2022 ANNUAL REPORT

SETTING THE STANDARD

STEC

Safety is our way of life

PRESIDENT & GENERAL MANAGER'S REPORT

"Action or inaction are both forms of leadership and standard setting."
- -SETH GODIN

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Proudly, STEC can say that it continued to set the standard and remained a leader in the industry, particularly in Texas, through its efforts in 2022. So much was accomplished, and many new initiatives were started. Those items could not have been completed without the action and leadership of the STEC Board and the dedicated contributions of STEC's employees over the course of the year.

The year began with the onboarding of new directors to the Board of Directors as three former directors retired to enjoy the next phase of life. STEC welcomed Trey Grebe (Medina Electric Cooperative, Inc.), Brian Acosta (Magic Valley Electric Cooperative, Inc.), and Mike Ables (San Bernard Electric Cooperative, Inc.) to the STEC Board in late 2021 and early 2022. All three directors joined the STEC Board in their roles as General Manager/CEO of their respective cooperatives and have a significant degree of valuable backgrounds and numerous years of experience not only in the electric utility industry, but as long-time cooperative family members. STEC Director Rick Graff of Wharton County Electric Cooperative, Inc. was replaced after two years of dedicated service. As his replacement, the STEC Board welcomed Jim Harton to the Board as a director in July 2022. The group of four directors joining the Board in 2022, combining their experiences and backgrounds with those of the 14 continuing directors forms a governing body with a strong foundation for the continued success of STEC.

Welcoming new directors to the STEC Board was not the only excitement seen in January. On January 19, 2022, STEC, American Electric Power (AEP) and Energy Transmission Texas (ETT) consummated an agreement regarding the division of responsibilities and ownership in the construction of the fourth 345kV transmission line to serve the Lower Rio Grande Valley. This line was the culmination of more than seven years of study and discussion regarding the need for additional capacity to and from the Valley and was ultimately ordered by the Public Utility Commission to be built following the impact of Winter Storm Uri in 2021. Engineering, design, and route development on STEC's portion of the project ensued during the remainder of 2022, and it is expected that an application for a Certificate of Convenience and Necessity will be granted in 2023 allowing the construction of the line to begin soon after. The benefits of this fourth line cannot be understated, as it will not only allow for additional stability to the electric system in the Lower Rio Grande Valley thereby increasing the opportunity for economic growth and improving the standard of living for that region of Texas, but will also serve as a highway that allows additional electrical generation to exit the Valley and serve all Texans in ERCOT during periods of high renewable output. Moving electricity out of the Valley was a challenge that was evident not only during Winter Storm Uri in February 2021 but also during Winter Storm Elliott in December 2022.

While Winter Storm Uri provided the catalyst for the advancement of the fourth 345kV line into the Valley, it also proved to be the source of several other initiatives where STEC's performance set the standard across the region. Weatherization of generation resources and transmission assets became a priority following Winter Storm Uri and the passage of Senate Bill 3 in 2021. STEC's performance during Winter Storm Uri provided not only an opportunity for STEC to influence the standards adopted by the Public Utility Commission, but in many ways STEC's practices became the norm for the industry in Texas. STEC also took steps to further enhance its continuing weatherization practices to ensure the reliability of its own resources. Improvements to the fuel oil handling system at the Sam Rayburn Power Plant were undertaken to increase reliability and to accelerate fuel truck unloading capabilities. These efforts were key to the offer STEC provided to ERCOT for its inaugural winter Firm Fuel Supply Service term covering winter 2022-2023 which ultimately resulted in the Sam Rayburn Power Plant being awarded as one of nineteen resources for the inaugural term. STEC's decisions to continue to make improvements in resiliency and reliability over the course of 2022 allowed STEC to remain a standard bearer in ERCOT.

STEC cannot rest on the laurels of past resource portfolio performance, however. The future of the STEC resource portfolio was the focus of three Board workshops in January, April, and June of 2022. The workshop discussions centered on STEC's continual planning for the evolution of the power supply mix. Strong load growth in much of the STEC Member service areas provides a great opportunity to continuously evaluate and gauge new opportunities for resource additions. New business structure opportunities for resource additions also arose in 2022 with the August passage and signing of the Inflation Reduction Act. For the first time ever, electric cooperatives are now eligible to receive direct benefits from the development and ownership of renewable generation – benefits that previously were only able to be monetized by electric cooperatives through complex taxable business structures. Challenges remain with continued environmental, social and governance pressures, however, the STEC Board of Directors remains committed to charting a resource path that will ensure that reliable and affordable electricity will be available to its Members for many years into the future.

The STEC Board of Directors targeted not only the future of the resource portfolio, but also spent much time planning for the broader future of the cooperative. In July, the STEC Board held a retreat with STEC senior staff to focus on updating and developing strategic priorities to guide the cooperative for the next three to five years. The July strategic planning session built on the 2018 session and served well in providing direction to STEC management and staff after its adoption. However, the motivation for the 2022 strategic planning session was not only to update the plan and establish a standard for moving forward but was to provide guidance to the cooperative's next General Manager. Mike Kezar, who joined STEC in 2014 as its General Manager, announced that he would retire at the end of 2022 after providing strong leadership to STEC for eight years and prior to that having given more than 34 years of his career at San Miguel Electric Cooperative, including time as its General Manager. Mike successfully led the cooperative through some very challenging times during his tenure and effectively led STEC's initiative to engage in the public arena for the benefit and success of STEC and its Members, and for that STEC and its Members are perpetually grateful. Following Mike's retirement announcement, the STEC Board embarked on a methodical and exhaustive six-month search for its next General Manager ultimately culminating in its selection of Clif Lange to succeed Mike. Clif had more than 22 years of experience at STEC prior to his selection as STEC's General Manager in September 2022.

STEC had an incredibly successful year in 2022 that proved to be transitional in nature. The Board and the employees of STEC continue to be proactive in addressing future challenges and continue to excel as leaders in the industry. As you read through the remainder of this report, you will find many instances of STEC's successes along with the thought and ingenuity brought forth every day in the goal of serving STEC's nine Member cooperatives. STEC is very proud of these accomplishments. As a result, STEC remains well poised to meet future challenges and continues to choose to take action rather than inaction and to set the standard.

BARBARA S. MILLER
President

CLIF LANGE
General Manager

South Texas Electric Cooperative is a cutting-edge Generation and Transmission Cooperative serving nine member cooperatives of South Texas.

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
MagicValley
Electric Cooperative, Inc.

RON HUGHES
Vice President
Finance & Audit Chairman
San Patricio
Electric Cooperative, Inc.

PAUL T. BRYSCH, JR.
Secretary-Treasurer
Karnes
Electric Cooperative, Inc.

JIM COLEMAN
Director
Jackson
Electric Cooperative, Inc.

BRUCE ELLIOTT
Director
Jackson
Electric Cooperative, Inc.

BRIAN ACOSTA
Director
Magic Valley
Electric Cooperative, Inc.

MIKE ABLES
Director
San Bernard
Electric Cooperative, Inc.

SAMMY CONDRA
Director
San Bernard
Electric Cooperative, Inc.

BOBBY BAUCH
Director
San Patricio
Electric Cooperative, Inc.

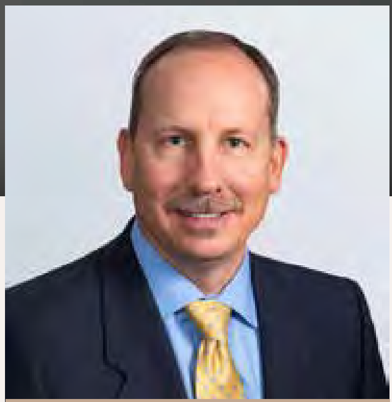
The Board of Directors of South Texas Electric Cooperative, Inc. are rural electric leaders who have either been elected to the Board of their distribution system or are managers of their distribution system. The Board consists of two representatives from each of its nine Member Cooperatives.

LARRY HUESSER

Assistant Secretary-Treasurer
Power Supply Chairman
Medina
Electric Cooperative, Inc.

BRAD BIERSTEDT

Administrative & Operating Chairman
Karnes
Electric Cooperative, Inc.



BLAINE WARZECHA

Power Delivery Chairman
Victoria
Electric Cooperative, Inc.

TREY GREBE

Director
Medina
Electric Cooperative, Inc.

VARZAVAND "AVAN" IRANI

Director
Nueces
Electric Cooperative, Inc.

DONALD HERRMANN

Director
Nueces
Electric Cooperative, Inc.

TREY RUSCHHAUPT

Director
Victoria
Electric Cooperative, Inc.

GARY RAYBON

Director
Wharton County
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	$140,433,022
Total Margin & Equities	$69,006,504
Total Revenue	$74,290,613
Total kWH Sold	836,569,604
2022 New Connections	468
Total Connections in Service	19,323
Total Miles of Line	2,494

BRAD BIERSTEDT
General Manager
Karnes Electric Cooperative, Inc.

Total Utility Plant	$155,436,045
Total Margin & Equities	$169,282,210
Total Revenue	$127,229,669
Total kWH Sold	1,303,137,811
2022 New Connections	578
Total Connections in Service	24,230
Total Miles of Line	4,755

BRIAN ACOSTA
General Manager
Magic Valley Electric Cooperative, Inc.

Total Utility Plant	$484,498,636
Total Margin & Equities	$310,807,974
Total Revenue	$306,617,302
Total kWH Sold	2,691,690,577
2022 New Connections	4,405
Total Connections in Service	137,918
Total Miles of Line	5,555

TREY GREBE
General Manager
Medina Electric Cooperative, Inc.

Total Utility Plant	$254,851,823
Total Margin & Equities	$127,993,480
Total Revenue	$156,400,439
Total kWH Sold	1,461,931,051
2022 New Connections	841
Total Connections in Service	40,924
Total Miles of Line	9,911

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

Total Utility Plant	$153,243,388
Total Margin & Equities	$123,285,936
Total Revenue	$104,969,175
Total kWH Sold	801,179,980
2022 New Connections	666
Total Connections in Service	26,538
Total Miles of Line	3,238

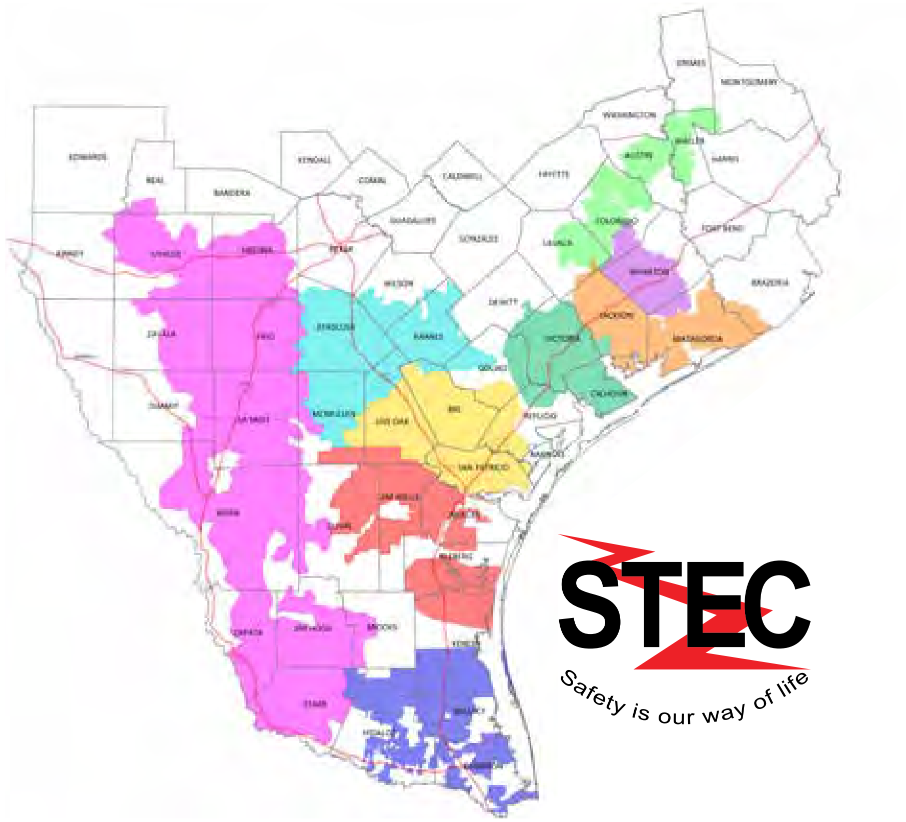
MIKE ABLES
General Manager
San Bernard Electric Cooperative, Inc.

Total Utility Plant	$293,638,089
Total Margin & Equities	$99,159,961
Total Revenue	$105,173,561
Total kWH Sold	766,663,248
2022 New Connections	962
Total Connections in Service	34,344
Total Miles of Line	4,104

Combined Financial Strength of

STEC'S MEMBERS

STEC Plant in Service	$1,620,158,533
Combined Distribution Utility Plant	$1,772,711,696
Combined Distribution Margins & Equities	$1,082,168,451
Combined Distribution Revenue	$1,005,286,646
Total Retail kWH Sold	8,960,816,738
2022 New Connections	8,818
Total Connections in Service	331,145
Total Miles of Distribution Line	37,659
Total Miles of Transmission Circuit	2,211
Total Stations/Delivery Points	205



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.

RON HUGHES
General Manager
San Patricio Electric Cooperative, Inc.

Total Utility Plant	$70,063,808
Total Margin & Equities	$47,942,145
Total Revenue	$32,713,189
Total kWH Sold	237,860,341
2022 New Connections	286
Total Connections in Service	14,636
Total Miles of Line	3,171

BLAINE WARZECHA
General Manager
Victoria Electric Cooperative, Inc.

Total Utility Plant	$146,431,412
Total Margin & Equities	$87,891,575
Total Revenue	$70,588,687
Total kWH Sold	620,885,565
2022 New Connections	511
Total Connections in Service	25,734
Total Miles of Line	3,099

GARY RAYBON
General Manager/CEO
Wharton County Electric Cooperative, Inc.

Total Utility Plant	$74,115,473
Total Margin & Equities	$46,798,666
Total Revenue	$27,304,011
Total kWH Sold	240,898,561
2022 New Connections	101
Total Connections in Service	7,498
Total Miles of Line	1,331

RISK MANAGEMENT

STEC's Risk Management Department is responsible for the identification and management of current and potential risks throughout the organization.

The ten risk categories STEC considers when completing assessments are as follows:

- Safety
- Compliance
- Financial
- Internal Controls
- Information Technology
- Operations
- Strategic
- Personnel
- Environmental
- Operational Technology

Risk analysis is conducted by means of risk assessments and internal audits. The risk assessment process enables us to identify, prioritize, control, and monitor both existing and potential risks. Risk assessments are performed jointly by the Corporate Risk Officer, General Manager, Division Managers, Department Managers, and other key employees. Currently, risk assessments are conducted for each department within the organization. In 2022, risk assessments were performed for various departments within the Power Delivery Division. The departments included in those assessments were: Technical Services, Substation, Line Crew, Right of Way, Mechanics, and the Valley Office. Mitigation plans were developed for controlling and managing the risks identified within each of the assessments. The mitigation plans will be monitored and routinely reviewed with appropriate personnel.

The internal audit function provides STEC's Board of Directors and management with reasonable assurance regarding effectiveness and efficiency of existing operations, reliability of financial reporting, and compliance with applicable laws and regulations.

From left to right: **John Packard**, *Manager of Power Supply*, **Wendy Ohrt**, *Manager of Corporate & Member Services*
Kelly Grones, *Human Resources Manager*, **Clif Lange**, *General Manager*, **Jane Krause**, *Chief Financial Officer,*
Michelle Gloor, Executive Assistant, **Amy Pratka**, Corporate Risk Officer, **Cory Allen**, *Assistant General Manager, Manager of Power Delivery*

HUMAN RESOURCES

Human Resources coordinates personnel-related activities for a staff of over 254 regular full-time employees.

Key areas of responsibility include:

- Recruitment, Selection and Hiring
- Benefits and Compensation
- Policy Development Coordination
- Labor Law Compliance
- Payroll
- Talent Management
- Training Development
- Wellness Program

YEAR IN REVIEW

RECRUITMENT

STEC hired 26 individuals across all departments in 2022. As job openings arise, discussions take place with the hiring manager to determine the recruitment timeline, advertisement sources, minimum qualifications, and selection of the interview panel. STEC had a sharp increase in the number of open positions in 2022, primarily due to retirements at the end of the year. Over the course of the year, STEC shared in the excitement and celebrated the accomplishments of 15 retiring employees. In addition to having the opportunity to honor these accomplishments, STEC was able to celebrate the continued growth and development of 12 employees who earned deserved promotions and transfers across the Cooperative.

BENEFITS & COMPENSATION

To aid in recruitment and retention, STEC evaluated the Cooperative's wages & salaries in 2022 by utilizing a third-party to survey the fair market value for each position within the Cooperative's salary plan to ensure that the positions are compensated fairly and consistently in comparison with like positions within similar job markets.

TALENT MANAGEMENT & TRAINING DEVELOPMENT

In the aim of further developing the leadership capabilities within the Cooperative, Senior Staff completed "Servant Leadership" training in early 2022. In addition, Supervisor Training for personnel in STEC's Lead, Foreman, and Supervisor roles was conducted in September in a course titled "9 Things All Good Leaders Need to Know". Topics for both training sessions included communication, change management, stress management, conflict resolution, and team development.

WELLNESS

STEC's Health and Wellness Program encourages the overall health and wellness of our employees and their families, and participation in it offers incentives towards employees' Health Savings Account (HSA) funding. STEC wrapped up the fourth year of the Program with high participation levels. In 2022, the key priorities of the Wellness Program and HSA Incentive Plan included increasing overall participation, providing spouses of STEC employees easier access to the materials, and increasing the amount and variety of content and activities to the program.

CORPORATE & MEMBER SERVICES

SAFETY

Safety systems, such as policies and training, are key to a successful safety program. These safety systems, when paired with an individual's values, desire to do a good job, and sound decision-making, consistently results in positive safety outcomes. STEC continues to improve its safety program by updating safety policies and providing numerous equipment and job-specific training opportunities throughout the year.

There were 121 incidents reported and investigated during the year, a nearly 35% increase from 2021. Observing such an increase is a positive outcome as it is not indicative of an increasing number of safety events, but rather an increase in accountability and an evolving culture that chooses to report opportunities to learn. STEC's proactive safety culture continues to become more and more established and robust. Additionally, lessons learned resulted in improvements to lockout/tagout procedures, authorized employee training, and an increased focus on switching, tagging, and clearance procedures.

Compliance and field inspections resulted in over 900 observations. The inspections resulted in improvements to the safety and health of our employees and processes, but also recognized positive safe activities.

In the area of Department of Transportation (DOT) Compliance, STEC continues to excel. STEC increased awareness and reinforced best practices by inviting DOT Troopers from the Texas Department of Public Safety to the Pearsall office to educate STEC's DOT drivers and management team on Level 2 DOT inspections. STEC developed and implemented the Entry Level Driver Training (ELDT) program for its CDL drivers, and this program is now being offered to STEC's nine Member Cooperatives.

The Safety Committee continues to be instrumental in STEC's success by making recommendations and ensuring that items from the committee's respective departments are brought to the table for consideration and further discussion.

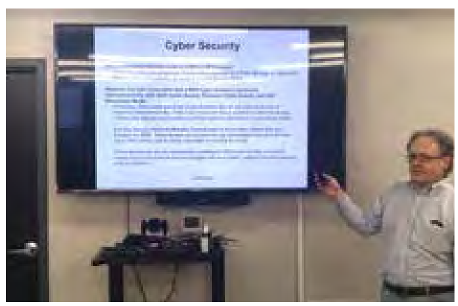
MEMBER SERVICES COORDINATION

The Member Service Coordinator acts as the liaison between STEC's nine Member Cooperatives and serves as a point of contact for interconnecting generators. The Member Services Coordinator also facilitates dialogue with large load requests and coordinates training with the Member Cooperatives. In 2022, an increase in inquiries regarding the distribution of interconnected battery energy storage systems was seen across the STEC service territory.

EXCELLENCE IN RELIABILITY & COMPLIANCE

In the past year, the Compliance Department has been actively engaged in a variety of activities to ensure STEC's adherence to all relevant rules and regulations pertaining to bulk electric system activities. These activities include tools and processes such as: internal audits, issue management and tracking, policy development and implementation, policy review, and compliance training. Additionally, the compliance team regularly reviews internal programs, policies, and procedures to identify any areas of non-compliance or potential concerns.

STEC collaborated with external organizations, such as Texas Reliability Entity (Texas RE), North American Electric Reliability Corporation (NERC), and Federal Energy Regulatory Commission (FERC), to ensure compliance with applicable standards. STEC conducted periodic risk assessments to further understand levels of compliance and identify areas for improvement. The assessments enabled STEC to prioritize efforts and focus compliance initiatives accordingly. Those compliance efforts have been successful in ensuring that STEC is meeting all applicable regulations and standards. STEC recognizes the need for continuous improvement and will continue to refine the compliance program to meet future challenges.



ENVIRONMENTAL COMPLIANCE & AWARENESS

STEC continued to take measures and practice best management strategies in 2022 to ensure compliance with Environmental Protection Agency (EPA), local, and state environmental rules and regulations.

In 2022, an on-site Title V investigation was conducted at STEC's Sam Rayburn Power Plant by the Texas Commission of Environmental Quality (TCEQ). The auditors reviewed excess emissions records, maintenance of emergency engine records, and deviation reports while on-site. The auditors also toured the facility and all applicable emission points. In addition, The Sam Rayburn Power Plant's Prevention of Significant Deterioration Permit renewal application was successfully renewed.

INFORMATION TECHNOLOGY

During 2022, the Information Technology (IT) Department was committed to providing both strategic IT vision and enterprise solutions for STEC. The IT Department provided high quality technology-based services for the fulfillment of STEC's mission in an efficient and cost-effective manner.

Cyber security is a constantly evolving threat. The IT Department created policies and processes that follow the National Institute of Standards and Technology (NIST) cybersecurity framework to protect the corporate cyber infrastructure thereby expanding STEC's existing cybersecurity measures to ensure the secure operation and support of all facets of STEC's corporate, compliance, and microwave networks. The IT Department continued to strengthen the network and system security by incorporating "Defense in Depth" strategies which utilize layered defense mechanisms to protect valuable systems and information. The IT Department leveraged tools and software to monitor all system activity and logs for any malicious activity. These systems recognize malicious activities and thwart them based on defined signatures identified as possible cyber threat activities. To complement the structural improvements, cyber security and threat awareness training continued to be provided to all employees regarding existing and emerging cyber threats.

The IT Department continued work with the Compliance Department to standardize the Standard Operating Procedures for all the NERC CIP Standards while fine-tuning the existing ticketing system to match. The IT Department modified three of the standards to meet the version changes that went into effect on October 1, 2022.

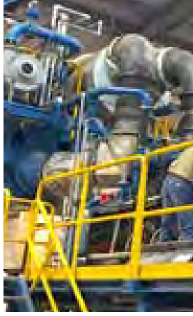
The IT Department and the Communications Department collaborated in upgrading microwave and cellular-based sites' ethernet networks to incorporate virtual local area networks (vLAN). These vLANs allow for the dividing of devices logically, enhancing cyber security, and minimizing broadcast packets, thus improving the performance and reliability of the network.

COMPETITIVE RETAIL SERVICES

STEC's Competitive Retail Services Department serves as customer service and billing support for Nueces Electric Cooperative's (NEC) retail division, NEC Co-op Energy. The department was busy with a billing software conversion, training on the new software, identifying issues, and testing program fixes.

In preparation for the full conversion of fifty thousand active accounts, NEC instituted a pilot program for a small number of accounts in August 2021. This aided greatly in identifying and correcting issues before all accounts were moved into the customer information system. Beginning in January, NEC moved electric accounts into a new billing system with switch orders on their normal billing cycle. The bulk of Investor Owned Utility accounts were moved by mid-February, while NEC Municipally Owned Utility (MOU) accounts moved over in March. During this time, Customer Service Representatives were busy training on the new customer information system and instructing NEC members simultaneously on the new online payment portal and the automated phone payment system.

As 2022 drew to a close, NEC and the customer information system vendor completed the testing and integration of the Capital Credit program. Capital Credits were successfully applied to active members' bills in November and December.



POWER SUPPLY

MEMBER LOAD & MARKET ACTIVITIES

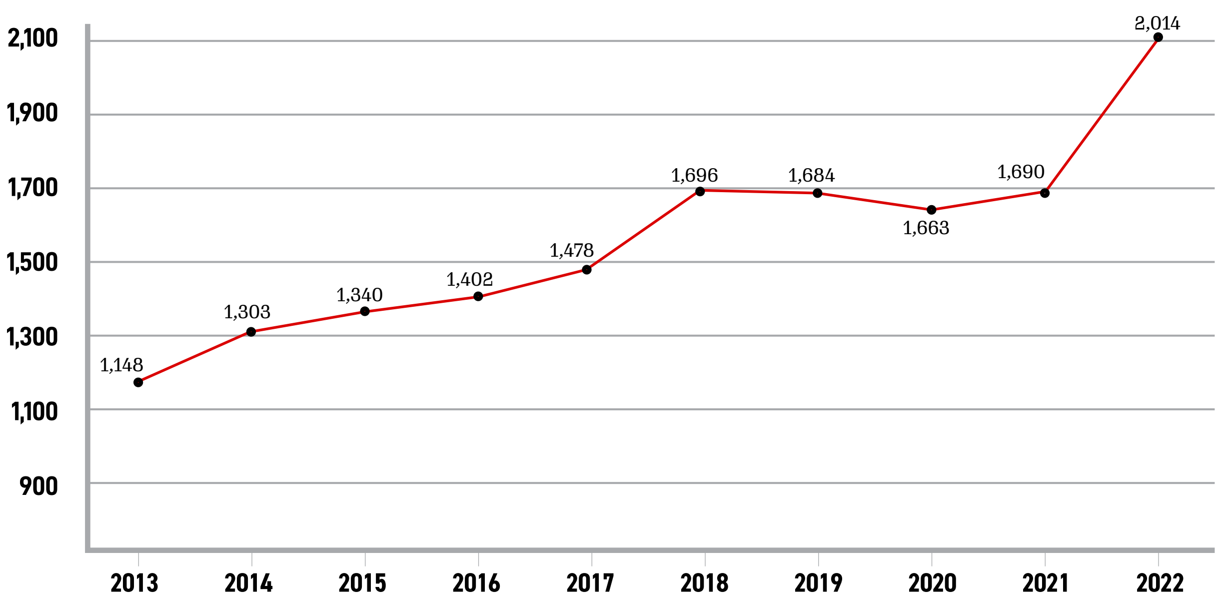
ERCOT market design reform continued to be a significant focus during 2022. Specifically, the second phase of the market redesign process got fully underway with the Public Utility Commission of Texas (PUCT) engaging Energy+Environmental Economics (E3) in June to study several options for the market design. The intent of the effort was to meet statutory requirements to ensure generation reliability during extreme weather and times of low non-dispatchable power production while incenting the buildout of more dispatchable capacity in ERCOT. Throughout the year, while the study process was ongoing, STEC continued to advocate for a reliability service with market participants, regulators, legislators, and other stakeholders that would meet the reliability, dispatchability, and cost allocation requirements of Texas' Senate Bill 3 (SB3) and Governor Abbott's July 6th, 2021 directive to the PUCT. With responsibility for both load and generation, STEC argued for market mechanisms that would ensure price signals to encourage investment in dispatchable generation and increase reliability without imposing an undue cost burden on consumers.

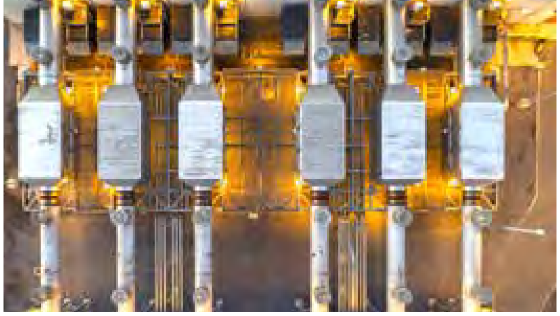
Against the backdrop of market reform, market operations continued into 2022 with several notable challenges. Natural gas prices increased sharply over 2021 levels, showing the fourth largest year-over-year increase. In January and February, cold weather impacted production and led to higher than normal withdrawals from storage. Increased liquified natural gas (LNG) demand, especially in Europe in response to war, placed additional upward pressure on natural gas pricing. Henry Hub pricing rose above the $9.00/mmBtu mark in the first week of June, but tumbled in the next several weeks due in large part to damage to the Freeport LNG facility and a subsequent 2.1 billion cubic feet (bcf) decline in LNG exports. Strong weather demand in late summer pushed pricing upward again to a peak of $9.85/mmBtu. Higher production and reduced demand heading into the fall provided some temporary price relief before increased consumption in the early heating season drove prices back up.

In ERCOT, increases in both peak demand and energy consumption, paired with the increase in natural gas prices, combined to drive energy and ancillary service prices to much higher levels than were seen in 2021, excluding the impacts of Winter Storm Uri. Energy consumption in ERCOT ran 9.48% above 2021 levels for the year, driven by the second hottest recorded June through August period for the state of Texas. The hot weather pushed peak demand to record setting levels in late July when ERCOT realized 80,038 MW. An additional 3,750 MW of wind capacity and 4,100 MW of solar capacity versus 2021 helped ERCOT manage the increased demand without entering into Energy Emergency Alert (EEA) status or load shed.

In late December, Winter Storm Elliott impacted much of the U.S., bringing freezing temperatures and single digit wind chill values to STEC's service territory. ERCOT set a record winter peak demand of 74,427 MW on December 23rd, eclipsing the previous 69,871 MW record set during the February 2021 Winter Storm Uri. Despite the extraordinarily cold weather, ERCOT maintained generation reserves above emergency levels throughout the event. STEC's Member load during the winter storm peaked at record levels on the morning of December 23rd at 2,018 MW.

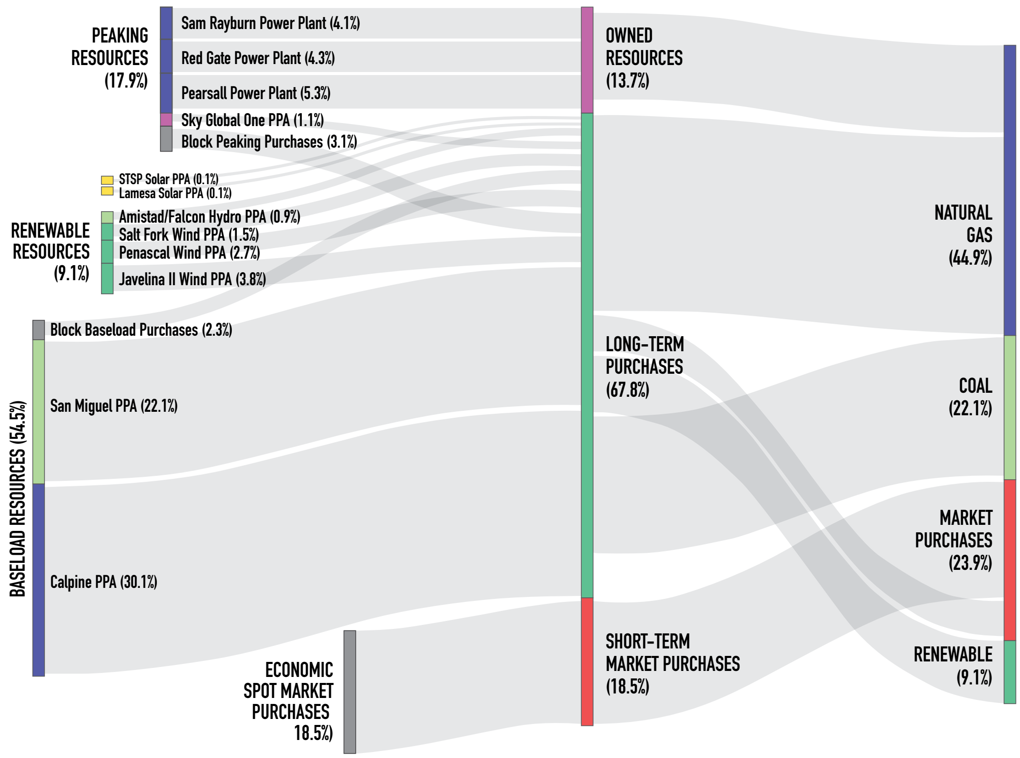
PEAK DEMAND (MW)





POWER SUPPLY PORTFOLIO ACTIVITIES

ENERGY BY RESOURCE & RESOURCE TYPE 2022



STEC began 2022 with another installment of the power supply portfolio planning process that started in 2020 and continued throughout 2021. The first workshop in January focused on exploring the STEC policies and programs that drive resource acquisition and how potential market redesign might influence STEC's power supply portfolio. A second portfolio strategic planning session was held in April 2022 where STEC staff and the Board of Directors explored challenges in the current regulatory environment and steps in the resource acquisition and planning process. In June, The STEC Board of Directors focused on modeling tools and methodologies that support the planning process as well as the Wholesale Power Contracts between STEC and its Member Cooperatives and how that contract addresses procurement of resources. The three sessions supported a broader strategic planning process in July, intended to identify key strategic priorities to be pursued over the next 3-5 years.

In addition to the long-term portfolio planning efforts, STEC pursued short term planning for its generation resources to ensure reliable operation during the peak seasons. The near record summer heat combined with the winter storm in late December ensured that weatherization of generation resources remained a high priority. All three of STEC's owned generation resources along with several of the resources providing purchased power received an inspection of weatherization measures by ERCOT in December of 2022. STEC's fleet continued to demonstrate a high level of preparedness for, and performance during, the extreme weather that affected its resources during 2022.

Energy production from STEC's baseload purchased resources trended upward in 2022. Production from the lignite-fueled San Miguel PPA increased by 10.3%. Production from the Calpine PPA increased by approximately 5.8%, matching the increased energy demands in the Rio Grande Valley. Generation from STEC's portfolio of renewable resources increased as well. STEC's Penascal wind PPA was up 19.6% while energy generated from the Javelina II/ Albercas wind PPA was up 29.6% as STEC realized a full year of the additional wind capacity brought to the portfolio with the inclusion of resources formerly dedicated to SBEC. Generation from the Lamesa solar PPA, Sky Global PPA, and Salt Fork wind PPA, all former SBEC resources, was similarly increased by a full year of operation in the portfolio by 119.4%, 260.2%, and 96.8% respectively.

Only STEC's small distributed 3.8 MW PPA with South Texas Solar Power showed a reduction in generation, with output decreasing by 2.4%. Hydro generation stabilized after a large decrease in 2021, with output up by 2.7%. Energy produced out of STEC's owned peaking resources increased collectively about 29.6% over already robust 2021 levels. This reflected the impact of the hot dry summer and corresponding higher market prices versus 2021. Overall, energy procured through market purchases was down by approximately 8.6% versus 2021 due to the higher energy prices and increased output from the STEC portfolio of owned and purchased resources. STEC's portfolio of owned and long-term purchased resources ended the year approximately 16.2% over 2021 levels. While 2023 will likely bring a new set of challenges, STEC's diverse power supply portfolio stands ready to meet the energy and capacity needs of the STEC Members.

POWER DELIVERY

The only constant in 2022 for the Power Delivery Division was change. Early in the year, construction began on the second circuit to the 111-mile Bakersfield to Big Hill 345 kV line. That was about the same time STEC became responsible for adding the second circuit to the 42-mile San Miguel to Fowlerton 345 kV line and for building the new 120-mile San Miguel to Cruce double circuit 345 kV line, including the associated expansions of the Fowlerton and San Miguel 345 kV stations. Large data center and bitcoin mining connection requests increased significantly. The necessary studies were performed, and plans were made to provide service to those that committed.

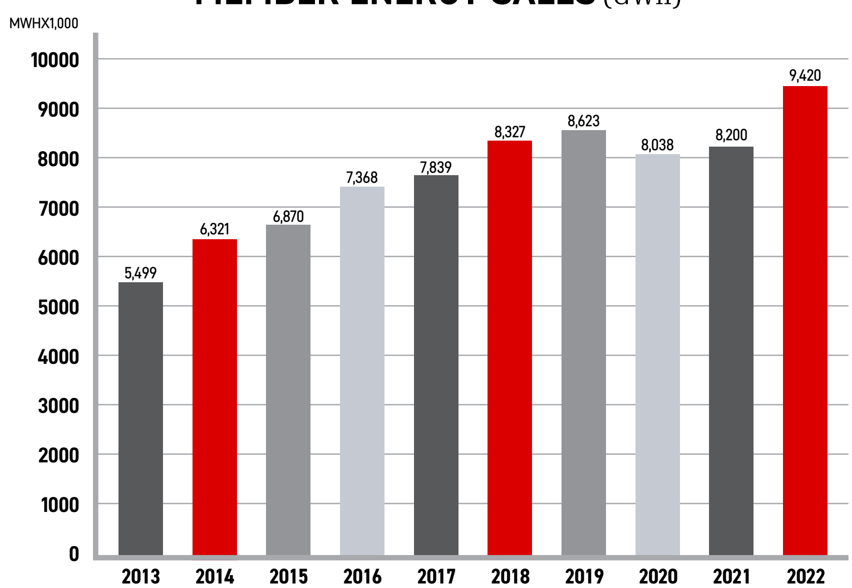
The number of transmission connected renewable energy interconnections in progress continued to grow with several solar and wind developers introducing plans to add battery storage before the original requests were fully studied. Distribution voltage level battery energy storage connection requests increased as well. The Members' efforts to provide coordinated evaluations for the Distributed Energy Storage Resource requests were highly appreciated, and the number of requests is expected to continue growing.

Fallout from 2021's Winter Storm Uri continued in 2022 as new regulations and requirements became effective and mandated the weatherization of transmission facilities. The rule changes also supported a continued increase in load entities requesting to be considered as critical loads, which made it difficult for the Members and STEC to coordinate a good plan for firm load shed and restoration. New SCADA-based tools and interface screens were developed, and two workstations were added in the System Operations theatre to help manage the changes and ensure compliance should another similar event occur.

In June, a Sale, Transfer, or Merger application was filed at the Public Utility Commission requesting the approval of the asset transfer from San Bernard Electric Cooperative, Inc. (SBEC). The path forward to transition the operating and maintenance responsibilities from SBEC to STEC was established. The transaction resulted in the addition of 16 delivery point substations and approximately 77 miles of transmission lines to STEC's totals. There are now a total of 222 stations, 2,289 miles of transmission line, and 21 microwave tower locations.

The transmission crews focused on maintenance and completed pole top rehabilitation of 22 miles of 69 kV line, the Sam Rayburn to Highlands and Driscoll to Ricardo sections. 146 wood poles ranging from 55 feet to 90 feet were installed to replace those condemned during inspections and those that failed during storms. The crews also installed anti-perch devices on four miles of the George West to Kitty West 69 kV line and four miles of the

MEMBER ENERGY SALES (GWh)



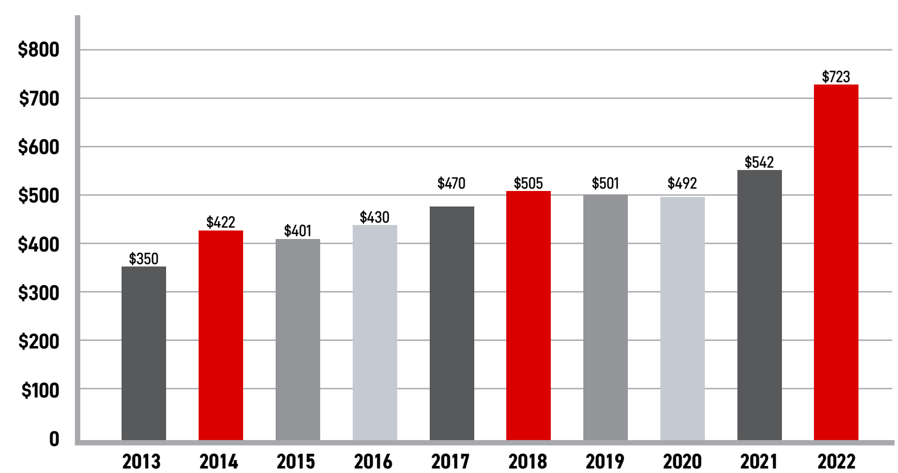
Port Lavaca to Port O'Connor 69 kV line. The right-of-way crews mowed just over 300 miles of transmission line right-of-way and performed vegetation clearance and inspection on another 526 miles.

The Substation Department, Donna Office, Engineering Department, and Technical Services coordinated with the Members and with System Operations to install, test, and commission the many station improvements completed in 2022, including the completion of the second 675 MVA autotransformer at San Miguel and the 300 MVA autotransformer at Pawnee. The departments coordinated to complete the autotransformer and associated switches and gas circuit breakers at Red Gate in the first step to convert the existing Faysville, McCook I, and McCook II 69 kV line from 69 kV to 138 kV to eventually connect the Red Gate Power Plant to the North Edinburg bus. A new switching station was completed next to the ETP station to connect a solar facility, and the expansion of the East Rio Hondo 138 kV switching facilities was completed to connect a wind generator. The departments coordinated to put in service STEC's first 34.5 kV service. The temporary transformer and distribution feeder breaker were energized in the Southmost substation.

The focus on security continued in 2022 with the departments coordinating the installation of video monitoring and the associated lighting improvements at the Oaks, McCoy, Sioux, Escobares, Sodville, and D'Hanis substations. Technical Services also upgraded microwave radios and antennas in six important backbone communications paths between San Ramon and Pearsall to increase the reliability of data flow from Red Gate, the Donna office, and Magic Valley to the headquarters and System Operations. The mobile UHF radio consoles at System Operations and the Backup Control Center were upgraded, and several cellular frequency-based radios were installed to replace older broadcast radio systems and provide boosts in communications path performances.

Three major transmission line projects were completed and included the approximately 11-mile rebuild of 138 kV line between Lasara, East Raymondville, and AEP's Raymondville substation. Additionally, the 15-mile Vanderbilt to Olivia Switch 69 kV line was rebuilt to increase capacity from 45 MVA to over 100 MVA. Finally, the approximately 6-mile 138 kV line from Red Gate to Faysville substation was completed.

MEMBER ENERGY SALES (MILLION $)



ACCOUNTING & FINANCE

During 2022, STEC worked with San Bernard Electric Cooperative, Inc. (SBEC), legal counsel, and National Rural Utilities Cooperative Finance Corporation (NRUCFC) to prepare the needed documentation to transfer the assets and assume the corresponding loans from SBEC. The process was completed in February 2023.

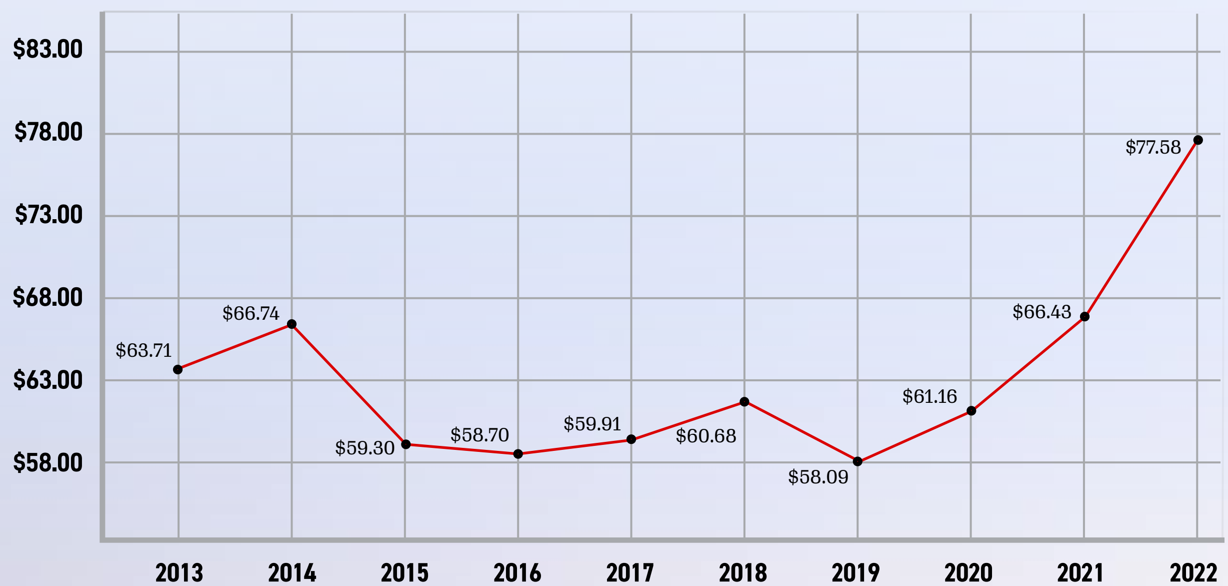
During 2022, STEC received $9,773,193 from ERCOT for the short payments that resulted from the 2021 Winter Storm Uri. In 2022, the final allocation to market participants was determined and STEC will receive an additional $3,165,575 over the next twelve years.

In April 2022, STEC participated in the Fitch Rating Agency update process. The result was an affirmation of the A+ rating with a Stable Outlook. In October 2022, STEC provided an update to S&P Global Ratings and as a result maintained an A rating with a Stable outlook.

As of December 31, 2022, there was $170 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 2022 totaled $10,846,487 to NRUCFC, $4,166,667 to CoBank, and $24,421,570 to bond holders.

Sales to Member Cooperatives totaled 9,419,757 megawatt-hours in 2022, up from 8,199,584 megawatt-hours in 2021, an increase of 1,220,173 megawatt-hours or 14.9%. The average price paid by Members in 2022 was 77.58 mills compared to 66.43 mills per kilowatt-hour (kWh) in 2021, for an increase in per kWh cost of 16.8%. Total billed Member revenues for 2022 were $721,187,588, a 33.0% increase from 2021 revenues.

WHOLESALE POWER COST (PER MWH)



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

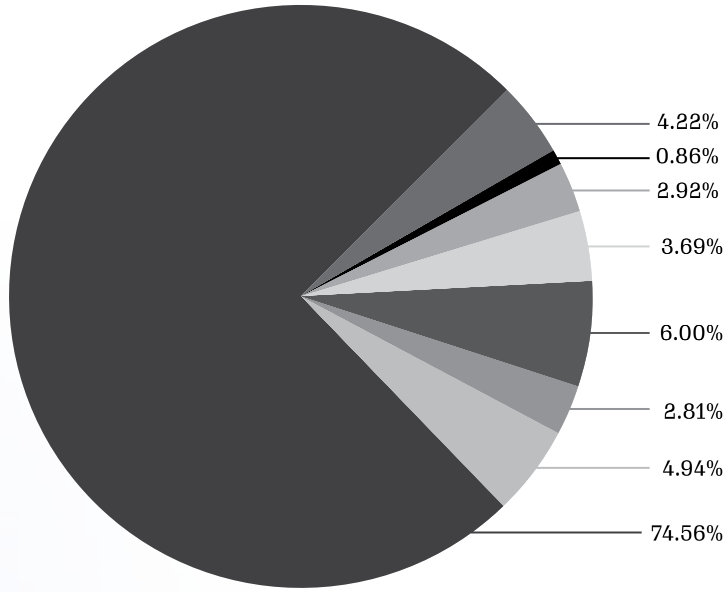
Net deferred credits added to levelize Member rates for 2022 totaled $3,074,333 compared to the addition of $3,778,695 for 2021. As of December 31, 2022, the deferred credits included $3,165,575, which will be available to the members as ERCOT short payments are received.

South Texas Electric Cooperative recorded capital credits from San Miguel Electric Cooperative, Inc. of $2,338,144 in 2022 and $460,000 in 2021.

Net margins for South Texas Electric Cooperative, Inc., and Subsidiary for 2022 were $31,356,128 compared to $18,284,601 in 2021. As in previous years, for 2022, the Board of Directors acted to reduce generation rates for the final quarter consistent with the Cooperative's Financial Management Policy.

Total assets increased from $1,459,104,395 in 2021 to $1,574,198,009 in 2022 for a 7.9% increase. Total Equity to Assets Ratio in 2022 was 28.15% compared to 28.22% in 2021. Total electric plant increased to $1,254,506,999 in 2022 from $1,198,017,007 in 2021. Plant and work in progress increased by $98,175,205, and accumulated depreciation increased by $41,685,213.

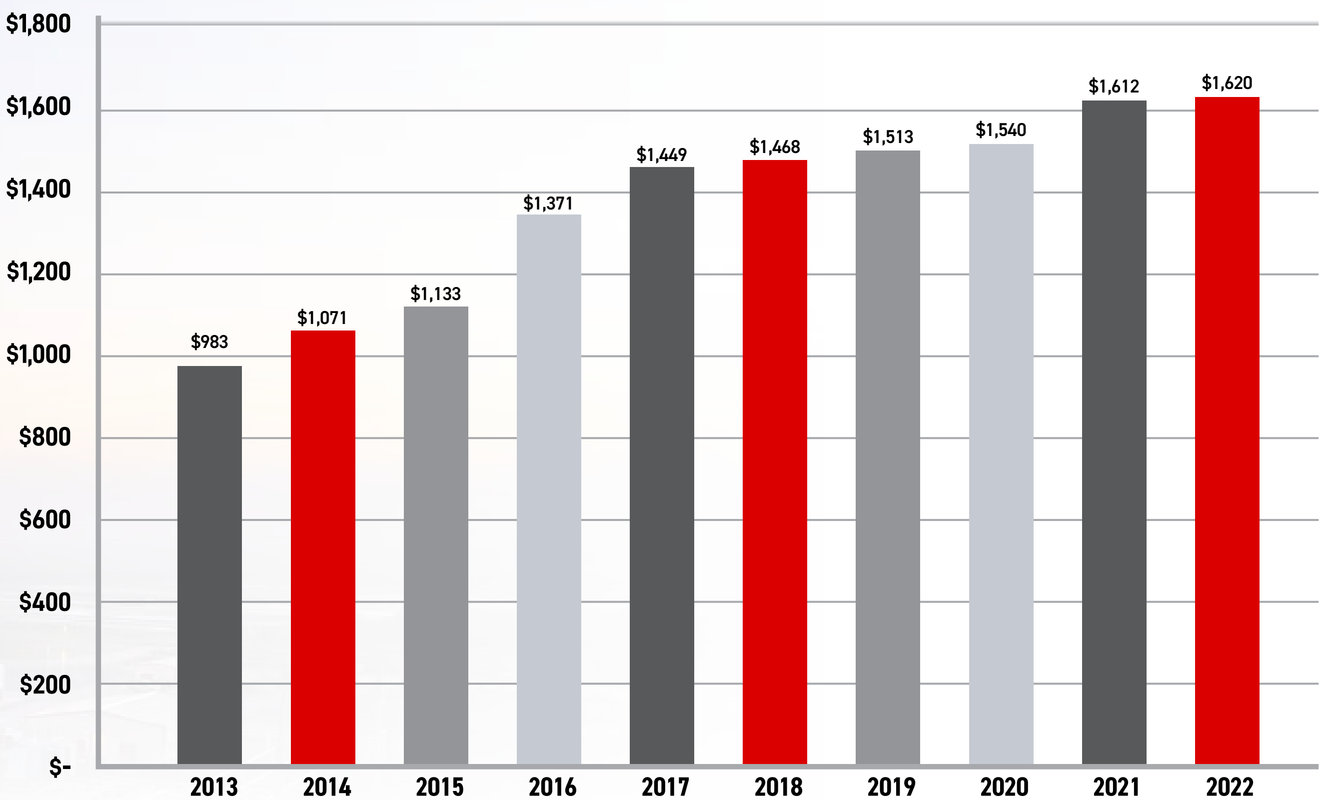
Interest income for 2022 totaled $1,611,422, which was an increase of $540,105 from 2021. STEC's cash and cash equivalents as of December 31, 2022, totaled $92,016,663, compared to $48,392,697 for December 31, 2021.



TOTAL REVENUE ALLOCATED

- Total Margins
- Taxes
- Administrative & General Expense
- Power Plant
- Depreciation Expense
- Transmission & Distribution Expense
- Interest Expense
- Fuel & Purchased Power

ELECTRIC PLANT IN SERVICE (MILLION $)



2022 FINANCIAL REPORT

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Independent Auditors' Report

To the Board of Directors, South Texas Electric Cooperative, Inc.

Opinion

We have audited the accompanying consolidated financial statements of South Texas Electric Cooperative, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of revenue and patronage capital, and cash flows for the years 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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' 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 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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 South Texas Electric Cooperative, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Bumgardner, Morrison & Company, LLP
Certified Public Accountants

1501 E Mockingbird Lane, Suite 300
PO Box 3750
Victoria, Texas 77903-3750
Phone: 361.575.0271
Fax: 361.578.0880
Website: BMCcpa.com

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 South Texas Electric Cooperative, Inc. and Subsidiary'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Texas Electric Cooperative, Inc. and Subsidiary'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.

Bumgardner, Morrison & Company, LLP

Bumgardner, Morrison and Company, LLP
Victoria, Texas
April 21, 2023

TEXAS 148 SOUTH
SOUTH TEXAS ELECTRIC COOPERATIVE, INC. and SUBSIDIARY
NURSERY, TEXAS

Consolidated Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Electric Plant	$ 1,254,506,999	$ 1,198,017,007
Other Assets and Investments in Associated Organizations	91,469,575	84,258,658
Current Assets		
Cash and cash equivalents	92,016,663	48,392,697
Accounts receivable - member cooperatives	59,624,539	43,874,738
Accounts receivable - other	14,882,420	25,259,034
Fuel stock inventory	1,631,473	981,830
Materials and supplies inventory	23,791,771	21,596,423
Other current and accrued assets	20,496,417	20,490,111
Total Current Assets	212,443,283	160,594,833
Deferred Assets		
Deferred charges	15,778,152	16,233,897
Total Deferred Assets	15,778,152	16,233,897
Total Assets	$ 1,574,198,009	$ 1,459,104,395
Equities and Liabilities		
Equities		
Memberships	$ 500	$ 500
Patronage capital	443,257,678	411,901,550
Other equities	488	488
Total Equities	443,258,666	411,902,538
Long-term Debt		
Notes and bonds payable, net of current maturities	813,186,604	861,243,707
Less: unamortized debt issuance costs	(3,015,904)	(3,199,433)
Total Long-term Debt	810,170,700	858,044,274
Current Liabilities		
Current maturities of long-term debt	48,064,447	39,442,068
Lines of credit	170,000,000	55,000,000
Accounts payable	66,996,677	48,900,690
Other current and accrued liabilities	23,956,646	23,488,799
Total Current Liabilities	309,017,770	166,831,557
Deferred Liabilities		
Deferred credits	11,750,873	22,326,026
Total Deferred Liabilities	11,750,873	22,326,026
Total Equities and Liabilities	$ 1,574,198,009	$ 1,459,104,395

The accompanying notes are an integral part of these consolidated financial statements.

TEXAS 148 SOUTH
SOUTH TEXAS ELECTRIC COOPERATIVE, INC. and SUBSIDIARY
NURSERY, TEXAS

Consolidated Statements of Revenue and Patronage Capital
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Electric energy revenue - members	$ 721,187,588	$ 542,049,348
Electric energy revenue - other	1,936,098	4,411,649
Transmission revenue	11,559,290	3,452,037
Other operating revenue and income	586,661	434,228
Total Operating Revenues	735,269,637	550,347,262
Operating Expenses		
Operating expense		
Production (excluding fuel)	11,476,599	9,875,214
Production - fuel	58,226,856	102,540,944
Other power supply	498,887,761	283,009,128
Transmission	9,884,796	9,147,787
Distribution	3,962,587	3,585,801
Customer accounts and sales	179,923	478,629
Administrative and general	17,302,968	16,309,907
Maintenance expense		
Production	13,348,586	10,194,968
Transmission	5,296,326	4,362,134
Distribution	1,792,169	1,598,444
General plant	1,712,285	1,797,180
Depreciation	44,622,365	43,772,666
Taxes	6,452,587	9,758,829
Total Operating Expenses	673,145,808	496,431,631
Operating Margins before Fixed Charges	62,123,829	53,915,631
Fixed Charges		
Interest expense	36,726,803	36,877,896
Other deductions	1,215,495	2,329,104
Total Fixed Charges	37,942,298	39,207,000
Operating Margins after Fixed Charges	24,181,531	14,708,631
Generation & Transmission and Other Capital Credits	4,298,171	2,441,924
Non-Operating Margins		
Interest income	1,611,422	1,071,317
Other non-operating income	1,259,668	51,072
Gain on the sale of property, net	5,336	11,657
Total Non-Operating Margins	2,876,426	1,134,046
Net Margins	31,356,128	18,284,601
Patronage Capital - Beginning of Year	411,901,550	393,616,949
Patronage Capital - End of Year	$ 443,257,678	$ 411,901,550

The accompanying notes are an integral part of these consolidated financial statements.

TEXAS 148 SOUTH
SOUTH TEXAS ELECTRIC COOPERATIVE, INC. and SUBSIDIARY
NURSERY, TEXAS

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Cash received from customers	$ 720,589,664	$ 547,988,999
Cash paid to suppliers and employees	(602,260,674)	(439,413,502)
Interest received	1,519,597	1,081,890
Interest paid	(37,289,244)	(37,465,077)
Taxes paid	(6,854,199)	(10,718,899)
Net Cash Provided by Operating Activities	75,705,144	61,473,411
Cash Flows from Investing Activities		
Construction and acquisition of plant	(101,281,205)	(31,050,815)
Plant removal costs	(3,722,970)	(6,906,057)
Materials salvaged from retirements	3,106,000	6,824,161
Proceeds from sale of fixed assets	9,457	25,970
Cash received on capital credits and notes receivable	1,160,427	1,101,096
Increase in inventory	(2,844,991)	(2,036,876)
Decrease in NRUCFC certificates and other investments	934,328	916,955
ERCOT security default charge escrow	(7,500)	(67,969)
Net Cash Used in Investing Activities	(102,646,454)	(31,193,535)
Cash Flows from Financing Activities		
Repayments of long-term debt	(39,434,724)	(40,151,974)
Net borrowings on revolving lines of credit	115,000,000	28,000,000
Payment of ERCOT collateral deposit	(5,000,000)	(15,000,000)
Membership fees received	-	50
Net Cash Provided by (Used in) Financing Activities	70,565,276	(27,151,924)
Net Increase in Cash	43,623,966	3,127,952
Cash and Cash Equivalents at Beginning of Year	48,392,697	45,264,745
Cash and Cash Equivalents at End of Year	$ 92,016,663	$ 48,392,697

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

TEXAS 148 SOUTH
SOUTH TEXAS ELECTRIC COOPERATIVE, INC. and SUBSIDIARY
NURSERY, TEXAS

Consolidated Statements of Cash Flows, Continued
Years Ended December 31, 2022 and 2021

Reconciliation of Net Margins to Net Cash Provided by Operating Activities

	2022	2021
Net Margins	$ 31,356,128	$ 18,284,601
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and amortization	49,151,439	48,946,130
Depreciation charged to clearing accounts	781,697	807,550
Gain on disposals of plant equipment	(5,336)	(11,657)
Non-cash income - capital credits received	(4,298,172)	(2,441,924)
(Increase) decrease in		
Accounts receivable - member cooperatives	(15,749,801)	(3,772,894)
Accounts receivable - other	10,376,614	(16,712,276)
Other current and accrued assets	(6,306)	(6,167,084)
Deferred charges	(3,889,800)	(8,766,166)
Increase (decrease) in		
Accounts payable	18,095,987	15,103,538
Other current and accrued liabilities	467,847	(1,913,186)
Deferred credits	(10,575,153)	18,116,779
Net Cash Provided by Operating Activities	$ 75,705,144	$ 61,473,411

Supplemental Schedule of Noncash Investing and Financing Activities

	2022	2021
Capital Credits Received	$ 4,298,172	$ 2,441,924

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 Summary of Significant Accounting Policies

This summary of significant accounting policies of South Texas Electric Cooperative, Inc. (parent company) and subsidiary (the Cooperative) is presented to assist in understanding the Cooperative's consolidated financial statements. The consolidated financial statements and notes are representations of the Cooperative's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

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), the 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 945kW 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.

Nature of Business

The Cooperative is a generating and transmission electric cooperative selling electric energy primarily to nine member distribution cooperatives in South Texas.

Electric Plant

Purchases, construction, trade-ins, retirements, and sales of assets are recorded in accordance with industry standards and generally accepted accounting principles.

Depreciation is calculated on the straight-line method designed to amortize the cost of various classes of depreciable assets over their estimated useful lives.

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. The investments are recorded at amounts allocated to the Cooperative and are expected to be collected in future years.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash deposited with banks, and commercial paper with maturities of 90 days or less.

Note 1 Summary of Significant Accounting Policies, Continued

Accounts Receivable

The Cooperative's receivables are primarily from its member distribution cooperatives and other electric utility cooperatives and companies. No allowance for uncollectible receivables is considered necessary as these receivables are settled monthly. See Note 11 for ERCOT Short Payment Receivable.

Inventories

Inventories are valued at lower of cost or net realizable value using the weighted average cost method.

Operating Leases

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

Debt Issuance Costs

Effective January 1, 2016, the Cooperative adopted Accounting Standards Update (ASU) 2015-03, which requires entities to present debt issuance costs related to a debt liability as a direct deduction from the carrying amount of that debt liability on the balance sheet as opposed to being presented as a deferred charge, and ASU 2015-15, which adds paragraphs to ASU 2015-03 indicating that objection would not be made to an entity deferring and presenting debt issuance costs related to line of credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement.

For all periods presented in the Consolidated Financial Statements for the years ended December 31, 2022 and 2021, 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.

Income Taxes

Prior to the year 2000, STEC met the requirements to be exempt from federal income tax under section 501(c)(12) of the Internal Revenue Code. 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, Internal Revenue Service regulations were revised, and STEC regained tax-exempt status. As mentioned previously in the "Principles of Consolidation" section, STSP is a taxable entity.

Patronage Capital

Amounts received by the Cooperative for electric energy in excess of the related costs of service are credited to members/patrons as capital contributions. Retirements of patronage capital are made on a first-in, first-out basis when warranted by financial circumstances.

Note 1 Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Adoption of Accounting Pronouncements

Effective January 1, 2022, the Cooperative adopted the provisions of ASU 2016-02, Leases (Topic 842). The new standard requires a lessee to recognize in the statement of financial position a lease liability and a right-of-use asset representing its right to use the underlying asset for the term lease. The ASU also requires expanded disclosures related to the amount, timing, and uncertainty of cash flows arising from leases. The adoption of this guidance resulted in additional disclosures only and did not result in any adjustments to the accompanying consolidated financial statements.

Revenue from Contracts with Customers

A description of the Cooperative's revenue streams accounted for under ASC 606 are as follows:

Service Revenue: The Cooperative earns the majority of its revenue (97% and 98% of total revenue in 2022 and 2021, respectively) from the sale of electricity to its member distribution cooperatives, which is based on applicable tariffs and customers' monthly consumption. The revenue from these transactions is earned over a course of a month, representing the period over which the Cooperative satisfies the performance obligation. Invoices from these transactions are rendered monthly and are typically paid within 30 days. Revenue from these transactions is recognized using the as invoiced practical expedient, which allows an entity to recognize revenue in the amount that directly corresponds to the value transferred to the customer. Revenues can vary significantly from period to period because of seasonality, weather, and customer usage patterns.

Transmission Revenue: The Cooperative also earns revenue (2% and 1% of total revenue in 2022 and 2021, respectively) from the use of its electric infrastructure for the transmission of electricity to various end users. The revenue from these transactions is earned over a course of a month, representing the period over which the Cooperative satisfies the performance obligation. Invoices from these transactions are rendered monthly and are typically paid within 35 days. Revenue from these transactions is recognized using the as invoiced practical expedient, which allows an entity to recognize revenue in the amount that directly corresponds to the value transferred to the customer.

For the years ending December 31, 2022 and 2021, total revenue included in ASC 606 recognized over a period of time totaled $736,529,305 and $550,398,335, respectively.

Note 2 Assets Pledged

As of December 31, 2022 and 2021, substantially all assets are pledged as security for the notes payable to National Rural Utilities Cooperative Finance Corporation (NRUCFC), the First Mortgage Bonds, Series 2009B, 2013A, 2013B, 2018A, and to CoBank.

Note 3 Electric Plant and Depreciation Rates and Procedures

Listed below are the major classes of the electric plant as of December 31, 2022 and 2021:

	2022	2021
Intangible Plant	$ 9,544	$ 9,544
Steam Generation Plant	68,312,764	68,312,764
Other Generation Plant	482,346,108	482,346,108
Transmission Plant	663,964,034	659,967,053
Distribution Plant	332,740,753	329,411,752
General Plant	72,785,330	72,402,383
Electric Plant in Service	1,620,158,533	1,612,449,604
Construction Work in Progress	155,296,393	64,830,117
Total Electric Plant in Service and Construction Work in Progress	1,775,454,926	1,677,279,721
Less Accumulated Depreciation and Amortization	(520,947,927)	(479,262,714)
Total Electric Plant	$ 1,254,506,999	$ 1,198,017,007

Depreciation has been computed on the straight-line method at the following rates:

	2022	2021
Electric Plant (Composite Rates)		
Intangible plant	-%	-%
Steam generation plant	2.64	2.64
Other generation plant	.876 & 3.00	.876 & 3.00
Combined cycle	3.00	3.00
Portable generators	3.00	3.00
Transmission plant	2.75	2.75
Distribution plant	2.75 & 2.88	2.75 & 2.88
General Plant		
Structures and improvements	3.00	3.00
Office furniture and equipment	6.00 - 20.00	6.00 - 20.00
Transportation equipment	23.00	23.00
Stores equipment	6.00	6.00
Tools, shop and garage equipment	6.00	6.00
Laboratory equipment	6.00	6.00
Power operated equipment	10.00	10.00
Communication equipment	6.00 - 34.00	6.00 - 34.00
Other general plant	6.00	6.00

Note 3 Electric Plant and Depreciation Rates and Procedures, Continued

Distribution of depreciation charged was as follows:

	2022	2021
Charged to Operations	$ 44,622,201	$ 43,772,421
Charged to Competitive Retailer	164	245
Charged to Clearing Accounts	781,697	807,550
Total Depreciation Expense	$ 45,404,062	$ 44,580,216

Note 4 Other Assets and Investments in Associated Organizations

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 bylaws of the respective organizations. The Cooperative's investments were comprised of the following at December 31, 2022 and 2021:

	2022	2021
Capital Credits and Member Securities		
San Miguel Electric Cooperative, Inc.	$ 36,134,158	$ 33,796,014
National Rural Utilities Cooperative Finance Corporation (NRUCFC)	32,214,129	32,738,935
Other	2,724,985	2,309,257
Deposit for ERCOT Collateral	20,000,000	15,000,000
Deferred Compensation Investments	396,303	414,452
Total Other Assets and Investments In Associated Organizations	$ 91,469,575	$ 84,258,658

Note 5 Cash and Cash Equivalents

Cash and temporary cash investments at December 31, 2022 and 2021, consisted of the following:

	2022	2021
Cash - General Funds	$ 52,016,663	$ 38,392,697
Cash - Daily Fund	40,000,000	10,000,000
Total Cash and Cash Equivalents	$ 92,016,663	$ 48,392,697

Note 6 Other Current and Accrued Assets

Other current and accrued assets at December 31, 2022 and 2021, consisted of the following:

	2022	2021
Prepaid Insurance	$ 1,459,701	$ 1,453,723
Congestion Revenue Rights	17,617,546	16,010,903
Other Prepayments	1,074,364	2,772,504
Interest & Dividends Receivables	344,806	252,981
Total Other Current and Accrued Assets	$ 20,496,417	$ 20,490,111

Congestion Revenue Rights. Congestion Revenue Rights (CRRs) are financial instruments that result in a charge or a payment to the owner of the CRR when the 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.

Prepayment on Congestion Revenue Rights was $17,617,546 and $16,010,903, as of December 31, 2022 and 2021, respectively.

Note 7 Deferred Charges

Following is a summary of amounts recorded as deferred charges as of December 31, 2022 and 2021:

	2022	2021
Premium on Refinanced Notes	$ 3,237,731	$ 3,564,225
Unsecured Financing Costs	812,459	1,036,523
Retirement Plan Benefit Level Increase	236,102	314,802
Prepaid Transportation - LaSalle Pipeline (Pearsall Plant)	2,260,847	2,613,187
Low-Pressure Turbine Replacement	377,699	574,759
Deferred Cost of Abandoned Project	-	1,127,819
Pearsall 16k Hour Maintenance	5,287,664	7,002,582
CREZ 10 Year Easement Renewal	3,565,650	-
Total Deferred Charges	$ 15,778,152	$ 16,233,897

Note 7 Deferred Charges, Continued

Premium on Refinanced Notes. In November 2007, the Cooperative refinanced all RUS and FFB mortgage notes with NRUCFC. As a result, premium costs of $8,162,348 were incurred. The premium is being amortized over twenty-five years. Amortization expense for the years ended December 31, 2022 and 2021 amounted to $326,494 for each year. Accumulated amortization of the premium on refinanced notes was $4,924,616 and $4,598,122 as of December 31, 2022 and 2021, respectively.

Unsecured Financing Costs. The Cooperative obtained an amendment and extension (A&E) of the revolving line of credit from NRUCFC during 2018. As a result, financing costs of $447,470 were incurred and scheduled to be amortized over five years. Since an additional A&E was obtained in 2021, the 2018 A&E was fully amortized in 2021. Amortization expense for the 2018 amendment and extension for the year ended December 31, 2021 amounted to $186,446.

During 2021, the Cooperative increased the revolver size from $250 million to $390 million and the term was extended to 2026. Financing costs of $963,949 will be amortized over five years. Amortization expense for the 2021 amendment and extension for the years ended December 31, 2022 and 2021 amounted to $192,790 and $16,066, respectively.

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, 2022 and 2021 amounted to $31,274 and $5,212, respectively.

Accumulated amortization for the years ended December 31, 2022 and 2021, respectively, was $245,342 and $21,278.

Retirement Plan Benefit Level Increase. During 2006, the retirement plan was amended to change the normal retirement age from 65 to 62. The retirement benefit level increased from 1.7% to 2.0% for future credited benefit service beginning January 1, 2006. As a result, the Cooperative contributed an additional $1,574,007 to the retirement fund. This amount is being amortized over twenty years. Amortization expense for the years ended December 31, 2022 and 2021 amounted to $78,700 for each year. Accumulated amortization of the retirement plan benefit level increase costs was $1,337,906 and $1,259,206 as of December 31, 2022 and 2021, respectively.

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 STEC 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 life of the contract starting in March 2010. Amortization expense for the years ended December 31, 2022 and 2021 amounted to $352,340 for each year. Accumulated amortization as of December 31, 2022 and 2021 was $4,493,763 and $4,141,423, respectively.

Note 7 Deferred Charges, Continued

Low-Pressure Turbine Replacement. During 2017, the Cooperative replaced a low pressure turbine at a net cost of $1,379,421. These costs will be amortized over seven years which is the estimated useful life of the turbines. Amortization expense for the years ended December 31, 2022 and 2021 amounted to $197,060 for each year. Accumulated amortization of the low-pressure turbine replacement costs was $1,011,722 and $804,662 as of December 31, 2022 and 2021, respectively.

Deferred Cost of Abandoned Project. Beginning in 2008, STEC was jointly developing Coleto Creek Unit #2 with International Power of America (IPA). In 2012, STEC and IPA mutually decided not to pursue further participation in the project. STEC's total cost of $22,556,382 will be amortized over ten years. Amortization expense for the years ended December 31, 2022 and 2021 amounted to $1,127,819 and $2,255,638, respectively. Accumulated amortization as of December 31, 2022 and 2021 was $22,556,382 and $21,428,563, respectively.

Pearsall Power Plant 16,000 Hour Overhaul 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 for 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, 2022 and 2021 amounted to $1,714,918 and $1,572,008, respectively. Accumulated amortization of the 16,000 hour overhaul maintenance was $3,286,926 and $1,572,008 as of December 31, 2022 and 2021, respectively.

CREZ Line 10 Year Easement Lease. 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 year ended December 31, 2022 amounted to $324,150. Accumulated amortization as of December 31, 2022 was $324,150.

Note 8 Patronage Capital

At December 31, 2022 and 2021, patronage capital consisted of:

	2022	2021
Patronage Capital		
Assigned	$ 411,901,550	$ 393,616,949
Assignable	31,356,128	18,284,601
Total Patronage Capital	$ 443,257,678	$ 411,901,550

No capital credit retirements were paid in 2022 or 2021.

Note 9 Notes and Bonds Payable

Following is a summary of the outstanding notes and bonds payable as of December 31, 2022:

	2022 Principal	Unamortized Discount and Issuance Costs
Notes Payable due NRUCFC	$ 228,101,316	$ -
First Mortgage Bonds, Series 2009B (2028 and 2040 Bonds)	147,529,397	986,711
First Mortgage Bonds, Series 2013A and 2013B (2043 Bonds)	297,500,000	1,225,378
First Mortgage Bonds, Series 2018A (2048 Bonds)	86,666,667	471,069
Liability - Medina Electric Cooperative	2,495,338	-
CoBank Term Loan	98,958,333	332,746
Total	861,251,051	3,015,904
Less Current Maturities	(48,064,447)	-
Notes and Bonds Payable, Net of Current Maturities	$ 813,186,604	$ 3,015,904

Following is a summary of the outstanding notes and bonds payable as of December 31, 2021:

	2021 Principal	Unamortized Discount and Issuance Costs
Notes Payable due NRUCFC	$ 238,947,804	$ -
First Mortgage Bonds, Series 2009B (2028 and 2040 Bonds)	162,784,300	1,077,792
First Mortgage Bonds, Series 2013A and 2013B (2043 Bonds)	303,333,333	1,285,397
First Mortgage Bonds, Series 2018A (2048 Bonds)	90,000,000	489,389
Liability - Medina Electric Cooperative	2,495,338	-
CoBank Term Loan	103,125,000	346,855
Total	900,685,775	3,199,433
Less Current Maturities	(39,442,068)	-
Notes and Bonds Payable, Net of Current Maturities	$ 861,243,707	$ 3,199,433

The NRUCFC mortgage notes payable are secured by substantially all assets of the Cooperative. These notes require quarterly payments of principal (if the period for principal amortization has begun) and interest sufficient to amortize the remaining balances of the loans to their maturity dates. The loan agreements also contain certain affirmative, negative, and financial covenants.

Note 9 Notes and Bonds Payable, Continued

Interest rates on the mortgage notes payable are fixed. At December 31, 2022, $228,101,316 mortgage notes payable were at fixed interest rates ranging from 2.37% to 7.45%, with a weighted average of 4.25%. At December 31, 2021, $238,947,803 mortgage notes payable were at fixed interest rates ranging from 2.37% to 7.45%, with a weighted average of 4.20%.

At December 31, 2022 and 2021, there were no unadvanced loan funds available to the Cooperative on mortgage note commitments from NRUCFC.

The "2028 bonds" in the original amount of $180,000,000 have a final maturity of January 1, 2028, and a fixed interest rate of 5.41%. The "2028 bonds" require annual payments of principal in the amount of $10,588,237 beginning January 1, 2012, and semiannual payments of interest on the first day of each January and July beginning January 1, 2010. The "2040 bonds" in the original amount of $140,000,000 have a final maturity of January 1, 2040, and a fixed interest rate of 5.98%. The "2040 bonds" require annual payments of principal in the amount of $4,666,666 beginning January 1, 2011, and semiannual payments of interest on the first day of each January and July beginning January 1, 2010.

Various costs were incurred during 2009 to secure the First Mortgage Bonds, Series 2009B, due 2028 and 2040. These issuance costs of $2,142,713 will be amortized over twenty-four years. Additional cost incurred in 2010 amounted to $41,875. Amortization for 2022 and 2021 was $91,081. Accumulated amortization as of December 31, 2022 and 2021 was $1,197,877 and $1,106,796, respectively.

On May 15, 2013, the Cooperative issued First Mortgage Bonds, Series 2013A due 2043, with a fixed interest rate of 3.30%, and First Mortgage Bonds, Series 2013B due 2043, with a fixed interest rate of 3.62%. The Series 2013A bonds require semiannual payments of principal in the amount of $2,916,667 and semi-annual interest payments on the 15th of each May and November. The Series 2013B bonds require semiannual interest payments until May 15, 2023, at which time principal payments, in the amount of $4,166,667, will be added to the semiannual interest payments and will continue until maturity.

Various costs were incurred during 2013 to secure the First Mortgage Bonds, Series 2013A and Series 2013B, due in 2043. These issuance costs of $1,800,556 will be amortized over thirty years. The amortization expense for each of the years ended December 31, 2022 and 2021 was $60,019. Accumulated amortization as of December 31, 2022 and 2021 was $575,179 and $515,160, respectively.

On August 15, 2018, the Cooperative issued First Mortgage Bonds, Series 2018A due 2048, with a fixed interest rate of 4.16%. The Series 2018A bonds require semiannual payments of principal in the amount of $1,666,667 and semi-annual interest payments on the 15th of each February and August.

Various costs were incurred during 2018 to secure the First Mortgage Bonds, Series 2018A, due in 2048. These issuance costs of $550,423 will be amortized over thirty years. The amortization expense for each of the years ended December 31, 2022 and 2021 was $18,319. Accumulated amortization as of December 31, 2022 and 2021 was $79,353 and $61,034, respectively.

Note 9 Notes and Bonds Payable, Continued

The First Mortgage Bonds payable are secured by substantially all assets of the Cooperative. The bond purchase agreements and related indenture also contain certain affirmative, negative, and financial covenants.

On July 19, 2016, the Cooperative entered into a term loan agreement with CoBank, obtaining a single term loan in the principal amount of $125,000,000, which shall be repaid in consecutive, fixed quarterly installments of principal in the amount of $1,041,667 plus interest through maturity at July 19, 2046. The note bears interest at a fixed interest rate of 3.80% and is secured by substantially all assets of the Cooperative.

Various costs were incurred during 2016 to secure the CoBank Term Loan due in 2046. These issuance costs of $423,281 will be amortized over thirty years. The amortization expense for 2022 and 2021 was $14,109. Accumulated amortization as of December 31, 2022 and 2021 was $90,535 and $76,426, respectively.

Total interest costs incurred on the notes and bonds payable for the years ended December 31, 2022 and 2021, are presented below.

	2022	2021
Interest on Notes Payable from NRUCFC	$ 9,466,598	$ 9,907,269
Interest on CoBank Term Loan	3,828,148	3,984,537
Interest on Lines of Credit	3,408,961	875,305
Interest on First Mortgage Bonds, Series 2009B (2028 and 2040 Bonds)	8,460,140	9,312,031
Interest on First Mortgage Bonds, Series 2013A and 2013B (2043 Bonds)	10,497,812	10,690,312
Interest on First Mortgage Bonds, Series 2018A (2048 Bonds)	3,657,333	3,796,000
Interest Capitalized into Construction	(3,102,211)	(2,197,580)
Amortization of Debt Discount	326,494	326,494
Amortization of Debt Issuance Costs	183,528	183,528
Total Interest Expense	$ 36,726,803	$ 36,877,896

Note 9 Notes and Bonds Payable, Continued

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

As of December 31, 2022, estimated annual maturities of notes payable outstanding for the next five years and thereafter are as follows:

		Mortgage Bonds					
	NRUCFC	2009	2013	2018	MEC	CoBank	Total
2023	$ 11,142,877	$ 15,254,903	$ 14,166,667	$ 3,333,333	$ -	$ 4,166,667	$ 48,064,447
2024	11,477,932	15,254,903	14,166,667	3,333,333	-	4,166,667	48,399,502
2025	11,827,389	15,254,903	14,166,667	3,333,333	-	4,166,667	48,748,959
2026	12,191,915	15,254,903	14,166,667	3,333,333	-	4,166,667	49,113,485
2027	12,572,211	15,254,903	14,166,667	3,333,333	-	4,166,667	49,493,781
Thereafter	168,888,992	71,254,882	226,666,665	70,000,002	2,495,338	78,124,998	617,430,877
	$ 228,101,316	$ 147,529,397	$ 297,500,000	$ 86,666,667	$ 2,495,338	$ 98,958,333	$ 861,251,051

Note 10 Retirement Plans

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

The Cooperative's contributions to the RS Plan in 2022 and in 2021 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the plan of $7,842,974 in 2022 and $7,806,393 in 2021. There have been no significant changes that affect the comparability of 2022 and 2021 contributions.

Note 10 Retirement Plans, Continued

In 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 percent funded on January 1, 2022 and 2021, 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 an amount equal to the employee contribution up to 3% of the employee's compensation. The Cooperative made matching contributions of $796,255 and $773,137 in 2022 and 2021, respectively, to the 401(k) plan on behalf of employees. Total expenses of the plan, including employer contributions and administrative expenses, amounted to $834,444 and $810,234 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the deferred compensation investment of $396,303 and $414,452, respectively, and the related liability for like amounts have been recorded on the Cooperative's consolidated balance sheets.

Note 11 Deferred Credits

Following is a summary of the amounts recorded as deferred credits as of December 31, 2022 and 2021:

	2022	2021
Net Credits for Excess Fuel, Energy, and Capacity Charges	$ 8,585,298	$ 4,346,946
ERCOT Winter Storm Short Pays	3,165,575	17,979,080
Total Deferred Credits	$ 11,750,873	$ 22,326,026

Net Credits for Excess Fuel, Energy, and Capacity Charges. Net credits for excess fuel, energy, and capacity charges consist of the aggregate amounts remaining to be passed through to the Cooperative's member distribution cooperatives in the future in the form of reductions of amounts due to the Cooperative for energy billings.

Note 11 Deferred Credits, Continued

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 $9,773,193 and $2,590,644 in 2022 and 2021, respectively, from ERCOT for the short payments. These amounts reduced accounts receivable and were passed to the members through deferred credits. In late 2022, the Brazos Electric Cooperative, Inc. bankruptcy settlement issued the final short payment allocation to market participants. The Cooperative will receive an additional $3,165,575 over the next twelve years. This amount will be passed through to the members, in the form of deferred credits, to reduce future amounts due to the Cooperative for energy billings. In 2022, accounts receivable and the corresponding deferred credits were further reduced by the unrecoverable portion of $5,040,370.

Note 12 Related Party Transactions

Members of STEC. As of January 1, 2021, the members of STEC included eight electric distribution cooperatives. During 2021, San Bernard Electric Cooperative also became a member. Because of this addition, as of December 31, 2022 and 2021, members of STEC included nine electric distribution cooperatives to which the Cooperative sells electric energy. The member cooperatives are: Jackson Electric Cooperative, Karnes Electric Cooperative, Magic Valley Electric Cooperative, Medina Electric Cooperative, Nueces Electric Cooperative, San Bernard Electric Cooperative, San Patricio Electric Cooperative, Victoria Electric Cooperative, and Wharton County Electric Cooperative. The board of directors of STEC is comprised of the general manager and a board representative from each of the nine member distribution cooperatives.

All nine of the distribution 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.

Purchase of Power from SMEC. STEC purchases power from San Miguel Electric Cooperative, Inc. (SMEC), an electric generating and transmission cooperative. STEC is one of ten members of SMEC. The other nine members of SMEC are the nine electric distribution cooperatives listed above. The SMEC board of directors has nineteen seats: two seats for each of the nine electric distribution cooperatives and one seat for STEC. Mike Kezar, the General Manager for STEC, also served as the General Manager for SMEC pursuant to a Board approved Management Services Agreement. In May 2021, a new General Manager for SMEC was chosen and the Management Services Agreement was terminated. As of December 31, 2022 and 2021, Mike Kezar was no longer the General Manager for SMEC but served on the SMEC board of directors. Details of purchased power and generation and transmission (G & T) capital credits from SMEC are as follows:

	2022	2021
Purchased Power from San Miguel Electric Cooperative, Inc.	$ 143,404,800	$ 117,754,295
Payable to SMEC for Purchased Power at December 31	$ 20,548,230	$ 18,379,310
G & T Capital Credits Received from SMEC	$ 2,338,144	$ 460,000
Total Accumulated G & T Capital Credits from SMEC (Unpaid) at December 31	$ 36,134,158	$ 33,796,014

Note 13 Lines of Credit

The Cooperative maintains various revolving lines of credit as follows:

	Maturity Date as of December 31, 2022	Commitment Amount 2022	Commitment Amount 2021
NRUCFC, Administrative Agent for the Lenders	11/30/2026	$ 390,000,000	$ 390,000,000
Farm Credit Bank of Texas (Serviced by CoBank)	10/14/2024	$ 25,000,000	$ 25,000,000

NRUCFC is the administrative agent for the lenders for the $390,000,000 line of credit with a maturity date of November 30, 2026. As of December 31, 2022, commitment amounts for each of the lenders are: (1) NRUCFC $150,000,000; (2) Wells Fargo Bank $60,000,000; (3) Truist Bank $55,000,000; (4) Huntington Bank $50,000,000; (5) CoBank $45,000,000; and (6) Regions Bank $30,000,000. This line of credit contains various variable interest rate options and requires interest payments at the end of the interest rate election period. The credit agreement also contains certain affirmative, negative, and financial covenants. The outstanding balances on this line of credit at December 31, 2022 and 2021, were $170,000,000 and $55,000,000, respectively.

The $25,000,000 line of credit with Farm Credit Bank of Texas requires quarterly interest payments on any advances, and contains various variable interest rate options. The credit agreement also contains certain affirmative, negative, and financial covenants. There was no outstanding balance on this line of credit at either December 31, 2022 or 2021.

These lines of credit are unsecured. Other than the $390,000,000 NRUCFC line of credit (which can potentially be increased by $50,000,000 to $440,000,000), the maximum amount of unsecured lines of credit or like credit facilities that the Cooperative may have cannot exceed, in the aggregate, $85,000,000.

Total interest costs on these lines of credit (including facility/commitment fees) were $3,408,961 and $875,305 for the years ended December 31, 2022 and 2021, respectively.

The Cooperative had 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 be terminated.

- Letter of Credit, in favor of Electric Reliability Council of Texas, Inc., in the amount of $15,000,000 effective March 13, 2015, previously renewed annually. This letter of credit expired in November 2021 and was not renewed.

Note 14 Commitments and Contingencies

Power from 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 twenty-year contract with Javelina Wind Energy (formerly Albercas Wind) to purchase 74.0 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 twenty-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 to 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 to two years.

Claims and Lawsuits. The Cooperative is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the financial position of the Cooperative.

Note 15 Concentrations

The Cooperative receives substantially all revenue from the sale of electric energy to member cooperatives. These member cooperatives are located primarily in the south Texas region. All member cooperatives represented approximately 98% of total operating revenues during 2022 and 2021. Each member cooperative represented 3% or more of total operating revenues for the years ended December 31, 2022 and 2021.

The Cooperative maintains its operating cash balances at a multinational financial institution. The Federal Deposit Insurance Corporation insures bank account balances up to $250,000. At December 31, 2022 and 2021, the Cooperative's uninsured balances totaled $42,973,335 and $30,833,833, respectively. Cash investments at National Rural Utilities Cooperative Finance Corporation, of $40,000,000 and $10,000,000, as of December 31, 2022 and 2021, respectively, were uninsured. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 16 Income Taxes

Effective January 1, 2005, Internal Revenue Service regulations exclude the treatment of transmission revenue as an unrelated income; therefore, STEC gained tax-exempt status and is qualified to file a tax-exempt organization tax return for the years ended December 31, 2022 and 2021. STEC did not have any unrelated business taxable income in 2022 and 2021, and it is anticipated that STEC will not have unrelated business taxable income in the foreseeable future. However, during 2019 STEC formed STSP, a wholly-owned single member LLC of STEC, which is a taxable entity. Taxable income of STSP is subject to federal income taxes, which are not considered material and are recorded when paid.

Note 17 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.

At December 31, 2022 and 2021, approximately 44.3% and 36.3% of the Cooperative's natural gas needs for 2023 and 2022, respectively, had been hedged. In addition, the Cooperative also entered into hedge contracts for approximately 10.3% of the anticipated natural gas fuel needs for 2024. 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.

Note 18 Subsequent Events

Management has evaluated subsequent events through April 21, 2023, the date the consolidated financial statements were available to be issued. In January 2023, the Public Utility Commission of Texas (PUCT) approved the Joint Application of South Texas Electric Cooperative, Inc. (STEC) and San Bernard Electric Cooperative, Inc. (SBEC) to Transfer Facilities and Associated Certificates of Convenience and Necessity. In February 2023, STEC recorded the net plant assets from SBEC in the amount of $51.4 million and purchased inventory and work in progress projects for $1.6 million. STEC also recorded and assumed the related debt associated with the assets in the amount of $33.4 million and recorded contributed capital from SBEC in the amount of $18 million.

COMMUNITY SERVICE & COOPERATIVE SUPPORT

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

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

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.

STEC

Safety is our way of life

SOUTH TEXAS ELECTRIC COOPERATIVE, INC.

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CORE VALUES > Safety | Team Work | Integrity | Communications

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