



Chris Reese
President & CEO

Annual Report

Sussex Rural Electric Cooperative, Inc.

President and Chairman's Report



Jack Haggerty
Chairman of the Board

From the moment Sussex Rural Electric Cooperative was founded 83 years ago, its mission was to provide our members with the highest quality of service at the lowest possible cost. Created by the members, for the members, our not-for-profit nature allows us to focus on meeting the needs of our community instead of putting money in the pockets of investors. To achieve this mission we maintain a careful balancing act between meeting our revenue needs and minimizing the overall financial impact to our members. Each year, we must recover our costs of doing business, as well as maintain sufficient margins to reinvest in our electric distribution system.

Sussex Rural Electric Cooperative's board of directors and executive staff continuously monitor the financial stability of the organization to determine if or when a rate change is necessary. A cost of service study completed at the end of 2018 proved that due to lower energy prices, among other costs, we were able to lower the current energy charge by 3.2% in 2019. The same study helped SREC identify the total revenue requirements for the Cooperative and make sure costs are allocated appropriately to each rate classification based on the service, equipment, and infrastructure that is required to serve them. Based on rate classification and consumption, the impact to the member varied, but for the majority of the membership, it resulted in a lower power utility bill. The rate change started with the members' February billing cycle. The greatest difference in the 2019 rates was the change in the re-named System Connection Fee (previously called the Facilities Charge), the fixed rate portion of your bill, which increased for all residential members by \$2.00.

Our board of directors evaluates the financial state of the Cooperative and, when it is financially prudent for the Co-op, we officially retire capital credits and send them out to our members. In 2019 we retired a total of \$800,000 to members both old and new, past and present. Half of the capital credit retirements for 2019 came from the years of 1999-2002, plus some of 2003, while the other \$400,000 came from 2018. Whether you just moved into a house on Co-op lines in the past year or your home has been powered by SREC for over two decades, you received a check in December. Previously, these were applied to current members' accounts as bill credits but 2019 marked our second year of sending physical checks to all of our members' homes.

Board Chairman Jack Haggerty, Jr. reminded the members who attended the SREC Annual Meeting, held on June 3, 2019, that members "are like the jury, because you have power in your hands to decide who should represent you on the Board of Directors and to vote on bylaw changes for a 67 million dollar co-op. Never forget, you are not just consumers, you are the member-owners of Sussex Rural Electric."

As a cooperative, we have a different "bottom line." While our priority is always to provide reliable and safe energy, there is another equally important part of this equation: Your well-being and that of the larger community that we serve.

In 1937, Sussex Rural Electric Cooperative was founded to fulfill a vital need in our community that would not have otherwise been met. Concerned local leaders came together to build this Co-op and bring electricity to where there was none. At that time, members of the community understood we were different because they likely knew someone who helped to create Sussex Rural Electric. Over time, many folks in the community may have come to think of us as simply another energy provider, but we are much more. We are a locally-managed, member-owned cooperative that is constantly evolving to meet the needs of our community, and we can continue to do this thanks to the support of members like you.

A series of storms at the end of the year created power outages caused by fallen trees, some blown down by high winds and others weighed down by very wet snow and ice. In a heavily-wooded area like ours, trees are highly susceptible to extreme weather and can frequently come into contact with power lines. For this reason, we take tree trimming very seriously, constantly trimming every mile of primary line in our territory on a four-year cycle.

Through our ongoing right-of-way maintenance program, we aim to keep power line pathways as clear as possible. We occasionally receive some resistance from our membership about how much we trim, but we do so to account for four years' worth of a tree's growth. Tree trimming is the Cooperative's largest expense, aside from the cost to purchase our power. While this may seem extreme, doing all of this prevents potential outages which would be even more costly to repair. Restoring power after a major outage is a big job that involves much more than simply throwing a switch or removing a tree from a line. Our main goal is always to restore power safely to the greatest number of members in the shortest time possible, but by continuing to focus on tree trimming, we can preemptively minimize the number of outages we, and our members, will have to deal with.

As a local business, we have a stake in this community. The times may have changed, but our mission, to provide the highest quality of service at the lowest possible cost, has not. We view our role as a catalyst for good. Working together, we can help accomplish great things for our community now and in the future.

We continue to grow and enhance time-tested, proven practices. As in previous years, the Cooperative invested in upgrades, replacements, and improvements to our electric grid system to improve resiliency. For Fiscal year 2019, \$2.5 million was invested in system upgrades and improvements, reflecting your Cooperative's ongoing investment to increase system reliability and safety. Right of way maintenance, as explained earlier, is included in that investment as well as, but not limited to, completion of our 1.5-mile reconductor project with pole replacements on Sally Harden Road in Wantage, deployment of new TripSaver II electronic reclosers at locations throughout our system, and replacement of substation reclosers at our Barry Lakes Substation in Highland Lakes. SREC also replaced eight (8) transmission poles and seven (7) distribution poles due to preventative maintenance inspections. Additionally, we replaced 75 security lights on the system with new LED models.

SREC continues to benefit the from its 50-year contract between SREC and the Army, at Picatinny Arsenal. In 2019, improvements, upgrades, and replacements were completed to update and maintain the base's electric distribution system.

Electric Thermal Storage (ETS) heating continues to benefit members and the cooperative. By replacing fossil fuel burning oil and propane furnaces with electric powered ETS (about 67% of our power source is carbon free). 12 homes installed ETS furnaces last year, bringing the total to 273 houses that now have either an ETS furnace or ETS room units heating their homes. That is over 6 MW of power that we can keep shifted off of our higher cost, peak billing periods each month in the winter.

SREC Resources, a wholly owned subsidiary of Sussex Rural Electric, installed the 12 ETS furnaces and seven (7) ETS room units in 2019 and continues to install Cummins automatic home generators and GenerLink transfer switches, as well as perform other electrical contracting work along with high voltage primary electric work for some commercial customers in the area.

Since 1937, Sussex Rural Electric Cooperative has been dedicated to fulfilling the needs of our community. In 2019, we've held ourselves to this commitment, maintaining proactive maintenance and investment to keep power lines, substations, and generation facilities on our grid running securely and smoothly while also focusing on community efforts.

As we look forward into this new decade, clarity and focus are critical. The decisions we made in 2019 are helping lead us into 2020. We have what it takes to succeed - a vision, the people, and the resources to carry us successfully into a brilliant future. At this time last year, we started our annual report with, "We are ever mindful of the future path of the Cooperative, while keeping true to the foundations upon which this community and this Cooperative were built." 2020 has surprised us all, in this community and across the world, with formidable challenges that have changed our way of living. Despite the current challenging times, we are happy to report to you, our members, that your Cooperative remains mindful of the path forward.



**Sussex Rural
Electric Cooperative, Inc.**

A Touchstone Energy® Cooperative


Christopher P. Reese
President & CEO


Jack Haggerty
Chairman of the Board

Assets

Total utility plant in service	\$ 69,219,102	\$ 67,144,447
Construction work in progress	1,018,269	872,045
	<u>70,237,371</u>	<u>68,016,492</u>
Less: Accumulated provisions for depreciation	(37,165,283)	(35,610,597)
Net electric plant	33,072,088	32,405,895
Total other investments	6,209,976	6,312,113
Total utility plant & other investments	39,282,064	38,718,008
Currents assets:		
Cash & short-term investments	648,358	985,144
Accounts receivable Less provision for doubtful accounts of \$25,000 in 2018 & 2017)	1,750,617	2,194,520
Materials & supplies	1,070,314	727,872
Other current & accrued assets	825,028	805,249
Total current assets	4,294,317	4,712,785
Deferred charges	1,195,878	1,644,487
Total Assets	\$ 44,772,259	\$ 45,075,280

Equities & Liabilities**Equities:**

Memberships	\$ 54,250	\$ 53,585
Patronage capital	9,992,382	10,392,113
Other equities	9,174,484	9,450,152
Total equities and margins	19,221,116	19,895,850

Non-current liabilities:


Long term debt, less current portion	18,596,835	18,519,736
Other	-	-
Total non-current liabilities	18,596,835	18,519,736

Current liabilities:

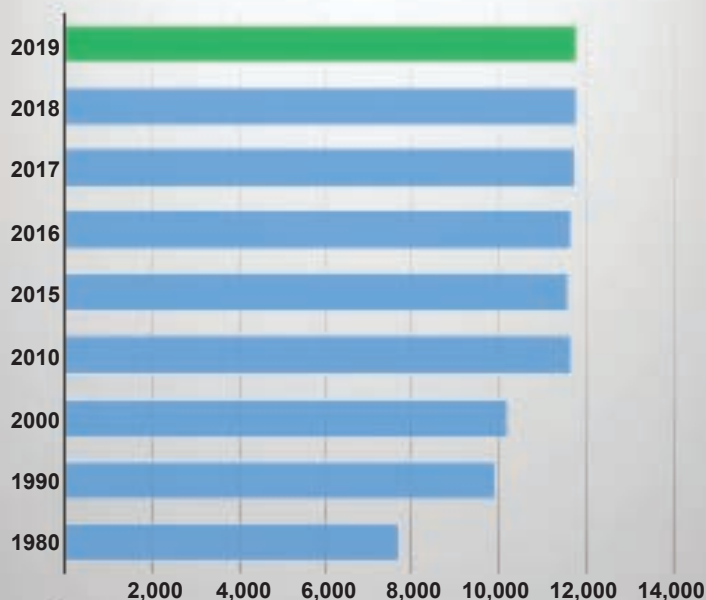
Current portion of long-term debt	876,092	885,395
Accounts payable	1,628,969	1,495,020
Consumer deposits	666,652	399,704
Other current & accrued liabilities	1,552,122	1,595,477
Total current liabilities	4,723,835	4,375,596

Deferred credits

Deferred credits	2,230,473	2,284,098
Total Equities & Liabilities	\$ 44,772,259	\$ 45,075,280

	Where It Comes From		Where It Goes	
	Residential	76.1%	Purchased Power Cost	46.3%
	Large Commercial	6.6%	Operating Expenses	39.8%
	Small Commercial	6.0%	Depreciation	9.0%
	Seasonal	1.6%	Interest On Debt	3.4%
	Electric Thermal Storage	1.3%	Margins	1.5%
	Security Lights	0.5%	TOTAL	100%
	Other Income	7.9%		
	TOTAL	100.0%		

Operating revenue	\$ 20,576,971	\$ 21,032,995
Operating expenses:		
Cost of power	9,517,375	10,196,528
Transmission expense	6,145	4,151
Distribution expense - operation	2,031,759	1,895,054
Distribution expense - maintenance	2,859,955	2,509,440
Member account & service expense	1,077,169	973,507
Administrative & general expense	2,139,647	2,138,029
Depreciation & amortization expense	1,854,440	1,780,661
Taxes	(17,821)	(360,954)
Interest- other	67,068	46,510
Total operating expenses & interest	19,535,737	19,182,926
Operating margins before fixed charges	1,041,234	1,850,069
Interest on long-term debt	(728,110)	(700,589)
Operating margins after fixed charges	313,124	1,149,480
Capital credits from other cooperatives	215,744	335,970
Net operating margins	528,868	1,485,450
Non-operating margins:		
(Loss) / Gain on sale of assets - net	3,897	(4,700)
Interest and other income	90,591	232,707
Net margin for period	\$ 623,356	\$ 1,713,457
Total other comprehensive (loss) / income	(475,133)	(256,106)
Total comprehensive income	\$ 148,223	\$ 1,457,351

Members**kWh Sold**