

A Capital Idea

It pays to be a member of Anza Electric Cooperative

By Pam Blair

Not many businesses pay you for buying something you would not want to live without, but electric cooperatives do.

As a customer of an electric co-op, you receive not only a needed service, but a benefit reserved for owners of a company: a return on your investment.

This happens through capital credits.

Capital credits are allocations—on paper—based on the money a co-op has left after paying all its expenses in a given year. At the end of the year, each member's account is credited according to the amount of revenue each contributed.

The credit remains on the utility's books, and is used by the cooperative as a sort of interest-free loan from the members, who benefit by not having to pay interest on money borrowed from an outside source for such things as poles, wires and transformers.

When and if finances permit, capital credits are returned to members.

A Different Way of Doing Business

Unlike many other businesses, cooperatives do not have shareholders who expect to make money from the operation of the company. Instead, consumers of a co-op are member-owners of the company.

In an investor-owned business, money remaining after paying all expenses—the net margins—is profit, and belongs to the company. Some of the profits are reinvested in the business to provide additional capital, but most is used to pay dividends on stock held by investors.

Making a profit is the primary objective of an investor-owned company.

An electric cooperative is different. It is a nonprofit business that exists solely to provide its members with electric service.

In a cooperative, net margins belong to consumers who paid their monthly service bills. In effect, the customers of a co-op are the shareholders. Because of that, when the cooperative takes in more money than is needed to run the business, the owners are entitled to a share.

That is the philosophy behind what is known as member equity.

How Do Capital Credits Work?

A member's equity is based on the amount of power purchased during the year. The more electricity the customer buys, the higher his share of equity.

The co-op sets up a credit account that shows on the books the share of the year's net margins belonging to each member.

Generally, members do not receive a check the same year they earn capital credits. In keeping with their bylaws, cooperatives use their members' equity to fund improvements to the system.

If a cooperative could not derive its operating capital from member payments, it would have to borrow the money from a bank or other source, which could cause rates to increase.

However, as new member equity funds come in year after year, the cooperative is able to "retire" its older capital credits, issuing checks or bill credits to members.

Why Not Just Break Even?

Since it is not in business to make money, it might seem the co-op should establish a budget and rates that would allow it to break even each year, rather than to show a profit. That is not possible—or desirable.

Building power lines is very expensive, and maintaining them is subject to outside forces—most notably, the weather.

It is impossible to plan the operations of the business so precisely in advance that revenues and expenses come out exactly even at the end of the year.

Allocated capital credits provide "money in the bank" to help cover the

cost of daily operations and unexpected expenses that may occur in the next year.

As a homeowner, if your roof springs a leak, you want to be able to fix it without having to take out a loan. Likewise, it is not financially prudent for your cooperative to take out a loan for each repair or improvement project.

A co-op also must show a profit at the end of each year to prove to its lenders it is financially sound. It must have sufficient margins from its operations to repay the principal on its loans. Some margin also must remain after expenses are paid so the business can continue to operate.

After reasonable reserves are set aside, net margins are credited to members.

When Will I Get My Money?

The cooperative's board of directors and bylaws determine how and when capital credits are paid. Most utilities repay them on a rotating basis after operating successfully for a number of years.

How the repayment is done varies.

Some utilities use the "FIFO" method—first in, first out—which uses some sort of cycle, such as eight, 10 or 12 years. The first year's credits are paid out first, the second year's next and so on.

Others use the percentage method. Money is returned based on a declared percentage of the total amount of capital credits on the cooperative's books for each member, and accumulated over all the years the member bought electricity.

Others use a combination of the two, paying a percentage of the previous year and some of the earlier ones.

While total capital credits repayments in larger co-ops may amount to several hundred thousand dollars in any one year, the share for most residential consumers amounts to just a few dollars.

Being paid for patronizing your own company is the cooperative way of doing business. It is another benefit of buying your power from an electric co-op. ■

The Seven Cooperative Principles

1. Voluntary and open membership.

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic member control.

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

3. Members' economic participation.

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and independence.

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, training and information.

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the public, particularly young people and opinion leaders, about the nature and benefits of cooperation.

6. Cooperation among cooperatives.

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, regional, national and international structures.

7. Concern for community.

While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.