

“Beartooth Electric is *my* electric cooperative.”

# your cooperative newsletter

May 2017



## BEC Timeline of Scheduled Events

LOOK INSIDE ...

### IN THIS ISSUE



#### BEARTOOTH'S TRANSITION PLAN

*BEC General Manager,  
Lower Valley Energy, President/CEO,  
James R. Webb*

PG 3

#### PRESIDENT'S REPORT

*BEC Board President,  
Trustee District 7, David Peterson*

PG 4

#### BEC TIMELINE OF SCHEDULED EVENTS

PG 4

#### EXAMINING RATES — REPORTS TO THE BOARD

PG 5

#### THESE ANALYSES ARE RIGOROUS AND FUN. HONEST.

*Board Vice President,  
Risk Management Committee Chair,  
Trustee District 5, Arleen Boyd*

PG 6

## Beartooth's Transition Plan

The next project for Beartooth Electric (BEC) is a transition plan to help the cooperative shift from a management services agreement to a full time general manager.

As we have mentioned in previous communications, an outside firm with decades of experience was hired in March to help with the manager search. The search document developed by the board and the search firm is posted on the BEC website. From this document, you can see that we have high expectations for the next general manager. Considering BEC's great financial shape and that Red Lodge is such an attractive place to live, I am confident the board will be able to find an exceptional new manager.

The board has set high financial, transparency, communication and member involvement standards for its new general manager. The Board of Trustees has many things to oversee and hiring a general manager is one of its most vital roles in guiding your cooperative. Finding and hiring the right general manager will conclude this summer.

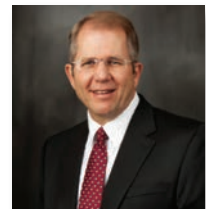
An independent BEC will require several key positions to perform what Lower Valley Energy has been providing, not least of which is a manager. Communications will continue as normal, with the same level of content and transparency, something BEC prides itself on. The channels of

communication between you and your cooperative (and Board of Trustees) will remain wide open. The committees (Bylaws, Policy, Risk Management, and Finance) that form a solid foundation for BEC will remain intact with no interruption.

We will begin transferring some of the duties such as billing, payment receipts and work order accounting back to BEC so that the cooperative will be more independent when the new general manager arrives. Of course, Lower Valley Energy will be available during and after the transition to help the new general manager succeed.

The BEC Board, employees and Lower Valley Energy have worked hard on your behalf and many good changes have been made. The way is paved for success at BEC and it will be fun to watch the new general manager hit the ground running.

Your electric cooperative is entering yet another new chapter in its history—and we would like to hear your thoughts on the transition. Please know that your management team and your Board of Trustees are always available to discuss your concerns, [continued on page 5](#)



*James R. Webb  
BEC General Manager  
Lower Valley Energy,  
President/CEO*

# President's Report:



David Peterson,  
BEC Board President,  
Trustee District 7

Well, well, these are good times at Beartooth and we continue to work on plans that promise success for the co-op and its member-owners.

The search for a general manager is on schedule. The BEC Board met with its search firm's project director to complete the manager position description which is posted on our website ([www.BeartoothElectric.com](http://www.BeartoothElectric.com)). The board members are clear about the qualities they are looking for and believes that the search firm will produce a list of highly qualified applicants for review by the end of April. This schedule will put us on track to interview final applicants by May 22, 2017. Allowing for contract negotiations and time for a new manager to relocate—we expect to have a manager on board by July.

Lower Valley continues to work with us as BEC prepares for the change in management. With the new manager on board this

summer, we plan for introduction to the membership at the annual meeting on September 23. The annual meeting will mark a very positive moment in Beartooth history and we hope to add some fun for all of us. The meeting is scheduled for the ANIPRO Arena just south of Absarokee on Highway 78. We are considering a morning meeting followed by lunch and time to visit. We will announce the schedule soon.

As always, we want to hear from you and encourage you to call the co-op and board members. We especially invite you to join us at the annual meeting, so mark September 23, 2017, on your calendar.

If you are considering running for the board, please check our website ([www.BeartoothElectric.com](http://www.BeartoothElectric.com)) or call the co-op for information. We will post information about getting on the ballot soon. Because mail-in voting requires preparation of ballots well before the annual meeting, candidates who want to prepare a profile or statement about themselves for members to evaluate with their ballots may want to examine the annual

meeting schedule as soon as we complete it. The Beartooth Bylaws require sending notice of the meeting between ten and 35 days before the meeting. To let us know what you would like to see at the co-op's annual meeting this year email [info@beartoothelectric.com](mailto:info@beartoothelectric.com).

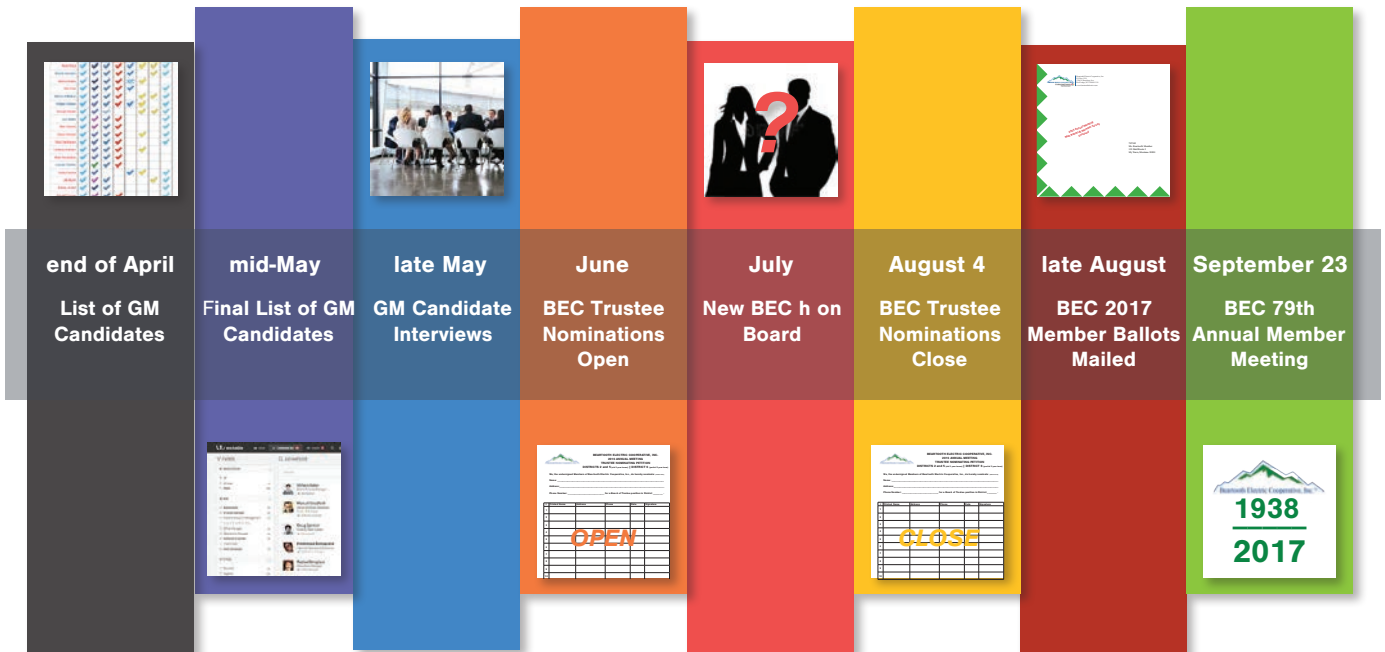
The three trustee positions up for election in 2017 are:

- District 1 – Bridger, Clark WY
- District 3 – Roberts, Bear Creek
- District 7 – Columbus, Rapelje, Reed Point

We encourage members to consider serving the co-op. If you are interested in being a candidate for one of these positions (you must reside in the district to run for its trustee seat), it may help to read the bylaws provisions in Article III that outline requirements for running for office. Also, read Article II that deals with member rights including the use of the member list and access to co-op information.

I hope you are having a wonderful spring and thank you for keeping informed about your co-op.

## BEC Timeline of Scheduled Events



# EXAMINING RATES — Reports to the Board

Beartooth Electric Co-op trustees continue to explore a future rate reduction, as part of an overall financial strategy for the co-op. At its March 28 meeting, the board weighed two more elements of the strategy.

## Equity Management

Eric Anderson of National Rural Utilities Cooperative Finance Corporation (CFC) spoke to the trustees about setting a target equity-to-asset ratio. The co-op will develop an equity strategy that takes into account total operating margins, investments, and existing capital credits. Anderson explained, “The higher the co-op’s equity, the more members are contributing; the lower the equity, the more the co-op is borrowing.” He also noted that a healthy equity may reduce the cost of borrowing.

The co-op’s current equity is about 37 percent (roughly \$7 million in equity and about \$20 million in total assets). Because of losses written off during the Southern Montana Electric bankruptcy, BEC’s equity dropped as low as 18.7 percent. At the end of June 2015, equity was at 29.2 percent.

“CFC normally requires an equity to asset ratio of 30 percent,” said Anderson. “Some peer co-ops are more likely to be at 40 or even 50 percent equity.” Anderson

recommended 40 percent as a safe equity target. He also cautioned that unusual circumstances would affect BEC’s accounting in the next three years: \$1.3 million in NorthWestern Energy credit, which will increase equity in 2018 and a \$1.9 million investment in new meters that will decrease equity but help members better manage their energy use.

## Cost of Services Analysis

Gail Tabone of EES Consulting gave the board an update on the cost of providing electric service to the various ratepayer classes.

“What you should look for is rate stability,” said Tabone. “You don’t want to turn around and raise rates. You also need to ensure revenue stability—when rates go up, you may sell less power. The key is to make gradual changes.”

The Beartooth Board plans to have a comprehensive rate design and consumer class analysis after the new meters are installed in 2018-2019. The new meters will provide detailed data on usage and demand.

## Standalone Forecast Scenario #4

The board reviewed the latest version of the Standalone Forecast at its March meeting. The forecast model is a tool to test the

outcomes of changing variables in various financial strategies. Compared to the baseline, Scenario #4 characteristics include:

- A 5% reduction in total revenue beginning July 1, 2017
- Capital credits paid on a 25-year rotation with 4% of the outstanding balance being retired during each year of the forecast
- Borrowing that includes \$1.9 million for meter replacement and 30% of planned expenditures for distribution and general plant additions (\$2.2 million)
- No assumed minimum cash balance

Finance committee member Frank Willett, reported that a 5% revenue reduction brings bottom line margins down to a range averaging \$527,000 per year over the life of the forecast. Equity ends up at 44 percent during the last year of the forecast.

The Standalone Forecast is available for review online at [www.BeartoothElectric.com](http://www.BeartoothElectric.com).

## Beartooth’s Transition Plan continued from page 3

whatever they may be. You can contact your Board of Trustees directly—their individual contact information is on our website ([www.BeartoothElectric.com](http://www.BeartoothElectric.com)). Or you can call us at 406-446-2310. And then there is email ([comments@beartoothelectric.com](mailto:comments@beartoothelectric.com)) and Facebook.

## Energy Efficiency Tip of the Month



tips, visit [EnergySavers.gov](http://EnergySavers.gov).

Source: U.S. Dept. of Energy

Appliances account for about 13 percent of your home’s energy use. If they have energy-saving settings, use them! If they’re nearing voting age, consider replacing them with a new, energy-efficient model.

And remember to try smart power strips for smaller appliances and electronics that continue to draw power even when turned off. For more







# These Analyses Are Rigorous and Fun. Honest.

**The BEC Board and Risk Management Committee are digging into forecast numbers through 2023.** Our current analysis work is rigorous, because we have created a model that handles comprehensive data and runs what-if scenarios easily. It is fun because the alternatives we are examining are realistic options showing results that are both informative and positive for BEC. Often we have used analysis to define and manage problems. Now we are examining opportunity.

**We are asking big strategy questions and getting answers.** Is an additional rate reduction affordable and sustainable for the forecast period? How much of the estimated \$1.9 million investment in new meters in 2018 and 2019 should be financed by cash from current rate-paying members and how much should be financed through debt that will be paid over time by both current and future members who benefit from the upgrade? How do we maintain a capital credit rotation of 20 or 25 years to ensure that members are financing the organization fairly and that each generation of members carries its own weight? With a possible rate reduction and planned investments in utility plant how do we maintain the financial ratios required for healthy performance and credit? Will we have margins to allocate capital credits if we reduce rates?

**Why all the talk about what-if scenarios?** BEC has posted on the website five forecast scenarios so you can see the data behind decisions as we make them. Scenarios are not discreet alternatives. We could meld aspects of several. They clarify possibilities and signal areas

that need attention. The detailed calculations behind the posted summary results are available on request.

The scenarios start with a baseline forecast (Scenario 1) based on a 2017 budget data originally prepared to compare a “standalone” budget option to revenue and expenses for BEC under a Lower Valley Energy merger option. All scenarios assume total meter replacement costs of \$1.9 million over 2018 and 2019. Scenarios 2-5 assume a rate reduction starting in mid-2017.

The what-if scenarios help us look at how to balance borrowing with cash payments and how to manage equity to keep our key financial ratios in line with industry standards. Two key ratios are DSC (debt service coverage) that measures the ability to cover principal and interest payments and TIER (median times interest earned ratio or interest coverage ratio) that calculates the ability to generate sufficient earnings for interest payments on long-term debt. The model also tracks equity as a percent of assets.

Recent meetings with independent rate and finance experts have helped the risk management committee prepare to complete its scenario evaluations and recommend strategies for capital credit rotation and possible rate reduction. The committee and board discussed making changes to the BEC rate design that could change classes of customers and how they are billed to fairly address seasonal residents, distributed generation and other emerging issues. New meters will provide detailed information about

demand and cost of service so BEC likely will address changes to rate design in 2019 when that data is available.



*Arleen Boyd  
Board Vice President,  
Risk Management  
Committee Chair,  
Trustee District 5*

BEC contracts provide fixed costs for power through 2022. With industry analysts projecting relatively flat power prices even beyond 2022 we will be examining the potential for extending our contract or adding contracts for power beyond 2022.

**National Rural Electric Cooperative Association classes report that risk management is becoming a focus for many co-ops.** NRECA presentations confirm the necessity for boards to structure due diligence and risk management into their decision-making. A recent NRECA course in Great Falls emphasized the importance of transparency and the risk for co-ops that do not openly share information with members. BEC has a strong, demonstrated commitment to transparency and risk management.

This is an extremely interesting time—we get to focus on numbers and what they mean. Please consider coming to board or committee meetings. For more information and to express opinions please visit [www.BeartoothElectric.com](http://www.BeartoothElectric.com), call the co-op or contact a board member.

## JOIN US —

BEC BOARD OF TRUSTEES MEETING  
BEC Red Lodge Office  
May 30 NOON

## GET CONNECTED

Get BEC News delivered right to your in-box. Sign-up now at [www.BeartoothElectric.com](http://www.BeartoothElectric.com)

