

Report of the President and General Manager



**GENERAL
MANAGER**

**BRAD
BIERSTEDT**



PRESIDENT

**PAUL T.
BRYSCH, JR.**

AS KARNES ELECTRIC Cooperative celebrates 84 years of service to our members, we want to thank you for your patience and support throughout a challenging year. The past year has been full of disruption and uncertainty, but it has also offered opportunities to learn and grow.

In September 2021, we completed our new cooperative headquarters building. We are excited to be able to welcome KEC members to our new facility, which features expanded office space for administrative, member service and field personnel; a hardened dispatch center and server room; a multipurpose room for employee training and meetings; increased warehouse capacity; vehicle storage; and a vehicle maintenance area. All of that was accomplished without any additional cost to our members, thanks to long-term financial planning by the board of directors and management.

Just as 2020 brought us the pandemic, 2021 started with challenges of its own. We continue to deal with the effects of inflation, fuel prices and supply chain issues. KEC's cost to provide service has increased as a result. Materials to construct and maintain our infrastructure, repair our service vehicles,

and run our daily operations come with much higher price tags and significantly longer lead times. Prices in some cases have doubled, and we are now seeing lead times on materials in excess of one year. We continue to work with our suppliers to manage our inventory and to make sure we utilize all resources to contain costs.

As always, our membership remains the cooperative's focus. In 2021 we were able to utilize a few new pieces of technology to increase communications with our membership. One of these is an automated phone outage reporting system, which offers our membership the ability to report an outage automatically over the phone. This will be a critical part of Karnes EC's emergency operations plan for storm preparations. Expanding communication efforts will continue into 2022 as we begin to offer text notifications for various events, including power outages, restored power outages and emergency notifications.

Due to the lack of spring rains and dry conditions, we have experienced numerous pole fires across our electric distribution system. The dry conditions enable dirt and dust to accumulate on insulators, which when mixed with fog or drizzle creates a conductive path for electricity to travel from the wire to the pole or crossarm, causing a fire. Normally, periodic rain naturally washes and cleans insulators. Lengthy outages can occur until our service crews assess and repair the damage. Thank you for your patience and understanding if you have experienced a power outage due to a pole fire.

Improving the resiliency of our electric distribution grid is a major priority for us. Our focus is on maintenance programs that improve the safety and reliability of our system. We continue to invest in pole testing and remediation, right-of-way clearing and vegetation management, and construction work plan projects aimed at identifying older electric distribution facilities in need of replacement in our service territory.

We are mindful about providing affordable electric rates. Power

supply costs make up 74% of our total operating expenses. Therefore, it is critical that we work closely with our wholesale power supplier, South Texas Electric Cooperative, to manage generation resources and ensure that we get the best possible savings for our members. In 2021 the average residential rate members paid for power was 10 cents per kilowatt-hour, based on a monthly usage of 1,000 kWh. This represents an increase of 2.8% per kilowatt-hour compared to 2020. Natural gas prices, which greatly affect KEC's power generation cost, steadily increased, and this has led to the increased cost of energy to our members.

As you will see in the annual financial report, the cooperative remains financially strong and well positioned to meet the needs of our members. In August 2021 the board of directors authorized \$2 million in capital credits to be returned to our members. Since 1989, KEC has returned a total of \$20,430,844 in capital credits.

As part of our commitment to support our community, we award scholarships to graduating students pursuing higher education. We are proud to announce that in 2021, we awarded scholarships to 18 students from across our service area in the amount of \$1,500 each—the most scholarships we have awarded to date. Sixteen scholarships were awarded to students attending a qualifying four-year university. Two scholarships were awarded to students attending a two-year or vocational college. Including this year, the cooperative has provided 258 scholarships totaling \$257,200.

We partnered with CoBank, one of our financial lenders, through their Sharing Success program, to support local not-for-profit agencies in our service area. In 2021, KEC proudly awarded \$2,500 in donations to three organizations, with CoBank generously matching each donation for a combined total of \$15,000 in community support.

Those recipients included the Texas Ramp Project, which serves nine of our 12 counties, providing free wheelchair ramps to low-income adults and people with disabilities. Another recipient for 2021 was Jamie's Ranch, which offers various free accessible events and activities for children and adults with special needs in a beautiful ranch setting. The final recipient of the year was Court Appointed Special Advocates (CASA) of South Texas, which acts as the voice for children in court and works to provide a safe, loving home for every child. We look forward to sustaining this partnership with CoBank to continue to empower our communities.

Our dedicated employees and board of directors work hard to provide for the needs of the cooperative and will continue to strive to improve all aspects of our business—from the safety of our employees and members to electric reliability, member service, technology and financial performance.

As we remain cautious about the pandemic, we look forward to this year's annual meeting. We will once again offer our members a choice between attending a walk-through or a traditional in-person meeting. Whichever choice you make, we look forward to seeing you at the annual meeting.

Paul T. Brysch, Jr.
President

Brad Bierstedt
General Manager