

# **ORCAS POWER AND LIGHT COOPERATIVE**

## **MEMBER SERVICE POLICY 11**

### **CAPITAL CREDITS**

#### **11.1 GOALS AND OBJECTIVES**

To state the general policy of Orcas Power and Light Cooperative for allocating and retiring capital credits.

#### **11.2 EXPECTATIONS**

11.2.1 OPALCO shall operate on a cooperative basis for the mutual benefit of all members. Capital credits shall be allocated and retired in a manner that is consistent with operating as a cooperative under federal law. OPALCO will be fair and reasonable to its members and former members, while providing the cooperative with sufficient equity and capital to operate efficiently and effectively, thus protecting OPALCO's financial condition. Subject to law, OPALCO's Articles of Incorporation, and OPALCO's Bylaws, the allocation and retirement of capital credits shall be at the sole discretion of the OPALCO Board of Directors.

##### **11.2.2 Member**

An OPALCO member is any member, or member entity, who has paid the membership fee and who is providing patronage by using any OPALCO service.

##### **11.2.3 Capital Credits**

Capital credits are the primary source of equity for most cooperatives. Members contribute equitably to the capital of the cooperative every month when they pay their OPALCO bill for electric and communication charges. At the end of each fiscal year, the operating and non-operating expenses are deducted from the operating and non-operating income to arrive at the net margins. Net margins are assignable as capital credits to each member and allocated annually to the member's capital credits account.

#### **11.3 PROCEDURES FOR ALLOCATION OF CAPITAL CREDITS**

##### **11.3.1 Board Approval**

OPALCO shall allocate capital credits according to the manner, method, timing, and amount approved by the Board.

##### **11.3.2 Patronage Earning Allocations**

OPALCO shall equitably allocate its patronage earnings to each member in proportion to the value of service paid for by the member during the fiscal year.

##### **11.3.3 Patronage Loss Allocations**

OPALCO shall offset patronage losses with its patronage earnings during any fiscal year.

#### 11.3.4 Formula for Allocation

A member's year-end capital credit allocation is calculated by multiplying OPALCO's annual capital credit allocation factor times a member's annual direct billing for electric energy and communication services.

##### 11.3.4.1 Capital Credit Allocation Factor

Upon the completion of the OPALCO's audited annual financial statements, the total net margin is divided by total annual revenue derived from the sale of electric energy and communication services (also known as patronage) which results in the Cooperative's overall allocation factor. The total patronage amounts included are annual electrical demand charges, street and security light charges, kWh usage charges, basic charges, and communication charges. The Cooperative's revenue components that are not included in the allocation factor calculation are miscellaneous charges (fees, deposits, member-elected contributions, etc.).

##### 11.3.4.2 Member Capital Credit Allocation

To derive a member's year-end capital credit allocation, the Cooperative's overall Capital Credit Allocation Factor is multiplied by the annual amount paid by a member for electric energy and communication services, including charges for electric energy, electric demand, street and security lights, kWh usage, basic charges, and communication services. Member billing components not included in the capital credit allocation calculation are miscellaneous charges (fees, deposits, member-elected contributions, etc.).

#### 11.3.5 Notification of Allocation

Within one hundred eighty (180) days following a fiscal year, OPALCO shall notify each patron in writing of the amount of capital credits allocated to the member for the preceding fiscal year. This notice can be in the form of a letter or as a message on the member's billing statement.

### 11.4 PROCEDURES FOR RETIRING AND REFUNDING CAPITAL CREDITS

11.4.1 At any time, if the Board determines that OPALCO's financial condition will not be adversely impacted:

11.4.1.1 The Board may authorize OPALCO to wholly or partially retire and refund capital credits to members and former members; and

11.4.1.2 The Board may also authorize OPALCO to retire and refund the corresponding affiliated organization's capital credits.

11.4.2 The Board shall have the discretion to determine the manner, method, and timing of retiring and refunding capital credits and affiliated capital credits.

11.4.3 Nothing in this policy shall be deemed to entitle a member to receive any capital credit or affiliated capital credit to which they have not contributed, or in a proportion greater than the proportion of their contribution.

#### 11.4.4 General Retirement of Capital Credits

The Board will consider general retirement of capital credits, in accordance with the above conditions, on an annual basis. The Board will review the amount of funds that are available for retirement and, if appropriate, authorize payment of these capital credits to members and former members. OPALCO shall not pay interest or dividends on capital furnished by members.

On an annual basis, the board shall utilize a "smoothing methodology" to minimize year over year fluctuations in cash outlay. The goal of this methodology shall be to keep year over year general retirements as even as possible by ensuring that (a) on average, a 25-year payout schedule is maintained and (b) large fluctuations in future years' retirements are leveled.

#### 11.4.5 Retirement of Capital Credits due to Death

Upon the death of any individual member or individual former member, and pursuant to a written request from the deceased member's representative, the Board may retire the deceased member's capital credits and affiliated capital credits under terms and conditions agreed upon by the member's representative and OPALCO, which will include reduction of said credits as described in Section 11.5.3.

#### 11.4.6 Retirement of Capital Credits to Entities

Upon the dissolution, liquidation or cessation of existence of an entity member or former entity member, and pursuant to written proof that the entity no longer exists, the board may retire the organization's capital credits and affiliated capital credits under terms and conditions agreed upon by the entity member and OPALCO, which will include reduction of said credits as described in Section 11.5.3.

#### 11.4.7 Joint Memberships

Upon OPALCO receiving written notice and adequate proof of any joint membership that is:

11.4.7.1 Terminated or converted through the death of one (1) joint member, the capital credits previously allocated and credited to the joint membership shall remain with the surviving joint member/s; or

11.4.7.2 Otherwise terminated or converted, and unless otherwise instructed by a court or administrative body of competent jurisdiction, the capital credits previously allocated and credited to the joint membership shall be transferred proportionately to each joint member.

#### 11.4.8 Application to Debt

Before retiring and refunding any capital credits or affiliated capital credits, OPALCO may deduct from the capital credits or affiliated capital credits any amounts owed to OPALCO by the member or former member as per the procedure set forth in Member Service Policy 7 *Billing and Collection*.

Any remaining capital credits due the member or former member may be distributed during the normal payout cycle of capital credits.

#### **11.4.9 Minimum Amount**

OPALCO shall not retire and pay capital credits in an amount less than \$5.00.

### **11.5 LIMITATIONS**

#### **11.5.1 Forfeiture of Capital Credits**

OPALCO shall not enter contracts through which a member or former member forfeits the right to the allocation or retirement of capital credits. RUS Bulletin 102-1 states "No patron should be asked by contract or otherwise to waive his capital credits."

#### **11.5.2 Separate Allocations and Retirements**

OPALCO shall separately identify and allocate to its members capital credits and similar amounts allocated to OPALCO by an entity in which OPALCO is a member, patron, or owner. OPALCO may retire these separately identified and allocated capital credits only after the entity retires and pays the amounts to OPALCO.

#### **11.5.3 Valuation of Special Retirements**

Special Retirements are applicable for a deceased member, dissolved corporation or association, or bad debt. Special retirements return capital to members earlier than the general retirements, which are typically planned on a 25-year holding period. An earlier retirement has a lower value. OPALCO shall use the percentage rate set by the Board at the January 1987 OPALCO Board of Directors meeting. This is a straight-line accrual; OPALCO will pay 2.5% cumulative for the year the capital credit has been held by OPALCO; (i.e., 2.5% for 2004, 5% for 2003, 7.5% for 2002, etc. In addition, capital credits paid out as special retirements that have been held by OPALCO for over 25 years will be paid at 100%.

#### **11.5.4 Voluntary Assignment to Member Programs**

During the General Retirement process, members have the option of voluntarily retiring allocated capital credits and assigning capital credit payments to Board approved OPALCO member programs, including Project PAL, Solar for Schools, M.O.R.E., or other approved programs as determined by the Board. Annual capital credit distributions may be assigned to the selected OPALCO member program on a one-time or recurring basis. Members must notify OPALCO of their voluntary assignment via the attached form. Such assignment forms are to be submitted to OPALCO no later than October 1st of any given year.

#### **11.5.5 Payment and Notice of Retirement**

With the exception of Application to Debt in Section 11.4.8 and/or Voluntary Assignment to Member Programs in Section 11.5.4 above, after OPALCO retires capital credits allocated to a member, it shall pay the retired amount by sending a check for the amount to the member's most current address listed on OPALCO's records.

**11.5.6 Unclaimed Capital Credits**

If a member or former member fails to claim a retired capital credits amount within 180 days, the check will be voided and added to the list of unclaimed capital credit amounts.

**11.6 RESPONSIBILITY**

**11.6.1 Implementation of Policy**

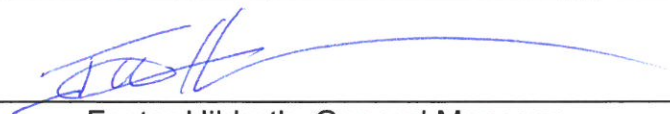
OPALCO's general manager is responsible for implementing this policy and for developing procedures necessary to allocate and retire capital credits according to this policy.

**11.6.2 Recommendations to the Board**

OPALCO's general manager is responsible for recommending to the board the manner, method, timing, and amount for allocating and retiring capital credits. The manager is also responsible, when in the best interest of OPALCO, its members and former members, for recommending to the board revisions to this policy.

**11.6.3 Review and Approval by Board**

The board is responsible for approving the recommended manner, method, timing, and amount for allocating and retiring capital credits. The board is also responsible for reviewing, discussing, and evaluating the general manager's recommendations for revisions of this policy.



Foster Hildreth, General Manager

Effective Date: January 19, 2018