Risk Management Committee Meeting
Red Lodge Office, Friday, June 21, 2019


Agenda:

The Finance Committee/Risk Management meeting to review the first quarter financials convened at 1:30 to examine the completed quarterly financial report. Brad Prophet confirmed that no changes to previously reviewed monthly results were made in the quarterly report and answered questions about details and conclusions. Discussion of budget line items assignment and how calculated

The Finance Committee recommends Board acceptance of the Q1 report with changes noted in the meeting, including elimination of draft page 26 and amendment of the cash flow statement to change the “Other Deferred Credit” line item to “CFC Cushion Of Credit.”

Cost of Service Analysis (COSA) Review – A cost of service study looks at documented costs and projected revenue, identifies the cost of providing service to each customer class based on load and service requirements and allows for assignment of fair rates for providing service across classes.

EES Senior Consultant Gail Tabone led a Risk Management Committee review of the COSA draft which she had updated after a phone meeting with Kevin Owens, Bill Pascoe and Arleen Boyd that focused primarily on issues of how costs are allocated to customer classes in the proposed COSA. The BEC COSA compares cost of service calculations based on based on two approaches: minimum system and 100% demand calculations.

Using either of the methods for assignment of costs the ratio of revenue from the class to the cost of servicing the class falls within the generally accepted range (90-100%) for all classes with the exception of the irrigation class when the 100% demand approach is used. The committee and board members present discussed at length whether, when and how to adjust the irrigation rate to balance revenue from that class with the revenue/cost ratios of the other classes. Acknowledging the responsibility of the board to decide, the group agreed with the comments in the COSA, including the question of which class would receive a decrease if irrigation were increased and whether a change would be noticeable. Individual attendees added:
• Fairness is paramount and fixing the imbalance could be done with an irrigation increase now.
• Could parity be addressed through adjustments during the rate design assessments that will follow the COSA approval?
• An irrigation rate increase might cause the number of irrigators to decrease.
• The irrigation class is small -- reaching rate parity for irrigators would have little impact on the bills of other members.
• If a rate increase for irrigators were implemented, it might increase movement to independent generation.
• This is a down market for farmers, not a good time to raise rates.
• The agriculture industry is under stress – not the right time for an increase for a rural, agriculture-community co-op. Address the issue in a couple of years.
• It is not the time to change rates for one class when you are discussing rate design changes that could impact all classes and require explanation to members. An irrigation change now will confuse the issue. This should be addressed going forward.

The committee recommends approval of the COSA with examination of rate design to follow.

Update on forecast plan with CFC
The COSA is tied closely to the BEC financial forecast, which provides the data for current and projected cost and revenue calculations underlying the COSA. The attached report from committee member Frank Willett, who is on the subcommittee that examines forecast results before presentation to the committee, details the phone meeting with CFC Vice President Eric Anderson who is driving the new analysis effort with BEC.

In May CFC agreed that they could create a BEC model using the Compass model and BEC data and that they would provide technical support for the Board’s Risk Management Committee in development of what-if scenario analyses and reports to assess the impacts of financial alternatives on strategic decision-making. This will provide the analysis process BEC has used successfully for several years with our now retired consultant Kim Mikkelsen. Anderson anticipates completion of the model in time for the Risk Management meeting scheduled for June 18. The committee will report to the board on the forecast model at the July Board meeting. As a result of the current forecast effort, the forecast, budget and plan numbers are confirmed and what-if scenarios for operations and board analyses can go forward.

The committee will meet on July 18 – the agenda will include the postponed CoBank presentation on strategic planning.

Arleen Boyd, Co-chair, Risk Management Committee