

2017 ANNUAL UPDATE



MESSAGE FROM GENERAL MANAGER **KATHI CALVERT**

WITH HOUSTON COUNTY ELECTRIC COOPERATIVE'S 78th annual meeting right around the corner, on November 2, we thought this was a good time to provide a comprehensive report of the cooperative's performance.

What better way to update members than directly from our board and the departments that make up your co-op?

I hope you enjoy this unique format, as it provides insight

into the different areas of your cooperative. I commend the efforts of our board and employees to provide **POWER FOR YOUR WAY OF LIFE**.

On behalf of myself, the board members and the employees of Houston County Electric Cooperative, I want to thank you, the members, for your continued support. It is an honor for us to serve you.



UPDATE FROM BOARD PRESIDENT **DANIEL COURMIER**

POWER FOR YOUR WAY OF LIFE. SIX WORDS. Simple. To the point. But our mission statement speaks volumes about who we are and what we do. Those six words articulate safety, reliability, affordability, strength, compassion and integrity. These are characteristics of an organization that makes each member in our communities proud to call Houston County Electric Cooperative "my cooperative."

Delivering the product that our mission statement describes does not happen by accident. Recently, board members, senior managers and key personnel spent two days mapping out a long-term road map that we follow today as our Strategic Plan. As part of our ongoing vision to provide safe and reliable power to our members, this plan will implement specific elements including a new transmission line, safety initiatives, facility upgrades and increased community engagement. These do not come without an investment but are vital to our long-term commitment to provide **POWER FOR YOUR WAY OF LIFE** to all member-owners.

Implementing any strategic plan requires a leader to oversee the project, prioritize needs, manage assets and deal with obstacles that arise. That leadership comes from our general manager, Kathi Calvert. She not only invests her time, but Kathi also invests her heart in the mission to see our cooperative thrive.

A leader also must have a strong, committed workforce, and that is found in the 63 professional individuals who make up our cooperative team. These are your friends, neighbors and relatives who care about our members and will stop at nothing to



The Houston County EC Board of Directors: Standing, from left to right, are William Emmons, Mitchell Huff, David Whittlesey, Kennon Kellum, Charles "Chuck" Siems and Grady Wakefield. Sitting, from left to right, are Kay Reed, General Manager Kathi Calvert, Mary L. Pearl Adams and Dan Courmier.

meet and exceed your expectations. They all have one thing in common: They are passionate and proud of the contributions they make to our communities. The cashiers who greet you with a smile, the right-of-way crews who care about leaving your property in better condition than when they arrived, the linemen who brave the wind and rain so **POWER FOR YOUR WAY OF LIFE** can be restored—they all work for you.

So next time you flip on a light switch or adjust your thermostat, stop a minute and think about all the people who care about providing **POWER FOR YOUR WAY OF LIFE**.

HUMAN RESOURCES UPDATE



UPDATE FROM HUMAN RESOURCES DIRECTOR **LYNNE ERICKSON**

SEVERAL YEARS AGO, OUR NATIONAL ORGANIZATION, THE

National Rural Electric Cooperative Association, announced that within 10 years, 60 percent of the cooperative workforce would be eligible to retire. That was an enlightening and frightening statistic.

Houston County Electric Cooperative has been very fortunate to be able to acquire and retain an excellent and dedicated workforce. In light of those retirement statistics, HCEC began to prepare for our future. Historically, your co-op's turnover rate was less than 2 percent annually. The first quarter of 2017 brought on the most significant changes in personnel in the cooperative's history: Six tenured employees retired, representing 248 combined years of experience.

With the hiring of new employees and the transitioning of existing employees to fill vacant positions, HCEC now has a workforce of several generations, including traditionalists, baby boomers, and generations X, Y and Z. Employee experience ranges from 54 years to less than one year. The traditionalists and boomers are teaching the millennials with hands-on, practical experience. The millennials are teaching the boomers about today's technology.

Imagine, five generations with differing ethnic and cultural backgrounds, cooperating, communicating and collaborating to provide perspective and ensure that we meet our goal of providing all members with POWER FOR YOUR WAY OF LIFE.

Houston County Electric Cooperative

P.O. Box 52, Crockett, TX 75835

GENERAL MANAGER

Kathi Calvert

BOARD OF DIRECTORS

Dan Courmier, President
 Kennon Kellum, Vice President
 Mitchell Huff, Secretary-Treasurer
 Mary L. Pearl Adams
 William Emmons
 Kay Reed
 Charles "Chuck" Siems
 Grady Wakefield
 David Whittlesey

Contact Us

**TO REPORT A POWER OUTAGE,
CALL OUR 24-HOUR HOTLINE**

1-800-970-4232 toll-free

BUSINESS HOURS

Monday–Friday, 8 a.m.–5 p.m.

CUSTOMER SERVICE

*For general information
during business hours*

(936) 544-5641 local

1-800-657-2445 toll-free

To report an outage or other problem with electrical service, press 1.

To make a payment over the phone or speak with a member services representative in the billing department, press 2.

For electrical connects, transfers and disconnects, press 5.

For directions to our office, mailing address or fax number, press 6.

For satellite internet services, press 7.

For staking and construction, press 8.

FIND US ON THE WEB

houstoncountyelec.com



FIND US ON FACEBOOK

HCEC EMPLOYEES' YEARS OF SERVICE

| | | | | | | | |
|------------------|----|------------------|----|-------------------|---|-----------------------|---------|
| Jack Vickers | 54 | Tommy Crawford | 19 | Sonja Key | 6 | Gary White | 2 |
| Charlie Gardner | 37 | Cliff Moore | 17 | Justin Currie | 6 | Duane Burselon | 2 |
| Donald Lamb | 33 | Keith Ferguson | 16 | Dan Fedak | 5 | Ashley Shoemake | 1 |
| Allen Lawrence | 32 | Jeremy Bobbitt | 15 | Doug Whitehead | 4 | Leanne Westbrook | 1 |
| Lynne Erickson | 31 | Mitch Dailey | 14 | Brenda Byrd | 4 | Erin Pemberton-Horace | 1 |
| Sandy Lawrence | 31 | Tara Young | 14 | Shelby Vance | 4 | Ruth Millhouse | 1 |
| Stacy Freeman | 28 | Sylvia Ramos | 14 | Kelby Koehler | 3 | Huntter Hollis | 10 mos. |
| Mike Lane | 27 | Russell Rivers | 13 | Cody Currie | 3 | Jasper Barnett | 10 mos. |
| Tony Liotta | 27 | Sarah Goolsby | 11 | Steve Millhouse | 3 | David McKinney | 9 mos. |
| Jeff Brown | 27 | Cherry Kellum | 10 | Freddy Wilson | 3 | David Howard | 9 mos. |
| Randy Lively | 27 | Kraig Goolsby | 10 | Hayden Campbell | 3 | Trevor Brooks | 7 mos. |
| Elliott Marshall | 27 | Dean Shupak | 10 | Samantha Noyola | 2 | Shiloh Crouch | 7 mos. |
| Bobby Hutcherson | 24 | Kyle Campbell | 9 | Megan Spellman | 2 | Elizabeth Ohl | 6 mos. |
| Casey Corry | 22 | Kathi Calvert | 8 | Shane Schexnayder | 2 | Tami Vandergriff | 3 mos. |
| Tim Johnson | 19 | Larry Wickersham | 7 | Justin Golden | 2 | Brandon Neal | 2 mos. |
| David Hildebrand | 19 | Cody Robinson | 7 | Brandon Quillin | 2 | | |

78TH ANNUAL MEETING OF MEMBERS!

JOIN US THURSDAY, NOVEMBER 2

CROCKETT CIVIC CENTER | REGISTRATION OPENS AT 4 P.M.

LINE OPERATIONS UPDATES



UPDATE FROM
 LINE SUPERINTENDENT **JACK VICKERS**
 ASSISTANT LINE SUPERINTENDENT **STACY FREEMAN**
 ASSISTANT LINE SUPERINTENDENT **MIKE LANE**

Safety

SINCE 1939, WE HAVE HAD ONE CORE GOAL: TO MAKE SURE EACH employee goes home safely to his or her family every day. Responsibility for the achievement of this goal rests squarely on each employee, and each employee's "vow of safety" is what drives our culture at Houston County Electric Cooperative.

Because of the numerous safety concerns in Houston County, we recently divided our "one-man department" into three separate divisions: Regulatory Compliance, Internal Operational Safety and Training Coordination. Each division

training including hurt man rescue and bucket truck rescue.

Our board of directors promotes participation in the Rural Electric Safety Achievement Program, which is an ongoing program focusing on continuous safety improvement. RESAP encourages the mind-set that we can always find ways to make our work environment safer, and it includes an in-depth peer review of our facilities, equipment, work practices and employee knowledge. Safety inspectors test our employees on emergency protocols, visit our field crews to assess their safety behaviors, check our equipment and scrutinize every aspect of facilities, from the office to the pole yard.

Because of the commitment to our vow of safety, on-site safety sessions are held one morning each week, and once a month we have an in-depth meeting to cover any areas of concern, as well as emergency training. We hope never to have to face an emergency situation; however, if one does arise, our employees will possess the ability to think quickly and respond immediately.

At HCEC, we are dedicated to improving our safety practices. Our goal is to protect HCEC's greatest resource: its employees.

Right-of-Way

In an area known for its timber and woodlands, it's a given that we are going to experience our share of dead trees knocking down power lines. But in the past few years, increased rainfall has caused a new problem: Green trees also are falling. When the ground becomes heavily saturated, large, green trees can drop because of soil failure;

others become so lush, their weight is too much to bear, causing them to topple unexpectedly. This phenomenon, combined with rapid vegetation growth, has proved challenging, but our in-house right-of-way team and contract crews are committed to providing **POWER FOR YOUR WAY OF LIFE**.

Our hazardous tree crews' primary objective is to remove any trees that are an immediate danger to power lines. You, our members, have been wonderful about notifying us of threatening trees. We appreciate your help in keeping our system safe and reliable.



is responsible for educating employees about their particular area of the cooperative's safety program.

Continuing education is a major part of our safety culture at HCEC. In addition to in-house training, employees have the opportunity to attend classes and conferences hosted by industry experts covering every aspect of our business, from our substations to the meter at your home. Each year we provide our employees training to meet Occupational Safety and Health Administration standards, as well as first-aid and CPR training. Our outside crews also complete a series of safety

We pride ourselves on our area being called “Paradise in the Pines.” We recognize and appreciate that trees are valuable assets to our members’ landscapes and to the quality of life in our area. Our goal is to protect both the environment and our members’ service.

Construction and Maintenance

Safe, reliable and affordable electric service is our primary objective. To achieve this, we’ve introduced several system-wide upgrades, including the addition of a changing conductor to address capacity needs for members, upgrading hydraulic breakers to vacuum breakers for improved reliability, and replacing copper wire to reduce line loss and our members’ power cost.

We have two in-house construction crews and a dedicated maintenance crew. Plus, we contract with Northeast Texas Power for additional construction work. Even though we cannot halt weather-related outages, you can rest assured that we’re doing everything in our power to upgrade our system to prevent outages.

Another step toward our reliability goal is the construction of a new substation in the Weldon area. This substation will increase power dependability for Weldon and surrounding communities. Easements have been acquired, and we have begun clearing the right-of-way for the transmission line to serve the station. By this time next year, we will have our new



HCEC sent seven employees to Jasper-Newton EC in Southeast Texas to assist with power restoration after Hurricane Harvey swept through the area. Pictured left to right are Casey Corry, David McKinney, Brandon Quillin, Dan Fedak, Randy Lively, Bobby Hutcherson and Hunter Hollis.

Weldon substation.

We are always progressing and leveraging new technology to maintain reliable service. From the day the first meter was installed in 1939 until now, we are advancing every day to better serve you.

OPERATIONS UPDATE



UPDATE FROM OPERATIONS SUPERINTENDENT CHARLIE GARDNER

POWER FOR YOUR WAY OF LIFE CONSISTS OF more than linemen and a billing department. Our Operations Field Support Department is vital to delivering reliable electricity to our members. This department is the backbone of the line crews and is divided into three main areas: staking, warehouse and fleet operations.

The staking crew is responsible for designing electric delivery service for new members, as well as performing system maintenance and making improvements. In 2017 alone, the staking department logged approximately 600 work orders that fell under these guidelines.

The warehouse manages more than \$1 million of inventory in a year. The annual physical inventory for 2017 resulted in an impressive 99.7 percent accuracy in accounting for materials. In addition, the warehouse staff is responsible for making sure that every line crew receives the correct material needed for each specific job, and that nothing is wasted.

The fleet crew oversees the maintenance of all Houston County Electric Cooperative vehicles. With 45 vehicles and equipment traveling 745,000 miles during the year, the crew works hard to keep everything in prime condition.

ACCOUNTING AND FINANCE UPDATE



UPDATE FROM
CHIEF FINANCIAL OFFICER **GARY WHITE**

HOUSTON COUNTY ELECTRIC COOPERATIVE continues to maintain financial stability while ensuring that members receive reliable, affordable service. The independent accounting firm of Knuckols, Duvall, Hallum & Co. audited our financial statement for the 2017 fiscal year. The opinion expressed in the independent auditor’s report was unqualified (good). Below are highlights of the financial performance.

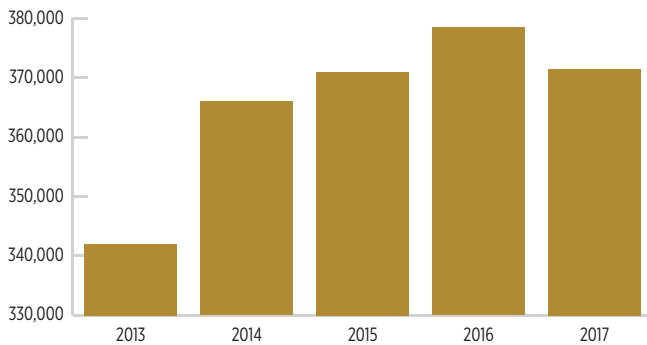
Energy Sales and Revenues

Total energy sales decreased 1.3 percent during the 2017 fiscal year (ended June 30), from 377,452 megawatt-hours to 372,445 MWh, reflecting the impact of milder weather in our nine-county service area. Meters served increased 1 percent, from 21,279 to 21,491. Operating revenue from all sources totaled \$42.3 million, and margins totaled \$2.3 million for the 2017 fiscal year.

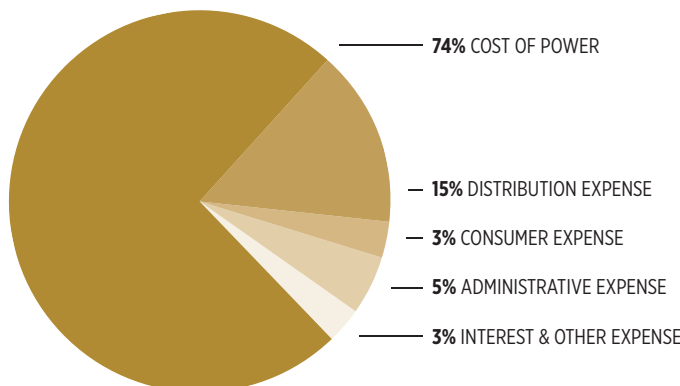


Houston County Electric’s Accounting and Finance Department: Standing, left to right, are Sonja Key, Lynne Erickson and Sandy Lawrence. Sitting, left to right, are Brenda Byrd and Cherry Kellum.

MWh Sold



Operating Expenses



Purchased Power Costs and Operating Expenses

Wholesale power costs represent the largest cost component of electric bills, and increases or decreases during the year are flowed through to consumers using the power cost adjustment. Purchased power cost was \$28.3 million for the fiscal year.

Operating expenses include distribution, consumer, administrative and interest expenses.

Distribution expenses represent the second-largest cost component of HCEC and are composed of labor, benefits, right-of-way maintenance, pole testing and outage restoration costs, among others. Consumer expenses represent the cost of servicing members’ accounts, and administrative expense represents the costs of management, training and facilities. Controlling costs while maintaining quality service remains a top priority.

Capital Expenditures

Internally funded utility plant construction, improvements and general plant additions totaled \$5.2 million for the fiscal year 2017. Total net utility plant assets total \$70.6 million at fiscal year-end. During the fiscal year, we began work on our 14.6-mile Weldon transmission line, initiated a three-year meter exchange program, and made numerous system and substation upgrades focused on improving the reliability of service and maintaining our facilities.

BALANCE SHEET

| | 2016 | 2017 |
|---------------------------------------------------|------------------|------------------|
| Net Utility Plant | \$ 67,476,314 | \$ 70,631,060 |
| Investments in Associated Organizations | 15,041,346 | 16,180,832 |
| Current and Accrued Assets | 16,396,028 | 16,130,597 |
| Deferred Debits | <u>1,324,890</u> | <u>1,167,266</u> |
| Total Assets | 100,238,578 | 104,109,755 |
| Patronage Capital | 71,283,085 | 72,680,189 |
| Memberships and Other Margins | 136,506 | 135,191 |
| Long-Term Debt | 18,980,672 | 17,965,384 |
| Current and Accrued Liabilities | 9,752,888 | 13,251,033 |
| Deferred Credits | <u>85,427</u> | <u>77,958</u> |
| Total Liabilities | \$100,238,578 | \$104,109,755 |

STATEMENT OF OPERATIONS

| | 2016 | 2017 |
|-----------------------------------------|---------------------|---------------------|
| Sale of Electric Power | <u>\$44,251,563</u> | <u>\$42,339,009</u> |
| Total Revenue | 44,251,563 | 42,339,009 |
| Purchased Power | 29,376,499 | 28,251,515 |
| Operations and Maintenance | 6,244,608 | 5,915,774 |
| Consumer and Customer Service | 1,197,603 | 989,262 |
| Administration and General | 1,949,837 | 1,960,351 |
| Depreciation | 3,589,296 | 3,879,484 |
| Taxes | 74,778 | 72,367 |
| Interest | 977,387 | 970,980 |
| Other Deductions | <u>63,017</u> | <u>29,675</u> |
| Total Expense | 43,473,025 | 42,069,408 |
| Operating Margins | 778,538 | 269,601 |
| Nonoperating Revenue—Interest | 466,666 | 474,175 |
| Nonoperating Margins—Other | 269,309 | 70,556 |
| Other Capital Credits | <u>1,055,300</u> | <u>1,469,100</u> |
| Total Margins | \$ 2,569,813 | \$ 2,283,432 |

DISPATCH UPDATE



UPDATE FROM
DISPATCH SUPERVISOR **SAMANTHA NOYOLA**

HAVE YOU EVER WONDERED HOW HOUSTON County Electric Cooperative crews start restoring power after an outage? When you call to report a power loss, your message goes directly to the HCEC Dispatch Center. That's when our system dispatchers go to work. We answer your calls promptly, responding to your concerns and submitting vital information to our storm crews.

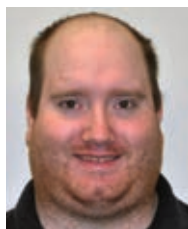
System dispatchers are responsible for monitoring outages, communicating with members and providing updates via external messaging to keep our members informed. It's important that you know our commitment is to make sure HCEC crews get to your outage location safely and as quickly as possible.

POWER FOR YOUR WAY OF LIFE is our top priority, and we are here to serve you 24 hours a day, seven days a week, 365 days a year.



Houston County EC dispatchers: Standing, from left to right, are Samantha Noyola, Tami Vandergriff, Elizabeth Ohl and Leann Westbrook. Sitting, from left to right, are Justin Golden and Erin Pemberton-Horace.

INFORMATION TECHNOLOGIES UPDATE



UPDATE FROM
OPERATIONS MANAGER OF TECHNICAL SUPPORT **MITCH DAILEY**
IT MANAGER **SHELBY VANCE**

THE NEXT BEST THING TO reliable electricity is a reliable information technology department. We admit it: We are a paranoid group. Our job is to anticipate problems—how technology could interrupt business, what component could break, or who might hack our system. Our goal is to keep servers, desktop computers, iPads and communication channels secure and working to allow everyone to do their jobs. To do this, we have been working on projects that focus on increasing our IT systems' resiliency and dependability while protecting the electric grid and your personal information.

We have created a multistage disaster recovery plan. Currently, all Houston County Electric Cooperative core systems are backed up and quickly recoverable in case of system failure. The next phase includes an off-site system backup and recovery installation. This phase is scheduled to be completed by the end of the year and will allow us to continue a basic level of service in

worst-case scenarios, such as the loss of our office building.

To secure communication systems, we have transitioned most of our substations to microwave radio as opposed to local internet service. This allows us to maintain communication with substations much more easily during storms and insulates us from issues such as cut underground cables. Communication with our substations is valuable in our outage response efforts, facilitating better outage management.

Finally, as many active threats in the cyber realm surface every day, HCEC is taking strides to protect our members' data from threats such as data breaches, ransomware, and all forms of viruses and malware. We have implemented security improvements, provided employee training and contracted with outside vendors to provide system penetration tests and system monitoring. We are doing our very best to protect our members and employees from cyberthreats so they can focus on providing you quality service.

MEMBER SERVICES UPDATE



UPDATE FROM
MEMBER SERVICES MANAGER **TARA YOUNG**

AS A MEMBER-OWNED ELECTRIC COOPERATIVE, our goal is to promote member service by providing effective communication of the cooperative’s mission, programs, services and new developments. Because of our commitment to this concept, we have added a communications representative to our team. We feel that it is imperative for us to be ready to listen and respond to our members, whether by phone, in person or by posting feedback on social media.

We strive to meet members’ needs with new technology. By offering a mobile app, not only have we made outage reporting easier but also we have given you the ability to see the service map and pay your bill. One of our most important mobile app features is push notifications. Members can receive account notifications such as “bill ready,” “bill due,” “payment posted” and “delinquent” status through texts and/or email.

For a small co-op such as Houston County Electric Cooperative, utilizing shared resources can be invaluable. That’s why we elected to become a Touchstone Energy cooperative. Connecting the people of America’s electric cooperatives to

benefit members and their communities makes cooperatives belonging to Touchstone different from traditional power companies.

You may have noticed that our website received a much-needed facelift this year. Members find the new site easier to navigate, and it is filled with valuable information. Through our Touchstone membership, we have gained access to a wealth of communications campaigns, education and training tools, member benefit programs and web development tools. Our partnership with Touchstone is an ongoing way to serve the best interests of our owner-member community.

We are constantly evolving to provide the best possible member experience. Whether through

employee training, creating new positions, improving our infrastructure or deploying technology solutions, we are committed to meeting the needs of our members.

On behalf of the general manager, board of directors and employees of Houston County Electric Cooperative: Thank you, our owner-members, for your continued support. It is an honor for us to serve you.



HOUSTON COUNTY ELECTRIC COOPERATIVE WOULD LIKE TO SALUTE ALL VETERANS FOR THEIR SERVICE.



DAVID HILDEBRAND



RUTH MILLHOUSE



STEVE MILLHOUSE



JACK VICKERS