

**I. OBJECTIVE:**

To state the general policy of Beartooth Electric Cooperative (BEC) for allocating and retiring capital credits related to the provision of electric energy service.

**II. POLICY CONTENT:**

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

**III. EXPECTATIONS:**

- A. Board Approval: BEC shall allocate and retire capital credits according to the manner, method, timing, and amount approved by the Board.
- B. Patronage Earning Allocations: For each good or service annually provided by BEC, BEC shall equitably allocate to each patron, in proportion to the value of the goods or services purchased by the patron during the calendar year, BEC's patronage earnings from providing the good or service during said year.
- C. Patronage Loss Allocations: For each good or service annually provided by BEC, BEC shall offset patronage losses with BEC's patronage earnings from providing the good or service during the next succeeding future fiscal year(s).
- D. Nonpatronage Earnings: BEC will ordinarily assign non-operating margins to unallocated surplus or reserves. To the extent non-operating margins have been allocated, the Board of Directors shall establish a retirement cycle for those capital credits separate from the retirement schedule for capital credits arising from operating margins. The capital credits arising from the non-operating margins will be retired consistent with Policy No. VII-A-3a, Non-Operating Reserves.

- E. Nonpatronage Loss Allocations: BEC shall offset nonpatronage losses with BEC's nonpatronage earnings during any fiscal year.
- F. General Capital Credit Retirements: BEC shall generally retire capital credits with the goals of: (1) maintaining an equity level between 30% and 40% of BEC's total assets; (2) retiring some capital credits every year during the month of August; (3) generally retiring capital credits on a first-in, first-out (FIFO) basis, or other form of retirement method (For Example, ½ of capital credits retired as FIFO and the other ½ of capital credits retired as the board deems appropriate, as determined by said board on an annual basis); and (4) retiring capital credits on a schedule such that allocations are retired within approximately a 20-25 year period.
- G. Special Capital Credits Retirement: BEC: (1) may specially retire capital credits upon the death of an individual patron or former patron; (2) may not specially retire capital credits upon the dissolution, liquidation, or cessation of existence of an entity patron or former patron; (3) may not specially retire capital credits upon the reorganization, merger, or consolidation of an entity patron or former patron; (4) may not specially retire capital credits upon a patron or former patron reaching a certain age; (5) may not specially retire capital credits upon a patron becoming a former patron; and (6) may specially retire capital credits upon a patron or former patron failing to pay an amount owed to BEC within 90 days of the date payment was due.
- H. Discounted General Capital Credits Retirements: BEC may not generally retire capital credits before the time BEC anticipates normally retiring the capital credits and pay the discounted, net present value of the capital credits.
- I. Discounted Special Capital Credit Retirements: For capital credits specially retired before the time BEC anticipated normally retiring the capital credits, as agreed upon by BEC and a patron or former patron, BEC may pay the discounted, net present value of the capital credits.
- J. Recoupment: After retiring, and before paying, capital credits allocated to a patron or former patron, BEC may recoup, offset, or setoff any amount owed to BEC by the patron or former patron by reducing the amount of retired capital credits paid to the patron or former patron by the amount owed.

#### IV. LIMITATIONS

- A. Forfeiture of Capital Credits: BEC shall not enter contracts through which a patron or former patron forfeits the right to the allocation or retirement of capital credits. BEC shall not require any patron or former patron to forfeit the right to the allocation of capital credits.
- B. Patron Classes: As may be reasonable and fair, and as approved by the Board of Directors, BEC may allocate or retire capital credits to classes of similarly situated patrons or former patrons under different manners, methods, timing, and amounts, provided BEC allocates and retires capital credits to similarly situated patrons and former patrons under the same manner, method, timing, and amount. Delinquent accounts shall be considered a separate patron class, and special capital credit retirement to offset such accounts shall be allowed as provided by this policy.
- C. Separate Allocations and Retirements: BEC shall separately identify and allocate to BEC's patrons capital credits allocated to BEC by Southern Montana Electric Generation & Transmission Cooperative. However, BEC will ordinarily retire these separately identified and allocated capital credits only after Southern Montana Electric Generation & Transmission Cooperative retires and pays the amounts to BEC.
- D. Notice of Allocation: Within 8½ months following the close of the fiscal year, BEC shall notify each patron in writing of the amount of capital credits allocated to the patron for the preceding calendar year through a written notice stating the dollar amount.
- E. Adverse Financial Impact: BEC shall not retire any capital credits unless the Board of Directors first determines that the retirement will not adversely impact BEC's financial condition.
- F. Request and Agreement for Special Retirement: BEC may specially retire capital credits upon the death of a patron or former patron only upon receiving a written request from the appropriate legal representative, and only under terms and conditions agreed upon by BEC and said legal representative.

- G. Discount Rate: If BEC retires capital credits before the time BEC anticipates normally retiring the capital credits and pays the discounted, net present value of the capital credits, then BEC shall use a discount rate equaling BEC's current cost of capital.
- H. Minimum Amount: BEC shall not retire and pay capital credits in an amount less than ten dollars (\$10.00), unless the retirement and payment is for all remaining capital credits allocated to a former patron.
- I. Payment and Notice of Retirement: After BEC retires capital credits allocated to a patron or former patron, BEC shall pay the retired amount by either sending a check for the amount to the patron's most current address listed on BEC's records, or apply the retired amount, or as much as is necessary, to their billing account balance that is 90 days or more past due.
- J. Unclaimed Capital Credits: If a patron or former patron fails to claim a retired capital credits amount within six (6) months from the mailing of the capital credit checks, the capital credit checks shall become null and void. If a patron or former patron fails to claim the retired amount within 5 years, then BEC shall provide any notice and take any other action required by law, and may use the amount as permitted by law.

**V. RESPONSIBILITY:**

- A. Implementation of Policy: BEC's General Manager/CEO shall be responsible for the administration of this policy.
- B. Recommendations to Board of Directors: BEC's General Manager/CEO is responsible for: (1) recommending to the Board of Directors the manner, method, timing, and amount for allocating and retiring capital credits; and (2) recommending to the Board of Directors revisions to this policy.
- C. Review and Approval by Board of Directors: The Board of Directors is responsible for: (1) reviewing, discussing, and evaluating the General Manager/CEO's recommendations regarding the manner, method, timing, and amount for allocating and retiring capital credits; (2)


reviewing, discussing, and evaluating the General Manager's recommendations for revising this policy; and (3) revising this policy.

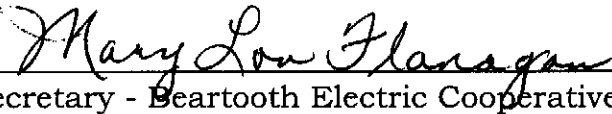
D. Compliance with Policy: The Board of Directors and General Manager/CEO are responsible for BEC's compliance with this policy.

**VI. REVIEW DATE:**

This policy shall be reviewed at the first Board of Director's meeting two years after the last revision or review.

**VII. APPROVED:**

  
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President - Beartooth Electric Cooperative

  
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Secretary - Beartooth Electric Cooperative

Approved: August 13, 2004

Amended: June 25, 2009 (combined Policies 7A\_3 & 7A\_4, greatly expanded the detail)

July 29, 2009 (discount rate changed from cost of equity to cost of capital)

Reviewed: