

2021 ANNUAL REPORT



Black Hills Electric Cooperative

®

A Touchstone Energy® Cooperative



77TH ANNUAL MEETING
JUNE 2, 2022

REPORT TO THE MEMBERSHIP

Please join us for our 77th Annual Membership Meeting in Hot Springs on Thursday, June 2nd. Your cooperative had a successful and more “normal” year.

The past year was productive, safe, and financially sound. Good kilowatt-hour sales and relatively low demand resulted in strong margins. Facilities upgrades and new service requests kept cooperative crews busy.

FINANCIALS AND RATES

Your co-op had a good year financially. All 2021 financial goals were met, and targets for the first quarter in 2022 are on or above budget. Because we are a cooperative, any revenue that exceeds the needs of the cooperative is returned to its members. Strong margins in 2021 allowed your board to return \$1,992,694 to present and former members and defer \$500,000 to help offset future year's expenses. The cooperative allocated over 3.1 million for future returns. Almost \$500,000 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 almost 41%. The rest of the financing comes from our lenders. Your cooperative ended 2021 in a sound financial position and we are pleased to report that the independent auditing firm Ketel Thorstenson issued an unqualified audit opinion.

A cold February and system growth in 2021 led to an increase in sales of 6.4 million kilowatt-hours, and an increase of 16-thousand-kilowatt demand. This was an increase of over 4%.

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 benefit package. However, even with a competitive salary/benefit package, the total amount of employee salaries and the administrative and general expenses per member continue 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. Power costs are 55% of the total expenses. Although expenses for wages, insurance, taxes, and material continue to increase, your cooperative did not have a rate increase in 2021.

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 department.

Every four years, your cooperative compiles a Construction Work Plan of needed upgrades to the system that is in line with forecasted load growth. We are on the last year of the current work plan. We are working on a new work plan in conjunction with Rushmore Engineering.

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

- **Custer Headquarters Substation to Pringle Substation Line Rebuild:** This project was a 12.3 mile rebuild of an existing three-phase line that connects our Headquarters and Pringle substations. The line was upgraded to a heavier construction, which included a larger conductor capable of carrying larger loads. The new line will give us the ability to implement it into a contingency plan if there are any issues with either substation. This project was completed in early 2021.
- **Hermosa Substation to Spring Creek Substation Tie-line:** This project was a 6.2 mile overhead to underground conversion going north of Hermosa to the Spring Creek area. The new line was a major upgrade from the existing overhead line. With the forecasted load growth to the area, a heavy trunk line and several switches were installed. The new line will be able to accommodate any new loads that are anticipated for years to come. This project was completed in 2020.
- **Hermosa Substation Upgrade:** This project is a work in progress. It is an expansion of the original footprint of the existing substation. Once again, the new load growth to the Hermosa area required another exit feeder out of the substation. The new bay will help to ensure reliability by diversifying the growing load associated with the substation. The substation control house was also upgraded with this project. This project will be completed in 2022.
- **Norris Peak Three-phase Line Rebuild:** This line is also a work in progress. It consists of a 3.8 mile upgrade by replacing the underrated existing line. The new line will be a welcome addition to the system. It will become part of a looped system, meaning it will offer an alternate source of power to the area if needed. This will increase reliability and decrease outage times. This line is slated to be completed in 2022, barring any material delays.

(REPORT TO THE MEMBERSHIP CONTINUED FROM PAGE 2)

System inspections and maintenance programs are a top priority of 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 year to inspect and treat a portion of the distribution and transmission poles for decay and rot. The contractor conducts various tests to the poles, including a partial excavation, boring inspection holes, and sounding techniques to help identify areas of decay both above and below ground levels. The inspections are on a 10-year cycle, keeping the failure rate to a minimum. In 2021, the contractor inspected approximately 3,600 distribution poles and about 260 transmission poles at the cost of just over \$68,000.

Storms and fires significantly impact the cooperative's reliability and its bottom line. Fortunately, no significant storms or fires impacted our system in 2021.

Your Operations and Engineering crews were very busy in 2021. Construction of new services in 2021 increased 120% over 2020. All indications point to that trend continuing in 2022. System improvements and a new metering system have added over 6.5 million dollars in plant assets. This was an increase of 120% over 2020. Over 5.2 million dollars in material was purchased in 2021 compared to 1.5 million in 2020.

The cooperative's actions and efforts to improve reliability are working. In 2021, the percent of the time that the average Black Hills Electric Cooperative service was on was 99.988%!

MEMBER SERVICES

This past year, your cooperative continued the tradition of holding Area Meetings across our service territory. We had over 250 attendees and raised approximately \$4,600 for civic organizations and volunteer fire departments.

Annual donations by your cooperative are made to all 26 of the volunteer departments in our service territory. This year, we submitted for matching funds from Basin Electric Cooperative, our wholesale power supplier. Basin approved matching our donation that doubled our allocated donation to the first responders. We appreciate the service these entities provide to our members and the cooperative.

Cooperative members may have seen more Member Service Representatives at current events representing your cooperative. We put this approach into place to have their presence in front of the membership. We want the membership to get to know who they speak with over the phone when they contact the office and want our employees to have a face with a voice when they talk on the phone.

Our prepaid billing option continues to benefit the membership. We have measured the success of the program by the low write-offs in 2020 & 2021. Our Member Service Representatives' due diligence in conjunction with the prepaid program resulted in a write-off of only 0.015% of the total revenue billed. This is a testament to the success of the program and the hard work that the department does!

INFORMATION TECHNOLOGY

One of your cooperative's significant projects in 2021 was converting our metering system due to our old system being end-of-life. The work for the TWACS (Two Way Automatic Communication System) conversion project started in February 2021. We began by putting the necessary equipment in the substations, then completed software installs and rigorous meter testing. Our contractor, Allegiant, began changing out residential meters in September 2021. Allegiant estimates that the residential meter conversion segment will be complete by the end of May 2022. The new TWACS meters will have the capability of providing more detailed usage information to our members. It will also enable your co-op to identify and respond to outages more quickly and efficiently.

Cybersecurity continues to be a topic that is discussed heavily at your co-op. We've established practices to help keep members' information safe. We follow the Payment Card Industry (PCI) rules and go through a yearly validation process. We also do not store any credit card information in our office or on our servers. All Social Security Numbers in our database are encrypted, so you can only see the last four digits. We've tested our users with scam-type emails during the last four years to help train what malicious emails can look like. Our antivirus scans files and analyzes user behavior to monitor for unusual anomalies and immediately alerts the IT department if something looks suspicious. These are just some examples of the procedures that we follow to ensure your virtual safety.

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 2021 ANNUAL MEETING

The 76th Annual Membership Meeting of Black Hills Electric Cooperative, Inc. was held at the Ramkota Convention Center in Rapid City, South Dakota, on June 3rd, 2021. 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 6:56 p.m. and welcomed members and guests. The membership stood to honor America by reciting the Pledge of Allegiance.

President Bishop called on Board Secretary Gary Kluthe to address the membership and read the Summary of Annual Meeting Notices. Mr. Kluthe announced there was a quorum with 139 members registered for the 2021 Annual Meeting out of a total membership of 8,223.

President Bishop requested a motion to approve the 2019 Annual Membership Meeting Minutes which were mailed to each member on May 13th from Aberdeen, S.D. A motion was made, seconded, and passed to approve the 2019 Annual Membership Meeting Minutes as printed. Mr. Bishop requested a motion to approve the 2020 Special Meeting of the Members Minutes which were mailed to each member on May 13th from Aberdeen, S.D. A motion was made, seconded, and passed to approve the 2020 Special Meeting of the Members Minutes as printed.

President Bishop introduced the other board of directors of the cooperative consisting of Vice President Dennis Quivey, Treasurer Jim Preston, Assistant Secretary Don Andersen, David Lindblom, and Thad Wasson. He also introduced Board Secretary Gary Kluthe, CEO & General Manager Walker Witt, and General Counsel Tracy Kelley. President Bishop then recognized several special guests who were in attendance. President Bishop addressed the membership accompanied by a PowerPoint presentation. He reported that Black Hills Electric ended the 2020 year without any rate adjustments. He stated that there were no significant storm or fire repairs and that the co-op ended the year with strong margins. He advised that all financial targets, loan obligations, and covenants were met or exceeded. Mr. Bishop informed the membership that the 2020 audit was satisfactory and the auditors gave an unqualified opinion. He acknowledged the efforts to increase reliability and that the membership had power 99.9982% of the time in 2020. 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 thanked the board of directors for their flexibility and leadership during the COVID-19 pandemic. He stated that due to limited space in the board room, the board meetings were held at the Custer County Annex Pine Room until March 2021.

Mr. Witt advised that the board decided to cancel the Annual Meeting and scheduled a Special Meeting of the Members that was held in Hermosa at Roy's Drive Inn Movie Theatre. The membership was shown a video that Custer County Search and Rescue produced. He informed the membership that Thad Wasson was elected at the Special Meeting of the Members.

Mr. Witt discussed the changes that were made operationally to fulfill our mission. He advised that several employees were sent home to work remotely, and operations personnel were separated in order to ensure coverage and keep business practices functioning properly. Mr. Witt informed the membership that a plexiglass barrier was also put up at the front entrance for additional protection.

Mr. Witt stated that the co-op is in a solid financial position from both a reliability and financial standpoint. He advised that the co-op completed two significant projects to enhance

reliability and upgrade infrastructure. Mr. Witt also informed the membership on the pole inspection procedures to improve reliability. He discussed what measures are being taken in order to prevent damages due to trees within the rights-of-way.

Mr. Witt advised that the last rate increase was almost five years ago, and he doesn't foresee a rate increase for the remainder of 2021. He stated that the reliability and equity had increased significantly over the last several years. Mr. Witt informed that the board has retired and returned over 6.1 million dollars in the past five years. He stated that the bad debt write-offs were just .011% of the total amount billed to the members in 2020.

Mr. Witt concluded his report by thanking the employees, directors, and 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 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 Fall River County. Ms. Kelley stated that incumbent Gary Kluthe was the sole nominee for the director position representing Lawrence, Meade, and Pennington Counties. Ms. Kelley stated that Donald Andersen was the sole nominee for Fall River County. Ms. Kelley recognized and thanked the nominating committee members: Neil Harder, Leo Van Sambeek, Don Kraus, Robert Hovey, Ray Summers, and Jim Miller.

Ms. Kelley introduced the nominees and then called on each candidate to address the membership. Gary Kluthe and Don Andersen addressed the membership. Ms. Kelley called on President Bishop to make the declaration of the directors.

President Alan Bishop, pursuant to Article IV, Section 2 of the Bylaws, declared Gary Kluthe 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 Donald Andersen elected to the director position representing the geographical area of Fall River County.

Mr. Bishop introduced Director of Communications and Member Services Michelle Fischer. Ms. Fischer announced the 2021 Connect Con winner Henry Hovde. She presented Erin Green from Rapid City the \$1,000 Basin/BHEC scholarship. Ms. Green drew for two \$500 scholarships. The winners were Will Kuhl and Hannah Wasson. Ms. Fischer introduced special guest, Mike Chase, to address the membership.

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.

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 77th Annual Meeting

The 77th Annual Meeting of the Members of Black Hills Electric Cooperative, Inc. will be held at the Mueller Center, 801 South Sixth Street, City of Hot Springs, County of Fall River, 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 2nd, 2022. The business meeting will start immediately after the meal on said day to take action on the following matters:

1. Action on the 2021 Annual Meeting 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 & Pennington Counties:

Dave Lindblom
14170 Wrangler Rd.
Rapid City, SD 57702

For the geographical area of Custer & Oglala Counties:

James Preston
14039 SD Hwy 40
Hermosa, SD 57744

Dated this 22nd day of March, 2022:
Donald Andersen, Secretary

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 **June 2, 2022**. 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
(Name of Person)
delegate to the Black Hills Electric Cooperative, Inc., Annual Meeting on June 2, 2022,

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: _____

BOARD OF DIRECTORS



JIM PRESTON
VICE PRESIDENT



DENNIS QUIVEY
PRESIDENT



DON ANDERSEN
SECRETARY



DAVID LINDBLOM
ASST. SECRETARY



GARY KLUTHE
TREASURER



ALAN BISHOP



THAD WASSON

YOUR CO-OP: BY THE NUMBERS

CO-OP STATISTICS	2020	2021
Total Miles of Line	2,678	2,703
Overhead	2,309	2,309
Underground	281	306
Transmission	88	88
Active Services per Mile of Line	3.90	3.96
Number of Active Services	10,442	10,696
Total Number of Employees	28	27
Controllable Cost	\$4,471,607	\$4,585,239

KWH ENERGY SALES	2020	2021
Residential	102,659,103	105,759,520
Seasonal	13,186,897	13,497,367
Irrigation	2,098,469	2,232,227
Small Commercial	21,761,064	23,963,937
Large Commercial	10,133,746	11,356,828
Public & Resale	2,117,386	1,510,210
TOTAL	151,956,665	158,320,089

FINANCIALS

CURRENT ASSETS - WHAT WE OWN	2020	2021
Electric Plant	\$80,965,921	\$87,547,330
Accumulated Depreciation	(\$33,996,024)	(\$34,142,560)
Other Property & Investments	\$9,229,296	\$9,709,060
Cash & Cash Equivalents	\$7,526,099	\$5,834,246
Accounts Receivable	\$2,824,983	\$2,821,607
Material & Supplies	\$1,518,877	\$3,028,148
Other Current & Accrued Assets	\$111,869	\$123,382
Deferred Debits	\$383,731	\$183,762
TOTAL CURRENT ASSETS	\$68,564,752	\$75,104,975

CURRENT LIABILITIES - WHAT WE OWE	2020	2021
Long-Term Debt	\$33,285,348	\$37,990,962
Accounts Payable	\$1,510,987	\$1,405,900
Accrued Taxes	\$428,954	\$474,441
Other Current Liabilities	\$1,265,104	\$634,019
Member Deposits, Prepayments & Advances for Construction	\$895,212	\$1,377,758
Unclaimed Capital Credits	\$483,896	\$661,068
Deferred Credit	\$1,500,000	\$2,000,000
Our Equities - Patronage Capital	\$29,195,251	\$30,560,827
TOTAL LIABILITIES	\$68,564,752	\$75,104,975

REVENUES - WHAT WE TOOK IN	2020	2021
Residential	\$14,196,890.88	\$14,648,515.22
Seasonal	\$2,418,931.88	\$2,460,749.96
Irrigation	\$309,414.74	\$324,618.51
Small Commercial	\$2,884,262.75	\$3,122,325.02
Large Commercial & Industrial	\$1,330,907.26	\$1,450,410.49
Public & Resale	\$274,910.21	\$230,833.43
Other	\$928,077.79	\$122,702.17
TOTAL REVENUE	\$22,343,395.51	\$22,360,154.80

EXPENSES - WHAT WE SPENT	2020	2021
Power & Transmission	\$11,157,044.73	\$11,084,118.93
Maintenance & Operation	\$2,219,831.50	\$2,526,624.92
Member Accounts, Services & Information	\$944,993.00	\$820,337.93
General & Administrative	\$1,306,782.64	\$1,238,276.61
Depreciation	\$2,524,728.95	\$2,696,988.84
Interest	\$1,374,955.69	\$1,120,578.17
Taxes & Other Deductions	\$190,434.61	\$216,028.92
TOTAL EXPENSES	\$19,718,771.12	\$19,702,954.32

MARGINS - WHAT WE HAVE LEFT	2020	2021
Operating Margins	\$2,624,624.39	\$2,657,200.48
Non-Operating Margins	\$416,650.87	\$196,362.32
Capital Credits	\$595,651.26	\$466,138.18
TOTAL MARGINS	\$3,636,926.52	\$3,319,700.98

2022 ANNUAL MEETING

Thursday, June 2, 2022

Mueller Center

801 S 6th St. ■ Hot Springs, 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 26** 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 2, 2022 in Hot Springs.

Winner cannot be a recipient of another BHEC scholarship.