

“Beartooth Electric is *my* energy cooperative.”

RALPH LEWIS / Reed Point, Montana

your cooperative newsletter

March 2016



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

Welcome Members

Consolidation comes into the Conversation

All over the West, small rural electric co-ops are looking for ways to cut costs and find stability in a changing energy marketplace. Beartooth is not alone.

For nearly 3 decades, Lower Valley Energy (LVE) and a neighboring co-op have talked about the benefits of joining forces. Fall River Electric Cooperative (FREC) is headquartered in Ashton, Idaho and serves about 16,000 connections in eastern Idaho, western Wyoming and southwest Montana. In January, a joint announcement proposed consolidation. The boards of the two co-ops are working on terms. If all concerns are addressed, a vote could be scheduled as early as June and take effect January 1, 2017.

What does this mean for Beartooth?

BEC is being managed under an agreement with LVE, signed in 2014. If the consolidation goes through, there will be no LVE—it will be part of a brand new co-op combined with FREC.

The BEC/LVE management agreement provides an option to merge. We’ve been looking ahead to the possibility that BEC would become part of LVE—an option that may go away.

BEC has been invited to consider consolidation; BEC, LVE and FREC would become one new and larger cooperative. LVE and FREC have identified cost savings for their members of almost \$4 million a year. There could be substantial benefits for BEC as well. Your board has stepped up efforts to learn more about the potential effects and get information out to the members.

The decision will be yours. Either a merger or consolidation requires approval by two-thirds of the members who vote. But it appears that a pivotal point in Beartooth’s future is coming faster than we expected.



SERVING 4,400 OWNERS. AND COUNTLESS FUTURE GENERATIONS.

D.C. BOUND



Solomon Arno
Rapelje High School

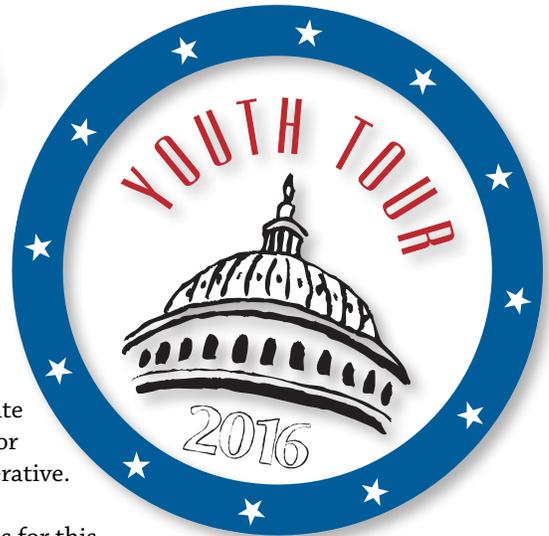
Congratulations to BEC's 2016 Youth Tour candidates—Solomon Arno from Rapelje High School and Chloe Flynn from Absarokee High School.

The Electric Cooperative Youth Tour has brought high school students to Washington, D.C. every June since the late 1950s. Students apply and are selected for this program by their local electric cooperative.

This year BEC received seven applications for this prestigious program. Thank you to all applicants for this year's Youth Tour competition including Solomon Arno, Destiny Ayers, Dylan Blodgett, Nynah Marie Bryant, Chloe Flynn, Sidney Markle and John Schladweiler.

The National Rural Electric Cooperative Association (NRECA) hosts 1,700 future energy leaders in Washington, D.C. for the annual Electric Cooperative Youth Tour. Some of the nation's best and brightest high school students will meet with their elected officials on Capitol Hill, train in leadership and form a network with their peers from across the nation.

"The annual Youth Tour is a vital opportunity for youth living in co-op territory to visit our nation's capital and learn about the importance of electric cooperatives," said NRECA CEO Jo Ann Emerson. "Our youth are our future leaders, politicians and educators, and the Youth Tour is a strong reminder each year of how bright that future will be."



DID YOU KNOW?

In 1977, Apple's CEO Tim Cook was a Youth Tour candidate for his Alabama hometown electric cooperative, Baldwin EMC.



Chloe Flynn
Absarokee High School



YOUR TRUSTED SOURCE FOR POWER.

AND INFORMATION.

Monthly Base Charge
(billed over 6 months)

\$121.80

kWh Energy Charge
(5% decrease from 2015)

\$0.064439

kW Demand Irrigation
(no change in kW charge)

\$12.40



IRRIGATION SEASON

April 1 through September 30

Beartooth Alternatives: Board Examines—Members Decide

Alternatives—With management input and Risk Management Committee investigation the Beartooth board continues to examine potential business alternatives for BEC. If the board decides to recommend change from an independent co-op to a merged or consolidated cooperative, approval by two-thirds of the members who vote will be required. Montana law (MCA 35-18-405) requires two-thirds of the entire membership to vote for approval of an acquisition, which requires the existing co-op to dissolve. We have reported on comparing the standalone Beartooth option to both an acquisition by NorthWestern Energy (NWE) and a merger with Lower Valley Electric (LVE). A consolidation that would create a new cooperative including Lower Valley, Beartooth, and Fall River Electric may be considered.

In 2012 with our power supplier, Southern Montana Electric, in bankruptcy and proposals before the court that could have pushed Beartooth



With the current BEC rate decreases the calculated monthly surcharge would push rates with NWE well above what BEC ratepayers would pay an independent Beartooth.



to bankruptcy, we asked NorthWestern Energy if it was possible for them to provide power for Beartooth. Knowing that an acquisition would be required for NWE legally to serve our members, BEC and NWE looked long and hard at whether an acquisition could deliver benefits for consumers at both utilities. No formal proposal was legally possible until Beartooth could sever its contract with Southern, but we examined the numbers for a potential acquisition carefully over the past three years.

With our exit from Southern, favorable wholesale power contracts fixed for seven years, and reduced operations costs we are in a solid financial position and are implementing rate decreases. Cost reductions resulting from our management agreement with Lower Valley Electric are expected to provide additional savings and potential for rate relief.

NorthWestern Energy and Beartooth used an NWE acquisition model to evaluate the acquisition cost and potential impact on ratepayers. To acquire Beartooth NWE would pay BEC for its assets based appraisals. The payment would allow BEC to retire its debt and meet other financial obligations. Because the

purchased assets serve only Beartooth area customers NorthWestern would be required to recover the amount of the purchase from those receiving the benefit through a monthly charge to Beartooth area ratepayers for 10 years. With the current BEC rate decreases the calculated monthly surcharge would push rates with NWE well above what BEC ratepayers would pay an independent Beartooth – also approximately 35 percent higher than what other NWE ratepayers would pay. We are confirming the final analysis with NorthWestern and will post the results for members.



*Arleen Boyd
Risk Management Committee Chair
Trustee District 2
Submitted 2 8 2016*

Our analysis examined numbers with consideration of non-rate advantages and challenges

including the advantages of co-op local control versus size, long-term power supply, and Public Service Commission oversight on the investor owned utility side. Similar financial and other factors will drive the evaluation of our remaining potential alternatives.

Risk management—The risk management committee examined the financial projections for BEC and recommended a 10 percent revenue decrease and evaluation of a subsequent reduction this year. The committee also recommended a seven-year term for the loan to cover the \$1.2 million BEC prepaid Southern on exit for the BEC share of the remaining HGS debt, which BEC would have paid in 2016 as a Southern member. With a low interest rate and seven years to complete payment, BEC improves its cash position and sets the retirement of the loan BEC Members are seeing small improvements in their bills and with the approved reduction the trend at BEC is positive and sustainable. This new trend follows 16 rate increases levied by Southern Montana Electric between 2004 and 2011 that caused Beartooth to raise rates 115% from 2006 through 2011. We are heading in an entirely new direction.

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Roxie Melton
President
Trustee District 2

PRESIDENT'S Message

Well, it seems the ground hog did not see his shadow this winter so we are supposed to expect an early spring. I hope it's correct. I was told that a no shadow sighting has only occurred 18 times since the tradition began. Many of our ranchers are beginning/ending the calving season and to have the weather on their side would be ideal. Calving in 0 to sub-zero temperatures can be a daunting challenge.

I have some interesting if not exciting news about our friends at Lower Valley Energy. It seems that Lower Valley and Fall River have been talking about merging for a number of years. They have finally decided that the time is right and are going forward. At the same time, an offer has been extended to Beartooth to join the merger. This is a couple of years earlier than we had originally planned but this kind of opportunity does not come around very often.

The benefits of having a large membership are numerous. First the membership would increase to almost 49,000 and both Lower Valley and Fall River provide propane and natural gas service to about 10,000 customers. With a large membership they can offer many energy conservation initiatives, renewable energy and hydroelectric power production among other things. In 2014 Lower Valley Energy had the enviable position of having the lowest residential electric rates of all electric cooperatives in the country. We would still bring our power contracts with us, but it is encouraging to

know we would be joining a very financially sound group.

You may be wondering which name the merged cooperative will be using. The answer is none of the above. This merger will also necessitate the need for a new name.

In the next few months I will be meeting with the other two board presidents and the coop management teams. We will be going over the financials and discussing the service advantages of a merger. Once we get all the information together, we will have a few town hall meetings to explain the value of this endeavor. Later, we will need a favorable vote by two thirds of the voting members to approve the proposal. I am excited about this proposition but a little saddened about leaving the Beartooth name of 77 years behind.

Until next time, thank you for your support and encouragement in our efforts to bring you affordable and reliable electric service.

NEXT BEC BOARD MEETING

March 29, 2016 | 11:30 AM

Beartooth Electric Office
Red Lodge, MT

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Southern and SME— Southern created SME in 2008 to assume responsibility for building the Highwood Generation Station (HGS) and later returned that responsibility to Southern. On January 20 the SME board voted to secure professional advice on any remaining financial requirements for corporate dissolution. The Certificate of Election to Dissolve has been filed and official notice of dissolution has been placed in newspapers as required by law. SME anticipates closure by the end of February 2016.

It is easy to confuse Southern Montana Electric Generation and Transmission Cooperative with SME Electric Cooperative. Their history, membership, finances, and logos overlap. Southern has no announced intention to close although it has made public the expectation that it will complete payment of the Highwood Generating Station debt by the fourth quarter of 2016.

We inform you to generate input and improve decision-making. Please contact any board member or our manager, Jim Webb, for information—or with suggestions.