

# THE BEC kWh

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ANNUAL MEETING  
SPECIAL EDITION

BEARTOOTH ELECTRIC COOPERATIVE MEMBER NEWSLETTER

NOVEMBER 2014

## Dear Members—



Richard Peck  
Interim General Manager  
446-2310

Thank you membership who either attended or participated in this year's 76th Annual Meeting. There were 672 members who voted by mail and 86 members in attendance. In your October billing statement there were highlights of the meeting for your review and contained in this November "RM" is additional annual meeting information from your board President, Roxie Melton.

This month of November and again at the December board meeting is an opportunity for the membership to participate and comment on the 2015 operating and capital budget. Each year the board and I try to help you understand the utility business processes for putting together your annual capital and operating budget. There is a set of utility standards set forth by the "Rural Utility Services Administration" (RUS) for constructing and maintaining your \$29 million utility plant. Your board sets the policies for implementing these standards and then keeps you informed of those decisions.

Each year your staff evaluates the projected ten year electrical load forecast (approved by the board) in relationship to the present energy sales. From this information we project the system's energy needs for 2015 and the subsequent revenue requirements. The BEC board approved ten-year load forecast and a copy of the 2014 Beartooth Budget is posted on our website for your information. Also on the website is a copy of our four year construction work plan (approved by your board and the RUS). This work plan shows \$5.4 million (in the work plan on the website) in needed capital investment over the next four years.

Capital for constructing and replacing your utility plant is acquired in three different ways. It is acquired directly from the members when constructing a new service, through your electric rates, from available margins, and from borrowing. When old plant is updated or replaced the BEC board has determined that 50% of funds should be collected through electric rates and 50% will come from borrowing.

In prior years the majority of your debt capital was borrowed from the federal Agriculture Department's Rural Utility Service

(RUS). In the recent BEC audit it was noted 60% of your debt capital came from RUS (the federal government) and 40% came from a cooperative bank, the Cooperative Finance Corporation (CFC). The RUS only lends money for 35 years at a prevailing interest rate when the utility draws down money from their approved borrowing amount. RUS has no provision for shorter term loans. Our other bank options have flexibility in financial products. Therefore if we need a loan for working capital (for two years or less), for five-years, or for thirty-years we can design our debt around what we absolutely need. The financial flexibility from cooperative banks and lower interest costs provides better business choices than borrowing from the RUS in many cases. The board is moving away from borrowing exclusively from the RUS, or federal government, on a long term basis.

In borrowing from other financial institutions we must first ask the RUS, our primary secured lender, for a lien accommodation. The BEC Board currently is asking RUS for a lien accommodation to allow us to seek loans to cover current and future capital requirements. After receiving the lien accommodation the BEC board will be seeking from one of our cooperative financial institutions a \$4.3 million secured thirty-year loan for past and future construction costs and a \$2.2 million unsecured short term loan. The unsecured loan will be used to help prepay our share of the Southern Montana Electric bankruptcy debt as part of an exit agreement with Southern.

As provided in Article IV, Section 1, General Powers-paragraph G of the cooperative Bylaws, we our notifying the membership of the BEC Boards intent to borrow long term funds in excess of two years. In late November and early December we will be having "Town Hall" meetings to discuss this issue or you may come to either the November or December Board meeting to present your concerns. The November board meeting is scheduled for the 25th and the December board meeting is being scheduled for January 6th at the Red Lodge Area Community Foundation Building. The "Town Hall" meeting dates, locations and times have not been set. We will have announcements on our web site and in the local papers on the dates and agendas for these "Town Hall" meetings.

Happy Thanksgiving to you and your family—

Richard G. Peck, Interim General Manager

# Do you qualify for energy assistance? Montana & Wyoming Enrollment Open Now—

## 800-433-1411

The State of Montana, through the Department of Public Health and Human Services, offers two programs aimed at helping low-income individuals reduce their heating costs.

The Weatherization Program helps participants to improve the heating efficiency of their homes and thus reduce their energy consumption. The Low Income Energy Assistance Program (LIEAP) pays part of winter energy bills for eligible people. Most utilities offer LIEAP recipients discounts on their bills.

Eligibility for weatherization and fuel (energy) assistance is based on your income and assets. To be eligible for LIEAP, you must make no more than 60 percent of estimated state median income for 2014 if your household consists of seven or fewer, or 150 percent of the 2013 federal poverty level for households with more than seven members. Resource limits also apply. To be eligible for weatherization, you must make no more than 200 percent of the 2013 federal poverty level. Both homeowners and renters may apply for these programs.

If your household receives benefits from Supplemental Security Income (SSI) or the Temporary Assistance to Needy Families (TANF) program, you may qualify automatically for weatherization or fuel assistance.

## 800-246-4221

LIEAP is a state and federally-funded program that helps people pay home heating bills November through June. The program is open to homeowners and renters. It helps cover the costs of electricity, natural gas, propane, wood, diesel heating oil, coal and pellets when these are used for heating a home. Even renters can apply for grants or weatherization services.

Weatherization is a program that provides funds to the state of Wyoming to assist low income families, including senior citizens, with the installation of energy conservation materials. The main recipients are low-income elderly and disabled adults and families, and an objective is to help people reduce their dependency on government assistance programs such as LIEAP. All applicants will need to meet low-income eligibility guidelines that are based on conditions set by Wyoming as well as those that are established by federal government poverty guidelines. Activities paid for by weatherization include storm windows, insulation, caulking, and other related activities to reduce home heating bills and energy costs. These updates will greatly enhance home energy efficiency.

## Welcome Our BEC 2014-2015 Board of Trustees—



**Roxie Melton**  
**President**  
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**Dan Dutton**  
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Arleen Boyd, District 5 Trustee, Due Diligence Committee Chair  
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Submitted October 12, 2014



The only way to move toward the BEC Board's goal of no rate increases -- and rate reductions if possible -- is to secure the best possible wholesale price for power and reduce the cost of bringing that power to you.

Southern Montana Electric, our power supplier, has signed a three-year contract to buy power for its members at very favorable rates. With the low rates Southern could pay its remaining bankruptcy obligations and debt for the Highwood Generating Station (HGS) within three years. Southern's bankruptcy reorganization plan allows Southern to dissolve after completing payment of \$21 million to the HGS noteholders.

In the October RE Magazine Southern's board president said that Southern will be disbanded when the notes are paid by 2018. This new position is good news -- evidence that Southern's other members may agree that it is not reasonable to hold Southern, a tiny generation and transmission cooperative, together. Because Southern may not disband and there are risks associated with remaining a member, we continue in mediation with Southern members for an agreement to prepay our share of the bankruptcy obligations and leave Southern immediately.

The Southern power contract allows Beartooth to take its share of the power if an exit agreement is reached. The contract rate will provide a reduction in wholesale power costs at BEC for three years. That will allow us to maintain our current member rates. To reduce them we need to lower the cost of distributing power to you.

It is difficult to plan for controlling rates, or reducing them, when we have remaining bankruptcy obligations and are playing catch-up after paying millions of dollars for HGS and bankruptcy-related costs. At our September 27 annual meeting, however, our auditor reported a positive outlook for BEC now that the years of paying bankruptcy expenses and writing off investments in Southern and SME, a separate co-op created to finance and build HGS, are behind us.

Our due diligence examination of options for reducing distribution costs focused on efficiency. With few ratepayers and widespread facilities we do not have the economies of

scale to operate as efficiently as utilities with more ratepayers per mile of line. Our load forecasts do not anticipate growth that could provide additional revenue to improve our financial position. We have to manage carefully and plan aggressively.

We are working with Lower Valley Energy (LVE), a very strong Wyoming cooperative, on a management agreement for BEC. Instead of hiring replacements for our Interim General Manager and Interim Director of Finance and Accounting, we can obtain those services cost effectively from an experienced management team at LVE.

A good management agreement is a contract for defined services. In this case it also is a commitment to work together for cost benefits at both co-ops by sharing expertise, functions, and equipment to improve efficiency. The LVE management team will direct operations at BEC, meet the goals of a clear business plan, and provide recommendations for the BEC Board.

The benefits of this agreement will include:

- Lower operating costs per member/meter
- Better member service from shared employee skills and experience
- Increased influence on lenders, suppliers, and contractors
- Efficient use of equipment and technologies
- Reduced cost per employee for training and support

The BEC Board will oversee the agreement. BEC engineering and operations staff will continue to serve our members. The BEC commitment to transparency and member involvement is understood and appreciated at LVE.

The boards of trustees at LVE and BEC will review the proposed contract by late October. Information will be posted on the website ([www.beartoothelectric.com](http://www.beartoothelectric.com)) and discussed at the October 28 and November 25 BEC Board meetings. Call the co-op or contact a BEC trustee for more information.



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# Chairman's Message



Roxie Melton  
Chairman of the Board  
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406-426-0135

It's time to remind everyone that winter is knocking at the door and cold temperatures are just around the corner. Please use alternate heat sources carefully. Keep flammables away from heat sources and never leave home without doing a safety check. Home fires are so easy to prevent and it only takes a moment of inattention for an accident to happen.

What's happening at the coop this month? Arleen and I attended the MECA (Montana Electric Cooperatives Association) annual convention in Great Falls. A number of updates to legislation

effecting the electrical industry were discussed especially the amendment to section 50-63-104 – Liability for forest or range fires that could affect everyone not just coops. So far we have had a very favorable response from our legislative branches.

At the end of the meeting awards were presented and the coop/employees received three. We were awarded 2nd place for

Communications for our web site, a safety award for no work place accidents for four years and Lee Hauge received an award for 35 years of service.

The due diligence continues as we talk to Lower Valley about a management agreement. Arleen's report is included to explain more of the details. However, a question was raised at the Annual Meeting that has been stuck in my mind. A member asked how do we, as members, know that this management agreement is not just another "Highwood"? The board and due diligence committee have spent countless hours reviewing the numbers, consulting with experts and talking to other coops that have been in similar situations. Fail safes will be established so that if the management agreement is not what we both expected and the savings are not achieved there is a way out. The answer is if this was not a win-win proposition the two coops would not be considering the concept. In addition, I want every member to know that you are encouraged to attend our board meetings and listen to the information discussed. We welcome your thoughts and questions.

Once again, thank you for the opportunity to serve on your behalf.

Next Board Meeting

*Join us!*

November 25, 2014 — 12 Noon - Red Lodge Area Community Foundation

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Give us a call—  
406-446-2310