

NEWS, NOTES & VIEWS 04/12



*Serviceman Nick
Freeman shown with
a porcelain arrester.*

The board of directors has allocated \$800,000 of the 2012 capital budget toward reducing blinks by replacing aging porcelain lightning arrestors. The cooperative will replace up to 15,000 of these arrestors this year with the work being done by contractors who will be chosen through a competitive bidding process. (The cooperative always competitively bids materials.)

Porcelain was the standard insulating material for a very long time. Unfortunately, with age and exposure to freezing and hot temperatures, cracks – some of them too small to see – develop in the porcelain.

The result: it no longer insulates. A tiny amount of electricity flows through the arrester, ultimately causing a blink. In some cases, the result is an outage.

Instead of porcelain arrestors, the cooperative now uses polymer arrestors which don't develop cracks, and polymer arrestors will replace the porcelain.

We're committed to reducing blinks, and we'll report those efforts throughout the year. For more information, visit e-co-op.com or visit us on Facebook.



Illinois Rural Electric Cooperative

P.O. Box 80, Two South Main Street
Winchester, Illinois 62694

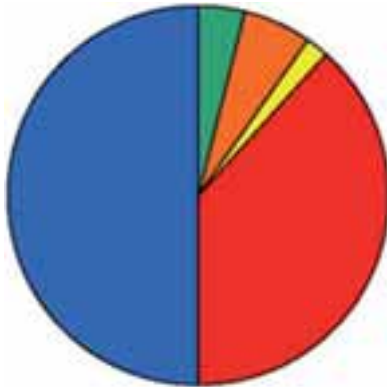
www.e-co-op.com
1-800-468-4732

Your Touchstone Energy® Partner



Five-Year Capital Credit Plan Aims to Return \$5.2-million to Current and Former Members

The Cooperative's Board of Directors has adopted a five-year capital credit retirement plan which, if fully implemented, would return \$5.2-million to current and former members.



\$5.2 Million Over Five Years

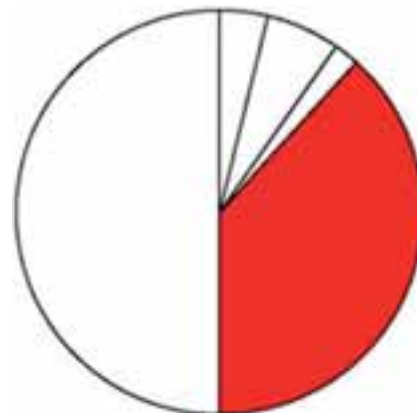
Five groups of members would benefit from the plan adopted by the Board of Directors.

It is important to remember that the plan must be reviewed annually and that, before retiring any capital credits, the Board must find that retiring capital credits will not harm the cooperative's financial health. Simply put, if the cooperative's financial condition were to weaken, the plan would have to change.

Current Members Would Benefit

The plan envisions returning \$400,000 a year to current members for capital credits they earned in the prior year. In all that's 38% of the planned amount.

Generally speaking, capital credit retirements at that level would offset the rate increases needed to support the continual rebuilding of the electric distribution system.



\$2 Million for Current Members

What's a capital credit?

If, as an illustration, you are billed a dollar and you pay that and the costs for providing the service amount to ninety-eight cents, the two remaining cents are your capital and allocated to your capital credit account.

When are they allocated to my capital credit account?

When the cooperative earns an operating margin, the capital credits are allocated after the annual, independent audit of the financial statements.

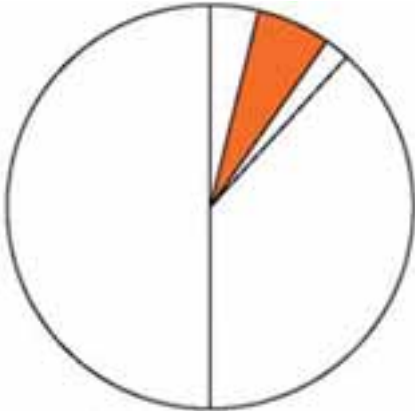
(We call revenue in excess of costs a margin, and we allocate that to members' capital credit accounts. A for profit corporation would call that a profit, and give some to shareholders and keep the rest.)

Are they taxable?

While only your tax advisor can give you definitive tax advice, generally we'd say the answer is, "No for capital credits."

Estates Would Continue to be Retired

The plan would continue to retire estates up to \$60,000 a year, which is the current level of requests to retire estates.



\$300,000 for Estates

People Who Have Moved Away and No Longer Have Electric Accounts

The smallest component of the plan would retire capital credits for people who have moved away and no longer have electric accounts.



\$100,000 for People Who Have Moved Away

Surviving Spouses Could be Taken Out of Order

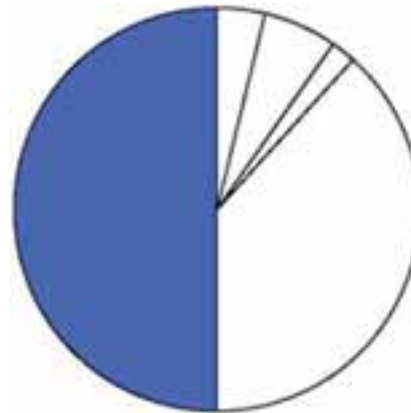
Most of the cooperative's memberships consist of husbands and wives. If the membership had been originally set up in the husband's, or wife's, name, then the surviving spouse would be able to claim the capital credits as estates, so out of fairness, the plan proposes to make some funds available to retire capital credits for surviving spouses; in our experience, they are generally widows.



\$200,000 for Surviving Spouses

Traditional Cooperative Retirements

The largest part of the plan would retire capital credits on a first in, first out basis which is the traditional way cooperatives have retired capital credits. When Prairie Power returns our investment in the Prairie State plant, beginning we expect by 2014, we would use the funds to retire capital credits and to reduce debt on a 50/50 basis. It's anticipated that \$2.6-million would be retired for capital credits allocated through the early 1980s.



\$2.6 Million for First In, First Out

Implementation of the Plan

For full implementation of the plan, members would need to approve the recommended changes to the Bylaws at the Annual Meeting so that capital credits of surviving spouses and those of people who have moved away and no longer have accounts could be taken out of order in the same way estates are now treated.

The reasons for approving the proposed changes are straightforward. First, it is a matter of fairness. In the case of those people who have moved away, they are no longer using the system and their equity need not be tied up in a cooperative that no longer serves them. In the case of surviving spouses, if only they had set up the membership differently at the outset, they would be able to receive the proceeds from the retired capital credit.

Second, and to a lesser extent, it is the case that in some states, present and former cooperative members have been successful in court actions against electric cooperatives because the cooperatives have not had comprehensive capital credit retirement plans for former and current members. You might, then, think of the two smallest parts of this plan as being insurance in addition to their being fair.

With approval of the proposed changes to the Bylaws, all current and former members would be informed of the plan. Estates, surviving spouses and people who have moved away and no longer have accounts would have their capital credits retired within annual budgets set by the Board of Directors. Those capital credits would be retired in the order in which the requests were received by the cooperative.

When capital credits are retired, naturally any money owed to the cooperative is deducted from the payment and this will be reflected on your monthly bill.



2012 Annual Meeting
June 9th at the
Scott County Fairgrounds
Registration Begins
at 9:00 a.m.
Meeting at 10:00 a.m.

\$4,000 in Door Prizes!

