Risk Management and Finance Committees - February 2017

Risk Management and Finance Committees Meeting February 21, 2017, Red Lodge BEC Office. Present: (Committees) David Peterson, Judith Gregory, Dick Nolan, Bill Pascoe, Frank Willett, Julie Lindgren, Arleen Boyd, Board and others: Dan Dutton, Roxie Melton, Larry Martin, Brad Prophet, Janet Luloff. Video conference: Jim Webb, Angie Jennings.

Frank Willett presented an updated version of the KM Forecast Model. Discussion noted that the standalone numbers come from an early budget and amounts for staff are high and items remain (like advertising for merger approval) that should be eliminated or reduced to create an accurate plan from the model. As they stand potential reductions could approximately equal current projections for a simplified cost of services analysis and manager search.

Conclusion: Recommend approval of the forecast model as a seven-year projection and tool for testing what-ifs in developing plans going forward. Scenario #3 of the BEC forecast model (see February Board Book) is essentially the same as #2 except for the assumptions concerning cash levels and the payment of capital credits. In Scenario #2 BEC pays during the first two years of the forecast all outstanding unpaid capital credits prior to those issued in 1995, about $900,000. The model also assumes that a minimum cash balance of $500,000 would be maintained resulting in only about $900K in capital credits being paid during the last five years of the forecast.

In scenario #3 the assumption is that BEC pays capital credits on a 30- year rotation program and retires 1/30 (3.33%) of the outstanding amount at the end of each year. Cash is not held at a $500K minimum because paying the annual capital credits has priority over maintaining a minimum cash balance. This results in capital credit retirements of between $250K and $350K during each year of the forecast period. Scenario #3 results in payment of about $200,000 more in capital credits during the forecast period than Scenario #2. However, cash increases significantly during the early years of the forecast and declines to about $250K by the final year.

In both Scenarios #2 and #3 no borrowing is done for plant additions with the exception of the new meter replacement program in 2018 and 2019. All other capital expenditures are paid for with cash generated from operations.

A hand-out (see February Board Book) was presented and discussed which had various options for borrowing between 20% and 50% of the cash for capital expenditures and showed the cash which would be freed up for rate reductions or additional capital credit payments for each option.

Discussion – Borrowing to finance investments in plant that benefit members over 15 years or more allows for members benefitting from use of the assets to pay for them rather than putting payment totally in the accounts of current members. Scenarios 2 and 3 model a 5% rate reduction in July 2017. Borrowing 30% of capital expenditures could allow either a second rate decrease later or nearly double the patronage capital retirements over the seven-year forecast period.

Discussion and recommendations – With the planned change in auditor look again at making calendar year and audit year the same for BEC.

Investigate Jim's expectation that a COSA could be updated with a phone conference with EES. The model tests rate reduction by reducing projected revenue for energy, kWh. We will test the impact of 5% reduction in total member revenue including base rates. The COSA discussion would allow examination of how to implement the reduction(s).

Power supply – Bill Pascoe reported that with remaining power contracts in place a search for additional contract opportunities is most likely one to three years out, with market review ongoing. The Committee will look at and share with board important issues of interest to members likely including: conservation and efficiency measures, renewables, green power rates, net metering and rate design.

Equity issues – Initial plan to review equity planning relating to CFC presentation for the committee and board will occur after April – possibly after a manager is hired. The forecast model shows that continuing to pay cash for capital expenditures without some borrowing, results in not enough cash remaining each year to pay allocated capital credits in amounts sufficient to keep equity from growing above 50% (member capital credits equal equity). The committee looks for a board decision on when to have a CFC presentation/workshop on equity management. The committee discussed capital credit payments and agreed with manager Jim Webb that calculation of new credits should follow the BEC audit and follow a board examination of how to structure allocations and when in 2017 to pay them. The committee encourages the board and policy committee to examine the equity policy and possibly clarify or change it to clearly reflect a goal, not set obligation, for payments and possibly include reference to options for retirements.

Finance Committee
Julie Lindgren and Brad Prophet distributed and reviewed BEC financial information through December 2016 with the committees. The Finance Committee recommends board approval of the 2016 Financials.

The committee recommends approval of the write-off of $8,785.21 of inactive accounts prepared for the board by Brad Prophet. The committee reviewed the 2017 budget noting several needed changes. The committee and group consensus was that the changes should be made after the board votes on implementing a rate reduction for 2017.

Discussion of manager search
David Peterson presented a request from a potential candidate for the manager position for an interview prior to the launch of the manager search. The group discussed the possibility that finding an excellent candidate who knows BEC well could eliminate the need for an expensive search. The majority of the group and committee agreed that a search is the best way, with due diligence, to address the task all agree is possibly the most important decision the board will make.

There was a discussion of a proposal from Richard Peck to do the search or help the board in other ways as the search rolls out. The majority of group did not favor interviewing Peck for the search. The committees and board present reached consensus to recommend that the board employ Mycoff, Fry and Prouse as search firm to help the board select a manager for employment by August 2017. Larry Martin will work with Jim before the board meeting on possible modifications of an agreement to present to the board.

Arleen Boyd, District 5 Trustee
Beartooth Electric Cooperative