Risk Management Meeting, April 16, 2019

AGENDA
Risk Management/Finance Committees audit change review
BEC Financial Forecast — Teri Wallis and Frank Willett
Equity Management Strategy — Teri Wallis
BEC Projects Update — Kevin Owens
  • Shares du Soleil
  • Net Metering True Up
  • Energy Forecast
  • NWE on Catastrophic Risk Planning
Space Weather Workshop Report, Catastrophic Risk — Walter Clapp


Audit Report Amendment The Risk Management meeting convened at 2:00 and immediately recessed to allow a joint Risk Management and Finance Committee meeting to review a change to the BEC audit report. The report had been approved at the March board meeting. Finance and Risk Management Committee member Frank Willett joined BEC Accountant Brad Prophet and Auditor Brian VanSteeland to explain the amendment, submitted by VanSteeland, to page 21 of the audit.

While working to prepare an accurate version of the BEC Financial Forecast with consultant Teri Wallis, Willett discovered that 2023 year-end numbers for long-term debt in the audit did not match those in the Rural Utilities Service Cooperative Finance Corporation (RUSCFC) Compass Model draft forecast or numbers provided by Prophet. When Prophet compared the audit numbers with those from BEC accounting it was clear that the auditor had treated the Cushion of Credit amount differently from the Compass Model calculations.

The issue with the audit report was that the Auditor deducted the prepaid Cushion of Credit debt from the outstanding long-term debt on
page 21 of the report. The Cushion of Credit is an interest earning deposit that BEC has made with the RUSCFC, which will be used, instead of cash, for future loan payments when they become due. The balance of the Cushion December 31, 2018 was $1,959,245. The debt is still on the balance sheet until payment is made. The Cushion of Credit will be totally expended by 2023.

By deducting the total outstanding balance in the Cushion from outstanding long-term debt at end of 2018, the Auditor’s year-end balances in subsequent years differed from the loan amortization schedules included in the Forecast Model and BEC’s records by the exact amount of the Cushion. The revised page corrects this and all are in agreement.

The revision/correction changes outstanding long-term debt at the end of 2023. The original calculation showed $7,152,832 remaining and the revised number is $9,112,077, the difference being the Cushion of Credit.

The Committees recommends Board acceptance of the audit changes to page 21.

**BEC Financial Forecast** The BEC Forecast Model report includes a Profit and Loss, Balance Sheet and Cash Flow Statement. The Risk Management Committee uses the model to do what-if comparisons of alternatives for business management, investments in plant, revenue requirements and other factors critical to strategic financial planning and decision-making. The Compass Model developed by RUSCFC collects data from co-ops, calculates financial results and ratios for individual co-ops and generates comparisons and comprehensive evaluations of results across the industry. BEC uses data assembled by Compass calculations for financial ratios that are shared with the Rural Utility Service and other lenders and business partners. The purpose of the straightforward BEC Forecast Model is to allow the BEC Risk Management Committee, Board and Management to see potential impacts of projected financial alternative actions on standard financial criteria over time.

The Compass Model calculations establish ratios and allow comparisons of financial performance across the industry in addition to providing individual co-op data for short term decision-making and long-term planning. Currently the Compass data does not reflect BEC numbers.
accurately. The main problem is with the Balance Sheet, which reflects some numbers that are obviously incorrect.

Long-term debt in the forecast is one of the biggest issues. Detailed sheets in the Compass Model that amortize each individual loan by lender are nearly the same at those generated by BEC accounting. The problem we encountered is that when the Compass Model pulls the totals for all the individual loans forward to the Balance Sheet, the total number displayed is significantly different. It appears that there is a glitch in the Compass Model program and it is not picking up all of the debt from the loan details. We have contacted CFC, the Compass Model developer and are expecting a fix for the program soon.

**Status of the BEC Forecast Model** -- We have a profit and loss statement for the forecast period that the committee believes is accurate. After the Compass fix is received, we will produce a new balance sheet and the long-term debt numbers should be correct and agree with the detail backup. The correction will impact a number of other balance sheet line items that the committee will examine before submitting a new model to the Board. We have not produced a Forecast Cash Flow Statement yet since many of the numbers used in its preparation come from the Balance Sheet.

**Equity Management Presentation** – Consultant Terilyn Wallis presented an overview of Equity Management Strategies to help the committee and board prepare for its planned 2019 development of an equity management strategy for the co-op. The presentation started with a look at analyzing the cost of equity and comparing debt to equity. Cooperative equity comes from members. The major factors influencing equity are: margins, capital credits and investment in plant.

Equity level is an indication of financial strength and a key factor in access to private financing. A reasonable equity target for most distribution cooperatives is within the 30% to 50% range. Cooperatives need both debt and equity to fund capital investments and equity generally costs more than debt. The goal is to provide the level of capital needed at the lowest cost to members while maintaining a high level of financial strength/flexibility.
The presentation is posted on Beartoothelectric.com. The board expects to conduct a strategic management planning session in 2019 and to develop an equity management strategy that likely will include an equity management policy.

**BEC Project Update** – General Manager Kevin Owens updated the committee on Shares du Soleil, recent BEC Net Metering true-up to members and an update on Sun River Cooperative implementation of their 3-part rate design. Owens also shared forecasted wholesale energy prices for the next 3 years. The contracts that BEC entered into with Morgan Stanley and Energy Keepers look very favorable based on market trends. This energy forecast data indicates that it is prudent to continue to monitor industry developments and explore options for energy supply to be delivered after the expiration of current BEC contracts running through 2027. Meeting handouts are available in the April Board Book. A report on NWE catastrophic event planning was not available for the meeting. A follow-up discussion with NWE indicated their primary focus at the moment is cyber security. Catastrophic event planning is viewed as a low risk, high cost effort. Event planning needs to be defined by the federal government and significant R&D needs to take place to provide solutions. The government is focused on early notification to protect the bulk transmission system; i.e. 230 kV and above.

Annual true-up payment dates for net metering members differ for members in Montana and Wyoming -- April 1 and December 31 respectively.

Owens has resubmitted a request for Rural Energy for America (REAP) grant support for the Shares du Soleil community solar program. The project is still expected to be completed this summer. Shares du Soleil panels are sold out for this project and pricing should remain at $750 per panel. Final pricing and construction schedules will be set when a response to the grant request is received from the US Department of Agriculture.

Included with this report is a report from Risk Management Committee Member Walter Clapp who attended the 2019 Space and Weather
Workshop in Boulder, CO April 1-5. It was a conference of scientists who principally study solar weather and how it affects earth.

Arleen Boyd, Risk Management Co-chair