

# the BEC kWh

know what's happening

JANUARY 2013

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- Your BEC Board of Trustees and Staff wish you a Happy New Year!
- Visit our website [www.beartoothelectric.com](http://www.beartoothelectric.com) for all the latest news!

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## Dear Members,

*by Interim General Manager, Richard "Dick" Peck*

Richard Peck,  
interim general manager

First of all let me wish one and all a most pleasant new year. Your cooperative has ended the past year out on a high note. The cooperatives finances have been strengthened by the actions approved by last year's board recommendations and decisions. The business processes for becoming a member have been simplified and we have become more transparent in our board actions. Last summer we surveyed the membership and are evaluating ways to provide better service.

The Board and their committees have been busy this past month on several fronts. The Boards Finance Committee in defining the coming operational year placed a heavy emphasis on service reliability for the members. This means we are looking at what is creating the majority of our system outages or momentary system interruptions.

In our electronic world these outages are simply should not

be happening. Over half the outages, about 2 hours, are created by the combination of wind and trees. Therefore we will be taking a more proactive approach to trimming of trees.

It has been the practice of going clear through our 1,760 miles of power lines about once every 10 years and trimming trees. The growth of several tree species such as willow and cottonwood has grown a lot faster over the past few years. Therefore, we will start a more active tree trimming program and will be hiring contractors to assist us to achieve our goals of going through our system in seven years. We are aware of the sensitivity of our environment.

Before we get started in a particular area to trim trees we will attempt to notify as many members as possible.

In the illustration on the following page, it shows the standard we utilize in clearing and trimming the power line right-of-way.

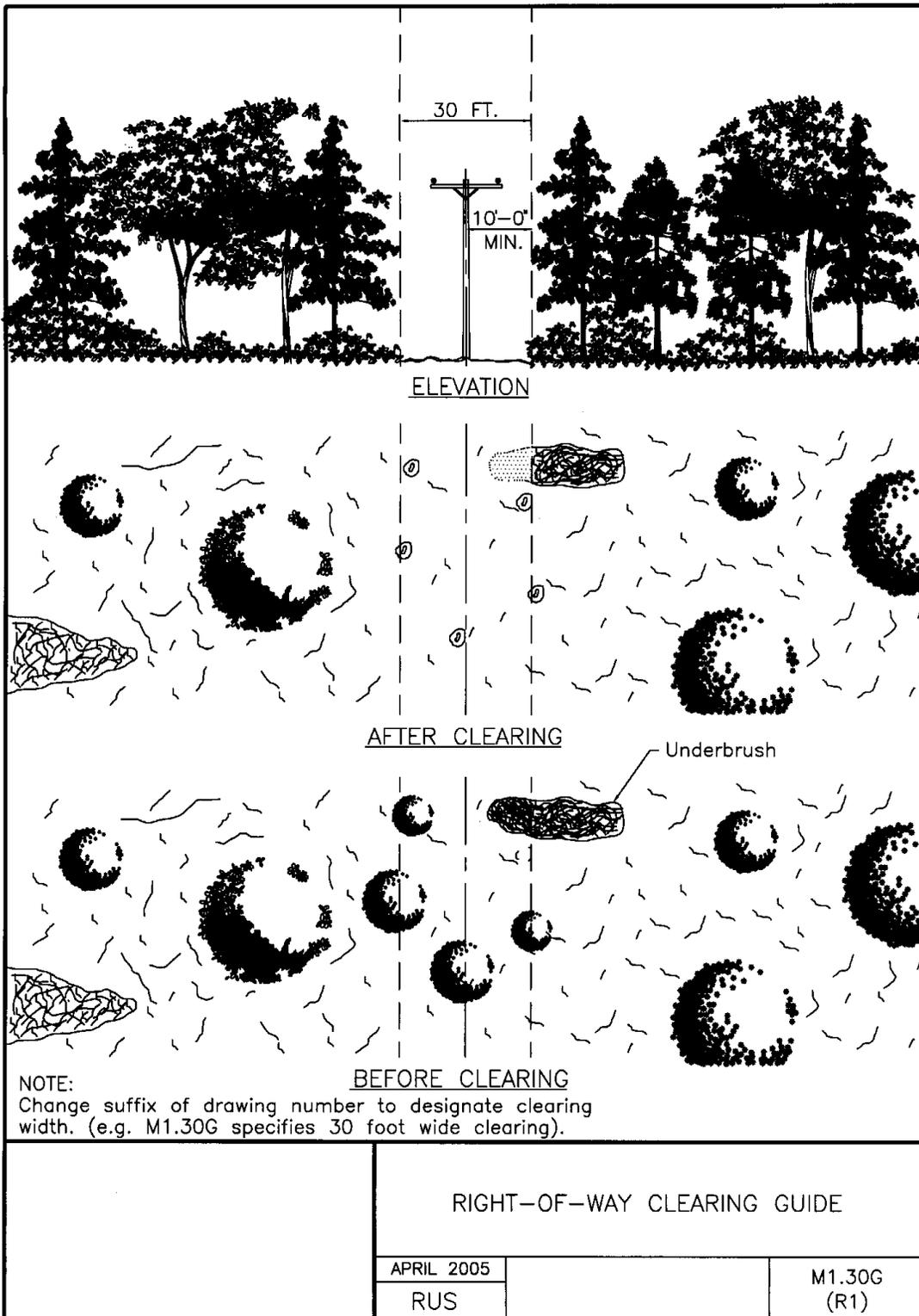
Also, I would note we will cut dead trees that pose a hazard to our line that are outside our right-of-way. If you're interested in either the chips or the fire wood we create please let us know or otherwise we will remove the tree trimming debris.

# Happy New Year!

The tree trimming will over time reduce outages, save line loss (reduce our expenses for power) and costs for liability insurance.

*Dick Peck*

Richard G. Peck,  
Interim General Manager



## DUE DILIGENCE UPDATE

When this issue of Rural Montana reaches you, nearly a month from now, the bankruptcy of our wholesale power supplier, Southern Montana Electric, will have entered a new phase with Southern's trustee and others presenting proposals in court for resolving Southern's debt and defining how Southern's member systems may move forward. The trustee was required to file the basis for his reorganization plan on December 14 and the court was expected to address on December 18 challenges to his proposed timeline and process, including the BEC request that the court rule on our request to void our 2008 contract with Southern before a reorganization is considered.

The decision-making phase of the bankruptcy has just begun and we want members to have the information they need to track its course. This bankruptcy carries enormous potential financial impact for BEC. We will step up our reports to members through all means available – newspapers, the BEC website, bulletins, and meeting reports. Even with its one-month lead-time for publication, Rural Montana reaches nearly all of our members and we will continue to report here.

### WHERE ARE WE?

The BEC board's due diligence committee includes four BEC member volunteers with extremely strong financial experience and expertise. The committee has examined power supply options available for BEC should Southern close or reorganize in a way that allows BEC to leave. Working to unravel the tangle of Southern/SME/BEC comingled finances and liabilities the committee has examined potential financial obligations to help understand and plan for possible outcomes of the bankruptcy process. The committee:

- Examined power supply options and reviewed potential power suppliers
- Recommended and reviewed independent analysis of the value of the Highwood Generation Station (HGS)
- Applied the HGS analysis results to calculations of BEC exposure
- Worked to unravel and understand the tangle of comingled assets and liabilities among Southern, SME, and BEC
- Helped the board apply rigorous financial analysis to the development of legal strategy relating to the bankruptcy and securing affordable power.

### WITH DUE DILIGENCE, THE BEC BOARD HAS:

- Filed claims to recover advances, deposits and investments in Southern
- Asked the bankruptcy court to void the 2008 BEC all-requirements power supply contract with Southern that runs through 2048
- Worked to influence the trustee to develop a plan that protects BEC and its members
- Prepared to take action in court if the proposed plan threatens our members.

### BEC POSITION

BEC informed Southern's trustee that we calculate no positive value proposition related to HGS and see no value for BEC in continued membership in Southern. Power contracts are available for BEC with much lower rates than we currently pay Southern and we are confident that we can develop a positive business plan for the co-op if the debt we take from the bankruptcy is reasonable and appropriate.

If BEC can leave Southern or Southern is shut down as part of a plan, BEC options include:

- Contracting for lower cost reliable power through an independent supplier or through another Generation and Transmission Cooperative
- Partnering with another cooperative to reduce operations costs and improve services
- Joining another co-op or independent utility through partnership or acquisition.

If BEC is directed by the court to stay with Southern and pay the BEC share of the full HGS debt, our current analysis shows that retail rates would have to rise well beyond the highest levels elsewhere in the continental United States. We would exercise all available legal options to challenge that scenario which could expose the co-op to insolvency. We will keep you informed. The board due diligence and Southern reports contain additional detail.



Arleen Boyd,  
Due Diligence Committee Chair

# the board room



BEC Board President,  
Roxie Melton

## *A message from the Chairman of the Board ...*

I hope everyone had a very Joyous Christmas and a Happy New Year. At this point in the year it's hard to find a lot to say about what's going on in your co-op. Everyone is getting back to business as usual after the holidays. The committees are continuing to meet and everyone is concentrating on the Southern developments.

This month I would like to address the two most asked questions I hear nearly every day:

1. Will our rates increase or ever go down?
2. How is our Co-op doing?

The two questions are interrelated in that the answer to both hinges on Southern, our power provider.

The co-op itself is doing well. The Finance committee has developed a comprehensive budget that will maintain the co-op and

ensure that the business of the co-op will continue to provide power in a fiscally responsible manner. However, if we are required to remain in the Southern group we could be drawn into an expensive endeavor of supporting the Highwood generation project for years to come with little chance of rate reductions. If the court agrees that our objections have merit, then we could be released from our contracts and be allowed to purchase contracted power on the open market and a decrease in rates is not impossible. In either case the power will continue to flow without interruption.

To update you on the Southern issues, Arleen Boyd, our Southern representative, has asked to for an opportunity to further inform you of the Southern issues facing the board. Her report is presented on the previous page 5. It looks like an interesting time ahead and I look forward to our report next month.

Sincerely,

Roxie S. Melton  
President, Chairman of the Board

## THE FUTURE OF BEC RATES

In the next year as the federal court resolves the bankruptcy of our wholesale power provider, Southern Montana Electric, members may have to make tough decisions that could dramatically affect the co-op's future. To intelligently make the decisions, they'll need to consider detailed information about the court's proceedings and the alternatives BEC may face.

As it has in the past, BEC will use multiple methods to keep you informed including the monthly magazine, Rural Montana, weekly articles in local newspapers, and our website at <http://www.beartoothelectric.com/>. Of those methods, the website is the only method that can provide in depth and immediate information on issues like the bankruptcy, outages, and other reports.

Recently, BEC retained professional assistance to improve the website. Sometime in February, we expect to have a new site on line. When it goes live, it will be far easier for you to find and understand information, not only about Southern's bankruptcy, but all information about your co-op. An essential feature on the new site will be the ability for the board to pose questions to members—particularly about BEC bankruptcy alternatives--and allow you to answer quickly on line. Your response will be important to chart the future course of your co-op.

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### Join us for the next Board Meeting:

January 25, 2013  
Red Lodge Community  
Foundation Building  
Red Lodge, MT