

## **Due Diligence Results: Options and Plans**

On September 17 Southern Montana Electric, our wholesale power provider, will select a power supply contract that likely will enable it to provide power to members and pay the Highwood Generating Station (HGS) noteholders \$21 million over four years as the bankruptcy reorganization plan requires. When the notes are paid Southern may dissolve.

Under the reorganization plan BEC has the right to prepay its share of the HGS notes and leave at any time, provided the other Southern members agree. Even if Southern closes within four years, our analysis indicates that BEC's best interests require an immediate exit. We continue to negotiate with Southern's member co-ops on terms for an exit.

For the past three years BEC has examined power supply options and potential business relationships that could provide reliable power and reduce costs. We understand that to stabilize our rates – and possibly reduce them – we need to lower our wholesale power costs and continue to reduce BEC operating expenses. Leaving Southern clears the way to accomplish both goals.

**POWER SUPPLY CHOICES** -- Buying power from a Generation and Transmission Cooperative (G&T) is a common practice among co-ops. After serious analysis the BEC Board decided not to join another G&T if we reach an agreement to leave Southern at this time. Southern, our current G&T, delivers power we could secure ourselves and provides no additional services. Other generation and transmission cooperatives can provide added value, but most require all-requirements contracts like the 40-year agreement that locked us into Southern for power supply, HGS construction costs, and other obligations that led to bankruptcy. Signing a traditional long-term G&T contract requires a high level of confidence that the G&T will deliver financial stability, few risks, and reasonable rates. It is difficult to justify a 35-40-year contract with any G&T we have examined.

In today's power market we can secure a good multi-year power contract and then focus on developing long-term power supply solutions, including partnerships with other utilities.

**INCREASING EFFICIENCY REDUCES COSTS** -- We buy power and maintain our distribution network of poles, wires, and substations using revenue from approximately 5800 meters spread across nearly 2000 miles of line. With few ratepayers and widespread facilities we do not have economies of scale. We need to increase efficiency to maintain quality service and reduce costs.

Many co-ops reduce costs through simple cooperation with other co-ops -- sharing functions, personnel, and resources to improve efficiency. This widely used approach offers operational efficiencies and potential cost savings.

The highest level of cooperation is merger or acquisition that fully integrates co-ops to improve financial leverage and spread operational costs across a larger customer base. Recognizing a trend toward consolidation, many organizations in the electric co-op industry provide consulting and information for co-ops considering mergers. We continue to discuss with a major utility the potential for an acquisition of BEC.

**NEXT STEP AT BEC** -- Co-ops can reduce costs by contracting for management services from another co-op or professional management service. We are working with Lower Valley Energy, a very strong Wyoming cooperative, on a management agreement for BEC. Due diligence to date shows opportunity for savings at both co-ops with potential for BEC to significantly reduce its operating expenses while benefitting from the experience of an excellent management team and cooperation with well run co-op that shares our values.

We will keep you informed. Contact the co-op or a board member for updates: 406-446-2310, [www.beartoothelectric.com](http://www.beartoothelectric.com).

Arleen Boyd, Due Diligence Chair and District 5 Trustee