

Rural Montana September 2015

Path Cleared for Beartooth to Leave Southern Montana Electric

On August 6, 2015 Southern Montana Electric Generation and Transmission Cooperative, Beartooth Electric Cooperative's power supplier, approved a plan for BEC to leave Southern by October 31, 2015. Negotiations for a BEC exit began among the Southern co-op members immediately following approval of Southern's reorganization plan by U.S. Bankruptcy Court in June 2014. That reorganization plan provided for BEC to exit after paying its share of the HGS debt and securing the approval of Southern, its member cooperatives, and the noteholders.

Why Exit Now? Immediate benefits and work to do.

The bankruptcy reorganization plan requires payment of the HGS notes within four years, but makes no provision for Southern to close and gives no deadline for the liquidation trust to sell the Highwood Generating Station (HGS). Southern expects to complete payment to the noteholders by the end of 2016. If the Federal Energy Regulatory Commission (FERC) confirms its 2014 ruling requiring NorthWestern Energy to refund overpayments made by its wholesale power customers for transmission services, Southern could receive more than \$5 million as early as this fall, which would allow it to pay the noteholders even sooner than currently estimated. In March 2015, Southern passed a resolution of intent to address closing after payment of its obligations.

Even with a Southern closure possibly imminent, we need to exit and make decisions, free of uncertainty, now. We are not paying a premium to exit and by prepaying our portion of Southern's debt we leave Southern's high rates behind. We improve cash flow, accelerate the timeframe for a second rate reduction for BEC members, and strengthen our position to negotiate with power suppliers in today's favorable market. We can better address potential business partners about BEC's future and eliminate their concerns about obligations to a bankrupt Southern. We can model our options without the risk of unforeseen impacts from membership in Southern.

Terms of the Exit Agreement

We have obligations and so does Southern. BEC will pay, upfront, amounts we would pay if we remained in Southern: the BEC share of the HGS noteholder debt (approximately \$1.2 million if the exit occurs on October 31) and other remaining debt (approximately \$200,000). BEC will receive its share (17.5211%) of returns to Southern for payments and credits made while BEC was a member, including any return from NorthWestern Energy. The share percentage is based on the average portion of Southern's total electricity supply drawn by BEC.

More News Coming.

By the time you read this (a month from now) BEC could have entered a contract for power to follow our current contract that runs through September 2017. The

Highwood Generating Station will be sold by the liquidation trust. While the trust's financial responsibility for HGS is separate from Southern's bankruptcy obligations, sale of the plant will end the last threat of financial responsibility for a project that has drained Southern and its member co-ops, as well as noteholders and other creditors, of tens of millions of dollars.

Most importantly we hope that all requirements for the exit will be completed and you will be reading about our exit as a mission accomplished.

We have decisions to make. For the first time in years we will make them, with our members, from a position of strength.

Arleen Boyd – BEC District 5 Trustee, Southern Montana representative, chair risk management committee

Submitted August 11, 2015