



# San Patricio Electric Cooperative Annual Report

**The following pages contain information about the operation of your electric cooperative over the past year.**

We encourage you to review the information; if you have any questions, please don't hesitate to contact us at (361) 364-2220.

We also encourage you to attend the cooperatives annual member meeting.

## San Patricio EC Annual Member Meeting

**Saturday, September 24, 2022 | Bee County Exposition Center  
The meeting begins at 9:30 a.m.**

Registration opens at 8 a.m. and closes at 9:30 a.m. The determination of a quorum will be made upon the closing of the board election.



## President's Message

It's been two long years since we've had the chance to meet face to face at San Patricio Electric Cooperative's annual meeting, and I'm looking forward to the opportunity to see you in person once again. I hope you'll take the time to attend the meeting this year and appreciate the tradition of fellowship with your fellow co-op members.

Though the annual meeting has looked different the past couple of years, your co-op has remained dedicated to providing the safe, reliable and affordable electricity that our members depend on.

While keeping the lights on is at the heart of what SPEC does every day, your cooperative is connected to you by more than power lines. We are your neighbor, and we're invested in seeing our communities thrive.

All members have benefited from the not-for-profit cooperative business model. We're owned by the communities we serve, and we give back whenever we can. Since 2008, SPEC has given back more than \$18 million in capital credits to our members, including \$1.6 million in 2021.

We've also worked to keep costs as low as possible for our members. Despite inflation and global supply chain issues this year, SPEC rates have remained stable. We've continued to respond to outages, conduct preventive maintenance and build power lines at no additional cost to our members.

That's not to say that our members haven't felt the pinch when they open their electric bills each month. The rising cost of natural gas has driven up the cost to generate electricity, and the cost of power has increased by 2-3 cents per kilowatt-hour over the past year, at least temporarily. These power costs are passed through to our members at no markup. SPEC does not profit from the electricity that South Texas Electric Cooperative provides.

As a SPEC member, I'm also affected by those increased costs. However, I know my co-op membership affords me some protections from the retail electric market, where prices are much higher. In deregulated areas, rates are averaging more than 18 cents per kWh, with customers having to lock in those prices for years.

SPEC is committed to supporting the communities we call home, and I'm proud to say that support also extends to local youths. Through the San Patricio Electric Education Trust, the cooperative has awarded 346 scholarships totaling \$1,193,000 to graduating high school seniors in our service area since 1999. These scholarship dollars are available thanks to generous capital credits donations from our members and uncollected capital credits.

This year, the cooperative awarded \$100,000 in scholarships to 25 local high school seniors. All these students are currently attending their first semester at a college or university. We hope that these students will bring their newfound knowledge back to our communities—and maybe even come work for the co-op someday.

After a two-year hiatus due to the COVID-19 pandemic, we were able to sponsor two area students on the Government-in-Action Youth Tour this June in Washington, D.C., where they toured our nation's capital and experienced how our government is run. On this trip, these students make lifelong friends, learn about the history and impact of electric cooperatives, and even have the chance to meet with their congressional representative to discuss issues affecting our area. It truly is the trip of a lifetime.

Beyond those programs, we work to support our communities by donating photography to participants at area livestock shows, providing school safety demonstrations, offering free energy audits, and supporting local organizations through donations and volunteerism.

In January, we were able to support four volunteer fire departments with \$20,000 in donations, as part of the CoBank Sharing Success program. To make these donations, SPEC committed \$10,000 in donations, which was matched dollar for dollar by our lender, CoBank. The Lagarto, Sandia, Taft and Three Rivers volunteer fire departments each received \$5,000 to support the important work they do in our communities.

A service mentality is a hallmark characteristic of a co-op employee, and at SPEC, a safety mindset is also of utmost importance. I feel blessed to say the cooperative has gone 14 years without a lost-time accident. That is an impressive safety record in an industry with so many hazards. At the end of the day, we want all employees to make it home safely to their families. And I pray that continues to happen. Lord willing, the cooperative will celebrate 15 years of no lost time in November.

With your continued support, San Patricio Electric Cooperative will continue to meet your energy needs with safe, reliable and affordable electric service.

I hope to see you at the annual meeting September 24.

*Tom Mayo*

**Tom Mayo, President**

Board of Directors

San Patricio Electric Cooperative



## Manager's Message

**T**he story of getting electricity to rural America is a powerful one. It's a hero's tale of the little guy taking on corporate America and winning. It's an inspirational story of neighbors working together for one common purpose.

There aren't many people left who remember what it was like watching that very first lightbulb brighten up their home. But for those who do, electricity will never be taken for granted. You might not think much of flipping on a light switch, but for those who just got power, it was life changing.

San Patricio Electric Cooperative has a rich history, but we're still writing our story. In the 84th year of San Patricio EC, we're looking toward the future and building upon our deep commitment to provide safe and reliable energy solutions for our members at a fair price.

We know that renewable energy is important to many of our members, and as we look toward the future, we're looking at ethical and fair options to provide solar energy to our members.

Last year, we launched a renewable energy rate to give our members the option to purchase electricity from renewable resources such as solar and wind energy.

We're also looking into selling rooftop and ground-mount solar power systems to our members. We've heard too many stories of people being swindled by solar companies, and as a stable, local, community-based organization, we think we can provide a more secure and dependable option. We hope to have more details to share about this program in the coming months.

Although our members haven't yet expressed much interest in electric vehicles, we know they are on the horizon. Every car manufacturer is working to bring more EVs to the market, and we aim to be prepared to support them on our system.

A large EV charging load during the peak hours of 3-7 p.m. could drive up the cost of electricity for all our members. Our goal is to reduce the demand on our system to keep rates as low as possible. For now, we're working to develop an EV rate, which will incentivize charging during off-peak hours, such as overnight and in the morning.

Additionally, we've recently created a load management program, which utilizes whole-home generators to shift electricity use off our system during peak events. Under this program, members who sign up for our interruptible rate allow SPEC to operate their generator during peak events in June, July, August and September. This helps

keep the cooperative's costs down when the price of power is sky high, a benefit to all members. In exchange, we pass the savings back to those participating members as bill credits for the next 12 months. We think this program is mutually beneficial to the cooperative and those who choose to participate. The monthly credit that members receive for participating should cover the fuel costs for the generator—and leave a little money in their pockets too.

If you have a whole-home generator and would like to participate, give us a call. We'd be happy to go over the program in more detail and can give you an estimate on what your monthly credit would be for participating.

If you're interested in purchasing a whole-home generator, we can help with that too. SPEC is an authorized Generac dealer, offering automatic whole-home generators and installation to our members at a competitive price.

Although we do our best to provide reliable electric service to all of our members, there are circumstances beyond our control that can cause power outages. We know you depend on electricity and are proud to offer this solution to ensure you can have 100% service reliability.

The coronavirus pandemic changed much about the world, and we know reliable, affordable internet is more important than ever in our communities. For that reason, we're conducting a feasibility study to determine if it would be possible for SPEC to bring broadband internet service to our members at an affordable price. I look forward to seeing the results of the study and sharing more about this in the coming months.

We answer to local members like you, and the feedback you provide guides the future of our cooperative. Many of these new services were identified through membership satisfaction surveys as opportunities to better serve you. We recently completed another survey in August. I want to thank those who took the time to participate. We look forward to seeing and sharing those results.

As we look toward the future, I know one thing won't change: We will not lose focus on our mission to provide reliable, affordable electricity to all of our members. Thank you for your patronage and continued support. I look forward to connecting with you in person at our annual meeting September 24.

*Ron Hughes*

**Ron Hughes, General Manager**  
San Patricio Electric Cooperative

# Balance Sheet

December 31, 2021 and 2020

ASSETS	2021	2020
<b>UTILITY PLANT</b>		
Electric plant in service at cost	\$ 66,001,921	\$ 64,103,022
Construction work in progress	1,025,730	393,830
Total	\$ 67,027,651	\$ 64,496,852
Less: Accumulated provisions for depreciation and amortization	(14,857,168)	(13,678,857)
<b>Net utility plant</b>	<b>\$ 52,170,483</b>	<b>\$ 50,817,995</b>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in associated organizations	\$ 23,027,798	\$ 22,114,632
<b>Total</b>	<b>\$ 23,027,798</b>	<b>\$ 22,114,632</b>
<b>CURRENT ASSETS</b>		
Cash—general	\$ 1,276,971	\$ 1,221,889
Temporary cash investments	19,337	4,447,800
Accounts and notes receivable	1,493,938	1,678,022
Unbilled revenue	460,373	426,549
Materials and supplies (at average cost)	17,882	15,845
Other current and accrued assets	163,400	156,667
<b>Total</b>	<b>\$ 3,431,901</b>	<b>\$ 7,946,771</b>
<b>DEFERRED CHARGES</b>	<b>\$ 55,639</b>	<b>\$ 78,285</b>
<b>TOTAL ASSETS</b>	<b>\$ 78,685,821</b>	<b>\$ 80,957,684</b>
<b>EQUITIES AND LIABILITIES</b>	<b>2021</b>	<b>2020</b>
<b>EQUITIES AND MARGINS</b>		
Memberships	\$ 27,965	\$ 29,275
Patronage capital	46,384,110	44,772,129
Other equities	199,973	186,636
<b>Total</b>	<b>\$ 46,612,048</b>	<b>\$ 44,988,040</b>
<b>LONG-TERM DEBT</b>		
RUS mortgage notes less current maturities	\$ 21,928,621	\$ 22,623,315
CFC mortgage notes less current maturities	39,362	45,434
Other long-term debt less current maturities	6,681,089	7,184,488
PPP loan		741,009
<b>Total</b>	<b>\$ 28,649,072</b>	<b>\$ 30,594,247</b>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 1,205,151	\$ 1,334,395
Accounts payable	340,859	285,321
Accounts payable—purchased power	668,878	1,263,434
Consumer deposits	329,667	1,768,311
Other current and accrued liabilities	319,096	320,160
<b>Total</b>	<b>\$ 2,863,651</b>	<b>\$ 4,971,621</b>
<b>DEFERRED CREDITS</b>	<b>\$ (561,050)</b>	<b>\$ (403,777)</b>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$ 78,685,821</b>	<b>\$ 80,957,684</b>



# Statement of Revenue and Patronage Capital

December 31, 2021 and 2020

	2021	2020
<b>OPERATING REVENUES</b>		
Residential	\$ 16,379,173	\$ 15,432,909
Irrigation	126,3388	168,035
Commercial and industrial	11,588,763	13,083,530
Security lights	311,175	284,230
Rent from electric property and other electric revenue	63,302	58,066
Other	151,188	122,609
<b>Total</b>	<b>\$28,619,989</b>	<b>\$29,149,380</b>
<b>OPERATING EXPENSES</b>		
Purchased power	\$ 16,667,051	\$ 17,149,424
Distribution—operation	1,638,354	1,560,762
Distribution—maintenance	3,160,751	3,459,203
Consumer accounts	926,765	963,171
Selling expenses	56,718	55,622
Administrative and general	1,624,871	1,419,287
Depreciation and amortization	2,092,481	2,032,250
Other interest expense	4,458	31,913
<b>Total</b>	<b>\$26,171,449</b>	<b>\$26,671,631</b>
<b>FIXED CHARGES</b>		
Interest on long-term debt	\$ 962,068	\$ 1,001,205
	<b>\$ 962,068</b>	<b>\$ 1,001,205</b>
<b>OPERATING MARGINS—AFTER FIXED CHARGES</b>		
Capital credits—G&T	\$ 1,486,472	\$ 1,476,543
Capital credits	856,972	1,020,294
	75,655	107,674
<b>NET OPERATING MARGINS</b>	<b>\$ 2,419,099</b>	<b>\$ 2,604,512</b>
<b>NONOPERATING MARGINS</b>		
Interest income	\$ 52,300	\$ 85,180
Gain on disposition of property	23,800	33,100
Other nonoperating income	717,659	10,289
	<b>\$ 793,759</b>	<b>\$ 128,569</b>
<b>NET MARGINS</b>	<b>\$ 3,212,858</b>	<b>\$ 2,733,080</b>
<b>PATRONAGE CAPITAL—BEGINNING OF YEAR</b>	<b>\$44,772,129</b>	<b>\$43,189,275</b>
<b>TOTAL PATRONAGE CAPITAL RETIRED</b>	<b>(1,600,877)</b>	<b>(1,150,226)</b>
<b>PATRONAGE CAPITAL—END OF YEAR</b>	<b>\$46,384,110</b>	<b>\$44,772,129</b>

## Secretary-Treasurer's Report

	2021	2020	CHANGE	% CHANGE
<b>Revenue</b>	\$28,619,988	\$29,149,380	-\$529,392	-1.82%
<b>Margins</b>	\$3,212,858	\$2,733,080	\$479,778	17.55%
<b>Assets</b>	\$78,685,821	\$80,957,684	-\$2,271,862	-2.81%
<b>KWh Sales</b>	228,569,806	268,795,969	-40,226,163	-14.97%
<b>Net Value of Plant</b>	\$52,170,483	\$50,817,995	\$1,352,489	2.66%
<b>Equity</b>	58.51%	55.77%	2.74%	4.91%
<b>Retired Capital Credits</b>	\$1,600,877	\$1,150,226		

*Clyde Stewart*

Clyde Stewart, Secretary-Treasurer  
San Patricio Electric Cooperative

## Independent Auditor's Report

To the Board of Directors  
San Patricio Electric Cooperative, Inc.  
Sinton, Texas 77954

**Report on the Financial Statements:** We have audited the financial statements of San Patricio Electric Cooperative Inc., which comprise the balance sheets as of December 31, 2021, and the related statements of income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of San Patricio Electric Cooperative Inc. as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion:** We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of San Patricio Electric Cooperative Inc. (the cooperative) and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements:** Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Financial Statements:** Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the cooperative's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### Other Matters

The financial statements of San Patricio Electric Cooperative Inc. as of December 31, 2020, were audited by other auditors whose opinion dated April 9, 2021, expressed an unmodified opinion on these statements.

**Accompanying Information:** Our audit was conducted for the purpose of forming opinions on the cooperative's financial statements. The accompanying schedules of electric plant, accumulated provision for depreciation, patronage capital, and administrative and general expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules of electric plant, accumulated provision for depreciation, patronage capital, administrative and general expenses, and five-year comparative data is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Report on Other Legal and Regulatory Requirements:** In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2022, on our consideration of the cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the cooperative's internal control over financial reporting and compliance.

Certified Public Accountants  
Lubbock, Texas  
March 25, 2022  
Bollinger, Segars, Gilbert & Moss LLP  
Certified Public Accountants

# Minutes of the Annual Membership Meeting of San Patricio Electric Cooperative

September 25, 2021

Due to health and safety concerns surrounding the COVID-19 pandemic, the Annual Member Meeting was held on September 25, 2021, without public attendance at San Patricio Electric Cooperative's office building located at 402 E. Sinton St. in Sinton, Texas. The meeting was recorded and a video was made available on the cooperative's website. Those present were:

**Members**

0 attending in person.  
666 mail-in or electronic ballots were received.

**Directors**

Tom Mayo, President	Aaron Salge (video)
Jim Bassett, Vice President (video)	Daren Wilder
Clyde Stewart, Secretary (video)	Tryne Mengers (video)
Bobby Bauch (video)	

**Others**

Ron Hughes, General Manager	Milton Lorenz, Attorney
Brittany Williams, PR Manager	Employees (video)

**Welcome**

Mr. Mayo welcomed members to the Cooperative's online Annual Meeting. He explained the need to close the meeting to the public due to the COVID-19 pandemic.

**Quorum**

Mr. Mayo called the meeting to order and declared a quorum was represented through the mail-in and electronic voting ballots. There were 7,736 members with a required quorum of 50. No members attended the meeting in person, and 666 members were represented at the meeting by mail-in or electronic ballot, which constituted a quorum.

**Invocation**

The invocation was given by Director Daren Wilder.

**Board Introduction and Special Guests**

Mr. Mayo introduced the Board of Directors. There were no special guests present.

**Official Notice**

Mr. Mayo stated the official notice was mailed to all members and announced the reading of the notice would be waived.

**Waive Reading of Minutes**

Mr. Mayo announced the reading of the September 26, 2020, annual member meeting minutes would be waived as the minutes were printed in the September issue of *Texas Co-op Power* magazine.

**Minutes Approved M/S/P**

Mr. Mayo stated that due to the nature of the Annual Meeting during the pandemic, approval of the September 26, 2020, Annual Meeting minutes were requested on the election ballots. Mr. Mayo announced that 623 members voted to approve the September 26, 2020, Annual Meeting minutes, and two members voted against approval. With a majority in favor, Mr. Mayo announced that the September 26, 2020, Annual Meeting minutes were approved as presented.

**President, Manager and Secretary Reports**

Mr. Mayo reported the President, Secretary and Manager reports were published in *Texas Co-op Power* magazine.

**General Manager Addresses Members**

Mr. Hughes then addressed the members.  
Mr. Hughes began by discussing Winter Storm Uri and ERCOT-mandated outages that occurred in February 2021. He explained that

the Electricity Reliability Council of Texas' role is to manage the grid. In an emergency situation, like Winter Storm Uri, ERCOT is tasked with keeping the Texas grid from collapsing into total darkness. ERCOT has several measures in place to prevent this from happening. A last-resort measure requires rolling blackouts to prevent a statewide blackout, which could take months to repair. Every electric utility is required to comply when ERCOT calls for rolling blackouts.

When Winter Storm Uri hit Texas in February 2021, ERCOT did not expect to lose 50%–60% of available generation. Mr. Hughes explained that number is huge and correlates with the amount of load that was dropped to save the grid.

Ice and cloud cover took out most of the renewables. Ice and freezing temperatures restricted the delivery of natural gas to gas-fired power plants. Added demand for natural gas for heating also dropped the availability of natural gas for generation. Once fuel supply was restricted, power plants began freezing up and tripping offline. Other power plants were down for spring maintenance and not able to run. And some had icing and freezing issues not related to fuel supply.

ERCOT began calling for rolling blackouts on February 14, and our system was required to comply. Instead of rolling through our circuits every 30 minutes as planned, more and more of our circuits were dropped to keep up with ERCOT's mandated load shedding. By the time the grid was stabilized, half of SPEC's circuits had been dropped and the co-op was not able to rotate outages for as much as 24 hours.

There were several times when the co-op tried to bring a circuit back on only to drop them again because of additional load shedding requirements. Some members were without power for longer periods due to other weather-related issues. Icy roads hampered response times, but SPEC crews worked diligently throughout the event to make sure SPEC's system would be operational as soon as the rolling blackouts were over. Downed power lines were picked back up and fuses replaced, even though the circuits were out for load management. Unlike others, SPEC did not wait to respond to problems until after the storm had passed. Because of that, most members were back on by Wednesday the 17th. Mr. Hughes applauded SPEC's crews and staff for working safely and restoring power as quickly as they did.

Mr. Hughes then explained that while others across the state experienced high electric bills when the cost of power skyrocketed to \$9 per kilowatt-hour, SPEC members did not. He explained that SPEC purchases electricity from South Texas Electric Cooperative. STEC had adequate generation to meet member's needs but was still required to comply with ERCOT's mandated load shedding.

The excess power that STEC generated during this time period helped support the grid and generated additional revenues to help offset the higher cost of generating electricity during the event. Mr. Hughes said as it stands today, SPEC will not need to increase rates to recover the cost of power during this event.

Next, Mr. Hughes addressed the likelihood that such an event would happen again. He explained that everything being done today will reduce the risk, but there's always the possibility that it could happen again.

He recommended that members who want to ensure they will not be out of power for extended periods of time, for any reason, should consider installing backup generation. To help make that possible, SPEC has partnered with Generac to install and sell whole-home generators and transfer switches at very competitive prices.

Finally, Mr. Hughes commended SPEC employees for reaching 1

million safe hours worked without a lost-time accident. Reaching this milestone took SPEC's employees 13 years. Mr. Hughes said the next milestone is 15 years without a lost-time accident.

Mr. Hughes then addressed questions asked by the members. He explained that because questions could not be asked in person this year, members were given the opportunity to ask questions on their election ballot or through email.

The first question came from Mr. Chase Paradise who asked why SPEC doesn't bury all of its power lines. Mr. Hughes explained that cost is the main reason why. It would cost an estimated \$153 million to bury all of the co-op's existing power lines. For some comparison, it costs just under \$18,000 to build a mile of single-phase overhead line, whereas it costs nearly \$30,000 for the equivalent underground line.

Mr. Hughes explained that maintenance is also an important consideration. Overhead lines are easier to maintain because linemen can see the entire line. Outage times could be longer with underground lines because it takes significantly more time to find faults in underground wire. And when the underground wire fails, crews have to dig it back up. It's also harder to upgrade underground lines or add new line extensions.

Accidents can cause major outages with both types of line. Overhead lines are more susceptible to car accidents, but people dig into underground lines too. That said, underground lines would create thousands more 811 calls for SPEC employees to respond to.

The co-op would also face challenges clearing trees and brush down to the ground, boring under roadways and working around other underground utilities and pipelines.

Mr. Hughes said the advantage to underground lines is that they aren't as susceptible to trees or high winds. And they look better aesthetically. Mr. Hughes explained that SPEC weighs those pros and cons when deciding where to use each type of line. On SPEC's system, it makes sense to have both.

The next question came from an unknown member, who said, "Why are utility rates rising for seniors and veterans? We have purchased a generator to assist with power outages, which occur frequently, and have purchased a new air conditioning system that is energy efficient and our bill has increased more than \$50."

Mr. Hughes said that SPEC's rates aren't rising. The co-op has not increased its rates in 15 years. What has changed in that time period is how much electricity its members use. Today the world is more plugged in than ever and how much electricity you use is the biggest variable on your bill. Mr. Hughes explained that SPEC is a not-for-profit electric cooperative, and it's happy to help you use less of its product. SPEC offers free energy audits for members. During this audit, the co-op's energy services representative will walk through your home and make recommendations on how you could use less electricity. Mr. Hughes asked members who are interested in an audit to call the cooperative to schedule an appointment.

Another anonymous member asked, "Why can't we have more light company options for my property? I get paid once a month and have to call each month just to make sure they don't disconnect my services. Very frustrating, especially with COVID issues."

Mr. Hughes explained that because SPEC is governed by the members it serves, it was exempt from legislation that forced the deregulation of the Texas electricity market in the late 1990s. While the co-op can choose to deregulate, there's no going back after it pulls the trigger. SPEC's board and staff have done a lot of research on deregulation and haven't found a scenario in which members would save money by opening SPEC's service area to competition.

Mr. Hughes reported that the Wall Street Journal recently analyzed data collected by the U.S. Energy Information Administration and found that Texans in deregulated areas have paid \$28 billion more for power over the past 20 years than Texans who live in areas that aren't open to retail competition.

He further explained that if SPEC was to deregulate, the co-op would still be your utility or wires company. It would still maintain the lines to your home and respond to your outages. You would still pay the SPEC distribution charges you see on your bill today. In fact, based on SPEC's cost analysis, those charges would increase by

1–2 cents per kWh to cover the increased cost of opting into the retail market. The only thing that would change is that you could choose to purchase your electricity from someone other than South Texas Electric Cooperative, who is SPEC's current wholesale power provider.

However, Mr. Hughes said that any company interested in selling electricity in SPEC's service area would have to spend significant dollars to test their system to be sure it was compatible with the co-op's. Neighboring Nueces Electric Cooperative, who has deregulated, does not currently have any other retail energy providers doing business in their service area.

Mr. Hughes concluded by reminding members that SPEC does not make a profit off of the electricity that STEC provides. It is passed on to SPEC members at cost. Retail electric providers are in business to make a profit, and those companies may not always have your best interest in mind. Some Texans learned the hard way during Winter Storm Uri, when they received astronomical bills. That wasn't the case for SPEC members.

The next question came from George Vaughan, who asked, "How much of our electricity is produced by wind power, natural gas, coal, etc.?"

Mr. Hughes said that SPEC utilizes a diverse mix of electricity resources to serve its members. This mix consists of approximately 64% natural gas, 21% coal and almost 15% renewables, including wind, solar and hydropower.

The next comment comes from Gaylon and Kathy Oehlke, who said, "Please ensure in the future that we will have service during situations like February 2021. Relying heavily on green energy is not the answer. This issue needs to be addressed going forward."

Mr. Hughes said that SPEC purchases a diverse mix of electricity from STEC, which was able to generate enough power to serve all of SPEC's members during the winter event. However, the co-op was still required to comply with ERCOT's mandated outages, a last resort effort to save the grid from total collapse. Had that happened, outages may have lasted months, not days.

He explained that ERCOT is governed by the Public Utility Commission and Texas Legislature. SPEC's board and staff have been voicing their concerns about reliability issues in the ERCOT market to Texas legislators for years. And SPEC has routinely shared its concerns about the reliability of the grid with members in Texas Co-op Power. Mr. Hughes said it's his hope that this recent crisis will force legislators to look at how the ERCOT market is functioning and restructure it in a way that is fair and protects our members from future emergency events.

On a related note, a couple of unknown members submitted questions about what changes were being made to the grid to prevent blackouts. Mr. Hughes said the Texas Legislature passed two bills earlier this year, which addressed some of the issues the state experienced this winter. Senate Bill 3 requires generators and transmission providers to weatherize their systems to better withstand extreme weather events. Natural gas suppliers, which supply power plants, will also be required to weatherize their facilities to be considered critical loads. ERCOT will also conduct annual inspections of these facilities to make sure they comply.

In addition, the PUC is also taking a look at how the market might be changed or restructured to incentivize new, reliable generation. Mr. Hughes said this may be the most beneficial change if it comes to fruition. In an energy-only market, there is no incentive to build more reliable generation. The existing fleet of reliable gas-fired and coal-fired power plants is struggling to compete. As more subsidized renewables are built, less energy will be needed from the gas- and coal-fired units. This ultimately drives their incremental cost up, which only incentivizes more subsidized renewables. Very little new reliable generation has been built since the industry was deregulated. And over the years, a significant amount of reliable generation has been lost due to poor economics and environmental regulations.

Mr. Hughes said restructuring the market to incentivize new generation is going to be paramount in solving the problem, but it will take years before we will see new power plants completed, even if

we started today.

Mr. Hughes explained that even though there has been some progress, he believes there's still work for the Public Utility Commission and legislators to do.

The next comment came from an anonymous member, who said, "While satisfied with the director choices in this election, I think it is important that there be more members who are willing to serve as directors and that there should be more than one choice for any open director seat. Is there a way for members to be educated about the role of the directors and encouraged to run for the position?"

Mr. Hughes explained that SPEC has a process it goes through each year to inform members about our election process. Each year in early July, a notice is sent to every member outlining our nomination process for our Board of Directors election. In addition, the co-op has a Nominating Committee, made up of SPEC members, whose role is to nominate at least one member for each board district up for election. Members have the option to contact a member of that committee for consideration, or they can submit a nomination by petition form to get on the ballot.

Mr. Hughes said some years, SPEC has contested elections. In others, like this one, the co-op doesn't have anyone outside of its incumbent directors expressing interest in serving on the board. Mr. Hughes said if you have ideas on how SPEC could better educate its members to give the co-op a call.

Finally, Mr. Hughes explained that SPEC received a number of positive comments from members, complimenting the co-op, its employees and service. While not everyone who sent in these comments provided their names, he would like to specifically thank David Ball, Yolanda Watson, Staci Cino, and Lydia and Joseph Terracciano for their kind words.

**Employees**

Mr. Mayo commended Mr. Hughes for his longevity as an employee of SPEC. Mr. Mayo reported that Mr. Hughes has been an employee of SPEC since 1976 and has served as General Manager for 15 years.

Mr. Mayo introduced the employees to the membership. Mr. Mayo thanked the employees for their dedication and efforts to the cooperative.

**Nominating Committee and Credentials and Election Committee**

Mr. Lorenz introduced the 2021 Nominating Committee and the 2021 Credentials & Election Committee. He thanked them for their work.

**Election Results**

Mr. Lorenz reviewed the nominating and voting procedures. He reported the Nominating Committee selected the following nominees for the election of directorship: Aaron Salge for District 1 and Clyde Stewart for District 5.

Mr. Lorenz presented a certification from the Credentials and Election Committee certifying the ballot count for the elected directors.

**Three-year terms:**

Aaron Salge, District 1: 567 votes  
Clyde Stewart, District 5: 584 votes

Mr. Lorenz announced, based on the Credentials and Election Committee's ballot certification, the elected directors were Aaron Salge, District 1, and Clyde Stewart, District 5.

There were a total of 7,736 eligible voters.

Out of 666 ballots received, 534 were paper ballots and 132 were online ballots. That equates to 8.61% participation from eligible voters.

**Adjourn M/S/P**

Mr. Mayo thanked the members for attending SPEC's online Annual Meeting. The meeting was adjourned.

*Tom Mayo*  
Tom Mayo, President

*Clyde Stewart*  
Clyde Stewart, Secretary-Treasurer

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