Community Electric Cooperative
A Touchstone Energy® Cooperative

What is a cooperative?
A cooperative is a business that is owned and controlled by the people who use its services.

What are capital credits?
A cooperative does not earn profits in the sense that other businesses do. Instead, any margins, or revenues remaining after all expenses have been paid, are returned to the members in proportion to their usage of the co-op's services through capital credits allocations and retirements. Capital credits represent each member's share of the cooperative's margins and ownership of the co-op.

Electric cooperatives have returned nearly $6 billion to their owners over the years and in 2003 returned more than $300 million in capital credits.

What do cooperatives do with capital credits?
Every business needs to maintain a suitable balance between debt and equity to ensure its financial health and stability. Capital credits are the most significant source of equity for most electric cooperatives. Equity is used to help meet the expenses of the co-op, such as paying for new equipment to serve members and repaying debt. Capital credits help keep rates at a competitive level by reducing the amount of funds that must be borrowed.

How does the cooperative determine who receives capital credits?
Capital credits are allocated to each member of the cooperative every year based on participation in the cooperative. The board of directors determines the basis for the allocation. Frequently, the allocations are based on such measures as the total dollar amount of services purchased or kwh of electricity consumed.

How does the cooperative notify members about capital credits allocations and retirements?
Most cooperatives notify members of annual capital credits allocations through a letter, a message on each member's bill, the co-op's Web site or other methods.

How are capital credits disbursed?
Each year the board of directors determines whether the co-op's financial position permits the return, or retirement, of capital credits and, if so, what amount of capital credits will be retired.

The board also decides the method for determining which capital credits are returned. For example, many cooperatives retire capital credits using the First-in, First-out, or FIFO, method. That means that the capital credits that have been invested in the cooperative for the longest period of time are returned to members first. A cooperative using the FIFO method might return capital credits allocated in 1984 to members in 2004.

Other co-ops retire capital credits using the percentage method. That means that a portion of the total amount of capital credits allocated to a member over time are returned each year.

Another way to retire capital credits is to use a combination of methods, such as the FIFO/Percentage hybrid, which makes part of the capital credits retirement on the FIFO basis and part using the percentage method. The Last-in, First-out, or LIFO, method, which repays capital credits that have been invested in the cooperative for the shortest period of time first, is rarely used alone, but the FIFO/LIFO hybrid is a popular approach.

The approach that works best for an individual system depends on a number of factors, including the age and tenure of its membership.

Do members receive interest on capital credits?
Some cooperatives are prohibited from paying interest on capital credits by their articles of incorporation or other legal documents. Whether that is the case, co-ops do not pay interest on capital credits, because the money to pay that interest would have to be collected from members through higher rates.

What happens to a member's capital credits if the member moves away from the system?
A member who terminates service no longer receives additional capital credits allocations. The balance in the member's capital credits account is maintained until it is retired in full.

It usually is the member's responsibility to notify the co-op of any changes in address so that the member can be located when it is time for the co-op to retire capital credits allocated to the member's account.

What happens to a member's capital credits if the member dies?
Capital credits in the member's account belong to the member's estate. In order to assist the member's heirs in closing the estate, some co-ops offer a special capital credits retirement of the outstanding balance of the deceased member's capital credits account, often at a discount.

Why are some capital credits retirements discounted?
In the interest of fairness to all members, some co-ops discount capital credits retirements, such as special retirements to estates, to reflect the net present value of making a capital credits retirement now that would otherwise be made at a later date. The smaller amount received today, if invested until the normal retirement date, would be equal to the normal retirement amount.

Why does the co-op not charge lower rates instead of retaining capital credits?
The board of directors has a fiscal responsibility to maintain the financial integrity of the cooperative in a way that provides competitive rates and allows the return of capital credits to members. Having a sound equity management plan and a commitment to serving the members are key to achieving this.

Does the member have to report capital credits on tax returns?
Capital credits are a return of money paid for electricity in a previous year and are generally not taxable income for residential consumers. Commercial and industrial consumers should discuss any capital credits retirements with their tax advisers.