Capital Credits Distribution and Payment

Freddy Wolff, CPA
Controller

Approval of Capital Credits Distribution and Payment

Resolution (ID #409)

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Board of Directors after its review, discussion and evaluation of the Capital Credits Policy, with input from the Cooperative's Chief Financial Officer, has determined that capital credit retirements will not result in any adverse impact to the Cooperative; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Cooperative distribute and pay out an amount not to exceed $8,600,000.00 on or prior to December 31, 2017 to its eligible members as credits on electric bills, and to any former members who are entitled to a distribution of at least $10 by check, as may be most effective and in the best interest of the Cooperative; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the retirements and distribution and payment of capital credits to eligible members and to former members be in accordance with the Cooperative's Articles of Incorporation and Bylaws, state and federal law, any lender requirements, and the Cooperative's Capital Credits Policy, which includes the order and manner of retirements, distribution and payments of capital credits and permits the discounting of such capital credits, which the Board hereby directs; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Chief Financial Officer of the Cooperative, or any person designated by him for such purpose, is authorized as a duly authorized officer or agent of the Cooperative, for and in the name and on behalf of the Cooperative, to take actions necessary or appropriate in the best interests of the Cooperative to implement these resolutions.

Capital Credits Policy Excerpt

as amended September 15, 2015

II. Policy

The Cooperative will allocate and retire capital credits in a manner that permits the Cooperative to comply with all applicable laws, all restrictions imposed by its debt financing covenants, the Cooperative Articles of Incorporation and Bylaws, is fair to the Cooperative's members and former members, and is reasonable to maintain a healthy financial state.

D. General capital credit retirements. General retirements will be correlated to the assumptions and limitations contained in an Equity Management Plan to be approved annually. This correlation serves as the basis for a Board affirmative determination as to whether or not a retirement may result in an adverse impact to the Cooperative. The Board shall make this affirmative determination prior to any retirement. All retirements must comply with restrictions placed on PEC by its lenders, its Articles of Incorporation, Bylaws and state and federal law. Each year, subject to the Board's determination, the Cooperative will implement its general retirement strategy with the following principles in mind:

1.) Retire total allocation of capital credits to the estates of deceased members that have come to the attention of the Cooperative. (See description below for Special Capital Credit Retirements).

2.) Consider other special retirements for members that are corporate entities no longer in existence, inactive and delinquent accounts.

3.) Approximately one-half of the general capital credits retirement will be from the oldest outstanding year(s) in which allocations have been made that have not yet been retired.

4.) The remainder of the general retirement of capital credits shall be made available from the most recent year(s) for which allocations have been made, and may be made at a discounted rate. (See description below for Discounted Retirements).

Master Indenture of Trust Article VI

Section 6.10.

Limitation on Distribution to Members.

Subject to the provisions of the Electric Cooperative Act, the Cooperative shall not make any distribution, payment or retirement of patronage capital to its members if, at the time thereof or after giving effect thereto, (a) an Event of Default then exists, (b) the Cooperative's membership equity would be less than 20% of its total assets or (c)(i) the Cooperative's membership equity would be less than 30% but greater than or equal to 20% of its total assets and (ii) such distribution, payment or retirement, along with all other such distributions, payments or retirements in the same Fiscal Year, would not exceed 25% of the Cooperative's net margin as shown on its audited financial statements for the previous Fiscal Year.

Capital Credits Distribution Summary 2007 - 2017

CC Dist. Year	BOD Approved Dist.	CC Years Retired	Estimates						
			Allocation Bal.	Total Retired	Cash Payout $	Retired to Perm Equity		Balance	Currently Unretired
2007	7,592,050	1960-1976	7,592,050	7,592,050	7,592,050	-		-	
2008	4,707,424	2007	19,963,533	4,707,424	4,707,424	-	**	15,256,109	15,256,109
2009	3,992,679	2008	11,097,896	3,992,679	3,992,679	-	**	7,105,217	7,105,217
2010	14,299,897	2009	56,611,999	14,299,897	14,299,897	-	**	42,312,102	42,312,102
2011	13,431,658	1977	2,201,771	2,201,771	2,201,771	-		-	
		1978	2,070,708	2,070,708	2,070,708	-		-	
		1979	2,326,283	2,326,283	2,326,283	-		-	
		2010	61,672,806	38,853,868	6,234,492	32,619,376	**	22,818,938	22,818,938
		2011 Dist Total	**68,271,568**	**45,452,630**	**12,833,254**	**32,619,376**		**22,818,938**	
2012	11,960,450	1980	2,395,289	2,395,289	2,395,289	-		-	
		1981	1,246,861	1,246,861	1,246,861	-		-	
		1982	1,575,572	1,575,572	1,575,572	-		-	
		2011	55,485,405	42,723,762	6,513,665	36,210,097	**	12,761,643	12,761,643
		2012 Dist Total	**60,703,127**	**47,941,484**	**11,731,386**	**36,210,097**		**12,761,643**	
2013	12,785,795	1983	1,809,296	1,809,296	1,809,296	-		-	
		1984	8,149,388	4,451,101	4,451,101	-		3,698,288	
		2012	47,339,345	38,174,547	6,260,397	32,238,578	**	9,164,798	9,164,798
		2013 Dist Total	**57,298,029**	**44,434,944**	**12,520,793**	**32,238,578**		**12,863,086**	
2014	13,056,902	1984	3,719,836	3,719,836	3,719,836	-		-	
		1985	7,471,894	2,715,056	2,715,056	-		4,756,838	4,756,838
		2013	45,813,879	39,356,545	6,396,068	32,960,477	**	6,457,333	6,457,333
		2014 Dist Total	**57,005,609**	**45,791,438**	**12,830,961**	**32,960,477**		**11,214,171**	
2015	8,285,182	1985	4,742,526	4,017,394	4,017,394			725,132	725,132
		2014	34,061,212	24,673,986	4,017,591	20,656,395	**	9,387,226	9,387,226
		2015 Dist Total	**38,803,738**	**28,691,380**	**8,034,985**	**20,656,395**		**10,112,358**	
2016	8,900,000	1985	716,668	716,668	716,668				
		1986	6,551,411	3,615,194	3,615,194	0	*	2,936,217	2,936,217
		2015	38,005,795	24,437,726	4,293,709	20,144,018	**	13,568,069	13,568,069
		2016 Dist Total	**45,273,875**	**28,769,589**	**8,625,571**	**20,144,018**		**16,504,286**	
		A: 1987-2006	168,982,441	-2,409,317	365,634	-3,099,378			172,937,579
2007-16 Total	**99,012,036**	**B**	**591,603,865**	**269,264,197**	**97,534,634**	**171,729,563**		**150,947,911**	**320,187,202**
2017	8,600,000	1986	2,936,217	2,936,217	2,936,217	-		-	-
		1987	4,602,654	1,196,690	1,196,690	-	*	3,405,964	3,405,964
		2016	55,826,710	22,609,817	4,126,292	18,483,526	**	33,216,892	33,216,892
2017 Proposal	**8,600,000**		**63,365,581**	**26,742,725**	**8,259,199**	**18,483,526**		**36,622,856**	**36,622,856**
		C - Adjustment	-7,538,872						-7,538,872
Grand Total (2007-17)	**107,612,036**		**647,430,575**	**296,006,921**	**105,793,833**	**190,213,089**		**187,570,767**	**349,271,186**

Note - The Distribution totals represent the annual General Retirement which are not adjusted for Deceased Payouts & Opt Outs.
Thus, the BOD approved amount will be higher than the Cash Payout $ in some years.

* Distributed in next retirement.

** Balance will remain in Equity for approx. 30 year rotation.

A - To account for CC years 1987-2006 and monthly activity outside of the General Retirement (Deceased Payouts/Opt Outs).

B - Agrees to 12/31/16 audited F/S.

C - Adjustment for CC years 1986 & 1987 due to balances included in 2007-16 Total and 2017 Proposal.

Patronage Capital Retirement Forecast

			A	B	C	D =B+C	E=A-D
CC Dist. Year	CC Years Retired	Years in Retirement Cycle	Allocation Bal	Cash Payout $	Retired to Perm Equity	Total Retired	Unretired Bal
2017	1986	31	2,936,217	2,936,217	-	2,936,217	-
	1987	30	4,602,654	1,363,783	-	1,363,783	3,238,871
	2016	30	55,826,710	4,300,000	18,483,526	22,783,526	33,043,184
		2017 Total	**63,365,581**	**8,600,000**	**18,483,526**	**27,083,526**	**36,282,055**
2018	1987	31	3,238,871	3,238,871	-	3,238,871	-
	1988	30	3,309,095	761,129	-	761,129	2,547,966
	2017	30	50,000,000	4,000,000	17,917,808	21,917,808	28,082,192
		2018 Total	**56,547,966**	**8,000,000**	**17,917,808**	**25,917,808**	**30,630,158**
2019	1988	31	2,547,966	2,547,966	-	2,547,966	-
	1989	30	106,209	106,209	-	106,209	-
	1990	29	618,733	618,733	-	618,733	-
	1991	28	243,770	243,770	-	243,770	-
	1992	27	2,052,908	483,322	-	483,322	1,569,586
	2018	27	50,000,000	4,000,000	17,917,808	21,917,808	28,082,192
		2019 Total	**55,569,586**	**8,000,000**	**17,917,808**	**25,917,808**	**29,651,778**
2020	1992	28	1,569,586	1,569,586	-	1,569,586	-
	1993	27	278,891	278,891	-	278,891	-
	1994	26	558,956	558,956	-	558,956	-
	1995	25	7,798,422	1,592,567	-	1,592,567	6,205,855
	2019	25	50,000,000	4,000,000	17,917,808	21,917,808	28,082,192
		2020 Total	**60,205,855**	**8,000,000**	**17,917,808**	**25,917,808**	**34,288,046**
2021	1995	26	6,205,855	4,000,000	-	4,000,000	2,205,855
	2020	26	50,000,000	4,000,000	17,917,808	21,917,808	28,082,192
		2021 Total	**56,205,855**	**8,000,000**	**17,917,808**	**25,917,808**	**30,288,046**
2022	1995	27	2,205,855	2,205,855	-	2,205,855	-
	1996	26	9,779,757	1,794,145	-	1,794,145	7,985,612
	2021	26	50,000,000	4,000,000	17,917,808	21,917,808	28,082,192
		2022 Total	**61,985,612**	**8,000,000**	**17,917,808**	**25,917,808**	**36,067,803**
		Grand Total 2017-2022	**353,880,454**	**48,600,000**	**108,072,567**	**156,672,567**	**197,207,887**

Patronage Capital Retirement estimated at $8.6M due to deceased payouts of $300K deducted from total.

Note:
-$50M max margins with $8M Distribution for future years
-Retirement cycle will drop to approximately 26 years in 2022

Equity Impact

	Prior to Dist. August 2017	After Dist. August 2017	Change
ASSETS UTILITY PLANT:			
Utility Plant - In service	1,624,980,498	1,624,980,498	
Long-Term Capital Projects	99,731,998	99,731,998	
Utility Plant - Total	1,724,712,496	1,724,712,496	
Accumulated Depreciation	(296,792,340)	(296,792,340)	
Utility Plant - Net	1,427,920,1569	1,427,920,1569	
Capital Term Certificates & Other	12,149,171	12,149,171	
CURRENT ASSETS:			
Current Assets - Total	98,474,175	89,874,175	(8,600,000)
Deferred Charges & Other Assets – Total	71,042,424	70,980,062	
TOTAL ASSETS	1,609,585,926	1,600,923,564	
Equity - Total	632,248,522	623,648,522	(8,600,000)
Equity as a Percent of Assets	39.28%	38.96%	-0.32%

2017 Distribution Proposal

		Historical Information Only				
BOD Approved Allocation & Factor						
	12/31/2016	**12/31/2015**	**12/31/2014**	**12/31/2013**	**12/31/2012**	**12/31/2011**
Margins Allocated	55,783,913	38,014,625	34,069,528	45,828,437	47,352,801	55,511,062
Allocation Factor	0.104904344	0.065660588	0.05684508	0.08449894	0.09121137	0.10148463
Distribution Calculation - Based on Audited F/S						
	12/31/2016	**12/31/2015**	**12/31/2014**	**12/31/2013**	**12/31/2012**	**12/31/2011**
Member Certs	(11,614,133)	(11,127,363)	(10,734,531)	(10,328,522)	(9,990,459)	(9,698,540)
Patronage Capital	(402,206,786)	(373,806,190)	(366,671,228)	(378,650,153)	(370,788,042)	(358,813,492)
Permanent Equity	(171,729,563)	(152,018,032)	(131,462,672)	(99,294,991)	(68,717,883)	(32,902,242)
Total Equity	**(585,550,482)**	**(536,951,585)**	**(508,868,432)**	**(488,273,665)**	**(449,496,384)**	**(401,414,274)**
Annual Margins	(56,797,730)	(35,608,919)	(33,140,728)	(50,767,344)	(46,963,101)	(61,511,059)
Distribution Proposal:						
15% of Margins	**8,600,000.00**	**8,900,000**	**8,285,182**	**13,056,902**	**12,785,795**	**11,960,450**

Proposal - Prior year net margins x 15%. (Bond Limitation - If Equity % of Assets falls below 30%, PEC cannot distribute more than 25% of prior year margins.) As of Aug 2017, the distribution would decrease the Equity Ratio from 39.28% to 38.96% (.32% reduction). Distributing $8.6M would keep the current retirement cycle at 30 years.

2017 Distribution Proposal - 15% of margins:

CC Year	Allocation Bal	Retire %	Retire	Discount Rate	Payout $	Perm Equity		Balance
1986	2,936,217	100%	2,936,217	1	2,936,217	-		-
1987	4,602,654	26.00%	1,196,690	1	1,196,690	-	*	3,405,964
2016	55,826,710	40.50%	22,609,817	0.1825	4,126,292	18,483,526	**	33,216,892
					8,259,199			
				Deceased Payout Estimate	300,000			
				2017 Distribution Total	**8,559,199**			
			BOD	**Proposed Amount**	**8,600,000**			
				Buffer	40,801			

* Distributed in next retirement.

** Balance will remain in Equity for approx. 30 year rotation.

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