

Board report – April 2018

Committee meeting this month will be held April 25, the day following the board meeting. We will hear from Morrison/Maierle (aka Systems Technology Consultants) that serves BEC internet technology requirements that include implementing cyber security measures. On the agenda also are: interconnection policy strategy and community solar project questions/potential plans.

Andy Glover phone conversation April 19 at 2:00 – present: Julie Lindgren, Frank Willett, Arleen Boyd Kevin Owens, Brad Prophet. Andy outlined general financial parameters for interest rates anticipated by many in the industry. From a risk management perspective a reasonable assumption is that the Federal Reserve may implement two additional interest rate increases in 2018 and one in the first quarter of 2019 (four increases could be possible). BEC has identified two potential financial scenarios for borrowing the \$1.575 million required to finance the meter replacement project currently underway and scheduled for completion in third quarter 2019. One scenario borrows half the total to finance the contract for purchase of equipment and support required for 2018 activity followed by borrowing the second half of the total in May 2019 to finance the second half of the meter replacement project. The second scenario borrows the total at current rates and puts half of the total amount in an interest bearing financial implement for one year. The term of the loan(s) is 15 years. Andy agreed to work with Brad and Kevin to outline the two scenarios and run numbers for the estimated cost of each assuming the impact of three federal interest rate increases of 0.25 % each on the current 4.71% CoBank rate before May 2019 when the second half of the project must be financed. The group on the call agreed that Kevin will bring the numbers to the April 24 board meeting with a recommendation based the results of Andy's calculations. Andy will call in for the board discussion. There is the possibility for one additional interest rate increase, given the four-quarter total period of the scenarios assume three increases.

Following is the report on the April 3 public meeting with Kim Mikkelsen prepared for the May Rural Montana issue. The following day Kim met with management and staff to go over points from the previous day and consult on work order procedures and other business issues.

Not Your Average Electric Cooperative Industry expert calls BEC “different and on track.”

In her April 3 meeting with BEC management, board, employees and members KM Consulting President Kim Mikkelsen provided examples of techniques for performing financial assessments and suggestions for maintaining a healthy co-op long-term. Mikkelsen reported that she often points to BEC best practices when she

teaches classes and consults with co-ops across the country. The group discussed how to continue and improve those processes.

Expert's advice: "In some areas you are unusual and ahead of the curve. Keep it up." It is clear that some BEC practices break new ground. Mikkelsen's observations include:

- BEC is the most transparent co-op most people are likely to see. It is among the top handful in the country. Very few co-ops have bylaws and policies that require sharing all information not deemed legally confidential. The co-op world is moving in that direction, slowly.
- BEC has two consecutive power supply contracts that extend through October 2027 with low fixed rates and excellent terms. Independent power supply contracts are extremely rare among distribution co-ops. Most co-ops belong to a Generation and Transmission Cooperative (G&T) or a Power Marketing Administration (PMA) like Western Area Power Administration (WAPA) or Bonneville Power Administration (BPA) that own power resources and provide distribution cooperatives long-term wholesale electricity contracts. For at least ten years BEC will pay a significantly lower rate for power through its independent contracts than it would as a G&T member. PMA contracts are not available to BEC.
- BEC financial management tools and reports are comprehensive, understandable and, with the forecast model, responsive to what-if analysis and planning.
- The BEC risk management approach that examines alternatives is unusual and has improved analysis and decision-making.
- The BEC commitment to member communication is extraordinary and involves members who contribute expertise and generate support.
- The board, management, employees and members must understand the budget and financial strategy. Mikkelsen encourages co-ops to develop an executive summary of their budgets like the one presented at BEC this year. The summary draws on the long-term strategic plan and integrates the budget, financial forecast and four-year or five-year operations work plans into a working framework for board review, analysis and approval.
- Plans for increased investment in plant after completion of the new meters installments is wise and will address an issue most Montana co-ops face: inadequate long-term planning for plant investment as assets age and are depreciated.

BEC Bylaws define member rights, require transparency and limit board trustees to five three-year terms. One goal for the meeting with our consultant was to provide a forum for members, including potential board members, to learn the details of BEC practices, plans and challenges. For those who missed the meeting, the consultant presentation is posted on www.beartoothelectric.com The next risk management meeting is April 19 at 2:00. The board meeting is scheduled for April 24.

Julie Lindgren – sidebar/insert --Over the past five years Kim Mikkelsen’s expertise and co-op experience have helped BEC track finances, examine data and accurately evaluate strategic opportunities. Her presentation in April was informative and on target for everyone attending -- the board and risk management committee members, management, employees and members at-large. Thinking about issues from our different perspectives launched some excellent discussions of best practices, potential opportunities and engineering and financial requirements. We will take many “brainstormed” ideas forward for further consideration and we will continue to engage the expertise we need to help us make well informed decisions for our members.