

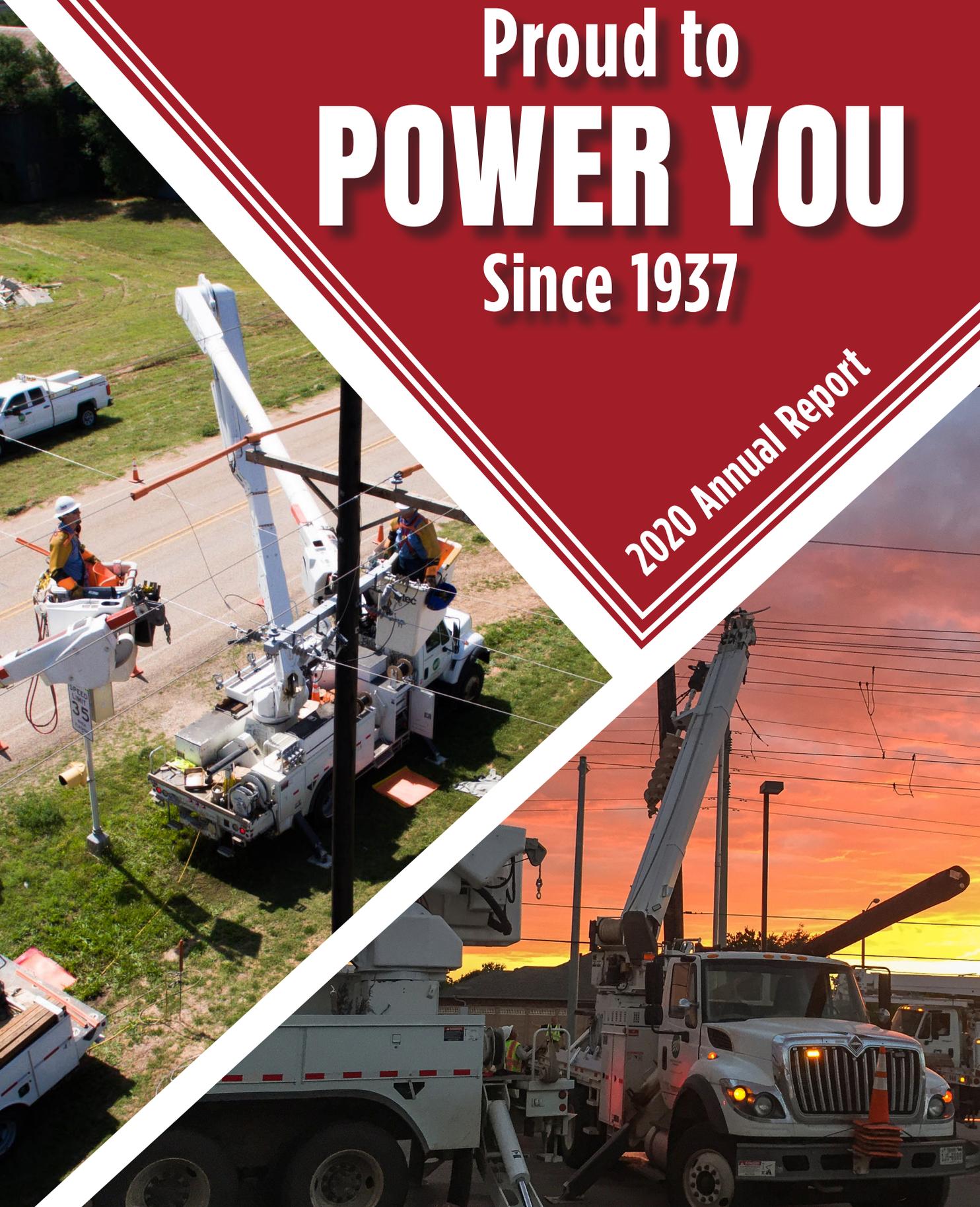


South Plains Electric
Cooperative, Inc.

Your Touchstone Energy® Cooperative 

Proud to POWER YOU Since 1937

2020 Annual Report





OPERATION ROUND-UP

Neighbors helping Neighbors

Operation Round Up has disbursed more than \$1 million to local organizations and individuals since its inception in 1993. More than \$113,000 was disbursed in 2020 alone.

What is Operation Round Up?

This innovative program is a community outreach project that helps local organizations and individuals who need a hand up, not a hand out.

The money in the fund comes from members of South Plains Electric Cooperative who round up their monthly bill to the nearest dollar. When enrolled, the billing program automatically rounds up your monthly bill and deposits the difference into the Operation Round Up account. The average annual contribution is only \$6 per meter (and it's tax deductible)!

Nine members, your neighbors, sit on the Operation Round Up Board. They review applications and approve grants. They are also the eyes and ears in your community for potential projects.

Your contribution can:

- send children to camp;
- buy food for families in need;
- help with medical emergencies;
- help rebuild a family's life after a fire;
- award scholarships;
- make a life tragedy less traumatic.

Operation Round Up is about neighbors helping neighbors.

Financial Statement

South Plains Electric Trust

Year Ending 2020

Beginning balance 1/1/20.....	\$72,656.40
2020 member deposits	\$123,710.22
Employee & SPEC donations.....	\$35,863.79
Interest income.....	\$96.55
Checks issued.....	\$113,089.52
Balance 12/31/20.....	\$119,237.44

Board of Trustees

- Shea Adrian, Shallowater, Pres.
- Patricia Reynolds, Lubbock, VP.
- Brenda Karr, Dickens, Treas.
- Rita Tucker, Paducah, Sec.
- Angela Arthur, Ralls
- Kyle Benson, Hale Center
- Cindy Buxkemper, Lubbock
- Tracey Gregory, Lubbock
- Ginger Wetzel, Ransom Canyon



Thank you for your desire to support all students and allowing me the opportunity to make a life-long difference in my students' lives!

Sharla Powell, Roosevelt Elementary
2020-2021 Mini-Grant Recipient

2020 YEAR IN REVIEW

Seeing is never believing: we interpret what we see in the light of what we believe.

—Wisdom from Oswald Chambers

I really love this piece of wisdom, especially when I apply it to the year of 2020. We entered 2020 facing the prospect of a pandemic. Having never experienced a pandemic, personally or while managing a business, I believed we were ready. We reviewed the pandemic plan that is part of our comprehensive Emergency Operations Plan. Our interpretation, based on what we knew about pandemics, was that we believed we were ready.

Fast forward to 2021. Our interpretation, based on what we now know about pandemics, is that we were ready and your Cooperative had a successful year, in spite of the pandemic. Here are some of the ways we are defining a successful year.

We are an **ESSENTIAL BUSINESS** every day, not just during a pandemic. The pandemic plan we had going into 2020 gave us a solid foundation for protecting the health of our employees and members while still keeping the lights on. But the plan has vastly improved from this real-world experience.

Because we are a locally-owned and governed cooperative business, we were able to make new decisions daily to keep this essential business operating. We didn't have to consult with board members who were scattered out across the country or worry about returning a profit to distant shareholders. All 12 board members live locally in the communities we serve. They were accessible daily and gave us vital input on how to keep all of our communities safe, while keeping the lights on.

We knew our first concern was **HEALTHY EMPLOYEES**. We must have healthy employees reporting to duty every day to keep the lights on. Every decision we made seemed hard, but temporarily closing our lobbies in March was at the top of the list. Our connection to our members is at the heart of this cooperative business and has been for 84 years. Our members graciously understood and appreciated how we cared about employee and member safety. The positive outcome is more members learned all of the other ways we are available to them. Our drive-thru in Lubbock and payment drop boxes at every service office continued to serve our members who like doing business in person. Cash-paying members used our CheckOut program to pay at any Dollar General, Family Dollar or CVS. A record number of members continue to use our online bill pay and the SPEC App. And we never stopped answering the phone.

The second layer of healthy employees involved **WORKING FROM HOME**. At least that was the case for our office personnel. Our IT department successfully moved over 50 employees to home work stations. Member service represen-

tatives continued to serve member needs from the safety of their homes, including securely taking payments. Our outside crews didn't have the work-from-home opportunity, but they ably modified every procedure—from picking up material to riding to the job site to doing tailboards to completing each job—safely. The consequences of having a whole construction crew out for at least 14 days motivated everyone to make adjustments to keep the lights on.

What was the **FINANCIAL IMPACT**? Your Cooperative had a strong financial year with operating margins up 48%. We lost revenue with oil prices at historic lows and production down, schools closed and businesses operating at reduced levels or closed. We gained enough revenue from our residential members being at home to more than offset any losses. Our irrigation load was at normal levels. The balance sheet on the next page gives you all of the details. We have returned over \$50 million in capital credits to our members, and the board will be making a decision for this year after their strategic planning session in September.

As if the pandemic didn't test our mettle enough, we conquered a historic **WINTER STORM**. Ice Break Billy hit us in October 2019. The ice and wind damage to the system was massive, but we design our system to serve members from more than one direction in most cases. In three days, we had service restored to every residential member, one way or another. It took a week to restore service to oil and irrigation load, and months to clean up the debris. Another historical storm, Winter Storm Uri, visited us in February of this year. This story is still being written, so we'll save those details for next year's report.

No matter how good our financials look or how well we keep the lights on, no year would be a success if we fail our **LOCAL COMMUNITIES**. We annually support hundreds of activities and events in our local communities, because it improves the quality of life for our members. And we live in these communities, too. With fundraising events canceled, we still contributed our budgeted amounts so these groups could continue to serve our communities.

If we truly do interpret what we see by what we believe, I see an **EVER-BRIGHTENING** future for South Plains Electric because I believe in the cooperative business model and the members we serve.

DALE ANCELL
General Manager



Bobby Richey
President



Financials

CONDENSED BALANCE STATEMENT

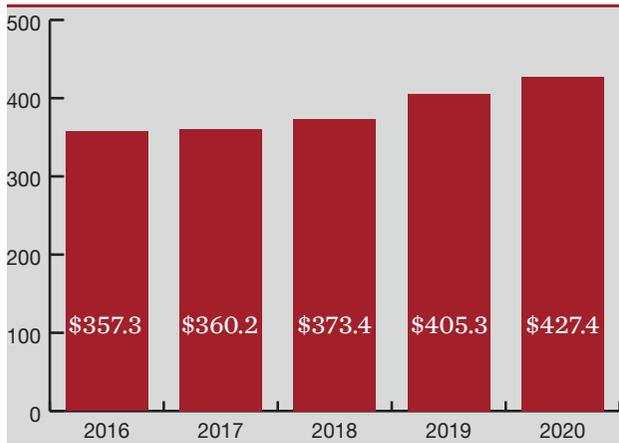
	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
ASSETS— <i>What we own</i>		
Total cost of system	\$366,526,528	\$362,584,329
Estimated depreciation	(104,622,651)	(101,937,788)
Net value of system	<u>\$261,903,877</u>	<u>\$260,646,541</u>
Cash/temporary investments	\$10,408,556	\$8,499,692
Investments	129,968,432	120,783,898
Accounts receivable	23,884,049	14,201,609
Value of materials & supplies	14,976	30,593
Advanced payments	1,189,594	1,131,798
TOTAL ASSETS	<u><u>\$427,369,484</u></u>	<u><u>\$405,294,131</u></u>
LIABILITIES— <i>What we owe</i>		
Long-term debt	\$173,644,471	\$164,645,876
Materials, taxes, insurance	36,789,701	39,224,979
Other liabilities & credits	15,577,048	14,103,666
EQUITIES		
Deposits & memberships	\$649,279	\$884,765
Total members' equity	200,708,985	186,434,845
TOTAL LIABILITIES & MEMBERS' EQUITY	<u><u>\$427,369,484</u></u>	<u><u>\$405,294,131</u></u>

CONDENSED INCOME STATEMENT

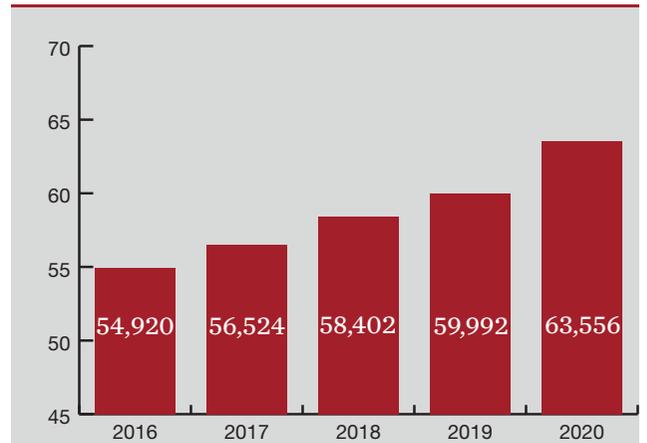
	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
REVENUES		
Electric energy sold	\$139,103,772	\$135,045,046
TOTAL ELECTRIC REVENUE	<u>\$139,103,772</u>	<u>\$135,045,046</u>
EXPENSES		
Electric power cost	\$90,816,715	\$90,325,739
Operating expenses and taxes	22,748,180	20,549,710
Estimated system depreciation	9,396,839	10,468,586
Interest on long-term debt	6,884,673	7,439,530
TOTAL EXPENSES	<u>\$129,846,407</u>	<u>\$128,783,565</u>
OPERATING INCOME (LOSS)	9,257,365	6,261,481
Non-operating income	10,133,642	15,863,495
NET MARGINS	<u><u>\$19,391,007</u></u>	<u><u>\$22,124,976</u></u>



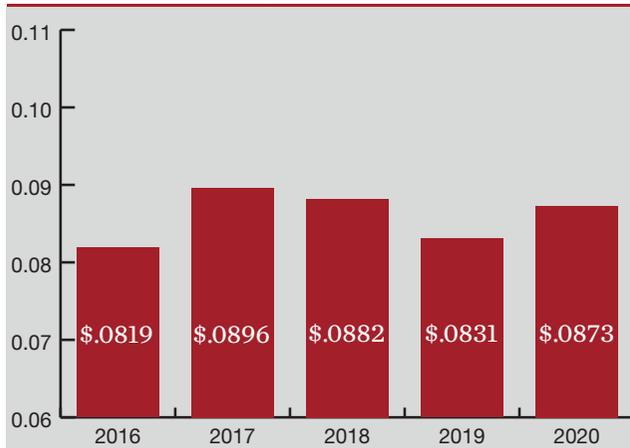
Total Assets *(in millions)*



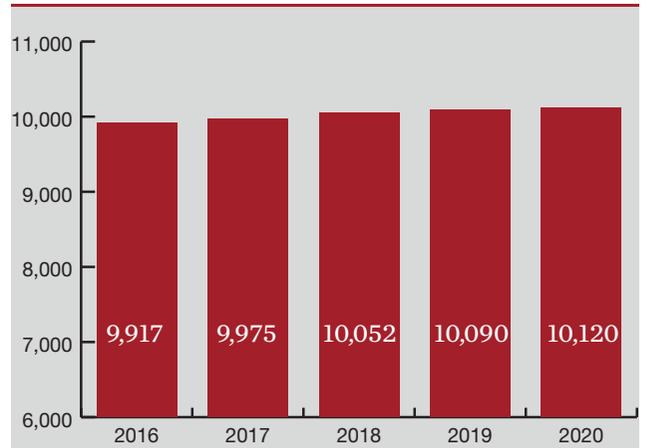
Number of Electric Meters Served



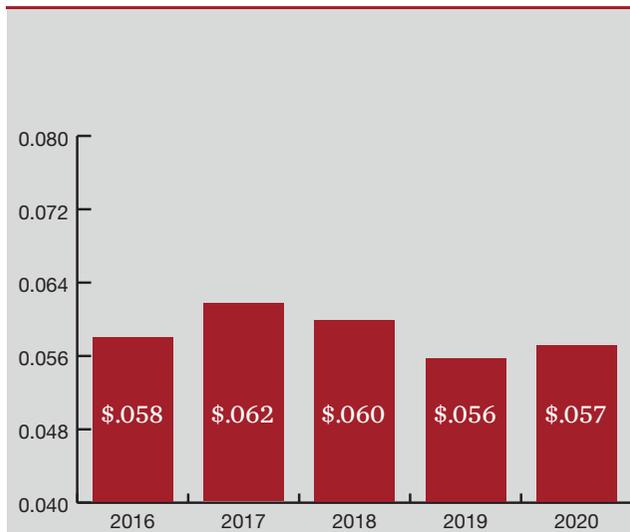
Members' Average Cost Per kWh



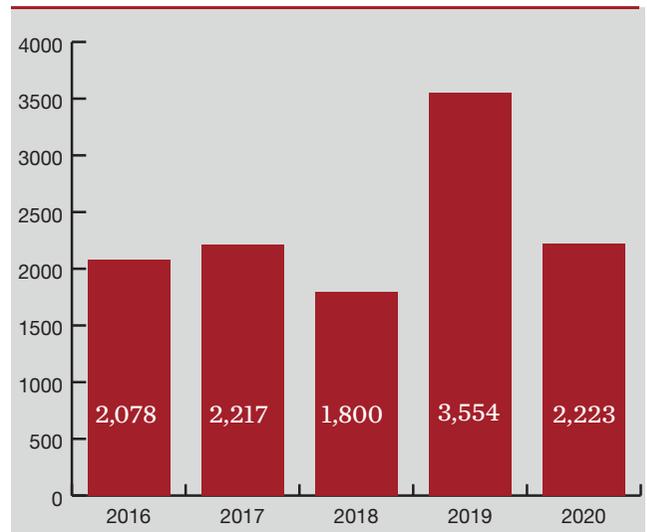
Miles of Line



Wholesale Power Cost Per kWh Sold



New Services Constructed



BOARD NOMINEES FOR 2021

Local People Serving Your Local Cooperative

Rynn Truett

District 3 Nominee | Idalou

Education: Idalou High School graduate; Texas Tech University graduate with a B.S. in human sciences.

Current Occupation: Semi-retired after farming for 38 years.

Family: His wife is Jane, and they have two sons and daughters-in-law. The Truettts are members of the Idalou First Baptist Church.

Qualifications and Experience: Rynn has served on the South Plains Electric Cooperative Board for six years and is a Credentialed Cooperative Director as certified by NRECA. Additionally, Rynn has served on the Cooperative Member Services Board, the High Plains Underground Water District Board and the Idalou School Board. He has also served on committees for the High Plains Underground Water District, the F.S.A. County Committee, Lubbock County Farm Bureau and the Idalou Stock Show Committee.

Bobby Richey

District 5 Nominee | Wolfforth

Education: Seminole High School graduate.

Current Occupation: Has been farming in the Wolfforth area since 1960.

Family: His wife is Anne. The Richeys are members of the First United Methodist Church in Wolfforth.

Qualifications and Experience: Bobby has served on the South Plains Electric Cooperative Board for 39 years. He served as Assistant Secretary-Treasurer for 28 years, as Secretary-Treasurer for six years and as President for two years. In addition to his Co-op service, Bobby served on the Frenship School Board for 13 years and was a member of the Lubbock Police Advisory Board. He was also an officer for the Young Farmers organization for two years.

R.D. McCallister

District 7 Nominee | Acuff

Education: Roosevelt High School graduate; attended Texas Tech University.

Current Occupation: Retired after farming for 52 years and selling insurance for 32 years, though he still works part time for Germania Insurance.

Family: His wife is LaHonda, and they have three children and eight grandchildren. The McCallisters are members of Canyon United Methodist Church where he serves as chairman of finance.

Qualifications and Experience: R.D. has served on the South Plains Electric Cooperative Board for 52 years. He has 48 years of service as either President or Vice President of the board and is a Credentialed Cooperative Director as certified by NRECA. Additionally, R.D. served on the Acuff Co-op Gin Board and the Farmers Co-op Compress Board.

Brent Whitaker

District 12 Nominee | Childress

Education: Motley County High School graduate; attended South Plains College.

Current Occupation: Owner/operator of Brent Whitaker Drilling.

Family: His wife is Teresa. They have two sons: Dusty and David. The Whitakers are members of the Childress Church of Christ.

Qualifications and Experience: Brent has served on the South Plains Electric Cooperative Board for one year. In addition to his Co-op service, Brent also farms, ranches, serves as Vice President of the Gateway Groundwater Conservation District and served two years with the Motley County Soil and Water Conservation District.



District 1
Joe McFerrin

Cotton Center
Term expires 2022



District 2
Danny Stanton

Vice President
Shallowater
Term expires 2022



District 3
Rynn Truett

Assistant Secretary-Treasurer
Idalou
Term expires 2021



District 4
Lloyd Arthur

Ralls
Term expires 2023



District 5
Bobby Richey

President
Wolforth
Term expires 2021



District 6
David Gossett

Slaton
Term expires 2023



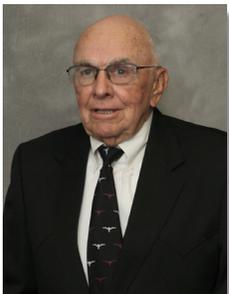
District 7
R.D. McCallister

Acuff
Term expires 2021



District 8
Benny Nixon

Lubbock
Term expires 2022



District 9
Glenn Jones

Spur
Term expires 2023



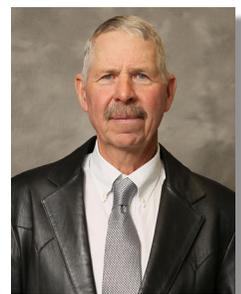
District 10
Scott Martin

Secretary-Treasurer
Spur
Term expires 2022



District 11
Larry Browning

Childress
Term expires 2023



District 12
Brent Whitaker

Childress
Term expires 2021

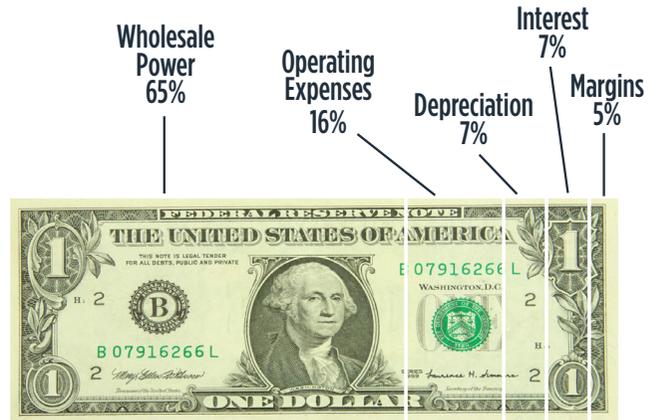
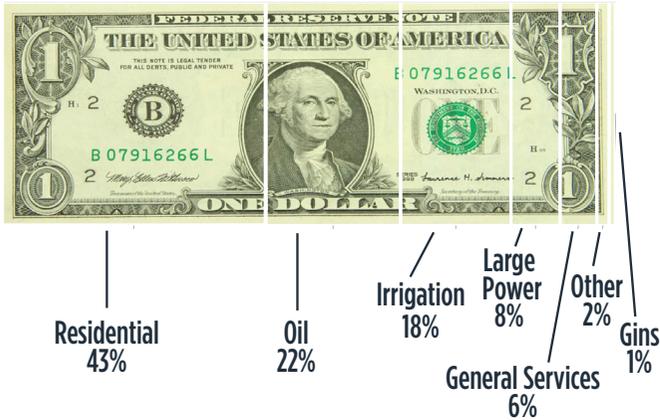
THE BOARD OF DIRECTORS IS COMMITTED TO SERVING YOU

As the utility industry enters an area of change, when people have more choices for the way they receive electricity, it is critically important that we hear your voice and the voices of the most diverse group of members. Through active engagement and participation of the membership, the Co-op can ensure it is leading in a direction that the members will want to follow.

In addition to ensuring the Co-op serves in the best interests of its members, the board is committed to keeping our local communities vibrant. Being a Co-op board member requires a real commitment of time and effort and an attitude of being a servant leader, meaning board members should want to engage and make a real contribution to the membership and community.

Your Dollar at Work in 2020

How your dollar was earned



How your dollar was used

What are Capital Credits?



Because South Plains Electric Cooperative operates at cost, any excess revenues, called margins, are returned to members in the form of capital credits, when the Cooperative's finances permit.

5 SPEC notifies you of how and when you'll receive your capital credits retirement.

1 SPEC tracks how much electricity you buy and how much money you pay for it throughout the year.

2 At the end of the year, SPEC completes financial matters and determines whether there are excess revenues, called margins.

South Plains Electric has retired over **\$50 million** to members over the years.

4 When SPEC's financial condition permits, the board of directors decides to retire, or pay, the capital credits.

3 SPEC allocates the margins to members as capital credits, based upon their use of electricity during the year.

Frequently Asked Questions About Capital Credits

Retiring capital credits is a unique business practice that allows cooperatives to give back margins. That process is just one part of the co-op difference, but oftentimes capital credits are misunderstood. To better educate our members about capital credits, we have listed some frequently asked questions and answers.

Q: What are capital credits?

A: Capital credits are one of the many benefits of co-op membership. As a cost-of-service energy provider, South Plains Electric doesn't earn profits. Instead, co-ops use the term margins, which is revenue remaining at the end of the year after all bills are paid. Capital credits reflect each member's equity in, and contribution of capital to, the cooperative.

Q: What's the difference between allocation and retirement?

A: An allocation is your share of the margins. We set this money aside to use as operating capital for improvements and maintenance; it also helps the co-op meet equity ratios with lenders. A retirement is the amount you receive in a check or as a credit on your bill. It is a percentage of your allocations accumulated over the years.

Q: What happens to the capital credits of a member who dies?

A: It remains in place for the member's heirs. A representative of the estate must keep contact information current with the Co-op.

Q: Why does the cooperative need to accumulate equity?

A: Your equity in the co-op reduces the need for us to raise rates or borrow as much money to meet expenses. Every business must have equity to continue to survive.

Q: What happens to my capital credits if I move?

A: Your capital credits remain on our books until they are retired. That's why it's important to let us know of any address changes.

Q: Where does the money come from?

A: Co-ops set rates to generate enough money to pay operating costs, make payments on any loans and provide an emergency reserve. At the end of each year, we subtract operating expenses from the operating revenue collected during the year. The balance is called an operating margin.

Q: Are capital credits retired every year?

A: Each year, your board of directors decides whether to retire capital credits, based on the Co-op's financial health. SPEC's ability to retire capital credits reflects the Cooperative's strength and financial stability.

YEAR	ASSIGNED	REFUNDED	BALANCE
1943-1981	\$18,572,994	\$18,572,994	\$0
1982	218,729	218,729	0
1983	1,403,483	1,403,483	0
1984	1,374,597	19,024	1,355,573
1985	350,876	4,077	346,799
1986	1,056,198	722,117	334,081
1987	1,505,790	844,353	661,437
1988	3,133,657	984,707	2,148,950
1989	2,528,682	202,381	2,326,301
1990	2,736,214	160,788	2,575,426
1991	1,868,144	117,220	1,750,924
1992	1,176,201	1,266	1,174,935
1993	2,464,490	826,855	1,637,635
1994	3,685,766	765,002	2,920,764
1995	1,844,320	581,651	1,262,669
1996	2,029,555	547,448	1,482,107
1997	2,312,246	513,353	1,798,893
1998	2,194,221	518,165	1,676,056
1999	738,480	738,480	0
2000	1,166,968	573,728	593,240
2001	0	0	0
2002	2,220,225	1,203,343	1,016,882
2003	4,342,985	2,865,414	1,477,571
2004	3,983,992	3,119,890	864,102
2005	7,828,773	4,667,172	3,161,601
2006	6,005,292	462,376	5,542,916
2007	8,012,443	559,258	7,453,185
2008	11,591,238	474,403	11,116,835
2009	8,479,828	318,872	8,160,956
2010	9,908,949	71	9,908,878
2011	12,917,854	843,004	12,074,850
2012	13,140,294	1,354	13,138,940
2013	14,348,708	2,001,003	12,347,705
2014	8,048,076	739	8,047,337
2015	5,646,578	0	5,646,578
2016	8,989,661	1,781,244	7,208,417
2017	13,155,788	1,352,301	11,803,487
2018	18,152,439	1,378,940	17,059,465
2019	22,719,738	1,104,799	21,614,939
2020	19,635,322	0	19,635,322
SUBTOTAL	\$251,775,760	\$50,450,004	\$201,325,756
Other Comprehensive Income (Loss).....			\$149,846
Other Equities.....			(\$766,617)
Members' Equity in the Cooperative.....			<u><u>\$200,708,985</u></u>

AFFORDABLE, RELIABLE POWER

South Plains Electric Cooperative is connected to both power grids in Texas—the Southwest Power Pool and the Electric Reliability Council of Texas. Access to both grids keeps your rates low and service reliability high.

SPEC's wholesale power comes from two generation and transmission co-ops: Golden Spread Electric Cooperative, headquartered in Amarillo, and Brazos Electric Power Cooperative, headquartered in Waco.

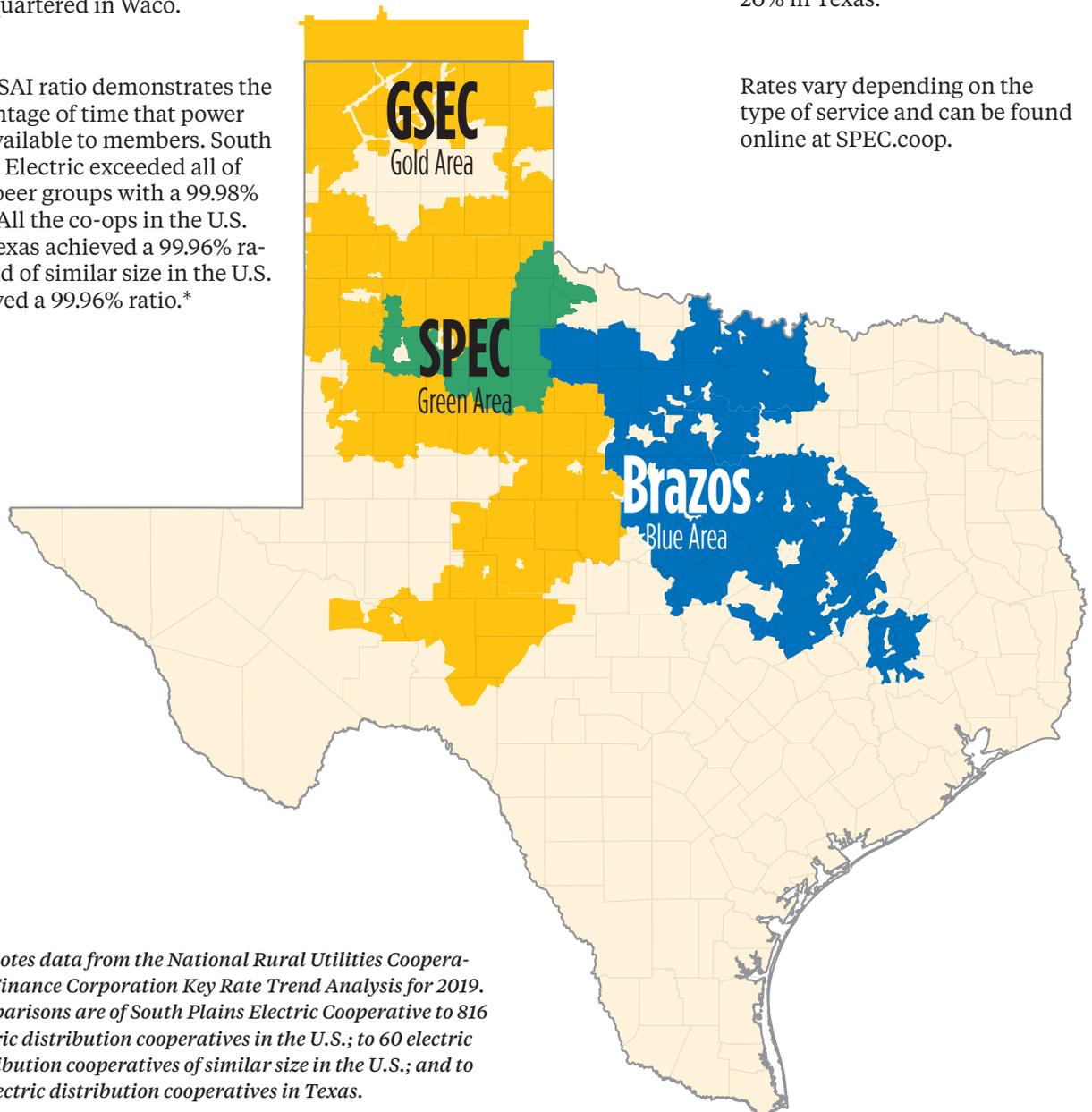
The ASAI ratio demonstrates the percentage of time that power was available to members. South Plains Electric exceeded all of their peer groups with a 99.98% ratio. All the co-ops in the U.S. and Texas achieved a 99.96% ratio, and of similar size in the U.S. achieved a 99.96% ratio.*

South Plains Electric knows how to keep the lights on. Its distribution system is among the largest 3% in the U.S., and large, rural cooperatives often experience high SAIDI ratios. SAIDI numbers represent the total minutes that service was interrupted during a given year. SPEC's SAIDI system value is 120 minutes, the lowest 15% in Texas and the lowest 22% of similar size in the U.S.*

Large commercial members benefit from South Plains Electric's extremely competitive rates. SPEC is in the lowest 3% in the U.S., #2 lowest of similar size in the U.S., and among the lowest 11% in Texas.*

South Plains Electric is proud of how it compares to other cooperatives on overall electric rates. SPEC is in the lowest 6% in the U.S., the 3rd lowest of similar size in the U.S., and among the lowest 20% in Texas.*

Rates vary depending on the type of service and can be found online at SPEC.coop.



** Denotes data from the National Rural Utilities Cooperative Finance Corporation Key Rate Trend Analysis for 2019. Comparisons are of South Plains Electric Cooperative to 816 electric distribution cooperatives in the U.S.; to 60 electric distribution cooperatives of similar size in the U.S.; and to 60 electric distribution cooperatives in Texas.*

HELPING WEST TEXAS GROW

South Plains Electric Cooperative is a vital part of the growth on the South Plains and Rolling Plains of Texas. Total utility plant investment is \$362,584,000, ranking them in the top 9% in the U.S., #11 of similar size in the U.S., and #9 of co-ops in Texas.*

Growth is a sign of health for South Plains Electric Cooperative. Most electric co-ops in the U.S. have an average growth expectation of around ½ of 1% annually. SPEC experienced 2.87% growth in 2019, making them the 34th fastest-growing co-op in the U.S., #9 of similar size in the U.S., and #11 in Texas.*

South Plains Electric is serving the tremendous residential growth around Lubbock with extremely competitive residential rates. SPEC is in the lowest 6% in the U.S., #3 lowest of similar size in the U.S., and #6 lowest in Texas.*

South Plains Electric is among the largest 3% of distribution grids in the U.S., with over 10,000 miles of line. Even considering this, they rank in the 34th percentile in line loss in the U.S. and among the lowest 50% of similar size in the U.S.* Line loss is when electricity dissipates as it travels over power lines, similar to water evaporating.

South Plains Electric has 59,278 connected meters, ranking them among the largest 9% in the U.S., #2 largest of similar size in the U.S., and #10 largest in Texas.*

South Plains Electric has 6,600 square miles of service area and 10,090 miles of line. This is enough line to stretch from Los Angeles to New York City 3½ times! The Cooperative is among the largest 3% in the U.S., #3 of similar size in the U.S., and #5 in Texas.*

South Plains Electric keeps rates low by controlling operations and maintenance expenses. SPEC is among the lowest 6% in the U.S., #3 lowest of similar size in the U.S., and #6 lowest in Texas.*

Another way South Plains Electric keeps rates low is by controlling administrative and general expenses. SPEC is in the lowest 14% in the U.S., among the lowest 23% of similar size in the U.S., and among the lowest 17% in Texas.*

South Plains Electric operates efficiently with all controllable expenses making up only 6% of its total expenses. SPEC is among the 6% lowest in the U.S., among the lowest 9% of similar size in the U.S., and #9 lowest in Texas.*

Sixty-five cents of every dollar a member pays the Cooperative is used to purchase wholesale power. The Co-op operates the day-to-day business on the remaining \$0.35. This places SPEC's power costs per kWh among the lowest 16% nationally, #5 lowest of similar size in the U.S., and #17 lowest in Texas.*

South Plains Electric Cooperative, and all cooperatives, abide by The Seven Cooperative Principles: Voluntary and Open Membership, Democratic Member Control, Members' Economic Participation, Autonomy and Independence, Education, Training and Information, Cooperation among Cooperatives and Concern for Community.



THE POWER OF Human Connections

A unique characteristic of co-ops is that we do not have customers—we have members. A major member benefit is capital credits, which are margins credited to members based on their purchases. The Cooperative has returned over \$50.4 million in cash to members for capital credits.

South Plains Electric, a Touchstone Energy® Cooperative, serves members in all or parts of 18 Texas counties, including Childress, Cottle, Crosby, Dickens, Floyd, Foard, Garza, Hale, Hall, Hardeman, Hockley, Kent, King, Lamb, Lubbock, Lynn, Motley and Stonewall.

Members gave South Plains Electric a score of 92 on the American Customer Satisfaction Index 2019 survey. SPEC is proud to consistently deliver superior member service to a growing and changing member demographic. How the Co-op cares for its members is what sets it apart from other utilities.

SPEC demonstrates its Concern for Community® in a variety of ways, including giving scholarships to local high school seniors, awarding mini-grants to teachers who teach at local schools, teaching safety to students at our 4th grade safety demonstrations, sending students on the Government-in-Action Youth Tour, participating in countless walks for charities, running a United Way employee campaign, sponsoring youth sports and much more.

South Plains Electric's employees have a heart for service, and their efforts are key to efficiently operating the Cooperative. Most co-ops strive to have one employee for every 250 members. SPEC has a considerably better ratio at one employee for every 377 members.* The Co-op utilizes technology for efficiency and contractors for short-term projects. Keeping full-time employee numbers down keeps rates low, giving members more “bang for their buck”!

**Refer to page 10.*

