



electric**FORCE**

*“Beartooth Electric is **our** energy cooperative.”*

Kent & Becky Nelson / Red Lodge



your cooperative newsletter

October 2015

LOOKING BACK AND LOOKING FORWARD— 2015 ANNUAL MEETING



BEC AUDITED FINANCIALS 2014-2015

*Statement of Revenue and
Patronage Capital*

PG4

BEC AUDITED FINANCIALS 2014-2015

Balance Sheet

PG5

BEC 2015-2016

Board of Trustees

PG4-5

ARE WE THERE YET? YES.

Risk Management/Due Diligence Chair

Arleen Boyd.

PG6

First of all, thank you to those who participated in our Annual Meeting—everyone who voted in the trustee election and all those who attended the September 26 gathering. I would also like to thank Laurie Beers and Dick Nolan for committing to serve the members of Beartooth Electric for another term.

We look back on a year that’s been a time of positive transition for your electric cooperative. Beartooth Electric formed a cost-saving partnership with Wyoming cooperative Lower Valley Energy through a management services agreement. Your board of trustees and BEC employees looked high and low for ways to improve efficiency. As a result, a 5 percent rate decrease was approved this past August. In addition, both an exit from Southern Montana G&T and a new competitive power supply are being finalized.

As we look ahead, the future looks very bright for Beartooth Electric. We will continue to work to improve efficiencies and reduce costs, while

enhancing system reliability and reducing line losses. The management services agreement will end in 2017, at which time we (Beartooth Electric, the board of trustees, and ultimately, you, the members) will decide how to proceed: by merging with Lower Valley Energy; or putting in place a permanent management team. A lot of big decisions have been made over the last year, and many more important decisions loom on the horizon. But you should rest assured that your BEC board, employees, and management team are doing everything possible to improve your electric cooperative. It is



*James R. Webb
BEC General Manager
Lower Valley Energy,
President/CEO*

a privilege to provide the service that warms your lives and lights your way.

2015-2016 Board of Trustees

The election of your Board Officers occurred after the time of print. Please check our next edition of *Rural Montana* for results.



BEARTOOTH ELECTRIC COOPERATIVE AUDITED

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STATEMENT OF REVENUE & PATRONAGE CAPITAL					
Amts in \$000					
	JUNE 30, 2015		JUNE 30, 2014		Increase (Decrease)
	Amount	% Of Revenue	Amount	% Of Revenue	
TOTAL OPERATING REVENUE	\$10,276	100.0%	\$10,602	100.0%	\$(325)
OPERATING EXPENSES					
Cost of Power & Transmission	\$4,937	48.0%	\$5,155	48.6%	\$(218)
Distribution Operations & Maintenance	\$1,372	13.4%	\$1,784	16.8%	\$(412)
Admin, General & Consumer Expense	\$1,596	15.5%	\$1,689	16.0%	\$(93)
General Plant Maintenance	\$122	1.2%	\$149	1.4%	\$(27)
Depreciation	\$946	9.2%	\$883	8.3%	\$63
Interest Expense	\$619	6.0%	\$644	6.1%	\$(25)
Total Operating Expense	\$9,592	93.3%	\$10,304	97.2%	\$(712)
Net Operating Margin Before Patronage Capital Credits	\$684	6.7%	\$298	2.8%	\$387
Patronage Capital Credits	\$54	0.5%	\$56	0.5%	\$(2)
Net Operating Margin	\$738	7.2%	\$354	3.3%	\$385
Non-Operating Margins					
Interest Income	\$12	0.1%	\$12	0.2%	\$0
Other Non-Operating Revenue	\$3	0.0%	\$(6)	-0.1%	\$9
Total Non-Operating Margins	\$15	0.1%	\$6	0.1%	\$9
Net Margins	\$753	7.3%	\$360	3.4%	\$394
PATRONAGE CAPITAL-BEGINNING OF YEAR	\$4,715		\$4,471		
Less: Retirement of Capital Credits	\$(8)		\$(20)		
Less: Margins Transferred to Other Equities	\$(4)		\$(18)		
Less: Non-Operating Margins Transferred to Other Equities	\$(15)		\$(78)		
PATRONAGE CAPITAL-END OF YEAR	\$5,441		\$4,715		

FINANCIALS

JUNE 30, 2014—JUNE 30, 2015

BALANCE SHEET					
Amts in \$000					
ASSETS			EQUITIES, MARGINS, LIABILITIES & OTHER CREDITS		
	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014
UTILITY PLANT (AT COST)			EQUITIES AND MARGINS		
Total Utility Plant	\$30,191	\$29,448	Patronage Capital	\$5,441	\$4,715
Less: Accumulated Depreciation	\$13,287	\$12,797	Other Equities	\$220	\$200
Net Utility Plant	\$16,904	\$16,651	Total Equities & Margins	\$5,661	\$4,915
OTHER PROPERTY & INVESTMENTS			LONG-TERM DEBT		
Investments in Assoc Organizations	\$359	\$329		\$11,358	\$12,005
Investments in CFC	\$282	\$284	CURRENT LIABILITIES		
Total Other Property & Investments	\$641	\$613	Note Payable Bank L/C	\$200	\$-
CURRENT ASSETS			Current Portion Long-Term Debt	\$638	\$661
Cash & Temporary Cash Investments	\$80	\$171	Line of Credit - Guaranteed Debt	\$0	\$251
Accounts Receivable & Note Receivable	\$1,132	\$984	Accounts Payable	\$844	\$752
Materials, Supplies, Prepayment & Other	\$534	\$498	Consumers' Deposits	\$59	\$69
Total Current Assets	\$1,746	\$1,653	Accrued Taxes, Interest & Vacation	\$238	\$244
DEFERRED DEBITS			Total Current Liabilities	\$1,979	\$1,977
Unamortized Loan Fees	\$14	\$16	DEFERRED CREDITS		
Preliminary Surveys & Investigations	\$77	\$37	Consumer Energy Prepayments	\$23	\$15
Total Deferred Debits	\$91	\$53	Consumer Contributions in Aid of Construction	\$318	\$0
			Capital Credits Payable	\$43	\$58
			Total Deferred Credits	\$384	\$73
TOTAL ASSETS			TOTAL EQUITIES, MARGINS LIABILITIES		
	\$19,382	\$18,970		\$19,382	\$18,970

electric
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...The Board reduced energy rates 5% — effective on your Sept. billing!

DISTRICT
Nye

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DISTRICT
Columbus, Rapelje

7



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ARE WE THERE YET? YES.

It took years of struggle for Beartooth Electric to get where we are today:

- Reporting reduced expenses and improved financial results,
- Holding a solid power supply contract through September 2017,
- Poised to contract for longer term supply with excellent rates and terms,
- Managed by one of the best electric co-ops in the country,
- On the verge of leaving Southern Montana Electric,
- Working to follow the August 2015 rate decrease with a second reduction for members.

It was not easy. We were bound by a 40-year contract, signed in 2009, to buy power from a generation and transmission cooperative that made poor business decisions and insisted on building an unneeded, badly planned, over-priced power plant, the Highwood Generating Station (HGS). As a contracted member of Southern Montana Electric Generation and Transmission Cooperative (Southern) we were responsible for a share of its debt when it declared bankruptcy in October 2011. We supported a U.S. Bankruptcy Court plan to reorganize Southern with reduced debt. We insisted on a provision in the plan for BEC to seek an early exit.

Exit from Southern— In August, Southern's four members voted approval for BEC to exit by October 31. We have secured financing to prepay our share of the HGS notes and cover our share of any remaining liabilities required by the court-approved plan. The financing terms for approximately \$1.4 million are favorable and flexible. We will improve our cash flow without jeopardizing our financial ratios or operating plans.

The bankruptcy reorganization plan requires HGS note-holder approval for our exit. Southern has determined that there is no risk from a BEC exit and we expect the note-holders to reach the same conclusion before you read this (a month from now). It is important to leave Southern and focus our efforts and resources on BEC business, even though

Southern may complete payment of the HGS debt and close by the end of 2016.

Highwood Generating Station (HGS)— On August 11, 2015 the HGS trust, established under the reorganization plan, announced an agreement for Missouri-based ProEnergy Solutions to purchase and dismantle the generating station. How ProEnergy will resell the parts, separately or together, has not been announced. The purchase price has not been publicly revealed. Proceeds from the sale will go to the HGS note-holders after payment of the trust's financial obligations. The trust will sell the land under the plant separately.

Risk Management— Calculating the millions BEC has paid for its share of Southern's mistakes is a looking-backwards exercise, but, as reported at the annual meeting, the calculations reveal opportunities to apply resources at home and work on reducing rates.

As a co-op supplying electricity in Montana BEC is an unregulated monopoly. We have seen how that can get a co-op in trouble and we have seen how things can change when members pay attention, hold their board accountable, and exercise vigorous oversight. The issues facing us today are critical: rates and sustainability. Upcoming proposals for change at BEC will be driven by numbers and concern for long-term security. Members will need to be informed and weigh in.

A co-op is not a profit-making organization. BEC has a responsibility to provide reliable power at reasonable rates. All members have the responsibility to stay informed and hold their co-op accountable.

*Arleen Boyd
Risk Management/Due Diligence Chair,
BEC District 5 Trustee*

Submitted September 10, 2015

