

Small Co-op, Big Business Making It Work

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Co-operative Principles

- **Voluntary and Open Membership**
- **Democratic Member Control**
Members actively participate in setting policies and making decisions.
- **Members' Economic Participation**
Members contribute equitably to, and democratically control, the capital of their cooperative.
- **Autonomy and Independence**
Cooperatives are autonomous, self-help organizations controlled by their members.
- **Education, Training, and Information**
Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives.
- **Cooperation Among Cooperatives**
- **Concern for Community**

Source: NRECA, National Rural Electric Cooperative Association

BEC, A Small Co-op

- 3,720 members
- 5,621 bills or services
- 23 employees
- 1,736 miles of line
- Total revenue \$9,224,968 (thru Nov 2011)

Beartooth Electric Cooperative

- Mission: deliver reliable power at rates our members can afford
- Governance – 7 trustees, member oversight
- Successful governance: trustees act prudently, cast informed votes
- Regulation
 - Democratic process, member control
 - Member oversight
 - Wyoming PSC
- Successful regulation: members involved, cast informed votes

Oversight: Democratic Control

- Democracy requires:
 - Commitment to member (voter) control
 - Access and information for informed voting
 - Open and transparent processes
- Transparency means:
 - Real-time information through documents, open meetings, and transparent decision-making
 - Access to all information -- denial as required by law

BEC and Associates

- Southern Montana Electric Generation and Transmission Cooperative, Inc.
 - Wholesale power supplier
 - 6 members
 - Builder of gas-fired HGS
- SME Electric Generation and Transmission Cooperative, Inc.
 - Builder of coal plant
 - 4 members
 - Mission ended early 2010
 - Assets belong to four co-ops
- Independent Electric Supply Service, Inc.

Southern Montana Electric G&T

- Mission: reliable, affordable power? building a power plant?
- Contracts to buy more power than needed through 2019
- Added power from Phase 1 (and Phase 2) at rates above contracted power
- Six-members, six votes, closed sessions, no oversight – democratic control by whom?
- “Confidential” plans, contracts, financial reports, financial status, bylaws, minutes – closed sessions for important decisions and votes
- Press in meetings per Billings Gazette lawsuit, closed sessions to discuss financials

Southern Montana Electric Cooperative

- Beartooth members kept in the dark
 - Denied attendance at annual meetings
 - Denied bylaws, reports, financials, minutes
 - Not sufficiently or accurately informed about Highwood 1 or Highwood 2
- One Beartooth member on the board,
 - Sole source of information,
 - No policies or procedures for sharing G&T information
 - Requirements for non-disclosure?
- General Manager unresponsive and misleading

SME Electric G&T Cooperative

- Mission: build a coal-fired power plant, operate and make decisions without YVEC (Great Falls?), transfer assets to Southern for gas-fired HGS
- Information proprietary
 - No website
 - No viewable financial reports or business plans
 - Difficult to track finances between SME and Southern
- Same management as Southern, same board minus two
- Parent company for IESS
- Assets appear depleted after August mortgage to send \$600 K to Southern
- Beartooth members in the dark, despite their investment and potential responsibility for debt

HGS & BEC: Large Investment, Small Co-op, Little Information

- What BEC board and members did not know
 - Terms of contracts with Southern, PPL, Prudential
 - Pro forma numbers – impact on member rates
 - Total investment in HGS
- What members learned from other sources
 - Mortgage provisions
 - Contract information
 - Comparative plant costs
 - Fact checking on HGS and Southern's financial status, obligations, and claims

Due Diligence

- Data identification and collection
- Objective fact checking
- Independent expertise
- Financial and comparative analysis
- Risk analysis
- Competitive analysis
- Prudent decision making

Due Diligence at BEC on HGS

- January, 2011: passed motion to examine investment, perform BEC due diligence
- March, 2011: decided to perform due diligence “through Southern,” not at BEC
- June, 2011: approved up to \$300 million total financing for HGS, up to 10% interest
- July, 2011: censured trustee for motion to “look at” potential power supply options

Missing Information

- Contracts – PPL, IESS, Southern
- Pro forma information
- Business plan or ROI
- Realistic annual cost of power from HGS
- Comparative cost-to-generate data
- Calculation model for impact on rates
- Legal expenses and exposure

Misleading Statements

- Justification for \$300 million debt approval
- Up production, sell peak power (phase 1)
- Due diligence claims, no impact on rates
- Growth – 6.3% peak demand or all?
- RUS, first in queue and commitment story
- Budget of the U.S. government slide
- Burns McDonnell, other study references
- Comparisons with Central and split
- Reasons for bankruptcy

Bankruptcy Reasons and Excuses

- Load forecasts accurate (Southern has twice as much contracted power as members consume)
- Industrial customers did not materialize
- Signal Peak went offline
- “Internal bickering” tightened contracts and sabotaged financing
- The market demand slowed while supply increased – prices fell
- YVEC did not pay its bills
- Great Falls let contracts go, stranded costs
- Three Southern board members “bolted” from October board meeting, leaving no opportunity to weigh an alternative to bankruptcy

Financial Reality

- Way too much power, huge \$\$ shortfall
- \$\$ due, plant overruns
- Great Falls load decreasing
- Legal fees astonishing
- YVEC potential exit
- Mortgage lurking: 4 co-ops with fewer than 12,000 members to pay \$85 million plus

Information: Getting It Not Easy

- Three years to “regulate” our co-op -- time consuming and difficult.
- One year to successfully avoid due diligence on Highwood, Phase 2
- One year of suppressing dissent
- Eight years of “We are Southern” – now we are bankrupt
- Southern: a business culture of secrecy and surprise

There Is A Better Way



Where Is Beartooth Now and Who Is Spending Our Money?

- Southern Bankruptcy
- SME exhausted capital
- IESS – we (SME) pay, (BEC) no information
- Collateral for HGS Prudential mortgage
- New board, 9/2011 – bankruptcy 10/2011
- Budget cuts, legal costs, and preparation for the worst
- BEC is wired, board is and accountable

Can Members Regulate Co-ops?

- If all ratepayers have timely access to truthful, comprehensive information
- If all necessary comparative data is available
- If good governance is defined and required and boards are held to high standards
- If best business practices are defined and required
- If members have access to expertise
- If decision-making is transparent and reported

Co-op Organizations' Role

- Develop required business standards
- Develop best practices and programs to promote them
- Share comparative information on co-ops openly
- Require all-requirements contract disclosure
- Empower members
 - Education
 - Bill of rights
 - Ombudsman or other point of inquiry

What Can You Do to Help? 1

- Prohibit gag orders and incorrect application of confidentiality requirements
- Apply, in whole or in part, open meeting requirements
- Provide co-op member access to public agencies and resources – PSC, Legal, Business, Universities
- Encourage/require best practice standards, member bills of rights, all-requirements contract disclosure

What Can You Do to Help? 2

- Require timely, complete financial disclosure
- Require PSC to develop an energy information program including a website location with comprehensive links and access to an ombudsman or staff
- Review legality/appropriateness of G&T board-only membership with no oversight – oversight could kick in with large capital projects

Beartooth/Southern Timeline

- 2003, five co-ops leave Central Montana Electric G&T, form Southern MT G&T
- Sept, 2003 Great Falls joins
- 2004 Co-ops contract with Southern through 2030, plans revealed start to build HGS
- February 2007, RUS tells Southern no money in Bush budget for at least a year – Southern tells Toshiba
- March 2007, co-op contracts with Southern extended to 2048
- Sept. 2007 Beartooth Annual Meeting, President says RUS funding imminent
- Fall 2007, YVEC notifies Southern that it wants out
- February 2008, RUS turns down loan officially
- April 2008 Southern board votes to create SME, June SME filed
- August 2008 blended rate implemented

Beartooth/Southern Timeline (2)

- April 2008, Toshiba demands penalty (March 2007 order cancelled)
- Sept. 2008, Beartooth Annual Meeting, Highwood not on agenda, BEC President responds to question, “financing imminent”
- Jan. 2009 surcharge starts -- Beartooth part of \$40 million spent on coal plant
- April 2009, S&P BBB bond rating for Highwood, called “excellent”
- Sept. 2009, Beartooth Annual Meeting, Priesident says financing imminent (this time it is)
- Nov. 2009, audit demands Southern write off \$9.1 million
- Nov. 2009, Burns McDonnell analysis of baseload Highwood plant
- February 2010, papers filed - financing for Highwood phase-one
- March 2010, Judge Phillips orders release of Southern/SME secret documents
- March 2010, Tim Gregori starts regional PR tour explaining Highwood gas-fired peaking plant