

I am Arleen Boyd

I chair the risk management committee formerly known as due diligence. Along with Laurie Beers I represent Beartooth on the Southern and SME (yes there still is an SME) boards.

In 2012 the Beartooth Board established this committee based on a commitment to make rigorous analysis and examination of alternatives standard procedure at Beartooth. It is gratifying to see that many of the tasks we set out to help accomplish are now the news of the day – Good news we have been working toward since the committee was formed.

- We are leaving Southern Montana Electric the generation and transmission cooperative that has supplied our wholesale power since 2004.
- The Highwood Generating Station, which was completed in late 2011, just before Southern declared bankruptcy, has been sold.
- Beartooth is contracted to purchase power for its members for at least the next 5 years at rates below anything we have seen since before 2008. The power will come first by assuming our share of a contract Southern signed in 2014 to run through September 2017 and then from a 3-year contract that Beartooth was able to secure last week.

SO what has the committee done? I have reported before on the extraordinary service our committee members provide—on their deep financial and industry expertise and experience. Early on we analyzed Southern and the Highwood Generating Station and concluded that neither had value for Beartooth. We worked non-stop during the Southern bankruptcy process for a reasonable outcome. We asked hard questions over these past 4 years. Could we legally leave Southern? Were there business and power supply alternatives available to us? How could we influence the court to reject a bankruptcy plan that was close to approval—a plan that would have bankrupt Beartooth? How could we successfully negotiate a final bankruptcy plan allowing an early exit from Southern? How could we negotiate a fair exit plan from Southern?

With these questions answered we continue to examine and test numbers and compare alternatives—now looking at the paths for Beartooth going forward and how to document options so that Beartooth members can understand the alternatives and make decisions. We are working with an outstanding management team that adds information and improves our analysis. We are modeling financial projections in the management agreement with Lower Valley Electric to confirm the projected benefits of moving to a merger. As with any good risk management assessment we continue to quantify the short- and long-term benefits and risks of a merger with Lower Valley and compare them with the remaining alternatives: being acquired and remaining independent. We are doing our homework so that when we come back to you our recommendations will be solid.

#### Back to Good News

1. We are leaving Southern, the generation and transmission cooperative Beartooth helped start in 2003. This month, on September 24<sup>th</sup> Beartooth submitted official notice of intent to leave Southern by October 31<sup>st</sup>.

Southern's co-op members have approved our exit. We will prepay our share of the remaining Highwood debt and the court ordered obligations to the construction lien holders. This will amount to approximately 1.3 million dollars, which we have secured as part of a very attractive financing agreement with the National Rural Utilities Cooperative Finance Corporation (CFC).

We have run the numbers and know that once we leave Southern's rates behind the resulting savings will more than cover financing our prepayment—and improve our monthly cash flow. We are examining the financial impact of various timeframes for amortizing the CFC loan.

2. The Highwood Generating Station is sold—this means that Southern no longer risks seeing unanticipated obligations—one of the reasons they can readily agree to our exit. We invested millions in Highwood and could have been forced to pay millions more. IT IS OVER. For us this means that in

addition to gaining savings from the Southern exit the risk of unanticipated claims arising from the generating plant is gone.

The loan to build the plant was \$85 million with at least \$25 million in additional investment from Southern's members.

Under the sale announced by the HGS liquidating trust Missouri-based PRO Energy Solutions will dismantle the plant and remove and sell its assets, reportedly by some time in November. The sale price has not been publicly released. Proceeds from the sale will go to the noteholders. There was widespread outreach for bids with no announcement of any offer to purchase and operate the plant.

3. More Good News – As you have heard for the next 5 years we will buy power at rates significantly below what we have been paying.

We cannot share the rate we will pay for almost two months. It is excellent, lower than what we modeled when we looked at the next 5,7, and 10-year forecasts for Beartooth – and it will not increase but may decrease in 2017.

WHAT DOES THIS MEAN?

We were so close to being done-for that this good news feels like lifetime achievement. Had we not successfully fought the standard bankruptcy procedure, and its plan for reorganizing Southern we could be telling you right now that you were signed up for at least ten years membership in an unwanted G&T buying power at rates three times what we just contracted for—IN order to pay off something close to the full value of the Highwood notes, supply a \$10 million power security deposit, and keep the Highwood ready to operate at all times.

Instead, we can turn our attention and resources to business at Beartooth with enormous risk removed and a great management team in place. The astonishing levels of required payments we somehow lived through are behind us. We endured cash calls and wrote off \$4.8 million in equity that was

on our books as Southern investment. We paid nearly \$800,000 in legal and consulting costs related to the bankruptcy and reorganization over the past four years. This year we paid \$245,356 to First Interstate Bank to close out our share of a loan we secured for Southern. As part of Southern we paid court costs and bankruptcy expenses for the noteholders.

This is the time to learn from our mistakes and celebrate leaving those payments and risks behind.

Why does this matter? Financial demands and uncertainties that have driven our high rates and hurt our financial ratios are ending. The millions we had come up with to finance Highwood and our membership in Southern no longer drive our financial planning. It is as if you—with income unchanged from last year—had just paid off the mortgage and made the last college payment for your third child. You might have some obligations outstanding but your world would be filled with choices. The question we are working on now is: What does the co-op need for you to pay—in order for Beartooth to buy power and run the business—now that the Southern and Highwood demands gone?

#### FULL DISCLOSURE

The other three remaining members of Southern have signed the agreement for Beartooth to leave by October 31. We have secured financing to prepay our share of the Highwood Generating Station notes and to cover our share of liabilities falling to us in the court-approved plan. These are amounts we would pay if even if we were obliged to stay in Southern.

We believe that the financing terms for that approximately \$1.3 million will allow us to prepay and, with reduced power costs, see margins to support further rate reduction.

The Highwood Generating Station note-holders have not yet approved the exit as required by the court approved reorganization plan. We are in contact with them and have supplied all material they say they need for approval. Their representative indicates that approval should be in hand for the October 31

exit. If for some reason that does not happen we believe we can still exit in short order.

Additional disclosure—We have had battles with Southern over the years. At this time we are working actively and collaboratively to conclude an agreement that is fair and protective for all parties.

## **THANKS**

I started thinking I could give awards to the members who have brought us here, but the list almost instantly it grew too large to recite. So when you all least expect it recognition or a thank-you will arrive. There are so many of you who have worked to make this good news happen, not only our committee members.

Thank you for letting me go for it and thank the board for committing to active rigorous due diligence. Let's all thank the committee members who have educated themselves, applied their professional expertise and dug into some very difficult questions—they have spent literally thousands of hours reviewing models and dissecting options. I have worked for some sophisticated technology companies and I have never seen a greater commitment to carefully targeted, effectively applied analysis—because people with expertise came forward and because the board understood the need to enlist expertise. On our committee we have Frank Willett, Judith Gregory and Jack Schutte with expertise and experience directing business and finance in major corporations, banks, hospitals and the country's largest forest products company. Just when we became almost free to buy power for Beartooth another member volunteered.

## **Bill Pascoe**

Bill Pascoe has been described by many in the electricity business as the best power guy in the state. (25 years experience with MDU and NorthWestern in power supply and transmission and he now has an independent consulting business and has recently helped Southern, City of Great Falls, Beartooth and Big Horn County Electric negotiate power contracts. He is serving on our risk management committee and power supply team at Beartooth.

Dave Alberi

And now, when we are looking at our business options Dave Alberi has volunteered to help and just was appointed to our committee. Dave has an engineering degree from the United States Merchant Marine Academy and began work at Vigilante Electric Co-op in 1980. He became the Vigilante general manager in 1980 and retired to the Red Lodge area, where he grew up, in 2013.

I would like to walk through all the actual numbers with you but my fellow board members would not allow that amount of time. We need members to be informed and active . You can find information on our website. Continue to read our risk management reports. Call me or other board members anytime, or – possibly...read my planned book likely to be titled something like Mission Impossible – Rogue Co-op or Stress Takes a Toll – Please Contribute to Arleen’s surgical makeover.

**Arleen Boyd**

**September 26, 2015**