

Beartooth Electric Cooperative, Inc.

www.beartoothelectric.com

Members Newsletter • Beartooth Electric Cooperative • PO Box 1110, Red Lodge, MT 59068 • 406-446-2310

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General Manager's Report — By Ron Roodell



WHOLESALE RATE INCREASE TO BE PASSED ON TO CONSUMERS

If you are a reader of the *Carbon County News* or *Stillwater County News*, perhaps you have already read about Beartooth Electric Cooperative (BEC) having to pass on the recently experienced wholesale power increase from Southern Montana Electric (Southern) to our consumers. An announcement appeared in these newspapers the week following the May 27, 2011 BEC Board of Trustees meeting and was also included in your May billing statement.

It was at this meeting the trustees were presented with five (5) options to consider for addressing this increase on the retail side—what BEC charges its members. Management's recommendation was to increase the retail energy rate by 5%, effective July 24, 2011. This recommendation was made in response to the unexpected 4.5% wholesale power increase from Southern to its member systems.

You may recall that I communicated to you in my February 2011 manager's column that Southern did not anticipate any further rate increases in 2011. It was also in my February column where I explained that we had experienced a 4.5% wholesale rate increase effective December 1, 2010.

BEC was able to avoid raising rates to you in response to

that increase, until April 20, 2011, whereby a 4.5% increase in retail rates was implemented.

BEC's cost of wholesale power is about 50% of its total cost of providing electric service to you. You may be wondering why it is necessary for the retail cost of power to increase 5% when BEC's wholesale cost of power increased by 4.5%. The reason is because BEC has been paying the 4.5% wholesale power increase on energy purchased since April 1, 2011. So, about four months before passing any kind of increase on to our consumers. BEC management evaluated the financial impact of the wholesale increase to BEC and presented their recommendation for a retail rate increase to the Board at their May 27, 2011 board meeting. The Board approved the recommended increase, making it effective July 24, thus giving ample time to give notice of the increase to the BEC consumers. This increase will raise the average residential consumer's monthly bill (870 kWh) by \$5.10.

Looking back to when the BEC Board approved the 2011 Budget, it was anticipated the Cooperative would receive the typical \$200,000 annual payout in capital credits from Southern, or about 32% of total margins budgeted. It has become very apparent

that BEC will most likely not receive a capital credit payout from Southern, thus making it even more important that we do our best to track with the operating margins (\$330,102) that were budgeted for 2011. The 5% retail rate increase should do just that if kWh sales track well with what is budgeted. Operating margins of \$330,000 is a rather thin margin to operate within—only about 3.5% of total revenue. Typically, we budget for a total margin of 6-7% of annual revenue. Weather can have a significant influence on revenues, in either direction, which directly impacts the bottom line. A couple of storms can eat up a couple hundred thousand dollars in margins real quick.

Management staff also looked at finding ways to reduce expenses. Although we are delaying some lower dollar purchases, our recommendation to the Board is that we stay the course with our commitment to maintaining the integrity of our system and equipment. You can ill afford to ignore or neglect the system and equipment because the day will come when you will pay the price for it.

SAVE THE DATE
Saturday, September 24, 2011
BEC Annual Member Meeting
Roberts High School
Get Involved. Attend. Vote.

BEC'S NEW BUSINESS SOFTWARE ENHANCES MEMBER EXPERIENCE

New Statement • New e-Bill & Online Pay Option

BEC was forced to change our obsolete business software due to an Office 2000 server and new Federal Trade Commission privacy rules.

After over a year of preparation, on Monday, June 6, 2011— We did it! BEC went live with our new NISC iVUE® Enterprise System providing integration between customer care and billing, accounting, engineering, e-commerce, automated mail and bill payment solutions. The new system delivers the solutions that fit Member/Customer needs and increases efficiency.

This new system allowed BEC to create a new billing statement to provide our members with the most information possible in the best format available. We're sure you will find value in the 12 month usage graph, monthly comparison to last year's kWh usage-cost per kWh and average daily cost chart, a detailed review of account activity since the last bill, a new message area, and current account status.

Beginning with your bill dated June 31, 2011, which is mailed the first week of July, BEC will use a new bill format.

In addition to your new statement, Beartooth Electric will now offer e-Bill. E-Bill allows you to view your account and pay your bill online through a secured Web site via the Internet.

To get started, simply access the e-bill site by visiting BEC's Web site: beartoothelectric.com.

- Have your BEC account number ready
- Select "Programs and Services"
- Click on "e-Billing"
- Select "If you are a new user"
- Fill out the appropriate information, name, account number, etc. and select "Submit"

It's that easy and you're on your way to accessing your account. Not only can you look at the current bill, but you also have the capability of looking back at previous

months' bills and payments. Charts showing views of kWh usage and charges are also at your fingertips.

There are three options available for paying your bill:

1. BEC Auto Pay Plan—automatically withdraws payment from a designated checking or savings account each month. If this is the plan for you, then just check the correct box on your remittance stub and complete the back of the stub.
2. Electronic Check—enter the nine-digit routing number and your account number off the bottom of your check blank from the account in which you would like the amount withdrawn from monthly.
3. Credit/Debit Card—BEC accepts VISA®, MasterCard® and Discover® credit or debit cards. Once you decide to sign up, upon entering the e-Bill site, you will need your e-mail address and password to sign on to the secured site. A helpful suggestion would be to add the site as a favorite

to your browser for future access.

"By providing this new billing option, we hope that our customers realize BEC's commitment to bringing them the best services possible," said Ron Roodell, BEC general manager.

If you are interested in using the e-Bill option, please visit our Web site at beartoothelectric.com, or call 406-446-2310 (toll-free 1-800-472-9821) and ask how to get signed up for our e-Bill service.



How To Read Your Bill

Who do I call if I have questions?

Call BEC at the phone number indicated or stop by our office.

Information and messages.

Issues pertaining to you and your cooperative will be found in this area.

For what location is this bill?

The Service Description is the physical address for this service location. If incorrect or blank, please provide the correct information on the return stub.

How do I make my payment?

Be sure to return the bottom portion of the bill with your payment.

1. Mail your payment in the return envelope provided **OR**
2. Pay in person at the BEC office **OR**
3. Place your payment in the drop box at the BEC office **OR**
4. Pay by bank draft. Check the appropriate box here and complete the information on the reverse side. **OR**
5. Pay online at www.beartoothelectric.com

Account Number 999999
Statement Date 04/05/2011 **Due Date** 04/18/2011

Your Electric Bill Information

Balance From Last Billing	128.77
No Payments Received	0.00
Balance Forward	128.77
Current Charges	130.70
Account Balance	259.47

DISCONNECT NOTICE
 THE BALANCE IN FULL OF \$128.77 IS DELINQUENT! SERVICE IS SUBJECT TO DISCONNECT IF THE PAST DUE AMOUNT IS NOT PAID IN FULL BY 04/21/2011. SEE THE DISCONNECT NOTICE ON THE BACK OF THIS BILL.

Meter	From	To	Days	Begin Rtd	End Rtd	Usage	Rate	Mo
BF888888	02/18/2011	04/01/2011	42	4990	5750	850	1.0	

Detail of Electric Charges

kWh Charge	850 KWH @ 0.11267	\$95.77
Base Charge		\$33.00
Total Electric Charges		\$128.77
Other Charges and Services		\$1.93
Late Charge		
Total This Service		\$130.70

Monthly Usage

Period	Daily kWh	Cost/Wht	Daily Cost
This Year	20	\$0.1515	\$3.0300
Last Year	0	\$0.00	\$0.0000

Remittance Stub

Account Number: 999999
 Account Name: JOHN DOE
 Statement Date: 04/05/2011
 Due Date: 04/18/2011
Amount Due: \$259.47

Did BEC receive my last payment?

This section shows total activity since your last bill, ending with your balance forward, if any. If any of this information does not match your records, call the BEC office.

Is my account past due?

If your account is past due, a statement will appear indicating that payment must be received in our office by the date shown to keep your electric service connected.

What have I been billed?

A detailed list of charges for this bill will be shown for your information. Also appearing on your statement will be your current kWh usage and number of days in this billing. The base charge is your monthly minimum charge.

What do I owe and when is it due?

The total amount due is due by 2:00 PM on the indicated due date. If this amount is not paid, your account is subject to a late penalty fee and disconnect.

High wood Generating Station (HGS) UPDATE

Work continues on the HGS project. Construction of the generating station is nearing completion. The transmission line that interconnects the station to the point of interconnection with the existing 230 kV transmission facility is about finished as well. Commercial operation of Phase 1 of HGS is set for early September.

I thought I would use the space this month to communicate responses to questions that we've asked Southern as they relate to Phase 2 of HGS.

1 What is the estimated cost range of HGS – Phase 2?
Southern Montana is in the process of securing quotations for major pieces of equipment and will be refining its estimated cost for Phase 2 on the basis of that information.

2 What is the anticipated interest rate for financing of Phase 2?
Southern Montana is an investment grade credit and the interest rate Southern Montana will pay for Phase 2 will be set at the time of financing on the basis of the then current rate for treasuries adjusted to reflect additional credit considerations specific to Southern Montana. There is a limit as to what would be considered as an upper limit to the rate Southern Montana will pay for interest. However, that determination is time sensitive and will vary as a function of the cost of supply alternatives, cost of material and other related issues.

3 What is the anticipated cost and term of the gas supply contract?
5 years is considered a long term contract. Southern will probably ladder their purchases with different periods and amounts to make best use of the prices. Natural gas prices right now are in the \$4.00 per dekatherm range with "long term" prices expected to be \$5.00 and higher.

4 Has Southern solicited investors and/or participants in the project?
No. Potential investors want ownership with no risk and a good rate of return. Renewable energy entities are unwilling to invest. Other potential utilities have problems finding transmission path for the energy. The reason is because HGS is being constructed for use by Southern and another investor would have its own need for the power. An outside investor offers no advantage to Southern or its member systems. Furthermore, the addition of "investors and partners" greatly complicates financing, construction and operation of HGS.

5 Why not solicit for power supply for beyond 2019 – what could Southern obtain contracts for?
It is too far out. With the coal plant, Southern solicited contracts that would commence 3 years out. Soliciting for power supply now would be looking out 8 years plus, the length of contract. Contract prices are higher than strip prices. Risks on new supply contracts will include allowance for anticipated carbon dioxide (CO2) mitigation, meeting the Renewable Portfolio Standard (RPS) requirements, etc.

6 What is the estimated bus bar cost of Phase 1 & 2 combined?
Southern continues to refine the estimated bus bar for Phase 2. Over the course of the next month we will focus on refining this estimate on the basis of firm pricing proposals for major and

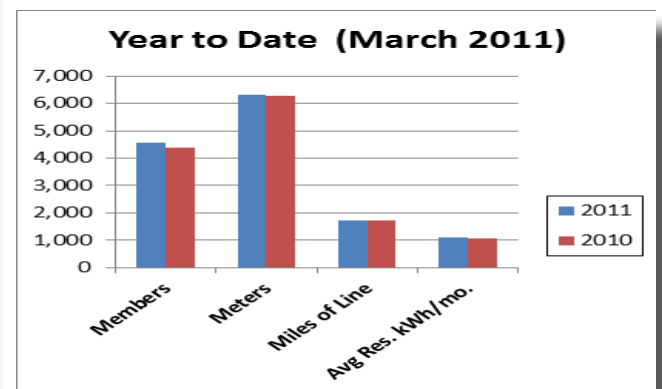
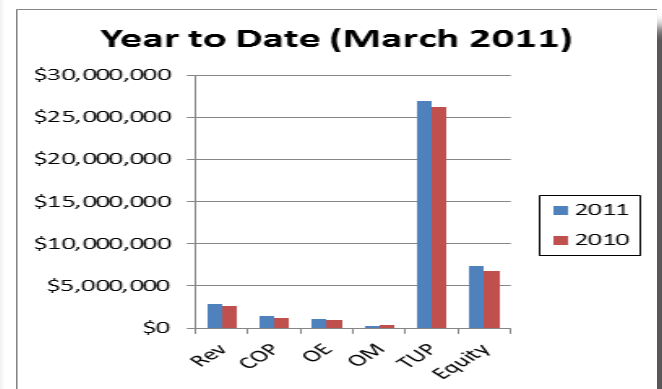
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BOARD ROOM REPORT

The Board of Trustees held their regular board meeting on May 27, 2011. Action items included:

- Approved Financial Report (RUS Form 7) for March 2011
- Selected sign design for entrance to Cooperative
- Approved 5% retail rate increase effective July 24, 2011 in response to recently announce wholesale rate increase that became effective April 1, 2011
- Reached board consensus on objectives to be included as updates to the Strategic Plan
- Approved load ratio share (20.7%) Guaranty of \$5M Letter/Line of Credit for Southern Montana Electric contingent on Wyoming PSC approval and use activity approved by the Southern Board
- Policies: Approved Closed Session Policy (II-A-5), Amended Member Responsibility to Pay for Service (VII-B-5) and Budget Billing (VII-B-6) policies, Reviewed Wiring of Premises (VII-C-1), Right of Safe Access (VII-C-2), and Granting of Easements (VII-C-3) policies

Financial Summary: (Abbreviations) Rev – Revenue, COP – Cost of Power, OE – Operating Expenses, OM – Operating Margins, TUP – Total Utility Plant. Note – 2009 includes wholesale power surcharge.



Continued from page 5

long lead time project components. In addition to the cost of key components and related expenses Southern Montana is watching interest rates closely. An interest rate of 8% and gas price of \$6.50 would require a close analysis of how well the facility would stack up against purchase alternatives. However, it must be understood owning generation is a long term decision and cannot be accurately evaluated on the basis of short term market price aberrations.

7 Why is the cost per kW (\$/kW) so much higher than the average seen across the country for other natural gas projects?

Economies of scale. The larger the facility, the cost per kW is driven down. Costs shown on the EIA and Basin websites are most likely based on the cost of constructing additional generation at an existing site. They do not include costs associated with the gas line, development costs, transmission, substations, etc. Differences of this nature are not unlike comparative costs of housing in different locations. The cost of developing HGS will be marginally higher but the cost differential does not undermine the facility's long term value. If a comparison was made of the projected cost of Phase 2 as a stand alone installation—ignoring the investments made during the construction of Phase 1 for future activities—the cost of Phase 2 would be very comparable to the cost for a new facility experienced elsewhere.

8 What are the forecasted wholesale power prices in the Mid-Columbia?

Using the Northwest Power Plan Base Case as a reference (represented in 2006 \$/MWh) and adjusting upward by 11.6% for inflation since 2006, wholesale power prices in the Mid-Columbia averaged \$56/MWh (\$62.50 in 2011 \$/MWh) in 2008. Due to the economic downturn in 2009, prices dropped dramatically to \$29/MWh (over \$32 in 2011 \$/MWh). Prices are projected to be \$45/MWh (over \$50 in 2011 \$/MWh) in 2013 when Phase 2 would come on line. Prices are projected to be \$62/MWh (over \$69 in 2011 \$/MWh) in 2019 when Southern's contracts expire with PPL. Keep in mind that a transmission charge needs to be added to these figures to move the power to the distribution substation. A figure of \$7/MWh would be a good number to use. As with any forecast these numbers will vary from actual prices. Furthermore, contract prices for firm deliveries will always be materially higher than short term spot prices for short term sales.

9 Is there a way to mitigate the upward rate pressures on the front end of the project even if it costs us money in the long run, e.g., contract 80 MW for 5 years, firm wind, etc? *The creation of IESS is one way. This provides another option to choice customers (1997 deregulation) who have the ability to choose their power supplier. If chasing the market price and accepting the results is the preferred option – then do not own generation. If price stability is the goal, owning a portion of your supply is essential. For the period 1999 to 2009 chasing the market would have resulted in power costing at times double what BEC is paying today. Yes, the market is low today but can anyone guarantee it will stay there.*

10 What are the material, equipment and labor prices expected to do in the near future? 5 years out? 10 years out?

They're not going down. There is a window of opportunity right now and that window is closing fast. In all likelihood the cost to build the project will continue to increase.

11 Estimate the risk of losing the LGIA and air quality permit – what impact would it have on rates if the project was delayed 5 years?

Obtaining an air permit would take a minimum of 3 years and if challenged it may not be achievable at all. It is estimated project construction would take approximately 3 years. A fair estimate to complete a project similar to HGS would be approximately 6 to 10 years. If challenged it may not be built at all regardless of need or merit. A material unknown is the ability to secure the right to interconnect with the transmission grid and what it will cost to do so. The cost of interconnection could range from as little as a few million dollars to hundreds of millions of dollars depending on when and where you wish to interconnect. I think my earlier comment still works here. A recent conversation with GE discussed the position the EPA has taken with regard to air permits. They've indicated that all new air permits must include a requirement for Best Available Control Technology (BACT) on CO₂. If the air permit associated with the HGS is not fully executed (includes construction of Phase 2), having to obtain a new air permit could very well cause the building of Phase 2 to be cost prohibitive.

Bylaw Committee Update

The committee completed its work on proposed changes to Articles' 1-4 of the Cooperative Bylaws. Committee Chairman, Trustee Lance Million, presented the proposed bylaw changes to the Board at their May 27, 2011 board meeting. The committee suggested these changes be put to a vote by the membership at the September 24, 2011 Annual Meeting.

Voting will be conducted on a 3-part ballot; Article 1 and Article 2 by themselves, with Article 3&4 together because these articles address the vote by mail issue. The Board approved taking the proposed changes to the membership in September.

Announcements

- BEC continues the move of meter reading dates to the 1st of each month. This month meters will be read on July 24. The continued schedule is as follows:
 - JULY 24 (32 days)
 - AUGUST 26 (33 days)
 - SEPTEMBER 28 (33 days)
 - NOVEMBER 1 (34 days)
 - The 1st of every month going forward.
 (Special note: Irrigation accounts will move to the 1st of the month read dates beginning April 1, 2012)
- BEC New billing statement, e-Bill and on-line payment options arrive this month!
- WIN one free month of base charge fees*. Send a photo, call or e-mail BEC with information regarding anything that might interfere with power lines or pose a serious threat.

E-mail: bec@beartoothelectric.com
Phone: 406-446-2310 or 800-472-9821

- **Save the date:** Saturday, September 24, 2011
BEC's Annual Member Meeting. Roberts High School.
Get Involved. Attend. Vote.

Get all the latest news @

www.beartoothelectric.com

In case of power failure please call 406-446-2310 or 800-472-9821 Anytime day or night