



**POWERING COMMUNITIES
IMPROVING LIVES
SERVING WITH EXCELLENCE**



SAM HOUSTON
ELECTRIC COOPERATIVE

ANNUAL REPORT 2022

A LETTER FROM OUR CEO



The last few years have brought unique challenges to our membership, our industry and our world. However, your Cooperative and its employees have met every challenge and found new opportunities to improve your quality of service. We have a lot to be proud of at Sam Houston Electric Cooperative.

Last year, your Co-op continued to navigate the impacts of Winter Storm Uri. The storm resulted in electric utilities having to pay significantly higher costs for power delivered to consumers. Sam Houston EC was able to minimize the effect of our costs by repaying our share of storm costs over five years. The costs of the storm are impacting the average residential member's bill approximately \$6.72 per month.

Natural gas is the primary fuel source for generating electricity in Texas, including Sam

Houston EC. In 2022, natural gas prices were unexpectedly high, which in turn increased the cost of electricity. A survey of Texas electricity rates in June 2022 showed Sam Houston EC's power costs were significantly lower than most of the rates statewide. The Co-op's cost of \$150.15 for 1,000 kilowatt-hours was substantially lower than the average cost of \$256.53 in the Houston region as well as the state average of \$179.51.

We are thankful that the impacts on our Co-op members were much less than in other parts of the state, and we appreciate our members' overwhelming support. Sam Houston EC continues to focus on protecting members from volatile energy prices. We are exploring every available option for reducing our long-term power costs to you.

For instance, our generation and transmission provider, East Texas Electric Cooperative, has recently added natural gas generating capacity in Montgomery County and the Hecate Energy Independence Solar Farm has recently come online inside of our local footprint.

At Sam Houston EC, we hold employee safety and member service in the highest regard. Our employees and board of directors constantly look for ways to safely improve service. I hope you will take the time to look through our annual report and see some of the projects that we have undertaken. These are all done to better serve you.

To help you more easily manage your own usage, we recommend that members monitor their energy consumption by using the mySamHouston app or our web portal. These platforms were designed to increase the information that is available in a timely manner and allow each member to take measures to reduce their energy use. We've also recently added daily consumption graphs to the back of bills so every member can see how and when they consume electricity. We understand that every cost

"Your Cooperative and its employees have met every challenge and found new opportunities to improve your quality of service."

matters, especially in tough economic times like we are experiencing today. We are committed to helping you keep your monthly bill as low as possible.

I want to close this letter by sharing good news about the cost of electricity. Electricity costs from our power supplier have been reduced in April and May 2023 due to a decrease in the wholesale cost of electricity. As a not-for-profit electric cooperative, Sam Houston EC passes wholesale power cost savings to our consumer-members. That's how co-ops are different from other businesses.

Sam Houston Electric Cooperative will continue to focus on the best interests of our members by providing reliable electricity and excellent service. I invite you to read the 2022 annual report to see the exciting initiatives implemented by your Cooperative employees last year.

Thank you again for allowing us to serve you.

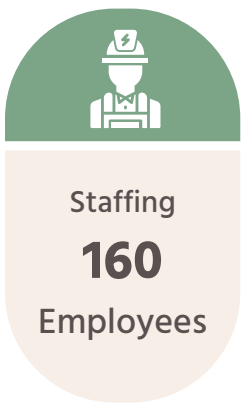
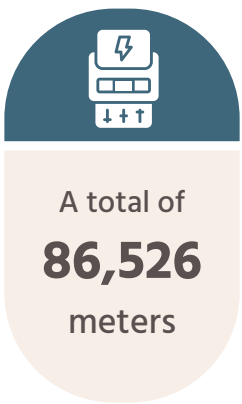
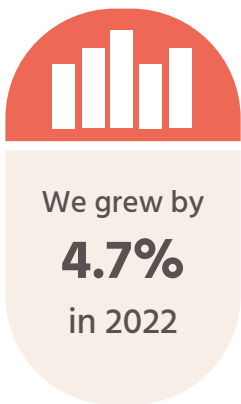
Sincerely,

Doug Turk, P.E.
General Manager & CEO

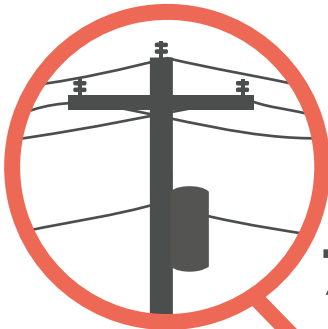
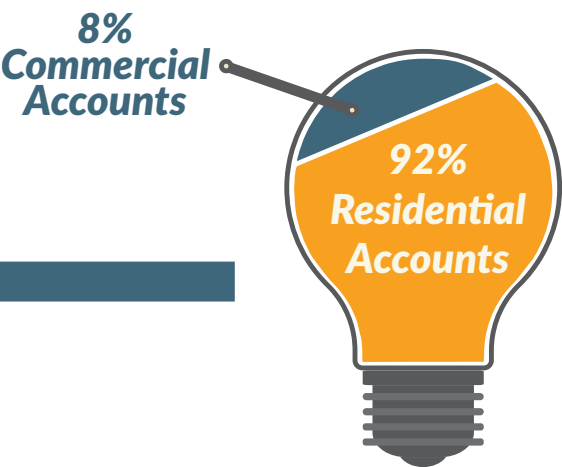
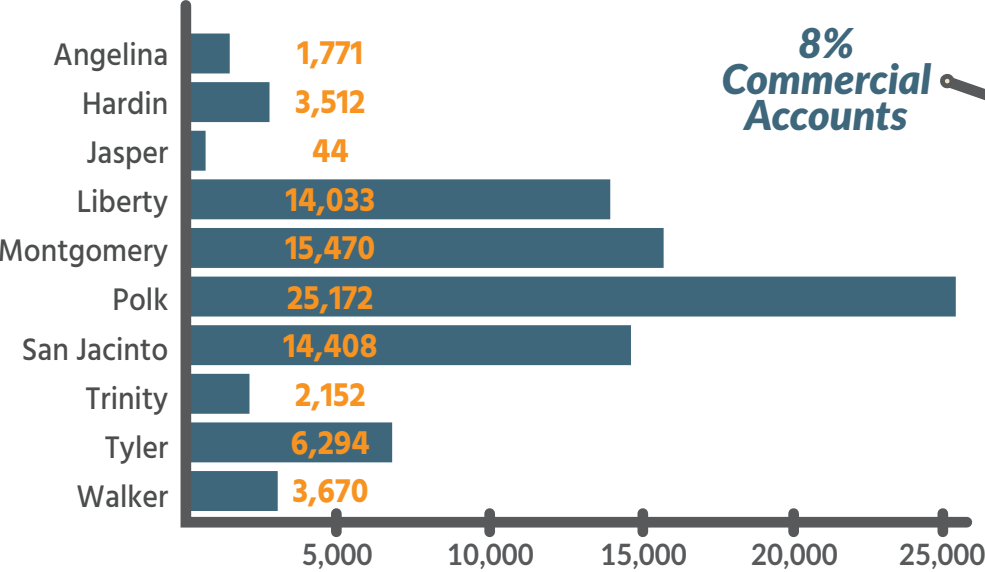


“Sam Houston Electric Cooperative will continue to focus on the best interests of our members by providing reliable electricity and excellent service.”

BY THE NUMBERS



METERS BY COUNTY



7,000 Miles of above-ground lines
1,400 miles underground


177,211 Poles

71,201 Transformers





mySamHouston App
36,000 devices



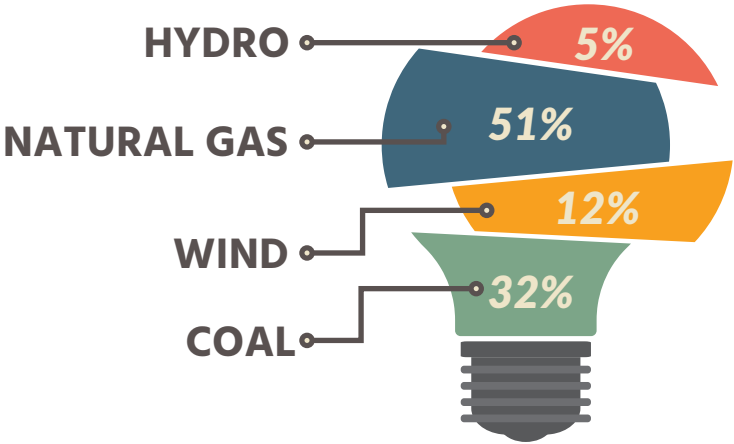
mySamHouston Portal
67% of members



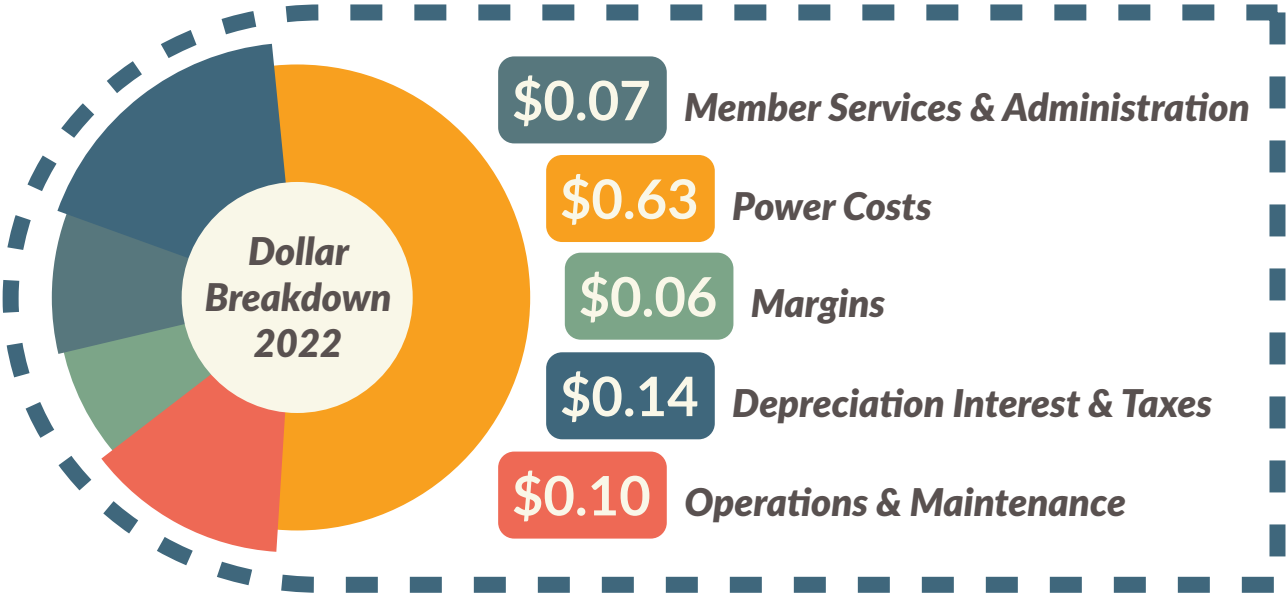
EASY PAYMENTS

MORE THAN 400
PAY SITES IN
EAST TEXAS
THROUGH OUR
PARTNERS FIDELITY
EXPRESS AND
VANILLA DIRECT





POWER PORTFOLIO 2022



COMMUNITY



Serving the Community

Sam Houston Electric Cooperative is driven by seven cooperative principles that come down to one focus: community. Many Sam Houston EC employees are also Co-op members who live in the rural communities the Co-op serves.

Employees give back by donating to our Helping Hands program. They voluntarily donate a portion of their paychecks to the program, and many employees make an additional donation via their Co-op electric bill each month. The funds are distributed to members in need of bill assistance.

Helping Hands has dispersed over \$490,000 since its creation and over \$16,000 in 2022 alone. Members can also join Helping Hands by contributing on their bills.



Sam Houston Electric Cooperative's scholarship program has helped nearly 800 local students to the tune of more than \$1.5 million since its beginning in 1992.

Each year, Sam Houston Electric Cooperative awards scholarships to high school seniors whose parents or guardians are active consumer-members of the Cooperative. The money that funds the scholarship program comes from unclaimed capital credits that are returned to the Cooperative by the State of Texas and earmarked for scholarships.

In 2022, Sam Houston EC awarded \$81,000 in scholarships to 30 graduating seniors. This is one of the Co-op's most impactful programs, and it comes with a great deal of work. Many of the Sam Houston EC board members and employees voluntarily give up evenings in May to go to high schools in our area and present the scholarships in person to the students. Ultimately, these employees, and the others who have helped this program in the past, see it as an important investment in the future of East Texas.

The Co-op also participated in countless community events, such as festivals, parades, 4-H and FFA shows as well as youth rodeos.

"I think these are great events that allow us to engage with our community as a whole," said Daniel Hilton, technical support specialist. "Whether you're a member or not, we are all a family, something I feel the Co-op truly embodies. We showed that we care and that we want to support our youth, their families and future members."



"Whether you're a member or not, we are all a family, something I feel the Co-op truly embodies. We showed that we care and that we want to support our youth, their families and future members."

EMPLOYEES

Retirements, Promotions and New Hires

Employees come and go in all businesses, but employees stay at Sam Houston Electric Cooperative because it's simply a wonderful place to serve and be a part of something special. When your Cooperative witnessed several retirements in 2022, more than 430 years of experience walked out the door one last time.

The Co-op appreciates the dedication of Curtis Allen, David Babcock, Jimmy Bond, Virgil Cain, Jeff Green, Terresa Langston, Tina Montalvo, Sherry Overstreet, Bo Richardson, Keith Stapleton and Bill Townley who retired in 2022. Each left indelible marks at the Co-op and with consumer-members.

Most companies would struggle to replace the amazing employees who retired, but Sam Houston EC is prepared to continue providing the same exceptional service members expect and deserve. Ongoing career training for employees, diligent planning and hiring great people have positioned the Co-op to continue its history of excellence.

"Our employees are our greatest asset. The people we ultimately choose to hire are directly linked to Sam Houston EC's overall success," said Dana Massey, director of administration. "The process is a collaborative effort, and there is no tried-and-true formula for hiring the perfect person every time. It's not always about the skillset a person has; we take into consideration a person's character, attitude, integrity and work ethic. Our goal is hiring people who add value to Sam Houston EC."

Hiring good people is only the start for Sam Houston EC employees. All positions require a significant amount of on-the-job training. Member service representatives need several months of training before becoming fully equipped to serve members with excellence.

"We do our best to make sure the new member services representatives feel prepared and that they are contributing," said Tami Ross, member service representative and trainer. "It's also important that the current MSRs have confidence that we've done our job as trainers, and they are getting good coworkers."

All Co-op employees are encouraged to take accredited courses from the National Rural Electric Cooperative Association and to attend conferences so future generations of Sam Houston EC employees can add to the legacy of great service.



"Our employees are our greatest asset. The people we ultimately choose to hire are directly linked to Sam Houston EC's overall success."

RELIABILITY



System Reliability Increases With Meter Growth

Sam Houston Electric Cooperative continued several projects throughout 2022 that improved the reliability of an electricity distribution system the approximate size of Connecticut.

The almost 5% growth in meters in 2022 is great for the eighth-largest electric cooperative in Texas. However, the tremendous growth also creates challenges on how to increase the reliability of the system.

The Co-op broke ground on construction of the Plum Grove substation in 2022. The substation will improve reliability to members in the southern portion of the service area by reducing voltage fluctuations and potential outages. This area is currently served by a seven-mile-long distribution line that passes through remote areas, making restoration efforts more difficult.

The Yukon Feeder Automation project expanded throughout the Co-op's southern area. YFA is best described as an automated self-healing grid system that isolates outages to the fewest number of meters without human intervention.

According to Engineer Connor Jenewein, a member may experience an outage of less than a few minutes as the self-healing technology redirects power from another source and ends the outage. Before YFA was installed in their area, those same members may have been without power for hours.

A voltage conversion project at the Rye substation expanded YFA capabilities by allowing three substations to be interconnected. Sam Houston EC and contractors manually changed the voltage on hundreds of pole-mounted transformers fed from the Rye substation, in addition to making changes within the substation to complete the project.

The Cooperative's Reliability Task Force is analyzing areas that would be a good fit for YFA implementation in the future.

“A member may experience a short outage... Before YFA was installed in their area, those same members may have been without power for hours.”

HIGH GROWTH EXPECTED

People Are Moving to Co-op Country

In 2022, Sam Houston Electric Cooperative's membership continued a steady increase, especially in Liberty and Montgomery Counties.

The overall proximity to Houston is driving considerable growth. More and more people want to move out of big cities to raise families in the rural areas of East Texas. This desire and the opening of the Grand Parkway East in Liberty County are the main causes for the Co-op's growth.

Services in Liberty County have experienced a growth rate of almost 11 percent in recent years. As more families move out of the city, the growth in the Co-op's service areas will continue to expand. The Co-op is also seeing membership growth in other portions of the service area, such as Polk, Montgomery and San Jacinto counties.

"The challenge with rapid growth is the cost of infrastructure to build new services," said Joe Conner, chief financial officer. "Price pressure on materials and higher interest rates result in growth being both a blessing and a challenge."

The increase in membership leads to increased density of meters, which is good for the Co-op and its members. Increased meter density leads to decreased cost per meter to maintain the distribution system.

As meter growth continues, more revenue follows. Increased revenue will support investments as the Co-op continues to serve more subdivisions today and beyond. The Co-op is prepared to continue serving new members with the same excellence that longtime members receive and expect from the Co-op in the Pineywoods.



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ACSI HIGHER THAN EVER

Sam Houston EC Earns Highest Customer Satisfaction Score in History

The American Customer Satisfaction Index gives Sam Houston Electric Cooperative an insight into its members perception of performance.

The ACSI score points to the Co-op's many strengths and provides feedback on opportunities for improvement. The Co-op's ACSI score of 92.5 for 2022 was the highest in the Co-op's history. It just edged the 2021 score by a fraction of a point.

The score is calculated by an independent survey company. Cooperative members are chosen randomly to respond to a phone survey. The members are asked four questions to rate on a scale from 1-10: How satisfied are you with Sam Houston EC? To what extent does Sam Houston exceed your expectations? How close is Sam Houston EC to the ideal electric company? If given a choice, how likely is it that you would choose Sam Houston EC?

"It is important we survey our members because it shows us how we are doing and what we need to improve on, which is essential to the Co-op," said Ricky Harrell, chief member services officer.



CYBERSECURITY

Sam Houston Electric Cooperative employees work to protect every consumer-member's information and its electrical distribution system.

Employees are regularly trained on security best practices set by the North American Electric Reliability Corporation, the payment card industry and the U.S. government. The training helps employees identify threats and common scam tactics.

Multifactor authentication is used to further secure devices and access to information on the Cooperative's system. This is when a user must enter both a password and a second form of identification. Furthermore, employees can access only the necessary portions of data to complete their specific work tasks.

Co-op physical locations and digital presences are actively monitored around the clock for any malicious activity. These protocols result in industry-leading efforts to keep information private and secure.



SAFETY

Safety Culture Top Priority on the Job and at Home

Safety is the number one priority of Sam Houston Electric Cooperative. Even in the toughest of situations, safety for Co-op employees and consumer-members is our primary focus.

The Co-op's training facility hosts several classes throughout the year. Instructors from Texas Electric Cooperative's Loss Control and Sam Houston EC share knowledge with attendees. Hosting the courses throughout the year allows the Co-op to work with other co-ops to reduce training costs, while advancing employee knowledge and skills.

"We recognize our employees are the best asset we have," said Gary White, director of safety and training. "It only makes sense to provide training so they can be the best they can be, and be safe doing it. We owe that to them, the Cooperative and our members."

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 comprised of frontline employees, managers and an executive, and helps guide the CI teams. The Safety Committee meets to review any accidents and propose safe practices moving forward.

The Co-op's office employees do not face the same hazards and dangers as the Co-op's linemen and other employees who primarily work outside. They also don't put in the miles on the road like our foresters or utility designers. However, safety is a culture and one that all employees participate in to create a true safety culture.

"It is not only important for our office employees to understand the hazards faced by our outside employees every day, but they also must understand workplace and home safety as well," said James Walker, head of the safety steering committee and member services supervisor. "Our goal is that everyone makes safety-conscious decisions at work as well as at home to ensure that we are best we can be for our families and consumer-members."



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 provides policy development, oversight and management across one of the largest electric cooperatives in Texas and the country as we mark 83 years of service. Made up of dedicated and 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 65,000 members, the Co-op's service area is divided into five districts. Mr. Robert Boyd, from Tyler County, serves as board president. The Co-op's 11 directors are elected by their fellow members to serve in the overall best interests of the Cooperative and all its members.



MIKE OLDNER
DISTRICT 1



CASEY EVANS DAVIS
DISTRICT 1



GARY JENKE
DISTRICT 2



KATHERINE HARDIN
DISTRICT 4



W.E. "ERNE" MILES
DISTRICT 5



DON BOYETT
DISTRICT 1



MILTON PURVIS
DISTRICT 1



JAMES ELMORE
DISTRICT 2



ROBERT C. BOYD
DISTRICT 3



CHUCK TURNER
DISTRICT 4



JIM SEALE
DISTRICT 5

FINANCIALS

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

ASSETS

2022

2021

Utility Plant:

Electric plant in service	\$637 193 039	\$ 598 946 595
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Construction in progress	25 978 231	13 894 390
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	663 171 270	612 840 985
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Less: accumulated depreciation	234 783 230	219 212 744
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NET UTILITY PLANT	428 388 040	393 628 241
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Investments in associated organizations, at cost	78 624 281	74 898 387
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Current Assets:

Cash and cash equivalents	7 020 469	6 781 419
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Restricted funds	958 328	984 738
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Accounts receivable (less provision for doubtful accounts		
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of \$139,837 in 2022 and \$106,573 in 2021)	28 250 319	20 100 563
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Materials and supplies (at average cost)	317 475	386 799
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Other current assets	693 826	664 603
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TOTAL CURRENT ASSETS	37 240 417	28 918 122
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Deferred charges	22 779 668	24 113 286
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TOTAL ASSETS

\$ 567 032 406	\$ 521 558 036
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CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

EQUITIES & LIABILITIES	2022	2021
Equities:		
Patronage capital	\$215 497 571	\$ 202 415 069
Other equities	156 290	156 290
Accumulated other comprehensive income (loss)	1 320 693	(427 333)
TOTAL EQUITIES	216 974 554	202 144 026
Long-term postretirement benefits liability	6 695 686	8 127 707
Long-term debt, less current maturities	284 459 294	261 062 353
Current Liabilities:		
Accounts payable and accrued liabilities	33 832 344	24 322 322
Current maturities of long-term debt	18 103 079	16 525 551
Current portion of postretirement benefits liability	326 136	199 148
Accrued interest payable	1 056 611	687 361
Consumers' deposits	2 817 398	2 474 374
TOTAL CURRENT LIABILITIES	56 135 568	44 208 756
Deferred Credits	2 767 304	6 015 194
TOTAL EQUITES & LIABILITIES	\$ 567 032 406	\$ 521 558 036

CONSOLIDATED BALANCE SHEETS

For the Years Ended December 31, 2022 and 2021

STATEMENT OF REVENUE & EXPENSE

2022

2021

Operating Revenues:

Sale of electricity \$ 235 222 243 \$180 543 711

Other electric revenues 8 873 755 7 670 797

TOTAL OPERATING REVENUES 244 095 998 188 214 508

Operating Expenses:

Cost of power 158 237 411 112 712 778

Transmission Expense 1 760 102 594 865

Distribution expense - Operation 6 108 921 6 166 523

Distribution Expense - Maintenance 16 718 790 16 137 121

Consumer accounts expense 7 256 943 5 795 871

Administrative and general expense 10 691 120 10 034 981

Depreciation expense 20 385 314 19 383 186

Taxes other than income taxes 3 021 403 2 724 218

OPERATING EXPENSES 224 180 004 173 549 543

OPERATING MARGINS BEFORE INTEREST EXPENSE 19 915 994 14 664 965

Interest on long-term debt and consumer deposits 10 422 608 9 410 241

OPERATING MARGIN (LOSS) 9 493 386 5 254 724

Generation and transmission capital credits 3 176 314 3 082 720

Patronage capital - Associated organizations 1 831 261 1 880 904

Nonoperating Margins:

Interest income 152 115 160 844

Other nonoperating income (expense) 69 707 246 078

TOTAL NONOPERATING MARGINS 221 822 406 922

NET MARGIN

\$ 14 722 783

\$ 10 625 270

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2022 and 2021

STATEMENTS OF COMPREHENSIVE INCOME

2022

2021

Net margin	\$ 14 722 783	\$ 10 625 270
Other Comprehensive Income:		
Actuarial gain (loss)	1 748 026	584 913
COMPREHENSIVE INCOME	\$ 16 470 809	\$ 11 210 183

STATEMENTS OF PATRONAGE CAPITAL & ACCUMULATED OTHER COMPREHENSIVE INCOME

	PATRONAGE CAPITAL	OTHER EQUITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2020	\$ 191 789 799	\$ 156 290	\$ (1 012 246)	\$ 190 933 843
Net margin	10 625 270	-	-	10 625 270
Other Comprehensive Income:				
Actuarial gain/(loss)	-	-	584 913	584 913
Balance, December 31, 2021	202 415 069	156 290	(427 333)	202 144 026
Net margin	14 722 783	-	-	14 722 783
Other Comprehensive Income:				
Actuarial gain/(loss)	-	-	1 748 026	1 748 026
Patronage capital retired - Net	(1 640 281)	-	-	(1 640 281)
Balance, December 31, 2022	\$ 215 497 571	\$ 156 290	\$ 1 320 693	\$ 216 974 554

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

STATEMENT OF CASH FLOWS

2022

2021

Cash Flows from Operating Activities:

Net margin	\$ 14 722 783	\$ 10 625 270
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Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:

Depreciation expense	20 385 314	19 383 186
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Noncash patronage allocation from associated organizations	(5 007 575)	(4 963 624)
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Accumulated provision for pensions and benefits	442 993	419 748
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Cash Provided by (Used for) the Change in:

Accounts receivable, net	(8 149 756)	(815 548)
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Materials and supplies	69 324	1 341 218
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Other current assets	(29 223)	(117 781)
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Deferred charges	1 333 618	(7 987 406)
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Deferred credits	(3 247 890)	2 444 886
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Accounts payable and accrued liabilities	9 510 022	(384 229)
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Accrued interest payable	369 250	23 260
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Consumers' deposits	343 024	(254 175)
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TOTAL ADJUSTMENTS	16 019 101	9 089 535
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NET CASH PROVIDED BY OPERATING ACTIVITIES	30 741 884	19 714 805
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Cash Flows From Investing Activities:

Capital expenditures for utility plant, net of retirements	(55 145 113)	(47 348 720)
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Net change in restricted cash	26 410	(42 224)
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Patronage retirements from associated organizations	1 281 681	1 278 237
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NET CASH USED IN INVESTING ACTIVITIES	(53 837 022)	(46 112 707)
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Cash Flows From Financing Activities:

Proceeds from long-term debt	40 429 694	31 500 000
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Payments of long-term debt	(16 525 531)	(14 590 953)
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Net change in lines of credit	1 070 306	10 429 694
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Retirement of capital credits	(1 640 281)	-
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NET CASH PROVIDED BY FINANCING ACTIVITIES	23 334 188	27 338 741
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INCREASE IN CASH AND CASH EQUIVALENTS	239 050	940 839
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Cash and cash equivalents at beginning of year	6 781 419	5 840 580
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CASH AND CASH EQUIVALENTS AT END OF YEAR	7 020 469	\$ 6 781 419
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Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for interest expense, net of capitalized accounts	\$ 8 632 829	\$ 7 966 452
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Noncash Investing and Financing Activities:

Net actuarial gain (loss) on postretirement benefit plan	\$ 1 748 026	\$ 584 913
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