You asked.

We're answering.

This is the fifth in a series of responses to concerns expressed by members.

Member comment:

"Having to wait 20 years for a capital credit retirement payment is too long. In 20 years inflation will have reduced their value by more than half."

Our response: **Active members don't have to wait a full 20 years. They are eligible for partial capital credit refunds after only three years and for non-business accounts the capital credit refund is non-taxable income.**

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By Mark Pendergast, President and CEO

St. Croix ELECTRIC
A Touchstone Energy® Cooperative

Inflation will reduce the buying power of a member's capital credit refund over 20 years; however tax free cash back anytime is better than no cash at all.

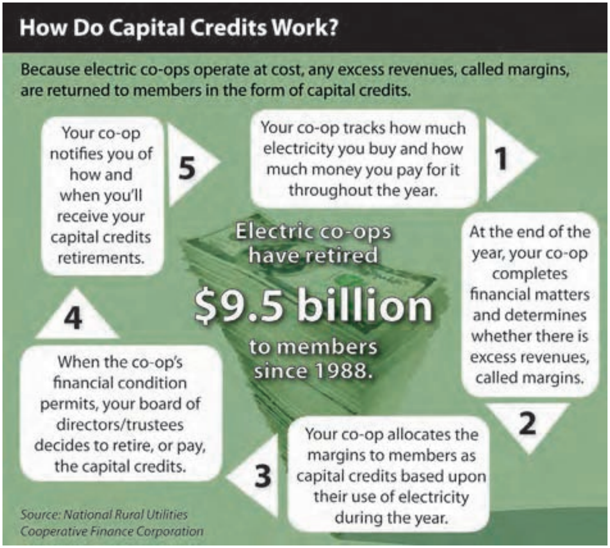
The following describes how you as a member consumer of this cooperative build a limited financial ownership interest in the business and how your investment is returned.

When a business has income in excess of expenses it's called a margin or profit. In our not-for-profit cooperative when we have a margin we are required by the Internal Revenue Service (IRS) to allocate and return this margin to our members.

Each year you receive a notice in July of your share or allocation of the previous year's margin. For 2010 the total margin from rates, interest income, non-electric business revenues and capital credits from other cooperatives was 9.1 percent of electric revenue. So for a member who paid an electric bill of $150 per month - $1,800 for the year, their capital credit allocation was $163.80 or 9.1 percent of their annual bill for electricity. The cooperative keeps a record of each member's allocation for future payment.

In our cooperative, the members (you) are our only owner/investors. We do not have stockholders who invest in the cooperative to earn a profit. Our only sources of funding for operations comes from you our members in the form of retained capital credits and from our lenders. We currently have 44 percent owner equity from members and debt financing from other sources accounts for 56 percent of our total capitalization.

When the board of directors sets the electric rates a margin is included in these rates. We need to have a margin each year to generate sufficient cash to pay our bills, to build and maintain required equity levels set by our lenders and to be able to pay capital credits allocated years earlier.



In 1937 when the cooperative was organized each prospective member contributed a mere $5 to the business. With less than $1,000 of cash equity, fewer than 200 members borrowed $200,000 to begin construction of St. Croix Electric Cooperative. Poles were set, transformers hung, wires strung and then the meters began to turn. It wasn't until 1963 when the first capital credit retirement was paid to the founders and other members in the amount of $50,354 for the years 1939-1946.

The electric users and rate payers in 1939 waited 24 years to get their first dollar of equity investment returned. Since 1963 more than $11 million in capital credits have been paid back to current and former members. Holding a member's capital credits for up to 20 years ensures the required ongoing ownership cost to build and maintain the electric distribution system is a shared financial responsibility of all current and past consumers.

If you joined the cooperative when you moved into

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an existing home your investment to access a $40 million utility system was a $5 membership fee. If you built a new home and we extended a line, you were asked to pay only a portion of the actual cost for the wire and labor for the line extension. You did not pay any upfront costs for the transformer, meter and the existing poles, wires and substation needed to have power available for you. These costs are a shared expense paid by all consumers.

Your cooperative exists because no one person could afford the total cost of extending and providing electric service. But together the cooperative membership is a powerful force doing exactly what no one individual could.

The cooperative's average investment in utility plant per meter served is $4,300. In checking the 20 year capital credit account for a typical residential member for the years 1990 – 2010 I found a balance to be paid of $1,050 in their account. For a refundable $1,050 investment this member is receiving the value of $4,300 in the utility system.

In 1996 the board of directors approved a hybrid capital credit retirement program. The new policy retained the 20 years cycle (1991's capital credits paid out in 2011) and added the option for a partial refund of capital credits allocated three years earlier (2008).