Rachel Johnson (00:15):

Welcome back to another episode of co-op energy talk. I'm your host, Rachel Johnson, the member relations manager here at cherryland electric cooperative. When you get your power from cherry land, you get more than just clean, affordable, and reliable electricity. You also get access to all of the benefits of co-op membership, including patronage capital, or as we call them here at cherry land capital credits. This December cherry land is retiring $2.7 million in capital credits to our members. So we wanna take a few minutes on the podcast today to explain how this particular advantage of being a co-op member works. Many of you probably already know this, but just a quick refresher. Cherryland is a not for profit electric cooperative. And basically what that means is we don't make any profits at the end of the year. If we have any margins left over, they just get returned directly back to our members.

Rachel Johnson (00:58):

Uh, we have to have margins because it's impossible to budget. So precisely that we would have the exact revenue and expense we need. So we purposely will always assume that we're gonna have a little bit of margins, but then at the end of the year, that gets allocated proportionately to our members. So let me explain how that works. In 2020, our revenue was about 56 million. We had about 1.3 million in margins. Those margins then get allocated to the membership. If you are a member who used, let's say, and the allocation is based on your percentage of our sales. So let's say you were 10% of our total sales in 2020, you would be allocated $130,000 of that 1.3 million in margins. Now you're probably thinking, well, where's my $130,000. Well, here's how, here's how it works. Once we've done, the allocation money gets allocated to you, but not returned to you in the year in which it is allocated.

Rachel Johnson (01:47):

Instead, the co-op keeps it as a zero interest loan from the members to the cooperative. And we use that money that we keep. So in this case, that 1.3 million for capital investment things like polls and wires and transformers, all the things that have helped us over the years have the wrong reliability in the state of Michigan, we have almost 99.9, nine, nine almost a 9% reliability. And that's because of our aggressive approach to investing in our system, partially with money that we've borrowed from our members in the form of zero interest, uh, capital credits. So we borrow that money from our members helps us control our debt service costs and keep our lower helps us invest in our system and keep our reliability high. And then eventually we return that in the form of a capital credit retirement in general, the national average for cooperatives is about 25 years.

Rachel Johnson (02:34):

So for 25 years, the cooperative would hold onto those capital credits and then eventually retire them to the members in form of a cash retirement cheer. Land's been very aggressive and our capital credit retirement, we're actually on a little under a 20 year cycle. So we're returning our capital credits to our members around about 19 years. So this upcoming retirement we're returning back capital credits that are owed to members from the early two thousands. Uh, we don't just return to our, our, our oldest members or the members who are kind of owed from back 19, 20 years ago. We also return a portion of our capital credit retirement to our newest members. And we do that because we wanna make sure that all members are seeing the advantage of cooperative membership. And also because it helps us control our capital credit li abilities going forward.

Rachel Johnson (03:15):

So let me explain to you exactly how that works. 75% of, of any years, capital credit retirement will go to the oldest unretired capital credits. So in this case, those old capital credits that are due back to our members from the early two thousands, the other 25% will be returned from the most recent year. So in this case 2020, and that means that most of our members will see something on their bill coming up here in December. If a member is a current, or you're gonna get your capital credit retirement in the form of a bill credit, if you're no longer a current member, then you'll receive a check, which is one of the reasons we always tell members when they leave. Please make sure to keep your address updated with the cooperative, because we want to make sure we return to you. Those capital credits that you have graciously loaned to us and in the form of a zero and just loan, if by chance, you're listening to this and think I was a member 20 years ago, and I don't think I've received a check.

Rachel Johnson (04:03):

We do keep a list on our website of members. We're trying to find in order to return capital credits to them. So please go check that out and, uh, let us know where you're at and we'll make sure to get your capital credits to you. So let's, uh, just kind of talk through this year's retirement really quickly. We are retiring to 0.7 million in capital credits this December, since 2008, we've retired over 30 million in capital credits, which is, uh, really an amazing milestone to have met and how the board and staff decide the retirement amount and whether to retire capital credits at any given year is really based on the financial status of the Cooper. We look at cashflow, we look at kind of capital investment projections into the future. So for example, right now, we're looking at having to replace our metering system sometime in the next few years.

Rachel Johnson (04:50):

And that will likely cause us to pull back a little bit from our capital credit retirements in order to fund that investment and that metering system, which will increase reliability and service for all members. The other thing we look at is our equity position. And this is a particularly important point for the board when determining what to retire. If we keep our equity above 40%, we get a discount on our interest rate on our other borrowings, which advantages all of our co-op members. So we, we look really closely at that equity number right now we're hovering around 41%. So we are in a good position to retire this 2.7 million and dollars to our members. This December, as we look out towards the future, I think there are a lot of things that will likely influence the decision making of the board and the recommendations of staff.

Rachel Johnson (05:31):

I already talked about AMI, but we're also, and most of you listening to this, know this, we're looking at a period of incredibly fast technological change and the need to invest in new techn on behalf of our members. And to make sure that we're offering the highest possible service at the lowest possible cost will continue to factor into our decision making, going forward. So that's kind of how capital credits work on the surface. They look really complex, but once you get to understand them, you realize it's just this really truly amazing benefit of being a member of an electric cooperative. Because if you received your electricity from an investor on utility, the profits would be returned back to investors. Whereas in this case, our margins are returned directly back to our members in the form of a capital credit retirement every year. So that's, co-op 1 0 1 on capital credits. And again, I'm your host, Rachel, and we hope you'll join us next time for more co-op energy talk.