



BOARD OF TRUSTEES POLICIES

<b>Subject: Patronage Capital Allocation and Retirement Policy</b>			<b>Policy No.: 111</b>
<b>Original Issue: 09/27/2011</b>	<b>Last Revised: 09/27/2011</b>	<b>Last Reviewed: 09/27/2011</b>	<b>Page: 1 of 5</b>

**PURPOSE**

To establish a policy for the allocation of Jemez Mountains Electric Cooperative, Inc. (JMEC) Patronage capital to all Patrons on a fair and equitable basis.

**ACCOUNTABILITY**

The Board of Trustees (BOT) is responsible for approving the amounts to be assigned to the Patrons as patronage capital after the final fiscal year audit is approved. The General Manager is responsible for administering and periodically reviewing this policy.

**SCOPE**

JMEC will, as stated in Article VII, "Patronage Capital" of its Bylaws, fairly and equitably assign the margins resulting from the provision of electric energy to its Patrons. The assignment shall be on the basis of patronage to the Patrons purchasing such services. The assignment shall be made within a one hundred and twenty (120) days following the close of JMEC's fiscal year end as a credit to the individual capital account of each Patron. JMEC shall also maintain records for each Patron showing the amount assigned and retired and the balance in each account.

**POLICY**

1. "Patron" definition:

As provided for in the Bylaws, the term "Patron" refers to any member or non-member who purchased electric energy during the time period for which JMEC is allocating the margins to the Patrons.

2. Assignment of Margins Derived from the Provision of Electric Energy (hereinafter referred to as the "Electric Margin").  
The following shall apply: **SEE DIAGRAM A, PAGE 5**

- a. After taking into consideration any loss from the provision of electric energy pursuant to Section 3 of this policy, the assignable Electric Margin shall be: the operating margins, plus capital credits allocated from any generation and transmission (G&T) cooperative, plus any capital credits allocated by other cooperative organizations, plus any non-operating margins.
- b. Such margin shall be assigned to the Patrons by first calculating the gross margin (i.e. revenue billed less cost of power) by rate class. Second, the Electric Margin is then prorated to each rate class based on the gross margin of each over the total gross margin for all rate classes. Third, prorated Electric Margin is then assigned to a rate class' Patrons based on revenue billed for each Patron over the total revenue billed all Patrons for the respective rate class. The assignment shall result in a credit to each Patron's individual capital account.
- c. To the extent the Electric Margin includes G&T capital credits, the following shall apply:
  - i. G&T capital credits shall be assigned separately to the Patrons on the same basis of patronage as calculated in Section 2.(b). This separate assignment shall be identified on the books and records of the Cooperative as the G&T portion of patronage capital.
  - ii. The separate assignment of G&T capital credits may not exceed the overall Electric Margin. Therefore, if the Cooperative has a loss from the provision of electric energy before consideration of G&T capital credits, the Cooperative shall net such loss against the G&T capital credits and then assign the net amount to the Patrons as the G&T portion of patronage capital.



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**3. Losses from Operations:**

If JMEC incurs a loss with respect to the provision of electric energy, the BOT will determine the appropriate method(s) for handling the loss; provided, however, that such method is consistent with applicable law, cooperative principles and mortgage covenants. The method(s) chosen will be determined annually by resolution of the BOT.

As guidance for making this decision, the Board may consider implementing one or more, including but not limited to, of the following:

- a. Carry the loss forward to offset future Electric Margins that would otherwise be allocated to the Patrons until such loss is fully offset, and/or
- b. Use the loss to offset against unallocated reserves, such as unallocated non-operating margins from prior and current years and other amounts not distributable to the members, except upon dissolution of the Cooperative.

**4. Notice of Allocation – Timing and Method of Notification:**

A written notice shall be mailed each year within one hundred and twenty (120) days following the close of JMEC’s fiscal year end, to each Patron entitled thereto, showing the dollar amount of the assignment for the year.

The written notice shall separately state the assignment for each of the following:

- a. Electric energy, exclusive of the power supply portion, and
- b. The G&T cooperative portion of the Electric Margins.

**5. Margins and Losses from Other than the Provision of Electric Energy:**

Margins other than from the provision of electric energy (as defined in section 2a above as “Electric Margin”) shall be retained by JMEC as capital that is not allocated and distributed to the Patrons except upon dissolution of JMEC. Such capital may be used to offset any loss for the current and/or prior year(s); otherwise, such amounts are considered part of the net assets of the Cooperative. It shall be the responsibility of the BOT to determine annually any such amount to be retained.

**6. Right to Assign Patronage:**

Any Patron may assign all or any portion of his patronage capital earned, credited or expected to be credited in the future to JMEC Foundation, as long as the account is not in arrears. All arrearages will be paid to JMEC before the assigned patronage will be paid to the Foundation.

**7. Attempt to Locate a Patron:**

If JMEC is unable to locate the Patron after two years of good faith attempts, the patronage capital will constitute an irrevocable gift to the JMEC Foundation.



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**8. Patronage Capital of Deceased Patron:**

- a. Capital credited to the account of a patron may be assignable upon the death of the patron.
- b. The deceased patron must have been a natural person;
- c. The patron must have been the sole owner of the capital credits. Patronage capital credits will not be paid to estates of deceased patrons when the account was owned jointly with a surviving patron.
- d. Requests for assignment of a deceased patrons' patronage capital credits must be submitted in writing by the personal representative of the deceased patron, and must be accompanied by appropriate documentation as required by JMEC;
- e. Capital will be retired to the assignee in the same manner as with other patrons.

**9. This policy will be used to allocate and credit 2009 Patronage Capital and all future year allocations.**

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**PURPOSE**

To provide guidance for establishing the Jemez Mountains Electric Cooperative, Inc. (JMEC) retirement of patronage capital to patrons.

**ACCOUNTABILITY**

The Board of Trustees (BOT) is responsible for approving the amount, if any, of outstanding patronage capital to be retired to the Patrons. The General Manager is responsible for administering this policy.


**POLICY**

**1. Jemez Mountains Electric Cooperative, Inc. (JMEC) Credits:**

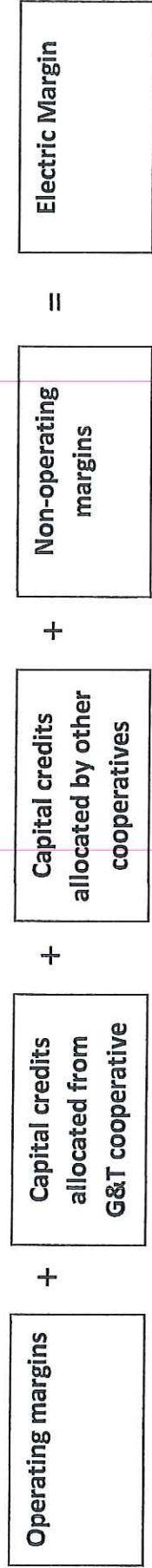
- a. At least once per year the BOT will review the financial position of JMEC to determine if retirement of patronage capital to its patrons is feasible.
- b. If at any time the BOT shall determine that the financial condition of JMEC will not be adversely impaired thereby, the capital credited to patrons' accounts may be retired in full or in part. Any such retirements of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by JMEC being first retired.
- c. If a Patron has a delinquent energy account at the time a retirement of capital credits is approved by the BOT, the amount due JMEC from such patron will be credited first from the patronage capital account.
- d. Retirement of capital credits will only occur in accordance with the Bylaws and when it will not adversely affect the financial position of JMEC and is in a manner consistent with the mortgage and loan contract requirements of the Rural Utilities Service (RUS), National Rural Utilities Cooperative Finance Corporation (CFC), Co-Bank or any other lender to JMEC.

**2. Generation and Transmission (G&T) Credits:**

- a. The generation and transmission (G&T) cooperative portion of capital credits will not be retired to the patrons until such amounts are retired by the G&T cooperative to JMEC.

	, Secretary	Date: 9/27/11
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**Jemez Mountains Electric Cooperative, Inc. Patronage Capital Allocation Process**



**Process for Assigning Margins to Patrons\*\***

- Step 1:** Calculate the gross margin (Revenue billed minus cost of power)
- Step 2:** Prorate electric margin to each rate class (based on the gross margin of each rate class over the total gross margin for all rate classes)
- Step 3:** Assign prorated margin to rate class patrons (based on revenue billed all patrons for the respective rate class)

**\*\*NOTE:**

G&T capital credits are assigned separately to the patrons on the same basis of patronage as calculated in Step 2 above. This separate assignment shall be identified on the books and records of the Cooperative as the G&T portion of the patronage capital.

The separate assignment of G&T capital credits may not exceed the overall Electric Margin. Therefore, if the Cooperative has a loss from the provision of electric energy before consideration of G&T capital credits, the Cooperative shall net such loss against the G&T capital credits and then assign the net amount to the patrons as the G&T portion of patronage capital.