

Central Texas Electric Co-op Explanation of Capital Credits

As a member of Central Texas Electric Co-op (CTEC), when you pay your electric bill, you help to provide the funding to build and maintain the electric distribution system that is used to deliver electricity to co-op members. As a not-for-profit cooperative, funds not used to pay for wholesale power and other operating expenses are invested in our system. The revenues over and above the cost of doing business are considered "margins." These margins are an interest-free loan of operating capital by the membership to the co-op. This capital allows CTEC to finance operations and construction, with the intent that such capital will be repaid to you in later years.

Each member's share of capital is referred to as patronage capital or capital credits. Your capital credits reflect your portion of the margins earned by the co-op. CTEC allocates margins to all members each year that a positive margin is earned. This means that an entry is made on the permanent financial records of the co-op that reflects your equity or ownership in CTEC. You are notified of the amount of this allocation when it is made, by a notation on your bill. Patrons without active service will receive notice of their allocation amount by mail.

Eventually, the capital credits that have been allocated will be returned to the members in the form of a bill credit on their electric bill or a capital credit check. Because the margins earned by the co-op are relatively small, it takes up to thirty years before capital credits allocated in a given year are returned or retired. CTEC's bylaws establish a process for returning capital credits that emphasizes payout of the oldest unretired capital credits. The process also returns a larger share of capital to those members who have paid larger bills and contributed more capital over the years.

The capital credit retirement process involves several steps. First, the CTEC Board of Directors determines the amount of capital to be retired each year. The board may only retire capital credits when doing so will not impair the financial condition of the co-op.

After the retirement amount has been determined, one-half of the authorized retirement amount is applied against the oldest unretired capital credits on the co-op's books. The remaining half of the retirement amount is then determined on a pro rata basis, based upon each member's percentage share of the total outstanding capital credit balances of all members. In other words, if a member owns one percent of the unretired capital credits on the books of the co-op, he would receive one percent of the

capital credits retired in this fashion. After the dollar amount of each member's refund is determined, it is applied to reduce his oldest unretired capital credits on record.

For members with active accounts, keeping track of capital credits is as simple as reviewing your electric bill. The amount of capital credits allocated to your account is listed on your bill each year following the allocation by the board of directors. When capital credits are retired, you receive a bill credit in the amount of your retirement reflected on your billing statement. Patrons who no longer have active accounts receive allocation notices and retirement checks by mail. Unfortunately, many former members miss out on these communications because they have not provided the co-op with a current address. Every year, thousands of dollars in capital credit retirements are unclaimed. Eventually, these unclaimed funds are transferred to the State of Texas. The forfeiture of these accounts could be avoided simply by keeping the co-op informed of address changes.

Capital credits also require attention when a member or patron passes away. The representative of the deceased person should provide the co-op with a death certificate and Letters Testamentary, or other evidence of the representative's authority to handle the decedent's affairs. Upon receipt of this documentation, CTEC will change the account name to the name of the estate. At this time, the representative may choose from several options:

1. The account may remain in the name of the estate.
2. The account may be paid in full through an Estate Retirement. An Estate Retirement is the retirement of the total unretired capital credit balance using a present value calculation. The discount rate used is the Prime Rate, as quoted by the Wall Street Journal, on the first business day in January of each year, plus 4%.
3. The account may be assigned to an individual, entity or charitable organization. If this option is chosen the estate retirement option is no longer available in the future.
4. The account may be combined with that of another individual or entity. If this option is chosen the estate retirement option is no longer available in the future.