

## Capital Credits FAQ's

### What are capital credits?

Capital credits represent each member's ownership of the cooperative. They are the margins credited (or allocated) to the members of the cooperative based on their purchases from the cooperative the previous year. These margins are used by the cooperative as capital to operate the business for a period of time.

### What capital credits are not:

Capital credits should not be confused with profits, which are a return on capital. Retirement of capital credits is a return of member-furnished capital. Cooperatives exist not to make a profit but to provide low-cost electricity.

### What's the difference between an allocation and a retirement?

Allocations are made annually for each member, based upon the amount of electricity purchased the previous year. An allocation is the amount set aside into a separate account to be used as operating capital for reliability improvements and maintenance over a period of years. Your allocation notice will be mailed to you usually during the month of May.

A retirement is the amount you receive back as a capital credit refund. It is a percentage of your total capital credit balance. The percentage to retire is decided by the board of directors annually, based upon the financial condition of the cooperative.

### Can I use my capital credits to pay on my bill?

No. Allocations are used as the operating capital of the cooperative. They are not available until a percentage is retired and refunded back to you as the cooperative's financial condition warrants and the board of directors approves.

### Why can't my capital credit allocations be refunded to me all at once?

Remember that capital credit funds are used for reliability improvements and maintenance – and these are long term investments. Capital credits cannot be refunded all at once because they help the cooperative remain financially sound, thereby ensuring a stable, reliable electric service for the benefit of the members we serve.

### How are my capital credit allocations used until I receive them?

Capital credit allocations are pooled together and used as operating capital so that we can serve our members with reliable power. These funds pay for power reliability improvements and maintenance such as replacing power lines or building substations.

If we refunded the total amount of allocations, we would have to borrow that amount of money in order to continue operating. Having operating capital helps the cooperative minimize the amount of high-interest money it must borrow, which in turn helps lower member's costs by stabilizing rates.

### When does SVEC refund (or retire) capital credits?

When the board of directors has determined the financial condition allows a retirement of capital credits, the board can approve a certain percentage of the capital credit funds to be retired (or refunded) to the membership.

### How will I receive my capital credit refund?

If you have no active accounts with SVEC and your refund amount exceeds \$10, a check will be mailed to you, usually during the month of December. If your refund amount is less than \$10, your refund will be recovered after subsequent capital credit retirements generate a combined refund above \$10.

If you have an active account with SVEC, a credit will be applied to your account for the amount of your refund.

**What happens to my capital credits if I move out of the SVEC service area?**

While there is no provision to offer you all of your capital credits at once, SVEC does offer members leaving our system 5% of their capital credits, while the remaining 95% is donated back to the cooperative. Alternatively, you may elect not to receive early payment of capital credits & instead receive refund checks when the board of directors approves a general retirement of capital credits for the years during which the member accrued capital credits. A third option is to assign all of your capital credits to the cooperative, or to another member of SVEC. Please contact our office to obtain the paperwork (Option Form or Letter of Assignment) needed to process your request. It is critical that you provide us with your new address when leaving our service territory.

**What happens to the capital credits of a deceased member?**

In the event a member dies, the capital credits in the member's account become a part of the estate. While there is no provision to offer the heirs or beneficiaries all of the capital credits at once, SVEC does offer a payout of 10%, while the remaining 90% is donated back to the cooperative. Alternatively, the heirs or beneficiaries may elect not to receive early payment of capital credits & instead receive refund checks when the board of directors approves a general retirement of capital credits for the years during which the member accrued capital credits.

Once proper documentation is received by SVEC, the account name will be updated to include the names of the heirs or beneficiaries so that those persons may cash the checks. A third option is to assign all of the capital credits to the cooperative, or to another member of SVEC.

**Note:** No transactions involving capital credits of a deceased member may occur until all necessary legal documentation is received. Please provide the following documents:

- Death certificate – certified copy or clear photocopy of certified copy
- Legal documentation establishing either proof of heirship or legal capacity to manage estate of the deceased member. Any of the following examples:
  - Letter of Appointment
  - Letters Testamentary
  - Order Determining Succession
  - Decree of Distribution
  - Last Will & Testament
  - Other proof or court approved appointment as estate's administrator or executor, such as an Affidavit
- Option Form or Letter of Assignment (contact SVEC office to obtain these forms)

**Can a business or trust earn capital credits?**

All members of the cooperative earn capital credits whether it be a person, trust or a business. It all depends on how the membership is opened at the cooperative. Capital credits are allocated to entities in the same manner as they are to a natural person.

**What happens when capital credit refund checks are returned to SVEC?**

After each retirement (or refund) of capital credits, many checks are returned to the office due to changes in addresses, or because the member is deceased. Please notify SVEC as soon as possible of any address changes or the death of a member. A list of unclaimed capital credits can be found at [www.surprisevalleyelectric.org](http://www.surprisevalleyelectric.org). If you have contact information for these individuals, please contact our office.