

Speaker 1 ([00:00](#)):

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Rachel Johnson ([00:18](#)):

Welcome back to Co-Op Energy Talk. I'm Rachel Johnson. I'm your CEO here at the co-op. I am not the normal host of this podcast, but our normal host, Courtney, couldn't be here with us today. So I'm gonna pitch her on a topic that we're really, really excited to be talking to you about. One of the most tangible benefits of being a member of a cooperative is patronage capital. You'll often hear us refer to that as Capital Credits here at Cherry Land, since we're a not-for-profit cooperative, the money you pay on your electric bill doesn't go to investors. It doesn't go to make sure that we have profit. Instead it's just simply used to pay for the things we need to keep your lights on. And if there's money left over at the end of the year, it goes back to you. This time of year is when we begin the process of making decisions about what we're gonna do with Capital Credits. And then you will see your portion of a Capital Credit retirement on your December electric bill. I am joined here today by our board chair Gabe Schneider, to talk about what we're gonna do this year.

Gabe Schneider ([01:08](#)):

Hey Rachel, thanks for having me

Rachel Johnson ([01:09](#)):

On. Thanks for joining us. So I'm just gonna jump straight to the punchline and let the members know that in the September board meeting, the board went ahead and approved the Capital Credit Retirement for this year. Do you wanna let 'em know how much we're gonna give back?

Gabe Schneider ([01:20](#)):

Uh, \$500,000 is what we will be retiring back to our members.

Rachel Johnson ([01:24](#)):

There you go. Half a million dollars coming your way in December on your electric bill. There's a lot of reasons we are in a position to retire capital credits. But Gabe, why don't you just start by talking about kinda what the board considers when going into making a decision about what to do each year with Capital Credits?

Gabe Schneider ([01:39](#)):

Yeah, thanks Rachel. 'cause I think this is one of those really important functions that the board does play. So, uh, we are there obviously as a governance board to make sure that the co-op runs smoothly, but we're also there as a, a fiscal steward of our members resources. And so the work that we do at the board level is, is complicated in many senses. We look at a lot of different variables when we're looking at our budgets and our margins, uh, and capital credit retirements. And so, uh, as we've looked, uh, to the past and we've seen that we've had some healthy margins. So we obviously want to make sure that those monies get back to our members as quickly as possible, but we also have to be looking to the future. And so as we look to the future and those additional investments we're making in the co-op system to ensure our reliability stays at, uh, a high rate as possible, uh, we also wanna make sure that we're investing in our system for our companies, uh, employees and our members by building a new headquarters and facilities.

Gabe Schneider ([02:31](#)):

And so that, uh, large capital investment will take a lot of resources, uh, and we have to balance the ability to pay for that on, in a, on top of the, the, um, maintaining of our system for our members, uh, reliability as well. So we've got this sort of complex, uh, way of thinking about the future, looking at the past and trying to balance both success with future investments and maintaining a strong equity position is important. Uh, but also remembering to retire and doing, uh, retiring our capital credits is important as well. So sort of a complex financial picture that we grapple with at the board level.

Rachel Johnson ([03:03](#)):

I, I appreciate that you talked a little bit about kind of both kind of past, present and future. So it's, I think, easy to fall into the trap of thinking of capital credits through the lens of what's going on this year. But for us to make sure that we're managing the co-op with kind of a overall goal of having a lot of stability in the financial health of the co-op, we have to make sure we're not just thinking about what's going on this year, but also looking at where we're, where we're coming from and where we're headed to. And that's one of the things I think that makes the capital credit retirement process sometimes confusing for people to understand. 'cause it's really a multi-part process. We, uh, allocate margins to our members based on the previous year's sales. So at the end of the year, if we have any dollars left over beyond what we needed to keep the lights on, they're gonna get allocated to members.

Rachel Johnson ([03:45](#)):

But we don't always retire them right away. In fact, we retain a portion of those allocated margins for as long as 20 to 30 years. And those offset the borrowing cost of the co-op, which helps us keep rates stable so we're not as exposed to interest rates, et cetera. But we do eventually return those. And that's what we're doing right now when we get to this retirement. And then as you pointed out, we also are always kind of looking forward and saying, what do we have coming up and how will that impact our equity? 'cause equity is another really important component in managing our borrowing cost. If our equity gets too low, we may not be able to borrow, right? We might be, might think we're a very bad risk, don't worry, we're not at risk of that. But more importantly, we get kind of interest rates discounts if we keep our equity at a certain level. So those are all the kinds of things we're looking at. And the board has a stated goal of keeping equity above 35%. Right now. We're actually about 40%, which is a good place to be as we look at kind of going forward into some big capital investments over the next couple of years.

Gabe Schneider ([04:38](#)):

Yeah. And those fiscal decisions that we make over years past help put us in a good equity position today to be able to retire those capital credits, uh, and maintain a strong equity position into the future as well. So that's sort of a rolling or ongoing work that we're doing at the board level around equity, capital, credit, retirement, and budgeting.

Rachel Johnson ([04:54](#)):

Yeah, and one of the things I think I'm find really I'm very proud of when I look at what we're doing this year with this particular capital Credit retirement, a lot of organizations, including cooperatives who are getting ready to do what we're going to do right now with, and it's not just about our building, it's also about our work plan, uh, finishing up our metering implementation. These are just big expensive capital intensive projects. It would be very tempting to say, we're just gonna go ahead and not retire capital credits for the next 10 years. That, that would be a very common financial decision to make. So can you talk through why the board has made it a priority to as long as we prudently can to continue to retire capital credits even while making capital investments?

Gabe Schneider ([05:34](#)):

Well, first of all, I think it, it comes back to sort of the cooperative, uh, principles that we all share and really the importance that we place in our member owners. Uh, having not only a stake, but to see, uh, some benefit from being part of a co-op. This is, this is our sweet spot <laugh>. If you, uh, get your electricity from an investor owned utility or uh, a muni, uh, you don't see capital credits, those are not a thing. And so this is really a very special part of being a co-op member owner, uh, is the ability to see those excess revenues come back to you in the form of capital credit. So, uh, we're really proud to have that as sort of a, a cornerstone or a foundation of who we are and who our, what our identity is. Uh, and again, a lot of work goes into making sure that we have these available for our members to, to go back to them. Uh, a lot of fiscal, uh, work goes into that and, uh, we're proud of that work as well as a board.

Rachel Johnson ([06:21](#)):

And it's a, a reflection of the, the work the board is doing. It's also a reflection of our employees and how carefully they steward our members' resources because it would be very easy to just spend that dollar rather than return that dollar. And so I'm always really proud to see the employees take seriously delivering a end of year financial status that puts you guys in a position to be able to make this decision.

Gabe Schneider ([06:39](#)):

Yeah, every year the board reviews some key ratios, trends and, uh, analysis of, of sort of our financial picture. And one of the, the stats that always jumps out to me is the, uh, amount of revenue we have per employee. And it's always very, very low. Mm-hmm. Uh, meaning we have many, we have few employees for the amount of revenue that we pull in. Mm-hmm. And we're doing a lot with little, and I think it, we should feel proud as co-op members to, uh, run a very lean but efficient and also reliable system. And so I think those are all really important things to, to point out.

Rachel Johnson ([07:09](#)):

Yeah. And our, our controllable costs for employer are also always really kind of on the cutting edge. And then just to kind of wrap us up on the capital credit discussion, one of the things that we, we do talk about, but we can't say enough, we are also on the real front edge of retiring capital credits, even amongst co-ops. So if you look across the country, trade land has been very purposeful and intentional keeping that capital credit retirement cycle as short as we reasonably can. And so we've retired, it'll be almost \$33 million over the last less than 20 years. Right? That's a big amount. That's a big amount of money. Yep. Kind of lead leading the way here in Michigan and across the country in, in delivering on that promise of not collecting any more money than we need, returning anything we don't need once we've taken care of the core business of keeping your lights on and keeping your cost as affordable as possible. So, uh, just a quick reminder, you will see your portion of that half a million dollars on your December electric bill. If you have any questions about either your particular capital credit retirement, or how the process works, feel free to reach out to us. Always happy to chat about that. Gabe, thanks for taking a second to join me in. Thanks for having

Gabe Schneider ([08:07](#)):

Me on, Rachel. Appreciate

Rachel Johnson ([08:08](#)):

It. Uh, happy holidays to all of you. I hope you, uh, enjoy that, that little cooperative advantage with your, uh, capital Credit retirement this month. And we'll look forward to catching up with you again. Join us next time for more co-op Energy Talk.