

# Report of the President and General Manager



GENERAL  
MANAGER

ERIC  
HALFMANN



PRESIDENT

PAUL T.  
BRYSCH JR.

## Power to Serve

**THE BOARD OF DIRECTORS** and employees of Karnes Electric Cooperative would like to personally invite you to our 86th annual meeting. The annual meeting provides an excellent opportunity to participate in the cooperative's business through the election of directors. Additionally, the annual meeting provides a forum for members to come together, meet your dedicated cooperative team, and learn about the activities of the cooperative and our goals.

As we reflect back on 2023, we sincerely thank you for the opportunity to serve you. The cooperative team is passionate about serving the needs of our members and is committed to the mission of providing quality service to empower communities and improve lives. Last year was a successful year that brought new opportunities from the transitioning electric industry landscape.

In 2023, supply chain disruptions from the pandemic-induced downturn started to improve, but shortages of raw materials and increased costs still presented challenges. The cooperative worked hard to maintain efficient

operations despite these disruptions by identifying alternative suppliers, increasing material inventories and adjusting operations to align with material availability. Moving into 2024, while supply chain conditions continue to improve, some transformers, meters, utility vehicles and substation equipment are still experiencing lead times as long as one to two years.

Regulatory and market reform issues impacting the grid's power supply and costs continued to be dynamic in 2023. At the federal level, multiple new regulations were proposed that could significantly force the transition of power generation away from dispatchable power plants, like natural gas and coal. If this regulatory-driven transition is not done in a reasonable manner that prioritizes reliability and affordability while aligning with the reality of available technology, then it will further magnify today's reliability challenges and could result in unacceptable costs to our members when the wind doesn't blow and the sun doesn't shine.

This past summer brought new peak loads onto the grid from the hot temperatures and continued economic growth throughout the state. The Electric Reliability Council of Texas grid now depends on renewable resources to meet demand. As a result, the afternoon solar generation down ramp pushed tighter conditions later in the evening, times of low wind output led to conservation appeals and energy storage resources played a meaningful role in meeting energy needs. The increased demand on the ERCOT grid also continues to strain the transmission system, driving investments in transmission infrastructure.

Our board of directors and staff are actively engaged in regulatory affairs and work closely with other cooperatives and the statewide and national electric cooperative associations to monitor and provide

constructive input to legislators, regulatory agencies and ERCOT concerning policies that impact electric cooperatives. Exemplifying the cooperative principle of Cooperation Among Cooperatives, we have been successful in working together through local, national and regional structures to effectively influence these complex issues.

## Empower Communities

The cooperative maintained steady growth in 2023, with annual sales totaling 1,358,753,499 kilowatt-hours, a 4.3% increase over 2022 sales. The system grew by 441 services and 37 miles of energized line, all contributing to the economic development of our communities. Additionally, progress continues on the Loxley substation in north Atascosa County to meet the demand for power in that area and is expected to be completed in 2025.

The cooperative's financials show a reduction in total expenses primarily due to the lower price of natural gas contributing to lower power costs. The lower cost of purchased power is passed through to our members through the power cost recovery factor.

In 2023, the average residential rate members paid for power, based on monthly usage of 1,000 kWh, was 11.1 cents per kWh, as compared to 11.4 cents per kWh in 2022. To achieve the best possible costs for our members, we work together with South Texas Electric Cooperative, the generation and transmission cooperative that supplies our wholesale power, to manage generation resources and transmission infrastructure.

The continued growth of the cooperative has helped us to overcome increases in materials and operating and maintenance expenses. As such, Karnes Electric Cooperative has not increased its base rates in 15 years, since its 2009 cost-of-service study. In 2023, a new cost-of-service study was completed, which did not identify the immediate need for a cost increase to provide additional revenue for operations. The board and staff will continue to evaluate the cost of service to determine if and when additional revenues will be needed in future years.

As you will see in the financial report, the cooperative performed well in 2023 and continues to maintain a strong financial posture for serving the future needs of our members. Based on this financial position, in September 2023, the board of directors authorized a total of \$1,707,279.59 in capital credits to be returned to our members. A capital credits return is a benefit you receive for being a member of the electric cooperative. Since 1989, Karnes EC has returned a total of \$23,422,181.95 in capital credits.

## Quality Service

Achieving a high level of safety and system reliability performance are core components of the quality service that the cooperative is dedicated to delivering. We are extremely proud of our team's safety performance in achieving a year with no lost-time accidents. Additionally, numerous safety and training initiatives were completed to continually improve the team's expertise. This included the implementation of a lineman apprentice progression program and completing the construction of field training facilities at both office locations.

To improve system reliability, we continue to regularly inspect and complete preventative maintenance and system

improvements. In 2023, this included clearing and trimming over 252 miles of line, inspecting over 6,300 poles, sectionalizing to reduce outage impacts, and investing \$12,960,000 in work plan system improvements.

Additional strategic investments that improve the co-op's quality of service while reducing expenses are the upgrades to the advanced metering infrastructure and growth of the geographic information system (GIS) mapping.

Effective GIS mapping is a foundational technology for improving the intelligence of system operations and collecting critical information to manage assets and outages. GIS links asset data with meter information to streamline the response to system issues. We are excited about the value already realized from GIS technology as well as the growth planned in this area, including pole audits in 2024. The team's dedication to system reliability contributed to a 53% reduction in interruption minutes experienced by our members in 2023.

To support the increasing reliance on technology to serve our members, improvements were made to our network infrastructure. This included the upgrade of data center servers, field communication equipment and the protection of backup data from ransomware. In 2023, the team completed the milestones established by the NRECA's Co-op Cyber Goals program, which outlines initiatives aimed at achieving high-priority security measures and improved response to cyber threats.

Providing excellent member service that meets the changing needs of our members is always a focus for the cooperative. To improve outage communication, service descriptions were added to outage notifications to clarify which accounts are experiencing an outage. Additionally, outage descriptions were added to SmartHub reporting, providing more information to our service personnel to assist with efficient troubleshooting and restoration.

In 2023, the cooperative began offering digital signatures on membership applications as a secure and efficient method of capturing signatures. In the fourth quarter of 2023, 65% of our membership applications were completed digitally. Looking forward to 2024, we plan to update the membership application to further streamline this process and increase participation in text message notifications.

To gather valuable member feedback, a member interaction-based survey was launched in 2023. In 2024, two key initiatives are planned to increase feedback from members. The interaction-based survey will be expanded to collect feedback following additional service activities, and an American Consumer Satisfaction Index survey will be completed to collect in-depth information to guide strategies that improve service to our members. We appreciate our members' feedback from these surveys and are excited about continuing to improve how we serve your needs.

## Improve Lives

Access to reliable and affordable electricity is a critical component to empowering a community's economic growth and improving the quality of life. After the establishment of the Rural Electrification Administration in the 1930s, farmers and ranchers created rural electric cooperatives to secure electricity to better their lives. The program was very successful, and the quality of life for those living in rural areas was forever changed.

As a result of the success in electrifying rural America, NRECA International was established to share this model with rural areas in developing countries. Through partnering with NRECA International, electric cooperatives can donate their time, talent and resources to empower communities around the world.

In 2023, Karnes Electric Cooperative had the opportunity to

participate in an NRECA International project located in Matasanos, Zacapa, in Guatemala. Two Karnes EC lineworkers traveled to the project and helped construct an electrical distribution system that provided electricity to rural villagers for the first time.

This was an extremely rewarding experience for those lineworkers and for the entire co-op team to share in this experience that fundamentally exemplifies the value of our purpose and the service we began providing to our members 86 years ago.

## Concern for Community

As a part of our commitment to support our local community, we award scholarships to graduating students pursuing higher education.

We are proud to announce that in 2023, we awarded scholarships of \$1,500 each to 10 students from across our service area. Eight scholarships were awarded to students attending a qualifying four-year university, and two scholarships were awarded to students attending a two-year or vocational college. Including 2024, the cooperative is proud to have provided 288 scholarships totaling \$322,200 through the years.

We also partnered with CoBank, one of our financial lenders, through their Sharing Success program to support not-for-profit agencies. In 2023, KEC proudly awarded donations to three organizations with CoBank generously matching each donation for a combined total of \$20,000 in support. The recipients were Courage Ranch, Cowboys Ranch and NRECA International.

Courage Ranch is a nonprofit dedicated to supporting trauma patients through equine-assisted therapy for individuals of all ages. Established in 2019, the organization has delivered therapy services to more than 250 families spanning from Wilson to Karnes counties. Cowboys Ranch is a nonprofit organization committed to offering animal-assisted therapy and educational programs for youth and women in Atascosa County. The organization's mission encompasses fostering compassion, problem-solving abilities, leadership skills and self-confidence.

NRECA International brings a longstanding history and proven track record to empowering developing nations through electrification. With this mission, the organization illuminates not just homes, but also hope, resilience and a brighter future. We look forward to sustaining this partnership with CoBank to continue to empower our communities.

Our dedicated board of directors and employees 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 to electric reliability, member service, technology and financial performance.

We hope you will join us at this year's annual meeting. Once again, we will offer our members a choice between attending a walk-through or traditional in-person meeting. Whichever choice you make, we look forward to seeing you.



**Paul T. Brysch Jr.**  
President



**Eric Halfmann**  
General Manager