SOUTHWESTERN POWER ADMINISTRATION

Annual Report

2018

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Published September 2020; Revised October 2020

Summary of Revisions:

1, Changed % of cost assigned to power for SAM RAYBURN in the Southwestern Federal Power System Energy Production table (page 14) from 34.3% to 31.2%.

Dedication

Southwestern Celebrates 75 Years of Service 1943 - 2018

Southwestern Power Administration (Southwestern) hosted a celebration of its 75th anniversary at the DoubleTree Hotel at Warren Place in Tulsa, Oklahoma, on Thursday, October 18, 2018.

Bruce Walker, Assistant Secretary of the Department of Energy's Office of Electricity (OE), addressed the crowd as did Southwestern Administrator Mike Wech.

Southwestern's customers were well represented, and included Southwestern Power Resource Association Executive Director Nicki Fuller. Representatives from the U.S. Army Corps of Engineers (Corps) included Colonel Robert Dixon of the Little Rock District and Colonel Christopher Hussin of the Tulsa District.

Attendees enjoyed dinner, cake, and the premiere of a video commemorating the agency's 75th anniversary.

"I think everyone had a good time, and I'm very proud I was able to be part of this special celebration," said Southwestern Administrator Mike Wech.

Additional activities included a photo booth, a trivia contest, and memorabilia related to Southwestern's 75 years in the industry.

Administrator Mike Wech took advantage of the photo booth to become a Hydropower Hero.

Administrator Mike Wech shares a table with his supervisor Bruce Walker of the Department of Energy, customers, Corps representatives, other PMA Administrators, and former and current Southwestern staff.

Doug Hart (front) poses with members of his Financial Management team, from L-R, Jason Gray, Michelle Ford, Missy Valencia, Aleta Wallace, Angela Wall, Kathy Tyer (Power Marketing Liaison Office), and Zach Zaghloul.

Department of Energy
Southwestern Power Administration
1 W 3rd St, Suite 1600
Tulsa, Oklahoma 74103-3502

The Honorable Dan Brouillette
Secretary of Energy
Washington, D.C. 20585

Dear Secretary Brouillette:

I am pleased to present the financial statements and operating data for Southwestern Power Administration (Southwestern) for Fiscal Year (FY) 2018.

In FY 2018, Southwestern delivered 4.3 billion kilowatt-hours of energy to its wholesale customers in Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas, generating $191 million in revenue.

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

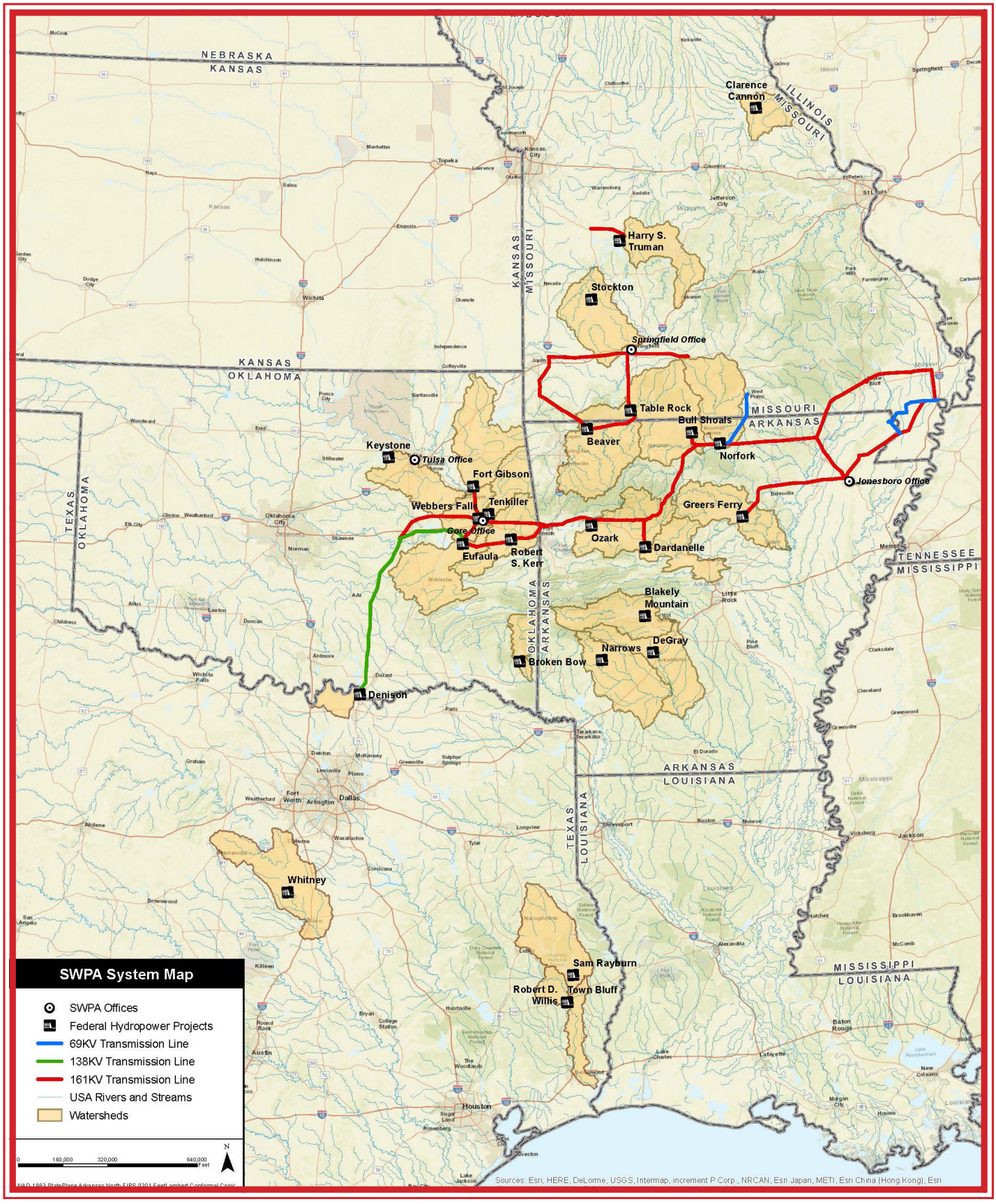
Southwestern also actively partners with the Department of Energy, the U.S. Army Corps of Engineers, Southwestern's customers, and other Federal power stakeholders to most effectively balance their diverse interests with Southwestern's mission while continuing to maximize Federal assets to repay the Federal investment in the 24 hydropower facilities within Southwestern's marketing region.

Southwestern is proud to do our part in securing America's prosperity by continuing to serve the Nation's energy needs in the future.

Sincerely,

Mike Wech
Administrator

System Map


SWPA System Map
SWPA Offices
Federal Hydropower Projects
69KV Transmission Line
138KV Transmission Line
161KV Transmission Line
USA Rivers and Streams
Watersheds
Clarence Cannon
Harry S. Truman
Stockton
Springfield Office
Table Rock
Bull Shoals
Beaver
Norfork
Jonesboro Office
Keystone
Tulsa Office
Fort Gibson
Webbers Falls
Tenkiller
Gore Office
Eufaula
Robert S. Kerr
Ozark
Dardanelle
Greers Ferry
Blakely Mountain
DeGray
Narrows
Broken Bow
Denison
Whitney
Sam Rayburn
Robert D. Willis
Town Bluff
NEBRASKA
KANSAS
MISSOURI
ILLINOIS
OKLAHOMA
TEXAS
ARKANSAS
LOUISIANA
TENNESSEE
MISSISSIPPI
Sources: Esri, HERE, DeLorme, USGS, Intermap, increment P Corp., NRCAN, Esri Japan, METI, Esri China (Hong Kong), Esri

About Southwestern

Southwestern 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 2,193 MW.

Southwestern operates and maintains 1,381 miles of high-voltage transmission lines. The Agency 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; Springfield, Missouri; Nixa, Missouri; and Tulsa, Oklahoma. Power scheduling and plant dispatching are conducted on a 24-hour basis by staff in the Springfield Operations Center.

Annual revenue for Southwestern for FY 2018 was $191 million. Average revenue over the last five years is approximately $194 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

Southwestern's mission is to market and reliably deliver Federal hydroelectric power with preference to public bodies and cooperatives.

This is accomplished by maximizing the use of Federal assets to repay the Federal investment and participating with other water resource users in an effort to balance their diverse interests with power needs within broad parameters set by the U.S. Army Corps of Engineers, and implementing public policy.

Vision

Southwestern has an open and trusting partnership with its customers in meeting their business expectations for operation of the Federal hydropower system, and with the American public in meeting its financial obligations while providing good stewardship of regional water resources. The Southwestern work force is cost-conscious, team-based, and empowered to meet customer expectations.

Authorization

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

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

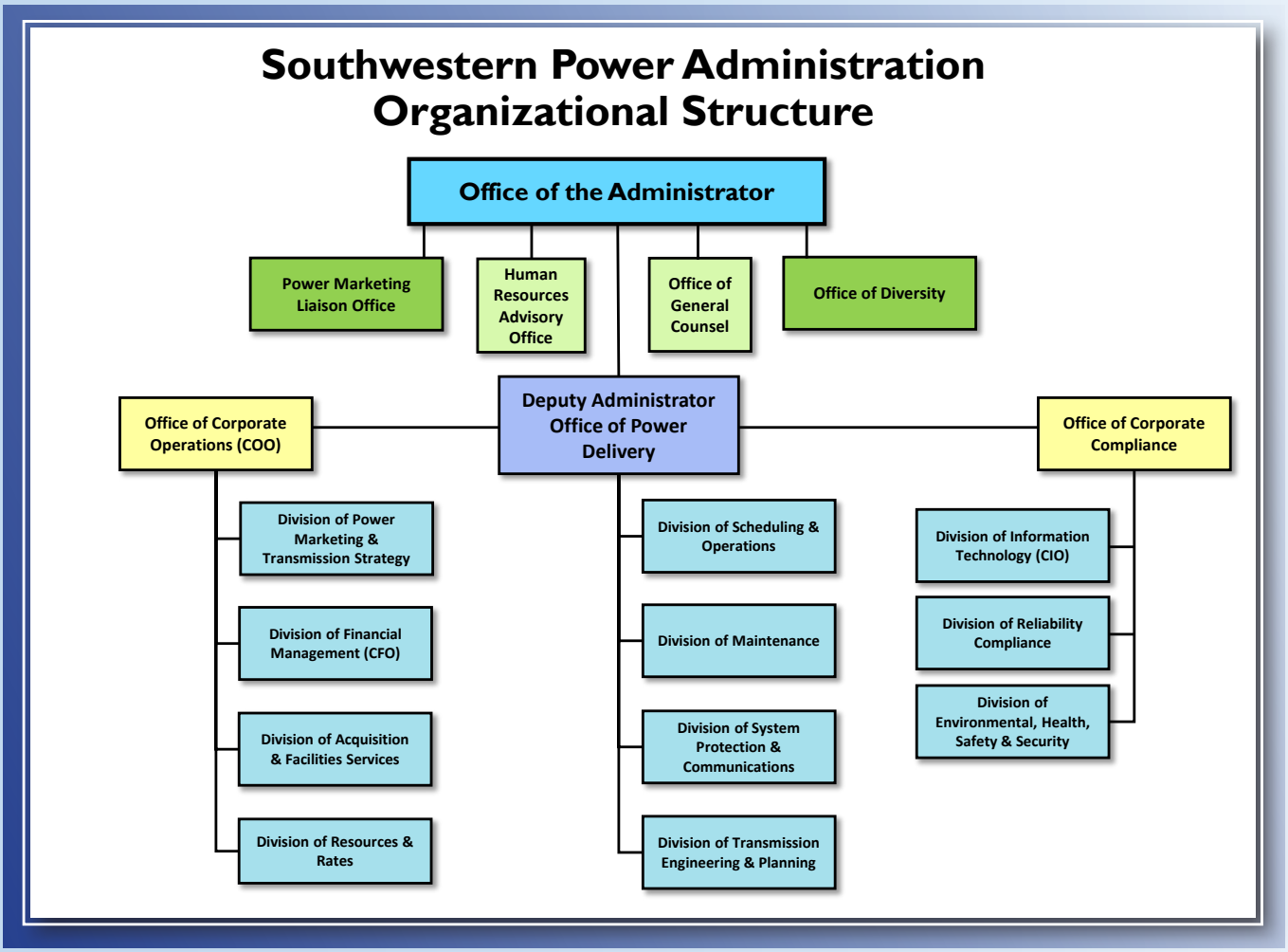
Leadership

Effective May 2018, Mike Wech was officially pronounced Administrator of Southwestern after serving as Deputy Administrator since November 2016 and as Acting Administrator since August 2017.

As official Administrator, Wech continued his efforts to reduce costs where possible, meet DOE objectives, align business functions, and put more focus on activities critical to Southwestern, DOE, and Southwestern's customers.

Wech has put together a team of leaders poised to guide Southwestern through the next decade and beyond.

Core Senior Staff includes Wech, Deputy Administrator Marshall Boyken, Deputy Assistant Administrator Barbara Smith, Senior Vice President of Corporate Compliance Danny Johnson, Senior Vice President of Corporate Operations and Chief Operating Officer Fritha Ohlson, and General Counsel John Bremer.



Service and Recognition

Since taking over as Administrator, Mike Wech has put increased emphasis on valuing employees and creating an atmosphere of cooperation and comradery, hosting several employee appreciation celebrations and strongly encouraging employee feedback through the Federal Employee Viewpoint Survey.

"Our employees are one of our greatest assets," he explains. "In a very mission-driven industry such as ours, hard-working people willing to go that extra mile make all the difference."

Southwestern employees are cost-conscious, team-based, and empowered to meet customer expectations. They serve the agency proudly, and many stay at Southwestern their entire career.

Tulsa employees work as a team to solve a word game before the start of the May 2018 Employee Appreciation Celebration.

Diversity

Southwestern Power Administration (Southwestern) was awarded a Rising Star recognition by the Tulsa Regional Chamber's diversity business council, Mosaic, in FY 2018. The Inclusion Forum event, held in the atrium of the Bank of Oklahoma Center, recognized Tulsa organizations that have made significant headway in diversity and inclusion business practices.

Mosaic, a public organization championing the business case for diversity and inclusion, debuted in October 2011. In 2012, Mosaic implemented an annual Inclusive Workplace Cultures survey to provide benchmark data to companies to gauge their strengths, opportunities, and challenges when considering diversity within their organizations.

Mosaic uses five key metrics to provide a general rubric for scoring the responses, with awards being given at the three, four, and five star levels. Southwestern is one of twelve companies to receive the Rising Star award, a recognition awarded to organizations beginning to demonstrate commitment to diversity and inclusion.

Mechelle Brown, Program Coordinator for the Greenwood Cultural Center in Tulsa, talks about the destruction of Black Wall Street by mobs of white residents during the 1921 Tulsa Race Riot, as Deputy Administrator Marshall Boyken looks on.

Solutions

After thorough review of its options and discussions with its customers and interconnected entities, Southwestern joined the Midwest Reliability Organization (MRO) in 2018, stating that it was the best choice for serving Southwestern's customers with continued reliability and effectiveness.

MRO was one of eight REs (Regional Entity) created in 2007 when the Federal Energy Regulatory Commission (FERC) approved agreements by which NERC could delegate its authority to REs to monitor and enforce compliance with mandatory NERC Reliability Standards.

In addition to enforcing NERC Reliability Standards, MRO conducts assessments of the electrical grid's ability to meet electricity demand in its region and analyzes regional system events. The MRO region currently includes more than 130 organizations involved in the production and delivery of electricity to more than 20 million people.

Working as a team, Linemen Patrick Starnes, William Stewart, and Casey Sliger, all from Southwestern's Gore office, make repairs to insulators in the Dardanelle Dam Switchyard in eastern Arkansas. Regular maintenance of Corps switchyards and Southwestern transmission assets keeps the grid reliable and robust.

Safety and Security

In operating its business, Southwestern shares the same number-one goal of every other electric utility in the Nation – safety and security. Its workforce is safety-conscious, aware, alert, and engaged so that, as part of the bulk electrical grid, Southwestern can continue doing its part to keep the lights on, which is vital to the Nation's energy security.

Hydropower generators respond quickly to changes in electrical demand and therefore can provide valuable and flexible support to the bulk electric grid in times of crisis.

This was never more apparent than in 2018 in the aftermath of Hurricane Harvey. Damage to the power grid caused wide-spread power outages and strained those facilities that had remained in service. Local utilities, some of which are Southwestern customers, were unable to restore power to their consumers due to the sheer magnitude of the damage.

By generating hydroelectric power out of Sam Rayburn Dam near Beaumont, Texas, lines were energized one by one until hospitals, emergency operations centers, and evacuation centers were able to regain power and reduce reliance on portable generators.

Sam Rayburn Dam came online in 1966 and has provided clean, reliable power and energy for the people of Texas and the surrounding region ever since.

Teamwork

Reliable generation works hand in hand with reliable transmission, and Southwestern keeps its transmission system reliable by planning and executing repair, maintenance, and protection. A long-term construction plan prioritizes investments and supports efforts to evaluate and plan to make sure the appropriate work is being done, even as Southwestern strives to keep downward pressure on expenditures.

Southwestern is committed as a team to keeping its substations and transmission system reliable and dependable by upgrading equipment and planning expansions when those expansions benefit Southwestern's customers. At left, Lineman Jared Simpson and Jonesboro Maintenance Manager Scott Sims pair up to replace a switch at Sikeston Substation in Missouri. At right, Springfield Maintenance Manager Steve Hill listens to Engineering Director Carlos Valencia explain his ideas to expand the Carthage Substation in Missouri.

Partners

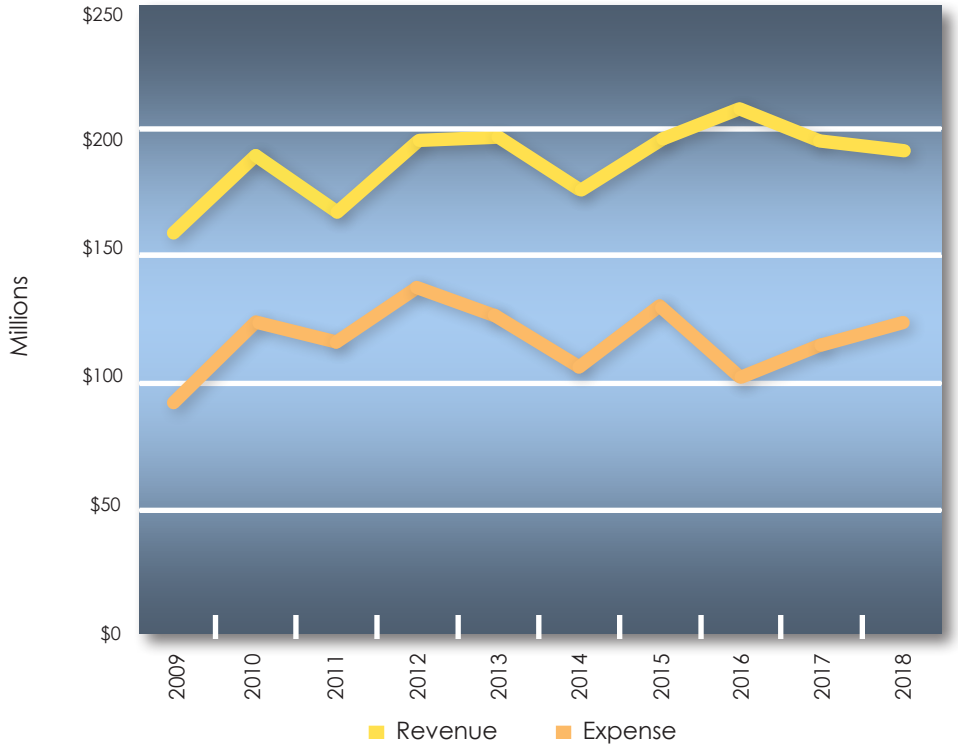
Southwestern employees work as a team to keep the lights on, but they also work with outside partners. An important part of Southwestern's planning process is coordinating with Southwest Power Pool, Inc. (SPP), the Regional Transmission Organization (RTO) with which Southwestern participates, to ensure that Southwestern's transmission replacements are part of the regional transmission planning process.

Southwestern is also actively engaged in investing in the Corps-owned generating assets in Southwestern's marketing region. With the Corps' partnership and the unwavering support of its customers, Southwestern has established a customer funding program that allows for reinvestment in critical infrastructure so that Federal hydropower will continue to be competitive for future generations.

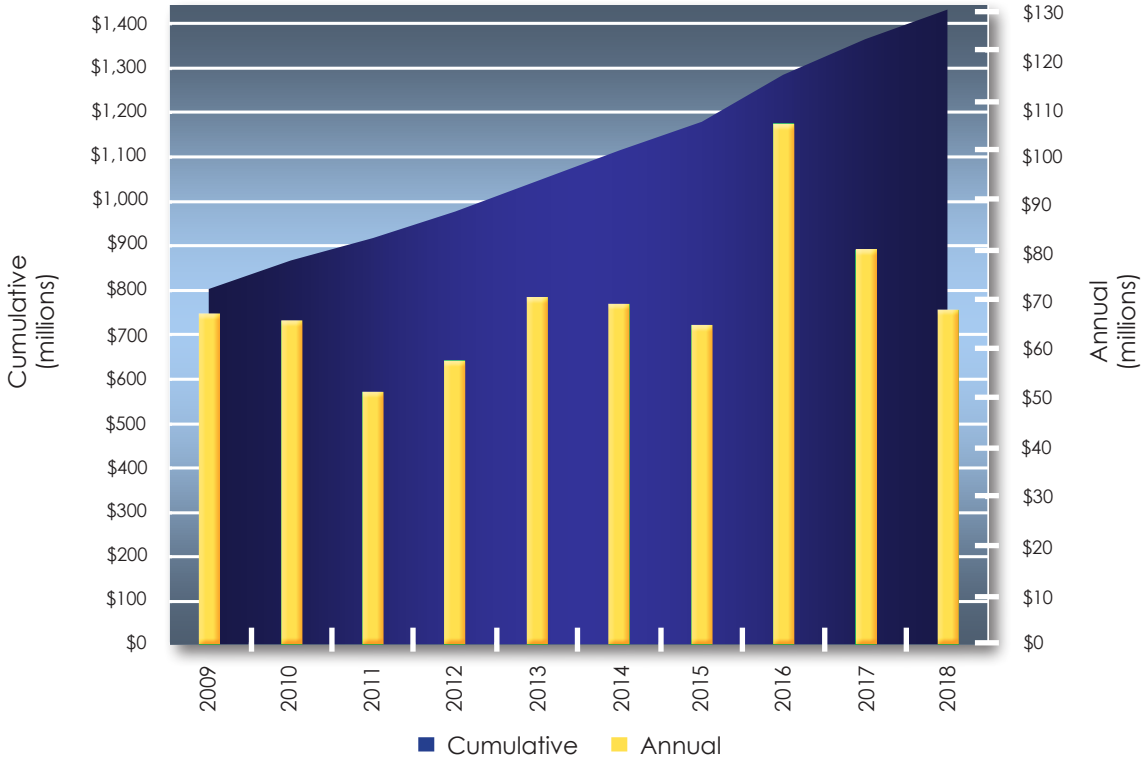
Tom Gebhard, GDS Associates, discusses the importance of the Denison Dam major replacement project with representatives of the Southwestern Power Resources Association (SPRA) Rehabilitation Task Force. Joining Gebhard in the discussion is Amanda Kenly, Associated Electric Cooperative, Inc; Nicki Fuller, SPRA; Scott Williams, Western Farmers Electric Cooperative; Umesh Sadalge, Oklahoma Municipal Power Authority; and Bill Anderson and Joe Van Winkle, both with the U.S. Army Corps of Engineers.

Annual Revenue and Expense

(excluding depreciation and non-reimbursable expense)



Annual and Cumulative Repayment of Capital Investment



Supplementary Information

Southwestern Federal Power System Energy Production

Project	Fiscal Year On-Line Date	Installed Capacity (kW)	Estimated Annual Energy [1] (Millions kWh)	2018 Actual Net Energy (Millions kWh)	Total Project Cost [2]	% Cost Assigned to Power	Cost Assigned to Power [2]
BEAVER	1965	112,000	172	137	104,388,748	66.3%	69,199,349
BLAKELY MOUNTAIN	1956	75,000	169	146	62,598,358	73.4%	45,975,214
BROKEN BOW	1970	100,000	129	115	52,794,588	57.9%	30,574,501
BULL SHOALS	1953	340,000	785	653	130,927,779	65.4%	85,594,267
CLARENCE CANNON	1985	58,000	90	26	394,591,768	23.2%	91,363,543
DARDANELLE	1965	140,000	613	505	145,671,484	65.4%	95,255,591
DE GRAY	1972	68,000	97	54	90,197,941	40.1%	36,141,605
DENISON	1945	70,000	219	166	123,244,446	45.2%	55,659,780
EUFAULA	1965	90,000	260	214	146,555,830	28.5%	41,733,321
FT GIBSON	1953	45,000	191	128	71,793,312	37.2%	26,740,992
GREERS FERRY	1964	96,000	189	144	69,534,842	61.6%	42,801,264
HARRY S TRUMAN [3]	1982	160,000	244	111	633,287,927	22.4%	141,860,714
KEYSTONE	1968	70,000	228	138	153,242,002	21.7%	33,280,267
NARROWS	1950	25,500	30	11	35,011,939	62.6%	21,929,463
NORFORK	1944	80,550	184	167	90,075,729	37.2%	33,521,859
OZARK	1973	100,000	429	171	261,443,367	76.9%	200,998,385
ROBERT D WILLIS [4]	1989	7,350	37	20	8,159,599	12.8%	1,048,046
ROBERT S KERR	1971	110,000	459	369	123,022,924	48.8%	59,997,459
SAM RAYBURN	1966	52,000	114	105	128,093,616	31.2%	39,927,821
STOCKTON	1973	52,000	55	36	125,918,009	50.0%	62,932,058
TABLE ROCK	1959	200,000	495	421	204,721,028	59.5%	121,793,607
TENKILLER	1954	39,100	95	90	87,938,249	33.8%	29,687,507
WEBBERS FALLS	1974	60,000	213	127	188,415,467	66.4%	125,117,017
WHITNEY	1955	42,000	73	10	106,158,852	48.9%	51,951,025
TOTALS		**2,192,500**	**5,570**	**4,064**	**3,537,787,804**	**43.8%**	**1,545,084,655**

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.

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

4 The initial project construction costs for power were non-federally financed.

Supplementary Information

Source and Distribution of Energy
Fiscal Year 2018

Energy Source	2018 Millions kWh	2018 % of Total
Generated by Hydroelectric Plants of the U.S. Army Corps of Engineers	4,063.8	93.8%
Direct Purchases	240.4	5.5%
Contract Exchange	22.6	0.5%
Interchange	6.5	0.2%
Total	**4,333.3**	**100.0%**

Energy Distribution	2018 Millions kWh	2018 % of Total
Cooperatives	2,926.2	67.5%
Municipalities and Joint Action Agencies	1,260.3	29.1%
Government Agencies	99.1	2.3%
Losses	47.6	1.1%
Utility Companies / Other	0.1	0.0%
Interchange	0.0	0.0%
Total	**4333.3**	**100.0%**

Source And Distribution Of Revenue
Fiscal Year 2018

Revenue Source	2018 Thousands $	2018 % of Total
Cooperatives	113,471	59.3%
Municipalities and Joint Action Agencies	52,233	27.3%
Miscellaneous[1]	23,660	12.4%
Government Agencies	3,706	1.9%
Utility Companies / Others	4	0.0%
Banking Exchange	2	0.0%
Deferred[2]	-1,646	-0.9%
Total	**191,430**	**100.0%**

Revenue Distribution	2018 Thousands $	2018 % of Total
Operations, Maintenance, & Other[3]	99,634	52.0%
Available for Repayment	67,647	35.3%
Purchased Power & Banking Exchange	14,930	7.8%
Interest Expense	9,108	4.8%
Transmission Service Charge	111	0.1%
Total	**191,430**	**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.

Supplementary Information

FY 2018 - Detail of Billings to Customers

Distribution Cooperatives	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Beauregard Electric Cooperative, Inc	8,800	18,307,246	722,631
Claiborne Electric Cooperative, Inc	5,500	11,442,028	451,645
Concordia Electric Cooperative, Inc	4,800	9,985,769	394,162
Dixie Electric Membership Corporation	18,200	36,701,000	1,476,107
Freestate Electric Cooperative	1,000	590,000	26,341
Jefferson Davis Electric Cooperative, Inc	4,000	8,321,477	328,469
Kaw Valley Electric Cooperative, Inc		1,405,000	54,420
Nemaha-Marshall Electric Cooperative Association	1,000	1,991,000	80,697
Northeast Louisiana Power Cooperative, Inc	4,500	9,361,661	369,527
Pointe Coupee Electric Membership Corporation	3,000	6,241,107	246,352
South Louisiana Electric Cooperative Association	8,900	18,515,283	730,843
Southwest Louisiana Electric Membership Corporation	25,000	52,009,220	2,052,929
Washington-St. Tammany Electric Cooperative, Inc	8,700	18,099,209	717,419
Total	**93,400**	**192,970,000**	**7,648,542**
Generation and Transmission Cooperatives			
Arkansas Electric Cooperative Corporation	189,000	397,676,000	15,437,897
Associated Electric Cooperative, Inc	478,000	1,045,838,000	39,151,085
Brazos Electric Power Cooperative, Inc	35,200	20,128,000	2,132,587
East Texas Electric Cooperative, Inc (Tex-La)	28,175	67,340,040	2,160,366
Kansas Electric Power Cooperative, Inc	100,000	215,152,000	8,237,469
Northeast Texas Electric Cooperative, Inc	127,500	231,960,000	9,897,428
Rayburn Country Electric Cooperative, Inc	44,125	105,262,960	3,385,548
Sam Rayburn Dam Electric Cooperative, Inc	52,000	105,299,000	4,563,792
Western Farmers Electric Cooperative	260,000	544,539,000	21,190,183
Total	**1,314,000**	**2,733,195,000**	**106,156,355**
Joint Action Agencies			
Kansas Municipal Energy Agency [1]	7,000	15,031,000	567,266
Louisiana Energy and Power Authority [2]	13,400	27,027,000	1,086,869
Sam Rayburn Municipal Power Agency [3]	7,350	19,597,230	1,282,836
Total	**27,750**	**61,655,230**	**2,945,971**
Government Agencies			
Fort Sill Military Reservation, Ft Sill, Oklahoma	36,700	80,514,888	3,045,987
McAlester Army Ammunition Plant, McAlester, Oklahoma	2,688	5,897,112	223,096
Vance Air Force Base, Enid, Oklahoma	5,900	12,720,000	486,060
Total	**45,288**	**99,132,000**	**3,755,143**
SPP Reserve Sharing Companies			
	0	73,000	3,770
Total	**0**	**73,000**	**3,770**

1 Served 19 Municipals with Federal Allocations in FY 2018.
2 Served 7 Municipals with Federal Allocations in FY 2018.
3 Has Federal Allocation.

Supplementary Information

FY 2018 - Detail of Billings to Customers

Municipalities	Capacity (kW)	Energy Delivered (kWh)	Billings for Power Sales (Dollars)
Alexandria, Louisiana	10,700	21,588,000	867,988
Anthony, Kansas	300	605,000	24,332
Augusta, Arkansas	3,700	7,435,000	299,663
Augusta, Kansas	600	1,210,200	48,666
Bentonville, Arkansas	18,000	42,814,000	1,546,899
Carthage, Missouri	7,000	14,119,000	606,411
Clarksville, Arkansas	19,100	38,470,000	1,548,281
Clay Center, Kansas	600	1,226,456	48,925
Coffeyville, Kansas	1,900	4,082,000	156,457
Comanche, Oklahoma	4,200	8,462,959	340,524
Copan, Oklahoma	2,500	5,037,476	202,693
Duncan, Oklahoma	32,500	65,487,184	2,635,008
Eldorado, Oklahoma	1,300	2,619,488	105,400
Fulton, Missouri	3,000	6,113,000	244,316
Goltry, Oklahoma	900	1,813,491	72,968
Granite, Oklahoma	2,300	4,634,479	186,478
Hermann, Missouri	5,800	11,808,000	472,196
Higginsville, Missouri	3,000	6,211,000	245,875
Hominy, Oklahoma	10,000	20,149,903	810,772
Jonesboro, Arkansas	80,000	172,671,000	6,595,984
Kansas City, Kansas	38,600	83,163,000	3,180,738
Kennett, Missouri	11,000	23,418,000	962,144
Lafayette, Louisiana	18,600	31,236,000	1,449,577
Lamar, Missouri	12,000	24,487,000	977,822
Lexington, Oklahoma	4,100	8,261,460	332,416
Malden, Missouri	5,000	10,944,000	441,713
Manitou, Oklahoma	600	1,208,995	48,646
Minden, Louisiana	2,400	4,845,000	194,730
Mulvane, Kansas	300	605,100	24,333
Natchitoches, Louisiana	2,600	5,255,000	211,053
New Madrid, Missouri	4,500	8,794,000	385,341
Nixa, Missouri	5,300	11,551,000	467,935
Olustee, Oklahoma	700	1,410,492	56,754
Paragould, Arkansas	50,500	109,711,000	4,451,239
Paris, Arkansas	10,800	21,761,895	875,633
Piggott, Arkansas	4,900	10,678,000	432,316
Poplar Bluff, Missouri	39,500	85,192,000	3,474,111
Purcell, Oklahoma	14,500	29,217,359	1,175,619
Ruston, Louisiana	4,900	9,882,000	397,428
Ryan, Oklahoma	1,900	3,828,482	154,047
Sikeston, Missouri	33,800	69,564,000	4,338,322
Skiatook, Oklahoma	11,000	23,682,000	906,265
Spiro, Oklahoma	4,000	8,059,960	324,309
Springfield, Missouri	50,000	108,982,000	4,138,600
Thayer, Missouri	2,800	5,709,000	228,089
Walters, Oklahoma	6,400	12,895,938	518,894
Wellington, Kansas	1,100	2,218,700	89,221
West Plains, Missouri	15,000	29,529,000	1,287,910
Wetumka, Oklahoma	2,600	5,238,975	210,801
Winfield, Kansas	1,600	3,270,544	130,467
Yale, Oklahoma	3,700	7,455,464	299,986
Total	**572,100**	**1,198,613,000**	**49,226,295**

Total Capacity (kW)	**2,052,538**
Total Energy (kWh)	**4,285,638,230**
Total Billings ($)	**169,736,076**

Supplementary Information

Southwestern Federal Power System
Five-Year Statistical Summary

Revenue	2018	2017	2016	2015	2014
Annual Operating Revenue	$191,430,161	$194,982,367	$207,544,022	$194,743,540	$175,176,946
Annual Expense (Excluding Depreciation & Non-Reimburseable Expenses)*	(118,240,393)	(110,664,917)	(101,600,664)	(118,951,296)	(103,432,301)
Net (Deficiency) Revenues	**$73,189,768**	**$84,317,450**	**$105,943,358**	**$75,792,244**	**$71,744,645**
Retirement Losses	($5,543,311)	($4,461,467)	($647,969)	($11,257,319)	($2,793,152)
Total Available for Repayment	**$67,646,457**	**$79,855,983**	**$105,295,389**	**$64,543,928**	**$68,951,493**
Repayable Investment					
Generation	$1,299,732,169	$1,287,153,121	$1,233,936,905	$1,177,294,393	$1,119,986,818
Transmission	447,183,520	422,184,495	408,217,142	388,302,079	365,929,530
Total Repayable Investment	**$1,746,915,689**	**$1,709,337,616**	**$1,642,154,047**	**$1,565,596,472**	**$1,485,916,348**

Federal Investment in Generation and Transmission Facilities in Service

	2018	2017
Generation Facilities	$1,372,810,582	$1,360,231,534
Transmission Facilities	447,183,520	422,184,495
Total Investment	**$1,819,994,102**	**$1,782,416,029**
Adjustments:		
Prior Year	0	0
Retirement work-in-progress	0	0
Dam Safety [1]	(73,078,413)	(73,078,413)
Total Repayable Investment	**$1,746,915,689**	**$1,709,337,616**

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

FY 2018 Cumulative Repayment Status

	Robert D. Willis	Sam Rayburn	Integrated System	Total SWFPS
Revenue	$17,800,073	$112,716,702	$5,602,283,556	$5,732,800,331
Expense				
Operations and Maintenance	14,792,991	55,546,046	2,411,778,155	2,482,117,192
Purchased Power & Transmission Service			907,800,708	907,800,708
Interest	(597,503)	18,375,884	892,317,631	910,096,012
Total Expense	**$14,195,488**	**$73,921,930**	**$4,211,896,494**	**$4,300,013,912**
Revenue Applied to Repayment				
(Cumulative Amortization)	$3,604,585	$38,794,772	$1,390,387,062	$1,432,786,419
Total Unpaid Investment	**$(2,929,227)**	**$779,110**	**$316,279,387**	**$314,129,270**

Supplementary Information

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Financial Statements

September 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 310
100 West Fifth Street
Tulsa, OK 74103

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Southwestern Federal Power System (SWFPS), which comprise the combined balance sheets as of September 30, 2018 and 2017, and the related combined statements of changes in capitalization, revenues and expenses, and cash flows for the years then ended, and the related notes to the combined financial statements. As described in note 1(a), the combined financial statements include the Southwestern Power Administration (Southwestern), a component of the U.S. Department of Energy, and the hydroelectric generating and power operations of the U.S. Army Corps of Engineers, a component of the U.S. Department of Defense, for which Southwestern markets and transmits power.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2019 on our consideration of SWFPS's internal control over financial reporting and our report dated August 27, 2019 on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SWFPS's internal control over financial reporting and compliance.

KPMG LLP

Tulsa, Oklahoma
August 27, 2019

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Balance Sheets

September 30, 2018 and 2017

Assets		2018	2017
Plant in service	$	1,820,012,820	1,782,416,029
Accumulated depreciation		(843,203,767)	(812,207,254)
Construction work in progress		198,305,927	180,049,290
Net utility plant		1,175,114,980	1,150,258,065
Cash		369,528,652	346,313,562
Funds held in escrow		218,332,561	131,520,961
Accounts receivable		16,733,047	27,499,071
Materials and supplies, at average cost		3,136,644	3,125,425
Banking exchange receivables		4,133,697	4,176,110
Deferred workers' compensation (note 3)		8,779,527	8,091,727
Other assets		60,369,239	57,210,061
Total assets	$	1,856,128,347	1,728,194,982
Liabilities and Capitalization			
Liabilities:			
Accounts payable and accrued liabilities	$	18,279,407	16,802,366
Advances for construction		50,162,414	49,936,525
Accrued workers' compensation		9,771,292	8,745,531
Purchased power and banking exchange deferral (note 3)		73,348,101	69,669,068
Hydropower water storage reallocation deferral (note 3)		60,585,590	60,701,982
Total liabilities		212,146,804	205,855,472
Capitalization:			
Payable to U.S. Treasury		1,083,165,164	997,082,296
Accumulated net revenues		560,816,379	525,257,214
Total capitalization		1,643,981,543	1,522,339,510
Commitments and contingencies (notes 5 and 6)			
Total liabilities and capitalization	$	1,856,128,347	1,728,194,982

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Changes in Capitalization

Years ended September 30, 2018 and 2017

		Payable to U.S. Treasury	Accumulated net revenues	Total capitalization
Total capitalization as of September 30, 2016	$	907,139,399	478,059,585	1,385,198,984
Additions:				
Congressional appropriations		84,147,982	—	84,147,982
Interest on payable to U.S. Treasury and other		14,886,889	—	14,886,889
Transfers of property and services, net		11,435,269	—	11,435,269
Total additions to capitalization		110,470,140	—	110,470,140
Deductions:				
Payments to U.S. Treasury		(20,527,243)	—	(20,527,243)
Total deductions to capitalization		(20,527,243)	—	(20,527,243)
Net revenues for the year ended September 30, 2017		—	47,197,629	47,197,629
Total capitalization as of September 30, 2017	$	997,082,296	525,257,214	1,522,339,510
Additions:				
Congressional appropriations	$	93,085,653	—	93,085,653
Interest on payable to U.S. Treasury and other		12,755,947	—	12,755,947
Total additions to capitalization		105,841,600	—	105,841,600
Deductions:				
Payments to U.S. Treasury		(15,477,669)	—	(15,477,669)
Transfers of property and services, net		(4,281,063)	—	(4,281,063)
Total deductions to capitalization		(19,758,732)	—	(19,758,732)
Net revenues for the year ended September 30, 2018		—	35,559,165	35,559,165
Total capitalization as of September 30, 2018	$	1,083,165,164	560,816,379	1,643,981,543

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues and Expenses

Years ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Sales of electric power	$ 169,416,384	176,600,577
Transmission and other operating revenues	23,660,263	21,669,223
Total operating revenues before deferrals	193,076,647	198,269,800
Net purchased power and banking exchange deferral	(1,646,486)	(3,287,433)
Total operating revenues	191,430,161	194,982,367
Non-reimbursable revenues	4,744,120	823,080
Total revenues	196,174,281	195,805,447
Operating expenses:		
Operation and maintenance	83,919,691	78,998,762
Purchased power and banking exchange	14,930,090	14,205,305
Depreciation and amortization	36,539,822	35,420,728
Transmission service charges by others	110,870	12,963
Retirement and other employee benefit expense	10,171,276	7,244,424
Non-reimbursable expenses	5,834,901	2,493,629
Total operating expenses	151,506,650	138,375,811
Net operating revenues	44,667,631	57,429,636
Interest expense:		
Interest on payable to U.S. Treasury and other	16,226,698	17,792,670
Allowance for funds used during construction	(7,118,232)	(7,560,663)
Net interest expense	9,108,466	10,232,007
Net revenues	$ 35,559,165	47,197,629

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Cash Flows

Years ended September 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Net revenues	$	35,559,165	47,197,629
Adjustments to reconcile net revenues to net cash provided by operating activities:			
Depreciation and amortization		36,539,822	35,420,728
Benefit expense paid by other Federal agencies		5,548,726	3,096,090
Interest on payable to U.S. Treasury and other		16,226,698	17,792,670
Allowance for funds used during construction		(7,118,232)	(7,560,663)
(Increase) decrease in assets:			
Accounts receivable		10,766,024	(3,269,155)
Materials and supplies		(11,219)	(69,564)
Banking exchange receivables		42,413	(2,078)
Deferred workers' compensation		(687,800)	82,923
Other assets		(3,159,178)	4,412,107
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities		1,477,041	(4,134,322)
Accrued workers' compensation		1,025,761	(156,850)
Purchased power and banking exchange deferral		1,853,366	3,371,102
Advances for construction		225,889	(3,376,956)
Net cash provided by operating activities		98,288,476	92,803,661
Cash flows used in investing activities:			
Additions to utility plant		(54,278,505)	(59,171,530)
Cash flows from financing activities:			
Congressional appropriations		93,085,653	84,147,982
Payments to U.S. Treasury		(15,477,669)	(20,527,243)
Transfers of property and services, net		(9,829,789)	8,339,179
Hydropower water storage reallocation deferral		(1,761,476)	(1,725,246)
Funds received in escrow		(124,811,700)	(120,898,219)
Funds disbursed from escrow		38,000,100	49,515,000
Net cash used by financing activities		(20,794,881)	(1,148,547)
Net increase in cash		23,215,090	32,483,584
Cash, beginning of year		346,313,562	313,829,978
Cash, end of year	$	369,528,652	346,313,562
Supplemental cash flow information:			
Interest deferred on regulatory liabilities (note 1(g))	$	3,470,751	2,905,781

See accompanying notes to combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

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

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

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

SWFPS is subject to the accounting regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as established by the Financial Accounting Standards Board (FASB), the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE and DOD, and the requirements of specific legislation and executive directives issued by government agencies. All material intra-entity balances and transactions are eliminated. SWFPS's combined financial statements follow the accounting and reporting guidance contained in FASB Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. Allocation of costs and revenues to accounting periods for rate-making and regulatory purposes may differ from bases generally applied by 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. Such rates are approved on an interim basis by the Deputy Secretary of Energy. The FERC has the exclusive authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove rates developed by the Administrator.

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

(Continued)

(3) the assumptions and projections used in developing the rates component. The FERC shall reject decisions of the Administrator only if it finds them to be arbitrary, capricious, or in violation of the law.

The rates in effect as of September 30, 2018 are summarized as follows:

The Integrated System rate schedules were placed into effect October 1, 2013 and were confirmed and approved by the FERC on January 9, 2014, and subsequently extended for a two-year period by the Deputy Secretary of Energy. These rate schedules incorporated a 4.7% revenue increase and remain in effect through September 30, 2019, or until superseded by new rate schedules.

The 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.

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.

(c) Utility Plant and Depreciation

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

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

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

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

(Continued)

(d) Cash and Funds Held in Escrow

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

Funds held in escrow represent the unexpended balance of funds held in a bank trust escrow account under alternative financing agreements (note 4 (b)) with certain customers and are restricted specifically to fund operation, maintenance, rehabilitation, and modernization activities at hydroelectric generating facilities of the Corps in SWFPS's marketing region. Under the agreements, funds deposited to the escrow account by customers are credited by Southwestern against accounts receivable for power, energy, and other services sold to the customer. The escrowed funds are transferred to the Corps, as needed, to meet contractual obligations as outlined in the associated agreements. Excess funds held in escrow, if any, are used to fund additional operation, maintenance, rehabilitation, and modernization activities at hydroelectric generating facilities of the Corps in SWFPS's marketing region as agreed to between Southwestern, the Corps, and the customers.

(e) Congressional Appropriations

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

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

(f) Operating Revenues

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

(Continued)

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

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation and the related recovery of the U.S. Treasury's investment in utility plant. SWFPS is 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 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 and accounts for these arrangements in accordance with the provisions of ASC Subtopic 605- 25, *Revenue Recognition – Multiple-Element Arrangements*. Services qualify as separate units of accounting with distinguishable rates, terms, and delivery schedules. Services are provided to meet customer load requirements and revenues are recognized when services are provided.

(g) Regulatory Assets and Liabilities (Note 3)

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.

(Continued)

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 2.75% and 2.38% of the outstanding balance for the years ended September 30, 2018 and 2017, respectively, based on law, administrative order, or administrative policy. Interest expense deferred on the outstanding balance totaled $1,645,084 and $1,428,239 for the years ended September 30, 2018 and 2017, respectively.

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

Purchased Power and Banking Exchange Deferral

SWFPS utilizes a separate rate component (purchased power adder) to recover the estimated cost of purchased power based upon the average purchased power costs expected to occur in the future. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through the rates. Likewise, if the expense is less than the adder, the excess revenue is deferred. From time to time, SWFPS may utilize a separate rate component (adder adjustment) to manage additional purchased power expenses or excess revenues, respectively. The net purchased power deferral accrued interest at 2.75% and 2.38% of the outstanding balance for the years ended September 30, 2018 and 2017, respectively, based on law, administrative order, or administrative policy. Interest expense deferred on the outstanding balance totaled $1,825,667 and $1,477,542 for the years ended September 30, 2018 and 2017, respectively.

(Continued)

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, 2018 and 2017.

Billing methods used by Southwestern include net billing and bill crediting. 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 4(b). Bill crediting involves a billing arrangement among Southwestern, a customer, and a third party, whereby the customer's power invoice is credited and the customer pays a third party for goods or services received by Southwestern. Under Southwestern billing methods, purchase and sale transactions are reported "gross" in the combined financial statements.

(i) Concentration of Credit Risk

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

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

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

(k) Allowance for Funds Used During Construction

The FERC Uniform System of Accounts defines Allowance for Funds Used During Construction as the net costs for the period of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate-making process over the repayment life of the related property through increased revenues resulting from a higher recoverable investment. The interest rates used were 2.75% and 2.38% for the years ended September 30, 2018 and 2017, respectively, based on law, administrative order, or administrative policy.

(Continued)

(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 2018 and 2017 cost factors under CSRS were 37.4% and 32.8%, respectively, of basic pay. The cost factors under FERS for fiscal years 2018 and 2017 were 16.2% and 14.7%, 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 $7,151 and $5,412, per enrolled employee, for fiscal years 2018 and 2017, 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 $5,548,726 and $3,096,090 for the years ended September 30, 2018 and 2017, 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.

(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.

(Continued)

(p) Non-Reimbursable Activities

Non-reimbursable activities for the years ended September 30, 2018 and 2017 consist of the following:

		2018	2017
Non-reimbursable revenues:			
Non-Federal project revenue	$	1,638,315	126,083
Federal project revenue		282	—
Escrow interest revenue		3,105,523	696,997
Total non-reimbursable revenues	$	4,744,120	823,080
Non-reimbursable expenses:			
Non-Federal project expense	$	1,638,315	126,082
Federal project expense		282	—
White River Minimum Flows Project expense		1,882,246	1,660,028
Spectrum Relocation Fund expense		2,279,058	672,519
Other project expense		35,000	35,000
Total non-reimbursable expenses	$	5,834,901	2,493,629

Federal and Non-Federal Projects

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

Plains and Eastern Clean Line Non-Federal Reimbursable Project

Southwestern receives advance funding through the DOE in accordance with the Participation Agreement between the DOE and Clean Line Energy Partners, LLC (Clean Line) dated March 25, 2016. The Participation Agreement was executed to implement the Plains and Eastern transmission line project, a 720-mile-long high voltage direct current transmission line with associated facilities from the panhandle of Oklahoma into and through Arkansas terminating in western Tennessee (the Project). The Project is being pursued in accordance with Section 1222 of the Energy Policy Act of 2005, which authorized the DOE to participate in transmission infrastructure projects, acting through the Administrator of Southwestern, that meet criteria contained within the statute. The Participation Agreement requires that the Project be undertaken "at the sole cost and expense" of Clean Line. Southwestern's role is to (a) acquire and manage land for the Project's right-of-way; (b) oversee Clean Line's conformance with environmental and cultural resource protection obligations associated with the Project; (c) oversee Clean Line's compliance with regulatory obligations of FERC and the North American Electric Reliability Corporation; (d) oversee Clean Line's adherence to technical provisions of the Participation Agreement and the operation of the Project in accordance with prudent utility practice; and (e) report information on the Project's development and management to the DOE. This activity is non-reimbursable through the rate-making process.

(Continued)

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. In fiscal years 2018 and 2017, Southwestern expensed $2,279,058 and $672,519, respectively. Expenses incurred represent labor, construction contracts, travel, and other administrative costs. This activity is non-reimbursable through the rate-making process.

(q) Derivative and Hedging Activities

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

(Continued)

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, 2018 and 2017, Southwestern has no contracts accounted for at fair value as all derivatives qualify as normal purchases and normal sales.

(2) Utility Plant

Utility plant as of September 30, 2018 and 2017 consists of the following:

		2018	2017
Plant in service:			
Generating facilities	$	1,372,829,300	1,360,231,534
Transmission facilities		447,183,520	422,184,495
		1,820,012,820	1,782,416,029
Less accumulated depreciation		(843,203,767)	(812,207,254)
Construction work in progress:			
Generating facilities		172,256,291	148,979,483
Transmission facilities		26,049,636	31,069,807
		198,305,927	180,049,290
Net utility plant	$	1,175,114,980	1,150,258,065

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, 2018 and 2017, contributed plant, net, used in SWFPS's operations totaled $23,003,072 and $16,927,813, respectively.

(Continued)

(3) Regulatory Assets and Liabilities

Regulatory assets and liabilities as of September 30, 2018 and 2017 consist of the following:

		2018	2017
Regulatory assets:			
Deferred workers' compensation	$	8,779,527	8,091,727
Regulatory liabilities:			
Purchased power and banking exchange deferral	$	73,348,101	69,669,068
Hydropower water storage reallocation deferral		60,585,590	60,701,982
Total	$	133,933,691	130,371,050

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:

		Purchased power and banking exchange deferral
September 30, 2016	$	(64,820,424)
Purchased power adder revenue		(14,373,853)
Purchased power expense		10,991,734
Net banking exchange		94,686
Net purchased power and banking exchange deferral		(3,287,433)
Interest on deferred activities and other (note 1(g))		(1,561,211)
September 30, 2017		(69,669,068)
Purchased power adder revenue		(14,538,199)
Purchased power expense		12,923,363
Net banking exchange		(31,649)
Net purchased power and banking exchange deferral		(1,646,485)
Interest on deferred activities and other (note 1(g))		(2,032,548)
September 30, 2018	$	(73,348,101)

(4) Financing Sources

SWFPS's financing sources include annual appropriations, Federal power receipts (Use of 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.

Revenues received from the sale of Federal power and purchased power are generally deposited with the U.S. Treasury. 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 2018. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Payable to U.S. Treasury. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by a repayment of the highest interest-bearing investment first. Interest rates applied to the unamortized investment of the U.S. Government in the Corps' hydroelectric generating facilities range from 2.38% to 3.38% for unpaid facilities in service prior to and including fiscal year 2018 (2.75%). The rates have been set by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

(b) Alternative Financing

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

(5) Commitments and Contingencies

(a) General

Based on the 2019 Power Repayment Studies (PRSs) prepared as of April 30, 2019, the projected increase in capital investment in 2019 is $145,092,173, which includes $31,010,554 for transmission facilities and $114,081,619 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 2019 PRSs for fiscal years 2019 through 2023 is estimated to cost $627,091,665. It is reasonably possible that a change in the future capital investment estimates will occur.

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

(b) Legal

SWFPS has exposure to certain claims and legal actions arising in the ordinary course of business. In management's opinion, any resulting actions will not have a material adverse effect on the financial condition or results of operations of SWFPS as of September 30, 2018 and 2017.

(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:

		Purchased power
Year ending September 30:		
2019	$	12,685,000
2020		6,086,000
2021		1,080,000
2022		720,000
Total	$	20,571,000

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 2020, includes a fixed contractual-year energy amount of 60,000 megawatt-hours (MWh). Another agreement, which term concludes fiscal year 2022, includes a fixed contractual-year energy amount of 48,000 MWh with the final year a maximum of 45,600 MWh. Both of these agreements also include a provision allowing termination by either party upon 90-days' notice, which could decrease or eliminate the above disclosed commitments.

(6) Leases

SWFPS is obligated under a 20-year operating lease for office space, which commenced January 1, 2014 and is scheduled to terminate December 31, 2033. This lease consists of a 10-year firm term for the first 10 years and the option to terminate during the second 10-year term. Future minimum lease payments as of September 30, 2018 are as follows:

Year ending September 30:		
2019	$	721,366
2020		739,221
2021		748,067
2022		757,179
2023		766,563
Thereafter		8,774,578
Total future minimum lease payments	$	12,506,974

Rent expense for operating leases during the years ended September 30, 2018 and 2017 was $789,390 and $781,804, respectively.

(7) 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, 2018 and 2017, amounts outstanding in accounts receivable relating to DOE and DOD components totaled $294,138 and $308,545, respectively. For the years ended September 30, 2018 and 2017, total operating revenues earned from DOE and DOD sources totaled $3,693,389 and $3,767,785, respectively.

(8) Subsequent Events

SWFPS has evaluated subsequent events from the balance sheet date through August 27, 2019, the date the combined financial statements were available to be issued, and such events are disclosed in these accompanying notes to combined financial statements.

Schedule 1

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2018

Assets		Southwestern	Corps	Total
Plant in service	$	447,183,520	1,372,829,300	1,820,012,820
Accumulated depreciation		(231,181,644)	(612,022,123)	(843,203,767)
Construction work in progress		26,049,636	172,256,291	198,305,927
Net utility plant		242,051,512	933,063,468	1,175,114,980
Cash		195,339,394	174,189,258	369,528,652
Funds held in escrow		197,361,933	20,970,628	218,332,561
Accounts receivable		16,325,113	407,934	16,733,047
Materials and supplies, at average cost		2,975,629	161,015	3,136,644
Banking exchange receivables		4,133,697	—	4,133,697
Deferred workers' compensation		2,523,299	6,256,228	8,779,527
Other assets		60,369,239	—	60,369,239
Total assets	$	721,079,816	1,135,048,531	1,856,128,347
Liabilities and Capitalization				
Liabilities:				
Accounts payable and accrued liabilities	$	9,162,945	9,116,462	18,279,407
Advances for construction		50,162,414	—	50,162,414
Accrued workers' compensation		3,338,607	6,432,685	9,771,292
Purchased power and banking exchange deferral		73,348,101	—	73,348,101
Hydropower water storage reallocation deferral		60,585,590	—	60,585,590
Total liabilities		196,597,657	15,549,147	212,146,804
Capitalization:				
Payable to U.S. Treasury		439,866,733	643,298,431	1,083,165,164
Accumulated net revenues		84,615,426	476,200,953	560,816,379
Total capitalization		524,482,159	1,119,499,384	1,643,981,543
Total liabilities and capitalization	$	721,079,816	1,135,048,531	1,856,128,347

See accompanying independent auditors' report.

Schedule 1

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Balance Sheet Data

September 30, 2017

Assets		Southwestern	Corps	Total
Plant in service	$	422,184,495	1,360,231,534	1,782,416,029
Accumulated depreciation		(217,613,137)	(594,594,117)	(812,207,254)
Construction work in progress		31,069,807	148,979,483	180,049,290
Net utility plant		235,641,165	914,616,900	1,150,258,065
Cash		185,289,392	161,024,170	346,313,562
Funds held in escrow		110,566,820	20,954,141	131,520,961
Accounts receivable		27,291,668	207,403	27,499,071
Materials and supplies, at average cost		2,995,436	129,989	3,125,425
Banking exchange receivables		4,176,110	—	4,176,110
Deferred workers' compensation		2,351,804	5,739,923	8,091,727
Other assets		57,210,061	—	57,210,061
Total assets	$	625,522,456	1,102,672,526	1,728,194,982
Liabilities and Capitalization				
Liabilities:				
Accounts payable and accrued liabilities	$	8,591,364	8,211,002	16,802,366
Advances for construction		49,936,525	—	49,936,525
Accrued workers' compensation		2,867,682	5,877,849	8,745,531
Purchased power and banking exchange deferral		69,669,068	—	69,669,068
Hydropower water storage reallocation deferral		60,701,982	—	60,701,982
Total liabilities		191,766,621	14,088,851	205,855,472
Capitalization:				
Payable to U.S. Treasury		347,798,756	649,283,540	997,082,296
Accumulated net revenues		85,957,079	439,300,135	525,257,214
Total capitalization		433,755,835	1,088,583,675	1,522,339,510
Total liabilities and capitalization	$	625,522,456	1,102,672,526	1,728,194,982

See accompanying independent auditors' report.

Schedule 2

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Changes in Capitalization Data

Years ended September 30, 2018 and 2017

	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, 2016	$ 259,178,976	90,073,907	349,252,883	647,960,423	387,985,678	1,035,946,101	1,385,198,984
Additions:							
Congressional appropriations	11,057,000	—	11,057,000	73,090,982	—	73,090,982	84,147,982
Interest on payable to U.S. Treasury and other	409,094	—	409,094	14,477,795	—	14,477,795	14,886,889
Transfers of property and services, net	(36,928,959)	—	(36,928,959)	48,364,228	—	48,364,228	11,435,269
Total additions to capitalization	(25,462,865)	—	(25,462,865)	135,933,005	—	135,933,005	110,470,140
Deductions:							
Payments to U.S. Treasury	114,082,645	—	114,082,645	(134,609,888)	—	(134,609,888)	(20,527,243)
Total deductions to capitalization	114,082,645	—	114,082,645	(134,609,888)	—	(134,609,888)	(20,527,243)
Net revenues for the year ended September 30, 2017	—	(4,116,828)	(4,116,828)	—	51,314,457	51,314,457	47,197,629
Total capitalization as of September 30, 2017	$ 347,798,756	85,957,079	433,755,835	649,283,540	439,300,135	1,088,583,675	1,522,339,510
Additions:							
Congressional appropriations	11,400,000	—	11,400,000	81,685,653	—	81,685,653	93,085,653
Interest on payable to U.S. Treasury and other	(52,298)	—	(52,298)	12,808,245	—	12,808,245	12,755,947
Total additions to capitalization	11,347,702	—	11,347,702	94,493,898	—	94,493,898	105,841,600
Deductions:							
Payments to U.S. Treasury	114,458,613	—	114,458,613	(129,936,282)	—	(129,936,282)	(15,477,669)
Transfers of property and services, net	(33,738,338)	—	(33,738,338)	29,457,275	—	29,457,275	(4,281,063)
Total deductions to capitalization	80,720,275	—	80,720,275	(100,479,007)	—	(100,479,007)	(19,758,732)
Net revenues for the year ended September 30, 2018	—	(1,341,653)	(1,341,653)	—	36,900,818	36,900,818	35,559,165
Total capitalization as of September 30, 2018	$ 439,866,733	84,615,426	524,482,159	643,298,431	476,200,953	1,119,499,384	1,643,981,543

See accompanying independent auditors' report.

Schedule 3

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2018

		Southwestern	Corps	Total
Operating revenues:				
Sales of electric power	$	169,416,384	—	169,416,384
Transmission and other operating revenues		16,888,886	6,771,377	23,660,263
Total operating revenues before deferrals		186,305,270	6,771,377	193,076,647
Net purchased power and banking exchange deferral		(1,646,486)	—	(1,646,486)
Revenue distributed to Corps		(120,734,866)	120,734,866	—
Total operating revenues		63,923,918	127,506,243	191,430,161
Non-reimbursable revenues		4,727,633	16,487	4,744,120
Total revenues		68,651,551	127,522,730	196,174,281
Operating expenses:				
Operation and maintenance		25,428,685	58,491,006	83,919,691
Purchased power and banking exchange		14,930,090	—	14,930,090
Depreciation and amortization		14,975,880	21,563,942	36,539,822
Transmission service charges by others		110,870	—	110,870
Retirement and other employee benefit expense		6,086,243	4,085,033	10,171,276
Non-reimbursable expenses		5,834,901	—	5,834,901
Total operating expenses		67,366,669	84,139,981	151,506,650
Net operating revenues		1,284,882	43,382,749	44,667,631
Interest expense:				
Interest on payable to U.S. Treasury and other		3,418,453	12,808,245	16,226,698
Allowance for funds used during construction		(791,918)	(6,326,314)	(7,118,232)
Net interest expense		2,626,535	6,481,931	9,108,466
Net revenues (losses)	$	(1,341,653)	36,900,818	35,559,165

See accompanying independent auditors' report.

Schedule 3

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Revenues and Expenses Data

Year ended September 30, 2017

		Southwestern	Corps	Total
Operating revenues:				
Sales of electric power	$	176,600,577	—	176,600,577
Transmission and other operating revenues		17,679,235	3,989,988	21,669,223
Total operating revenues before deferrals		194,279,812	3,989,988	198,269,800
Net purchased power and banking exchange deferral		(3,287,433)	—	(3,287,433)
Revenue distributed to Corps		(129,968,143)	129,968,143	—
Total operating revenues		61,024,236	133,958,131	194,982,367
Non-reimbursable revenues		811,252	11,828	823,080
Total revenues		61,835,488	133,969,959	195,805,447
Operating expenses:				
Operation and maintenance		26,371,653	52,627,109	78,998,762
Purchased power and banking exchange		14,205,305	—	14,205,305
Depreciation and amortization		15,202,939	20,217,789	35,420,728
Transmission service charges by others		12,963	—	12,963
Retirement and other employee benefit expense		5,075,568	2,168,856	7,244,424
Non-reimbursable expenses		2,493,629	—	2,493,629
Total operating expenses		63,362,057	75,013,754	138,375,811
Net operating revenues (losses)		(1,526,569)	58,956,205	57,429,636
Interest expense:				
Interest on payable to U.S. Treasury and other		3,314,875	14,477,795	17,792,670
Allowance for funds used during construction		(724,616)	(6,836,047)	(7,560,663)
Net interest expense		2,590,259	7,641,748	10,232,007
Net revenues (losses)	$	(4,116,828)	51,314,457	47,197,629

See accompanying independent auditors' report.

Schedule 4

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2018

		Southwestern	Corps	Total
Cash flows from operating activities:				
Net revenues (losses)	$	(1,341,653)	36,900,818	35,559,165
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:				
Revenue distributed to Corps		120,734,866	(120,734,866)	—
Depreciation and amortization		14,975,880	21,563,942	36,539,822
Benefit expense paid by other Federal agencies		1,640,150	3,908,576	5,548,726
Interest on payable to U.S. Treasury and other		3,418,453	12,808,245	16,226,698
Allowance for funds used during construction		(791,918)	(6,326,314)	(7,118,232)
(Increase) decrease in assets:				
Accounts receivable		10,966,555	(200,531)	10,766,024
Materials and supplies		19,807	(31,026)	(11,219)
Banking exchange receivables		42,413	—	42,413
Deferred workers' compensation		(171,495)	(516,305)	(687,800)
Other assets		(3,159,178)	—	(3,159,178)
Increase (decrease) in liabilities:				
Accounts payable and accrued liabilities		571,581	905,460	1,477,041
Accrued workers' compensation		470,925	554,836	1,025,761
Purchased power and banking exchange deferral		1,853,366	—	1,853,366
Advances for construction		225,889	—	225,889
Net cash provided by (used in) operating activities		149,455,641	(51,167,165)	98,288,476
Cash flows used in investing activities:				
Additions to utility plant		(20,594,309)	(33,684,196)	(54,278,505)
Cash flows from financing activities:				
Congressional appropriations		11,400,000	81,685,653	93,085,653
Payments to U.S. Treasury		114,458,613	(129,936,282)	(15,477,669)
Revenue distributed to Corps		(120,734,866)	120,734,866	—
Transfers of property and services, net		(35,378,488)	25,548,699	(9,829,789)
Hydropower water storage reallocation deferral		(1,761,476)	—	(1,761,476)
Funds received in escrow		(124,795,213)	(16,487)	(124,811,700)
Funds disbursed from escrow		38,000,100	—	38,000,100
Net cash (used in) provided by financing activities		(118,811,330)	98,016,449	(20,794,881)
Net increase in cash		10,050,002	13,165,088	23,215,090
Cash, beginning of year		185,289,392	161,024,170	346,313,562
Cash, end of year	$	195,339,394	174,189,258	369,528,652
Supplemental cash flow information:				
Interest deferred on regulatory liabilities	$	3,470,751	—	3,470,751

See accompanying independent auditors' report.

Schedule 4

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedule of Cash Flows Data

Year ended September 30, 2017

		Southwestern	Corps	Total
Cash flows from operating activities:				
Net revenues (losses)	$	(4,116,828)	51,314,457	47,197,629
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:				
Revenue distributed to Corps		129,968,143	(129,968,143)	—
Depreciation and amortization		15,202,939	20,217,789	35,420,728
Benefit expense paid by other Federal agencies		1,065,160	2,030,930	3,096,090
Interest on payable to U.S. Treasury and other		3,314,875	14,477,795	17,792,670
Allowance for funds used during construction		(724,616)	(6,836,047)	(7,560,663)
(Increase) decrease in assets:				
Accounts receivable		(3,120,323)	(148,832)	(3,269,155)
Materials and supplies		(69,564)	—	(69,564)
Banking exchange receivables		(2,078)	—	(2,078)
Deferred workers' compensation		566,546	(483,623)	82,923
Other assets		4,412,107	—	4,412,107
Increase (decrease) in liabilities:				
Accounts payable and accrued liabilities		1,198,202	(5,332,524)	(4,134,322)
Accrued workers' compensation		(600,989)	444,139	(156,850)
Purchased power and banking exchange deferral		3,371,102	—	3,371,102
Advances for construction		(3,376,956)	—	(3,376,956)
Net cash provided by (used in) operating activities		147,087,720	(54,284,059)	92,803,661
Cash flows used in investing activities:				
Additions to utility plant		(23,660,785)	(35,510,745)	(59,171,530)
Cash flows from financing activities:				
Congressional appropriations		11,057,000	73,090,982	84,147,982
Payments to U.S. Treasury		114,082,645	(134,609,888)	(20,527,243)
Revenue distributed to Corps		(129,968,143)	129,968,143	—
Transfers of property and services, net		(37,994,119)	46,333,298	8,339,179
Hydropower water storage reallocation deferral		(1,725,246)	—	(1,725,246)
Funds received in escrow		(120,886,391)	(11,828)	(120,898,219)
Funds disbursed from escrow		41,715,000	7,800,000	49,515,000
Net cash (used in) provided by financing activities		(123,719,254)	122,570,707	(1,148,547)
Net increase (decrease) in cash		(292,319)	32,775,903	32,483,584
Cash, beginning of year		185,581,711	128,248,267	313,829,978
Cash, end of year	$	185,289,392	161,024,170	346,313,562
Supplemental cash flow information:				
Interest deferred on regulatory liabilities	$	2,905,781	—	2,905,781

See accompanying independent auditors' report.

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U.S. DEPARTMENT OF ENERGY

75 YEARS SOUTHWESTERN POWER ADMINISTRATION 1943 - 2018