Annual Report

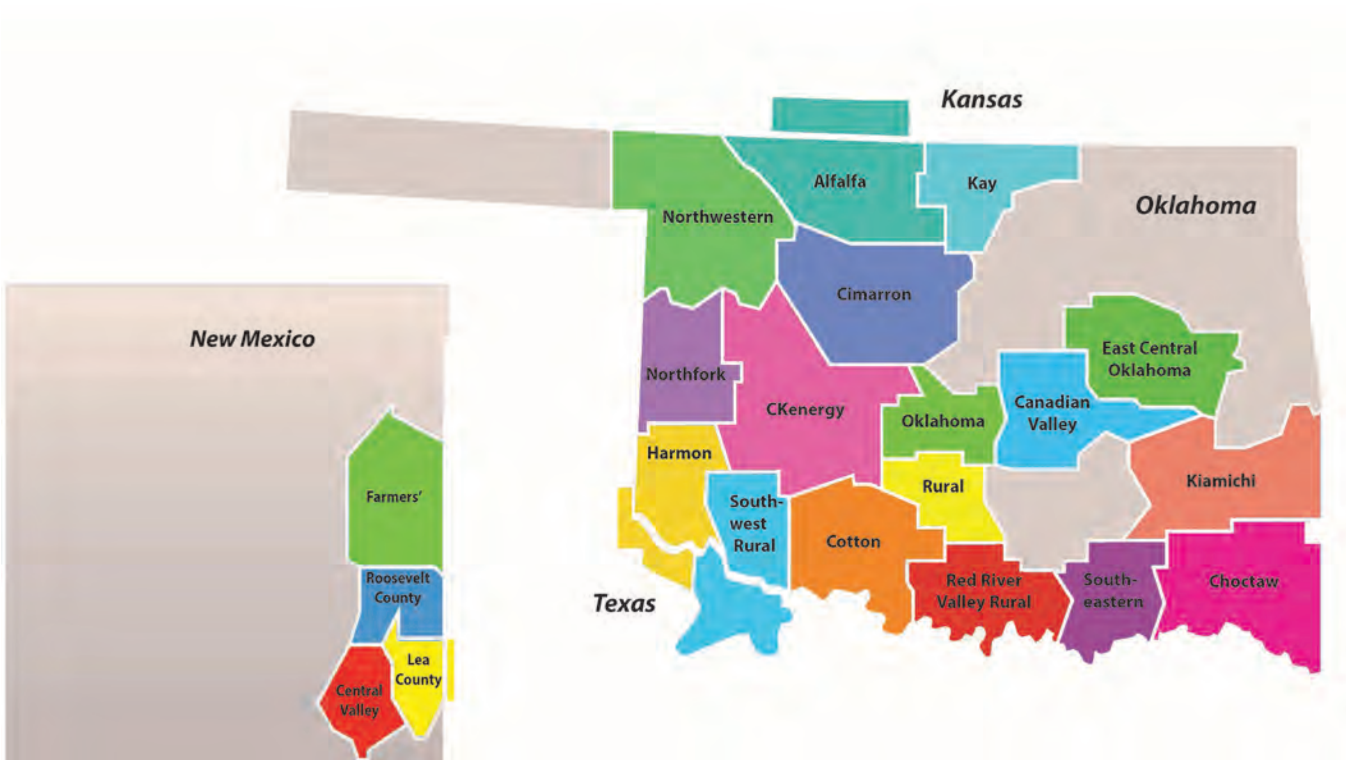
2022

Navigating

Through Growing Times

wfec
western farmers
electric cooperative

WFEC's Service Territory



WFEC's Member Cooperatives

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.

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.

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

Overview & fuel diversity

Energy Sales (Member & Contract Sales)	$861 million
Total Operating Revenue	$994 million
Net Margins	$19 million
Assets	$1,703 million
Members	21
Member Consumer Meters Served	340,000 (est.)
Member Population Served	717,000 (est.)
System Peak Demand	2,252 MW
Miles of Transmission Line	3,858 miles
Substations & Switch Stations	over 330
Number of Employees	403

Fuel Mix

megawatts (MW)

Generating Capacity:	
Gas-Fired (Oklahoma)	852 MW
Gas-Fired (New Mexico)	43 MW
Coal-Fired (Oklahoma)	427 MW
Total Generating Capacity	1,322 MW
Power Purchases:	
Gas-Fired	280 MW
Hydro	270 MW
Portfolio of GRDA assets (Grand River Dam Authority)	200 MW
New Mexico Contracts - Portfolio	125 MW
Total Purchase Power	875 MW
SPP Accredited Solar/Wind:	153 MW
Total Combined Capacity	**2,351 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**

**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.*

2023 - planned solar - New Mexico - 30 MW

2025 - planned solar - Oklahoma & 800 MWh battery storage - 250 MW

About WFEC

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

WFEC was organized in 1941 and is now in its 81st year of operation. WFEC continues to deliver safe, reliable, and competitively priced wholesale energy across its large service territory while strengthening the organization, its member cooperatives, and its employees. WFEC is led by a management group with years of industry experience, and is governed by a 22-member Board of Trustees.

WFEC owns and operates a diverse power generation fleet consisting of six steam and gas turbine power generation sites, five utility-scale solar farms and 13 community solar farms. In addition, WFEC has power purchase agreements for wind, solar, natural gas and hydroelectric generation. The total combined capacity for owned and contracted assets is almost 2,400 megawatts (MW), all located in Oklahoma and New Mexico.

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

Anadarko Headquarters

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

Moore Business Office

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

Line Type (as built)	Miles
345 kV	152
161 kV	7
138 kV	2,361
69 kV	1,338
Total	**3,858**

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

Even though Western Farmers Electric Cooperative (WFEC) faced a challenging year in 2022, it is still marked progress on the heels of the complexities of 2020 and 2021.

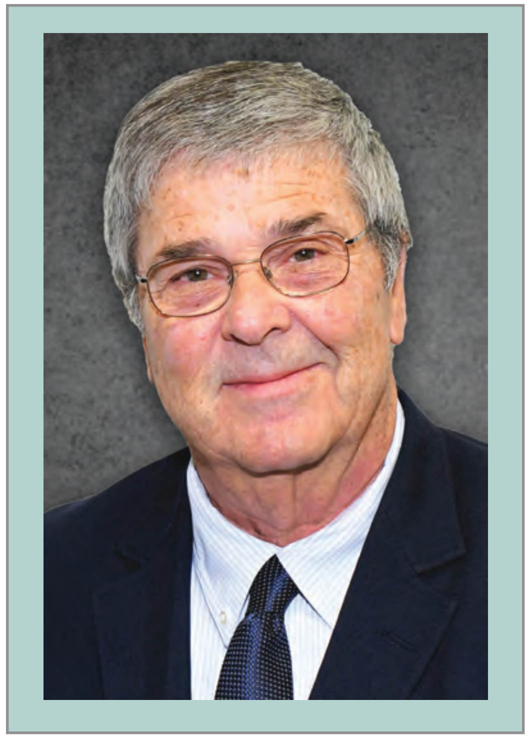
And, WFEC navigated them successfully.

An overall good description of 2022 would be "a year of improvement," with progress to continue in 2023.

In early 2020, the oil and natural gas economy hit rock bottom, COVID-19 emerged later in March, and Winter Storm Uri attacked the South Central U.S. in 2021. In comparison, 2022 saw a gradual shift back to pre-pandemic activities and megawatt-hour (MWh) sales levels.

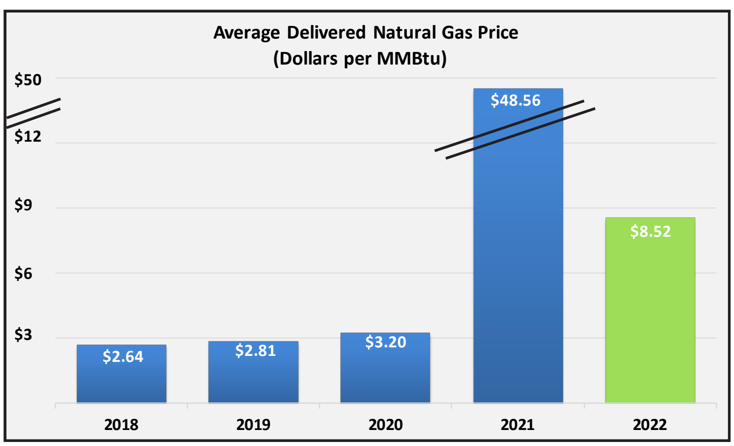
By 2022, oil and natural gas prices were beginning to recover. While COVID-19 had not gone away, much more was known and understood about the virus and people were managing it as part of their daily lives.

Improved growth in MWh sales came from an unlikely source - a boom in cannabis grow houses, made possible by changes in Oklahoma law legalizing medical marijuana. With requirements for both heating in the winter and cooling in the summer, this load of over 100 megawatts (MWs) was a substantial part of energy sale increases in 2022 in several members' service territories. The Old West mentality of the clandestine medicinal marijuana industry prompted more reform and regulation starting in August 2022 that will likely slow growth for the next few years.



WFEC
Chief Executive Officer
Gary R. Roulet

While WFEC embraced the positives, a convergence of global and national issues negatively affected the input costs required to generate and transmit electricity. In the beginning and ending of 2022, a great deal of volatility in fuel prices was heavily influenced by Russia's invasion of Ukraine in February.



Delivered natural gas prices are one of the primary determinants of the total average rate to members. The last two years have been impacted by various factors. Beginning with a significant rise of natural gas cost during Winter Storm Uri in 2021, and liquefied natural gas exports and the continuation of the Russia/Ukraine conflict carrying elevated prices through 2022.

Excluding extreme weather events such as Winter Storm Uri of 2021, WFEC experienced elevated natural gas prices compared to the preceding year's contributing to higher electric bills, especially during the summer.

Along with the increase of commodity prices, WFEC also experienced supply chain disruption with delivery date slippages as well as increases in prices for material and labor. Inflation was stubbornly high, and interest rates to combat its impact on costs, continues to be worrisome. Lastly, uncertainty about climate change and future evolution of the electric industry continues.

Despite the challenges, good things also happened in 2022. The New Mexico (N.M.) members' transition, originally scheduled to complete in

2026, concluded early. As of January 1, 2023, all four members have transitioned after evaluating cost analysis under their previous segregated rate design versus the WFEC member rate.

The first 12 of the 60-month process of offsetting power costs from 2021 Winter Storm Uri were completed with minor impacts.

Rail delivery and inventory of coal improved as the railroads began to catch up on rail delivery requests late in the year.

Energy sales recovered to at least their pre-COVID-19 levels, with most members showing some increases in sales.

The overall outlook for 2023 is positive. Although predictability of future natural gas prices, supply chain issues, and the hint of a recession inject some uncertainty, WFEC is looking forward to building on this "year of improvement" in 2023.

wfec

Among the many roles of WFEC's CEO Gary R. Roulet, (pictured above) is a chance to visit with member distribution cooperative staff, as well as each cooperative's respective members. One of these opportunities includes speaking at member distribution cooperatives' annual meetings to update members on WFEC activities and various projects, plus details on the electric utility industry.

WFEC's Fuel Diversity - 2022

Renewables* - 30%

Wind - 24%
Solar - 1%
Hydro - 5%

Generation - 11%

Coal - 6%
Natural Gas - 5%

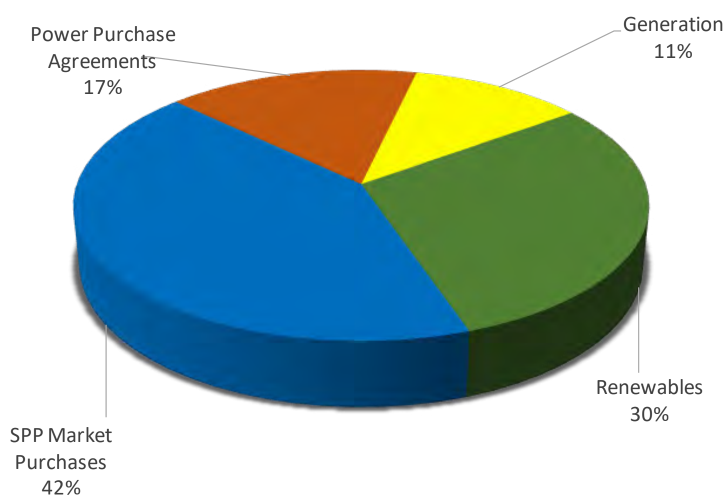
Power Purchase Agreements - 17%

Grand River Dam Authority
Oneta Power Plant
Southwestern Public Service

Southwest Power Pool Market Purchases - 42%**

**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 2022. All kWhs are then purchased from the market at SPP's blend of power.

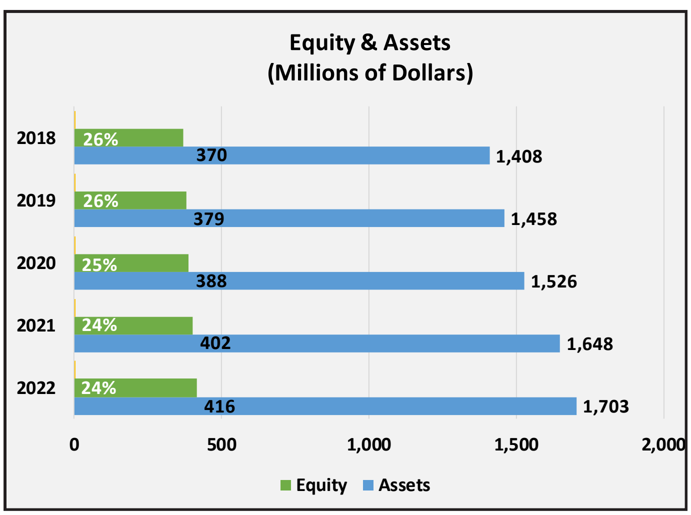
2022 Challenges Navigated Successfully

Western Farmers Electric Cooperative (WFEC), as a generation and transmission provider, has never let any challenges, large or small, stop or impact ongoing business. WFEC's world doesn't end with new or continual challenges, rather it boldly navigates its way through them and moves forward on the path to success, such as that accomplished in 2022, which has been called a "year of improvement." WFEC is looking forward to continuing progress in 2023.

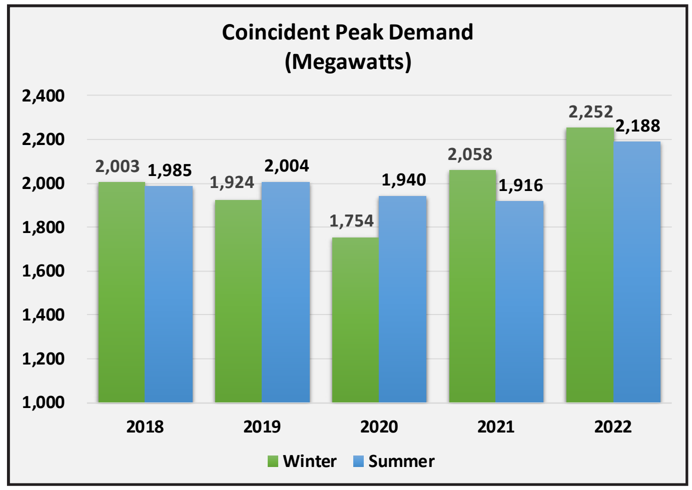
Resources

The last few winter storms demonstrated the advantages and value in fuel diversity of WFEC's generation fleet. It enables the cooperative to naturally hedge some of the volatility of fuel prices while balancing the need for reliable generation to meet energy demands in all weather conditions.

In addition, the cooperative has proactively modified its hedging strategy and negotiated additional daily delivery from natural gas storage contracts. WFEC takes every opportunity to promote fuel diversity for reliability to its members, legislators, and regulators.



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 flexibility in financing its projected capital expenditures for the benefit of its members at reasonable interest costs.



In addition to the increase of energy sales in 2022, the peak load was set during Winter Storm Elliott in the latter part of December as SPP also recorded their all time record high winter peak.

Across the Southwest Power Pool (SPP) footprint, intermittent resources are displacing baseload fossil fuel generation. This continuing trend along with extreme weather events and natural gas constraints during peak periods is causing SPP to consider increasing the summer capacity reserve requirement and adding a winter requirement. During the extreme heat of July and cold blast of Winter Storm Elliott in December, WFEC recorded an all-time summer peak demand of 2,188 MWs and an all-time winter peak demand of 2,252 MWs, respectively.

In addition, as part of the power supply transition of the New Mexico members, WFEC became the load following entity for those loads effective June 1, 2022. Part of this responsibility includes having available capacity for those needs. When combined with the growth of MWh sales in Oklahoma and New Mexico, WFEC is actively pursuing additional capacity. Significant investment in 30-plus year assets with uncertainty around climate change and regulation is a critical decision when focusing to provide members with diverse, reliable, and affordable long-term power.

During the year, educational presentations were made to the Board in preparation for decisions on the next capacity expansions. Topics such as available types of generation, owning versus purchase power agreements (PPAs), transmission interconnection, financing, environmental studies, and rate implications provided opportunities for discussion.

In 2023, the Board will be prepared to analyze responses to Requests for Proposals and make informed choices for the membership on short- and longer-term resource plans. As a prelude to those next decisions, WFEC successfully executed several agreements.

In September, WFEC authorized a 10-year 100 MW Capacity Purchase Agreement with NextEra Energy Marketing, LLC beginning June 1, 2026, to be sourced from multiple wind facilities.

In December, WFEC strengthened its 40-year relationship with the Grand River Dam Authority announcing that a 200 MW PPA between the entities will be extended through 2050.

The Board of Trustees and its member, Altus Air Force Base (AAFB) agreed to a new Interactive Distributed Generation (IDG) Services Agreement. This unique agreement provides full backup electric service to AAFB during outage situations and provides WFEC accredited reserve capacity from SPP.

WFEC recently announced that a Power Purchase Agreement (PPA) with the Grand River Dam Authority (GRDA), Oklahoma's largest public power electric utility, will be extended through 2050. The WFEC-GRDA relationship began in 1983. Today, GRDA has approximately 2,500 MW of generation capacity spread across a diverse portfolio, including gas, coal, water, and wind resources. (pictured above) One of GRDA's dams.

Rapid growth of "behind-the-meter" distributed generation (DG) and net metering policies are leading to substantial changes in the industry. To better understand its overall impact, WFEC worked with its member cooperatives to conduct an in-depth load profile analysis whereby pre- and post-installation data was collected on 10% of the homes that had installed DG. This was a massive undertaking and findings are still being tabulated. However, early results indicate the growth will continue, adding further challenges when making future capacity decisions.

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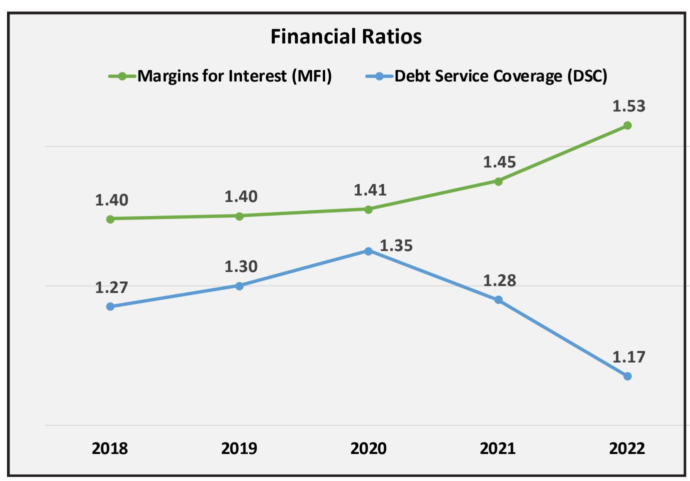


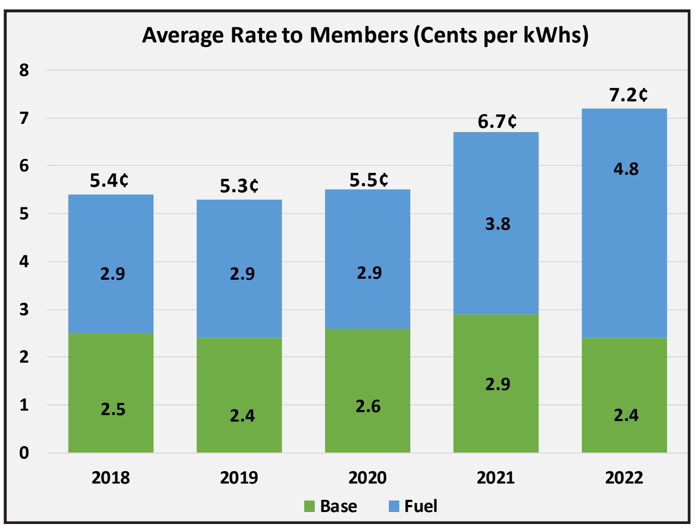
Board-tracked financial ratios continued at strong levels, demonstrating sound financial performance and enabling continuing access to financing. DSC was constrained when comparing to the trailing four years due to the financing of Winter Storm Uri.

Financial

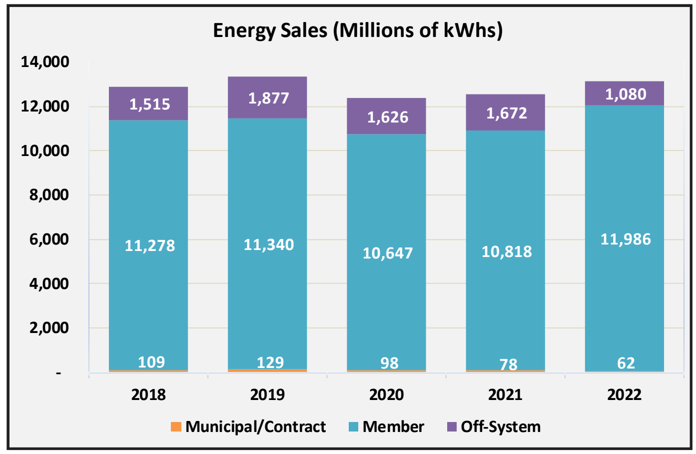
During 2022, WFEC was pleased that Fitch Ratings upgraded WFEC's Issuer Default Rating to "A" from "A-". The Board has worked diligently to manage WFEC resources to secure long-term competitive rates for members while being flexible to address current events. It is significant that others recognize the importance the Board places on setting and achieving consistent financial and operating goals.

Financing and collecting for the extraordinary costs of 2021 Winter Storm Uri has been approached in many ways by various utilities in multiple states. The Board of WFEC elected to provide alternatives for its members to self-finance all or a portion of their assigned cost and/or participate in a WFEC matching five-year financing and rate recovery period from 2022 through 2026. The Debt Service Coverage (DSC) financial ratio was somewhat constrained when compared to the prior four years due to recovery of this additional financing, but the Board continues to target historical performance for DSC of greater than 1.20.

The average total price of member energy sales increased from 6.7 cents per kilowatt-hour (kWh) in 2021 to 7.2 cents in 2022. While the average wholesale cost banded tightly in the mid five-cent per kWh range for multiple years prior to 2021, several factors influenced these recent year-over-year increases. Since the largest component of WFEC's rate is fuel and purchased power, Winter Storm Uri's immediate and deferred collection over five years, burdened with heightened gas prices due to Russia's invasion of Ukraine in 2022 drove a significant portion of the increase.



The average wholesale cost to members has increased in recent years, impacted by Winter Storm Uri in 2021 that will continue to be recovered through 2026 and the elevated natural gas cost in 2022. The continued evolution of the SPP Regional Transmission Organization and its Integrated Marketplace allows WFEC access to low-cost energy by pooling resources throughout the 15-state footprint.



Member energy sales in 2022 exceeded pre-COVID 19 levels due to an increase of commodity prices supporting resurgence of the oil and natural gas industry, the legalization of medicinal marijuana in Oklahoma and increased activity in the recreational areas of WFEC's service territory.

With the onset of high levels of inflation in early 2022, the U.S. was dealt multiple rate hikes from the Federal Reserve totaling 425 basis points over the course of the year in an effort to tame it. Although this is beneficial for short-term investments, a larger long-term consequence is higher plant financing costs.

With the enactment of the Inflation Reduction Act of 2022, staff is exploring potential funds available for cooperative eligible projects in addition to traditional financing to mitigate cost of projects.

Transmission

Chris Shultz, station apprentice, and Kenny Flood, journeyman station technician, perform maintenance on a de-energized transformer at the Sunshine Canyon Substation in the Newcastle area, while Bryson Beam, station technician, supports the ladder.

National supply chain issues challenged the WFEC workforce in many areas as delivery dates slipped from weeks to months and in some cases months to years. To address transmission project and maintenance disruptions, safety stock levels were increased and replenished to maximum levels regularly and a cross-functional task force focused on purchases of long-lead time substation transformers.

The generation side of the house also saw impacts causing plant staff to find unique solutions or in some cases postpone projects. Quality contract labor became more difficult to find as contractors faced macroeconomic issues to attract and retain talent.

Inflations costs, high demand and long-lead time items continue to be a challenge, but employees have been very resourceful working through these issues.

WFEC crews work on repairing and replacing transmission structures damaged in a powerful April storm, near Maysville. (pictured above) Kavan Henning, power line technician, and Bryan Elwood, lead power line technician (on ground), and Max Clark, apprentice power line technician (in basket, hidden), and Robert Haller, light equipment operator, (on the digger, hidden), prepare this site for a new H-structure, to replace one damaged during a spring storm.

Staff also worked hard to address vehicle fleet rotation and replacement needs in a market of high demand, often having to locate units several states removed from Oklahoma. With the short supply of vehicles and demand rising, WFEC was able to benefit by selling replaced units via an on-line auction service.

Jeramy Tackett and Chance Laughlin, both journeyman station technicians, along with Chris Shultz, station apprentice and Ethan Harrison, station apprentice III, work on construction of a new Lexington Substation, located near the Purcell area.

During the year, WFEC was successful in procuring long-awaited easement extensions near its Anadarko, Okla. headquarters area hosting multiple generation units and transmission lines.

Line projects continued with systematic replacement of wood for steel poles in southeastern Oklahoma, home to many species of hungry woodpeckers.

Generation

As natural gas prices climbed throughout 2022, WFEC's Hugo coal plant, with a multi-year fixed coal and transportation cost, served as an economic hedge to the natural gas market. Even then, as 2022 progressed, the utility industry, and WFEC, felt the brunt of supply chain pressures on a rail system that faced its own challenges with long-term labor disagreements and workforce attrition.

Hugo, as well as other coal plants in the SPP footprint were derated much of the year to conserve coal supply and ensure reliable capacity throughout the peak seasons. WFEC closely managed the inventory and fuel supply and coordinated with SPP to ensure reliability of power supply. By year's end, shipments were improving and the railroads were more responsive.

Late June, July, and early August saw some of the highest temperatures the Midwest region of the U.S. has seen in almost 10 years with several periods that very little renewable energy was available. During this summer period and Winter Storm Elliot in December, WFEC's fossil fleet performed extremely well.

During a turbine outage on Anadarko 7, the generator was disassembled for inspection. In order to facilitate the removal of the generator rotor, a cribbing and rail system was installed that allowed the rotor to be pulled out of the generator utilizing a rail cart. (pictured above) Generation Electrical Engineer I Fred Boross observes Unit 7's generator rotor being removed.

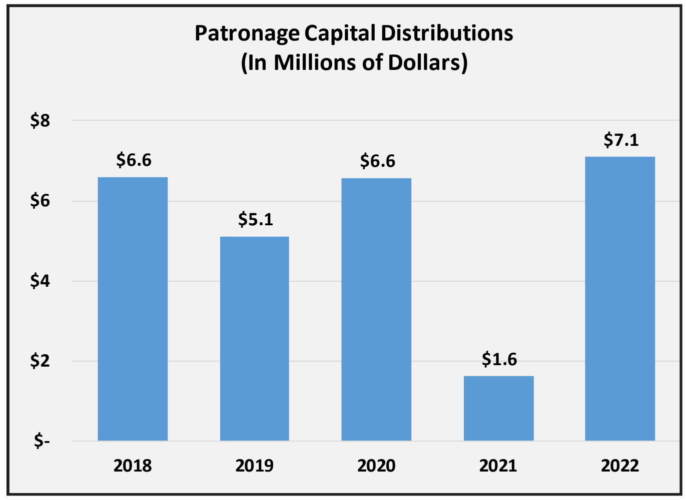
Following an oil leak on Anadarko Unit 3's generator, a "tops off" inspection of the generator and steam turbine was conducted. Early in the process, Anadarko Plant employees began disassembling the generator, including end bells, bearings and oil seals. (pictured, from left) Lane Stanfield, generation planner II; Dustin Red, operations superintendent; Justin Howard, relief shift supervisor; Wayne Owens, lead shift supervisor; and Boe Green, engineering & technical services manager, observe as Mechanic Randy Ryans (crane operator) assists Raker Mechanical Services personnel with removal of the shell from the LP (lower pressure) turbine.

Member Relations

During 2022, WFEC encouraged its member distribution cooperatives to be a part of an initiative to accelerate the deployment of electric school buses in member service territories across Oklahoma and parts of New Mexico. As authorized by the Bipartisan Infrastructure Investment and Jobs Act, the U.S. Environmental Protection Agency's Clean School Bus Program will provide $5 billion over the next five years to replace existing school buses with low and zero-emission school buses. In the first round of this initiative, two school districts within WFEC's member service territories were successful and will receive grant funds for an electric bus or buses.

WFEC hosted several informational meetings for cooperative personnel and key account customers across the service territory. Cooperative management discussed topics of interest including current and future energy markets, challenges affecting cooperatives and their members, and cooperative services. A Question-and-Answer session provided an opportunity for key account customers to better understand WFEC's vision for the future of the electric industry and what cost components impact their monthly invoices.

Jennifer Koch (left) of ONEOK, Inc., visits with (from left) WFEC CEO Gary Roulet; Director of Government & Regulatory Affairs (OAEC) Jim Reese; and WFEC Vice President, Marketing & Member Relations Mark Faulkenberry, during one of four Key Accounts Update Meetings, hosted by WFEC. Koch was among the key account attendees taking part in several of the regional meetings that targeted management and staff for WFEC's member cooperatives, along with their respective key account customers. Cost-related factors, industry and legislative updates, and an overall view of WFEC services, were among the topics.



WFEC's Board of Trustees has consistently authorized patronage capital distributions to members returning in 2022 to a greater amount after a conservative retirement in 2021, due to the financial impact of Winter Storm Uri.

Jennifer Meason, CEO, Cotton Electric Cooperative (middle) shares experiences from Winter Storm Uri during a Key Accounts Update Meeting in December. Other panel members included (from left) Aaron Paxton, General Manager/CEO, Harmon Electric Association, Gary Roulet, CEO, Western Farmers Electric Cooperative, and Brent Meador, General Manager, Northfork Electric Cooperative.

Summary:

With the ending of 2022, WFEC management, staff and employees, along with member distribution cooperative staffs, can reflect back on accomplishments, as well as challenges, during the "year of improvement." WFEC is looking forward to navigating its way through the many changes in 2023 for the electric utility industry.

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WFEC Board of Trustees

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

President
Trustee since: April 2013

Jeff Willingham
Southeastern Electric Cooperative

Vice President
Trustee since: April 2015

King Martin
Red River Valley Rural Electric Association

Secretary-Treasurer
Trustee since: Sept. 2011

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

Asst. Secretary-Treasurer
Trustee since: April 2016

Greg Goetz
Alfalfa Electric Cooperative

Trustee since: Oct. 2016

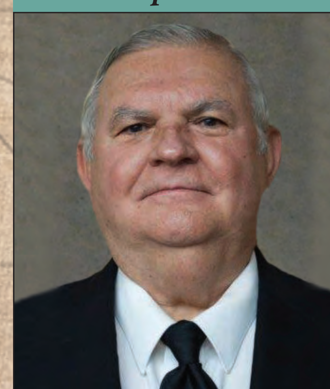
Gary Crain
Canadian Valley Electric Cooperative

Trustee since: April 2005

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

Trustee since: Oct. 2010

Ken Autry
Choctaw Electric Cooperative



Trustee since: Oct. 2020

Gene Peters
Cimarron Electric Cooperative

Trustee since: Aug. 2012

Clint Pack
CKenergy Electric Cooperative

Trustee since: Jan. 2016

Brian DeMarcus
Cotton Electric Cooperative

Trustee since: Feb. 2021

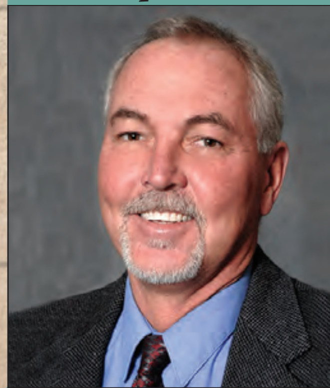
Max Shoemake
East Central Oklahoma Electric Cooperative

Trustee since: April 2015

Jean Pence
Harmon Electric Association

Trustee since: April 2015

Mike Lebeda
Kay Electric Cooperative



Trustee since: April 2001

David Ray
Kiamichi Electric Cooperative

Trustee since: April 2007

Chris Mackey
Northfork Electric Cooperative

Trustee since: April 2022

Tyson Littau
Northwestern Electric Cooperative

Trustee since: April 2022

Ronnie Tharp
Oklahoma Electric Cooperative

Trustee since: April 2022

Gene Creighton
Roosevelt Co. Electric Cooperative (N.M.)

Trustee since: June 2022

Gary Jones
Rural Electric Cooperative

Trustee since: Dec. 2002

Don Ellis
Southwest Rural Electric Association

Trustee since: March 2014

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

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.

Justin Soderberg
Senior Manager,
Generation

Began career with
WFEC in 2008.

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 (2022)
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 (2022)
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 2025
(Renewable Energy Purchase Agreement signed in 2019.)

Chaves County Solar II - New Mexico - 30 MW
Commercial operation in 2023
(Renewable Energy Purchase Agreement Signed in 2021.)

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

Independent Auditors' Report

The Board of Trustees
Western Farmers Electric Cooperative

Opinion

We have audited the consolidated financial statements of Western Farmers Electric Cooperative (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022, the Cooperative adopted new accounting guidance, ASC Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

KPMG LLP

Oklahoma City, Oklahoma
March 7, 2023

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Balance Sheets

December 31, 2022 and 2021

(In thousands)

Assets		**2022**	**2021**
Electric utility plant, at cost:			
In-service	$	2,005,924	1,936,760
Construction work-in-progress		31,875	46,428
Total electric utility plant		2,037,799	1,983,188
Less accumulated depreciation and amortization		888,654	848,086
Net electric utility plant		1,149,145	1,135,102
Investments in associated organizations and other investments, at cost		22,813	21,473
Current assets:			
Cash and cash equivalents		241,404	201,187
Accounts receivable from energy sales		76,651	65,840
Other accounts receivable		17,332	13,272
Inventories, at average cost:			
Coal, natural gas, and oil		20,397	16,975
Material and supplies		72,442	69,945
Other		6,010	3,820
Total current assets		434,236	371,039
Deferred debits		97,029	120,665
Total assets	$	1,703,223	1,648,279
Members' Equity and Liabilities			
Capitalization:			
Patronage capital	$	350,815	335,302
Contributed capital		52,508	54,051
Other capital		12,781	12,781
Long-term debt		1,024,312	979,833
Total capitalization		1,440,416	1,381,967
Current liabilities:			
Current portion of long-term debt		80,429	79,934
Accounts payable and accrued liabilities		153,716	155,298
Total current liabilities		234,145	235,232
Other liabilities		28,662	31,080
Commitments and contingencies (note 3, 13, and 14)		—	—
Total members' equity and liabilities	$	1,703,223	1,648,279

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Operations

Years ended December 31, 2022 and 2021

(In thousands)

		2022	2021
Operating revenues:			
Power sales to members, cities, and other	$	861,046	737,900
Other power sales and operating revenues		132,741	124,583
Total operating revenues		993,787	862,483
Operating expenses:			
Operations:			
Production		146,268	169,071
Purchased and interchanged power		581,175	436,437
Transmission		110,424	106,716
Distribution		7,423	7,433
General and administrative		15,310	14,211
Maintenance		23,945	20,778
Depreciation and amortization		61,286	58,868
Total operating expenses		945,831	813,514
Operating margin before interest		47,956	48,969
Interest expense, less amounts capitalized during construction of approximately $1,227 and $977 in 2022 and 2021, respectively		(37,010)	(37,032)
Interest income		4,538	658
Operating margin		15,484	12,595
Other nonoperating, net		(507)	333
Patronage capital assigned by associated organizations		4,164	3,075
Net margin	$	19,141	16,003

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Comprehensive Income

Years ended December 31, 2022 and 2021

(In thousands)

		2022	2021
Net Margin	$	19,141	16,003
Other comprehensive income, net of tax:			
Pension and other postretirement benefit plans:			
Net actuarial gain		141	11
Less amortization of prior service cost included in net periodic pension cost		(21)	(26)
Pension and other postretirement benefit plans		120	(15)
Other comprehensive income (loss)		120	(15)
Total comprehensive income	$	19,261	15,988

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Changes in Members' Equity

Years ended December 31, 2022 and 2021

(In thousands)

	Memberships	Patronage capital	Contributed capital	Other capital	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2020	$ 3	320,443	54,051	12,781	490	387,768
Net margin	—	16,003	—	—	—	16,003
Patronage capital retired	—	(1,622)	—	—	—	(1,622)
Net other comprehensive loss	—	—	—	—	(15)	(15)
Balance, December 31, 2021	3	334,824	54,051	12,781	475	402,134
Net margin	—	19,141	—	—	—	19,141
Patronage capital retired	—	(7,091)	—	—	—	(7,091)
Cumulative period adjustment (ASC 842)	—	3,343	—	—	—	3,343
Contributed (refunded) capital, net	—	—	(1,543)	—	—	(1,543)
Net other comprehensive income	—	—	—	—	120	120
Balance, December 31, 2022	$ 3	350,217	52,508	12,781	595	416,104

See accompanying notes to consolidated financial statements.

WESTERN FARMERS ELECTRIC COOPERATIVE

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Net margin	$	19,141	16,003
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation		57,648	55,121
Other depreciation and amortization included in operating expenses		5,771	6,120
Amortization of regulatory asset expense		3,035	3,035
Accretion of asset retirement obligation		603	712
Changes in assets and liabilities:			
Accounts receivable from energy sales		(10,811)	(9,954)
Other accounts receivable		(4,059)	(4,744)
Coal, natural gas, and oil inventory		(3,422)	3,929
Materials and supplies inventory		(2,497)	4,689
Other current assets		(2,190)	(1,019)
Deferred debits and other (includes 2021 Storm Uri)		15,894	(76,422)
Accounts payable and accrued liabilities		5,592	25,054
Other assets and liabilities (includes SPP attachment Z2 credits)		(3,992)	(8,159)
Net cash provided by operating activities		80,713	14,365
Cash flows from investing activities:			
Net extension and replacement of electric utility plant		(77,646)	(64,312)
Purchase of investments		—	(17,311)
Proceeds from investments		—	112,596
Net cash (used in) provided by investing activities		(77,646)	30,973
Cash flows from financing activities:			
Advances of long-term debt		119,600	310,086
Payments on long-term debt		(74,627)	(221,828)
Advances of short-term debt		7,816	107,000
Payments on short-term debt		(7,816)	(107,000)
Contributed capital		(730)	(730)
Patronage capital retired		(7,093)	(1,622)
Net cash provided by financing activities		37,150	85,906
Net increase in cash, cash equivalents, and restricted cash		40,217	131,244
Cash, cash equivalents, and restricted cash at beginning of year		201,187	69,943
Cash, cash equivalents, and restricted cash at end of year	$	241,404	201,187
Supplemental schedule of cash flow information:			
Cash paid during the year for interest	$	35,967	31,892
Increase in ROU asset with offset to equity for impact of ASC 842 adoption		3,343	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

Western Farmers Electric Cooperative (WFEC) is a generation and transmission cooperative headquartered in Anadarko, Oklahoma. WFEC owns and operates six generating plants, fueled by coal and gas, located in Anadarko, Mooreland and Hugo, Oklahoma, and Lovington, New Mexico. WFEC also owns and maintains approximately 3,900 miles of transmission line as well as substations and switch stations primarily located in Oklahoma. WFEC has a combined capacity of approximately 2,400 megawatts (MW), including hydropower allocation and other contract power purchases. Member-owners consist of 21 distribution cooperatives, 17 in Oklahoma and four in New Mexico, and a United States Air Force base. Substantially all revenue is related to Oklahoma and New Mexico operations. See note 13 for further information related to the addition of and sales to the New Mexico cooperatives.

(b) Basis of Presentation

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

(c) Use of Estimates

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

(d) Electric Utility Plant

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

(Continued)

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 2022 and 2021 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, 2022 was $65,481,000 of which $58,252,000 was charged to depreciation expense, $2,403,000 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, 2021 was $63,280,000 of which $55,833,000 was charged to depreciation expense, $2,621,000 was included in fuel and other operating expenses, $1,791,000 was included in employee pension and benefits, and $3,035,000 was charged to amortization of regulatory assets.

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 2022 and 2021.

(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 2022 and 2021 totaled $1,227,000 and $997,000, 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 $56,256,000 and $55,262,000 as of December 31, 2022 and 2021, respectively. The CCR is included in cash and cash equivalents as of December 31, 2022 and 2021.
- A 2019 revenue deferral plan implemented to mitigate potential rate impacts of future capacity expansion projects, potential environmental regulation, and other industry activities was approved by RUS. WFEC deferred $5,600,000 to be recognized no later than 2029. The WFEC Board authorized use of $4,000,000 of the deferral during 2021 to mitigate the rate impact of reduced load in 2021 associated with COVID-19. At December 31, 2022 segregated cash satisfied RUS's requirement to segregate cash in an amount equal to the balance of WFEC's revenue deferral plan of approximately $1,600,000 as of December 31, 2022 and 2021 (see note 5).

(Continued)

(g) Cash and Cash Equivalents

For purposes of reporting cash flows, cash equivalents include 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.

(h) Investments in Associated Organizations

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

(i) Inventories

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

(j) Emission Allowances and Renewable Energy Credits

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

(k) Electric Rates

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

WFEC bills its members fuel costs as a component of electric rates. The fuel billing rate is designed to accumulate and maintain an over recovered fuel account balance. An over recovery of approximately $11,435,000 and $9,374,000 at December 31, 2022 and 2021, 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.

(Continued)

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

		2022	2021
		(In thousands)	
Members	$	857,031	733,160
Nonmember		4,655	5,707
System sales revenues		861,686	738,867
Integrated marketplace		60,106	65,099
Transmission		54,330	52,114
Revenue from contracts with customers		976,122	856,080
Other		17,665	6,403
Total revenues	$	993,787	862,483

(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 remaining New Mexico member with a Transition Agreement providing that during the transition period, WFEC shall maintain a separate cost of service-based rate for the New Mexico member. Immediate and short-term power requirements for this member are provided from a combination of an existing contract with Southwestern Public Service Company (SPS), at prescribed contract quantities and periods, and WFEC, with WFEC's obligation to provide power and energy increasing as the quantities of power and energy from the SPS contract decreases over time. The New Mexico member's third-party supplier contract was assigned to WFEC (see note 13(a)).

Effective December 31, 2022, WFEC and the one remaining New Mexico member agreed to terminate the Transition Agreement early and beginning January 1, 2023, the member is billed the Member Rate consistent with the Wholesale Power Contract (see note 13).

(Continued)

At December 31, 2022, WFEC has Wholesale Power Contracts (WPC) with its 21 distribution cooperative members through the year 2065. WFEC's power sales to members for 2022 and 2021 was approximately 93% and 90% of total sales, respectively. No collateral is pledged to WFEC from its members to collateralize the outstanding accounts receivable.

(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, 2022 and 2021 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 Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Its objective is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard requires entities to recognize a Right of Use (ROU) asset and liability for leases on the balance sheet. The asset will be based on the liability, subject to adjustment, such as for initial direct costs, prepayments, and lease incentives. For income statement purposes, Topic 842 retains a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense, while finance leases will result in a front-loaded expense pattern through amortization and interest, similar to capital leases in prior lease guidance (ASC 840). Classification of operating and finance leases is also largely similar to those applied in ASC 840, but without the explicit thresholds. For operating and finance leases, the lease liability is initially measured at the present value

(Continued)

of the unpaid lease payments at the lease commencement date. The lease liability is subsequently measured at amortized cost using the effective-interest method.

The new lease standard implementation activities included the review of contracts to develop a lease population as well as reviewing previous recognized leases to analyze the accounting treatment under Topic 842. For WFEC this guidance is effective for periods beginning January 1, 2022. The new guidance has been applied using a modified retrospective approach. Using the modified retrospective approach to adopt the new standards, the prior year reported results are not restated, instead a cumulative-effect adjustment has been made as of January 1, 2022, and the comparative period of 2021 has not been adjusted. Upon adoption, agreements considered leases for the use of generation facilities, office equipment, industrial equipment, and IT equipment were recognized on the balance sheet. WFEC has adopted the following practical expedients.

Practical Expedient	Description
Hindsight Expedient	Elect to use hindsight to determine the lease term.
Land Easement Expedient	Elect to not evaluate existing or expired easements and carry forward current accounting treatment.
Short Term Lease Expedient	Elect to not apply the recognition requirement to short term leases. Lease payments for short term leases recognized in net income and not included on balance sheet.
Non-Separation Expedient (Asset Class)	Elect to not separate non-lease components from lease components, instead account for each lease and associated non-lease component as a single lease component.
Transition Method-Effective Date	Elect to apply the guidance to leases that commenced at the beginning of reporting period in which the standard applies. A cumulative-effect adjustment made as of January 1, 2022 and the comparative periods were not adjusted.

Adoption of the leasing standard resulted in a $186,000 increase in Accounts payable and accrued liabilities (of which $105,000 is current) for leases that were not previously on the balance sheet with a corresponding increase in net ROU assets of $3,632,000, reflected in Electric utility plant, at cost in-service, with an adjustment to Patronage capital of $3,343,000 as of January 1, 2022. Adoption had no material effect on WFEC's consolidated statement of income or consolidated statement of cash flows, other than its disclosures (see Note 3).

(Continued)

(2) Electric Utility Plant

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

	2022	2021
	(In thousands)	
Production plant	$ 1,033,971	1,010,320
Transmission plant	600,112	543,967
Distribution plant	241,196	237,833
General plant	130,645	127,308
Unclassified plant	—	17,332
Electric utility plant-in-service	2,005,924	1,936,760
Construction work-in-progress	31,875	46,428
Total electric utility plant	$ 2,037,799	1,983,188

(3) Leases

As described above in note 1, WFEC adopted Topic 842 effective January 1, 2022, utilizing the modified retrospective method. The adoption of the new standard resulted in recording ROU assets and lease liabilities for both financing and operating leases. As a result, WFEC’s comparative period financial information as of and for the year ended December 31, 2021, continues to be presented under the previous guidance.

WFEC is obligated under finance leases covering multiple generation facilities, office equipment, and IT equipment that expire at various dates through 2026.

WFEC also has several operating leases, primarily for office equipment and other operating equipment that expire at various dates through 2025. Some leases contain renewal options for periods up to five years. WFEC is not reasonably certain to exercise these renewal options, therefore the options are not considered in determining the lease term nor value. For equipment leases for which WFEC has elected not to separate lease and non-lease components, maintenance services are provided by the lessor at a fixed cost and are included in the fixed lease payments for the lease.

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The aggregated lease expense reported in the Consolidated Statement of Operation for the year ended December 31, 2022, is as follows:

		2022
		(In thousands)
Opearting lease expense	$	53
Finance lease expense:		
Amortization of right of use assets		1,647
Interest on lease liabilties		901
Total finance lease expense		2,548
Variable lease expense		19
Total lease expense	$	2,620

The aggregated lease amounts reported in the Consolidated Balance Sheets as of December 31, 2022, is as follows:

		2022
		(In thousands)
Operating leases:		
Operating lease ROU asset	$	159
Operating lease liabilities	$	53
Other current liabilities		53
Total operating lease liabilities	$	106
Finance leases:		
Financing lease ROU asset – other	$	716
Financing lease ROU asset – generation		32,604
Accumulated amortization		(7,585)
Net financing lease ROU asset	$	25,735
Finance lease liability – other – current	$	238
Finance lease liability – generation – current		2,367
Finance lease liability – other – noncurrent		95
Finance lease liability – generation – noncurrent		18,684
Total finance lease liability	$	21,384

No implicit discount rate could be readily determined, therefore WFEC elected to use its incremental borrowing rate to determine the present value of its leases. The weighted average discount rate used for

(Continued)

operating leases and finance leases, as of December 31, 2022, was 3.1%. The average remaining lease term for operating leases and finance leases is 1.8 years, as of December 31, 2022.

In 2017, WFEC entered into a capital lease as a lessee for multiple solar generation facilities. The lease agreement expires in 2027, at which time WFEC has the option to purchase the solar generation facilities. During the implementation of ASC 842, RUS updated the accounting treatment for leases to be consistent with U.S. generally accepted accounting principles. As such, an adjustment to the opening balance of equity as of January 1, 2022 was necessary for implementation. Under prior RUS guidance for capital leases, no interest expense, amortization, or depreciation expense was recognized, the asset amount was amortized proportionately to the lease liability, with cash payments being expensed as incurred to production expense, similar to an operating lease. This resulted in a greater carrying value of the ROU asset when implementing ASC 842. The increase in ROU carrying value resulted in a credit adjustment to Patronage capital. The gross amount of the lease was $32,604,000 at December 31, 2022 and 2021, with accumulated amortization of $7,241,000 and $9,280,000 at December 31, 2022 and 2021, respectively. The principal and interest payments were $3,166,000 for 2022, of which $2,274,000 was for amortization of the ROU asset and $892,000 was for interest. The principal and interest payments were $3,166,000 for 2021, of which $2,185,000 was for amortization of the ROU asset and $981,000 was for interest. For the year ending December 31, 2022 lease payments reduce the lease liability and the timing of the expense is front loaded through depreciation and interest. For the year ending December 31, 2021 lease payments were treated as a production expense and the timing of the expense was evenly recognized over the lease term to conform with rate treatment under ASC 980-842-45, *Regulated Operations – Leases Other Presentation Matters*.

Maturities of lease liabilities under noncancellable finance leases as of December 31, 2022, are as follows (in thousands):

2023	$	3,166
2024		3,166
2025		3,166
2026		3,166
2027		1,415
Total undiscounted lease payments		14,079
Less imputed interest		(2,791)
Total lease liabilities		11,288
Current maturities		(2,367)
Long-term finance lease liabilities		8,921
Bargain purchase option		9,764
Total long-term finance lease liabilities	$	18,685

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

(Continued)

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

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

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

(4) Investments in Associated Organizations and Other Investments

		2022	2021
		(In thousands)	
National Rural Utilities Cooperative Finance:			
Corporation (CFC):			
3% capital term certificates	$	300	300
5% capital term certificates		5,830	5,830
Patronage capital certificates		1,642	1,600
CoBank Class A stock		13,695	12,383
ACES		1,302	1,316
Other		44	44
	$	22,813	21,473

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, 2022, WFEC owned 4.55% of ACES equity. The investment in the partnership is accounted for using the equity method of accounting.

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(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:

	2022	2021
	(In thousands)	
Regulatory assets:		
Unamortized cost associated with lease/leaseback	$ 11,515	14,550
Unamortized cost associated with 2021 Storm Uri	70,951	88,689
Other assets:		
Unamortized RS prepayment (see note 10)	—	1,791
Preliminary survey and investigation charges	1,012	507
Unamortized debt expense	660	396
Premiums on debt refinancing	12,891	14,732
	$ 97,029	120,665

	2022	2021
	(In thousands)	
Regulatory liabilities:		
Deferred revenue	$ 1,600	1,600
Over recovered fuel	11,435	9,374
Other liabilities:		
Estimated refund for SPP attachment Z2 credits	37,503	36,128
Early Termination of Transition Agreements (see note 13)	1,091	730
	$ 51,629	47,832

As of December 31, 2022, WFEC's regulatory assets are being reflected in rates charged to customers over 4 years.

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

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

Premiums on early extinguishment of debt arising from refinancing transactions are being amortized over approximately 7 years, the remaining life of the replacement debt, using the straight-line method.

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

On February 28, 2019, the Federal Energy Regulatory Commission (FERC) issued an order on remand that reverses the settlement for Attachment Z2 of the SPP OATT for the periods of March 1, 2008 through August 31, 2016 with exception of the twelve months preceding the billing date of that settlement, which was October 31, 2016. In response, SPP filed a report in June 2019 requesting a stay of the remand order’s refund directive and further consideration of the reversal of the settlement among other items. In January 2022, SPP submitted an informational update regarding the proposed refund plan and requested FERC not issue any further order directing refunds until outstanding Attachment Z2-related litigation is resolved by final FERC or judicial action. FERC has denied various rehearing requests since the filing, however there are still dockets outstanding to be resolved and additional petitions anticipated to be filed by affected parties.

With Board and RUS approval, WFEC terminated the revenue deferral plan pertaining to the net credit due for Attachment Z2 of the SPP OATT, as of February 28, 2019. The deferred revenue balance as of the termination date was approximately $21,197,000. The termination of the revenue deferral plan eliminated the regulatory liability remaining for the Z2 credit. The estimated refund amount in excess of the regulatory liability was approximately $16,180,432 and $14,805,738 at December 31, 2022 and 2021, respectively. As a result of several 2021 court rulings in favor of upholding the FERC order on remand and refund directive, the balance in excess of the regulatory liability at December 31, 2021 was expensed. Interest is accrued and expensed until the refund directive is administered and paid. The total estimated refund balance, including associated FERC interest, of approximately $37,503,000 and $36,128,000 at December 31, 2022 and 2021, respectively, is included in accounts payable and accrued liabilities in the accompanying consolidated financial statements.

With Board and RUS approval, WFEC implemented a 2019 revenue deferral plan to mitigate potential rate impacts pertaining to future capacity expansion projects, potential environmental regulation impacts and other industry activities. WFEC deferred $5,600,000 to be recognized no later than 2029. The WFEC Board authorized use of $4,000,000 of the deferral during 2021 to mitigate the rate impact of reduced load in 2020 associated with COVID-19 resulting in $1,600,000 remaining in the 2019 revenue deferral plan as of December 31, 2022. Cash equal to the balance of the deferred revenue is segregated and restricted until a like amount is subsequently accreted into revenue.

With Board and RUS approval, WFEC implemented a 2021 expense deferral plan to mitigate the rate impact of a dramatic spike in fuel costs, purchased power costs and SPP IM energy prices from February 8 to February 20, 2021, an extreme persistent cold weather event (Weather Event) often referred to as

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Winter Storm Uri. The extraordinary cost was assigned to members and customers based on their respective February 2021 kilowatt hour consumption, which is consistent with WFEC's billing rate. To accommodate members' varied financial positions, the WFEC Board provided three options to members as it pertained to cost recovery. Members could elect to either: 1) pay their allocated cost of the Weather Event in a lump sum payment in December 2022; 2) pay their allocated cost over a five-year recovery period (2022-2026); or 3) pay a portion of their allocated cost in December 2022 and the remaining balance over the five-year recovery period. As of December 31, 2021, WFEC incurred $148,854,000 in net fuel, purchased power and SPP extraordinary unplanned costs due to the Weather Event. WFEC recovered $60,165,000 via its billing rate and lump sum payment elections from members and customers in 2021, leaving $88,689,000 to be recovered ratably over the five-year recovery period (2022-2026). The expense deferral plan was approximately $70,951,000 and $88,689,000 at December 31, 2022 and 2021, respectively.

(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 $0 was allocated for the year ended December 31, 2021. The allocation for 2022 is estimated to be $0. For financial reporting purposes, net margins are assigned to members on a patronage basis.

WFEC's Indenture (see note 7) contains restrictions on distributions of capital. The Board of Trustees authorized a patronage capital retirement for 2022 and 2021 of $7,091,000 and $1,622,000, respectively.

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(7) Debt

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

		2022	2021
		(In thousands)	
First mortgage notes:			
Notes payable to Federal Financing Bank (FFB), interest from 1.13% to 6.26%, a weighted average of 2.57%, due in quarterly installments through 2050	$	671,190	577,739
Notes payable to the RUS, interest from 4.75% to 5.00%, a weighted average of 4.76%, due in monthly and quarterly installments through 2025		2,149	2,849
Note payable to CoBank, interest at 6.22%, due in monthly installments through November 2025		914	1,180
Notes payable to CoBank, interest from 5.33% to 6.37%, a weighted average of 6.36%, due in quarterly installments through April 2038		91,428	94,797
Notes payable to CFC with varying amounts, interest from 4.50% to 4.55%, a weighted average of 4.53% due in quarterly installments through June 2024		1,685	2,741
Notes payable to CoBank, interest from 4.42% to 4.76%, a weighted average of 4.52%, due in quarterly installments through October 2042		48,546	50,000
Notes payable to CoBank, interest at 8.35%, due in annual installments through January 2027, with a balloon payment due in 2027		28,412	29,088
Notes payable to CoBank, interest at 3.5%, due in quarterly installments through December 2029		68,224	76,446
Notes payable to CoBank, interest from 2.69% to 2.79%, a weighted average of 2.77%, due in quarterly installments through December 2038		82,155	88,185
Note payable to Wells Fargo Bank, interest at 1.34%, due in monthly installments through January 2027		106,667	129,600

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		2022	2021
		(In thousands)	
Other notes:			
Notes payable to CFC, interest from 4.40% to 5.55%, a weighted average of 4.87%, due in quarterly installments through 2023	$	1,808	3,530
Note payable to CoBank, interest at 3.70%, due in quarterly installments through July 2023		1,563	3,612
		1,104,741	1,059,767
Less current portion of long-term debt		80,429	79,934
Total long-term debt	$	1,024,312	979,833

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

2023	$	80,429
2024		86,494
2025		74,446
2026		72,668
2027		67,402
Thereafter		723,302
	$	1,104,741

All of the first mortgage notes listed above are secured equally and ratably under the Indenture by a first priority lien on substantially all of the assets of WFEC, subject to certain exceptions and limitations. Under the terms of the Indenture, substantially all of the after-acquired assets of WFEC become subject to the lien of the Indenture. Also, under the terms of the Indenture, the RUS Loan Contract and other loan agreements, WFEC must maintain certain financial covenants. Management believes WFEC was in compliance with these financial covenants at December 31, 2022.

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

WFEC has a $100,000,000 five-year committed revolving line of credit agreement with CFC for general corporate purposes through October 2026. In March 2021, to support unplanned extraordinary costs related to Winter Storm Uri, WFEC arranged an additional one-year secured revolving line of credit agreement with CFC for $200,000,000, that expired in March of 2022. No advances were outstanding on the CFC lines of credit at December 31, 2022 and 2021. Letters of credit totaling $54,890,000 and $24,394,000 had been issued under this arrangement at December 31, 2022 and 2021, respectively.

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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 2027. No advances were outstanding on this credit agreement at December 31, 2022 and 2021. Letters of credit totaling $10,000,000 and $0 had been issued under this arrangement at December 31, 2022 and 2021, respectively.

Approximately $190,000,000 and $200,000,000 of borrowing capacity was available on the syndicated line of credit at December 31, 2022 and 2021, respectively. Approximately $45,110,000 and $275,606,000 of borrowing capacity was available on the CFC lines of credit at December 31, 2022 and 2021, respectively.

WFEC had $42,304,000 of unadvanced funds available at December 31, 2022 from an FFB note executed in 2019. Approximately $22,807,000 is available for transmission and distribution additions and replacements and $19,497,000 for generation system improvement projects.

WFEC had $234,410,000 of unadvanced funds available at December 31, 2022 from an FFB note executed in 2022. Approximately $188,728,000 is available for transmission and distribution additions and replacements, $44,782,000 for generation system improvement projects and $900,000 for WFEC office building projects.

(8) Production Expenses

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

		2022	2021
		(In thousands)	
Fuel	$	117,480	140,004
Other production expenses		28,788	29,067
Total production expenses	$	146,268	169,071

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

(9) Income Taxes

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

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

As of December 31, 2022 and 2021, WFEC’s deferred tax asset before valuation allowance was approximately $4,119,000 and $3,711,000, respectively. Based on WFEC’s historical results, management

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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 $24,441,000 which expire in 2022 and thereafter.

No income tax expense was provided in 2022 and 2021, 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:

	2022	2021
	(In thousands)	
Tax-effected deductible temporary differences	$ 4,119	3,711
Deferred tax asset	4,119	3,711
Less valuation allowance	(4,119)	(3,711)
Net deferred tax asset	$ —	—

(10) Retirement Plans

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered 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 with 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 2022 and in 2021 represented less than 5% of the total contributions made to the RS Plan by all participating employers. WFEC made contributions to the RS Plan of $7,745,000 in 2022 and $7,592,000 in 2021.

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, 2022 and January 1, 2021, 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.

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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 $0 and $1,791,000 as of December 31, 2022 and 2021, 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 $2,522,000 and $2,230,000 to the plan in 2022 and 2021, 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, 2022 and 2021 (in thousands):

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	2022
Liabilities:					
Commodity derivatives	$	—	(3,207)	—	(3,207)
Total liabilities	$	—	(3,207)	—	(3,207)

(Continued)

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

The following methods and assumptions were used to estimate the fair value of each class of financial 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, forward 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 $3,207,000 and $922,000 as of December 31, 2022 and 2021, 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 2023.

(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 430 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

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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 three occurred in 2012, 2017, and 2022 with the remaining increment in 2024, then the contracts terminate in the spring of 2026. WFEC provided 91 MW in 2016, 172 MW in 2017, 275 MW in 2022, and will be responsible for providing approximately 300 MW in 2024, and fully responsible for all needs of the Cooperatives after the SPS contracts terminate in 2026.

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

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

Effective December 31, 2018, WFEC and three of the four Cooperatives mutually agreed to terminate their respective Agreements. These Cooperatives representing approximately 300 MW of the New Mexico load, are billed the Member Rate consistent with the WPC.

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Effective December 31, 2022, WFEC and the remaining Cooperative mutually agreed to terminate their Agreement. Beginning January 2023, this Cooperative representing approximately 130 MW of the New Mexico load, will be billed the Member Rate consistent with the WPC. An equity contribution true-up amount was determined for the Cooperative which will be paid by WFEC in equal monthly amounts over a 41-month period beginning January 2023, with the last payment made by the original termination date of the Agreement, June 1, 2026. Members' Equity Contributed Capital was reduced by $1,543,000 as of December 31, 2022, representing an over collection of equity by WFEC for the Cooperative.

(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 2023 rates, the minimum requirement approximates $19,092,000. During 2022 and 2021, WFEC purchased $22,347,000 and $23,831,000, respectively.

WFEC has a long-term purchased power contract with a party through December 2050 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 2023 is estimated at $32,346,000. During 2022 and 2021, WFEC purchased $11,625,000 and $8,948,000, 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 $12,438,000 for 2023. During 2022 and 2021, WFEC purchased 91,806,000 and $97,570,000, respectively.

WFEC has negotiated multiyear contracts to acquire coal through 2023 and coal transportation through 2026 for the Hugo Generating Station. The current projection for the minimum contract commitment for coal and coal transportation is approximately $17,977,000 in 2023. WFEC's costs for both coal and transportation purchases were approximately $17,636,000 and $15,598,000 for the years ended December 31, 2022 and 2021, respectively.

WFEC has a long-term purchased power contract with a party through December 2035, under which it is obligated to purchase increasing minimum monthly quantities of power at prescribed contract intervals. The current projection for the minimum contract commitment is $27,643,000 in 2023. During 2022 and 2021, WFEC purchased $73,255,000 and $52,815,000, respectively.

WFEC negotiated multiyear contracts for the transportation and storage of a portion of its Anadarko and Mooreland Generating Station gas requirements through February 2044. The current projection for the minimum contract commitments for gas transportation and storage is approximately $12,486,000 in 2023. WFEC's costs for both transportation and storage purchases were approximately $12,643,000 and $11,726,000 for 2022 and 2021, 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

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some have extension options. The longest contract term extends to 2053. WFEC's expense for energy purchased under these agreements was $101,651,000 and $99,803,000 in 2022 and 2021, respectively.

(c) Environmental

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

WFEC generates waste subject to the Federal Resource and Conservation and Recovery Act of 1976 (RCRA) and similar state of Oklahoma requirements. In 2015, the U.S. Environmental Protection Agency (EPA) finalized a rule under RCRA for handling and disposing of coal combustion residual (CCR) or coal ash. The rule regulates coal ash as a non-hazardous waste. In 2018 WFEC installed a dry ash removal system to support closure requirements with the CCR permit program. In June 2018, the EPA approved the State of Oklahoma's application for authority to permit coal ash. Therefore, the Oklahoma Department of Environmental Quality (DEQ) manages the disposal of coal ash in Oklahoma. Specifically, for WFEC, the DEQ governs the Hugo Plant landfill and CCR impoundments. WFEC is working with the DEQ to coordinate and complete closure of the two CCR impoundments at the Hugo Plant. One CCR impoundment was closed in 2021 and the second is scheduled for closure in 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 2022, downward revision was needed to asset retirement obligation (ARO) estimates. The liabilities are estimates based on various assumptions including, but not limited to, closure and post-closure cost estimates, timing of expenditures, escalation factors and discount rates (see note 14).

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

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

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

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

(d) Legal

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

(14) Asset Retirement Obligation

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

		2022	2021
		(In thousands)	
Beginning balance	$	6,500	9,056
Additional liabilities incurred		—	—
Settlement of liability		(1,038)	(345)
Revisions to estimates		—	(2,923)
Accretion expense		603	712
Ending balance	$	6,065	6,500

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

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(15) Comprehensive Income

The accumulated balance of other comprehensive income is as follows:

		Pension and postretirement benefit plans (In thousands)
Balance, December 31, 2020	$	490
Net current period change		(15)
Balance, December 31, 2021		475
Net current period change		120
Balance, December 31, 2022	$	595

(16) Subsequent Events

WFEC has evaluated subsequent events from the balance sheet date through March 7, 2023, 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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