

Capital Credits: The Cooperative Way of Doing Business

Graham County Electric and Graham County Utilities have allocated 2012 capital credits to members.

If you have not received notification of capital credits, you soon will. The following article is intended to answer some of your questions regarding your capital credit allocation.

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

In an investor-owned business, the 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 are used to pay dividends on stock held by investors.

The primary objective of an investor-owned company is to make a profit. Your rural electric cooperative is different. It is a nonprofit business that exists solely to provide its members with electricity. In a co-op, net margins do not belong to the company; they belong to individual consumers who paid money on their monthly service bills.

In effect, the consumers of a cooperative 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, or 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 over and above the cost of doing business are considered margins.

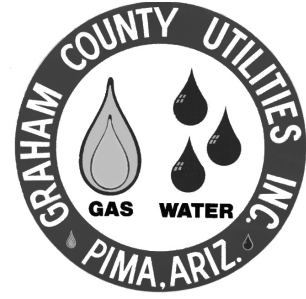
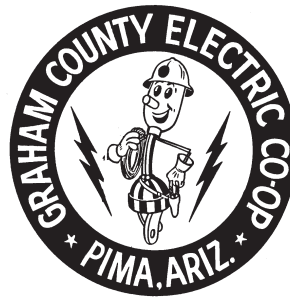
These margins represent an interest-free loan of operating capital by the membership to the cooperative.

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 you, and



your equity in the co-op is reduced.

How do I start accumulating capital credits?

Capital credits are calculated for everyone who purchased electricity during a year in which the utility earned margins. No special action is required to start a capital credits account. Membership in the co-op activates your capital credits account.

How are capital credits calculated?

The amount of capital credits you earn in a given year is based on the amount of capital you contribute to the co-op through payment of your monthly bills. The more electricity you buy, the greater your capital credits account.

The sum of your monthly bills for a year is multiplied by a percentage to determine your capital credits.

What percentage is used to determine the amount of my capital credits?

The percentage of your total payment allocated as capital credits varies from year to year, depending on the margins earned by the co-op during the year being considered.

Capital credits are only allocated for years in which the co-op earns margins. Since capital credits are a member's share of the margins, no credits are allocated for years with no margins.

Do I have to be a customer for an entire year to earn capital credits?

No. Capital credits are calculated based on a member's monthly bills. If you are billed for service for even one month, you will accumulate capital credits if margins are earned in that year.

Can I use allocated capital credits to pay my bill?

No. Allocated capital credits may not be used to pay current



bills. Your electric bill is due now. You may not receive capital credits for many years.

Who determines when capital credit allocations may be retired?

The co-op must maintain a certain equity ratio that is set by the Arizona Corporation Commission and our lender, the National Rural Utilities Cooperative Finance Co., 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.

What happens to my capital credits when I leave the co-op?

Your capital credits remain on the books in your name until they are retired. Because capital credits may be retired many years after they are earned, you should make sure the co-op always has your current mailing address.

Why not just break-even?

Since the co-op is not 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 show a profit.

That is not possible—or desirable.

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 is subject to outside forces—most notably, the weather.

It would be impossible for an electric cooperative manager 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.

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

The past few years brought unprecedented growth and escalated fuel and material costs. Growth requires new power lines and substations to meet load demands.

The cooperative also must have sufficient margins from its operations to repay any principal on loans.

When you receive your Notification of Capital Credits, you will see that for consumers who purchased power in 2012, there is an allocation from Arizona Electric Power Cooperative.

AEPCO is the generation cooperative that supplies the power we deliver to your homes and businesses. As a cooperative, it does business in the same way we do.

More than one-third of Graham County Electric's equity consists of unretired capital credit allocations from AEPCO. ■

Safe for the Holidays

Caution and planning while decorating will help you avoid tragedy

By Pam Blair



Decorating for the holidays is a tradition filled with joy. But thousands of needless injuries and some deaths are caused by improperly used holiday decorations.

Thanks to the use of heaters and fireplaces, most homes are drier during the winter. Combined with an increase in the amount of electricity used, the open flames from holiday candles and the general hustle and bustle that accompanies the holidays, that can increase the potential for disaster.

Before starting a fire in the fireplace, remove all decorations from the area and make sure the flue is open. Don't burn wrapping paper or evergreen boughs in the fireplace. They can throw off sparks.

Scented holiday candles add a warm, festive touch. However, never leave a candle burning when an adult is not present to supervise.

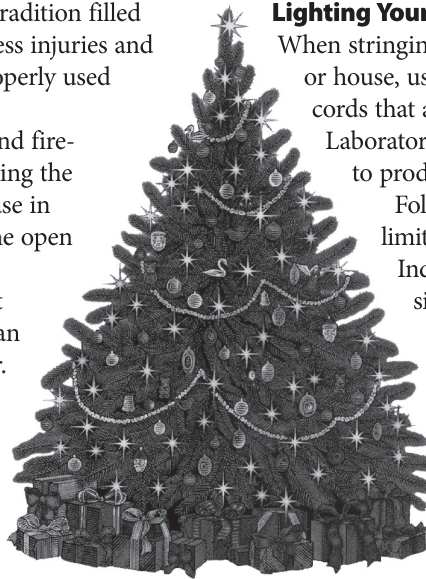
Trimming the Tree

With a natural tree, the key to safety is maintaining its freshness by ensuring it always has water and never dries out. The drier a tree gets, the easier it is to ignite. Don't place the tree near a heat source, and check the branches for falling needles or brown spots.

Small twinkle-type lights won't dry the tree out as fast as larger bulbs. Move the lights around occasionally to avoid drying the tree. Bulbs should be securely fastened to the tree, but should not come in contact with needles or branches. Keep the lights and extension cords away from water-filled tree stands, and don't use outdoor lights on a tree inside the home. They generate too much heat. Avoid bulb contact with tinsel, garland and all other decorations.

If using an artificial tree, make sure it is made of fire-resistant material. Metal and aluminum trees are good conductors of electricity, and never should be decorated with lights or any other electrical product.

Don't put lights or small, breakable ornaments on lower tree branches if you will be having young children or pets in your home. Never use lighted candles on or near a tree or any other decorations.



Lighting Your Holidays

When stringing Christmas lights on your tree or house, use only decorative lights and cords that are UL approved. Underwriters Laboratories gives its seal of approval only to products that pass rigorous safety tests.

Follow package directions on stringing limits and the appropriate use of lights. Indoor lights should not be used outside, and outdoor lights should not be used inside. Do not connect standard sets to midget sets.

Make sure outdoor lights are weatherproof and clearly identified as being for outdoor use, and remove them at the end of the holidays to reduce exposure to the elements. Even outdoor lights aren't designed to withstand prolonged exposure to the weather.

If using an extension cord, make sure it is rated for the use, and do not overload it. Using a surge protector with the lights is a good idea.

Inspect all lights and connections for cords with frayed insulation, exposed wires, or loose connections or plugs. Make sure no lights are loose, broken or missing. Check bulbs for bare spots and peeling paint—signs the lights are burning too hot.

Don't test standard strings of lights on carpeting or furniture. The bulbs get hot enough to damage fibers and wood finishes. Unplug tree lights and other interior lights from the wall outlet at night, and whenever you leave the house.

Poisonous Decorations

Mistletoe and holly berries are poisonous, and old tinsel may contain lead. Fire salts—which produce a multicolored effect when thrown on burning wood—contain heavy metals. All three can be deadly.

Lamp oil also poses a danger. Some are colored like Kool-Aid and have aromas that may be enticing to youngsters. To keep the joy in your holiday celebration, keep all hazardous materials out of the reach of children. If your child consumes any hazardous substance, immediately call your physician or the Poison Control Center at (800) 222-1222. ■



P.O. Drawer B
Pima, AZ 85543

(928) 485-2451
Toll free: (800) 577-9266

Fax: (928) 485-9491

**Graham County Electric
Board of Directors:**

President Gene R. Larson
Vice Pres. Reuben McBride
Secretary Tommy Clonts
Chris Claridge
Mike Crockett
Dennis Jacob
Jerald L. Kempton
Jim Bryce
Robert Reed

**Graham County Utilities
Board of Directors:**

President Jeff B. Larson
Vice President Jim Bryce
Secretary Mike Crockett
Jim Bryce
Tommy Clonts
Dennis Jacob
Gene R. Larson
Jerry Kempton
Larry H. Morris
Bob Brown

General Manager:

Steve Lines

AZ-145 **Postmaster:** Send address changes to Currents, 2210 S. Priest Dr., Tempe, AZ 85282-1109

Manager's Message

Thank You for Your Efforts

On September 11, the Arizona Corporation Commission (ACC) voted to close the docket on the proposal to deregulate Arizona's electrical system. I want to say, thank you to all those who participated in the grassroots efforts by signing petitions and calling to make your voice heard by the commission.

Graham County Electric provided you with information to fight against deregulation. In addition, members of other Arizona electric co-ops realized the risks associated with deregulation and engaged in the grassroots efforts.

Grand Canyon State Electric Cooperative Association Inc. turned in more than 1,200 signatures to the commission in support of affordable and reliable power. Philip Bashaw, director of government relations and grassroots advocacy with GCSECA, was humbled at the remarkable response from members across Arizona.

This was a historic decision that provides economic certainty for our members and the electric providers. We thank the ACC for making the right decision for the communities and members we serve.

Again, thank you for your support. I ask for your continued support if something arises in the future.



Steve Lines

Steve Lines
General Manager
GCEC/GCU



Touchstone Energy®
The power of human connections