

Understanding Capital Credits

Capital credits are probably one of the most misunderstood aspects of an electric cooperative, but they are also one of the most distinctive differences between co-ops and investor-owned utilities. As a French Broad Electric Cooperative consumer, you not only receive electric service and a say in how your co-op is governed, but also receive a return on your investment (the money you pay for service) in the form of capital credits.

Since French Broad Electric Cooperative is a nonprofit organization, any money left over after paying all of its expenses in a given year is credited to each member's capital credit account, according to the amount of electricity the consumer purchased in that year. The more electricity purchased, the higher the investment and the higher the return. However, capital credits are not in the form of available cash. They represent member equity or ownership in French Broad Electric Cooperative in the form of hard assets, utility poles, wires, transformers, trucks, equipment and buildings that provide your electric service.

Since this money is reinvested into the electrical system, these amounts are not immediately available for payment to you, and cannot be applied to your electric bill. French Broad Electric Cooperative uses the capital credits fund to rebuild electric facilities, while you receive the equivalent of a promissory note. If consumers were paid back all of the revenue received in excess of expenses each year, French Broad Electric would have to borrow money to replenish operating funds. Instead the credits, remain on French Broad Electric Cooperative's books for a time, and are used by the cooperative, similar to an interest-free loan from the members. Members benefit because the co-op has to borrow less money, and that means less interest on operating loans that ultimately would result in increased electric rates.

Because French Broad Electric isn't in business to make money, it might seem like it should establish a budget and rates that would allow it to merely break even each year, rather than to show a profit. However, that isn't possible nor desirable. The business of building power lines is very expensive and maintaining them is subject to outside sources, most notably the weather. French Broad Electric Cooperative must show a margin or "profit" at the end of each year in accordance with mortgage requirements with its lenders, and some margin must remain after expenses are paid so the business can continue to operate. French Broad Electric Cooperative must have sufficient margins from its operations to repay the principal on its loans and any taxes.

When and if finances permit, cash repayments of capital credits are returned to members. Members don't receive a check the same year they earn capital credits. In 2012, French Broad Electric refunded 50% or \$921,855 to customers who were members in 1986. As a new member equity funds grow year after year, French Broad Electric Cooperative is able to retire a portion of each member's capital credits, issuing members a check. The decision to make a capital credit cash refund is reviewed every year by the French Broad Electric Cooperative Board of Directors. They determine how and when capital credits are paid, to members, based on financial considerations.

French Broad Electric Cooperative's repayment system is a first in, first out (FI-FO) method. As refunds are approved by the Board, the capital credit refunds are re-paid taking the oldest year of held funds being paid first. If the refunded amount is not sufficient to pay an entire year a like percentage of each members account is repaid. Upon the death of a member, the family should provide the cooperative with copies of legal documents that indicate how the capital credits of the deceased individual should be dispersed as well as a completed Application for Capital Credits of a Deceased Member form. If you move or no longer have service with French Broad EMC, your address still needs to be kept current with the cooperative for you to receive your capital credit notices and refunds in the future.

Being paid for patronizing your own electric utility is just another benefit of buying your power from French Broad Electric Cooperative, where your dollars are put to work for you.