

Rural Montana August 2015

New Committee Name, Same Focus: Making Informed Decisions

The BEC Due Diligence Committee has asked the Board of Trustees for a new name, *BEC Risk Management Committee*. The committee says risk management is easier to understand and better reflects the comprehensive scope of their work with the board.

Due diligence is our culture. We define opportunities, identify options, enlist expertise, measure, compare, and decide. Highlighting risk management does not mean that risk is growing. In fact, the committee's work over the past four years has helped us reduce risk. We focused on numbers and eliminated potential alternatives that would not work. Now we are incorporating management of identified risks into constructive business plans knowing that we can deal with risk effectively and affordably.

We are close to ending our membership in Southern Montana Electric (Southern), which has been a financial drain with enormous legal and financial risks. We have excellent power supply and business alternatives to compare and an outstanding management team from Lower Valley Electric to help us evaluate them.

Improved Financial Position

With trustees committed to conservative financial oversight and due diligence, BEC has improved its financial results and is implementing a rate reduction in August. BEC's financial position was threatened by the condition of Southern, its bankrupt generation and transmission cooperative. Risks for BEC were reduced when Southern was reorganized under a court-approved plan that lowered the debt for the Highwood Generating Station (HGS) and opened the door for Southern to contract for power at reasonable rates.

After years of cash calls and debt obligations to finance HGS, BEC resources now are available for investment in operations at home.

BEC has cut operating expenses, reduced long-term debt, and made timely write-offs of losses associated with Southern. The current management agreement with Lower Valley Energy demonstrates LVE confidence in BEC and a commitment to continue reducing expenses and improving member service. Current contracts with the Rural Utility Service and other creditors reflect confidence in BEC's financial position.

Power Supply for BEC

This is a good time for BEC to seek a power contract to follow our current power supply agreement, which ends in September 2017. The market offers good rates, longer term market projections look unusually stable, and BEC's financial position holds little risk for suppliers. We are seeing very positive responses to our Request for Indicative Proposals (RFIP) and plan to report on the power search at the annual meeting in September. Members may continue to offer comments and questions regarding the power supply process at comments@beartoothelectric.com or by calling the co-op or a board member.

Southern and Selling HGS

At any time HGS could be sold. In June 2014 the U.S. Bankruptcy Court approved a reorganization plan for Southern and creation of a liquidation trust to sell the HGS assets. Southern remained responsible for paying its debt to the HGS noteholders. The trust assumed an entirely separate financial obligation to maintain and sell HGS for the noteholders. When the plant sells—as an operating resource to generate electricity or for sale of its dismantled assets—the bankruptcy will be one step closer to wrapping up. Southern continues to estimate full payment of its remaining debt to the HGS noteholders by the end of 2016 and has expressed intent to close when the debt is paid.

Our objective is to leave Southern by October 2015. We still are officially mediating and cannot share details of a proposal that is circulating among Southern and its co-op members (Beartooth, Fergus, Mid Yellowstone, Tongue River) to allow our exit.

Under the court-approved bankruptcy plan Southern board members may be legally constrained from discussing the terms of a sale publicly. Beartooth's representatives on the Southern board (Laurie Beers and Arleen Boyd) will share details of the sale with the BEC board and others as legally permitted.

Arleen Boyd, District 5 Trustee, Due Diligence/Risk Management Committee Chair

Submitted July 9, 2015