

Beartooth Electric Cooperative, Inc.

FINANCIAL POLICY NO. 305

1. SUBJECT: CAPITAL MANAGEMENT

2. OBJECTIVE: To establish a capital management policy and communicate to BEC members:

- 2.1. Assure the financial integrity of Beartooth Electric Cooperative, Inc. (BEC) at all times so that it can be certain of providing high quality electric service on a continuing basis to its members.
- 2.2. Establish and publish how BEC's members will, in fact, receive electric service at cost, and as a result enable them to clearly see the benefits of receiving service from their cooperative as compared to a commercial utility or municipality.
- 2.3. Develop an approach to long range financial planning that will guide and assure BEC of meeting all its financial requirements through equity and margin development and maintenance, and at the same time, maintain rates at a level competitive with the rates of other energy suppliers adjacent to BEC's service area and include the following:
  - 2.3.1. Provide adequate working capital and cash reserves.
  - 2.3.2. Provide adequate funds for debt retirement.
  - 2.3.3. Provide adequate funds to maintain all facilities at the highest operational level consistent with sound economic practices.
  - 2.3.4. Provide adequate funds for additions to plant.
  - 2.3.5. Provide adequate funds for a meaningful capital credits retirement program.
  - 2.3.6. Achieve and maintain sufficiently high TIER (Times Interest Earned Ratio) and DSC (Debt Service Coverage) ratio as is necessary to remain eligible to obtain loans from lenders.

3. POLICY:

- 3.1. Each year the ratio of equity to borrowed capital will be examined to determine that a reasonable ratio between the two is maintained and be reevaluated for any change required to achieve overall financial objectives.
- 3.2. BEC may make general and special retirements of capital credits each year as provided for in Policy No. FP306

- 3.3. Revenue requirements necessary to meet margins, equity, capital credit retirement and debt retirement goals will be determined using the rate of return on rate base principle.
- 3.4. For financial planning purposes, the rate of return on rate base shall be that figure which will permit BEC to rotate capital credits, build equity to an optimum position and maintain a 2.0 TIER. Retail rates will be reviewed and revised from time to time as needed. The Board will take prudent and timely action to maintain the TIER above the minimum level of 1.5 as outlined in the mortgages.
- 3.5. Each year the Management will make a financial study comparing actual financial performance with the Capital Management Plan. The results of the financial study will be presented to the Board for their determination of any rate action that may be needed. This annual review will serve as a basis for a revised Capital Management Plan for the subsequent year. A Cost of Service Analysis will also be made for review of the current status of rate of return on rate base. A financial forecast will be updated as needed where plans for general retirement of capital credits will be considered.
- 3.6. In the development of this policy, it is recognized that there are a number of variables that interact together that result in a financial condition. These variables include rate of growth in rate base, cost of debt capital, equity level, TIER, rotation cycle, rate of return and retail rate levels. It is recognized that the rate of growth in rate base and cost of debt capital are relatively non-controllable items.

4. RESPONSIBILITY:

- 4.1. The General Manager shall ensure that the provisions of this policy are followed.

Adopted: 11/25/2014

Revised: 02/28/2017

Reference: LV BP309, BEC III.5.A, BEC Bylaws Article VII

Review Date: February 2019

Attest: /s/ David Peterson  
Board President

Attest: /s/ Julie Lindgren  
Secretary/Treasurer