

NORTH PLAINS ELECTRIC COOPERATIVE

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FROM THE GENERAL MANAGER

by Randy Mahannah



I want to furnish a short update on NPEC operations activity. Electricity continues to be the fuel source of choice locally this year. Our new service and construction activity has increased dramatically in comparison to the last few years, and members requesting service requests are waiting at least two weeks for us to get their services built. We appreciate everyone's patience but hope to continue this growth trend.

Many of the new services have been for homes and oilfield-related loads. The Canadian area continues to be extremely busy and residential housing continues to be in short supply, so many of our new residential loads are being built in that area. Also, gas wells being drilled in our southern area seem to be producing a large amount of water. As a result, several saltwater disposal wells have been drilled, and electricity is being used to pump that water back into an appropriate ground formation. Irrigators have shown a lot of interest in pumping water with electricity since natural gas and diesel prices have held at high levels through the summer, and numerous wells have been converted. The co-op has also built line for a new swine facility south of Farnsworth for Texas Farms. This is a large expansion program for them and will be a valuable load for the cooperative as well.

One of the negative aspects of the workload that has developed this year is that the cooperative has yet to accomplish some of the maintenance projects that were planned. We have been trimming the trees that are causing the most reliability problems and will continue with a contractor as soon as he is available. If you notice trees contacting our lines, please let us

know about them so we can trim them back. Tree growth has been extreme the last two years due to abundant moisture. Pole inspections will also continue this fall by contractors who sound and bore each pole looking for heart rot and decay around the ground-line. Our construction crews will replace the rejected poles as soon as time permits. We also plan to increase the conductor size on several miles of line where voltage drop may become an issue due to anticipated growth.

Your board of directors has been evaluating the current line extension policy in an effort to maintain what they consider to be a fair balance between the responsibility of an individual member and costs that should be shared by the cooperative. If there are any changes made, they will become effective at the beginning of 2006. The board also recently considered the topic of patronage capital retirement for 2005. During the July board meeting, the directors determined that the cooperative's financial condition justifies the retirement of a portion of that equity, so \$700,000 from the 1985 member allocations and the 1993 G&T balance of \$98,168 will be retired by the end of this year. I anticipate checks will be sent before November 15.

Wholesale electric energy costs continue to keep your power cost recovery factor positive, making bills higher than last year. Rate credits from our G&T have helped offset some of the increase over the first seven months, but those are now depleted so you may see some increase above recent levels. There seems to be no relief in sight, so in the meantime, we will have to use good judgment and conserve energy when it is practical.

A UNIQUE CHARACTERISTIC OF OWNERSHIP: CAPITAL CREDITS

If you're like most cooperative members, you may have questions about some aspects of cooperative ownership—capital credits, for example. In the questions and answers below, we've tried to provide simple explanations for what can sometimes be a complex subject. And as always, if you find that you still have a question or comment not addressed here, please call us. We'll be happy to help you!

What is a cooperative?

A cooperative is a business that is owned and controlled by the people who use its services.

What are capital credits?

A cooperative does not earn profits in the sense that other businesses do. Instead, any margins (revenues remaining after all expenses have been paid) are returned to the members in proportion to their usage of the co-op's services through capital credits allocations and retirements or reinvested in the form of improvements to the system. Capital credits represent each member's share of the cooperative's margins and ownership of the co-op.

In the U.S., electric cooperatives have returned nearly \$6 billion to their owners over the years and in 2003 returned more than \$300 million in capital credits.

What do cooperatives do with capital credits?

Every business needs to maintain a balance between debt and equity to ensure its financial health and stability. Capital credits are the most significant source of equity for most electric cooperatives. Equity is used to help meet the expenses of the co-op, such as paying for new equipment to serve members and repaying debt. Capital credits help keep rates at a competitive level by reducing the amount of funds that must be borrowed.

How does the cooperative determine who receives capital credits?

Capital credits are allocated to each member of the cooperative every year based on participation in the cooperative. The board of directors determines the basis for the allocation. Frequently, the allocations are based on such measures as the total dollar amount of services purchased or kWh of electricity consumed.

How does the cooperative notify members about capital credits allocations and retirements?

Most cooperatives notify members of annual capital credits allocations through a letter, a message on each member's bill, the co-op's website or other methods.

How are capital credits disbursed?

Each year the board of directors determines whether the co-op's financial position permits the return, or retirement, of capital credits and, if so, what amount of capital credits will be retired. The board also decides the method for determining which capital credits are returned to members.

North Plains EC retires capital credits using the first-in, first-out (FIFO) method. That means that the capital credits that have been invested in the cooperative for the longest period of time are returned to members first. In 2004, members received capital credits allocated in 1984.

The approach that works best for your co-op's system depends on factors including the age and tenure of its membership.

Do members receive interest on capital credits?

Some cooperatives are prohibited from paying interest on capital credits by their articles of incorporation or other legal documents. Whether or not that is the case, co-ops do not pay

interest on capital credits, because the money to pay that interest would have to be collected from members through higher rates.

What happens to a member's capital credits if the member moves away from the system?

A member who terminates service no longer receives additional capital credits allocations. The balance in the member's capital credits account is maintained until it is retired in full.

It usually is the member's responsibility to notify the co-op of any changes in address so that the member can be located when it is time for the co-op to retire capital credits allocated to the member's account.

What happens to a member's capital credits if the member dies?

Capital credits in the member's account belong to the member's estate. Contact us at your local co-op for specific information in this case.



**NORTH PLAINS
ELECTRIC COOPERATIVE
WILL BE CLOSED
MONDAY, SEPTEMBER 5,
IN OBSERVANCE OF
LABOR DAY.**