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Contact: Arleen Boyd, Beartooth Electric Cooperative board member
406-328-6645; arleenboyd@montana.net

Management contract considered for Beartooth
Cost-cutting measure to balance declining revenue

Roberts – Member-owned Beartooth Electric Cooperative held its 76th annual meeting on September 27, 2014 at the high school gym in Roberts. About 150 people were in attendance.

The most controversial topic of the day was the management contract now under discussion—a cost-cutting measure that would put the staff and administration of Beartooth under management of Lower Valley Energy (LVE), based in Afton and Jackson, Wyoming. Under a potential management agreement between the two distribution co-ops, Beartooth will remain under the guidance of its Board of Trustees and maintain its staff, but the Lower Valley management team would handle management tasks and financials.

“There’s a reason why you have had an “Interim General Manager” and “Interim Director of Finance & Accounting,” said Richard Peck, referring to himself and Robert Walker. Peck’s contract as general manager of Beartooth ends this year. It was originally penned for six months and has been extended over two-and-a-half years. Peck is largely credited with successful budget control that has helped Beartooth weather the financial drain of the Southern bankruptcy and kept electric rates steady for the past three years.

“We are now right-sized,” said Peck, describing the mix of contractors and employees that has been achieved without having to lay anyone off.

Peck explained that the management contract is part of a financial strategy which he feels strongly is the best recommendation to be found for Beartooth, based on his 47 years of experience managing small rural co-ops.

“Our revenue is decreasing, our costs are increasing,” Peck emphasized.

Richard Peck explained that BEC has spent three years looking at business options and potential management solutions, including discussions with Powder River, NorthWestern Energy and other co-ops in Montana.

“Lower Valley is an ideal fit. Our computer systems are the same; our operations approach is the same; and our policies are similar,” said Peck. “This is a really good opportunity for Beartooth Electric,” he said.

“This is not a merger, and if a merger were proposed, it would require two-thirds approval of the voting members,” Peck stated.

Points in favor of a management contract with LVE include:

- The benefits of contracts for shared management are widely recognized, creating a trend among small co-ops.
- BEC projections of significant savings under the proposed contract are confirmed by independent analysis.
- Providing services to Beartooth’s 5,700 meters and LVE’s 30,000 meters will benefit both co-ops by providing economies of scale.
- Lower management costs will help reduce operations costs for Beartooth members.
- LVE is an industry leader in energy conservation programs that BEC is considering for its members.
- The Wyoming Public Service Commission oversees both co-ops.

Rod Jensen, a 22-year board member of LVE, shared his opinion that the greatest asset of LVE is its management team. Like Beartooth’s leadership, they believe in transparency, ethical business practices, customer service and safety, he stated.

“The goal for both co-ops is the same—maximizing member value,” explained Jensen. “If we all focus on that it will help us overcome the inevitable challenges that come with any change,” he said.

“I trust us,” said Jensen. “I trust the members, the Boards, managers and the employees to understand the advantages and bring this to fruition,” he added.

Responding to member questions Beartooth trustee Arleen Boyd supported shared management as a sound strategy that has been examined and recommended by the BEC due diligence committee and board.

“If you were to hire a manager, you would look for someone who had provided leadership for a co-op with the lowest rates, efficient management structure, strong financials, and a solid strategy based on experience that applies to our members. Lower Valley has achieved the lowest rates in the U.S. for its members,” Boyd said. “They also share our ethical concerns. The contract will have protections for both sides.”

Contract details are still being worked out and will be shared with members. Beartooth will remain what it is now, a member-owned co-op based in Red Lodge with its own distinct service area.

- Beartooth will continue to have its own office, equipment, assets and debts, Board of Trustees and employees.
- Beartooth will not have its own General Manager or CFO (which will provide substantial cost savings).

“You will still have ownership and you will still have control. We are not giving the co-op away; we are gaining economies of scale—and getting help in our management from highly respected and experienced people,” said Beartooth board president, Roxie Melton. “Though it is not a done deal at this point,” she added.

As Beartooth member and small business owner, Michael Specht of Clark, WY, described his take on the management contract, “Small business owners do this all the time—find a professional to

provide a service rather than hiring an employee. It's like bringing in an accounting firm to do payroll. We're not giving up our identity. The Board will still be in control. We're just hiring a group instead of a person."

Richard Peck and LVE's president and CEO, Jim Webb, will meet in October to develop details of an agreement with benefits and safeguards for both organizations. The document will then go to the two boards for review.

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