

Commitment to service
is more
than *just a line.*



Sulphur Springs Valley Electric Cooperative, Inc.

A Touchstone Energy[®] Cooperative 

Owned by those we serve.

Behind the *lines*

Perhaps electric lines are the most visible sign of an electric company's service. And SSVEC has certainly delivered energy through those lines to the regions' homes, businesses and industry for nearly 80 years.

Yet so much of SSVEC's commitment to member service and community involvement goes on "behind the lines." In energy-savings programs and services like our free energy audits that help members use less of our product. Support of community and youth programs like the Youth, Engineering and Science (YES) Fair and Veterans' Assistance groups. And SSVEC employees who volunteer hundreds of hours for youth and community programs.

In so many ways, SSVEC works to help our members and our communities. It's a "commitment to service" that is truly more than just a line.

*"The **City of Willcox** is grateful to have SSVEC as a member of our community," said Willcox City Manager Caleb Blaschke. "SSVEC improves the economy through local jobs and is generous in providing funds to Willcox organizations through grants. Recently, SSVEC provided crucial funds to the City to help build the trails that wrap throughout Keiller Park." "Every year SSVEC builds and staffs a haunted house at Keiller Park and provides the proceeds to Willcox Against Substance Abuse (WASA). In turn, WASA reinvests those funds into providing activities to the youth of Willcox. As the City Manager of Willcox, I look forward to continuing to partner with SSVEC."*

Pictured is City of Willcox City Manager Caleb Blaschke.



Coronado Farms on Kansas Settlement Road south of Willcox works with SSVEC to manage its use of electricity at its operation. The facility is home to a herd of about 75,000 cattle and grows its own feed. *"We have a great working relationship with SSVEC and rely on their prompt service for the installation of new services that help us control our costs, increase our automation and keep pace with the rapidly changing technology in our industry. We work closely with SSVEC on the voluntary shutoff program that allows us to achieve the lowest rate for our electricity by utilizing the service during off-peak hours and keeps our costs down."*

Pictured are, from left, Lisa Blair and Moira White at the entrance to Coronado Farms outside of Willcox.

Simflo Pumps in Willcox has undergone a significant renovation of its manufacturing plant and relied on a close working relationship with SSVEC as part of the project. Operations Manager Bruce Akin reports that in addition to improvements in the front of the building on Highway 186, Simflo has relocated several transformers and other electrical services along with upgrading its equipment. *"All the things we have done with SSVEC have been positive," Akin said. "It's good to have a local Cooperative that understands what we need and works with us to get it done."*





President's Report

A job well done

Three years ago, your SSVEC board asked the management team to pursue a new strategic plan and strategy execution process. This requires a never-ending pursuit of continuous improvement as a guiding philosophy, and it calls for measures of improvement in five key areas or "perspectives."



*Dan Barrera
President, SSVEC Board of Directors*

The first of these, the Membership Perspective is where we look for progress on improving reliability and service. Measures of those show fantastic results. The System Average Interruption Frequency Index (SAIFI) represents how often a member experiences an outage. On a goal of 1.10 outages per member, SSVEC ended 2018 with an impressive 0.93 outages. Furthermore, when looking at the average duration of outages, we set a goal of less than 107 minutes, and in 2018 the Cooperative kept the average outage under 73.3 minutes. We are proud of these reliability numbers. They are punctuated by the results of our most recent survey of member satisfaction, which found 85 percent satisfied on a goal of greater than 80 percent.

The Financial Perspective defines the stewardship of the Cooperative's financial strength. This is measured by looking at how well SSVEC builds its equity position and holds the line on controllable costs. The Co-op hit a significant financial milestone in 2018 by surpassing our goal of 40 percent equity, and at the end of 2018 we were at 43.6 percent equity. Furthermore, on a goal of keeping controllable costs under \$24.7 million, we ended 2018 at \$24.2 million.

*Board President Dan Barrera
reviews documents at a recent meeting
of SSVEC Directors.*



The Internal Process Perspective examines how well the Cooperative executes on critically important internal processes. Top among these internal processes is safety. Year after year, the SSVEC team has posted admirable results in safety, primarily measured by its DART Rate (an index measurement of all injuries which require Days Away from Work or on Restricted or Transferred duty). In 2018, the management team aimed to keep its DART Rate below the industry average of 1.5, and at 0.6 they did just that.

The Talent and Technology Perspective asks for continuous improvement in employee engagement. We measure that engagement by a survey of employees. In 2018 the management team set a goal to achieve at least 80 percent employee satisfaction, and the results showed 89 percent of SSVEC employees are satisfied.

The Corporate Citizenship Perspective looks at how well the Cooperative delivers on its promise to care for the environment, support the community, and ensure our members' interests are represented in regulatory processes. In 2018, SSVEC employees volunteered 7,245 hours on a goal of 4,880. The SSVEC solar farm and other solar projects helped us close 2018 at 294 percent of the goal for energy sourced from renewable means.



SSVEC Directors

A combined 110 years of experience guides the Sulphur Springs Valley Electric Cooperative Board of Directors. Elected by members residing in the district they represent, board members represent the entire membership and oversee the financial operation of the Cooperative, as well as establish and approve its policies.

Board members are elected to three-year terms and meet every month, with the location of the meeting rotating to each of the SSVEC offices in Willcox, Benson and Sierra Vista. Annual elections are conducted by mail, with ballots being delivered to each member within the districts where Directors are being elected. Terms are staggered so that not more than four directors are elected in a single year. SSVEC bylaws, which are available to the public on the Cooperative website at ssvec.org, outline the specific procedures that assure a fair election and democratic representation on the board.

Current directors have a variety of backgrounds, including agriculture, public safety, small business, education, engineering, management, military and the electric utility industry.



Officers of the Sulphur Springs Valley Electric Cooperative Board of Directors include, from the back on the left, Tom Goodman, Secretary, Curtis Nolan, Treasurer, seated from the left, Dan Barrera, President, and Gene Manning, Vice President.

Your Directors are required to attend education and training sessions to learn more about their role in the cooperative, the legal requirements and liabilities of their position, various advances in technology and consumer trends, and the effectiveness of Directors in governance issues.

The Board has an Executive committee, which is chaired by the Board President and is composed of the four officers of SSVEC. It acts for the Board of Directors in matters delegated to it by the full Board and when it is not feasible to convene the entire Board. This committee periodically reviews SSVEC's general insurance program and makes necessary recommendations to the Board. All directors serve on the

Committee of the Whole, which meets prior to the regularly scheduled monthly board meeting and discusses policy, finance, employee and member relations issues.



Members of the Sulphur Springs Valley Electric Cooperative Board of Directors include, from the left, Randy Redmond, Jim Johnson, Gene Manning, Gary Payne, Kathy Thatcher, Dan Barrera, Tom Goodman, Pat English, Curtis Nolan and Peter Gillespie.

On matters of policy, the Committee of the Whole reviews an appropriate number of policies each month to allow for a review of each policy at least once every three years. The committee assists and advises the full Board on all questions of finance and audit issues. The committee regularly reviews key indicators that measure SSVEC's financial position.

In its capacity handling employee and member relations issues, the committee assists, advises and makes recommendations to the Board on personnel matters concerning compensation and benefits. The committee also assists and advises the Board on member relations, the annual meeting and environmental issues. It makes recommendations on the appropriate action for the Board.

In addition, the committee reviews and advises the Board on matters involving the SSVEC Foundation and the SSVEC Charitable Trust.

Several of the directors represent SSVEC on other cooperative boards. Pat English serves on the board of the state-wide organization of cooperatives, Grand Canyon State Electric Cooperative Association. Dan Barrera and Kathy Thatcher serve on the board of SSVEC's power supplier, Arizona G & T Cooperatives.



Dan Barrera, President of the SSVEC Board of Directors, accepts a capital credits check from Patrick Ledger, Chief Executive Officer at Arizona G&T Cooperatives, the primary provider of electricity to SSVEC. Like its members, SSVEC accepts a capital credits check each year, representing the operating margins retired by the G&T Cooperative.



From the left, Curtis Nolan and Jim Johnson, members of the SSVEC Board of Directors, review some of the information presented during the October 24, 2018 visit to Coronado Farms outside of Willcox.



Lisa Blair, a representative of Coronado Farms, explains the operation of the birthing barn to members of the SSVEC Board of Directors during a tour of the facility on October 24, 2018.

CEO's Report

A success story built by our members

Forward-thinking initiatives and more than 80 years of experience have positioned Sulphur Springs Valley Electric Cooperative for sustainable success that assures financial security and reliable service for today and for future generations.

Our story is built on a commitment to our members and guided by cooperative principles that prioritize our community, democracy, accountability and innovation. In 2018, SSVEC dramatically improved its reliability with significant investments in infrastructure, while still improving member equity and returning the largest amount of capital credits in the history of the Cooperative.

Electricity sales are still lower than in the past but in 2018 they increased almost 2 percent over the previous year, reaching some 854.4 million kilowatt hours in 2018 and fueling a modest 5.3 percent increase in SSVEC operating revenues. Although almost one-half of the Cooperative's revenue is generated by residential members, the largest income increase resulted from irrigation members who contributed almost \$21 million in electricity sales, which is a full 1 percent increase over 2017.

The revenue increase and our cost-saving initiatives resulted in a net operating margin of \$10 million for the year, putting the Cooperative in position to afford its largest retirement of capital credits in its 81-year history. The sum of \$2,322,219.97 was returned to members in December of 2018 representing a 38 percent increase over the previous record high of \$1.6 million, which the board approved in 2016.

Money set aside to return to members is known as patronage capital credits. Each year, the Board of Directors reviews the financial standing of SSVEC and decides whether capital credits will be retired based on the Cooperative's financial position and equity. Board members also determine the total amount to be retired to members.

Accountability to our members is assured by the elected Board of Directors, who have consistently represented the best interests of our members. For 2018, member equity increased by almost 10 percent and now exceeds \$131



Creden W. Huber
SSVEC's Chief Executive Officer

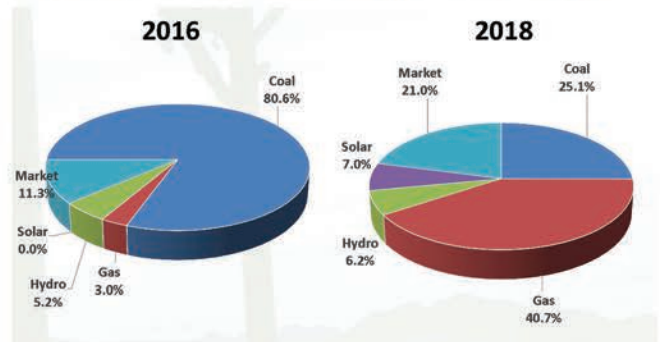
million, representing a healthy 43 percent of the Cooperative's total asset value. Although there is no magic number for equity, our bankers like to see most cooperatives around 40% equity.

Debt service coverage in 2018 consisted of about \$6.5 million in debt principle payments, reducing the financial liability of the Cooperative and improving our credit standing with potential lending institutions.

SSVEC has not borrowed loan funds for more than three years, utilizing existing revenues to afford significant infrastructure improvements totaling about \$10 million a year.

SSVEC continues to be aggressive in its pursuit of renewable energy sources, purchasing electricity generated by hydro, solar and clean-burning natural gas. Since 2016, our energy mix has changed dramatically from more than 80 percent generated from coal to about 25 percent. Today, solar power generated by our members and from the SSVEC solar field in Cochise contributes more than 7 percent of the electricity distributed by the Cooperative. We continue to purchase hydroelectric power from the Hoover Dam, the cleanest form of renewable energy, and our ability to buy electricity on the open market has allowed SSVEC to tap into power generated by the newest clean-burning natural gas plants. We are committed to a renewable energy future that assures our members of affordable and reliable electricity.

SSVEC Purchased Energy Mix Change



Consistent with an improving local economy, SSVEC added 474 new services in 2018, an increase of 142 new connections above the previous year. Today, SSVEC is the largest Cooperative in Arizona with 59,378 total service connections. Despite this increase, our workforce is 8.5 percent smaller than it was 21 years ago, with 164 employees compared to 178 in 1995. Today, SSVEC's payroll expense is just 7.6 percent of revenues, compared to almost 13 percent in 1997. Our commitment to creating a positive and safe work environment is evidenced by the experience of our employees. More than one-half the SSVEC workforce has been with the Cooperative for five or more years.

SSVEC continues to demonstrate its commitment to the communities it serves through programs for residential members to lower their monthly electric bills, assistance with community development projects, donations to community and nonprofit programs and events (our donation budget is not funded through your electric bill), and safety presentations to area students.

Three well-established youth programs annually recognize and reward student efforts. Each November SSVEC stages its final competition for the Washington Youth Tour, naming nine area high school students who tour the nation's capital the following June. This past year marked the 39th year of the program and in that time hundreds of students from southeast Arizona, thanks to SSVEC, have traveled to Washington DC.

In April, academic scholarships of \$1,500 are awarded to 30 area high school seniors who plan to graduate and continue their education. Students in middle and high school also earn cash awards through SSVEC's annual Youth Engineering and Science Fair.

All three of the youth programs are paid for through the SSVEC Foundation which is funded by unclaimed patronage capital credits, not from member electric bills.

Assuring the financial strength of the Cooperative and investing in our infrastructure to capture cost savings and improve the reliability of our service continue to be priorities that serve both the immediate and long-term interests of our members.

Now in our 81st year, SSVEC is a success story that demonstrates the very best qualities of our membership and the communities where we live, work and play.



Members of the SSVEC Senior Staff include, from the left, Jason Bowling, Chief Administrative Officer; Jack Blair, Chief Member Services Officer; Ron Lee, Chief Financial Officer; Dan Wilson, Director of Engineering; Nathan Hodges, Chief Operations Officer; Orson Garnsey, Chief Information and Technology Officer; and Creden Huber, Chief Executive Officer.



Operations

Infrastructure upgrades improved reliability and service

Substation improvements, pole replacements and line upgrades consumed a year of major infrastructure upgrades to the Sulphur Springs Valley Cooperative distribution and transmission system. With more than 4,168 miles of energized line and 32 substations, the Operations Department recorded a significant increase in the number of work orders completed in 2018, compared to the previous year.

More than 1,200 poles were replaced throughout the service area, upgrading the reliability of SSVEC infrastructure. Lineworkers rebuilt the T-2 feeder in Sierra Vista, changing out 30 poles and upgrading one mile of conductor beginning near the intersection of Highway 92 and Snyder Boulevard.

Operations also built a new substation – Pueblo North – and after it was energized, split the load with the existing Pueblo South substation, increasing the reliability of electric service to SSVEC members. The total cost of these two major projects topped \$3.4 million and required more than 14,000 manhours to complete.

These infrastructure upgrades will increase line capacity and improve service reliability for some 6,700 members – including the relatively new Canyon Vista Medical Center – all of whom are served by these distribution lines and substations.



SSVEC lineworkers responded April 27, 2018 to a brush fire in Hereford. Multiple firefighting agencies responded to the scene. The Sulphur Springs crew headed into the fire field to take down a transformer before it fell off the pole and spilled oil. They also rerouted power lines from wooden poles which were either burning or were about to catch on fire. Members of SSVEC's crew include, from left, Tyler Rios, Nathan Hodges, David Clark, Zack Jouett, Eddie Soule, and Eric Jones.



Once a new pole is set, it's all hands on deck as SSVEC linemen secure placement of a 65-foot pole as part of a pole replacement project outside of Bowie on May 21, 2018. Those tamping the pole include, from the left, Chuy Hernandez, Blake Rhodes, Clinton Welch, Luis Montano, and Emile Brunelle.



SSVEC lineworker Dylan Layton begins the process of moving a line during a pole replacement project in the San Simon area on December 20, 2018.

Operations crews are also working closely with commercial members in the SSVEC service area. Some 62 new irrigation account line extensions were completed in the Kansas Settlement, Bowie and Elfrida communities.

In the coming year, crews will be continuing to improve SSVEC infrastructure with a major project planned along Buffalo Soldier Trail, from Highway 92 to Golf Links Road. Transmission, distribution and fiber line upgrades are planned, expanding the "smart grid" fiber network and adding more capacity to the transmission backbone and distribution system along Buffalo Soldier Trail.

The rebuild and upgrade will include moving a section of line from the north side of the highway to the south side, removing several existing poles that are in the backyards of member homes along the route.

The arrival of a new mobile substation is also a highlight in the new year. SSVEC culminated several years of planning with the \$1.5 million investment in a mobile substation that can temporarily maintain electric service for the largest substations on the system.

The new mobile makes it possible to restore power much more quickly, when there is an outage at the larger substations. Before this, depending on which substation was affected, power outages could have lasted for several days in some areas, depending on the nature of the outage.

When Operations personnel aren't at work, many are volunteering in their community. For 2018, the Operations department reported 1,652 volunteer hours, participating in community Christmas parades, Fourth of July parades and events, and the Willcox Veterans Day parade.

Operations personnel also spent time coaching sports teams and serving on civic governing boards for school and community events and activities.



Top place finishers and SSVEC linemen were recognized at the annual SSVEC apprentice rodeo, held August 30, 2018. Pictured are, from left, Chris Woodley, Matt Williams, Mark Roll, Blake Rhodes, Reed Nichols, Eric Jones, Dylan Layton, Michael Cook and Jacob Shull.

Engineering

Infrastructure upgrades, the acquisition of a mobile substation and continued peak-shaving operations improved service reliability while controlling and reducing costs for SSVEC members in 2018.

Projects completed during the year finished up a 5-year work plan and included upgrades to three SSVEC substations. A transformer in the Kansas Substation, in the Kansas Settlement area, was upgraded to handle an increase in the electric load for irrigation members. The new transformer has monitoring equipment that can help detect issues before a complete failure of the equipment.

Substation upgrades were also completed at the Tombstone and Pueblo facilities, improving functionality and security as well as upgrading service capacity. Construction of the Pueblo North substation within the existing Pueblo Substation yard, located on Avenida Del Sol in Sierra Vista, was completed by June, to handle an increase electric load generated in part by Canyon Vista Medical Center. Upgrades at both facilities included new lighting, bird protection and other improvements to address security and service issues.

Acquisition of a second mobile substation – which arrived in January – provides SSVEC with the capacity to respond quickly to an outage and restore power within hours. The new 22 MVA mobile substation has more than twice the capacity of the existing 10 MVA mobile substation and can be deployed to any of the SSVEC substations where it can be used to restore power after an outage. Prior to its arrival, a significant outage at a large capacity substation may have taken a few days to remedy. SSVEC worked directly with the manufacturer in building the mobile substation to our specifications, sending Cooperative employees to the manufacturing facility during 2018 to monitor its assembly and test the new equipment.



Several members of the "Rage Against The Machine" team from the Willcox SSVEC office celebrated a trophy presentation on December 6, 2018. The crew was one of several teams entered by SSVEC in the annual Special Olympics Bearcat Pull in Sierra Vista. Each year teams fielded by local law enforcement agencies, businesses, and community members tackle an extraordinary challenge to help the Sierra Vista Police Department raise money for the Law Enforcement Torch Run for Special Olympics Arizona. First place winners from Willcox included, (above from left) Jorge Garcia, Daniel Wilson, Deidra Tulk, Werner Neubauer and Jacob Shull.

Continuous efforts to strategically limit electric demand and reduce costs for SSVEC members – especially irrigators – has generated more than \$200,000 in savings during the past 18 months. Improvements to the Supervisory Control and Data Acquisition (SCADA) system has helped SSVEC monitor its power transmission and avoid consumption at peak hours. Irrigators and commercial members are encouraged to participate in reduced rate program that allows SSVEC to avoid high transmission costs at peak loading times and acquire power at times that are less costly.

Automation upgrades and the extension of fiber optic cable have improved SCADA monitoring systems, resulting in improved service reliability and faster response to service interruptions.

The engineering department designed and processed 866 work orders in 2018, including the addition of 474 new services and the retirement of 124 services.



A SSVEC truck makes its way to a remote worksite during a pole replacement project in May, 2018.



Administration

SSVEC continues to improve its service to members and employees through innovative initiatives that offer convenience, better communities, and opportunities for better well-being.

The installation of pay station kiosks in Sierra Vista, Willcox and Benson provides members with the option of paying their bill at any time, regardless of office hours. The machines accept cash, checks, and credit or debit cards. Members follow touch-screen instructions and are asked to input their account number to complete the payment process. SmartHub and SmartHub Mobile also remain available as popular 24/7 options for member bill payment.

For 2018, SSVEC sent out more than 434,000 bills with approximately \$115 million in revenue this past fiscal year. We currently have 1,782 active pre-paid accounts. This is an increase of 28 percent over the previous fiscal year.



Creden Huber, left, Chief Executive Officer at Sulphur Springs Valley Electric Cooperative, presents a distinguished service plaque to Kirby Chapman at a small ceremony on July 23, 2018. Chapman was celebrated for 21 years of service as the Cooperative's Chief Financial Officer.

The SSVEC leadership program has contributed to the betterment of employees, the co-op, and the communities we serve. Acting on an initiative that has been three years in the making, SSVEC's leadership development program features a committee of managers representing Tech Services, Information and Communication Services, Member Services, and Human Resources. Participants in the program hone leadership skills through coursework delivered by community leaders, like Sherriff Mark Dannels and former Sierra Vista City Councilman Craig Mount, and they exercise those skills in leadership projects.

In 2018, several of these leadership projects were completed, including:

- David Gaskill, South Area Fleet Foreman, managed a project to expand our Sierra Vista garage facilities. This expansion was completed on time, \$17,000 under budget, and expanded the capabilities of the in-house fleet team.
- Daniel Myers, Mechanic III, lead a group to cook and feed people at the Good Neighbor Alliance in Sierra Vista.
- Mark Roll, South Area Construction Manager, designed and led a utility industry tour for participants of the Sierra Vista Area Chamber leadership program.
- John Peebles, Desktop Support Supervisor, assembled a team of SSVEC employees and family members to do yard maintenance at an elderly member's house.

SSVEC continues to set safety records. In 2018, SSVEC Experience Modifier (EMOD) fell to 0.62. The Experience Modifier or "EMOD" is a metric used in worker's compensation insurance. It is reflective of our worker's compensation loss experience, and for the average company, it usually hovers around 1.0 and is updated annually. An EMOD less than 1.0 is seen in organizations with lower than average frequency of injuries. Insurance companies use that value as a "modifier" to the base premium to derive actual insurance cost. The 0.62 EMOD provided a \$104,393 discount (38%) off workers compensation premiums. In-house education through monthly safety meetings, training, observation of crews in the field, and a commitment by management and employees to work safely have contributed to the Cooperative's safety record.



Finance Department

Ron Lee took over as SSVEC Chief Financial Officer in July, 2018, following the retirement of Kirby Chapman, who worked at the Cooperative for 21 years. Lee, who served as Controller prior to his promotion, spent two years working closely with Chapman before his retirement.

Lee has carried on the open projects remaining after Chapman's retirement, to include: the Loan Filing with the Arizona Corporation Commission, Depreciation Rate Filing with the ACC, and finalization of SSVEC's Utility Privatization contract with Fort Huachuca.

In April, 2018, SSVEC renewed its short-term lines of credit with two industry lending institutions – Cooperative Finance Corporation and CoBank – for a total of \$19 million. Although the CFC rates have been slightly higher than CoBank, having two banks to bid on loan renewals has ensured that the Cooperative receives the best financing option.

In May of 2018, SSVEC refinanced \$4.3 million in debt for 19 years and at an effective interest rate of 4.32 percent after considering patronage capital. Also during 2018, SSVEC paid down \$6.5 million in debt principle, reducing its financial liability.

SSVEC has not borrowed money for infrastructure projects for more than three years, paying for system improvements from existing revenues.

The Cooperative's economic profile, which has been a year-long focus of the Finance Department, is expected to maintain or improve the A- credit rating last issued by Fitch in 2017. After consulting with a Fitch analyst, SSVEC has developed a cash strategy to weigh the benefits of obtaining an A rating from the credit agency.

Cost-savings and an emphasis on local contractors has been a priority for our purchasing and warehouse operations. SSVEC has developed strong relationships with its suppliers, which allows the Cooperative to keep price increases to a minimum. This allows us to leverage key supplier inventory, since suppliers look to maintain our long-term relationship.



Chief Financial Officer Ron Lee.

We are also developing our contractor list to improve our bidding process to increase competition and thereby reduce costs. Our focus when developing this list is to provide opportunities for local contractors and members whenever feasible.

SSVEC is also working closely with the Grand Canyon State Electric Cooperative Association to develop group purchasing. This effort is being facilitated by a digital bulletin board, which will allow participating cooperatives around the state to list surplus items for sale. Cooperatives also share information on major purchases, including transformers, underground cable, poles, flame retardant clothing and services.

Information is also being shared on the types of strategies we use to decide our purchasing practices. This is an opportunity for further development as this committee moves forward in 2019.

Major facility projects completed in 2018 included:

- Elfrida office remodel which doubled office space and modernized the customer service area to include state of the art security features.
- Willcox road crossing repair between the two construction yards. This was a cost sharing project with the City of Willcox where SSVEC paid a major portion of the repair, and the city will maintain the roadway for the next 10 years.
- Automated Fuel Tank monitoring systems for the Sierra Vista and Willcox Construction yards. Benson was already completed in 2017.

Information & Technology

Faster Internet, better reliability, less cost highlights 2018 for I & T

Improving services while saving money is the new dynamic in Information Technology. Sulphur Springs Valley Electric Cooperative accomplished both in 2018, reviewing its Internet and telephone services while expanding the advantages of an Internal fiber optic network to prepare for a cloud-based services.

The Information & Technology department installed two 200-megabit Internet services, sourced from CenturyLink and Cox Communications. The reliability of these services for the entire Cooperative has been enhanced by installing the infrastructure in two different locations in Benson and Sierra Vista. These upgrades have increased processing speeds by a minimum of four times compared to former services and provide redundancy to ensure greater reliability. The Information and Technology department was able to accomplish this project at a cost-savings of \$14,000 a year.

In concert with the Internet services upgrades, we also upgraded our fiber-optic network by adding three new paths for redundancy. These upgrades ensure the investment translates to better service for SSVEC's membership. Online services such as SmartHub are now more reliable. These two projects carried a significant investment in planning and implementation. I & T staff spent several months preparing and several weeks setting up the new services.



Orson Garnsey, Chief Information and Technology Officer, inspects servers in the Sierra Vista computer room.

In 2019, SSVEC will be moving a few services to the cloud. Email will move to Microsoft Office 365 as will Microsoft SharePoint and Document Retention services. The goals are to lower costs and increase efficiency.

Costs will be lower over time because of reduced management overhead and reduced reliance on internal computing resources. Both are costly, which makes cloud services attractive.

IT folks like to use phrases like "cross-platform" to describe the flexibility of software. Office 365 is a cross-platform product, which means it works on computers, phones, iPads and many other devices. This means employees can work on many different platforms anytime and anywhere, which increases efficiency and the overall productivity of SSVEC's workforce.

But we're not all about work in the I & T department. In 2018 the staff spent 495 hours volunteering in our communities! Activities included volunteer police work in Willcox, distributing food to the under-privileged, and participating in a variety of youth sports. We appreciate our members and look for opportunities to help everywhere we can!



Sonny Smith, Application Support Technician III, manages computer operations in the Information & Technology department.

Member Services

Communication, outreach and member interaction are the focus of the Member Services department. Beyond the work of making sure that flipping a switch turns on the lights, Member Services is responsible for creating awareness of SSVEC programs, sponsored community activities, and providing prompt updates when an alert is issued.



Cory East, Energy Management and Agriculture Specialist, addresses a room full of irrigators and their families attending the annual Irrigators Appreciation Luncheon, hosted at the Willcox SSVEC office on December 5, 2018.

The department handles social media, radio and television advertising and printed publications to keep its members up to date with the latest news and information on the Cooperative. The emergence of social media and the SSVEC website have provided a means to keep in touch with members on a near-instant basis.

When a service interruption occurs, or a member reports receiving a “scam” phone call, an alert is posted on the SSVEC website, on the Facebook page and on Twitter feed. Today, more than 2,300 members have “liked” SSVEC on Facebook, with an average engagement rate of 12 percent for our 2018 posts, 75 times the national average. In March, the SSVEC live broadcast on Facebook attracted more than 4,300 viewers of the 2018 YES Fair awards ceremony.

The SSVEC website, which will undergo a major revision in the coming year, is used by 23 percent of the members each month.

Eight additional inserts, or “special” inserts, were included in member bills during 2018, focused on the operation and services provided by SSVEC. Topics covered included insights on the SSVEC fleet operations, how the Supervisory Control and Data Acquisition system works, the office expansion in Elfrida, our effort to bring more substation operations “in-house” and a feature on our customer service department.

Currents magazine was published six times throughout the year. Currents features “SSVEC Happenings” to provide members with the latest information on new initiatives, retirements and information to assist our members. Published every-other-month, the magazine focuses on features and events in the SSVEC service area. The free listing of community events and recipes continue to be popular features of Currents.

Key Accounts Manager David Bane and Agribusiness and Energy Management Specialist Cory East worked directly with members providing free, at-location, energy audits and offering consultation to lower energy bills. Throughout 2018, ten commercial accounts and 144 residential members requested energy audits. East also conducted 28 pump tests, working with irrigators in the SSVEC service area to control and reduce their operational costs.

SSVEC continues to maintain a prominent profile in the communities it serves. Sponsorship of youth programs, participation in community parades and events, and promotion of local economic development efforts demonstrate a sincere commitment by the Cooperative and employees to improve where we live, work and play.



Former Arizona Cardinals linebacker Karlos Dansby, facing the group on the left, leads warm-up drills at the SSVEC football camp on Saturday, October 27, 2018. The camp was one of several community events featuring professional athletes and sponsored by the Cooperative.

Youth Programs



Prominent among the seven guiding principles of a Cooperative are concern for the community and the education of its members.

For SSVEC, three youth programs fulfill a significant portion of that mission. Funding provided by the SSVEC Foundation helps sponsor the Washington Youth Tour, annual scholarships to graduating seniors and the Youth Engineering and Science (YES) Fair.

Foundation funding comes from unclaimed patronage capital credits. As a cooperative, SSVEC returns margins (revenues less expenses) to members in the form of patronage capital credits. Due to the lag in time between when these margins are realized and when they are retired, members leave the area, but don't always provide a forwarding address. After advertising these unclaimed credits, the Cooperative turns the funds over to the Foundation, a tax-exempt entity that funds youth activities and programs.

It is the Foundation that funds the Washington Youth Tour, the YES Fair, and the SSVEC Foundation Scholarship program each year.

The Washington Youth Tour sends high school juniors on a week-long, all-expenses-paid trips to the nation's capital. The YES Fair is open to students grades 5 through 12 in SSVEC's service area, where students and their teachers win cash and special awards. Students whose projects win grand prizes in the high school division earn all-expenses-paid trips to compete in the International Science and Engineering Fair. The SSVEC Foundation Scholarship program provides 30 scholarships of \$1,500 to graduating high school seniors, to continue their education.

In the true Cooperative spirit, SSVEC members participate as judges in all three youth programs – reading and evaluating scholarship applications, judging science fair projects, and scoring essays and interviewing Washington Youth Tour competitors.

Sponsoring programs that educate and enlighten area youth is a priority for SSVEC. Funds provided by the SSVEC Foundation annually support several vital programs that accomplish that goal.

Since 1984, when the Cooperative Board voted to create the Foundation, this nonprofit organization has provided funds that are making a difference in student lives and in our community.



Winners of the annual Sulphur Springs Valley Electric Cooperative Foundation all-expenses-paid trip to Washington for June, 2019, included: standing from left, Carsten Huber, Buena High School; Thor Gavin, homeschool; Victoria Lucero, Buena High School; SSVEC Board of Directors President Dan Barrera, Angeliana Martinez, Willcox High School; Alan Gardner, Benson High School; seated, left, Hannah Runyon, homeschool; Anna Miles, Benson High School; Brianna Collier, Buena High School; and Ly Lynn, Buena High School.

SSVEC partnered with TransWorld Network, Corp. (TWN) in 2005 to provide SSVEC members with a high-speed wireless broadband solution. As electric cooperatives brought power to rural areas, TWN has followed that same initiative to bring broadband solutions to underserved communities. More than 4,500 SSVEC members (and more than 13,000 total consumers in the Southwest) have chosen TWN as their Internet provider.



Recently, TWN has rebranded its service offerings to TWN Communications, formerly known as Wi-Power Internet & Phone Service. The company still offers the same reliable service, but with a new name and new look.

TWN understands the growing need for greater broadband capacity. To keep up with demand, they have focused on network upgrades to provide faster, guaranteed speed plans to SSVEC members and the surrounding communities. Currently, a majority of the TWN core network and supporting site in SSVEC's area have been upgraded to provide faster service. Faster service is now available in Benson, Hereford, Huachuca City, Mescal, Pomerene, Sierra Vista, Tombstone, Whetstone and Willcox.

TWN has seen great growth in the Enterprise Broadband product offerings, which provides customized business-class services. Whether a small at-home shop or a large-scale enterprise, TWN works with a variety of businesses, creating custom solutions to meet their broadband needs. From construction, agriculture and hospitality industries to schools and government facilities, TWN works with many of SSVEC's key accounts to keep them connected.

To learn more about TWN Communications Internet Service for your home or business, please call 866-297-8906 or visit twncomm.com.



Operating Highlights 2018 and 2017

	December 31, 2018	December 31, 2017
Active Meters	51,969	51,934
New Services Connected	474	332
Total Electric Sales (kWh)	854,396,477	840,085,951
System Peak (kW and Month)	215,697 (July)	212,596 (June)
Miles of Energized Line		
Transmission	320	320
Distribution (overhead)	3,073	3,054
Distribution (underground)	775	769
Taxes Paid for the Year (property, payroll, franchise, and other)	\$14,355,240	\$14,278,977
Patronage Capital		
Margins Assigned	\$13,543,123	\$9,740,578
Retired	\$2,435,092	\$591,419
Average system outage time (Minutes per member)	73.32	82.60

Financial information from the Independent Auditors' Report

Pages 15 and 16 of this annual report contain the Balance Sheet and Statement of Income Patronage Capital and Other Comprehensive Loss respectively from an independent auditors' report of SSVEC accounts as of June 30, 2018.

A complete copy of the report is available for inspection by members at SSVEC offices.

Ron Lee
Chief Financial Officer
Sulphur Springs Valley Electric Cooperative

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

**BALANCE SHEETS
JUNE 30, 2018 AND 2017**

ASSETS

	June 30,	
	2018	2017
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 360,374,906	\$ 349,902,288
Construction Work in Progress	9,931,359	11,839,457
	\$ 370,306,265	\$ 361,741,745
Less: Accumulated Provision for Depreciation and Amortization	156,080,245	142,397,882
	\$ 214,226,020	\$ 219,343,863
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Non-Utility Property - Net	\$ 4,289,714	\$ 4,965,612
Investments in Associated Organizations	55,036,210	52,475,115
Other Investments	1,753,260	1,902,525
	\$ 61,079,184	\$ 59,343,252
CURRENT ASSETS		
Cash	\$ 1,683,172	\$ 3,865,195
Temporary Cash Investments	7,514,901	1,526,886
Accounts and Notes Receivable (Less allowance for uncollectibles of \$176,760 in 2018 and \$403,774 in 2017)	7,007,789	8,462,312
Underbilled Power Cost Adjustment	4,127,980	936,173
Unbilled Revenue	2,720,341	2,778,004
Materials and Supplies	2,246,513	2,456,529
Other Current and Accrued Assets	1,595,273	1,454,551
	\$ 26,895,969	\$ 21,479,650
DEFERRED CHARGES	\$ 1,006,276	\$ 1,879,673
TOTAL ASSETS	\$ 303,207,449	\$ 302,046,438

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 198,210	\$ 195,680
Patronage Capital	127,977,494	120,733,535
Other Equities (Deficits)	(1,858,710)	(2,138,718)
Other Comprehensive Loss	(687,345)	(870,667)
	\$ 125,629,649	\$ 117,919,830
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 29,758,868	\$ 31,757,798
CoBank Mortgage Notes Less Current Maturities	112,494,339	117,066,444
Notes Payable - Fort Huachuca	117,343	334,008
	\$ 142,370,550	\$ 149,158,250
OTHER LONG-TERM LIABILITIES		
Deferred Compensation	\$ 1,457,896	\$ 1,334,334
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 1,603,350	\$ 1,623,699
CURRENT LIABILITIES		
Notes Payable - CoBank	\$	\$ 1,500,000
Current Maturities of Long-Term Debt	6,827,110	6,758,705
Current Maturities of APBO	83,000	79,000
Accounts Payable - Purchased Power	5,787,931	5,574,334
Accounts Payable - Other	1,265,710	1,862,377
Consumer Deposits	2,257,439	2,226,402
Accrued Taxes	1,975,853	1,908,002
Accrued Interest	391,684	400,905
Accrued Payroll	286,036	274,956
Accrued Employee Compensated Absences	2,818,219	2,874,640
Other Current and Accrued Liabilities	190,670	118,084
	\$ 21,883,652	\$ 23,577,405
DEFERRED CREDITS	\$ 10,262,352	\$ 8,432,920
TOTAL EQUITIES AND LIABILITIES	\$ 303,207,449	\$ 302,046,438

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

**STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND OTHER COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	Years Ended June 30,				Increase (Decrease)
	2018		2017		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 49,911,884	45.2	\$ 47,305,119	45.0	\$ 2,606,765
Irrigation	20,794,724	18.8	18,514,832	17.6	2,279,892
Commercial and Industrial	32,291,899	29.2	31,672,724	30.2	619,175
Public Buildings and Other Authorities	2,331,007	2.1	2,515,190	2.4	(184,183)
Power Cost Adjustment	3,191,806	2.9	1,579,427	1.5	1,612,379
Unbilled Revenue	(57,663)	(0.1)	403,216	0.4	(460,879)
Rent from Electric Property	814,352	0.7	691,316	0.7	123,036
Other Operating Revenues	1,354,894	1.2	2,286,403	2.2	(931,509)
Total Operating Revenues	<u>\$ 110,632,903</u>	<u>100.0</u>	<u>\$ 104,968,227</u>	<u>100.0</u>	<u>\$ 5,664,676</u>
OPERATING EXPENSES					
Purchased Power	\$ 57,940,798	52.4	\$ 54,878,736	52.3	\$ 3,062,062
Transmission	466,118	0.4	433,461	0.4	32,657
Distribution - Operation	10,035,011	9.1	9,248,691	8.8	786,320
Distribution - Maintenance	3,369,969	3.0	3,505,355	3.3	(135,386)
Consumer Accounts	3,112,157	2.8	3,182,642	3.0	(70,485)
Customer Service and Information	939,366	0.8	791,034	0.8	148,332
Sales Expenses	489,481	0.4	370,000	0.4	119,481
Administrative and General	6,277,473	5.7	6,179,062	5.9	98,411
Depreciation and Amortization	17,577,004	15.9	11,481,524	10.9	6,095,480
Taxes	88,222	0.1	7,247	0.0	80,975
Other Interest	694	0.0	4,198	0.0	(3,504)
Other Deductions	353,882	0.3	266,801	0.3	87,081
Total Operating Expenses	<u>\$ 100,650,175</u>	<u>90.9</u>	<u>\$ 90,348,751</u>	<u>86.1</u>	<u>\$ 10,301,424</u>
OPERATING MARGINS - Before Fixed Charges	<u>\$ 9,982,728</u>	<u>9.1</u>	<u>\$ 14,619,476</u>	<u>13.9</u>	<u>\$ (4,636,748)</u>
FIXED CHARGES					
Interest on Long-Term Debt	<u>5,305,798</u>	<u>4.8</u>	<u>5,389,237</u>	<u>5.1</u>	<u>(83,439)</u>
OPERATING MARGINS - After Fixed Charges	<u>\$ 4,676,930</u>	<u>4.3</u>	<u>\$ 9,230,239</u>	<u>8.8</u>	<u>\$ (4,553,309)</u>
G&T and Other Capital Credits	<u>3,180,495</u>	<u>2.9</u>	<u>3,189,405</u>	<u>3.0</u>	<u>(8,910)</u>
NET OPERATING MARGINS	<u>\$ 7,857,425</u>	<u>7.2</u>	<u>\$ 12,419,644</u>	<u>11.8</u>	<u>\$ (4,562,219)</u>
NON-OPERATING MARGINS					
Interest Income and Dividend Income	\$ 233,891	0.2	\$ 131,070	0.1	\$ 102,821
Other Non-Operating Income	17,742	0.0	585,153	0.6	(567,411)
	<u>\$ 251,633</u>	<u>0.2</u>	<u>\$ 716,223</u>	<u>0.7</u>	<u>\$ (464,590)</u>
NET MARGINS	<u>\$ 8,109,058</u>	<u>7.4</u>	<u>\$ 13,135,867</u>	<u>12.5</u>	<u>\$ (5,026,809)</u>
OTHER COMPREHENSIVE INCOME (LOSS)					
Change in Assumptions	129,734		(663,518)		
Post-Retirement Benefit Amortization	<u>53,588</u>		<u>54,276</u>		
COMPREHENSIVE INCOME	<u>\$ 8,292,380</u>		<u>\$ 12,526,625</u>		
Post-Retirement Benefit Liability Adjustment	(183,322)		609,242		
PATRONAGE CAPITAL - Beginning of Year	120,733,535		109,552,657		
NON-OPERATING MARGINS TRANSFERRED TO PRIOR YEAR DEFICIT	(197,774)		(267,989)		
PATRONAGE CAPITAL RETIRED	<u>(667,325)</u>		<u>(1,687,000)</u>		
PATRONAGE CAPITAL - End of Year	<u>\$ 127,977,494</u>		<u>\$ 120,733,535</u>		



2019 Cooperative Service *Anniversaries*



Eddie Soule

35 years

Eddie Soule

30 years

Richie Ellis
DJay Farbo
Paula Jackson



Paula Jackson

25 years

Mark Roll

20 years

Torey Bell
Wendy Davis
Kevan Hardy
Kelly Shannon
Christopher Woodley



Torey Bell



Andrea Tyndall

15 years

Bruce Andrews
Nathan Hodges
Mona Parcenu
Andrea Tyndall
Matthew Williams



Danny Dunham

10 years

Danny Dunham
Mike Galleano
Diego Martinez

5 years


Karl Berryhill
Eric Jones
Mae Lin
Andrew Klein
Andriana Araiza-Rodriguez
Ashton Thomas



Mae Lin



**Sulphur Springs Valley
Electric Cooperative, Inc.**

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Notice of 2019 *Annual Meeting*

The 81st annual meeting of Sulphur Springs Valley Electric Cooperative, Inc. will be held at Klein Performing Arts Center, inside Buena High School, 5225 E. Buena School Boulevard, Sierra Vista, Arizona, on Thursday, April 18, beginning at 7 p.m. Registration to establish a quorum will begin at 6 p.m.

- **Reports by SSVEC President Dan Barrera and SSVEC Chief Executive Officer Creden Huber**
- **Announcement of the results of the 2019 Board of Directors elections**
- **Announcement of the winners of the 2019 SSVEC Foundation Scholarships**
- **A drawing for twenty \$50 billing credits and other prizes.**
- **Refreshments will be offered. Every member who registers will receive a gift and one lucky co-op member in attendance will win this year's**

Grand Prize
2013 FORD F-150
4x4, extended cab 4-door pickup truck
retired from the cooperative's vehicle fleet.

