



POWER

BUILDING A STRONG ENERGY FUTURE

ANNUAL
REPORT
EDITION

your cooperative newsletter

October 2017



INSIDE THIS EDITION



GENERAL MANAGER'S REPORT

*BEC General Manager,
Kevin P. Owens, PE*

PG 3

PRESIDENT'S REPORT

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

PG 4

2017 ANNUAL REPORT:

STATEMENT OF REVENUE & PATRONAGE CAPITAL

PG 4

BALANCE SHEET

PG 5

WHY ALL THAT ANALYSIS? IT WORKS.

*Risk Management Committee Chair,
Trustee District 5,
Arleen Boyd*

PG 6

General Manager's Message

It's been a very fast paced couple months since I started work at Beartooth Electric Cooperative the first of August. I appreciate the warm welcome I have received throughout the communities and from many of BEC's members. I am reminded every evening when I leave the office of why my wife and I chose to be part of this great Cooperative and the communities where we live, work and play.

Having worked in this industry for a number of years I was quick to recognize the admirable qualities possessed by the incredible employees at BEC: a strong work ethic; devotion to providing safe and reliable service to its members; and a commitment to bring their best to work every day. Beyond the poles and wires, they are our most valued asset. It has been a privilege to work along side them.

Beartooth has an exciting future ahead of us. We may be a small rural electric cooperative but the challenges of delivering safe reliable and affordable electricity to its Members are the same as those of a large electric utility. The only difference is that I truly believe we can meet those challenges faster, with more creativity and more tailored to the specific needs of our Members.

We will begin this process in November when I meet with the Board of Trustees to develop a long term Strategic Plan for Beartooth which will define our focus and direction that will be integral to the 2018 Budget.

In closing, let me pass on some great news. The first week of September the Board authorized me to enter into a new power sales agreement with Energy Keepers, Inc. to replace the recently signed 2-year agreement

with a five year agreement commencing on October 1, 2022. This new contract provides price certainty and stability on our power supply purchases through September 30, 2027; TEN YEARS! Along with the advantages of certainty and stability, this agreement also represents \$1 million (4 percent) lower power costs than were included in the recent long-term financial plan adopted by the board of trustees. This agreement further strengthens our business relationship with a trusted Montana company generating power from the Seliš Ksanka Qlispe hydroelectric project (formerly known as Kerr Dam) on the outlet of Flathead Lake. This Agreement constitutes a Win-Win for Beartooth members and Energy Keepers, Inc. to work towards a future of decarbonized power supply.



*Kevin P. Owens, PE
BEC General Manager*

JOIN US —
BEC REGULAR BOARD MEETING
BEC RED LODGE OFFICE
OCTOBER 31, 2017 | 12:00 NOON



President's Report

David Peterson,
BEC Board President
Trustee District 7

Well, well – as you heard at the Beartooth Electric Cooperative annual meeting and in recent news articles, BEC has signed a contract with Energy Keepers, Inc. to buy power from 2022 to 2027. This accomplishes a major goal: completing a 10-year power supply plan with security for BEC members. The manager's report and risk management report in this issue explain the very positive details.

By golly, with all this good news, I am going to talk about myself for a minute. I am ending my second term as a trustee and I'd like to share some things I have learned about the electric co-op business that affect how I will serve this next term. On a side note, I have chosen not to run for a second term as president of our board. I enjoyed this opportunity and appreciate the support I received from my co-trustees. I am confident the co-op will continue its path of success in the following 12 months.

Being an electric co-op trustee is a privilege and a responsibility that requires attention to business and legal information specific to the electric power industry. My business is ranching. Raising and selling livestock simply requires understanding different information.

The biggest difference between ranching and the electricity co-op business is profit versus non-profit operation. Ranchers manage land to support livestock. We time our sales to maximize profit and prepare for years

ANNUAL REPORT 2017



STATEMENT OF REVENUE & PATRONAGE CAPITAL

Amts in \$000

	JUNE 30, 2017		JUNE 30, 2016		Increase (Decrease)
	Amount	% Of Revenue	Amount	% Of Revenue	
TOTAL OPERATING REVENUE	\$8,821	100.0%	\$9,546	100.0%	\$(725)
OPERATING EXPENSES					
Cost of Power & Transmission	\$3,078	34.9%	\$3,645	38.2%	\$(567)
Distribution Operations & Maintenance	\$1,628	18.5%	\$1,381	14.5%	\$247
Admin, General & Consumer Expense	\$1,571	17.8%	\$1,505	15.8%	\$66
General Plant Maintenance	\$107	1.2%	\$90	0.8%	\$17
Depreciation	\$979	11.1%	\$961	10.1%	\$18
Interest Expense	\$564	6.4%	\$612	6.4%	\$(48)
Total Operating Expense	\$7,927	89.9%	\$8,194	85.8%	\$(267)
Net Operating Margin Before Patronage Capital Credits	\$894	10.1%	\$1,352	14.2%	\$(458)
Patronage Capital Credits	\$57	0.7%	\$48	0.5%	\$9
Net Operating Margin	\$951	10.8%	\$1,400	14.7%	\$(449)
Non-Operating Margins					
Interest Income	\$17	0.2%	\$12	0.1%	\$5
Other Non-Operating Revenue	\$19	0.2%	\$96	1.0%	\$(77)
Total Non-Operating Margins	\$36	0.4%	\$108	1.1%	\$(72)
Net Margins	\$987	11.2%	\$1,508	15.8%	\$(521)
PATRONAGE CAPITAL—BEGINNING OF YEAR	\$6,907		\$5,441		
Less: Retirement of Capital Credits	\$(381)		\$(15)		
Less: Discounted Capital Credits	\$(16)		\$(10)		
Less: Margins Transferred to Other Equities	\$(115)		\$(17)		
PATRONAGE CAPITAL—END OF YEAR	\$7,382		\$6,907		

when profit may be hard to come by. For an electric co-op it's all about stability, security and reliability. Members own the co-op and provide its revenue. Instead of looking for maximum revenue and profit the co-op figures out what the minimum revenue is that will safely support the business, grow it when necessary and keep rates down to leave money in your pockets.

For me the most striking business difference is that trustees make the big decisions. Being a co-op trustee means that I am spending your money. A risk I might take with my own money is very different from a risk using your money to ensure your future power supply.

The co-op and ranching businesses are similar in some obvious ways. In

JUNE 30, 2017 and JUNE 30, 2016

Financials for the years ended June 30, 2017 and June 30, 2016. The 2017 audited financials were presented at the annual meeting. The BEC financials are available in digital format at www.BeartoothElectric.com and in hard copy from the cooperative office.

Cooperatives subscribe to seven basic principles—

BALANCE SHEET					
Amts in \$000					
ASSETS			EQUITIES, MARGINS, LIABILITIES & OTHER CREDITS		
	June 30, 2017	June 30, 2016		June 30, 2017	June 30, 2016
UTILITY PLANT (AT COST)			EQUITIES AND MARGINS		
Total Utility Plant	\$31,534	\$30,700	Patronage Capital	\$7,382	\$6,907
Less: Accumulated Depreciation	\$14,797	\$14,087	Other Equities	\$377	\$246
Net Utility Plant	\$16,737	\$16,613	Total Equities & Margins	\$7,759	\$7,153
OTHER PROPERTY & INVESTMENTS			LONG-TERM DEBT		
Investments in Assoc Organizations	\$424	\$386		\$10,700	\$11,314
Investments in CFC	\$279	\$280	CURRENT LIABILITIES		
Total Other Property & Investments	\$703	\$666	Note Payable Bank LOC	\$0	\$0
CURRENT ASSETS			Current Portion Long-Term Debt	\$603	\$652
Cash & Temporary Cash Investments	\$1,237	\$1,026	Accounts Payable	\$469	\$455
Accounts Receivable & Note Receivable	\$832	\$1,011	Consumers' Deposits	\$52	\$58
Materials, Supplies, Prepayment & Other	\$614	\$529	Accrued Taxes, Interest & Vacation	\$249	\$230
Total Current Assets	\$2,683	\$2,566	Total Current Liabilities	\$1,373	\$1,395
DEFERRED DEBITS			DEFERRED CREDITS		
Unamortized Loan Fees	\$10	\$12	Consumer Energy Prepayments	\$20	\$23
Preliminary Surveys & Investigations	\$5	\$15	Consumer Contributions in Aid of Construction	\$0	\$0
NorthWestern Transmission Deposit	\$60	\$60	Capital Credits Payable	\$10	\$27
Southern Montana Prepayment	\$776	\$1,092	NorthWestern - Southern Refund	\$1,112	\$1,112
Total Deferred Debits	\$851	\$1,179	Total Deferred Credits	\$1,142	\$1,162
TOTAL ASSETS	\$20,974	\$21,024	TOTAL EQUITIES, MARGINS LIABILITIES	\$20,974	\$21,024

1 Open membership (for everyone in the service territory);

2 Democratic member control;

3 Member economic participation (members own the co-op and monitor its finances);

4 Autonomy and independence (if the co-op joins other organizations members know about it and nothing short of dissolution can take away the member ownership);

5 Education, training and information (full transparency at BEC means that members have access to all co-op information that is not declared legally confidential);

6 Cooperation among cooperatives;

7 Concern for community.

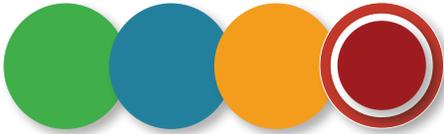
both cases we need good business judgment, careful calculation of what it costs to run the business right, good relationships with suppliers and our bankers, accurate financial measurements and realistic risk assessments.

Thanks to good management and strong risk management requirements BEC is prepared to answer any

questions before decision deadlines arrive. And, thanks to our demanding bylaws and our commitment to the co-op principles, you know what those decisions are while they are being evaluated.

Have a great fall season,
David Peterson

The BEC bylaws and commitment to transparency strengthen BEC support for these principles.



Why all that analysis? It works.



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

Beartooth Electric gets a lot of feedback, help and insight from members. Members tell us they value our commitment to performing analysis before making decisions. We share the results openly

so that members and the board can be equally confident that the right questions are asked and answered with information from reliable sources.

Recently a BEC Board Trustee reported hearing a member ask, “Why all this analysis? Aren’t we done yet?” The answer is: the need for analysis will never be over. We have learned that accurate information reveals choices that drive good decisions. Our reports highlight new analyses and often use a completed analysis like the seven-year forecast model to estimate impacts of potential plans. We often cite the same process: define the issue, get the data, analyze alternatives and make a decision.

Careful examination of facts, alternatives and potential outcomes is the definition of due diligence. As another board trustee said recently, “This is our cooperative culture. We don’t make decisions before we have all the information.”

Risk management protects us – and it opens doors. This year we shut the door on merger after analysis revealed that financial benefits would not justify becoming a district of Lower Valley Energy. With the merger put aside we examined issues facing our independent co-op: completing a comprehensive financial forecast, creating a seven-year plan and starting serious examination of rate structure alternatives.

Confident in our financial forecast we reduced rates, hired a new manager and signed a five-year power supply contract to follow the excellent Morgan Stanley agreement that ends in 2022. The load-following contract with Montana-based Energy Keepers, Inc. has a favorable fixed rate that

will be announced after a sixty-day provision for confidentiality. Energy Keepers owns the Seliš Ksanka Qlispe dam on the Flathead River, a power resource that gives EKI less vulnerability to market fluctuations than many other suppliers.

The additional power contract and details of the planned meter upgrade give BEC information for a ten-year outlook. A ten-year model is more framework than forecast. We are updating the seven-year model with ten-year power supply and plant improvement data to facilitate ongoing evaluation of potential additions and changes to long-term plans.

BEC analysis has a strong history. When we examined the numbers back in 2011 it was clear that membership in Southern Montana Electric Generation and Transmission Cooperative was not in Beartooth’s best interest. Leaving a G&T—was unusual and difficult. Finding power as an independent co-op was widely perceived as impossible. We analyzed the options, secured an exit and contracted for power. Under the bankruptcy plan Southern filed in court, our costs for purchasing power would be nearly three times what it is today. Had we left to join another available G&T our cost of power likely would be nearly twice what it is today.

Many BEC members are interested in renewable energy. Some members have received confusing messages advertising a “switch” to renewable energy or a way to “match” their current power supply with investments in remote wind or solar projects. The words “switch” and “match” suggest a change in power supply or a reduction in the BEC bill through renewable energy credits. This is not the case. BEC has no relationship with any group making these offers.

Members with successful renewable energy investments, or the company making the investments for them, may, of course, apply their earnings to their BEC payments.

Next month we will report on the scheduled co-op strategy session and our ongoing rate structure investigation. Call any trustee with questions and comments.

YOUR BEC TEAM

REACH US AT 406.446.2310

	KEVIN P. OWENS, PE General Manager
	ERIC ELTON Line Superintendent
	BRAD PROPHET Accountant
	KAAREN ROBBINS Member Services & Communications
	JIM AVENT Meter Technician Journeyman Lineman
	TRAVIS BARKER Journeyman Lineman
	GUY BEHRENT Journeyman Lineman
	BILL COLGROVE Line Foreman
	LINDA DUKART Customer Service Representative
	MICHAEL FERGUSON Journeyman Lineman
	LEE HAUGE Line Sub-Foreman
	JIM PIHL Journeyman Lineman
	CONNIE TEACHOUT Customer Service Representative
	MARTY TOMLIN Staking Technician
	MARKUS URBANIK Warehousing & Purchasing
	SAM WALKOWIAK Line Foreman
	JAKE WRIGHT Journeyman Lineman