Capital Credit Frequently Asked Questions

So what are these things called capital credits….

At a coop you are more than just a customer; you are a member. In fact, you become part owner of your local Co-op. As part of that relationship, you will periodically receive money back in the form of capital credit refunds.

Because WEC is a cooperative, owned by its members, it does not technically earn profits. Instead, any revenues over and above the cost of doing business are considered "margins." These margins represent a loan by the membership and it is used by the cooperative as operating capital. This capital allows WEC to finance operations and construction, with the intent that this money will be repaid in later years when the cooperative is financially able to do so. The return of money to members is what the capital credit process is all about.

The capital credit process is a two step procedure. First, we “allocate” margins to member accounts. This happens each year to any dollars WEC doesn’t need to pay expenses. That doesn’t mean you get that money in the year allocated (think of this as a credit to an account we set up for you called capital credits and it is a promise to pay you in the future or some point down the road). Allocated capital credits appear as an entry on the permanent financial records of the co-op and reflect your equity or ownership in WEC.

The next step, is what most members are most interested in, and this second step is the “retirement” of dollars or actually sending out dollars to members (in the form of credits on bills or checks). In the second step, we decide how much money we can give back to you the member from your capital credit account. When capital credits are retired, a check or credit to your bill is issued and your equity in the co-op is reduced. We balance the amount paid out with the financial needs of the coop. Capital credits are a significant source of equity and help to fund the growth and maintenance of the electric system.

Hence, it is a two step process; first we allocate and then we retire capital credits.

Let’s take a look at some the more common questions related to capital credits to give you a better understanding of what you as a member of the cooperative are a part of.

What are capital credits?

Capital credits are a member’s share or portion of margins. Capital credits are calculated by WEC for everyone who purchased electricity during a year in which the co-op earned excess revenues called margins. No special action is required to start a capital credit account. Your membership with WEC activates a capital credit account in your name.
**How are capital credits calculated?**

The amount of capital credits a member earns in a given year is based upon the amount of money or capital contributed to the cooperative through the payment of monthly bills. The more electric service used, the greater your capital credit account.

**How are margins calculated?**

Margins for capital credits vary from year to year depending upon the success of the cooperative. WEC sets rates to generate enough money to pay operating costs, make payments on loans, and provide an emergency reserve. At the end of each year, the Co-op subtracts operating expenses from the operating revenue collected during the year. The balance is called an operating “margin”.

**How are margins allocated?**

We allocate margins into a capital credit account based on your share of dollars paid to the coop during that year. In this step the allocation process is a promise to pay you in the future when the coop can afford to retire some of the dollars set aside in the capital credit account. We calculate your percentage of the total margins and allocate that amount to your account. Capital credits are only allocated during years in which WEC earns a margin. The more you paid the more you get back. Remember the allocation process is a promise to pay you in the future and does not mean you get that money back in that year; distribution of funds in the capital credit account may not be paid out for many years.

**Will I receive a capital credit refund each year?**

Not necessarily. Each year WEC Board of Directors makes a decision on whether to retire some capital credits based on the financial health of the cooperative. When considering a retirement, the board analyzes the financial health of the co-op and will authorize a retirement if WEC can afford it. During some years the coop may experience high construction and power costs or unanticipated expenses such as severe storms which may result in the need to spend additional funds to repair lines. These and other events might increase costs and decrease member equity causing the board not to retire capital credits. All capital credits that are allocated to members are maintained until such time that the board retires them.

**What happens to my capital credits when I leave WEC?**

Your capital credits remain on the books in your name until they are retired or in other words until they are paid back to you. Payments are made over a long term period such as 20 to 30 years. As a result it is important to ensure that WEC has your current mailing address.

**What do cooperatives do with capital credits when they are not retired?**

Electric utilities are capital intensive businesses requiring large investments in equipment. Like all businesses, WEC must maintain a balance between debt and equity to ensure financial

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stability. During periods of fast growth a large amount of money or equity is needed to build the wires and poles and buy power necessary to serve members. In order to fund this growth WEC has to borrow money from banks, reinvest member capital, or in some cases do both. By reinvesting your dollars into WEC, we are able to keep rates competitive by reducing the funds that must be borrowed from other sources.

**Summary**

We hope this has given you an understandable overview of capital credits. Let’s review the main points in closing.

1. Your co-op tracks how much electricity you buy and how much money you pay for it throughout the year.
2. At the end of the year, your co-op completes financial matters and determines whether there are excess revenues called “margins”.
3. Your co-op allocates “margins” to members as capital credits based upon their use of electricity during the year.
4. When the co-op’s financial condition permits, your board of directors decides to retire or pay capital credits.
5. Your co-op notifies you of how and when you’ll receive your capital credits retirements.

That’s the Coop