



Shenandoah Valley Electric Cooperative



A Touchstone Energy® Cooperative



www.svec.coop

A Cooperative Advantage: Capital Credits

When you receive electric service from Shenandoah Valley Electric Cooperative (SVEC), you are a member-owner. Member-owners of SVEC become part of an organization that follows seven cooperative principles, one of which is member economic participation. Your ownership units are called capital credits. Because cooperatives operate at cost, any excess revenue is returned to member-owners in the form of capital credits. Capital credits are a result of member-owner economic participation. Ownership through capital credits is a unique benefit of cooperatives.

This overview will describe how your ownership is established in your account, how it is leveraged by the cooperative to reduce loan costs while being used for operating capital and how its value is returned to you.

What are Capital Credits?

Capital credits are a unit of value that represent your share of ownership in the cooperative. They are created at the close of the cooperative's audited business year with any monies that remain after all expenses are paid and required reserve funds are maintained. Cooperatives' remaining revenues are called margins.

A member-owners patronage, or your share of value in the organization based on your purchase of electric services, determine the value of the capital credits allocated to your SVEC account. During the time your capital credits are held in your cooperative account, they are used by the cooperative as necessary operating capital. This is the member-owner economic participation that helps in controlling co-op loan expenses by providing operating capital and ultimately helps keep rates as affordable as possible. In years when the board of directors vote to return capital credits to member-owners, you may receive that return (or refund of their value) as a credit on your bill or a check.

It is the cooperative's intent to return capital credits when financial conditions meet reserve requirements of Rural Utilities Service and upon conditions outlined in the cooperative's bylaws, which are available for your review on svec.coop (from the Your Cooperative tab, choose Bylaws, Rates and Terms.)

How do I Receive Capital Credits and When? This Process is Called Equity Allocation

Each year when SVEC's financial audit is complete, it is reported to your elected board of directors. In years when SVEC has remaining monies, or margins, the board of directors may vote to allocate, or assign a remaining value to be held in member-owner accounts as "capital credits equity." To receive capital credits in your account, you must have been a member-owner of the cooperative receiving electric services in the year for which the board allocates them.

When SVEC assigns capital credits to each member-owner's account, it is called "equity allocation." In years when capital credits allocations are approved by your board of directors, the total amount of margins is divided between member-owners' accounts based on their portion of that year's total electricity used and paid for that year. At that time, your portion of the margins is allocated, or assigned, to your account as capital credits to be held until future retirement. The capital credits represent funds SVEC uses during the year as operating capital.

Member-owners who purchased electric services from SVEC during the previous year may receive a "Notice of Equity Allocation" by mail in the spring of the year. This notice shows the amount assigned, or allocated, to your SVEC account in the form of capital credits. When capital credits are allocated to your account, they represent your ownership in the cooperative. They will be held in your account and used as necessary operating capital by the cooperative, which helps to reduce the need for additional loan expenses. Ultimately, controlling the cooperative's expenses helps to keep SVEC's rates level and as affordable as possible.

Capital credits held in your account cannot be applied to your bill until the capital credits are retired or refunded. At some time in the future, through the action of a vote of the board of directors, your capital credits will be retired and their value will be returned to you, often as a bill credit or a check.

When Will I Receive the Value from My Capital Credits? This Process is Called Capital Credits Return

Your ownership in SVEC is held in your account as capital credits and is used as operating capital by the cooperative. SVEC's member-owner economic participation accommodates this by reducing the need for operating loan expenses and ultimately helping to keep rates level and as affordable as possible.

It may take some time to receive a return, or refund, of your capital credit equity because the co-op is required to first satisfy all financial obligations. Member-owned, not-for-profit electric utilities like SVEC must set their rates to produce revenues sufficient to cover all costs of owning, operating and maintaining the electric system plus a reserve. The financial health of the cooperative depends upon our ability to take care of any debt that we incur. Once SVEC's obligations are met, the board of directors may vote to retire and refund the capital credits.

Capital credits held in your account cannot be applied to your bill until the capital credits are retired or refunded through action of the board of directors, yet they continue to belong to you, as an SVEC member-owner. Even if you move out of the cooperative's service territory, your capital credits remain yours and will be retired back to you as they are retired for current member-owners. Capital credits being returned to member-owners is a key cooperative advantage that investor-owned and municipal utilities do not provide.

Capital credits remain in member-owner accounts until your elected board of directors votes to retire them and return them to you based on conditions described in our bylaws. The bylaws are available for your review on svec.coop (from the Your Cooperative tab, choose Bylaws, Rates and Terms.)

Terms

Equity: Each member-owner's share of ownership in the cooperative; equity holds a real value and is allocated and held as capital credits in member-owners' accounts.

Margins: The retained revenues left over at the end of the year at a not-for-profit cooperative. For each audited financial year, costs are deducted from the revenues received, and the resulting balance is called the "margins."

Patronage: The amount paid by a member-owner for electric service provided by the cooperative; used to calculate their share of the total organization's electric service revenues for a year.

Capital Credits: The unit of value that represents member-owners' ownership and equity in the cooperative.

Allocation: The determination to make an allocation of capital credits is reviewed annually by your board of directors, and established through a resolution when appropriate. Cooperative margins are allocated to accounts based on patronage.

Cumulative Equity Allocation: The total amount of capital credits ownership, or equity in your account. Cumulative equity allocation is the value of your capital credits that has accrued over years that you have been a member-owner.

Retirement: Retirement is a payment of some portion of the allocations. Retirement funds may be returned as a credit on bills or mailed.