



WIDE-RANGING CHANGES AND CHALLENGES

ANNUAL REPORT | 2022

Heraclitus, the ancient Greek philosopher who lived 2,500 years ago, is credited with developing the idea that the only constant in life is change.

I've said this many times when talking with members during several recent Town Hall events: I've seen more change at our co-op and in our industry in the past five years than I've seen since I started my career at United in 1998. And 2022 definitely represents one of those years of notable, substantive change that impacted how we do business.

Calling it challenging would be an understatement.

The end of 2022 saw the conclusion of the Brazos Electric Cooperative (Brazos) bankruptcy trial. By Nov. 14, trial participants had reached agreement about the new Brazos that would emerge out of bankruptcy. As a quick reminder, Brazos filed for Chapter 11 bankruptcy following Winter Storm Uri in February 2021 to address the significant expense and challenges that resulted from the winter storm.

The end result, dubbed by the federal bankruptcy judge as "Brazos 2.0," resolved the overall issue of who owed how much. Thankfully, United was able to negotiate a reduction of about 20 percent from the initial \$560 million.

The settlement also stipulated that Brazos would cease generating electricity by March 1, 2023. It would no longer procure wholesale power for its 16 member distribution cooperatives. It would sell its generation assets as part of the mediated settlement that reduced the bill from \$2.1 billion to \$1.89 billion. It would become a transmission and distribution utility only.

The conclusion of the trial sparked more monumental decisions for United and other member-owners of Brazos that had to occur in fairly rapid succession. Though United owed less than originally calculated, it still meant the co-op had to find a way to pay \$451 million. United utilized securitization to pay the amount owed (as prescribed by the Texas Legislature), but had to do so during a time of volatile, climbing interest rates. And though we would have preferred our members not to have paid anything, we were able to finish the securitization process and make the initial securitization charge for members cost about 1.2 cents per kilowatt-hour rather than 1.3 or 1.4 cents.

We hit it just right.

Another major challenge: With Brazos required to cease its electric generation operations, that meant United now had to find a new energy provider during a time of high energy prices across the Lone Star State and nationally. As members surely remember, we would see in 2022 historically high energy prices throughout the state as natural gas producers sent more of their product overseas, thereby reducing natural gas availability in the United States and causing gas prices to quadruple.

Because natural gas is the main fuel to create energy in the Lone Star State, consumers experienced as much as a 70 percent increase in what they'd pay per kilowatt-hour in a market already plagued by historic inflation and risk-averse investors, now wary of Texas' ERCOT market going into another record-breaking hot summer. Volatility in the ERCOT market continued from the outset of Winter Storm Uri, with generation capacity being strained under peak cold and hot conditions – adding another dimension to the energy pricing in the wholesale energy markets.

Though a daunting task in itself, choosing Constellation Energy as United's new energy provider offered the cooperative's leadership an opportunity to obtain a better deal than they were paying to Brazos for energy. It also stabilized energy prices United members were paying by signing a contract that would offer not only a fixed price, but also a price that would reduce over the course of the three-year contract and an umbrella to United from having to pay

exorbitant energy fees in the face of another Uri-like event.

Each of these decisions were herculean in and of themselves. While United's leadership team definitely had its work cut out for it, its guiding principle for these challenges and all others throughout

2022 was always the same: Do what's right for the membership.

During 2022, we spent significant time, effort and resources predicting possible outcomes and working through the Brazos bankruptcy reorganization to ensure the best possible outcome for United members. As strange as it might sound, reaching the end of the arduous bankruptcy process by the end of the year served as a welcomed gift.

Despite the tribulations from the trial, United members didn't see any changes in United's daily operational standards in electric delivery or in the continuation of the high-speed internet buildout process. And though the trial's conclusion served as the largest historical footnote of the year, 2022 brought several positive milestones despite the turmoil.

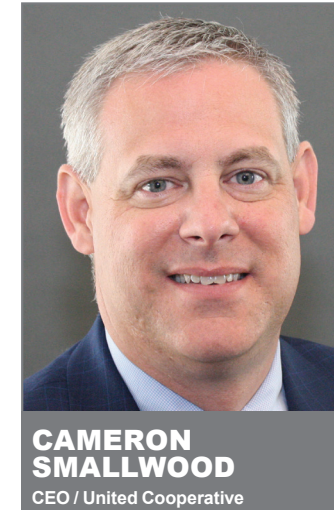
Your electric cooperative continued the 2021

trend of growing again at a tremendous rate in 2022—3.9 percent. Though not quite the 4.6 percent of 2021, we continued energizing more homes, apartments and more new commercial members to our rolls, which means new jobs for our service territory.

United's high-speed internet project continued its rapid expansion. Starting with 9,200 members at the beginning of the year, we had north of 15,000 at the end of 2022. Many of those new accounts came from new commercial members who were now also able to enjoy our business internet services.

Safety continues to be a paramount goal at United. Our employees racked up more than 1 million hours without a lost-time accident. It would take the average 40-hour-per-week worker roughly 480 years to achieve this. While we are proud of that number, we always strive to not only sustain but also improve our safety standards.

No matter what the world throws at us, we have a purpose of providing our members exceptional service and value. We work to make a difference while improving your quality of life, and that's one thing that hasn't changed since I started in 1998 or since the cooperative was originally formed in 1938. Serving our communities, not only with electricity or internet, but also being there, living there and being involved in serving others gives us this edge that other providers covet. We were born by and for the communities we serve, and we will always be an active part of them, just as we have now more than 80 years later.



CAMERON SMALLWOOD
CEO / United Cooperative

Balance Sheets

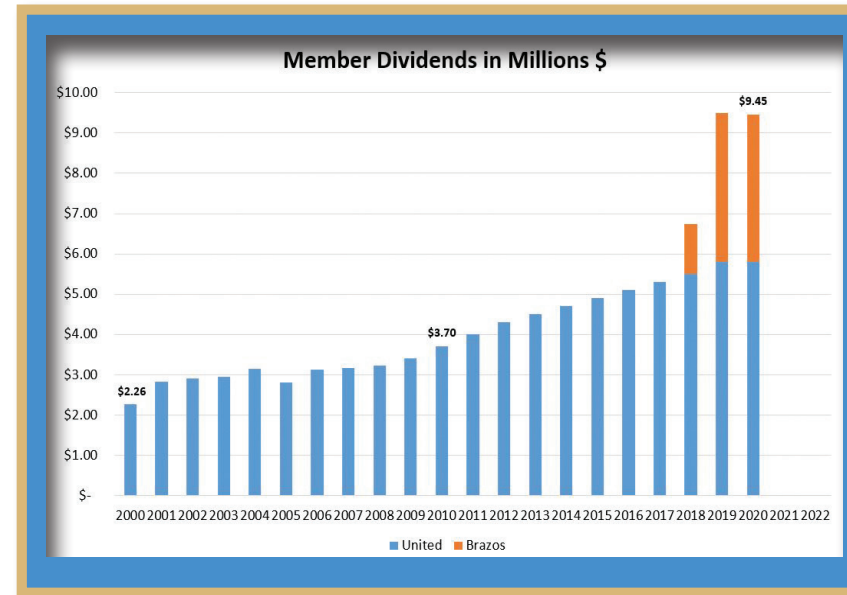
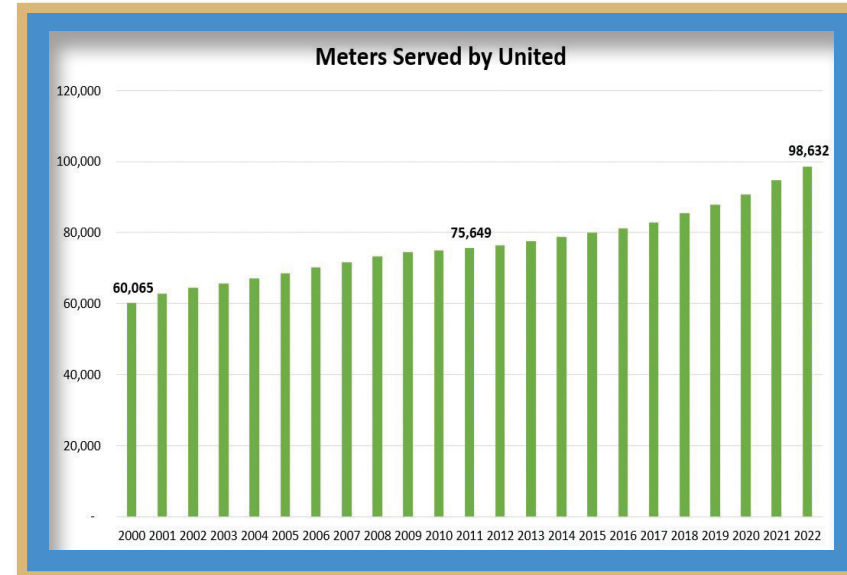
As of December 31, 2022 and 2021

	As of December 31,	
	2022	2021
ASSETS		
UTILITY PLANT		
Electric plant in service at cost	\$ 559,545,352	\$ 496,086,453
Construction work in progress	25,769,259	24,096,187
Total utility plant	\$ 585,314,611	\$ 520,182,640
Less accumulated provision for depreciation	152,931,738	138,971,049
Net utility plant	\$ 432,382,873	\$ 381,211,591
INTERNET SERVICE PLANT		
Internet plant in service at cost	\$ 77,131,984	\$ 25,790,616
Construction work in progress	53,051,676	54,470,511
Total non-utility plant	\$ 130,183,660	\$ 80,261,127
Less accumulated provision for depreciation	5,165,764	1,248,473
Net non-utility plant	\$ 125,017,896	\$ 79,012,654
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 577,279,232	\$ 132,039,683
Total property and investments	\$ 577,279,232	\$ 132,039,683
CURRENT ASSETS		
Cash and cash equivalents	\$ 44,092,839	\$ 7,076,853
Restricted Cash	\$ 8,079,444	
Accounts receivable-less allowance for doubtful accounts	42,441,978	33,258,020
Material and supplies (at average cost)	15,624,815	9,887,034
Other current and accrued assets	470,625	724,445
Total current assets	\$ 110,709,701	\$ 50,946,352
DEFERRED DEBITS	\$ -	\$ 543,000
TOTAL ASSETS	\$ 1,245,389,702	\$ 643,753,280
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 130,955	\$ 139,135
Patronage capital	287,135,701	268,408,377
Accumulated other comprehensive income	9,745,412	8,722,367
Other equities	(2,616,769)	(283,570)
Total equities and margins	\$ 294,395,299	\$ 276,986,309
LONG-TERM DEBT		
RUS mortgage notes	\$ -	\$ -
CFC mortgage notes	27,019,895	29,401,780
CoBank mortgage notes	30,000,000	30,000,000
FFB mortgage notes	338,521,487	233,370,423
Securitized bonds	444,571,513	-
Economic development loan	-	335,126
Total long-term debt	\$ 840,112,895	\$ 293,107,329
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	\$ 1,480,732	\$ 2,977,599
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 10,592,000	\$ 6,773,000
Current portion of securitized bonds	\$ 4,606,643	\$ -
Current portion of postretirement benefits	350,000	300,000
Line of Credit	-	11,500,000
Accounts payable - purchased power	27,929,430	13,002,845
Accounts payable - other	13,119,724	8,619,259
Consumer deposits	4,133,658	3,479,168
Accrued taxes	4,751,647	3,933,781
Accrued interest	492,349	378,727
Other current and accrued liabilities	34,048,850	13,689,931
Total current liabilities	\$ 100,024,301	\$ 61,676,711
DEFERRED CREDITS	\$ 9,376,475	\$ 9,005,332
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 1,245,389,702	\$ 643,753,280

Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2022 and 2021

	For the Years Ended December 31,	
	2022	2021
NET SALES	\$ 350,166,779	\$ 230,135,857
OPERATING EXPENSES		
Purchased power	\$ 266,030,503	\$ 165,294,088
Distribution expense - operations	8,861,981	7,164,970
Distribution expense - maintenance	14,083,722	12,376,773
Consumer accounts	6,044,545	4,272,212
Customer service and information	2,184,412	1,851,196
Administrative and general	7,523,213	8,312,370
Depreciation and amortization	20,872,464	17,808,864
Taxes	2,169,690	1,882,520
Interest on long-term debt	7,610,120	6,076,413
Other interest and deductions	481,692	579,250
Total operating expenses	\$ 335,862,342	\$ 225,618,656
Net operating margins	\$ 14,304,437	\$ 4,517,201
INTERNET SERVICE REVENUE (EXPENSES)		
Internet Service Revenue	\$ 10,156,637	\$ 3,646,255
Cost of Sales	(1,435,967)	(858,906)
Operating expenses	(11,802,790)	(4,992,286)
Total internet service margins	\$ (3,082,120)	\$ (2,204,937)
NONOPERATING MARGINS		
Interest income	\$ 61,617	\$ 191,135
Other	3,938,480	(11,036)
Total nonoperating margins	\$ 4,000,097	\$ 180,099
Generation and transmission cooperative and other capital credits	\$ 1,299,972	\$ 13,345,820
NET MARGINS FOR YEAR	\$ 16,522,386	\$ 15,838,183
Patronage capital - beginning of year	268,408,377	250,811,146
Transfers from (to) other equities	2,204,938	1,759,048
Retirement of capital credits	-	-
PATRONAGE CAPITAL - END OF YEAR	\$ 287,135,701	\$ 268,408,377



2022 FINANCIAL REVIEW

SALES OF ELECTRICITY & INTERNET SERVICES

In 2022, United delivered 2,778 gigawatt hours to the membership, marking the second consecutive year that United's sales have surpassed 2,500 gigawatt hours. This was the fifth-highest total

among Texas cooperatives and in the top 5 percent of cooperatives nationwide. 2022 residential sales increased 130 gigawatt hours and commercial sales increased 127 gigawatt hours for an overall percentage increase of 10.5 percent over 2021's sales. 2022 saw the continued deployment of fiber internet services to the membership, with 15,326 subscribers at year end. This was a 75 percent growth rate from 2021 and continued the rapid expansion dating back to August of 2020.

PLANT INVESTMENT AND EQUITY POSITION

In the past five years, United has invested in electric distribution and internet plant for new construction and system improvements totaling

more than \$290 million. Multiple factors produced this sizable investment, most notably significant electric meter growth and the launch of fiber internet services. Funding for these improvements comes from both current operations and a large portion funded by long-term loans. United has an equity ratio of 37 percent, which is slightly below the median on a national level of 42 percent for electric distribution co-ops of like size.

FINANCIAL PERFORMANCE

Margins for 2022 were \$16,522,386 with members receiving a patronage capital margin allocation equivalent to 5.68 percent of their 2022 billed electric service. United's Times Interest Earned

Ratio (TIER) at the end of the year was 3.17 compared to a 2022 average of 2.49 for electric distribution co-ops of like size. TIER is an important ratio measuring United's ability to repay debt. United's lenders require that our TIER level not fall below 1.25, and our Operating TIER level not fall below 1.10 when averaging the two highest annual results over the last three years. United reports an average TIER of 3.39 when using the two highest TIER results from the last three years and an average Operating TIER of 2.60.

Costs composed of distribution, consumer, and administrative expenses amounted to \$392 per meter in 2022 compared to a national average of \$408 for electric distribution co-ops of like size. United's five-year average for this ratio from 2018 through 2022 is \$358 versus \$399 for like-sized distribution co-ops.



Change Kept Coming: The Year in Brief

CHANGE WAS ON THE HORIZON. HOW MUCH REMAINED TO BE SEEN. Despite the uncertainties of a world in flux, United's electric and internet grew at break-neck speeds, and employees never wavered from delivering exceptional service and value to the membership.

IN JANUARY, A UNITED foreman, a senior field engineering representative and a member service representative (MSR) were honored for their bravery and going above and beyond the call of duty during Texas Electric Cooperative's 75th Annual TEC Loss Control Awards. United completes the installation and testing of its first 100G internet connection to an external provider. This provides additional bandwidth for members as the service continues rapid growth. The co-op gears up for a big year for both electric and internet.

IN FEBRUARY, UNITED warns members of an on-coming storm similar to that of Winter Storm Uri. It activates its 10,000th internet member and begins beta-testing business products. United warns members how high natural gas prices continue to affect the energy market in Texas and across the nation.

IN MARCH, UNITED sends a crew of six to neighboring Comanche Electric Cooperative Association to assist with restoration following Eastland Complex Wildfire. Supply-chain woes cause scarcity of electrical equipment and slow growth. The co-op brings internet service to its first member in Morgan Mill.

IN APRIL, UNITED members give United a score of 90 for electric and an 84 for internet delivery for the first quarter of 2022 in the American Customer Satisfaction Index (ACSI®). This is despite a colder-than-normal January and February coupled with nationwide skyrocketing energy prices. A restoration crew travels to Trinity Valley Electric Co-op in Kaufman to assist with spring storm damage.

IN MAY, UNITED celebrates bringing high-speed internet to Morgan Mill with a sign-up event at the town's

community breakfast. United's Board of Directors recognized in a resolution a group of line crew members who participated in restorations.

IN JUNE, UNITED employees dedicate volunteer time to build a wheelchair ramp for a Godley resident through the Christmas in Action organization. Workers complete boring a 3,200-foot channel beneath Lake Granbury for United's high-speed internet. Internet crews complete the Point of Presence that will serve United's high-speed internet in Granbury.

IN JULY, UNITED crews respond to a wildfire in the Glen Rose area, which destroys dozens of poles and other infrastructure. Internet crews complete the Point of Presence that will serve United's high-speed internet in Meridian.

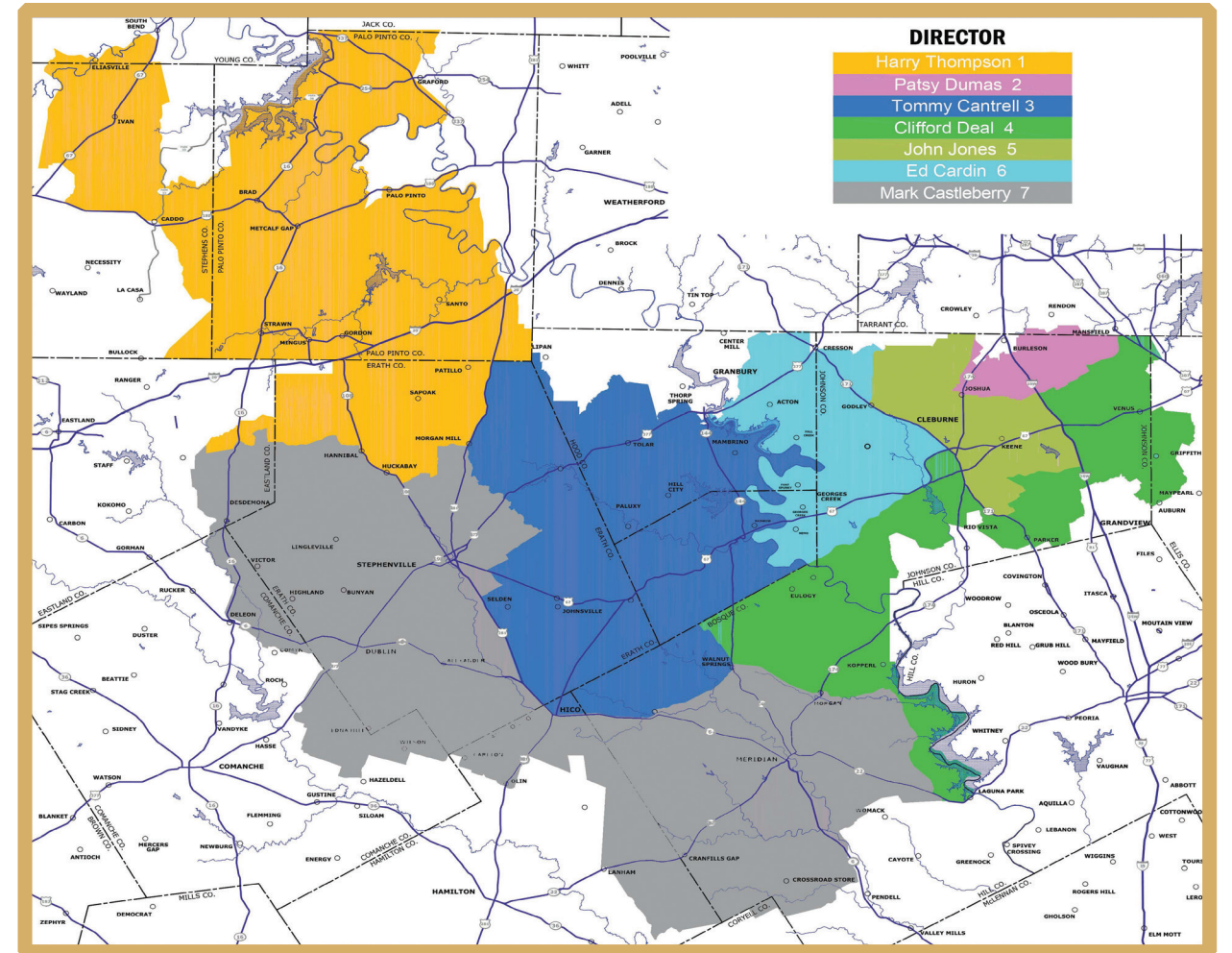
IN AUGUST, UNITED High-Speed Internet upgrades residential service plans to offer higher speeds for all plans at no extra charge. The co-op's 13,000th internet member is activated.

IN SEPTEMBER, UNITED completes the Point of Presence that will serve United's high-speed internet in the Possum Kingdom Lake area.

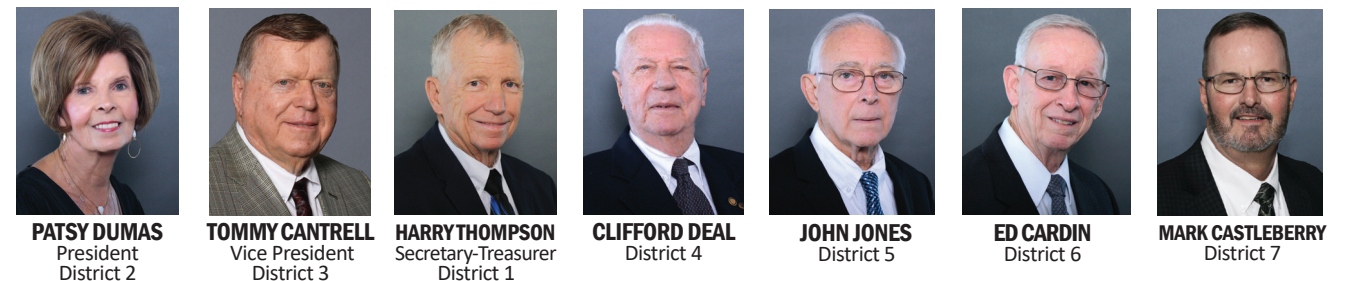
IN OCTOBER, UNITED hosts its second Member Appreciation Day at all office locations. Employees achieve 1 million hours without a lost-time accident. United's High-Speed internet celebrates its 14,000th activation.

IN NOVEMBER, UNITED learns that agreement has been achieved in the Brazos Electric Cooperative bankruptcy trial. The cooperative received a 2022 platinum safety partner award from Texas Mutual Insurance Company for going above and beyond to ensure employee safety. During the virtual annual meeting, United members selected Ed Cardin for District 6 and Mark Castleberry for District 7.

IN DECEMBER, UNITED activates its 15,000th internet member. The co-op also chooses Constellation Energy as its new energy provider, which will bring costs down for members on their energy bills and offer some stability from Brazos' fluctuating prices during a high-usage hot summer.



The United Cooperative Services Board of Directors consists of United members and business professionals elected from seven service territory districts by the United membership; each charged with the responsibility of setting cooperative policies and providing oversight of all cooperative business.



Briscoe, Burke & Grigsby LLP

CERTIFIED PUBLIC ACCOUNTANTS

April 21, 2023

To the Members of United Cooperative Services:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of United Cooperative Services as of December 31, 2022 and 2021, and the related statements of income and patronage capital, and cash flows for the years then ended and in our report dated April 21, 2023, we expressed an unqualified opinion on those financial statements.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated in all material respects in

relation to the financial statements from which it was derived.

The complete audit report as described above is on file at the Cooperative's headquarters office.

Certified Public Accountants