YOU get the credit

SBEC retires nearly $500,000 to members

It’s time for you to get the credit — capital credits, that is — for helping build, sustain, and grow your local electric cooperative. This fall San Bernard Electric Cooperative, Inc. retires — or pays by bill credit — $499,665.93 to nearly 19,443 active and inactive members like you across portions of eight counties served by the co-op.

When you sign up to receive electric service from an electric cooperative, such as SBEC, you become a member-owner of an electric cooperative. While investor-owned utilities return a portion of any profits back to their shareholders, electric cooperatives operate on an at-cost basis. So instead of returning leftover funds, known as margins, to folks who might not live in the same region or even the same state as you do, SBEC allocates and periodically retires capital credits (also called patronage dividends, patronage refunds, patronage capital, or equity capital) based on how much electricity you purchased during a year.

This year, SBEC members from 2016 and 2017 will receive a percentage of capital credit retirements through bill credits on their December 2018 billing, reflecting their contribution of capital to and ownership of, the cooperative during those years. The percentages of capital credits retired for the aforementioned years are as follows:

<table>
<thead>
<tr>
<th>Year Retired</th>
<th>% Of Capital Credit Retirement</th>
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<tbody>
<tr>
<td>2016</td>
<td>6.84%</td>
</tr>
<tr>
<td>2017</td>
<td>7.28%</td>
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</table>

Before retirement, these funds helped SBEC reduce the amount of money we needed to borrow from outside lenders to build, maintain, and expand a reliable electric distribution system, and covered emergency expenses.

Inactive members or persons not currently purchasing their electricity from SBEC but who were members during the years of the capital credit retirement will be receiving a check for their capital credits. It is very important that SBEC has the current mailing address of all inactive members to ensure the delivery of the capital credit checks. To confirm or update your mailing address, please call SBEC at 1-800-364-3171.

San Bernard Electric Cooperative, Inc. is an electric distribution cooperative formed in 1939. Currently the Cooperative has approximately 3,950 miles of distribution line serving approximately 28,000 residential, commercial and industrial meters in 8 Texas counties — Austin, Colorado, Fayette, Grimes, Harris, Lavaca, Montgomery and Waller.
For more information on this part of the cooperative business, read the following Q & A:

Common Capital Credits Questions:

WHAT ARE CAPITAL CREDITS?
An electric cooperative operates on an at-cost basis by annually “allocating” to each member, based upon the member’s purchase of electricity, operating revenue remaining at the end of the year; later, as financial condition permits, these allocated amounts—capital credits—are retired. Capital credits represent the most significant source of equity for SBEC. Since a cooperative’s members are also the people the co-op serves, capital credits reflect each member’s ownership in, and contribution of capital to, the cooperative. This differs from dividends investor-owned utilities pay shareholders, who may or may not be customers of the utility.

WHERE DOES THE MONEY COME FROM?
Member-owned, not-for-profit electric co-ops set rates to generate enough money to pay operating costs, make payments on any loans, and provide an emergency reserve. At the end of each year, we subtract operating expenses from the operating revenue collected during the year. The balance is called an operating “margin.”

HOW ARE MARGINS ALLOCATED?
Margins are allocated to members as capital credits based on their purchases from the cooperative—how much power the member used. Member purchases may also be called patronage.

DOES CENTERPOINT, ENTERGY, AEP OR THE CITIES of BELLVILLE, HEMPSTEAD, and HALLETTSVILLE RETIRE CAPITAL CREDITS?
No. Within the electric industry, capital credits only exist at not-for-profit electric cooperatives owned by their members.

ARE CAPITAL CREDITS RETIRED EVERY YEAR?
Each year, the SBEC Board of Directors makes a decision on whether to retire capital credits based on the financial health of the cooperative. During some years, the co-op may experience high growth in the number of new accounts, or severe storms may result in the need to spend additional funds to repair lines. These and other events might increase costs and decrease member equity, causing the board not to retire capital credits. For this reason, SBEC’s ability to retire capital credits reflects the cooperative’s strength and financial stability. The board alone decides whether to retire capital credits.

DO I LOSE MY CAPITAL CREDITS IN THE YEARS THE CO-OP DECIDES NOT TO MAKE RETIREMENTS?
No. All capital credits allocated, for every year members have been served by SBEC, are maintained until the board retires them. Prior to this year:

- in 2010 SBEC retired all capital credits from 1973 through 1980 and 10% of years 2006 through 2009,
- in 2012 SBEC retired 20% of 1985 capital credits, 10% from 1986, and 5% from 2009, 2010, and 2011,
- in 2013 SBEC retired 48% of 1985 capital credits and 5% from 2010, 2011, and 2012,
- in 2014 SBEC retired all remaining capital credits from 1985, and 15% from 1986, and 8% from 2013,
- In 2015 SBEC Retired 30% of 1986 capital credits, 10% from 1987, 10% from 2012, 10% from 2013, and 10% from 2014.
- In 2016 SBEC retired 45% of 1986 capital credits 11% from 2014 and 10% from 2015.
- In 2017 SBEC retired no capital credits.

WHAT YEARS WILL BE RETIRED IN DECEMBER 2018?
SBEC will be retiring a percentage of capital credits to members who purchased electricity from the cooperative in the years 2016 and 2017.

HOW MUCH WILL BE RETIRED IN TOTAL IN 2018?
$499,665.93
HOW MUCH HAS SBEC PAID IN TOTAL CAPITAL CREDITS RETIREMENTS SINCE IT BEGAN IN 1939?
SBEC has paid $21,747,485 in capital credit retirements to current and former members to date.

HOW OFTEN DO MEMBERS RECEIVE CAPITAL CREDIT RETIREMENTS?
The SBEC Board of Directors makes a decision each year by December whether or not to retire capital credits. When the cooperative is strong enough financially and member equity levels are high enough, the board directs staff to retire some portion of past years’ capital credits.

HOW WILL THE RETIREMENT WORK?
Current SBEC members, who purchase electricity now and during the years being retired, will receive a credit on their December electricity bill. Inactive or former members who no longer purchase electricity from SBEC (but who purchased electricity during the years being retired) will receive a check during January.

WHAT IF I HAVE MOVED?
If you move or no longer have electric service with SBEC, it is important that you inform the cooperative of your current address, so that future retirements can be properly mailed to you. If you purchased electricity during the years being retired, then you are entitled to a capital credit retirement, even if you move out of the SBEC service area. If we have your current address, then SBEC will send your retirement check by mail. To confirm or update your mailing address, please call SBEC at 1-800-364-3171.

HOW MANY PEOPLE WILL GET RETIREMENTS?
Roughly 17,961 currently active members will receive a bill credit on their primary electric account in January for the amount of their capital credit retirements. Another approximately 1,482 inactive members will receive checks.