Delaware Electric Cooperative Proposed Bylaw Amendment

Each year, DEC hires an independent auditor to review its financial statements. While our Co-op is in excellent financial shape and the auditors found no discrepancies, this year they suggested a change in how non-operating margins (profits) are allocated. Non-operating margins are profits from interest, dividends, and other sources not associated with the purchase and distribution of electricity by the Cooperative. Based on the auditor's recommendation, members are being asked to consider a bylaw change that would give DEC the flexibility to reinvest non-operating margins back into the Cooperative, use the funds to offset any financial losses or transfer the margins into an emergency reserve fund that could be used to pay for damage to the local grid caused by major storms. If the bylaw change is approved, operating margins tied to the purchase and distribution of electricity by the Cooperative would continue to be returned to members each December in the form of billing credits. The full text of the suggested bylaw change is below.

DEC members are being asked to amend Article VII, Section 2 of the By-Laws of Delaware Electric Cooperative, Inc., by making insertions as shown by underline and deletions as shown by strikethrough in red as follows:

Section 2. Patronage Capital in Connection with Furnishing Electric Distribution Service and/or Electric Supply Service.

~~In the furnishing of electric distribution service and/or electric supply service, the Cooperative's operations shall be so conducted that all patrons, members and non-members alike, will through their patronage furnish capital for the Cooperative. In order to induce patronage and to assure that the Cooperative will operate on a non-profit basis to all its patrons, members and non-members alike, for all the amounts received and receivable from the furnishing of electric distribution service and/ or electric supply service in excess of operating costs and expenses properly chargeable against the furnishing of electric distribution service and/or electric supply service. All such amounts in excess of operating costs and expenses at the moment of receipt by the Cooperative are received with the understanding that they are furnished by the patrons, members and non-members alike, as capital. The Cooperative is obligated to pay by credits to a capital account for each patron all such amounts in excess of operating costs and expenses. The books and records of the Cooperative shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron, and the Cooperative shall within a reasonable time after the close of the fiscal year notify each patron of the amount of capital so credited to their account. All such amounts credited to the capital account of any patron shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished the Cooperative corresponding amounts for capital. All other amounts received by the Cooperative from its operations in excess of costs and expenses shall, insofar as permitted by law, be (a) used to offset any losses incurred during the current or any prior fiscal year and (b) to the extent not needed for that purpose, allocated to its patrons on a patronage basis and any amount so allocated shall be included as a part of the capital credited to the accounts of patrons, as herein provided.~~ <u>The Cooperative's operations and the furnishing of electric distribution service and/or electric supply service (the "Cooperative services") shall be conducted such that all patrons will, through</u>

their patronage, furnish capital for the Cooperative. For each fiscal year, the Cooperative shall keep an account of and record all operating margins received from providing the Cooperative services in excess of the operating expenses and costs incurred in providing the Cooperative services ("patronage margins"). The Cooperative shall also keep an account of and record all non-operating margins received each fiscal year from interest, dividends, or any other source in excess of the Cooperative's non-operating losses ("non-patronage margins"). The accounting and recording of patronage margins and non-patronage margins shall, in each case, be as determined under federal tax laws and regulations applicable to cooperatives.

Patronage margins are, at the moment of receipt by the Cooperative, received with the understanding that they are furnished by the patrons as capital. The Cooperative shall equitably allocate and pay by credits to a capital account for each patron all patronage margins in proportion to the quantity or value of the Cooperative service used during the fiscal year ("capital credits"). All capital credits allocated to the account of a patron are treated as though the Cooperative paid the amount allocated to the patron in cash pursuant to a pre-existing legal obligation and the patron contributed a corresponding amount of capital to the Cooperative. Within a reasonable time after the close of each fiscal year, the Cooperative shall notify each patron of the capital credits allocated to their account. The Cooperative shall maintain records of the capital credits allocated to each patron and of any retirement payments made and the corresponding account balances associated therewith.

Non-patronage margins may, at the discretion of the Board of Directors and as permitted by law: (a) be used to offset any losses incurred during the current or any prior fiscal year; (b) be retained as capital and used in the Cooperative's operations or maintained as risk contingency reserves; or (c) be equitably allocated to each patron in the same manner as patronage margins and included as part of the capital credits allocated as provided herein.

###