

2022 ANNUAL REPORT



Black Hills Electric Cooperative

A Touchstone Energy® Cooperative



**78TH ANNUAL MEETING
JUNE 1, 2023**

REPORT TO THE MEMBERSHIP

Getting Back to the Basics: The Three Rs

Please join us for our 78th Annual Membership Meeting in Rapid City on Thursday, June 1st. Your co-op had a successful and productive year.

The title of this year's Annual Report is a bit misleading. Your co-op has never strayed from the basics. The "Three Rs" are not really the basics of our co-op, but it sounded like a good theme, and your President and CEO will talk about the Three Rs in our reports at the Annual Meeting.

Good sales and steady growth resulted in strong margins. Facilities upgrades and new service requests kept cooperative crews busy. The past year was productive, safe, and financially sound.

RATES AND FINANCIALS

We had a strong financial year in 2022. All the financial goals were met, and targets for the first quarter of 2023 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 2022 allowed your board to **RETURN** close to 2.5 million dollars to present and former members and defer \$150,000 to help offset future year's expenses. The cooperative allocated over 3 million dollars for future returns. Of this allotment, \$466,138 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 maintenance on 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 44%. The rest of the financing comes from our lenders. Your cooperative ended 2022 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 and striving for efficiency 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 benefit package. However, even with a competitive salary/benefit package, the total amount of employee salaries per member and the administrative and general expenses per member continue to be among the lowest of all the cooperatives in the state. Your co-op's controllable costs also remain some of the lowest of all South Dakota electric cooperatives.

Basin Electric Power Cooperative, our wholesale power supplier, had a sound year financially and avoided a **RATE** increase. Power costs are 55.15% of the total expenses, or \$11,630,155. Although expenses for wages, insurance, taxes, and especially material continue to increase, your cooperative did not have a rate increase in 2022.

OPERATIONS & ENGINEERING

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

A summary of some of the major projects that have been completed in 2022 and the projects that are still in progress include:

Hermosa Substation Upgrade:

This project was a major renovation to the existing Hermosa substation located just west of Hermosa. The forecasted load growth to the area warrants the upgrades, which include:

1. An additional three-phase underground circuit was installed out of the substation, which increased the capacity and reliability of the substation.
 2. Buss work inside the substation was upgraded.
 3. A new control house was set in place.
 4. Electronic equipment upgrades were moved from outside to inside the new control house.
 5. Substation yard expansion, which included accommodations for the mobile substation.
 6. A new metering system was installed in the new control house.
- This project was completed in October 2022.

Mystic Line Upgrade:

This project consisted of replacing 8.5 miles of single-phase overhead line that was built in the 1940s. This line is located from Deerfield Road to Mystic. The existing underrated line was replaced with a new, heavier construction designed line that includes larger poles and increased conductor size. The new line offers more capacity and increased reliability. This line will eventually be part of a future planned looped system to the area. A looped system means there will be alternate sources of power in the area, thus reducing outage times. The first phase of this project was completed in August 2022.

Fairburn to Downen Road:

This project was a 4.5 mile single-phase to three-phase line upgrade. This line is located from Fairburn west to Highway 79 and then west on Downen Road. The new three-phase line offers capacity and load diversity for expanded growth expected in the area. This project was completed in October 2022.

Norris Peak Three-phase Line Rebuild:

This line is a work in progress. It consists of a 3.8 mile, three-phase overhead line rebuild. The new line will be a welcome addition as it will become part of a looped system also. The looped feeds are critical when alternative sources of power are necessary to isolate sections of lines that might be damaged either by man-made or natural events. This line serves the Norris Peak area as well as the members in the Nemo Road area. This project will be completed in 2023.

System inspections and maintenance programs are a top priority of your cooperative. 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

(REPORT TO THE MEMBERSHIP CONTINUED FROM PAGE 2)

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 on 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 2022, the contractor inspected approximately 3,706 distribution poles and about 106 transmission poles at the cost of \$52,914.68.

Storms and fires significantly impact the cooperative's reliability and its bottom line. April 7th, 2022, was a stark reminder of the impact of fire. Wind gusts of over 70 miles per hour uprooted a healthy tree that was more than 60 feet out of our right-of-way. Unfortunately, it fell through one of our three-phase lines, igniting a fire just a mile west of your cooperative headquarters. The fire quickly spread due to the high winds, threatening businesses and homes. Fortunately, due to a quick response by the local volunteer fire department and state and federal firefighters, disaster was averted, and the fire was contained to 120 acres with very minimal damage.

Your Operations and Engineering crews were busy in 2022. Even though we didn't have as many new services connected compared to 2021, we still connected 355 new meters. System improvements have added 2.6% in plant assets equaling \$2,284,564 million.

The cooperative's actions and efforts to improve reliability are working. In 2022, the percentage of time that the average Black Hills Electric Cooperative service was on was 99.996%!

MEMBER SERVICES

This past year, your cooperative continued the tradition of holding Area Meetings across our service territory. We had over 260 attendees, and around \$6,000 was raised 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.

Our prepaid billing option continues to benefit the membership. We continue to measure the success of the program by the low write-offs. In 2022 our Member Service Representatives' due diligence, in conjunction with the prepaid program, resulted in a write-off of only \$1,477.75. That is only .0061% of the total revenue billed. Both of those numbers are all time lows since the co-op began keeping record of this in 1989. This is a testament to the success of the program, the hard work that the department does, and having great members that pay their bills!

BHEC's mission statement is to "Provide Great Service at the Lowest Cost Consistent with Sound Business Practices." Great service is always making public and employee safety our number one priority. Our Member Services Department, with the help of Neon Leon and Lightning Liz, presents safety demonstrations at the Black Hills Stock Show and Rodeo and

at schools around the service territory to teach young people about electrical safety. We also give demonstrations with a high-voltage trailer to simulate the dangers of being careless around 7,200-volt power lines. We include safety articles in each issue of Black Hills Electric Cooperative Connections and are available to answer safety questions.

Our employees are provided the best tools, equipment, and training to ensure that at the end of each day they go home safe and healthy to their families. Black Hills Electric employees have worked over 149,000 hours without having a loss time accident. That is a big number, but it is a number that can never be too big. Your co-op will continue to make public and employee safety the number one priority in everything that we do.

INFORMATION TECHNOLOGY

In 2022, we worked with our contractor, Allegiant, to successfully finish installing new residential meters for our new metering system. Subsequently, we have been addressing some wiring issues to heat meters that our new system has identified. Additionally, we have been replacing our old Load Control Switches (LCS units) with the new Demand Response Units (DRUs). We have encountered some supply chain issues in obtaining the necessary three-phase meters to complete the changeover to the new system. We also plan to upgrade the last two substation areas to the new system. This will put all of our members on the same metering system, making it better for keeping stock of equipment and having the ability to have the same rate options across the membership. In order to upgrade the last two substation areas to the new system, we have acquired some used equipment from a Nebraska utility, enabling us to keep costs down.

Cybersecurity remains a priority for our co-op. We have partnered with Rushmore Electric Power Cooperative, our Generation & Transmission co-op, to engage with a top-notch security operations center to monitor and validate activity on our network 24/7/365. We have budgeted for significant server updates in 2023 to ensure our network remains up-to-date. Moreover, we continue to provide our employees with training and testing to ensure they remain vigilant in their cybersecurity practice.

CLOSING

While we didn't explicitly state what the three R's we will talk about at this year's Annual Meeting, we did leave a few **CLUES** in this report. 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 2022 ANNUAL MEETING

The 77th Annual Membership Meeting of Black Hills Electric Cooperative, Inc. was held at the Mueller Center in Hot Springs, South Dakota, on June 2, 2022.

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 7:00 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 Don Andersen to address the membership and read the Summary of Annual Meeting Notices. Mr. Andersen announced there was a quorum with 135 members registered for the 2022 Annual Meeting out of a total membership of 8,439.

President Quivey requested a motion to approve the 2021 Annual Membership Meeting Minutes, which were mailed to each member on May 11, 2022, from Aberdeen, S.D. A motion was made, seconded, and passed to approve the 2021 Annual Membership Meeting Minutes as printed.

President Quivey introduced the other board of directors of the cooperative consisting of Vice President Jim Preston, Secretary Don Andersen, Assistant Secretary Dave Lindblom, Thad Wasson, Alan Bishop, Treasurer Gary Kluthe, and General Counsel Tracy Kelley. President Quivey then recognized several special guests who were in attendance. President Quivey addressed the membership accompanied by a PowerPoint presentation. Mr. Quivey reported that Black Hills Electric ended the 2021 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. Mr. Quivey advised that all financial targets, loan obligations, and covenants were met or exceeded. Mr. Quivey informed the membership that the 2021 audit was satisfactory and the auditors gave an unqualified opinion. He acknowledged the efforts to increase reliability and that the membership had power 99.988% of the time in 2021. President Quivey informed the membership of the 2021 capital credit retirement. Mr. Quivey informed the membership that the board has returned more capital credits in the past six years than in the history of the cooperative before then. Mr. Quivey stated that the capital credit retirement cycle has decreased by 1/3rd, from 30 to 20 years. 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 C. Witt to give his report to the membership. Mr. Witt's prerecorded video was displayed to the membership.

Mr. Witt reported on some of the cooperative challenges, including material shortages & lead time as well as inflation. Mr. Witt stated that the lead time and material shortages are putting enormous amounts of stress on the personnel at the co-op.

Mr. Witt advised that the cooperative is in a sound financial state. He stated that the bad debt write-offs were just \$3,317.03 out of 22.2 million dollars billed to the membership. He attributed the low write-off amount to the members and the Member Service department's efforts to collect on delinquent accounts.

Mr. Witt praised the Operations and Engineering departments for their skill, efforts, and knowledge. He thanked the board of directors for their continued guidance and expertise in their role as directors.

General Counsel Tracy Kelley addressed the membership and discussed the reasons that Mr. Witt was unable to attend the Annual Meeting in person.

Ms. Kelley explained the director elections. Ms. Kelley stated 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 Custer and Oglala Lakota Counties. Having no other applicants other than the incumbents, Ms. Kelley stated Dave Lindblom was the sole nominee for the director position representing Lawrence, Meade, and Pennington Counties. Ms. Kelley stated that Jim Preston was the sole nominee for Custer & Oglala Lakota Counties. Ms. Kelley recognized and thanked the nominating committee members: Leo Van Sambeek, Lindsay Luper, Brea Seger, Robert Hovey, Kim Haug, Ray Summers, and Delia Johnson.

Ms. Kelley introduced the nominees and then called on each candidate to address the membership. Dave Lindblom and Jim Preston addressed the membership. Ms. Kelley called on President Quivey to make the declaration of the directors.

President Dennis Quivey, pursuant to Article IV, Section 2 of the Bylaws, declared Dave Lindblom elected to the director position representing Lawrence, Meade, and Pennington Counties. Mr. Quivey, pursuant to Article IV, Section 2 of the Bylaws, declared Jim Preston elected to the director position representing Custer & Oglala Lakota 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 7:40 p.m.

Mr. Quivey introduced Director of Communications and Member Services Michelle Fischer. She presented William Kuhl IV from Buffalo Gap with the \$1,000 Basin/BHEC scholarship. Mr. Kuhl drew for two \$500 scholarships. The winners were Joseph Reed and Thomas Haar. Ms. Fischer informed the membership of upcoming events and drew for various prizes.

Official Notice of BHEC's 78th Annual Meeting

The 78th 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 1st, 2023. The business meeting will start immediately after the meal on said day to take action on the following matters:

1. **Action on the 2022 Annual Meeting Minutes.**
2. **Reports from Board Officers and General Manager.**
3. **Declaration of appointment of three 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:

Thad Wasson
10251 Echo Valley Ct.
Rapid City, SD 57702

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

For the geographical area of Custer & Oglala Counties:

Alan Bishop
14416 SD Hwy 40
Hermosa, SD 57744

For the geographical area of Fall River County:

Dennis Quivey
13800 Old Highway 79
Oelrichs, SD 57763

Dated this 21st day of March, 2023:
Donald Andersen, Secretary

Meet your Candidates



Thad Wasson was born and raised in Omaha, Nebraska. After high school, he was called to serve his county. He enlisted in the Marines, where he was part of the 3rd Battalion, Third Marines. While in the Marines, he was stationed in Hawaii and did a tour in Okinawa, Japan. After receiving an honorable discharge, he got a job with CenturyLink and currently still works for the organization.



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

Thad has been a member of BHEC for over ten years, with almost three of those years serving on your board of directors. Thad earned his Credentialed Cooperative Director (CCD) Certificate this year. The CCD prepares directors to fulfill their fiduciary duty as elected officials serving on behalf of their membership. Thad is seeking re-election to continue to serve his neighbors and community. He and his wife, Michelle, have three children and reside in the Nemo area. Thad is a family man and knows the importance of family, hard work, communication, and loyalty.

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, fell in love with the Black Hills after vacationing here. They 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



DAVID LINDBLOM
ASST. SECRETARY



GARY KLUTHE
TREASURER



ALAN BISHOP



THAD WASSON

YOUR CO-OP: BY THE NUMBERS

CO-OP STATISTICS	2021	2022
Total Miles of Line	2,703	2,721
Overhead	2,309	2,313
Underground	306	319
Transmission	88	88
Active Services per Mile of Line	3.96	4.06
Number of Active Services	10,696	11,051
Total Number of Employees	27	28
Controllable Cost	\$4,585,239	\$5,022,022

KWH ENERGY SALES	2021	2022
Residential	105,759,520	113,639,742
Seasonal	13,497,367	14,778,640
Irrigation	2,232,227	2,282,226
Small Commercial	23,963,937	24,590,447
Large Commercial	11,356,828	12,568,601
Public & Resale	1,510,210	1,545,522
TOTAL	158,320,089	169,405,178

FINANCIALS

CURRENT ASSETS - WHAT WE OWN	2021	2022
Electric Plant	\$87,547,330	\$89,831,894
Accumulated Depreciation	(\$34,142,560)	(\$35,564,828)
Other Property & Investments	\$9,709,060	\$10,113,580
Cash & Cash Equivalents	\$5,834,246	\$7,675,870
Accounts Receivable	\$2,821,607	\$3,289,397
Material & Supplies	\$3,028,148	\$3,007,313
Other Current & Accrued Assets	\$123,382	\$138,542
Deferred Debits	\$183,762	\$27,779
TOTAL CURRENT ASSETS	\$75,104,975	\$78,519,547

CURRENT LIABILITIES - WHAT WE OWE	2021	2022
Long-Term Debt	\$37,990,962	\$35,624,364
Accounts Payable	\$1,405,900	\$1,936,772
Accrued Taxes	\$474,441	\$537,835
Other Current Liabilities	\$634,019	\$695,936
Member Deposits, Prepayments & Advances for Construction	\$1,377,758	\$2,398,962
Unclaimed Capital Credits	\$661,068	\$830,646
Deferred Credit	\$2,000,000	\$2,150,000
Our Equities - Patronage Capital	\$30,560,827	\$34,345,032
TOTAL LIABILITIES	\$75,104,975	\$78,519,547

REVENUES - WHAT WE TOOK IN	2021	2022
Residential	\$14,648,515	\$15,453,284
Seasonal	\$2,460,750	\$2,601,495
Irrigation	\$324,619	\$355,022
Small Commercial	\$3,122,325	\$3,198,497
Large Commercial & Industrial	\$1,450,411	\$1,709,471
Public & Resale	\$230,833	\$239,717
Other	\$122,702	\$461,930
TOTAL REVENUE	\$22,360,155	\$24,019,416

EXPENSES - WHAT WE SPENT	2021	2022
Power & Transmission	\$11,084,119	\$11,781,402
Maintenance & Operation	\$2,526,625	\$2,792,958
Member Accounts, Services & Information	\$820,338	\$899,338
General & Administrative	\$1,238,276	\$1,329,726
Depreciation	\$2,696,989	\$2,930,648
Interest	\$1,120,578	\$1,112,622
Taxes & Other Deductions	\$216,029	\$242,425
TOTAL EXPENSES	\$19,702,954.32	\$21,089,119

MARGINS - WHAT WE HAVE LEFT	2021	2022
Operating Margins	\$2,657,201	\$2,930,297
Non-Operating Margins	\$196,362	\$1,800,687
Capital Credits	\$466,138	\$1,510,987
TOTAL MARGINS	\$3,319,701	\$6,241,971

2023 ANNUAL MEETING

Agenda:

5:00 p.m. - Registration Opens

6:00 p.m. - Dinner

Following Dinner - Business Meeting

Grand Prize: One year customer service charge waived. A \$420 value!

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.

If you plan to attend this year's annual meeting, please pre-register before the **Thursday, May 25** deadline.

WAYS TO PRE-REGISTER:

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

You could win \$100!

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 1, 2023**.

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 June 1, 2023,

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: _____