

Beartooth Electric Cooperative, Inc.

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

IN THIS ISSUE

Pg3 General Manager's Report

Pg4 What's Happening @ BEC

Pg5 The Cooperative Difference

Pg5 Board Room Report

Pg6 Announcements

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General Manager's Report — By Ron Roodell



Hello Members! By the time you read this article it will be early October. Wow—where does the time go? This is a wonderful time of year—perhaps my favorite. I truly enjoy watching the ranchers wrap up with their harvesting efforts and rounding up their herds in preparation for the winter months. And yes, I am one of those hunters who truly enjoy the getaway to the mountains in search of one of the most awesome of God's creations, the bull elk.

This month I would like to provide you with information on two topics that are getting a lot of attention these days; the Highwood Generation Station Project and idle services.

Highwood Generation Station (HGS)

Phase 1 (40 MW) of the HGS is essentially complete. On September 7, 2011 the combustion turbine and generator came up to speed and successfully tied to the electrical grid. Immediately following the integration of the unit with the electrical grid, for a week or so, the unit underwent a series of tests as part of the commissioning process. On September 12, the unit interconnected to the grid

and was generating 42 megawatts of electricity. Phase 1 will officially commence commercial operation on September 15, 2011—the day of the dedication ceremony. The road leading to this point, as with almost all generation projects, has been a bumpy one. Whether you believe the HGS project is the right thing to do for our members or not, I believe we must all agree that this is quite an historic accomplishment. This is the first major generation facility built by electric cooperatives in the State of Montana.

So, where is Southern in the process with Phase 2? Phase 2 includes the full build-out of the 120 MW HGS generation facility. Recall that the Southern Board of Trustees voted to raise the debt limit to \$300 million a couple of months ago. Since that time, Southern has been securing bids on the major pieces of equipment and investigating available financing options. Keep in mind that the transmission facility that runs from the HGS facility and the point of interconnection at the existing 230 kV transmission line, and the 19-mile natural gas line, is built to accommodate the full 120 MW facility. The bulk of the

work necessary for Phase 2 will take place at the HGS facility. Even though the Southern Board of Trustees have voted to raise the debt limit, the decision on whether or not to proceed with the full build-out of HGS will not be made until the terms of financing are known. At this time, they are not.

Idle Services

BEC has been underway with what we are referring to as the "Idle Service Project". An idle service is defined as an electric service that has been inactive for a 12-month period. A couple of years ago, the BEC financial statement (RUS Form 7) showed the Cooperative had over 700 idle services. This is an incredibly high percentage number, relative to the number of active electric services the Cooperative has. It was obviously a questionable number and staff established a goal to determine the actual number.

Coincident with this goal, was the Board of Trustees decision to require that all members who have idle

(Continued on Page 6)

WHAT'S HAPPENING @ BEC by Dave Werner Manager, Engineering & Operations

POSITION TRANSITIONS

The Manager of Engineering, Thad Moseman, gave notice to Beartooth Electric Cooperative on June 27th of his intentions to return to his family's ranch and begin running the ranching operations. Beartooth Electric began looking for a new Staking/Field Engineering Technician in August to replace Thad and we're glad to announce that Marty Tomlin has accepted the position. Thad has stayed on in a part-time role to work with Marty and help the Cooperative through this transition period. We'd like to thank him for his time with the Cooperative and years of hard work.

Marvin Dukart, the Line Superintendent for Beartooth Electric, will also be leaving the Cooperative this year with his retirement on November 1st, 2011. Marvin has worked with Beartooth Electric Cooperative for just over thirty-four years. He's helped to design, build and maintain many miles of power line for the Cooperative in that time—his dedication and experience will be greatly missed.

We're sorry to see Thad and Marvin leave but wish the best for them and their families. We'd also like to welcome Marty and look forward to working with him through the years to come!

LINE PATROLS

Our crews have completed patrol on approximately 2,000 poles or close to 115 miles of line this year across our electric system. These line patrols will continue through the end of the year to help us identify any issues that exist or are developing on the grid.

Several maintenance items were identified that included a broken pole, broken wire strands, trees in the line, broken and loose guy wires, missing hardware and other problems requiring attention.

Service orders have been opened on the priority items for repair, with future work to follow on those problems that can wait to be repaired in the weeks to come.

WYOMING CONVERSION

The last of the new construction on the power lines in the Clark, Wyoming, area was completed in September to convert several miles of line to a higher voltage to improve delivery of service to our Wyoming customers and reduce system losses.

The new infrastructure was energized in early September and provides services to over 300 members within the Cooperative.

The final stages of work involved building new power line along County Road 8VE, beginning at Road 1BF and continuing along Road 8VE to a point just past the Clarks Fork River crossing. Work was also completed on a set of voltage regulators and underground cabling to tie various points of the Wyoming system together.

NYE TIE LINE AND HOBBLE DIAMOND

Another two projects were completed in August: the Nye



BEC Linemen, Eric Elton and Jason McDonald, install a new step down transformer during the Wyoming Conversion Project.

Tie Line and the Hobble Diamond Project. The first project placed almost a mile-and-a-half of single-phase power line underground to tie the Absarokee and Nye substations together and will eliminate the need for additional voltage regulation in the area. The new tie line also allows us the ability to shift additional loads between the two substations. Hobble Diamond was a system improvement to replace approximately 1 mile of single-phase overhead power line with new underground cabling. The work was completed in the first half of August and should help improve power quality in the Reed Point areas.



BEC Line Sub-Foreman, Lee Hauge, makes final connections of the underground feed to the Fish Hatchery.

TREE CLEARING

Tree clearing work has been contracted to clear Right-Of-Way (ROW) in the Roscoe and Luther areas, where some of the worst overgrown power line has been identified. The contractor is currently scheduled to begin in September and should complete their maintenance work before the worst of the snow hits this year. Beartooth Electric line crews have also been assigned tasks to clear ROW in the Red Lodge area on those portions that required immediate attention.

Please remember that these efforts greatly help to reduce any possible power outages and fire hazards in your areas. Beartooth crews and contractors are asked to clear trees and underbrush in a 20' path under the lines, in addition to any trees that may represent a hazard outside of the 20' pathway.



COOPERATIVE
ENTERPRISES
**BUILD
A BETTER
WORLD.**

CO-OP MONTH
OCTOBER 2011

The Cooperative Difference

Every October since 1930, not-for-profit cooperatives of all stripes have celebrated Cooperative Month. During this time, it makes sense to highlight the qualities that make electric cooperatives different from other types of utilities and businesses.

For starters, electric co-ops are owned by those they serve. That's why those who receive electric service from us are called members, not customers. Without members, there would be no Beartooth Electric Cooperative, Inc.

Members maintain democratic control of our co-op, which means they elect fellow members to represent them on the board of trustees every September at our annual meeting. We also return margins ("profits") to our members in the form of capital credits.

One principle that sets us apart from other businesses is our concern for community. As a cooperative, we have a special responsibility to support the areas in which our members live and work. From sponsoring local school's improvement projects, Youth Tour trips to Washington D.C. and graduating senior scholarships, we stand as a driving force in our community.

Of course, co-ops span all industries, including credit unions, dairy operations, health care, housing, and much more. There are more than 29,000 co-ops across the nation. And not all are small or rural. Just look at nationally known co-ops like Sunkist, Ace Hardware, and Land O' Lakes.

Overall, co-ops are more accessible than other types of businesses. We give our members a voice, and we are local—living and working alongside those we serve.

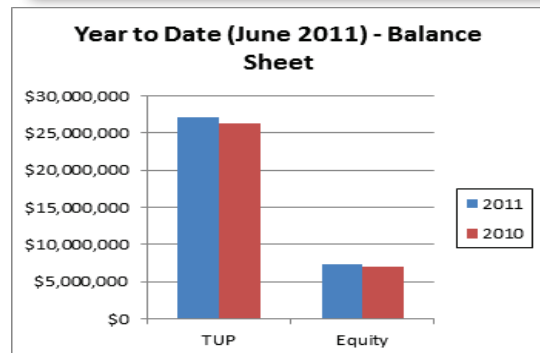
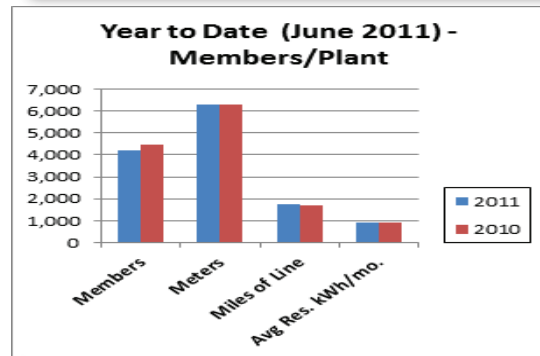
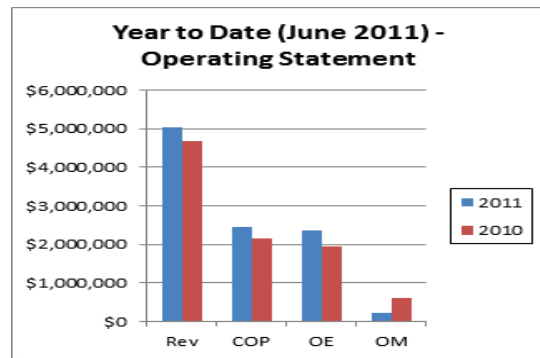
That's the cooperative difference!

BOARD ROOM REPORT

The Board of Trustees held their regular board meeting on August 25, 2011. Action items included:

- Approved Financial Report (RUS Form 7) for June 2011
- Passed Resolution 2011-6 for cancelation of 696 "Inactive Memberships"
- Approved voting in favor of CoBank & U.S. AgBank Merger
- Approved member information request from Hoffman
- Conducted 2nd Quarter 2011 Budget Review
- Conducted review of 2010 Key Ratios Trend Analysis
- Approved donation of \$300 to NRECA International Foundation
- Approved the offering of two different health plans to non-union employees, one being a high-deductible plan with an associated Health Saving Account (HSA).
- Policies: Approved "Short & Long Term Disability" (VI-A-43) policy

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



(Continued from Page 3)
 services must begin paying the monthly base charge associated with the type of service in place, if they wished to keep the service. Although members, up until about a year ago, were able to disconnect a service if they didn't need it whereby they did not have to pay the monthly base charge until they re-activated the service again. Operating under this philosophy isn't consistent with the Cooperative's *Cost of Service Study* and isn't fair to those members who have an active service and are paying the monthly base charge. It is important to understand the base charge represents the average monthly cost to the Cooperative for making the service available to the member, whether or not they consume any energy.

There are two components to the residential, small commercial and general service customer rate classes—base charge and energy. Currently, the energy component is recovering a part of the base charge that would be required to charge if the Cooperative operated at true cost of electric service. In other words, the current base charge does not recover the cost of making the electric service available to the member. So, when a member disconnects their service and does not pay the respective base charge, the rest of the members with active services are essentially subsidizing the cost of making service available to that member.

Perhaps an analogy that would help to understand the rationale used here would be this; when a person secures a loan to purchase a car and obligates himself to a monthly car payment, is the monthly payment based on how many miles they drive the car? Do they still have to make the monthly payment if they park the car in the garage all winter and don't drive it?

BEC staff has gotten aggressive with this idle service project over the last several months. A total of 524 Idle Service letters have been sent out to BEC members. This effort is designed to reduce the cost of business associated with maintaining services that do not generate any revenue for the Cooperative, and to clean up inactive services, equipment, and records scattered across our system and throughout our customer data base. Those receiving an idle service letter have the choice of keeping the service and begin paying the monthly base charge, or let BEC remove the service. When removing the service, BEC will remove the transformer, meter and any power line facility that most likely will not provide a future benefit to the Cooperative. It costs the Cooperative money through maintenance costs and property tax to leave anything behind.

In recent years, the member has been required to pay 100% of the cost associated with a new service, including the transformer and meter cost. Because of this, idle services that were constructed within



Fall in South Central Montana.

the five year period prior to June 1, 2010 and have a transformer and meter on site, will receive a credit based on the depreciated value of the meter and transformer, if they are the one who paid for the service. Idle services constructed prior to that will not receive a credit.

If you are a member who has received an idle service letter and have questions, please call the office and ask for Manager of Engineering & Operations, Dave Werner.

Announcements

- **4th Annual FREE Clothing Swap**
 Bridger Civic Center, Main Street
 October 7th (10 a.m.–6 p.m.)
 October 8th (10 a.m.–3 p.m.)
- BEC continues the move of meter reading dates to the 1st of each month. The next meter read will be on November 1. The continued schedule is as follows:
 - 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)



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