

# the BEC kWh

know what's happening

JUNE 2014

## Dear Members—

This past month the board and I have been busy with activities to keep you informed about the Southern Bankruptcy and what the final disposition of the bankruptcy may be. To date we have had Town Hall meetings in Rapelje, Reed Point and Nye. Until the final order of the Bankruptcy Court is clear we cannot give a final financial impact of the bankruptcy costs related to Southern. We do look forward to more member meetings in Joliet, Fromberg, Absarokee, Red Lodge and Clark, Wyoming during late June to provide the latest information.

Our BEC goal has not changed, we want out of Southern and a new wholesale power supply contract in place in the near future. The board's Due Diligence Committee has been pro-active in analyzing potential BEC wholesale power supply and financial options. Our activities have included working with our bankers on how to buy out of Southern (will require five year debt), setting up a new transmission agreement with Northwest Energy and working with multiple power suppliers on potential approaches to supplying our future needed energy. Hopefully the three year saga with the Southern Bankruptcy will be understood and possibly over by year end.

Wholesale power costs account for about fifty (50%) per cent of our annual cost structure. The remaining costs (50%) are

associated with maintaining and operating a rural electric distribution utility. Beartooth is challenged with very low energy sales per consumer. This issue is brought about by a residential revenue stream that accounts for 83% of our annual revenue. Beartooth has some of the lowest residential energy sales of any cooperative in Montana due in part to the large number of snow birds who live on our rural system.

The lack of energy sales due to reduced member energy use, energy efficiency and conservation is providing new challenges to your board. Since 2011 the board has reduced employment from 25 employees to the present 17 employees to keep costs down. Going forward the cooperative will be using more contractors to maintain service reliability and new construction. The board is also looking at business concepts of merger, consolidation and sales of our assets to other utilities. All of these ideas and recommendations will be brought to the membership for consideration. One thing we all have for a future Beartooth goal is to see your electric rates diminish over time!

With warm regards from your co-op board and management,

Richard G. Peck, Interim General Manager  
Beartooth Electric Cooperative, Inc.



Richard Peck, Interim  
General Manager  
446-2310

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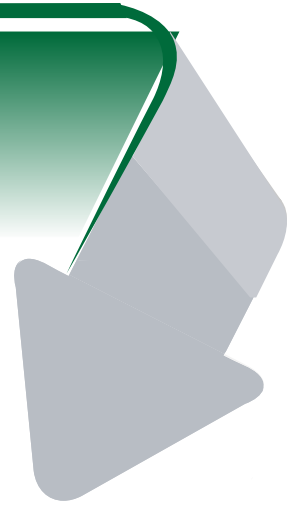
Message from the  
Chairman of the Board

Want to be a  
BEC Board Trustee?

Nominations  
NOW OPEN!

# What is the future of Beartooth Electric?

After almost 3 years, the Southern bankruptcy is ending. What happens now will affect our electric rates for years to come.



It has been over a year since the board and I last visited with you at Town Hall meetings. The Southern Bankruptcy is not yet completed but is drawing to a close.

We have scheduled the following meetings throughout the Beartooth service area:

**Important Meetings  
in Your Neighborhood  
this June!**

Clark, WY	June 23	6:30 PM	Clark Pioneer Rec Center
Fromberg, MT	June 24	6:30 PM	Fromberg High School Gymnasium
Absarokee, MT	June 25	6:30 PM	The Cobblestone School
Joliet, MT	June 26	6:30 PM	MSU Carbon County Extension Office
Red Lodge, MT	June 30	6:30 PM	Red Lodge Community Foundation Building

The board and I look forward to these very timely meetings and your input for the future of Beartooth Electric Cooperative.

- > *Understand the options.*
- > *Be in on the decisions.*
- > *Share your opinions.*
- > *Prepare for what's next.*

**COME JOIN US!**

# Decisions Ahead

Due Diligence Report, June 2014

Once again we are writing for Rural Montana a month before publication. We are working on several ways to reach members and share the breaking news, so attend the upcoming member meetings if you can, visit the BEC website, and call board members anytime.

The expedited timeframe set by U.S. Bankruptcy Court says that the bankruptcy of Southern Montana Electric may be settled before you read this. Hearing on the disclosure information associated with the reorganization plan filed by Southern last month is scheduled for May 9 with a confirmation hearing possible on May 20. A decision from the court would follow with the timeframe dependent on matters remaining to be resolved.

With the court provides for payment of \$21 million to the noteholders (Prudential and associated lenders) over four years. The Highwood Generating Station assets will be sold by a liquidation trust created under the plan with proceeds going to the noteholders. The plan includes a provision for BEC to withdraw from Southern, subject to approval by the other Southern member co-ops, upon payment of its share of "the outstanding balance of the Restructured Notes."

We and the other member co-ops are attempting to establish an exit path for BEC. All parties have agreed that if negotiation does not succeed mediation will follow and then arbitration if an impasse is reached. The lawyers for the Southern member co-ops have selected a mediator who will convene mediation, if needed, in mid May.

If we are not successful in securing an affordable exit there will be risks associated with remaining in Southern and missed opportunities to benefit BEC members. Staying in Southern would delay or eliminate potential options we believe are better than our current position

as a small co-op member of a tiny generation and transmission cooperative with a history of operating and making decisions with methods we do not support.

At this time BEC remains a contributing member of Southern. Our two representatives on Southern's board are sharing a range of due diligence analyses of the plan elements. We have examined Southern's projected revenue, expenses, and debt payment calculations using expert independent consulting and a highly skilled and experienced due diligence committee. In order to pay the full \$21 million note (without rate increases) within four years Southern must secure wholesale power at a predictable rate low enough to leave a margin that covers all operating costs and debt. Right now Southern is looking at power supply options and we are encouraging issuance of an RFP.

Due diligence is about comparing alternatives. It is easy to conclude that a four-year plan is better than the former trustee's plan, which was long-term and completely unworkable and unaffordable. It is harder to quantify the risk of staying in business with parties whose decision-making and other business practices do not line up with ours. We can, however, readily assess the opportunities that will follow an exit and we have modeled the financial impact of borrowing to support an early payment of our share of the debt.

Soon we will have all the data necessary from the court and the other members to define our options for you in detail. We will begin that process with the upcoming member Town Hall meetings.

Arleen Boyd  
District 5 Trustee, Due Diligence Chair  
328-6645



## SAVE THE DATE!

**BEC'S 76TH ANNUAL MEMBER MEETING  
SATURDAY, SEPTEMBER 27  
ROBERTS HIGH SCHOOL GYMNASIUM**



## MESSAGE FROM THE CHAIRMAN OF THE BOARD



Roxie Melton,  
President  
426-0135

This year is really flying by. It seems only yesterday we were battling snow drifts and freezing temperatures. Summer is fast approaching, school is out for most people and vacation planning is underway.

It has been my pleasure and those of the board to present scholarships to numerous high school senior that live in our service territory. This year we awarded \$1,000 scholarships to nine students to help further their education.

The funds for these scholarships come from Capital Credits that are returned to us from members that cannot be located for some reason or another. These dollars are held for approximately five years before they are regarded as unclaimed. The State of Montana requires us to surrender these funds for them to use or we can keep them and use them for education. It is obvious that we would prefer to spend these funds ourselves and to delegate them to our education areas of importance. In past years we have provided funds for a computer center, a new water well for an elementary school, new playground equipment and the scholarship program.

This year the scholarship recipient's and their school are:

Absarokee	Karissa Rabideaux	Bridger	Jimmy Kelsey
Columbus	Shayna Howell	Joliet	Tanya Seymour
Powell	Aspen Smith	Rapelje	Matthew Mauland
Reed Point	Whitney Bare	Red Lodge	Levi Lynde
Roberts	Kelsey Pratt		

Congratulations to our scholarship winners. All of us at Beartooth wish you the best as you venture into the College world and on to a bright future.

### BEC BOARD MEETING

June 24, 2014  
12 Noon

Red Lodge Area  
Community Foundation

Join us!

## Interested in serving on your Cooperative's Board of Trustees?

**Nominations Now Open!**

You might wonder why it is important for cooperative members to nominate and elect fellow members to the position of trustee. The reason is simple: the board of trustees sets the direction for the cooperative's future, through their five primary responsibilities: **1. Planning, 2. Fiduciary, 3. Legal, 4. Trustee, and 5. Controlling.**

There are seven board districts within BEC's service territory. Per our Amended Bylaws, each year district trustee positions are open for election.

This year, our districts up for election are:

District 1	Bridger, Clark, WY
District 3	Roberts, Bearcreek
District 7	Columbus, Reed Point

Trustee service terms are three years. Get your petition now at the Beartooth Electric Cooperative office or download from our website [www.beartoothelectric.com](http://www.beartoothelectric.com).