

Beartooth Electric Cooperative, Inc.
Minutes of the Board of Trustees' Meeting, June 26, 2018
Held at the offices of Beartooth Electric Cooperative

Beartooth Electric Cooperative will be referred to as BEC herein. The Glossary of Terms and Acronyms website link is <http://www.BeartoothElectric.com/content/glossary>.

1. **Call to Order:** Board President, Julie Lindgren, called the meeting to order at 12:05 p.m.

2. **Pledge of Allegiance**

Present: Presiding: Julie Lindgren, David Peterson, Arleen Boyd, Richard Nolan, Dan Dutton, Bill Pascoe and Roxie Melton

Staff:

Kevin P. Owens, General Manager
Kaaren Robbins, Communication & Member Services
Eric Elton, Line Superintendent
Brad Prophet, Accountant

Via telephone:

Larry Martin, Legal Counsel

Visitors:

Frank Willett, Risk Management Committee
Eleanor Guerrero, Senior Reporter, Carbon County News

3. **Visitor Comments**

4. **Approve Agenda**

Edits:

- Add NRECA Trustee training, Coeur d'Alene, ID review under new business
- Change MECA Summer Meeting to Billings

MOTION

A motion was made by David Peterson and seconded by Dick Nolan, to approve the agenda with edits. Motion carried. Voting was unanimous.

5. **Approve Minutes**

- May 29, 2018, Regular Board Meeting

MOTION

A motion was made by Dick Nolan and seconded by Dan Dutton, to approve the minutes as presented. Motion carried. Voting was unanimous.

6. Committee/Trustee/Attorney Reports

- **Finance Committee (Julie Lindgren)**

Notice from the Wyoming Public Service-the BEC loan request for \$1.75 million to implement the TWACS Digital Meter Project was approved. The loan is locked in and the paperwork will be completed later this week.

- **Risk Management Committee**

Risk Management Meeting, June 12, 2018, 12:00 p.m. Noon-2:30 p.m. Committee attendees: Frank Willett, Bill Pascoe, David Peterson, Julie Lindgren, Arleen Boyd - Walter Clapp by phone. Board: Dan Dutton, Dick Nolan, Roxie Melton. Staff: Kevin Owens, Brad Prophet.

Phone conference with Terilyn (Teri) Wallis, Terilyn Wallis Consulting.

Wallis reported on her progress converting the BEC forecast model from the RUS format to the Compass model format provided by National Rural Utilities Cooperative Finance Corporation (CFC). BEC is evaluating the advantages of each approach and how/whether the Compass model can be used to provide the comprehensive data and easy-to-understand reports and presentations that Kim Mikkelsen produced effectively for several years using the RUS model.

Teri described how the two modeling systems accomplish the same goals: modeling financial performance and supporting what-if calculations for decision making and long-range forecasting. She described Compass as better supported and more current than the RUS model. BEC experience with Compass in 2016 and 2017 was not successful: the "drivers" of the model did not support what-if calculations to reveal the impacts on various elements of existing financials but rather recalculated the entire model making comparisons with existing aspects of the financials difficult. Mikkelsen suggests moving to the CFC model for evaluations because it is frequently updated and commonly used. She believes that our previous experience was with a corrupted version of the model.

Wallis says she is confident that Compass can be used to maintain a base case model while using the drivers to calculate impacts for what-if analyses. She reports the model can create a baseline presentation for comparison without using drivers and then examine what-if scenarios developed with drivers for ratios, revenue or other factors. Wallis has strong experience in financial management including 14 years as CFO of a Wisconsin electric cooperative and six years with RUSCFC as a regional vice president. She has experience providing financial training and strategic planning workshops.

The committee is working with Wallis to create an accurate version of our forecast model in the Compass format. Committee member Frank Willett, who worked with Mikkelsen, now is working to help clarify data and assumptions with Wallis as she develops the new baseline version matching the RUS model. The committee agreed that reconciling/updating the data in the model, budget and strategic plan is the immediate objective.

Mikkelsen outlined the benefits of our process: the committee digs into the finances and model; reports are standard and useable for analysis by the board and staff; BEC maintains reporting formats that have worked to maintain clarity and inform members, and the process dovetails board oversight and decision-making with BEC financial operations. The forecast model provides:

- A long-term framework for examining budget and plan
- A long-term strategic analysis tool
- Reality checking to test assumptions and results of financial plans and reports
- A risk management what-if analysis tool to examine alternatives for planning and due diligence
- A key element of the co-op's financial process to help align the budget, plan and forecast.

Below is the schedule for preparing the model for review/evaluation by the risk management committee and making recommendations to the board for decisions about whether and how to use the Compass model and engage Teri Wallis to work as Kim did with the committee and provided expertise for BEC financial operations.

Schedule for Model Format and Process Evaluation

From the May risk management meeting and follow-up with Teri the steps for evaluating a change to the Compass model and potential engagement of Wallis Consulting are:

- Teri Wallis updates her initial draft model based on the previous conversation with Frank and Arleen. The objective is to see the Compass version with Kim's RUS version and verify that the data and results are the same and that we review and understand the format and report differences (completion by 6/22).
- Frank, Arleen and Julie to review the documents – Kevin and Bill Pascoe may choose to review as well. (Completion by 6/27).
- Frank and Arleen have the usual conference call with Teri to discuss the results and identify questions and any needed changes before the risk management meeting. Julie, Bill and Kevin may join the call (date TBD by 7/2).
- Julie, Kevin, and Arleen meet to discuss next steps and the proposed process for BEC engagement of Teri

(July 13).

- Risk Management Committee reviews the updated report with Teri – identified questions and needed additions and updates for next steps makes recommendations to the board. (July 17 at noon).
- Teri attends board meeting July 31, presents report – Teri and Frank lead a discussion of needed next-step model additions and adjustments.

Discussion of rate analysis with EES Consulting, Gary Saleba, President

Kevin, Brad, Julie, Bill and Arleen conferenced with Gary Saleba and Anne Falcon from EES Consulting to discuss BEC's approach to a rate structure evaluation and a timeframe for BEC examination of rate structure issues. BEC has a two-year window of evaluation that includes installation of new meters that will provide data for a comprehensive look at member classes and energy use. Saleba outlined the EES focus on rate structure and experience with utilities examining and implementing rate structure evaluations and changes.

Bill Pascoe shared a review of the teleconference: There was agreement that the process has four primary phases that may overlap:

- Education of the board and staff regarding rate structure issues, approaches and ongoing developments among utilities
- Data collection
- COSA development
- Evaluation and decision-making regarding potential rate structure changes

The Schedule looked appropriate to Mr. Saleba who presented a cost estimate of \$30,000. Board and Staff training session on October 3, 2018. We have not decided to change rates. We are going to work with a consultant to determine what is best for our cooperative.

Communication process - slow, consistent, this is about rate restructure and fairness.

Review and Preparation for meeting with members about the proposed solar project

The committee and board members reviewed the Question and Answer documents prepared for the meeting scheduled for the night of the committee meeting. There were many questions from board members and discussion of the intent and implementation of the proposed project. There was agreement about the necessity for being completely open about all aspects of the project - technology, costs, returns and issues that may change as the project develops. The objective is to have payments from members who choose to finance the project in place by November 2018, bids out in January 2019 and project construction

underway by March 2019 with possible completion by April 2019. There was a discussion but no recommendation about whether/how the bids go out after full payment is collected from members with the promise of a true-up once the final cost is set. Kevin is confident that the estimated cost is close to what the final cost will be. We discussed a plus or minus window to limit concern about exposure - Kevin said he would investigate the possibility.

Bill Pascoe, Kevin and Arleen reported on their meeting with Sue Beug (Carbon County Resource Council) and Bill Hand (Stillwater Protective Association). Both organizations strongly support renewable energy and believe they have members who will attend the informational meetings (June 12 in Red Lodge, June 26 in Absarokee) or otherwise contact the co-op and may invest in the project. Walter Clapp repeated his earlier questions about what will happen to the solar power generated by the installation if the grid is down long-term or short-term. After some discussion Kevin said that the location's direct connection to the BEC facility would allow the power to be used by the co-op (for all members' benefit) and the power generated would be metered, allowing credit to be calculated for the investors.

The next Risk Management Committee meeting is July 17, 2018, at 12:00 Noon.

- **Bylaw Committee (Arleen Boyd)**

The committee will meet on July 10, 12:00 Noon.

MOTION

A motion was made by Bill Pascoe and seconded by Roxie Melton to ask the Bylaw Committee to draft a Bylaw Amendment to move the annual meeting to the 2nd Quarter of the calendar year beginning in 2019. Motion carried. Voting was unanimous.

Board recommendation to include the verbiage-*on a date chosen by the board*-in the amendment language.

- If Larry could send an email with his suggestions by the end of the week, it would be helpful.

- **Policy Committee (Roxie Melton)**

Counsel Larry Martin described the three levels of a policy review:

1. How does the law affect your policies and are they in compliance?
2. Is it good policy in general?
3. Stylistic review (grammar, spelling, etc.)

The Policy Committee will make a final review of the policies before presentation to the board for approval at the next committee meeting July 24, 1:00 p.m.

Kevin and Bill will present two of the four 400 series policies being worked on at the next Policy Committee meeting.

- **Communication Committee (Richard Nolan)**

The next Communication Committee meeting will be announced when a date for Ryan Hall's presentation is secured.

- **Treasurers Report.** Arleen is now receiving financial reports for review. By next month she will be able to write-up the Treasurer's responsibilities document for the board.

CONSENT AGENDA (Items 7-9, shown in blue)

7. Membership Connections and Cancellations, Capital Credit to Estates, Registers, Reports and Summary of Disbursements

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Disconnect information-At this time 50 percent of our receivables are 90 days or more. There were 300 disconnects in May. Many members acted and paid before disconnects occurred. Prepaid meters will assist in this matter. It is a commonplace to experience a higher number of delinquent accounts in the spring season due to the inability to disconnect during the cold winter months.

8. 2018 - May Financial Statements

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Brad noted, it is his goal to complete the previous month by the 25th of the next month. The actual margin numbers after all May stragglers were entered are year-to-date \$428,709 and for the month \$37,063.

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RUS Statement-it was requested to add some percentages. Year to date Red Lodge Heating Degree Days (HDD) in May was 280 with a year-to-date of 4,262-revealing 3% more HDD days for first five months over 2017 and 6% higher than the 15-year average.

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First of the two charts-top right, Operating Expenses (also controllable expenses) the actual is 17,707 or 1.4% more; goal budget is 1.4% and the leeway was 5%, so we are within the goal. The monthly margin for June 2017 is \$53,777 and the 2018 budget for June is \$44,285. Except for January, we have been above monthly margins because we have also been above kWh sales.

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The chart on the right, the new column labeled "modified" takes out the Cushion of Credit. To clarify the modified reporting removes everything to with do the Cushion of Credit, i.e., borrowing of the money and the interest income earned (almost as if those two loans never happened).

Page 73 (Kevin's report)

Brad explained that he had looked at energy billing from Morgan Stanley and WAPA along side of NorthWestern's transmission billing and the charges looked off. Kevin and Bill went back and reviewed the contract terms with Morgan Stanley. As a result, BEC received the \$19,000 credit and also received an additional \$4,000 credit. This month (May) billing now looks correct. In addition, Bill Pascoe added that if you look at April, that is when we received the credits and if you look at the NorthWestern transmission billing, the average cost of power is higher in low usage months and lower in high usage months since transmission is billed over a 12-month period-transmission does not fluctuate as does usage.

9. Staff Reports

• General Manager Report - Kevin Owens

- ACLARA staff were on-site June 7 to kick off the TWACS project. Dates were established for delivery of the server and when the first meters at Belfry will be set. It was decided that meters will be set the beginning of August at Belfry immediately following the end of the July Billing cycle. BEC crews are doing an excellent job of TWACS equipment installation at Belfry and are awaiting the arrival of the first MTU substation transformer in the next couple weeks.
- Several WebEx conference calls were held with the NISC project team during the month. My meeting with the NISC CEO at the recent NWPPA Annual Meeting has proved to be very beneficial to getting a project plan in place with established deadlines over the next two years.
- The first Shares du Soleil informational workshop was held in Red Lodge on June 12. There was a very good turnout with many excellent questions from the members in attendance. We fully expect many members to visit our office on July 1 to make a down payment on the purchase of output from multiple panels. The second workshop will be held June 26 In Absarokee.
- NWE notified BEC that they would no longer pursue the litigation initiated by Central Montana G&T over

unwarranted transmission fees. Staff will work with BEC's auditors to determine the correct accounting treatment of the \$1.1 million held in a deferral account for the last several years.

- Brad and Kevin submitted the necessary Securities application to the Wyoming PSC for approval of the TWACS Loan with CoBank. The Commissioners approved the loan at their June 14 meeting.
 - The close out Meeting with the Systems Group was completed this month with BEC's transition to a thin client network architecture.
 - NED Enterprises completed the installation of the new heat pump HVAC system for the BEC main building.
 - Office 360 completed their installation of modular furniture five BEC employees.
- **Communications & Member Services Report – Kaaren Robbins**

1. Communication Committee Meeting

The June meeting will be rescheduled in July to include Ryan Hall, Editor, Rural Montana. He will present the NRECA Lexicon survey results.

2. Work in Progress

- **August Rural Montana – DEADLINE July 5**
 - Kevin Owens: Shares Du Soleil, Meter Upgrade Project, Tree Trimming
 - Committee: No update this month.
 - Kaaren Robbins: Feature: Rate Comparison, Shares Du Soleil Certificate Ad, Tree Trimming Callout, New meter schedule, Annual Meeting
- **August Billing Insert**
- **August Billing Notice**
- **Fishtail Family Fun Day**
Set-up/Manning/Tear down BEC booth
- **Shares du Soleil Workshops**
Tuesday, June 26, The Cobblestone School, 6:00 p.m.
- **Community Solar certificate**
Design in progress.
- **Member News email**
 - Post Board meeting email scheduled for July 6/7, 2018

- Pre-Board meeting email scheduled for July 27/28, 2018

- **BEC 80th Annual Member Meeting**

Saturday, September 29, 2018

ANIPRO Event Center

- Gift -Solar item
- Education Station Info
- History Info

- **Facebook**

Content follows board meeting information, press releases, and RM

- **Operation Round Up**

- **LISD/LIDD**

Total LISC/LID Disconnect Accounts for May billed 06/06/2018. WY: \$27.86 and MT: \$128.81 = Total \$156.67. Total number of accounts are 32.

- **News Releases/Ads**

- **BEC Membership Application**

Update in progress-Questions are with Counsel, Larry Martin

- **BEC New Member Welcome (email & hard copy package)**

Work in progress-awaiting membership application

- **Website**

- NEW Shares Du Soleil page (Under Energy tab)
- Continue content updating
- New headers
- Post new press releases
- Post financials
- Update calendar
- Continue redesign template

3. Work Accomplished

- Available in the board book for review.

- **Line Superintendent Report - Eric Elton**

Eric presented the Line Superintendent report as follows:

CONSTRUCTION, OPERATIONS & MAINTENANCE

- Red lodge crews are working on new services as they come in. They have installed most of the TWACS hardware in Belfry and are gearing up to start the Absarokee sub.
- Columbus crew is working on the wind tower project. This project has been tough from day one between the mud and the rock we hope to have it energized next week.

- I received a call from Northwestern Energy this week and they are looking again at possibly upgrading the 50 KV line from Nye to Chrome Junction. What this means is we may have to upgrade our substation power transformer in Nye.
- Asplundh Tree started working south of Red Lodge. We have two crews on for the summer.
- The summer help is doing a good job with the pole inspections. We hope they can complete the Edgar substation before the end of summer. Unfortunately, Ryan Miller is leaving at the end of this month. (We did fill his position with Jasper Poore).
- We installed seven new services in May.
- There was a total of 28 outages system-wide in May with 980 individual consumers out of power at some point in May having a duration of 2870 minutes.

EDUCATION, SAFETY & LOSS

- Jim Avent and James Pihl attended a TWACS metering school in Cleveland in preparation for the meter install.
- Next MECA safety meeting is July 31.
- No lost time accidents to report in May.

TRUCK, TOOLS & EQUIPMENT

- We did have a problem with the digger derrick in Red Lodge. The boom winch brake needed to be replaced.

MOTION

A motion was made by Bill Pascoe, seconded by Richard Nolan, to approve the Consent Agenda as presented. Motion carried. Voting was unanimous.

10. New Business

- David Peterson resignation, effective October 1
- NRECA Trustee training, Coeur d'Alene, ID brief by Arleen Boyd and Roxie Melton. Detailed reports will be presented at the July meeting.

11. Old Business

- Shares Du Soleil-Beartooth Electric Solar Project Update
 - The second Shares du Soleil workshop is this evening in Absarokee at the Cobblestone School
 - A Shares du Soleil receipt has been developed for solar partners that spells out what is being bought and the details of the program.

12. Upcoming Meetings

- BEC Policy Committee Meeting | BEC Office | July 24, 2018 | 1:00 p.m.
- BEC Communication Committee Meeting | BEC Office | July 25, 2018 | 12:00 Noon
- BEC Risk Management Committee Meeting | BEC Office | July 17, 2018 | 12:00 Noon
- MECA Summer Board Meeting | Billings, MT | July 10-11, 2018 (MECA training in Billings is on July 9)
- BEC Regular Board Meeting | BEC Office | July 31, 2018 | 12:00 Noon

13. Executive Session

None held.

14. Executive Action

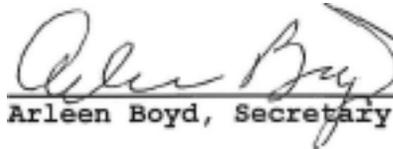
No action required.

15. Adjourn

MOTION

A motion was made by Richard Nolan, seconded by Dan Dutton to adjourn the June 26, 2018, BEC Board of Trustees meeting at 3:08 p.m. Motion carried. Voting was unanimous.

ATTEST:



Arleen Boyd, Secretary