

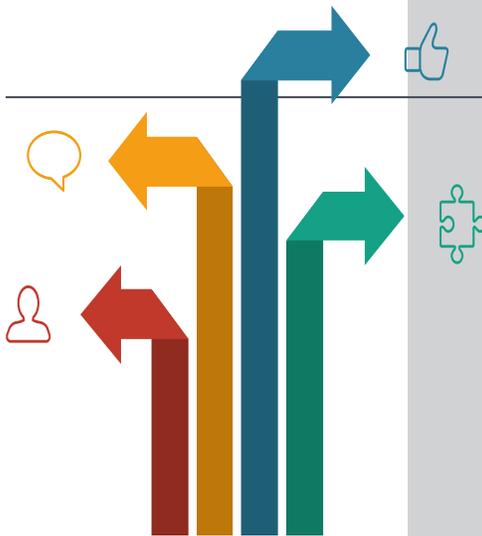


“Beartooth Electric is *my* energy cooperative.”

Gerald Koch / Red Lodge, Montana

# your cooperative newsletter

December 2015



## THE RESULTS ARE IN!

BEC General Manager

James R. Webb

**PG3-4**

## GOOD NEWS

Risk Management Committee Chair

Arleen Boyd

**PG5**

## PRESIDENT'S MESSAGE

Roxie Melton

**PG6**

## LOW INCOME ENERGY ASSISTANCE— ARE YOU ELIGIBLE?

**PG6**

## THE RESULTS ARE IN!

As part of your election packet in September we sent you a survey. The purpose of the survey is to gauge your level of satisfaction with your electric cooperative. You have spoken. And we are listening.

Here are some key demographics from the 454 surveys returned (the largest Beartooth Electric response):

- 55% of respondents are male
- 88% of respondents are over the age of 55
- 70% of respondents have been receiving Beartooth Electric service for over 11 years

So what do the actual survey results tell us?

Overwhelmingly, you want lower rates. We know there is a lot of room for improvement here. We hope this past August's 5% overall rate decrease is just the beginning. Thanks to the extremely hard work of your Board of Trustees and employees, Beartooth Electric is no longer constrained by the weight of the Southern debacle. The next step in reducing rates is securing power supply. And we've done

that. We've secured very favorable rates for the next 7 years.

The survey results also describe an acceptance of the partnership with Wyoming cooperative Lower Valley Energy – 71% of respondents agree with the managerial collaboration. Through our continued work together we hope to bring even more value to the members of Beartooth Electric.

Reliability of the system, customer service, and the cooperative model are the top 3 values you appreciate in BEC based on your survey results. We will not rest on those laurels and will continue to improve in those areas. We hope to also continue our drive towards more effective communications,

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

and efficiencies that will lead to cost savings. And as with all facets of our business, safety is at the forefront.

We appreciate your feedback – this is your cooperative and you have the ability to shape Beartooth Electric. As your cooperative we take your feedback seriously, whether it be through this survey or via our website, via email, or in person. We thank you for letting us know how we can better serve you.

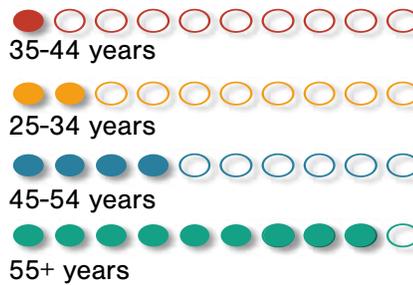
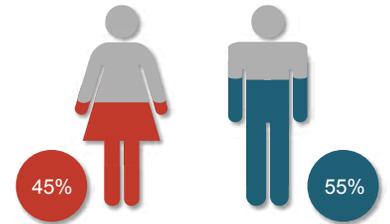
## THE SURVEY SAYS—

The largest  
BEC survey  
response  
to date—  
454 surveys  
returned

**#1**  
LOWER RATES  
CONCERN

# 55%

55% of survey responders were male (232) and 45% were female (188). 34 responders skipped this question.

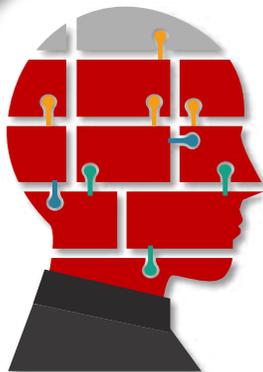
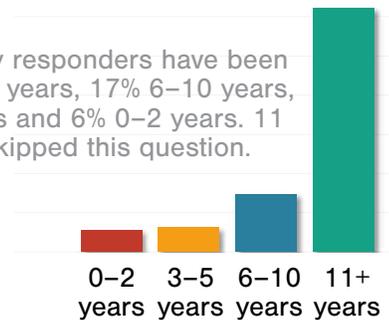


# 88%

88% of survey responders are 55+ years of age, 9% are 45-54 years, 2.5% are 35-44 years and 1% are 25-34 years. 14 responders skipped this question.

# 70%

70% of survey responders have been with BEC 11+ years, 17% 6-10 years, 7% 3-5 years and 6% 0-2 years. 11 responders skipped this question.

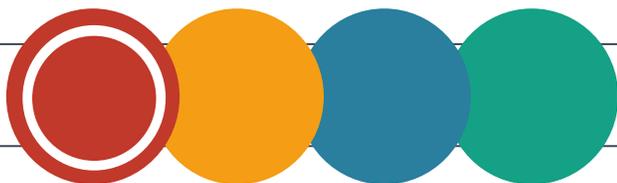


71% of responders either strongly agree or agree regarding the BEC/LVE management agreement, 24% are indifferent and 5% either strongly disagree or disagree. 18 responders skipped this question.

# 71%

MEMBER  
TOP 3  
VALUES





## GOOD NEWS

### Wrapping up the Southern connection

Last month we announced notice given by Beartooth Electric and accepted by the Southern Montana Electric Board of Trustees for BEC to leave Southern on October 31. The required approval by the Highwood Generating Station (HGS) note-holders was pending. The note-holders approved and BEC began receiving its power, independent of Southern, on November 1. The final amount BEC prepaid Southern to cover our share of Southern's court-ordered obligations for HGS and other debt was closer to \$1.2 million than the \$1.3 million we estimated last month.

### Power going forward

In last month's Rural Montana we also noted that BEC had secured power at excellent rates through contracts extending for at least 5 years, reducing our cost of power significantly and creating more opportunity for member rate reductions. This month BEC extended its wholesale power contract with Morgan Stanley Capital Group for an additional two years. This secures favorable terms and low wholesale power rates for a total of 7 years. The rate is approximately 50% of the rate we have been paying Southern to cover power, debt, and expenses. The Morgan Stanley contract follows our current contract with Twin Eagle that extends through September 2017. In 2022 we will be paying Morgan Stanley less for power than we paid Southern fifteen years earlier.

The 7-year timeframe with low wholesale power costs underlies our current analysis of how to approach rate reductions for members and manage the debt that is typical of utilities that have significant investment in plant to serve members long term. With today's low interest rates and a flexible loan commitment from the National Rural Utilities Cooperative Finance Corporation (CFC) we enjoy favorable conditions for addressing the debt for prepayment of Southern obligations and modeling the impacts of various scenarios for rate reductions.

### Remaining activity with Southern

We will be reporting on the sale of properties owned by Southern and SME, the co-op originally formed to finance and build HGS. BEC contributed,

through Southern, to the purchase of the properties and approved using them to secure \$600,000 in credit for Southern. Sale of the properties is underway and the proceeds will be used to pay loan principal and interest to First Interstate Bank. BEC remains a member of SME and could receive a portion of proceeds that may remain after full debt payment.

### Risk management and due diligence—evaluating options

With the Southern issues resolved the risk management focus is primarily on comparing risks and advantages of the potential business alternatives in front of us.

The most common approach for co-ops across Montana is to purchase power through membership in a Generation and Transmission Cooperative (G&T). We chose not to join a G&T for several reasons, including the requirement for a 60-year contract to buy power at rates that may change at any time. Our current contracts provide wholesale power through 2022 at significantly lower rates than those currently offered by any G&T identified as an option for Beartooth.

The goal for any business model at BEC is to provide reliable power and service at rates members can afford. The risk management committee and BEC board continue to examine the costs and benefits associated with three potential paths: remaining an independent co-op, merging with Lower Valley Energy, and being acquired by NorthWestern Energy.

Next month we will report on progress in the analysis of the alternatives for BEC going forward.



*Arleen Boyd  
Risk Management  
Committee Chair,  
BEC District 5 Trustee  
Submitted November 9, 2015*



Roxie Melton  
Board President  
Submitted November 10, 2015

## PRESIDENT'S MESSAGE

It's now the end of the year and we are thinking about the Christmas season, decorating and choosing those special gifts for our loved ones. We are also thinking back over the busy year and being thankful for our friends and families. We too are so very grateful for the productive year we have had.

In September, you were sent a survey with the mail-in ballot and many of you took the time to answer. Your feedback is an important gauge to help us to understand your concerns and needs. It also helps us to know where we need improvements in our services to you. I was concerned about several reoccurring comments that I feel need to be addressed.

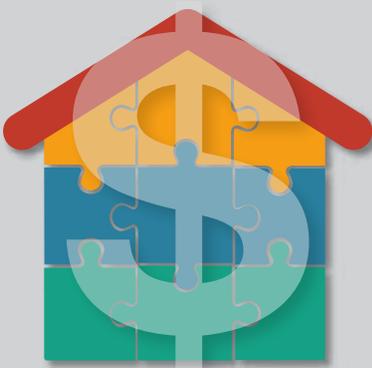
**Base Charge**— The purpose of the base charge is to maintain the system (lines and poles) that bring power to the customers. BEC has 1,802 miles of lines with 4,392 members using 6,442 meters in the service territory. We must spread that cost of service equally over the membership. That means for every mile of service we have 2.437 members to help support that distance. If we had more members per mile than the fee could be less. The drawback for Montanans is that we need to recruit more people to move here.

**High Rates**— Yes, we have had the unfortunate distinction of having some of the highest rates

in Montana. However, with the cost savings over the last three years we have not had to raise rates. Nor have we borrowed for any construction projects. In August, it was my pleasure to announce the first of several decreases that we have on the horizon. I know that 5% is not a grand number but it is going in the right direction and we are looking at another decrease near 8 – 10% next year. The wonderful power contracts that we were able to secure will be the main driving force to our reduced rates. As Jim Webb from Lower Valley said at the annual meeting, "It would be nice to be considered "average" when it comes to our rates".

**Communication**— At this time we are using the Rural Montana Magazine to get most of the information to the membership. It is costly and about a month out of date for breaking news, especially where Southern was concerned. We would like to use the BEC website but in the survey, 73% of the respondents don't access the website for information. A newsletter can be included in your monthly statement but many get ebills and would not see a stuffer. We are trying to decide on an effective and cost efficient means to communicate important information in a timely manner so we will be getting back to you on this subject.

Well, I've probably exceeded my word limit for this letter so I had better close. Thank you for letting us serve on your behalf. From all of us at the coop we wish you a very Merry Christmas and the Happiest of New Year.



### LOW INCOME MEMBERS-ENERGY ASSISTANCE IS AVAILABLE FROM BEARTOOTH ELECTRIC (BEC) AND YOUR STATE'S LOW INCOME ENERGY ASSISTANCE PROGRAM (LIEAP)

BEC offers Low Income Senior Citizens and Low Income Disabled Members energy discounts. Get information online at [www.beartoothelectric.com](http://www.beartoothelectric.com) or call the office at 406-446-2310.

Montana and Wyoming's Low Income Energy Assistance Programs (LIEAP) will assist low income families with heating and cooling costs. Please contact your state's office for details:

**MONTANA: 800-332-2272**

**WYOMING: 800-426-4221**