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Steve Jones, General Manager

February was an unprecedented month in the electric utility industry. Winter Storm Uri swept across the State of Texas spreading record low temperatures, natural disaster, and a state of emergency for all of us. The majority of Navasota Valley Electric Cooperative's membership experienced frustration from weather related outages and/or ERCOT mandated outages. This event tested our Cooperative and magnified our weaknesses. We learned throughout the entire process that our improvement requires resources. The Board of Directors and Management of NVEC have directed our focus to the contributing factors that are within our control to address. We are analyzing the efficiency of our entire workforce- including powerline contractors and ROW contractors, our processes and planning in maintenance and operations, and the technology we have in place. We are examining our infrastructure for overall improvements. While the winter storm was catastrophic, we recognize that NVEC could have performed better overall.

We understand our membership is concerned after the extended outages in February. The Board of Directors welcomes our members to express your concerns as we work together to find sustainable solutions to the issues we face. Members may contact their designated board representative directly or you may submit a 'Membership Participation Form' to be placed on the agenda to voice your concerns during a regular monthly meeting of the Board of Directors.

Information and Issues:

1. NVEC's electric distribution system is located within the Electric Reliability Council of Texas (ERCOT) region, the state grid operator for approximately 90% of the electric load for Texas. We are subject to ERCOT market issues.
2. NVEC does not generate our own electricity, we purchase it from a generation and transmission supplier. Our supplier is Brazos Electric Power Cooperative. On March 1, Brazos initiated bankruptcy to prevent excessively high ERCOT charges from being passed down to their 16 distribution member cooperatives of which includes Navasota Valley Electric Cooperative and our almost 14,000 members. This action was necessary to protect NVEC and our members from unaffordable electric bills and provide continuity of service as Brazos works through the process of rectifying the exorbitant charges passed

down by ERCOT. This situation is very fluid and will likely take substantial time to process. We wish we had a more definitive answer and could tell you the exact financial impact to NVEC, but it is not possible at this time. We continue to closely monitor and work with Brazos as the judicial process proceeds. We are also working with our state representatives that serve the NVEC areas to explore potential avenues to mitigate the financial damage passed down by ERCOT.

3. PCRF- Power Cost Recovery Factor- NVEC does not generate electricity; we purchase it from Brazos Electric Cooperative. The PCRF is a monthly rate adjustment allowing NVEC to react to real time changes in wholesale power costs (increases and decreases) without formally adjusting the rates.

4. Currently, NVEC remains financially sound. We were able to cashflow the financial burden the storm placed on our system. However, there will be a financial impact. The uncertainty does complicate how we address the changes that need to be made throughout NVEC. The Board of Directors and Management of NVEC are committed to finding sustainable solutions and serving our members for many generations to come.

5. NVEC has doubled our right-of-way contractors. We used historical outage data to target our worst performing feeders then assigned the contractors accordingly to begin work at the substation and steadily move down the three-phase line until an entire circuit is complete. Contractors will get smaller taps off the three-phase line as they go then will come back to cut out larger single-phase lines. We are analyzing the time, cost, and effectiveness of each crew to gain better insight for maintenance and financial planning. Crews are working in the following areas:

- a. Butler- Substation to CR 300
- b. Butler- Lanely- FM 489 to CR 421 then down FM 489 toward Burleson Hill
- c. Hilltop- Marquez- Substation to CR 470
- d. Freestone- FCR 681, 691, 781

We understand our membership is concerned. NVEC is actively engaged and committed to finding solutions and serving our members.

Sincerely,
Steve Jones
General Manager

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