Board Report

Phone conference with Terilyn 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 Cooperative (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.

Pasted 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 provide 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:

• Terri Wallis updates her initial draft model based on 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 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 proposed process for BEC engagement of Teri (July 13).
• Risk Management Committee reviews the updated report with Teri — identifies questions and needed additions and updates for next steps, makes recommendations to board. (July 17 at noon).
• Teri attends Board meeting July 31, presents report — Teri and Frank lead discussion of needed next-step model additions and adjustments.

Discussion of rate analysis with EES Consulting. 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.

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
EES could provide a full-day educational workshop on rate structure for the board and committee. October 3, 2018 is a suggested date.

**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 discussion but no recommendation about whether/how the bids go out after full payment is collected from members with 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.

Arleen Boyd, Risk Management Chair