'23 ANNUAL REPORT

ENERGETIC DAWN: ILLUMINATING TOMORROW

PRESIDENT & GENERAL MANAGER'S REPORT

As we reflect on the achievements and challenges of the past year, it is with great enthusiasm that we present to you our annual report for 2023. Under the guiding theme of "Energetic Dawn: Illuminating Tomorrow," we celebrate not only the progress we've made but also the limitless potential that lies ahead in shaping the future of STEC for the benefit of our Members.

At the heart of STEC's mission is the commitment to provide reliable and affordable electricity to our members. To fulfill this commitment, we must address the evolving needs of our grid and the changing dynamics of the energy landscape. Two key pillars of this endeavor are the expansion of our transmission infrastructure and the enhancement of dispatchable generation capabilities.

The need to build additional transmission infrastructure has never been more urgent. As our communities grow and evolve, so does the demand for electricity. By investing in new transmission lines and modernizing existing infrastructure, we can ensure that electricity flows seamlessly from generation sources to end-users. This not only improves reliability and resilience but also facilitates the integration of renewable energy resources into our grid.

In 2023, STEC took substantial steps in setting the stage for the addition of transmission projects that will benefit consumers throughout Texas; particularly consumers in South Texas. These additions will improve reliability and reduce costs for millions across the state. One such project includes the fourth line to the Lower Rio Grande Valley. STEC received approval to modify its Certificate of Convenience and Necessity to construct a significant portion of the fourth 345kV line into the Lower Rio Grande Valley which will improve the ability to serve loads in that region, and to also export significant amounts of renewable generation to serve ratepayers across the state. STEC was also chosen as a participant to construct a strategically important 345kV line from San Miguel to the south side of San Antonio to alleviate a critical bottleneck and to allow for the ability to serve a rapidly growing data center industry that has chosen to call South Texas home.

In parallel, we recognize the significant importance of bolstering our dispatchable generation capacity. While renewable energy plays a vital role in diversifying our energy mix, its intermittent nature poses challenges to grid stability. To mitigate these challenges and ensure a reliable power supply, we must invest in dispatchable generation technologies, such as natural gas, hydroelectric, and energy storage. By doing so, we can maintain grid stability, manage peak demand periods effectively, and safeguard against unforeseen disruptions, ultimately enhancing the resilience of our energy infrastructure.

The Texas Legislature recognized this need, and in the 2023 regular session of the 88th Legislature, the expansion of incentives to encourage the development of dispatchable generation was again a high priority issue for our leaders. STEC, having earned significant trust and respect following our performance during Winter Storm Uri in 2021, engaged regularly during the spring session with Legislators across both political parties to educate and to help formulate legislation that will hopefully improve the reliability of the ERCOT grid for generations of Texans. At the same time, STEC's Board continued to engage in its own review of strategic resource planning, culminating with the adoption of an updated set of planning metrics in June of 2023 that will guide future portfolio investment in the coming years. This was a long, deliberate, and thoughtful process that considered the updated dynamic of the ERCOT region and the continued focus on both reliability and affordability for our end-use members.

This past year was momentous in charting the future course for STEC. As we celebrate our 80th year of existence in 2024, we are grateful to those who came before us with the vision to band together to control their destinies. STEC's story of success is strongly rooted in the contributions of those who came before us. Our future success will be written by our dedicated and talented employees. Their unwavering dedication, expertise, and tireless efforts are the driving force behind everything we do. Whether they are working diligently to maintain critical infrastructure, responding swiftly to outages, or engaging with our Members to deliver exceptional service, our employees exemplify the ideals of teamwork, integrity, and excellence. They are not just employees; they are the heartbeat of our cooperative, and we are profoundly grateful for their contributions.

As we look to the horizon where a new dawn occurs, we are filled with optimism and determination to seize the opportunities that lie ahead. Together, guided by our shared values and commitment to service, we will continue to illuminate the path forward, energizing our communities and shaping a brighter tomorrow for generations to come.

BARBARA S. MILLER
President

CLIF LANGE
General Manager

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Our mission is to provide the infrastructure and services to deliver reliable and economical electric power to a diversified membership.

BOARD OF DIRECTORS

BARBARA S. MILLER
PRESIDENT
Magic Valley
Electric Cooperative, Inc.

RON HUGHES
VICE PRESIDENT
San Patricio
Electric Cooperative, Inc.

PAUL T. BRYSCH, JR.
SECRETARY-TREASURER
Karnes
Electric Cooperative, Inc.

GARY RAYBON
ADMINISTRATIVE &
OPERATING CHAIRMAN
Wharton County
Electric Cooperative, Inc.

VARZAVAND "AVAN" IRANI
POWER SUPPLY CHAIRMAN
Nueces
Electric Cooperative, Inc.

BRUCE ELLIOTT
DIRECTOR
Jackson
Electric Cooperative, Inc.

DONALD HERRMANN
DIRECTOR
Nueces
Electric Cooperative, Inc.

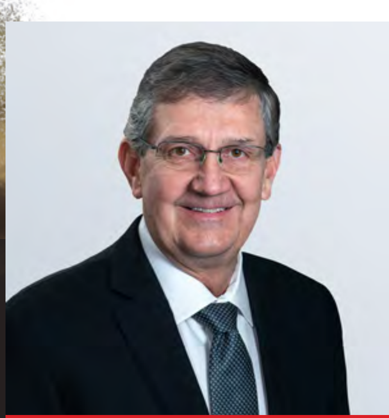
MIKE ABLES
DIRECTOR
San Bernard
Electric Cooperative, Inc.

CLYDE STEWART
DIRECTOR
San Patricio
Electric Cooperative, Inc.

The Board of Directors of South Texas Electric Cooperative, Inc. are rural electric leaders who have either been elected to the Board of their distribution system or are managers of their distribution system. The Board consists of two representatives from each of its nine Member Cooperatives.

LARRY HUESSER
ASSISTANT SECRETARY-TREASURER
Medina
Electric Cooperative, Inc.

JIM COLEMAN
POWER DELIVERY CHAIRMAN
Jackson
Electric Cooperative, Inc.



SAMMY CONDRA
FINANCE & AUDIT CHAIRMAN
San Bernard
Electric Cooperative, Inc.

BRAD BIERSTEDT
DIRECTOR
Karnes
Electric Cooperative, Inc.

BRIAN ACOSTA
DIRECTOR
Magic Valley
Electric Cooperative, Inc.

TREY GREBE
DIRECTOR
Medina
Electric Cooperative, Inc.

BLAINE WARZECHA
DIRECTOR
Victoria
Electric Cooperative, Inc.

TREY RUSCHHAUPT
DIRECTOR
Victoria
Electric Cooperative, Inc.

JIM HARTON
DIRECTOR
Wharton County
Electric Cooperative, Inc.

MEMBER HIGHLIGHTS & SERVICE AREAS

JAMES COLEMAN
GENERAL MANAGER/CEO
Jackson Electric Cooperative, Inc.

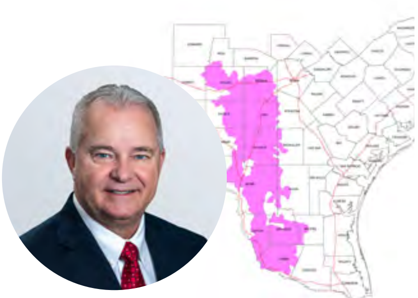
Total Utility Plant	$150,710,895
Total Margins & Equities	$73,585,421
Total Revenue	$73,546,484
Total kWH Sold	897,275,537
2023 New Connections	403
Total Connections in Service	19,479
Total Miles of Line	2,503

BRAD BIERSTEDT
GENERAL MANAGER
Karnes Electric Cooperative, Inc.

Total Utility Plant	$164,951,521
Total Margins & Equities	$178,772,166
Total Revenue	$119,358,959
Total kWH Sold	1,358,753,499
2023 New Connections	501
Total Connections in Service	24,661
Total Miles of Line	4,792

BRIAN ACOSTA
GENERAL MANAGER
Magic Valley Electric Cooperative, Inc.

Total Utility Plant	$520,475,164
Total Margins & Equities	$332,914,757
Total Revenue	$287,465,366
Total kWH Sold	2,781,254,478
2023 New Connections	5,807
Total Connections in Service	143,615
Total Miles of Line	5,670



TREY GREBE
GENERAL MANAGER
Medina Electric Cooperative, Inc.

Total Utility Plant	$ 274,275,630
Total Margins & Equities	$ 140,343,853
Total Revenue	$ 147,681,289
Total kWH Sold	1,507,114,619
2023 New Connections	777
Total Connections in Service	41,749
Total Miles of Line	9,984

VARZAVAND "AVAN" IRANI
CEO
Nueces Electric Cooperative, Inc.

Total Utility Plant	$ 162,026,957
Total Margins & Equities	$ 131,878,329
Total Revenue	$ 95,343,436
Total kWH Sold	827,350,330
2023 New Connections	614
Total Connections in Service	27,140
Total Miles of Line	3,258

MIKE ABLES
GENERAL MANAGER
San Bernard Electric Cooperative, Inc.

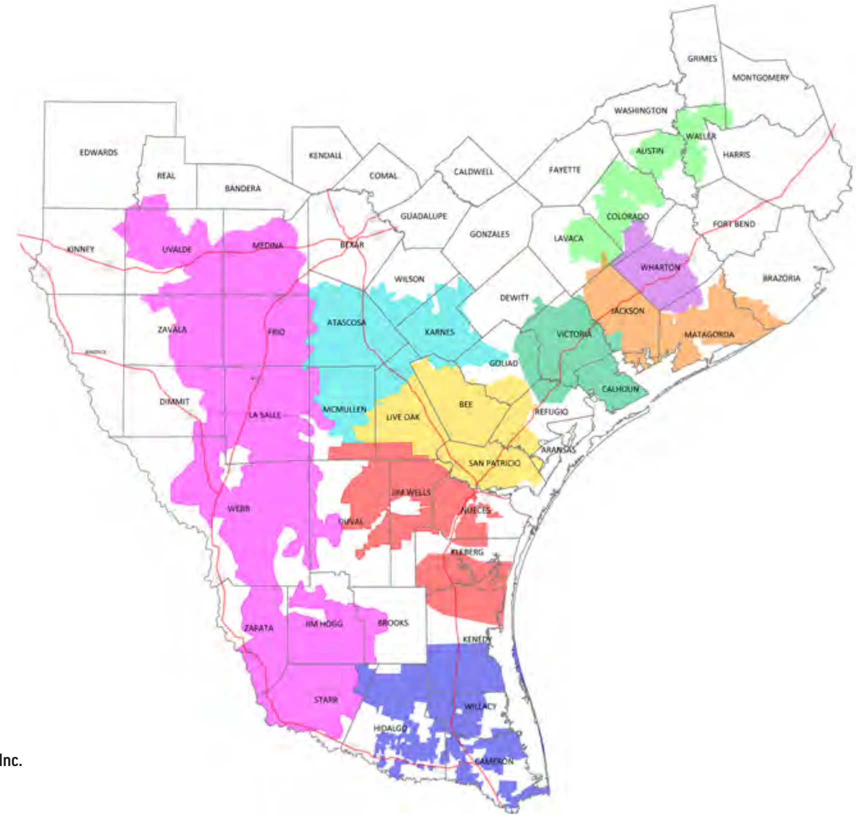
Total Utility Plant	$ 240,690,213
Total Margins & Equities	$ 108,470,149
Total Revenue	$ 100,155,798
Total kWH Sold	789,297,879
2023 New Connections	794
Total Connections in Service	34,735
Total Miles of Line	4,075

Combined Financial Strength of STEC'S MEMBERS

STEC

STEC Plant in Service	$1,691,042,609
Combined Distribution Utility Plant	$1,806,531,750
Combined Distribution Margins & Equities	$1,152,714,654
Combined Distribution Revenue	$952,089,991
Total Retail kWH Sold	9,275,465,843
2023 New Connections	9,711
Total Connections in Service	339,993
Total Miles of Distribution Line	37,932
Total Miles of Transmission Circuit	2,294
Total Stations/Delivery Points	227

The combined financial strengths of South Texas Electric Cooperative and its member distribution cooperatives are adequate to serve the needs of South Texas. Together we have the determination and resources to face the challenges of the future.



SERVICE AREA BOUNDARIES

- Jackson Electric Cooperative, Inc.
- Karnes Electric Cooperative, Inc.
- Magic Valley Electric Cooperative, Inc.
- Medina Electric Cooperative, Inc.
- Nueces Electric Cooperative, Inc.
- San Bernard Electric Cooperative, Inc.
- San Patricio Electric Cooperative, Inc.
- Victoria Electric Cooperative, Inc.
- Wharton County Electric Cooperative, Inc.

San Patricio Electric Cooperative, Inc.

RON HUGHES
GENERAL MANAGER
San Patricio Electric Cooperative, Inc.

Total Utility Plant	$	73,988,595
Total Margins & Equities	$	49,570,514
Total Revenue	$	31,416,548
Total kWH Sold		253,962,854
2023 New Connections		261
Total Connections in Service		14,863
Total Miles of Line		3,184

VEC Victoria Electric Cooperative

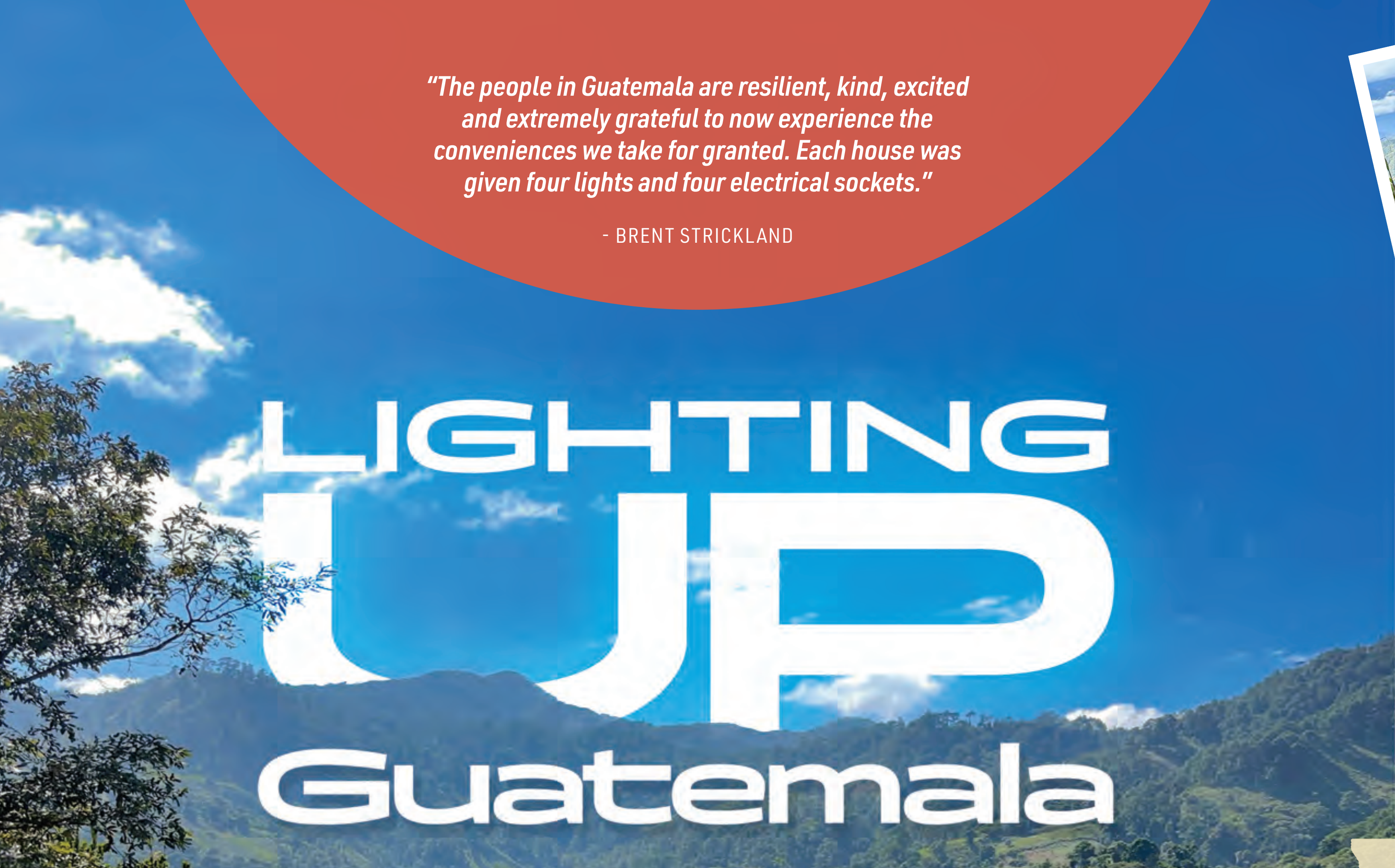
BLAINE WARZECHA
GENERAL MANAGER
Victoria Electric Cooperative, Inc.

Total Utility Plant	$	153,817,670
Total Margins & Equities	$	94,714,917
Total Revenue	$	70,902,247
Total kWH Sold		623,748,069
2023 New Connections		460
Total Connections in Service		26,177
Total Miles of Line		3,120

Wharton County Electric Cooperative, Inc.

GARY RAYBON
GENERAL MANAGER/CEO
Wharton County Electric Cooperative, Inc.

Total Utility Plant	$65,595,105
Total Margins & Equities	$42,464,548
Total Revenue	$26,219,864
Total kWH Sold	236,708,578
2023 New Connections	94
Total Connections in Service	7,574
Total Miles of Line	1,346



"The people in Guatemala are resilient, kind, excited and extremely grateful to now experience the conveniences we take for granted. Each house was given four lights and four electrical sockets."

- BRENT STRICKLAND

LIGHTING UP Guatemala

"If the villagers hadn't helped, it would have taken us a month rather than two weeks! The terrain was a big surprise. Once you got there all you see is mountains. It was worth going and doing. We do a lot of these projects, and I would definitely recommend anyone and everyone to take these opportunities."

- BRENT STRICKLAND

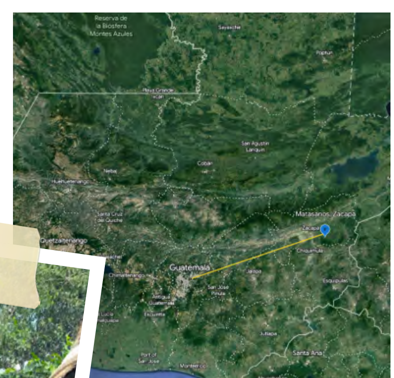
"When we look around, we don't get excited about having electrical sockets, lights, and hot water. We just expect those things to be there."

- ANDREW JACKSON

It was amazing to see people live on a cliff with the drop off five feet from the front door. They came together as a village and a community to help us. This is going to change their lives."

- ANDREW JACKSON

NRECA International is a program that designs and builds power generation-distribution systems, renewable energy systems, and community owned and operated sustainable utilities in developing economies. NRECA International is supported by more than 300 electric cooperatives in the United States with contributions that include monetary donations, equipment, and labor. In November 2023, South Texas Electric Cooperative (STEC) participated in the Texas Electric Cooperatives (TEC) Group 7 NRECA International project in Matasanos, Guatemala committing, both labor and monies toward the project. TEC Group 7 consists of twelve Electric Cooperatives: Jackson, Karnes, Magic Valley, Medina, Nueces, Rio Grande, San Bernard, San Miguel, San Patricio, South Texas, Victoria, and Wharton County. The project was rewarding to both the villagers' receiving electricity and the linemen who traveled and provided their labor to improve the villagers' lives. Two of our own, Brent Strickland and Andrew Jackson, plus 18 other linemen, spent the first two weeks of November in Guatemala working with NRECA International and community locals to bring power to at least 55 homes! Clif Lange, along with other TEC Group 7 general managers, joined the group to volunteer within the community of Matasanos.



Matasanos is in Zacapa, about 4 hours from Guatemala City.

OUR VISION

South Texas Electric Cooperative is a cutting-edge Generation and Transmission Cooperative and a leader in providing a diverse portfolio of affordable energy, a reliable power delivery system, and services customized to the needs of the members.

OUR MISSION

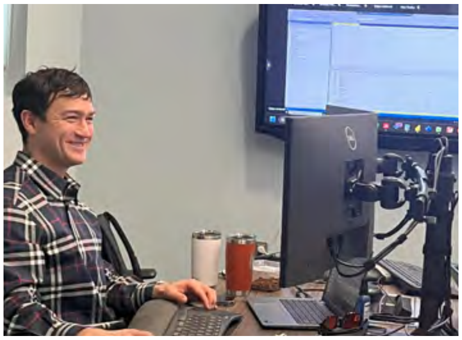
STEC's mission is to provide the infrastructure and services to deliver reliable and economical electric power to a diversified membership.

CORE VALUES

SAFETY | TEAM WORK | INTEGRITY | COMMUNICATIONS

LEFT TO RIGHT: **JOHN PACKARD**, Manager of Power Supply | **WENDY OHRT**, Manager of Corporate & Member Services
KELLY GRONES, Manager of Human Resources | **CLIF LANGE**, General Manager | **TABATHA TEMPLE**, Chief Financial Officer
MICHELLE GLOOR, Executive Assistant | **AMY PRATKA**, Corporate Risk Officer | **CORY ALLEN**, Assistant General Manager/Manager of Power Delivery

RISK MANAGEMENT



STEC's Risk Management Department has been a single employee department since its inception in 2015 with only the Corporate Risk Officer. In 2023, the organization filled two open positions in the department, including a Contracts Coordinator and a Corporate Solutions Engineer.

The Corporate Risk Officer continues to manage the identification and mitigation of current and potential risks throughout the organization. Risk analysis is conducted by means of risk assessments and internal audits. The ten risk categories STEC considers when completing assessments and audits are as follows: Safety, Compliance, Financial, Internal Controls, Information Technology, Operations, Strategic, Personnel, Environmental, and Operational Technology.

The risk assessment process enables us to identify, prioritize, control, and monitor both existing and potential risks.

Currently, risk assessments are conducted for each department within the organization. The Power Supply Division was the primary focus of the risk assessment program for 2023. Mitigation plans were developed for eliminating and addressing the risks identified within each of the assessments. Progress on the mitigation plans will be monitored, routinely reviewed, and updated regularly.

The Corporate Risk Officer is also responsible for the internal audit function and providing STEC's Board of Directors and management with reasonable assurance regarding the effectiveness and efficiency of existing operations, reliability of financial reporting, and compliance with applicable policies, laws, and regulations. During 2023, three business process audits were conducted, which focused on the disposal of assets, employee Fair Labor Standards Act (FLSA) statuses, and a review of the internal member billing process.

With the addition of two new employees came many added responsibilities for the Risk Management Department, including insurance management. **The Risk Management Department is now responsible for overseeing the evaluation of insurance coverage as an element of risk mitigation strategies, recommending changes to elements of coverage, reporting accurate property values to STEC's insurance carriers, ensuring insurance-related contract terms and language are acceptable, maintaining all certificates of liability insurance for STEC vendors, and managing all insurance claims for the organization.**

Over the past few years, STEC management determined that the organization would benefit from centralizing our contract management efforts, and STEC hired a Contracts Coordinator in 2023.

The Contracts Coordinator's efforts are critical in supporting the Cooperative by focusing on reducing risk, reducing cost, ensuring all relevant stakeholder views have been incorporated and evaluated, and ensuring the needs of the Cooperative and the capabilities of the supplier are aligned when executing agreements. The Contracts Coordinator works with vendor/contractor representatives and, if necessary, STEC legal counsel to develop mutually agreeable contract terms to get STEC agreements executed. Additionally, the Contracts Coordinator provides support to STEC team members with contracts and contract-related vendor issues, including vendor insurance coverage compliance.

In 2020, STEC implemented Microsoft Dynamics 365 Finance and Operations (D365), an Enterprise Resource Planning (ERP) system, within the organization. This cloud-based software package replaced the previous on-premises financial system and introduced the ability to pull together into one place information and processes which were historically spread throughout the organization. The package encompasses financial modules, as well as inventory/warehouse management, procurement, master planning, human resources, and payroll modules. D365 also provides an enterprise asset management module which stores asset information along with the associated maintenance records and costs for STEC's assets.

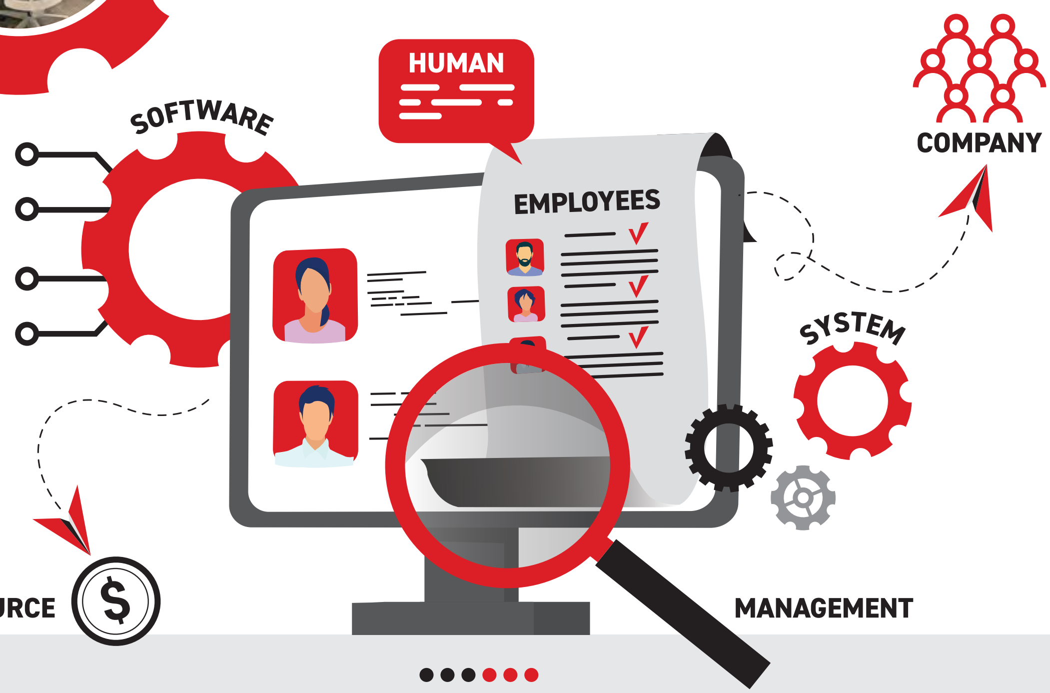
Quickly after the implementation of the D365 solution, STEC management realized the need for an employee to provide administration of the system and ensure system data integrity. In 2021, the Board of Directors approved the addition of a Corporate Solutions Engineer (CSE), and a new employee was hired to fill that role in 2023. The CSE is responsible for oversight over the ERP system and all associated interfaces and maintenance activities. The CSE also plays a critical role in creating effective reporting tools and dashboards provided to management. Finally, the CSE is responsible for working directly with cross-functional teams to evaluate future options, leverage core features and guide customizations and/or enhancements to maximize value and minimize costs and/or risks.

HUMAN RESOURCES

THE HUMAN RESOURCES DEPARTMENT HAD A SUCCESSFUL YEAR IN 2023, MARKED BY A STRONG FOCUS ON INNOVATION.

Throughout the year, the Human Resources team along with the Risk Department, Accounting Department, and STEC's System Administrators, demonstrated a commitment to embracing new technologies and creative solutions to enhance employee engagement and performance through the implementation of a Human Resources Information System (HRIS).

From implementing a new digital onboarding process to launching an innovative Learning System, we strove to ensure that our employees have the resources and support they need to thrive in a dynamic work environment. By fostering a culture of innovation within the department, we were able to streamline processes, improve efficiency, and drive positive outcomes for both employees and the Cooperative as a whole. Looking ahead, we are excited to continue our pursuit of innovative HR practices that empower our workforce and contribute to STEC's continued success.



Time & Attendance | Reporting & Analytics | Payroll | Recruitment & Retention | Performance Management | Benefits Management

Functions of Human Resources

COMMUNITY SERVICE
& COOPERATIVE SUPPORT



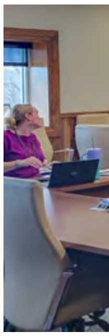





South Texas Electric Cooperative gladly gives back to the communities we serve.

Our mission is to provide the infrastructure and services to deliver reliable and economical electric power to a diversified membership.

CORPORATE & MEMBER SERVICES



SAFETY

Maintaining a high level of safety requires dedication, hard work, time, and resources, among other things. Much effort was spent educating and training in 2023. Among other areas, we have focused on improving our training efforts by expanding our switching, tagging, and clearance training to include hands-on demonstrations involving issuing, receiving, and releasing a clearance. The technique of using three-part communication was critiqued and evaluated.

As for Department of Transportation (DOT) Compliance, we successfully audited all compliance folders and completed an in-house inspection on all DOT and non-DOT vehicles. DOT education and compliance continues to be a strong area for us.

To improve the employee experience, a Learning Management System (LMS) was identified to help communicate training, record and manage training, and develop curriculums to support continuous education efforts. This will be a cross-functional system that will help with not only Safety and DOT learning and compliance efforts but will help manage training efforts throughout the Cooperative. Implementation of the LMS began in 2023 and will be completed in 2024.

MEMBER SERVICES COORDINATION

As the demands of the ERCOT region grow and the vast number of new generators and large loads continue to seek connection to STEC's transmission system and in areas served by STEC's Members, the Member Services Coordinator helps STEC's Members navigate those challenges and facilitates the determination of transmission solutions to serve their needs. The Member Services Coordinator develops and maintains a constructive and cooperative working relationship with each Member while measuring key performance indicators to improve the effectiveness of all Member service activities. STEC continually identifies opportunities to add value to the cooperative relationship with each Member by offering many training opportunities, providing problem resolution, and providing resources to allow each Member to enhance their service to their end-use membership.

EXCELLENCE IN RELIABILITY & COMPLIANCE

In the past year, the Compliance Department has actively engaged in various activities to ensure STEC's adherence to all relevant rules and regulations for bulk electric system activities. STEC has continued to refine the compliance initiatives and spent much of the year verifying and updating internal compliance policies and procedures. Four North American Electric Reliability Corporation standards were updated in 2023,

with 14 more slated for enforcement throughout 2024. Near the end of 2023, STEC was selected by the Texas Reliability Entity for a compliance audit in the first quarter of 2024 and preparations began in the final quarter of 2023 for the completion of that audit.

ENVIRONMENTAL COMPLIANCE & AWARENESS

In the past year, the Environmental Department was engaged in multiple projects aimed at reducing compliance risks and improving public health, economic productivity, and environmental quality. In October 2023, the Texas Commission on Environmental Quality (TCEQ) conducted an on-site investigation at the Sam Rayburn Power Plant to assess compliance with wastewater treatment requirements. Auditors examined various records and toured the facility and outfalls. In November 2023, similar investigations took place at the Red Gate Power Plant and the Pearsall Power Plant, focusing on state and federal air regulations. The Pearsall Power Plant obtained permit renewals for both federal and state air regulations, which remained unchanged and were issued on December 22, 2023. These permits, mandated by the Clean Air Act, authorize pollution sources and are legally binding documents. They are renewed every five years.

INFORMATION TECHNOLOGY

Information Technology (IT) is an area that touches the lives of each person every day. The IT Department is committed to providing strategic IT vision and enterprise solutions for STEC. The IT Department provided the highest quality technology-based services for the fulfillment of STEC's mission in an efficient and cost-effective manner. We allow IT personnel to remain proactive and flexible in supporting STEC goals, effectively responding to the evolving needs of the facilities and staff in a rapidly changing technological landscape.

The IT Department worked extensively on modifying the incorporated Defense in Depth security framework for the upcoming adaptation of the Zero Trust security framework which expands our existing cybersecurity measures to ensure the operation, support and securing of all STEC's assets; on-premises and cloud-based. The IT Department utilizes tools such as System Information and Event Monitoring (SIEM) and Simple Network Monitoring Protocol (SNMP) systems to monitor and alert for system outages or issues. These systems are set up to identify specific log entries and messages sent from the systems to identify anomalies and react to them.

COMPETITIVE RETAIL SERVICES

STEC's Competitive Retail Services Department serves as customer service and billing support to Nueces Electric Cooperative's (NEC) Retail Division, NEC Co-op Energy. In 2023, the department continued to utilize features of the new Customer Information System (CIS) which was launched in 2022. The use of ad hoc messaging to communicate with members via email and text has expanded customer communications. Also, customer emails sent from the customer portal create tasks and notes directly on the account, which can be responded to at the account level, providing efficient documentation. A web-enrollment feature was launched in 2023, streamlining the application process for the customer and the Customer Service Representatives. The year was not without its challenges, as the summer of 2023 realized an extended period of elevated temperatures which caused high electric bills. This challenged the Customer Service Representatives with increased call volumes and collection efforts. Even with a challenging year, STEC Competitive Retail Services Department contributed to a combined NEC and NEC Co-op Energy American Customer Satisfaction Index (ACSI) Score of 95, the highest cooperative customer approval rating for 2023.

POWER SUPPLY

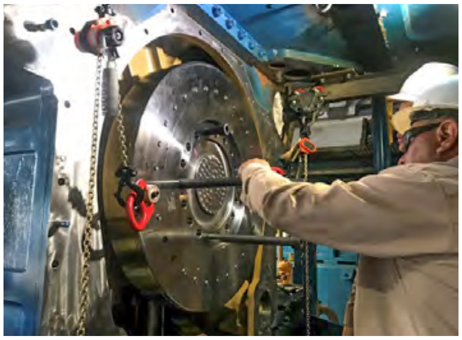
Growing demand and higher energy consumption from economic growth and overall higher summer temperatures resulted in a significantly higher peak load in Electric Reliability Council of Texas (ERCOT) during the summer of 2023 versus conditions in 2022. While ERCOT demand peaked over 80 GW only on a single day during the summer of 2022, peak demand eclipsed the 80 GW load level 49 times during the months of June through September and set a new record for peak demand 10 times during that same period.

Energy consumption was also higher, with total ERCOT MWh load up 3.39% for the year. STEC's Member demand and energy requirements followed the impressive ERCOT trend with increases in summer peak demand and annual energy consumption of 6.84% and 2.33% respectively.

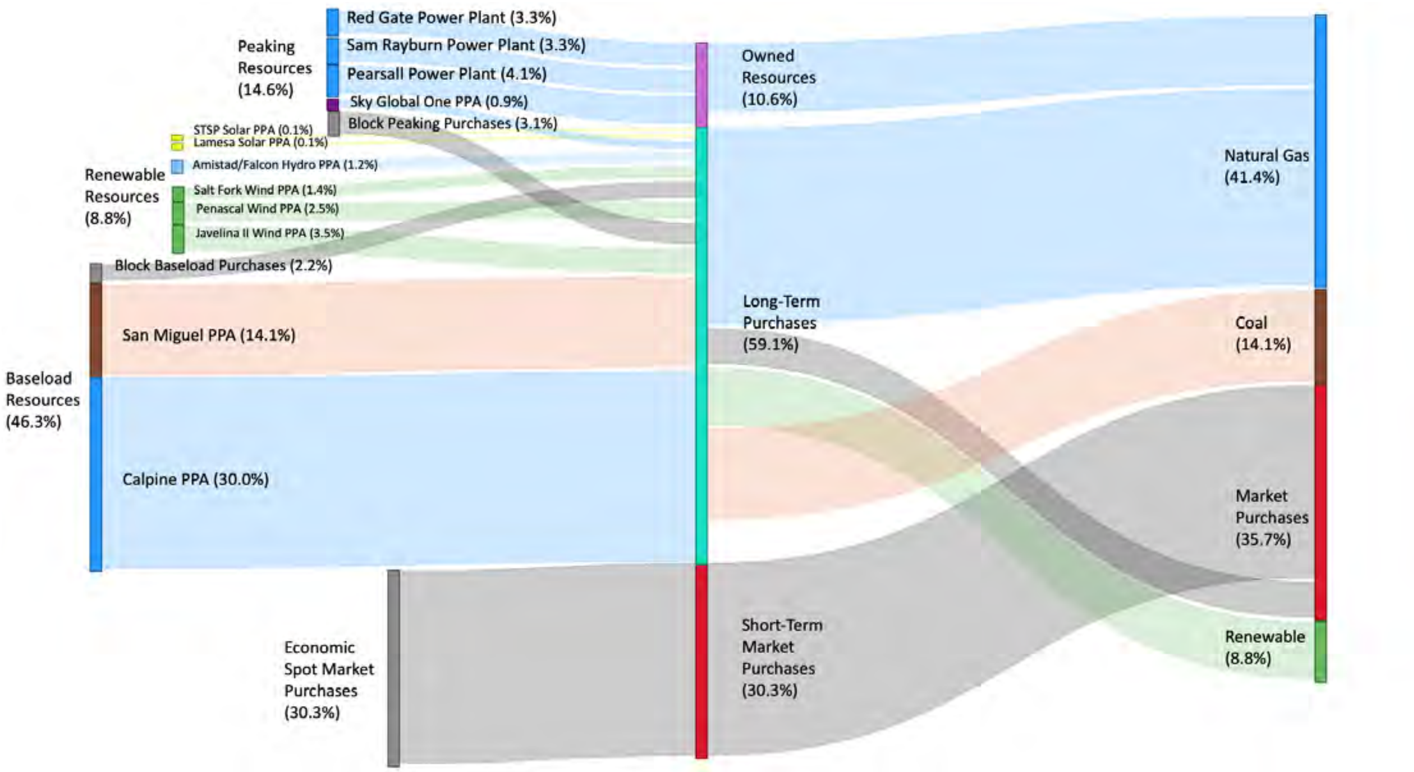
Despite a summer in Texas that represented the second highest average temperature on record and that logged dozens of days with highs in the triple digits, the grid did not experience any load shed events and only one Energy Emergency Alert. STEC's owned and purchased generation resources performed well throughout the summer with high availability and low forced outage hours.

Lower natural gas prices in 2023 helped reduce STEC's power supply cost to its Members and contributed to an increased proportion of natural gas generation from STEC's portfolio of resources as well as an increase in overall market purchases to serve STEC's energy needs. Henry Hub's natural gas averaged $2.57/MMBtu in 2023, which is approximately 62% lower than the 2022 average. Prices were driven lower by record natural gas production, stable demand, and the highest natural gas inventories since 2020.

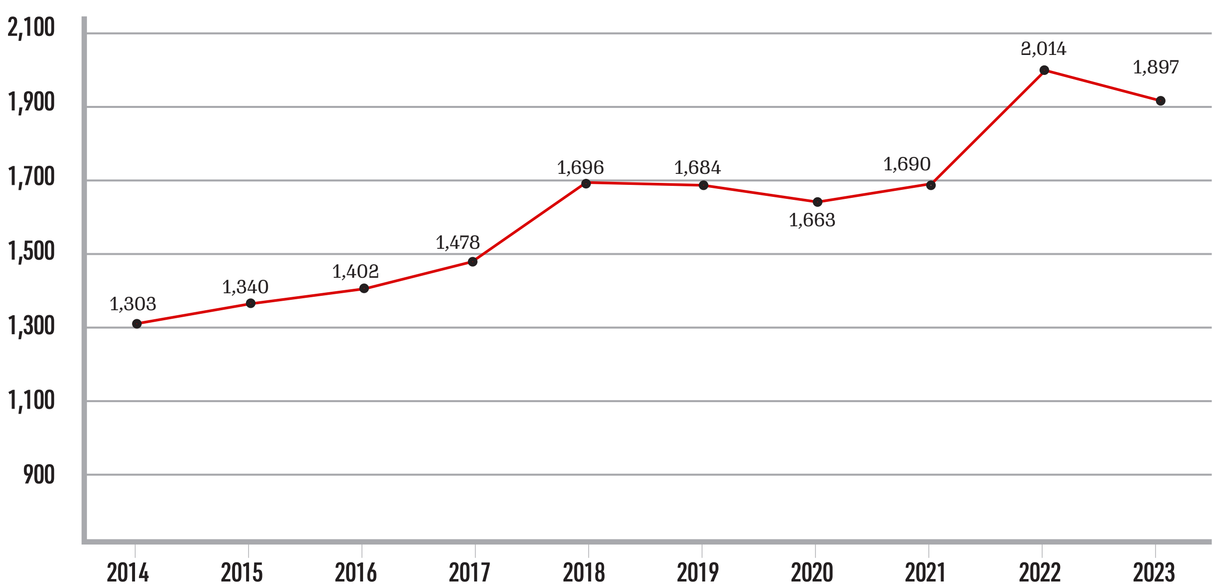
STEC continued Board level, power supply focused, strategic planning efforts in 2023, culminating in the establishment of planning criteria intended to govern future power supply resource acquisitions. The criteria are intended to continue STEC's practice of diversifying resources, limiting market exposure, providing a reserve margin for the power supply portfolio, and firming intermittent resources within the portfolio.



ENERGY BY RESOURCE & RESOURCE TYPE 2023



PEAK DEMAND (MW)



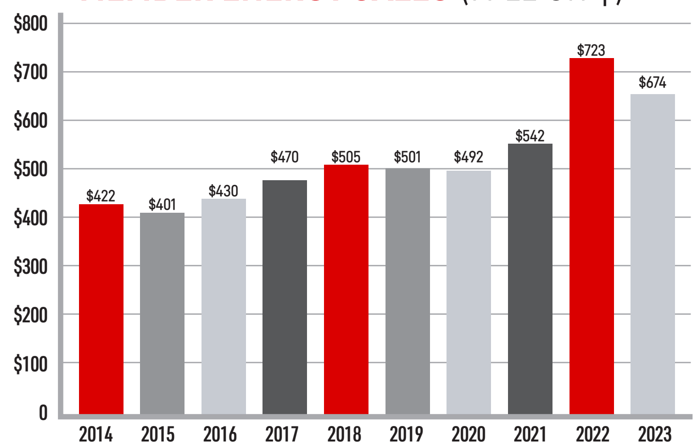
POWER DELIVERY

The Power Delivery Division battled long material lead times, supply delays, and cancellations of scheduled outages to complete significant projects. A second circuit was added to over 150 miles of 345 kV line and 345 kV line terminals were added at the San Miguel and Fowlerton stations. The Cayce switching station was completed to provide a third source to the 69 kV near Clemville, and the Faysville substation was upgraded to connect to 138 kV. The Pearsall switching station was expanded to a "breaker and a half" 138 kV bus arrangement to allow an increase in the number of line terminals and a 10 MW battery storage facility was connected to the Val Verde substation. The 138 kV to 12.47 kV transformer and feeder switching arrangement was completed at the Alberta Road switching station and a temporary 34.5 kV delivery point was added at the Southmost substation. A temporary 24.94 kV service was installed at the Castroville substation as the first step to upgrade the station to 138 kV and transformers were upgraded at the Inez and McCoy substations. Replacements were made to the distribution equipment at Laureles to keep up with load growth.

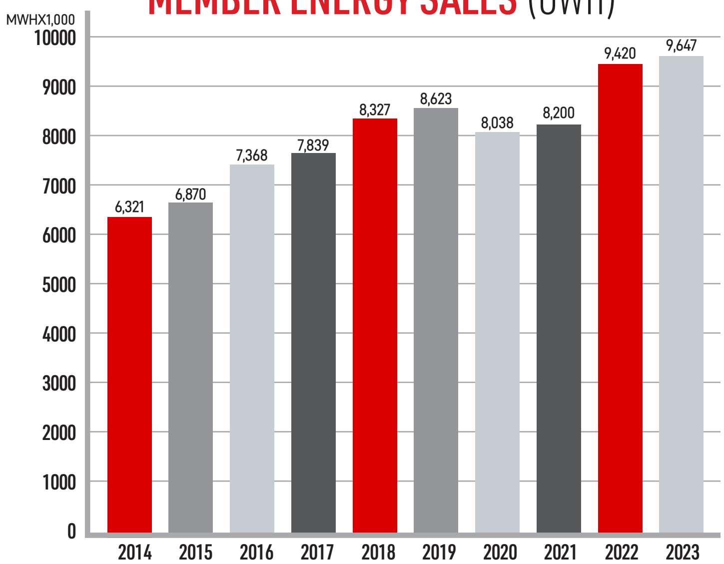
STEC and the Members continued to study the improvements needed to connect 8,000 MW of new large loads at sixteen locations. The interconnection of a large solar facility to the Pearsall switching station was completed and 18 other generation interconnections to the transmission system are being studied or are in progress.

Technicians showcased their ingenuity when the failure of the Danevang microwave antenna tower during extreme weather interrupted communications to 25 stations. Twenty-three stations were back online within three days with paths rerouted or with new cellular-frequency radios installed. The last two communications paths were back in service within a week of the tower failure.

MEMBER ENERGY SALES (MILLION $)



MEMBER ENERGY SALES (GWH)



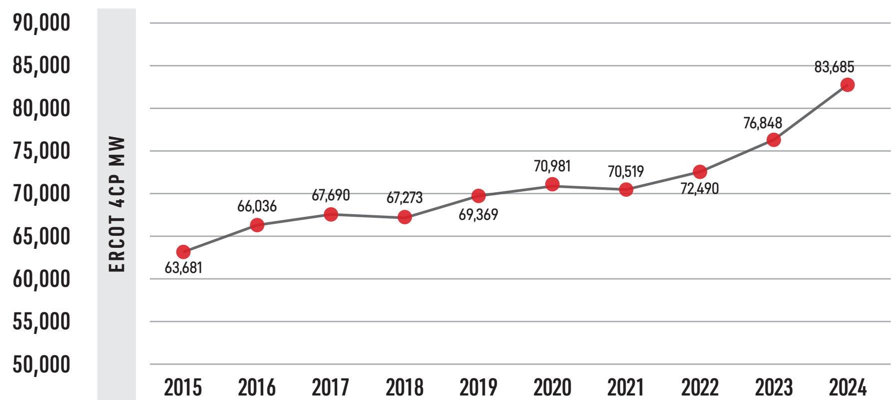
A pilot project to gain experience with an online battery monitoring system concluded with two installations completed with the expectation of reduced maintenance cost. Another pilot project completed was the successful testing of alternative SCADA equipment that in some projects will result in lower costs and faster remote terminal unit installations compared to the traditional proprietary equipment.

One hundred thirty-three transmission line poles were replaced during the year. Thirty-three miles of 69 kV transmission line received pole top rehabilitation with new arms, insulators and hardware or were transitioned to station post framing. Nineteen miles of 138 kV line H-frame structures were rehabilitated as well with new crossarms, hardware, insulators, and braces. The fourteen-mile Moore to Hondo Creek 138 kV line conductors were replaced with aluminum cable – composite core (ACCC) conductors that increased the line capacity from 139 MVA to 457 MVA.

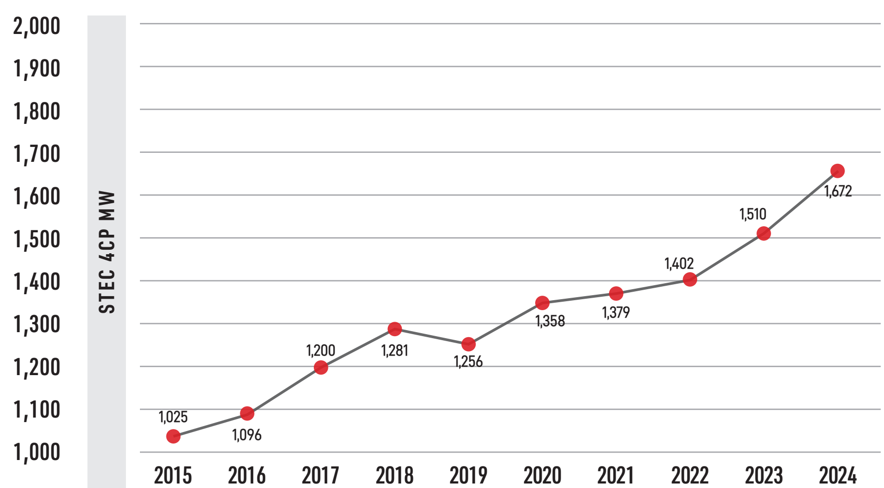
Technicians examined and tested the operation of transformer cooling systems, equipment compartment heaters, gas circuit breaker gas pressure, oil levels and other prescribed inspection points at all 222 stations in accordance with new weatherization regulations. Repairs were made where needed and the technicians' work resulted in passing all of ERCOT's station inspections throughout the summer and winter months.

The total Member 4CP load in the summer of 2023 was 163 MW higher than the previous year, an increase of nearly 11 percent. Load growth is expected to continue, and the Power Delivery Division will continue to work on an aggressive list of projects to keep up with Member needs.

ERCOT SYSTEM 4CP



STEC 4CP



ACCOUNTING & FINANCE

In April 2023, STEC participated in the Fitch Rating Agency update process. The result was an affirmation of the A+ rating with a Stable Outlook. In December 2023, STEC began the S&P Global Ratings update process which culminated in an A rating with a Stable Outlook.

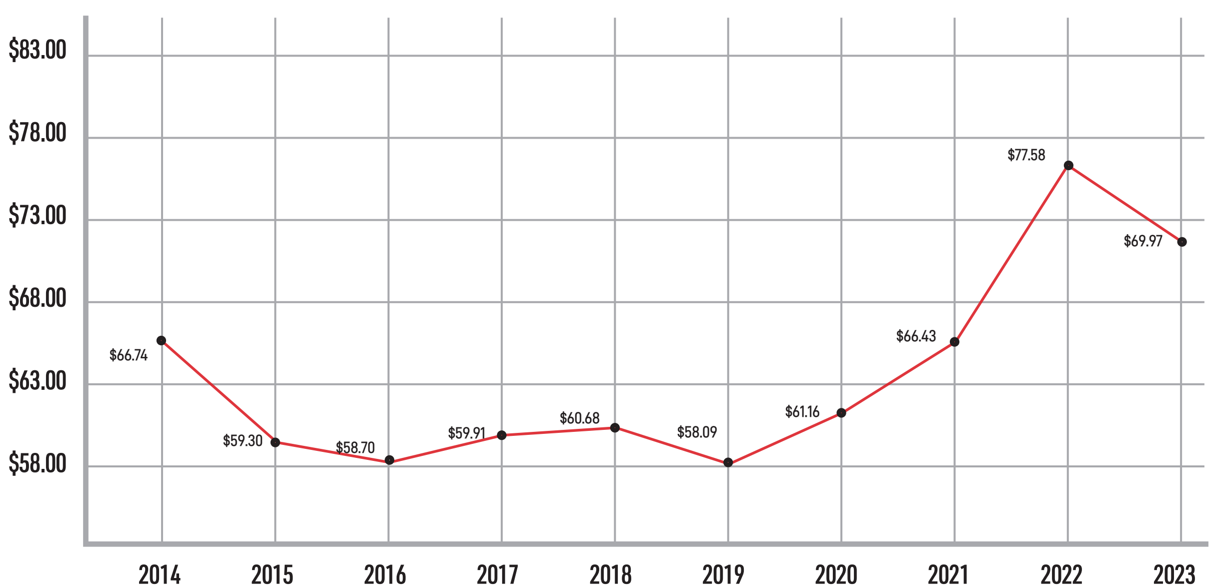
In 2023, STEC worked with KeyBanc, Cooperative Securities, and legal counsel to lay the groundwork for a private placement bond issuance. Engagement began in July 2023, but due to interest rate fluctuations and uncertain market conditions, the bond issuance was not launched until January 2024 as market conditions became more favorable.

As of December 31, 2023, there was $180 million outstanding on the $390 million revolving line of credit with the NRUCFC bank group. There were no outstanding draws from the $25 million line of credit with CoBank. Principal payments on long-term debt during 2023 totaled $12,246,480 to NRUCFC, $4,166,667 to CoBank, and $32,754,904 to bond holders.

Sales to Member Cooperatives totaled 9,647,251 megawatt-hours (MWh) in 2023, up from 9,419,757 MWh in 2022, an increase of 227,494 MWh or 2.4%. The average price paid by Members in 2023 was $69.97 per MWh compared to $77.58 per MWh in 2022, for a decrease in per MWh cost of 10.9%. Total billed Member revenues for 2023 were $673,266,666, a 7% decrease from 2022 revenues.

Net deferred credits added to levelize Member rates for 2023 totaled $3,479,956 compared to the addition of $3,074,333 for 2022. As of December 31, 2023, the deferred credits included $1,704,512, which will be available to the members as ERCOT short payments are received.

WHOLESALE POWER COST (PER MWH)



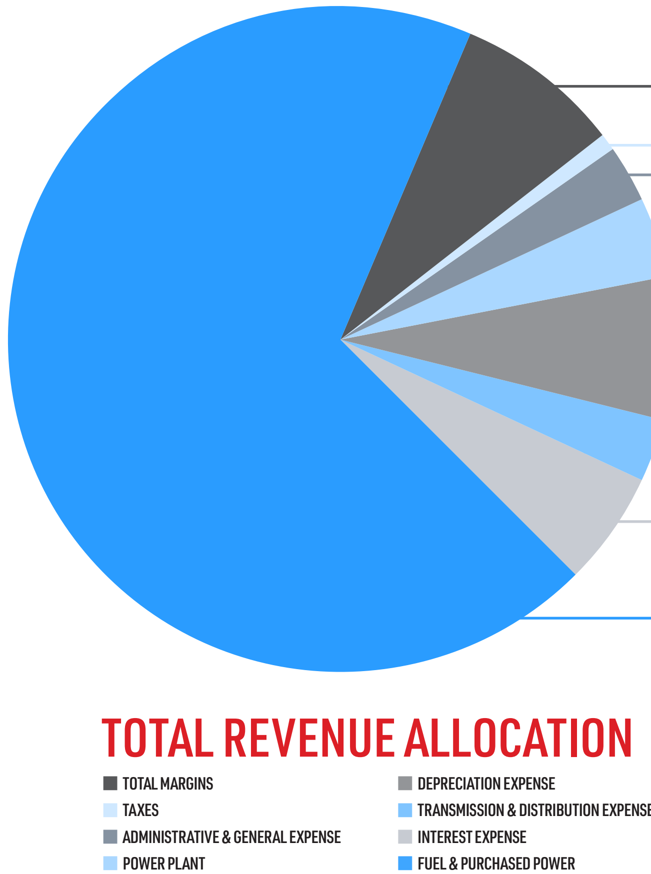
FitchRatings COBANK Huntington S&P Global Ratings WELLS FARGO REGIONS CFC TRUIST

South Texas Electric Cooperative recorded capital credits of $4,434,619 in 2023 and $2,338,144 in 2022 from San Miguel Electric Cooperative, Inc.

Net margins for South Texas Electric Cooperative, Inc., and Subsidiary for 2023 were $55,217,062 compared to $31,356,128 in 2022. As in previous years, the Board of Directors acted to reduce generation rates for the final quarter of 2023 consistent with the Cooperative's Financial Management Policy.

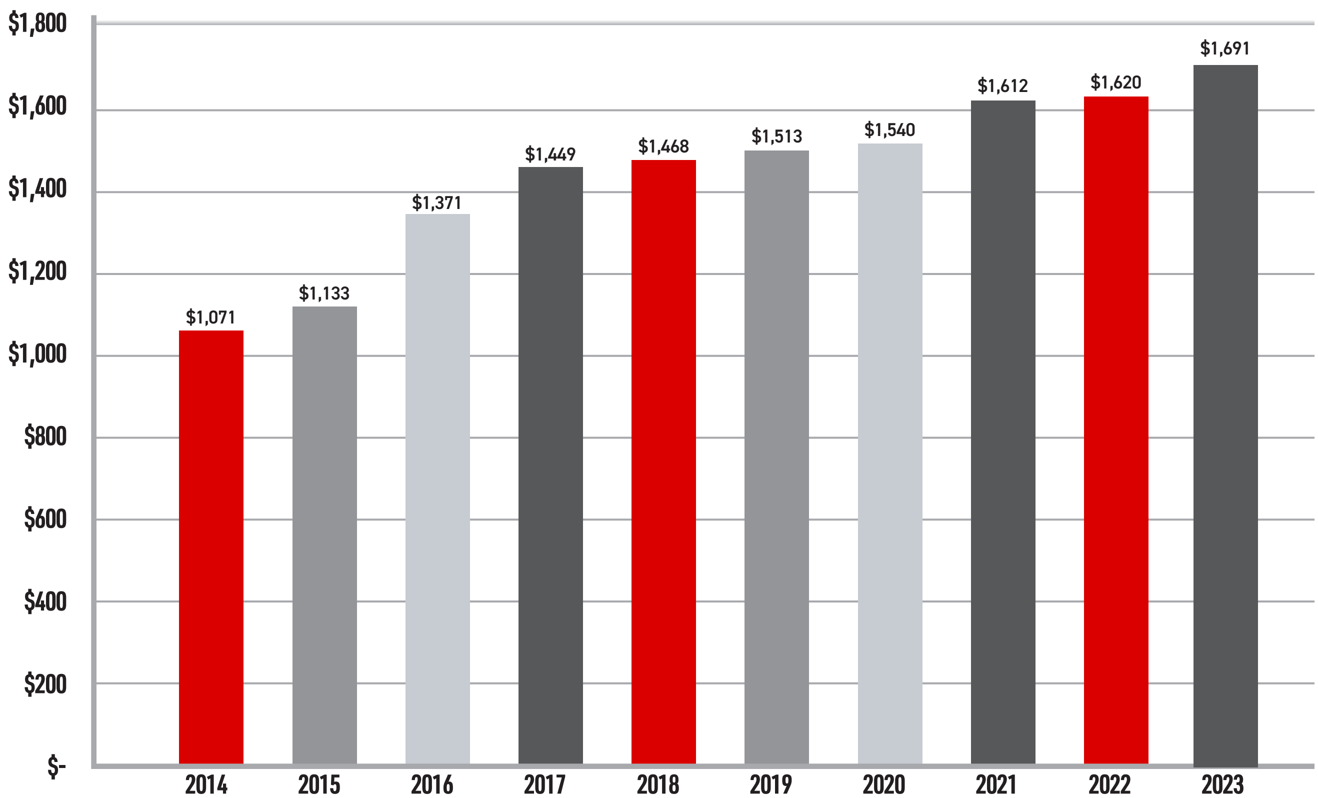
Total assets increased from $1,574,198,009 in 2022 to $1,617,058,300 in 2023 for a 2.7% increase. Total Equity to Assets Ratio at the end of 2023 was 31.94% compared to 28.15% at the end of 2022. Total electric plant increased to $1,376,004,964 in 2023 from $1,254,506,999 in 2022. Plant and work in progress increased by $175,140,943, and accumulated depreciation increased by $53,642,978.

Interest income for 2023 totaled $1,977,343, which was an increase of $365,921 from 2022. STEC's cash and cash equivalents as of December 31, 2023, totaled $46,563,497, compared to $92,016,663 for December 31, 2022.



TOTAL REVENUE ALLOCATION

ELECTRIC PLANT IN SERVICE (MILLIONS)



FINANCIAL REPORT '23

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

AND REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

SOUTH TEXAS ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NURSERY, TEXAS

TABLE OF CONTENTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
PHONE: (806) 747-3806
FAX: (806) 747-3815
8215 NASHVILLE AVENUE
LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Board of Directors
South Texas Electric Cooperative, Inc. and Subsidiary
Nursery, Texas

Opinion

We have audited the accompanying consolidated financial statements of South Texas Electric Cooperative, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income and patronage capital, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of South Texas Electric Cooperative, Inc. and Subsidiary as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Prior Period Consolidated Financial Statements

The consolidated financial statements of South Texas Electric Cooperative, Inc. and Subsidiary as of and for the year ended December 31, 2022 were audited by other auditors whose report dated April 21, 2023 expressed an unmodified opinion on those statements.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of South Texas Electric Cooperative, Inc. and Subsidiary (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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 23, 2024

SOUTH TEXAS ELECTRIC COOPERATIVE, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

ASSETS

	December 31, 2023	December 31, 2022
UTILITY PLANT AT COST		
Electric Plant in Service	$ 1,691,042,609	$ 1,620,158,533
Construction Work in Progress	255,642,856	151,385,989
	$ 1,946,685,465	$ 1,771,544,522
Less: Accumulated Depreciation - Electric Plant in Service	(570,680,501)	(517,037,523)
Total Utility Plant at Cost	$ 1,376,004,964	$ 1,254,506,999
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	$ 75,383,999	$ 70,994,553
Other Investments	575,405	20,475,022
Total Other Property and Investments	$ 75,959,404	$ 91,469,575
CURRENT ASSETS		
Cash and Cash Equivalents	$ 46,563,497	$ 92,016,663
Accounts Receivable - Members	41,908,864	59,624,539
Accounts Receivable - Others	9,420,943	14,882,420
Fuel Stock Inventory	1,622,475	1,631,473
Materials and Supplies Inventory	28,810,111	23,791,771
Other Current and Accrued Assets	24,217,325	20,496,417
Total Current Assets	$ 152,543,215	$ 212,443,283
OTHER ASSETS		
Deferred Charges	$ 12,550,717	$ 15,778,152
TOTAL ASSETS	$ 1,617,058,300	$ 1,574,198,009

EQUITIES AND LIABILITIES

	December 31, 2023	December 31, 2022
EQUITIES		
Patronage Capital	$ 481,615,374	$ 426,398,312
Contributed Capital	34,881,226	16,859,366
Memberships and Other Equities	988	988
Total Equities	$ 516,497,588	$ 443,258,666
LONG-TERM DEBT		
CFC Notes Payable	$ 236,889,911	$ 216,958,439
CoBank Notes Payable	90,625,000	94,791,666
Private Placement Bonds Payable	466,186,256	498,941,161
Other Long-Term Debt	2,495,338	2,495,338
Line of Credit to be Financed with Long-Term Debt	150,000,000	
Unamortized Debt Issuance Costs	(2,832,376)	(3,015,904)
Total Long-Term Debt	$ 943,364,129	$ 810,170,700
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 49,286,356	$ 48,064,447
Line of Credit	30,000,000	170,000,000
Accounts Payable	40,688,744	66,683,336
Other Current and Accrued Expenses	26,782,558	24,269,987
Total Current Liabilities	$ 146,757,658	$ 309,017,770
DEFERRED CREDITS		
Deferred Credits	$ 10,438,925	$ 11,750,873
TOTAL EQUITIES AND LIABILITIES	$ 1,617,058,300	$ 1,574,198,009

See accompanying notes to financial statements.

SOUTH TEXAS ELECTRIC COOPERATIVE, INC.

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	December 31, 2023	December 31, 2022
OPERATING REVENUES		
Electric Energy Revenue - Members	$ 673,266,666	$ 721,187,588
Electric Energy Revenue - Other	720,035	1,936,098
Transmission Revenue	3,954,624	11,559,290
Other Operating Revenue and Income	1,298,174	586,661
Total Operating Revenues	$ 679,239,499	$ 735,269,637
OPERATING EXPENSES		
Operating Expense		
Production (Excluding Fuel)	$ 11,370,811	$ 11,476,599
Production - Fuel	60,529,016	58,226,856
Other Power Supply	417,439,348	498,887,761
Transmission	10,648,230	9,884,796
Distribution	4,754,961	3,962,587
Customer Accounts and Sales	262,268	179,923
Administrative and General	15,189,587	17,302,968
Maintenance Expense		
Production	15,217,391	13,348,586
Transmission	3,954,314	5,296,326
Distribution	1,820,655	1,792,169
General Plant	1,634,951	1,712,285
Depreciation	46,525,083	44,622,365
Taxes	6,384,114	6,452,587
Total Operating Expenses	$ 595,730,729	$ 673,145,808
OPERATING MARGINS - Before Fixed Charges	$ 83,508,770	$ 62,123,829
FIXED CHARGES		
Interest on Long-Term Debt	$ 37,734,043	$ 36,726,803
Other Deductions	105,054	1,215,495
Total Fixed Charges	$ 37,839,097	$ 37,942,298
OPERATING MARGINS - After Fixed Charges	$ 45,669,673	$ 24,181,531
Generation & Transmission and Other Capital Credits	$ 6,575,134	$ 4,298,171
NON-OPERATING MARGINS		
Interest Income	$ 1,977,343	$ 1,611,422
Other Non-Operating Income	930,226	1,259,668
Gain on Sale of Property	64,686	5,336
Total Non-operating Margins	$ 2,972,255	$ 2,876,426
NET MARGINS	$ 55,217,062	$ 31,356,128
PATRONAGE CAPITAL - BEGINNING	426,398,312	395,042,184
PATRONAGE CAPITAL - ENDING	$ 481,615,374	$ 426,398,312

See accompanying notes to financial statements.

SOUTH TEXAS ELECTRIC COOPERATIVE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	December 31, 2023	December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	$ 55,217,062	$ 31,356,128
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Provision for Depreciation and Amortization	47,318,717	45,404,062
Amortization of Debt Issuance Costs	183,528	183,528
Patronage Capital Allocations	(6,575,134)	(4,298,171)
Accounts Receivable	23,177,152	(5,373,187)
Other Current and Accrued Assets	(8,730,250)	(2,851,297)
Deferred Charges	3,227,435	455,745
Accounts Payable	(25,994,592)	17,782,647
Other Current and Accrued Liabilities	2,512,571	781,188
Deferred Credits	(1,311,948)	(10,575,153)
Net Cash From Operating Activities	$ 89,024,541	$ 72,865,490
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	$ (116,208,774)	$ (101,281,205)
Plant Removal Costs, Net of Salvage	(1,186,188)	(612,849)
Investments in Associated Organizations and Other Investments	22,085,305	(2,912,746)
Net Cash From Investing Activities	$ (95,309,657)	$ (104,806,800)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	$ (49,168,050)	$ (39,434,724)
Net Activity on Line of Credit	10,000,000	115,000,000
Net Cash From Financing Activities	$ (39,168,050)	$ 75,565,276
CHANGE IN CASH AND CASH EQUIVALENTS	$ (45,453,166)	$ 43,623,966
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	92,016,663	48,392,697
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 46,563,497	$ 92,016,663
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest Paid During the Year	$ 46,158,364	$ 37,289,244
Income Taxes Paid During the Year	$ 0	$ 0
NONCASH ACTIVITIES		
Debt Assumed with Plant Acquisition	$ 33,399,860	$ 0
Contributed Capital Received with Plant Acquisition	$ 18,021,860	$ 0

See accompanying notes to financial statements.

SOUTH TEXAS ELECTRIC COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

South Texas Electric Cooperative, Inc. and Subsidiary (the Cooperative) is a non-profit company organized and incorporated in 1944, pursuant to the Texas Electric Cooperative Corporation Act. The Cooperative is owned by nine electric distribution cooperative members. These are Jackson Electric Cooperative, Inc., Karnes Electric Cooperative, Inc., Magic Valley Electric Cooperative, Inc., Medina Electric Cooperative, Inc., Nueces Electric Cooperative, Inc., San Bernard Electric Cooperative, Inc., San Patricio Electric Cooperative, Inc., Victoria Electric Cooperative, Inc., and Wharton County Electric Cooperative, Inc.

The Cooperative is a generating and transmission electric cooperative selling electric energy primarily to its member cooperatives in South Texas. All margins in excess of cost of providing wholesale power are credited to each member cooperative's capital credit account on the basis of patronage provided by the member during the year.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of South Texas Electric Cooperative, Inc. (STEC) and South Texas Solar Power, LLC (STSP), its wholly-owned subsidiary. All significant intercompany transactions and balances are eliminated in consolidation.

In 2019 STEC formed STSP, a wholly-owned taxable subsidiary, for the purpose of adding solar energy to the STEC portfolio. STEC formed the special purpose taxable subsidiary to maintain Investment Tax Credit (ITC) eligibility and STSP entered into a ten-year operating lease with Farm Credit Leasing. The leased assets include two 945 kW single-axis tracking solar photovoltaic arrays located at the Pearsall Power Plant and two that are located at the Red Gate Power Plant. The solar arrays went into commercial operation in August 2019.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Plant in Service, Maintenance, and Depreciation

Plant is stated at the original cost of construction in accordance with industry standards and accounting principles generally accepted in the United States of America (GAAP).

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets or asset classes.

Investments

Investments in associated organizations consist primarily of capital credits allocated to the Cooperative and are subject to retirement in accordance with the provisions of the by-laws of the respective organizations. They are recorded at the stated amount of the certificates.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, cash deposited with financial institutions, and any commercial paper with maturities of 90 days or less.

Accounts Receivable

The Cooperative records a receivable for power delivered monthly. Amounts owed at year end are primarily from member cooperatives and other electric utility cooperatives and companies. These receivables are settled monthly. Therefore, no allowance for credit losses is considered necessary.

Inventories

Materials and supplies inventories are valued at weighted average cost.

Operating Leases

In addition to the lease mentioned in the Principles of Consolidation section above, the Cooperative has entered into operating leases for certain tower and substation usage, as well as office equipment. It has been determined that the liabilities associated with these agreements would be immaterial individually and in the aggregate to the consolidated financial statements taken as a whole.

Debt Issuance Costs

Unamortized debt issuance costs related to the Cooperative’s long-term debt are reported on the consolidated balance sheets as a reduction of the carrying value of the related debt in accordance with Accounting Standards Update (ASU) 2015-03.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Nursery, Texas. The service area includes the service territory of its nine member cooperatives all of which reside in south Texas. The Cooperative records a receivable for electric revenues as billed on a monthly basis. These amounts are considered fully collectible and no deposits are required from the members. At times during the year, cash balances exceeded FDIC insurance limits.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Tax Status

STEC qualifies for exempt status under Internal Revenue Code section 501(c)(12) which requires that 85% or more of income consists of amounts collected from members. STEC met these requirements prior to 2000. From 2000 through 2004, STEC failed to meet these requirements and was required to file a corporate federal income tax return. Effective January 1, 2005, the Internal Revenue Service regulations were revised, and STEC regained its tax-exempt status. As mentioned in the Principles of Consolidation section above, STSP is a taxable entity.

The Cooperative follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. The primary tax position of the Cooperative is STEC's filing status as a tax-exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority, and that all tax benefits are likely to be realized upon settlement with taxing authorities.

STEC and STSP file income tax returns in the U.S. federal jurisdiction. These entities are no longer subject to U.S. federal income tax examinations by taxing authorities for years before 2020.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended 2023 and 2022.

Electric Revenues from Contracts with Customers

Energy Revenue - Substantially all operating revenues and customer accounts receivables are derived from contracts with member cooperatives based on applicable tariffs. Performance obligations related to the sale of energy are satisfied as energy is delivered to members. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the members. Invoices are rendered monthly and are typically paid within 30 days. Revenue from these transactions is recognized using the invoiced practical expedient, which allows an entity to recognize revenue in the amount that directly corresponds to the value transferred to the customer.

Transmission Revenue – The Cooperative also earns a small percentage of its revenue from the use of its electric infrastructure for the transmission of electricity to various end users. The revenue from these transactions is earned over the course of a month, representing the period over which the Cooperative satisfies the performance obligation. Invoices are rendered monthly and are typically paid within 35 days. Revenue from these transactions is recognized using the invoiced practical expedient, which allows an entity to recognize revenue in the amount that directly corresponds to the value transferred to the customer.

2. Assets Pledged

Substantially all assets of the Cooperative are pledged as collateral for notes payable with National Rural Utilities Cooperative Finance Corporation (NRUCFC), CoBank, and First Mortgage Bonds (Series 2009B, 2013A, 2013B, and 2018A).

3. Plant in Service

The major classes of electric plant are as follows:

	December 31, 2023	December 31, 2022
Intangible Plant	$ 9,544	$ 9,544
Steam Generation Plant	68,780,109	68,312,764
Other Generation Plant	482,975,443	482,346,108
Transmission Plant	701,849,831	663,964,033
Distribution Plant	362,440,833	332,740,753
General Plant	74,986,849	72,785,331
Total Electric Plant in Service	$ 1,691,042,609	$ 1,620,158,533
Construction Work in Progress	255,642,856	151,385,989
Total Utility Plant	$ 1,946,685,465	$ 1,771,544,522

Provision has been made for depreciation of plant at the straight-line composite rates as follows, for both 2023 and 2022:

Steam Generation Plant	2.64%
Other Generation Plant	0.876% & 3.00%
Transmission Plant	2.75%
Distribution Plant	2.75% & 2.88%
General Plant:	
Structures and Improvements	3.00%
Office Furniture and Equipment	6.00%-20.00%
Transportation Equipment	23.00%
Power Operated Equipment	10.00%
Communication Equipment	6.00%-34.00%
Miscellaneous Equipment	6.00%

Depreciation for the years ended December 31, 2023 and 2022 was $47,318,717 and $45,404,062, respectively, of which $46,525,083 and $44,622,365 were charged to depreciation expense, and $793,634 and $781,697 were allocated to other accounts.

4. Other Property and Investments

Investments in associated organizations consist of the following:

	December 31, 2023	December 31, 2022
NRUCFC		
Capital Term Certificates	$ 21,483,259	$ 22,438,120
Patronage Capital	10,298,861	9,776,009
CoBank		
Patronage Capital	2,515,300	2,167,693
Texas Electric Cooperative		
Patronage Capital	247,176	205,025
San Miguel Electric Cooperative		
Patronage Capital	40,568,777	36,134,158
Other	270,626	273,548
	$ 75,383,999	$ 70,994,553

Patronage capital certificates are recorded at the stated amount of the certificates. All other investments are recorded at cost.

Other investments consist of the following:

	December 31, 2023	December 31, 2022
Deferred Compensation Investments	$ 496,686	$ 396,303
Deposits for ERCOT Collateral		20,000,000
Other	78,719	78,719
	$ 575,405	$ 20,475,022

5. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	December 31, 2023	December 31, 2022
Cash - General Funds	$ 30,463,497	$ 52,016,663
Cash - NRUCFC Daily Fund	16,100,000	40,000,000
	$ 46,563,497	$ 92,016,663

6. Other Current and Accrued Assets

Other current and accrued assets consist of the following:

	December 31, 2023	December 31, 2022
Prepaid Insurance	$ 1,532,009	$ 1,459,701
Congestion Revenue Rights	21,121,985	17,617,546
Other Prepayments	1,226,956	1,074,364
Interest & Dividend Recievables	336,375	344,806
	$ 24,217,325	$ 20,496,417

Congestive Revenue Rights (CRRs) – These are financial instruments that result in a charge or a payment to the owner of the CRR when the Electric Reliability Council of Texas, Inc. (ERCOT) transmission grid is congested. CRRs may be used as either a financial hedge or a financial investment. When used as a hedge, a CRR locks in the price of congestion at the purchase price of the CRR. When purchased as an investment, it may be used as a financial tool to speculate whether the congestion rent will be greater than the purchase price.

7. Deferred Charges

Deferred charges consist of the following:

	December 31, 2023	December 31, 2022
Premium on Refinanced Notes	$ 2,911,237	$ 3,237,731
Unsecured Financing Costs	588,395	812,459
Prepaid Transportation - LaSalle Pipeline (Pearsall Plant)	1,908,507	2,260,847
Pearsall 16,000-Hour Maintenance	3,572,746	5,287,664
CREZ 10-Year Easement Renewal	3,176,670	3,565,650
Other	393,162	613,801
	$ 12,550,717	$ 15,778,152

Premium on Refinanced Notes – In November 2007, the Cooperative refinanced all Rural Utility Services (RUS) notes with NRUCFC. As a result, premium costs of $8,162,348 were incurred. The premium is being amortized over 25 years. Amortization expense for the years ended December 31, 2023 and 2022 amounted to $326,494 for each year.

Unsecured Financing Costs – During 2021, the Cooperative increased the syndicated revolving line of credit from $250 million to $390 million and the term was extended to 2026. This resulted in an amendment and extension (A&E). Financing costs of $963,949 were incurred and will be amortized over five years. Amortization expense for the years ended December 31, 2023 and 2022 amounted to $192,790 for each year.

In addition, the CoBank line of credit for $25 million was renewed in 2021. Financing costs of $93,852 were incurred and will be amortized over three years. Amortization expense for the years ended December 31, 2023 and 2022 amounted to $31,274 for each year.

Prepaid Transportation – LaSalle Pipeline (Pearsall Plant) – During 2009, the Cooperative entered into a contract with LaSalle Pipeline for transportation service of natural gas to the Pearsall plant site. The contract requires the Cooperative to pay for the cost of the pipeline in excess of $7,839,740. The net difference of $6,754,610 is considered a prepayment of transportation cost and will be expensed over the 20-year term of the contract starting in March 2010. Amortization expense for the years ended December 31, 2023 and 2022 amounted to $352,340 for each year.

Pearsall 16,000-Hour Maintenance – At the end of 2019, the Cooperative purchased materials for the 16,000-hour overhaul maintenance on the engines at the Pearsall Power Plant for a cost of $866,195. Additional related expenses were added in 2021 in the amount of $7,708,395. Materials and labor of the 16,000-hour overhauls will be amortized over a five-year period, which is the estimated useful life of the equipment. Amortization began in 2021. Amortization expense for the years ended December 31, 2023 and 2022 amounted to $1,714,918 for each year.

CREZ 10-Year Easement Renewal – During 2022, the Cooperative entered into a ten-year easement lease for power lines with a cost of $3,889,800. This operating lease was prepaid in its entirety at inception. The right-of-use asset for the operating lease is included in deferred charges on the balance sheet. Since the lease was prepaid, there are no undiscounted cash flows and no discounted present value of lease liabilities recorded. Amortization expense for the years ended December 31, 2023 and 2022 were $388,980 and $324,150, respectively.

8. Equity

Patronage Capital consists of the following:

	December 31,	
	2023	2022
Assigned	$ 426,940,158	$ 395,584,030
Assignable	55,217,062	31,356,128
	$ 482,157,220	$ 426,940,158
Less: Retired	541,846	541,846
Balance	$ 481,615,374	$ 426,398,312

Contributed Capital consists of the following:

		December 31,		
		2023		2022
Magic Valley Electric Cooperative	$	11,199,850	$	11,199,850
Medina Electric Cooperative		5,659,516		5,659,516
San Bernard Elecric Cooperative		18,021,860		
Balance	$	34,881,226	$	16,859,366

9. Long-Term Debt

NRUCFC Notes Payable:

Notes payable at December 31, 2023 and 2022 are summarized as follows:

		December 31,		
		2023		2022
CFC Notes Payable:				
Maturing in 2036, Interest rates fixed at 2.61%-7.18%	$	52,258,228	$	55,487,261
Maturing in 2038, Interest rates fixed at 2.37%-7.05%		18,667,021		19,596,009
Maturing in 2038, Interest rate fixed at 7.45%		3,065,617		3,175,738
Maturing in 2024 to 2039, Interest rates fixed at 4.75%-5.80%		41,005,343		43,650,849
Maturing in 2039, Interest rate fixed at 5.60%		7,778,983		8,072,298
Maturing in 2042, Interest rates fixed at 2.37%-4.20%		54,478,338		56,611,014
Maturing in 2042, Interest rate fixed at 6.45%		8,738,018		8,966,275
Maturing in 2038, Interest rates fixed at 3.50%-7.05%		31,048,353		32,541,873
Maturing in 2024 to 2049, Interest rates fixed at 2.70%-6.09%		32,214,796		
	$	249,254,697	$	228,101,317
Less: Current Maturities		12,364,786		11,142,878
	$	236,889,911	$	216,958,439

The NRUCFC notes are paid in quarterly installments. The loan agreements contain certain debt covenants. There are no unadvanced loan funds available to the Cooperative.

CoBank Notes Payable:

Notes payable at December 31, 2023 and 2022 are summarized as follows:

		December 31,		
		2023		2022
CoBank Notes Payable:				
Maturing in 2046, Interest rate fixed at 3.80%	$	94,791,667	$	98,958,333
Less: Current Maturities		4,166,667		4,166,667
	$	90,625,000	$	94,791,666

The CoBank notes are paid in fixed quarterly installments of principal plus interest. There are no unadvanced loan funds available to the Cooperative.

First Mortgage Bonds Payable:

Bonds payable at December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023	December 31, 2022
First Mortgage Bonds Payable		
Series 2009B: Maturing in 2028, Interest rate fixed at 5.41%	$ 52,941,156	$ 63,529,393
Series 2009B: Maturing in 2040, Interest rate fixed at 5.98%	79,333,337	84,000,003
Series 2013A: Maturing in 2043, Interest rate fixed at 3.30%	116,666,666	122,500,000
Series 2013B: Maturing in 2043, Interest rate fixed at 3.62%	166,666,667	175,000,000
Series 2018A: Maturing in 2048, Interest rate fixed at 4.16%	83,333,333	86,666,667
	$ 498,941,159	$ 531,696,063
Less: Current Maturities	32,754,903	32,754,902
	$ 466,186,256	$ 498,941,161

The Series 2009B bonds require annual principal payments and semi-annual interest payments. The Series 2013A, 2013B and 2018A bonds require semi-annual principal and interest payments.

Other Long-Term Debt:

Other long-term debt at December 31, 2023 and 2022 consists of the following:

	December 31, 2023	December 31, 2022
Other Long-Term Debt		
Contingent Liability to Medina Electric Cooperative	$ 2,495,338	$ 2,495,338

This liability to Medina Electric Cooperative was computed on the Cooperative's capital credits from San Miguel Electric Cooperative, Inc. (SMEC) based on the capacity and energy purchased from SMEC by STEC during the years the pool existed. This amount will be paid in proration at such time SMEC capital credits are paid to the Cooperative. The Cooperative does not anticipate the payment of capital credits from SMEC in the foreseeable future.

Unamortized Debt Issuance Costs:

Unamortized debt issuance costs at December 31, 2023 and 2022 consist of the following:

	December 31, 2023	December 31, 2022
Unamortized Debt Issuance Costs		
CoBank Notes - Amortized over 30 years	$ 318,636	$ 332,746
Series 2009 Bonds - Amortized over 24 years	895,630	986,711
Series 2013 Bonds - Amortized over 30 years	1,165,360	1,225,378
Series 2018 Bonds - Amortized over 30 years	452,750	471,069
	$ 2,832,376	$ 3,015,904

Various costs were incurred to secure the notes and bonds listed above. The total amortization expense for each of the years ended December 31, 2023 and 2022 was $183,528.

As of December 31, 2023, estimated annual maturities on long-term debt outstanding for the next five years and thereafter are as follows:

			First Mortgage Bonds			
	NRUCFC Notes	CoBank Notes	Series 2009	Series 2013	Series 2018	Total
2024	$ 12,364,786	$ 4,166,667	$ 15,254,903	$ 14,166,667	$ 3,333,333	$ 49,286,356
2025	12,778,739	4,166,667	15,254,903	14,166,667	3,333,333	49,700,309
2026	13,231,557	4,166,667	15,254,903	14,166,667	3,333,333	50,153,127
2027	13,595,933	4,166,667	15,254,903	14,166,667	3,333,333	50,517,503
2028	14,047,527	4,166,667	15,254,874	14,166,667	3,333,333	50,969,068
Thereafter	183,236,155	73,958,332	56,000,007	212,499,998	66,666,668	592,361,160
	$ 249,254,697	$ 94,791,667	$ 132,274,493	$ 283,333,333	$ 83,333,333	$ 842,987,523

Total interest expense related to the Cooperative's debt for the years ending December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023	December 31, 2022
Interest Expense		
CFC Notes Payable	$ 11,028,001	$ 9,466,598
CoBank Notes Payable	3,718,420	3,828,148
Series 2009B Bonds Payable	7,608,250	8,460,140
Series 2013A and 2013B Bonds Payable	10,192,187	10,497,812
Series 2018A Bonds Payable	3,518,667	3,657,333
Interest Cost Capitalized	(8,664,054)	(3,102,211)
Syndicated Line of Credit (Revolver)	9,822,550	3,408,961
Amortization of Debt Issuance Costs	183,528	183,528
Amortization of Premium on Refinanced Notes	326,494	326,494
	$ 37,734,043	$ 36,726,803

10. Line of Credit

The Cooperative has a syndicated line of credit totaling $390,000,000 available for short-term financing at a variable interest rate with a maturity date of November 30, 2026. The Cooperative had an outstanding balance of $180,000,000 and $170,000,000 on this line of credit as of December 31, 2023 and 2022, respectively. Of this line of credit, $150,000,000 was refinanced with long-term funds in early 2024 (see Note 16). Therefore, it is reported as long term on the balance sheet as of December 31, 2023.

The Cooperative also obtained a separate line of credit with Farm Credit Bank of Texas (serviced by CoBank) with $25,000,000 available for short-term financing at a variable interest rate with a maturity date of October 14, 2024. The Cooperative had an outstanding balance of $0 on this line of credit as of December 31, 2023 and 2022.

Line of credit available at December 31, 2023 and 2022 by lending institution is summarized as follows:

	December 31, 2023	December 31, 2022
Syndicated Line of Credit		
NRUCFC	$ 150,000,000	$ 150,000,000
CoBank	45,000,000	45,000,000
Huntington Bank	50,000,000	50,000,000
Truist Bank	55,000,000	55,000,000
Regions Bank	30,000,000	30,000,000
Wells Fargo Bank	60,000,000	60,000,000
Farm Credit Bank of Texas Line of Credit (Serviced by CoBank)	25,000,000	25,000,000
	$ 415,000,000	$ 415,000,000

The Cooperative has letters of credit executed through the syndicated revolving credit facility administered by NRUCFC as follows:

Letter of Credit, in favor of AEP Texas Central Company, in the amount of $5,000,000 effective November 24, 2014. This letter of credit automatically renews annually unless the Cooperative provides notification to terminate. If the Cooperative should terminate the syndicated credit facility with NRUCFC, the letter of credit would also terminate.

Letter of Credit, in favor of ERCOT in the amount of $20,000,000 effective January 25, 2023 increasing to $30,000,000 effective June 23, 2023. This letter of credit automatically renews annually unless the Cooperative provides notification to terminate.

11. Deferred Credits

Deferred credits at December 31, 2023 and 2022 consist of the following:

	December 31,	
	2023	2022
Net Credits for Excess Fuel, Energy & Capacity Charges	$ 8,734,414	$ 8,585,298
ERCOT Winter Storm Short Pays	1,704,511	3,165,575
	$ 10,438,925	$ 11,750,873

Net Credits for Excess Fuel, Energy & Capacity Charges – This consists of the aggregate amounts remaining to be passed through to the Cooperative's member cooperatives in the future in the form of reductions of amounts due to the Cooperative for energy billings.

ERCOT Winter Storm Short Payments – Credits related to short payments by ERCOT for charges that resulted from the 2021 Winter Storm Uri are also recorded as accounts receivable. The Cooperative received $1,461,064 and $9,773,193 in 2023 and 2022, respectively, from ERCOT for these short payments. These amounts reduced accounts receivable and were passed to the members through deferred credits. The Cooperative will receive the remaining $1,704,511 over the next eleven years. In 2022, accounts receivable and the corresponding deferred credits were further reduced by the unrecoverable portion of $5,040,370.

12. Pension Benefits

Retirement Security Plan

Narrative Description

The Retirement and Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative contributions to the RS Plan in 2023 and 2022 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $7,531,352 and $7,842,974 in 2023 and 2022, respectively.

For the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2023 and 2022 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

401(k) Pension Plan

All full-time employees who have been employed for one month or longer are eligible to participate in a multiemployer defined contribution 401(k) plan, the NRECA 401(k) Pension Plan. The 401(k) plan is maintained by the Cooperative and contributions to the plan are voluntary for the employees. The Cooperative contributes and amount equal to the employee contribution up to 3% of the employee’s compensation. Contributions to the 401(k) Plan by the Cooperative were $784,034 and $796,255 for 2023 and 2022, respectively.

Executive Compensation Plan

Effective, April 1, 2007, the Cooperative adopted an executive compensation plan which covers a select group of management and key employees involved in the management of STEC. Participants may defer 100% of annual compensation, up to the annual deferral limit. Contributions are only made through payroll deductions and are invested in the plan on behalf of the employee. This plan is unfunded and the accounts are assets of the Cooperative.

As of December 31, 2023 and 2022, the deferred compensation investment of $496,686 and $396,303, respectively, and related liability for like amounts have been recorded on the Cooperative’s consolidated balance sheets.

13. Litigation, Commitments, and Contingencies

The Cooperative is involved in instances of litigation, and in the normal course of business there can also arise instances of unasserted claims that could potentially involve the Cooperative. The ultimate outcome of these matters cannot presently be determined. However, in management’s opinion, the likelihood of any material adverse outcome is remote. Accordingly, adjustments, if any, which might result from resolution of these matters, have not been reflected in these financial statements.

SMEC – Under a wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from San Miguel Electric Cooperative, Inc. (SMEC) until December 31, 2037. The rates paid for such purchases are determined by the SMEC board of directors.

Amistad Dam and Falcon Dam – The Cooperative acquires and distributes hydroelectric power and energy generated at Amistad Dam and Falcon Dam. The Cooperative has entered into an electric service contract dated August 9, 1977, and effective on June 8, 1983, with the United States of America for the power generated at the Amistad and Falcon plants until June 2033.

Avangrid Wind Project – The Cooperative has a 15-year contract to purchase 50 MW of energy from Avangrid Texas Renewables' Peñascal generating project. The commercial operation commenced in May 2009. In 2011, the Cooperative entered into a second 15-year contract with Avangrid Texas Renewables for an additional 50.8 MW from the Peñascal project.

Javelina Wind Project – In 2015, the Cooperative entered into a 20-year contract with Javelina Wind Energy (formerly Albercas Wind) to purchase 74 MW of energy from a wind generating project located in Webb County, Texas. Commercial operation began in November 2016.

Calpine Power Purchase Agreement – In 2006, the Cooperative assumed from Magic Valley Electric Cooperative a 20-year power purchase agreement with Calpine Construction Finance Company. The contract serves all of Magic Valley Electric Cooperative's capacity and load requirements and commenced service in 2001. In January 2016, the Cooperative and Calpine agreed to amend the contract to extend service through May 2031.

Salt Fork Wind – On July 1, 2021, San Bernard Electric Cooperative assigned STEC a 35 MW power purchase agreement from a wind farm in Gray and Donley counties. The contract expires in December 2030.

Lamesa Solar – On July 1, 2021, San Bernard Electric Cooperative assigned to STEC a 7 MW power purchase agreement from a solar facility in Dawson County. The contract expires in January 2032.

Sky Global – On July 1, 2021, San Bernard Electric Cooperative assigned to STEC a 33 MW power purchase agreement from a gas-fired reciprocating engine plant in Colorado County. The contract expires in April 2046.

Block Purchases – On July 1, 2021, San Bernard Electric Cooperative assigned to STEC approximately 65 MW of fixed block power purchase agreements with several counterparties. The expiration dates vary.

Agreements to Buy or Sell Power – At various times, the Cooperative enters into agreements to either buy or sell power. These agreements are usually for periods of one or two years.

Construction – At December 31, 2023, the Cooperative had outstanding contracts with various construction contractors for certain projects. The balance remaining on those contracts at year-end total approximately $10.1 million, including retainage.

14. Related Parties

The Cooperative sells electric energy to its nine member cooperatives, listed in Note 1. The board of directors of STEC is comprised of the general manager and a board representative from each of these member cooperatives. All nine member cooperatives are committed to purchase their electric power and energy requirements from STEC through December 31, 2070. The contracts provide that those member cooperatives that elect to adopt customer choice and allow retail consumers served to choose their electric energy supplier will be subject to an annual minimum generation facility charge.

The Cooperative purchases power from SMEC, an electric generating and transmission cooperative. The Cooperative is one of ten members of SMEC. The other nine members consist of the nine member cooperatives of STEC. The SMEC board of directors is comprised of two representatives from these nine member cooperatives and one from STEC. Details of purchased power and generation and transmission (G&T) capital credits from SMEC are as follows:

	2023	2022
Purchased Energy and Capacity from SMEC	$ 175,872,848	$ 179,295,050
Payable to SMEC for Purchased Energy and Capacity at December 31	$ 9,371,601	$ 20,546,079
G&T Capital Credits Received from SMEC	$ 4,434,619	$ 2,338,144
Accumulated G&T Capital Credits (Unpaid) from SMEC at December 31	$ 40,568,777	$ 36,134,158

15. Hedging Activities

The Cooperative periodically enters into swaps and options contracts for a portion of its anticipated natural gas purchases to manage the price risk associated with fluctuations in natural gas market prices. These contracts limit the unfavorable effect that price increases will have on natural gas purchases.

These types of contracts qualify for the normal purchases and normal sales exception under GAAP. Any cost or benefit derived from these contracts will be passed through to the member cooperatives through the monthly billing, along with associated fuel costs, in the month the gains or losses are recognized.

16. Subsequent Events

The Cooperative has evaluated subsequent events through April 23, 2024, the date which the consolidated financial statements were available to be issued.

On February 28, 2024, the Cooperative issued First Mortgage Bonds, Series 2024A, in the amount of $150,000,000 at an interest rate of 5.68% due in semi-annual payments beginning October 1, 2024. These bonds will mature on April 1, 2054.