

2023 ANNUAL REPORT



Black Hills
Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 

REPORT TO THE MEMBERSHIP

Please join us for our 79th Annual Membership Meeting in Rapid City on Thursday, May 30th.

RATES AND FINANCIALS

Your co-op had a good year financially. All 2023 financial goals were met, and targets for the first quarter of 2024 are on budget. Because we are a cooperative, any revenue that exceeds the needs of the cooperative is returned to its members. Once again, strong margins in 2023 allowed your board to return \$2,000,000 to present and former members, and defer \$750,000 to help offset future year's expenses. The cooperative allocated over \$3.5 million for future returns. Almost \$1,000,000 of this allocation are capital credits allocated to Black Hills Electric Cooperative from our power supplier and other vendors. Capital credit allocations are not cash. Your individual allocation is an investment in the cooperative. This investment is used for lines, poles, substations, and maintaining the system to bring electrical service to you and your neighbors. The amount you, our members, have in your capital credit account is your ownership in the cooperative. Your equity (ownership) amounts to over 44%. The rest of the financing comes from our lenders.

The decision regarding whether to retire capital credits and how much to retire is based on the financial condition of our cooperative. For the past several years, your board has set goals of strengthening the financial condition of the co-op, decreasing the capital credit retirement cycle to get your allocated capital credits back to each member sooner, and structuring the retirement in a manner that lessens the impact for future years as a result of those years that have high margins. Your board is accomplishing those goals. While increasing the financial strength of your co-op, in just the past seven years, your board has decreased the capital credit retirement cycle by over 1/3, from 30 years to under 20 years. During those seven years, the board has retired over 12 million dollars. That is truly significant considering Black Hills Electric Cooperative has returned eighteen and a half million dollars to its members since its inception.

Moderate weather contributed to lower sales of over 8.7 million kilowatt-hours in 2023. This was a decrease of over 5% from 2022 sales. Although sales were down and expenses for wages, insurance, taxes, interest, and materials continued to increase, your cooperative did not have a rate increase in 2023.

Despite inflation, increased interest rates, a slight wholesale power cost increase, and significant system investments, your cooperative ended 2023 in a sound financial position, and we are pleased to report that the independent auditing firm Ketel Thorstenson issued an unqualified audit opinion.

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 contracted pole inspections, rights-of-way inspections, tree-cutting, record keeping, maintenance, and a competitive employee salary and benefits package. However, even with a competitive salary/benefits package, the total amount of employee salaries per member and the administrative and general expenses per member continue to be one of the lowest of all the electric cooperatives in the state.

OPERATIONS & ENGINEERING

Providing safe and reliable electric service is the primary purpose of your cooperative. Reliability improvements and meeting the needs of future growth continues to be the focus of the Operations and Engineering departments.

Every few years, your cooperative compiles a Construction Work Plan of needed upgrades to the system that is in line with forecasted load growth. 2023 was the last year of the current plan and our engineering company, Rushmore Engineering, has completed and the cooperative has adopted a new work plan for projects and improvements for the next several years.

A summary of some of the major projects in the past work plan that have been completed and the projects that are still in progress include:

Mystic Road Line Rebuild: This project replaces 8.5 miles of an outdated single-phase line that was built in the late 1940s. The new single-phase line is constructed with heavier poles and larger conductors. The new line will offer increased reliability and capacity for the area. This project is located west of Hill City and is still a work in progress, with an expected completion date of mid-summer 2024.

Norris Peak Three-Phase Line Rebuild: This line consisted of a 3.8 mile three-phase upgrade that replaced the underrated existing line. The new line will be a welcome addition to the system. It will become part of a looped system, offering an alternate source of power to the area if needed, thus increasing reliability and decreasing outage times. This line is located from Johnson Siding north to Nemo Road and was completed in the late summer of 2023.

Hayward Three-Phase Tie-Line: This project consists of replacing 3.8 miles of an existing single-phase tie-line and upgrading it to a heavier three-phase line. The new line will be used to diversify existing loads and the forecasted load growth in the area. The new line will also offer a welcome alternate source of power to the area if ever needed, once again reducing outage time. This line is located between Hayward and Hermosa. The completion of this project is scheduled for late spring of 2024.

System inspections and maintenance programs are a top priority for your co-op. All 2,700 miles of our distribution and transmission rights-of-way are inspected annually. All inspections and maintenance records are documented. In addition to the yearly inspections of our system by cooperative personnel, an outside contractor is hired each

(REPORT TO THE MEMBERSHIP CONTINUED FROM PAGE 2)

year to inspect and treat a portion of the distribution and transmission poles for decay and rot. The contractor conducts various tests on the poles, including partial excavation, boring inspection holes, and sounding techniques to help identify areas of decay above and below ground levels. The inspections are on a 10-year cycle, thus keeping the failure rate to a minimum. In 2023, the contractor inspected approximately 5,000 distribution poles at a cost of just over \$97,000.

Storms and fires significantly impact the cooperative's reliability and its bottom line. Fortunately, there were no major fires that impacted our system in 2023. Unfortunately, a tornado near Hermosa in August caused significant damage to the system. Four transmission poles and three distribution poles broke due to the extreme winds, causing the Hermosa substation to go offline. Members were without power while the scene was assessed and deemed safe. The damaged area was isolated, and the power was rerouted to the Hermosa substation.

The cooperative's actions and efforts to improve reliability are working. In 2023, the average Black Hills Electric Cooperative service was on 99.9995% of the time.

MEMBER SERVICES

As we reflect on the past year, we're pleased to share the strides and accomplishments made by the Member Service Department. Your cooperative has always been committed to providing safe, reliable, and affordable energy solutions while putting our members at the heart of everything we do. Our Member Service team has been dedicated to fostering open communication and engagement. We've provided a range of communication channels, from our monthly newsletter (Cooperative Connections) to website and social media updates regarding your co-op.

The seventh Cooperative principle is Concern for Community. Your cooperative held Area Meetings, participated in the Black Hills Stock Show and Rodeo, Black Hills Home Show, and the State Fair. We held our annual Co-op Day at our headquarters office to promote and educate our community and the public about electrical safety. This is also an opportunity to show our members and community our appreciation. We continued to support local civic organizations, youth, and first responders by making monetary donations and providing sponsorships.

We understand the importance of convenience when it comes to your electric bills. We provide several innovative solutions in billing and account management, providing you with easy-to-use tools you need to manage your energy consumption effectively. Our prepaid billing option continues to benefit the membership. We measure the success of the program by the low write-offs. In 2023, our Member Service Representatives' due diligence, in conjunction with the prepaid program, resulted in a write-off of only \$2,915.79. This is a testament to the success of

the program, the hard work that the department does, and having great members who pay their bills.

Our employees are provided with the best tools, equipment, and training to ensure that they go home safe and healthy to their families at the end of each day. Your co-op will continue to make public and employee safety the top priority in everything we do.

As we look into the future, Black Hills Electric Cooperative remains steadfast in its commitment to serving our members with excellence. We have a team that is willing and able to fulfill that commitment!

INFORMATION TECHNOLOGY

In 2023, we were able to complete our meter conversion and utilize equipment purchased from NPPD out of Nebraska to get all our members on the same metering system, allowing everyone to have the same rate structure. Another benefit of the meter conversion is that we only need to keep an inventory of one type of meter. We have installed over 500 load control units and have a few more to get changed over from the old system. We are also working with our billing vendor so we can display the daily demand (kW) on the SmartHub® graphs for the members on the demand rate.

Cybersecurity remains a priority for our co-op. We have partnered with Rushmore Electric Power Cooperative, our Generation & Transmission Co-op, to upgrade our computer patching software and continue to work with them on network monitoring. In 2023, we replaced and upgraded our server hardware, and in 2024, we will be replacing/upgrading our data storage. This will give us more space and the ability to continue to patch the software for security. We have developed good working relationships with the SD Fusion Center and the SD Division of Cybersecurity & Infrastructure Security Agency (CISA) over the past few years in our efforts to keep on top of securing our membership.

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.



WALKER WITT - CEO



DENNIS QUIVEY - PRESIDENT

MINUTES OF THE 2023 ANNUAL MEETING

The 78th Annual Membership Meeting of Black Hills Electric Cooperative, Inc. was held at the Ramkota Convention Center in Rapid City, South Dakota, on June 1st, 2023. Registration opened at 5:00 p.m., and the evening meal was served at 6:00 p.m. President Dennis Quivey called the meeting to order at 6:46 p.m. and welcomed members and guests. The membership stood to honor America by reciting the Pledge of Allegiance.

President Quivey called on Board Secretary Donald Andersen to address the membership and read the Summary of Annual Meeting Notices. Mr. Andersen announced there was a quorum with 155 members registered for the 2023 Annual Meeting out of a total membership of 8,700.

President Quivey requested a motion to approve the 2022 Annual Membership Meeting Minutes which were mailed to each member on May 9th from Aberdeen, South Dakota. A motion was made, seconded, and passed to approve the printed 2022 Annual Membership Meeting Minutes.

President Quivey introduced the other board of directors of the cooperative consisting of Treasurer Gary Kluthe, Secretary Don Andersen, Thad Wasson, Alan Bishop, and Dave Lindblom. He also introduced General Counsel Tracy Kelley, CEO & General Manager Walker Witt, and Vice President Jim Preston. President Quivey then recognized several special guests who were in attendance. President Quivey addressed the membership, accompanied by a PowerPoint presentation. He reported that Black Hills Electric ended the 2022 year without any rate adjustments, significant storms, or injured employees. He stated that the co-op is in a sound financial position and informed the members of the shortened capital credit return timeframe. He advised that all financial targets, loan obligations, and covenants were met or exceeded. Mr. Quivey informed the membership that the 2022 audit was satisfactory and the auditors gave an unqualified opinion. Mr. Quivey informed the membership of the 2022 growth and increase of plant assets. Mr. Quivey concluded his report by thanking the employees, directors, and members for their commitment and dedication to the cooperative.

President Quivey introduced CEO and General Manager Walker Witt to give his report to the membership.

Mr. Witt updated the membership on his health conditions over the past year and thanked the board and employees for their help while he was recovering.

Mr. Witt discussed the three R's – Rates, Reliability, and Return. Mr. Witt informed the membership that the capital credit return cycle had been shortened from a 30 year return to under 20 years. He touched base on rates and how we avoided having a rate increase in 2022. Increased labor costs, benefits, material, fuel, insurance, and inflation will inevitably result in a rate increase sometime in the future. He discussed reliability with the membership and how they play a significant role in it. Mr. Witt informed the membership that the 2022 bad debt write-offs were the lowest percentage since the cooperative began record keeping in 1989. He thanked the Member Service department for all they do to help keep the bad debt amount low.

Mr. Witt stated that the amount of time the average BHEC member had service in 2022 was 99.9996% of the time. He informed the membership of the investment in plant of over \$17.8 million over the past five years. He thanked the operations and engineering crews for their efforts in keeping the system functional. He indicated that the response time could be a challenge to the most significant growth area on our system. He informed the membership of the land purchased in Hermosa for an outpost in the future.

Mr. Witt invited CFO Sammi Langendorf and Manager of Operations Bill Brisk to the stage to accept their 30 year pins and plaques. He thanked both of them for their dedication and commitment to the co-op.

Mr. Witt concluded his report by thanking the directors for their leadership and the membership for their continued support and participation.

Mr. Witt then introduced General Counsel Tracy Kelley to explain the director elections. Ms. Kelley explained that the board of directors had appointed the nominating committee to nominate candidates for the ballot. Ms. Kelley informed the membership that three director positions were up for election. Ms. Kelley reported that postcards were sent to all eligible members in the three geographical areas with director positions up for election. One representing Lawrence, Meade, and Pennington Counties, one representing Custer & Oglala Lakota Counties, and one representing Fall River County. Ms. Kelley explained the appointing of the Nominating Committee and introduced Committee Chairmen Robert Hovey. Mr. Hovey explained that the Nominating Committee met on February 28th to consider nominees for the directorships for all three geographical areas. He stated that the committee nominated incumbent director Thad Wasson and candidate Luis del Valle for the position representing the geographical areas of Lawrence, Meade, and Pennington Counties, Dennis Quivey for the director position representing the geographical area of Fall River County, and Alan Bishop for the director position representing the geographical areas of Custer & Oglala Lakota Counties.

Mr. Hovey thanked the members of the Nominating Committee for their participation. The committee members included Kim Haug, Brea Seger, Ray Summers, Alan Johnson, Lindsay Luper, and Don Kraus.

Ms. Kelley introduced the nominees and then called on each candidate to address the membership. Thad Wasson, Luis del Valle, and Alan Bishop addressed the membership. Ms. Kelley called on Vice President James Preston to make the declaration of the directors representing Custer & Oglala Counties and Fall River County.

Vice President James Preston, pursuant to Article IV, Section 2 of the Bylaws, declared Alan Bishop elected to the director position representing the Custer & Oglala Lakota Counties geographical area. Mr. Preston, pursuant to Article IV, Section 2 of the Bylaws, declared Dennis Quivey elected to the director position representing the geographical area of Fall River County.

Mr. Preston introduced Director of Communications and Member Services Michelle Fischer. Ms. Fischer introduced PUC Chairperson Kristie Fiegen. Ms. Fiegen addressed the membership and provided a PUC update.

General Counsel Tracy Kelley announced the election results. Incumbent Thad Wasson was the director elected to represent the geographical areas of Lawrence, Meade, and Pennington Counties.

President Quivey 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 7:51 p.m.

Mr. Quivey introduced Director of Communications and Member Services Michelle Fischer. She presented the \$1,000 Basin/BHEC scholarship to Kaitlynn Wellman from Rapid City. Ms. Wellman drew for two \$500 scholarships. The winners were Molly Conway and Henry Wasson. Ms. Fischer informed the membership that Karina Novotny was the 2023 SDREA Washington D.C. Youth Tour winner. Ms. Fischer encouraged members to sign up for the 2023 Bus Tour that is planned for September 21st.

Cooperative personnel awarded several prizes after the meeting.

79TH ANNUAL MEETING

Official Notice of BHEC's 79th Annual Meeting

The 79th 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, May 30th, 2024. The business meeting will start immediately after the meal on said day to take action on the following matters:

1. Action on the 2023 Annual Meeting Minutes
2. Reports from Board Officers and CEO/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 & Pennington Counties:

Gary Kluthe
14169 Saddle Hill Dr.
Rapid City, SD 57702

Luis del Valle
11061 Castle Creek Rd.
Hill City, SD 57745

For the geographical area of Fall River County:

Donald Andersen
10194 Argentine Rd.
Burdock, SD 57735

Dated this 19th day of March, 2024:


Donald Andersen, Secretary

Meet your Candidates



Gary Kluthe is a fifth-generation resident of the area. Both sides of his family arrived by wagon, homesteaded, and were farmers and ranchers. Gary has served the member/owners on the board of Black Hills Electric Cooperative since 1994. He comes from a strong military ancestry and served in the South Dakota National Guard.

Gary has been a volunteer firefighter, district fire protection board member, director of the

Central States Fair, served on several local and state insurance associations, president of Storybook Island, Rotarian, 4-H leader, and parent. His interests have included family, family genealogy, horses, restoring old cars and tractors, blacksmithing, and being outdoors in the Black Hills, where he and his wife Donna are always up for a hike to explore off the beaten path.

Gary and his wife Donna have two grown daughters and four grandsons.

"I have worked in the corporate and self-employed sides of business and have more appreciation for Black Hills Electric Cooperative than any other. Of all the volunteer positions I have held, Black Hills Electric stands at the top. Working for our members is a very rewarding pleasure."



Luis del Valle has been a BHEC member since June 2022. He has a Master of Business Administration in Corporate Finance and Investment Management from Cornell University and a Bachelor of Science in Mechanical Engineering through Virginia Military Institute. He served in the active and reserve military for 31 years. He was the Platoon Commander, second-in-command, leading a 51-man platoon during the Gulf War for the Marine Corps. During

his reserve service, he served as a Civil Affairs Officer, Operations Officer, Civil-Military Operations Officer, and Commanding Officer. He has extensive energy sector experience including electrical distribution, wind energy, distributed generation, and renewable energy. He currently works for the US Patent and Trademark Office as a Patent Examiner.

He and his wife, along with their six children, found their forever home near Hill City. Mr. del Valle is semi-retired now and is looking to bring his military, energy, and business experience to the board.

"I strive to give before I ask and go the extra mile even though not required."

BOARD OF DIRECTORS



JIM PRESTON
VICE PRESIDENT



DENNIS QUIVEY
PRESIDENT



DON ANDERSEN
SECRETARY



THAD WASSON
ASST. SECRETARY



GARY KLUTHE
TREASURER



ALAN BISHOP



DAVID LINDBLOM

YOUR CO-OP: BY THE NUMBERS

CO-OP STATISTICS	2022	2023
Total Miles of Line	2,721	2,743
Overhead	2,313	2,319
Underground	319	336
Transmission	88	88
Active Services per Mile of Line	4.06	4.09
Number of Active Services	11,051	11,212
Total Number of Employees	28	27
Controllable Cost	\$5,022,022	\$5,144,997

KWH ENERGY SALES	2022	2023
Residential	113,639,742	109,662,750
Seasonal	14,778,640	13,862,284
Irrigation	2,282,226	1,363,223
Small Commercial	24,590,447	23,023,070
Large Commercial & Industrial	12,568,601	11,298,801
Public & Resale	1,545,522	1,459,205
TOTAL	169,405,178	160,669,333

FINANCIALS

CURRENT ASSETS - WHAT WE OWN		2022	2023
Electric Plant		\$89,831,894	\$93,496,212
Accumulated Depreciation		(\$35,564,828)	(\$37,870,681)
Other Property & Investments		\$10,113,580	\$10,738,743
Cash & Cash Equivalents		\$7,675,870	\$9,391,963
Accounts Receivable		\$3,289,397	\$2,871,187
Material & Supplies		\$3,007,313	\$3,320,814
Other Current & Accrued Assets		\$138,542	\$156,479
Deferred Debits		\$27,779	\$49,669
TOTAL CURRENT ASSETS		\$78,519,547	\$82,154,386
CURRENT LIABILITIES - WHAT WE OWE		2022	2023
Long-Term Debt		\$35,624,364	\$37,318,391
Accounts Payable		\$1,936,772	\$1,371,149
Accrued Taxes		\$537,835	\$495,135
Other Current Liabilities		\$695,936	\$756,407
Member Deposits, Prepayments & Advances for Construction		\$2,398,962	\$2,354,595
Unclaimed Capital Credits		\$830,646	\$934,326
Deferred Credit		\$2,150,000	\$2,700,000
Our Equities - Patronage Capital		\$34,345,032	\$36,224,383
TOTAL LIABILITIES		\$78,519,547	\$82,154,386
REVENUES - WHAT WE TOOK IN		2022	2023
Residential		\$15,453,284	\$15,264,814
Seasonal		\$2,601,495	\$2,527,255
Irrigation		\$355,022	\$256,334
Small Commercial		\$3,198,497	\$3,059,454
Large Commercial & Industrial		\$1,709,471	\$1,623,597
Public & Resale		\$239,717	\$231,977
Other		\$461,930	\$568,308
TOTAL REVENUE		\$24,019,416	\$23,531,739
EXPENSES - WHAT WE SPENT		2022	2023
Power & Transmission		\$11,781,402	\$11,580,942
Maintenance & Operation		\$2,792,958	\$2,650,454
Member Accounts, Services & Information		\$899,338	\$1,010,921
General & Administrative		\$1,329,726	\$1,483,621
Depreciation		\$2,930,648	\$3,036,588
Interest		\$1,112,622	\$1,082,559
Taxes & Other Deductions		\$242,425	\$231,025
TOTAL EXPENSES		\$21,089,119	\$21,076,110
MARGINS - WHAT WE HAVE LEFT		2022	2023
Operating Margins		\$2,930,297	\$2,455,629
Non-Operating Margins		\$1,800,687	\$303,553
Capital Credits		\$1,510,987	\$1,069,305
TOTAL MARGINS		\$6,241,971	\$3,828,487

2024 ANNUAL MEETING

Agenda:

5:00 p.m. - Registration Opens

6:00 p.m. - Dinner

Following Dinner - Business Meeting

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.

(winner cannot be a recipient of another BHEC scholarship)

Pre-Register by May 23rd, 2024

Send an email to: bhec@bhec.coop **OR** call 800-742-0085 or 605-673-4461

You could win \$100 cash!

Grand Prize: One year customer service charge waived - a \$480 value!

ATTENTION BUSINESSES, CHURCHES, SCHOOL DISTRICTS, AND OTHER MEMBER ORGANIZATIONS:

Member Organizations of Black Hills Electric Cooperative, Inc., such as school districts, towns, churches, corporations, and LLCs wishing to vote at the Annual Meeting must complete this form and present it at the registration desks on **May 30th, 2024**.

All of these organizational members are entitled to representation and vote.

Each entity should designate a representative who is an officer, owner, or member of the organization.

Authorization to Vote

This is to certify that _____ is hereby designated the delegate to the Black Hills
(Name of Person)
Electric Cooperative, Inc., Annual Meeting on May 30th, 2024,

from _____ whose account number is _____.
(Name of Entity)

Named delegate is authorized to vote on all issues that may come before the meeting including election of directors.

By: _____ Title: _____

Address: _____ City: _____ State: _____ Zip: _____