

See you at the
Annual Meeting—

The
BEC 77th ANNUAL
MEMBER MEETING

Saturday,
September 26, 2015
Roberts High School
Gymnasium
Roberts, MT

This year's highlights—

- Trustee Elections
- BEC/LVE Management Agreement
- Exit From Southern Montana G&T
- Power Supply Opportunities
- Door Prizes

JOIN US!

Dear Members—

James R. Webb, BEC general manager, Lower Valley Energy, president/CEO

Your Annual Meeting in September marks half a year since the partnership between Beartooth Electric Cooperative and Lower Valley Energy. With price, reliability and excellent customer service firmly in our sights, your management team and BEC employees have taken strides this summer. We are excited about the 5% rate decrease that just took place in August. The decrease was based on a hard look at operational expenses and general costs. Our efforts to exit Southern Montana G&T and secure a new power supply contract has been a very large and complicated project, but will help us to reduce costs even further.

Our crews have been working hard all summer on system improvements to help continually improve reliability. Along with the new Lower Valley Energy team, there are some very familiar faces at the BEC office who are very dedicated and determined to provide you with the best service possible. Linda Dukart and Connie Teachout care about you. Together they have a combined 32 years of service in the BEC front office.

From power supply to engineering to finance, the BEC management agreement is working well. Even small things like sharing inventory between Beartooth Electric and Lower Valley

are adding up to very tangible cost savings. As a Beartooth Electric member you will have choices to make about the future of your cooperative.

We invite you to attend the 77th BEC Annual Meeting on September 26 at 9:00 am at the Roberts High School to participate in the board election, learn more about the management agreement, hear about progress on an exit from Southern Montana G&T, and new power supply opportunities. This is also a great opportunity to voice your opinions and let us know what we can do to serve you better. After all, you own Beartooth Electric Cooperative.

James R. Webb



Save the date—

Beartooth Electric Cooperative, Inc.
77th Annual Member Meeting
Saturday, September 26, 2015
Roberts High School Gymnasium
8:00 a.m. Registration Opens
Coffee & Donuts
9:00 a.m. Meeting Commences

OFFICIAL NOTICE OF ANNUAL MEETING

BEARTOOTH ELECTRIC COOPERATIVE, INC. Red Lodge, Montana

The 77th Annual Meeting of the members of Beartooth Electric Cooperative, Inc., will be called to order at 9:00 a.m. Saturday, September 26, 2015, in the Roberts High School Gymnasium, located in the Town of Roberts, County of Carbon, and State of Montana. Member registration and donuts and coffee begins at 8:00 a.m. The business meeting will commence at 9:00 a.m. and adjourn at 12:00 p.m.

ACTION WILL BE TAKEN ON THE FOLLOWING MATTERS:

1. Quorum Report
2. Reading of the Notice of Meeting and Proof of Mailing thereof
3. Reading of unapproved minutes of the 2014 Annual Meeting of Members and taking any necessary action thereon
4. Election of two members to your Board of Trustees to succeed Trustees whose terms expire.
District 4
Richard Nolan
District 6
Laurie J. Beers
5. Unfinished business
6. New business
7. Adjournment

DATED THIS 1ST DAY OF
SEPTEMBER 2015

Richard Nolan
Secretary/Treasurer

Path Cleared for Beartooth to Leave Southern Montana Electric

Arleen Boyd – BEC District 5 Trustee, Southern Montana representative, chair risk management committee
Submitted August 11, 2015



On August 6, 2015 Southern Montana Electric Generation and Transmission Cooperative, Beartooth Electric Cooperative's power supplier, approved a plan for BEC to leave Southern by October 31, 2015. Negotiations for a BEC exit began among the Southern co-op members immediately following approval of Southern's reorganization plan by U.S. Bankruptcy Court in June 2014. That reorganization plan provided for BEC to exit after paying its share of the HGS debt and securing the approval of Southern, its member cooperatives, and the noteholders.

Why Exit Now? Immediate benefits and work to do.

The bankruptcy reorganization plan requires payment of the HGS notes within four years, but makes no provision for Southern to close and gives no deadline for the liquidation trust to sell the Highwood Generating Station (HGS). Southern expects to complete payment to the noteholders by the end of 2016. If the Federal Energy Regulatory Commission (FERC) confirms its 2014 ruling requiring NorthWestern Energy to refund overpayments made by its wholesale power customers for transmission services, Southern could receive more than \$5 million as early as this fall, which would allow it to pay the noteholders even sooner than currently estimated. In March 2015, Southern passed a resolution of intent to address closing after payment of its obligations.

Even with a Southern closure possibly imminent, we need to exit and make decisions, free of uncertainty, now. We are not paying a premium to exit and by prepaying our portion of Southern's debt we leave Southern's high rates behind. We improve cash flow, accelerate the timeframe for a second rate reduction for BEC members, and strengthen our position to negotiate with power suppliers in today's favorable market. We can better address potential business partners about BEC's future and eliminate their concerns about obligations to a bankrupt Southern.

We can model our options without the risk of unforeseen impacts from membership in Southern.

Terms of the Exit Agreement

We have obligations and so does Southern. BEC will pay, upfront, amounts we would pay if we remained in Southern: the BEC share of the HGS noteholder debt (approximately \$1.2 million if the exit occurs on October 31) and remaining obligations to unsecured creditors (approximately \$200,000). BEC will receive its share (17.5211%) of returns to Southern for payments and credits made while BEC was a member, including any return from NorthWestern Energy. The share percentage is based on the average portion of Southern's total electricity supply drawn by BEC.

More News Coming.

By the time you read this (a month from now) BEC could have entered a contract for power to follow our current contract that runs through September 2017. The Highwood Generating Station could be sold by the liquidation trust. While the trust's financial responsibility for HGS is separate from Southern's bankruptcy obligations, sale of the plant will end the last threat of financial responsibility for a project that has drained Southern and its member co-ops, as well as noteholders and other creditors, of tens of millions of dollars.

Most importantly we hope that all requirements for the exit will be completed and you will be reading about our exit as a mission accomplished.

We have decisions to make. For the first time in years we will make them, with our members, from a position of strength.

Arleen Boyd



Board President's Message

Roxie Melton, BEC District 2 Trustee, board president

2015 ANNUAL REPORT

Beartooth Electric had an exceptional year with many interesting developments and accomplishments. Over the course of the year we have been asked many times if we are nearing the end of the Southern Bankruptcy as well as our exit from Southern. I am hoping that by the annual meeting an announcement will be made regarding one or both. Now that Southern Montana G&T is reorganized, we are negotiating our way out of Southern to reduce our risks and obtain a future power supply that is less costly.

We talk about low energy sales per member and high distribution costs. Because of this we have looked for new ways to conduct business. Our reduction in personnel, through attrition, has been successful in further reductions of costs. The use of contractors has enabled us to complete tree trimming and pole replacements in a timely manner and stay within the established budget

Another way to reduce costs it to partner with another coop for management responsibilities. We have joined with Lower Valley Electric, in Wyoming, and they have taken on the responsibility of running the coop over the next few years. Our goal still remains, NO increase in rates and ultimately rate reductions. I was elated to announce the first of our rate decreases in August of about five percent and look forward to further reductions next year.

Our co-op received a safety award from the NWPPA (Northwest Public Power Association) for no lost work time hours for 2014 again and we look forward to having another year of no lost work time accidents. This will mean further discounts in our Workman's compensation premiums. Thank you to our employees for keeping safety as job one.

This spring we gave out 9 - \$1,000 scholarships to graduating seniors in our

service territory and sent 2 students on the youth tour to Washington, DC. The funds for this come from unclaimed capitol credits that the state requires must be used for education or forfeited to the state.

Beartooth had to say good bye to a wonderful friend and General Manager. Richard "Dick" Peck signed on for a one year adventure and ended up staying a little over three years. He and his wife Vicky were two vibrant individuals with delightful personalities and infectious laughs. They left a good-natured impression on everyone they met. We want to thank Dick for his dedicated years of service helping up to reduce expenses and getting the coop on a financially firm footing.

Your Board and committees have continued to stay busy this year:

- The Bylaws committee again this year had no changes to be presented. They examined the current Bylaws to ensure involvement from the membership, especially in major decision-making. One item of the vote by mail was addressed but it was decided to wait until next year.
- The Policy Committee finished the three year daunting task of writing and revising all the policies. To date there is one new item which should be complete by the winter.
- The Finance committee developed a budget that takes into consideration the present needs of the coop and balanced that with developments from the Southern Reorganized and our exit. It is a conservative budget that addresses the needs of the cooperative to maintain the infrastructure, complete needed projects in the long range engineering work plan and prepare for future unfore-

seen events. Once again without raising rates.

- The Safety Committee meets monthly to discuss concerns and safety issues. I am particularly proud of this committee which consists of employees from each area of the coop and the board. They discuss daily activities and identify areas of interest to keep our employees safe.
- To communicate the many issues facing your cooperative several "Town Hall" meetings were held throughout the service area. The cooperative is continually updating the web-site to provide the most recent information. As our efforts concerning future power supply unfold we will hold another round of community meetings to keep you informed.

In closing, I want to thank you for the trust given to us and the opportunity to serve on the board. I'm looking forward to a time of even lower rates and business as usual. Always remember, this is your coop, I look forward to hearing from you often and visiting with you at the annual meeting.

Roxie Melton

COMMUNITY EVENT

BRIDGER CARES 8TH FREE CLOTHING SWAP
Bridger Civic Center—Main Street, Bridger

| | |
|----------------------|---------------|
| Friday, October 9 | 9 a.m.–6 p.m. |
| Saturday, October 10 | 9 a.m.–2 p.m. |

We welcome all donations of clean clothing in good condition. For more information or to volunteer, please call Joan 662-5352 or Mary 662-5253.

2014 Annual Financial Report

| ASSETS | 2014 | 2013 |
|--|----------------------------|----------------------------|
| ELECTRIC PLANT: | | |
| In service - at cost | \$29,660,374 | \$28,455,027 |
| Construction work in progress | 53,755 | 103,807 |
| Less: Accumulated provisions for depreciation & amortization | 12,892,730 | <u>12,576,644</u> |
| Net utility plant | <u>\$16,821,399</u> | <u>\$15,982,190</u> |
| OTHER ASSETS AND INVESTMENTS: | | |
| Investments in associated organizations | \$627,605 | \$600,321 |
| CURRENT ASSETS: | | |
| Cash-general funds | 144,836 | 109,396 |
| Temporary investments | 53,255 | 491,442 |
| Accounts receivable | 1,255,778 | 1,385,862 |
| Materials and supplies | 269,885 | 309,450 |
| Other current and accrued assets | 35,725 | 185,182 |
| Deferred Charges | <u>102,558</u> | <u>76,802</u> |
| TOTAL ASSETS: | <u>\$19,311,041</u> | <u>\$19,140,645</u> |
| LIABILITIES AND MEMBERS' EQUITY | | |
| EQUITIES: | | |
| Patronage capital | \$5,094,249 | \$4,475,272 |
| Other Equities | <u>122,684</u> | <u>175,899</u> |
| LONG-TERM DEBT: | | |
| Mortgage notes & other long-term debt | <u>\$11,927,907</u> | <u>\$12,583,481</u> |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$639,868 | \$678,119 |
| Payables | 1,103,280 | 823,009 |
| Consumer deposits | 72,160 | 69,810 |
| Other current and accrued liabilities | <u>331,535</u> | <u>317,172</u> |
| TOTAL LIABILITIES: | <u>\$14,074,750</u> | <u>\$14,471,591</u> |
| Deferred credits: | <u>\$19,358</u> | <u>\$17,883</u> |
| TOTAL LIABILITIES & MEMBER EQUITY: | <u>\$19,311,041</u> | <u>\$19,140,645</u> |
| COMPARATIVE STATEMENT OF REVENUE AND EXPENSES DECEMBER 31 | | |
| REVENUE: | | |
| Operating revenues | \$10,535,584 | \$10,460,025 |
| Non-operating revenues | <u>67,010</u> | <u>65,504</u> |
| TOTAL REVENUES | <u>\$10,602,594</u> | <u>\$10,525,529</u> |
| VARIABLE EXPENSES: | | |
| Lines-Distribution/Operations; transmission | \$840,444 | \$823,979 |
| Line-Distribution/Maintenance | 726,169 | 864,289 |
| Consumer Accounting | 362,117 | 328,227 |
| Administrative & General Expense | <u>1,443,818</u> | <u>1,338,015</u> |
| FIXED EXPENSES: | | |
| Power Purchased for Member | \$5,104,084 | \$5,003,796 |
| Depreciation | 913,932 | 860,945 |
| Interest on long-term debt & other | <u>634,439</u> | <u>662,697</u> |
| TOTAL COST OF ELECTRIC SERVICE: | <u>\$10,025,003</u> | <u>\$9,881,948</u> |
| NET MARGINS: | <u>\$577,591</u> | <u>\$643,581</u> |

Financials for the years ended December 31, 2013 audited and December 31, 2014 unaudited.

The actual July 1, 2014 through June 30, 2015 audit is available electronically or in hard copy from the cooperative office.

Employees

| | |
|-----------------|-------------------------------------|
| James Webb | General Manager |
| Eric Elton | Operations Manager |
| Wade Hirshi | LVE CFO |
| Angie Jennings | LVE Staff Assistant |
| Rick Knori | LVE Director of Engineering |
| Bill Spaulding | LVE Director of Electric Operations |
| Brian Tanabe | LVE Communications Manager |
| Jim Avent | Meter Technician |
| Travis Barker | Journeyman Lineman |
| Guy Behrent | Journeyman Lineman |
| Bill Colgrove | Line Foreman |
| Linda Dukart | Customer Service Representative |
| Lee Hauge | Line Sub-Foreman |
| Don Parks | Line Sub-Foreman |
| Jim Pihl | Journeyman Lineman |
| Brad Prophet | Accountant |
| Connie Teachout | Billing Clerk/Cashier |
| Marty Tomlin | Staking Technician |
| Sam Walkowiak | Line Foreman |

We're here to serve you!
Give us a call—
406-446-2310

