

# Did You Get a Check from GCEC?

*Capital credits allocated in 1971 and a portion from 2013 were paid to members in December*

Through the years, you probably received a notice for an allocation of capital credits. Those capital credits remain on the books until they are retired.

Graham County Electric Cooperative Inc. recently retired some long-standing capital credits of more than \$188,000. In December, these checks were mailed to members who were patrons in 1971 and a portion of allocations were retired to those who were members in 2013.

The following might help answer your questions about the retiring of capital credits.

## **What are capital credits?**

Because Graham County Electric Cooperative and Graham County Utilities are cooperatives owned by the members they serve, they do not earn profits. Instead, any revenues that exceed the cost of doing business are considered margins.

These margins represent an interest-free loan of operating capital by the membership to the cooperative; thus, the term capital credits.

To a certain extent, this allows the co-op to finance operations and new construction without borrowing money that would incur interest and necessitate rate increases.

## **What is the difference between “allocated” and “retired” capital credits?**

Allocated capital credits appear as an entry on the permanent financial records of the co-op, and reflect your equity or ownership in Graham County Electric and Graham County Utilities.

When capital credits are retired, a check is issued to the member and your equity in the co-op is reduced. This is what happened in December.

GCEC issued more than 8,700 checks to patrons who were members in 1971 and 2013. The co-op used a “hybrid” retirement method approved by the board of directors that included 100 percent of the 1971 capital credit allocations and 8.58 percent of the 2013 capital credit allocations.

## **Do I have to be a member for an entire year to earn capital credits?**

No. Capital credits are calculated based on the member’s monthly bills. The percentage of your total payment allocations varies from year to year as well, depending on the margins earned by the co-op that specific year.

## **Who determines when and how capital credit allocations may be retired?**

The co-op must maintain a certain equity ratio that is set by the Arizona



## CAPITAL CREDITS

Graham County Electric Cooperative  
P.O. Drawer B  
Pima, AZ 85543

Pay to the order of

Members of Graham County Electric Cooperative

**\$188,000**

*Not negotiable*

Corporation Commission and its lender, the National Rural Utilities Cooperative Finance Corp. to be permitted to retire capital credits.

When that criterion is met, the board of directors decides when or if capital credits will be retired, as in this case.

### **What if I receive a check that is not mine?**

Please contact GCEC at (928) 485-2451, tollfree at (800) 577-9266 or via our website at [www.gce.coop](http://www.gce.coop) and we will provide instructions on what to do.

### **Will capital credits be retired again next year?**

Not necessarily. When the criterion is met, the board of directors will decide if a retirement of capital credits is justified based on the cooperative bylaws and prudent business practice.

### **Why not just retire your allocations each year or just break even?**

That is not possible. The business of building power lines is expensive and much more so in a rural setting than in a population-dense area, such as those owned by investor-owned companies.

Maintaining the lines are subject to outside forces—most notably, the weather. It would be impossible for electric cooperative management to plan the operations of a cooperative so precisely in advance that revenues and expenses come out exactly even at the end of the year. Some years there have been no allocations.

Like other businesses, electric co-ops must have money on hand to provide current operating funds and a reserve for the unexpected, such as storm damage.

With growth comes the need for new power lines and substations to meet the load demands and maintenance on existing lines. The cooperative also must have sufficient margins from its operations to repay any principal on loans.

It is a fine line to balance each year.

More than 40 percent of Graham County Electric's equity consists of unretired capital credit allocations from Arizona Electric Power Cooperative—the generation cooperative that supplies the power we deliver to your homes and businesses.

As AEPCO retires its allocations to Graham County Electric, your co-op will continue to review the entire criterion to retire your allocations. ■