



**SOUTHWESTERN  
POWER  
ADMINISTRATION**

# **2020 ANNUAL REPORT**



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*Published September 2022*

# Vision 2020 Pathway to Excellence

## SOUTHWESTERN POWER ADMINISTRATION STRATEGIC PLAN

Having a clear vision of what you do, where you are going, what you believe in, how you will get there, and how you will treat others along the way is the key to success for any organization.

Southwestern embraced this philosophy in the Vision 2020 Pathway to Excellence planning sessions and published a new Strategic Plan in October 2020.



### Core Values

#### **Safety**

Protect yourself and others, both physically and psychologically.

#### **Integrity**

Do what is right morally, ethically, and honestly, even when it is difficult.

#### **Courtesy**

Treat people with dignity, respect, and kindness.

#### **Collaboration**

Work together to achieve greatness.

#### **Commitment**

Dedicate yourself to the success of Southwestern and all employees.

#### **Courage**

Engage, embrace, and address change and challenges.

### Strategic Direction

#### **Workforce Excellence**

Strive to be fully staffed, with a team of highly-qualified, engaged professionals who are excited to work for Southwestern.

#### **Operational Excellence**

Execute efficiently, invest strategically, and improve continuously to control costs and increase value.

#### **Collaborative Partnerships**

Develop and sustain successful, long-term, internal, and external strategic relationships.

#### **Evolving Services**

Develop and provide services within an evolving energy landscape.

### Leadership Philosophy

**Support Southwestern's** vision, mission, core values, and strategic plan through behavior and communication.

**Demonstrate patience,** actively and respectfully listen, and work to understand what is being communicated before responding.

**Encourage,** enable, and empower employees.

**Champion the investment** of time and resources for training, development, and team building.

**Share information** and be transparent.

**Look beyond day to day** business and voice thoughts and concerns that continually move Southwestern toward excellence.



## Department of Energy

Southwestern Power Administration  
One West Third Street  
Tulsa, Oklahoma 74103-3502

The Honorable Jennifer M. Granholm  
Secretary of Energy  
Washington, D.C. 20585

Dear Secretary Granholm:

I am pleased to present the financial statements and operating data for Southwestern Power Administration (Southwestern) for Fiscal Year (FY) 2020.

In FY 2020, Southwestern delivered 7.7 billion kilowatt-hours of energy to its wholesale customers in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas, generating \$235 million in revenue.

In fulfilling its mission to market and reliably deliver renewable Federal hydroelectric power, Southwestern maintains 1,381 miles of high-voltage transmission lines, 26 substations, and 46 communications sites, contributing to the resiliency of the regional and National electric grid.

Southwestern also actively partners with the Department of Energy, the U.S. Army Corps of Engineers, Southwestern's customers, and other Federal power stakeholders to optimally use Federal resources to safely and sustainably provide clean hydropower, transmission, and related services to benefit our customers, regional communities, and the Nation.

Even with the challenge of the COVID-19 pandemic, Southwestern was able to carry out its mission, and we look forward to continuing that mission of providing sustainable, reliable, and affordable Federal hydropower to serve the region and to securely fulfill our Nation's clean energy needs.

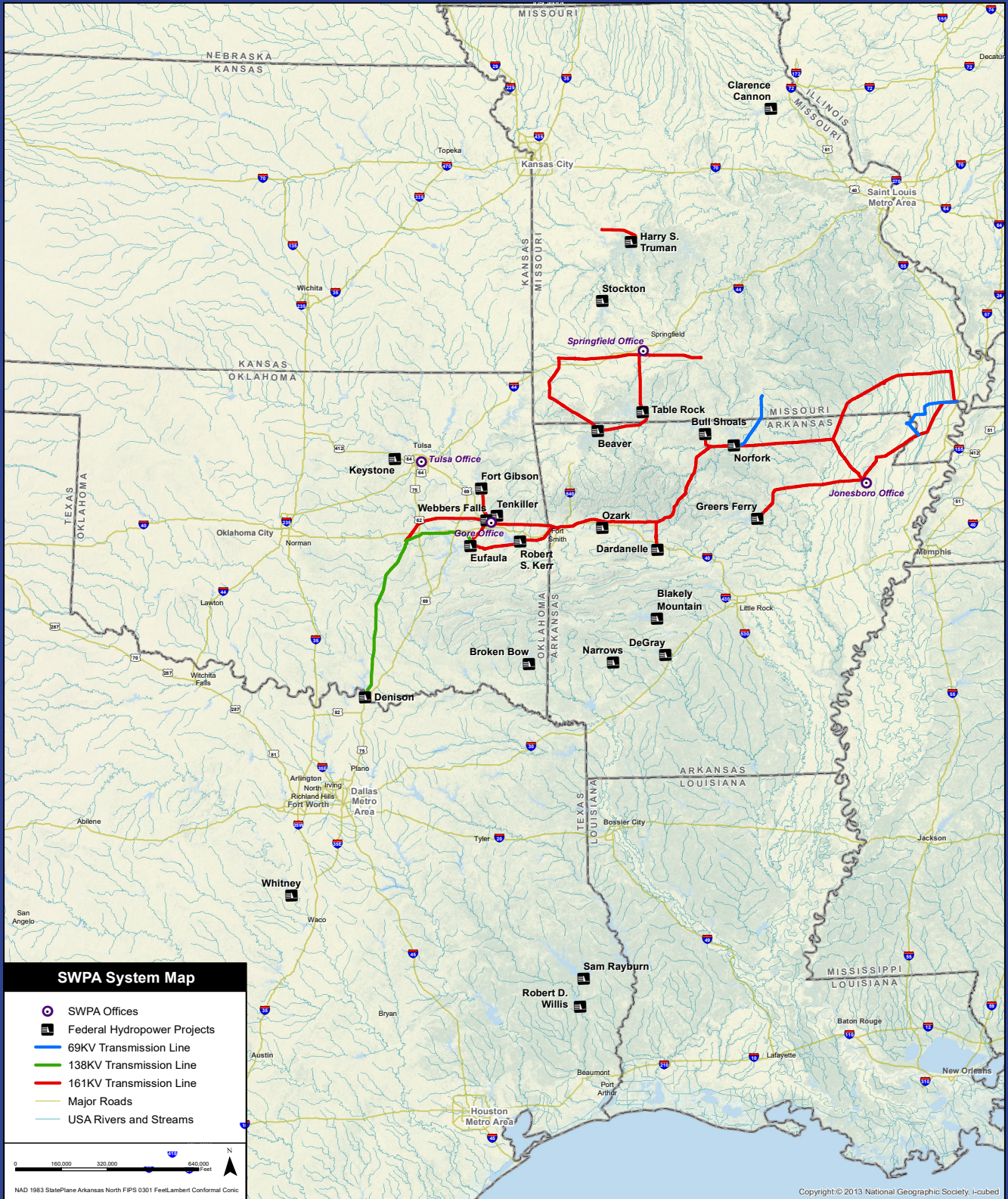
Sincerely,

A handwritten signature in black ink, appearing to read "Mike Wech".

Mike Wech  
ADMINISTRATOR



# System Map



# About Southwestern

Southwestern - or SWPA - was established in 1943 by the Secretary of the Interior as a Federal Agency that today operates within the Department of Energy.

As one of four Power Marketing Administrations in the United States, Southwestern markets hydroelectric power in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas from 24 U.S. Army Corps of Engineers (Corps) multipurpose dams with a combined generating capacity of approximately 2,213.5 MW.

Southwestern operates and maintains 1,381 miles of high-voltage transmission lines. Southwestern also owns numerous substations and switching stations, and a communications system to monitor and control the transmission of electricity. Staff members work from offices located in Gore, Oklahoma; Jonesboro, Arkansas; Nixa, Missouri; Springfield, Missouri; and Tulsa, Oklahoma. Power scheduling and plant dispatching are conducted on a 24-hour basis by staff in the Nixa and Springfield Operations Centers.

Annual revenue for Southwestern for FY 2020 was \$235 million. Average revenue over the last five years is approximately \$210 million. This revenue is used to pay the cost of operating and maintaining the generation and transmission facilities and to repay the principal and interest on the Federal investment.

## Mission

Optimally use Federal resources to safely and sustainably provide clean hydropower, transmission, and related services to benefit our customers, regional communities, and the Nation.

## Vision

Interconnecting our partners with the future of electricity.



## Authorization

The Flood Control Act of 1944 (58 Stat. 887, 890; 16 U.S.C.A. 825s) is Southwestern's main authorizing legislation. Through Section 5 of this Act and a series of Executive Orders and Departmental Orders, Southwestern's Administrator is authorized to "transmit and dispose of... power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles." Southwestern is also authorized to draw up rate schedules for such power and energy, with the goal of recovering, with interest, the investment of the American people.

By law, Southwestern's power is marketed and delivered to not-for-profit municipal utilities and rural electric cooperatives. Southwestern has over one hundred such "preference" customers, and these entities ultimately serve over ten million end-use customers.

# 2020 Initiatives at a Glance

## **I, 2, 3, ENERGIZE! - SWPA CREWS RESTORE LINE TO SERVICE IN JUST 15 DAYS IN MAY 2020**

*15 days to mobilize 40+ personnel, equipment, and materials, removing and replacing 70 damaged structures, and straightening 7+ miles of tangled conductor - all in water, mud, and rainy conditions.*

According to the National Weather Service (NWS), it was a series of straight-line winds and “macrobursts” that destroyed 70 structures on a Southwestern transmission line near the bootheel region of Missouri.

Conditions were fierce during the restoration effort - rain, mud, stormy weather, and even some theft of materials and equipment (later recovered with the help of the County Sheriff) – but Southwestern’s crews were more than up to the task, mobilizing men, equipment, and materials, wrecking out debris, and replacing structures to have the line back up and running in just 15 days.



Construction crews were part of the team effort to install new structures following the storm.



## 2020 Initiatives at a Glance



Crews from Southwestern's Gore, Jonesboro, and Springfield Field Offices faced muddy conditions as they sought to replace nearly 70 structures destroyed by a "macroburst" featuring 110-mph peak winds.

The trouble started on Sunday, May 3, 2020, when a series of severe storms with straight-line winds rolled through southeast Missouri and tripped Southwestern's 161-kilovolt (kV) Kennett to New Madrid line out of service, damaging two H-Structures. More storms followed Monday evening, May 4, 2020, including a macroburst with 110-mph peak winds, which was the likely culprit in the destruction of nearly 10 miles of transmission structures, electrical conductor, and related equipment.

Crews from Southwestern's Gore, Jonesboro, and Springfield Field Offices faced muddy conditions on May 5, 2020 as they sought to replace nearly 70 structures.

By Friday, May 15, 2020, the combined crews had replaced 36 of the 70 damaged structures, but their work was far from done. Dodging rainstorms and muddy conditions, the crews methodically cleared debris and staged materials and equipment along the path of the storm's damage until, structure by structure, they got them all replaced.

Following repair of the last structure on May 20, 2020, the final piece of conductor was clipped into place and the line was re-energized.

# 2020 Initiatives at a Glance

## SOUTHWESTERN STEPS UP TO COVID-19 CHALLENGES

*From making sure that site critical workers remained safe while reporting for duty to making sure site flexible workers had the equipment they needed to work off-site, Southwestern continued its mission through the challenges of the COVID pandemic.*

FY 2020 started out business as usual, but around March 2020, COVID-19 brought new challenges to Southwestern and the world.

Southwestern responded as an agency by protecting its employees and the community at large while making sure that the lights stayed on and the electricity grid stayed resilient during the outbreak.

Following the direction of DOE, and continually assessing the needs of the organization, Southwestern took measures to close its facilities to the public, adopt more safety procedures for site critical workers such as maintenance crews and power system schedulers and dispatchers, and send staff home to work remotely as much as possible.



Within the span of a few days of the announcement of mandatory telework, a small group of Information Technology (IT) professionals accomplished a huge amount of work supplying staff with laptops, phones, hot spots, and support. Before COVID-19, less than 25 employees teleworked daily; once safety measures were in place, nearly 125 employees were teleworking.

Additionally, Federal IT employees and contractors worked together to increase communications bandwidth so that internet traffic could flow faster, and better-quality data would be available to employees working remotely.

Many SWPA employees worked remotely during the worst of the COVID-19 outbreak.

IT also performed out-of-band cyber vulnerability assessments on the Virtual Private Network, or VPN, appliances used by Southwestern employees to connect remotely to the network, and tightened security measures for email and internet browsers so that Southwestern's data would be protected.

As for the site critical employees in Southwestern's operations centers, each dispatcher was issued his or her own keyboard and mouse, instead of sharing as was done before the outbreak. Dispatchers were also split between the primary and secondary operations centers, along with SCADA programmers, to reduce the number of people accessing each site.

# 2020 Initiatives at a Glance

## FIBER OPTICS FEASIBILITY ASSESSMENT BENEFITS UNDERSERVED COMMUNITIES

*Southwestern identified approximately 100 miles of fiber that may be used to improve broadband access and expand the Nation's broadband infrastructure.*

Southwestern worked with DOE's Office of Electricity (OE) and the Western Area Power Administration (WAPA) in FY 2020 to publish a Fiber Optics Feasibility Assessment to benefit underserved areas of the country.

The report was part of the American Broadband Initiative (ABI), which was launched in February 2019 as part of a national strategy to drive changes across Federal agencies to identify and remove barriers to broadband access and leverage public assets and resources to expand the Nation's broadband infrastructure capacity.

Under ABI, Federal agencies can identify Federally-owned assets that could potentially be made available to lower the cost of broadband buildouts and encourage private-sector companies to expand telecommunications infrastructure to rural America. Southwestern and WAPA were asked to conduct feasibility studies to support these initiatives, and the results are being made available to the public in the Fiber Optics Feasibility Assessment.

Approximately 100 miles of available fiber that may be marketable were identified. If tapped to implement the ABI, Southwestern would act as a bulk fiber provider only, and the broadband provider would be responsible for building the infrastructure needed to connect to Southwestern's existing system and also provide final delivery to its ultimate destination.



The Fiber Optic Feasibility Assessment highlights resources available to expand broadband into underserved, often rural, communities.

# 2020 Initiatives at a Glance

## SENIOR LEADERSHIP FOCUSED ON EXCELLENCE WITH NEW STRATEGIC PLAN

*“Vision 2020 is only the beginning. Over the next several years, we will formulate specific action plans to achieve excellence in our workforce and operations, explore long-term collaborative partnerships, and develop innovative products and services for the future.”*  
Administrator Mike Wech

FY 2020 brought many challenges to Southwestern, but senior leadership was up to the task with the publication of a new Strategic Plan.

In October 2020, Administrator Mike Wech announced the vision he and fellow members of Southwestern senior leadership had in setting a course for the agency to strategically position itself as an integral part of the changing energy landscape.

Emphasizing the six core values of Safety, Integrity, Courtesy, Collaboration, Commitment, and Courage, Wech and other members of Senior Leadership provided a bold new direction for Southwestern.



## Southwestern Power Administration

### STRATEGIC PLAN

October 2020

#### Administrator's Message – Vision 2020 Pathway to Excellence

*Having a clear vision of what you do, where you are going, what you believe in, how you will get there, and how you will treat others along the way is the key to success for any organization. I'm proud to say that Southwestern embraced this philosophy during its Vision 2020 Pathway to Excellence planning sessions. During these sessions, we identified our culture, strengths, and weaknesses. We recognized opportunities and challenges. We explored our internal and external environments, and we formulated core values, a vision, and a mission to strategically position ourselves and our partners as an integral part of the changing energy landscape.*

*Vision 2020 is only the beginning. Over the next year or so, we will formulate specific action plans to achieve excellence in our workforce and operations, explore long-term collaborative partnerships, and develop innovative products and services for the future. It will be a journey; but with clear vision and leadership, I have every confidence that Southwestern will succeed on its Pathway to Excellence.*

Sincerely,

Mike Wech  
Administrator

#### Mission – What We Do



Optimally use Federal resources to safely and sustainably provide clean hydropower, transmission, and related services to benefit our customers, regional communities, and the Nation.

#### Vision – Where We Are Going



Interconnecting our partners with the future of electricity.

# Southwestern Federal Power System Energy Production

Project	Fiscal Year On-Line Date	Installed Capacity (kW)	Estimated Annual Energy <sup>1</sup> (Millions kWh)	2020 Actual Net Energy (Millions kWh)	Total Project Cost <sup>2</sup>	% Cost Assigned to Power <sup>2</sup>	Cost Assigned to Power <sup>2</sup>
BEAVER	1965	112,000	172	244	107,820,205	65.8%	70,917,398
BLAKELY MOUNTAIN <sup>3</sup>	1956	86,000	169	319	62,976,782	73.3%	46,168,271
BROKEN BOW	1970	100,000	129	287	55,278,249	59.1%	32,651,474
BULL SHOALS	1953	340,000	785	1,746	139,382,653	67.1%	93,466,153
CLARENCE CANNON	1985	58,000	90	112	395,135,875	23.2%	91,574,914
DARDANELLE	1965	140,000	613	496	153,287,841	64.5%	98,907,495
DE GRAY <sup>4</sup>	1972	78,000	97	136	90,176,507	40.1%	36,139,998
DENISON	1945	70,000	219	253	148,268,202	51.6%	76,467,358
EUFAULA	1965	90,000	260	416	150,509,789	28.3%	42,610,971
FT GIBSON	1953	45,000	191	309	71,911,488	37.3%	26,843,125
GREERS FERRY	1964	96,000	189	263	70,518,825	61.3%	43,223,067
HARRY S. TRUMAN <sup>5</sup>	1982	160,000	244	447	643,937,260	23.5%	151,189,523
KEYSTONE	1968	70,000	228	246	160,060,646	21.4%	34,197,904
NARROWS	1950	25,500	30	62	36,414,537	63.9%	23,264,369
NORFORK	1944	80,550	184	347	98,712,652	41.4%	40,911,205
OZARK	1973	100,000	429	113	285,309,700	78.8%	224,778,986
ROBERT D WILLIS <sup>6</sup>	1989	7,350	37	0	8,288,748	12.7%	1,051,442
ROBERT S KERR	1971	110,000	459	511	146,127,469	54.6%	79,821,073
SAM RAYBURN	1966	52,000	114	127	129,088,390	31.6%	40,854,265
STOCKTON	1973	52,000	55	129	126,677,492	50.0%	63,304,913
TABLE ROCK	1959	200,000	495	921	210,427,821	60.5%	127,246,665
TENKILLER	1954	39,100	95	216	88,432,172	33.9%	30,011,874
WEBBERS FALLS	1974	60,000	213	253	199,031,872	68.2%	135,706,446
WHITNEY	1955	42,000	73	49	108,449,675	49.7%	53,927,500
<b>TOTAL</b>		<b>2,213,500</b>	<b>5,570</b>	<b>8,002</b>	<b>3,686,224,850</b>	<b>45.2%</b>	<b>1,665,236,389</b>

<sup>1</sup> For each of the 24 projects in Southwestern's marketing area, a planning study was conducted by the U.S. Army Corps of Engineers prior to construction to forecast the quantity of energy that could be produced under average hydrological conditions. The term "Estimated Annual Energy" used in the table above represents the quantity of this forecasted energy on an annual basis.

<sup>2</sup> Includes construction work in progress with plant in service less contributions in aid of construction.

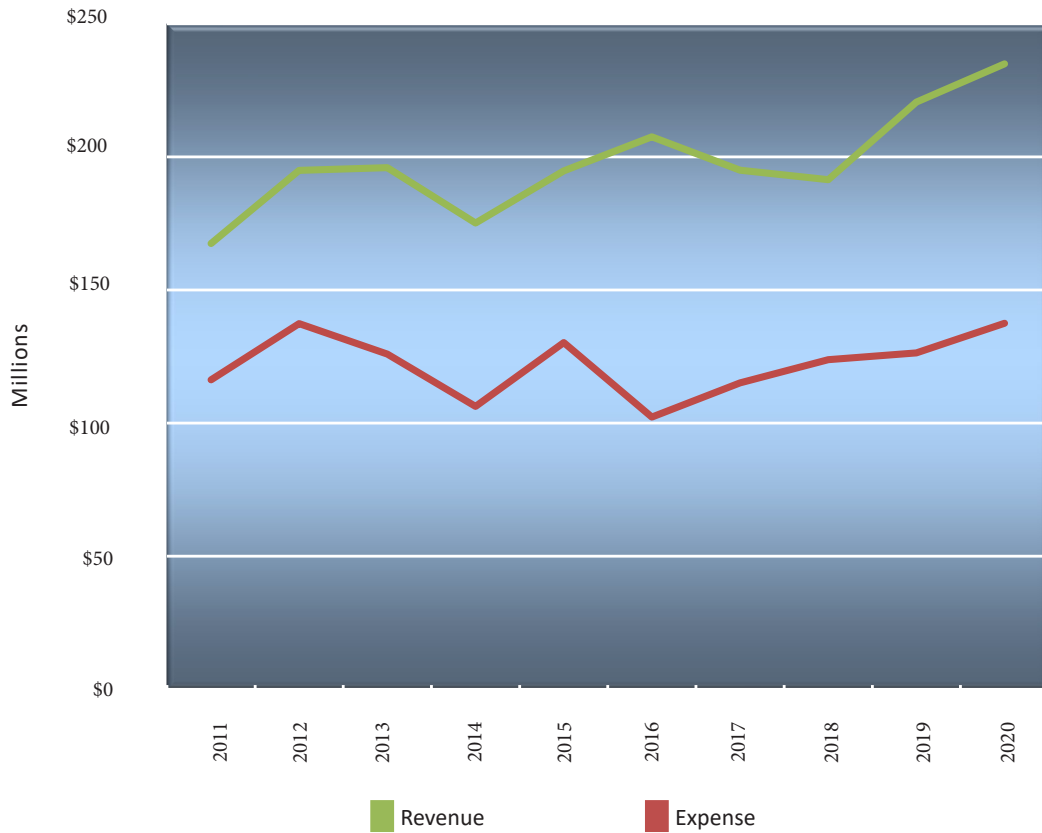
<sup>3</sup> Installed capacity at Blakely Mountain increased from 75,000 kW to 86,000 kW to reflect the uprate following a generator rewind completed in 2010 and the end of an Exchange Contract in 2019.

<sup>4</sup> Installed capacity at DeGray increased from 68,000 kW to 78,000 kW to reflect the uprate following a generator rewind completed in 2014 and the end of an Exchange Contract in 2019.

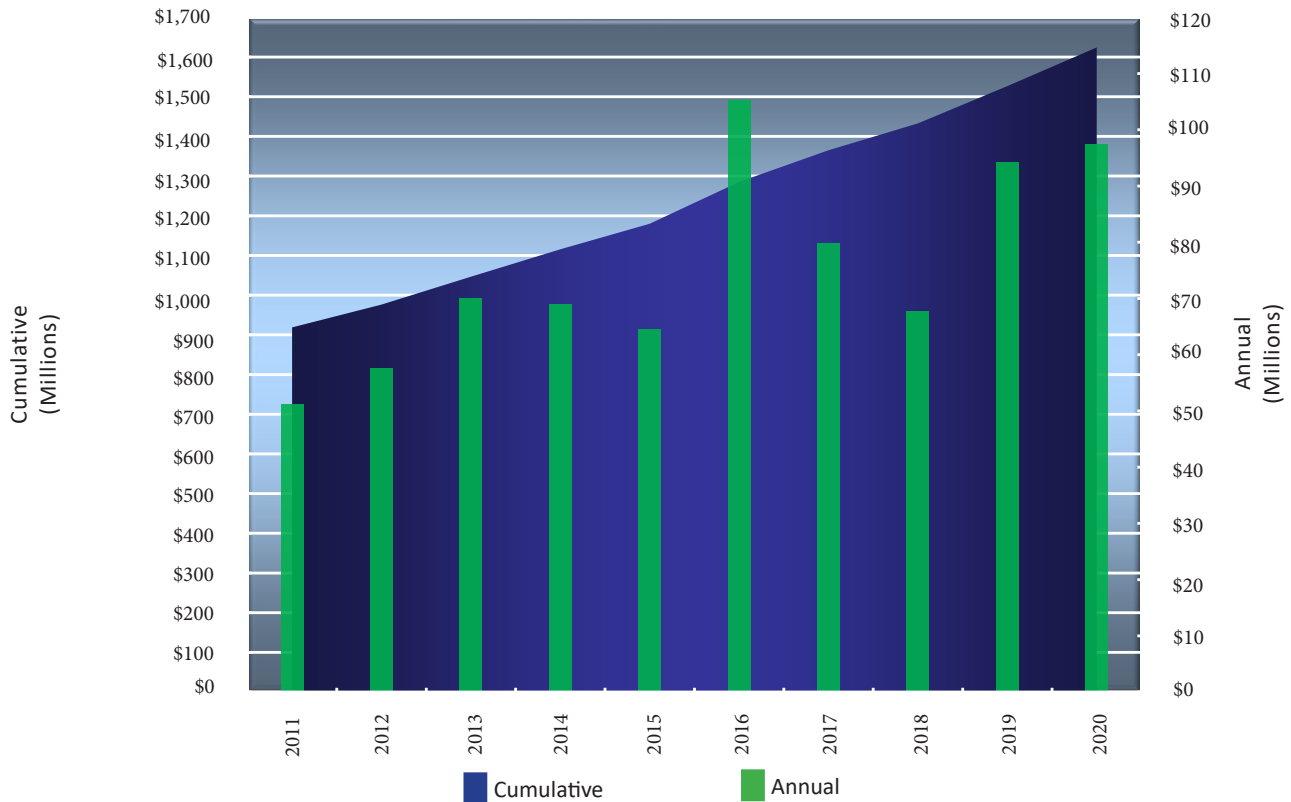
<sup>5</sup> Only 53,300 kW have been declared in commercial operation.

<sup>6</sup> The initial project construction costs for power were non-Federally financed.

## Annual Revenue and Expense (excluding depreciation and non-reimbursable expense)



## Annual and Cumulative Repayment of Capital Investment



## Source and Distribution of Energy Fiscal Year 2020

Energy Source	Millions kWh	%
Generated by Hydroelectric Plants of the U.S. Army Corps of Engineers	8,002.1	96.9%
Direct Purchases	255.0	3.1%
<b>Total</b>	<b>8,257.1</b>	<b>100.0%</b>

Energy Distribution	Millions kWh	%
Cooperatives	5,281.1	63.9%
Municipalities and Joint Action Agencies	2,233.2	27.1%
Contracted Projects (prior Contract Exchange)	455.1	5.5%
Government Agencies	177.2	2.1%
Losses	103.2	1.2%
Interchange	7.2	0.1%
Utility Companies / Other	0.1	0.1%
<b>Total</b>	<b>8,257.1</b>	<b>100.0%</b>

## Source and Distribution of Revenue Fiscal Year 2020

Revenue Source	Thousands \$	%
Cooperatives	137,037	58.3%
Municipalities and Joint Action Agencies	61,744	26.3%
Miscellaneous <sup>1</sup>	26,949	11.5%
Deferred <sup>2</sup>	4,771	2.0%
Government Agencies	4,488	1.9%
Utility Companies / Others	1	0.0%
Banking Exchange	(23)	0.0%
<b>Total</b>	<b>234,967</b>	<b>100.0%</b>

Revenue Distribution	Thousands \$	%
Operations, Maintenance, & Other <sup>3</sup>	108,782	46.3%
Available for Repayment	97,351	41.4%
Purchased Power & Banking Exchange	21,979	9.4%
Interest Expense	6,813	2.9%
Transmission Service Charge	42	0.0%
<b>Total</b>	<b>234,967</b>	<b>100.0%</b>

<sup>1</sup> Includes revenue from interest, non-Federal transmission service, and miscellaneous revenue from both the Corps and Southwestern.

<sup>2</sup> Includes revenue collected from purchased power rate components.

<sup>3</sup> Includes losses on retirement of assets booked through depreciation reserve.

# FY 2020 - Detail of Billings to Customers

<b>Distribution Cooperatives</b>	<b>Marketed Capacity (kW)</b>	<b>Energy Delivered (kWh)</b>	<b>Billings for Power Sales (Dollars)</b>
Beauregard Electric Cooperative, Inc	8,800	32,952,031	856,933
Claiborne Electric Cooperative, Inc	5,500	20,595,022	535,583
Concordia Electric Cooperative, Inc	4,800	17,973,836	467,418
Dixie Electric Membership Corporation	18,200	68,059,000	1,770,820
Doniphan Electric Cooperative <sup>1</sup>	2,000	2,198,000	63,278
Freestate Electric Cooperative	1,000	3,781,000	97,958
Jefferson Davis Electric Cooperative, Inc	4,000	14,978,197	389,515
Nemaha-Marshall Electric Cooperative Association	1,000	3,781,000	97,958
Northeast Louisiana Power Cooperative, Inc	4,500	16,850,472	438,204
Pointe Coupee Electric Membership Corporation	3,000	11,233,648	292,136
South Louisiana Electric Cooperative Association	8,900	33,326,487	866,671
Southwest Louisiana Electric Membership Corporation	25,000	93,613,729	2,434,468
Washington-St Tammany Electric Cooperative, Inc	8,700	32,577,578	847,195
<b>Total</b>	<b>95,400</b>	<b>351,920,000</b>	<b>9,158,137</b>

## **Generation and Transmission Cooperatives**

Arkansas Electric Cooperative Corporation	189,000	736,998,000	18,747,098
Associated Electric Cooperative, Inc	478,000	1,881,886,000	47,735,386
Brazos Electric Power Cooperative, Inc	41,200	67,830,000	2,960,013
East Texas Electric Cooperative, Inc <sup>1</sup>	29,775	105,101,490	2,540,424
Kansas Electric Power Cooperative, Inc	100,000	384,329,000	9,827,733
Northeast Texas Electric Cooperative, Inc	127,500	458,297,000	12,036,930
Rayburn Country Electric Cooperative, Inc <sup>1</sup>	42,525	159,004,510	3,859,853
Sam Rayburn Dam Electric Cooperative, Inc	52,000	127,516,000	4,563,792
Western Farmers Electric Cooperative	260,000	1,008,238,000	25,664,413
<b>Total</b>	<b>1,320,000</b>	<b>4,929,200,000</b>	<b>127,935,642</b>

## **Joint Action Agencies**

Kansas Municipal Energy Agency <sup>2</sup>	5,100	19,581,000	501,028
Louisiana Energy and Power Authority <sup>3</sup>	13,400	50,139,000	1,304,252
Sam Rayburn Municipal Power Agency <sup>4</sup>	7,350	(141,610)	1,282,836
<b>Total</b>	<b>25,850</b>	<b>69,578,390</b>	<b>3,088,116</b>

## **Government Agencies**

Fort Sill Military Reservation, Ft Sill, Oklahoma	36,700	143,852,855	3,649,528
McAlester Army Ammunition Plant, McAlester, Oklahoma	2,688	10,536,145	267,300
Vance Air Force Base, Enid, Oklahoma	5,900	22,783,000	581,433
<b>Total</b>	<b>45,288</b>	<b>177,172,000</b>	<b>4,498,261</b>

## **SPP Reserve Sharing Companies**

<b>Total</b>	<b>0</b>	<b>26,000</b>	<b>850</b>
<b>Total</b>	<b>0</b>	<b>26,000</b>	<b>850</b>

<sup>1</sup> Marketed Capacity reflects temporary change during participation in Temporary Power Sales Program.

<sup>2</sup> Served 17 Municipals with Federal Allocations in FY 2020.

<sup>3</sup> Served 7 Municipals with Federal Allocations in FY 2020.

<sup>4</sup> Has Federal Allocation.



# FY 2020 - Detail of Billings to Customers

Municipalities	Marketed Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Alexandria, Louisiana	10,700	40,022,000	1,041,242
Augusta, Arkansas	3,700	13,569,000	355,757
Augusta, Kansas	600	2,245,200	58,403
Bentonville, Arkansas	18,000	70,713,000	1,792,314
Carthage, Missouri	7,000	26,180,000	719,785
Chanute, Kansas <sup>1</sup>	0	3,061,850	74,022
Clarksville, Arkansas	19,100	71,558,000	1,860,504
Clay Center, Arkansas	600	2,242,909	58,367
Coffeyville, Kansas	1,900	7,312,000	186,819
Comanche, Oklahoma	4,200	15,724,148	408,943
Copan, Oklahoma	2,500	9,359,611	243,419
Duncan, Oklahoma	32,500	121,674,952	3,164,443
Eldorado, Oklahoma	1,300	4,866,999	126,578
Fulton, Missouri	3,000	11,129,000	290,472
Goltry, Oklahoma	900	3,369,460	87,631
Granite, Oklahoma	2,300	8,610,843	223,945
Hermann, Missouri	5,800	21,449,000	560,507
Higginsville, Missouri	3,000	11,164,000	291,029
Hominy, Oklahoma	10,000	37,438,446	973,675
Iola, Kansas <sup>1</sup>	0	2,505,150	60,564
Jonesboro, Arkansas	80,000	311,216,000	7,919,822
Kansas City, Kansas	38,600	148,435,000	3,794,294
Kennett, Missouri	11,000	43,165,000	1,155,631
Lafayette, Louisiana	18,600	45,660,000	1,587,541
Lamar, Missouri	12,000	44,341,000	1,159,107
Lexington, Oklahoma	4,100	15,349,764	399,207
Malden, Missouri	5,000	19,280,000	519,844
Manitou, Oklahoma	600	2,246,308	58,421
Minden, Louisiana	2,400	9,233,000	237,615
Mulvane, Kansas	300	1,122,600	29,201
Natchitoches, Louisiana	2,600	9,730,000	253,092
New Madrid, Missouri	4,500	16,920,000	464,156
Nixa, Missouri	5,300	19,894,000	542,751
Olustee, Oklahoma	700	2,620,691	68,157
Paragould, Arkansas	50,500	195,136,000	5,258,459
Paris, Arkansas	10,800	40,433,522	1,051,569
Piggott, Arkansas	4,900	18,903,000	509,728
Poplar Bluff, Missouri	39,500	151,215,000	4,089,462
Purcell, Oklahoma	14,500	54,285,747	1,411,828
Ruston, Louisiana	4,900	18,326,000	476,801
Ryan, Oklahoma	1,900	7,113,303	184,998
Sikeston, Missouri	33,800	131,762,000	4,972,411
Skiatook, Oklahoma	11,000	42,332,000	1,081,575
Spiro, Oklahoma	4,000	14,975,379	389,470
Springfield, Missouri	50,000	190,888,000	4,892,117
Thayer, Missouri	2,800	10,399,000	271,304
Walters, Oklahoma	6,400	23,960,607	623,152
Wellington, Kansas	1,100	4,116,200	107,072
West Plains, Missouri	15,000	56,804,000	1,553,590
Wetumka, Oklahoma	2,600	9,733,996	253,155
Winfield, Kansas	1,600	5,981,091	155,644
Yale, Oklahoma	3,700	13,852,225	360,260
<b>Total</b>	<b>571,800</b>	<b>2,163,626,001</b>	<b>58,409,853</b>

<sup>1</sup> Marketed Capacity reflects temporary change during participation in Temporary Power Sales Program.

<b>Total Marketed Capacity (kW)</b>	<b>2,058,338</b>
<b>Total Energy (kWh)</b>	<b>7,691,522,391</b>
<b>Total Billings (\$)</b>	<b>203,090,859</b>

# Southwestern Federal Power System Five-Year Statistical Summary

Revenue	2020	2019	2018	2017	2016
Annual Operating Revenue	\$234,966,849	\$220,555,978	\$191,430,161	\$194,982,367	\$207,544,022
Annual Expense (Excluding Depreciation & Non-Reimbursable Expenses)	(132,999,589)	(118,074,764)	(118,240,393)	(110,664,917)	(101,600,664)
<b>Net (Deficiency) Revenues</b>	<b>\$101,967,260</b>	<b>\$102,481,214</b>	<b>\$73,189,768</b>	<b>\$84,317,450</b>	<b>\$105,943,358</b>
Retirement Losses	(\$4,616,726)	(\$8,266,344)	(\$5,543,311)	(\$4,461,467)	(\$647,969)
<b>Total Available for Repayment</b>	<b>\$97,350,533</b>	<b>\$94,214,870</b>	<b>\$67,646,457</b>	<b>\$79,855,983</b>	<b>\$105,295,389</b>
<b>Repayable Investment</b>					
Generation	\$1,352,943,043	\$1,342,013,525	\$1,299,732,169	\$1,287,153,121	\$1,233,936,905
Transmission	497,176,354	470,674,424	447,183,520	422,184,495	408,217,142
<b>Total Repayable Investment</b>	<b>\$1,850,119,397</b>	<b>\$1,812,687,949</b>	<b>\$1,746,915,689</b>	<b>\$1,709,337,616</b>	<b>\$1,642,154,047</b>

## FY 2020 Cumulative Repayment Status

	Robert D. Willis	Sam Rayburn	Integrated System	Total SWFPS
<b>Revenue</b>	\$ 20,365,745	\$ 121,844,290	\$ 6,046,113,123	\$ 6,188,323,158
<b>Expense</b>				
Operations and Maintenance	17,019,307	62,687,680	2,613,250,142	2,692,957,129
Purchased Power and Transmission Service	0	0	946,087,595	946,087,595
Interest	(603,212)	18,344,866	907,184,958	924,926,612
<b>Total Expense</b>	<b>\$ 16,416,095</b>	<b>\$ 81,032,546</b>	<b>\$ 4,466,522,695</b>	<b>\$ 4,563,971,336</b>
<b>Revenue Applied to Repayment</b> (Cumulative Amortization)	\$ 3,949,650	\$ 40,811,744	\$ 1,579,590,428	\$ 1,624,351,822
<b>Total Unpaid Investment</b>	<b>\$ (3,274,292)</b>	<b>\$ (1,093,850)</b>	<b>\$ 230,135,717</b>	<b>\$ 225,767,575</b>

## Federal Investment in Generation and Transmission Facilities in Service

	2020	2019
Generation Facilities	\$ 1,426,021,456	\$ 1,415,091,938
Transmission Facilities	497,176,354	470,674,424
<b>Total Investment</b>	<b>\$ 1,923,197,810</b>	<b>\$ 1,885,766,362</b>
Adjustments:		
Prior Year	0	0
Retirement work-in-progress	0	0
Dam Safety <sup>1</sup>	(73,078,413)	(73,078,413)
<b>Total Repayable Investment</b>	<b>\$ 1,850,119,397</b>	<b>\$ 1,812,687,949</b>

<sup>1</sup> Dam Safety work is not repayable per Public Law 99-662.



# **SOUTHWESTERN FEDERAL POWER SYSTEM**

Combined Financial Statements

September 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



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

## Independent Auditors' Report

The Administrator of Southwestern Power Administration and the  
Inspector General, U.S. Department of Energy:

### Report on the Financial Statements

We have audited the accompanying combined financial statements of the Southwestern Federal Power System (SWFPS), which comprise the combined balance sheets as of September 30, 2020 and 2019, and the related combined statements of changes in capitalization, revenues and expenses, and cash flows for the years then ended, and the related notes to the combined financial statements. As described in note 1(a), the combined financial statements include the Southwestern Power Administration (Southwestern), a component of the U.S. Department of Energy, and the hydroelectric generating and power operations of the U.S. Army Corps of Engineers, a component of the U.S. Department of Defense, for which Southwestern markets and transmits power.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



### *Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Southwestern Federal Power System as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *Emphasis of Matter*

As discussed in note 1 to the combined financial statements, in 2020 SWFPS adopted new accounting guidance, ASU 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the SWFPS basic combined financial statements as a whole. The supplementary information in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements.

The supplementary information in schedules 1 through 4 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in schedules 1 through 4 is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2021 on our consideration of SWFPS's internal control over financial reporting and our report dated August 31, 2021 on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SWFPS's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SWFPS's internal control over financial reporting and compliance.

**KPMG LLP**

Oklahoma City, Oklahoma  
August 31, 2021

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Balance Sheets  
September 30, 2020 and 2019

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Plant in service	\$ 1,923,197,810	1,885,766,362
Accumulated depreciation	(897,938,508)	(866,436,841)
Construction work in progress	251,214,234	207,719,666
Net utility plant	1,276,473,536	1,227,049,187
Cash	472,931,725	424,101,805
Funds held in escrow	334,597,299	268,219,490
Accounts receivable	17,043,639	19,320,616
Materials and supplies, at average cost	3,073,766	3,321,694
Banking exchange receivables	4,173,440	4,166,832
Deferred workers' compensation (note 4)	7,283,530	9,866,169
Other assets	109,381,401	60,203,264
Total assets	\$ 2,224,958,336	2,016,249,057
<b>Liabilities and Capitalization</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 18,224,553	22,894,277
Advances for construction	92,387,043	44,601,903
Accrued workers' compensation	7,931,968	10,486,308
Purchased power and banking exchange deferral (note 4)	72,817,897	75,779,995
Hydropower water storage reallocation deferral (note 4)	60,305,459	60,503,106
Total liabilities	251,666,920	214,265,589
Capitalization:		
Payable to U.S. Treasury	1,273,076,890	1,167,385,188
Accumulated net revenues	700,214,526	634,598,280
Total capitalization	1,973,291,416	1,801,983,468
Commitments and contingencies (notes 6 and 7)		
Total liabilities and capitalization	\$ 2,224,958,336	2,016,249,057

See accompanying notes to combined financial statements.

**SOUTHWESTERN FEDERAL POWER SYSTEM**  
 Combined Statements of Changes in Capitalization  
 Years ended September 30, 2020 and 2019

	<u>Payable to U.S. Treasury</u>	<u>Accumulated net revenues</u>	<u>Total capitalization</u>
Total capitalization as of September 30, 2018	\$ 1,083,165,164	560,816,379	1,643,981,543
Additions:			
Congressional appropriations	76,652,874	—	76,652,874
Interest on payable to U.S. Treasury and other	11,164,069	—	11,164,069
Transfers of property and services, net	<u>7,504,865</u>	<u>—</u>	<u>7,504,865</u>
Total additions to capitalization	<u>95,321,808</u>	<u>—</u>	<u>95,321,808</u>
Deductions:			
Payments to U.S. Treasury	<u>(11,101,784)</u>	<u>—</u>	<u>(11,101,784)</u>
Total deductions to capitalization	<u>(11,101,784)</u>	<u>—</u>	<u>(11,101,784)</u>
Net revenues for the year ended September 30, 2019	<u>—</u>	<u>73,781,901</u>	<u>73,781,901</u>
Total capitalization as of September 30, 2019	<u>1,167,385,188</u>	<u>634,598,280</u>	<u>1,801,983,468</u>
Additions:			
Congressional appropriations	\$ 96,590,184	—	96,590,184
Interest on payable to U.S. Treasury and other	11,886,562	—	11,886,562
Transfers of property and services, net	<u>7,679,079</u>	<u>—</u>	<u>7,679,079</u>
Total additions to capitalization	<u>116,155,825</u>	<u>—</u>	<u>116,155,825</u>
Deductions:			
Payments to U.S. Treasury	<u>(10,464,123)</u>	<u>—</u>	<u>(10,464,123)</u>
Total deductions to capitalization	<u>(10,464,123)</u>	<u>—</u>	<u>(10,464,123)</u>
Net revenues for the year ended September 30, 2020	<u>—</u>	<u>65,616,246</u>	<u>65,616,246</u>
Total capitalization as of September 30, 2020	<u>\$ 1,273,076,890</u>	<u>700,214,526</u>	<u>1,973,291,416</u>

See accompanying notes to combined financial statements.

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Combined Statements of Revenues and Expenses

Years ended September 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
Operating revenues:		
Sales of electric power	\$ 203,246,478	198,039,439
Transmission and other operating revenues	26,949,095	22,877,335
Total operating revenues before deferrals	230,195,573	220,916,774
Net purchased power and banking exchange deferral	4,771,276	(360,796)
Total operating revenues	234,966,849	220,555,978
Non-reimbursable revenues	3,610,559	5,980,341
Total revenues	238,577,408	226,536,319
Operating expenses:		
Operation and maintenance	93,508,348	84,678,421
Purchased power and banking exchange	21,978,789	16,221,107
Depreciation and amortization	36,118,394	31,499,418
Transmission service charges by others	42,505	44,486
Retirement and other employee benefit expense	10,656,990	9,113,107
Non-reimbursable expenses	3,843,179	3,180,236
Total operating expenses	166,148,205	144,736,775
Net operating revenues	72,429,203	81,799,544
Interest expense:		
Interest on payable to U.S. Treasury and other	15,417,052	14,869,807
Allowance for funds used during construction	(8,604,095)	(6,852,164)
Net interest expense	6,812,957	8,017,643
Net revenues	\$ 65,616,246	73,781,901

See accompanying notes to combined financial statements.



## SOUTHWESTERN FEDERAL POWER SYSTEM

### Combined Statements of Cash Flows

Years ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net revenues	\$ 65,616,246	73,781,901
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	36,118,394	31,499,418
Benefit expense paid by other Federal agencies	6,070,120	5,349,137
Interest on payable to U.S. Treasury and other	15,417,052	14,869,807
Allowance for funds used during construction	(8,604,095)	(6,852,164)
(Increase) decrease in assets:		
Accounts receivable	2,276,977	(2,587,569)
Materials and supplies	247,928	(185,050)
Banking exchange receivables	(6,608)	(33,135)
Deferred workers' compensation	2,582,639	(1,086,642)
Other assets	(49,178,137)	165,975
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(4,669,724)	4,614,870
Accrued workers' compensation	(2,554,340)	715,016
Purchased power and banking exchange deferral	(4,854,000)	442,138
Advances for construction	47,785,140	(5,560,511)
Net cash provided by operating activities	106,247,592	115,133,191
Cash flows used in investing activities:		
Additions to utility plant	(76,938,648)	(76,581,461)
Cash flows from financing activities:		
Congressional appropriations	96,590,184	76,652,874
Payments to U.S. Treasury	(10,464,123)	(11,101,784)
Transfers of property and services, net	1,608,959	2,155,728
Hydropower water storage reallocation deferral	(1,836,235)	(1,798,466)
Net cash provided by financing activities	85,898,785	65,908,352
Net increase in cash and funds held in escrow	115,207,729	104,460,082
Cash and funds held in escrow, beginning of year	692,321,295	587,861,213
Cash and funds held in escrow, end of year	\$ 807,529,024	692,321,295
Supplemental cash flow information:		
Interest deferred on regulatory liabilities (note 1(g))	\$ 3,530,490	3,705,738

See accompanying notes to combined financial statements.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2020 and 2019

### (1) Summary of Significant Accounting Policies

#### (a) *General Information and Basis of Preparation of Combined Financial Statements*

The Southwestern Federal Power System (SWFPS) financial statements combine all of the activities associated with the generation, transmission, and disposition of all Federal power marketed under Section 5 of the Flood Control Act of 1944 (the Flood Control Act) by the Southwestern Power Administration (Southwestern), an agency of the U.S. Department of Energy (DOE). The accompanying combined financial statements include the accounts of Southwestern and the related hydroelectric generating facilities and power operations of the U.S. Army Corps of Engineers (Corps), a component of the U.S. Department of Defense (DOD). Southwestern and the Corps are separately managed and financed, and each maintains their own accounting records. For purposes of financial and operational reporting, the facilities and related operations of Southwestern and the Corps (power purpose) are combined as SWFPS.

The Corps has constructed and operates hydroelectric generating facilities in the states of Arkansas, Missouri, Oklahoma, and Texas. Operating expenses and net assets of multipurpose Corps projects are allocated to power and non-power purposes (primarily recreation and flood control). Only the portion of such project costs and net assets allocated to power are included in the combined financial statements. Southwestern, as designated by the Secretary of Energy, transmits and markets power generated from these hydroelectric generating facilities.

SWFPS is subject to the accounting regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as established by the Financial Accounting Standards Board (FASB), the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE and DOD, and the requirements of specific legislation and executive directives issued by government agencies. All material intra-entity balances and transactions are eliminated. SWFPS's combined financial statements follow the accounting and reporting guidance contained in FASB Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. Allocation of costs and revenues to accounting periods for rate-making and regulatory purposes may differ from bases generally applied by nonregulated companies. Such allocations to meet regulatory accounting requirements are considered to be U.S. GAAP for regulated utilities, provided that there is a demonstrable ability to recover any deferred costs in future rates and such costs or revenues are accounted for as regulatory assets or liabilities.

#### (b) *Confirmation and Approval of New Rates*

SWFPS is not a public utility within the jurisdiction of the FERC under the Federal Power Act. Under a Delegation Order issued by the Secretary of Energy, the Administrator of Southwestern has the authority to develop power and transmission rates for SWFPS. Such rates are approved on an interim basis by the Deputy Secretary of Energy. The FERC has the exclusive authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove rates developed by the Administrator.

## **SOUTHWESTERN FEDERAL POWER SYSTEM**

### Notes to Combined Financial Statements

September 30, 2020 and 2019

The FERC's review is limited to (1) whether the rates are the lowest possible consistent with sound business principles; (2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy, including repayment within the period permitted by law; and (3) the assumptions and projections used in developing the rates component. The FERC shall reject decisions of the Administrator only if it finds them to be arbitrary, capricious, or in violation of the law.

The rates in effect as of September 30, 2020 are summarized as follows:

The Integrated System rate schedules were placed into effect October 1, 2013 and were confirmed and approved by the FERC on January 9, 2014, and subsequently extended for a two-year period by the Deputy Secretary of Energy. These rate schedules incorporated a 4.7% revenue increase and remain in effect through September 30, 2019, or until superseded by new rate schedules. The P-13 Rate Schedule had a language change to reflect an update in the Peaking Energy schedule submission time to 2:30 p.m. CT and the Rate Schedule name was change to P-13A to reflect this change. All rate schedules were again extended for a two-year period by the Assistant Secretary, Office of Electricity, to remain in effect through September 30, 2021.

The Sam Rayburn Dam project rate was placed into effect January 1, 2016 and was confirmed and approved by the FERC on June 30, 2016. This rate increase incorporated a 7.9% revenue increase for the period January 1, 2016 through September 30, 2019, or until superseded by a new rate schedule. This rate schedule was extended for a two-year period by the Assistant Secretary, Office of Electricity, to remain in effect through September 30, 2021.

The Robert D. Willis project rate was placed into effect January 1, 2016 and was confirmed and approved by the FERC on June 15, 2016. The rate increase incorporated an 8.6% revenue increase for the period January 1, 2016 through September 30, 2019, or until superseded by a new rate schedule. This rate schedule was extended for a two-year period by the Assistant Secretary, Office of Electricity, to remain in effect through September 30, 2021.

#### **(c) *Utility Plant and Depreciation***

Utility plant includes items such as dams, spillways, generators, turbines, substations and related components (generating facilities), and transmission lines and related components. Utility plant is stated at original cost, net of contributions by external entities. Property transferred from other government agencies is transferred at net book value. Cost includes direct labor and material, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and an allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and minor replacements are charged to operation and maintenance expense. Generally, the net cost of utility plant retired, together with removal costs less salvage, is recorded to accumulated depreciation when the property is removed from service.

The policy of Southwestern and the Corps is to move capitalized costs into completed utility plant at the time a project or feature of a project is deemed to be substantially complete. A project is substantially complete when it is providing benefits and services for the intended purpose and is generating project purpose revenue, where applicable.

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

September 30, 2020 and 2019

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Service lives currently range from 5 to 100 years for transmission plant and generating facility components.

Most completed utility plant is recovered through the rates regardless of whether an asset is abandoned, loses value, is disposed of significantly before the end of its estimated useful life, or is destroyed. Consequently, the cash flow is not impaired regardless of the condition of the asset.

#### **(d) Cash and Funds Held in Escrow**

Cash represents the unexpended balance of funds authorized by Congress, customer advances, and spectrum relocation funds, held at the U.S. Department of the Treasury (U.S. Treasury). Cash received from the sale of power is generally deposited directly with the U.S. Treasury and is reflected as "Payable to U.S. Treasury" in the accompanying combined financial statements. Cash held for customer advances is restricted for the purposes agreed to between Southwestern and the customer.

Funds held in escrow represent the unexpended balance of cash and cash equivalents held in a bank trust escrow account under alternative financing agreements (note 5(b)) with certain customers and are restricted specifically to fund operation, maintenance, rehabilitation, and modernization activities at hydroelectric generating facilities of the Corps in SWFPS's marketing region. Under the agreements, funds deposited to the escrow account by customers are credited by Southwestern against accounts receivable for power, energy, and other services sold to the customer. The escrowed funds are transferred to the Corps, as needed, to meet contractual obligations as outlined in the associated agreements. Excess funds held in escrow, if any, are used to fund additional operation, maintenance, rehabilitation, and modernization activities at hydroelectric generating facilities of the Corps in SWFPS's marketing region as agreed to between Southwestern, the Corps, and the customers.

#### **(e) Congressional Appropriations**

Southwestern and the Corps receive congressional appropriations through the DOE and the DOD, respectively, to finance their operations. A portion of Southwestern's appropriations are offset by the use of receipts collected from the sale of Federal hydroelectric power, resulting in a net zero appropriation. The Corps also receives appropriations to finance construction of its hydroelectric projects. In accordance with the Flood Control Act, Southwestern is responsible for repayment to the Federal government, with interest, of its appropriations, and the portion of congressional appropriations allocated to the Corps for construction and operations of the power projects.

Congressional appropriations received by the Corps are authorized and allocated to individual projects. It is the intent of the Corps' project management to distribute congressional appropriations in amounts approximating estimated current year expenses and to adjust the distribution as necessary within the limits of the transfer authority residing at the district level. Project costs that are not specific to a project purpose are distributed between power and non-power purposes based on project cost allocation.

#### **(f) Operating Revenues**

In May 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires a company to recognize revenue when the company transfers control of promised goods and services to the customer. Operating revenues are recognized when control of the promised goods or services is transferred to customers at an amount

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

September 30, 2020 and 2019

that reflects the consideration to be received. ASU No. 2014-09 also revises the disclosure requirements regarding revenue and requires that revenue from contracts with customers be reported separately from other revenues. ASU No. 2014-09 provides that it could be applied retrospectively to each prior period presented or on a modified retrospective basis with accumulative effect adjustment to retained earnings on the date of adoption.

Southwestern implemented ASU No. 2014-09 effective October 1, 2019 using the modified retrospective method of adoption. This adoption of ASU No. 2014-09 did not result in changes to the nature, amount, and timing of the existing revenue recognition processes or information technology infrastructure. Therefore, the adoption of ASU No. 2014-09 had no effect on the amount of revenue recorded in 2020 compared to the amount that would have been recorded under prior U.S. GAAP, no effect on total operating revenues or any other caption within the SWFPS's combined financial statements, and no cumulative effect adjustment was recorded.

Upon the adoption of ASU No. 2014-09, management elected the following practical expedients:

- Recognize revenue in the amount Southwestern has the right to invoice a customer.
- Apply the standard to a portfolio of contracts with similar characteristics, as the effects of applying the guidance to the portfolio would not differ materially from applying this guidance to the individual contracts.

Operating revenues are recorded on the basis of service rendered. Rates are established under requirements of the Flood Control Act, related legislation and executive departmental directives, and are to provide sufficient revenues to meet all required repayment of system costs, including operation and maintenance expenses less depreciation, interest, and payment to the U.S. Treasury for the Payable to U.S. Treasury in utility plant. Rates are intended to provide for recovery of the Payable to U.S. Treasury in transmission and generating facilities not to exceed 50 years from the date placed in service, while operation and maintenance costs and interest on Payable to U.S. Treasury are intended to be recovered annually.

As set forth in note 1(c), Utility Plant and Depreciation, assets are being depreciated for financial reporting purposes using the straight-line method over their estimated service lives, which currently range from 5 to 100 years for transmission and generating facility components. Accordingly, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of generating facilities, continue beyond the period within which such costs will have been recovered through rates.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation, and the related recovery of the U.S. Treasury's investment in utility plant. SWFPS is, in effect, a Federal entity, thus at any given time the accumulated net revenues, to the extent available, are committed to the repayment of the Payable to U.S. Treasury.

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

September 30, 2020 and 2019

The practices followed by Southwestern and the Corps are in conformity with the accounting practices and standards established by DOE and DOD and the requirements of specific legislation and executive directives issued by government agencies. Based upon guidelines established in DOE Order RA 6120.2, revenues distributed to the Corps cover annual operating expenses, including interest, with the remainder applied to the unpaid generation investment.

In addition to providing electric power and energy, Southwestern provides scheduling, billing, and other ancillary services. Southwestern may provide multiple services to any one customer. Services qualify as separate performance obligations under ASU No. 2014-09 with distinguishable rates, terms, and delivery schedules. Services are provided to meet customer load requirements and revenues are recognized when services are provided.

#### **(g) Regulatory Assets and Liabilities (Note 4)**

Regulatory assets and liabilities result from rate actions of Southwestern's Administrator and other regulatory agencies. These assets and liabilities arise from specific costs and revenues that would have been included in the determination of net revenue in one period but are deferred until a different period for purposes of developing rates to charge for services, per the requirements of ASC Topic 980. SWFPS defers transactions as regulatory assets and liabilities so that costs will be recovered during the periods when the costs are scheduled to be paid, which ensures the matching of revenues and expenses. The assets and liabilities below are regulatory in nature:

#### ***Deferred Workers' Compensation***

Workers' compensation consists of two elements: actuarial liability associated with workers' compensation cases incurred for which additional claims may still be made in the future (future claims) and a liability for expenses associated with actual claims incurred and paid by the Department of Labor (DOL), the program administrator, whom SWFPS must reimburse. DOL, DOE, and DOD determined Southwestern and the Corps' actuarial liability associated with workers' compensation cases. The actuarial liability for future claims is determined using historical benefit payment patterns and the U.S. Treasury discount rates.

The recovery of these future claims is deferred for purposes of the rate-making process until such time as the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expenses associated with this actuarially determined liability has been recorded as deferred workers' compensation in the combined balance sheets in accordance with ASC Topic 980 to reflect the effects of the rate-making process. SWFPS does not earn a rate of return on the deferred workers' compensation regulatory asset.

#### ***Denison Hydropower Water Storage Reallocation***

Section 838 of P.L. 99-662 (Section 838) authorized the Corps to reallocate hydropower storage to water supply storage at Lake Texoma, in increments as needed, up to 150,000 acre-feet for users in the State of Texas and up to 150,000 acre-feet for users in the State of Oklahoma. Section 838 directed that the Corps would provide credits to Southwestern equal to the replacement cost of the hydropower lost as a result of the reallocations, and Southwestern would reimburse the preference customers (Denison allottees) for an amount equal to the customers' replacement cost of the hydropower lost as a result of the reallocations.

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

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In fiscal year 2010, the Corps executed water supply contracts for the 150,000 acre-feet of storage authorized for customers in the State of Texas by Section 838. According to a June 2010 agreement between Southwestern and the Corps, the Corps agreed to deposit all cost of storage payments for storage reallocated under Section 838 into the U.S. Treasury and to provide credits in the same amount to the hydropower income account. The total amount received of \$58,786,011 was deferred by Southwestern for the provision of the reimbursement to the Denison allottees and Southwestern for future hydropower storage revenues foregone. The reallocation deferral accrued interest at 2.75% and 2.88% of the outstanding balance for the years ended September 30, 2020 and 2019, respectively, based on law, administrative order, or administrative policy. Interest expense deferred on the outstanding balance totaled \$1,638,586 and \$1,715,982 for the years ended September 30, 2020 and 2019, respectively.

A September 2010 agreement between Southwestern and the Denison allottees provided the initial hydropower replacement cost as determined by Southwestern and the methodology for providing the reimbursement to the Denison allottees as authorized under Section 838. Beginning with the invoice for the October 2010 service month, reimbursement pursuant to Section 838 began as a credit on the Denison allottees' monthly invoices.

#### ***Purchased Power and Banking Exchange Deferral***

SWFPS utilizes a separate rate component (purchased power adder) to recover the estimated cost of purchased power based upon the average purchased power costs expected to occur in the future. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through the rates. Likewise, if the expense is less than the adder, the excess revenue is deferred. From time to time, SWFPS may utilize a separate rate component (adder adjustment) to manage additional purchased power expenses or excess revenues, respectively. The net purchased power deferral accrued interest at 2.75% and 2.88% of the outstanding balance for the years ended September 30, 2020 and 2019, respectively, based on law, administrative order, or administrative policy. Interest expense deferred on the outstanding balance totaled \$1,891,902 and \$1,989,756 for the years ended September 30, 2020 and 2019, respectively.

SWFPS has arrangements with certain customers in which excess power available on the power system is banked with the customer until needed by the power system and the customer has power available. The power system records a receivable for the power banked at the cost specified in the marketing arrangement, under the provisions of ASC Topic 845, *Nonmonetary Transactions*. The net revenue or expense associated with banking activity is deferred until the power is returned or delivered.

#### ***(h) Accounts Receivable***

SWFPS's accounts receivable consist generally of receivables for power and energy sold to its customers who are primarily public bodies and cooperatives. SWFPS provides for uncollectible accounts if collection is in doubt. There is no allowance for uncollectible accounts for the years ended September 30, 2020 and 2019.

Southwestern's billing methods include net billing. Net billing is an agreement between Southwestern and a customer, whereby the customer's power invoice is credited and the funds received from the sale of power are used to fund transmission and generation activities. Net billing is discussed more fully in

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

September 30, 2020 and 2019

note 5(b). Under Southwestern billing methods, purchase and sale transactions are reported “gross” in the combined financial statements.

**(i) Concentration of Credit Risk**

Financial instruments, which potentially subject SWFPS to credit risk, include accounts receivable for customer purchases of power, transmission, or other products and services. These receivables are primarily with a group of diverse customers that are generally stable and established organizations and do not represent a significant credit risk. Although SWFPS is affected by the business environment of the utility industry, management does not believe a significant risk of loss from a concentration of credit exists.

**(j) Interest on Payable to U.S. Treasury**

Interest on Payable to U.S. Treasury is a cost mandated by the Secretary of Energy and by the FERC. SWFPS computes interest in accordance with DOE Order RA 6120.2, which provides that interest be computed on the remaining investment after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and also to unpaid Federal investment at the applicable interest rate.

**(k) Allowance for Funds Used During Construction**

The FERC Uniform System of Accounts defines Allowance for Funds Used During Construction as the net costs for the period of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate-making process over the repayment life of the related property through increased revenues resulting from a higher recoverable investment. The interest rates used were 2.75% and 2.88% for the years ended September 30, 2020 and 2019, respectively, based on law, administrative order, or administrative policy.

**(l) Retirement Benefits**

SWFPS employees participate in one of the following contributory defined benefit plans: the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). Agency contributions are based on eligible employee compensation and are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). Based on statutory contribution rates, the fiscal years 2020 and 2019 cost factors under CSRS were 38.5% and 38.4%, respectively, of basic pay. The cost factors under FERS for fiscal years 2020 and 2019 were 16.7% and 16.9%, respectively, of basic pay. The contribution levels, however, are legislatively mandated and do not reflect the current full cost requirements to fund the plans. Costs incurred by OPM on behalf of SWFPS are included as transfers of property and services, net, within the Payable to U.S. Treasury on the combined balance sheets.

Other retirement benefits administered by OPM include the Federal Employees Health Benefits Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI). FEHB is calculated at \$8,038 and \$7,268, per enrolled employee, for fiscal years 2020 and 2019, respectively, and FEGLI is based on 0.02% of basic pay for each employee enrolled in these programs.



## SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

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In addition to the amounts contributed to the CSRS and FERS as stated previously, SWFPS recorded an expense and related liability for the pension and other postretirement benefits in the combined financial statements of \$6,070,120 and \$5,349,137 for the years ended September 30, 2020 and 2019, respectively. These amounts reflect the contributions made on behalf of SWFPS by OPM to the benefit program trust funds.

As a Federal agency, all postretirement activity is managed by OPM, therefore, neither the assets of the plans nor the actuarial data with respect to the accumulated plan benefits relative to Southwestern and the Corps employees are included in this report.

### ***(m) Transfers of Property and Services, Net***

Transfers of property and services, net, is a component of total capitalization that represents the cumulative receipt of transfers of assets or costs offset by the cumulative disbursement of revenue transfers. Transfers are recognized upon physical delivery of the asset or performance of the service. Transfers occur between projects, project types, and other Federal entities. Transfers between Southwestern and the Corps eliminate upon combination.

### ***(n) Income Taxes***

As agencies of the U.S. Government, Southwestern and the Corps are exempt from all income taxes imposed by any governing body, whether it is a Federal, state, or commonwealth of the United States.

### ***(o) Use of Estimates***

The preparation of the combined financial statements in conformity with U.S. GAAP requires management of SWFPS to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

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### (p) *Non-Reimbursable Activities*

Non-reimbursable activities for the years ended September 30, 2020 and 2019 consist of the following:

	<b>2020</b>	<b>2019</b>
Non-reimbursable revenues:		
Non-Federal project revenue	\$ 565,949	608,093
Federal project revenue	48,056	7,393
COVID-19 project revenue	22,886	—
Escrow interest revenue	2,973,668	5,364,855
Total non-reimbursable revenues	\$ 3,610,559	5,980,341
Non-reimbursable expenses:		
Non-Federal project expense	\$ 565,949	608,093
Federal project expense	48,056	7,393
COVID-19 project expense	22,886	—
White River Minimum Flows Project expense	2,678,879	2,027,415
Spectrum Relocation Fund expense	524,371	497,335
Other project expense	3,038	40,000
Total non-reimbursable expenses	\$ 3,843,179	3,180,236

### **Federal and Non-Federal Projects**

Southwestern has agreements with Federal and non-Federal entities to provide services on a cost basis. Non-Federal entities are required to provide advance payment for Southwestern's services. The operating revenues and expenses related to these services are excluded from the rate-making process. A portion of cash and advances for construction in the accompanying combined financial statements relate to these activities.

### **COVID-19 Activity**

In May 2020, Southwestern received an appropriation of \$556,041 under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136, to prevent, prepare for, and respond to COVID-19 pandemic necessary expenses related to supporting remote access for personnel. The funds remain available until September 30, 2021. Total obligations incurred by Southwestern were \$263,182 of which \$22,886 were expensed as of September 30, 2020. The obligations are primarily attributed to information technology (IT) and contractor support labor costs, laptops, cell phones and additional usage charges, additional internet usage, and other IT miscellaneous expenses. This activity is non-reimbursable through the rate-making process.

### **Escrow Interest Revenue**

Interest revenue represents the interest earned on funds held in escrow. These funds are authorized specifically to fund operation, maintenance, rehabilitation, and modernization activities at hydroelectric generating facilities of the Corps in SWFPS's marketing region. This activity is non-reimbursable through the rate-making process.

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

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#### **White River Minimum Flows Project**

In accordance with Section 132 of P.L. 109-103, Southwestern implemented the offset to the minimum flows project in fiscal year 2010. Section 132 provided that losses to Federal hydropower shall be offset by a reduction in the costs allocated to the Federal hydropower purpose. Southwestern determined the Federal hydropower impacts to include lost on-peak energy and capacity, lost off-peak energy, increased costs due to dissolved oxygen impacts, and increased maintenance costs at Bull Shoals. This activity is non-reimbursable through the rate-making process.

#### **Spectrum Relocation Fund**

In December 2004, the U.S. Congress passed and the President signed the Commercial Spectrum Enhancement Act (CSEA, Title II of P.L. 108-494), creating the Spectrum Relocation Fund to streamline the relocation of Federal systems from existing spectrum bands to accommodate commercial use by facilitating reimbursement to affected agencies of relocation costs. In fiscal years 2012, 2009, and 2007, Southwestern received \$17,000,000, \$17,730,000, and \$8,091,360, respectively, in spectrum relocation funds, as approved by the Office of Management and Budget, and as reported to the Congress. In fiscal years 2020 and 2019, Southwestern expensed \$524,371 and \$497,335, respectively. Expenses incurred represent labor, construction contracts, travel, and other administrative costs. This activity is non-reimbursable through the rate-making process.

#### **(q) Derivative and Hedging Activities**

Southwestern analyzes derivative financial instruments under ASC Topic 815, *Derivatives and Hedging*. This standard requires that all derivative instruments, as defined by ASC Topic 815, be recorded on the combined balance sheets at fair value, unless exempted. Changes in a derivative instrument's fair value must be recognized currently in the combined statement of revenues and expenses, unless the derivative has been designated in a qualifying hedging relationship. The application of hedge accounting allows a derivative instrument's gains and losses to offset related results of the hedged item in the combined statements of revenues and expenses to the extent effective. ASC Topic 815 requires that the hedging relationship be highly effective and that an organization formally designate a hedging relationship at the inception of the contract to apply hedge accounting.

Southwestern enters into contracts for the sale of electricity for use in its business operations. ASC Topic 815 requires Southwestern to evaluate these contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted from ASC Topic 815 as normal purchases or normal sales. Normal purchases and sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period of time in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented and exempted from the accounting and reporting requirements of ASC Topic 815.

Southwestern's policy is to fulfill all derivative and hedging contracts by providing power to a third party as provided for in each contract. Southwestern's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond Southwestern's estimated capability to deliver power. Accordingly, Southwestern evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

September 30, 2020 and 2019

normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under U.S. GAAP. As of September 30, 2020 and 2019, Southwestern has no contracts accounted for at fair value, as all derivatives qualify as normal purchases and normal sales.

#### (r) **Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU No. 2016-02 is effective for the SWFPS for periods beginning after December 15, 2021 and early adoption is permitted. SWFPS is evaluating the effect that ASU No. 2016-02 will have on the SWFPS's combined financial statements and related disclosures. Effective October 1, 2019, SWFPS adopted the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash and cash equivalents, which will now include restricted cash and restricted cash equivalents in the beginning and ending balances on the statement of cash flows. The adoption of this guidance resulted in a change to the beginning and ending balances of cash and cash equivalents reported on the statement of cash flows, which now include cash and cash equivalents included in funds held in escrow.

#### (2) **Disaggregated Revenue**

Disaggregated revenues as of September 30, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Disaggregated revenues:		
Sale of Federal electric power	\$ 203,246,478	198,039,439
Non-Federal transmission services	15,205,886	17,180,655
Ancillary services	682,760	690,257
Other revenues	<u>11,060,449</u>	<u>5,006,423</u>
Total operating revenue before deferrals	<u>\$ 230,195,573</u>	<u>220,916,774</u>

#### **Revenue from Contracts with Customers**

Southwestern provides wholesale Federal electric power (energy and capacity) to preference power customers under long-term firm and non-firm contracts. Southwestern establishes power rates for these contracts in a formal rate-setting process. Excess energy is sold at established power rates. Federal electric power revenues are recognized over time as the customer receives and consumes the benefits. Federal electric power revenues are billed monthly based on meter readings and contracted allocations and estimated unbilled electric power revenues are accrued at the end of each reporting period. Revenues can vary from period to period due to hydropower plant availability, hydrological conditions, and customer usage requirements.

Non-Federal transmission service revenues consist primarily of revenue for transmission of non-Federal power on Southwestern's transmission system. Transmission rates are established through a formal rate-setting process, and revenues are recognized over time as capacity and electric

**SOUTHWESTERN FEDERAL POWER SYSTEM**

Notes to Combined Financial Statements

September 30, 2020 and 2019

transmission is made available. Transmission services are billed monthly and estimated unbilled transmission services are accrued at the end of each reporting period.

Ancillary services ensure transmission grid reliability and include items such as scheduling, system control, dispatch, balancing reserves, and other services. Ancillary revenue is recognized over time as services are provided. Ancillary services are billed monthly, and estimated unbilled ancillary services are accrued at the end of the reporting period.

Other revenues consist of headwater benefits, hydropower benefits foregone revenues, and miscellaneous revenues from the Corps attributable to the power function, as well as market participant agreement revenues for the sale of power from Blakely Mountain and Degray into the MISO market plus miscellaneous revenues for Southwestern. These revenues are recognized upon receipt.

**(3) Utility Plant**

Utility plant as of September 30, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Plant in service:		
Generating facilities	\$ 1,426,021,456	1,415,091,938
Transmission facilities	<u>497,176,354</u>	<u>470,674,424</u>
	1,923,197,810	1,885,766,362
Less accumulated depreciation	<u>(897,938,508)</u>	<u>(866,436,841)</u>
Construction work in progress:		
Generating facilities	239,214,933	179,888,339
Transmission facilities	<u>11,999,301</u>	<u>27,831,327</u>
	<u>251,214,234</u>	<u>207,719,666</u>
Net utility plant	\$ <u>1,276,473,536</u>	<u>1,227,049,187</u>

In accordance with FERC guidelines, SWFPS excludes contributed plant within the combined balance sheets to eliminate the impact on power rates. As of September 30, 2020 and 2019, contributed plant, net, used in SWFPS's operations totaled \$23,003,072.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2020 and 2019

### (4) Regulatory Assets and Liabilities

Regulatory assets and liabilities as of September 30, 2020 and 2019 consist of the following:

	<b>2020</b>	<b>2019</b>
Regulatory assets:		
Deferred workers' compensation	\$ <u>7,283,530</u>	<u>9,866,169</u>
Regulatory liabilities:		
Purchased power and banking exchange deferral	\$ 72,817,897	75,779,995
Hydropower water storage reallocation deferral	<u>60,305,459</u>	<u>60,503,106</u>
Total	\$ <u><u>133,123,356</u></u>	<u><u>136,283,101</u></u>

Southwestern's purchased power and banking exchange deferral account represents the deferral of net revenues or expenses associated with net purchased power and banking exchange activities as follows:

	<b>Purchased power and banking exchange deferral</b>
September 30, 2018	\$ (73,348,101)
Purchased power adder revenue	(14,452,211)
Purchased power expense	14,171,475
Net banking exchange	<u>(80,060)</u>
Net purchased power and banking exchange deferral	<u>(360,796)</u>
Interest on deferred activities and other	<u>(2,071,098)</u>
September 30, 2019	(75,779,995)
Purchased power adder revenue	(15,182,258)
Purchased power expense	19,974,196
Net banking exchange	<u>(20,661)</u>
Net purchased power and banking exchange deferral	<u>4,771,277</u>
Interest on deferred activities and other	<u>(1,809,179)</u>
September 30, 2020	\$ <u><u>(72,817,897)</u></u>

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

September 30, 2020 and 2019

#### (5) Financing Sources

SWFPS's financing sources include annual appropriations, Federal power receipts, and alternative financing arrangements to fund its operations.

##### (a) *Payable to U.S. Treasury*

Construction and operation of Southwestern's transmission system and the Corps' generating facilities and operations are financed through congressional appropriations. The exceptions are capital assets and maintenance activities funded through the alternative financing arrangements and the funding by non-Federal parties of the construction of the Robert Douglas Willis project. The U.S. Government's investment in each generating project and each year's investment in the transmission system are to be repaid to the U.S. Treasury over a period not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis.

Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 2020. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Payable to U.S. Treasury. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by a repayment of the highest interest-bearing investment first. Interest rates applied to the unamortized investment of the U.S. Government in the Corps' hydroelectric generating facilities range from 2.38% to 3.38% for unpaid facilities in service prior to and including fiscal year 2020 (2.75%). The rates have been set by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

##### (b) *Alternative Financing*

Due to fluctuations in the amount of annual appropriations received to fund operations, maintenance, rehabilitation, and modernization of SWFPS facilities, SWFPS has established an alternative financing program under reimbursable authority regulations. Under agreements with customers to finance projects, which benefit SWFPS, funds received from the sale of power are net billed, allowing a portion of the funds to be utilized to finance agreed-upon projects. Under the agreements with certain customers, alternative financing restricted specifically to fund operation, maintenance, rehabilitation, and modernization activities at the hydroelectric generating facilities is held in escrow. All other alternative financing arrangements are collected by Southwestern and deposited as cash held by the U.S. Treasury and are reflected in the accompanying combined balance sheets as other assets with an offsetting liability included in advances for construction until completion of the project, at which time the asset and liability are eliminated.

#### (6) Commitments and Contingencies

##### (a) *General*

Based on the final 2021 Power Repayment Studies (PRs), the projected increase in capital investment in 2021 is \$115,512,273, which includes \$19,121,061 for transmission facilities and \$96,391,212 for generating facilities. The PRs are conducted annually to determine the adequacy of the current rates to ensure full cost recovery of the power investments and expenses for the three rate

## SOUTHWESTERN FEDERAL POWER SYSTEM

### Notes to Combined Financial Statements

September 30, 2020 and 2019

systems. The five-year investment increase projected in the 2021 PRSs for fiscal years 2021 through 2025 is estimated to cost \$740,071,302. It is reasonably possible that a change in the future capital investment estimates will occur.

Southwestern sells its marketable power to customers under long-term power sales contracts of 15 years, the majority of which require Southwestern to provide 1,200 kilowatt hours per kilowatt of peaking contract demand per year, subject to scheduling constraints outlined in each customer's contract. If sufficient power is unavailable to Southwestern from Corps' hydroelectric facilities to meet these commitments, Southwestern may be required to purchase power from other sources to meet these commitments. The cost to purchase such power is recovered through the purchased power adder discussed more fully in note 1(g).

#### **(b) Legal**

SWFPS has exposure to certain claims and legal actions arising in the ordinary course of business. In management's opinion, any resulting actions will not have a material adverse effect on the financial condition or results of operations of SWFPS as of September 30, 2020 and 2019.

#### **(c) Purchased Power Contract Commitments**

Southwestern has entered into various agreements for power purchases that vary in contractual terms but generally do not exceed four years. The current period purchased power costs are included in the combined statements of revenues and expenses. Southwestern's future purchased power commitments associated with current agreements, subject to the availability of Federal funds and contingent upon annual appropriations from Congress, are as follows:

	<u>Purchased power</u>
Year ending September 30:	
2021	\$ 14,796,750
2022	11,476,500
2023	<u>2,126,250</u>
Total	<u>\$ 28,399,500</u>

In addition, these agreements include variable energy amounts and pricing within a contractually determined rate based on market determinants such as a particular energy market hourly day-ahead locational marginal price or a daily published hub gas price multiplied by the contractual heat rate. One agreement, which term concludes in fiscal year 2022, includes a fixed contractual-year energy amount of 48,000 MWh with the final year allowing for a maximum of 45,600 MWh. The agreement also includes a provision allowing termination by either party upon 90 days' notice, which could decrease or eliminate the above disclosed commitments.



## SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2020 and 2019

### (7) Leases

SWFPS has a 191-month Occupancy Agreement for office space with the General Services Administration (GSA), which commenced January 19, 2018 and is scheduled to terminate December 31, 2033. The lease agreement between the GSA and the building owner is for a 20-year term, 10-year firm term for the first 10 years and the option to terminate during the second 10-year-term, which commenced on January 1, 2014 and ends on December 31, 2033.

In August 2019, Southwestern purchased a new headquarters building in Tulsa, Oklahoma, with a fiscal year 2021 target move-in date. In accordance with the Occupancy Agreement, Southwestern may relinquish space upon four months' notice to GSA and will not be obligated to make any additional payments.

Expected future minimum lease payments, given a significant reduction in the lease space in FY 2022 and termination of the Occupancy Agreement by the end of FY 2022, as of September 30, 2020, are as follows:

Year ending September 30:		
2021	\$	748,067
2022		<u>410,138</u>
Total future minimum lease payments	\$	<u><u>1,158,205</u></u>

Rent expense for operating leases during the years ended September 30, 2020 and 2019 was \$764,162 and \$719,654, respectively.

### (8) Related Parties

As components of the DOE and the DOD, these departments are considered related parties to Southwestern and the Corps. Southwestern has certain agreements with DOE and DOD components to provide electric power, transmission services, and other services. As of September 30, 2020 and 2019, amounts outstanding in accounts receivable relating to DOE and DOD components totaled \$322,189 and \$362,373, respectively. For the years ended September 30, 2020 and 2019, total operating revenues earned from DOE and DOD sources totaled \$4,486,919 and \$4,336,787, respectively.

### (9) Subsequent Events

SWFPS has evaluated subsequent events from the balance sheet date through August 31, 2021, the date the combined financial statements were available to be issued, and such events are disclosed in these accompanying notes to the combined financial statements.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2020

<b>Assets</b>	<b>Southwestern</b>	<b>Corps</b>	<b>Total</b>
Plant in service	\$ 497,176,354	1,426,021,456	1,923,197,810
Accumulated depreciation	(252,915,533)	(645,022,975)	(897,938,508)
Construction work in progress	11,999,301	239,214,933	251,214,234
Net utility plant	256,260,122	1,020,213,414	1,276,473,536
Cash	260,368,242	212,563,483	472,931,725
Funds held in escrow	300,340,823	34,256,476	334,597,299
Accounts receivable	16,553,836	489,803	17,043,639
Materials and supplies, at average cost	2,967,141	106,625	3,073,766
Banking exchange receivables	4,173,440	—	4,173,440
Deferred workers' compensation	1,801,562	5,481,968	7,283,530
Other assets	109,381,401	—	109,381,401
Total assets	\$ 951,846,567	1,273,111,769	2,224,958,336
<b>Liabilities and Capitalization</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 8,949,704	9,274,849	18,224,553
Advances for construction	92,387,043	—	92,387,043
Accrued workers' compensation	2,353,511	5,578,457	7,931,968
Purchased power and banking exchange deferral	72,817,897	—	72,817,897
Hydropower water storage reallocation deferral	60,305,459	—	60,305,459
Total liabilities	236,813,614	14,853,306	251,666,920
Capitalization:			
Payable to U.S. Treasury	595,678,875	677,398,015	1,273,076,890
Accumulated net revenues	119,354,078	580,860,448	700,214,526
Total capitalization	715,032,953	1,258,258,463	1,973,291,416
Total liabilities and capitalization	\$ 951,846,567	1,273,111,769	2,224,958,336

See accompanying independent auditors' report.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2019

<b>Assets</b>	<b>Southwestern</b>	<b>Corps</b>	<b>Total</b>
Plant in service	\$ 470,674,424	1,415,091,938	1,885,766,362
Accumulated depreciation	(241,882,300)	(624,554,541)	(866,436,841)
Construction work in progress	27,831,327	179,888,339	207,719,666
Net utility plant	256,623,451	970,425,736	1,227,049,187
Cash	208,260,441	215,841,364	424,101,805
Funds held in escrow	223,836,691	44,382,799	268,219,490
Accounts receivable	18,874,897	445,719	19,320,616
Materials and supplies, at average cost	3,160,679	161,015	3,321,694
Banking exchange receivables	4,166,832	—	4,166,832
Deferred workers' compensation	2,387,181	7,478,988	9,866,169
Other assets	60,203,264	—	60,203,264
Total assets	\$ 777,513,436	1,238,735,621	2,016,249,057
<b>Liabilities and Capitalization</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 10,954,136	11,940,141	22,894,277
Advances for construction	44,601,903	—	44,601,903
Accrued workers' compensation	2,834,133	7,652,175	10,486,308
Purchased power and banking exchange deferral	75,779,995	—	75,779,995
Hydropower water storage reallocation deferral	60,503,106	—	60,503,106
Total liabilities	194,673,273	19,592,316	214,265,589
Capitalization:			
Payable to U.S. Treasury	485,517,456	681,867,732	1,167,385,188
Accumulated net revenues	97,322,707	537,275,573	634,598,280
Total capitalization	582,840,163	1,219,143,305	1,801,983,468
Total liabilities and capitalization	\$ 777,513,436	1,238,735,621	2,016,249,057

See accompanying independent auditors' report.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Changes in Capitalization Data  
Years ended September 30, 2020 and 2019

	Southwestern payable to U.S. Treasury	Southwestern accumulated net revenues (deficit)	Southwestern total capitalization	Corps payable to U.S. Treasury	Corps accumulated net revenues (deficit)	Corps total capitalization	Total capitalization
Total capitalization as of September 30, 2018	\$ 439,866,733	84,615,426	524,482,159	643,298,431	476,200,953	1,119,499,384	1,643,981,543
Additions:							
Congressional appropriations	10,400,000	—	10,400,000	66,252,874	—	66,252,874	76,652,874
Interest on payable to U.S. Treasury and other	(169,883)	—	(169,883)	11,333,952	—	11,333,952	11,164,069
Transfers of property and services, net	(101,770,367)	—	(101,770,367)	109,275,232	—	109,275,232	7,504,865
Total additions to capitalization	(91,540,250)	—	(91,540,250)	186,862,058	—	186,862,058	95,321,808
Deductions:							
Payments to U.S. Treasury	137,190,973	—	137,190,973	(148,292,757)	—	(148,292,757)	(11,101,784)
Total deductions to capitalization	137,190,973	—	137,190,973	(148,292,757)	—	(148,292,757)	(11,101,784)
Net revenues for the year ended September 30, 2019	—	12,707,281	12,707,281	—	61,074,620	61,074,620	73,781,901
Total capitalization as of September 30, 2019	485,517,456	97,322,707	582,840,163	681,867,732	537,275,573	1,219,143,305	1,801,983,468
Additions:							
Congressional appropriations	10,400,000	—	10,400,000	86,190,184	—	86,190,184	96,590,184
Interest on payable to U.S. Treasury and other	(131,981)	—	(131,981)	12,018,543	—	12,018,543	11,886,562
Transfers of property and services, net	(31,954,592)	—	(31,954,592)	39,633,671	—	39,633,671	7,679,079
Total additions to capitalization	(21,686,573)	—	(21,686,573)	137,842,398	—	137,842,398	116,155,825
Deductions:							
Payments to U.S. Treasury	131,847,992	—	131,847,992	(142,312,115)	—	(142,312,115)	(10,464,123)
Total deductions to capitalization	131,847,992	—	131,847,992	(142,312,115)	—	(142,312,115)	(10,464,123)
Net revenues for the year ended September 30, 2020	—	22,031,371	22,031,371	—	43,584,875	43,584,875	65,616,246
Total capitalization as of September 30, 2020	\$ 595,678,875	119,354,078	715,032,953	677,398,015	580,860,448	1,258,258,463	1,973,291,416

See accompanying independent auditors' report.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2020

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power	\$ 203,246,478	—	203,246,478
Transmission and other operating revenues	24,421,302	2,527,793	26,949,095
Total operating revenues before deferrals	227,667,780	2,527,793	230,195,573
Net purchased power and banking exchange deferral	4,771,276	—	4,771,276
Revenue distributed to Corps	(137,719,560)	137,719,560	—
Total operating revenues	94,719,496	140,247,353	234,966,849
Non-reimbursable revenues	3,416,882	193,677	3,610,559
Total revenues	98,136,378	140,441,030	238,577,408
Operating expenses:			
Operation and maintenance	26,267,610	67,240,738	93,508,348
Purchased power and banking exchange	21,978,789	—	21,978,789
Depreciation and amortization	15,499,379	20,619,015	36,118,394
Transmission service charges by others	42,505	—	42,505
Retirement and other employee benefit expense	5,857,647	4,799,343	10,656,990
Non-reimbursable expenses	3,843,179	—	3,843,179
Total operating expenses	73,489,109	92,659,096	166,148,205
Net operating revenues	24,647,269	47,781,934	72,429,203
Interest expense:			
Interest on payable to U.S. Treasury and other	3,398,509	12,018,543	15,417,052
Allowance for funds used during construction	(782,611)	(7,821,484)	(8,604,095)
Net interest expense	2,615,898	4,197,059	6,812,957
Net revenues	\$ 22,031,371	43,584,875	65,616,246

See accompanying independent auditors' report.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2019

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power	\$ 198,039,439	—	198,039,439
Transmission and other operating revenues	20,400,807	2,476,528	22,877,335
Total operating revenues before deferrals	218,440,246	2,476,528	220,916,774
Net purchased power and banking exchange deferral	(360,796)	—	(360,796)
Revenue distributed to Corps	(143,297,300)	143,297,300	—
Total operating revenues	74,782,150	145,773,828	220,555,978
Non-reimbursable revenues	5,588,170	392,171	5,980,341
Total revenues	80,370,320	146,165,999	226,536,319
Operating expenses:			
Operation and maintenance	25,301,563	59,376,858	84,678,421
Purchased power and banking exchange	16,221,107	—	16,221,107
Depreciation and amortization	15,033,117	16,466,301	31,499,418
Transmission service charges by others	44,486	—	44,486
Retirement and other employee benefit expense	5,183,785	3,929,322	9,113,107
Non-reimbursable expenses	3,180,236	—	3,180,236
Total operating expenses	64,964,294	79,772,481	144,736,775
Net operating revenues	15,406,026	66,393,518	81,799,544
Interest expense:			
Interest on payable to U.S. Treasury and other	3,535,855	11,333,952	14,869,807
Allowance for funds used during construction	(837,110)	(6,015,054)	(6,852,164)
Net interest expense	2,698,745	5,318,898	8,017,643
Net revenues	\$ 12,707,281	61,074,620	73,781,901

See accompanying independent auditors' report.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2020

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (losses)	\$ 22,031,371	43,584,875	65,616,246
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	137,719,560	(137,719,560)	—
Depreciation and amortization	15,499,379	20,619,015	36,118,394
Benefit expense paid by other Federal agencies	1,367,266	4,702,854	6,070,120
Interest on payable to U.S. Treasury and other	3,398,509	12,018,543	15,417,052
Allowance for funds used during construction	(782,611)	(7,821,484)	(8,604,095)
(Increase) decrease in assets:			
Accounts receivable	2,321,061	(44,084)	2,276,977
Materials and supplies	193,538	54,390	247,928
Banking exchange receivables	(6,608)	—	(6,608)
Deferred workers' compensation	585,619	1,997,020	2,582,639
Other assets	(49,178,137)	—	(49,178,137)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(2,004,432)	(2,665,292)	(4,669,724)
Accrued workers' compensation	(480,622)	(2,073,718)	(2,554,340)
Purchased power and banking exchange deferral	(4,854,000)	—	(4,854,000)
Advances for construction	47,785,140	—	47,785,140
Net cash provided by (used in) operating activities	<u>173,595,033</u>	<u>(67,347,441)</u>	<u>106,247,592</u>
Cash flows used in investing activities:			
Additions to utility plant	<u>(14,353,439)</u>	<u>(62,585,209)</u>	<u>(76,938,648)</u>
Cash flows from financing activities:			
Congressional appropriations	10,400,000	86,190,184	96,590,184
Payments to U.S. Treasury	131,847,992	(142,312,115)	(10,464,123)
Revenue distributed to Corps	(137,719,560)	137,719,560	—
Transfers of property and services, net	(33,321,858)	34,930,817	1,608,959
Hydropower water storage reallocation deferral	(1,836,235)	—	(1,836,235)
Net cash (used in) provided by financing activities	<u>(30,629,661)</u>	<u>116,528,446</u>	<u>85,898,785</u>
Net increase in cash and funds held in escrow	128,611,933	(13,404,204)	115,207,729
Cash and funds held in escrow, beginning of year	<u>432,097,132</u>	<u>260,224,163</u>	<u>692,321,295</u>
Cash and funds held in escrow, end of year	<u>\$ 560,709,065</u>	<u>246,819,959</u>	<u>807,529,024</u>
Supplemental cash flow information:			
Interest deferred on regulatory liabilities	\$ 3,530,490	—	3,530,490

See accompanying independent auditors' report.

## SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2019

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (losses)	\$ 12,707,281	61,074,620	73,781,901
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	143,297,300	(143,297,300)	—
Depreciation and amortization	15,033,117	16,466,301	31,499,418
Benefit expense paid by other Federal agencies	1,593,002	3,756,135	5,349,137
Interest on payable to U.S. Treasury and other	3,535,855	11,333,952	14,869,807
Allowance for funds used during construction	(837,110)	(6,015,054)	(6,852,164)
(Increase) decrease in assets:			
Accounts receivable	(2,549,784)	(37,785)	(2,587,569)
Materials and supplies	(185,050)	—	(185,050)
Banking exchange receivables	(33,135)	—	(33,135)
Deferred workers' compensation	136,118	(1,222,760)	(1,086,642)
Other assets	165,975	—	165,975
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	1,791,191	2,823,679	4,614,870
Accrued workers' compensation	(504,474)	1,219,490	715,016
Purchased power and banking exchange deferral	442,138	—	442,138
Advances for construction	(5,560,511)	—	(5,560,511)
Net cash provided by (used in) operating activities	<u>169,031,913</u>	<u>(53,898,722)</u>	<u>115,133,191</u>
Cash flows used in investing activities:			
Additions to utility plant	<u>(28,767,946)</u>	<u>(47,813,515)</u>	<u>(76,581,461)</u>
Cash flows from financing activities:			
Congressional appropriations	10,400,000	66,252,874	76,652,874
Payments to U.S. Treasury	137,190,973	(148,292,757)	(11,101,784)
Revenue distributed to Corps	(143,297,300)	143,297,300	—
Transfers of property and services, net	(103,363,369)	105,519,097	2,155,728
Hydropower water storage reallocation deferral	(1,798,466)	—	(1,798,466)
Net cash (used in) provided by financing activities	<u>(100,868,162)</u>	<u>166,776,514</u>	<u>65,908,352</u>
Net increase in cash and funds held in escrow	39,395,805	65,064,277	104,460,082
Cash and funds held in escrow, beginning of year	<u>392,701,327</u>	<u>195,159,886</u>	<u>587,861,213</u>
Cash and funds held in escrow, end of year	<u>\$ 432,097,132</u>	<u>260,224,163</u>	<u>692,321,295</u>
Supplemental cash flow information:			
Interest deferred on regulatory liabilities	\$ 3,705,738	—	3,705,738

See accompanying independent auditors' report.



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# Southwestern Power Administration Addresses

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**JONESBORO MAINTENANCE UNIT**

305 North Floyd Street  
Jonesboro, AR 72401-1908  
Voice: 870-972-4686  
Fax: 870-932-6153

**SPRINGFIELD MAINTENANCE UNIT  
& OPERATIONS BUILDING**

2858 South Golden Avenue  
Springfield, MO 65807-3213

**Maintenance Numbers:**

Voice: 417-881-8772  
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**Operations Numbers:**

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**TULSA HEADQUARTERS**

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Tulsa, OK 74103-3502  
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**NIXA OPERATIONS BUILDING**

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Nixa, MO 65714  
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**UNITED STATES DEPARTMENT  
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**POWER MARKETING LIAISON OFFICE**

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**U.S. DEPARTMENT OF  
ENERGY**