



Chris Reese
President & CEO

Annual Report

Sussex Rural Electric Cooperative, Inc.

President and Chairman's Report



Jack Haggerty
Chairman of the Board

When our forefathers formed Sussex Rural Electric Cooperative in 1937, members' quality of life was transformed with their new access to electric power - providing cleaner drinking water, light outside of daylight hours, and the ability to automate many physical tasks and chores. The socioeconomic benefits of the Rural Electrification Act of 1936 demonstrated the scope of electricity's importance to living a longer and better life. Today, more than 900 rural electric cooperatives power 56% of the nation's landmass.

Today, meeting people's energy needs is still critical to ensuring quality of life. In the early days of the coronavirus outbreak, it was clear that the pandemic would change our perception of normal. As we were all still adjusting to masks and social distancing for the first time, electric cooperatives like Sussex REC were looking ahead to identify and confront the possible long-term impacts of COVID-19. One of the first things we explored was the projected economic impact on our Co-op and consumer-members. The National Rural Electric Cooperative Association projected that lost electricity load and unpaid bills could total a staggering \$10 billion nationally through 2022. In response, Sussex Rural Electric Cooperative has tried to reach out and work with members struggling with financial hardship, helping them find payment assistance, and offering extended payment plans.

With state-mandated moratoriums on disconnections for non-payment, some members have fallen further and further behind on their bills. For some of our members who have been out of work or have had their incomes affected by the coronavirus, it may take them several months, if not years, to catch up. While we are offering interest-free, deferred payment plans, we also remain vigilant on trying to help our members find other forms of local, state, or federal assistance so that the wider membership does not have to absorb any of the potential economic shortfall.

When we shut our offices in March of 2020 and sent our employees home, we did not know what kind of revenue loss we would face due to the amount of layoffs and shutdowns that were occurring throughout the state. At the same time, we had to keep the lights on for our members. As schools and many businesses went remote, power quality and availability became even more critical. Our own employees worked every day from home for the first time in the Co-op's history and we rotated our line crews to try to keep them all safe, protected, and available to work. Faced with these unprecedented challenges, the Co-op took the steps necessary to keep its commitments to both our members and employees. Once it was available, Sussex Rural Electric applied immediately for the Paycheck Protection Program (PPP) loan offered from the federal government. We wanted to make sure that we could pay our employees, keep them safe and ready to work, and ensure Co-op power was there for our members. Securing the PPP loan was instrumental in that endeavor. The loan has since been forgiven by the Small Business Agency and we were able to defer and hopefully avoid any financial hardships.

Sussex Rural also applied for Federal Emergency Management Agency (FEMA) assistance related to our storm expenses from Tropical Storm Isaias, which impacted our service territory in August of 2020. Widespread outages were caused by high winds associated with the tropical storm and mutual aid crews were called in from our sister cooperatives in Pennsylvania. The ability to reclaim some of the expenses from this storm also helped keep SREC's financials strong in 2020.

While sales remained on budget, SREC's financial resilience is additionally owed to expenses that we did not incur in 2020. The cancellation of our Annual Meeting, Youth Tour, travel, and training expenses all attributed to the savings to offset receivable shortfalls.

As we worked on the year's budget, considering our costs and projections for 2021 and beyond, there were some indicators that a rate increase might be necessary. However, management and the Board of Directors could not seriously consider this notion during the ongoing pandemic and the hardships many of our members were facing. So rates have remained flat, the same as they were in 2020. In fact, Sussex Rural's rates have actually *decreased* by 4.7% since 2012 – a testimony to the Co-op's mission of providing the highest quality of service at the lowest possible cost.

Tree trimming remains the Cooperative's largest expense after the cost to purchase our power. Our ongoing right-of-way maintenance program continues on a cycle of four years' worth of a tree's growth. While this much tree cutting may seem extreme, doing all of this prevents potential outages which would be even more costly to repair. Outside of storms, 47% of the total outages SREC experienced in 2020 were due to trees. Adding to our regular tree trimming cycle, SREC has been proactively dealing with problem ash trees that are falling prey to the emerald ash borer, an invasive pest destroying ash trees across the country. We are monitoring the ash tree situation closely and last year began budgeting additional money to remove "danger" trees (trees that are dead or in imminent danger of falling onto our lines but are located outside of our tree-trimming right-of-way). We are tracking and monitoring dangerous ash trees separately from other problem trees in our territory. In 2020 we removed 27 problem ash trees from locations where, if one were to fall, the resulting outage could have affected hundreds (or more) members. We expect that number to increase in future years as more ash trees become affected by the emerald ash borer.

SREC Resources, our wholly owned subsidiary, experienced a shutdown of work for about three months due to the pandemic, but since the summer it has had a record year installing Cummins home standby generators. 58 Cummins Generators were sold in 2020 and most are now installed. Additionally, Resources installed 170 Generlink transfer switches in 2020, 110 of those since the August 2020 tropical storm. The pandemic caused delays for both manufacturers, first while assembly plants were closed and then in getting supplier parts for assembly. As a result, both Cummins and Generlink products have had long lead times for delivery.

ETS continues to be popular for members looking to replace oil and gas furnaces. Four new furnaces and two room units were energized in 2020. The combined effect of over 255 ETS systems (6.2 MW of demand capacity) installed across our service territory helps reduce SREC's peak power demands, which leads to lower power cost purchases we have to make which helps keep rates stable for all Sussex Rural members.

SREC continues to benefit from its 50-year contract with the U.S. Army at Picatinny Arsenal. Throughout 2020 many improvements, upgrades, and replacements were completed to continue updating and maintaining the base's electric distribution system. The contract with Picatinny also contributes to maintaining a strong amount of line crew coverage at Sussex during storms and large jobs.

In 2020, SREC retired capital credits in the amount of \$600,000 total - \$300,000 to members on our lines in 2003, \$150,000 to members from 2018, and \$150,000 to members from 2019. We sent 13,000 checks to members from those years based on the amount of electricity they used during that time. We split it this way to accomplish two things: to retire the oldest credits on our books (from 2003) and to make sure as many active members as possible (2018/19) receive capital credit checks so that they can realize the benefits of being a member of an electric cooperative. The distribution in 2020 benefitted over 90% of our active members, 57% of them being active members still on our lines dating back to 2003!

We were hoping to see you all in person at our Annual Meeting this year, but COVID-19 state mandates still prohibit large gatherings. Although we will not be sharing a meal and providing a bill credit, this year we will bring the meeting to you through an online platform. On June 7, our 2021 Online Meeting webpage will have informational content along with prizes, including a grand prize of a year's worth of FREE electricity.* You can register to win through an online form at www.sussexrec.com/annual-meeting, and if you vote in our mail-in board election in May, you will qualify for another entry – that is two chances to win!

Your Cooperative works hard to balance supply of electricity with demand. While that may sound simple, there is a complex web of facilities and organizations that work together to make it happen each day. An interconnected network of electricity generators and tens of thousands of miles of electrical lines all the way down to the 727 miles of Sussex Rural's grid work together to ensure that enough electricity is available on the coldest winter mornings and during the hottest days of summer. There may be a "new normal" in the world, but your Co-op continues to work with our members as we have since 1937.

**Year's worth of free electricity comes in form of a bill credit up to \$1,250, based on average, annual electricity usage of an SREC member. Prize is subject to tax and the recipient may receive an IRS Form 1099. More information at www.sussexrec.com/annual-meeting.*



Christopher P. Reese
President & CEO

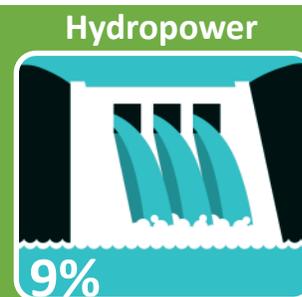
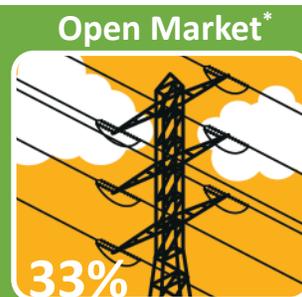
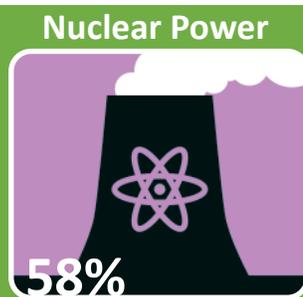


Jack Haggerty Jr.
Chairman of the Board

BALANCE SHEET (Audited)- For the years ended **2020** **2019**

Assets		
Total utility plant in service	\$ 71,923,920	\$ 69,219,102
Construction work in progress	840,743	1,018,269
	72,764,663	70,237,371
Less: Accumulated provisions for depreciation	(38,979,949)	(37,165,283)
Net electric plant	33,784,714	33,072,088
Total other investments	6,629,316	6,209,976
Total utility plant & other investments	40,414,030	39,282,064
Current assets:		
Cash & short-term investments	1,015,585	648,358
Accounts receivable Less provision for doubtful accounts of \$280,000 in 2020 and \$25,000 in 2019)	2,368,422	1,750,617
Materials & supplies	1,034,965	1,070,314
Other current & accrued assets	609,093	825,028
Total current assets	5,028,065	4,294,317
Deferred charges	2,438,271	1,195,878
Total Assets	\$ 47,880,366	\$ 44,772,259
Equities & Liabilities		
Equities:		
Memberships	\$ 54,955	\$ 54,250
Patronage capital	10,671,458	9,992,382
Other equities	9,892,094	9,174,484
Total equities and margins	20,618,507	19,221,116
Non-current liabilities:		
Long term debt, less current portion	16,683,074	18,596,835
Other	418,298	-
Total non-current liabilities	17,101,372	18,596,835
Current liabilities:		
Current portion of long-term debt	4,147,388	876,092
Other	121,559	-
Accounts payable	1,415,075	1,628,969
Consumer deposits	372,230	666,652
Other current & accrued liabilities	1,643,648	1,552,122
Total current liabilities	7,699,900	4,723,835
Deferred credits	2,460,587	2,230,473
Total Equities & Liabilities	\$ 47,880,366	\$ 44,772,259

Power Supply Sources



*Mix of nuclear, renewables, natural gas, and/or other sources

Operating revenue	\$ 21,078,940	\$ 20,576,971
Operating expenses:		
Cost of power	9,369,906	9,517,375
Transmission expense	7,321	6,145
Distribution expense - operation	1,772,568	2,031,759
Distribution expense - maintenance	2,647,770	2,859,955
Member account & service expense	1,359,052	1,077,169
Administrative & general expense	2,586,943	2,139,647
Depreciation & amortization expense	1,894,310	1,854,440
Taxes	1,686	(17,821)
Interest- other	51,244	67,068
Total operating expenses & interest	19,690,800	19,535,737
Operating margins before fixed charges	1,388,140	1,041,234
Interest on long-term debt	(731,283)	(728,110)
Operating margins after fixed charges	656,857	313,124
Capital credits from other cooperatives	747,652	215,744
Net operating margins	1,404,509	528,868
Non-operating margins:		
(Loss) / Gain on sale of assets - net	32,343	3,897
Interest and other income	190,283	90,591
Net margin for period	\$ 1,627,135	\$ 623,356
Total other comprehensive (loss) / income	396,807	(475,133)
Total comprehensive income	\$ 2,023,942	\$ 148,223



Where It Comes From		Where It Goes	
Residential	77.2%	Purchased Power Cost	44.5%
Large Commercial	5.9%	Operating Expenses	39.7%
Small Commercial	5.4%	Depreciation	9.0%
Seasonal	1.8%	Interest On Debt	3.7%
Electric Thermal Storage	1.2%	Margins	3.1%
Security Lights	0.5%		
Other Income	8.0%		