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# Understanding Capital Credits

What they mean for you

**EACH YEAR**, Karnes Electric Cooperative announces the allocation of capital credits. But what exactly are capital credits, and how do they affect you?

## What Are Capital Credits?

Capital credits differentiate electric cooperatives from other utilities. Unlike investor-owned utilities, Karnes EC is a member-owned co-op, which means we don't operate for profit and return any profits to shareholders, our member-owners.

When our revenues for the year exceed expenses, we generate a margin. These margins are then allocated back to our members as capital credits, which reflect your ownership in KEC.

Capital credits help fund the cooperative's operations and reduce the need for borrowing, reducing your electric rates.

considers several factors, including timing, priority and method of distribution.

Capital credits are calculated based on the dollar amount of electricity a member purchases, so the retirement amount will vary from member to member and from year to year.

If you received electricity during the time period being retired and are still a current member, you will typically see a credit on your November bill. The bill will display a line item for "Capital Credits Applied" and will be automatically applied to the total on your bill.

If you received electricity during the time period being retired and are no longer an active member, a check will be mailed to the address on file if the amount is more than \$5. Inactive accounts with distributions of less than \$5 will roll over to future years, and a check will be issued once the minimum amount is reached.

Beginning in 2026, if all of your member accounts become inactive in the allocation year, the cooperative may specially retire all of the capital credits that have been allocated to you as a former member.

If you move from our service territory and are no longer a member, you should inform our office of any changes to your mailing address. Each year, many checks are returned because of invalid addresses.

When a member dies, the capital credits allocated to the account belong to the member's estate. For an estate to receive a return, a legal representative of the estate must provide KEC with a written request for such retirement, a copy of a death certificate and proper documentation of the legal representative's authority.

If you have any questions or concerns, I appreciate and welcome your feedback. ■

**Capital Credits Allocation vs. Retirement: What's the Difference?**

An **allocation** is made annually for each member, based on the amount of electricity purchased. An allocation is the member's share of the net margins

A **retirement** is the amount a member receives back as a return. It is a portion of the total allocation. The amount paid is decided annually by the board of directors based on the financial needs of the cooperative.

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Over time, as financial conditions allow, these credits are retired, and the money is returned to you, our member-owners. This is a direct embodiment of cooperative principle No. 3—Members' Economic Participation.

## How Are Capital Credits Returned?

Each year the board of directors reviews the financial condition of the cooperative and determines the amount of capital credits to be retired. The board