Kootenai Electric
COOPERATIVE

POLICY:	**3-12**	Capital Credits	
PURPOSE:		To set forth and identify the general manner whereby the Cooperative manages patronage capital.	
ATTESTED BY:	Roger Tinkey	**DATE ADOPTED:**	03/26/92
REVIEW REQUIRED BY BOARD OF DIRECTORS?	Yes	**DATE REVISED:**	10/31/19

I. SUBJECT: Capital Credits

II. OBJECTIVES: To set forth and identify the general manner whereby the Cooperative manages patronage capital and to establish a durable method for establishing an annual discount rate to be used for discounted early capital credit retirements and to establish a retirement cycle range to be used when discounting capital credits.

III. POLICY: It shall be the policy of Kootenai Electric Cooperative, Inc. to allocate and retire capital credits in a manner that:

- is consistent with state and federal law;
- is consistent with the Cooperative's bylaws and debt covenants;
- is fair to the Cooperative's members and former members;
- provides the Cooperative with sufficient equity and capital to operate effectively and efficiently, and;
- protects the Cooperative's financial condition.

A. Allocations: The Cooperative shall allocate margins in any reasonable, equitable, and lawful manner as may be determined by the Board of Directors.

B. Retirements

1. The Board of Directors shall determine the method, timing, basis, priority, order and amount to retire.

2. The Cooperative shall not retire any capital credits unless the Board of Directors first determines that the retirement will not adversely impact the Cooperative's financial condition. Such consideration shall include ensuring compliance with debt covenants, and maintaining a financially optimal equity percentage of total assets, as determined by the Board of Directors.

3. The Cooperative may recoup, offset, or setoff any amount owed to the Cooperative by the member or former member by reducing the amount of capital credits paid to the member or former member by the amount owed.
4. The Cooperative may specially retire capital credits on a discounted basis, at the discretion of the Board, under the following circumstances:

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a. Upon the death of an individual member or former member;
b. Upon a member becoming a former member;
c. To recoup, offset, or setoff any amount owed to the Cooperative by a member or former member;
d. To active members who have voluntarily elected to receive an early retirement of a prior year's allocated patronage capital.

IV. DISCOUNTING:

A. During the month following the conclusion of the annual financial audit, management shall develop a discount rate to be used in all discounted capital credit retirements for the period of time until the discount rate is re-calculated the following year. The calculation shall follow the following Weighted Average Cost of Capital formulary approach:

(E x COE) + (D x COD)

Where:

E is the percent of Equity on the KEC balance sheet in December of the prior year,

COE is the cost of equity equal to the average ROE awarded to investor-owned utilities during the fourth quarter of the prior year, as reported in the Rate Case Summary published by the Edison Electric Institute,

D is the percent of long term debt on the KEC balance sheet in December of the prior year,

COD is the cost of debt as derived by taking the prior year interest expense divided by the prior year December long term debt balance.

B. When calculating the discounted value of a member's capital credit account as part of a general retirement, the number of discount periods, or years, shall be the actual age of the eldest capital credits not having been subject to a general retirement; however, the discount period for any vintage shall not exceed 30 years and shall not fall below 25 years. With respect to discounted estate retirements, each vintage will be discounted a number of periods equal to the difference between the date of allocation to member accounts and the current year.

V. RESPONSIBILITY:

A. It shall be the responsibility of the Board of Directors to ensure the Cooperative's compliance with this policy.

B. It shall be the responsibility of the Cooperative's General Manager to develop practices and procedures necessary to allocate margins and retire capital credits in a manner consistent with the Cooperative's Bylaws and this policy.

Adopted: 03/26/92
Amended: 08/20/92
06/26/97
05/24/04
06/29/04
08/28/06
02/22/07

Attested: ______________________
Secretary

04/26/12
06/24/13 (Replacement Policy)
03/27/14
11/18/15
06/05/18
10/31/19