

## **Risk Management Report – July 2016**

Committee meeting July 10, 2016, convened noon, adjourned 3:00 – Committee present: Judith Gregori, Frank Willett, Bill Pascoe, David Peterson, Dick Nolan, Roxie Melton, Arleen Boyd. Board members Julie Lindgren and Dan Dutton. Telephone attendees: Wade Hirschi, Jim Webb, Larry Martin.

**Standalone/Merger data** – Wade highlighted the approximately \$300,000 savings shown in the one-year projection of BEC costs under a merger. The committee discussed the merger data with Wade and all agreed that a 7-year merger projection to compare with the 7-year standalone projection is needed.

**E3 Study** -- Committee reviewed the E3 study for Fall River and LVE with Wade. The committee recommends verifying the savings assumptions that drive the EES report for BEC and LVE and completing the 7-year merger projection to provide data for an E3 model to analyze rate impacts for both co-ops due to savings resulting from merger. Bill Pascoe noted the need to define the “black box” in the E3 model and discussion followed about what costs are in the shared cost box and how other costs, specific to a region, might be assigned through a COSA model that would be used to set rates. The conclusion: there is work to do to get the data for a rate study and fully understand approaches that might be used set rates.

**GDS Consultant Report** – Lynn Lanier from GDS Associates walked the committee through the draft of his report that will be presented to the board on July 26. Committee comments and questions will be incorporated into a final draft for the July 26 board packet. The report is the first phase (analysis to-date) of the evaluation of the BEC Risk Management Committee and board examination of alternatives.

The report found no holes in our approach to evaluating alternatives and affirmed the approach (not data and assumptions) of studies BEC has used to help make decisions. Highlights and opinions that will be reviewed with the board include: management agreement is a strong, good faith effort; line losses are out of line with industry standards; the MOU between Fall River and LVE does not address BEC and should BEC consider becoming part of a three-way consolidation a detailed, separate MOU or other document of intent would be needed; the decision to end discussions of an acquisition by NorthWestern Energy was based on appropriate analysis; the EES study and other current documents do not address rates under a merger and an E3 model or other solid approach to estimating rates under a merger is necessary.

**COSA** – After reviewing the COSA recommendations from EES with Wade the committee expressed support for the recommended total of 5% to 5.5% reduction. Members expressed support for the 5% reduction for residential customers in Option 3. The group supports whatever reductions for classes of customers the board chooses to implement.

**Legal** – Larry Martin updated the committee on the legal issues surrounding fire insurance claims. Larry will contact the BEC auditor and report to the board. After further consideration of requirements for a vote by members on a possible recommendation for merger counsel confirmed the previous advice to hold two separate votes – one for Wyoming which requires a majority of all co-op members to approve and one in Montana which requires approval by at least two thirds of the members casting votes. Larry reiterated his opinion that a move toward a merger or consolidation would be best served by a detailed MOU or other document(s) of understanding specific to BEC and LVE to precede contract negotiations.

**Criteria used to compare the impact of alternatives:**

- Rates
- Service and reliability
- Governance --- member representation and involvement -- governance
- Long-term projection of risks and advantages

**BEC Next Steps:**

- Review and update savings data in EES report
- Examine 7-year forecast of financial performance and savings under a merger
- Secure E3 (or other recommended by management) to project rate impact of calculated savings from merger
- Risk management, bylaw, and policy committee review of bylaws and other governance issues to clarify governance evaluation criteria (meeting August 10 with Bylaw and Policy committee members attending)
- Work on and review issues highlighted after meeting with LVE preceding June board meeting

**Southern Montana Electric** – The two remaining issues regarding credits to BEC from Southern are Basin capital credits and the BEC share of the working capital required by the bankruptcy court to be kept on hand until the HGS notes are paid. The notes are paid and we have received our share of the capital. We have been assured that the process for assigning the Basin credits to Southern’s members (and BEC) will be resolved before Southern takes action to close. We will continue to track this.