

**South
River
Electric
Membership
Corporation**

2024 Annual Report

CEO's MESSAGE

CEO's Message



I am thankful to report that your Cooperative continues to perform well and is blessed. I want to recognize our outstanding team of employees for providing you with excellent service, and I thank the Board of Directors for

their support for the many goals, objectives and projects that have been presented for their consideration. Because we are owned by those we serve, we seek to be good stewards and to operate the Cooperative in ways that you would approve.

To help confirm your approval of our performance, we pay close attention to member satisfaction surveys. We use the American Customer Satisfaction Index (ACSI) as one way to measure member satisfaction. Two quarters in 2023, your Cooperative was recognized by Touchstone Energy for achieving ACSI scores in the Top 5 for energy utility services among all participating Touchstone Energy Cooperatives in the country. We obtained our highest ACSI score ever in one quarter last year, which was a 90. Regarding overall satisfaction, on a scale of 1 to 10, South River EMC scored above 9 in each quarter of 2023.

We continue to manage through different times. In recent years, besides inflation reaching a 40-year high, your Cooperative faces a number of other challenges/opportunities associated with COVID-19, supply chain issues, strong competition for employees in the midst of a labor shortage, the possibility of substation sabotage, cyber security threats, more demand for the services we provide and concerns associated with having a sufficient amount of electricity available, especially during times of peak demand in the summer and winter.

In 2021, at the Annual Meeting, I reported that we were getting closer to the time when we would need

to implement a rate adjustment. The last time South River EMC changed rates was in 2013. The biggest factor driving the need for an adjustment today is related to inflation. Inflation is costing your Cooperative millions. If we compare costs today to 2020, conductor/wire has gone up 102%, a pole mount 25 kVa transformer has gone up 79%, a padmount 25 kVa transformer has gone up 53% and a pole has increased in price by 28%. Inflation has improved, but we are still paying much more for goods and services along with interest on debt. Inflation has no doubt impacted you as well.

In 2023, we anticipated a slight shortfall in the revenue required to maintain the level of service that you expect and deserve. We responded by adjusting our budget and by implementing the Equalizer, which allowed the Cooperative to assess a per kilowatt hour fee on a month-to-month basis as needed. In April, we began with \$3.75 per 1,000 kwh. In June, the Equalizer was dropped to \$3 and in July, August, and September, it was reduced to zero. The last three months of the year the Equalizer was set at \$5 per 1,000 kwh and that is where it is at, at this writing.

A Cost-of-Service Study was completed by Booth and Associates, a third-party consultant, in 2023. This was done to analyze rates and revenue requirements. Two different presentations were made to the Board of Directors, and in December, the Board approved some adjustments that will go into effect in April.

As we anticipated a rate adjustment, it was previously communicated to you that an adjustment would be phased in over time to limit the impact on you. Our consultant found that over a three-year period, South River EMC would need an adjustment of 8.09%. As a reference and comparison, in 2013 the adjustment was 8.04% and in 2010 there was an adjustment of 8.69%. The primary change in 2024 is related to the monthly Grid Access charge.

For residential accounts, it will increase from \$25 to \$31, but energy charges will remain the same. This adjustment is in line with what other cooperatives in NC are currently assessing.

Similar changes will take place in other rate classes except in the case of the Large General Service rate. Under Large General Service, a slight adjustment will be made to the demand charge. Overall, the adjustment in 2024 amounts to 3.44%. More detailed

information about the change in rates was shared with you in the February edition of the Carolina Country magazine, in addition to information related to ways that you can cut energy costs. An email pertaining to the rate changes was also sent to those of you who have shared your email address with us.

Concerning reliability, South River EMC was blessed with another exceptionally good year. We use the System Average Interruption Duration Index (SAIDI) to measure performance in this area. I am pleased to report that if we exclude extreme storm events, your Cooperative ended 2023 with 44.9 minutes on average that members were without power. As a comparison, the state median in 2022, excluding extreme storm events, was 99.53 minutes.

South River EMC is continuously taking steps and investing in our system to improve reliability and security. In 2023, these efforts included ongoing construction of two new substations, Rebekah Evans and Benson; reconductoring projects; system maintenance; line clearance; underground cable replacements; pole testing and replacements; and more.

Furthermore, the Cooperative upgraded substation monitoring and surveillance. Moreover, the IT department completed the National Rural Electric Cooperative Association Co-op Cyber Goals program. Efforts are steadily taking place to improve our cyber security program and strategy, which include constant monitoring and blocking, vulnerability assessments, penetration testing and more.

One major concern I would like to share with you is related to new government regulations, which have been proposed by the U.S. Environmental Protection Agency (EPA). A final rule is expected this spring. Jim Matheson, CEO of the National Rural Electric Cooperative Association (NRECA), has been very vocal about growing concerns related to U.S. energy policy. In a January 5 op-ed titled: *Our Broken Energy Policy Could Leave Americans In The Dark*, he stated that “unfortunately, our country is now confronted with a harsh reality — we are quickly approaching a point where there won’t be enough electricity to go around.”

In the article, Matheson highlights reports from the North American Electric Reliability Corporation (NERC) that warn of threats to grid reliability and concerns that more frequent rolling blackouts could become the norm. Matheson said, “the EPA would require always available power plants to either deploy carbon capture technology or run on clean hydrogen in seven years, which has not been adequately demonstrated and is not achievable”. *For more information - electric.coop/for-media.*

Let us hope and pray that those responsible for U.S. energy policy will reconsider the plans being put into motion, which jeopardize affordable and reliable electric service. Reasonable, achievable and affordable solutions are needed as we all work together to reach agreed upon energy goals.

Looking at 2024, the addition of the Rebekah Evans Substation has already been completed and the new Benson Substation should be finished by the end of the year. Ongoing system maintenance will continue, including transmission pole replacements on the Wade-to-Jackson and the Herman Jackson-to-Timothy transmission lines; a couple substation upgrades will begin; reconductoring projects will take place; as well as ongoing line clearance, pole inspections and change outs. Through our partnership with the North Carolina Electric Membership Corporation, our power supplier, a 10 MW battery will be installed at the Butler Substation in 2024, which will assist with improving reliability.

As I conclude, I hope that you will take time to join us for our fourth virtual Annual Meeting on April 25. Adjustments have been implemented to the registration process, which should result in a better experience for you. In addition to the election of directors, reports will be provided by our President Dr. Sue Godwin-Baker and Treasurer Mr. George Williams. I will also provide an update on your local electric cooperative. Furthermore, you will have an opportunity to win various prizes, including a Grand Prize of a \$3,000 bill credit, one \$1,500 bill credit, and four \$1,000 bill credit prizes.

On a personal note, I know that many of you will be celebrating the resurrection of our Lord and Savior Jesus Christ on March 31. I join you in this celebration and hope your Easter is happy and blessed. He is not here; He has risen! – Luke 24:6. Additionally, I will complete 10 years serving as your CEO on May 1. Please know that I am here to serve you and I am grateful for the opportunity. Therefore, please do not ever hesitate to reach out to me if I can be of assistance to you. You can reach me at CEO@sremc.com or you can call my direct line at 910.230.2990.

FINANCIALS

Financials

Assets

Electric Plant at Original Cost	\$329,064,270
Less Depreciation	(84,171,630)
Net Plant	244,892,640
Cash	2,441,798
Investments	37,795,543
Accounts Receivable	10,696,529
Materials and Supplies	4,635,334
Prepayments, Accrued Assets & Deferred Debits	<u>779,440</u>
Total Assets	\$301,241,284

Liabilities

Long-Term Debt	\$126,857,898
Consumer Deposits	2,877,092
Accounts Payable	10,303,750
Deferred Credits	2,939,227
Other Liabilities	36,680,383
Membership Fees	44,520
Patronage Capital Other Equities	<u>121,538,414</u>
Total Liabilities	\$301,241,284

Operating Statement

Operating Revenue & Patronage Capital Expenses	\$108,485,246
Cost of Purchased Power	68,096,035
Distribution Expense Operations	2,329,839
Consumer Accounts Expenses	2,329,635
Customer Service and Information Expenses	2,296,630
Administration General Expenses	5,881,148
Maintenance Expenses	6,384,918
Depreciation Amortization	9,508,369
Taxes	1,543,144
Interest on Long-Term Debt	<u>5,135,891</u>
Total Cost of Electric Service	\$103,505,609

Margins

Operating Margins and Patronage Capital	\$4,979,637
Non-Operating Margins	185,677
Other Capital Credits and Patronage Dividends	<u>3,715,509</u>
Total Operating and Non-Operating Margins	\$8,880,823