

New Year, New Outlook, New Approach

In charge of our future — For the first time in five years we are budgeting and making decisions without the need to report to you that outside legal and financial factors are poised to control the outcome. The final quarter of 2015 was a huge win for BEC members. Immediately following our exit from Southern Montana Electric Generation and Transmission Cooperative (Southern) we secured contracts that provide BEC a fixed low-cost wholesale power rate for the next 7 years. Our wholesale power supply and transmission costs are now more than 40% lower than what we were paying Southern and below rates typical for Montana co-ops receiving power from generation and transmission cooperatives.

Last year's objectives were to reduce operating costs, leave Southern, secure affordable power, and examine long-term organizational alternatives for BEC. The first three are accomplished. We have reduced operating costs significantly over the past three years which provides the Lower Valley Energy management team a flexible platform for building new BEC processes and applying their expertise to further reduce costs while maintaining high standards of safety and security for members.

This year we need to complete examination of business alternatives so that, with our members, we can base a decision for BEC's future organization on verified data and comprehensive comparisons.

Upcoming steps for you to track — BEC will: 1) Use the BEC financial forecast model in January to compare various rate reduction scenarios and set the amount of rate/revenue reduction the co-op can responsibly afford and 2) Conduct a comprehensive Cost of Service Analysis (COSA) to decide how to fairly lower rates across member classes and implement the reduction. Our member classes are: residential, irrigation, small commercial, large commercial, and industrial. The vast majority of BEC kilowatt-hours are sold to residential customers who comprise more than 90% of BEC members.

The Risk Management Committee examining alternatives and advising the board includes three financial experts, a highly regarded power supply expert with long experience in the electric utility business in Montana, and a retired co-op general manager with a strong organizational perspective. The alternatives in focus are: acquisition, merger with LVE, and an independent BEC. The most compelling criteria for comparison are projected member rates and the relative reliability and security for members going forward. The rate reduction analysis and plan will give us the numbers to complete, next month, the comparison of a NorthWestern Energy acquisition alternative with the benefits and risks of remaining independent. This also will give us a base for analysis of the potential merger. Next month we will

provide a more complete list of the criteria that drive the comparisons of business alternatives.

SME update — SME Electric may vote to dissolve before you read this. In 2008 Southern created SME to assume responsibility for building the Highwood Generating Station (HGS) when Yellowstone Valley Electric Cooperative, then a member of Southern, announced its intention to abandon all support for the plant. Financial transfers from Southern to SME reversed direction when potential investors refused to finance HGS with SME, a co-op with neither revenue nor power contracts to secure loans. SME members were the Southern co-ops (including BEC) with the exception of YVEC. Those four co-ops remain members. SME recently sold its only significant asset, land adjacent to the HGS site. The SME board has resolved to pay its existing obligations, distribute the remainder of the land sale proceeds to its member co-ops, and dissolve. The return to BEC should exceed \$50,000. BEC has written off approximately \$5 million in Southern and SME investments in HGS.

Input from members improves our decision-making. Please contact any board member or our manager, Jim Webb, for information or with suggestions.

Arleen Boyd – Risk Management Chair, District 5 Trustee
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