

2020 ANNUAL REPORT

76TH ANNUAL MEETING - JUNE 3, 2021



**Black Hills
Electric Cooperative, Inc.**

Touchstone Energy

The Power of Human Connections



REPORT TO THE MEMBERSHIP



WALKER WITT - CEO

Please join us for our 76th Annual Membership Meeting in Rapid City on Thursday, June 3rd. Your co-op had a successful, albeit unusual and challenging 2020. Due to the pandemic, the 2020 Annual Meeting scheduled in June was canceled and a Special Meeting of the Members was held on September 24, 2020, in Hermosa, for the purpose of holding an election and reporting to the membership.

In spite of the challenges created by the pandemic, 2020 was a positive year for your co-op. Good sales and relatively low demand resulted in strong margins. Economic uncertainty initially stunted growth and new service construction, but by August, the flood gates opened, and crews were busy responding to new service requests. Overall, 2020 was productive, safe, and financially sound.

Financial Condition and Rates

All 2020 financial goals were met and targets for the first quarter of 2021 are on or above budget. As a member-owned cooperative, any revenue that exceeds the needs of the cooperative is returned to its members. Strong margins in 2020 allowed your board to return over 1.8 million dollars to present and former members and allocate over 3.2 million dollars for future return. Almost \$500,000 of the allocated margin is recognition of deferred revenue from prior years. Over \$595,000 of this allocation are 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. The amount of dollars that you, our members, have in your capital credit fund is our equity and amounts to about 42% of the money needed to finance your co-op. The rest of the financing comes from our lenders. Your co-op ended 2020 in a sound financial position and we are pleased to report that the independent auditing firm Ketel Thorstenson issued an unqualified audit opinion.

Due to a warmer winter, year-end 2020 kilowatt-hour sales were down by approximately 2.7 million kilowatt-hours resulting in a 1.7% decrease in sales.

Maintaining fiscal responsibility by controlling costs while balancing employee development and system improvements, is a priority of your board of directors. Controllable costs have increased due to the resources allocated for our rights-of-way inspections, tree cutting, record keeping, maintenance, and having a competitive employee salary and benefits package. However, even with a competitive salary/benefit package, the total amount of employee salaries per member and the administrative and general expense per member continues to be one of the lowest of all the cooperatives in the state.

Basin Electric Power Cooperative, our wholesale power supplier, had a sound year financially and avoided a rate increase. About 53% 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 2020.

Operations and Engineering

Providing safe and reliable electric service is the primary purpose of your co-op. Reliability improvements for the central part of our system were the focus of 2019/2020. New service construction and line inspections continue to keep crews busy.

Construction of 12 miles of three-phase line rebuild and upgrade, which connects the Pringle substation and the Headquarters substation in Custer, began in January of 2020. There are 2.5 miles of this line that crosses nine individual U.S. Forest Service parcels and 9.5 miles that crosses 46 parcels of private property. The permit from the Forest Service was approved in August of 2019, but a condition of the permit allowed construction only when and for so long as there is adequate frost in the ground. Work on those parcels, along with coordination for timing and scheduling of construction with the private property owners, created a challenge. The final phase of this project was cut over and energized in January 2021. In conjunction with the new Pringle substation, this three-phase rebuild project greatly increases the capacity of this line and provides redundancy between the substations, which increases reliability for members served off both substations and beyond.

In October of 2019, we started replacing 6.2 miles of an outdated and underrated three-phase overhead line that is a tie between our Spring Creek and Hermosa substations. This overhead line was built in the 1960s and is located on the west side of the Highway 79 corridor along Spring Creek Road. The overhead line was replaced with underground cable. The new cable, along with new switches, will not only offer more capacity and reliability, but it will also serve as a major trunk line for projected growth in the area. In addition, the new line allows for the capability to use alternative sources of power, resulting in the ability to draw power from any one of the three substations in the area, thus keeping outage time down. Replacing overhead with underground is not always feasible on Black Hills Electric's system because of terrain, rock, and cost, but with this project, it made sense. The project was completed and energized in December 2020, and the old overhead line has been retired.

The topic of reliability is not complete without a focus on rights-of-way inspections and maintenance programs. All 2,400 miles of our distribution and transmission power lines are inspected annually, and all inspections and any maintenance actions taken are documented. 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 contractor conducts a below-ground inspection, including a partial excavation, boring inspection holes, and sounding techniques to help identify areas of decay and defects within the pole and below the ground level. In 2019, 3,900 distribution poles were inspected at the cost of just over



ALAN BISHOP
BOARD PRESIDENT

\$60,000. Of those 3,900 inspected poles, one was found to be a priority and was replaced immediately, and 82 poles were identified as having strength loss. In 2020, 4,527 distribution poles were tested at the cost of almost \$60,000 with only four of those having been identified as having strength loss. All identified poles have been replaced.

Storms and fires have a significant impact on the cooperative's reliability and its bottom line. Fortunately, there were no major storms or fires that impacted our system in 2020.

Your Engineering and Operations crews were very busy in 2020. Construction of new services in 2020 increased 36% over 2019 and increased 40% over new services constructed in 2018. All indications are that 2021 will continue that trend.

The cooperative's actions and efforts to improve reliability are working. In 2020, the percent of time that the average Black Hills Electric Cooperative service was on was 99.9982%!

Member Services

The Special Meeting of the Members, which was held on September 24th at Roy's Black Hills Twin Drive-In Movie Theater, was well attended and a great success. Nearly 400 members and guests attended the meeting at which Thad Wasson was elected as your newest board member replacing retiring director Al Perry. We want to thank Al again for his 14 years of service to this co-op.

There have been some significant organizational and leadership changes in Member Services this past year. In June, Michelle Fischer was promoted to the Member Service Supervisor, and the position description and titles of our four Customer Service Representatives were changed for their new roles as Member Services Representatives to better describe and facilitate our mission of providing great service. Our veteran Manager of Marketing and Member Services, Mike Chase, retired this January after 25 years of service to Black Hills Electric Cooperative. Thanks again, Mike, for your dedication and commitment to our co-op! Michelle Fischer was again promoted, this time to the position of Director of Communications and Member Services.

Due to the pandemic, many of our Area Meetings in 2020 were postponed. All the 2021 Area Meetings, which are usually held in February and March, are being postponed and will be rescheduled for later this year.

Our members continue to show more interest in solar and wind-generated electricity and electric vehicles. Education of our members and our employees on this ever-changing technology is critical to continue to meet our member's needs and is a priority of your co-op. We currently have 39 members with solar/wind distributed generation systems and expect that number to increase steadily in the years to come.

Currently, over 4,400 members are utilizing our SmartHub® application. By downloading the SmartHub app today, you can keep track of your energy use, see your payment options, and stay updated with current happenings within the co-op. You are also able to manage your account at your fingertips and receive custom notifications.

The prepaid billing program continues to be a popular option for members that do not wish to pay a large

security deposit. Members that are on this program pay for their energy use as they go. The overall response to this billing tool has been positive.

Closing

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.



BOARD OF DIRECTORS



ALAN BISHOP
PRESIDENT



DENNIS QUIVEY
VICE PRESIDENT



GARY KLUTHE
SECRETARY



DON ANDERSEN
ASST. SECRETARY



JIM PRESTON
TREASURER



DAVE LINDBLOM



THAD WASSON

MINUTES OF THE 2019 ANNUAL MEETING

Due to the nature of the 2020 Special Members Meeting, the 2019 Annual Meeting Minutes will be approved through vote at the 76th Annual Membership Meeting.

The 74th Annual Membership Meeting of Black Hills Electric Cooperative, Inc. was held at the Ramkota Convention Center in Rapid City, South Dakota, on May 30th, 2019. Registration opened at 5:00 p.m. and the evening meal was served at 6:00 p.m. President Alan Bishop called the meeting to order at 6:47 p.m. and welcomed members and guests. The membership stood to honor America by reciting the Pledge of Allegiance.

President Bishop called on the Board Secretary Gary Kluthe to address the membership and read the Summary of Annual Meeting Notices. Mr. Kluthe announced there was a quorum with 164 members registered for the 2019 Annual Meeting out of a total membership of 7,857.

President Bishop requested a motion to approve the 2018 Annual Meeting Minutes, which were mailed to each member on May 8th from Rapid City, S.D. A motion was made, seconded, and passed to approve the 2018 Annual Meeting Minutes as printed.

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

President Bishop addressed the membership accompanied by a powerpoint presentation. He reported that Black Hills Electric ended the 2018 year with strong margins and that all financial targets, loan obligations, and covenants were met or exceeded. Mr. Bishop informed the membership that the 2018 audit was satisfactory and the auditors gave an unqualified opinion. He informed the membership that over \$1 million dollars in capital credits were returned to present and former members, the largest single retirement in the history of the cooperative. Mr. Bishop informed the membership that the four-year work plan from 2018-2021 in the amount of \$14.8 million dollars was approved at the March 2019 board meeting. Mr. Bishop informed the membership that this four-year work plan will improve reliability, increase safety, and upgrade equipment to meet future growth and load. He advised that the cooperative has been aggressive in keeping the rights-of-ways clear by completing preventative line maintenance and line inspections. Mr. Bishop informed the membership that the controllable costs, the administrative costs, and general expenses are some of the lowest in the state and that the number of employees per member is the lowest of any cooperative in the state. Mr. Bishop reported that

cooperative employees are provided the best tools, equipment, and training to help ensure that the employees go home safe and healthy each day. He also stated that public safety continues to be a priority and that the cooperative has conducted several public safety trainings in efforts to educate the public on the potential dangers of electricity. Mr. Bishop concluded his report by thanking the employees, directors and members for their commitment and dedication to the cooperative.

President Bishop 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 that negatively impacted the membership besides a recent spring snowstorm. Mr. Witt discussed rates and how technology and efficiencies help keep rates low. Mr. Witt advised that toward the end of 2017, the cooperative began installing remote disconnect meters and described how that process has saved the membership well over \$100,000. He also advised that the bad debt write-off percentage is the lowest in the history of the cooperative. Mr. Witt stated that he does not foresee a rate increase in 2019. He informed the membership that improved reliability is the result of the aggressive tree cutting program and improved system maintenance that has been implemented. Mr. Witt stated that the Dry Creek substation was completed in January of 2019 and came in well under budget due to the efforts of Rushmore Engineering. He also advised that the construction of the Pringle substation began in March of 2019 and is on schedule to be completed in August of 2019. Mr. Witt stated that crews are working on replacing a three-phase line from the Headquarters substation to the new Pringle substation. He advised that the spring snowstorm that happened on May 21st, 2019 had more than 2,000 members without power at the peak of the storm. Mr. Witt expressed his gratitude to several crews that joined forces with BHEC to restore all members by Friday, May 24th. Mr. Witt informed the membership that fires continue to be a potential threat and that all reasonable measures are being taken to avoid a catastrophic event. Mr. Witt concluded his report by thanking the employees, the board of directors and the membership for their continued support and participation.

Mr. Witt introduced Chris Nelson, Vice Chairman of the Public Utility Commission. Mr. Nelson informed the membership on the difference and the importance of an electric cooperative and what happens behind the scenes to deliver electricity to rural territories. Mr. Nelson touched base on the expanding renewable energy sources that are happening. He provided the membership with statistics

and information supporting this shift. Mr. Nelson expressed his gratitude for the opportunity to speak in front of the membership.

Cooperative President Alan Bishop 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 were up for election. Ms. Kelley reported that postcards were sent to all eligible members in the two geographical areas with director positions up for election. One representing Lawrence, Meade and Pennington Counties, and one representing Custer and Oglala Lakota Counties. Ms. Kelley advised that incumbent Dave Lindblom was the sole nominee for the director position representing Lawrence, Meade and Pennington Counties. Ms. Kelley advised that Jim Preston was the sole nominee for Custer and Oglala Lakota Counties. Ms. Kelley recognized and thanked the members of the nominating committee: Ray Summers, Alan Anderson, Leo Van Sambeek, Delia Johnson, John Putnam, and Mike Milke.

Ms. Kelley introduced the nominees and then called on each candidate to address the membership. Jim Preston and Dave Lindblom addressed the membership.

Cooperative President Alan Bishop, pursuant to Article IV, Section 2 of the Bylaws, declared Dave Lindblom elected to the director position representing the Lawrence, Meade, and Pennington Counties geographical area. Mr. Bishop, pursuant to Article IV, Section 2 of the Bylaws, declared Jim Preston elected to the director position representing the geographical area of Custer and Oglala Lakota Counties.

Manager of Marketing and Member Services Mike Chase presented scholarships to Joel Broberg, Joshua Simpson and Taleigh Adrian.

Mr. Chase gave a powerpoint presentation about the importance of the Action Committee for Rural Electrification (ACRE) and Co-op Owners for Political Action. Mr. Chase encouraged the membership to contribute to these organizations. Mr. Chase also encouraged the membership to be a part of the Member Advisory Committee and to spread the word about the scholarships available through the cooperative.

President Bishop 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 7:44 p.m.

Cooperative personnel awarded several prizes after the meeting.

Official Notice of BHEC's 76th Annual Meeting

The 76th Annual Meeting of the Members of Black Hills Electric Cooperative, Inc. will be held at the Ramkota Convention Center II, 2111 North Lacrosse Street, City of Rapid City, County of Pennington, State of South Dakota.

Registration will open at 5 p.m. MDT, and the meal will be served at 6:00 p.m. MDT on Thursday, June 3rd, 2021. The business meeting will start immediately after the meal on said day to take action on the following matters:

1. Action on the 2019 Annual Meeting Minutes & 2020 Special Meeting of the Members Minutes.
2. Reports from Board Officers and General Manager.
3. Declaration of appointment of two directors according to the Bylaws.

Pertaining to the declaration and election of directors, the following persons have been nominated by the Nominating Committee:

For the geographical area of Lawrence, Meade and Pennington Counties:

Gary Kluthe
8083 Stirrup Ct.
Rapid City, SD

For the geographical area of Fall River County:

Donald Andersen
10194 Argentine Rd.
Burdock, SD

Dated this 16th day of March, 2021:

Gary Kluthe, Secretary

MINUTES OF THE 2020 SPECIAL MEETING OF THE MEMBERS

The 75th Special Meeting of the Members of Black Hills Electric Cooperative, Inc. was held at Roy's Black Hills Twin Drive-in Movie Theater in Hermosa, South Dakota, on September 24th, 2020. Registration opened at 4:30 p.m., and the evening meal was delivered at 5:00 p.m. Manager of Marketing and Member Services, Mike Chase, called for the membership to stand and honor America by reciting the Pledge of Allegiance. Mr. Chase read Governor Noem's Executive Proclamation declaring September 24th, 2020 the official day of the Special Meeting of the Members of Black Hills Electric Cooperative. Cooperative personnel awarded several door prizes.

President Alan Bishop called the meeting to order at 6:42 p.m. and welcomed members and guests. Mr. Bishop stated that the Official Notice of the 2020 Special Meeting of the Members was mailed from Rapid City, South Dakota, on September 1st, 2020. He also stated that the total membership of the cooperative at the time of the mailing was 8,030, and a quorum for this meeting is at least 50 members. Mr. Bishop declared a quorum for the 2020 Special Meeting of the Members.

President Bishop introduced the other members of the board of directors of the cooperative, Don Andersen, David Lindblom, Treasurer Jim Preston, Secretary Gary Kluthe, Vice President Dennis Quivey, and retiring director, Al Perry. Mr. Bishop paid a special tribute to Al Perry and thanked him for his years of service on the board. He also thanked the employees for their dedication to the cooperative and for the members that were in attendance.

President Bishop then introduced General Counsel Tracy Kelley to explain the director elections. Ms. Kelley reported that postcards were mailed to all eligible members in the three geographical areas. Ms. Kelley advised that the board of directors appointed a Nominating Committee for the purpose of interviewing applicants and nominating candidates. Ms. Kelley reported that the Nominating Committee nominated Mike Buckingham and Thad Wasson for the open director position for the geographical area of Lawrence, Meade, and Pennington Counties. Ms. Kelley advised that incumbent Alan Bishop was the sole nominee for the geographical area of Custer and Oglala Lakota Counties. Ms. Kelley advised that incumbent Dennis Quivey was the sole nominee for the geographical area of Fall River County. Ms. Kelley reported that the Nominating Committee nominated Alan Bishop and Dennis Quivey. Ms. Kelley recognized and thanked the members of the Nominating Committee: Delia Johnson, Mike Milke, Brea Seger, Leo Van Sambeek, Randy Smart, Jim Miller, and Ray Summers. The candidate's audio

speeches were played to the membership through recorded videos. Ms. Kelley asked the membership to cast their vote and submit their ballot to the Credentials and Elections Committee.

Ms. Kelley called on cooperative Treasurer Jim Preston. Mr. Preston, pursuant to Article IV, Section 2 of the Bylaws, declared Alan Bishop elected to the director position representing the Custer and Oglala counties. Mr. Preston, pursuant to Article IV, Section 2 of the Bylaws, declared Dennis Quivey elected to the director position representing the Fall River County area. Ms. Kelley and the Credentials and Elections Committee left to count ballots.

Jim Preston introduced cooperative CEO Walker Witt. Mr. Witt informed the membership that the financial condition of the cooperative remains strong. He reported that reliability is a priority and that this past year, the average member had power 99.982% of the time. Mr. Witt stated that the board retired and returned over 4.8 million dollars over the last five years. He acknowledged retired director Dan Lindblom for his achievements and thanked him for his involvement with the cooperative. Mr. Witt recognized retiring director Al Perry and described him as dedicated and committed. Mr. Witt also informed the membership that this is Mike Chase's last member meeting as an employee, as he will be retiring in January 2021. Mr. Witt stated that Mike has been the cooperative's face and voice for many years, and he will be missed greatly.

General Counsel Tracy Kelley announced that Thad Wasson was the elected director to represent the Lawrence, Meade, and Pennington Counties.

President Bishop 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 7:10 p.m.

Mike Chase presented a powerpoint on the history of the cooperative in addition to an employee tribute.

FINANCIALS

CURRENT ASSETS - WHAT WE OWN	2019	2020
Electric Plant	\$77,986,035	\$80,965,921
Accumulated Depreciation	(\$31,708,758)	(\$33,996,024)
Other Property & Investments	\$11,533,343	\$9,229,296
Cash & Cash Equivalents	\$2,051,876	\$7,526,099
Accounts Receivable	\$2,578,812	\$2,824,983
Material & Supplies	\$1,564,438	\$1,518,877
Other Current & Accrued Assets	\$145,396	\$111,869
Deferred Debits	\$514,754	\$383,731
TOTAL CURRENT ASSETS	\$64,665,896	\$68,564,752

CURRENT LIABILITIES - WHAT WE OWE	2019	2020
Long-Term Debt	\$32,037,466	\$33,285,348
Accounts Payable	\$1,043,851	\$1,510,987
Accrued Taxes	\$335,973	\$428,954
Other Current Liabilities	\$682,661	\$1,265,104
Member Deposits, Prepayments & Advances for Construction	\$849,940	\$895,212
Unclaimed Capital Credits	\$357,726	\$483,896
Deferred Credit	\$1,939,095	\$1,500,000
Our Equities - Patronage Capital	\$27,419,184	\$29,195,251
TOTAL LIABILITIES	\$64,665,896	\$68,564,752

REVENUES - WHAT WE TOOK IN	2019	2020
Residential	\$14,299,801	\$14,196,891
Seasonal	\$2,364,754	\$2,418,932
Irrigation	\$182,632	\$309,415
Small Commercial	\$2,807,413	\$2,884,263
Large Commercial & Industrial	\$1,393,656	\$1,330,907
Public & Resale	\$275,312	\$274,910
Other	\$443,578	\$928,078
TOTAL REVENUE	\$21,767,146	\$22,343,396

EXPENSES - WHAT WE SPENT	2019	2020
Power & Transmission	\$10,797,843	\$11,157,045
Maintenance & Operation	\$2,597,678	\$2,219,831
Member Accounts, Services & Information	\$834,551	\$944,993
General & Administrative	\$1,273,227	\$1,306,783
Depreciation	\$2,534,784	\$2,524,729
Interest	\$1,567,316	\$1,374,956
Taxes & Other Deductions	\$219,392	\$190,435
TOTAL EXPENSES	\$19,824,791	\$19,718,772

MARGINS - WHAT WE HAVE LEFT	2019	2020
Operating Margins	\$1,942,355	\$2,624,624
Non-Operating Margins	\$648,379	\$416,651
Capital Credits	\$409,140	\$595,651
TOTAL MARGINS	\$2,999,874	\$3,636,926

2021 ANNUAL MEETING

Thursday, June 3, 2021

Ramkota Convention Center II
2111 N Lacrosse St ■ Rapid City, S.D.

Agenda

5:00 p.m. — Registration Opens

6:00 p.m. — Dinner

Following the meal — Business Meeting

If you plan to attend this year's annual meeting, please pre-register before the **Thursday, May 27** deadline.

You could win \$100!

Ways to pre-register:

- Send an e-mail to bhec@bhec.coop
- Call 800-742-0085 or 605-673-4461

ATTENTION JUNIORS & SENIORS!

We will be drawing for TWO \$500 scholarships for a junior or senior who is a dependent of a BHEC member. Simply attend the BHEC Annual Meeting with your parent or guardian on June 3, 2021 in Rapid City.

Winner cannot be a recipient of another BHEC scholarship.