

Exhibit 1

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Cooperative, Inc.*

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MONTANA**

In re

**SOUTHERN MONTANA
ELECTRIC GENERATION AND
TRANSMISSION
COOPERATIVE, INC.,**

Debtor.

Case No. 11-62031-11

DEBTOR'S FIRST AMENDED PLAN OF REORGANIZATION DATED MAY 12, 2014

The Debtor and Debtor-in-Possession, Southern Montana Electric Generation and Transmission Cooperative, Inc. (the "**Debtor**"), proposes the following Plan of Reorganization dated April 21, 2014, pursuant to the United States Bankruptcy Code.

ALL HOLDERS OF CLAIMS AND MEMBER INTERESTS, TO THE EXTENT APPLICABLE, ARE ENCOURAGED TO READ THE PLAN AND THE DISCLOSURE STATEMENT IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

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ARTICLE I
DEFINITIONS AND INTERPRETATION

As used in this Plan, the following terms have the respective meanings specified below, unless the context otherwise requires:

1.1 Adequate Protection Payments~~Error! Reference source not found.~~ means all amounts paid by the Debtor and the Trustee to the Indenture Trustee or directly to the Noteholders from the Petition Date through the Effective Date for the benefit of the Noteholders in accordance with orders of the Bankruptcy Court relating to the Debtor's or Trustee's respective use of "Cash Collateral" (as the term is defined in section 363(a) of the Bankruptcy Code) of the Indenture Trustee.

1.2 Administrative Expense Claim means any right to payment constituting a cost or expense of administration of the Estate under sections 503(b), 507(b), or 1114(e)(2) of the Bankruptcy Code, including, without limitation: (a) any actual and necessary expenses of preserving the Estate; (b) any actual and necessary expenses of operating the business of the Debtor; (c) all Professional Fee Claims to the extent Allowed by the Bankruptcy Court under sections 330 or 503(b) of the Bankruptcy Code; and (d) any fees and charges assessed against the Estate under section 1930 of chapter 123 of title 28 of the United States Code.

1.3 Affiliate has the meaning set forth in section 101(2) of the Bankruptcy Code.

1.4 All-Requirements Contracts means those long-term wholesale power contracts between the Debtor and the Members, as may be amended, revised and/or restated.

1.5 Allowed means a Claim, or any portion thereof: (a) that has been listed in the Schedules as liquidated in amount and not disputed or contingent and for which no proof of claim has been filed; (b) that is allowed under the Plan; (c) that is not Disputed; (d) proof of which has been timely filed with the Bankruptcy Court and as to which the period of time in which to file objections as fixed by the Bankruptcy Code, the Bankruptcy Rules, the Plan, or an order of the Bankruptcy Court, has expired with no such objection having been filed; (e) that is compromised, settled, or otherwise resolved pursuant to a Final Order of the Bankruptcy Court; (f) that, if Disputed, has been Allowed by Final Order; provided, however, that Claims allowed solely for the purpose of voting to accept or reject this Plan pursuant to an order of the Bankruptcy Court shall not be considered "**Allowed Claims**" hereunder.

1.6 Associated Real Estate means (i) 197.561 acres of real property situate east of Great Falls, Montana and identified as Parcel B of Certificate of Survey No. S-0004660 according to the plat thereof on file with the Clerk and Recorder of Cascade County Montana, filed February 4, 2010, including land located in Township 21 North, Range 5 East, Section 25: N1/2NW1/4, NW1/4NE1/4 and Section 24:W1/2SE1/4; (ii) easement, waterline, access and other property rights and interests as set forth in that certain Second Supplement Indenture dated effective as of December 27, 2010 and filed December 28, 2010 in the Cascade County Records as Instrument No. R0227481; and (iii) 132.880 acres of real property situate 8 miles east of Great Falls, Montana and identified as Township 20 North, Range 5 East, Cascade County, Montana, Section 11: NW1/4, deed reference R0215235. The definition does not include, and is understood to exclude,

real property owned by SME Electric Generation and Transmission Cooperative, Inc. owned as of the Petition Date and real property owned by the Debtor not subject to the recorded security interest of the Indenture Trustee.

1.7 Avoidance Actions means the Debtor's interest in any and all claims, rights, and causes of action which have been or may be commenced by or on behalf of the Debtor (including, without limitation, by the Trustee) to avoid and recover any transfers of property determined to be preferential, fraudulent, or otherwise avoidable pursuant to sections 502(d), 544, 545, 547, 548, 549, 550, 551, or 553 of the Bankruptcy Code, or under any other applicable law, including, without limitation, fees and costs disgorged as a result of a disallowed Professional Fee Claim pursuant to a Final Order of the Court, or otherwise subject to equitable subordination under section 510 of the Bankruptcy Code, regardless of whether or not such actions have been commenced prior to the Effective Date. For the avoidance of doubt, Avoidance Actions shall include the PPL Litigation, but shall not include the assertion of any right of recovery or disgorgement of fees and expenses of Court approved professionals of the Debtor or Secured Lender Professional Fees.

1.8 Ballot means the form distributed to each holder of an impaired Claim entitled to vote on the Plan on which is to be indicated, among other things, acceptance or rejection of the Plan.

1.9 Bankruptcy Code means title 11 of the United States Code, as amended from time to time, as applicable to the Chapter 11 Case.

1.10 Bankruptcy Court means the United States Bankruptcy Court for the District of Montana.

1.11 Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure, as promulgated by the United States Supreme Court, and any Local Rules of the Bankruptcy Court.

1.12 Beartooth Litigation means the adversary proceeding commenced by Beartooth on April 13, 2012, pending in the Bankruptcy Court and bearing Adv. No. 12-00017 (Dkt. No. 374).

1.13 Business Day means any day other than a Saturday, a Sunday, or a legal holiday, as defined in Rule 9006(a) of the Bankruptcy Rules.

1.14 Cash means legal tender of the United States of America.

1.15 Causes of Action~~Error! Bookmark not defined.~~ means, without limitation, any and all actions, causes of action, Avoidance Actions, controversies, liabilities, obligations, rights, suits, damages, judgments, Claims, and demands whatsoever, whether known or unknown, reduced to judgment, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, secured or unsecured, assertable directly or derivatively, existing or hereafter arising, in law, equity, or otherwise, based in whole or in part upon any act or omission or other event occurring prior to the Petition Date or during the course of the Chapter 11 Case, including through the Effective Date.

1.16 CFC means National Rural Utilities Corporation Finance Corporation.

1.17 CFC Secured Loan means the CFC revolving line of credit agreement with the Debtor dated June 2011, loan # MTO43-R-5100 in the original principal amount of \$5,000,000, and which obligation is guaranteed by Fergus, Mid-Yellowstone, and Tongue River up to the percentage formula set forth for each Member in their respective Limited Member Reimbursement Agreement.

1.18 CFC Secured Loan Collateral means the Cash deposit in the approximate amount of \$1,066,068.29 together with an existing patronage capital distribution amount of \$11,988.56, held by CFC and potentially subject to setoff, all to secure the CFC Secured Loan.

1.19 Chapter 11 Case means the voluntary case commenced by the Debtor under chapter 11 of the Bankruptcy Code, currently pending before the Bankruptcy Court as Case No. 11-62031 (RBK).

1.20 Claim shall have the meaning set forth in section 101(5) of the Bankruptcy Code.

1.21 Class means a category of holders of Claims or Member Interests as set forth in Article III of this Plan.

1.22 Committee means the Unsecured Creditors' Committee appointed in the Bankruptcy Case, as may be reconstituted from time to time.

1.23 Committee Representative means the Entity selected by the Committee to pursue, collect and distribute proceeds of the assets allocated for the benefit of holders of Allowed General Unsecured Claims in accordance with the Plan. The Committee Representative may (a) be compensated from proceeds of assets allocated for the benefit of Class 4 Claims, and (b) retain counsel and/or other professionals as the Committee may agree in connection with the appointment of the Committee Representative, which may be compensated in a like manner as provided in subsection (a) above.

1.24 Confirmation Date means the date upon which the Bankruptcy Court enters the Confirmation Order.

1.25 Confirmation Hearing means the hearing held by the Bankruptcy Court to consider confirmation of this Plan pursuant to section 1128 of the Bankruptcy Code, as such hearing may be adjourned or continued from time to time.

1.26 Confirmation Order means the order of the Bankruptcy Court confirming this Plan pursuant to section 1129 of the Bankruptcy Code.

1.27 Construction Lienholder Litigation means the adversary proceeding commenced by EPC Services Company on May 10, 2013, pending in the Bankruptcy Court and bearing Adv. No. 13-00016-RBK (Dkt. No. 844), including, without limitation, all claims, cross-claims and counterclaims.

1.28 Construction Lienholders means all holders of Construction Lien Claims including Graybar Electric Company, Inc.; Yellowstone Electric Co.; Corval Constructors, Inc. f/n/a NewMech Companies, Inc.; Falls Construction Company; Grass Man Tractor Services; Thermal Mechanical Insulation, LLC; EPC Services Company; The Energy Corporation; and Land Supply, Inc.

1.29 Construction Lien Claims means the Allowed Secured Claims of the Construction Lienholders.

1.30 Corporate Governance Agreements means the corporate related documents as set forth in section 5.5 herein.

1.31 Corval Litigation means the adversary proceeding commenced by the Trustee on October 18, 2013, pending in the Bankruptcy Court and bearing Adv. No. 13-00043-RBK (Dkt. No. 1094), including, without limitation, all claims, cross-claims and counterclaims.

1.32 Cure means the payment of Cash or the distribution of other property as necessary to (a) cure a monetary default by the Debtor in accordance with the terms of an executory contract or unexpired lease of the Debtor; and (b) permit the assumption of such executory contract or unexpired lease or the assumption and assignment of such executory contract or unexpired lease pursuant to section 365 of the Bankruptcy Code and the Plan.

1.33 Debtor has the meaning set forth in the first sentence of the Plan.

1.34 Debtor Release means the release given on behalf of the Debtor and its Estate to the Released Parties as set forth in section 10.4 hereof.

1.35 DIP Financing Claim means any Claim arising from or relating to the DIP Order.

1.36 DIP Order means the Final Order (I) Authorizing Use of Cash Collateral Pursuant to section 363 of the Bankruptcy Code and (II) Providing Adequate Protection to Prepetition Secured Parties Pursuant to sections 105, 361, 362, 363 and 507 of the Bankruptcy Code (Dkt. No. 413), entered by the Bankruptcy Court in the Bankruptcy Case on May 1, 2012, as amended, extended, or otherwise supplemented by orders of the Bankruptcy Court.

1.37 Disclosure Statement means the amended disclosure statement relating to this Plan, including, without limitation, all exhibits and schedules thereto, as approved by the Bankruptcy Court pursuant to section 1125 of the Bankruptcy Code.

1.38 Disclosure Statement Order means the order of the Bankruptcy Court conditionally approving the Disclosure Statement, subject to final approval at the Confirmation Hearing, pursuant to section 1125 of the Bankruptcy Code and authorizing the solicitation of votes for the Plan.

1.39 Disputed means, with reference to any Claim, (a) any Claim proof of which was timely and properly filed that is disputed under this Plan or as to which the Debtor, or the Trustee on the Debtor's behalf, has interposed an objection and/or request for estimation in accordance with section 502(c) of the Bankruptcy Code and Bankruptcy Rule 3018, which objection and/or

request for estimation has not been withdrawn or determined by a Final Order; (b) any Claim, proof of which was required to be filed by a Final Order of the Bankruptcy Court in a form and manner prescribed in such Final Order, but as to which a proof of claim was not timely or properly filed; or (c) any Claim to the extent it has not become an Allowed Claim.

1.40 Effective Date means the first Business Day on which the conditions to effectiveness of this Plan set forth in Article IX have been satisfied and on which this Plan shall become effective, but in no event later than ten (10) days after entry by the Bankruptcy Court of the Confirmation Order, unless otherwise agreed by the Debtor, the Noteholders and the Members.

1.41 Entity means “entity” as the term is defined in section 101(15) of the Bankruptcy Code.

1.42 Estate means the estate of the Debtor created pursuant to section 541 of the Bankruptcy Code.

1.43 Exculpated Party means each of the Released Parties.

1.44 Exculpation means the exculpation provision set forth in section 10.6 herein.

1.45 Final Order means an order of the Bankruptcy Court or any other court of competent jurisdiction as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending or, in the event that an appeal, writ of certiorari, or reargument or rehearing thereof has been sought, such order of the Bankruptcy Court or other court of competent jurisdiction shall have been determined by the highest court to which such order was appealed, or certiorari, reargument, or rehearing shall have been denied and the time to take any further appeal, petition for certiorari, or move for reargument or rehearing shall have expired; provided, however, that the possibility that a motion under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules or applicable law, may be filed with respect to such order shall not cause such order not to be a Final Order.

1.46 First Interstate Bank Secured Loan means the secured promissory note of the Debtor in favor of First Interstate Bank dated August 30, 2011, loan #2230015295, in the original principal amount of \$600,000.

1.47 First Interstate Bank Secured Loan Collateral means that certain Mortgage dated September 9, 2011, recorded in Cascade County, Montana, as document No. R0239406 MG, against the real property consisting of two non-contiguous parcels located near Great Falls, Montana.

1.48 General Unsecured Claim means any Claim that (a) is not an Administrative Expense Claim, a Professional Fee Claim, a Priority Tax Claim, a Priority Non-Tax Claim, a DIP Financing Claim, a Secured Claim, or a Convenience Claim; or (b) is otherwise determined by the Bankruptcy Court to be a General Unsecured Claim. General Unsecured Claims do not include

Claims that arise under executory contracts and unexpired leases that are assumed or assumed and assigned under the Plan.¹

1.49 HGS means the Highwood Generating Station owned by the Debtor, a natural-gas 40 MW combustion turbine electric generating facility located at a site east of Great Falls, Montana on about 197 acres of land, including the 19-mile gas pipeline that serves HGS, the substation credit rights, and all Associated Real Estate and other property rights (including the transmission poles and wires from the plant to the substation).

1.50 HGS Costs has the meaning set forth in section 5.3(b) herein.

1.51 HGS Holding Trust means the trust formed as of the Effective Date that will hold certain Cash and the HGS Net Proceeds pursuant to the Plan and/or the HGS Holding Trust. HGS shall remain an exempt wholesale generator under applicable law. On the Effective Date, the HGS Holding Trust shall not own HGS. As of the Effective Date, all pre-Effective Date Liens on HGS and any HGS Net Proceeds shall encumber all assets held by the HGS Holding Trust.

1.52 HGS Holding Trustee means the trustee under the HGS Holding Trust.

1.53 HGS Net Proceeds means the proceeds realized upon the closing of any sale or disposition of any or all of HGS, net of (a) actual out of pocket costs accrued after the Effective Date and payable upon closing for HGS Costs, brokerage, professional, transfer taxes, or regulatory fees directly related to facilitate the closing, (b) amounts owed on account of Construction Lien Claims in accordance with section 4.3 of the Plan, and amounts required for indemnity, if any, in accordance with sections 5.3(d) and (e) of the Plan.

1.54 Indenture means the Indenture of Mortgage, Security Agreement and Financing Statement dated as of February 26, 2010, as amended, restated, supplemented or otherwise modified from time to time, among Debtor as grantor, U.S. Bank National Association as trustee (the "**Indenture Trustee**"), Bank of New York Mellon Trust Company, N.A. as initial collateral agent, and any guarantors thereto from time to time, with said Indenture providing the Indenture Trustee with a Lien on substantially all of the Debtor's prepetition assets, including, without limitation, HGS and the All-Requirements Contracts.

1.55 Lien shall have the meaning set forth in section 101(37) of the Bankruptcy Code.

1.56 Member Litigation means the adversary proceedings commenced by the Members against the Debtor on September 23, 2013 pending in the Bankruptcy Court and assigned Adversary No. 13-0036 (Dkt. No. 1059).

1.57 Members means the following members of the Debtor: Beartooth Electric Cooperative, Inc. ("**Beartooth**"), Fergus Electric Cooperative, Inc. ("**Fergus**"), Mid-Yellowstone Electric Cooperative, Inc. ("**Mid-Yellowstone**"), and Tongue River Electric Cooperative, Inc. ("**Tongue River**").

¹ Claims arising out of executory contracts or unexpired leases that are being assumed and assigned hereunder, as set forth on "Exhibit A" to this Plan, are not considered General Unsecured Claims; rather those claims will be paid in full as "Cure" costs pursuant to Article VIII of the Plan.

1.58 Member Reserve Account Claims means the Claims of the Members based on their payments of certain sums to the Debtor before the Petition Date to ensure prompt payment of their power bills.

1.59 Member Capital Claims means the Claims of the Members for any amount owed to a Member based upon its patronage capital as calculated, determined, and provided for in the Debtor's Bylaws.

1.60 Member Interests means the Members' membership interests in the Debtor, as evidenced by Membership Certificates issued by the Debtor to the Members pursuant to the Debtor's Bylaws.

1.61 Membership Certificates means, as to any Member, the certificate described in and issued pursuant to the Debtor's Bylaws, which evidences that Member's membership in the Debtor.

1.62 Minimum Monthly Amortization Payment means the payment as set forth in section 4.2(b)(iv) herein.

1.63 Net Operating Cash means all Cash on hand of Reorganized Southern after payment of non-Noteholder creditor payments under the Plan, payment of Construction Lien Claims consistent with the Plan, administrative payments, power supply, transportation charges, administrative overhead, operating expenses and capital expenditures, if any. For purposes of clarity, Net Operating Cash shall not include any amount Beartooth may pay to Reorganized Southern in excess of the amount required by section 5.2 of the Plan as a pre-payment of the Restructured Notes to exit Reorganized Southern.

1.64 Noteholders means, collectively, the holders of the Series 2010A Notes and the Series 2010B Note (i.e., The Prudential Insurance Company of America; Universal Prudential Arizona Reinsurance Company; Prudential Investment Management, Inc., as successor in interest to Forethought Life Insurance Company; and Modern Woodmen of America).

1.65 Notes means, collectively, the Series 2010A Notes and the Series 2010B Note.

1.66 NWE Deposit means a deposit by the Debtor in the amount of \$1,250,000 presently held by Northwestern Energy in respect of the commercial dealings between the Debtor and Northwestern Energy.

1.67 PPL means PPL EnergyPlus, LLC.

1.68 PPL Claim means proof of claim No. 50 in the amount of \$374,863,708.19 filed on July 13, 2012 by PPL.

1.69 PPL Litigation means the adversary proceeding commenced by the Trustee on October 18, 2013, pending in the Bankruptcy Court and bearing Adv. No. 13-00047-RBK (Dkt. No. 1098), including, without limitation, all claims, cross-claims and counterclaims.

1.70 Petition Date means October 21, 2011.

1.71 Plan means this plan of reorganization, including, without limitation, all exhibits, supplements, appendices, and schedules hereto, either in its present form or as the same may be altered, amended, or modified from time to time.

1.72 Plan Supplement means the appendix to this Plan to be filed in the docket of the Chapter 11 Case no later than five (5) Business Days prior to the Voting Deadline that will contain draft forms of certain key transactional documents to be executed, delivered, assumed, and/or performed in conjunction with consummation of the Plan on the Effective Date, including, without limitation, amended Corporate Governance Agreements, Restructured Notes and indenture, and the HGS Holding Trust.

1.73 Priority Non-Tax Claim means any Claim, other than an Administrative Expense Claim or a Priority Tax Claim, entitled to priority in payment under section 507(a) of the Bankruptcy Code.

1.74 Priority Tax Claim means any Claim of a governmental unit of the kind entitled to priority in payment as specified in sections 502(i) and 507(a)(8) of the Bankruptcy Code.

1.75 Professional Fee Claim means a Claim for an award by the Bankruptcy Court of compensation for services rendered or reimbursement of expenses incurred through and including the Confirmation Date under sections 330, 331, and 503(b) of the Bankruptcy Code.

1.76 Pro Rata means proportionately so that the ratio of the amount of a particular Allowed Claim to the total amount of the Allowed Claims of the Class in which the particular Claim is included is the same as the ratio of the amount of consideration distributed on account of such particular Allowed Claim to the consideration distributed on account of all Allowed Claims of the Class in which the particular Claim is included.

1.77 Released Party means collectively, in each case solely in their capacity as such: (a) the Debtor and Reorganized Southern; (b) the Debtor's current and former officers, and trustees; (c) the Members (and their current and former trustees to the extent that each such trustee executes a non-disparagement in a form acceptable to the Noteholders pertaining to the Indenture Trustee and the Noteholders); (d) the Indenture Trustee; (e) the Noteholders; and (f) with respect to the Entities identified in subsections (a) through (e) herein, each of such Entities' respective predecessors, success and assigns and current and former shareholders, affiliates subsidiaries, principles, employees, agents, officers, directors, managers, trustees, partners, members, professionals, representatives, advisors, attorneys, financial advisors, and consultants.

1.78 Releasing Parties means each of the following in its capacity as such (a) the Debtor, (b) the Members, (c) the Indenture Trustee, and (d) the Noteholders.

1.79 Remaining Deposit means the deposit set forth in section 4.2(c) herein.

1.80 Restructured Notes means the Notes as restructured in accordance with the terms and conditions set forth in the Plan and the provisions of the Restructured Notes themselves, which shall be filed as part of the Plan Supplement.

1.81 Reorganized Southern means the Debtor as reorganized pursuant to this Plan on and after the Effective Date. The emergence of the Debtor from the Chapter 11 Case as Reorganized Southern is not, and shall not constitute, a transfer, disposition or change of control for regulatory or other purposes.

1.82 Schedules means the schedules of assets and liabilities and the statements of financial affairs required by section 521 of the Bankruptcy Code and Bankruptcy Rule 1007 filed by the Debtor or the Trustee, including any supplements or amendments thereto through the Confirmation Date.

1.83 Secured Claim means an Allowed Claim secured by a Lien on property of the Debtor's Estate, or that is subject to a valid right of setoff pursuant to section 553 of the Bankruptcy Code, to the extent of the value (determined in accordance with section 506(a) or section 502(c) of the Bankruptcy Code and Bankruptcy Rule 3012), of the interest of the holder of such Allowed Claim in the Debtor's or the Estate's interest in such property, or to the extent of the amount subject to such setoff, as the case may be.

1.84 Secured Lender Professional Fees means the aggregate amount of fees and expenses of the Noteholders and the Indenture Trustee incurred in connection with the Chapter 11 Case, whether or not Allowed, from the Petition Date through the Effective Date.

1.85 Series 2010A Notes means the three 8% Senior First Mortgage Notes, Series 2010A, each dated February 26, 2010, and due February 26, 2040, given by the Debtor to the following entities, in the indicated original principal amounts: (a) The Prudential Insurance Company of America ("**Prudential**") - \$64,450,000; (b) Universal Prudential Arizona Reinsurance Company ("**Universal Prudential**") - \$5,550,000; and (c) Prudential Investment Management, Inc., as successor in interest to Forethought Life Insurance Company ("**Prudential Investment**") - \$5,000,000; in the aggregate principal amount of \$75,000,000. Prudential, Universal Prudential and Prudential Investment are collectively referred to as "**Prudential**."

1.86 Series 2010B Note~~Error! Bookmark not defined.~~ means the 7.25% Senior First Mortgage Note, Series 2010B, dated February 26, 2010, and due February 25, 2026, given by the Debtor to Modern Woodmen of America ("**Modern Woodmen**"), in the original principal amount of \$10,000,000.

1.87 Settlement Amount means the amount due to the holders of Construction Lien Claims as set forth in section 4.3(a) herein.

1.88 Third Party Release means the release provision set forth in section 10.5 herein.

1.89 Trustee means Lee A. Freeman, the duly-appointed chapter 11 trustee in the Chapter 11 Case, and subsequently removed by order of the Bankruptcy Court dated November 26, 2013 (Dkt. No. 1160).

1.90 Voting Deadline means the date(s) established by the Bankruptcy Court and set forth in the Disclosure Statement Order or other order of the Bankruptcy Court for the submission of Ballots pursuant to the terms of the Plan.

Words and terms defined in section 101 of the Bankruptcy Code shall have the same meanings when used in the Plan, unless a different definition is given in the Plan. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the construction of the Plan. Unless the context requires otherwise, any capitalized term used herein that is not defined herein, but that is defined in the Bankruptcy Code or Bankruptcy Rules, shall have the meaning set forth therein. The headings in this Plan are for convenience of reference only and shall not limit or otherwise affect the provisions of this Plan.

In computing any period of time prescribed or allowed by this Plan, the provisions of Bankruptcy Rule 9006(a), and any applicable Local Rule regarding the same, shall apply.

ARTICLE II **TREATMENT OF UNCLASSIFIED CLAIMS**

As provided by section 1123(a)(1) of the Bankruptcy Code, the following Claims are not classified under the Plan, and shall instead be treated separately as unclassified Claims on the terms set forth below. Such Claims are unimpaired under the Plan.

2.1 Administrative Expense Claims. Except to the extent that any holder agrees to a different, less favorable treatment, the holder of an Allowed Administrative Expense Claim that has not been paid, shall receive on account of such Claim, Cash in the amount of such Allowed Administrative Expense Claim on the later of the Effective Date or the date such Claim becomes an Allowed Administrative Expense Claim, or as soon thereafter as is practicable; provided, however, that Allowed Administrative Expense Claims representing liabilities incurred in the ordinary course of business, consistent with past practice, by the Estate shall be paid in full and performed by Reorganized Southern, in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions.

2.1.1 Administrative Expense Claims Bar Date. All requests for the allowance and payment of an Administrative Expense Claim must be filed with the Bankruptcy Court and served upon the Debtor, Reorganized Southern, and other parties-in-interest, in accordance with the Bankruptcy Code and the Bankruptcy Rules, no later than the first Business Day that is 30 days after the Effective Date or such other date as approved by order of the Bankruptcy Court. **Failure to file and serve such an allowance and payment request timely and properly shall result in the Administrative Expense Claim being forever barred and discharged.**

2.1.2 Administrative Expense Claims for Goods, Materials and Services Incurred in the Ordinary Course of Business. Administrative Expense Claims based on liabilities incurred by the Debtor after the Petition Date for goods, materials and services delivered, obtained or received in the ordinary course of business, that first become due and payable within sixty (60) days prior to the Confirmation Date will be paid by the Estate or Reorganized Southern, as applicable, pursuant to the terms and conditions of the particular transaction giving rise to such Administrative Expense Claims and, unless the Bankruptcy Court orders otherwise, holders of Administrative Expense Claims based on liabilities incurred by the Debtor for goods, materials and services delivered, obtained or received in the ordinary course of business are not required to

file or serve a request for payment of such Claim, and will not be subject to the Administrative Expense Claims Bar Date provided in section 2.1.1 of this Plan.

2.2 Professional Fee Claims. Notwithstanding section 2.1 of the Plan, the following Claims, even if Administrative Expense Claims, shall be treated in accordance with the terms hereof. Any entity seeking an award by the Bankruptcy Court of a Professional Fee Claim shall (a) file its final application for allowance of such Claim by no later than the date that is 30 days after the Effective Date or such other date as may be fixed by the Bankruptcy Court; and (b) to the extent such entity has not already been paid in full on account of such Claim, be paid in full and in Cash in the amounts Allowed upon the date the order granting such award becomes a Final Order. Reorganized Southern is authorized to pay compensation for professional services rendered and reimburse expenses incurred after the Effective Date in the ordinary course and without Bankruptcy Court approval. For the avoidance of doubt, the Secured Lender Professional Fees shall not be subject to any requirement to file any fee applications after the Confirmation Date. All Secured Lender Professional Fees are approved through the Confirmation Date and shall be paid by the Debtor through the Effective Date.

2.3 Priority Tax Claims. Except to the extent that a holder of an Allowed Priority Tax Claim has been paid by the Estate prior to the Effective Date or agrees to less favorable treatment, each holder of an Allowed Priority Tax Claim shall receive at the sole option of Reorganized Southern, (a) Cash in an amount equal to such Allowed Priority Tax Claim on the later of the Effective Date or the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is practicable; or (b) equal Cash payments to be made initially on the Effective Date or as soon thereafter as is practicable and semi-annually thereafter in an amount equal to such Allowed Priority Tax Claim, together with interest at a fixed annual rate determined under applicable non-bankruptcy law, over a period from the Effective Date through the fifth (5th) anniversary date after the Petition Date; provided, however, that such election shall be without prejudice to the right of Reorganized Southern to prepay such Allowed Priority Tax Claim in full or in part without penalty.

2.4 Fees Due to the United States Trustee. To the extent that any fees are due to the United States Trustee pursuant to 28 U.S.C. § 1930 on the Effective Date, such fees shall be paid by the Debtor or Reorganized Southern, as the case may be, to the United States Trustee in full, in Cash, within thirty (30) days after the Effective Date. Any fees which become due to the United States Trustee following the Effective Date shall be paid by Reorganized Southern when such fees are due and payable.

2.5 Real Property Taxes. Any real property taxes which are Allowed Administrative Expense Claims pursuant to section 503(b)(1)(B)(i) of the Bankruptcy Code shall either be paid when last due without penalty under applicable state law or, if the holder of such Claim consents, the holder shall retain any Lien afforded under applicable state law and the legal, equitable, and contractual rights of such holder shall be left unaltered by this Plan. The holder's vote in favor of this Plan or its failure to object to confirmation of the Plan shall be deemed to be such a consent.

ARTICLE III
DESIGNATION OF CLASSES

Claims and Member Interests are classified for all purposes, including voting, confirmation, and distribution pursuant to this Plan, as provided below.

Class	Designation	Impairment	Entitlement to Vote
Class 1	Priority Non-Tax Claims	Unimpaired	No
Class 2(A)	Noteholders	Impaired	Yes
Class 2(B)	Other Secured Loans	Impaired	Yes
Class 3	Construction Lien Claims	Impaired	Yes
Class 4	General Unsecured Claims	Impaired	Yes
Class 5	Member Reserve Account Claims	Impaired	Yes
Class 6	Member Capital Claims	Unimpaired	No
Class 7	Member Interests	Unimpaired	No
Class 8	PPL Claim	Impaired	Yes

ARTICLE IV
TREATMENT OF CLASSES

4.1 Class 1 - Priority Non-Tax Claims. Except to the extent that the holder of an Allowed Priority Non-Tax Claim agrees to less favorable treatment or has been paid on account of such Claim prior to the Effective Date, on the later of the Effective Date or the date such Priority Non-Tax Claim becomes Allowed, or as soon thereafter as is practicable, each holder, if any, shall be paid by Reorganized Southern in Cash in an amount equal to the Allowed amount of such Priority Non-Tax Claim.

4.2 Class 2(A) – Noteholders

a. The Noteholders' Claims shall be Allowed and satisfied by the Debtor prior to the Effective Date or Reorganized Southern on or after the Effective Date, as the case may be, by way of (i) the retention by the Indenture Trustee and the Noteholders of the Adequate Protection Payments, Secured Lender Professional Fees and all other amounts paid by the Debtor and Trustee to the Indenture Trustee and Noteholders, respectively, from the Petition Date through the Effective Date; (ii) the delivery to the Noteholders of the NWE Deposit if, when and to the extent refunded to the Debtor prior to the Effective Date or Reorganized Southern on or after the Effective Date by Northwestern Energy; (iii) the Restructured Notes; and (iv) the \$1 million of

funding for the HGS Holding Trust paid on the Effective Date and the granting of interests for the benefit of the Indenture Trustee and Noteholders in the HGS Holding Trust and the Debtor's assignment of all HGS Net Proceeds to the HGS Holding Trust.

b. **The Restructured Notes:**

(i) The Restructured Notes shall be 4-year term promissory notes delivered by Reorganized Southern on the Effective Date and allocated between the Noteholders in the original principal amount of \$21 million, subject, however, to reduction based on application of Adequate Protection Payments, if any, for May 2014 and thereafter (excluding Secured Lender Professional Fees), as principal pre-payments.

(ii) The Restructured Notes shall continue to be secured by the assets and proceeds of such assets presently securing the Indenture Trustee's and the Noteholders' Claims (including collateral proceeds held at any time by the HGS Holding Trust) in the same order of priority as presently exists. The Indenture Trustee and the Noteholders shall not be required to surrender or cancel any instruments upon the Effective Date pursuant to section 5.19 of the Plan. The restructuring evidenced in part by the Restructured Notes may be accomplished through modification or amendment to existing loan and indenture documents, as appropriate. The Liens and security interests of the Indenture Trustee and Noteholders under the Restructured Notes include, without limitation, valid and perfected security interests in the All Requirements Contracts enforceable by the Indenture Trustee and Noteholders in the event of default under the Restructured Notes.

(iii) The Restructured Notes shall accrue interest at a simple rate of 4.125% per annum, with interest paid monthly by Reorganized Southern as and when due.

(iv) Minimum monthly amortization payments under the Restructured Notes shall be equal to $\frac{1}{2}$ of a straight-line monthly amortization of the indebtedness through the maturity date of the Restructured Notes. The minimum monthly amortization payment due in each month under the Restructured Notes shall be \$237,668 (the "**Minimum Monthly Amortization Payment**"), provided that, in the event of (A) a partial pre-payment of the principal balance of the Restructured Notes upon Bearthooth's withdrawal from the Debtor prior to the Effective Date or Reorganized Southern on or after the Effective Date, as provided in section 5.2 herein, (B) pre-payments based on the application of Adequate Protection Payments to the Noteholders and the Indenture Trustee for May 2014 and thereafter (excluding Secured Lender Professional Fees), and/or (C) other pre-payments as may occur at the sole discretion of Reorganized Southern and the Members, the Minimum Monthly Amortization Payment shall be recalculated based upon the remaining principal balance of the Restructured Notes after application of any such pre-payments. The Minimum Monthly Amortization Payment for all months following application of the Beartooth or other pre-payments, if applicable, shall be reduced to $\frac{1}{2}$ of the adjusted monthly amortization amount. The Minimum Monthly Amortization Payment shall be "shaped and smoothed" based upon expected cash flow of Reorganized Southern during the first 90 days following the Effective Date in order to prevent the possibility of an early amortization default.

(v) In addition to the Minimum Monthly Amortization Payment, payments under the Restructured Notes shall also be made by way of a monthly Cash sweep of Net Operating Cash of Reorganized Southern in excess of \$1.0 million, and applied first to any unpaid interest then due under the Restructured Notes, if any, and second, to the principal balance of the Restructured Notes due at maturity. Except with respect to emergency capital expenditures for which advance notice and consent is impractical, any capital expenditures by Reorganized Southern may only be incurred in accordance with a budget pre-approved by the Noteholders. Other than the \$1 million payable to the HGS Holding Trust on the Effective Date in accordance with section 5.3 of the Plan and the \$1 million minimum working capital required in accordance with section 9.2(c) of the Plan, Cash of the Estate as of the Effective Date shall not be subject to the Cash sweep referred to in this section 4.2(b)(v), and instead, shall vest in Reorganized Southern for purposes deemed appropriate by Reorganized Southern in its reasoned business judgment, including payments under the Plan, free and clear of the Liens of the Noteholders and the Indenture Trustee. Cash sweeps, if any, as provided for in this section 5.2(b)(v) of the Plan, shall commence in the first full month following the Effective Date.

(vi) Adequate Protection Payments paid to the Noteholders for the month of May, 2014 and all months thereafter through the Effective Date will be applied to the Restructured Notes as a principal repayment of the same.

(vii) Any unpaid amounts under the Restructured Notes shall be due and payable at maturity of the Restructured Notes.

(viii) The Secured Lender Professional Fees accrued through the Effective Date shall be paid by the Debtor and shall not reduce the balance of the Restructured Notes.

(ix) Reorganized Southern and/or the Members may prepay, in whole or in part, the Restructured Notes, and there shall be no pre-payment premium or penalty, make whole provision or any other similar provision whatsoever under the Restructured Notes.

(x) Prior to the satisfaction of Notes, the Construction Lien Claims shall be fully paid and satisfied by Reorganized Southern.

(xi) The Restructured Notes shall contain standard negative covenants, including (A) prohibition against new indebtedness or non-operating obligations of Reorganized Southern without prior approval by the Noteholders, (B) prohibition against long term contracts for the sale of power by Reorganized Southern to third parties without prior approval by the Noteholders; (C) prohibition against amendment or release of any of the All Requirements Contracts, except as provided in the Plan or Plan Supplement, without prior approval by the Noteholders; (D) prohibition against any capital distribution to any or all of the Members without prior approval of the Noteholders; and (E) prohibition against capital expenditures by Reorganized Southern in excess of annual amounts set forth in the budget approved by the Noteholders without prior approval by the Noteholders, which approval shall not be unreasonably withheld.

c. **The NWE Deposit:** In the event that Northwestern Energy requires a return of all or a portion of the NWE Deposit as a prerequisite to continuing service to Reorganized Southern, any amount of the NWE Deposit required to be provided by Reorganized Southern and not repaid to the Noteholders (the “**Remaining Deposit**”) shall be added on the Effective Date on a Pro Rata basis to the balance of the Restructured Notes, and additionally collateralized with a perfected lien of the Noteholders and Indenture Trustee on the Remaining Deposit, acknowledged by Northwestern Energy. Interest on the Remaining Deposit shall begin to accrue 90 days after the Effective Date in a like manner as interest on the principal balance of the Restructured Notes. Notwithstanding the foregoing, no amortized principal payment shall be required from Reorganized Southern on account of the Remaining Deposit while the amount of the Restructured Notes attributable to the Remaining Deposit remains outstanding, but such amount shall be due and payable, if not earlier paid, upon maturity of the Restructured Notes regardless of whether Northwestern Energy has released the Remaining Deposit. To the extent that any portion of the Remaining Deposit is added to the balance of the Restructured Notes, any subsequent release of all or any portion of the Remaining Deposit that is paid to the Noteholders shall be credited as a principal payment on the Restructured Notes. When the Remaining Deposit is no longer required to be maintained by Northwestern Energy, Reorganized Southern shall provide appropriate direction to Northwestern Energy to tender the Remaining Deposit to the Noteholders in an amount equal to the lesser of the amount of the Remaining Deposit or the balance then outstanding under the Restructured Notes.

4.2.2 Class 2(B) - Other Secured Loans

a. The First Interstate Bank Secured Loan Claim and the CFC Secured Loan Claim shall be Allowed in the amount of the First Interstate Bank Secured Loan and the CFC Secured Loan, respectively, outstanding as of the Petition Date.

b. **First Interstate Bank.** First Interstate Bank shall be granted relief from the automatic stay with respect to the First Interstate Bank Secured Loan Collateral to exercise all state law rights and remedies against its collateral. First Interstate Bank shall have a deficiency Claim for any amounts remaining outstanding after the exercise of rights by First Interstate Bank in the First Interstate Bank Secured Loan Collateral and any other collateral that may be pledged with respect to the First Interstate Bank Secured Loan, and any such deficiency Claim shall be allowed as a General Unsecured Claim and paid in accordance with the treatment of Class 4 Claims under the Plan. In the event that any deficiency claim of First Interstate Bank is satisfied as a result of First Interstate Bank exercising rights against collateral of any guarantor or co-obligor of the Claims held by First Interstate Bank, then First Interstate Bank shall withdraw its Class 4 deficiency claim.

c. **CFC.** In the event that CFC is not sooner granted relief from the automatic stay with respect to the CFC Secured Loan Collateral, on the Effective Date, CFC shall be authorized to exercise all of its state law rights and remedies against the CFC Secured Loan Collateral. To the extent that any deficiency exists under the CFC Secured Loan after CFC exercises rights and remedies against the CFC Secured Loan Collateral, CFC shall be entitled to assert a General Unsecured Claim for such amount which, if Allowed, shall be paid and satisfied in accordance with section 4.4 of the Plan.

4.3 Class 3 - Construction Lien Claims

a. Construction Lien Claims are Allowed solely under the Plan in the reduced amount of \$3,325,000 (the “**Settlement Amount**”), and classified as Secured Claims (with no portion of such Claims allowed as General Unsecured Claims) in full and final satisfaction of such Claims. Any amounts claimed by the Construction Lienholders in excess of the Settlement Amount are disallowed.

b. The Construction Lien Claims shall be satisfied by payment of (i) a Cash payment in the amount of \$825,000 on the Effective Date; and (ii) an aggregate amount of \$2.5 million payable by Reorganized Southern in four annual installments, without interest, on the annual anniversary date of the Effective Date equal to 55% at year one, 30% at year two, 7.5% at year three and 7.5% at year four. Upon receipt of the \$825,000 payment on the Effective Date, the holders of Construction Lien Claims shall release their respective Liens against real property owned by Reorganized Southern that comprises First Interstate Bank Secured Loan Collateral. Nothing contained herein shall prevent Reorganized Southern from prepaying the Settlement Amount. The Construction Lienholders shall bear sole responsibility and liability for allocation of the Settlement Payment by and among the various Construction Lienholders.

c. On the Effective Date, the Construction Lienholder Litigation and the Corval Litigation shall be dismissed with prejudice and without costs to any party.

d. Until the Settlement Amount is paid in full in accordance with the terms of the Plan, the Construction Lienholders shall retain any perfected Liens by such means as the Construction Lienholders, Reorganized Southern, the HGS Holdings Trustee and the Noteholders mutually agree. As to each Construction Lienholder, such Lien shall only constitute a Lien against property actually improved by the Construction Lienholder (and in each case shall specifically exclude the turbine and related turbine components located at HGS, any vacant land owned by the Debtor prior to the Effective Date, and the pipeline owned by the Debtor prior to the Effective Date). An amount payable to release a Construction Lien Claim, if any, applicable to HGS in connection with a sale or transfer shall be netted out of the HGS Proceeds and paid to the Construction Lienholders to release such Lien(s), and the Noteholders shall thereupon become transferees of the related unpaid balance of the Construction Lien Claim(s) and payments due under the Plan. The Construction Lienholders shall retain their right to assert a Lien in such amounts and upon such property as allowed by law in the event (i) Reorganized Southern fails to timely pay any installment of the Settlement Amount; and (ii) the Construction Lienholders commence action, consistent with applicable law, to foreclose their Liens, all subject to any and all rights and defenses of Reorganized Southern (which shall have all rights and defenses of the Debtor as of the Effective Date), the Indenture Trustee and the Noteholders, and/or any third party to challenge the claims of the Construction Lienholders. Any and all statutes of limitations applicable to enforcement of the Liens held by the Construction Lienholders shall be tolled or otherwise extended to allow the Construction Lienholders to enforce the Liens against the secured property in the event of default. Upon payment in full of the Settlement Amount to the Construction Lienholders, the Construction Lienholders shall promptly provide and/or file releases of any Liens securing the Construction Lienholder Claims (i.e., after the Effective Date, the Settlement Amount).

e. In the event that the Plan does not become effective, all rights of all the Construction Lienholders, the Indenture Trustee and the Noteholders, and the Debtor are preserved and the settlement of the Construction Lien Claims are void and of no effect.

4.4 Class 4 - General Unsecured Claims

a. Except to the extent that the holder of an Allowed General Unsecured Claim agrees to less favorable treatment or has been paid on account of such General Unsecured Claim prior to the Effective Date, each holder of an Allowed General Unsecured Claim shall receive its Pro Rata share of Avoidance Actions. The proceeds of Avoidance Actions shall not exceed \$1 million, unless the Noteholders consent. Allowed General Unsecured Claims shall have no right or entitlement to any proceeds of Avoidance Actions brought against the Indenture Trustee or the Noteholders, and shall have no right or entitlement to any amount of the Secured Lender Professional Fees duly paid and approved under the Plan.

b. On the Effective Date, Avoidance Actions (except as to Released Parties) shall be transferred to the Committee Representative for the benefit of the holders of Allowed Class 4 Claims. The Committee Representative may request that the Noteholders consent to payment of the proceeds of the real property described herein and Avoidance Actions to the extent that they individually or collectively exceed \$1 million to holders of Allowed Class 4 Claims. To the extent applicable, the Committee Representative shall make payment of proceeds of the real property described herein and/or Avoidance Actions exceeding \$1 million consistent with the response by the Noteholders to the request by the Committee Representative.

4.5 Class 5 - Member Reserve Account Claims

The Member Reserve Accounts shall be maintained in their current amounts, if any, and shall be held in trust by Reorganized Southern to ensure prompt payment of the Members' power bills, until such time as all payments required under the Plan by Reorganized Southern have been paid, and then, the balance of such accounts, if any, shall be returned to the respective Members.

4.6 Class 6 - Member Capital Claims

On the Effective Date, the holders of Member Capital Claims shall retain their Allowed Claims in accordance with and as provided by the Debtor's Bylaws, as amended, provided, however, that no Member shall receive any distribution or other property on behalf of such Member Capital Claims until such time as the Restructured Notes are satisfied.

4.7 Class 7 - Member Interests.

On the Effective Date, the Member Interests and Member Certificates shall be retained by the Members in accordance with and as provided by the Debtor's Bylaws, as amended.

4.8 Class 8 - PPL Claim.

a. Except to the extent that the PPL Claim is not Allowed or is subordinated pursuant to the PPL Litigation or otherwise by Final Order of the Court, the PPL Claim shall be

treated as an Allowed General Unsecured Claim in accordance with the treatment provided for General Unsecured Creditors pursuant to Class 4 of the Plan.

b. In the event that the PPL Claim is subordinated as a result of the PPL Litigation or otherwise by Final Order of the Court, PPL shall receive any funds up to the amount of PPL's Allowed Claim available to General Unsecured Creditors in accordance with Class 4 of the Plan after the payment in full of all other Allowed General Unsecured Claims in Class 4. In the event that the PPL Claim is disallowed by Final Order, PPL shall receive no recovery.

c. In the event of a settlement of the PPL Litigation and/or the PPL Claim prior to the Confirmation Hearing, PPL shall be treated in accordance with such settlement, including, without limitation, (i) incorporating the settlement with PPL into the Plan by reference and/or (ii) re-classifying the settled PPL Claim as a Class 4 Claim.

ARTICLE V **EXECUTION AND IMPLEMENTATION OF THE PLAN**

5.1 Continuation of Operations. Following the Effective Date, Reorganized Southern shall continue the Debtor's present business and shall continue to operate as Reorganized Southern, and the Members shall continue to be Members of Reorganized Southern subject to and in accordance with the terms and conditions of the Plan. The only members of Reorganized Southern as of the Effective Date shall be the Members.

5.2 Beartooth Exit. Notwithstanding section 5.1 of the Plan or any other provision of the Plan to the contrary, Beartooth may withdraw its membership from the Debtor or Reorganized Southern, as the case may be, which withdrawal shall be, on terms (i) subject to approval by the other Members, (ii) not inconsistent with any other provision of the Plan addressing the treatment of the Indenture Trustee and the Noteholders, (iii) not inconsistent with the Debtor's Bylaws and Beartooth's All Requirement Contract, and (iv) approved by the Noteholders upon payment by Beartooth or the Debtor, prior to the Effective Date or Reorganized Southern on or after the Effective Date on behalf of Beartooth, to the Noteholders of an amount equal to the outstanding balance of the Restructured Notes (without inclusion of the balance of the Remaining Deposit but with inclusion of any interest thereon) multiplied by 17.5211%, which is Beartooth's current average percentage load of electricity purchased from the Debtor. Beartooth and the other Members, with the consent of the Debtor prior to the Effective Date or Reorganized Southern on or after the Effective Date have agreed to the following process to set the terms under which Beartooth may withdraw its membership:

a. At any time, and without mediation or arbitration, the Members may mutually agree upon the terms under which Beartooth may withdraw its membership.

b. If the Members cannot mutually agree upon the terms under which Beartooth may withdraw its membership, then the Members agree to non-binding mediation to establish such terms. If mediation is necessary, then the mediation will be with a mediator selected by the unanimous consent of the Members.

c. If mediation proves unsuccessful to set the terms under which Beartooth may withdraw its membership, then the Members agree that any disputed terms, and only any

disputed terms, shall be submitted to binding, non-appealable arbitration. If arbitration is necessary, then it shall be on an expedited basis and completed within twelve (12) weeks of the conclusion of the unsuccessful mediation or at such other time that the Members may agree. The Members, by unanimous consent, shall select the arbitrator.

d. If the Members agree to, or an arbitrator decides, the terms under which Beartooth may withdraw its membership no later than ten (10) business days prior to the Voting Deadline, then such terms will be included in a Plan Supplement.

e. Notwithstanding anything in this section 5.2 to the contrary, to the extent required under the Bankruptcy Code or the Bankruptcy Rules, any agreement between the Members or any arbitration decision that sets the terms under which Beartooth may withdraw its membership, shall be subject to approval by the Bankruptcy Court and consistent with the Plan.

f. Provided that any agreement between the Members or any arbitration decision that sets the terms under which Beartooth may withdraw its membership complies with the requirements of this section 5.2, then Debtor or Reorganized Southern, as the case may be, shall consent thereto and be bound thereby.

Upon Beartooth's withdrawal of its membership in the Debtor prior to the Effective Date or Reorganized Southern on or after the Effective Date, as the case may be, pursuant to and consistent with this section 5.2 of the Plan, (i) the Beartooth All Requirements Contract shall be released as collateral for the Restructured Notes, and (ii) in addition to the mutual releases provided for in section 11.5 of the Plan, Beartooth shall receive and grant mutual releases from the Noteholders, Debtor or Reorganized Southern, as the case may be, and other Members upon the same terms and conditions associated with the releases provided upon payment in full of the Restructured Notes by Reorganized Southern. Notwithstanding anything contained herein to the contrary, except for the reduction in the principal balance of the Restructured Notes to reflect payment by or on behalf of Beartooth in accordance with this section 5.2, Beartooth's withdrawal of its membership in the Debtor prior to the Effective Date or in Reorganized Southern on and after the Effective Date shall not diminish or enlarge the respective rights and/or obligations of the Debtor or Reorganized Southern, the Noteholders, and the Members vis-à-vis each other, as set forth in the Restructured Notes and the Plan.

5.3 HGS Holding Trust.

a. On the Effective Date, the HGS Holding Trust shall be created on behalf of and for the benefit of the Noteholders as the beneficiaries thereof. The form of the agreement establishing the HGS Holding Trust shall be acceptable to the Noteholders in their sole discretion, provided that the form of the HGS Holding Trust shall not be inconsistent with the Plan. The HGS Holding Trust shall be funded on the Effective Date with application of (i) the Adequate Protection Payments made by the Debtor in each of February, March and April, 2014 and (ii) \$1 million of Cash on hand with the Debtor as of the Effective Date. These amounts shall not reduce the amounts due under the Restructured Notes.

b. The Debtor shall pay through the Effective Date all business expenses of HGS, as and when due in the same manner as the Debtor and/or Trustee have paid during the

pendency of the Chapter 11 Case. Other than any unpaid HGS Costs (as defined below) for which the Debtor is solely responsible in accordance with the immediately preceding sentence, the HGS Holding Trust shall be responsible for payment, on behalf of the Debtor, of all obligations, agreements and contracts of the Debtor deemed necessary by the HGS Holding Trust for the use, access, operation, maintenance, retention and disposition of HGS (and its associated assets consisting of both real and personal property) (“**HGS Costs**”) existing prior to and after the Effective Date (but only to the extent coming due for payment after the Effective Date). For the month in which the Effective Date occurs, the Debtor and the HGS Holding Trust shall allocate the payment of HGS Costs then due and payable, with the Debtor or Reorganized Southern, as the case may be, paying for the pre-Effective Date period and the HGS Holding Trust paying the post-Effective Date portion of expenses attributable to HGS. The HGS Holding Trust shall be responsible for all Bankruptcy Code section 365 cure costs associated with contracts and unexpired leases relating to HGS designated for assumption under the Plan by the Noteholders. Assets of the HGS Holding Trust will be applied to pay employee and administrative costs incurred by Reorganized Southern in connection with holding HGS and associated assets, but not the other administrative costs and expenses of Reorganized Southern. Reorganized Southern shall cooperate in good faith with the HGS Holding Trustee to the extent within its control and in accordance with its fiduciary duties and subject to the benefit of the indemnity below, to minimize HGS Costs payable by the HGS Holding Trust. Once funded on the Effective Date, the Noteholders as beneficiaries of the HGS Holding Trust shall have the risks and benefits, as applicable, of all costs, liabilities and proceeds resulting from the HGS Holding Trust.

c. The HGS Holding Trustee under the HGS Holding Trust shall be selected by the Noteholders in their sole discretion and shall consult with the Noteholders regarding any decisions that may affect their interests, including whether to accept a bid to purchase all or part of HGS. The HGS Holding Trustee may retain the Noteholders’ professionals to address any matters related to the HGS Holding Trust at the sole expense of the HGS Holding Trust. On the Effective Date, the HGS Holding Trustee shall assume control over the disposition of HGS and will take all steps as may be necessary or advisable to preserve, maintain, and maximize the value of HGS, including, if necessary, decommissioning, dismantling, transporting, storing, and selling HGS and its component parts, including all associated land. Notwithstanding anything herein to the contrary, the HGS Holding Trustee shall have no right to direct or effect any transmission of or wholesale sale of electricity, nor to set any price for such transmission of or wholesale sale, and all such rights and costs shall remain with Reorganized Southern; provided, however, that the HGS Holding Trustee may prevent Reorganized Southern by order of the Court if necessary, from taking any action with respect to HGS as may, in the HGS Holding Trustee’s judgment, be financially injurious to the Noteholders. Reorganized Southern, shall, at the expense of the HGS Holding Trust, retain all administrative and reporting responsibilities and obligations under applicable law associated with HGS, provided that the HGS Holding Trustee shall fully and timely cooperate with Reorganized Southern.

d. Beginning on the Effective Date, the HGS Holding Trust shall be responsible for, and indemnify Reorganized Southern, as provided herein, against all HGS Costs, other than such HGS Costs payable by the Debtor as provided under section 5.3(b) of the Plan, including, without limitation, any liability, cost, expense or exposure accruing after the Effective Date resulting from holding title to HGS and the associated assets. All reasonable and necessary costs and expenses incurred by Reorganized Southern as a result of HGS and the associated assets

incurred subsequent to the creation of the HGS Holding Trust shall be fully reimbursed by the HGS Holding Trust. Except as to (1) unauthorized acts by Reorganized Southern and (2) acts committed with willful misconduct by Reorganized Southern, the HGS Holding Trust shall fully defend and indemnify Reorganized Southern against any and all claims, damages and liabilities, including reasonable attorneys' fees and costs, arising in any manner out of Reorganized Southern's ownership of HGS and the associated assets accruing after the Effective Date. The HGS Holding Trust's liability with respect to such indemnity shall be limited to the assets of the HGS Holding Trust and shall not extend to the Indenture Trustee or the Noteholders, or to their respective assets.

e. If Reorganized Southern submits an indemnity claim to the HGS Holding Trust which is received by the HGS Holding Trust on or before the date of a distribution by the HGS Holding Trust to the beneficiaries thereof, and the amount of the loss or reasonably anticipated loss associated with such indemnity claim exceeds or may be reasonably be expected to exceed the amount of the insurance policy limits (to the extent insurance covers any such claim for indemnity) and the then existing assets of the HGS Holding Trust available to cover such loss, the HGS Holding Trust and Reorganized Southern shall cooperate in evaluating and potentially establishing a reserve in an amount reasonably adequate to cover a reasonable estimate of any indemnity claim (including an agreement to set aside, if required, any HGS Net Proceeds subsequently received by the HGS Holding Trust from the disposition of HGS and associated assets), and the mechanics and standards for payment or release of any such reserve, which reserve shall not exceed the amount of the then-existing assets of the HGS Holding Trust plus the net proceeds from a sale of HGS. Absent agreement on such reserve, the HGS Holding Trust and Reorganized Southern shall cooperate in mediating the necessity for (if applicable) and the amount and terms of any reserve. For the sake of clarity, Reorganized Southern shall have no claim to any funds previously distributed by the HGS Holding Trust to the Indenture Trustee or the Noteholders and shall have no right to enforce the provisions hereof by way of interfering or obstructing in any way the sale or disposition of HGS and its associated assets.

f. The HGS Holding Trust shall also take all steps necessary to pay for reasonable insurance for HGS and its associated assets during the period of time such assets are owned by Reorganized Southern. Such insurance shall be in place as of the Effective Date in an amount and type no less than that held by the Debtor as of the Petition Date. Such insurance coverage shall include an all-risk blanket policy; directors, officers and manager's liability and corporate indemnification; worker's compensation and employer's liability, general liability, umbrella coverage and property. In addition, the HGS Holding Trust shall require any third party or entity performing work or services at HGS to maintain adequate insurance to protect against loss or damage. All insurance shall provide coverage for Reorganized Southern and, to the extent applicable, the HGS Holding Trust, and provide coverage for the Indenture Trustee on behalf of the Noteholders as a lender loss payee with associated policy endorsements. Notwithstanding any other provision of the Plan to the contrary, during the period of time that HGS and its associated assets are owned by Reorganized Southern, the HGS Holding Trust shall carry at all times a minimum of \$17 million in liability insurance (whether primary, excess or combined) on where Reorganized Southern is listed as an additional named insured insuring against liability arising from the ownership or operation of HGS. The general liability coverage shall be written on an occurrence basis to allow for coverage for an occurrence during the policy period (even if a claim is made after the policy is terminated).

g. The Debtor shall terminate the employment of any current Debtor employee at HGS and cooperate with the HGS Holding Trust so that as of the Effective Date, Reorganized Southern no longer has any employees' costs related to HGS and the associated assets, provided however, that the HGS Holding Trust is under no obligation to hire any Debtor employee not deemed necessary to the HGS Holding Trust to preserve and protect HGS pending disposition. Notwithstanding anything herein to the contrary, the HGS Holding Trust shall not assume any successor liability of the Debtor or Reorganized Southern, as the case may be, or any liability or exposure to damages, actions, or liabilities accruing prior to the Effective Date unless otherwise provided herein. Reorganized Southern need not continue in existence beyond the date of the satisfaction of the Restructured Notes (except as may otherwise be required by law but not as may otherwise be required under any contract, license or agreement pertaining to HGS).

h. Reorganized Southern, at the expense of the HGS Holding Trust, shall cooperate in good faith with the HGS Holding Trustee, the Indenture Trustee and the Noteholders in the disposition of HGS and any and all licenses, permits and other regulatory documentation associated with the ownership of HGS and associated assets. Reorganized Southern shall reasonably cooperate with the reasonable requests of the HGS Holding Trustee relating to the disposition of HGS by exercising ownership and operational control over HGS for purposes of testing, demonstration, and transfer of title without representation or warranty by Reorganized Southern of any kind other than ownership of good title and power and authority to transfer the same, with the HGS Holding Trust bearing all costs and liabilities associated therewith, net of any revenue or value received by Reorganized Southern from any power generated from such operations. The HGS Holding Trust shall have no right to direct or effect any transmission or wholesale sale of electricity, nor to set any price for such transmission or wholesale sale.

i. Reorganized Southern assigns, transfers and conveys to the HGS Holding Trust any and all HGS Net Proceeds. In accordance with the terms of the HGS Holding Trust, the HGS Holding Trustee shall pay to the Noteholders the HGS Net Proceeds and any and all unused funds held by HGS Holding Trustee, neither of which shall reduce amounts due under the Restructured Notes.

j. In the event that there has not sooner been a disposition of HGS, on the fourth anniversary of the Effective Date, subject to Section 203 of the Federal Power Act, Reorganized Southern shall transfer title to all or what remains of HGS (and to the greatest extent legally permissible and practicable, the related licenses and permits) to the HGS Holding Trust, or upon instructions from the Noteholders, to the Noteholders' designee, pursuant to transfer documentation prepared by the HGS Holding Trust. To the extent applicable, Reorganized Southern, the Noteholders and/or their designee/assignee shall cooperate regarding the transfer of all remaining assets comprising HGS no later than on the fourth anniversary of the Effective Date.

5.4 Implementation. The Debtor, through the Effective Date, and Reorganized Southern on or after the Effective Date, the HGS Holding Trustee, and the Committee Representative shall be authorized and directed to take all necessary steps, and perform all necessary acts, to consummate the terms and conditions of the Plan.

5.5 Corporate Governance. Upon the Effective Date, the Debtor's Articles of Incorporation and Bylaws and any related corporate governance agreements ("**Corporate**

Governance Agreements”) shall be amended and restated in substantially the form included in the Plan Supplement, and, to the extent possible under applicable law, assumed by Reorganized Southern with no cure amount being due. The Debtor shall continue to exist after the Effective Date, as Reorganized Southern, with all the powers available to such legal entity, in accordance with applicable law not inconsistent with the Plan, and subject to the Noteholders’ consent with respects to any provision relating to the payment of the Restructured Notes or the process for changing rates.

5.6 Management. Upon the occurrence of the Effective Date, Reorganized Southern shall be operated by substantially the same personnel that operated the Debtor prior to the Confirmation Date, subject to such changes that may be made based upon and in accordance with the Corporate Governance Agreements after the Effective Date, and such individuals shall be identified at or before the Confirmation Hearing. After the Effective Date, Reorganized Southern may retain or terminate any employees or otherwise modify its management structure as it, in its business judgment, deems necessary, provided that any such change(s) shall not affect its ability to satisfy the obligations of Reorganized Southern under the Plan.

5.7 Board of Trustees. On the Effective Date (unless otherwise agreed to by the Noteholders and Reorganized Southern), the Board of Trustees of Reorganized Southern shall consist of the same individuals that served on the Board of Trustees prior to the Confirmation Date, subject to such changes that may be made based upon and in accordance with the Corporate Governance Agreements after the Effective Date, and such individuals shall be identified at or before the Confirmation Hearing. After the Effective Date, Reorganized Southern may reconstitute its Board of Trustees in any way that is consistent with applicable law.

5.8 Power Supply. After the Effective Date, Reorganized Southern may manage and purchase its power supply at prices and at contract durations of any term, or by way of spot market purchase, as Reorganized Southern may determine. For so long as the Restructured Notes have any outstanding balance, power rates shall be set by Reorganized Southern at the current rate of approximately \$70/MWh, and shall not vary up or down unless approved by the Board of Trustees of Reorganized Southern. Rates may not be amended by Reorganized Southern without the prior consent of the Noteholders in the event that any such rate change would render Reorganized Southern unable to pay amounts due on the Restructured Notes.

5.9 Assumption of All-Requirements Contracts. The All-Requirements Contracts, as modified, are assumed pursuant to the Plan with no cure amount due under any of the All Requirements Contracts. The All Requirement Contracts shall be amended as of the Effective Date in such manner as necessary to comply with the agreements among the Debtor, Members and the Noteholders, as reflected in the Plan, including that the maturity of the All Requirements Contracts shall be shortened to expire upon the payment of the Restructured Notes in full and satisfaction of the obligations thereunder. Subject to section 5.2 above, in the event, however, that the payment of the Restructured Notes in full is not made within the four year term of the Restructured Notes and the Restructured Notes are not otherwise in default except for the obligation to pay outstanding amounts due upon maturity of the Restructured Notes, the All Requirements Contracts will remain outstanding and continue to serve as collateral for the Restructured Notes until payment of the Restructured Notes is made in full and satisfaction of the obligations thereunder. Subsequent to the conclusion of the four year amortization period of the

Restructured Notes, each Member, including Beartooth if it has not already withdrawn from the Debtor prior to the Effective Date or Reorganized Southern on or after the Effective Date consistent with section 5.2 of the Plan, may pay (i) to the Noteholders within 60 days thereafter an amount in one Cash payment equivalent to the paying Member's load share as established as of the Effective Date (and in the event Beartooth withdraws from the Debtor prior to the Effective Date or Reorganized Southern, after the Effective Date then load share will be measured as of the day following Beartooth's withdrawal rather than the Effective Date) multiplied by the outstanding amount of indebtedness as of the date of the payment, and (ii) to Reorganized Southern such other obligations as may be due under the Corporate Governance Agreement and/or All Requirements Contract, and upon such payment, the paying Member will be released from Reorganized Southern and the All Requirements Contract will be released as collateral for payment of the Restructured Notes by the Noteholders (which release shall not impair the enforceability of any other All Requirement Contracts).

5.10 Effect of Payment and Satisfaction of Restructured Notes. Upon payment in full of the Restructured Notes and satisfaction of the obligations of Reorganized Southern and the Members to the Noteholders as set forth in the Restructured Notes and this Plan, the All Requirements Contracts shall cease to be collateral for the Restructured Notes and Reorganized Southern and its Members shall have no continuing liability to the Noteholders. Further, upon payment in full of the Restructured Notes and satisfaction of the obligations of Reorganized Southern and the Members to the Noteholders as set forth in the Restructured Notes and the plan, Reorganized Southern, the Members and the Noteholders will provide for updated mutual releases consistent with section 10.4 and 10.5 of the Plan. Once the Restructured Notes are paid in full and the obligations set forth in the Restructured Notes are satisfied, the Members shall have the right, as they decide, to dissolve and/or otherwise terminate the ongoing operation of Reorganized Southern, provided that at a minimum, they will direct Reorganized Southern to take all necessary steps to (i) terminate the All Requirements Contracts without further duty, responsibility or performance of any party thereunder (subject, however, to completion of any power contract then in effect); (ii) allocate the remaining Western Area Power Administration ("WAPA") contractual power supply rights among the Members pursuant to agreement among the Members and in accordance with their rights to so allocate under applicable law²; and (iii) allow any Member to

² The existing contract with WAPA was assumed and modified and assumed with WAPA consent by the Debtor at the time of the YVEC settlement. YVEC was partially assigned 9 MW of the 21.5 MW of the Debtor's WAPA contract. This assignment was based upon an agreement methodology between YVEC and the four (4) other members cooperatives and accepted by the WAPA Administrator.

The methodology for allocations that was agreed upon between the Members was as follows:

1. Tongue River Electric Cooperative	2.890 MW
2. Mid-Yellowstone Electric Cooperative	6.123 MW
3. Fergus Electric Cooperative	2.481 MW
4. Beartooth Electric Cooperative	1.139 MW

withdraw from further membership in Reorganized Southern. Reorganized Southern, for its benefit and the benefit of its Members, shall obtain advice of counsel and act consistently with such advice and with the fiduciary duties of the Board of Trustees of Reorganized Southern with respect to the foregoing matters and with respect to whether to formally dissolve Reorganized Southern.

5.11 Making of Distributions. Reorganized Southern, the HGS Holding Trustee or the Committee Representative, each as the case may be, shall make the distributions required to be made in respect of the Allowed Claims under the Plan, or as may otherwise be required by the Plan or the HGS Holding Trust, as applicable. Except as may be otherwise provided in the Plan or the Confirmation Order, any distribution required by the Plan to be made on the Effective Date will be deemed made on the Effective Date if made on the Effective Date or as promptly thereafter as practicable, but in no event later than the later to occur of: (a) twenty (20) days after the Effective Date; or (b) the date upon which any other conditions to distribution with respect to a particular Allowed Claim shall have been satisfied.

5.12 Construction. In the event of any conflict between the terms of the Plan and the Disclosure Statement, the terms of the Plan shall control. In the event of any conflict between the terms of the Plan and the Confirmation Order, the terms of the Confirmation Order shall control.

5.13 Compliance with Tax Requirements. In connection with the Plan and all instruments issued in connection therewith and distributed thereon, Reorganized Southern, the HGS Holding Trustee and the Committee Representative shall each respectively comply with all applicable withholding and reporting requirements imposed by any federal, state, or local taxing authority, and all distributions under the Plan shall be subject to any such withholding or reporting requirements. Notwithstanding the above, each holder of an Allowed Claim that is to receive a distribution under the Plan shall have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding, and other tax obligations, on account of such distribution. Reorganized Southern, the HGS Holding Trustee and the Committee Representative, as the case may be, shall each respectively have the right, but not the obligation, not to make a distribution until such holder has made arrangements satisfactory to such issuing or disbursing party for payment of any such tax obligations. Reorganized Southern, the HGS Holding Trustee and the Committee Representative, as the case may be, may each respectively require, as a condition to receipt of a distribution, that the holder of an Allowed Claim complete and return a Form W-8 or W-9, as applicable to each such holder. If any of Reorganized Southern, the HGS Holding Trustee and Committee Representative, as the case may be, makes such a request and the holder fails to comply before the date that is 180 days after the request is made, the amount of such distribution shall irrevocably revert to Reorganized Southern, the HGS Holding Trustee or the Committee Representative, as

Upon satisfaction of the Restructured Notes under the Plan, in the event that the Members and Reorganized Southern determine to dissolve and/or otherwise terminate the ongoing operation of the Reorganized Southern, the remaining power available under the WAPA contract shall be allocated by agreement among the Members in accordance with the above methodology, subject to final approval of the WAPA Administrator; provided, however, that, subject to final approval of the WAPA Administrator, if Beartooth withdraws its membership in Reorganized Southern pursuant to the Plan prior to satisfaction of the Restructured Notes or dissolution or termination of the ongoing operations of the Reorganized Southern, then, except as otherwise agreed to by all the members pursuant to section 5.2 of the Plan, Beartooth shall take its WAPA contract allocation upon such termination in accordance with the above methodology.

applicable, and any Claim in respect of such distribution shall be discharged and forever barred from assertion against Reorganized Southern, the HGS Holding Trust, and the Committee Representative, each as the case may be, or their respective property.

5.14 Delivery of Distributions. Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth on the Schedules filed with the Bankruptcy Court or on the books and records of the Debtor or its agents, as applicable, unless the Debtor or, after the Effective Date, Reorganized Southern has been notified in writing of a change of address, including, without limitation, by the filing of a proof of Claim by such holder that contains an address for such holder different than the address of such holder as set forth on the Schedules. Payment shall be made to the holder of the Allowed Claim unless the holder of such Allowed Claim has directed Reorganized Southern, the HGS Holding Trustee or the Committee Representative, as the case may be, in writing, to make payment to a third party through the filing of a proof of Claim instructing that payment be made to a third party thereon.

5.15 Undeliverable Distributions

a. **Holding of Undeliverable Distributions.** If any distribution to any holder of a Claim is returned to Reorganized Southern as undeliverable, no further distributions shall be made to such holder unless and until Reorganized Southern, the HGS Holding Trustee and the Committee Representative, as the case may be, is notified, in writing, of such holder's then-current address. Undeliverable distributions shall remain in the possession of Reorganized Southern or the Committee Representative, as the case may be, until such time as a distribution becomes deliverable. All entities ultimately receiving undeliverable Cash shall not be entitled to any interest or other accruals of any kind. Nothing contained in the Plan shall require Reorganized Southern or the Committee Representative, as the case may be, to attempt to locate any holder of an Allowed Claim.

b. **Failure to Claim Undeliverable Distributions.** On or about the six (6) month anniversary of the Effective Date, Reorganized Southern and the Committee Representative shall each respectively file a list with the Bankruptcy Court setting forth the names of those entities for which distributions have been made hereunder and have been returned as undeliverable as of the date thereof. Any holder of an Allowed Claim that does not assert its rights pursuant to the Plan to receive a distribution within one year from and after the Effective Date shall have its entitlement to any undeliverable distribution discharged and shall be forever barred from asserting any entitlement pursuant to the Plan against Reorganized Southern and the Committee Representative, as the case may be, or the property of Reorganized Southern and the Committee Representative, as the case may be. In such case, any consideration held for distribution on account of such Claim shall revert to Reorganized Southern.

5.16 Manner of Payment under the Plan. Any Plan distribution to be made in Cash under the Plan shall be made by check drawn on a domestic bank or by wire transfer from a domestic bank. Cash payments to foreign creditors may be made, at the option of Reorganized Southern or the Committee Representative, as the case may be, in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

5.17 Fractional Plan Distributions. Notwithstanding anything to the contrary contained herein, no Plan distributions of fractions of dollars will be made. Fractions of dollars shall be rounded to the nearest whole unit, with any amount equal to or less than one-half dollar to be rounded down.

5.18 De Minimis Distributions. No distribution of less than Twenty-Five Dollars (\$25) need be made to any holder of an Allowed Claim. Such undistributed amount may be retained by Reorganized Southern and the Committee Representative, as the case may be, to be distributed at the time of final distributions to holders of such Allowed Claims in accordance with the Plan, but only to the extent that the aggregate final distribution on account of such Allowed Claim would equal or exceed Ten Dollars (\$10).

5.19 Surrender and Cancellation of Instruments. As a condition to receiving any Plan distribution, except as otherwise provided by the Plan, the holder of an Allowed Claim shall surrender all certificates or instruments representing such Claim and to execute and deliver such other documents as may be necessary to effectuate the Plan. Such certificates or instruments shall thereafter be cancelled and extinguished. Reorganized Southern or the Committee Representative, respectively, shall have the right to withhold any Plan distribution to be made to or on behalf of any holder of such Claims unless and until such certificate or instruments are surrendered, or unless any relevant holder provides Reorganized Southern or the Committee Representative, respectively, with an affidavit of loss or such other documents as may be required by Reorganized Southern or the Committee Representative, respectively together with an appropriate indemnity in the customary form. Any such holder who fails to surrender such certificate or interest or otherwise fails to deliver an affidavit of loss and indemnity prior to the first anniversary of the Effective Date, forfeits its Claims and shall not participate in any Plan distribution. All property in respect of such forfeited Claims shall revert to Reorganized Southern.

If and to the extent the Indenture is terminated, the Indenture shall continue in effect solely for the purposes of permitting the Indenture Trustee to: (a) make distributions in accordance with the Plan; and (b) preserve the rights of the Indenture Trustee under the Indenture and related documents, including, without limitation: (i) the Indenture Trustee's charging lien; and (ii) the Indenture Trustee's rights with respect to compensation, reimbursement of expenses (including fees of counsel), and indemnification under the Indenture and related documents.

5.20 Maximum Distribution. In no event shall any holder of any Allowed Claim receive distributions under the Plan in excess of the Allowed amount of such Claim.

5.21 Exemption From Certain Transfer Taxes. Pursuant to section 1146 of the Bankruptcy Code, (a) the issuance, transfer, or exchange of any securities, instruments, or documents; (b) the creation of any Lien, mortgage, deed of trust, or other security interest; (c) the making or assignment of any lease or sublease or the making or delivery of any deed or other instrument of transfer under, pursuant to, in furtherance of, or in connection with the Plan, including, without limitation, any deeds, trusts, bills of sale, or assignments executed in connection with any of the transactions contemplated under the Plan or the reinvesting, transfer, or sale of any real or personal property of the Debtor pursuant to, in implementation of, or as contemplated in the Plan (whether to Reorganized Southern, the HGS Holding Trust (or a third party designated by the Noteholders or otherwise); and (d) the issuance, renewal, modification, or

securing of indebtedness by such means, and the making, delivery, or recording of any deed or other instrument of transfer under, in furtherance of, or in connection with, the Plan, including, without limitation, the Confirmation Order, shall not be subject to any document recording tax, stamp tax, conveyance fee, or other similar tax, mortgage tax, real estate transfer tax, mortgage recording tax, sales tax, use tax, or other similar tax or governmental assessment. Consistent with the foregoing, each recorder of deeds or similar official for any county, city, or governmental unit in which any instrument hereunder is to be recorded shall, pursuant to the Confirmation Order, be ordered and directed to accept such instrument without requiring the payment of any filing fees, documentary stamp tax, deed stamps, stamp tax, transfer tax, intangible tax, or similar tax.

5.22 Continued Existence of the Estate

a. The Debtor shall continue to serve as the representative of the Estate and the Estate shall continue in existence from and after the Confirmation Date and until the Effective Date. On and after the Effective Date, Reorganized Southern shall be the Estate representative until all payments and distributions to the holders of Allowed Claims shall have been made under the Plan and a final decree pursuant to Rule 3022 of the Bankruptcy Rules is entered. From and after the Confirmation Date, the Estate shall remain in existence and the Debtor until the Effective Date, or Reorganized Southern thereafter, shall administer the Estate in accordance with the provisions of the Plan, the Bankruptcy Code and the Bankruptcy Rules.

b. From and after the Confirmation Date until the Effective Date, the Debtor's professionals shall receive such compensation as may be approved by the Debtor. The Debtor shall be entitled to retain legal counsel and such other professionals as authorized by the Court to complete the retained matters, the fees and expenses of which shall be entitled to payment, in the manner authorized herein as Administrative Expense Claims. Such fees and expenses shall be paid monthly after invoices are submitted to the Debtor. Any objection to the payment of such fees and expenses by the Debtor must be made in writing within thirty (30) days after the invoices are submitted to the Debtor. If a timely objection to such fees and expenses are made, a hearing on that portion of the fees and expenses subject to the objection shall be held before the Bankruptcy Court, and the fees and expenses subject to the objection shall be paid only in the amount allowed by the Court, and that portion which is not subject to the objection shall be paid by the Debtor. Reorganized Southern may retain the Debtor's professionals to address matters arising from or relating to the Plan.

c. The fee and expense review procedures set forth above are separate and apart from the fee and expense review procedures that may be performed by the United States Trustee. From and after the Effective Date, Reorganized Southern may retain and compensate professionals it deems appropriate and necessary to carry out Reorganized Southern's obligations under the Plan without Bankruptcy Court approval.

ARTICLE VI **ACCEPTANCE OR REJECTION OF THE PLAN**

6.1 Voting of Claims. Each holder of an Allowed Claim in Classes 2(A), 2(B), 3, 4, 5, and 8 shall be entitled to accept or reject the Plan.

6.2 Presumed Acceptances of Plan. Classes 1, 6, and 7 are unimpaired under the Plan and, therefore, are conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

6.3 Cram Down. The Debtor requests that, in the event an impaired Class of Claims accepts the Plan, the Bankruptcy Court confirm the Plan in accordance with the provisions of section 1129(b) of the Bankruptcy Code as to any impaired Class or Classes notwithstanding the actual rejection by such Class or Classes.

6.4 One Vote for Holders. If a holder of a Claim holds more than one Claim in any one Class, all Claims of such holder in such Class shall be aggregated and shall be one Claim for purposes of determining the number of Claims voting for or against the Plan.

ARTICLE VII **PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS**

7.1 Objections to Claims; Prosecution of Disputed Claims. Unless otherwise ordered by the Bankruptcy Court, objections to Claims must be filed no later than 60 days following the Effective Date and may be filed and prosecuted by Reorganized Southern or with respect to Class 4 Claims only, the Committee Representative. The Court may enter an order extending this deadline for cause shown.

7.2 Estimation of Claims. Unless otherwise limited by an order of the Bankruptcy Court, after the Effective Date, Reorganized Southern, or the Committee Representative with respect to Class 4 Claims only, may at any time request the Bankruptcy Court to estimate for final distribution purposes any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Claim had previously been subject to any objection, and the Bankruptcy Court will retain jurisdiction to consider any request to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. Unless otherwise provided in an order of the Bankruptcy Court, in the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim, the estimated amount shall constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court; provided, however, that, if the estimate constitutes the maximum limitation on such Claim, Reorganized Southern or the Committee Representative, as the case may be, may elect to pursue supplemental proceedings to object to any ultimate allowance of such Claim; and, provided, further, that the foregoing is not intended to limit the rights granted by section 502(j) of the Bankruptcy Code. All of the aforementioned Claims objection, estimation, and resolution procedures are cumulative and not necessarily exclusive of one another.

7.3 Allowance of Disputed Claims. At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, Reorganized Southern or the Committee Representative, as the case may be, shall distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Plan. Such distribution, if any, shall be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Disputed Claim becomes a Final Order but in no event more than sixty (60) days thereafter. For the avoidance of doubt, if any portion of a Claim or Administrative Expense Claim is Disputed, no payment or

distribution provided hereunder shall be made on account of the undisputed portion of such Claim or Administrative Expense Claim unless and until the Disputed portion becomes Allowed, is disallowed by Final Order, or is otherwise resolved.

7.4 Settlement of Objections to Claims After Effective Date. From and after the Effective Date, Reorganized Southern or the Committee Representative, as the case may be, may litigate to judgment, propose settlements of, or withdraw objections to, all pending or filed Disputed Claims, and Reorganized Southern or the Committee Representative as the case may be, may settle or compromise any Disputed Claim without, without a hearing and without approval of the Bankruptcy Court.

7.5 Interest. To the extent that a Disputed Claim becomes an Allowed Claim after the Effective Date, the holder of such Claim shall not be entitled to any interest thereon.

ARTICLE VIII **TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

8.1 Assumption and Assignment of Executory Contracts and Unexpired Leases. On the Effective Date, and except as otherwise provided by the Plan, pursuant to sections 365(a), 365(b), 363(f), and 1123(b)(2) of the Bankruptcy Code, Reorganized Southern shall assume all executory contracts and unexpired leases specifically designated on "**Exhibit A**," which schedule may be amended in accordance with the Plan, subject to the consent of the Noteholders (with respect to any executory contract or unexpired lease relating to HGS). The listing of a document on **Exhibit A** shall not constitute an admission by the Debtor or the Noteholders that such document is an executory contract or an unexpired lease or that the Estate or the Debtor has any liability thereunder. Except as may otherwise be agreed to by the parties, within sixty (60) days after the Effective Date, Reorganized Southern or the HGS Holding Trust with respect to any and all executory contracts and unexpired leases on **Exhibit A** that relate to HGS, shall Cure any and all undisputed defaults under the executory contracts and unexpired leases on **Exhibit A** to the Plan by paying the Cure amount set forth on **Exhibit A**, as determined by the Bankruptcy Court or as agreed to by the parties. All disputed defaults that are required to be cured shall be cured either within sixty (60) days of the entry of a Final Order determining the amount, if any, of the Estate's, or HGS Holding Trust's liability with respect thereto, or as may otherwise be agreed to by the parties. In the event that a Cure is determined by the Court to be in an amount that, in Reorganized Southern's judgment renders assumption of the applicable executory contract or unexpired lease to be improvident, then Reorganized Southern shall have the right to reject such contract or lease upon written notice to the counterparty, and the counterparty shall have thirty (30) days from the date of such notice to file any claim for damages associated with such rejection. In each instance with respect to the foregoing sentence, where the executory contract or unexpired lease at issue relates in any way to HGS, actions by Reorganized Southern shall be subject to consent of the Noteholders.

8.2 Rejection of Executory Contracts and Unexpired Leases. Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and unexpired leases that exist between the Debtor or the Estate and any person or entity are rejected as of the Effective Date, except for any executory contract or unexpired lease (a) that has been assumed pursuant to an order of the Bankruptcy Court entered prior to the Effective Date and for which the motion was

filed prior to the Confirmation Date; (b) as to which a motion for approval of the assumption or rejection of such executory contract or unexpired lease has been filed prior to the Confirmation Date; or (c) that is specifically designated on Exhibit A to the Plan; provided, however, that the Noteholders, with no consent required of the Debtor, and the Debtor, subject to the consent of the Noteholders, to the extent that such executory contract or unexpired lease relates in any way to HGS, reserves the right, on or prior to the Confirmation Date, to amend the Plan to delete any executory contract or unexpired lease from Exhibit A or add any executory contract or unexpired lease to Exhibit A, in which event such executory contract(s) or unexpired lease(s) are, respectively, rejected or assumed; provided further, however, that the respective party or parties to such executory contract(s) shall be given notice of such amendment and shall be provided an opportunity to object to such amendment; provided further, however, nothing herein shall prejudice the Debtor's right to argue that any of the unexpired leases should be recharacterized as a secured financing.

8.3 Approval of Assumption and Assignment and Rejection of Executory Contracts and Unexpired Leases. Entry of the Confirmation Order shall, subject to and upon the occurrence of the Effective Date, constitute the approval, pursuant to sections 365(a), 365(f) and 1123(b)(2) of the Bankruptcy Code, (a) of the assumption and assignment of the executory contracts and unexpired leases assumed or assumed and assigned pursuant to the Plan; and (b) of the rejection of the executory contracts and unexpired leases rejected pursuant to the Plan; provided, however, to the extent any provision of an executory contract or unexpired lease to be assumed under the Plan limits the Debtor's ability to assume or assume and assign such executory contract or unexpired lease, the effectiveness of such provision shall be limited or nullified to the full extent provided in section 365(f) of the Bankruptcy Code. Unless otherwise indicated, all assumptions or rejections of executory contracts and unexpired leases in the Plan are effective as of the Effective Date.

8.4 Objections. Any party wishing to object to the assumption or assumption and assignment of any executory contract or unexpired lease hereunder, including any proposed Cure, if any, set forth in Exhibit A, must file an objection with the Bankruptcy Court by the deadline to object to Confirmation of the Plan and such dispute shall be resolved by the Bankruptcy Court. **Any counterparty that does not object to the assumption or the proposed Cure, if any, set forth in Exhibit A, of its executory contract or unexpired lease under the Plan by the deadline established in this section 8.4 shall be deemed to have consented to such assumption or Cure and any Claim for Cure, for compensation, adequate assurance, adequate assurance of future performance, or other right, issue, or Claim under section 365 of the Bankruptcy Code, are fully satisfied, released, and discharged and forever barred from assertion and shall not be enforceable against Reorganized Southern or the HGS Holding Trust, as the case may be, without the need for any objection by Reorganized Southern or the HGS Holding Trust, as the case may be, or further notice to or action, order or approval of the Bankruptcy Court or any other entity, and any Claim for Cure for compensation, adequate assurance, adequate assurance of future performance, or other right, issue, or Claim under section 365 of the Bankruptcy Code, are fully satisfied, released and discharged upon payment of the amount, if any, listed on Exhibit A, notwithstanding anything included in the Schedules or in any proof of claim to the contrary, provided that nothing shall prevent Reorganized Southern or the HGS Holding Trust, as the case may be, from paying any Cure amount despite the failure of the relevant counterparty to timely file such request or**

objection for payment of such Cure. Reorganized Southern or the HGS Holding Trust, as the case may be, also may settle any Cure without further notice to or action, order or approval of the Bankruptcy Court or any other entity.

8.5 Claims Relating to Rejection

a. **Treatment.** Any Claim arising out of the rejection of an executory contract or unexpired lease pursuant to this Plan shall be classified as a General Unsecured Claim.

b. **Rejection Bar Date.** Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan must be filed with the Bankruptcy Court and served upon the Committee Representative and Reorganized Southern on the later of thirty (30) days after notice of entry of the Confirmation Order or thirty (30) days after the entry of a Final Order by the Bankruptcy Court resolving any pending motion for the assumption or rejection of any executory contract or unexpired lease filed prior to the Confirmation Date in accordance with the Plan. All such Claims not filed within such time shall be forever barred from assertion against the Estate, or the Reorganized Southern and their property and are disallowed in full, released and discharged.

ARTICLE IX **EFFECTIVENESS OF THE PLAN**

9.1 Conditions Precedent to the Confirmation of the Plan. The following are conditions precedent to the Confirmation of the Plan:

a. **Disclosure Statement Order.** The Bankruptcy Court shall have entered the Disclosure Statement Order.

b. **Confirmation Order.** The Bankruptcy Court shall have entered a Confirmation Order providing, among other things: (i) the Members agree among themselves that no voluntary bankruptcy filing may be made by Reorganized Southern unless (a) the Restructured Notes are fully satisfied for a period of at least 90 days, or (b) unanimous board approval of Reorganized Southern and Indenture Trustee consent upon the direction of the Noteholders (with any filing in contravention of this provision being in bad faith); (ii) no assignment, amendment or termination of the All Requirement Contracts (except as to Beartooth upon a permitted release of the All Requirement Contract of Beartooth and Beartooth's withdrawal from the Debtor prior to the Effective Date or Reorganized Southern on and after the Effective Date, as the case may be, in accordance with section 5.2 of the Plan) unless (a) the Restructured Notes are fully satisfied for a period of at least 90 days, or (b) unanimous Board of Trustee approval of Restructured Southern and Indenture Trustee consent upon the direction of the Noteholders; (iii) acknowledgement and authorization by the Members and Reorganized Southern of the existing assignment of the All Requirement Contracts by the Debtor to the Noteholders as valid and perfected collateral for the Restructured Notes on terms as set forth in the Plan; (iv) acknowledgement of the right of Reorganized Southern to assume the All Requirement Contracts in any subsequent bankruptcy proceeding (subject to providing adequate assurance of performance and curing any existing default) and the reliance upon the same as consideration for the Noteholders' settlement on the Notes (and the right of Reorganized Southern to assign such contracts in a subsequent bankruptcy

proceeding to a Reorganized Southern entity, to the Indenture Trustee or designee of the Noteholders, or to an entity able to satisfy, or arrange for the satisfaction of, the power supply obligations of Reorganized Southern); (v) a finding that there is no condition in the All Requirement Contracts (a) that there must be a certain number of members, or (b) that HGS must be the source of power; and (vi) the Bankruptcy Court retains jurisdiction over the term of the Plan. The provisions of the Confirmation Order outlined in subsections (iv) and (v) of this section 9.1(b) of the Plan shall only be enforceable by the Indenture Trustee and the Noteholders and only in the event that the Restructured Notes are not satisfied in full or Reorganized Southern or the Members are in default of, or have failed to comply with, any obligations to the Indenture Trustee and the Noteholders under the Plan.

c. **Forms of Orders.** The Confirmation Order, the Plan, and the Disclosure Statement Order, and the documents in connection therewith, each shall be in form and substance reasonably satisfactory to the Debtor, Noteholders and the Members.

9.2 Conditions Precedent to the Effective Date of the Plan. The following are conditions precedent to the Effective Date of the Plan:

a. The Confirmation Order shall have entered and no stay of the Confirmation Order shall then be in effect.

b. All authorizations, consents, and approvals determined by the Noteholders to be necessary to implement the terms of the Plan shall have been obtained.

c. The Debtor shall have at least \$1 million of working capital.

d. The Debtor shall have sufficient funds on hand to pay all Allowed Administrative Claims and Administrative Claims projected by the Debtor to be Allowable.

e. Insurance shall be in place for the benefit of Reorganized Southern with respect to its holding of title to HGS consistent with section 5.3(f) herein.

9.3 Effect of Non-Occurrence of the Effective Date. If the Effective Date does not occur, the Plan shall be null and void and nothing contained in the Plan shall:(a) constitute a waiver or release of any pending Causes of Action or Claims against or Member Interests in the Debtor; (b) prejudice in any manner the rights of the Debtor, the Indenture Trustee, the Noteholders or the Members; or (c) constitute an admission, acknowledgement, offer, or undertaking of any manner by the Debtor, the Indenture Trustee, the Noteholders or the Members.

ARTICLE X **EFFECTS OF CONFIRMATION**

10.1 Vesting of Assets

a. As of the Effective Date, the property of the Debtor, including, without limitation, HGS and the All-Requirements Contracts as assumed in accordance with the Plan, shall vest in Reorganized Southern, subject to the terms of the Plan and the HGS Holding Trust.

b. From and after the Effective Date, Reorganized Southern may operate its business and may use, acquire, and dispose of its assets and property free of any restrictions of the Bankruptcy Code, but in accordance with the provisions of the Plan and the HGS Holding Trust.

c. As of the Effective Date, all assets of the Debtor and the Estate, as of the occurrence of the Effective Date shall be free and clear of all Claims, Liens, encumbrances, charges, and other interests, except as specifically provided in the Plan or the Confirmation Order.

10.2 Binding Effect. Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code, and to the fullest extent permitted by section 1141 of the Bankruptcy Code, on and after the Effective Date, the provisions of the Plan shall bind any holder of a Claim against, or Member Interest in, Reorganized Southern or the Estate and their respective successors and assigns, whether or not the Claim or Member Interest of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

10.3 Discharge of Claims and Termination of Interests. To the maximum extent provided by section 1141(d) of the Bankruptcy Code, and except as otherwise specifically provided in the Plan or in any contract, instrument, or other agreement or document created pursuant to the Plan, the distributions, rights, and treatment that are provided in the Plan shall be in complete satisfaction, discharge, and release, effective as of the Effective Date, of Claims Interests, and Causes of Action of any nature whatsoever, including any interest accrued on Claims or Interests from and after the Petition Date, whether known or unknown, against, liabilities of, Liens on, obligations of, rights against, and Interests in, the Debtor or any of its assets or properties, regardless of whether any property shall have been distributed or retained pursuant to the Plan on account of such Claims and Interests, including demands, liabilities, and Causes of Action that arose before the Effective Date, any liability to the extent such Claims or Interests relate to services performed by employees of the Debtor prior to the Effective Date and that arise from a termination of employment, any contingent or non-contingent liability on account of representations or warranties issued on or before the Effective Date, and all debts of the kind specified in sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, in each case whether or not: (1) a Proof of Claim or Proof of Interest based upon such debt, right, or Interest is filed or deemed filed pursuant to section 501 of the Bankruptcy Code; (2) a Claim or Interest based upon such debt, right, or Interest is Allowed pursuant to section 502 of the Bankruptcy Code; or (3) the holder of such a Claim or Interest has accepted the Plan. Any default by the Debtor with respect to any Claim or Interest that existed immediately prior to or on account of the filing of the Chapter 11 Case shall be deemed cured on the Effective Date. The Confirmation Order shall be a judicial determination of the discharge of all Claims and Interests subject to the Effective Date occurring.

Pursuant to Bankruptcy Rule 9019 and in consideration for the distributions and other benefits provided pursuant to the Plan, the provisions of the Plan shall constitute a good faith compromise of all Claims, Interests, and controversies relating to the contractual, legal, and subordination rights that a holder of a Claim or Interest may have with respect to any Allowed Claim or Interest, or any distribution to be made on account of such Allowed Claim or Interest. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims, Interests, and controversies, as well as a finding by the Bankruptcy Court that such compromise or settlement is in the best interests of the Debtor, its

Estate, and holders of Claims and Interests, and is fair, equitable, and reasonable, and has been entered in good faith by all parties thereto.

10.4 Debtor Release. Pursuant to section 1123(b) of the Bankruptcy Code, and except as otherwise specifically provided in the Plan, for good and valuable consideration, on and after the Effective Date, Reorganized Southern and its Estate shall release, and each Released Party are released and discharged by Reorganized Southern and its Estate, from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims, asserted on behalf of Reorganized Southern and the Debtor, whether known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise, that the Debtor or its Estate would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the holder of any claim or interest or other Entity, based on or relating to, or in any manner arising from, in whole or in part, the Debtor, the Chapter 11 Case, the Noteholders' financing of the Chapter 11 Case, the subject matter of, or the transactions or events giving rise to, any claim or interest that is treated in the Plan, the business or contractual arrangements between the Debtor and any Released Party, the restructuring of Claims and Interests prior to or in the Chapter 11 Case, the negotiation, formulation, or preparation of the Plan or related agreements, instruments or other documents, upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date, other than claims or liabilities arising out of or relating to any act or omission of a Released Party that constitutes willful misconduct, bad faith, or gross negligence, each solely to the extent determined by a Final Order. Notwithstanding anything to the contrary in the foregoing, the Debtor Release shall not release any obligations of any party under the Plan or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the Debtor Release, which includes by reference each of the related provisions and definitions contained herein, and further, shall constitute the Bankruptcy Court's finding that the Debtor Release is: (1) in exchange for the good and valuable consideration provided by the Released Parties; (2) a good faith settlement and compromise of the Claims released by the Debtor Release; (3) in the best interests of Reorganized Southern, the Debtor and its Estate, and all holders of Claims and Interests; (4) fair, equitable, and reasonable; (5) given and made after due notice and opportunity for hearing; and (6) a bar against Reorganized Southern or its Estate from asserting any Claim or Cause of Action released pursuant to the Debtor Release.

10.5 Third Party Release. As of the Effective Date, except as otherwise provided in the Plan, Releasing Parties shall release, each of Reorganized Southern, the Debtor, and its Estate, and the Released Parties are released from any and all claims, interests, obligations, rights, suits, damages, Causes of Action, remedies and liabilities whatsoever, including any derivative claims, asserted on behalf of the Debtor, whether known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise, that such Entity would have been legally entitled to assert (whether individually or collectively), based on or relating to, or in any manner arising from, in whole or in part, the Debtor, the Debtor's restructuring, the Chapter 11 Case, the Noteholders' financing of the Chapter 11 Case, the subject matter of, or the transactions or events giving rise to, any claim or interest that is treated in the Plan, the business or contractual arrangements between the Debtor and any Released Party, the restructuring of Claims and

Interests prior to or in the Chapter 11 Case, the negotiation, formulation, or preparation of the Plan, or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event or other occurrence taking place on or before the Effective Date, other than claims or liabilities arising out of or relating to any act or omission of a Released Party that constitutes willful misconduct, bad faith, or gross negligence. Notwithstanding anything to the contrary in the foregoing, the Third-Party Release shall not release any obligations of any party under the Plan or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan. For purposes of clarity, on the Effective Date, the Beartooth Litigation and the Member Litigation shall be dismissed with prejudice.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the Third-Party Release, which includes by reference each of the related provisions and definitions contained herein, and, further, shall constitute the Bankruptcy Court's finding that the Third-Party Release is: (1) in exchange for the good and valuable consideration provided by the Released Parties; (2) a good faith settlement and compromise of the claims released by the Third-Party Release; (3) in the best interests of Reorganized Southern and all holders of Claims and Interests; (4) fair, equitable and reasonable; (5) given and made after due notice and opportunity for hearing; and (6) a bar to any of the Releasing Parties asserting any claim or cause of action released pursuant to the Third-Party Release.

10.6 Exculpation. Except as otherwise specifically provided in the Plan, no Exculpated Party shall have or incur any liability to any Entity for any prepetition or postpetition act taken or omitted to be taken in connection with, or related to formulating, negotiating, soliciting, preparing, disseminating, confirming, or implementing the Plan, or consummating the Plan, the Disclosure Statement, the Noteholder financing of the Chapter 11 Case, the Chapter 11 Case or any contract, instrument, release or other agreement, or document created or entered into in connection with the Plan or any other prepetition or postpetition act taken or omitted to be taken in connection with or in contemplation of the restructuring of the Debtor; provided, that each Exculpated Party shall be entitled to rely upon the advice of counsel concerning his, her or its duties pursuant to, or in connection with, the Plan or any other related document, instrument, or agreement; provided, further, that the foregoing Exculpation shall have no effect on the liability of any Entity that results from any such act or omission that is determined in a Final Order to have constituted gross negligence, bad faith, or willful misconduct.

10.7 Injunction. Except as otherwise expressly provided in the Plan or for obligations issued or required to be paid pursuant to the Plan (including any obligations under the Restructured Note, and documents and instruments related thereto), or Confirmation Order, all Entities who have held, hold, or may hold claims, interests, or Liens that have been discharged pursuant to section 10.3, released pursuant to section 10.4, , or section 10.5, or are subject to exculpation pursuant to section 10.6 are permanently enjoined, from and after the Effective Date, from taking any of the following actions against, as applicable, Reorganized Southern, or the Released Parties: (1) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such claims or interests; (2) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against such Entities on account of or in connection with or with respect to any such claims or interests; (3) creating, perfecting, or enforcing any encumbrance of any kind against such Entities

or the property or the estates of such Entities on account of or in connection with or with respect to any such claims or interests; (4) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due from such Entities or against the property of such Entities on account of or in connection with or with respect to any such claims or interests unless such Entity has timely asserted such setoff right prior to the Effective Date in a document filed with the Bankruptcy Court explicitly preserving such setoff, and notwithstanding an indication of a claim or interest or otherwise that such Entity asserts, has, or intends to preserve any right of setoff pursuant to applicable law or otherwise; and (5) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such claims or interests released or settled pursuant to the Plan.

10.8 Retention of Causes of Action/Reservation of Rights. Except as expressly provided in the Plan, Reorganized Southern shall retain, and nothing contained in this Plan or the Confirmation Order waive or relinquish any rights and Causes of Action that the Debtor or the Estate may have under any provision of the Bankruptcy Code or any applicable non-bankruptcy law, including, without limitation, (a) all Causes of Action and Avoidance Actions (except as to Released Parties); (b) any and all Claims against any person or entity to the extent such person or entity asserts a crossclaim, counterclaim, and/or Claim for setoff, recoupment, or which seeks any affirmative relief, in any form or manner whatsoever, against Reorganized Southern, the Debtor or the Estate, and their respective officers, directors, or representatives; and (c) the turnover of any property of the Estate.

No person or entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against them as any indication that Reorganized Southern will not pursue any and all available Causes of Action against them. Except as expressly provided otherwise herein, the Estate and Reorganized Southern, as applicable, expressly reserve all rights to prosecute any and all Causes of Action and Claim objections against any person or entity.

Notwithstanding the foregoing, on the Effective Date, all pending Causes of Action or contested matters between and among the Debtor, the Members, the Noteholders, and the Indenture Trustee shall be dismissed with prejudice, including the Beartooth Litigation, the Cause of Action filed by the Members at Adversary No. 12-0017, and any other pending motion, application or request that are inconsistent with the Plan.

10.9 Terms of Injunctions or Stays. Unless otherwise provided in the Plan, the Confirmation Order, or a separate order of the Bankruptcy Court, all injunctions or stays arising under or entered during the Chapter 11 Case under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the later of the Effective Date and the date indicated in such applicable order.

10.10 Third Party Agreements; Subordination. Except as expressly Allowed or provided otherwise under the Plan, the right of the Debtor to seek subordination of any Claim pursuant to section 510 of the Bankruptcy Code is fully reserved for the benefit of Reorganized Southern or Committee Representative, as the case may be.

10.11 Dissolution of Committee. On the Effective Date, the Committee shall dissolve and members thereof shall be released and discharged from all rights and duties from or related to the Chapter 11 Case.

10.12 Substantial Consummation. On the Effective Date, the Plan shall be deemed to be substantially consummated under sections 1101 and 1127(b) of the Bankruptcy Code.

ARTICLE XI
RETENTION OF JURISDICTION

11.1 Jurisdiction of Bankruptcy Court. The Bankruptcy Court shall retain exclusive jurisdiction of all matters arising under, arising out of, or related to, the Chapter 11 Case and this Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

a. To hear and determine any motions for the assumption, assumption and assignment, or rejection of executory contracts or unexpired leases and the allowance of any Claims resulting therefrom;

b. To determine any and all pending adversary proceedings, applications, and contested matters relating to the Chapter 11 Case;

c. To hear and determine any objection to any Claims;

d. To enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, or vacated;

e. To issue such orders in aid of execution of the Plan to the extent authorized by section 1142 of the Bankruptcy Code;

f. To consider any modifications of the Plan, to cure any defect or omission or reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;

g. To hear and determine all applications for compensation and reimbursement of expenses of professionals under sections 330, 331, and 503(b) of the Bankruptcy Code;

h. To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Confirmation Order, the HGS Holding Trust, or any agreement, instrument, or other document governing or relating to any of the foregoing;

i. To hear and determine all disputes involving the existence, scope, nature or otherwise of the releases, discharges, injunctions, and exculpations granted under this Plan, the Confirmation Order, or the Bankruptcy Code;

- j. To recover all assets of the Debtor and property of the Estate wherever located;
- k. To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code (including any requests for expedited determinations under section 505(b) of the Bankruptcy Code filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Petition Date);
- l. To hear all matters relating to the Plan, including, but not limited to, all matters relating to the releases, exculpation, and injunction granted thereunder or the Bankruptcy Code.
- m. To hear any other matter consistent with the provisions of the Bankruptcy Code.
- n. To issue injunctions and effect any other actions that may be necessary or desirable to restrain interference by any entity with the consummation or implementation of the Plan; and
- o. To enter a final decree closing the Chapter 11 Case.

ARTICLE XII **MISCELLANEOUS PROVISIONS**

12.1 Modification of Plan. The Debtor, subject to consent by the Noteholders and/or the Members, to the extent that either is affected by any such amendment, reserves the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, to amend or modify the Plan at any time prior to the entry of the Confirmation Order. After the entry of the Confirmation Order, the Debtor may, subject to consent by the Noteholders and/or the Members, to the extent that either is affected by any such amendment, and upon order of the Bankruptcy Court, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan. A holder of an Allowed Claim or Member Interest that is deemed to have accepted the Plan accepts the Plan as modified if the proposed modification does not materially or adversely change the treatment of the Claim or Member Interest of such holder.

12.2 Withdrawal or Revocation. Subject to prior consent of the Noteholders and the Members, the Debtor may withdraw or revoke the Plan at any time prior to the Confirmation Date. If the Debtor revokes or withdraws the Plan prior to the Confirmation Date, or if the Confirmation Date does not occur, then the Plan is null and void. In such event, nothing contained herein or in the Disclosure Statement constitutes a waiver or release of any Causes of Action, or Claim by or against the Debtor or the Estate or any other person or to prejudice in any manner the rights of the Debtor or any other person in any further proceedings involving the Debtor.

12.3 Courts of Competent Jurisdiction. If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter arising out of this Plan, such abstention, refusal, or failure of jurisdiction shall have no effect upon

and shall not control, prohibit, or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

12.4 Notices. Any notices to or requests of the Debtor or Reorganized Southern by parties in interest under or in connection with the Plan shall be in writing and served either by (a) certified mail, return receipt requested, postage prepaid; (b) hand delivery; or (c) reputable overnight delivery service, all charges prepaid, and shall be deemed to have been given when received by the following parties:

Malcolm H. Goodrich
Goodrich Law Firm, P.C.
2619 St. Johns Avenue, Suite F
P.O. Box 1899
Billings, MT 59103-1899

and

Mark E. Freedlander
McGuireWoods LLP
625 Liberty Avenue, 23rd Floor
Pittsburgh, PA 15222

-and-

Southern Montana Electric Generation
and Transmission Cooperative, Inc.
3521 Gabel Road – Suite 5
Billings, MT 59102-7310
Attention: Carrie Boysun

12.5 Severability. In the event that the Bankruptcy Court determines, prior to the Confirmation Date, that any provision of the Plan is invalid, void, or unenforceable, the Bankruptcy Court shall, with the consent of the Debtor, the Noteholders and/or the Members, to the extent that any or all are affected by any such alteration or interpretation of the Plan, have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

12.6 Governing Law. Except to the extent the Bankruptcy Code or Bankruptcy Rules are applicable, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Montana without giving effect to the principles of conflicts of law thereof.

12.7 Headings. Headings are used in the Plan for convenience and reference only, and shall not constitute a part of the Plan for any other purpose.

12.8 Exhibits. All Exhibits and Schedules to the Plan are incorporated into and are a part of this Plan as if set forth in full herein.

12.9 Successors and Assigns. All the rights, benefits, and obligations of any person named or referred to in this Plan shall be binding on, and shall inure to the benefit of, the heirs, executors, administrators, successors, and/or assigns of such person.

12.10 Rates. Neither the Debtor, the Estate nor the HGS Holding Trust is subject to regulation as a “public utility” under the Federal Power Act, as amended. The Plan does not provide for the change of any rate that is within the jurisdiction of any governmental regulatory commission after the occurrence of the Effective Date, and the Plan requires no approval or authorization under section 1129(a)(6) of the Bankruptcy Code, nor under section 203 of the Federal Power Act, as amended; provided, however, that a subsequent or post-Plan disposition of the ownership of or control over HGS may require such approval or authorization under Section 1129(a)(6) of the Bankruptcy Code, or under Section 203 of the Federal Power Act, as amended.

12.11 Setoff/Recoupment Rights. Reorganized Southern or the Committee Representative, as the case may be, may, but shall not be required to, set off or recoup against any Allowed Claim and the distributions to be made pursuant to the Plan in respect of such Allowed Claim, the claims, of any nature whatsoever that Reorganized Southern or the Committee Representative on behalf of the holders of General Unsecured Claims, may have against the holder of such Allowed Claim, but neither the failure to set off or recoup, nor the allowance of any Claim under the Plan, shall constitute a waiver or release of any Claims that the Debtor, the Estate or Reorganized Southern may have against the holder of any Claim.

12.12 Final Decree. After the Plan has been fully administered, Reorganized Southern shall file a motion seeking a final decree pursuant to section 350 of the Bankruptcy Code, Bankruptcy Rule 3022, and any applicable Local Rule.

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