

Good News

This year's annual meeting was the first in many years with good news to share. As far back as 2007 we were hearing about Southern requirements and Highwood Generating Station costs resulting in constant rate increases at Beartooth Electric. With the following accomplishments and excellent management in place at BEC we anticipate continued good news – even as we continue to examine risks and evaluate the business alternatives in front of us.

We are leaving Southern Montana Electric, the generation and transmission cooperative that has supplied our wholesale power since 2004. We have given notice of intent to leave on October 31. The single remaining legal requirement is approval from the Highwood Generating Station note-holders, which should be forthcoming under the provisions of the U.S. Bankruptcy Court reorganization plan for Southern. For an exit, the plan requires BEC to prepay its share of Southern's HGS note-holder debt and other financial obligations.

What does this mean? We will borrow approximately \$1.3 million to prepay our share of HGS and other Southern debt – amounts we are required to pay whether we stay in Southern or leave. We are comparing amortization alternatives available under our very attractive financing agreement with the National Rural Utilities Cooperative Finance Corporation (CFC). Leaving Southern will provide savings to cover our prepayment and improve BEC cash flow. Ending the Southern contract frees us to secure contracts for power, negotiate business partnerships, and reach financial agreements without concern for bankruptcy uncertainty. The exit also removes us from future deliberations about Southern's closure when our interests may differ from those of other Southern members.

Highwood Generating Station is sold. HGS was completed in late 2011, just before Southern declared bankruptcy. The court-approved bankruptcy plan established a liquidation trust to sell the plant for the HGS note-holders. The trust announced that Missouri-based PRO Energy Solutions will dismantle the plant and remove its assets by some time in November.

What does this mean? The sale removes the risk of further HGS obligations for Southern or BEC. We endured high rates and cash calls and wrote off \$4.8 million in HGS investment. We paid nearly \$800,000 in bankruptcy costs and just this year we paid \$245,356 to close out a loan we secured for Southern. Without the extraordinary HGS and Southern demands, we can apply our resources to business at Beartooth.

BEC has contracts for wholesale power that extend for the next 5 years at rates below anything we have seen since before 2008. BEC power will come by assuming our share of Southern's contract with Twin Eagle that runs through September 2017 followed by a new contract with Morgan Stanley Capital Group that ends in September 2020.

What does this mean? Excellent rates for wholesale power at BEC will not rise for at least the next 5 years. Last year we paid \$5.1 million for power, nearly 50% of our total revenue. The new contracts reduce our cost of buying power significantly. This means lower revenue requirements and the opportunity for additional member rate reduction.

BEC's current rate reduction – Revenue from members covers co-op expenses. After three years of cutting operating expenses BEC could afford to decrease revenue by 5% in August. We reduced member payments for energy, leaving the base rate at \$33.50. For residential customers whose energy cost per kilowatt-hour (kWh) went from approximately thirteen cents (\$0.127957) to approximately twelve cents (\$0.119426) this represented a 6.667% decrease in kWh rate. For residential customers using the average 850 kWh per month the total monthly bill (including the base charge) was reduced by \$7.25 (5.10%). This amounts to \$87 per year if electricity use remains constant.

We will consider further rate reductions as we evaluate the impact of the good financial news: reduced cost of wholesale power, elimination of HGS costs, and our exit from Southern.

***Arleen Boyd – District 5 Trustee, Risk Management Chair
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