SOCORRO ELECTRIC COOPERATIVE

Making Sense of Capital Credits

Dear Members,

On your May or June Socorro Electric Cooperative (SEC) electric bill, you'll notice a line reporting your 2013 capital credit allocation. You won't be paid for these 2013 credits for many years, but they're yours, just the same. Capital credits are a benefit of your co-op membership and a key part of co-op operations, so it's worth taking a moment to understand the ins and outs of how they work.

Let's start with the difference between a non-profit rural electric cooperative and a for-profit company, like PNM. Investors own PNM, so it pays profits to its shareholders but not to every electric-service customer. On the other hand, everyone with an account for electric service is a co-op member of SEC. For a year when the co-op makes more money than it spends on operations to provide you with electric service, the co-op gives capital credits to everyone who was a member that same year.

The Board of Trustees figures out the value of your capital credits based on a factor of how much electricity you used that year compared to overall electricity usage across the co-op. This factor changes each year. Your capital-credit account has records for each year you've been a member, even if you left and came back.

Not Cash, but a Loan from Members

As set forth in the SEC by-laws, by paying your electric bill and getting capital credits, you're making a no-interest loan to the co-op. The by-laws have the same legal weight as a contract signed by you, the member, and by the co-op. So we're legally obligated to give you the credits and you're obligated to provide them to us.

Capital credits are not cash sitting in an SEC checking account—they're more like an IOU. They're spoken for in various ways, providing a large part of the financial resources we need to invest in the equipment, lines, towers, and everything else we need to deliver power to your home or business.

When SEC borrows from national lenders to help pay for larger projects, they require us to keep capital credits equal to 30 percent of our assets, or all our cash and property. That shows we have financial stability to back up the loans.

The board is pursuing a goal of 40 percent, which reflects sound financial management and requires a larger balance in the capital credit account. Paying off capital credits reduces that percentage, so the board must balance paying them off and managing our finances. If we pay back the credits too fast, we won't be able to support the loans our operations depend on.

When Capital Credits Are Paid Off

The board follows rules spelled out in the SEC by-laws for paying off capital credits to members. When the board determines that payments will not hurt the co-op's financial condition, we mail checks to all current and former members who had an account with us in the year being paid off. Like rural co-ops everywhere, SEC typically does not pay off your capital credits the same year you earned them. Recent payoffs have been for capital credits earned more than 30 years ago.

However, the board can choose to pay just a portion of a year's allocation or to pay off capital credits from more recent years. Today the board is moving toward a 25-year payment cycle. To put us closer to that goal, in 2013 we paid $1.1 million of capital credits for 1978–1983. We still need several years to reach the 25-year pay-out goal.

The by-laws forbid making individual exceptions to the timing of payments. We must treat every member the same. However, when someone passes away, the board may pay off capital credits to the deceased member's estate. Note that the by-laws do not require paying the capital credits at this time. Specifically, the by-laws allow the board, at its discretion, to pay off the capital credits "upon the death or cessation of legal existence" of any member, if the legal representative of his or her estate requests it. "Death" and "cessation of legal existence" are not the same. A member may be a human being or a legal entity. The board may—but is not required to—pay off capital credits under either circumstance. However, the board has consistently exercised its discretion to pay off capital credits only to deceased persons and not to entities that have legally ceased to exist.

As of May 2014, SEC shows a total of $23.18 million in capital credits on the books. That sounds like a lot of money, but remember, it's not cash on hand. It includes more than $6 million in unpaid capital credits SEC receives from Tri-State Generation and Transmission Association, the cooperative where we purchase electricity. SEC also has $600,000 in capital credits invested with several other cooperative associations. Our capital credits also provide security for a variety of other loans.

Your Capital Credit Account Needs Your Current Address

Now that we're taking a more aggressive approach to pay back your credits in a shorter timeframe, be sure you keep SEC updated with your current address, especially if you move away and close your account—we still owe you money!

Your capital account address is different from your billing address. So just because you're receiving your bill every month doesn't necessarily mean we have a current address in your capital account. Last year we published member names to remind them to contact us with a new address. Then we mailed several thousand checks. Some of those were returned as "undeliverable." SEC then published the names of the members whose checks were returned as undeliverable in the Enchantment. We'll keep trying! That's important because if your check comes back to us as "undeliverable" by the post office for two years, your capital credits are transferred to the scholarship foundation account, according to the by-laws.

If you have questions about capital credits, visit our website (socorroelectric.com /content/capital-credits-0).

Sincerely,

Anne Dorough, District V
President
Socorro Electric Cooperative