

2018 ANNUAL REPORT

**74th
Annual Meeting
May 30, 2019**



**Black Hills
Electric Cooperative, Inc.**



Touchstone Energy
The Power of Human Connections

Report to the M

Please join us for our 74th Annual Membership Meeting in Rapid City on Thursday, May 30th. Your co-op had a successful 2018, and although the first few months of this year have been unseasonably cold and wet, the beginning of 2019 is positive. Much like 2017, this past year was uneventful in terms of weather, fires, and rates. It was a boring year, and in the electric business, a boring year is a good year!

Financial Condition and Rates

All 2018 financial and operational goals were met and targets for the first quarter of 2019 are on track. Because we are a co-op, any revenue that exceeds the needs of the cooperative, is returned to its members. Increased margins in 2018 allowed your board in December to return over \$1 million dollars to present and former members and allocate over \$3 million for future return. Over \$1.4 million dollars of this allocation is based on capital credits that other cooperatives have allocated to Black Hills Electric. Capital credit allocations are not cash. Your individual allocation is an investment in the cooperative. This investment is used for the lines, poles, substations and maintenance required to bring electrical service to you and your neighbors. This amount of money that the members have supplied to their capital credit fund is called equity and amounts to about 27 percent of the money needed to finance your co-op. The rest of the financing comes from our lenders. Your co-op ended 2018 in a sound financial position and we are pleased to report that the independent auditing firm Ketel Thorstenson issued an unqualified audit opinion.

2

2018 residential sales, excluding heat, continue to remain flat. Heat sales, however, due to a cold year, were up approximately five million kilowatt hours over 2017. Overall, total sales increased four percent in 2018.

Maintaining fiscal responsibility by controlling costs is a priority of your board of directors. Although controllable costs have increased due to the resources allocated for our rights-of-way inspections, tree cutting, record keeping, and maintenance; the number of employees per member, the total amount of employee salaries per member, and the administrative and general expense per member are among the lowest of any cooperative in the state.

Basin Electric Power Cooperative, our wholesale power supplier, had a sound year financially and avoided a rate increase. Fifty-three percent of your co-op's expenses is our wholesale power bill. Although expenses for wages, insurance, taxes, and material continue to increase, your co-op did not have a rate increase in 2018.

Reliability

Providing safe and reliable electric service is the primary purpose of your co-op. To enhance reliability and meet the challenges of continued growth, your board of directors approved the 2018-2021 Construction Work Plan in the amount of \$14,842,529.

The new work plan has distribution line conversions throughout the cooperative's territory. Many of the line conversions include upgrading from single phase to three phase, upgrading wire size, and in many locations, when feasible, converting from overhead to underground. Almost all of the line conversions take a radial line and make a tie line, creating a loop with other existing lines. These tie lines greatly increase our reliability by allowing us to feed from multiple directions, which should decrease outage time significantly and allow maintenance crews to work on a portion of a line without members experiencing an outage.



Walker Witt
CEO/General Manager

Two of the largest single ticket items in the work plan are substations. The Dry Creek Substation is a 115-69kV substation that was completed in January of this year. This substation added an additional transmission source to our system and enhanced reliability for over 4,000 members, and will meet the future growth needs in the greater Rapid City area. The estimated cost of this substation was \$3,350,000, but due to purchasing a transformer and materials from a cooperative in North Dakota that was increasing the voltage of its system, the actual closeout cost for the Dry Creek Substation was close to \$2 million dollars. Upgrading and rebuilding the existing Pringle Substation is currently underway at an estimated cost of nearly \$1.5 million dollars. The Pringle Substation is the oldest substation on our system. As of the writing of this report, all of the foundation work is completed and the steel for the substation is currently being assembled and erected. The new Pringle Substation is scheduled to be energized during the third quarter of this year. This much needed upgrade will meet current and future load challenges your co-op is seeing in the central part of the system.

Discussion on reliability is not complete without a focus on rights-of-way inspections and maintenance programs. All 2,400 miles of our distribution and transmission rights-of-way are inspected annually, and all inspections and any maintenance actions taken are documented and placed as a layer on our mapping system. The documentation ensures accountability, helps to see trends and predict problems, and will protect your co-op in the event of litigation. In addition to the yearly inspection of our system by cooperative personnel, a contractor is hired each year to inspect and treat a portion of the distribution and transmission poles for decay and rot. This inspection is on a 10 year cycle and helps detect weakened poles, which are replaced before they fail. The Mountain Pine Beetle epidemic is behind us, but our vegetative management program continues to focus on improving our rights-of-way. The focus this past year has been on cutting trees that are encroaching the rights-of-way and cutting smaller trees and undergrowth beneath the lines and within the ROWs. Cutting

(Continued on Page 3)

Membership



Alan Bishop
Board President

Technology and Billing

Technology advancements in metering and software enabled the cooperative to offer pre-paid billing to our members beginning in June of 2018. This program allows the member to take control of their electric account and provides more flexibility on when a payment is due. The best way to explain this concept is by thinking of how a pay phone works or fueling up your vehicle. You pay for your service BEFORE you use it.

There are many benefits of the prepaid billing program. Large up front deposits and late fees are avoided. The member will never pay a collection fee or a reconnect fee. Prepaid billing provides the option to pay as often as you want, whether it be daily, weekly or monthly. As long as there is a credit on the account of at least five dollars, the service remains active. The balance is calculated on a daily basis, allowing the member to know how much electricity is used each day. The billing software also has the capability to allow when and how notifications on the prepaid balance is communicated.

The prepaid metering program benefits not just the member utilizing the program, but the cooperative itself. Collections is one of the most time consuming, frustrating and expensive processes in the office services department. The hours each month spent on collections is significant. Servicing fees, filing fees and attorney fees are incurred in attempting to collect bad debt. All of this time, effort and cost is avoided when a member chooses the pre-paid billing program, which saves all of the member's money.

Some areas in our service territory do not allow us to offer this billing option to everyone at this time. If you're interested in learning more about this program, please contact our customer service department and we will be happy to answer any questions you have.

Closing

We, as your board president and CEO, appreciate the dedication of the board of directors and employees for their efforts in meeting the cooperative's mission. We also thank each of our members; it is an honor to serve you. We hope to see you at the annual meeting on Thursday, May 30.

undergrowth and trees prior to them getting close to the line is more cost effective, safer for our ROW crews and allows more efficient line patrol and quicker response time.

The cooperative's actions and efforts to improve reliability is working. In 2018, the percent of time that the average Black Hills Electric Cooperative service was on was 99.9998%!

Agenda

2019 Annual Meeting

May 30, 2019

Best Western Ramkota Convention Center

2111 N. Lacrosse St., Rapid City, S.D.

5 p.m. – Registration Opens – Lobby

6 p.m. – Dinner – Convention Center

Following Dinner –

Children's Entertainment – North Hall

Pledge of Allegiance

Business Meeting – Convention Center

Summary of Meeting Documents

Approval of 2018 Minutes

Report to Membership

Nominating Procedures

Declaration of Director Appointment

PUC Update – Chris Nelson

The value of COPA

Old/New Business

Adjournment

**DOOR PRIZE DRAWINGS – MUST BE
PRESENT TO WIN**

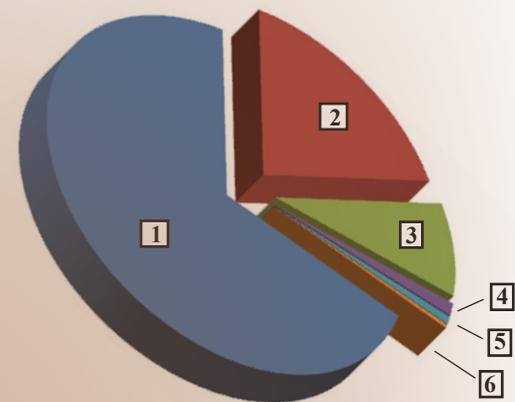
Cover – Black Hills Electric line crews work to restore power during winter storm Wesley in mid-April. Strong winds, snow and ice made restoration difficult but power was restored to all members after the first few hours of the storm.

Financial

OPERATING STATEMENT

Year Ended December 31	2017	2018
REVENUES		
Residential	\$13,564,484	\$13,936,512
Seasonal	2,230,594	2,305,592
Irrigation	317,807	251,915
Commercial	3,858,160	4,039,536
Other Sales	287,602	275,923
Other Electric Revenue	520,492	103,377
Total Revenues:	\$20,779,139	\$20,912,855
EXPENSES		
Purchased Power & Trans.	10,538,656	10,617,851
Operations & Maintenance	2,110,985	2,353,460
Consumer Accounts	527,516	524,317
Information & Sales	296,839	317,472
Administration & General	1,137,741	1,171,359
Depreciation	2,665,099	2,459,688
Gross Receipts Tax*	187,352	193,080
Interest	1,408,130	1,530,909
Other Deductions	33,067	18,001
Total Expenses:	\$18,905,385	\$19,186,137
MARGINS		
Operating Margins	1,873,754	1,726,718
G&T Capital Credits**	475,011	1,343,200
Other Capital Credits	86,446	87,841
Non-Operating Margins	208,315	466,736
Total Margins:	\$2,643,526	\$3,624,495
ENERGY SALES (KWH)		
Residential	97,222,581	102,272,690
Seasonal	11,688,444	12,514,159
Irrigation	2,135,290	1,525,425
Commercial	29,384,904	31,145,157
Other Sales	2,275,282	2,177,173
Total KWH Sales:	142,706,501	149,634,604
NUMBER OF SERVICES		
	9,929	10,064

SOURCE OF REVENUE



1	Residential Sales	66.6%
2	Commercial Sales	19.3%
3	Seasonal Sales	11.1%
4	Other Sales	1.3%
5	Irrigation	1.2%
6	Other Electric Revenue	.5%

SYSTEM PROFILE

Miles of Line	2,663
Overhead Distribution	2,310
Underground Distribution	265
Transmission	88
Services per Mile of Line	3.78
Investment per Mile of Line	\$28,032
Investment per Service	\$7,418

* Other taxes are included in other line items.

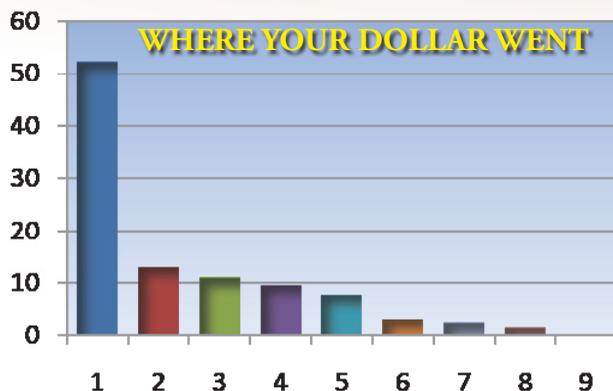
** Non-cash allocation from power supplier.

Annual Report

BALANCE SHEET

As of December 31	2017	2018
ASSETS		
Total Utility Plant	\$72,011,695	\$74,656,931
Less Depreciation	<u>27,483,994</u>	<u>29,488,984</u>
Net Utility Plant	44,527,701	45,167,947
Non-Utility Property	8,740	11,143
Investments in Associated Organizations	7,976,439	12,715,029
Other Investments	129,489	91,417
Cash and Temporary Investments	3,679,748	2,577,009
Accounts Receivable	947,536	840,640
Unbilled Accounts Receivable	2,092,781	2,020,900
Materials and Supplies	1,607,364	1,695,358
Other Current and Accrued Assets	96,648	119,157
Deferred Charges	<u>824,565</u>	<u>679,575</u>
TOTAL ASSETS:	<u>\$61,891,011</u>	<u>\$65,918,175</u>
LIABILITIES AND OTHER CREDITS		
Member Patronage Capital	\$21,631,616	\$23,987,775
Other Equities	<u>2,190,715</u>	<u>2,446,650</u>
Total Margins and Equities:	\$23,822,331	\$26,434,425
RUS, CFC, and Other Debt (Less Current Portion)	\$31,751,285	\$32,483,970
Current Portion of Long-Term Debt	1,637,015	1,917,721
Accounts Payable	1,227,978	1,188,553
Accrued Taxes	312,102	326,199
Other Liabilities	947,537	749,487
Deferred Credits	<u>2,192,763</u>	<u>2,817,820</u>
TOTAL LIABILITIES:	<u>\$61,891,011</u>	<u>\$65,918,175</u>

5



1. Purchased Power & Transmission	55.34¢
2. Depreciation	12.82¢
3. Operations & Maintenance	12.27¢
4. Interest	7.98¢
5. Administration & General	6.11¢
6. Customer Accounts	2.73¢
7. Information & Sales	1.65¢
8. Gross Receipts Tax	1.01¢
9. Other	0.09¢

2018 Minutes

The 73rd Annual Membership Meeting of Black Hills Electric Cooperative, Inc. was held at the Mueller Center in Hot Springs, S. D., on May 31, 2018. Registration opened at 5:00 p.m. and the evening meal was served at 6:00 p.m. President Dave Lindblom called the meeting to order at 6:50 p.m. and welcomed members and guests. The membership stood to honor America by reciting the Pledge of Allegiance.

Jim Preston, secretary of the board of directors, addressed the membership and read the Summary of Annual Meeting Notices. Mr. Preston announced the determination of a quorum, there being 137 members registered for the 2018 Annual Meeting out of a total membership of 7,791.

President Lindblom requested a motion to approve the 2017 Annual Meeting Minutes, which were mailed to each member on May 10th from Rapid City, S.D. A motion was made, seconded, and passed to approve the 2017 Annual Meeting Minutes as printed.

President Lindblom introduced the other members of the board of directors of the cooperative consisting of Alan Bishop, Dwayne Breyer, Gary Kluthe, Alvin Perry, Jim Preston and Dennis Quivey. He also introduced CEO & General Manager Walker Witt and General Counsel Tracy Kelley. President Lindblom then recognized a number of special guests who were in attendance.

President Lindblom addressed the membership accompanied by a computerized presentation. He reported that Black Hills Electric ended the year 2017 with strong margins and that all financial targets, loan obligations, and covenants were met or exceeded. Mr. Lindblom informed the membership that the 2017 audit conducted was satisfactory and the auditors gave an unqualified opinion. Mr. Lindblom informed the membership that over \$591,000 in capital credits were returned to present and former members. Mr. Lindblom informed the membership that the four-year work plan from 2018-2021 will improve reliability, increase safety and will upgrade equipment to meet future growth and load. Mr. Lindblom stated that the four-year work plan will cost around 14 million dollars. He also advised that reliability and safety are top priority at the cooperative. Mr. Lindblom reported that cooperative employees are provided the best tools, equipment, and training to help ensure that the employees go home each day safe and healthy. He informed the membership that cooperative employees have worked over 890,000 hours without missing a day due to a work related injury. Mr. Lindblom informed the membership that the controllable costs are some of the lowest in the state. Mr. Lindblom concluded his report by thanking the employees, directors and members for their commitment and dedication to the co-op.

President Lindblom introduced CEO and General Manager Walker Witt to give his report to the membership. Mr. Witt advised that there were no significant events this year. Mr. Witt discussed several strategic planning topics. Mr. Witt advised that pre-paid billing is a new tool that is being utilized to help members with their electric bill by avoiding large deposits. He also advised that this new billing tool will help the bad debt write-offs the rest of the membership has to subsidize.

Mr. Witt reported that the four-year work plan is a large, but necessary expense for the cooperative. He advised the membership that the four-year work plan will include a new substation, an updated substation, and a new regulator site replacing an existing substation. He informed the membership that the four-year work plan will increase reliability, increase safety, and meet the demand for future growth. Mr. Witt informed the membership that tree cutting continues to be aggressive to mitigate potentially hazardous disasters. He advised that cutting trees while they are smaller decreases costs and increases

safety for our employees. Mr. Witt informed the membership that fires continue to be a potential threat and that extreme measures are being taken to avoid a catastrophic event. Mr. Witt advised that he doesn't foresee a rate increase in 2018. Mr. Witt concluded his report by thanking the employees, the board of directors and the membership for their continued support and participation.

President Dave Lindblom recognized Dwayne Breyer for his dedication to the board for the last 11 years. Mr. Lindblom expressed his gratitude for Mr. Breyer and stated that he will be greatly missed.

Cooperative President Dave Lindblom then introduced General Counsel Tracy Kelley to explain the director elections. Ms. Kelley explained that the Board of Directors had appointed the Nominating Committee for the purpose of nominating candidates for the ballot. Ms. Kelley informed the membership that two director positions are up for election.

Nominating Committee Chairman Delia Johnson reported that postcards were sent to all eligible members in the two geographical areas with a director position up for election. One representing Lawrence, Meade, and Pennington Counties and one representing Fall River County. Ms. Johnson advised that Gary Kluthe was the sole nominee for the director position representing Lawrence, Meade, and Pennington counties geographical area. The committee nominated Don Andersen and John Staben for Fall River county geographical area. Chairman Johnson introduced the other members of the nominating committee: Alan Anderson, Kent Penney, Bill Fraas, Leo Van Sambeek, Ray Summers and Joe Logue.

Ms. Kelley introduced the nominees and then called on each candidate to address the membership. Mr. Andersen, Mr. Staben, and Mr. Kluthe addressed the membership. Ms. Kelley introduced the Credentials and Elections committee consisting of Robert Hovey, Alan Anderson, Maynard Britain, Kenneth Trosdahl, and Sally Nordstrom.

Cooperative President Dave Lindblom, pursuant to Article IV, Section 2 of the Bylaws, declared Gary Kluthe elected to the director position representing the geographical area of Lawrence, Meade, and Pennington Counties. Ballots were collected for the remaining area.

Manager of Member Services Mike Chase recognized Joel Broberg, winner of the Washington youth tour and presented a scholarship to Bailee McMillin. He also recognized scholarship winners Aspen Stover and Mattisen Kelley who were unable to attend this year's meeting.

Mr. Chase gave a power point presentation on trees, wires and lawyers. Mr. Chase also discussed the importance of the Action Committee for Rural Electrification political action committee and encouraged the membership to contribute. He also discussed the Grass Roots campaign and the importance of volunteerism and participation on cooperative issues.

Credential and Elections Committee Chairman Robert Hovey reported to the membership that the committee counted the ballots and certified the election. Mr. Hovey announced that Don Andersen was elected for the Fall River geographical area.

President Lindblom recognized Meter Technician Brian Hartmann for his 30-year dedication as a cooperative employee and informed the membership that Mr. Hartmann will be retiring in June.

President Lindblom inquired as to whether there was any old business and there being none, inquired as to whether there was any new business. There being no additional new business, the president advised that he would entertain a motion for adjournment. This motion was made, seconded and passed by a voice vote at 7:46 P.M.

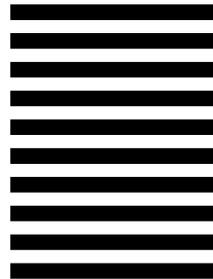
Cooperative personnel awarded several prizes after the meeting.

To save postage, you may e-mail the requested registration information to bhec@bhec.coop or register at www.bhec.coop

If you plan to attend this year's annual meeting, please fill out and return the attached post-card, or e-mail to bhec@bhec.coop or go to www.bhec.coop before Thursday, May 24.



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Candidates

Lawrence, Meade and Pennington Counties



Dave Lindblom is completing his third term on BHEC's board of directors and is a past board president. He and his wife, Starla, and son, Brad, ranch near Hermosa. Lindblom has been a member of the Battle Creek Volunteer Fire Department since 1991 and currently serves as Captain.

Custer and Oglala Lakota Counties



Jim Preston has been a director from Custer and Oglala Lakota Counties since 2008 and currently serves as board treasurer. He was the finance officer for Rapid City for 14 years, spent 30 years in the military and is a 45-year active member of the American Legion, serving twice as post commander. He and his wife of 44 years, Dee, live near Hermosa and have three adult children and eight grandchildren.



Official Notice

7

The 74th Annual Meeting of the Members of Black Hills Electric Cooperative, Inc. will be at the the Best Western Ramkota Convention Center II, 2111 North Lacrosse Street, City of Rapid City, County of Pennington, State of South Dakota.

Registration will open at 5:00 p.m. MDT on Thursday, May 30, 2019. The business meeting will start immediately following the meal on said day to take action on the following matters:

1. Action on the 2018 Annual Meeting Minutes.
2. Reports by Board Officers and General Manager.
3. Declaration of appointment of two directors according to Bylaws.

For the geographical area of Custer and Oglala Lakota Counties: Jim Preston
14039 S.D. Highway 40
Hermosa, SD 57744

For the geographical area of Lawrence, Meade and Pennington Counties: Dave Lindblom
14170 Wrangler Road
Rapid City, SD 57702

Dated this 19th day of March 2019:
Gary Kluthe, Secretary

If you need special accommodations to have full and equal enjoyment of your annual meeting, please call us at 673-4461 or 1-800-742-0085.

**You may also pre-register at www.bhec.coop
or by e-mail to bhec@bhec.coop**



**BLACK HILLS ELECTRIC
COOPERATIVE, INC.**
P.O. BOX 792
CUSTER, SD 57730-0792

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PERMIT NO. 618

If you plan to attend your Annual Meeting, please fill in the information below, including the names of all who will attend. Detach and return this postcard to your cooperative. You must pre-register by Thursday, May 24, to be eligible for the drawing.

You must be present to win

Please list the NAMES OF ALL who will be attending, including yourself.

How many children (under 12) will attend? _____

This institution is an equal opportunity provider, employer and lender.

Your Cooperative Directors



1 Al Perry



2 Gary Kluthe



3 David Lindblom



4 Jim Preston



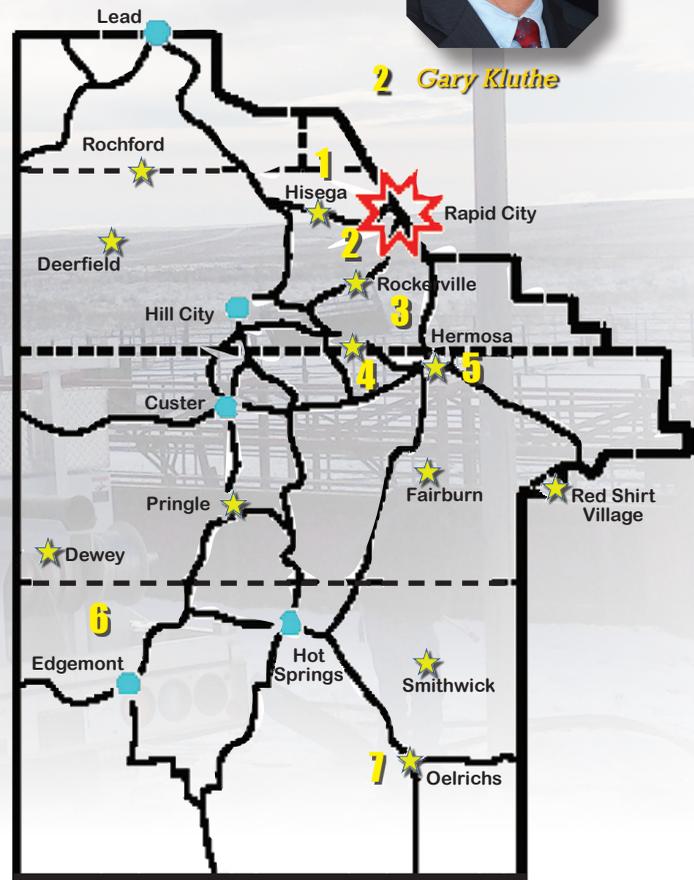
5 Alan Bishop



6 Don Andersen



7 Dennis Quivey



★ Communities Served by BHEC - - - - County Boundary
 - - - - Outline of BHEC Territory ● Other Communities