Risk Management Report  August 2019

Risk Management Meeting August 19, 2019

Risk Management Agenda, August 19, 2019:
- Finance Committee review of Q2 financials
- Rate Design Analysis — Russ Schneider, EES
- BEC Forecast, Next Steps — Discussion, identify what-if runs
- Catastrophic Risk Developments (TBD) — Walter Clapp
- Update, Shares du Soleil and NWE OATT Filing — Kevin Owens

Finance report  -- Meeting convened at 2:00. Brad Prophet walked through the second quarter financial report with the finance committee and risk management and board members in attendance. Final results held no surprises since the board had previously reviewed monthly reports. In response to committee comments Brad will, before the August 26 Board meeting, add the 2014 annual meeting expense on page 28. He also will provide an explanation of why the year-end long-term debt numbers in the financial forecast for 2017, 2018 and 2019 are not the same number as the beginning long-term debt for the following year. He sees this as the result of a CFC forecast calculation that does not precisely reflect BEC numbers but believes they are the correct numbers.

There was discussion of creating a revised budget to reflect two issues affecting the 2019 budget: depreciation and the allocation of employee time between capital and operating expenses. There also could be a significant increase in NWE transmission expense, which was not budgeted. At the board meeting Julie Lindgren will announce a decision reached with Manager Kevin Owens to authorize creation of a revised budget six months into the year under set circumstances (corrections or updates identified to exceed $100,000).

Recommendation: The committee recommends acceptance by the Board of the Q2 financial statements with recommended changes.
**Risk Management report** – Bill Pascoe and Kevin Owens worked with Russ Schneider on calculations and framing for the EES presentation -- Arleen and Bill reviewed the presentation with Russ to prepare for the Risk Management meeting on August 19.

The chair welcomed RUSS Schneider, EES Senior Financial Analyst who joined the group via phone and electronic slide presentation of Rate Design Analysis Beartooth Electric Cooperative. Bill Pascoe and Russ reported on the intent to use specific rate design examples to answer questions raised in the previous meeting – exactly how would any rate design change impact bills for various members classes, and individuals within classes.)

The presentation sets out to:
- Select a few rate design examples to illustrate potential bill impacts
- Develop ideas for specific customer types that are easy for members to understand
- Look at how each rate design example could affect the bills of customers within different rate classes

COSA unit costs were recently calculated for all member classes. This rate design analysis starts with a focus on residential and small commercial with initial information for later development of large commercial, industrial and irrigation in any rate design analysis. The presentation looks at residential customers using three example rate designs:
- Base, demand, and energy,
- $50 minimum bill,
- $50 minimum with $30 base and $2 demand.

The analysis looks at the impacts on rates/bills for each of the three approaches on low use, average use and high use customers. The purpose of the presentation is to look at impacts on members of example rate designs and test examples and identify others for consideration

The co-op costs, reflected in the COSA and used for a rate design
analysis include: paying for electricity, maintaining the system structure to deliver the power, administering member services, and meeting the obligations of running a service business. COSA assigns these items in detail to members by class. With new meters we have the opportunity to accurately assign the costs for individual members and reach conclusions about fair payments by segments and individuals within the existing classes. We can identify and discuss how costs are assigned to set rates and, with improved demand data and load factor analysis how to get a clear, granular look at members within a class and whether they are carrying their fair share of the cost assignment for their class.

Next steps will include gathering demand data for the seasonal, weekend and net-metered accounts. Kevin is reviewing the internal data to see what is available. This will fill in data for the three example alternatives.

The minimum bill approach received skepticism and some opposition from committee members. There was agreement that it was an example, not a proposal and that other examples will be examined.

**Recommend** updating the presentation and posting it after the next meeting with clear statements that this is an analysis exercise in-progress, to look at examples, not a proposal for new rate design.

The committee postponed the remaining agenda items until its scheduled September 10 meeting due to time constraints. The chair circulated a “starter” list of questions about the rate design analysis process, objectives, and terms and approach. The committee and board members are examining the list, adding question and comments – especially to the basic question: *what are the reasons for considering change to the BEC rate design?* The list will be a discussion topic at the next meeting.

Meeting adjourned at 4:45 P.M.

Arleen Boyd