



2020 ANNUAL REPORT



POWERING TODAY, **AND INTO TOMORROW**

OUR MISSION:

**WE ARE DEDICATED TO
ACHIEVING & SUSTAINING
A STRONG SAFETY CULTURE,
CONSISTENT RELIABILITY
IMPROVEMENT,
SERVICE EXCELLENCE,
FINANCIAL STEWARDSHIP, &
A STRATEGY FOR THE FUTURE.**



A MESSAGE FROM OUR CEO

I would be stating the obvious to say that 2020 was, in many ways, the most unusual and challenging of Sam Houston Electric Cooperative's 82 years. But 2020 was also a year of great innovations and successes. Sam Houston Electric Co-op members stood shoulder to shoulder with your dedicated employees to overcome a pandemic, a tornado, and a hurricane.

The cooperative business model is unique. Your Co-op is local, not-for-profit, and it is led by a board that is made up of members who are just like you. They live here. They get their electricity from the Co-op, and they pay the same rates you pay. They want the Co-op to provide safe, reliable, affordable service for you, their neighbors and fellow members.

In the eventful year that was 2020, our Co-op members rated Sam Houston EC 92 in the American Customer Satisfaction Index. That is the Co-op's highest score in history. And it is among the highest ACSI scores of all companies in the U.S.

Without question, this accomplishment could not have happened without you, our members, being an integral part of our Co-op team. And we thank you for that.

Throughout the pandemic, employees developed innovative ways to continue providing top-level service. Following the devastating tornado, Co-op crews did amazing things to restore service quickly. Members helped members as they cleaned up, rebuilt, and dealt with the pandemic. And through it all, you have been incredibly supportive of our crews.

That's what I mean when I speak of our Cooperative Team. You, our members, are a vital part of this team. And I can tell you without hesitation that the Sam Houston EC team is the best in the business. But we couldn't do it without you. You are the reason we exist.

The Cooperative experienced two significant weather events in 2020. The April Tornado that decimated the area from Onalaska to Seven Oaks, caused \$6 million in damages to Cooperative facilities. Then in August, preparations for and response to Hurricane Laura cost the Cooperative another \$4.5 million. Despite those events, the Cooperative entered 2021 financially sound, and with a healthy balance sheet.

Events surrounding winter storm Uri in February of this year are expected to have a financial impact on the Cooperative, but at the time of this report, the scope of those impacts is not yet clear. We are currently engaged on all fronts to minimize the impact and make any costs associated with Uri as manageable as possible.

The Co-op's feeder automation and fault indicator technology took a big step forward in 2020 as well, resulting in improved reliability and reduced outage times. Deployment of these technologies is continuing into other parts of our system.

Sam Houston EC was able to maintain very stable rates through 2020. The Co-op purchases power from ETEC, a generation and transmission cooperative, which utilizes a diverse and balanced portfolio that includes electricity generated by natural gas, coal, and renewables, along with purchased power agreements. This approach helps to maintain stable power prices. Also, \$2.8 million in capital credits were distributed to members on their September electric bills.

I am very proud of the team at Sam Houston Electric. That team includes not only employees and board, but you, our members, as well. As we look back on 2020, there were many challenges. But there is also much to be thankful for. And as Sam Houston Electric Cooperative powers into the future, we are proud to be on your team.

Sincerely,
Doug Turk, P.E.
General Manager & CEO

GUIDED BY OUR MEMBERS

Director Districts

DISTRICT 1

Angelina, Polk and Trinity Counties

DISTRICT 2

San Jacinto County

DISTRICT 3

Tyler and Jasper Counties

DISTRICT 4

Hardin and Liberty Counties

DISTRICT 5

Montgomery and Walker Counties



The board of directors continues to provide policy development, oversight and management across one of the largest electric cooperatives in Texas and the country as we mark 82 years of service. Made up of engaged Cooperative members, the board is keenly aware of what is important to our consumer-members because they are members too. To ensure equal representation for each of our more than 59,000 members, our service area is divided into five districts. Mr. Robert Boyd, from Tyler County, serves as board president. Each of the Co-op's 11 directors are elected by their fellow members to serve in the overall best interests of the Cooperative and its members.



Don Boyett
DISTRICT 1



Mike Oldner
DISTRICT 1



Milton Purvis
DISTRICT 1



Casey Evans Davis
DISTRICT 1



James Elmore
DISTRICT 2



Gary Jenke
DISTRICT 2



Robert C. Boyd
DISTRICT 3



Katherine Hardin
DISTRICT 4



Chuck Turner
DISTRICT 4



W.E. "Ernie" Miles
DISTRICT 5



Jim Seale
DISTRICT 5

WE SCORED A 92 IN THE AMERICAN CUSTOMER SATISFACTION INDEX.



That's two consecutive
years above 90.
The industry average is 73.



BY THE NUMBERS

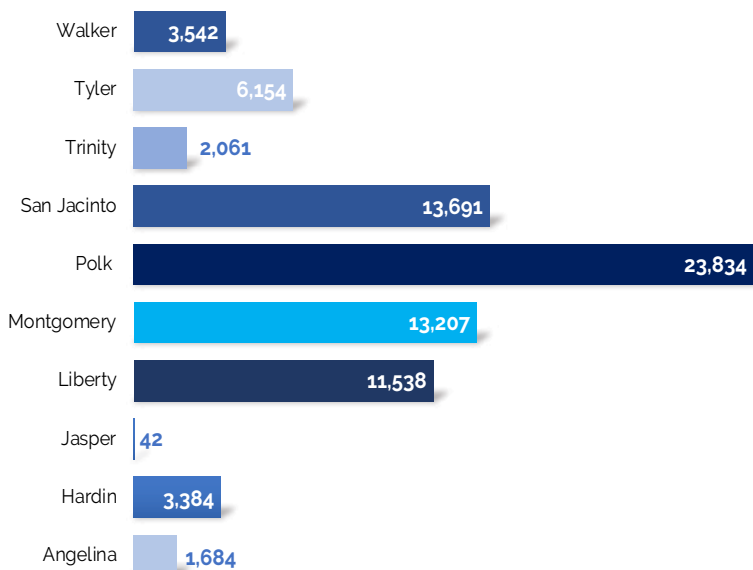
From booming suburbs to remote rural farming communities, America's electric cooperatives are energy providers and engines of economic development for more than 20 million American homes, businesses, farms and schools in 48 states.

Electric cooperatives play a vital role in transforming the electric sector. Advanced communications and automation technology enable co-ops to improve the resiliency and efficiency of their systems as they reduce environmental impacts by adding renewable resources.

Cooperatives
Power
56%
of the
nation's
landmass.



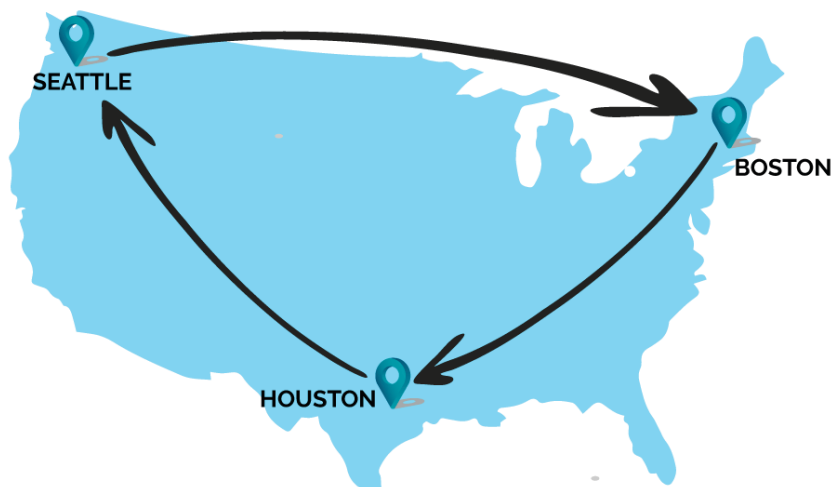
METERS BY COUNTY



TOTAL METERS

79,137

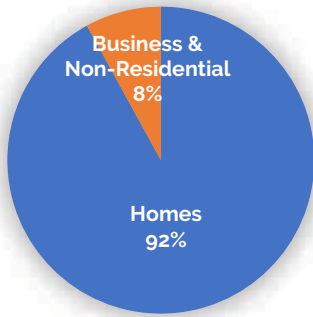
The total number of active meters increased by 2,721 in 2020, a 3.6% increase. Liberty County recorded the biggest increase in number (920) and percentage (8.7%), with Montgomery County just behind with a 5.9% growth adding 733 meters.



FACT:

Sam Houston Electric Cooperative operates and maintains 6,268 miles of distribution power lines. That's the distance from Houston to Seattle to Boston, and back to Houston.

% of Meters



MYSAMHOUSTON Portal Users



43,983

ONLINE USERS



15,596

MOBILE APP USERS

Texas Co-op Power is the most widely read magazine in Texas.

59,200

Sam Houston EC Members across 10 counties, receive the publication monthly.



NUMBER of EMPLOYEES

159



Same number of employees in 2020 as we had 25 years ago

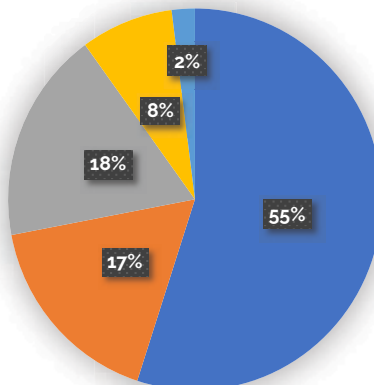
Using leading edge technology and highly skilled employees to provide top-tier service.

CAPITAL CREDITS

\$2.8 MILLION

TO CO-OP MEMBERS IN SEPTEMBER 2020

ELECTRICITY DOLLAR BREAKDOWN FOR 2020



- Power Costs
- Operations & Maintenance
- Depreciation, Interest, Taxes
- Member Services & Administration
- Margins

2020 HIGHLIGHTS

2020 was not a typical year for Sam Houston Electric Cooperative or our consumer-members. The challenges were plenty, but the resolve of East Texans paid off in the end.

Through it all, Sam Houston EC continued to experience rapid growth as more and more people are moving to experience the good life in Co-op country. The Co-op turned on nearly 3,000 new meters in 2020. Not only did the Co-op gain new members, but new members became familiar with the Cooperative model, where service comes before profits.

COVID -19

COVID-19 forced the Co-op to close its lobbies and implement social distancing policies for employees. Many worked from home. Outside employees eventually worked drive-way-to-driveway, only coming to an office for supplies.



STORM SEASON

We experienced one of the busiest tropical storm seasons ever. Hurricane Laura stayed mostly out of the Co-op's service area, but nearly 7,000 members did lose power due to the category 4 storm. Sam Houston EC line technicians worked tirelessly to restore service. Despite more than \$10 million in non-reimbursable storm restoration costs, Sam Houston EC was still able to distribute nearly \$3 million to members in the form of capital credits in September.

MSRs

Our member services representatives (MSR) answered phones from their homes, but they did come back to operate the drive-thru lanes in Livingston and Woodville. Early in the pandemic, MSRs were friendly voices on the phones. Several members, feeling isolated from their friends and families, just wanted to talk to someone. Our MSRs did just that after helping the member with any Co-op business.

ANNUAL MEETING

The Annual Meeting of Members was held online in 2020 due to COVID-19. Our 2021 annual meeting will be virtual as well. We expect to have an in-person Annual Meeting of Members in 2022 as life returns to normal.

EF-3 TORNADO

Our members from Onalaska to Seven Oaks and eastward into Tyler County were tested in April as a devastating EF-3 tornado ripped through those areas. Co-op employees and contractors worked day and night to return power to the affected area over a few days. One of the Co-op's mobile substations was put into operation near the Polk and Trinity county line to return power to several thousand members as transmission lines were rebuilt.



COMMUNITY FOCUSED

Sam Houston Electric Cooperative is community-oriented by its cooperative principles and nature. Many Sam Houston EC employees are also members. They live in the rural communities the Co-op proudly serves.

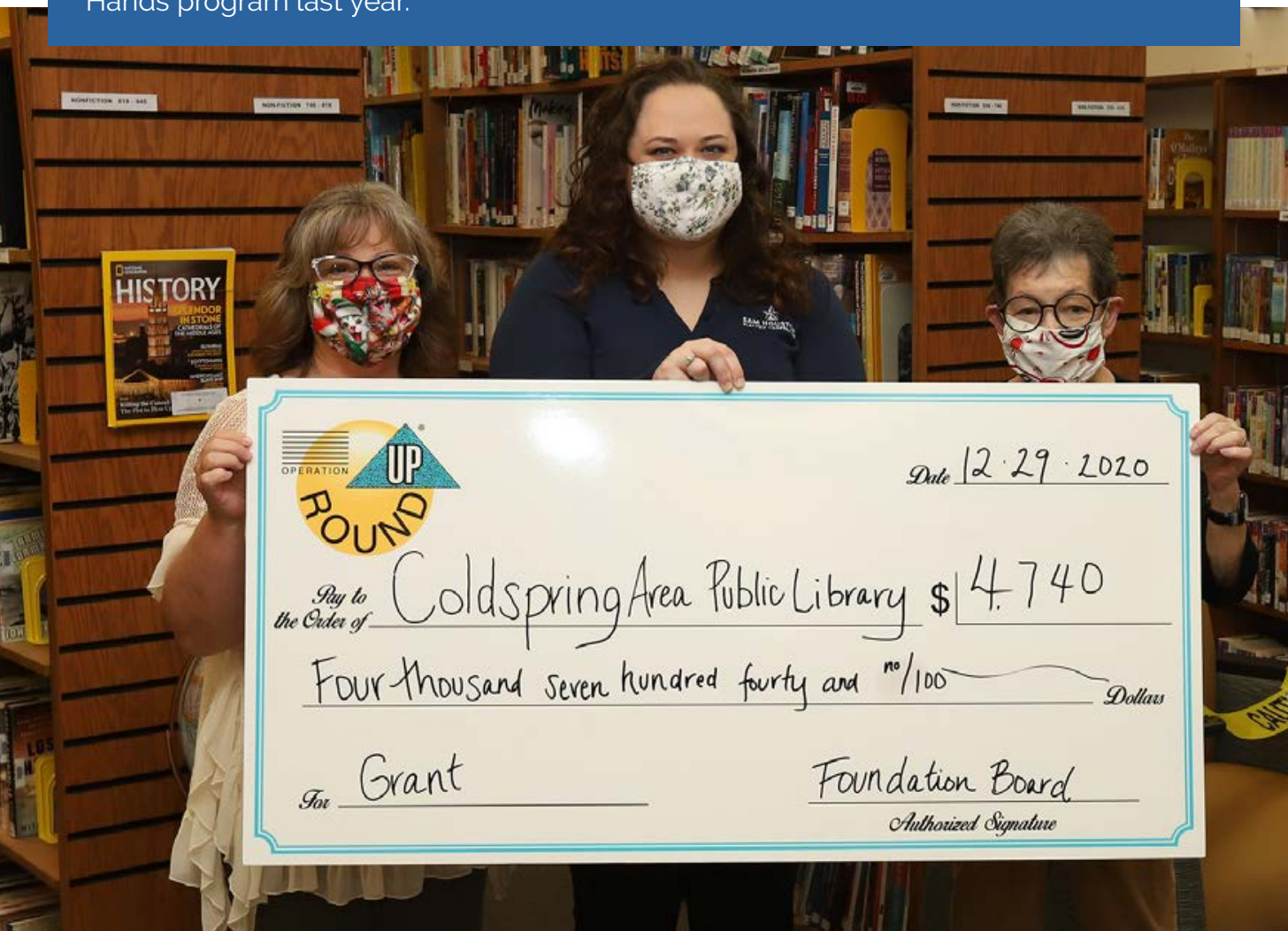
The global pandemic may have taken away some opportunities and memorable moments from Sam Houston EC members, but many Co-op employees gave back in the form of donations to our Helping Hands program.

Employees donated a portion of their paychecks to the program, and some also donated on their monthly electric bill to help fund the program. Many other employees made additional donations to help members in need with their electric bills. Cooperative board members also supported the Helping Hands program. Altogether, employees and board members donated \$5,000 to the Helping Hands program last year.

Several area organizations and individual members made sizeable donations to Helping Hands, enabling the program to pay out nearly \$8,000 to help members in 2020.

Operation Round Up came up big again in 2020 as the Co-op's charitable program donated more than \$6,000 to 501(c)3 charities around the service area. The program is exclusively funded by Co-op members as they round their monthly bill up to the next dollar each month.

Sam Houston EC awarded \$81,000 to 31 graduating high school seniors to begin their college education. Children or wards of Sam Houston EC members are eligible for the scholarships.





RELIABILITY

In addition to a feeder automation project, Sam Houston Electric Cooperative started other programs to increase reliability and reduce outage times once an outage has occurred.

The Co-op reduced animal-caused outages by 50% within the first six months of replacing metal brackets on poles on several lines throughout the service area.

The metal brackets were wide and offered an ideal perch for animals. The newer round fiberglass brackets make it much harder for animals to access the cut-outs, according to Ryan Brown, chief engineer.

“The Co-op began installing advanced fault indicators in 2020 on some of our longer distribution lines. The devices record an outage and provide a more precise outage location to system operators. In the past, line technicians would look for faults in the field to help locate an outage, but the new smart devices narrow a possible outage from several miles down to a much more specific area,” according to Brown.

SAFETY

Safety is at the core of Sam Houston Electric Cooperative's existence. Even in the toughest of situations, safety for Co-op employees and consumer-members is the highest priority.

Safety goals and processes are driven by all employees at the Co-op. Frontline employees from all departments serve on Continuous Improvement teams that evaluate specific processes for improvement. The Safety Steering Team is made up of frontline employees, managers, and an executive. The Safety Committee meets to review any accidents and propose safe practices moving forward.



Restoration efforts during the tornado and again following Hurricane Laura resulted in no safety incidents, demonstrating how safety has become ingrained in the culture of the Co-op.

Power restoration efforts following the April tornado were particularly challenging. "We had many employees in one small, consolidated area. They were working very near each other, and that can be a logistical safety challenge," according to Brandie Paske, dispatch supervisor.

Safety took on a different look in 2020 as the world was engulfed in the COVID-19 pandemic. Sam Houston EC employees worked from home when possible, and the Co-op implemented additional social distancing policies, further reducing opportunities to spread the virus.

Lobbies were closed to maintain the safety and health of the Co-op's employees and members, but drive-thru operations remained open to serve members.

“ It is an honor and great responsibility to be a member of the Safety Steering Team. The experiences and viewpoints shared during the meetings are invaluable to the team. ”

-Chad Simon, Communications Specialist





BEING OUR BEST FOR YOU

Sam Houston Electric Cooperative strives to provide the best electrical service for the Co-op's consumer-members. A reliability committee was formed two years ago to focus on reducing power outages and keeping lights on for our members.

Sam Houston EC utilizes highly skilled employees and proven technologies to provide safe, reliable service to our consumer-members.

The Co-op's engineering department introduced the Yukon Feeder Automation (YFA) system to our smart grid infrastructure in 2020. YFA increases reliability by dramatically reducing outage times. In some cases, YFA has reduced outage times from 30 minutes, down to 30 seconds.

"The whole goal of YFA is to restore as much service as possible, automatically," Connor Jenewein, engineer, said. "It isolates the fault, opens a feeder breaker, then restores (power) by closing in a normally open point to tie the two feeders together."

The Co-op continues to add the special devices to link feeders, enabling the YFA system to expand in the future. The new system prevents the Co-op from having to send line technicians to an outage to first assess the situation before any switching is done. The switching is done in seconds with the new system.

The COVID-19 pandemic forced the Co-op to work differently. Social distancing practices were implemented to keep employees safe and healthy. Line technicians were allowed to take work vehicles home as they worked driveway-to-driveway. Outage times were reduced in many instances because of the new policy.

Lobbies were closed for much of the year, but because the Co-op provides the mySamHouston app for smartphones and mySamHouston portal on the Sam Houston EC website at samhouston.net, members were able to conduct business as usual.

READY FOR THE FUTURE



Sam Houston Electric Cooperative started with just a few hundred miles of lines in the early years of the Co-op. The Cooperative now has more than 6,000 miles of line and 80,000 meters, making Sam Houston the eighth-largest electric cooperative in the state of Texas.

Co-op system operators monitor the entire distribution system from their desks through an extensive operating system. Their bank of monitors looks impressive, intimidating even. The alert and highly trained system operators monitor more than 40 substations and thousands of miles of electrical lines covering an area approximately the size of Connecticut.

Several years back, Sam Houston EC installed Advanced Metering Infrastructure (AMI) throughout the 10 counties the Co-op serves. AMI smart meters allow for consistent and stable billing cycles, and for members to use the mySamHouston online portal and the mySamHouston app to track their usage and pay their bills online.

The R.C. Thomas Hydroelectric Facility at Lake Livingston, owned by East Texas Electric Cooperative (ETEC), came online in the summer of 2020. The power generation facility is named in honor of longtime Sam Houston EC board member, R.C. "Joe" Thomas. This renewable energy resource adds another reliable source to the Co-op's power generation mix as it produces enough electricity to serve approximately 12,000 homes.

In response to residential growth around Lake Livingston, the Co-op recondutored lines around Lake Livingston and in other areas to meet the growing demand on our electricity infrastructure.



SAM HOUSTON
ELECTRIC COOPERATIVE

Financials

Consolidated Balance Sheets

December 31, 2020 and 2019

Assets	2020	2019
Utility Plant:		
Electric plant in service	\$553 832 286	\$ 524 556 265
Construction in progress	16 540 480	13 856 091
	<u>570 372 766</u>	<u>538 412 356</u>
Less: accumulated depreciation	204 710 059	189 370 237
NET UTILITY PLANT	<u>365 662 707</u>	<u>349 042 119</u>
Investments in associated organizations, at cost	71 213 000	67 686 240
Current Assets:		
Cash and cash equivalents	5 840 580	4 820 451
Restricted funds	942 514	941 328
Accounts receivable (less provision for doubtful accounts		
of \$367,224 in 2020 and \$662,035 in 2019	19 285 015	11 852 620
Materials and supplies (at average cost)	1 728 017	1 237 907
Other current assets	546 822	431 659
TOTAL CURRENT ASSETS	<u>28 342 948</u>	<u>19 283 965</u>
Deferred charges	<u>16 125 880</u>	<u>19 557 098</u>
Total Assets	\$ 481 344 535	\$ 455 569 422

Consolidated Balance Sheets

December 31, 2020 and 2019

Equities & Liabilities	2020	2019
Equities:		
Patronage capital	\$ 191 789 799	\$ 191 025 824
Other equities	156 290	156 290
Accumulated other comprehensive income (loss)	(1 012 246)	(714 678)
TOTAL EQUITIES	190 933 843	190 467 436
Long-term postretirement benefits liability	8 240 988	7 588 732
Long-term debt, less current maturities	235 818 397	212 424 479
Current Liabilities:		
Accounts payable and accrued liabilities	24 706 551	24 108 669
Current maturities of long-term debt	14 430 766	13 269 378
Current portion of postretirement benefits liability	251 032	193 186
Accrued interest payable	664 101	640 127
Consumers' deposits	2 728 549	2 767 251
TOTAL CURRENT LIABILITIES	42 780 999	40 978 611
Deferred credits	3 570 308	4 110 164
Total Equities & Liabilities	\$ 481 344 535	\$ 455 569 422

Financials

Statements of Revenue & Expense

For the Years Ended December 31, 2020 and 2019

Statement of Revenue & Expense	2020	2019
Operating Revenues:		
Sale of electricity	\$161 010 820	\$160 567 981
Other electric revenues	6 468 586	7 622 139
TOTAL OPERATING REVENUES	167 479 406	168 190 120
Operating Expenses:		
Cost of power	94 833 151	95 539 163
Transmission expense	713 173	605 470
Distribution expense - Operation	5 329 791	5 290 229
Distribution expense - Maintenance	23 438 867	13 698 043
Consumer accounts expense	5 632 410	5 734 422
Administrative and general expense	8 998 424	9 078 960
Depreciation expense	18 590 182	17 757 873
Taxes other than income taxes	2 791 755	2 689 941
OPERATING EXPENSES	160 327 753	150 394 101
OPERATING MARGINS BEFORE INTEREST EXPENSE	7 151 653	17 796 019
Interest on long-term debt and consumer deposits	8 780 769	8 468 687
OPERATING MARGIN (LOSS)	(1 629 116)	9 327 332
Generation and transmission capital credits	2 898 655	2 666 762
Patronage capital - Associated organizations	1 838 717	1 711 983
Nonoperating Margins:		
Interest income	109 041	104 072
Other nonoperating income (expense)	340 225	274 839
TOTAL NONOPERATING MARGINS	449 266	378 911
Net Margin	\$ 3 557 522	\$ 14 084 988

Statements of Comprehensive Income

For the Years Ended December 31, 2020 and 2019

Statements of Comprehensive Income	2020	2019
Net margin	\$ 3 557 522	\$ 14 084 988
Other Comprehensive Income:		
Actuarial gain (loss)	(297 568)	(731 398)
COMPREHENSIVE INCOME	<u>\$ 3 259 954</u>	<u>\$ 13 353 590</u>

	PATRONAGE CAPITAL	OTHER EQUITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2018	180 933 017	\$ 156 290	\$ 16 720	\$ 181 106 027
Net margin	14 084 988	-	-	14 084 988
Other Comprehensive Income:	-			
Actuarial gain/(loss)	-	-	(731 398)	(731 398)
Patronage capital retired	<u>(3 992 181)</u>	<u>-</u>	<u>-</u>	<u>(3 992 181)</u>
Balance, December 31, 2019	191 025 824	156 290	(714 678)	190 467 436
Net margin	3 557 522	-	-	3 557 522
Other Comprehensive Income:	-			
Actuarial gain/(loss)	-	-	(297 568)	(297 568)
Patronage capital retired	<u>(2 793 547)</u>	<u>-</u>	<u>-</u>	<u>(2 793 547)</u>
Balance, December 31, 2020	\$ 191 789 799	\$ 156 290	\$ (1 012 246)	\$ 190 933 843

Financials

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

Statement of Cash Flows	2020	2019
Cash Flows From Operating Activities:		
Net margin	\$ 3 557 522	\$ 14 084 988
Adjustments To Reconcile Net Margins To Net		
Cash Provided by Operating Activities:		
Depreciation expense	18 590 182	17 757 873
Noncash patronage allocation from associated organizations	(4 737 369)	(4 378 745)
Accumulated provision for pensions and benefits	412 534	374 555
Cash Provided By (Used For) The Change In:		
Accounts receivable, net	(7 432 395)	5 148 506
Materials and supplies	(490 110)	(239 934)
Other current assets	(115 163)	(8 085)
Deferred charges	3 431 218	(213 840)
Deferred credits	(664 329)	(5 210 663)
Accounts payable and accrued liabilities	597 882	(782 163)
Accrued interest payable	23 974	83 403
Consumers' deposits	(38 702)	454 672
TOTAL ADJUSTMENTS	9 577 722	12 985 579
NET CASH PROVIDED BY OPERATING ACTIVITIES	13 135 244	27 070 567
Cash Flows from Investing Activities:		
Capital expenditures for utility plant, net of retirements	(35 210 770)	(27 785 580)
Net change in restricted cash	(1 186)	(36 351)
Patronage retirements from associated organizations	1 210 609	1 721 991
Deferred credits	124 416	(1 095 505)
NET CASH USED IN INVESTING ACTIVITIES	(33 876 931)	(27 195 445)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	31 000 000	34 000 000
Payments of long-term debt	(13 444 694)	(12 553 699)
Net change in lines of credit	7 000 000	(20 000 000)
Retirement of capital credits	(2 793 490)	(3 992 181)
NET CASH USED BY FINANCING ACTIVITIES	21 761 816	(2 545 880)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1 020 129	(2 670 758)
Cash and cash equivalents at beginning of year	4 820 451	7 491 209
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5 840 580	\$ 4 820 451
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest expense,		
Net of capitalized amounts	\$ 8 756 795	\$ 8 385 284
Noncash Investing and Financing Activities:		
Net actuarial gain (loss) on postretirement benefit plan	\$ (297 568)	\$ (731 398)