

Rural Montana July 2015

BEC Due Diligence: Options, Analysis, Risk Management

These *Rural Montana* reports have talked a lot about due diligence for two reasons: 1) it has effectively framed decision-making that has put us in a good position today and 2) previous disregard for due diligence got us in trouble with a Southern Montana Electric bankruptcy and overwhelming Highwood Generating Station debt. Due diligence is about managing risk – putting numbers on options and applying the expertise necessary to take action and make choices with confidence. The board resolution adopted early in 2012 to make decisions only after serious due diligence continues to drive decision-making at BEC. Our new management team from Lower Valley Energy (LVE) not only shares the BEC board's risk management approach, they build due diligence into their recommendations and decision-making.

BEC Due Diligence to Date

With an exit from Southern likely, a longer-term power supply search underway, and the management agreement with LVE in place many important goals set by our board and due diligence committee are accomplished. We are in transition from crisis management to management of planned change. By the time you read this we will have announced the timeframe for a modest energy rate decrease.

Decisions made – In addition to influencing the outcome of the Southern bankruptcy and setting up exit provisions we have spent a great deal of time identifying potential power supply and business relationships for BEC going forward. We examined and eliminated consideration of unworkable power supply options including membership in another generation and transmission cooperative.

Due diligence underway – Our agreement with LVE to manage BEC includes a timeframe for evaluating the potential for merging the two co-ops within three years. We have established criteria (see website for the BEC/LVE contract) for measuring the success of the agreement. We anticipate savings and we see that our new management adds value beyond cost reductions. Our contract is with the Lower Valley board of trustees who will evaluate the benefits for LVE while both co-ops assess results and inform members who will vote on any merger or acquisition proposal.

We have informed members of the challenges for a small co-op with few economies of scale, low projected growth, and almost none of the federally subsidized power that helps many small co-ops hold costs down. Even as we focus on making the agreement with LVE work, we continue to assess the benefits of alternative solutions like acquisition by an independently owned utility or simple cooperation and cost sharing with another co-op.

Southern and the Highwood Generating Station

Southern continues to discuss closure. We anticipate an early exit for BEC. Without the constraints of membership in Southern it will be easier for BEC to plan for rate decreases, longer-term power supply, and business relationships going forward. Neither BEC nor Southern has been informed of an agreement by the Highwood Generating Station trust to sell the plant.

Power Supply

As we reported last month, BEC is examining potential power supply sources to follow the current power contract that expires in October of 2017. The power supply committee has interviewed suppliers and BEC issued a request for indicative (non-binding) proposals to be submitted by June 30 with negotiations expected to follow.

The Beartooth Bylaws (IV, Section 1, G) require the board to give members 60-day notice and provide opportunity for member comments before entering power contracts exceeding two years. Since the April board decision to seek power members have been notified repeatedly of the proposed search process. At the June 30 meeting the board offered opportunity for members to ask questions and comment about the proposed power supply process. Please continue sharing your opinions and concerns with management and board members. We have created an email address (comments@beartoothelectric.com) to route your power supply questions for fast response.

Arleen Boyd. District 5 Trustees, Due Diligence Committee Chair
Submitted June 9, 2015