

***SOUTHSIDE ELECTRIC COOPERATIVE
2019 ANNUAL MEETING
HOOPER PARK, CREWE, VIRGINIA
SEPTEMBER 28, 2019 @ 11:15 A.M.***

The Annual Meeting of the members of Southside Electric Cooperative was held at Hooper Park, 1500 feet west of the Cooperative Headquarters Office, on U. S. Highway No. 460, in the Town of Crewe, State of Virginia, at 11:15 a.m. on Saturday, September 28, 2019.

INTRODUCTIONS

Ronald White, Vice President of Member & Public Relations and retired Army Lieutenant Colonel, asked the membership to rise for the presentation of the Colors by the Nottoway County High School JROTC Color Guard, led by Sr. Chief Perrin.

Ronald White gave the Pledge of Allegiance and L. A. Fowlkes of Nottoway County High School sang the National Anthem. The Color Guard then retired the Colors.

Reverend Earl Wallace of Pisgah Baptist Church in Rice, Virginia was introduced and gave the invocation.

Ronald White recognized the special guests attending the Annual Meeting. He also recognized Rose Piachek a retired Army nurse who is celebrating her 100th birthday. She was thanked for her service to our nation.

Ronald White announced the winners of the Proxy Prize and Grand Prize drawings; Margaret Richard of Farmville and Leslie Norton of Crewe, respectively.

Ronald White introduced Chris Bailey of Amelia County who attends Amelia County High School who spoke regarding his experience at the NRECA Youth Tour in Washington, DC.

Ronald White then introduced Frank W. Bacon, Board Chair of Southside Electric Cooperative, to the membership. Board Chair Bacon presided over the meeting.

BUSINESS MEETING

Board Chair Bacon called the business meeting to order and motion was requested from the membership to appoint Frank F. Rennie, IV, Southside Electric Cooperative's General Counsel, as parliamentarian over the business session of the meeting, and to appoint Christine Marston, Executive Assistant, as recording secretary of the meeting.

On motion made and seconded:

Frank F. Rennie, IV is appointed as Parliamentarian over the Business Session of the meeting and Christine Marston is appointed as Recording Secretary.

MOTION CARRIED

Board Chair Frank Bacon introduced Marcus Harris President/CEO of Old Dominion Electric Cooperative, the SEC's generation and transmission cooperative, to give remarks.

SECRETARY'S REPORT

Board Chair Bacon introduced the members of the Board of Directors of Southside Electric Cooperative, and then called Paul S. Bennett, Secretary of the Board of Directors, to read the notice of the meeting and quorum statement. After proof of due notice of the meeting, the attendance was checked, and it was determined that 640 members were present in person, and 1,824 members were present by proxy, said members constituting a quorum of the membership for the purpose of this meeting. A list of those present in person and by proxy will be retained by the Cooperative.

On motion made and seconded:

The reading of the minutes of the 2018 Annual Meeting of members is dispensed with, since a copy of such minutes was published in the Cooperative Living magazine, and said minutes are approved as written.

MOTION CARRIED

REPORT OF OFFICERS

The next order of business, according to the *Bylaws*, was the presentation of reports of officers, which will be attached to and made a part of the Annual Meeting Minutes. This included the Board Chair's report and the President/CEO's report.

On motion made and seconded:

The reports of officers are approved as presented.

MOTION CARRIED

UNFINISHED BUSINESS

The floor was opened for unfinished business, but there was none.

NEW BUSINESS

The floor was opened for new business. Board Chair Bacon introduced General Counsel Frank Rennie to conduct the remainder of the meeting.

Nominations were received for Districts I, II and III pursuant to the Bylaws. Board members are elected for a 3-year term and petitions must be received by all nominees not less than 60 days before the Annual Meeting of the members. A list of candidates for all districts shall be mailed to each member not less than 10 days before any meeting where directors are to be elected. Accordingly, the following were placed in nomination:

District I – Sarah W. Saunders

District II – Frank W. Bacon

District III – Brenda H. Johnson

A Credentials and Elections Committee, made up of SEC members, has been appointed to oversee the election process which will be conducted by parliamentary rule. Unopposed nominees may be elected by acclamation.

On motion made and seconded:

Nominees for Districts I, II and III are unanimously elected by acclamation to represent their territorial district.

MOTION CARRIED

General Counsel Rennie then proceeded with the remainder of the meeting.

QUESTION AND ANSWER SESSION & ADJOURNMENT

General Counsel Rennie opened the floor for a question and answer period.

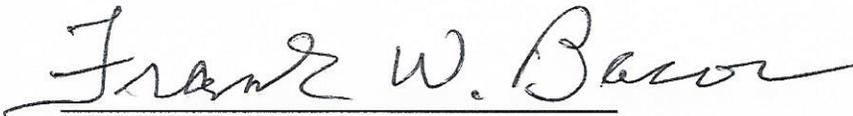
There were none.

There being nothing further to come before the meeting, it was adjourned at 12:12 p.m.

A handwritten signature in blue ink, appearing to read "Paul S. Bennett", written over a horizontal line.

Paul S. Bennett, Secretary

Approved:

A handwritten signature in black ink, appearing to read "Frank W. Bacon", written over a horizontal line.

Frank W. Bacon, Board Chair

A handwritten signature in black ink, appearing to read "Christine Marston", written over a horizontal line.

Christine Marston, Recording Secretary

CHAIR'S REPORT

WELCOME

Good morning and welcome to the 82nd annual meeting of your Southside Electric Cooperative. It is always great to see the Cooperative members who show up to participate in the day's events and to learn more about the Cooperative business. Your Board of Directors thanks you for taking time out of your weekend to be here today.

YOUR COOPERATIVE WORKS FOR YOU

Your Board, management team and employees are all dedicated to providing the highest level of service to you while being excellent stewards of your investment in the Cooperative. When we undertake new projects, implement new technology, or hire new employees, we ensure that we bring value to you that exceeds the costs associated with these changes. The Board constantly receives information and data reports to review before approving projects, and afterwards we measure the results of these projects to ensure they have created additional value for you, our members. This data is provided by our CEO and his management team, along with outside sources like legal counsel, auditors, consultants and other Cooperative partners like the Cooperative Finance Corporation and the National Rural Electric Cooperative Association. We use this information to make informed decisions regarding: financial performance; establishing reliability goals; ensuring safe workmanship; and establishing strategic initiatives. We meet monthly with management to discuss reports and review strategies and look years down the road to develop plans to safeguard your Cooperative's future. We are a long-term business, and we must be prepared to meet your needs into the future.

YOUR COOPERATIVE CHANGES TO MEET YOUR NEEDS

I believe everyone has heard the expression, "The more things change, the more they stay the same." This is often said with a sarcastic tone. However, I believe at your Cooperative this is strikingly true. We have made many changes over our 82 years. Let's look at some of the constants and some of the incredible changes. The first lines that were built 82 years ago used copper wire and were hung off wooden poles. We typically use aluminum wire now but still use wooden poles for distribution construction. However, one significant change worth noting is *most of the new construction is now underground*. I'm often asked *why we don't replace all our overhead lines with underground facilities*. The answer is simple, the cost to convert our entire system is cost prohibitive. We have 8,300 miles of line on our system: 6,200 miles of overhead and the average cost to convert one mile of three-phase overhead to three-phase underground is \$240,000 (or over one billion for the entire system). This would clearly not be financially prudent and that is exactly why we don't undertake such a significant, costly project.

Years ago, our linemen worked everything de-energized. If our power was out for a few hours, it wasn't a big deal. However, when digital clocks became the norm in the mid 1970's and the VCR became present in almost every house, we had to implement changes in training for linemen because users of electricity didn't want outages, even those short in duration. Having to reset digital clocks became a nuisance, and having a VCR fail to record a favorite show because the lights blinked was not acceptable to most people. Now our linemen work almost all jobs energized. Since safety is always the number one priority at your Cooperative, we had to change our training methods and the type of equipment provided for our linemen to keep them safe.

TECHNOLOGY BRINGS CHANGE TO YOUR COOPERATIVE

Everyone here has a meter at your residence or business. This was common in the 1930's and remains true today. However, technology has changed the meter into a device that does more than just measure electricity usage. Now these meters can report when you are out of power and when your power is restored following repair work or any outage. We can tell how many blinks you have at your home and obtain voltage readings. You can use data from these meters to better control your usage. Technology is a powerful tool and driver of change.

As a result of improving technology, there are many times when we can restore a significant amount of power following an outage before rolling a truck through our distribution system. We have installed automated switches at many back-feed locations and use these when the opportunity arises to provide you with better service and improved reliability.

Our linemen used to have paper map books of our entire service area so they could find all our accounts. These were costly to print and were out-of-date as soon as we printed them. Now they have iPads in their trucks with electronic maps that are updated daily. They use GPS devices, mainly their smartphones, to find their way around to new locations. I wonder what a lineman from 82 years ago would think of the progress that has been made? It's truly incredible.

SOME THINGS STAY THE SAME

So, I have talked about a few of the many changes. What are the constants? First and foremost, the goal to provide exceptional service to you, our member's, has never wavered. The Board, management and employees all work tirelessly to be the very best at we do. I am sometimes told by members that they can't believe our employees respond in the middle of the night during terrible weather to an outage call. That is just one example of our commitment to you. Our commitment to ensuring costs are affordable has always been a priority. Did you know that when we were founded in 1937, 5.5% of household income went towards paying for electricity in the United States? Today, it has been reduced to 2.5%.

Another constant in your Cooperative that ties into financial stewardship is our commitment to aggressively retire capital credits. We have retired \$57.3M since our inception with \$32M of that being retired in the last 10 years. Your Board has approved retiring an additional \$2.5 million in December of this year.

ENSURING THE FINANCIAL HEALTH OF YOUR COOPERATIVE

Your Board receives financial information from your CEO & staff each month. Recently we approved filing a request to raise rates so that we could maintain our financial health and maintain our level of service excellence. We last raised rates 6 years ago, and costs have increased to a point where an increase is necessary to maintain the financial standards required by our lenders. Aggressive management has kept this to a minimum amount, and our CEO will discuss this more fully in his upcoming presentation.

STRATEGIC PLANNING FOR YOUR COOPERATIVE'S FUTURE

Your Board is elected to set policies, provide broad oversight, monitor the financial condition of the Cooperative and to set long-term goals for the Cooperative, among many other responsibilities. Your Board of Directors and management have a two-day meeting every other year to complete a strategic planning session. At these meetings we discuss trends in our industry and develop strategic initiatives for management to follow. From these initiatives, goals are established so the Board can monitor the success management is having reaching the goals that were developed during our strategic planning process.

Your voice has been heard through surveys and it is very clear that reliable service is your number one priority. The Board ranks that second, right behind safety of the employees and members. We review our Cooperative's reliability data monthly, benchmark that against industry data, and approve a management developed reliability improvement plan with stated goals to ensure your expectations are met. We still suffer from weather related outages caused by wind, ice, snow and lightning. I am happy to say that we have reduced the average outage time per member by 60% since 2006. The Board receives many compliments regarding outage time. I am often told by many members that they bought generators because of outages and never use them anymore.

CONCLUSION

As the Board investigates the future, it is clear that we face many changes. Renewable energy sources continue to dominate conversations, battery storage systems are improving and now being used to back up alternative energy sources and as peak shaving devices, coal-fired generation plants are closing at a rapid pace, and electric vehicles are becoming more common.

Your board will continue to monitor these changes and implement plans to ensure these new technologies become opportunities instead of threats.

Please allow me to say thank you on behalf of the entire Board for giving us the opportunity to serve as your elected representatives. We take this responsibility very seriously and work on your behalf every day.

I will now call on your President and CEO, Jeff Edwards, to come forward and provide his comments.

PRESIDENT/CEO ANNUAL REPORT

Good morning. Thank you for your participation in today's meeting. I want to begin by recognizing some special people that are responsible for your experience here today and your service each and every day. The employees of SEC work hard to put this event together so that you can have an enjoyable, informative day. You will recognize them today by the orange shirts they are wearing. Let's give them a hand for their efforts today and every other day. This group works very hard in all types of weather to insure you have service, and I am extremely proud of them.

I also want to recognize your Board of Directors for their guidance and leadership. They spend a lot of time in meetings, reading about our industry and attending educational sessions so they can make sure your Cooperative is positioned properly to take care of your needs now and into the future.

We constantly look for ways to improve our service and the communities that we serve. We take our responsibility to serve our members very seriously. As Dr. Bacon mentioned earlier, you have identified through surveys that reliable service is the most important thing we can provide for you. When you flip the switch, you want the lights to come on. If you experience an outage, you want the lights to come back on quickly. It takes a dedicated workforce to provide that level of reliability.

Trees are our number one cause of outages. They are directly responsible for approximately 55% of all outages you experience. We have a robust right of way management program that is responsible for the maintenance of an estimated 2.1M trees along our 8,400 miles of line. As you may recall, 2018 saw record rainfall amounts across the Commonwealth. As a result of that, we have experienced tremendous growth alongside our rights of ways and need to increase the amount of mileage we trim annually to keep your reliability at acceptable levels.

Costs for the right of way program, electrical contractors and materials have increased since our last rate change in 2014. As the economy improves, the demand for these services has increased. As typical with supply and demand, when the demand increases, costs increase. As a result of these cost increases, we have filed our intent to raise rates an average of 6.8% so that we can continue offering the level of service you have come to expect.

We do take our responsibility as stewards of your money very seriously. We constantly strive to become more efficient in our various practices and procedures. Technology has enabled us to reduce labor expenses in many areas of the Cooperative. We currently have 136 full time employees compared to a high of 175 full time employees in 2007. This results in a significant reduction in our payroll and benefits.

We had improved many other processes through the adoption of industry best practices that have resulted in significant savings for you. By strengthening our identity verification and credit

check process, we have saved our members in excess of \$1 million per year since 2010 in bad debt write-offs. These are funds we don't have to collect via rates.

We also implemented a prepay program that allows members to pay for their energy in advance. This provides multiple benefits. Members involved in this program typically reduce their usage by 7% as they tend to actively manage their consumption better than those that use the traditional payment plan. If these members do happen to run out, there is no reconnect charge. Your Cooperative saves money, which means all of you save money, as we don't have truck rolls for reconnects and after hour overtime charges are reduced.

We have also taken advantage of low interest rates and refinanced debt resulting in a blended interest rate of 3.30% which translates to \$16 million in interest savings over the past 10 years.

These are just a few of the efforts we have made to offset a rate increase. Unfortunately, inflation and the cost of doing business have increased to an amount that requires an increase in rates, even after the reviewed savings. I want to assure you that every dollar paid to the Cooperative through your rates are reinvested locally into improvements that impact reliability and affordability of your energy.

Our Engineering Department is working on a behind the meter solar project that when completed, will reduce demand charges on our wholesale bill by lowering our demand during peak times. They also completed a project that saw us purchase 5% of our power through a purchase power agreement that resulted in savings of \$1.7 million annually for 5 years.

Our Operations department has focused heavily on eliminating outages that occur at our substations as these affect the largest number of members. As a result, we have reduced these outages significantly. They have also concentrated on utilizing our distribution automation system so that we can minimize outage time by using automated switching to reduce outage time.

Our linemen are always working to prevent outages, and to respond safely and quickly when these events do occur.

Your Finance and IT departments are leveraging technology to improve efficiencies and reduce expense, while focusing on the financial health of the Cooperative so that we can meet your needs in each and every department.

The Human Resources Department has improved our hiring and recruiting process to ensure that we hire the very best employees to serve you. I am extremely pleased with the quality people we have working on your behalf.

Our Member and Public Relations Department communicates with you all effectively through our magazine, bill stuffers and social media. They have started the notification process regarding our rate change several months ago and will continue to communicate as this becomes effective.

I do want to speak briefly about broadband. We get calls occasionally asking us why we are not offering this service like some of the cooperatives around us. The answer is quite simple. Offering broadband is a large undertaking, and one that is extremely expensive. Consultants we have hired estimated it would take over \$200 million to provide fiber to the home access across our 18-county service territory. Each cooperative is different, with different member density and infrastructure. For our Cooperative, the estimated revenue produced by a broadband project doesn't support the level of debt required to provide that service. In other words, we would have to raise your electric rates significantly to fund a broadband project, and your management team and Board doesn't support that use of your money. We will continue to look at this in the future, and if enough grant funds became available to offset the tremendous financial risk associated with fiber to the home, we would reconsider our position. We will also continue to look for other ways to assist our communities in their efforts to provide broadband.

Please allow me to thank you and the Board for allowing me to serve as your President and CEO. I am honored to have this opportunity.

I want to thank all the employees who work tirelessly to provide the service you experience and that help meet the goals established by the Board and myself.

And finally, I want to thank my wife Jane for supporting me in my efforts. My schedule is often hectic, with many hours worked from home but she never complains. I appreciate that more than she will ever know.

Thank you all for coming out today and I hope you enjoy the rest of your weekend!