

THE BEC kWh

know what's happening

BEARTOOTH ELECTRIC COOPERATIVE MEMBER NEWSLETTER

SEPTEMBER 2014

See you at the
Annual Meeting—

The
BEC 76th ANNUAL
MEMBER MEETING

Saturday,
September 27, 2014
Roberts High School
Gymnasium
Roberts, MT

This year's highlights—

- Vote-by-mail
- Trustee Elections
- Southern Bankruptcy Information
- Door Prizes

Hold on to your hat partner—

- Member Only Live Auction for Two Retired BEC Pick-ups

2002 Chevrolet 2500HD



2003 FORD F150 Lariat



Dear Members—



Richard Peck,
Interim General Manager
446-2310

It is hard to believe that I have been here at Beartooth for two and a half years. The business challenges with the Southern Bankruptcy, your new Board of Trustees, and the Staff has been most enjoyable. Managing a cooperative having the highest electric rates in the western states has been interesting to say the least. This management report

to the membership at this year's 76th Annual Meeting will be my last report as I start my transition back home to Alaska. I will highlight the many steps the board and I have taken together to get your rates heading back to a more reasonable level. Having the bankruptcy in our review mirror is the start. However, we will still have a four year impact of high rates if Beartooth stays in Southern or goes our separate ways. We believe exercising our right to buy out of our Southern contract is our preferred path and will provide lower costs and less risk.

In early 2012, your new Beartooth board had a series of goals after multiple Southern rate increases and the October 2011 Southern bankruptcy. This new board activity was accomplished with transparency, increased member communication and more member involvement. The board appointed new committees of Finance, Bylaws, Due Diligence and Policy. All committees had both board members and individual cooperative members reviewing all the written policies and bylaws of the cooperative.

The Finance Committee initiated an annual capital and operating budget process that required management accountability. The finance committee now meets four times per year to set goals and review the progress of reaching desired financial goals. Notification to you the member of the annual budget meeting is now required and any long-term borrowing or new power supply contract (over two years) is also now required to be given to the membership. Simple measures of member communication to allow any member to comment on their future!

Policies of the cooperative are the life blood of your utility. Board member Laurie Beers volunteered to take on the challenge of updating

all the cooperative policies in 2012. It is planned to have the last of the board policies updated and reviewed by our attorney and brought to the board for approval at the end of August. Policies are the legal guidelines for the board's interaction with the membership and their contract and provide clear direction for your staff to interact with you the member owner. Policies cover federal and state employment laws, cooperative financial requirements, electrical service needs, job descriptions and federal and state laws about energy interactions with you the member owners.

The Due Diligence committee has been the most active board committee over my tenure in examining current power supply activities of the Bankruptcy, meeting with potential future power suppliers, the reorganization of Southern after the court terminated the bankruptcy trustee and looking at the best future partnerships with other utilities. Chairperson Arleen Boyd of the committee has spent innumerable hours with the committee examining the issues. A full report of the committee's activities is contained in this 76th Annual Report.

After writing off more than \$5 million investments in the Southern power supply debacle your cooperative board is now investing in our own infrastructure that has been placed on the back burner over the past few years. Presently we are replacing annually 500 poles of our existing 21,000 poles, replacing old underground wire and older overhead circuits as needed, purchasing new equipment and trimming many trees that have been growing into the lines. Also, financial resources are providing training for the board and our employees about the multiple business and legal responsibilities of day to day of running an electric utility. The long-term load forecast (Energy and Consumers), four year construction work plan and the ten year financial forecast all have been updated. All of these plans are dynamic and will change in the years ahead but will provide new strategic directions for your board and staff.

In the final months of my contract as your General Manager your board and management teams will be looking at the best power solution for your future. The board will also be looking at new concepts in utility partnerships that will provide the basic goals of increased reliability and lower rates. Prior to making a final recommendation for Beartooth's future---"Town Hall meetings" will be held and your input will be sought. Remember it is always the membership that will have the final decision.

Thank you for giving me the opportunity to serve your cooperative interests and living here in Red Lodge.

OFFICIAL NOTICE OF
ANNUAL MEETING

BEARTOOTH ELECTRIC
COOPERATIVE, INC.
RED LODGE, MONTANA

The 76th Annual Meeting of the members of Beartooth Electric Cooperative, Inc., will be called to order at 9:00 a.m. Saturday, September 27, 2014, in the Roberts High School Gymnasium, located in the Town of Roberts, County of Carbon, and State of Montana. Member registration and donuts and coffee begins at 8:00 a.m. The business meeting will commence at 9:00 a.m. and adjourn at 12:00 p.m.

ACTION WILL BE TAKEN ON THE
FOLLOWING MATTERS:

1. Quorum Report
2. Reading of the Notice of Meeting and Proof of Mailing thereof
3. Reading of unapproved minutes of the 2013 Annual Meeting of Members and taking any necessary action thereon
4. Election of three members to your Board of Trustees to succeed Trustees whose terms expire.

District 1
Dan Dutton, VP

District 3
Julie Lindgren

District 7
David Peterson

5. Unfinished business
6. New business
7. Adjournment

DATED THIS 3RD DAY OF SEPTEMBER 2014

Richard Nolan
Secretary/Treasurer



MEMBERS STEP UP. NO CHARGE FOR HALF- MILLION-DOLLAR SERVICE

Arleen Boyd, District 5 Trustee, Due Diligence Committee Chair (328-6645)
Submitted August 11, 2014

We are emerging from a debacle caused by poor decision-making and little transparency at Southern Montana Electric that resulted in bankrupting power contracts and astonishing debt for an unneeded, overpriced generating plant. Starting in 2003 when Beartooth chose to form Southern poor decisions were made routinely without reasonable financial analysis to determine the impact on BEC member rates.

In March 2011 the BEC board rejected a request for due diligence examination of the Highwood Generating Station project that had cost over \$100 million, provided no revenue, and was about to be approved by Southern for another \$215 million investment.

Due Diligence at BEC

In October 2011 a new BEC board resolved to support further HGS investment only after applying due diligence. Then the board authorized a due diligence committee to examine power supply options, assess business opportunities, and advise the board. BEC members volunteered and industry experts agreed to inform the committee without charge.

By December 2011 the committee included a financial analyst and former hospital treasurer, the retired regional CEO of a major bank, and the president of an investment firm who also served on the Montana Board of Investments. A second banking executive, a retired finance manager from one of the world's largest forest products companies, and a power supply consultant with long experience at Montana Power and NorthWestern Energy joined the committee in 2013 and 2014. Over the past three years these volunteers held 36 due diligence meetings to review

bankruptcy developments and examine business and finance reports. They also met with power suppliers, industry experts, the court-appointed bankruptcy trustee, Southern's other co-ops, and lawyers. They attended court hearings and bankruptcy mediation sessions.

A conservative calculation of committee members' contributed time reaches 2267 hours over three years. Using an average consultant rate of \$185 (well below reasonable billing for any of these professionals) we calculate \$419,395 in time not billed over three years. If we include travel, related expense, and individual research time the number easily exceeds \$500,000. .

Results?

With committee help we developed an effective legal strategy. We have identified options for BEC's future. We are smarter and more focused now that when we started. We locate and examine information, quantify and compare alternatives, and enlist experts as needed. Making solid business decisions requires preparation, analysis, responsibility, and transparency that are now part of our culture at BEC.

Thanks due

A comprehensive look at due diligence would note member contributions beyond the committee: the banker who ran amortization schedules for us, the members who provided solid advice and wrote letters making our positions clear to the trustee and the court, and the local attorneys whose due diligence helped BEC select excellent legal counsel.

We are a co-op – owned and generously supported by our members.



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Chairman's Message

Beartooth Electric has had an exceptional year with many interesting developments and accomplishments. Over the course of the year we have been asked many times if we are nearing the end of the Southern Bankruptcy as well as our exit from Southern. The light at the end of the tunnel that was nonexistent last year has grown in size. It has become a beacon of light bringing hope that the end is near. Southern Montana G&T is now reorganized and we are negotiating our ways out of Southern to reduce are risks and future power supply costs.

Our low energy sales per member and high distribution costs have required us to look for new ways to conduct business. Our reduction in personnel, through attrition, has been successful in further reductions of costs. The use of contractors has enabled us to complete tree trimming and pole replacements in a timely manner and stay within the established budget. We are also looking into combining services with other co-ops to continue the cost savings. Our goal remains, NO increase in rates and ultimately a rate reduction.

Our co-op recently received a safety award from the NWPPA (Northwest Public Power Association) for no lost work time hours in 2013. We came in 1st place for the 30,000 - 40,000 annual man hour categories for all of the northwestern utilities. This will mean a sizeable reduction in our Workman's compensation premiums. Thank you to our employees for keeping safety as job one. Northwest Public Power Association is a regional trade association of over 200 cooperative, municipal and PUD's serving public power utilities.

The NWPPA has also given Beartooth a communications award. We were just informed that one or more of our "2014 Excellence in Communication" entries has placed in the top three of its category for web sites. The 1st - 3rd place awards are still a secret and will be revealed at the awards banquet later this year.

This past year we experienced a challenging winter. We started the season with an extremely wet and heavy snow storm in October. This storm caused numerous power outages from trees and limbs heavy with snow pulling down power lines. The employees worked around the clock and had the power, in most cases, reestablished within three days. We also had the assist from Outback Power, one of our contractors helping us with pole replacements.

As mentioned previously, we had two people retire. Terry Richardson, our lineman and most recently warehouseman of 19 years, decided it was time to start a new career at home on the ranch. Lee Hauge, our Red Lodge line foreman,

will retire with 35 years of service this winter. We want to thank each of these men for their dedicated years of service.

Your Board and committees have continued to stay busy this year:

The Southern Bankruptcy and Due Diligent report consists of several significant events. This year Arleen Boyd and Laurie Beers were our representatives on the Southern board. Their report is included in this publication.

The Bylaws committee met early in the year and meticulously examined the current Bylaws to ensure involvement from the membership in major decision-making. They decided that no additional changes needed to be made so there will be no proposals this year.

The Policy committee has finished most of the policies and job descriptions and the board has voted to adopt them. These much needed policies addressed issues involving work hours, benefits, duties of the board and management and safety just to mention a few. They will continue their efforts next year to ensure all policies are complete and most importantly a schedule of periodic review is in place.

The Finance committee has had a daunting task of developing an operating and capital budget that takes into consideration the present financial needs of the co-op and balancing that with developments from our present power supplier, Southern Montana G&T. It is a no-frills budget that addresses the needs of the cooperative to maintain the infrastructure, complete needed projects in the long range engineering work plan and prepare for future unforeseen events. Once again without raising rates.

To help you understand the current Southern bankruptcy and communicate the many issues facing your cooperative nine "Town Hall" meetings were held throughout the service area. The cooperative has continually updated our web-site to provide most recent information. As our efforts about future power supply unfold and the decision about combining of distribution services continues to develop, we will hold another round of community meetings to keep you informed.

The entire Board and staff look forward to the annual meeting to renew friendships and answer questions you may have. Thank you for the opportunity to serve each of you over the past year.



Roxie Melton
president
District 2—
Boyd
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2013-2014
BEC
Board
of
Trustees



Julie Lindgren
District 3—
Roberts, Bearcreek
rockinj1@vcn.com
406-671-1086



Laurie Beers
District 6—
Nye
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David Peterson
District 7—
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2013 Annual Financial Report

ASSETS	2013	2012
ELECTRIC PLANT:		
In service - at cost	\$28,455,027	\$27,524,353
Construction work in progress	103,807	220,341
Less: Accumulated provisions for depreciation & amortization	<u>12,576,644</u>	<u>12,210,569</u>
Net utility plant	<u>\$15,982,190</u>	<u>\$15,534,125</u>
OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	\$600,321	\$575,827
CURRENT ASSETS:		
Cash-general funds	109,396	1,092,783
Temporary investments	491,442	269,248
Accounts receivable	1,385,862	1,229,946
Materials and supplies	309,450	272,639
Other current and accrued assets	185,182	33,491
Deferred Charges	<u>76,802</u>	<u>52,485</u>
TOTAL ASSETS:	<u>\$19,140,645</u>	<u>\$19,060,544</u>
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES:		
Patronage capital	\$4,475,272	\$3,958,964
Other Equities	<u>175,899</u>	<u>76,508</u>
LONG-TERM DEBT:		
Mortgage notes & other long-term debt	<u>\$12,583,481</u>	<u>\$13,436,812</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$678,119	\$475,441
Payables	823,009	664,731
Consumer deposits	69,810	72,370
Other current and accrued liabilities	<u>317,172</u>	<u>359,193</u>
TOTAL LIABILITIES:	<u>\$14,471,591</u>	<u>\$15,008,547</u>
Deferred credits:	<u>\$17,883</u>	<u>\$16,525</u>
TOTAL LIABILITIES & MEMBER EQUITY:	<u>\$19,140,645</u>	<u>\$19,060,544</u>
COMPARATIVE STATEMENT OF REVENUE AND EXPENSES DECEMBER 31		
REVENUE:		
Operating revenues	\$10,460,025	\$10,216,631
Non-operating revenues	<u>65,504</u>	<u>(3,850,817)</u>
TOTAL REVENUES	<u>\$10,525,529</u>	<u>\$6,365,814</u>
VARIABLE EXPENSES:		
Lines-Distribution/Operations; transmission	\$823,979	\$1,013,635
Line-Distribution/Maintenance	864,289	518,272
Consumer Accounting	328,227	341,791
Administrative & General Expense	<u>1,338,015</u>	<u>1,095,435</u>
FIXED EXPENSES:		
Power Purchased for Member	\$5,003,796	\$4,928,454
Depreciation	860,945	844,678
Interest on long-term debt & other	<u>662,697</u>	<u>694,377</u>
TOTAL COST OF ELECTRIC SERVICE:	<u>\$9,881,948</u>	<u>\$9,436,642</u>
NET MARGINS:	<u>\$643,581</u>	<u>(\$3,070,828)</u>

Financials for the years ended December 31, 2013 unaudited and December 31, 2012 audited.

The actual July 1, 2013 through June 30, 2014 audit is available electronically or in hard copy from the cooperative office.

Employees

Richard "Dick" Peck	Interim General Manager
Robert Walker	Interim Dir., Finance & Accounting
Eric Elton	Interim Line Superintendent
Jim Avent	Meter Technician
Travis Barker	Journeyman Lineman
Guy Behrent	Journeyman Lineman
Bill Colgrove	Line Foreman
Linda Dukart	Customer Service Representative
Lee Hauge	Line Sub-Foreman
Dianne Makinson	Work Order Clerk
Don Parks	Line Sub-Foreman
Brad Prophet	Accountant
Connie Teachout	Billing Clerk/Cashier
Marty Tomlin	Staking Technician
Sam Walkowiak	Line Foreman
Jake Wright	Journeyman Lineman
OPEN	Journeyman Lineman

We're here to serve you!
Give us a call—
406-446-2310

