

80

Years of
Transformation
1940-2020

Leadership



Board of Directors & CEO

(left to right) Dorcas Fisher, Treasurer George Williams, J.W. Simmons, President Dr. E. Sue Godwin-Baker, CEO Chris M. Spears, Jeffrey Martin, Secretary Clifton McNeill Jr. and Sue Flowers. Seated: Wayne Collier Jr. and Vice President Kelly Harrington

Our Vision

Achieving Excellence,
Empowering Members

Our Mission

South River EMC is a premier, locally owned and operated electric cooperative with a mission to provide safe, reliable competitively priced electricity. We are committed to achieving excellence and empowering our members. We are dedicated to high standards of performance and integrity. The Cooperative's number one priority is our members.

Financial Highlights - 2019

Assets

Electric Plant at Original Cost	\$ 272,201,547
Less Depreciation	<u>68,815,701</u>
Net Plant	\$ 203,385,846
Cash	2,499,562
Investments	29,154,571
Accounts Receivable	16,091,052
Materials and Supplies	3,338,253
Prepayments, Accrued Assets & Deferred Debits	<u>331,588</u>
Total Assets	\$ 254,800,872

Liabilities

Long Term Debt	\$ 99,194,790
Consumer Deposits	2,680,754
Accounts Payable	8,839,656
Deferred Credits	4,113,337
Other Liabilities	35,059,634
Membership Fees	52,610
Patronage Capital Other Equities	<u>104,860,091</u>
Total Liabilities	\$ 254,800,872

Operating Statement

Operating Revenue & Patronage Capital Expenses	\$ 99,001,575
Cost of Purchased Power	61,728,254
Distribution Expense Operations	1,890,764
Consumer Accounts Expenses	2,399,322
Customer Service and Information Expenses	2,891,575
Administration General Expenses	5,611,658
Maintenance Expenses	4,993,039
Depreciation Amortization	8,266,356
Taxes	1,515,461
Interest on Long-Term Debt	<u>3,645,203</u>
Total Cost of Electric Service	\$ 92,941,632

Margins

Operating Margins and Patronage Capital	\$ 6,059,943
Non-Operating Margins	449,396
Other Capital Credits and Patronage Dividends	<u>2,613,271</u>
Total Operating and Non-Operating Margins	\$ 9,122,610

*Unaudited

CEO's Message

80 Years of Progress

It is an understatement to say that a lot has happened in the last 80 years. Commercial television and now smart TVs, putting a man on the moon, widespread use of central air conditioning, microwave ovens, the availability of home computers, invention of the world wide web, the rapid adoption of cell phones, smart phones, and iPads, the growth of social media, affordable electric vehicles that have plenty of power and can travel more than 200 miles before recharging and so much more.

As we reflect on our history, it is important to remember why electric cooperatives were formed. Free markets are beneficial and important to us all but they can limit investment in a service that is necessary but not profitable. If it isn't profitable to provide a service, the free market typically will not provide it. An example today is broadband availability. Rural areas lack adequate broadband, which has been available in cities for years, because for-profit companies do not want to serve an area where they may not make a profit. This has been taking place for years and it was the same situation rural America faced in the 1930s concerning electric service. At that time, only around 10 percent of rural America had access to electricity and where it was available, it was very expensive.



CEO Chris M. Spears

Thankfully, the federal government intervened on behalf of rural America. In 1935, President Franklin D. Roosevelt created the Rural Electrification Administration (REA) and made federal funds available to encourage the provision of electricity in rural areas. Investor-owned utilities were encouraged to take advantage of federal assistance through the REA but they were not interested in serving rural areas. However, there was a strong interest from farmer-based cooperatives. In 1937, the REA drafted the Electric Cooperative Corporation Act, which enabled the formation of not-for-profit, consumer-owned electric cooperatives.

The electric cooperative model is the best, I believe, for providing an essential service such as electricity. It is “members first, every day” or as I like to say, “it is all about the member.” It always has been and always will be. Electric cooperatives were formed to provide at-cost electricity in unserved or underserved rural areas of America. Some say nothing transformed rural America the way electricity did. It brought about a better way of life for those living and working in rural America. We strive to exceed member expectations because we are truly owned by those we serve.

As we consider the transformation of South River EMC over the last 80 years, I thought that it would be interesting to consider the following statistics and information. It should be noted that in going back 50 years, 60 years and all the way back to 80 years, some of the data may not be exact but we are confident that it is close.

After the first five years, the Cooperative was serving 1,495 meters. By 1950 that number had grown to 6,565 and after 25 years, the Cooperative was serving 10,877 meters. By 1990, after 50 years, the number of meters served had grown to 25,992. In 2015, when the Cooperative celebrated its 75th anniversary, South River EMC was serving 43,706 meters. Today, the Cooperative is serving 44,706 meters. You may be interested to know that there are more than 800 electric distribution cooperatives in the country and South River EMC is ranked the 106th largest in the United States of America.

In 1945, South River EMC residential members used an average of only 49 kilowatt-hours (kWh) per month. By 1950, that number more than doubled to 116 kWh. In 1965, the average residential member used 550 kWh per month and that number almost doubled by 1990 when the average consumption amounted to 1,073 kWh. In the last 30 years, the average has increased to 1,285 kWh per month.

CEO's Message

For decades, with more members using more electricity, South River EMC experienced significant increases in energy sales. In more recent years, energy-efficiency advancements have helped to slow down electric consumption. In 1945, after five years, electricity sales totaled 78,833 kWh for the entire system. After 10 years, sales jumped to 860,351 kWh. In 1965, when the Cooperative celebrated its 25th anniversary, sales had grown to 71,304,205 kWh, an increase of 8,200 percent. From 1965 to 1990, that number increased five times to 355,038,118 kWh. By 2015, total sales more than doubled to 800,000,000 kWh annually and in 2019, total sales amounted to 818,321,591 kWh. South River EMC ranks 140th in the United States for top energy sales among the 800 plus distribution cooperatives.

With the growth in members as well as energy use, came the demand for more utility plant, which included more miles of line and more substations. In the first five years of South River EMC's history a total of 557 miles of line had been built and the total utility plant amounted to \$380,000. By 1950, 1,500 miles of line had been completed and total utility plant had grown to \$2 million. At the conclusion of 25 years in 1965, total utility plant amounted to \$5.7 million and the miles of line had increased to 2,385. A total of nine substations had also been built by that time. By 1990, South River EMC had almost 4,000



miles of line and the total utility plant was valued at \$46.9 million. Thirty years later our total utility plant is valued at \$272 million and we have 4,735 miles of line along with 30 substations.

Because of the growth in members, combined with more members using more electricity, the amount of money spent on buying power also increased. In 1965, South River EMC paid \$586,559 for the power it used and the average rate charged for residential use amounted to 1.89 cents per kWh. By 1990, the cost of power purchased had risen to \$22.5 million and the average rate being charged per kWh for residential use had increased to 11.29 cents. In 2019, the cost of purchased power was above \$60 million and the average residential rate is currently around 12.7 cents per kWh. The Cooperative has expenses on top of the electricity being purchased on behalf of our members, which include investments in the distribution and transmission system, maintenance, equipment, billing, administration and more. In 2019, total revenues for the Cooperative amounted to more than \$99 million compared to \$31 million in 1990 and \$253,386 in 1950.

As a not-for-profit, member-owned and controlled electric cooperative, excess margins are allocated and returned to the member over time. South River EMC began retiring Capital Credits on a regular basis under a 19-year retirement cycle in the 1960s. In 1965, more than \$165,000 in Capital Credits was retired. By 1990, the number had grown to \$428,453. In 2015, South River EMC retired \$3.3 million in Capital Credits. In 2016, South River EMC began retiring

CEO's Message

under a hybrid approach. In addition to retiring Capital Credits on a 19-year cycle, the Cooperative now retires between 20 and 25 percent of the previous year's allocation. Previously, only around 33 percent of active members received a Capital Credit retirement. Under the hybrid approach, essentially, everyone who received electric service in the preceding year is now receiving a Capital Credit retirement. Consequently, the amount being retired has increased. In 2019, \$5.4 million was retired.

Another item of interest is the number of people employed by South River EMC. In 1945, there were 24 employees after the first five years. That number grew to 37 in 1950 and 41 in 1965 after 25 years. By 1990, South River EMC was up to 90 employees and in 2015 it had 107, which is the same number it has today. It is interesting to note that between 1965 and 1990, the number of meters grew by 15,115 and the number of employees increased by 49. However, between 1990 and 2019, the number of meters increased by 18,714 and yet only 17 employees were added during this time. I believe it is evident that South River EMC is accomplishing more than ever with fewer employees. Better equipment and technology have certainly helped.

The first bucket truck purchased by South River EMC was a used unit and the cost was approximately \$50,000. Today, the cost of a bucket truck is more than \$250,000. It was in 1970 that bills were printed by a computer for the first time. The first in-house computer system for customer/member information and financial information was obtained in 1981. In 1995, the Cooperative had one personal computer at each of its three offices. In 1997, South River EMC started using email. In 1999, South River EMC hired its first full-time IT employee. In 2003, the Cooperative began to use digital mapping and staking. In 2006, the first firewall was installed to prevent unauthorized access to the network. In that same year, automatic vehicle location was implemented and the first smartphone was purchased, which was a Blackberry. In 2007, South River EMC began deployment of its automated meter reading system. Note: it was in 1990 that South River EMC began using meter readers. In 2010 the Cooperative started utilizing an interactive-voice-response system (IVR) and the next year it installed an outage-management system. In the last three years, all of the linemen have been provided laptops and smartphones. All of the substations have been equipped with security/surveillance systems as well. The investment in equipment and technology have allowed your Cooperative to operate more efficiently.

In regard to offices, the original office and warehouse were located side by side in Stedman. In 1941, South River EMC moved to a new office in Stedman. In 1950, the headquarters relocated to Broad Street in Dunn. A district office opened in Stedman in 1956. A second district office opened in Eureka in 1970. In 1974, a new district office was constructed in Stedman. In 1979 another district office was built in Spring Lake. In 2000 a new headquarters was completed on highway 421 South in Dunn. In 2005, the Spring Lake and Stedman offices were combined and a new district operations center was constructed on Ramsey Street in Fayetteville.



Photo taken on June 1, 1950, at the new headquarters in Dunn. Pictured: (back) Emmett Byrd, Electrification Advisor, Jack Hall, Mildred Clark, Percy Strickland, (front) Letha Wells, Mattie Bunce and Barbara Layton

CEO's Message



Retired employee Bill Autry

As I said at the beginning, a lot has happened in the last 80 years. I can assure you that our commitment to the member has never been stronger. When you consider that the average residential rate in 1990 was 11.29 cents per kWh and today it is 12.7 cents per kWh and during the same time wholesale power costs increased from \$22.5 million in 1990 to more than \$60 million in 2019, I believe it is evident that your electric cooperative has held the line on rates. We have gone more than six years now without a rate increase and we hope to go at least seven years. Additionally, under the hybrid approach to retiring Capital Credits, your Cooperative is retiring more than ever and quicker than ever. Furthermore, member credits in 2017 and 2018 amounted to \$5.5 million. In 2019, a \$3 million power-cost rebate was implemented. All this has taken place without mandates or a decision handed down by a utilities commission.

I believe your Cooperative is operating well and it has truly been blessed. Apparently, most of you agree that it is operating well as we have experienced an improvement in member satisfaction scores. Overall, member satisfaction is 9.01 on a scale of 1 - 10, with 10 being the highest. South River EMC received an 87 in the fourth quarter of 2019 on the American Customer Satisfaction Index (ACSI), which is another benchmark that we track. In fact, your Cooperative is outperforming the highest ranked investor-owned utility in the country and the highest ranked municipal system in the country. According to the Touchstone Energy Cooperatives National Survey on the Cooperative Difference, which was conducted last fall, the North Carolina cooperatives received an average score of 84 on the ACSI. Two North Carolina cooperatives obtained an ACSI score of 89 and one electric cooperative in another state obtained a 92 recently. South River EMC is definitely in the top tier when it comes to member satisfaction. Nonetheless, we constantly strive to do even better.

As I conclude, I always like to commend our employees for the outstanding job that they do. According to the most recent member satisfaction survey, South River EMC received a 9.29 on a scale of 1 - 10, with 10 being the highest, for having competent and knowledgeable employees. It is an honor and a privilege to serve as your CEO and I hope you see the cooperative difference as we celebrate 80 years of making life better for those we serve.

The board of directors and board attorney meeting to discuss the business of the Cooperative at the "new" headquarters office in Dunn around 1950.



Annual Report
South River Electric Membership Corporation