

the BEC kWh

know what's happening

MAY 2014

Dear Members—

We surely hope April showers will only bring May flowers and not flooding to our service area. The abundance of snow with heavy moisture content will be a challenge if we have a period of warm weather. May and June will certainly be a busy couple of months as we plan to hold several meetings in regards to the Southern bankruptcy and the future of Beartooth Electric Cooperative. A schedule of our planned Town Hall meetings will be published in the local papers and on our web site.

As provided for in the Beartooth Bylaws, Article IV, Section 1, General Powers, Paragraph G the board will be borrowing long term funds (exceeding two years) for the construction activities as noted in the 2014 Long Range Construction Work Plan and for the potential buy out of our Southern Power Supply contract. As required you're being notified of the cooperatives long term borrowing needs. Information on the construction work plan is available on our web site or you may stop by the office and review the four year work plan of about \$4.3 million. At the present, the amount of funds needed for the buyout of our power supply contract is unknown. Board resolutions authorizing the borrowing will be presented to the board at their June 24 board meeting. The terms of the four year work plan loan will be for thirty years and the interest rate will be about 5%. The buyout of our power supply loan will be

for a shorter period of time and will be in the range of 3% interest. If you care to comment on these loans please give your staff or board members a call. I would note the construction loan costs were planned for in the 2014 Operating and Capital Budget approved by your board on January 6. You're cordially invited to the Beartooth Electric Cooperative board meetings at the Red Lodge Area Community Foundation on May 27 and June 24 at 12:00 noon.



Richard Peck,
Interim General
Manager
446-2310

The present dollars spent on new construction is all about replacing our aging poles and wires infrastructure. Your cooperative has over 21,000 poles and 1750 miles of line. Replacing 500 poles a year, our current goal, will take staff over 42 years to replace all the existing poles. The borrowing for pole replacements just considers borrowing for about 60% of the new pole costs. The remainder of funds, 40% comes from existing rates each month. Your cooperative tries to balance the capital construction costs (\$1,000) for pole replacements between debt and rates. Most recently (2012-2013) we have reduced our borrowing, in the future, to maintain system reliability we need to borrow the needed long term capital.

The board has defined annually our capital expenditures in your yearly budget. A copy of the 2014 Annual Operating and Capital Budget is also available on line for your review. With warm regards—Richard Peck, interim general manager.

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Know What's Below:
Call Before You Dig

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2014 Farm Bill is Law: 10 Things Ag Producers Need to do Now

2014 Farm Bill - Commodities Title

Now that President Obama has signed the new Agriculture Act of 2014 (farm bill), what can ag producers do to get up to speed on the complicated legislation?

Wayne Meyers, of Kennedy and Coe, an accounting and consulting firm focused on agriculture and food production, has his top 10 actions producers can take to right now to understand how the new legislation is going to impact their farming operations.

1. The first thing producers can do is educate themselves and develop an in depth understanding of the technical components of the farm bill.

Why? Because producers will be asked to make decisions that will lock farms into specific commodity options for the next five years. For example, producers must choose under the Title I, Commodity Program between the Price Loss Coverage (PLC) option or the Agriculture Risk Coverage (ARC). Under ARC there is another election either ARC County Coverage or ARC Individual Coverage.

2. Read everything you can about the farm bill. Read the Federal Register when USDA publishes their “Rule Making” as many decisions have been left up to the Secretary in the implementation of this farm bill.

3. Align yourself with industry experts that you trust. As with any new legislation, confusion and misinformation abound. Find experts who can give you correct information so you can make solid decisions.

4. Look for software and other tools that can help you play “what if” with price and yield estimates. These can be a great value in making crop by crop farm by farm elections.

5. Think about ways to involve your landowners in the educational process. Elections to update yield and base are to be made by farm owners. The more they understand about the importance of these elections, the easier the tenant’s job will be when it comes time to make the elections.

6. Involve other professional advisors in your long term planning. That includes your banker, accountant, and others. Almost every facet of your operation will be impacted from crop insurance, having the correct operating structure, payment plans, succession planning and also your estate.

7. Begin to analyze your farm program crop bases. Updating individual crop base to more accurately reflect more recent planting of covered commodities will be beneficial.

While the 2002 farm bill allowed some producers to update base when they added oil seed crops, many producers have been “stuck” with crop acreage base that dates back to 1985. In many cases these crop bases do not reflect cropping history over the past four years and now producers (owners) have the opportunity to update crop bases. The process is called base reallocation.

8. Look at your actual yields as producers (owners) which elect the PLC option. There is a one time option to update yields to 90 percent of the farm’s average planted yield over the 2008 to 2012 crop years. If the PLC looks attractive for some crops, then begin assembling yield data by FSA farm number and be prepared to provide this yield data to FSA when they announce signup for this option.

9. If you have a significant farming operation, consider hiring an expert to assist with the Title I Commodity Program Options. These options are a one time election and you can’t afford to make a wrong decision.

10. Be sure you meet other eligibility criteria such as “actively engaged in farming” rules. It may not matter if you make all the right decisions regarding Commodity Program options if you fail the payment eligibility criteria.

Here are two sites to help you stay informed:

USDA

<http://www.ers.usda.gov/agricultural-act-of-2014-highlights-and-implications.aspx#.U0bDKVdVLE>

DEPT OF AGRICULTURE

<https://agriculture.house.gov/farmbill>

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Bankruptcy Winding Down, Lots of Work Ahead

Due Diligence Report, May 2014

The Southern Montana Electric Generation and Transmission bankruptcy continues to move toward confirmation of a plan of reorganization. By the time you read this, a plan for reorganizing Southern may be filed in U.S. Bankruptcy Court along with its required disclosure information. We will continue to post on our website documents filed with the court and keep you informed as the bankruptcy process unfolds.

Southern pledged as collateral the BEC wholesale power contract, which runs through 2048, for loans to finance the Highwood Generating Station outside Great Falls. The BEC board and due diligence committee have worked for three years to identify better power supply options and terminate our membership in, and wholesale power contract with, Southern. Southern, a tiny G&T, has a history of business practices that are not consistent with BEC commitments to due diligence, transparency, and member control.

Based on a term sheet that was filed with the court in March 2014, terms of the proposed potential reorganization plan will include:

- 4-year payment to the HGS noteholders, primarily Prudential Insurance and Modern Woodmen, of \$21 million at 4.125% interest
- Creation of a trust to sell HGS with the proceeds going to the noteholders
- Resolution of other claims in accordance with U.S. bankruptcy code
- Provision for all Southern members to exit after four years
- Provision for a potential immediate exit for BEC.

The proposed terms project payment of the notes without raising the wholesale power rates Southern charges its member co-ops. Southern may, however, change rates with approval from the noteholders. Southern

currently charges its members significantly more than it pays for power, which provides a margin to cover HGS debt, bankruptcy expenses, and G&T operating costs. BEC can sustain the current wholesale rate without raising retail rates to our members, but only with careful management and continuing cuts in our operating expenses.

Under the Term Sheet, Southern's largest secured creditors (referred to as the noteholders) will not object to BEC's terminating its membership in Southern if BEC pays its load ratio share of their notes and Southern's other members consent. We are working to terminate our membership in, and wholesale power contract with, Southern upon confirmation of the proposed plan. We believe that ending our relationship with Southern will create opportunities for BEC without harming Southern or its other members.

Our goal is to control our rates at BEC and reduce them if possible. We do not intend to remain the co-op with the highest rates in the state. In the short term we can continue to develop efficiencies at the co-op to keep rates steady or even reduce them. However, we want to be free to work on long range plans for BEC.

We will be holding "town hall" meetings in late April and May to inform members of developments with the bankruptcy and BEC options going forward. Please watch for notification in the newspapers and on our website. You can find the court filings and our reports on the website: www.beartoothelectric.com. Call the co-op or a trustee for more information.

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





MESSAGE FROM THE CHAIRMAN OF THE BOARD



Roxie Melton
President
426-0135

I've been getting a lot of questions lately about the Southern Bankruptcy, especially with everything they have been hearing in the news. It does look promising but there's still a lot of work ahead. In fact I think our titles should be changed from Trustee to: "Lots of work going on here". No matter what you hear in the news the bottom line is still the same. Getting out of Southern and back to job of controlling our rates. However, even with all the Southern issues we have to run a co-op.

We started the Union Negotiations with our IBEW workers this last month. I have been working on the three year contract with our Manager, Line Superintendent and Counsel. Things are ongoing and I expect to see us coming to an amicable agreement shortly.

Arleen and I decided to combine our monthly reports since the main issue is the Bankruptcy. Hope to see you at the town hall meetings.

BEC BOARD MEETING

May 27, 2014
12 Noon

Red Lodge Area
Community Foundation

Join us!

Know What's Below: Call before You Dig

Whether it's a dreamed up deck addition or a landscaping masterpiece, summer weather is a great time for outdoor improvement plans to actually play out.

But if your planned projects include digging, like planting a tree or bringing in a backhoe for trench work, you'll have to wait a few more days so the job can be done safely. Underground utilities, such as buried gas, water, and electric lines, can be a shovel thrust away from turning a summer project into a disaster.

To find out where utility lines run on your property, dial 811 from anywhere in the country a few days prior to digging. Your call will be routed to a local "one call" center. Tell the operator where you're planning to dig and what type of work you will be doing, and affected local utilities will be notified. In a few days, a locator will arrive to designate the approximate location of any underground lines, pipes, and cables with flags or marking paint so you'll know what's below. Then the safe digging can begin.

Although many homeowners tackling do-it-yourself digging projects are aware of "Call Before You Dig" services, the majority don't take advantage of the service. A national

survey showed that only 33 percent of homeowners called to have their lines marked before starting digging projects, according to the Common Ground Alliance, a federally mandated group of underground utility and damage prevention industry professionals.

Although light gardening typically doesn't call for deep digging, other seemingly simple tasks like planting shrubs or installing a new mailbox post can damage utility lines. A severed line can disrupt service to an entire neighborhood, harm diggers, and potentially result in fines and repair costs. Never assume the location or depth of underground utility lines. There's no need: the 811 service is free, prevents the inconvenience of having utilities interrupted, and can help you avoid serious injury.

For more information about local services, visit

www.call811.com

or call 811.

