

## **What are capital credits?**

Capital Credits represent YOUR ownership in the cooperative. Capital credits are earned through an electric cooperative's return of excess margins to their members. At not-for-profit electric cooperatives, the term "margin" is used to describe what is left at the end of the year after subtracting our expenses from our revenues. In other businesses, "margins" would be called "profits."

There are two stages in the capital credit process: allocation and retirement.

### **Allocation:**

When you are a member during a year in which the co-op achieves a margin, you automatically earn a share of the margin. The amount of your share is based on how much electricity you purchased the year of the allocation. Each of our members has a capital credit account that is separate from the member's electric billing account. Your share of the margin is assigned to this account. We maintain a record of these capital credit allocations even after you are no longer an active member of the cooperative. Members who receive an allocation of capital credits are notified by mail of the allocation. These notices are mailed in the spring or summer, after the annual financial audit is complete and the cooperative closes its books for the year.

Some of our members have received electric service from Claverack over the years at different locations and under different billing account numbers. While a member may have more than one billing account, each member has only one capital credit account.

### **Retirement:**

The second stage is retirement. Retirement occurs when a portion of the allocated capital credits are actually paid to the members who earned them. Each year, your board of directors evaluates the financial health and capital needs of the cooperative prior to determining whether a retirement of capital credits is feasible.

## **Why aren't my capital credits paid back every year?**

An electric utility requires a large amount of capital in order to operate, maintain and improve its electric system. Electric cooperatives typically reinvest their margins in these operations. If a cooperative were to retire (pay back) capital credits too quickly, their day-to-day working capital would be depleted, increasing the need to borrow money, thus increasing expenses and eventually resulting in higher rates for members. In addition, lenders require the cooperative to maintain a strong equity ownership. Upon the advice of our lenders and other financial advisors, your board and management have set a goal of maintaining an equity-to-asset ratio of 35 to 40 percent. Each time capital credits are paid back to our members, our equity to asset ratio is

reduced. Therefore, the retirement of capital credits has to be to part of an overall financial management plan for the cooperative.

### **How will capital credits be retired?**

In determining the method for the capital credit retirement, we took many factors into account. We wanted to develop a method whereby our current members as well as members who had capital credits that had been retained the longest, could share in the retirement. In an effort to balance these concerns, 20% of the total amount retired will be the most recent year allocated. The remaining 80% of the retirement will be the oldest year of allocation on record.

We anticipate that current members will see a credit on their June electric bills for their portion of the retirement. Inactive members that are due a portion of the retirement will receive a check in June, provided we have a current address on file. The amounts returned to individual members will vary greatly based on their electric consumption during the allocation periods. While some amounts may be very modest, we are pleased to begin what we hope is a continuing tradition of retiring capital credits to our members.

### **What if I have more questions?**

Please feel free to call us at 1-800-326-9799 or email us at [memberservices@claverack.com](mailto:memberservices@claverack.com) with your questions.