Approved: __________

Vermont Electric Cooperative, Inc.
<u>Board Policy B.14--Capital Credits</u>

I. OBJECTIVE.

The objective of this Capital Credits Policy ("Policy") is to state the general policy of Vermont Electric Cooperative ("VEC") for allocating and retiring capital credits. To the extent that any terms in this Policy contradict or are inconsistent with any former policies adopted by the Board, the terms in this Policy shall supersede the prior policy terms.

II. POLICY.

VEC shall allocate and retire capital credits in a manner that: (1) is consistent with state and federal law; (2) is consistent with operating on a cooperative basis under federal tax law; (3) is fair and reasonable to the VEC's members and former members; (4) provides VEC with sufficient equity and capital to operate effectively and efficiently; and (5) protects VEC's financial condition. Subject to law, VEC's articles of incorporation, and VEC's bylaws, the allocation and retirement of capital credits are at the sole discretion of VEC's Board of Directors ("Board").

III. EXPECTATIONS

A. **Board Approval**. VEC shall allocate and retire capital credits according to the manner, method, timing, and amount approved by the Board.

B. **Patronage Earning Allocations**. Patronage capital will be allocated on an annual basis based on the value of purchases from VEC for energy sales. Each member's capital allocation will be computed annually by taking the member's annual energy purchases and dividing by the total energy sales to all members and multiplying that result by sum of the net margins earned for the year for patronage earnings.

C. **Patronage Loss Allocations**. If VEC were to have losses in a year, they would not be allocated to the membership for that year and instead would be carried forward until such time as the patronage losses can be offset with VEC's patronage earnings during the next year(s).

D. **Nonpatronage Earnings**. For the years 1938 to 2011, all earnings net of losses are considered patronage earnings, except for amounts existing on VEC's book of accounts designated as Donated Capital and Post-Retirement Medical & Life Plan. VEC reserves the right in the future to designate income from sources other than members as nonpatronage earnings which may be retained and used by VEC as approved by the Board.

E. **General Capital Credits Retirements.** VEC shall generally retire capital credits with the goals of: (1) maintaining an equity level between 40 percent and 50 percent of VEC's total assets; (2) retiring some capital credits on an annual basis by the month of November of the succeeding year; (3) retiring capital credits within twenty five years after their allocation; (4) communicating and promoting cooperative principles; and (5) fostering loyalty and support among members and former members

F. **Method for Retirements.** VEC shall retire capital credits according to a hybrid policy using a combination of FIFO (first in first out) and LIFO (last in first out) methods. The percentage split between the two methods will be determined by the Board on an annual basis.

G. **Discounted General Capital Credits Retirements.** VEC may not generally retire capital credits before the time VEC anticipates normally retiring the capital credits and pay the discounted, net present value of the capital credits

H. **Permitted Special Capital Credits Retirements.** VEC may specially retire capital credits (a) upon the death of a natural person member or former member, and (b) upon the dissolution, liquidation, or cessation of existence of an entity member or former member. Such retirement is permitted only upon receiving a written request from the appropriate legal representative. For such special capital credit retirements, VEC shall pay the discounted, net present value of the capital credits. VEC shall apply a discount rate equaling VEC's weighted cost of capital for the estimated period of the early retirement.

I. **Prohibited Special Capital Credits Retirements.** VEC may not specially retire capital credits (a) upon the reorganization, merger, or consolidation of an entity member or former member; (b) upon a member or former member reaching a certain age; or (c) upon a person becoming a former member.

J. **Recoupment.** Before making any general capital credits retirement to a member's account, VEC shall deduct any amount owed by such member or former member to VEC for more than ninety days from the date of delinquency. Before making any special capital credits retirement, VEC shall deduct any amount owed by such member or former member to VEC for more than ninety days from the date of delinquency from the discounted, net present value of that member's capital credit balance.

K. **Escrow.** VEC may create a special purpose account that will allow members to pledge their retired capital credits that will enable VEC to make donations to community based activities for those towns that are served by VEC.

IV. PROCESS

A. Adverse Financial Impact. VEC shall not retire any capital credits unless the Board first determines that the retirement will not adversely impact VEC's financial condition.

B. Notice of Allocation. Within eight and one-half months following a calendar year, VEC shall notify each member in writing of the amount of capital credits allocated to the member for the preceding calendar year through a written notice stating the dollar amount allocated.

C. Payment and Notice of Retirement – Active Accounts. After VEC retires capital credits allocated to a member, VEC shall pay the retired amount by applying a credit to the member's bill.

D. Payment and Notice of Retirement – Inactive Accounts. After VEC retires capital credits allocated to a former member, if the capital credit retirement is greater than the Minimum Amount, VEC may mail a capital credit authorization form to the last address listed on VEC's records. Once the form is returned to VEC, VEC shall pay the retired amount by sending a check for the amount to the former member's most current address.

E. Minimum Amount. In the case of former members, if a minimum level for a former member's retirement distribution is less than ten ($10.00) dollars, the balance may be retired without a distribution to take into account the costs of check processing and mailing.

F. Unclaimed Capital Credits. If an inactive account fails to claim a retired capital credits amount within one year, then VEC may impose a dormancy or service charge equaling five dollars ($5.00) per year. If an inactive account fails to claim the retired amount within three years after the initial notice, then VEC shall submit a Report of Unclaimed Property to the Vermont Treasurer pursuant to 27 V.S.A. 1247, but shall retain the unclaimed capital credits pursuant to 27 V.S.A. 1248a.

V. RESPONSIBILITIES.

A. Implementation of Policy. VEC's Chief Executive Officer ("CEO") is responsible for implementing this Policy and for developing the practices and procedures necessary to allocate and retire capital credits according to this Policy.

B. Recommendations to Board. VEC's CEO is responsible for: (1) recommending to the Board the manner, method, timing, and amount for allocating and retiring capital credits; and (2) when in the best interest of VEC and its members and former members, recommending to the Board revisions to this Policy.

C. **Review and Approval by Board.** The Board is responsible for: (1) reviewing, discussing, and evaluating the CEO's recommendations regarding the manner, method, timing, and amount for allocating and retiring capital credits; (2) approving the manner, method, timing, and amount for allocating and retiring capital credits; (3) reviewing, discussing, and evaluating this Policy as needed; (4) reviewing, discussing, and evaluating the CEO's recommendations for revising this Policy; (5) revising this Policy.

D. **Compliance with Policy.** The Board is responsible for VEC's compliance with this Policy.