

2021



MIDWEST ENERGY ANNUAL REPORT





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EXECUTIVE REPORT

Reliable energy supply is foundational to the economy and society. In 2021, abnormal weather events and supply chain problems placed unusual stress on local and regional energy networks. Midwest Energy met the challenges, ending the year in good financial health while maintaining competitive rates and delivering reliable service.

In February 2021, the strongest polar vortex in decades brought a perfect storm. Sustained record low temperatures greatly constrained electric and natural gas supplies throughout the central U.S. while demands for both were unusually high. For a short period, daily natural gas prices topped \$620 a dekatherm (about 250 times the first of month price). Electric prices briefly exceeded \$4 per kWh (about 140 times average hourly market prices in all of 2020). The Cooperative's strategy for buying and selling power in the Southwest Power Pool's integrated market insulated electric customers from adverse monetary impacts. Grid integrity was maintained, and except for one SPP-directed electric interruption of 74 minutes to 1,200 customers, Midwest Energy was able to maintain electric service to all customers when needed the most.

Costs of natural gas for retail customers during Winter Storm Uri far exceeded historic norms. Midwest Energy's balance sheet position allows the amortization of \$9.7 million of abnormal natural gas costs for recovery over two years so that customers would not face extraordinary one-time bills. There were no interruptions of natural gas service. Total amortized natural gas costs for an average-use residential customer were \$200, or \$8.27 per month.

Summer months included two thunderstorms that downed 67 115 kV transmission structures with a replacement cost of \$1 million. A December storm event with wind speeds exceeding 100 mph destroyed more than 800 poles. More than half of Midwest Energy's electric customers lost service at some point, and outages occurred in all 26 counties of the electric service area. Combined wind and ensuing wildfire damage exceeded \$3.2 million.

The most difficult day-to-day challenges resulting from the COVID pandemic subsided in 2021, but supply chain disruptions worsened. Vehicle vendors will not commit to delivery times and costs have increased dramatically. Certain types of distribution transformers have increased in price by 100 percent, and 3-week delivery times have lengthened to a year or more.

Midwest Energy has experienced a surge of baby boomer retirements and new hires. At year end, about 30 percent of employees had four or fewer years of experience. Formal knowledge transfer, peer-to-peer training programs and other initiatives help Midwest Energy achieve good results even with an influx of new employees.

Reliable service comes with a cost, and Midwest Energy must increase charges when inflation and system renewal costs outpace efficiency gains. A \$1.4 million natural gas rate increase planned for 2020 was deferred one year during the pandemic. A smaller increase of \$1.04 million was put into effect in July 2021. The average residential customer impact of \$0.98/month means our residential and general service gas delivery rates remain lowest in Kansas. Midwest Energy also adopted a formula rate

concept for natural gas service. Formula rates replace existing, single-issue annual rate adjustments to include all capital additions and expense changes. The result will be more frequent but smaller adjustments, subject to annual reviews by the Board of Directors.

The Cooperative's equity structure is an important component of financial oversight and planning and rate determination. In 2021 the Board of Directors adopted changes to the corporate equity target and discount rate for early patronage retirements. The Board also directed Executive Staff to reduce the equity target for a proposed 2023 electric rate change.

Cost increases are countered in part by efforts to improve productivity, improve service, and make processes more efficient. Midwest Energy's automated metering infrastructure (AMI) system allows the completion of many tasks without a trip to the customer's location. In the first full year of operation, these "automated service orders" eliminated over 14,000 truck rolls.

Automation of electric and gas metering is also putting detailed information at customers' fingertips to help them manage energy bills. Over 3,000 customers have registered to gain access since the customer portal was made available in mid-2021.

Midwest Energy remains committed to keeping rates as low as possible, while delivering excellent service our customers have come to expect. It is our pleasure to serve you.

Gary Moss, Board Chair
Patrick Parke, CEO



STATEMENT OF OPERATIONS

Years Ended — December 31, 2021 and 2020

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Electric | \$189,071,188 | \$153,891,297 |
| Gas | <u>46,996,321</u> | <u>37,933,098</u> |
| Total Operating Revenues | \$236,067,509 | \$191,824,395 |
| Operating Expenses: | | |
| Purchased Electricity | 91,535,626 | 77,373,734 |
| Production & Delivery of Electricity | 35,780,108 | 16,397,491 |
| Purchased Gas | 24,143,455 | 15,061,537 |
| Delivery of Gas | 8,032,693 | 7,505,021 |
| Customer Accounts, Service & Information | 4,131,368 | 4,265,143 |
| Administration & General Expense | 14,534,193 | 13,144,689 |
| Depreciation & Amortization | 21,262,486 | 20,338,390 |
| Property Taxes | 9,332,910 | 9,228,178 |
| Interest Expense | <u>14,265,543</u> | <u>15,164,773</u> |
| Total Operating Expenses | \$223,018,382 | \$178,478,956 |
| Operating Margins (Loss) | \$13,049,127 | \$13,345,439 |
| Non-Operating Margins: | | |
| Interest | 202,671 | 251,316 |
| Capital Credits From Other Organizations | 1,859,623 | 2,162,433 |
| Other | <u>4,581,341</u> | <u>(4,309)</u> |
| Total Non-Operating Margin (Loss) | \$6,643,635 | \$2,409,440 |
| Net Margins (Loss) | \$19,692,762 | \$15,754,879 |

SELECTED COMPARATIVE STATISTICS

Years Ended — December 31, 2021 and 2020

| | 2021 | 2020 |
|---|--------------------|--------------------|
| Electric | | |
| Number of Meters | 49,669 | 49,665 |
| Peak Load, MW | 364 | 351 |
| Retail Energy Sales, kWh | 1,413,446,232 | 1,392,007,575 |
| Wholesale Energy Sales | <u>142,814,770</u> | <u>141,016,561</u> |
| Total Energy Sales, kWh | 1,556,261,002 | 1,533,024,136 |
| Natural Gas | | |
| Number of Meters | 42,001 | 42,003 |
| Total Sales, MMBtu | 12,043,495 | 12,643,424 |
| Financial | | |
| Capital Credit Retirements | \$7,552,029 | \$7,404,912 |
| Modified Debt Service Coverage (MDSC) | 1.79 | 1.80 |
| Average Retail Price Per kWh (Electric) | \$0.1033 | \$0.1029 |
| Average Retail Price Per MMBtu (Gas) | \$7.99 | \$6.34 |

BALANCE SHEET

ASSETS AND OTHER DEBITS

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Electric Plant in Service | \$722,494,102 | \$709,367,611 |
| Construction Work in Progress-Electric | 21,239,377 | 15,069,923 |
| Total Electric Utility Plant | 743,733,479 | 724,437,534 |
| Accumulative Depreciation-Electric | (271,985,501) | (262,453,878) |
| Net Electric Utility Plant | \$471,747,977 | \$461,983,656 |
| Gas Plant in Service | 107,968,082 | 105,405,675 |
| Construction Work in Progress-Gas | 1,495,030 | 922,094 |
| Total Gas Utility Plant | 109,463,112 | 106,327,769 |
| Accumulative Depreciation-Gas | (41,623,188) | (39,350,953) |
| Net Gas Utility Plant | \$67,839,925 | \$66,976,816 |
| Net Utility Plant-Combined | \$539,587,902 | \$528,960,472 |
| Investment Patronage Capital | 14,355,187 | 13,767,222 |
| Investment Non-General Funds | 5,537,345 | 5,541,951 |
| Other Investments | 1,844,198 | 2,538,441 |
| Total Other Property & Investments | \$21,736,730 | \$21,847,614 |
| Cash-General Funds/Temporary Investments | 4,897,705 | 26,826,759 |
| Notes Receivable-Net | 6,299,104 | 7,597,463 |
| Accounts Receivable-Net | 25,621,573 | 27,332,851 |
| Materials & Supplies | 10,100,607 | 8,592,201 |
| Prepayments | 715,066 | 1,020,158 |
| Other Current & Accrued Assets | 937,148 | 1,119,652 |
| Total Current & Accrued Assets | \$48,571,203 | \$72,489,084 |
| Deferred Debits | \$17,423,231 | \$14,965,307 |
| Total Assets & Other Debits | \$627,319,066 | \$638,262,477 |

LIABILITIES AND OTHER CREDITS

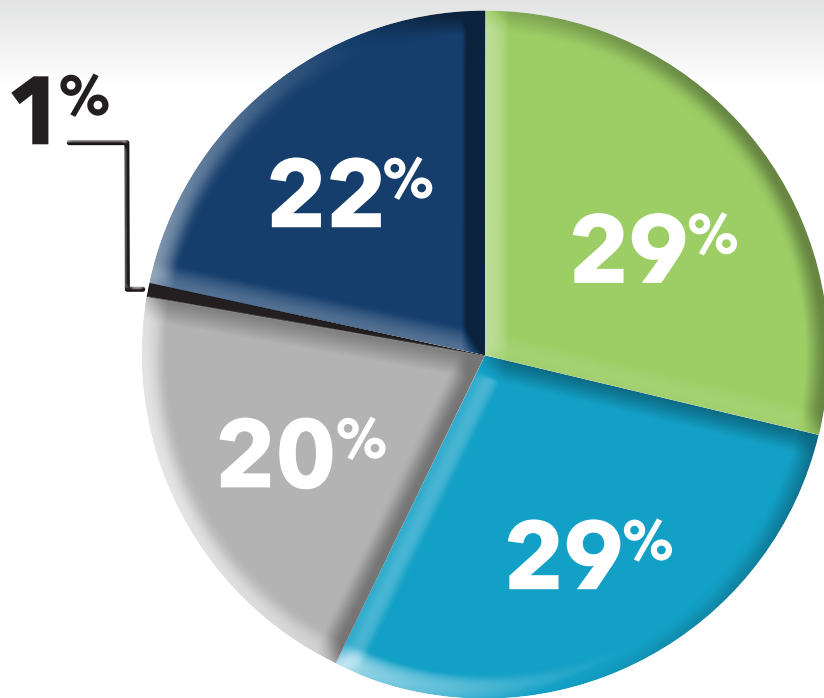
| | 2021 | 2020 |
|--|----------------------|----------------------|
| Patronage Capital | \$225,508,741 | \$217,393,394 |
| Operating Margins-Current Year | 13,049,127 | 13,345,439 |
| Non-Operating Margins | 6,643,635 | 2,409,440 |
| Other Margins & Equities | 17,968,625 | 16,647,984 |
| Total Margins & Equities | \$263,170,128 | \$249,796,257 |
| Long Term Debt | 308,563,812 | 327,556,653 |
| Total Long Term Debt | \$308,563,812 | \$327,556,653 |
| Notes Payable | 13,622,788 | 13,301,471 |
| Accounts Payable | 15,215,297 | 12,049,721 |
| Consumer Deposits | 4,743,360 | 4,005,534 |
| Other Current & Accrued Liabilities | 11,537,718 | 11,642,806 |
| Total Current & Accrued Liabilities | \$45,119,163 | \$40,999,532 |
| Deferred Credits | \$10,465,963 | \$19,910,035 |
| Total Liabilities & Other Credits | \$627,319,066 | \$638,262,477 |
| Margins & Equities As % of Assets | 41.95% | 39.14% |
| Long Term Debt As % of Plant | 36.17% | 39.43% |

PATRON'S EQUITY

Years Ended — December 31, 2021 and 2020

| | PATRONAGE CAPITAL ASSIGNED | PATRONAGE CAPITAL UNASSIGNED | OTHER EQUITIES | TOTAL PATRONS' EQUITY |
|-------------------------------------|----------------------------------|------------------------------------|-------------------|-----------------------------|
| Balance at December 31, 2020 | \$217,310,188 | \$15,754,876 | \$16,731,193 | \$249,796,257 |
| Net margins | | 19,692,764 | | 19,692,764 |
| Patronage capital assignment | 15,750,582 | (15,754,878) | 4,296 | 0 |
| Retirement of capital credits | (7,552,029) | | | (7,552,029) |
| Other | | | 1,233,136 | 1,233,136 |
| Balance at December 31, 2021 | \$225,508,741 | \$19,692,762 | \$17,968,625 | \$263,170,128 |

2021 CAPACITY RESOURCES



OWNED GENERATION-GAS/OIL



CONTRACT-COAL



CONTRACT-GAS/COAL



WIND

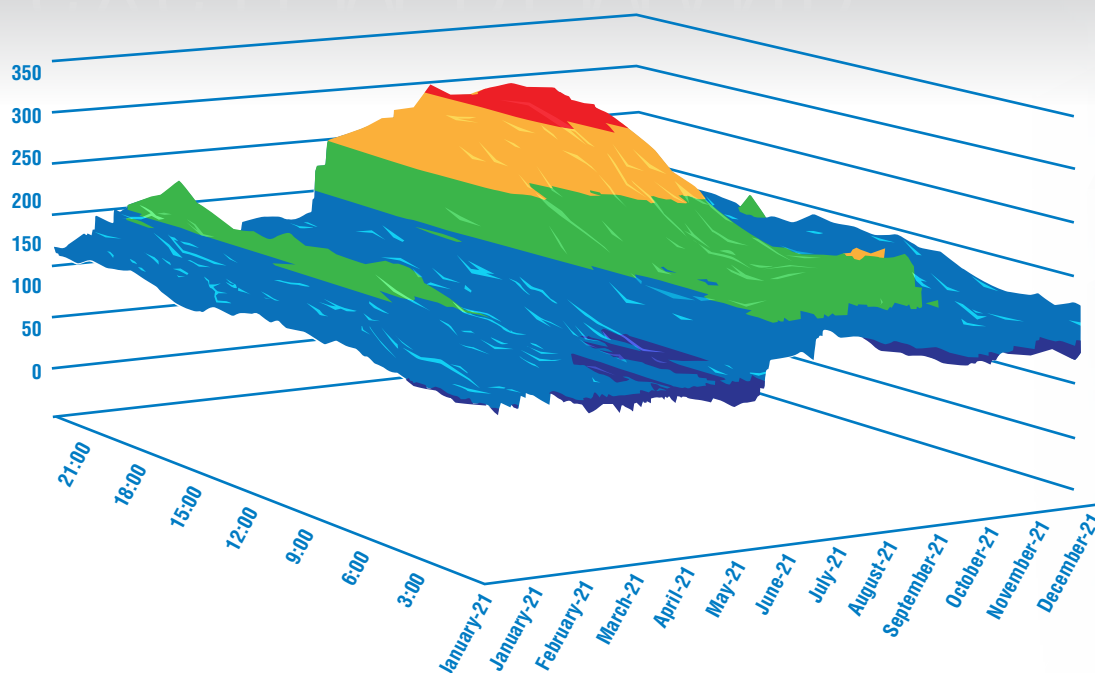


HYDRO

Capacity Resources is the maximum output an electricity generator can physically produce, measured in megawatts. This chart shows capacity resources contracted by Midwest Energy, shown by fuel type.

SYSTEM DEMAND

PEAK DEMAND IN MEGAWATT HOURS



Systemwide demand is the amount of energy used during each hour in 2021, by all Midwest Energy customers. Peak demand is important, as Midwest must purchase enough capacity and reserves to meet demand year-round, although the peak demands are only reached during the afternoon hours in June through September. Keeping peak demand low by spreading out usage of appliances that use a lot of energy helps the company and customers save money.

BOARD OF DIRECTORS



Gary Moss
Chair



Ed Pratt
Vice Chair



Dale Unruh
Secretary



John Blackwell
Treasurer



Louise Berning



Lon Frahm



Keith Miller



Chuck Moore



Juanita Stecklein

COMMITTEE ASSIGNMENTS

NOMINATING COMMITTEE

- ★ Chuck Moore, Chair
- ★ Louise Berning
- ★ Juanita Stecklein
- ★ Dale Unruh

AUDIT COMMITTEE

- ★ Ed Pratt, Chair
- ★ Lon Frahm
- ★ Keith Miller
- ★ Chuck Moore

COMPENSATION COMMITTEE

- ★ Dale Unruh, Chair
- ★ Louise Berning
- ★ John Blackwell
- ★ Ed Pratt

POLICY REVIEW COMMITTEE

- ★ Juanita Stecklein, Chair
- ★ John Blackwell
- ★ Lon Frahm
- ★ Keith Miller



MANAGEMENT TEAM



Pat Parke
Chief Executive
Officer



Bill Dowling
Vice President,
Engineering & Energy
Supply



Schamra Detherage
Vice President,
Human Resources



Tim Flax
Vice President,
Information Technology



Don Hoffman
General Counsel



Brenda Hutchison
Executive Assistant



Justin MacDonald
Director, Reliability
Compliance & Project
Management



Tom Meis
Vice President, Finance
and CFO



Mike Morley
Director, Corporate
Communications and
Government Affairs



Bob Muirhead
Vice President,
Customer Service



Fred Taylor
Vice President,
Operations



OFFICES

- ★ 1330 Canterbury Drive | Hays, KS 67601
- ★ 303 Main Street | Atwood, KS 67730
- ★ 1125 S. Range | Colby, KS 67701
- ★ 1025 Patton Road | Great Bend, KS 67530

- ★ 719 3rd Street | Phillipsburg, KS 67661
- ★ 1301 S. Main | Scott City, KS 67871
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