

ARTICLE 6

Capital Credits

Amended January 2015, March 29, 2016, May 31, 2016, September 25, 2018, March 30, 2021

Section 1. Capital Credit Allocations. The Board of Directors shall direct Cooperative management to allocate margins and losses separately among the various operating divisions of the Cooperative that the Board might, from time to time, establish. Allocations from sources other than Enerstar Electric Cooperative (“Cooperative”), such as the Generation and Transmission Cooperative (“G & T”), or Lenders/Vendors/Etc. Cooperatives (“Other”), will be maintained separately on the capital credit account of the member.

Effective March 29, 2016, allocations of patronage capital from non-G&T operating margins will be distributed according to gross margins (operating revenue minus the cost of purchased power) for each rate class. Allocations of patronage capital from G & T and Other margins will be distributed according to kWh sales.

Section 2. Capital Credit Retirements. Retirement of capital credits shall be made only in accordance with the bylaws and any resolution(s) which have been, or might hereafter be adopted by the Board of Directors. Capital credits allocated from the G & T and Other sources will be retired to each member only after Enerstar has received the cash refund of patronage capital from the G & T or Other sources and subject to the Board’s determination based on the financial condition of the Cooperative.

An examination of the financial condition of the cooperative will be performed annually during Budget review, and a general retirement of capital credits will be considered at that time. If a general retirement is recommended by the Board, the retirement amount will be included in Budget. The Cooperative will strive to achieve and maintain a capital credit rotation cycle of 25 to 30 years.

Section 3. Capital Credit Special Retirement to Decedent Estates. EnerStar shall, upon written application of the heirs, legatees or legal representatives of a deceased member, who is a natural person, pay or retire the patronage capital credited to such deceased member.

- a. The estates of members deceased prior to January 1, 2018, may receive 100% of the capital credited to the deceased members’ account.
- b. The estates of members deceased on or after January 1, 2018, may select one of two options for retirement of capital credit accounts:
 - 1.) The estate may request a special early retirement and receive the deceased member’s capital credits before they are scheduled for distribution. These early retirements consist of a lump sum payout with a discount factor applied. The discount factor is equal to the long-term borrowing rates using current 20-year fixed rate terms. The discount factor will be calculated twice a year: on January 1 and July 1. If unretired

capital credits extend past a 25-year rotation cycle (capital credits that were allocated more than 25 years prior to the present date), those years beyond 25 years will be paid out at their full value.

- 2.) The deceased members' capital credits may remain on file at the Cooperative and will be retired and paid at full value over a period of time as part of the normal general retirement process when the board approves a general retirement for the specific years in which the members' capital credits were earned.

When the death of a member occurs, capital credits for the portion of the year in which death occurs shall be computed at the appropriate rate of allocation through the month that the death occurred and will be payable after such time as all patronage accounts have been allocated for that year. If it is requested that the account be closed and refunded before allocations have been made, the account may be closed and refunded for the last year in which an allocation was made on the member's account, and the capital credits will be payable at a discounted rate through a special early retirement as described above. The executor or heir of the estate must certify in writing his acceptance of these terms.

A 6-month grace period should be given from the death of a decedent, during which time the capital credits which are earned under the decedent's name may be payable to the decedent's estate. After 6 months, if the account is still in the decedent's name, no further capital credits would be earned on the account.

The patronage capital credited to a joint account shall not be paid until the death of the surviving joint tenant occurs.

Section 4. Application for Retirement of Decedent Estate. Application for payment of capital credits shall be made through the office of the Cooperative, upon forms approved by the Cooperative. A small estate affidavit with companion certified copy of the death certificate and/or file-stamped last will and testament is required for those estates consisting of only personal property with a total value of \$100,000 or as required by law. Representatives for all other estates must provide letters testamentary/administration issued by a court of competent jurisdiction.

An alternative, less cumbersome, method of redeeming estate capital credit accounts is available to members that choose to designate a beneficiary whom they wish to receive their interest in EnerStar. The Illinois Uniform TOD Security Registration Act 815 ILCS 10/0.01 et. seq. allows the member to designate a beneficiary of the member's capital credit account for distribution to the beneficiary upon the member's passing. The designation must be in writing, signed by the member, notarized, dated, and include the full name, address and contact information for the designated beneficiary. An acceptable form for designating the beneficiary will be furnished by the Cooperative.

Section 5. Capital Credit Forfeiture for Debts and Obligations. Annually, when the Cooperative allocates capital credits to the member(s) of the Cooperative, the CEO shall cause a statement of uncollectible debts and obligations owed by member(s) to the Cooperative to be

created and presented to the Board following the allocation of capital credits. The Board shall consider the retirement of those capital credits for those members who have uncollectible debts or obligation to the Cooperative. The Board may retire such capital credits as have been previously allocated to said members up to an amount sufficient to satisfy the debt or obligation owed by the member to the Cooperative.

This special retirement applied to the outstanding debt or obligation will have a discount factor applied. The discount factor is equal to the long-term borrowing rates using 20-year fixed term rates. The discount factor will be calculated twice a year: on January 1 and July 1. If unretired capital credits extend past a 25-year rotation cycle (capital credits that were allocated more than 25 years prior to the present date), those years beyond 25 years will not be discounted. The Cooperative will charge interest due and an administrative fee on said debt or obligation that is generally applicable to all members.

Section 6. Abandoned Capital Credits. Two years following a general retirement and after due diligence has been performed to locate and identify members with a capital credit balance that was part of the general retirement, if the members are unable to be located/identified then the capital credit funds belonging to those unlocated members and that were to be a part of the general retirement, will be changed to an abandoned status, will no longer be available for distribution, and will become a part of the permanent equity of the Cooperative.