



Understanding the Solomon Gulch Patronage Capital Allocation

If you were a member of Copper Valley Electric Association in 2009 you received a capital credit allocation notice early last month. CVEA is an electric cooperative owned by the members it serves. As a non-profit cooperative, CVEA does not issue stock or declare dividends. Revenues over and above expenses are called margins (profits) and belong to the members. CVEA is required by its Bylaws to allocate the prior yearend margins by June 30 of each year.

A special Solomon Gulch allocation notice will be sent to you in July and should not be confused with the regular allocation notice you received in May. An explanation of the special SG allocation was provided at the annual meeting in April but in case you missed it, here is an update.

In 2006 CVEA began working with the Four Dam Pool Power Agency (FDPPA) to acquire the Solomon Gulch hydro project and transmission system. The transaction closed on February 24, 2009. As a part of the transaction CVEA assumed all ownership responsibilities.

The Solomon Gulch project has a number of significant maintenance projects which need to be addressed to ensure the project continues to be a reliable source of power for many years to come. In addition, the long-standing risk of avalanche in Thompson Pass must be addressed.

These were some of the circumstances taken into consideration when CVEA negotiated the purchase of Solomon Gulch from the Four Dam Pool. As part of the transaction CVEA received \$16,646,393 for assuming the risks and burdens of owning the Project. This money has been deposited in a renewal and replacement fund (R&R Fund) to address the aforementioned items, to help fund future operating and capital expenditures, and financially

position CVEA to carry out our new ownership responsibilities.

For two years CVEA has been working on the tax consequences relating to this transaction. The Internal Revenue Service considers the receipt of the R&R Fund money generally to be taxable income.

CVEA consulted with the IRS on this specific issue and obtained a Private Letter Ruling (PLR). The PLR states that for the money received to not be taxable, CVEA must allocate the full amount, including interest, to our members in the form of a non-payable patronage capital allocation.

If CVEA did not do this we would pay an estimated 40% tax on this money or about \$7 million.

The amount being allocated to members in 2010 is \$17,097,726; which includes the 2009 interest earnings on the original amount received.

The money will be allocated to members who purchased electricity between 2002 and 2008 which are the years the FDPPA was in existence.

If you were a member during that time, within the next month you will receive a notice stating your share of the non-payable allocation.

As the R&R Fund is spent on maintenance and capital projects each year, you will receive a notice cancelling a portion of the allocation. These notices will continue until the initial deposit into the R&R Fund has been expended.

We have included a list of frequently asked questions relating to this transaction and capital credits in general. If you have additional questions please contact CVEA offices at 822-3211 in the Copper Basin or 835-4301 in Valdez.



Left: Solomon Gulch Hydroelectric Facility
Below: The T-Line on Thompson Pass



Frequently Asked Questions

Q: What is a capital credit allocation?

A: CVEA is a non-profit electric cooperative owned by the members it serves. As a nonprofit cooperative, the money left over at the end of the year after paying expenses belongs to you, the member. Your share of the left over money is held in an account in your name. It is called capital credits.

Q: When did CVEA last mail capital credit notices?

A: If you were a member in 2009 you received a notice for 2009 margins in early May 2010. The notice listed your 2009 capital credit allocation along with your total unretired balance.

Q: What is the difference between allocate and retire?

A: Allocation is the calculation of how much of the left over money belongs to each customer who purchased electricity from CVEA in a given year. Retirement, which is synonymous with refund, is the amount you would receive if the Board of Directors declared a general retirement (refund) of capital credits. When the CVEA Board of Directors elects to retire capital credits, a dollar amount is determined and members are paid their share of the declared retirement.

Q: What if I want to find out more about capital credits?

A: Please contact the CVEA office or visit www.cvea.org/news/capitalcredit.htm for additional information.

Q: How is the R&R Fund allocation different from the annual notice I received for 2009 margins?

A: The R&R Fund allocation is a paper-only transaction which allows CVEA to avoid having to pay a \$7 million income tax bill. Instead of paying taxes CVEA will spend the money to maintain and improve the Solomon Gulch project.

Q: Is the R&R Fund allocation a taxable transaction?

A: CVEA cannot give out tax advice but our opinion is that it is unlikely the R&R Fund allocation is taxable income. The allocation and subsequent notices cancelling portions of the initial allocation is a paper transaction. No portion of the R&R Fund allocation will ever be refunded since the funds will be spent on existing obligations.

Q: I own a business, should I record this investment on my books?

A: See above. Businesses might want to consult their accountant or tax advisor.

Q: Why won't I receive a check for my portion of the R&R Fund allocation?

A: This is a non-payable allocation; the R&R Fund will be spent on project maintenance and upgrades and to levelize the cost of power produced at Solomon Gulch. If the money were spent elsewhere rates would have to be raised to collect sufficient funds for project maintenance.

Q: If I have additional questions who can I contact?

A: Please contact CVEA offices at 822-3211 in the Copper Basin or 835-4301 in Valdez. ■