

Policy 5.4

EQUITY DEVELOPMENT

I. OBJECTIVE

To establish a plan and schedule for optimizing the members' equity in the Association while, at the same time, maintaining the required Times Interest Earned Ratio (TIER) and Debt Service Coverage (DSC) levels in order to provide electric service to the members at the lowest cost consistent with sound economy, wise use of resources and good utility practices.

II. POLICY

- A. Rates charged by the Association for electric service shall be at levels which yield revenues adequate to:
1. Maintain the financial integrity and credit worthiness of the Association;
 2. Maintain the facilities of the Association in a safe and reliable operating condition;
 3. Maintain not less than a 1.79 Operating Times Interest Earned Ratio (O-TIER) and Debt Service Coverage (DSC) levels;
 4. Construct needed additions to the Association's plant and facilities using a combination of long-term debt and general funds that is consistent with the Association's optimum equity ratios;
 5. Provide adequate working capital and cash reserves (without including the sinking fund reserve) of approximately 60 days of operating and maintenance expenses;
 6. Retire capital credits in the manner specified by Policy No. 5.3; and
 7. Increase the equity of the members in the Association to its optimum level, within a 30 percent to 40 percent equity ratio range, and, once that level is attained, to maintain it.
- B. The optimum equity level for the Association is that level, set by the Board, at which the Association's rates for electric service are the minimum necessary to meet the capital credits rotation period established by the Board and the TIER objectives established by the Board, taking into account the overall blended cost of the Association's long-term debt and the growth rate of the Association's total capitalization.

III. RESPONSIBILITY

- A. The President & Chief Executive Officer is responsible for implementing the Equity Development Policy. At least once each year he shall report to the Board the results of the Plan for the prior fiscal year and shall propose revisions to the Plan, if appropriate, reflecting current data.
- B. The Board is responsible for the adoption of appropriate revisions to the Equity Development Policy.

Adopted:
June 27, 1988

Amended:
July 28, 2008