Risk Management/Finance Committee Meeting
Red Lodge Office, January 24, 2017
Committee present: Judith Gregory, Frank Willett, Bill Pascoe (telephone), David Peterson, Dick Nolan, Julie Lindgren, Arleen Boyd. Board present : Dan Dutton, Roxie Melton. Video connection: Jim Webb and Angie Jennings. Red Lodge staff: Brad Prophet.

Report/Status Update. Arleen outlined the current risk management status after the cancelled committee meeting in December where the results of the November board meeting would have been reviewed. BEC board voted to put aside merger for three primary reasons: member feedback, governance differences, assumption reported in the committee report that the opportunity for a material financial benefit for members based on savings from sharing only Administrative and General expenses, as the LVE proposed merger required, was not great.

Frank Willett and Kim Mikkelsen refined the BEC Standalone Forecast prepared for the December meeting. It is a working model that allows what-if scenarios to be run readily to test the impact of potential financial decisions through 2022, the year current wholesale power contracts expire. The model also provides the baseline for comparison with strategic organizational alternatives. Current model is a tool to inform decision-making.

Status of risk management analysis of organizational alternatives to date. Bill Pascoe noted that the merger analysis was never completed and would be done comprehensively only if merger were back on the table. We did no formal analysis of the merger numbers, but used the assumption that the limited available cost savings from A&G alone would not make a material difference in member rates. The just completed standalone forecast model offers the opportunity to take a look at our assumptions about the financial impact of a merger without expending much time or expense. This would produce a report allowing board and committee members to explain the board's position on merger with numbers and substance. The new forecast model provides baseline data and allows efficient and inexpensive analysis and comparison of the financial impacts of the alternatives the board and members have noted: merger, standalone, remaining independent with a management services agreement with LVE, and remaining independent with cooperation with another co-op to reduce costs and improve services. If comparison does not show significant financial differences, the evaluation clearly and justifiably would be based solely on other qualitative factors that would be discussed by the board.

Two board members said they objected to any analysis because we do not need it and should just move ahead with Lower Valley. Bill noted that there are two areas for potential analysis with the new model in hand:

- Analysis preceding strategic decisions by the board on co-op direction/organization and

- Analysis of tactics and information for achieving best results for members regarding rates and co-op financial position as board fiduciary responsibility demands.   Committee members agreed.

The group agreed that we do not know what option may be available for discussion with LVE until the board hears from Rod Jensen on January 31 and postponed the discussion of organizational alternatives evaluation until February.

President David Peterson reported on his communications with LVE President Rod Jensen following the assessment by LVE that BEC members likely would not be approve a merger recommendation at this time. With board approval David sent a letter to Rod concurring with the LVE conclusions. Rod and David had follow-up conversations. Rod asked David to write out some points regarding BEC wishes and concerns. David responded noting that there likely were additional possibilities for working together (attached). Dan Dutton objected to David's sending comments to Rod. With no objections or suggested additions to the content of the message, the committee did not review the message and has no report on it. The message is attached.

David reported that the Anipro Arena and Event Center is available on September 23, the day set for the BEC annual meeting. He will get the expense report from last year's meeting and a price from Anipro and discuss with the board the possibility of having the annual meeting there.

Frank Willett (Kim Mikkelsen on the phone)
The what-if analysis reviewed January 24 supported management's belief that BEC is on solid ground. Based on the following assumptions BEC can generate annual margins in the $600K to $700K range and exceed all regulatory and banking benchmark requirements.
Analysis Assumptions:

- A 5% reduction in kWh power cost mid-year 2017
- No long-term borrowing except $1.9M in 2018 and 2019 to replace all meters
- The NW Energy/FERC appeal is settled in BEC's favor and no repayment of funds already received will be necessary.
- Existing power supply contract through 2022 remains unchanged

Based on forecast results, the main concern is that with the assumption to pay cash without additional borrowing for all plant additions, except the new meters, equity grows beyond an acceptable range. Additional what-if scenarios will be tested to address the equity issue. The committee agreed to begin sending potential questions for other potential what-if analyses immediately to Arleen who will circulate them. The committee proposed minor changes that will be incorporated before the January board meeting along with a list of committee discussion points.

Finance Committee -- Committee Chair Julie Lindgren noted that the third quarter 2016 financials had been reviewed in November and the committee recommended board approval based on the previous review. The committee received the preliminary 2016 financial statement, which is expected to be finalized and presented to the board for approval by the February board meeting. Q4 financials will be formally reviewed for approval at that meeting.

Julie highlighted a suggestion by Frank Willett and others that RUS Financial and Operating Report be formatted to reflect the amended budget (February, 2016) as the 2016 budget. That amended budget included the rate decrease that reduced revenue for 2016 as planned. The committee recommends the change to best reflect actual 2016 performance against budget.