024		3,166
2025		3,166
2026		3,166
Thereafter		1,415
Total minimum lease payments		17,245
Amounts representing interest		(3,682)
Present value of minimum lease payments		13,563
Current maturities		(2,274)
Long-term capital lease obligations		11,289
Bargain purchase option		9,764
Long-term capital lease obligations net	$	21,053

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

		2021	2020
		(In thousands)	
National Rural Utilities Cooperative Finance: Corporation (CFC):			
3% capital term certificates	$	300	300
5% capital term certificates		5,830	5,830
Patronage capital certificates		1,600	1,515
CoBank Class A stock		12,383	11,384
ACES		1,316	1,277
Other		44	44
	$	21,473	20,350

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, 2021, WFEC owned 4.76% of ACES equity. The investment in the partnership is accounted for using the equity method of accounting.

(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:

		2021	2020
		(In thousands)	
Regulatory assets:			
Unamortized cost associated with lease/leaseback	$	14,550	17,584
Unamortized cost associated with 2021 Storm Uri		88,689	—
Other assets:			
Unamortized RS prepayment (see note 10)		1,791	3,583
Preliminary survey and investigation charges		507	710
Unamortized debt expense		396	263
Premiums on debt refinancing		14,732	16,574
Deferred Debit for SPP attachment Z2 credits		—	13,186
	$	120,665	51,900

		2021	2020
		(In thousands)	
Regulatory liabilities:			
Deferred revenue	$	1,600	5,600
Over recovered fuel		9,374	9,199
Other liabilities:			
Unearned revenue		—	89
Early Termination of Transition Agreements (see note 13)		730	1,461
	$	11,704	16,349

As of December 31, 2021, WFEC's regulatory assets are being reflected in rates charged to customers over 5 years.

The regulatory and other assets are reflected in deferred debits and the regulatory and other liabilities are reflected in other liabilities in the accompanying consolidated balance sheets, except for over recovered fuel which is reflected in accounts payable and accrued liabilities.

In 2013, a long-term lease-leaseback transaction reflected as a financing for financial reporting purposes was terminated. WFEC received Board and RUS 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.

Premiums on early extinguishment of debt arising from refinancing transactions are being amortized over approximately 9 years, the remaining life of the replacement debt, using the straight-line method.

With Board and RUS 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 was being 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 RUS 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 paid in quarterly payments through 2021.

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. In response, SPP filed a report in June 2019 requesting a stay of the remand order's refund directive and further consideration of the reversal of the settlement among other items. FERC has not responded to SPP's filing.

With Board and RUS approval, WFEC terminated the revenue deferral plan pertaining to the net credit due for Attachment Z2 of the SPP OATT, as of February 28, 2019. The deferred revenue balance as of the termination date was approximately $21,197,000. The termination of the revenue deferral plan eliminated the regulatory liability remaining for the Z2 credit. The estimated refund amount in excess of the regulatory liability was approximately $14,805,738 and $13,186,000 at December 31, 2021 and 2020, respectively. As a result of several 2021 court rulings in favor of upholding the FERC order on remand and refund directive, the balance in excess of the regulatory liability at December 31, 2021 was expensed. The excess balance as of December 31, 2020 was reflected as a deferred debit. The total estimated refund balance, including associated FERC interest, of approximately $36,128,000 and $33,409,000 at December 31, 2021 and 2020, respectively, is included in accounts payable and accrued liabilities in the accompanying consolidated financial statements.

With Board and RUS approval, WFEC implemented a 2019 revenue deferral plan to mitigate potential rate impacts pertaining to future capacity expansion projects, potential environmental regulation impacts and other industry activities. WFEC deferred $5,600,000 to be recognized no later than 2029. The WFEC Board authorized use of $4,000,000 of the deferral during 2021 to mitigate the rate impact of reduced load in 2020 associated with COVID-19 resulting in $1,600,000 remaining in the 2019 revenue deferral plan as of December 31, 2021. Cash equal to the balance of the deferred revenue is segregated and restricted until a like amount is subsequently accreted into revenue.

With Board and RUS approval, WFEC implemented a 2021 expense deferral plan to mitigate the rate impact of a dramatic spike in fuel costs, purchased power costs and SPP IM energy prices from February 8 to February 20, 2021, an extreme persistent cold weather event (Weather Event) often referred to as Winter Storm Uri. The extraordinary cost was assigned to members and customers based on their respective February 2021 kilowatt hour consumption, which is consistent with WFEC's billing rate. To accommodate members' varied financial positions, the WFEC Board provided three options to members as it pertained to cost recovery. Members could elect to either: 1) pay their allocated cost of the Weather Event in a lump sum payment in December 2021; 2) pay their allocated cost over a five-year recovery period (2022-2026); or 3) pay a portion of their allocated cost in December 2021 and the remaining balance over the five-year recovery period. As of December 31, 2021, WFEC incurred $148,854,000 in net fuel, purchased power and SPP extraordinary unplanned costs due to the Weather Event. WFEC recovered $60,165,000 via its billing rate and lump sum payment elections from members and customers, leaving $88,689,000 to be recovered ratably over the five-year recovery period (2022-2026).

(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, patronage capital of $6,194,000 was allocated for the year ended December 31, 2020. The allocation for 2021 is estimated to be $0. 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 2021 and 2020 of $1,622,000 and $6,574,000, respectively.

(7) Debt

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

		2021	2020
		(In thousands)	
First mortgage notes:			
Notes payable to Federal Financing Bank (FFB), interest from 1.13% to 6.26%, a weighted average of 2.55%, due in quarterly installments through 2049	$	577,739	594,677
Notes payable to the RUS, interest from 4.75% to 5.00%, a weighted average of 4.76%, due in monthly and quarterly installments through 2025		2,849	3,514
Note payable to CoBank, interest at 6.22%, due in monthly installments through November 2025		1,180	1,425
Notes payable to CoBank, interest from 5.33% to 6.37%, a weighted average of 6.36%, due in quarterly installments through April 2038		94,797	97,960
Notes payable to CFC with varying amounts, interest from 4.35% to 4.55%, a weighted average of 4.47% due in quarterly installments through June 2024		2,741	3,746
Notes payable to CoBank, interest from 4.42% to 4.76%, a weighted average of 4.52%, due in quarterly installments through October 2042		50,000	51,388
Notes payable to CoBank, interest at 8.35%, due in annual installments through January 2027, with a balloon payment due in 2027		29,088	29,608
Notes payable to CoBank, interest at 3.5%, due in quarterly installments through December 2029		76,446	84,382
Notes payable to CoBank, interest from 2.69% to 2.79%, a weighted average of 2.77%, due in quarterly installments through December 2038		88,185	94,050
Note payable to Wells Fargo Bank, interest at 1.34%, due in monthly installments through January 2027		129,600	—

	2021	2020
	(In thousands)	
Other notes:		
Notes payable to CFC, interest from 4.40% to 5.55%, a weighted average of 4.86%, due in quarterly installments through 2023	$ 3,530	5,171
Note payable to CoBank, interest at 3.70%, due in quarterly installments through July 2023	3,612	5,588
	1,059,767	971,509
Less current portion of long-term debt	79,934	47,418
Total long-term debt	$ 979,833	924,091

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

2022	$ 79,934
2023	77,811
2024	75,943
2025	71,231
2026	69,375
Thereafter	685,473
	$ 1,059,767

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 RUS 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, 2021.

In early September 2020, WFEC utilized its RUS Cushion of Credit account balance to prepay approximately $95,400,000 of selected higher interest rate advances of Federal Financing Bank (FFB) debt (see note 1 (f)). Later in September WFEC took advantage of the low interest rate environment and entered into a $95,500,000 Note Purchase Agreement with CoBank, ACB to maintain a similarly termed debt facility at a reduced rate.

In December 2021, WFEC advanced $129,600,000 under a Note Purchase Agreement with Wells Fargo Bank, National Association, to finance 2021 Winter Storm Uri expenses over the regulatory asset's five-year recovery period (2022-2026) (see note 5).

WFEC has a $100,000,000 five-year committed revolving line of credit agreement with CFC for general corporate purposes through October 2026. In March 2021, to support unplanned extraordinary costs related to Winter Storm Uri, WFEC arranged an additional one-year secured revolving line of credit agreement with CFC for $200,000,000 (see note 5). No advances were outstanding on the CFC lines of credit at December 31, 2021 and 2020. Letters of credit totaling $24,394,000 and $30,594,000 had been issued under this arrangement at December 31, 2021 and 2020, 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. No advances were outstanding on this credit agreement at December 31, 2021 and 2020.

Approximately $200,000,000 of borrowing capacity was available on the syndicated line of credit at December 31, 2021 and 2020. Approximately $275,606,000 and $69,406,000 of borrowing capacity was available on the CFC lines of credit at December 31, 2021 and 2020, respectively.

WFEC had $161,904,000 of unadvanced funds available at December 31, 2021 from an FFB note executed in 2019. Approximately $84,645,000 is available for transmission and distribution additions and replacements and $77,259,000 for generation system improvement projects.

During 2021, RUS approved a loan guarantee commitment in the amount of $234,410,000 for the purpose of financing certain WFEC projects for the 2020-2023 construction work plan period. The amount consists of $188,728,000 for transmission and distribution additions and replacements, $44,782,000 for generation system improvement projects and $900,000 for WFEC office building projects.

(8) Production Expenses

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

		2021	2020
		(In thousands)	
Fuel	$	140,004	24,773
Other production expenses		29,067	27,790
Total production expenses	$	169,071	52,563

Under WFEC's contracts with its members, costs of fuel are recovered through rates charged to members (see note 1(k)).

(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, 2021 and 2020, WFEC's deferred tax asset before valuation allowance was approximately $3,711,000 and $3,678,000, 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 $22,058,000 which expire in 2021 and thereafter.

No income tax expense was provided in 2021 and 2020, due to the availability of net operating loss carryforwards to offset nonmember income for tax purposes.

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

		2021	2020
		(In thousands)	
Tax-effected deductible temporary differences	$	3,711	3,678
Deferred tax asset		3,711	3,678
Less valuation allowance		(3,711)	(3,678)
Net deferred tax asset	$	—	—

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act includes certain corporate income tax provisions which have been evaluated by WFEC. The CARES Act did not have a material impact on WFEC's consolidated financial statements.

(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 2021 and 2020 represented less than 5% of the total contributions made to the RS Plan by all participating employers. WFEC made contributions to the RS Plan of $7,592,000 in 2021 and $7,533,000 in 2020.

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, 2021 and January 1, 2020, 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.

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 $1,791,000 and $3,583,000 as of December 31, 2021 and 2020, 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 $2,230,000 and $2,145,000 to the plan in 2021 and 2020, 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, 2021 and 2020 (in thousands):

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2021
Liabilities:					
Commodity derivatives	$	—	(922)	—	(922)
Total liabilities	$	—	(922)	—	(922)

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2020
Assets					
Short term investments	$	95,285	—	—	95,285
Total assets	$	95,285	—	—	95,285
Liabilities:					
Commodity derivatives	$	—	(49)	—	(49)
Total liabilities	$	—	(49)	—	(49)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Short term investments: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.
- Commodity derivatives: The derivative instruments reflected in Level 2 of the valuation hierarchy include fixed-to-floating commodity options conducted within the Intercontinental Exchange (ICE) platform which are valued based on published indexes for the respective contracts.

(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 a liability and a related receivable from members (through future increased fuel charges) of $922,000 and $49,000 as of December 31, 2021 and 2020, respectively. The fair value of the liability is reflected in accounts payable and accrued liabilities in the accompanying consolidated financial statements. WFEC has entered into derivative type commodity contracts for future transactions with terms expiring through December 2022.

(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.

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 approximately 300 MW in 2022, 330 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, or until the Agreement is terminated, 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. These Cooperatives representing approximately 304 MW of the New Mexico load, are billed the Member Rate consistent with the WPC.

(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 2022 rates, the minimum requirement approximates $19,092,000. During 2021 and 2020, WFEC purchased $23,831,000 and $24,893,000, 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 2022 is estimated at $33,639,000. During 2021 and 2020, WFEC purchased $8,948,000 and $29,416,000, 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 $17,732,000 for 2022. During 2021 and 2020, WFEC purchased $97,570,000 and $81,563,000, respectively.

WFEC has negotiated multiyear contracts to acquire coal through 2022 and coal transportation through 2026 for the Hugo Generating Station. The current projection for the minimum contract commitment for coal and coal transportation is approximately $16,038,000 in 2022. WFEC’s costs for both coal and transportation purchases were approximately $15,598,000 and $7,000,000 for the years ended December 31, 2021 and 2020, 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 $27,023,000 in 2022. During 2021 and 2020, WFEC purchased $52,815,000 and $39,484,000, respectively.

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 $12,403,000 in 2022. WFEC's costs for both transportation and storage purchases were approximately $11,726,000 and $8,219,000 for 2021 and 2020, respectively.

WFEC has long-term power agreements for the purchase of 989 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 $99,803,000 and $87,561,000 in 2021 and 2020, 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 WFEC is in substantial compliance with all existing environmental laws, rules, and regulations.

WFEC generates waste subject to the Federal Resource and Conservation and Recovery Act of 1976 (RCRA) and similar state of Oklahoma requirements. In 2015, the U.S. Environmental Protection Agency (EPA) finalized a rule under RCRA for handling and disposing of coal combustion residual (CCR) or coal ash. The rule regulates coal ash as a non-hazardous waste. In 2018 WFEC installed a dry ash removal system to support closure requirements with the CCR permit program. In June 2018, the EPA approved the State of Oklahoma's application for authority to permit coal ash. Therefore, the Oklahoma Department of Environmental Quality (DEQ) manages the disposal of coal ash in Oklahoma. Specifically, for WFEC, the DEQ governs the Hugo Plant landfill and CCR impoundments. WFEC is working with the DEQ to coordinate and complete closure of the two CCR impoundments at the Hugo Plant. One CCR impoundment was closed in 2021 and the second must be closed by 2023.

Additionally, the EPA issued Effluent Limitation Guidelines (ELG) that became effective January 2016. Compliance with CCR will also support the Hugo Plant compliance with ELG.

WFEC evaluated current operations with the CCR and ELG rules and determined, that for 2021, downward revision was needed to asset retirement obligation (ARO) 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).

WFEC's generating plant operations are subject to various Federal Clean Air Act (CAA) and similar Oklahoma DEQ air quality requirements. These requirements regulate emissions of specified air pollutant from various industrial sources including electric generating units and require certain permitting, monitoring and reporting. On certain projects, pre-approval is needed for construction or modifications when these projects can have the potential to increase emissions above stated thresholds.

The Affordable Clean Energy (ACE) rule was vacated by the D.C. Circuit Court of Appeals and remanded to the Agency (EPA) on January 19, 2021. Additionally, the implementation regulations that extended the compliance timeline were vacated. The ACE rule was an action to address CO2 emissions from existing coal-fired power plants. The ACE rule repealed the previously issued Clean Power Plan (CPP). No timeline has been provided for the EPA's proposed replacement of the ACE rule and previously issued CPP.

In August 2011, EPA finalized the Cross State Air Pollution Rule (CSAPR) which requires 27 states in the eastern half of the U.S., including Oklahoma, to reduce emissions that contribute to ozone and particulate emissions. As a result, dry low NOx burners were added to Anadarko combined cycle units. In 2016 EPA promulgated a CSAPR update which applies to 22 eastern states including Oklahoma. Oklahoma unites need to make no further changes at this time.

Regional Haze is an EPA effort designed to improve visibility in National Parks and Class I areas over a 64-year period. Regional Haze Phase II will become affective in 2028. Modeling and studies are underway to determine if any additional controls are needed on specific generating units.

(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 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 other liabilities in the accompanying balance sheets, for the years ended December 31 is as follows:

		2021	2020
		(In thousands)	
Beginning balance	$	9,056	12,698
Additional liabilities incurred		—	—
Settlement of liability		(345)	(4,318)
Revisions to estimates		(2,923)	—
Accretion expense		712	676
Ending balance	$	6,500	9,056

WFEC had a downward revision related to the Hugo Bottom Ash Pond Closure in 2021 due to a cash flow revision related to the ARO. Upon completing closure of the north cell and receiving updated bids for the closure cost of the south cell, WFEC booked a downward revision of $2,923,000 to the associated ARC asset, the related long-lived asset and ARO liability to accurately reflect WFEC obligations and expected cash flows associated with the closure of the Hugo Bottom Ash Pond.

(15) Comprehensive Income

The accumulated balance of other comprehensive income is as follows:

		Pension and postretirement benefit plans
		(In thousands)
Balance, December 31, 2019	$	538
Net current period change		(48)
Balance, December 31, 2020		490
Net current period change		(15)
Balance, December 31, 2021	$	475

(16) Coronavirus

COVID-19 was declared a global pandemic by the World Health Organization in March, 2020. This pandemic has negatively affected the US and global economies, disrupted global supply chains and financial markets, and led to significant travel and transportation restrictions. While COVID-19 did not have a material adverse effect on WFEC’s results of operations in 2020 or 2021, it is continuing to monitor developments involving its workforce, members and suppliers as cases continue to occur across the country, and cannot predict whether COVID-19 will have a material impact on WFEC’s results of operations, financial condition or cash flows.

(17) Subsequent Events

WFEC has evaluated subsequent events from the balance sheet date through March 11, 2022, the date at which the consolidated financial statements were available to be issued, and such events are disclosed in these accompanying notes to the consolidated financial statements.