

SME – SME will meet February 24 for what is anticipated to be its last meeting before dissolution. The financials have been examined, the required reporting done, and notice given. The BEC share of the remaining cash from proceeds of the sale of SME property adjacent to the Highwood Generating Station site has been allocated to the SME member systems. BEC will receive approximately \$79,000 by the end of the month.

Legal – The attorney engaged by Southern Montana Electric and Beartooth Electric has filed a motion with FERC in response to the NWE request to have the Large Generation Connection Agreement (LGIA) terminated without payment of any refund to the customer (Southern) that provided financing for the transmission connection facilities. The motion asks to intervene in the now pending decision with arguments that payment be made to Southern as required in the LGIA. We will receive updates but do not expect any decision for at least two months.

Risk Management Committee met February 18 – Present: Judith Gregori, David Alberi, Frank Willett, Dick Nolan, Roxie Melton, Laurie Beers. Jim Webb, Wade Hirschi and Gail Tabone from EES on the phone.

Gail Tabone talked the group through the EES COSA update and explained the three scenarios for implementing the approved 10% rate reduction fairly across the customer classes at Beartooth. The update focused largely on the irrigation members identified in the analysis as lower than other classes in the percentage of their payment toward the cost of providing them service.

Based on input from Gail Tabone and Manager Jim Webb, the committee recommended Scenario 2, with whatever modifications management recommends after incorporating input from the meeting scheduled with irrigators for February 22 before the board meeting.

The committee discussed the proposed outline of the ongoing analysis of the remaining BEC alternatives: standalone Beartooth co-op and Beartooth merged with Lower Valley Energy or consolidated into a larger co-op with LVE and Fall River Electric. Objective: *Analyze benefits and risks (operations and governance) of Beartooth standalone and Beartooth merged with Lower Valley or consolidated in a new cooperative formed by LVE, FREC, and BEC.*

After discussion input from Bill Pascoe, Arleen and Jim Webb the committee discussed engaging a consultant to review the process and provide an independent perspective to review the analysis process and help weigh the evaluation of the alternatives. The committee recommends that the board approve that Bill Pascoe, Jim Webb, and Arleen Boyd evaluate candidates and engage a consultant with fees to exceed \$20,000 only after further discussion with the board.

NWE – After three years of work with NorthWestern Energy examining whether an acquisition by NWE would deliver benefits for rate payers at both utilities we have concluded that, despite many advantages that could come with service from NWE, the numbers show that BEC members will be better off for at least the next seven to ten years

as members of Beartooth Electric Cooperative. The work with NWE has been focused and fair and we appreciate NorthWestern's time and cooperation. The following points are conclusions contributing to our decision.

Requirements for NorthWestern Energy to serve Beartooth members

- Acquisition is required for NWE to serve BEC.
- Formal negotiations for a purchase (and power supply) are legal only after termination of any contract with a Generation and Transmission Cooperative (the BEC contract with Southern).
- If NWE purchased BEC assets Beartooth area customers benefitting from the assets (poles, wires, substations, etc.) would be required to return the NWE investment (principal and interest) over time. IOU ratepayers do not pay for investments without benefit to them.
- Two-thirds of all BEC members must vote to approve an acquisition, which requires dissolution of the cooperative (MCA 35-18-405)

History of Acquisition discussions between NWE and BEC

- BEC approached NorthWestern Energy about serving BEC members in 2012.
- BEC financial condition 2012-2014 — high wholesale power rates, enormous write-offs of Highwood Generating Station "investments," uncertainty due to the bankruptcy of Southern Montana Electric Generation and Transmission Cooperative.
- BEC commissioned appraisal of assets.
- BEC identified benefits associated with NWE, including size, quality management, long-term power supply strategy, PSC oversight
- NWE and BEC worked together to examine financial models for potential acquisition.
- NorthWestern prepared a financial model of potential purchase by NWE of BEC assets (\$17 million) in November 2015.
- The model calculated repayment of the NWE acquisition investment over 10 years through a monthly surcharge for BEC members.
- While NorthWestern's average rate for its customers is currently lower than the Beartooth rate, when the rate for BEC members as NWE customers adds the acquisition surcharge it becomes approximately 35% higher than the average rate for other NWE customers.
- The BEC financial situation improved significantly by 2016 with the Southern exit, payment of the BEC share of the HGS debt, contracts for power at a very attractive fixed rate for seven years, and significantly reducing operating costs.
- With implementation of the planned BEC rate decreases for 2016 members' rates would be lower at BEC than their rates would be as customers of NWE paying the acquisition surcharge—8.8% lower after the approved 10% revenue decrease and 15.2% lower after an additional 5% decrease.
- BEC financial projections show that this discrepancy would likely continue for ten years, certainly for seven years.

Arleen Boyd – Risk Management Chair, District 5 Trustee
Submitted February, 2016