



ANNUAL
REPORT

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Protecting the Environment

Doing the Most for the Interior Least Tern

The Interior Least Tern (ILT) is the smallest member of the tern family, measuring eight to nine inches long, with a 22-inch wingspan. Distinguished by its small size and unique nesting areas, the ILT can be found living near and within shallow bodies of water in the rivers, streams, and lakes within the interior region of the country, including in Southwestern's marketing area.

The nesting areas of the ILT are often subject to flooding, animal predators, and human interference, which led to the ILT being listed as an endangered species by the U.S. Fish and Wildlife Service (USFWS) in 1985.

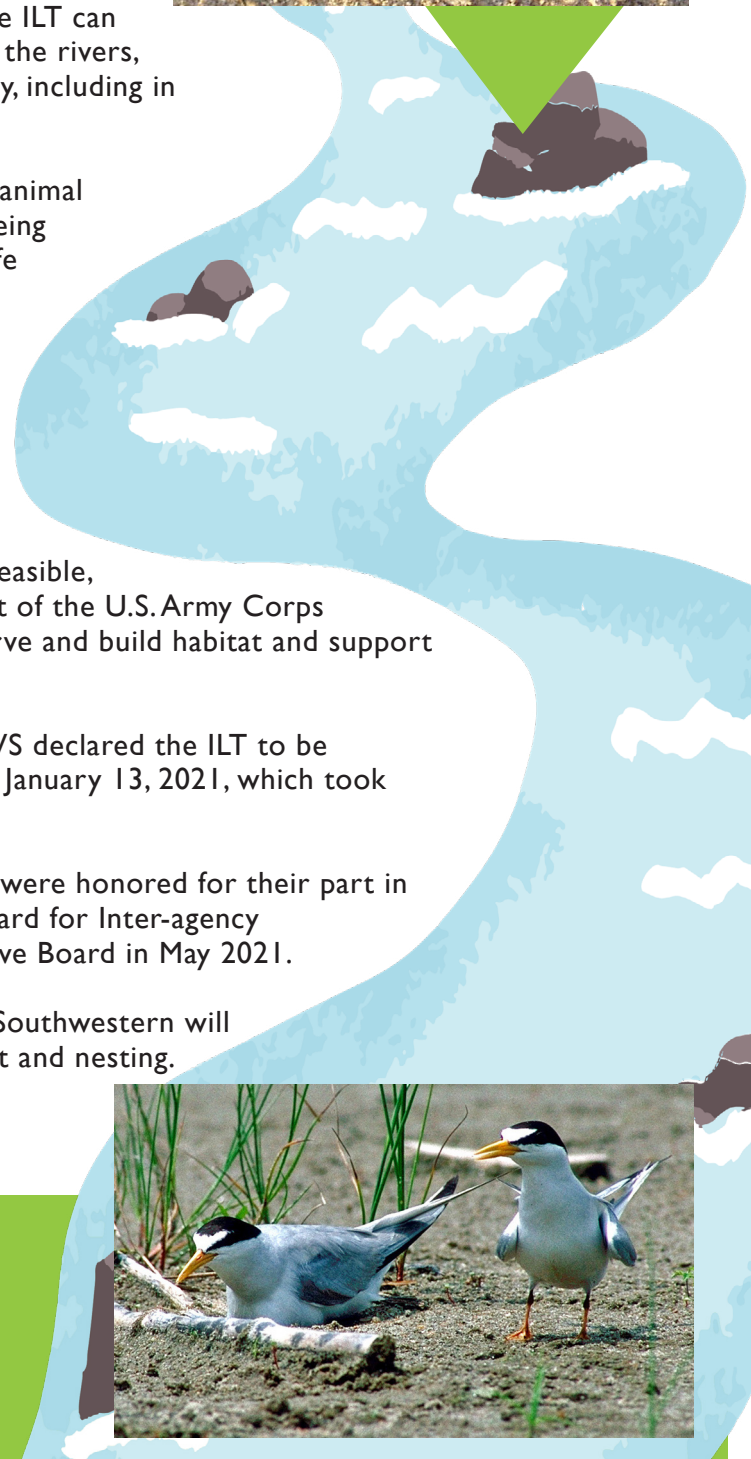
As it does with other Competing Uses that rely on water released from the dams within Southwestern's footprint, Southwestern collaborated with ILT stakeholders to mitigate negative impacts to the ILTs and their nests.

Southwestern voluntarily altered water operations when feasible, and worked with the Tulsa District and Little Rock District of the U.S. Army Corps of Engineers (Corps), USFWS, and other entities to preserve and build habitat and support ILT reproduction while preserving hydropower benefits.

After nearly four decades of coordinated effort, the USFWS declared the ILT to be recovered by final rule published in the *Federal Register* on January 13, 2021, which took effect on February 12, 2021.

Southwestern and its partners – the Corps and USFWS – were honored for their part in the recovery effort with an Excellence in Government Award for Inter-agency collaboration, presented by the Oklahoma Federal Executive Board in May 2021.

Though the birds have officially been declared recovered, Southwestern will continue to work with stakeholders to monitor ILT habitat and nesting.



Learn more about Competing Uses on pp 10-12.

Letter to the Secretary



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 operational data for Southwestern Power Administration (Southwestern) for Fiscal Year (FY) 2021.

In FY 2021, Southwestern delivered 6.5 billion kilowatt-hours of energy to its wholesale customers in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas, generating \$228 million in revenue.

Southwestern played a valuable role in keeping the lights on in February 2021 during the unprecedented winter storm event that affected a good portion of the country. Southwestern and its customers worked together to ensure that generation from the U.S. Army Corps of Engineers (Corps) hydropower plants in Southwestern's marketing area was used to provide electrical stability not just to the Southwest Power Pool (SPP) Regional Transmission Organization (RTO) in Southwestern's footprint, but also to the Midcontinent Independent System Operator (MISO) and the Electric Reliability Council of Texas (ERCOT) RTOs in other parts of the country.

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, its customers, and its partners at the Department of Energy, the Corps, and other Federal and state agencies work together to optimally use Federal resources to safely and sustainably provide clean hydropower, transmission, and related services to benefit the not-for-profit customers Southwestern serves, as well as their regional communities and the Nation.

We are committed to continuing to provide sustainable, reliable, and affordable Federal hydropower to serve the region and to securely fulfill our Nation's clean energy needs.

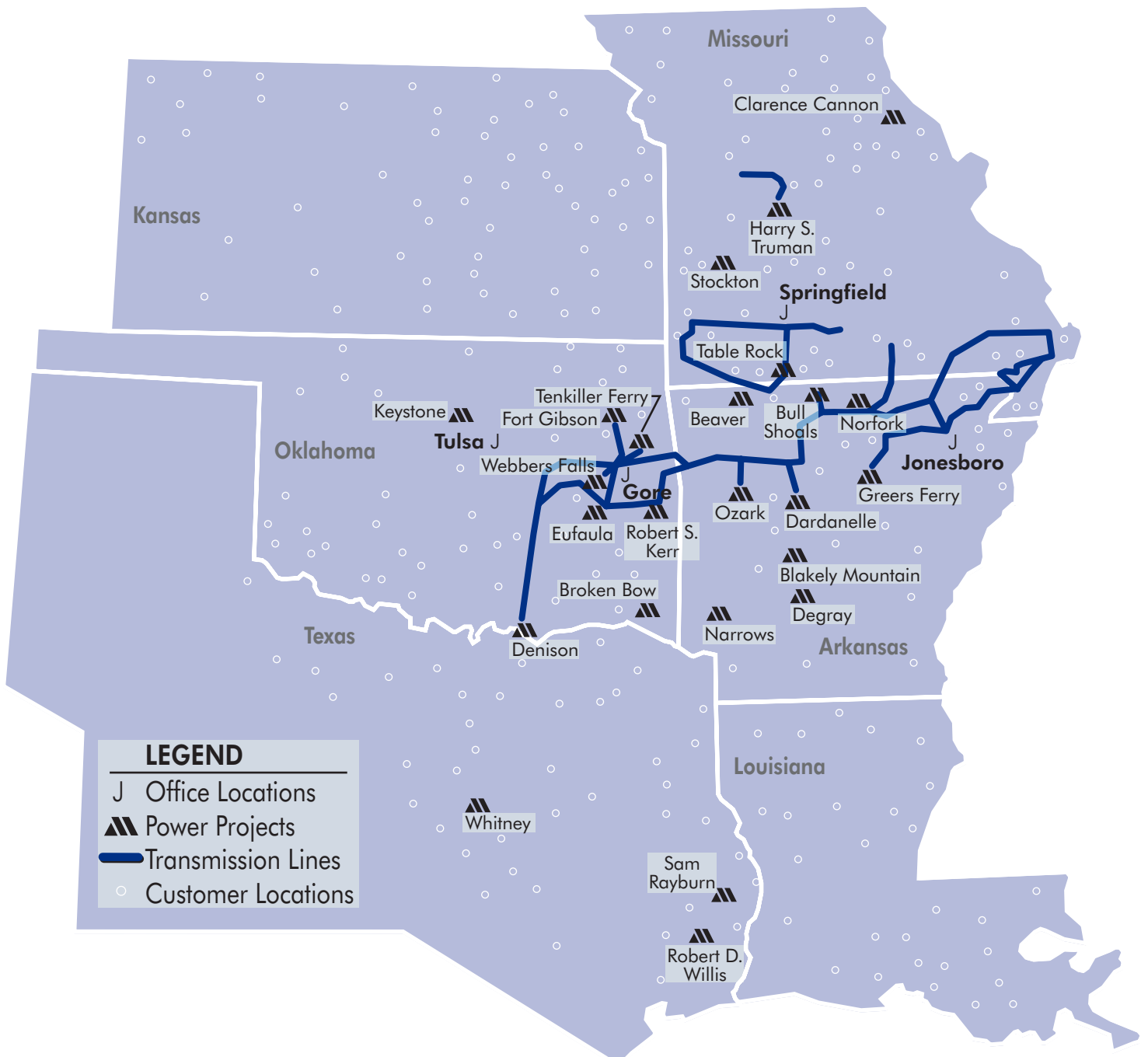
Sincerely,

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 multipurpose dams with a combined generating capacity of approximately 2,214 megawatts.

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 2021 was \$228 million. Average revenue over the last five years is approximately \$214 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 wholesale customers, largely 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.



SWPA Responds to Energy Emergency

The history-making winter storm of 2021 brought extreme cold to the southern and central plains region of the United States. Southwestern did its part to address the dangerous weather conditions and resulting surge in electricity demand, which affected Southwestern's six-state marketing area and the entire 14-state footprint of the Southwest Power Pool (SPP) Regional Transmission Organization (RTO).

As a Contract Participant in SPP and neighboring Balancing Authority Area adjacent to the SPP Consolidated Balancing Authority Area, Southwestern works with SPP and SPP's members to keep the lights on year-round, but especially in emergency conditions.

“We asked our wholesale customers to do their part in meeting those reduction thresholds, and they came through with flying colors.”

SPP declared an emergency at the highest level, Energy Emergency Alert Level 3 (EEA3), when SPP was unable to meet minimum Contingency Reserve requirements. Utilities were asked to responsibly curtail energy use to bring electrical demand back within generating capacity limits.

“We were asked by SPP to reduce electrical demand,” explains Southwestern's Vice President of Operations Keeth Works, “so we asked our wholesale customers to do their part in meeting certain

reduction thresholds, and they came through with flying colors.”

Works says some of these same customers also provided electrical generation from their diesel and natural gas generating plants to meet their local electrical needs, which enabled Southwestern to use generation from the U.S. Army Corps of Engineers hydropower plants in Southwestern's marketing area to contribute to the electrical stability of the region, not just for SPP, but for the Midcontinent Independent System Operator (MISO) and the Electric Reliability Council of Texas (ERCOT) RTOs in other parts of the country.

The generation shortage was attributed to several factors – most notably the record setting electrical demand due to the extreme weather. Additional factors include scarcity of natural gas, outages of generating units, lack of expected imports from neighboring RTOs experiencing similar weather conditions, and equipment failures due to icing and extreme cold.

“This was an unprecedented event,” Keeth Works says. “The National Weather Service reported that these were the lowest prolonged temperatures in most of these parts in 85 years.”



The accumulation of ice on utility lines can cause damage that may result in power outages.

SWPA Meets with Partners at Table Rock

Partnership with Regional Stakeholders

Southwestern Administrator Mike Wech joined Colonel Eric Noe, Commander of the U.S. Army Corps of Engineers Little Rock District, on April 6, 2021, to welcome U.S. Representative Billy Long (Missouri 7th District) for a tour of Table Rock Dam and to discuss the many benefits Table Rock brings to the Missouri region and the Nation.



Administrator Mike Wech, Little Rock District Colonel Eric Noe, and Carthage General Manager Chuck Bryant discuss the many benefits Table Rock brings to the Missouri region and to the Nation.

Also in attendance were representatives from Southwestern's customer group, including Chuck Bryant, General Manager of Carthage Water and Electric Plant of the City of Carthage, Missouri; Nicki Fuller, Executive Director of the Southwestern Power Resources Association; and John Twitty, President and CEO of the Missouri Public Utility Alliance.

Wech reports that the meeting was valuable all around, covering topics such as infrastructure investments through Southwestern's customer funding program, hydropower benefits to the region, the importance of hydropower during the winter storm event in February 2021, hydropower as the original renewable energy resource, and potential improvements to Federal contracting actions to make funding under Southwestern's customer funding program timelier and more efficient.

Table Rock is located on the White River near Branson, Missouri, and at 200 megawatts is one of the largest generating plants in Southwestern's portfolio.

On average, Table Rock provides nearly half a billion kilowatt-hours of annual energy to the region, producing over \$17 million in annual revenue and nearly \$40 million in annual benefits.

Commitment to Our Mission

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.

-SWPA Administrator, Mike Wech

Denison Dam Celebrates 75th Anniversary

On April 9, 2021, Administrator Mike Wech contributed remarks at the 75th anniversary of Denison Dam, located on the border of Oklahoma and Texas.

Wech joined Colonel Scott Preston, Commander of the U.S. Army Corps of Engineers Tulsa District, and other local and state dignitaries, including U.S. Representative Pat Fallon (Texas 4th District), to offer praise for the project first put online in 1945 for flood control, hydropower, and other purposes meant to bring benefits to the region and the Nation.

In his remarks, Wech mentioned that Denison has been a strong contributor to Southwestern's success with its marketing program, providing an average annual energy of nearly quarter of a

billion kilowatt-hours for the region and producing nearly \$6 million in annual revenue and over \$15 million in annual benefits.

"It's always great to get together with our stakeholders and partners in the National Federal hydropower program to talk about our successes and future challenges," says Wech.

"Denison is a shining example of infrastructure that not only provides a wealth of benefits for the American people but also plays a critical part in Southwestern's overall mission of providing reliable and affordable Federal hydropower to the millions of end users we serve in our six-state marketing region."



Administrator Mike Wech joined local and state dignitaries to deliver remarks on Denison Dam's 75th anniversary.

SWPA Collaborates on National Hydropower Day

Southwestern Power Administration celebrated National Hydropower Day on August 24, 2021, in conjunction with the U.S. Department of Energy (DOE), the National Hydropower Association (NHA), the other Power Marketing Administrations (PMAs), and hydropower stakeholders across the country.

Southwestern proudly debuted a video showcasing the value of Federal hydropower to the Nation, entitled: “Federal Hydropower: The Bedrock of a Clean Energy Future.” The video is a collaboration among the U.S. Army Corps of Engineers, the Bureau of Reclamation, the International Boundary and Water Commission, Tennessee Valley Authority, and the PMAs and was produced by Western Area Power Administration.

SWPA Welcomes New General Counsel

Joshua “Josh” C. Williams reported for duty on Monday, May 10, 2021, in the Tulsa, Oklahoma, office of Southwestern Power Administration as Southwestern’s new General Counsel.

Williams joined Southwestern after retirement from Active-Duty Air Force, where he achieved the grade of Lieutenant Colonel.

Prior to joining Southwestern, Williams served as Deputy Staff Judge Advocate of Hanscom Air Force Base in Massachusetts, where he managed a team of 45 attorneys and paralegals who provided a full spectrum of legal services and led his team to more than 30 Agency and Departmental awards.

Williams’ other experience includes his work as a Division Chief for the Air Force’s Environmental Law Field Support Center at Joint Base San Antonio (JBSA), service as the Air Force’s chief cultural/natural resource law attorney, and assignment as an employment litigation attorney at the Air Force’s Labor Law Field Support Center at Eglin Air Force Base in Florida.

Milestones of the Federal Hydropower Program

Southwestern’s Administrator Mike Wech, along with other administrators of PMAs, participated in a panel hosted by DOE and NHA in conjunction with National Hydropower Day and release of the video.

Wech says, “Southwestern is proud to participate in National Hydropower Day and honored to be asked to be part of such an illustrious panel. Hydropower can be considered to be the very first renewable energy resource, and we look forward to continuing to provide this valuable resource to support the Nation’s clean energy infrastructure for many years to come.”



www.energy.gov/oe/national-hydropower-day-2021

Strong Spirit of Service and Duty

Williams is a Veteran of Operation Iraqi Freedom/Enduring Freedom, where he served as Chief Trial Attorney for the Central Criminal Court of Iraq.

He holds a J.D. – or Juris Doctorate – degree from the State University of New York at Buffalo.

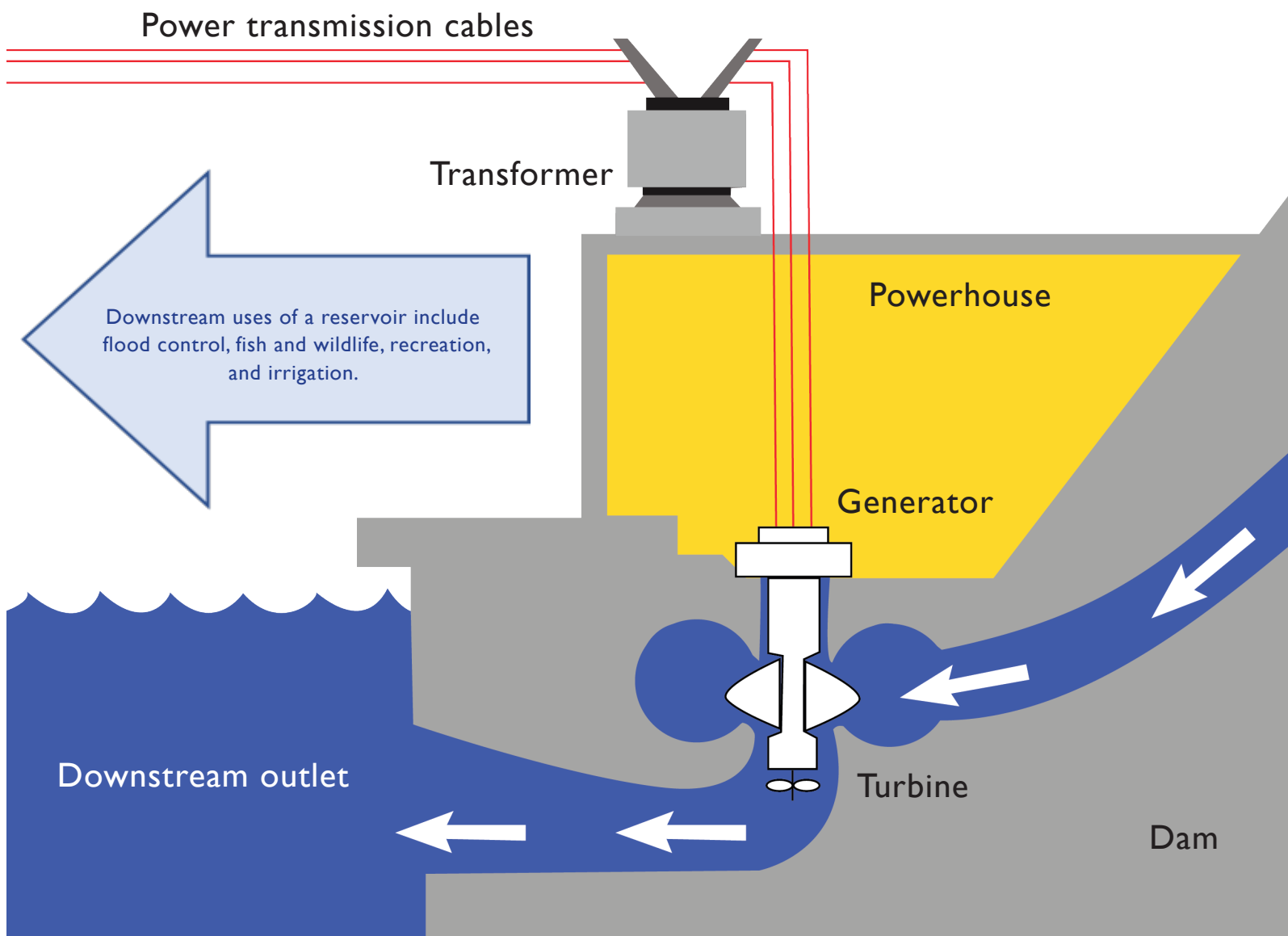


Josh Williams reported for duty in May 2021 as SWPA’s new General Counsel.

Competing Uses

People depend on the water stored behind the dams in Southwestern's marketing area for many reasons, including water supply, flood control, and recreation.

Southwestern depends on the water to produce sustainable, reliable, and affordable Federal hydropower to serve the region and to securely fulfill the Nation's clean energy needs.



What are Competing Uses?

The “multi-purpose” reservoirs in Southwestern’s marketing area support interests which “compete” for the use of available water:



Municipal and industrial water supply



Tourism



Swimming



Hydroelectric power



Navigation



Fishing



Fish and wildlife



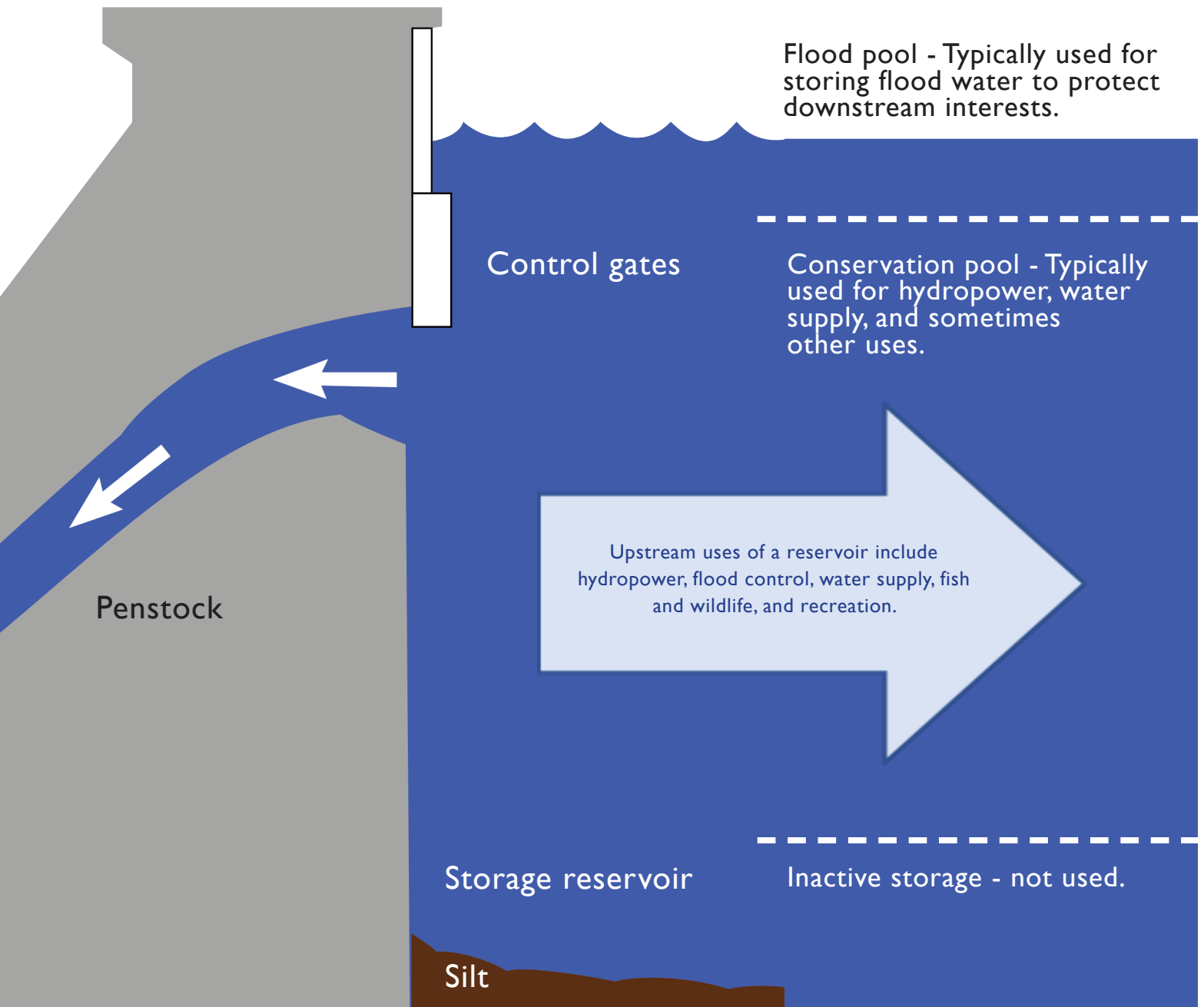
Flood control



Boating



Irrigation



Competing Uses

How Does SWPA Use Water?

By law, Southwestern is authorized to use water storage in the “conservation pool” area of the reservoirs. Southwestern is also able to use the “flood pool,” depending on water conditions, and Southwestern uses releases from both pools for the generation of hydroelectric power.

Over 10 million end users in a six-state area rely on this cost-based hydroelectric power to run their homes and businesses and create opportunities for economic growth.

Southwestern fully recovers the cost of the hydroelectric power it markets through the electric rates it charges its customers, including a portion of the cost of building the infrastructure for the reservoirs and the water storage they create.

How Does SWPA Work with Other Uses?

Southwestern works with other competing uses to accommodate their needs whenever possible, but a reliable supply of water is vital to meeting Southwestern’s contractual obligations to its customers.

Making the best use of the water resource requires an understanding of each user’s specific needs, but also an understanding of the history and statutory purposes of the reservoirs. Above all, there must be a spirit of cooperation among the competing user groups.

Southwestern dedicates significant effort in coordinating operating activities – with groups such as the U.S. Army Corps of Engineers, Federal and state game, fish, and wildlife agencies, organized recreational groups, and other water user groups – to find ways to accommodate each user’s needs, whenever possible, and still meet electrical contract requirements.

Southwestern is proud to have provided reliable, cost efficient, and environmentally sound hydroelectric power for nearly 80 years, and we look forward to continuing to be America’s original renewable energy resource.



Water spilling through the flood gates at Table Rock Dam paints a pretty picture, but it is also a reminder of the vital importance of flood control in Southwestern’s region to protect lives and property during major rain events.

When reservoirs within the region are in the flood pool, SWPA works with the Corps to generate hydropower whenever possible, but it is the Corps which is tasked with operating the reservoirs to mitigate impacts of flooding to upstream and downstream users.

Southwestern Federal Power System Energy Production

Project	Fiscal Year On-Line Date	Installed Capacity (kW)	Estimated Annual Energy ¹ (Millions kWh)	2021 Actual Net Energy (Millions kWh)	Total Project Cost ²	% Cost Assigned to Power	Cost Assigned to Power ²
BEAVER	1965	112,000	172	171	109,072,855	65.1%	71,041,571
BLAKELY MOUNTAIN	1956	86,000	169	252	63,200,394	73.4%	46,361,287
BROKEN BOW	1970	100,000	129	218	55,725,969	58.8%	32,740,827
BULL SHOALS	1953	340,000	785	1,205	140,776,863	67.5%	95,002,692
CLARENCE CANNON	1985	58,000	90	96	395,536,208	23.2%	91,661,251
DARDANELLE	1965	140,000	613	661	160,229,878	64.7%	103,644,982
DE GRAY	1972	78,000	97	107	90,911,781	40.6%	36,908,524
DENISON	1945	70,000	219	204	145,419,699	61.0%	88,720,986
EUFAULA	1965	90,000	260	328	159,827,277	27.6%	44,156,137
FT GIBSON	1953	45,000	191	252	71,670,806	37.1%	26,601,895
GREERS FERRY	1964	96,000	189	207	71,104,492	61.5%	43,758,801
HARRY S TRUMAN ³	1982	160,000	244	407	655,146,672	25.0%	163,755,867
KEYSTONE	1968	70,000	228	211	160,246,885	21.5%	34,386,318
NARROWS	1950	25,500	30	55	36,768,335	64.0%	23,546,325
NORFORK	1944	80,550	184	300	103,755,888	44.0%	45,605,516
OZARK	1973	100,000	429	263	292,828,236	79.3%	232,287,760
ROBERT D WILLIS ⁴	1989	7,350	37	12	9,378,478	7.2%	676,171
ROBERT S KERR	1971	110,000	459	489	158,646,989	58.2%	92,340,593
SAM RAYBURN	1966	52,000	114	154	130,984,851	32.4%	42,454,242
STOCKTON	1973	52,000	55	70	127,039,255	50.1%	63,596,411
TABLE ROCK	1959	200,000	495	659	213,584,888	61.0%	130,256,313
TENKILLER	1954	39,100	95	141	89,373,746	33.8%	30,215,843
WEBBERS FALLS	1974	60,000	213	256	194,873,509	67.5%	131,548,303
WHITNEY	1955	42,000	73	80	113,963,920	47.4%	54,072,172
TOTALS		2,213,500	5,570	6,798	3,750,067,874	46.0%	1,725,340,787

¹ 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.

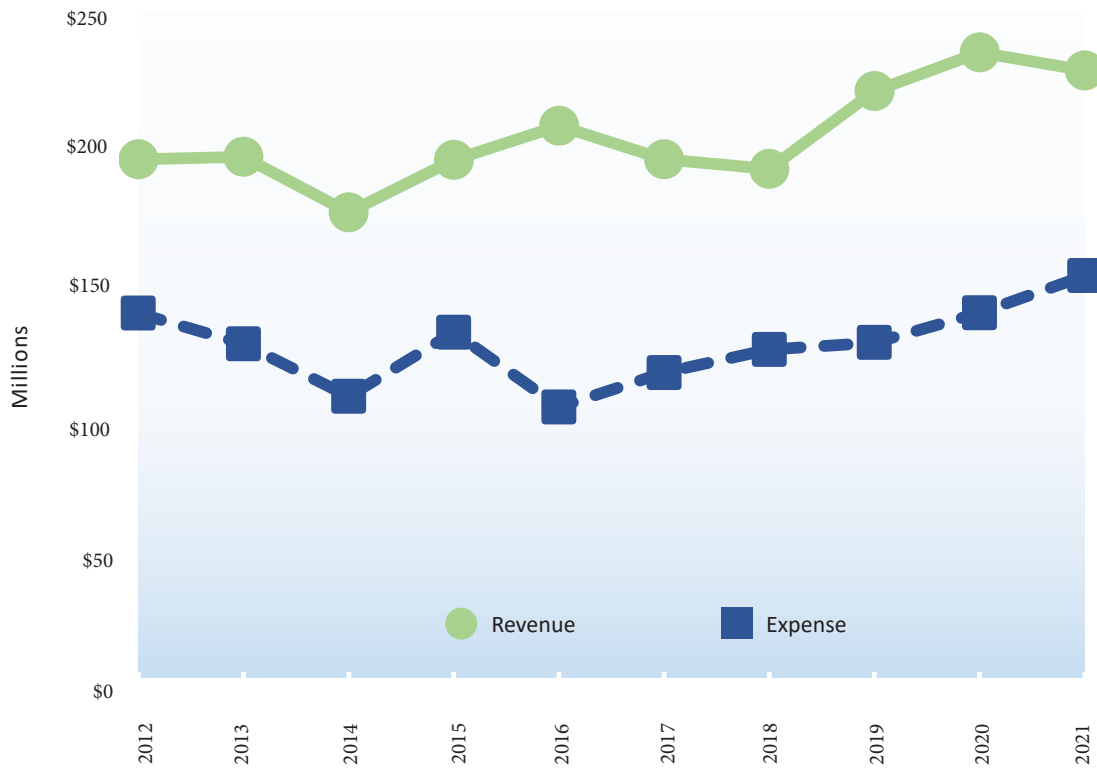
² Includes construction work in progress with plant in service less contributions in aid of construction for the Corps only; Southwestern's marketing costs are not included.

³ Only 53,300 kW have been declared in commercial operation.

⁴ 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 2021

Energy Source	Millions kWh	%
Generated by Hydroelectric Plants of the		
U.S. Army Corps of Engineers	6,798.0	97.8%
Direct Purchases	149.9	2.2%
Total	6,947.9	100.0%
Energy Distribution		
Cooperatives	4,439.2	63.9%
Municipalities and Joint Action Agencies	1,909.5	27.5%
Contracted Projects (Prior Contract Exchange)	359.0	5.2%
Government Agencies	144.4	2.1%
Losses	73.9	1.0%
Interchange	21.8	0.3%
Utility Companies / Other	0.1	0.0%
Total	6,947.9	100.0%

Source and Distribution of Revenue Fiscal Year 2021

Revenue Source	Thousands \$	%
Cooperatives	128,375	56.2%
Municipalities and Joint Action Agencies	58,256	25.5%
Miscellaneous ¹	34,075	15.0%
Government Agencies	4,155	1.8%
Deferred ²	3,375	1.5%
Banking Exchange	63	0.0%
Utility Companies / Others	3	0.0%
Total	228,302	100.0%
Revenue Distribution		
Operations, Maintenance, & Other ³	125,219	54.8%
Available for Repayment	76,889	33.7%
Purchased Power & Banking Exchange	19,903	8.7%
Interest Expense	6,183	2.7%
Transmission Service Charge	108	0.1%
Total	228,302	100.0%

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

² Includes revenue collected from purchased power rate components.

³ Includes losses on retirement of assets booked through depreciation reserve.

FY 2021 - Detail of Billings to Customers

	Marketed Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Distribution Cooperatives			
Beauregard Electric Cooperative, Inc	8,800	29,077,149	820,990
Claiborne Electric Cooperative, Inc	5,500	18,173,216	513,119
Concordia Electric Cooperative, Inc	4,800	15,860,262	447,813
Dixie Electric Membership Corporation	18,200	59,910,000	1,694,324
Doniphan Electric Cooperative ¹	2,000	6,613,000	187,841
Freestate Electric Cooperative	1,000	3,339,000	93,849
Jefferson Davis Electric Cooperative, Inc	4,000	13,216,885	373,177
Nemaha-Marshall Electric Cooperative Association	1,000	3,350,000	94,024
Northeast Louisiana Power Cooperative, Inc	4,500	14,868,996	419,824
Pointe Coupee Electric Membership Corporation	3,000	9,912,664	279,883
South Louisiana Electric Cooperative Association	8,900	29,407,571	830,320
Southwest Louisiana Electric Membership Corporation	25,000	82,605,532	2,332,359
Washington-St Tammany Electric Cooperative, Inc	8,700	28,746,725	811,661
Total	95,400	315,081,000	8,899,184
Generation and Transmission Cooperatives			
Arkansas Electric Cooperative Corporation	189,000	592,568,000	17,244,499
Associated Electric Cooperative, Inc	478,000	1,536,352,000	44,177,040
Brazos Electric Power Cooperative, Inc	41,200	96,144,000	3,171,553
East Texas Electric Cooperative, Inc ¹	29,775	87,789,463	2,452,259
Kansas Electric Power Cooperative, Inc	100,000	319,426,000	9,217,644
Northeast Texas Electric Cooperative, Inc	127,500	383,125,000	11,327,661
Rayburn Country Electric Cooperative, Inc ¹	42,525	124,054,537	3,462,463
Sam Rayburn Dam Electric Cooperative, Inc	52,000	154,319,000	4,563,792
Western Farmers Electric Cooperative	260,000	830,306,000	23,962,063
Total	1,320,000	4,124,084,000	119,578,974
Joint Action Agencies			
Kansas Municipal Energy Agency ²	5,100	16,332,000	470,488
Louisiana Energy and Power Authority ³	13,400	44,080,000	1,247,037
Sam Rayburn Municipal Power Agency ⁴	7,350	12,051,030	1,282,836
Total	25,850	72,463,030	3,000,361
Government Agencies			
Fort Sill Military Reservation, Ft Sill, Oklahoma	36,700	116,919,521	3,377,276
McAlester Army Ammunition Plant, McAlester, Oklahoma	2,688	8,563,479	247,360
Vance Air Force Base, Enid, Oklahoma	5,900	18,896,000	544,310
Total	45,288	144,379,000	4,168,946
SPP Reserve Sharing Companies			
Total	0	56,000	2,800

¹ Marketed Capacity reflects temporary change during participation in Temporary Power Sales Program.

² Served 18 Municipals with Federal Allocations in FY 2021.

³ Served 7 Municipals with Federal Allocations in FY 2021.

⁴ Has Federal Allocation.

FY 2021 - Detail of Billings to Customers

Municipalities	Marketed Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Alexandria, Louisiana	10,700	35,206,000	995,881
Augusta, Arkansas	3,700	12,120,000	343,508
Augusta, Kansas	600	1,972,200	55,813
Bentonville, Arkansas	18,000	56,665,000	1,645,729
Carthage, Missouri	7,000	23,037,000	690,241
Chanute, Kansas ¹	0	0	0
Clarksville, Arkansas	19,100	62,752,000	1,776,220
Clay Center, Kansas	600	1,972,364	55,816
Coffeyville, Kansas	1,900	6,148,000	176,371
Comanche, Oklahoma	4,200	13,851,395	391,425
Copan, Oklahoma	2,500	8,244,879	232,991
Duncan, Oklahoma	32,500	107,183,422	3,028,881
Eldorado, Oklahoma	1,300	4,287,337	121,155
Fulton, Missouri	3,000	9,904,000	279,750
Goltry, Oklahoma	900	2,968,156	83,877
Granite, Oklahoma	2,300	7,585,288	214,352
Hermann, Missouri	5,800	19,134,000	540,624
Higginsville, Missouri	3,000	9,918,000	279,973
Hominy, Oklahoma	10,000	32,979,516	931,963
Iola, Kansas ¹	0	0	0
Jonesboro, Arkansas	80,000	256,155,000	7,383,919
Kansas City, Kansas	38,600	125,347,000	3,588,772
Kennett, Missouri	11,000	35,776,000	1,084,673
Lafayette, Louisiana	18,600	39,380,000	1,526,274
Lamar, Missouri	12,000	39,593,000	1,118,636
Lexington, Oklahoma	4,100	13,521,601	382,105
Malden, Missouri	5,000	16,092,000	490,169
Manitou, Oklahoma	600	1,978,771	55,918
Minden, Louisiana	2,400	7,891,000	223,297
Mulvane, Kansas	300	986,100	27,907
Natchitoches, Louisiana	2,600	8,557,000	242,033
New Madrid, Missouri	4,500	14,862,000	444,558
Nixa, Missouri	5,300	17,206,000	521,917
Olustee, Oklahoma	700	2,308,565	65,237
Paragould, Arkansas	50,500	164,654,000	4,946,158
Paris, Arkansas	10,800	35,617,877	1,006,520
Piggott, Arkansas	4,900	15,727,000	479,549
Poplar Bluff, Missouri	39,500	126,939,000	3,870,757
Purcell, Oklahoma	14,500	47,820,296	1,351,347
Ruston, Louisiana	4,900	16,126,000	456,121
Ryan, Oklahoma	1,900	6,266,108	177,073
Sikeston, Missouri	33,800	109,690,000	4,737,110
Skiatook, Oklahoma	11,000	35,155,000	1,014,111
Spiro, Oklahoma	4,000	13,191,806	372,785
Springfield, Missouri	50,000	160,099,000	4,612,451
Thayer, Missouri	2,800	9,209,000	260,540
Walters, Oklahoma	6,400	21,106,889	596,457
Wellington, Kansas	1,100	3,615,700	102,324
West Plains, Missouri	15,000	50,236,000	1,492,936
Wetumka, Oklahoma	2,600	8,574,674	242,311
Winfield, Kansas	1,600	5,259,636	148,843
Yale, Oklahoma	3,700	12,202,420	344,826
Total	571,800	1,837,073,000	55,212,204

¹ Marketed Capacity reflects temporary change during participation in Temporary Power Sales Program.

Total Capacity (kW) 2,058,338
Total Energy (kWh) 6,493,136,030
Total Billings (\$) 190,862,469

Southwestern Federal Power System Five-Year Statistical Summary

Revenue	2021	2020	2019	2018	2017
Annual Operating Revenue	\$228,302,077	\$234,966,849	\$220,555,978	\$191,430,161	\$194,982,367
Annual Expense (Excluding Depreciation & Non-Reimbursable Expenses)*	(147,080,992)	(132,999,589)	(118,074,764)	(118,240,393)	(110,664,917)
Net (Deficiency) Revenues	\$81,221,085	\$101,967,260	\$102,481,214	\$73,189,768	\$84,317,450
Retirement Losses	(\$4,332,302)	(\$4,616,726)	(\$8,266,344)	(\$5,543,311)	(\$4,461,467)
Total Amount Available for Repayment	\$76,888,783	\$97,350,533	\$94,214,870	\$67,646,457	\$79,855,983
Repayable Investment					
Generation	\$1,432,650,163	\$1,352,943,043	\$1,342,013,525	\$1,299,732,169	\$1,287,153,121
Transmission	503,258,927	497,176,354	470,674,424	447,183,520	422,184,495
Total Repayable Investment	\$1,935,909,090	\$1,850,119,397	\$1,812,687,949	\$1,746,915,689	\$1,709,337,616

FY 2021 Cumulative Repayment Status

	Robert D. Willis	Sam Rayburn	Integrated System	Total SWFPS
Revenue	\$21,648,581	\$126,408,082	\$6,268,568,572	\$6,416,625,235
Expense				
Operations and Maintenance	18,418,938	65,815,435	2,733,942,269	2,818,176,642
Purchased Power and Transmission Service			966,098,531	966,098,531
Interest	(602,496)	18,339,293	913,372,660	931,109,457
Total expense	\$17,816,442	\$84,154,728	\$4,613,413,460	\$4,715,384,630
Revenue Applied to Repayment (Cumulative Amortization)	\$3,832,139	\$42,253,354	\$1,655,155,112	\$1,701,240,605
Total Unpaid Investment	\$(3,156,781)	\$(1,593,835)	\$239,419,101	\$234,668,485

Federal Investment in Generation and Transmission Facilities in Service

	2021	2020
Generation Facilities	\$1,505,728,576	\$1,426,021,456
Transmission Facilities	503,258,927	497,176,354
Total Investment	\$2,008,987,503	\$1,923,197,810
Adjustments:		
Prior Year	0	0
Retirement work-in-progress	0	0
Dam Safety ¹	(73,078,413)	(73,078,413)
Total Repayable Investment	\$1,935,909,090	\$1,850,119,397

¹ Dam Safety work is not repayable per Public Law 99-662.



SOUTHWESTERN FEDERAL POWER PROGRAM

Combined Financial Statements

September 30, 2021 and 2020



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

Administrator, Southwestern Power Administration and
Inspector General, United States 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, 2021 and 2020, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the financial statements. The combined financial statements include the Southwestern Power Administration (Southwestern), a component of the U.S. Department of Energy, and the hydroelectric power generating functions of the U.S. Department of Defense, Army Corps of Engineers (Corps) 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 the 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.

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, 2021 and 2020, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

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.



Other Matter

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on SWFPS's 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 were derived from and relate 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

Internal Control over Financial Reporting

In planning and performing our audit of SWFPS's combined financial statements as of and for the year ended September 30, 2021, we considered SWFPS's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWFPS's internal control. Accordingly, we do not express an opinion on the effectiveness of SWFPS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SWFPS's combined financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SWFPS's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
July 29, 2022

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Balance Sheets

September 30, 2021 and 2020

Assets	2021	2020
Plant in service	\$ 2,008,987,503	1,923,197,810
Accumulated depreciation	(932,857,532)	(897,938,508)
Construction work in progress	257,844,267	268,995,701
Net utility plant	1,333,974,238	1,294,255,003
Cash	603,713,558	472,931,725
Funds held in escrow	194,713,323	334,597,299
Accounts receivable	28,038,356	17,043,639
Materials and supplies, at average cost	3,401,440	3,073,766
Banking exchange receivables	4,233,431	4,173,440
Deferred workers' compensation (note 4)	8,011,549	7,283,530
Other assets	596,485	1,705,597
Total assets	<u>\$ 2,176,682,380</u>	<u>2,135,063,999</u>
Liabilities and Capitalization		
Liabilities:		
Accounts payable and accrued liabilities	\$ 22,447,183	18,224,553
Advances for construction	1,521,985	2,492,706
Accrued workers' compensation	8,734,031	7,931,968
Purchased power and banking exchange deferral (note 4)	70,475,290	72,817,897
Hydropower water storage reallocation deferral (note 4)	59,395,394	60,305,459
Total liabilities	<u>162,573,883</u>	<u>161,772,583</u>
Capitalization:		
Payable to U.S. Treasury	1,274,544,522	1,273,076,890
Accumulated net revenues	739,563,975	700,214,526
Total capitalization	2,014,108,497	1,973,291,416
Commitments and contingencies (notes 6 and 7)		
Total liabilities and capitalization	<u>\$ 2,176,682,380</u>	<u>2,135,063,999</u>

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Changes in Capitalization

Years ended September 30, 2021 and 2020

	Payable to U.S. Treasury	Accumulated net revenues	Total capitalization
Total capitalization as of September 30, 2019	\$ 1,167,385,188	634,598,280	1,801,983,468
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	7,679,079	—	7,679,079
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>
Additions:			
Congressional appropriations	71,261,101	—	71,261,101
Interest on payable to U.S. Treasury and other	12,443,495	—	12,443,495
Transfers of property and services, net	8,910,785	—	8,910,785
Total additions to capitalization	<u>92,615,381</u>	<u>—</u>	<u>92,615,381</u>
Deductions:			
Payments to U.S. Treasury	<u>(91,147,749)</u>	<u>—</u>	<u>(91,147,749)</u>
Total deductions to capitalization	<u>(91,147,749)</u>	<u>—</u>	<u>(91,147,749)</u>
Net revenues for the year ended September 30, 2021	<u>—</u>	<u>39,349,449</u>	<u>39,349,449</u>
Total capitalization as of September 30, 2021	<u>\$ 1,274,544,522</u>	<u>739,563,975</u>	<u>2,014,108,497</u>

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues and Expenses

Years ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Sales of electric power	\$ 190,852,384	203,246,478
Transmission and other operating revenues	34,075,019	26,949,095
Total operating revenues before deferrals	224,927,403	230,195,573
Net purchased power and banking exchange deferral	3,374,674	4,771,276
Total operating revenues	228,302,077	234,966,849
Non-reimbursable revenues	1,251,117	3,610,559
Total revenues	229,553,194	238,577,408
Operating expenses:		
Operation and maintenance	120,887,211	104,165,338
Purchased power and banking exchange	19,902,646	21,978,789
Depreciation and amortization	39,251,326	36,118,394
Transmission service charges by others	108,290	42,505
Non-reimbursable expenses	3,871,427	3,843,179
Total operating expenses	184,020,900	166,148,205
Net operating revenues	45,532,294	72,429,203
Interest expense:		
Interest on payable to U.S. Treasury and other	14,489,333	15,417,052
Allowance for funds used during construction	(8,306,488)	(8,604,095)
Net interest expense	6,182,845	6,812,957
Net revenues	\$ 39,349,449	65,616,246

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Cash Flows

Years ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net revenues	\$ 39,349,449	65,616,246
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	39,251,326	36,118,394
Benefit expense paid by other Federal agencies	7,678,928	6,070,120
Interest on payable to U.S. Treasury and other	6,182,845	6,812,957
Deferred workers' compensation	(728,019)	2,582,639
(Increase) decrease in assets:		
Accounts receivable	(10,994,717)	2,276,977
Materials and supplies	(327,674)	247,928
Banking exchange receivables	(59,991)	(6,608)
Other assets	1,109,112	(1,679,504)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	4,222,630	(4,669,724)
Accrued workers' compensation	802,063	(2,554,340)
Purchased power and banking exchange deferral	(3,423,714)	(4,854,000)
Advances for construction	(970,721)	2,485,100
Net cash provided by operating activities	82,091,517	108,446,185
Cash flows used in investing activities:		
Additions to utility plant	(70,664,073)	(79,137,241)
Cash flows from financing activities:		
Congressional appropriations	71,261,101	96,590,184
Payments to U.S. Treasury	(91,147,749)	(10,464,123)
Transfers of property and services, net	1,231,857	1,608,959
Hydropower water storage reallocation deferral	(1,874,796)	(1,836,235)
Net cash used in (provided by) financing activities	(20,529,587)	85,898,785
Net increase (decrease) in cash and funds held in escrow	(9,102,143)	115,207,729
Cash and funds held in escrow, beginning of year	807,529,024	692,321,295
Cash and funds held in escrow, end of year	\$ 798,426,881	807,529,024
Supplemental cash flow information:		
Interest deferred on regulatory liabilities (note 1(g))	\$ 2,045,838	3,530,490
Interest charged to construction (note 1(k))	8,306,488	8,604,095
Transfers of construction work in progress to plant in service	71,838,086	36,706,833

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2021 and 2020

(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), for which Southwestern markets and transmits the power. 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 non-regulated 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 and place the rates into effect on an interim basis. 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.

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

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2021 and 2020

decisions of the Administrator only if it finds them to be arbitrary, capricious, or in violation of the law. As of September 30, 2021 and 2020, there were no revenues subject to a refund.

The rates in effect as of September 30, 2021 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. These rate schedules incorporated a 4.7% revenue increase for the period October 1, 2013 through September 30 2017, or until superseded by a new rate schedule. These rate schedules have been subsequently extended by the Deputy Secretary of Energy through September 30, 2019, then extended again through September 30, 2021 by the Assistant Secretary, Office of Electricity and most recently extended by the Administrator, Southwestern to remain in effect through September 30, 2023.

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 through September 30, 2021, and extended again for a two-year period by the Administrator, Southwestern to remain in effect through September 30, 2023.

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 through September 30, 2021, and extended again for a two-year period by the Administrator, Southwestern to remain in effect through September 30, 2023.

(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. 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.

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Depreciation on utility plant assets is depreciated using the straight-line method over the estimated service lives ranging from 5 to 50 years for transmission assets and 5 to 100 years for generation assets.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2021 and 2020

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), and allocations of the amount of funds required to satisfy current hydroelectric power obligations.

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 is 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 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 a cumulative effect adjustment to retained earnings on the date of adoption.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2021 and 2020

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 investment 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), 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.

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 and transmission 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

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2021 and 2020

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.

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 1.63% and 2.75% of the outstanding balance for the years ended September 30, 2021 and 2020, respectively, based on law, administrative order, or administrative policy. Cumulative interest deferred totaled

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\$19,236,918 and \$18,272,187 and the unpaid principal balance deferred totaled \$40,158,476 and \$42,033,272 for the years ended September 30, 2021 and 2020, 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. Reimbursement to the Denison allottees and distribution of revenue foregone to Southwestern's integrated system will continue as long as there is a reallocation deferred balance of funds, subject to provisions established in the aforementioned agreements between Southwestern and the Corps and between Southwestern and the Denison allottees.

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 1.63% and 2.75% of the outstanding balance for the years ended September 30, 2021 and 2020, respectively, based on law, administrative order, or administrative policy. Interest expense deferred on the outstanding balance totaled \$1,081,107 and \$1,891,902 for the years ended September 30, 2021 and 2020, 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, 2021 and 2020.

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 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

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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 1.63% and 2.75% for the years ended September 30, 2021 and 2020, 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 2021 and 2020 cost factors under CSRS were 42.1% and 38.5%, respectively, of basic pay. The cost factors under FERS for fiscal years 2021 and 2020 were 18.5% and 16.7%, 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 \$8,476 and \$8,038 per enrolled employee, for fiscal years 2021 and 2020, respectively, and FEGLI is based on 0.02% of basic pay for each employee enrolled in these programs.

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 \$7,678,928 and \$6,070,120 for the years ended September 30, 2021 and 2020, respectively. These amounts reflect the contributions made on behalf of SWFPS by OPM to the benefit program trust funds.

As a Federal agency, all post-retirement 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.

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(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.

(p) Non-Reimbursable Activities

Non-reimbursable activities for the years ended September 30, 2021 and 2020 consist of the following:

	2021	2020
Non-reimbursable revenues:		
Non-Federal project revenue	\$ 129,240	565,949
Federal project revenue	431,544	48,056
COVID-19 project revenue	533,155	22,886
Escrow interest revenue	157,178	2,973,668
Total non-reimbursable revenues	\$ 1,251,117	3,610,559
Non-reimbursable expenses:		
Non-Federal project expense	\$ 129,240	565,949
Federal project expense	431,544	48,056
COVID-19 project expense	533,155	22,886
White River Minimum Flows Project expense	2,416,011	2,678,879
Spectrum Relocation Fund expense	361,477	524,371
Other project expense	—	3,038
Total non-reimbursable expenses	\$ 3,871,427	3,843,179

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.

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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 \$556,041 from DOE in non-reimbursable funding provided 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 remained available until September 30, 2021. 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.

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. 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

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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 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, 2021 and 2020, 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.

(2) **Disaggregated Revenue**

Disaggregated revenues as of September 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Disaggregated revenues:		
Sale of Federal electric power	\$ 190,104,194	203,246,478
Non-Federal transmission services	16,888,399	15,205,886
Ancillary services	685,031	682,760
Other revenues	<u>17,249,779</u>	<u>11,060,449</u>
Total operating revenue before deferrals	<u>\$ 224,927,403</u>	<u>230,195,573</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

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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 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 Midcontinent Independent System Operator (MISO) market plus miscellaneous revenues for Southwestern. These revenues are recognized upon receipt.

(3) Utility Plant

Utility plant as of September 30, 2021 and 2020 consists of the following:

	2021	2020
Plant in service:		
Generating facilities	\$ 1,505,728,576	1,426,021,456
Transmission facilities	503,258,927	497,176,354
	2,008,987,503	1,923,197,810
Less accumulated depreciation	(932,857,532)	(897,938,508)
Construction work in progress:		
Generating facilities	219,612,211	239,214,933
Transmission facilities	38,232,056	29,780,768
	257,844,267	268,995,701
Net utility plant	\$ 1,333,974,238	1,294,255,003

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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, 2021 and 2020, contributed plant, net, used in SWFPS's operations totaled \$23,003,072.

(4) Regulatory Assets and Liabilities

Regulatory assets and liabilities as of September 30, 2021 and 2020 consist of the following:

	2021	2020
Regulatory assets:		
Deferred workers' compensation	\$ <u>8,011,549</u>	<u>7,283,530</u>
Regulatory liabilities:		
Purchased power and banking exchange deferral	\$ 70,475,290	72,817,897
Hydropower water storage reallocation deferral	<u>59,395,394</u>	<u>60,305,459</u>
Total	\$ <u>129,870,684</u>	<u>133,123,356</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:

	<u>Purchased power and banking exchange deferral</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	(72,817,897)
Purchased power adder revenue	(14,544,998)
Purchased power expense	17,998,378
Net banking exchange	<u>(78,706)</u>
Net purchased power and banking exchange deferral	<u>3,374,674</u>
Interest on deferred activities and other	<u>(1,032,067)</u>
September 30, 2021	\$ <u>(70,475,290)</u>

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(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 2021. 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 Southwestern's transmission system and the Corps' hydroelectric generating facilities range from 1.63% to 3.13% for unpaid facilities in service prior to and including fiscal year 2021 (1.63%). 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.

(6) Commitments and Contingencies

(a) General

Based on the final 2022 Power Repayment Studies (PRSs), the projected increase in capital investment in 2022 is \$90,997,114, which includes \$31,667,304 for transmission facilities and \$59,329,810 for generating facilities. The PRSs 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 systems. The five-year investment increase projected in the 2022 PRSs for fiscal years 2022 through 2026 is estimated to cost \$592,827,407. It is reasonably possible that a change in the future capital investment estimates will occur.

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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, 2021 and 2020.

(c) Purchased Power Contract Commitments

Southwestern has entered into various agreements for power purchases that vary in contractual term 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:	
2022	13,346,680
2023	2,745,750
2024	<u>—</u>
Total	\$ <u>16,092,430</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.

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Notes to Combined Financial Statements

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(7) Leases

Southwestern 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 2023 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.

As of September 30, 2021, expected future minimum lease payments, given the termination of the Occupancy Agreement by May 2023, are as follows:

Year ending September 30:		
2022	\$	488,000
2023		<u>217,000</u>
Total future minimum lease payments	\$	<u><u>705,000</u></u>

Rent expense for operating leases during the years ended September 30, 2021 and 2020 was \$760,635 and \$764,162, 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, 2021 and 2020, amounts outstanding in accounts receivable relating to DOE and DOD components totaled \$290,323 and \$322,189, respectively. For the years ended September 30, 2021 and 2020, total operating revenues earned from DOE and DOD sources totaled \$4,161,553 and \$4,486,919, respectively.

(9) Corrections Related to Alternative Financing

As disclosed in note 5(b), the SWFPS has established an alternative financing program under reimbursable authority regulations. As of September 30, 2020, alternative financing not held in escrow was presented as both advances for construction and other assets in the combined balance sheets. In addition, capitalized costs funded by alternative financing were classified as other assets instead of construction in progress. During fiscal year 2021, the SWFPS corrected these amounts by eliminating \$89,894,337 of other assets and advances for construction and by reclassifying capitalized costs of \$17,781,467 from other assets to construction work in progress as of September 30, 2020.

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The following table presents the effects of the immaterial corrections to the combined balance sheet and cash flows as of and for the year ended September 30, 2020:

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As adjusted</u>
Balance sheet:			
Construction in progress	\$ 251,214,234	17,781,467	268,995,701
Net utility plant	1,276,473,536	17,781,467	1,294,255,003
Other assets	109,381,401	(107,675,804)	1,705,597
Total assets	2,224,958,336	(89,894,337)	2,135,063,999
Advances for construction	92,387,043	(89,894,337)	2,492,706
Total liabilities	251,666,920	(89,894,337)	161,772,583
Cash flows:			
Increase in assets: other assets	\$ (49,178,137)	47,498,633	(1,679,504)
Increase in assets: advances for construction	47,785,140	(45,300,040)	2,485,100
Net cash provided by operating activities	106,247,592	2,198,593	108,446,185
Additions to utility plant	(76,938,648)	(2,198,593)	(79,137,241)

Corrections impacting the supplementary information in schedules 1 and 4 have also been revised accordingly.

(10) Subsequent Events

SWFPS has evaluated subsequent events from the balance sheet date through July 29, 2022, the date the combined financial statements were available to be issued, and such events are disclosed in these accompanying notes to combined financial statements.

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Combining Schedule of Balance Sheet Data

September 30, 2021

Assets	Southwestern	Corps	Total
Plant in service	\$ 503,258,927	1,505,728,576	2,008,987,503
Accumulated depreciation	(267,166,285)	(665,691,247)	(932,857,532)
Construction work in progress	38,232,056	219,612,211	257,844,267
Net utility plant	274,324,698	1,059,649,540	1,333,974,238
Cash	279,623,895	324,089,663	603,713,558
Funds held in escrow	152,234,548	42,478,775	194,713,323
Accounts receivable	27,361,847	676,509	28,038,356
Materials and supplies, at average cost	3,240,425	161,015	3,401,440
Banking exchange receivables	4,233,431	—	4,233,431
Deferred workers' compensation	2,398,167	5,613,382	8,011,549
Other assets	596,485	—	596,485
Total assets	\$ 744,013,496	1,432,668,884	2,176,682,380
Liabilities and Capitalization			
Liabilities:			
Accounts payable and accrued liabilities	\$ 9,763,611	12,683,572	22,447,183
Advances for construction	1,521,985	—	1,521,985
Accrued workers' compensation	2,893,258	5,840,773	8,734,031
Purchased power and banking exchange deferral	70,475,290	—	70,475,290
Hydropower water storage reallocation deferral	59,395,394	—	59,395,394
Total liabilities	144,049,538	18,524,345	162,573,883
Capitalization:			
Payable to U.S. Treasury	474,975,372	799,569,150	1,274,544,522
Accumulated net revenues	124,988,586	614,575,389	739,563,975
Total capitalization	599,963,958	1,414,144,539	2,014,108,497
Total liabilities and capitalization	\$ 744,013,496	1,432,668,884	2,176,682,380

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2020

Assets	Southwestern	Corps	Total
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	29,780,768	239,214,933	268,995,701
Net utility plant	274,041,589	1,020,213,414	1,294,255,003
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	1,705,597	—	1,705,597
Total assets	\$ 861,952,230	1,273,111,769	2,135,063,999
Liabilities and Capitalization			
Liabilities:			
Accounts payable and accrued liabilities	\$ 8,949,704	9,274,849	18,224,553
Advances for construction	2,492,706	—	2,492,706
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	146,919,277	14,853,306	161,772,583
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	\$ 861,952,230	1,273,111,769	2,135,063,999

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Changes in Capitalization Data
Years ended September 30, 2021 and 2020

	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, 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
Additions:							
Congressional appropriations	10,400,000	—	10,400,000	60,861,101	—	60,861,101	71,261,101
Interest on payable to U.S. Treasury and other	928,192	—	928,192	11,515,303	—	11,515,303	12,443,495
Transfers of property and services, net	(188,828,831)	—	(188,828,831)	197,739,616	—	197,739,616	8,910,785
Total additions to capitalization	(177,500,639)	—	(177,500,639)	270,116,020	—	270,116,020	92,615,381
Deductions:							
Payments to U.S. Treasury	56,797,136	—	56,797,136	(147,944,885)	—	(147,944,885)	(91,147,749)
Total deductions to capitalization	56,797,136	—	56,797,136	(147,944,885)	—	(147,944,885)	(91,147,749)
Net revenues for the year ended September 30, 2021	—	5,634,508	5,634,508	—	33,714,941	33,714,941	39,349,449
Total capitalization as of September 30, 2021	\$ 474,975,372	124,988,586	599,963,958	799,569,150	614,575,389	1,414,144,539	2,014,108,497

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2021

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power	\$ 190,852,384	—	190,852,384
Transmission and other operating revenues	<u>31,421,467</u>	<u>2,653,552</u>	<u>34,075,019</u>
Total operating revenues before deferrals	222,273,851	2,653,552	224,927,403
Net purchased power and banking exchange deferral	3,374,674	—	3,374,674
Revenue distributed to Corps	<u>(141,446,399)</u>	<u>141,446,399</u>	<u>—</u>
Total operating revenues	84,202,126	144,099,951	228,302,077
Non-reimbursable revenues	<u>1,228,819</u>	<u>22,298</u>	<u>1,251,117</u>
Total revenues	<u>85,430,945</u>	<u>144,122,249</u>	<u>229,553,194</u>
Operating expenses:			
Operation and maintenance	38,248,490	82,638,721	120,887,211
Purchased power and banking exchange	19,902,646	—	19,902,646
Depreciation and amortization	15,239,133	24,012,193	39,251,326
Transmission service charges by others	108,290	—	108,290
Non-reimbursable expenses	<u>3,871,427</u>	<u>—</u>	<u>3,871,427</u>
Total operating expenses	<u>77,369,986</u>	<u>106,650,914</u>	<u>184,020,900</u>
Net operating revenues	<u>8,060,959</u>	<u>37,471,335</u>	<u>45,532,294</u>
Interest expense:			
Interest on payable to U.S. Treasury and other	2,974,030	11,515,303	14,489,333
Allowance for funds used during construction	<u>(547,579)</u>	<u>(7,758,909)</u>	<u>(8,306,488)</u>
Net interest expense	<u>2,426,451</u>	<u>3,756,394</u>	<u>6,182,845</u>
Net revenues (losses)	<u>\$ 5,634,508</u>	<u>33,714,941</u>	<u>39,349,449</u>

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	<u>24,421,302</u>	<u>2,527,793</u>	<u>26,949,095</u>
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	<u>(137,719,560)</u>	<u>137,719,560</u>	<u>—</u>
Total operating revenues	94,719,496	140,247,353	234,966,849
Non-reimbursable revenues	<u>3,416,882</u>	<u>193,677</u>	<u>3,610,559</u>
Total revenues	<u>98,136,378</u>	<u>140,441,030</u>	<u>238,577,408</u>
Operating expenses:			
Operation and maintenance	32,125,257	72,040,081	104,165,338
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
Non-reimbursable expenses	<u>3,843,179</u>	<u>—</u>	<u>3,843,179</u>
Total operating expenses	<u>73,489,109</u>	<u>92,659,096</u>	<u>166,148,205</u>
Net operating revenues	<u>24,647,269</u>	<u>47,781,934</u>	<u>72,429,203</u>
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	<u>(782,611)</u>	<u>(7,821,484)</u>	<u>(8,604,095)</u>
Net interest expense	<u>2,615,898</u>	<u>4,197,059</u>	<u>6,812,957</u>
Net revenues (losses)	<u>\$ 22,031,371</u>	<u>43,584,875</u>	<u>65,616,246</u>

See accompanying independent auditors' report.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2021

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues	\$ 5,634,508	33,714,941	39,349,449
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	141,446,399	(141,446,399)	—
Depreciation and amortization	15,239,133	24,012,193	39,251,326
Benefit expense paid by other Federal agencies	1,401,396	6,277,532	7,678,928
Interest on payable to U.S. Treasury and other	2,426,451	3,756,394	6,182,845
Deferred workers' compensation	(596,605)	(131,414)	(728,019)
(Increase) decrease in assets:			
Accounts receivable	(10,808,011)	(186,706)	(10,994,717)
Materials and supplies	(273,284)	(54,390)	(327,674)
Banking exchange receivables	(59,991)	—	(59,991)
Other assets	1,109,112	—	1,109,112
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	813,907	3,408,723	4,222,630
Accrued workers' compensation	539,747	262,316	802,063
Purchased power and banking exchange deferral	(3,423,714)	—	(3,423,714)
Advances for construction	(970,721)	—	(970,721)
Net cash provided by (used in) operating activities	<u>152,478,327</u>	<u>(70,386,810)</u>	<u>82,091,517</u>
Cash flows used in investing activities:			
Additions to utility plant	<u>(14,974,663)</u>	<u>(55,689,410)</u>	<u>(70,664,073)</u>
Cash flows from financing activities:			
Congressional appropriations	10,400,000	60,861,101	71,261,101
Payments to U.S. Treasury	56,797,136	(147,944,885)	(91,147,749)
Revenue distributed to Corps	(141,446,399)	141,446,399	—
Transfers of property and services, net	(190,230,227)	191,462,084	1,231,857
Hydropower water storage reallocation deferral	(1,874,796)	—	(1,874,796)
Net cash (used in) provided by financing activities	<u>(266,354,286)</u>	<u>245,824,699</u>	<u>(20,529,587)</u>
Net increase (decrease) in cash and funds held in escrow	(128,850,622)	119,748,479	(9,102,143)
Cash and funds held in escrow, beginning of year	<u>560,709,065</u>	<u>246,819,959</u>	<u>807,529,024</u>
Cash and funds held in escrow, end of year	<u>\$ 431,858,443</u>	<u>366,568,438</u>	<u>798,426,881</u>
Supplemental cash flow information:			
Interest deferred on regulatory liabilities	\$ 2,045,838	—	2,045,838
Interest charged to construction	547,579	7,758,909	8,306,488
Transfers of construction work in progress to plant in service	1,401,563	70,436,523	71,838,086

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	\$ 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	2,615,898	4,197,059	6,812,957
Deferred workers' compensation	585,619	1,997,020	2,582,639
(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)
Other assets	(1,679,504)	—	(1,679,504)
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	2,485,100	—	2,485,100
Net cash provided by (used in) operating activities	<u>175,793,626</u>	<u>(67,347,441)</u>	<u>108,446,185</u>
Cash flows used in investing activities:			
Additions to utility plant	<u>(16,552,032)</u>	<u>(62,585,209)</u>	<u>(79,137,241)</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	<u>(1,836,235)</u>	<u>—</u>	<u>(1,836,235)</u>
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 (decrease) 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	432,097,132	260,224,163	692,321,295
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
Interest charged to construction	782,611	7,821,484	8,604,095
Transfers of construction work in progress to plant in service	26,706,747	10,000,086	36,706,833

See accompanying independent auditors' report.

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