



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

Jeanne Hull / Roberts, Montana

your cooperative newsletter

November 2015



2015 ANNUAL MEETING RE-CAP

Thank you again to those who participated in our Annual Meeting, through voting for your board of directors and also through attending the September 26th gathering in Roberts. We had a great turnout with over 75 members and a total headcount of over 150 with members, spouses, and guests.

One of the main purposes of the Annual Meeting is to exercise a fundamental cooperative principle, electing your Board of Trustees. With the incumbents running unopposed, we would like to thank Laurie Beers (District 6) and Richard Nolan (District 4), for continuing to provide their service and guidance as trustees. Along with the ballots we sent out surveys – to gather your feedback and help guide us from where we are to where we would like to be as your cooperative. We received back 440 surveys.

The foundation of Beartooth Electric’s health as a cooperative, financial and power supply, are on solid footing. Rick Matusiak, Beartooth Electric’s auditor, reported on the financial health of the cooperative, with equity is increasing, and long term debt

decreasing. Power supply (and the transmission of that electricity) has been secured for the next 5 years, at incredibly competitive rates. As you read this, the exit from Southern most certainly ranks up there as an accomplishment. And we had a 5% rate decrease this past summer. Vice President and Finance Committee Chair, Dan Dutton added, “Throughout the Southern bankruptcy process and management transitions, the finance committee of BEC has had great support and participation of the members and board. With this support and participation,

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2015 ANNUAL MEETING RE-CAP

BEC General Manager

James R. Webb

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GOOD NEWS

Risk Management Committee Chair

Arleen Boyd

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PRESIDENT’S MESSAGE

Roxie Melton

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



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BEC emerges from the bankruptcy in a sound financial position ready to meet the challenges as we go forward.”

President of the Board of Trustees, Roxie Melton, addressed the group and expressed appreciation for the opportunity to serve the members, for the hard working and dedicated employees and the opportunity to be involved in the new management agreement with Lower Valley Energy. “The number one reason I asked the membership to elect me to the board was to lower the rates. I am so very pleased that our efforts have accomplished that task and the future looks bright (no pun intended) with more rate decreases on the horizon,” Melton said.

Chairman of the Policy Committee, Laurie Beers, reported that all policies have been reviewed and are in good shape. “BEC’s policies are up-to-date after two years of monthly committee meetings of members, staff, and trustees plus review by our corporate attorney,” reported Beers. “One new policy on community distributive generation is under development.”

Chairman of the Risk Management Committee, Arleen Boyd, discussed the momentous accomplishments of the Southern Exit and new power supply. Boyd went on to say, “In 2012 the Beartooth Board established this committee based on a commitment to make rigorous analysis and examination of alternatives standard procedure at Beartooth.” She continued, “Many of the tasks we set out to help accomplish are now the news of the day – good news we have been working toward since the committee was formed.”

It is exciting to focus now on approaches to rate reduction and paths for Beartooth going forward. As with all good risk management assessments, we are doing our homework to examine alternatives and help the board, and members, make informed decisions.

General Manager, Jim Webb, praised BEC employees as an impressive collection of professionals dedicated to what they do for Beartooth. Webb went on to express his thanks for the trustees and their diligence to improving Beartooth Electric. Webb ended with the work that remains to be done, dealing with low density and very high rates. “We are hoping the new power supply contract is the foundation of lowering the rates you pay. We also hope to improve our efficiencies through technology and shared practices with Lower Valley Energy,” Webb concluded.

Vendors—Thank you for your generous door prizes!

- 307 Bar & Grill, Columbus
- Columbus IGA
- Flower Garage
- Hanser’s
- HDR Engineering, Inc.
- HD Supply
- IBEW-International Brotherhood of Electrical Workers
- Ken’s I-90
- Red Lodge True Value

*Members—
Support our
Vendors
with every
purchase
opportunity!*



GOOD NEWS

This year's annual meeting was the first in many years with good news to share. As far back as 2007 we were hearing about Southern requirements and Highwood Generating Station costs resulting in constant rate increases at Beartooth Electric. With the following accomplishments and excellent management in place at BEC we anticipate continued good news – even as we continue to examine risks and evaluate the business alternatives in front of us.

We are leaving Southern Montana Electric, the generation and transmission cooperative that has supplied our wholesale power since 2004. We have given notice of intent to leave on October 31. The single remaining legal requirement is approval from the Highwood Generating Station note-holders, which should be forthcoming under the provisions of the U.S. Bankruptcy Court reorganization plan for Southern. For an exit, the plan requires BEC to prepay its share of Southern's HGS note-holder debt and other financial obligations.

What does this mean? We will borrow approximately \$1.3 million to prepay our share of HGS and other Southern debt – amounts we are required to pay whether we stay in Southern or leave. We are comparing amortization alternatives available under our very attractive financing agreement with the National Rural Utilities Cooperative Finance Corporation (CFC). Leaving Southern will provide savings to cover our prepayment and improve BEC cash flow. Ending the Southern contract frees us to secure contracts for power, negotiate business partnerships, and reach financial agreements without concern for bankruptcy uncertainty. The exit also removes us from future deliberations about Southern's closure when our interests may differ from those of other Southern members.

Highwood Generating Station is sold. HGS was completed in late 2011, just before Southern declared bankruptcy. The court-approved bankruptcy plan established a liquidation trust to sell the plant for the HGS note-holders. The trust announced that Missouri-based PRO Energy Solutions will dismantle the plant and remove its assets by some time in November.

What does this mean? The sale removes the risk of further HGS obligations for Southern or BEC. We endured high rates and cash calls and wrote off \$4.8 million in HGS investment. We paid nearly

\$800,000 in bankruptcy costs and just this year we paid \$245,356 to close out a loan we secured for Southern. Without the extraordinary HGS and Southern demands, we can apply our resources to business at Beartooth.

BEC has contracts for wholesale power that extend for the next 5 years at rates below anything we have seen since before 2008. BEC power will come by assuming our share of Southern's contract with Twin Eagle that runs through September 2017 followed by a new contract with Morgan Stanley Capital Group that ends in September 2020.

What does this mean? Excellent rates for wholesale power at BEC will not rise for at least the next 5 years. Last year we paid \$5.1 million for power, nearly 50% of our total revenue. The new contracts reduce our cost of buying power significantly. This means lower revenue requirements and the opportunity for additional member rate reduction.

BEC's current rate reduction— Revenue from members covers co-op expenses. After three years of cutting operating expenses BEC could afford to decrease revenue by 5% in August. We reduced member payments for energy, leaving the base rate at \$33.50. For residential customers whose energy cost per kilowatt-hour (kWh) went from approximately thirteen cents (\$0.127957) to approximately twelve cents (\$0.119426) this represented a 6.667% decrease in kWh rate. For residential customers using the average 850 kWh per month the total monthly bill (including the base charge) was reduced by \$7.25 (5.10%). This amounts to \$87 per year if electricity use remains constant.

We will consider further rate reductions as we evaluate the impact of the good financial news: reduced cost of wholesale power, elimination of HGS costs, and our exit from Southern.



*Arleen Boyd
Risk Management
Committee Chair,
BEC District 5 Trustee
Submitted October 8, 2015*



PRESIDENT'S MESSAGE

It's hard to imagine that the winter season is already knocking on the door. It seems like yesterday I remember saying to a customer, "It's already

February, one month down and eleven to go." Now I'm saying eleven down and one to go until the end of the year. Where has the time gone? I know from our perspective, we've been busy at the coop with financials, the management team, leaving Southern and a much deserved rate decrease.

I want to remind everyone as the season turns cold to please use alternate heat sources carefully. Keep flammables away from heat sources and never leave home without doing a safety check. Home fires are so easy to prevent, but it only takes a moment of inattention for an accident to happen.

This past month Arleen Boyd, Dick Nolan and myself attended the MECA (Montana Electric Cooperatives' Association) annual meeting in Great Falls. Several legislative issues were discussed including the Federal Reserved Water Act 111D, in which the government could issue control of all water ways large and small. Fortunately, the law was challenged in Montana, Wyoming, North and South Dakota and was stopped in our states. Also, the Sage Grouse will not be put on the endangered species list. A status review was conducted and found that the greater sage-grouse remains relatively abundant and well-distributed across the species' 173-million acre range and does not face the risk of extinction now or in the foreseeable future. These are just some of the issues the power industry faces and were addressed at the meeting.

At the end of the meeting we were presented with a safety award acknowledging our Five years without a lost work time accident. This is due to the employees putting safety as job #1 and always being aware that hazards exist both on and off the job.

Well, don't eat too much turkey this Thanksgiving Day. We too look forward to having the day off to be with family and friends and I hope you will be doing the same. Until December, have a safe and enjoyable time.

*Roxie Melton
Board President
Submitted October 8, 2015*

2015-2016 Board of Trustees

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