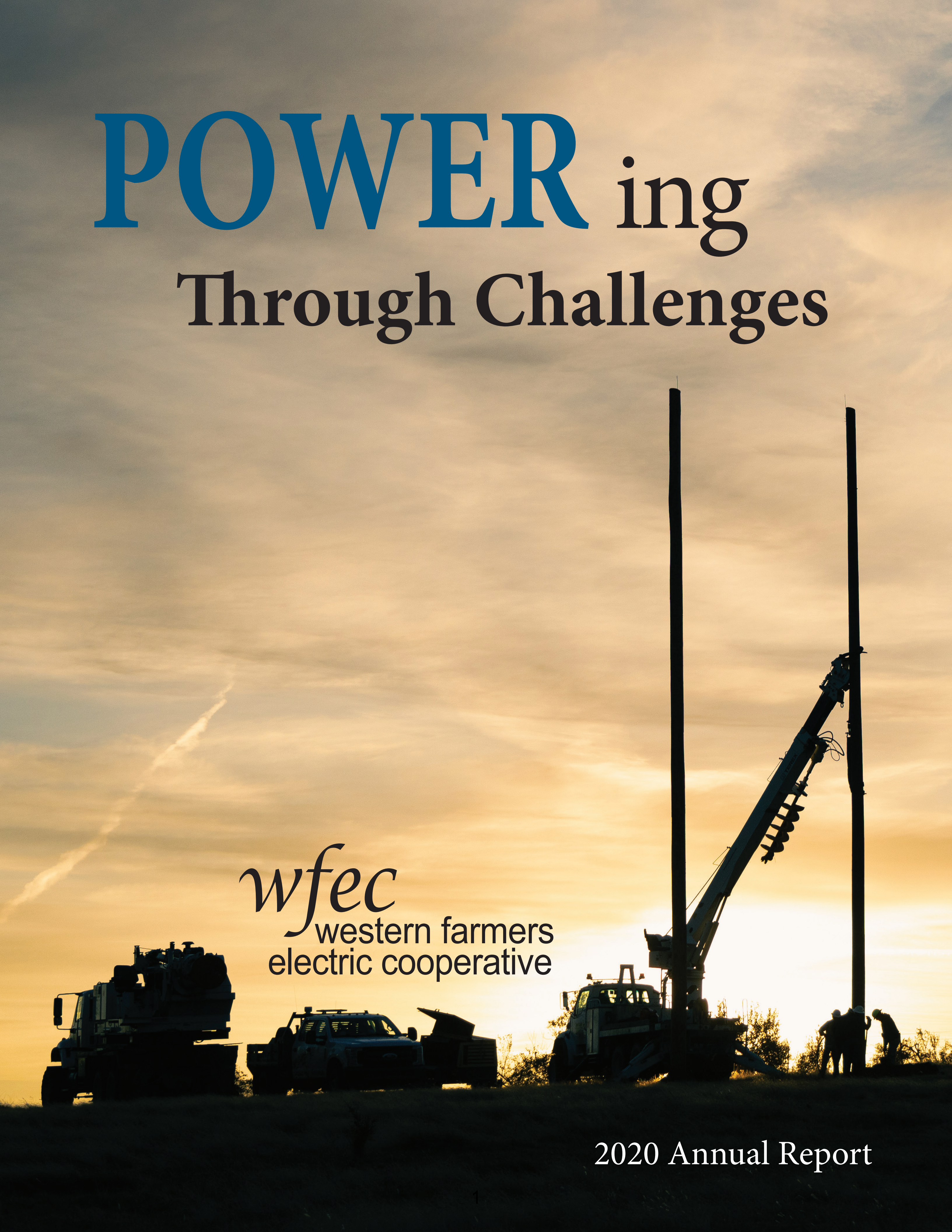
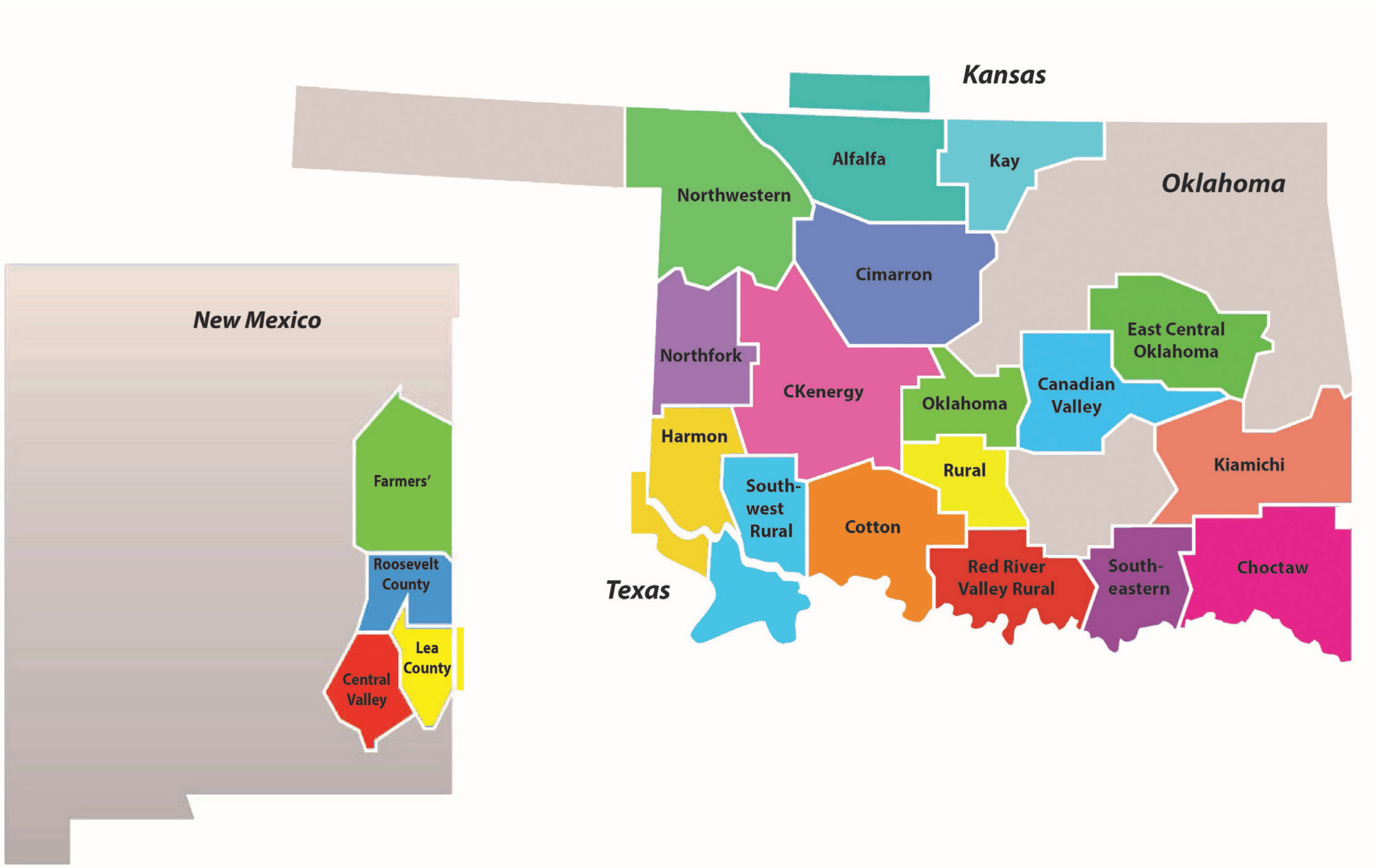
POWERing Through Challenges



wfec
western farmers electric cooperative

2020 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.

Cover photo by:
Ryan West - Oklahoma Living

Overview & Fuel Diversity

Energy Sales (Member & Contract Sales)	$580 million
Total Operating Revenue	$665 million
Net Margins	$15 million
Assets	$1,526 million
Members	22
Member Consumer Meters Served	327,000 (est.)
Member Population Served	550,000 (est.)
System Peak Demand	1,940 MW
Miles of Transmission Line	3,834 miles
Substations & Switch Stations	over 330
Number of Employees	407

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	266 MW
Total Purchase Power	1,016 MW
SPP Accredited Solar/Wind: (summer)	133 MW
Total Combined Capacity	**2,484 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**

2023 - planned solar - New Mexico	100 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 80th 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 over 230 years of combined 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 close to 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.
New Office Building Complete & Occupied April 2019

Line Type (as built)	Miles
345 kV	152
161 kV	7
138 kV	2,306
69 kV	1,369
Total	**3,834**

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

While most years offer their own unique business-related challenges, ranging in magnitude, 2020 was extraordinary with three significant, noteworthy events that helped shape the overall challenging year for Western Farmers Electric Cooperative (WFEC).

Early in the year, the nationwide oil and gas business began a rapid downward trend in over supply that saw prices go below $0 in the cost per barrel. This industry movement had a large impact in Oklahoma and New Mexico. As prices recovered, they returned to a level about half of the value as earlier in the year. These low prices continued through the remainder of the year. Kilowatt-hour (kWh) sales for the year saw overall reductions from diminished activity in this segment of cooperative business.

The COVID-19 Pandemic started slowly at the end of the first quarter of 2020, but continued its impact throughout the second, third and fourth quarters. During this period, the effects on cooperative sales and the economy in general was significant. Even though a portion of the economy returned, recovery never reached pre-pandemic levels.

The final devastating event for 2020 involved an early-season ice storm in late October. The ice was significant and damage was substantial, especially across the central part of Oklahoma. In some areas, damage was worsened as leaves still remained on trees, adding to the already heavy limbs.

Restoration of service, for the most part, occurred rather quickly. However, areas with the greatest amount of damage were without service for several days. WFEC and contract crews had several large portions of line that required a complete rebuild.

One substation was served by portable generation for several weeks until wire service was restored.

CEO Gary Roulet

Since the oil and gas crash and the COVID-19 Pandemic occurred in the same general period, WFEC proactively took steps early on to slow construction, increase liquidity and closely manage expenses. These steps served consumers well, as WFEC was able to end the year with net margin near budgeted levels, and with solid financials and adequate ratios. At the same time, WFEC was able to reduce wholesale power costs during the last four months of the year.

In an effort to adequately handle the COVID-19 impacts, a company-wide Pandemic Preparedness Team was formed to develop flexible operating procedures that allowed departments within WFEC to develop plans that worked best for their individual missions. For example, power plants changed to different operating shifts to better separate employees, while allowing the continued operation of each plant. The Transmission and Distribution areas developed

Photo taken by Kenny Flood, journeyman station technician, during the October ice storm.

plans to dispatch employees from home locations, with return trips to WFEC's headquarters at staggered intervals to avoid large groups.

Many employees also had the capability to successfully work remotely during much of the year. WFEC's operation center utilized regular and back-up facilities to maintain separation of employees. Even though the pandemic was difficult, WFEC was able to operate efficiently during the year.

For much of the year, WFEC's Board and Committee Meetings were hosted with available options. Some trustees attended in person, while others joined remotely. Several special meetings were necessary to discuss issues and gain timely approvals. For a short period, the Board Executive Committee was empowered to act for the board under certain circumstances. Flexibility and a great deal of communication allowed business to go on as usual.

While the year was not typical and had many challenges, the decisions made early in the year to tighten WFEC's belt, allowed for the year to end positively. The Cooperative Business Model once again proved to be sound.

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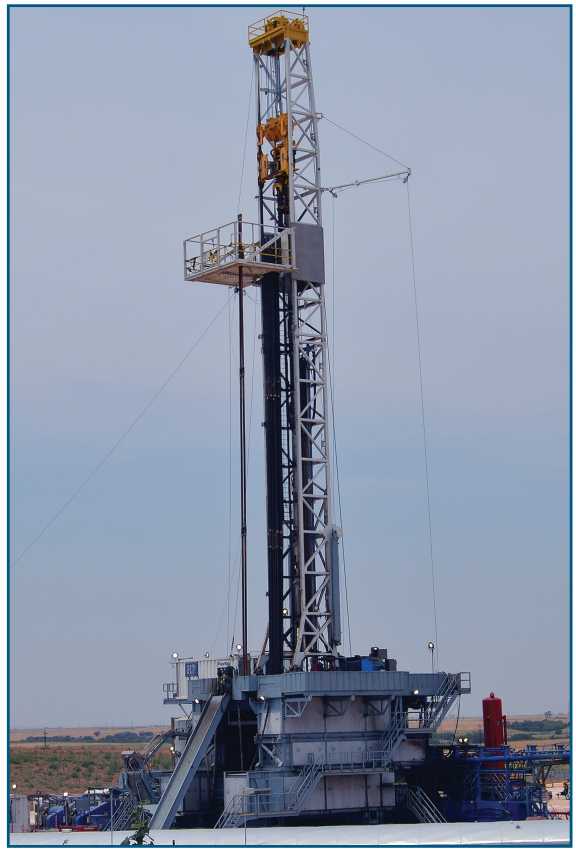


Early in 2020, the nationwide oil and gas business began a rapid downward trend. This industry movement had a large impact in Oklahoma and New Mexico.

WFEC's Fuel Diversity - 2020

Renewables* - 30%

Wind - 21%
Solar - 1%
Hydro - 8 %

Generation - 7%

Coal - 2%
Natural Gas - 5%

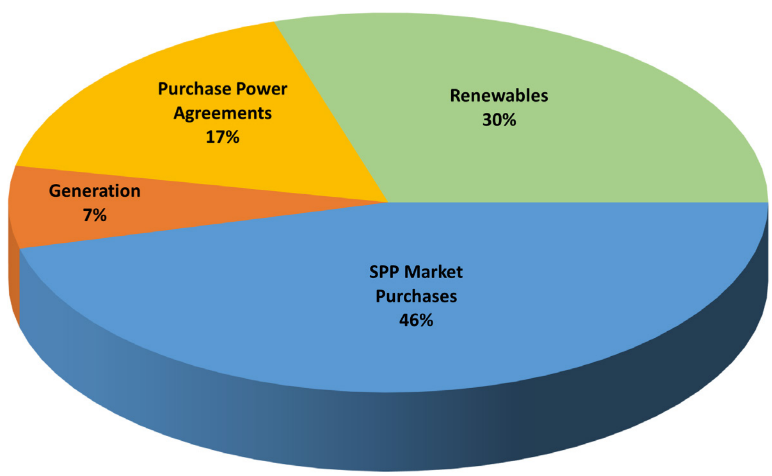
Power Purchase Agreements - 17%

Oneta Power Plant
Grand River Dam Authority
Southwestern Public Service

Southwest Power Pool Market Purchases - 46%**

**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 2020. All kWhs are then purchased from the market at SPP's blend of power.

Major Challenges Faced in 2020

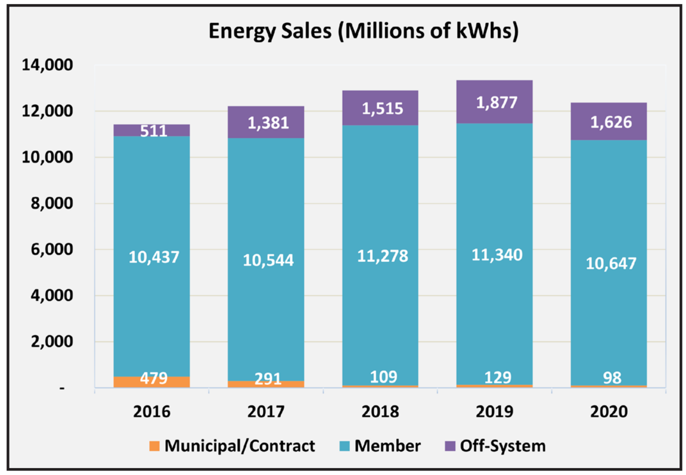
The year 2020 was far from ordinary. The world was forced to not only deal with a "new normal" that included lockdowns, social distancing, mask rules and economic issues, but also downward trends in some industries, plus dealing with a deadly pandemic. But life went on, despite the upended conditions, leaving a heightened sense of uncertainty. However, WFEC overcame challenges to end the year on a positive note.

Financials

Lowering the cost of debt has been achievable the last several years as interest rates have remained at historic lows for construction activities and other opportunities. As a Rural Utilities Service (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 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). One of the amendments allowed borrowers to prepay associated RUS debt through September 30, 2020 without penalty. In September, WFEC took advantage of the amendment by utilizing its Cushion of Credit account balance of approximately $95.4 million to prepay Federal Financing Bank (FFB) debt with an average weighted interest rate of 4.8%.

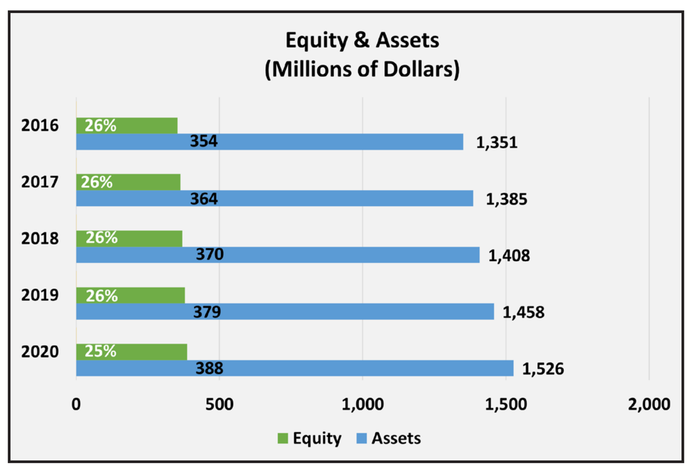
Later that same month, WFEC benefited from the low interest rate environment and entered into a $95.5 million credit agreement with another lender to maintain a similarly termed debt facility with interest savings over the term of the debt of approximately $23.1 million.



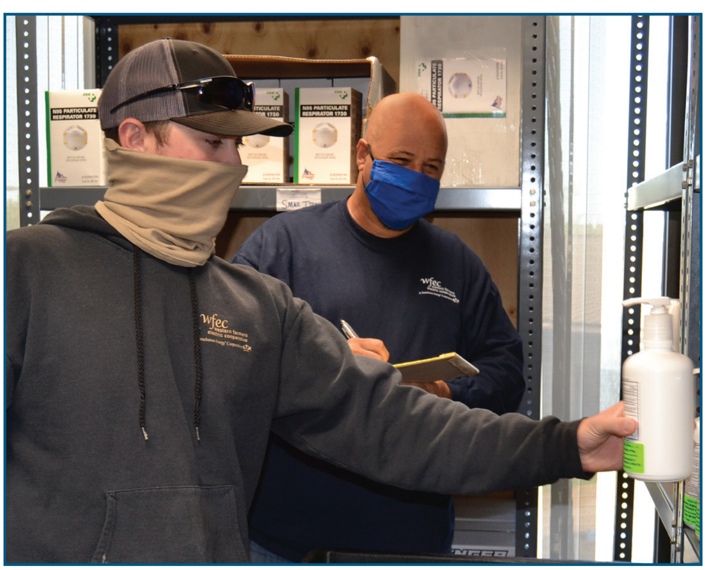
Energy sales in 2020 were impacted by a combination of COVID-19, commodity prices and mild weather.

Combined Impact of Coronavirus, Commodity Prices and Weather

Beginning very early in the year with weakness in oil pricing and thereafter with the onslaught of the pandemic and mild weather hampering kWh sales, WFEC prioritized and slowed construction. It managed capacity available in its lines of credit, increased liquidity by drawing down low-cost RUS loan funds on completed projects, and successfully reduced expenses in step with decreasing revenues. As a result,



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.



Jayden Redden and Jason Pennel, both facilities maintenance mechanics, check the cleaning and sanitizing supplies at WFEC to ensure there is an adequate stock. Early in the pandemic, WFEC began stocking up with supplies to help keep employees protected.

WFEC was able to maintain margins above budgeted levels and achieve all financial goals even though member kilowatt-hour (kWh) sales dropped 6% from 2019 levels.

With reduced construction activity and a slower general economy due to COVID-19, WFEC reduced its capital spend to approximately $60 million compared to a $99 million budget.

During the year, upwards of 80 administrative staff performed their work remotely or participated in staff office rotations to limit COVID-19 exposure. Generation plant personnel effectively used rotating shifts and transmission staff traveled individually when possible and worked in small teams to reduce physical interaction.

Transmission & Distribution Operators performed most of their daily duties and shifts from the Stockton Canyon remote operations center. This was done in order to isolate them from any COVID-19 exposure risk at their primary location in Anadarko.

As vaccines have become available and reported cases are trending downward, management is beginning a gradual transitioning of administrative staff back into the office in the first quarter of 2021.

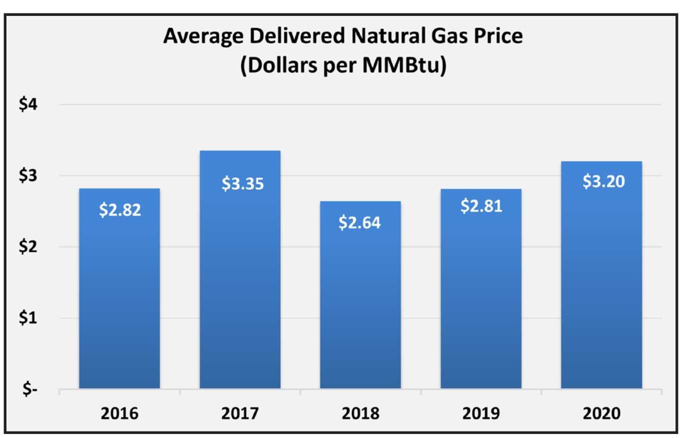
In retrospect, while 2020 was punctuated with heightened human safety concerns and reduced economic activity, WFEC's financial results reflected another year with consistent performance as management and staff took measures to control costs to offset the reduced sales due to the pandemic, lower commodity prices and mild weather.

Ratings

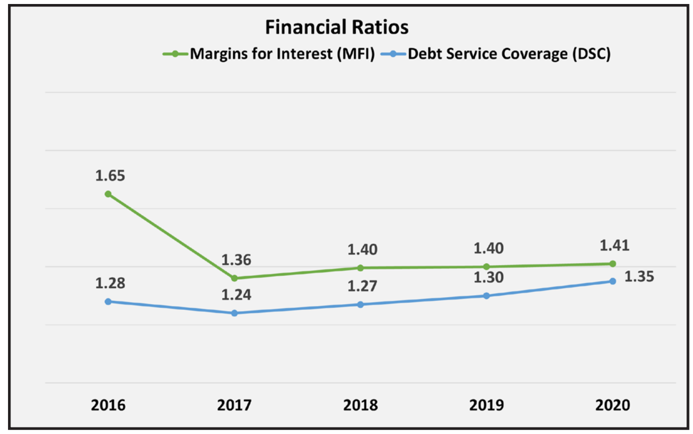
With key financial goals achieved and solid performance, we were pleased that in 2020 Standard and Poor's confirmed WFEC's A- rating with a stable outlook and Fitch Ratings documented an A- rating and revised the outlook from stable to positive.

Wholesale Rates

Rates continued the consistency theme although total kWh sales showed a 7% decline from the prior year. With quick preservation actions, margins remained near budgeted levels to meet required financial ratios and WFEC's average wholesale power cost to members increased only slightly from 5.3 cents per kWh in 2019 to 5.5 cents in 2020, with fuel cost holding stable at 2.9 cents per kWh. Contributing factors included abundant, low-cost, renewable resources, low natural gas prices, the SPP Regional Transmission Organization and the continued evolution of the SPP IM.



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



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

Devastating Ice Storm

WFEC personnel navigated one of the worst ice storms in Oklahoma history in the midst of a global pandemic. Heavy freezing rain left well over an inch of ice to coat the power lines in portions of WFEC's service territory during late October.

Newly constructed transmission lines are shown as conductor is restrung between the structures. Contract crews were hired to assist WFEC crews with restoration efforts following the October ice storm.

Transmission power lines were sagging due to excessive ice, and galloping from the winds, causing massive and costly destruction. A state of emergency was declared for 47 counties, as the National Weather Service issued their first-ever ice storm warnings in October.

Overall, across seven counties of WFEC's service territory, there were some 194 structures, including both single poles, as well as H-structures, damaged or downed in the ice storm. Grady County had the most downed transmission structures for WFEC, with some 144 being reported. This total includes a 19-mile stretch of downed 138-kilovolt (kV) transmission line, along the Anadarko SW to Sunshine Canyon SW line. This stretch alone consisted of 139 structures to be replaced.

Pandemic Brings Changes

As 2020 drew to a close, who would have ever thought that just 12 months earlier, the country would be facing a pandemic that would have such an impact on so many, bringing about numerous operational challenges in work schedules and locations. Many WFEC employees and their families were affected in one way or another by COVID-19.

Starting in March 2020, WFEC became proactive in handling various facets of the overall pandemic. A Pandemic Team was activated at the onset, with a company-wide Pandemic Plan adopted rather quickly.

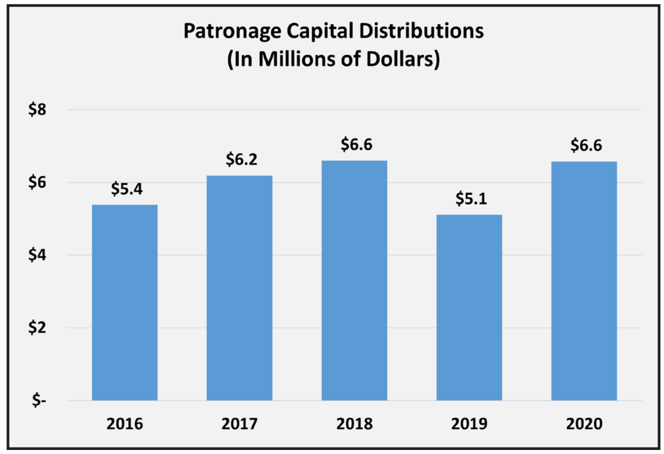
This team, consisting of employees from different areas of the company, conducted weekly virtual meetings to review activities of the week, plus address any issues that may have been facing WFEC and its employees. The Pandemic Team is continuing meetings into 2021.

While there were some initial challenges, as occur with any changes, the majority were overcome, without a negative impact on productivity. Some of the efficiencies initially made, particularly those in regards to the accounting functions of the company, as well as the growth of virtual meetings, may be continuing well into the future.

Renewable Energy Growth

WFEC, together with a subsidiary of NextEra Energy Resources, LLC, announced the completion of the first phase of the largest project in the country to combine wind* energy, solar* energy and battery storage in the same location. Skeleton Creek Wind began generating 249 megawatts (MW) of wind energy for customers on Dec. 16, 2020.

Renewable energy or zero-carbon energy sources have helped WFEC gain a well-balanced and diversified portfolio of generation resources. This blend reflects a mix of technologies and fuel types, including owned facilities and capacity, in addition to energy provided through contracts and power purchase agreements (PPAs).



WFEC's Board of Trustees has consistently authorized patronage capital distributions to members.

At the end of 2020, hydro, wind* and solar* generation resources totaled 1,277 megawatts (MW). Of this total, 956 MW is wind energy. Also, solar energy totaled 53 MW, when the Norman Solar Park went commercial, while hydroelectric power provided some 268 MW.

Planned Power Plant Outages

WFEC's Anadarko and Hugo Power Plants underwent planned maintenance outages during the year to inspect units, and make repairs if necessary, to ensure that the plants remain readily available for reliable service.

In the fall, Anadarko Unit 6 entered a planned outage to do significant work to the Heat Recovery Steam Generator (HRSG). During this time, the inlet filter house was replaced and the steam turbine stop valve was overhauled.

The Hugo Plant went through a planned maintenance outage that started in late August. Among the largest projects were inspection of the turbine, along with replacement of boiler reheater tube bundles.

The large red crane is shown disassembling the Unit 6 Heat Recovery Steam Generator (HRSG), during a replacement project at the Anadarko Plant. The black crane (forgeound) is disassembling Unit 6's Air Filter House for its replacement.

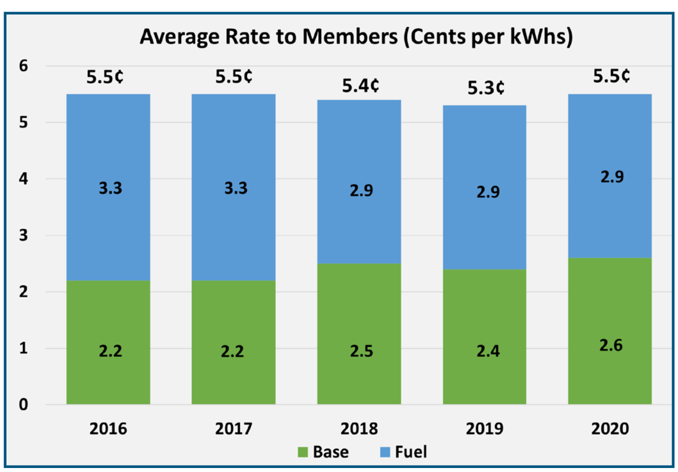
Marketing

Marketing and Communication staff spent a great deal of time in crisis management mode. Frequent virtual meetings became the new normal as WFEC's Marketing managers worked cohesively with cooperative members to weather everything from the pandemic to the collapse of the oil and gas markets.

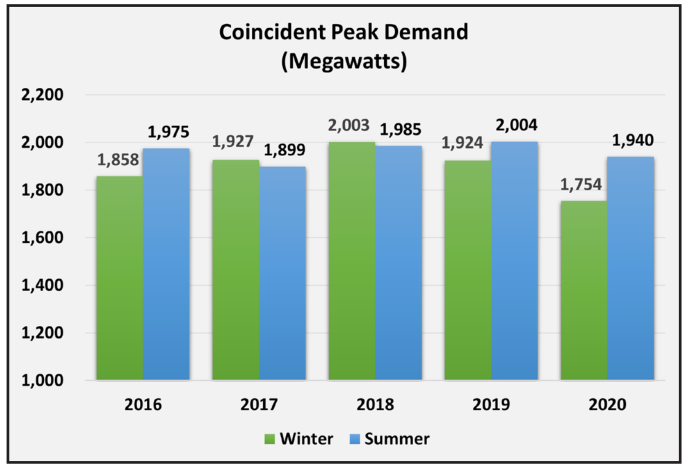
One large impact involved working with members to address evolving issues with distributed generation resources installed behind the meter. In light of changes in the net metering rules, in both Oklahoma and New Mexico, WFEC worked diligently to update applicable policies.

The momentum also continued for WFEC's educational efforts on Electric Vehicles (EV). Working collaboratively with the Oklahoma Electric Vehicle Coalition, WFEC was able to host Lordstown Motors to showcase their new electric pickup (named Endurance), specifically designed for fleet operations.

WFEC and a subsidiary of NextEra Energy Resources, LLC, announced the completion of the first phase of the largest project in the country to combine wind energy, solar energy and battery storage in the same location.



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 Southwest Power Pool (SPP) Regional Transmission Organization and its Integrated Marketplace.



WFEC's winter coincident peak demand in 2020 reflected slowing oil and gas production, the impact of COVID-19, mild weather and improvements in efficiency for consumers.

Another EV highlight in 2020 was the addition of five new EV charging stations in Oklahoma, through strategic partner, Francis Energy. They also added over 100 additional chargers at existing charging station sites, bringing the total to 363 chargers at 114 charging station locations. Combined with other service providers, the Oklahoma Electric Vehicle Charging Network consists of 137 charging station locations, strategically located some 50 miles apart, all across Oklahoma.

February 2021 Extreme Weather Event

During mid-February 2021, WFEC encountered a dramatic spike in fuel costs, purchased power costs and Southwest Power Pool (SPP) Integrated Market energy prices during an extreme and persistent North American winter storm event, unofficially referred to as Winter Storm Uri, that had widespread impacts across the United States, Northern Mexico, and parts of Canada. Oklahoma's Governor declared a statewide emergency due to the extreme freezing temperatures and severe weather that threatened the public's health and safety.

The SPP 14-state footprint operated in an alert status February 15 through 18 and initiated controlled service interruptions, which included rolling blackouts during certain hours of February 15 and 16. While the financial impact of the event cannot be completely determined until final settlement with SPP, WFEC's employees and the generation fleet performed admirably during the event and its strong financial position and ability to access additional liquidity in anticipation of needs driven by the event have been key.

Conclusion

The year 2020 offered many uncertain trials for WFEC, its member cooperatives, the overall electric utility industry and basically the rest of the world. However, WFEC continued its ongoing efforts of "Powering through Challenges."

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WFEC Board of Trustees

Charles Hickey
Northfork Electric Cooperative

President
Trustee since: July 2005

Mike Lebeda
Kay Electric Cooperative

Vice President
Trustee since: April 2001

King Martin
Red River Valley Rural Electric Association

Secretary-Treasurer
Trustee since: Sept. 2011

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

Asst. Secretary-Treasurer
Trustee since: April 2013

Greg Goetz
Alfalfa Electric Cooperative

Trustee since: Oct. 2016

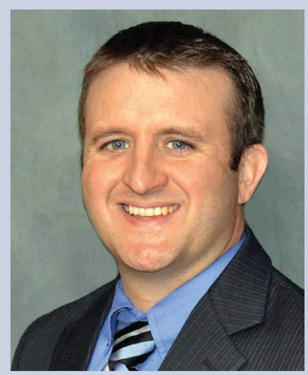
Gary Crain
Canadian Valley Electric Cooperative

Trustee since: April 2005

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

Trustee since: Oct. 2010

Kooney Duncan
Choctaw Electric Cooperative



Trustee: May - Oct. 2020

Gene Peters
Cimarron Electric Cooperative

Trustee since: Aug. 2012

Clint Pack
CKenergy Electric Cooperative

Trustee since: Jan. 2016

Max Shoemake
East Central Oklahoma Electric Cooperative

Trustee since: April 2015

Jean Pence
Harmon Electric Association

Trustee since: April 2015

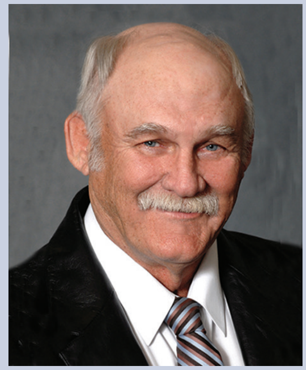
David Ray
Kiamichi Electric Cooperative

Trustee since: April 2007

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

Trustee since: April 2016

Ray O. Smith
Northwestern Electric Cooperative



Trustee since: April 1991

Rusty Grissom
Oklahoma Electric Cooperative

Trustee since: April 2005

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

Trustee since: Oct. 2017

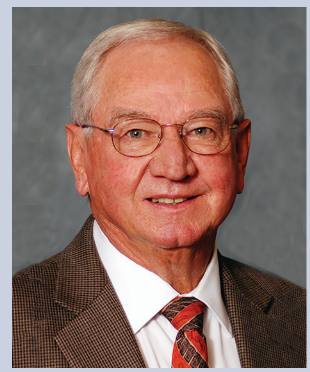
Gary Jones
Rural Electric Cooperative

Trustee since: Dec. 2002

Jeff Willingham
Southeastern Electric Cooperative

Trustee since: April 2015

Don Ellis
Southwest Rural Electric Association



Trustee since: March 2014

In Memoriam

Charles Spencer
Cotton Electric Cooperative

Trustee since: Jan. 2011

Charles Spencer served as a member of WFEC's Board of Trustees for 10 years, beginning in January 2011 until January 2021. He passed away on Jan. 9, 2021. Spencer represented Cotton Electric Cooperative 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)

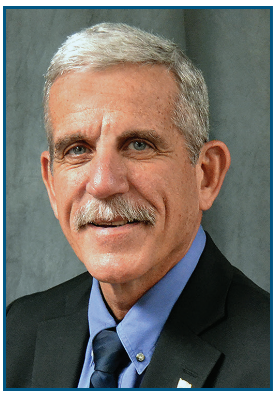
Began career with
WFEC in 1974.

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 (2020)
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 (2020)
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)

Planned Solar - New Mexico - 100 MW
Commercial operation in 2023

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

Independent Auditors' Report

The Board of Trustees
Western Farmers Electric Cooperative:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Western Farmers Electric Cooperative and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Western Farmers Electric Cooperative and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Oklahoma City, Oklahoma
March 9, 2021

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Balance Sheets

December 31, 2020 and 2019

(In thousands)

Assets		**2020**	**2019**
Electric utility plant, at cost:			
In-service	$	1,888,624	1,841,437
Construction work-in-progress		55,085	64,548
Total electric utility plant		1,943,709	1,905,985
Less accumulated depreciation and amortization		817,494	779,065
Net electric utility plant		1,126,215	1,126,920
Investments in associated organizations and other investments, at cost		20,350	19,581
Current assets:			
Cash and cash equivalents		69,943	13,377
Restricted cash equivalents		—	46,402
Investments		95,285	—
Accounts receivable from energy sales		55,886	56,149
Other accounts receivable		8,528	5,218
Inventories, at average cost:			
Coal, natural gas, and oil		20,904	16,215
Material and supplies		74,634	67,131
Other		2,801	2,716
Total current assets		327,981	207,208
Noncurrent restricted cash and cash equivalents		—	47,692
Deferred debits		51,900	56,923
Total assets	$	1,526,446	1,458,324
Members' Equity and Liabilities			
Capitalization:			
Patronage capital	$	320,936	312,533
Contributed capital		54,051	54,051
Other capital		12,781	12,781
Long-term debt		924,091	864,955
Total capitalization		1,311,859	1,244,320
Current liabilities:			
Current portion of long-term debt		47,418	42,560
Accounts payable and accrued liabilities		126,383	123,846
Total current liabilities		173,801	166,406
Other liabilities		40,786	47,598
Commitments and contingencies (note 3, 13, and 14)			
Total members' equity and liabilities	$	1,526,446	1,458,324

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Operations

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Operating revenues:			
Power sales to members, cities, and other	$	580,136	597,402
Other power sales and operating revenues		84,912	94,356
Total operating revenues		665,048	691,758
Operating expenses:			
Operations:			
Production		52,563	70,306
Purchased and interchanged power		377,753	394,083
Transmission		85,430	86,488
Distribution		6,586	6,638
General and administrative		14,302	14,080
Maintenance		25,094	19,841
Depreciation and amortization		58,099	55,770
Total operating expenses		619,827	647,206
Operating margin before interest		45,221	44,552
Interest expense, less amounts capitalized during construction of approximately $1,393 and $1,763 in 2020 and 2019, respectively		(36,772)	(38,313)
Interest income		3,968	5,318
Operating margin		12,417	11,557
Other nonoperating, net		(413)	148
Patronage capital assigned by associated organizations		3,021	2,689
Net margin	$	15,025	14,394

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Comprehensive Income

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Net Margin	$	15,025	14,394
Other comprehensive income, net of tax:			
Pension and other postretirement benefit plans:			
Net actuarial loss		(23)	(215)
Less amortization of prior service cost included in net periodic pension cost		(25)	(36)
Pension and other postretirement benefit plans		(48)	(251)
Other comprehensive loss		(48)	(251)
Total comprehensive income	$	14,977	14,143

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Changes in Members' Equity

Years ended December 31, 2020 and 2019

(In thousands)

	Memberships	Patronage capital	Contributed capital	Other capital	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2018	$ 3	302,705	53,911	12,781	789	370,189
Net margin	—	14,394	—	—	—	14,394
Patronage capital retired	—	(5,107)	—	—	—	(5,107)
Contributed (refunded) capital, net	—	—	140	—	—	140
Net other comprehensive loss	—	—	—	—	(251)	(251)
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)
Contributed (refunded) capital, net	—	—	—	—	—	—
Net other comprehensive loss	—	—	—	—	(48)	(48)
Balance, December 31, 2020	$ 3	320,443	54,051	12,781	490	387,768

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Net margin	$	15,025	14,394
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation		54,388	52,092
Other depreciation and amortization included in operating expenses		6,325	6,178
Amortization of regulatory asset expense		3,035	3,035
Accretion of asset retirement obligation		676	643
Changes in assets and liabilities:			
Accounts receivable from energy sales		263	(2,484)
Other accounts receivable		(3,310)	4,150
Coal, natural gas, and oil inventory		(4,689)	(4,264)
Materials and supplies inventory		(7,503)	(8,238)
Other current assets		(85)	(396)
Deferred debits and other (includes SPP attachment Z2 credits)		(2,503)	350
Accounts payable and accrued liabilities (includes SPP attachment Z2 credits)		9,038	6,816
Other assets and liabilities (includes SPP attachment Z2 credits)		(5,352)	2,710
Net cash provided by operating activities		65,308	74,986
Cash flows from investing activities:			
Net extension and replacement of electric utility plant		(64,242)	(84,880)
Purchase of Investments		(152,740)	—
Proceeds from investments		57,455	
Net cash used in investing activities		(159,527)	(84,880)
Cash flows from financing activities:			
Advances of long-term debt		350,006	559,389
Payments on long-term debt		(286,011)	(540,126)
Contributed capital		(730)	(590)
Patronage capital retired		(6,574)	(5,107)
Net cash provided by financing activities		56,691	13,566
Net increase (decrease) in cash, cash equivalents, and restricted cash		(37,528)	3,672
Cash, cash equivalents, and restricted cash at beginning of year		107,471	103,799
Cash, cash equivalents, and restricted cash at end of year	$	69,943	107,471
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$	36,184	38,364

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 2,360 megawatts (MW), including hydropower allocation and other contract power purchases. Member-owners consist of 21 distribution cooperatives, 17 in Oklahoma and four in New Mexico, and a United States Air Force base. Substantially all revenue is related to Oklahoma and New Mexico operations. See note 13 for further information related to the addition of and sales to the New Mexico cooperatives.

(b) Basis of Presentation

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

(c) Use of Estimates

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

(d) Electric Utility Plant

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

Provision for depreciation of electric utility plant is computed on the straight-line method at rates based on estimated service lives and salvage values of the class of property. These rates are applied on a composite class basis. Annual depreciation rates used in 2020 and 2019 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, 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. Depreciation and amortization for the year ended December 31, 2019 was $60,016,000, of which $52,735,000 was charged to depreciation expense, $2,455,000 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 2020 and 2019.

(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 2020 and 2019 totaled $1,393,000 and $1,763,000, 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 $55,141,000 and $53,249,000 as of December 31, 2020 and 2019, respectively. The CCR is included in investments as of December 31, 2020 and restricted cash as of December 31, 2019.
- WFEC had a Cushion of Credit (Unapplied Advance Payment) account with the RDUP. As an RDUP borrower, WFEC was eligible to participate in the RDUP 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 RDUP 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 RDUP 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, 2020 and 2019, the Cushion of Credit account had a balance of $0 and $92,159,000, respectively. The 2019 balance included $53,249,000 of CCR funds.

- 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 RDUP. 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, 2020 an investment satisfied RDUP’s requirement to segregate cash in an amount equal to the balance of WFEC’s revenue deferral plan, which as of December 31, 2020 was approximately $5,600,000 (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:

		2020	2019
		(In thousands)	
Cash and cash equivalents	$	69,943	13,377
Current investments		95,285	—
Current restricted cash equivalents		—	46,402
Noncurrent restricted cash and cash equivalents		—	47,692
Cash and cash equivalents and investments	$	165,228	107,471

(h) Investments in Associated Organizations

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

(i) Inventories

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

(j) Emission Allowances and Renewable Energy Credits

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

(k) Electric Rates

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

WFEC bills its members fuel costs as a component of electric rates. The fuel billing rate is designed to accumulate and maintain an over recovered fuel account balance. An over recovery of approximately $9,199,000 and $11,486,000 at December 31, 2020 and 2019, 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 Company's revenues from contracts by classification.

		2020	2019
		(In thousands)	
Members	$	575,067	591,664
Nonmember		6,030	6,686
System sales revenues		581,097	598,350
Integrated marketplace		30,366	41,821
Transmission		50,452	49,169
Revenue from contracts with customers		661,915	689,340
Other		3,133	2,418
Total revenues	$	665,048	691,758

(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). No collateral is pledged to WFEC from its members to collateralize the outstanding accounts receivable.

At December 31, 2020, WFEC has Wholesale Power Contracts (WPC) with its 21 distribution cooperative members through the year 2065. WFEC's power sales to members for 2020 and 2019 was approximately 94% and 92% 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, 2020 and 2019 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:

		2020	2019
		(In thousands)	
Production plant	$	1,005,999	994,900
Transmission plant		524,964	476,014
Distribution plant		232,745	213,980
General plant		123,926	114,472
Unclassified plant		990	42,071
Electric utility plant-in-service		1,888,624	1,841,437
Construction work-in-progress		55,085	64,548
Total electric utility plant	$	1,943,709	1,905,985

(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, 2020 and 2019, with accumulated amortization of $7,095,000 and $4,995,000 at December 31, 2020 and 2019, respectively. 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. The principal and interest payments were $3,166,000 for 2019, of which $2,018,000 is for amortization of the right-of-use asset and $1,148,000 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, 2020, is as follows (in thousands):

2021	$	3,166
2022		3,166
2023		3,166
2024		3,166
2025		3,166
Thereafter		4,581
Total minimum lease payments		20,411
Amounts representing interest		(4,663)
Present value of minimum lease payments		15,748
Current maturities		(2,185)
Long-term capital lease obligations		13,563
Bargain purchase option		9,764
Long-term capital lease obligations net	$	23,327

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

		2020	2019
		(In thousands)	
National Rural Utilities Cooperative Finance:			
Corporation (CFC):			
3% capital term certificates	$	300	300
5% capital term certificates		5,830	6,130
Patronage capital certificates		1,515	1,536
CoBank Class A stock		11,384	10,303
ACES		1,277	1,268
Other		44	44
	$	20,350	19,581

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, 2020, 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:

		2020	2019
		(In thousands)	
Regulatory assets:			
Unamortized cost associated with lease/leaseback	$	17,584	20,619
Other assets:			
Unamortized RS prepayment (see note 10)		3,583	5,374
Preliminary survey and investigation charges		710	195
Unamortized debt expense		263	352
Premiums on debt refinancing		16,574	18,416
Deferred Debit for SPP attachment Z2 credits		13,186	11,967
	$	51,900	56,923

		2020	2019
		(In thousands)	
Regulatory liabilities:			
Deferred revenue	$	5,600	5,600
Over recovered fuel		9,199	11,486
Other liabilities:			
Unearned revenue		89	295
Early Termination of Transition Agreements (see note 13)		1,461	2,191
	$	16,349	19,572

As of December 31, 2020, WFEC's regulatory assets are being reflected in rates charged to customers over 6 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 RDUP authority to defer and amortize as a regulatory asset the net impact of the termination on a straight line basis through 2026, which approximates $3,035,000 of annual amortization. WFEC's electric rates are designed to recover this cost.

Premiums on early extinguishment of debt arising from refinancing transactions are being amortized over approximately 10 years, the remaining life of the replacement debt, using the straight-line method.

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

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. As a result of the FERC order WFEC estimates it will be required to refund approximately $27,850,000 and $26,700,000 at December 31, 2020 and 2019, respectively, plus interest calculated at the FERC interest rate.

With Board and RDUP 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 of approximately $13,186,000 and $11,967,000 at December 31, 2020 and 2019, respectively, is reflected as a deferred debit and will be deferred until final resolution is determined. The estimated refund balance of approximately $33,409,000 and $30,714,000 at December 31, 2020 and 2019, respectively is included in accounts payable and accrued liabilities in the accompanying consolidated financial statements.

With Board and RDUP 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. Cash equal to the balance of the deferred revenue is segregated and restricted until a like amount is subsequently accreted into revenue.

(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 $15,629,000 was allocated for the year ended December 31, 2019. The allocation for 2020 is estimated to be $11,483,000. For financial reporting purposes, net margins are assigned to members on a patronage basis.

WFEC's Indenture (see note 7) contains restrictions on distributions of capital. The Board of Trustees authorized a patronage capital retirement for 2020 and 2019 of $6,574,000 and $5,107,000, respectively.

(7) Debt

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

		2020	2019
		(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	$	594,677	606,797
Notes payable to the RDUP, interest from 4.75% to 5.00%, a weighted average of 4.76%, due in monthly and quarterly installments through 2025		3,514	4,149
Note payable to CoBank, interest at 6.22%, due in monthly installments through November 2025		1,425	1,650
Notes payable to CoBank, interest from 5.33% to 6.37%, a weighted average of 6.36%, due in quarterly installments through April 2038		97,960	100,929
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		3,746	4,822
Notes payable to CoBank, interest from 4.42% to 4.76%, a weighted average of 4.52%, due in quarterly installments through October 2042		51,388	52,708
Notes payable to CoBank, interest at 8.35%, due in annual installments through January 2027, with a balloon payment due in 2027		29,608	30,201
Notes payable to CoBank, interest at 3.5%, due in quarterly installments through December 2029		84,382	92,035
Notes payable to CoBank, interest from 2.69% to 2.79%, a weighted average of 2.77%, due in quarterly installments through December 2038		94,050	—

		2020	2019
		(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	$	5,171	6,735
Note payable to CoBank, interest at 3.70%, due in quarterly installments through July 2023		5,588	7,489
		971,509	907,515
Less current portion of long-term debt		47,418	42,560
Total long-term debt	$	924,091	864,955

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

2021	$	47,418
2022		50,923
2023		52,225
2024		50,012
2025		44,952
Thereafter		725,979
	$	971,509

WFEC executed an Indenture, dated as of April 8, 2011, between WFEC, as grantor, and U.S. Bank National Association, as trustee (the Indenture). Effective that date, all of the first mortgage notes listed above are secured equally and ratably under the Indenture by a first priority lien on substantially all of the assets of WFEC, subject to certain exceptions and limitations. Under the terms of the Indenture, substantially all of the after-acquired assets of WFEC become subject to the lien of the Indenture. Also, under the terms of the Indenture, the RDUP Loan Contract and other loan agreements, WFEC must maintain certain financial covenants. Management believes WFEC was in compliance with these financial covenants at December 31, 2020.

In early September 2020, WFEC utilized its RDUP 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.

WFEC has a $100,000,000 five-year committed revolving line of credit agreement with CFC for general corporate purposes through October 2021. No advances were outstanding on the CFC line of credit at December 31, 2020 and 2019. Letters of credit totaling $30,594,000 and $32,151,000 had been issued under this arrangement at December 31, 2020 and 2019, 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, 2020 and 2019.

Approximately $200,000,000 of borrowing capacity was available on the syndicated line of credit at December 31, 2020 and 2019. Approximately $69,406,000 and $67,849,000 of borrowing capacity was available on the CFC line of credit at December 31, 2020 and 2019, respectively.

WFEC had $161,904,000 of unadvanced funds available at December 31, 2020 from an FFB note executed in 2020. Approximately $84,645,000 is available for transmission and distribution additions and replacements and $77,259,000 for generation system improvement projects.

(8) Production Expenses

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

		2020	2019
		(In thousands)	
Fuel	$	24,773	42,551
Other production expenses		27,790	27,755
Total production expenses	$	52,563	70,306

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

(9) Income Taxes

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

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

As of December 31, 2020 and 2019, WFEC's deferred tax asset before valuation allowance was approximately $3,678,000 and $3,100,000, 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 $19,793,000 which expire in 2020 and thereafter.

No income tax expense was provided in 2020 and 2019, 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:

		2020	2019
		(In thousands)	
Tax-effected deductible temporary differences	$	3,678	3,100
Deferred tax asset		3,678	3,100
Less valuation allowance		(3,678)	(3,100)
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 2020 and 2019 represented less than 5% of the total contributions made to the RS Plan by all participating employers. WFEC makes annual contributions to the RS Plan equal to the amounts accrued for pension expense, which is dependent on the employee's date of hire. These contributions to the plan were approximately $7,533,000 and $7,362,000 in 2020 and 2019, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2020 and 2019, 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 $3,583,000 and $5,374,000 as of December 31, 2020 and 2019, 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 $2,145,000 and $2,094,000 to the plan in 2020 and 2019, 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, 2020 and 2019 (in thousands):

		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)

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2019
Liabilities:					
Commodity derivatives	$	—	(458)	—	(458)
Total liabilities	$	—	(458)	—	(458)

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 $49,000 and $458,000 as of December 31, 2020 and 2019, 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 2021.

(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. Beginning January 2019, 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

2021 rates, the minimum requirement approximates $19,092,000. During 2020 and 2019, WFEC purchased $24,893,000 and $25,416,000, 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 2021 is estimated at $58,810,000. During 2020 and 2019, WFEC purchased $29,416,000 and $36,962,000, 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 $18,219,000 for 2021. During 2020 and 2019, WFEC purchased $81,563,000 and $85,672,000, respectively.

WFEC negotiated multiyear contracts to acquire and transport coal for the Hugo Generating Station annually through December 2021. The current projection for the minimum contract commitment for coal and coal transportation is approximately $9,800,000 in 2021. WFEC's costs for both coal and transportation purchases were approximately $7,000,000 and $16,000,000 for the years ended December 31, 2020 and 2019, 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 $26,414,000 in 2021. During 2020 and 2019, WFEC purchased $39,484,000 and $42,099,000, respectively.

In 2014, WFEC negotiated multiyear contracts for the transportation and storage of a portion of its Anadarko and Mooreland Generating Station gas requirements through February 2044. The current projection for the minimum contract commitments for gas transportation and storage is approximately $8,070,000 in 2021. WFEC's costs for both transportation and storage purchases were approximately $8,219,000 and $8,492,000 for 2020 and 2019, 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 $87,561,000 and $87,410,000 in 2020 and 2019, 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 2020 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 2020, no 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 accounts payable and accrued liabilities in the accompanying balance sheets, for the years ended December 31 is as follows:

		2020	2019
		(In thousands)	
Beginning balance	$	12,698	12,349
Additional liabilities incurred		—	—
Settlement of liability		(4,318)	(294)
Revisions to estimates		—	—
Accretion expense		676	643
Ending balance	$	9,056	12,698

(15) Comprehensive Income

The accumulated balance of other comprehensive income is as follows:

		Pension and postretirement benefit plans
		(In thousands)
Balance, December 31, 2018	$	789
Net current period change		(251)
Balance, December 31, 2019		538
Net current period change		(48)
Balance, December 31, 2020	$	490

(16) Coronavirus

In December 2019, a novel strain of coronavirus (COVID-19) surfaced and spread globally. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020 and the President of the United States declared the COVID-19 outbreak a national emergency on March 13, 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 to our results of operations in 2020, we are continuing to monitor developments involving our workforce, members and suppliers and cannot predict whether COVID-19 will have a material impact on our results of operations, financial condition or cash flows.

(17) Subsequent Events

During mid-February, WFEC's service territory and surrounding regions experienced historically cold temperatures, with nine consecutive days below freezing. As a result of the extreme weather, natural gas pricing reached extraordinary levels, which caused elevated cost of power across SPP's footprint. The significance of the cost of natural gas and energy out of the SPP Integrated Market (IM) resulted in increased collateral requirements. The increased collateral requirement was limited to the immediate period after the month of incidence. The financial impact cannot be completely determined until final settlement with SPP.

In anticipation of additional liquidity needs driven by the event, WFEC entered into a $200,000,000 one-year secured revolving line of credit agreement with CFC.

WFEC has evaluated subsequent events from the balance sheet date through March 9, 2021, 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.

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