

A photograph of a rainbow arching over a sunset at a boat dock. Two people are silhouetted against the bright, golden light of the setting sun. A boat is docked on the right side of the frame. The sky is filled with soft, white clouds, and the water reflects the warm colors of the sunset. The entire scene is framed by a white border.

Cape Hatteras Electric Cooperative

Annual Report 2020

Mission Statement

"Cape Hatteras Electric Cooperative is a locally owned, managed and governed electric service provider dedicated to the safety of our employees, members and visitors, and a brighter future for the people and communities that we serve."

Cape Hatteras Electric Cooperative takes pride in being a community-focused organization. We are pleased to share this 2020 annual report and to provide information about the operational and financial health of CHEC, your trusted energy partner.

SAFETY

The safety of employees, members and visitors is always Cape Hatteras Electric Cooperative's (CHEC) top priority. Over the past year, changing circumstances due to the pandemic created both challenges and opportunities for our cooperative. As an essential service, and to ensure reliability of your power supply, we modified our operations to safeguard business continuity. CHEC closed the front office during the initial shut down, and pandemic procedures were created and disseminated to employees. Some staff worked remotely and CHEC linemen reported to work on a staggered schedule. We limited and modified meetings and gatherings to allow for safe separation. We eventually adjusted our walk-in office availability to ensure the health and safety of our employees and our valued members.

Despite these significant changes to the way we conduct business, cooperative staff managed to keep moving forward with operational improvements and special projects, while also keeping everyone safe.

We had another successful year with zero recordable accidents or worker's compensation claims. We modified our training protocols so that we could safely continue to train employees in all the required areas, including CPR & First Aid. Finally, CHEC renewed its Safety & Health Achievement Recognition Program (SHARP) certification through June 2022.

THE ELECTRIC SYSTEM

In 2020, the number of electric services on Hatteras Island grew slightly by 0.9% over 2019. Mild weather and zero visitation due to COVID-19 in March through May resulted in an overall decrease in energy use by 3%. The peak demand for Hatteras Island increased slightly to 40.6 megawatts

(MW) in July 2020. This is compared to the previous year's peak of 40.3 MW in July 2019. CHEC continued to utilize conservation voltage reduction (CVR) during periods of peak energy use to reduce voltage within acceptable levels, reducing demand charges on the cooperative's wholesale power cost. CVR reduces member's demand and energy use without impacting their comfort.

Throughout the year, we completed several construction projects to make our system more resilient. At the Pea Island National Wildlife Refuge Visitor Center, we relocated and replaced eight wooden transmission poles, that were dangerously close to the ocean, to the area behind the visitor center with concrete poles and caissons. At the Haulover between Avon and Buxton, locally referred to as the Canadian Hole, we replaced transmission pole #691 with a self-supporting concrete pole and caisson to eliminate the guy-wire that had been in the Pamlico Sound for many years. We also replaced a transformer in the Frisco substation, that will ensure our members in Frisco have reliable service for many years in the future.

CHEC continued to work with NCDOT, Flatiron Construction, the National Park Service and U.S. Fish & Wildlife Service throughout the year planning the construction required to attach 115kV transmission cables to the new Rodanthe bridge that is slated for completion near the end of 2021. Constraints on the construction of the new bridge will not permit CHEC to install the conduit and cable on the bridge while it is under construction. CHEC anticipates that cable installation will be permitted, only after the bridge is opened, requiring single lane closures for approximately 6 to 12 months.

The Cape Hatteras Electric Cooperative electric system is unusual among electric cooperatives in having a considerable portion of its total dollar investment in transmission facilities. With over 40 miles of 115kV transmission lines, CHEC has the highest investment in transmission plant per kWh sold out of all North Carolina electric cooperatives and consistently ranks in the top 10 out of all electric cooperatives in the United States. Transmission plant is more costly to construct and maintain than

distribution facilities. \$25.4 million or 38% of the total physical plant investment of \$66.3 million, is in transmission facilities.

ELECTRIC GENERATION

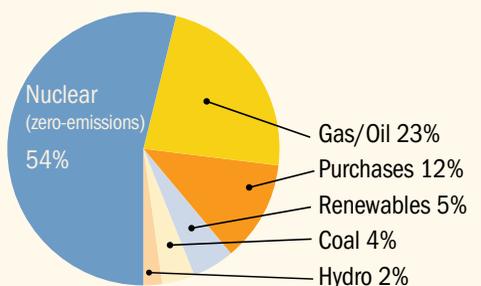
Cape Hatteras Electric Cooperative does not own any electric power generation directly. CHEC is a joint owner through North Carolina's Electric Cooperatives (NCEC), in the Catawba Nuclear plant and the Lee Combined Cycle gas plant in South Carolina. NCEC also owns and operates two combustion turbine gas plants in Anson and Richmond counties in North Carolina and the Buxton and Ocracoke diesel generating plants. The fuel mix pie chart displayed in this report below includes NCEC-owned assets and purchase-power agreements.

SUSTAINABILITY AND ENERGY EFFICIENCY

To CHEC, sustainability means delivering low-carbon electricity over a grid that is more efficient, resilient and secure. In doing so, North Carolina's Electric Cooperatives (NCEC) are working toward two significant goals: An established 2030 target to reduce carbon emissions by 50% from 2005 levels and a 2050 target of net-zero carbon emissions. To meet these goals and ensure reliability and affordability, NCEC will prioritize emissions-free nuclear energy as a key part of our energy future. With advances in technology, natural gas will remain critical, along with battery storage, as renewable energy is further integrated.

CHEC continued to meet North Carolina's Renewable Energy Portfolio Standard (REPS). Through NCEC, CHEC purchases renewable

Current Fuel Mix



energy and renewable energy credits (RECs) from various solar, wind, biomass, swine and poultry waste projects.

CHEC also continued to earn RECs from the 50 kW community solar garden located in Hatteras Village at milepost 71 on Hwy 12. Both Cape Hatteras schools and the Hatteras Island Ocean Center, which is adjacent to the project, continue to benefit from educational kiosks provided by the cooperative. Members can view the real-time production of the project by visiting the Sunny Portal at chec.coop.

A significant part of the REPS law continues to be met through energy efficiency programs that help our members reduce their monthly electric bill. CHEC continued to sell wi-fi enabled “smart” Ecobee thermostats for a fraction of their retail value in exchange for member’s participation in a demand reduction (DR) program. When the thermostats are called on to reduce peak demand, the set temperatures are adjusted either up or down by a few degrees. Members with all electric homes receive a monthly credit for their participation.

For members who have a Nest thermostat, CHEC offers the Bring Your Own Thermostat (BYOT) program. By enrolling in this DR program, members with all electric homes are eligible for an upfront \$75 credit and another \$4 credit per month for continued participation.

CHEC continued installing prepaid meters for members at no additional charge. The prepaid meters qualify as an energy cost monitor. Members who participate receive daily communications via text and/or email informing them of their daily kWh use, their balance, as well as any high use alerts.

CHEC also continued to help members save money by issuing \$100 rebates for turning in a secondary refrigerator or freezer, and \$25 rebates on the purchase of qualifying Energy Star appliances. CHEC also offered low-interest loans with financing up to \$10,000 for commercial members, and \$6,000 for residential members, for the purchase of new high-efficiency heat pumps and other energy efficiency improvements. Finally, CHEC staff continued to provide free home energy assessments to cooperative members to aid in making their residences more energy efficient. By being a part of Touchstone Energy Cooperatives, CHEC members can find tips on how to improve efficiency at home or in their business anytime by visiting TogetherWeSave.com.

All of these efforts are part of our ongoing commitment to building a brighter future for the people, businesses and communities we serve.



Second-place winner of Member Photo Contest by Mickie Warren, titled “Buxton Gold”

SEVERE WEATHER AND OUTAGES

Although last year’s Atlantic hurricane season broke records with a total of 30 named storms, Hatteras Island was largely spared the wrath of major storms and the power outages that often accompany them. In fact, CHEC had more outage time for planned maintenance in 2020 than for any other reason.

The total outage time from all causes, resulted in 502 minutes of average outage time per member in 2020; 237 minutes of that total were due to planned outages for maintenance work. Our focus on improving the resilience of the electric grid is a year-round effort. We take steps on a daily basis to ensure the electric grid can quickly and effectively recover from storms and other threats so our members have the reliable, affordable and sustainable electricity they depend on.

CHEC’s outage map, available on chec.coop, shows member’s reported electrical outages happening anywhere on Hatteras Island. NCEC’s outage map, which shows outages statewide, can be found at ncelectriccooperatives.com.

FINANCIAL STRENGTH

The cooperative continues to remain financially strong. Operating margins for 2020 were \$2,970,367, which is higher than budget, and last year’s margins of \$2,142,589. The higher margins were due primarily to lower wholesale power cost and lower operating expenses as a result of the pandemic. The cooperative sold 128 million kWh in 2020, down from 132 million in 2019. In 2020, CHEC distributed capital credits to current and former members in the amount of \$1,412,883.

COOPERATIVE BUSINESS MODEL

An electric cooperative’s corporate structure is one of member ownership. The cooperative belongs to the communities that it serves. Cooperatives typically serve communities that are not considered profitable by the neighboring investor

owned utility. As a result, CHEC operates as a not-for-profit electric service provider and our loyalty is to our members. A portion of excess margins are refunded each year to past and current members, in the form of capital credits. Retained earnings are used to reduce borrowing requirements of the cooperative and are also refunded in future years.

GOVERNANCE

The cooperative is governed by a member-elected board of directors. These leaders are members who live in and are actively involved in the communities of Hatteras Island. Directors are elected to rotating three-year terms. All directors presently serving have obtained the National Rural Electric Cooperative Association’s (NRECA) Credentialed Cooperative Director certification through training and education, and most have obtained the Board Leadership Certificate as well as the elite Director Gold status. The functions of the Board of Directors are to establish strategic goals and objectives of the cooperative, set governing policy, approve budgets and select a general manager to carry out the day-to-day operations of the cooperative. The board of directors meet regularly to carry out their responsibilities. Meeting dates are posted on our website at chec.coop.

MEMBER PARTICIPATION

Cape Hatteras Electric Cooperative encourages member participation. Ballots are mailed each year providing all members the opportunity to vote in the annual election of directors. The participation rate by CHEC’s members is very good, with a response of more than 27%.

The mail ballots for the 2020 director elections were delivered in early April as planned. However, due to the ongoing COVID-19 pandemic, the 75th anniversary celebration and the 2020 Annual Meeting of Members of Cape Hatteras Electric Cooperative, originally scheduled for early May, was cancelled. The decision to cancel the traditional in-person meeting was

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made in accordance with the restrictions on gatherings established by the Center for Disease Control (CDC) and the State of North Carolina. Instead, we held a drive-thru 75th anniversary celebration and member appreciation event in October where we served 500 barbeque dinners and provided members with gift bags containing our 75th anniversary memorabilia.

Due to continued restrictions on indoor gatherings in North Carolina, we have again cancelled our traditional in-person Annual Meeting, originally scheduled for May. As an alternative, we will hold another drive-thru event on May 24, 2021, at the cooperative's office. Members are invited to drive by the office at 47109 Light Plant Road in Buxton and pick up a barbeque dinner and gift bag, beginning at 5 p.m., until supplies run out.

MEMBER ENGAGEMENT

CHEC continues to use multiple outlets to engage and accommodate members. We understand that most members prefer to speak to a person when they call CHEC's office. This is especially true after-hours, when there is a problem with their electric service. In order to provide members and visitors with a better after-hours experience, CHEC changed vendors for our outage reporting service to the Cooperative Response Center (CRC). CRC has three dispatch centers providing redundant services across our Nation and provides more services after hours, such as taking payments on our behalf. CRC's more robust service costs CHEC members significantly less than our previous vendor.

CHEC continues to offer an interactive voice response (IVR) system called Autocue. Members can now check their account status, balance, due dates and pay by check or credit card by calling our main number day or night. Autocue provides this service in both English and Spanish.

The cooperative continues to offer a mobile app for Android or Apple phones, allowing members to view bills, sign up

for alerts and reminders, track daily use, view payment history and make payments. Members can also sign up to receive alerts via text or email concerning their account. Members have unlimited access to view their account and make payments by using our online Customer Service Portal. The MyUsage option on the portal allows members to track daily use and view payment and use history. To view the portal, visit chec.coop and click "My Account."

CHEC is constantly searching for more ways to connect with members. We invite you to follow us on Facebook, Twitter and Instagram to stay up-to-date on the latest cooperative news, community events, energy-saving tips and outage updates. These communication tools prove to be invaluable during planned and unplanned outages.

CHEC utilizes the community-run radio station, Radio Hatteras, to provide emergency information during and after major events, as well as other important information about your cooperative. CHEC supports Radio Hatteras by providing the station with space for antennas and equipment. Tune in to Radio Hatteras on 99.1FM and 101.5FM to hear the cooperative's daily public service announcements at 9:30 a.m. and 3:30 p.m.

Email notification for outages and other important information continues to function well. For members that have provided their email addresses, CHEC is now offering the convenience of e-billing. E-billing makes receiving your electric bill faster and easier while eliminating unnecessary paper use.

CURRENT CHALLENGES

System reliability and resilience continues to be a high priority. The electric grid has evolved substantially in recent years and will continue to change as new advancements are transforming the ways co-ops and other utilities transmit power and our members use it. As storms become more frequent and more severe, we are constantly looking at new technologies and construction techniques to both harden our infrastructure,

making it less susceptible to storm damage, and smart grid devices, to improve response time when outages occur.

CHEC staff continues to work with NCDOT and Flatiron Construction, to plan for the installation of new transmission cables on the new Rodanthe bridge. Once this bridge is constructed, NCDOT will be required to remove the corresponding pavement, dunes and sandbags in the southern stretch of the Pea Island National Wildlife Refuge. This area, commonly referred to as the S-curves, was significantly impacted by both Hurricanes Irene (2011) and Sandy (2012) and has been plagued by erosion and ocean overwash. Attaching transmission cables to the Rodanthe bridge is a significant, yet essential investment in reliability for electric members on both Hatteras and Ocracoke Islands.

With two major cyber-attacks (Solar Winds and Microsoft Exchange) making recent headlines, CHEC continues to work to mitigate cybersecurity risks. In 2020, we implemented South Eastern Data Cooperative's Managed Security Services (MSS). MSS provides 24/7 monitoring, asset discovery, vulnerability scanning and assessment, intrusion detection, security information and event management. The cooperative is also working to improve the security of our facilities and industrial control systems. CHEC is constantly enhancing and reinforcing our defenses with new technologies and best practices to protect member data and cooperative operations.

FOCUS FOR THE FUTURE

Cooperative members are becoming increasingly focused on sustainability, and CHEC, along with North Carolina's Electric Cooperatives (NCEC), have established a goal of net-zero carbon emissions by 2050. As at-cost providers of electricity serving primarily rural areas of North Carolina, we recognize that how we achieve these goals matters, our members' top priority continues to be reliable electricity delivered at the lowest possible cost. We are now engaging members to become active participants in our shared goal of delivering increasingly low-carbon electricity over a grid that is more technologically advanced, efficient and cost effective.

On today's modern grid, power no longer moves in a linear path from cooperative to member. Instead, it includes a wide variety of resources and technologies spread throughout the grid, like a spider web. Many of these distributed energy resources stem directly from members like you, including smart thermostats and water heater

controls, residential solar, and even electric vehicles (visit ncdriveelectric.com). CHEC and the state's other electric cooperatives are also pursuing a range of innovative energy solutions, from microgrids to solar and storage, that further contribute to enhanced grid flexibility and efficiency. Visit ncelectriccooperatives.com/energy-innovation for more information.

Using a sophisticated energy management platform, we are carefully coordinating and dispatching these interconnected resources to meet electricity demand and balance traffic on the grid, which improves reliability and helps manage costs by offsetting the need to build traditional power plants.

Reducing emissions from the transportation sector is also a key component to a low-carbon future. The term beneficial electrification was coined because research concludes that electricity generated to fuel battery-powered electric vehicles (EVs), emits fewer greenhouse gases than emissions from traditional vehicles fueled by gasoline or diesel.

As EVs become more common, it is necessary to have charging infrastructure in place. North Carolina electric cooperatives are working to establish an EV charging network across the state. CHEC has installed three public charging stations on Hatteras Island to encourage visitation by EV drivers. The cooperative has a DC Fast charging station located at the entrance to the Avon Pier parking lot, a Level 2 station located in Rodanthe in the parking lot of Kitty Hawk Kites and another Level 2 station located at Hatteras Landing in Hatteras Village. All three sites have shopping, dining and recreational opportunities within walking distance for drivers to enjoy while charging their vehicles. To view a map of all charging stations on Hatteras Island, visit plugshare.com.

In 2019, CHEC acquired a Nissan Leaf, the first fully electric vehicle registered on Hatteras Island. So that members can learn and experience the advantages of driving an EV, CHEC has made this vehicle available for members to test drive for up to two days. In 2019, we had over 40 members take advantage of the program. This program was temporarily suspended in 2020 due to COVID-19, but has been resumed again in 2021. To schedule your EV test drive, call (252) 995-5616.

The widespread adoption of EVs poses significant opportunities and challenges for CHEC and other electric utilities. If EV owners charge their vehicles at night, when electric usage is at its lowest, then the new load will make the electric system more efficient,

MANAGER'S MESSAGE

As CHEC staff and directors returned home from the National Rural Electric Cooperative Association's annual meeting in March 2020, COVID-19 was just beginning to change our world. No one would have guessed that it would be the last time we traveled for cooperative business in 2020.

Within a week of our return, the Governor declared a State of Emergency. Within another week, schools, restaurants and all of Dare County were shut down and the pandemic became a crisis unlike any that we have ever experienced. All meetings for the foreseeable future were cancelled, including CHEC's Annual Meeting and 75th Anniversary Celebration. Your cooperative was challenged to operate differently, and CHEC stepped up to help members and strengthen the safety net for our more vulnerable neighbors.

For our members impacted by COVID-19 who needed help with their electric bills, we temporarily suspended disconnects, waived late fees and worked with those hardest hit to make special payment arrangements. We also offered community assistance through our Operation RoundUp program, a fund made possible through your kind donations.

And while we certainly missed visiting with you in person, we found new ways to stay connected through social media, our local radio station and our monthly publication, Carolina Country magazine. We partnered with CoBank, a rural cooperative bank, to provide grants for organizations supporting Hatteras Islanders through the pandemic including the Hatteras Island Youth Education Fund, the Cape Hatteras United Methodist Men and to Dare County's PORT Health program. Our employees and directors participated in virtual 5K runs and CHEC supported teacher's virtual school efforts through our Bright Ideas Education Grant program. And of course, we were excited to see those of you who were able to come to the drive-thru Member Appreciation Event that we held in October.

I tell you about all of these efforts not to boast about CHEC, but to explain how much we care about this community – because we live here too. As we move forward, we will continue our commitment of providing electricity at the lowest possible cost while also advancing the pursuit of responsible sustainability goals. Our innovation and actions will continue to be guided by our local roots and focus on delivering value to our members as we work to create a brighter future for Hatteras Island.

On behalf of the board of directors and employees of CHEC, I want to thank you for your patronage in 2020 and for the opportunity to serve you. We hope to see you at our Annual Meeting Drive-thru event on May 24.



Susan E. Flythe

Executive vice president and general manager

by improving load factor, which reduces wholesale power cost. However, if EV owners charge in the early evening or morning, during peak hours, then infrastructure will have to be built or upgraded to support the additional load, increasing the cost of electricity for all. To encourage charging, and shifting other electric use to the night-time, CHEC has a voluntary Time-of-Use (TOU) rate, available to residential members. This rate will save members money, provided that some electricity use is shifted to off-peak hours.

CHEC continues to offer \$100 rebates to members for the purchase of a Level 2 ChargePoint EV charger for their Hatteras Island home. ChargePoint is the first Energy Star certified EV charger and uses 40% less energy than any other car chargers on the market. For more information on

CHEC's TOU rate and charging rebate, visit chec.coop/electricvehicles.

CHEC members also have access to auto loans, including discounted EV loans, through the cooperative's affiliation with ElecTel Cooperative Federal Credit Union. To view their loan rates or complete an application, visit electel.org.

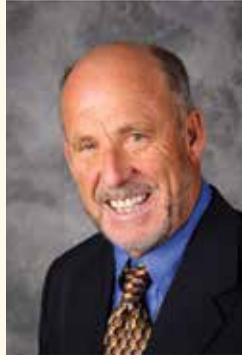
While energy efficiency still has merit, it is equally important for members to learn to use electricity when and where it makes the most sense. Beneficial electrification will help save members money, reduce environmental impacts and create greater grid flexibility and resiliency. In other words, beneficial electrification will help CHEC to create a brighter future for the people and communities that we serve.

Board of Directors

Your cooperative is governed by a member-elected board of directors. These directors are members who are actively involved in the communities of Hatteras Island. Directors are elected to rotating three-year terms. Directors presently serving are well trained in the job to which they were elected. The functions of the board of directors are to set governing policy, approve budgets and select a manager to carry out the day-to-day operations of the cooperative. The board of directors meet regularly to carry out their responsibilities.



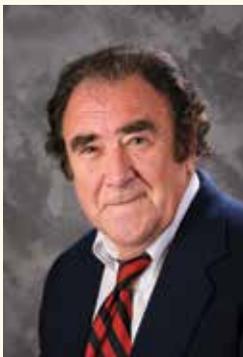
President
Richard A. Midgett



Vice President
John R. Hooper



Secretary/Treasurer
Dan G. Oden Jr.



Director
Elvin L. Hooper



Director
Bryan Mattingly



Director
Briggs McEwan



Director
Tami Thompson

December 2020 Financial Statements

Operating Revenue

\$19,836,240.00

Patronage Capital or Margins

| | |
|---|--------------|
| Patronage Capital and Operating Margins | 2,970,367.00 |
| Interest Income and Other Non-Operating Margins | 378,620.00 |
| Capital Credits from Associated Organizations | 394,014.00 |

Patronage Capital or Margins

\$3,743,001.00

Assets

| | |
|--|---------------|
| Net Utility Plant | 54,881,270.00 |
| Investment in Associated Organizations | 4,276,862.00 |
| Investments in Economic Development Projects | 288,000.00 |
| Special Funds | 551,637.00 |
| Temporary Investments and Cash | 6,001,791.00 |
| Notes and Accounts Receivable | 771,796.00 |
| Materials and Supplies | 2,817,867.00 |
| Other Current and Accrued Assets | 879,297.00 |
| Prepayments | 172,740.00 |
| Deferred Debits | 647,959.00 |

Total Assets

\$71,289,219.00

Liabilities and Other Credits

| | |
|---------------------------------------|---------------|
| Patronage Capital | 42,952,609.00 |
| Long-term Debt | 24,220,121.00 |
| Notes and Accounts Payable | 670,547.00 |
| Accumulated Operating Provisions | 500,000.00 |
| Consumer Deposits | 81,581.00 |
| Other Current and Accrued Liabilities | 2,448,321.00 |
| Deferred Credits | 416,040.00 |

Total Liabilities and Other Credits

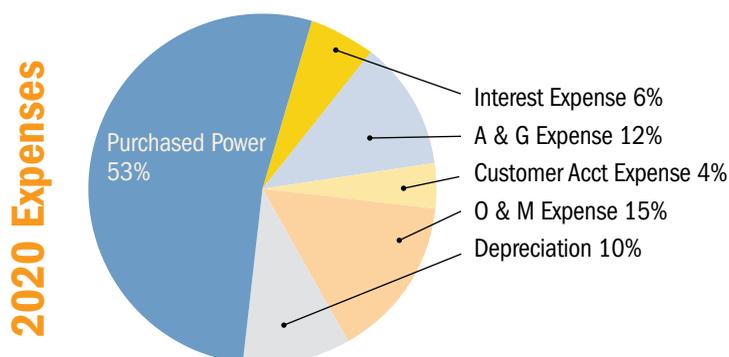
\$71,289,219.00

2020 Expenses

| | | |
|-------------------|-----|--------------|
| Purchased Power | 53% | 8,879,770.00 |
| Depreciation | 10% | 1,748,933.00 |
| Interest Exp | 6% | 916,784 |
| O & M Exp | 11% | 2,541,791.00 |
| Customer Acct Exp | 4% | 737,494.00 |
| A & G Exp | 11% | 2,041,101.00 |

Total Expenses

\$16,865,873.00






A Touchstone Energy® Cooperative

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