

Beartooth Electric Cooperative



Strategic Planning Session Report 2018 – 2020 Strategic Plan November 7 – 8, 2017



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Beartooth Electric Cooperative Strategic Planning Session Report 2018 – 2020 Strategic Plan

November 7 – 8, 2017

The Beartooth Electric Cooperative Board of Trustees, General Manager and Legal Counsel conducted a strategic planning session at the Red Lodge Area Community Foundation on November 7 – 8, 2017. This report includes the following outcomes from the session.

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- 2018 – 2020 Strategic Plan
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Participants

- Julie Lindgren, President
- David Peterson, Vice President
- Arleen Boyd, Secretary – Treasurer
- Dan Dutton, Trustee
- Roxie Melton, Trustee
- Dick Nolan, Trustee
- Bill Pascoe, Trustee
- Kevin Owens, General Manager
- Larry Martin, Legal Counsel

2018 – 2020 Strategic Plan

Mission Statement

The Cooperative's existing mission statement was as follows.

“To provide competitive and reliable electric service while enhancing the quality of life to the members we serve.”

After considerable discussion, the follow new mission statement was developed.

“To provide our members with reliable, reasonably priced electricity and related services delivered in a safe and efficient manner.”

Vision Statement

The Cooperative's existing vision statement was as follows.

“To be recognized by our members as providing the highest level of customer service and value through honest, well-trained, professional, courteous and motivated employees.”

After considerable discussion, the follow new vision statement was developed.

“Beartooth Electric Cooperative is recognized as a member-driven, financially stable and innovative Cooperative well-positioned to meet the challenges of an evolving electric industry.”

Value Statement and Pledge

The Cooperative's existing value statement and pledge was as follows.

“To listen, understand, communicate and act in the best interest of all members. Working together we have the power to make a difference.”

OUR PLEDGE IS TO:

- Meet and/or exceed member needs and expectations.
- Encourage the wise use of our energy resources.
- Perform our work in a manner that is environmentally and socially responsible.
- Hold fast to the highest ethical standards of trust and respect.
- Reference, *The Seven Cooperative Principles* as our guide to conduct our business.
- Operate our business in a financially sound and transparent manner.

After considerable discussion, it was decided that the value statement should be eliminated and the pledge would be amended as follows.

The Trustees and Employees of Beartooth Electric Cooperative Pledge to:

- **Listen, understand, communicate and act in the best interest of all members.**
- **Solicit and encourage member involvement.**
- **Adhere to the highest ethical standards of trust and respect.**
- **Operate our business in a financially sound and transparent manner.**
- **Perform our work in a manner that is environmentally and socially responsible.**
- **Encourage the wise use of energy, and**
- **Follow the *Seven Cooperative Principles*.**

Key Corporate Performance Measures

The following key corporate performance measures were developed to provide a basis for evaluating the Cooperative's progress toward achieving its mission and vision.

Safe

1. No lost-time accidents during the year.
2. Current year Workers' Compensation experience modification rate less than or equal to the prior three-year average.
3. No verifiable member complaints about safety issues that could result in liability to the Cooperative.

Reliable

1. System Average Interruption Duration Index (SAIDI) less than the average for the past three-year period.
2. System Average Interruption Frequency Index (SAIFI) less than the average for the past three-year period.
3. Complete 100% of the system maintenance plan.

Efficient

1. Year-end expenses will be within +-5% of the budgeted amounts.
2. Capital projects are completed within +-5% of time, scope and budget parameters.
3. Overtime hours will be less than the average of the past three years.

Reasonably Priced

1. No overall, membership-wide rate increase (no increase in revenue requirements) over the next 5 years (2018 – 2022).
2. BEC rates for the average monthly consumption are within X% of a defined peer group.
3. BEC residential rates at 1,000 kWh hours per month will be equal to Northwestern Energy by 12/31/2023.
4. Meet TIER, DSC and equity to asset financial targets in the financial plan.

Satisfied

1. At least 70% of our members rate their overall satisfaction with BEC an eight or better on our periodic survey.
2. At least 70% of the members responding to a follow-up call, event driven or member survey indicate the Cooperative met their expectations (timeliness, accuracy, completeness) in response to their request for service or information.
3. Maintain a capital credit retirement cycle in accordance with current policy (retire 5% of total capital credits annually).

Board Goals and General Manager Initiatives

Based on the outcomes of the vision for the industry exercise, SWOT analysis and discussions of the key issues identified prior to the planning session, the following Board Goals and General Manager Initiatives were developed.

Goal #1: Rates and Costs: Maintain reasonably priced electricity through fair and equitably designed rates, operational efficiencies and the mitigation of risks originating from within or outside the Cooperative.

General Manager Initiatives

1. Complete a cost of service study, line extension policy evaluation and rate design study.
2. Identify and implement programs and processes that enhance operating efficiencies.
3. Identify and pursue shared services and outsourcing opportunities that improve the Cooperative's economy of scale and human resource positions.
4. Review the Cooperative's current cyber security measures, including but not limited to insurance coverage, technology functionality, employee, trustee and member awareness, and vulnerability assessments.

Goal #2: Distribution System: Meet members distribution reliability and capacity needs through effectively developed and efficiently implemented system construction projects, maintenance programs and proven technology applications.

General Manager Initiatives

1. Complete the AMI RFP evaluation and selection process. Implement a 2-year installation process.
2. Develop and implement a 5-year cycle vegetation management plan.
3. Develop a 5-year plan to replace substation oil circuit breakers, with an emphasis on those with highest line loss ratios.
4. Develop and implement a long-term pole replacement program.
5. Develop and implement a new 4-year construction work plan.
6. Obtain GPS coordinates for all distribution plant assets. Evaluate and implement, as appropriate, GIS technology.

Goal #3: Energy Use: Increase the efficient use of electricity through strategic load growth, renewables and informational programs.

General Manager Initiatives

1. Evaluate and implement programs designed to provide members with alternatives for heating, water heating and air conditioning needs.
2. Evaluate and construct a community solar array.
3. Develop and distribute energy efficiency and conservation member information materials.
4. Evaluate opportunities to increase the Cooperative's role in providing members with energy efficiency and conservation programs.
5. Review and update policies 416 – 419.

Goal #4: Member Trust and Engagement: Continue to build trust and engagement among the different segments of the membership.

General Manager Initiatives

1. Build and execute a communications plan with outreach to each of our member segments.
2. Recruit member participation in Cooperative committees.
3. Conduct proactive solicitations of member feedback on programs, communications, Cooperative operations and the management and governance of the Cooperative.

Vision for the Industry

The participants developed a vision for the industry through the identification and discussion of key assumptions or conclusions as to how they believe the industry will continue to evolve and how the Cooperative will continue to change as driven by market (consumer and competitor), technology and regulatory factors.

- Renewables – continue to slowly grow as the cost of other energies increases.
- Co-ops will bring in other services, propane and broadband. Perhaps through partners.
- The electric industry is going through a period of change like the computer industry and the telecommunications industry has come through. Leads to questions of where you will get other sources of revenue.
- We will spend more on telecommunications technologies.
- Cooperatives will continue to look for economy of scale opportunities.
- Additional sources of revenue may be from services that do not necessarily require a major investment. Cooperatives have the opportunity to support members energy service needs.
- Energy storage will get cheaper, which may cause the member to disconnect from the Cooperative's lines.
- We have no presence with energy efficiency / conservation to become the energy expert.

- Electric vehicles will need charging stations. Electric vehicles could provide additional off-peak electric sales and a storage device to use during on-peak times.
- Consumers will want more choices.
- EE options: do nothing, provide information, provide actual help, provide some financing to execute audit recommendations, put Co-op money into it.
- Options to propane, such as ground source heat pumps, with air conditioning.
- Heat pump water heaters
- Lease products have a revenue stream.

Key Issue Discussion Points

Prior to the planning session, the Trustees identified the following key issues for in-depth discussion during the planning session. These key issues, along with the discussion points, follows.

Rate structure, rate design, revenue opportunities and cost management in an era of little growth, energy efficiency, conservation, distribute generation.

- Heavily dependent on the energy charge for revenue.
- Evaluate the use of a base charge, system charge and energy charge to lessen the dependence on the energy charge for revenue.
- Examine the definition of rate classes, make sure we have the right number of rate classes.
- Metering (AMI) information to evaluate different rate designs and provide additional information to members will be necessary.
- Begin to analyze metering data as they are installed. Be prepared to make a rate implement decision for the new rates upon the completion of the AMI installation project.
- Evaluate water heater, heat pump and other programs to increase kWh sales per consumer.
- Development of Member communications and rate evaluation tools will be essential to gain Member acceptance of the rate change.
- Seek shared services with neighboring cooperatives.

Distributed generation, renewables, energy efficiency and conservation opportunities, threats, policy issues and member options.

- We have no energy efficiency plan. EE efforts are ad hoc. We lack direction. EE: do nothing, provide information, provide actual help, provide some financing to execute energy audit recommendations, put co-op money into it.
- The Cooperative should pursue a community solar project.
- Develop / update net metering policy and related policies (416 – 419). Possible use of “temporary” policies.

- As an unbiased, accurate and complete source of information for members for energy efficiency, conservation and member owned DG, be more fully prepared as BEC becomes revenue neutral from a rate design position.

AMI technology decision, implementation and functionality and data optimization. Other technology opportunities.

- AMI is a higher priority for the Co-op, 2-year project.
- Complete the RFP and selection process. Implement a 2-year installation process.
- Hope to have a budget number for the December 14, 2017 meeting.
- We need a complete understanding of the technology.
- We will need a good communications process.
- Other technology focus: opportunities to improve employee efficiency (check handling), office network, upgrade GIS mapping and staking.

Member communications messages, content, degree of detail, mediums and member segments.

- Continue to inform members in a manner that increases acceptance and support for governance and management / operations, that demonstrates transparency.
- We need a plan for safety, community solar, exciting future ahead of us, rates, AMI, any board decision based on due diligence, etc.
- State-of-the-art energy management system for Members and the Cooperative
- We need an annual (12 - 18 months) communications plan (Gantt chart).
- Communications is the basic means by which we build / maintain trust with members.
- Member survey to be completed in 2018. Comparisons to prior surveys. Last statistically valid survey was done in 2012. Need a new base line.
- How much of our communications are absorbed?
- Upcoming meeting with Fergus, Flathead and Yellowstone Valley ECs

Status of the distribution system, adequacy of system upgrades and replacements, maintenance, capacity and reliability.

- Tree trimming vs vegetation management: need to develop and pursue a 5-year vegetation management plan. Being behind, will need to commit additional resources for a couple of years to get to “par” and then pursue the 5-year cycle.
- Pole replacement: red cedar will last longer than yellow pine. For the next 2 years (2018 and 2019), limited to 100 poles replaced per year. After that two-year period, then increase the number of poles replaced.

- Still have a lot of oil circuit breakers in substations that need changed out to electronic breakers. Developing a 5-year plan to change out, starting with those with highest line loss rates.
- HDR completing system study to identify areas to improve the system and lower line losses through a long-term capital plan.

Establishing an effective and efficient working relationship between the Board and new General Manager.

- Understand and effectively execute a board / general manager relationship. There is the need for recognizing that the board has been more involved in the middle ground between operations and governance matters.
- Meet highest standards of governance, allow GM to manage the organization in accordance the direction established by the Board.

SWOT Analysis

Strengths

The participants identified the following BEC strengths - positive traits or characteristics the Cooperative possesses that are critical to the accomplishment of its mission, vision and overall success, and must not be compromised.

- Communications with members
- New general manager
- Sound financial condition
- Member involvement culture got us here — transparency and involvement, committees and direct member input and member driven decision making
- Commitment to due diligence and risk management — rigorous research and financial scrutiny has worked
- Power supply — 10 years, fixed price, load following, Montana source
- Thinking / working outside the box — we are different and it works
- Perception that our unusual approach works — reputation for good decision-making
- Committed, experienced, collaborative board of trustees
- Flexibility and nimbleness – if we see changes needed, we make them
- Dedicated, knowledgeable staff
- Predictable load and member composition
- Membership diversity, knowledge, experience
- Business plan in place for next 5 years
- Well-developed bylaws and policies, and process to keep them up to date
- Sound committee structure to ensure member involvement and sound decision making

The participants prioritized these strengths as follows: On a scale of 1 - 10, rate each strength based on its importance to accomplishing the Cooperative's mission, vision and overall success, with 1 = not important at all and 10 = very important to success.

	Strengths	1	2	3	4	5	6	7	8	9	Average
1	Power supply — 10 years, fixed price, load following, Montana source	10	10	10	10	10	8	10	10	10	9.78
2	Sound financial condition	10	9	9	8	10	4	10	10	10	8.89
3	Dedicated, knowledgeable staff	8	10	10	7	8	5	9	10	10	8.56
4	Business plan in place for next 5 years	9	9	9	7	10	3	10	10	10	8.56
5	Member involvement culture got us here — transparency and involvement, committees and direct member input and member driven decision making	10	7	10	10	8	6	8	8	8	8.33
6	Sound committee structure to ensure member involvement and sound decision making	9	9	10	7	8	6	7	7	10	8.11
7	Commitment to due diligence and risk management — rigorous research and financial scrutiny has worked	10	9	10	8	8	1	8	8	10	8.00
8	Thinking / working outside the box — we are different and it works	9	9	9	5	8	7	8	6	10	7.89
9	Communications with members	10	8	8	8	6	1	7	10	10	7.56
10	Committed, experienced, collaborative board of trustees	7	8	8	10	6	4	7	8	10	7.56
11	Well-developed bylaws and policies, and process to keep them up to date	9	9	10	6	6	2	7	8	10	7.44
12	New general manager	7	8	8	6	6	3	9	8	10	7.22
13	Membership diversity, knowledge, experience	7	9	8	7	6	6	6	6	9	7.11
14	Predictable load and member composition	7	9	8	6	5	7	7	6	8	7.00
15	Flexibility and nimbleness – if we see changes needed, we make them	6	9	8	6	6	2	8	6	9	6.67
16	Perception that our unusual approach works — reputation for good decision-making	8	7	9	6	6	5	3	5	10	6.56

Weaknesses

The participants identified the following BEC weaknesses - negative traits or characteristics the Cooperative possesses that must be addressed or they will prevent the accomplishment of the mission, vision and overall success.

- 30% + seasonal members
- Lack of staff depth of knowledge, expertise
- Limited staff – quantity issue of office and operations personnel
- Lack of succession capability with certain staff
- Limited financial resources
- Aging poles, not up to date with pole replacements
- Aging infrastructure, concerns over the ability to replace
- High line loss
- Lack of size — low economies of scale
- Projected low growth in consumers and kWh sales
- Lack of rate class diversity and load density (kWh sales per mile), residential class predominance, lack of large loads
- Lack of understanding of plant age and condition
- Lack of established property records, easements and rights-of-way
- Lack of other services and revenue sources
- Revenues are heavily dependent of kWh use and charges
- Due to the challenges of the recent years, many issues have been deferred and which will have to be addressed.
- Current headquarters building needs rehab
- Power supply uncertainty after 10 years

The participants prioritized these weaknesses as follows: On a scale of 1 - 10, rate each weakness based on the importance of addressing the weakness as part of this strategic plan, with 1 = not important at all and 10 = very important to address.

	Weaknesses	1	2	3	4	5	6	7	8	9	Average
1	High line loss	8	10	10	10	10	9	8	10	7	9.11
2	Lack of rate class diversity and load density (kWh sales per mile), residential class predominance, lack of large loads	10	8	10	9	8	7	9	10	8	8.78
3	Lack of understanding of plant age and condition	9	9	8	9	9	8	8	8	7	8.33
4	Lack of size — low economies of scale	10	8	9	9	8	8	7	8	7	8.22
5	Projected low growth in consumers and kWh sales	9	10	9	7	8	7	8	8	8	8.22
6	Revenues are heavily dependent of kWh use and charges	7	8	10	10	9	8	9	8	5	8.22
7	Lack of staff depth of knowledge, expertise	7	10	8	10	9	6	7	6	10	8.11
8	Lack of established property records, easements and rights-of-way	9	7	7	9	9	5	9	8	8	7.89

9	Lack of other services and revenue sources	9	7	8	9	8	7	8	6	8	7.78
10	Limited staff – quantity issue of office and operations personnel	7	7	8	9	8	8	7	6	7	7.44
11	Lack of succession capability with certain staff	7	10	9	8	7	8	5	8	5	7.44
12	Aging infrastructure, concerns over the ability to replace	7	7	8	7	8	7	7	10	6	7.44
13	Limited financial resources	8	7	6	8	8	9	7	8	5	7.33
14	Aging poles, not up to date with pole replacements	9	2	8	7	7	9	7	10	6	7.22
15	Due to the challenges of the recent years, many issues have been deferred and which will have to be addressed.	7	4	8	8	8	5	9	8	7	7.11
16	30% + seasonal members	8	1	7	10	9	6	10	6	5	6.89
17	Current headquarters building needs rehab	6	10	10	7	7	3	9	4	4	6.67
18	Power supply uncertainty after 10 years	6	10	6	7	8	3	5	4	4	5.89

Opportunities

The participants identified the following opportunities - new initiatives the Cooperative may pursue or enhancements to existing initiatives that contribute to the accomplishment of the mission, vision and overall success.

- Select and install new digital meters to support rate design (AMI)
- Evaluate and develop a community solar project
- Able to use funds to add membership value, not fighting lawsuit
- Retain member trust and support for future projects by celebrating our successful difference between BEC and other utilities
- Identify and involve additional member expertise on committees and as potential board member candidates
- Review and amend, as necessary, policies 416 – 419 (perhaps as a “temporary” policy).
- Revise rates to be revenue neutral to DG
- Build internal knowledge and develop member communications and information related to DG
- Build a network of outside expertise and support
- Build network of shared experience and, possibly, resources
- Leverage member support and goodwill to develop a business model that gets service and other revenue in addition to kWh
- Pursue strategic, targeted revenue and load growth opportunities (space heating, water heating, air conditioning)
- Provide more energy efficiency services
- Support community economic development efforts

➤ Evaluate traditional line extension policies and practices

The participants prioritized these opportunities as follows: Considering the potential benefits of the opportunity, on a scale of 1 - 10, rate each opportunity based on the importance of pursuing the opportunity as part of this strategic plan, with 1 = not important at all and 10 = very important to pursue.

	Opportunities	1	2	3	4	5	6	7	8	9	Average
1	Select and install new digital meters to support rate design (AMI)	10	10	10	10	9	10	10	10	10	9.89
2	Revise rates to be revenue neutral to DG	8	10	10	9	8	10	10	10	5	8.89
3	Pursue strategic, targeted revenue and load growth opportunities (space heating, water heating, air conditioning)	7	10	9	9	7	10	8	8	7	8.33
4	Evaluate and develop a community solar project	10	9	7	8	5	10	10	7	6	8.00
5	Review and amend, as necessary, policies 416 – 419 (perhaps as a “temporary” policy).	8	10	10	8	8	4	10	8	5	7.89
6	Leverage member support and goodwill to develop a business model that gets service and other revenue in addition to kWh	6	9	8	8	8	8	6	9	8	7.78
7	Build internal knowledge and develop member communications and information related to DG	8	10	9	9	4	6	8	7	8	7.67
8	Build a network of outside expertise and support	7	7	9	8	7	6	6	9	9	7.56
9	Provide more energy efficiency services	5	10	8	9	5	7	8	8	8	7.56
10	Build network of shared experience and, possibly, resources	6	8	8	7	6	8	6	9	9	7.44
11	Identify and involve additional member expertise on committees and as potential board member candidates	5	8	8	7	6	5	8	9	8	7.11
12	Evaluate traditional line extension policies and practices	7	10	9	7	9	4	4	8	6	7.11
13	Retain member trust and support for future projects by celebrating our successful difference between BEC and other utilities	4	5	9	7	5	9	6	10	7	6.89
14	Support community economic development efforts	5	10	8	6	6	8	6	7	6	6.89
15	Able to use funds to add membership value, not fighting lawsuit	8	3	7	6	8	6	6	7	2	5.89

Threats

The participants identified the following threats - external barriers that will prevent the Cooperative from accomplishing its mission, vision and overall success.

- Catastrophic storms
- Decrease in revenue / loss of sales to DG, EE and other impacts
- Too small to survive independently over the long run
- Can't meet members expectations/demands for extra services (ex: energy audits, install roof top solar, etc.)
- A return by the board to the business model that failed (standard co-op, small utility organization without outreach to bring in expertise)
- Losing member support (rate structure biggest possibility) – need to know that no class or sub class of members is going to suffer unreasonable increase in bills. Our COSAs have shown very little difference among contributions by class to revenue.
- Natural disasters and other unusual events
- Focusing only on ways to keep kWh use up (not supporting distributed generation and not embracing conservation) instead of expanding other revenue
- Distribution plant failures that lead to liability
- Decrease in members due to DG and storage, members go off the grid
- Loss of key staff, unable to replace key staff
- Economic factors detract from the desire to move to the service area
- Northwest Energy Transmission – poor reliability
- Terrorism against utility infrastructure
- Cyber attack
- Financial failure by our energy providers
- Inability of members to accept the rate changes as fair and equitable
- The election of a “rogue trustee” to the board, a single-issue trustee or a personal agenda

The participants prioritized these threats as follows: Considering the potential impact of the threat and how it may be currently mitigated, on a scale of 1 - 10, rate each threat based on the importance of devoting resources to the (further) mitigate the threat, with 1 = not important at all and 10 = very important to mitigate.

	Threats	1	2	3	4	5	6	7	8	9	Average
1	Inability of members to accept the rate changes as fair and equitable	10	6	8	7	9	10	8	9	7	8.22
2	Decrease in revenue / loss of sales to DG, EE and other impacts	9	7	8	6	8	8	6	9	6	7.44
3	Cyber attack	7	3	8	7	8	9	10	7	7	7.33
4	Losing member support (rate structure biggest possibility) – need to know that no class or sub class of members is going to suffer unreasonable increase in bills. Our COSAs have shown very little difference	9	7	8	1	9	8	5	8	10	7.22

	among contributions by class to revenue.										
5	Too small to survive independently over the long run	9	6	6	6	10	7	5	8	4	6.78
6	Can't meet members expectations/demands for extra services (ex: energy audits, install roof top solar, etc.)	7	4	4	7	8	6	8	9	6	6.56
7	Northwest Energy Transmission – poor reliability	10	6	6	7	7	6	5	7	3	6.33
8	Focusing only on ways to keep kWh use up (not supporting distributed generation and not embracing conservation) instead of expanding other revenue	6	4	4	1	8	7	5	9	10	6.00
9	Decrease in members due to DG and storage, members go off the grid	8	6	6	1	6	7	8	7	5	6.00
10	The election of a “rogue trustee” to the board, a single issue trustee or a personal agenda	9	4	4	2	6	9	6	8	6	6.00
11	Loss of key staff, unable to replace key staff	7	4	4	4	9	7	9	7	2	5.89
12	Catastrophic storms	7	4	6	6	6	7	2	6	7	5.67
13	A return by the board to the business model that failed (standard co-op, small utility organization without outreach to bring in expertise)	4	7	8	1	6	7	1	6	9	5.44
14	Natural disasters and other unusual events	7	6	6	1	7	7	2	6	7	5.44
15	Distribution plant failures that lead to liability	8	4	8	2	6	8	1	6	6	5.44
16	Terrorism against utility infrastructure	4	4	4	3	8	7	10	6	3	5.44
17	Financial failure by our energy providers	5	4	4	2	6	8	6	6	4	5.00
18	Economic factors detract from the desire to move to the service area	8	3	4	1	6	6	1	6	4	4.33