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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**

AMENDED DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION BY DEBTOR, SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.

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THIS DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE COURT

This proposed Disclosure Statement is not a solicitation of acceptance or rejection of the Plan (which is described and defined in this document). Acceptances or rejections may not be solicited until the Bankruptcy Court has approved this Disclosure Statement under Bankruptcy Code § 1125. This proposed Disclosure Statement is being submitted for approval only, and has not yet been approved by the Bankruptcy Court. The original template for this Disclosure Statement was drafted by Lee A. Freeman, as Chapter 11 Trustee of the Debtor, and his counsel. The Trustee's Disclosure Statement was ultimately approved by the Bankruptcy Court. Bankruptcy Rule 2012(b) provides, in pertinent part, that when a trustee is removed (as in the case in this instance) "…the successor is automatically substituted as a party in any pending action, proceeding or matter…" This form of proposed Disclosure Statement has been amended by the Debtor to reflect modifications consistent with the Debtor's Plan of Reorganization dated April 21, 2014, as more fully described herein..

SUMMARY OF THE PLAN

The *Plan of Reorganization by Debtor, Southern Montana Electric Generation and Transmission Cooperative, Inc.*, dated April 21, 2014, as it may be amended or modified (the "**Plan**"), submitted by Southern Montana Electric Generation and Transmission Cooperative, Inc. (the "**Debtor**"), provides for the continued operation of the Debtor for an estimated four (4) year period. The Plan is filed with the support of the four remaining members of the Debtor consisting of Tongue River Electric Cooperative, Inc. ("**Tongue River**") located in Ashland, Montana; Fergus Electric Cooperative, Inc. ("**Fergus**") located in Lewistown, Montana; Mid-Yellowstone Electric Cooperative, Inc. ("**Mid-Yellowstone**") located in Hysham, Montana; and Beartooth Electric Cooperative, Inc. ("**Beartooth**", and collectively with Tongue River, Fergus and Mid-Yellowstone, the "**Members**") located in Red Lodge, Montana. The Plan is also supported by all of the secured noteholders of the Debtor consisting of 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 (collectively, the "**Noteholders**"). Finally, incorporated within the Plan is a settlement reached with all of the Construction Lienholders which recorded mechanic liens against property of the Estate.

The Plan reflects a comprehensive settlement among the Debtor, the Members and the Noteholders which, from an Estate perspective, substantially improves upon the terms of a negotiated settlement between the Noteholders and the Trustee. The Plan resolves the issue of the value of the Noteholders' collateral and eliminates the Noteholders' current claim for a $46 million "make-whole amount". The settlement reached with the Noteholders will result in a material reduction of the Noteholders' debt, interest rate relief for Reorganized Southern, and a much shorter term within which the Noteholders' restructured debt is repaid. The Plan also provides for recoveries to other secured creditors and distributions to unsecured creditors that are equal to if not greater than what they would receive if the Debtor were to be liquidated. The Debtor submits that the most likely alternative to the Plan is conversion of the Debtor's case to a case under chapter 7 of the Bankruptcy Code, and correspondingly, years of uncertain and costly litigation among major constituents in the case.

The Debtor is seeking to obtain Bankruptcy Court approval of the Plan. Section 1125 of the Bankruptcy Code requires that the Debtor prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the Plan. This Disclosure Statement has been submitted in accordance with such requirements. **The Debtor urges all holders of Claims and Member Interests entitled to vote on the Plan to vote in favor of the Plan.**

THE DEBTOR SUBMITS THAT THE PLAN PROVIDES CREDITORS AND INTEREST HOLDERS WITH THE BEST POSSIBLE OUTCOME UNDER THE CIRCUMSTANCES AND THE GREATEST OPPORTUNITY FOR THE DEBTOR TO SUCCESSFULLY EMERGE FROM CHAPTER 11 ON TERMS THAT PROVIDE FOR FAIR AND REASONABLE TREATMENT OF ALL PARTIES IN INTEREST. THE DEBTOR STRONGLY RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN.

I. INTRODUCTION

The Debtor submits this amended disclosure statement (the "**Disclosure Statement**") pursuant to section 1125 of title 11 of the United States Code (the "**Bankruptcy Code**") in connection with the solicitation of acceptances and rejections with respect to the Plan, a copy of which is attached as **Exhibit 1** hereto. The Plan incorporates, without limitation, all exhibits, supplements, appendices, and schedules thereto, either in their present form or as the same may be altered, amended, or modified from time to time, or added. Unless otherwise defined herein, all capitalized terms contained herein have the meanings ascribed to them in the Plan.

The purpose of this Disclosure Statement is to set forth information (i) regarding the history of the Debtor, its business, and the Chapter 11 Case; (ii) concerning the Plan and alternatives to the Plan; (iii) advising holders of Claims and Member Interests of their rights under the Plan; (iv) assisting the holders of Claims in making an informed judgment as to whether they should vote to accept or reject the Plan; and (v) assisting the Bankruptcy Court in determining whether the Plan complies with the provisions of chapter 11 of the Bankruptcy Code and should be confirmed.

All holders of Claims and Member Interests are advised and encouraged to read this Disclosure Statement and the Plan in their entirety and to consult with counsel and business and tax advisors. The Plan summary in this Disclosure Statement is qualified in its entirety by the Plan and the exhibits and schedules attached to the Plan and this Disclosure Statement. The statements contained in this Disclosure Statement are made only as of the date hereof. There can be no assurance that the statements will be correct at any later time.

This Disclosure Statement has been prepared, approved, and distributed in accordance with section 1125 of the Bankruptcy Code, and Bankruptcy Rule 3016(b), and not necessarily in accordance with federal or state securities laws or other non-bankruptcy law. Further, any financial information contained in this Disclosure Statement was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants, the practices recognized to be in accordance with generally accepted accounting principles, or the rules and regulations of the Securities and Exchange Commission regarding projections. Furthermore, no financial information in this document has been reviewed or audited by the Debtor's independent accountants.

A Ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of Claims that the Debtor believes may be entitled to vote to accept or reject the Plan.

This Disclosure Statement is not and may not be construed as an admission of any fact or liability, stipulation, or waiver in contested matters, adversary proceedings, or other actions or threatened actions, but rather as a statement made in settlement negotiations. This Disclosure Statement shall not be admissible in any non-bankruptcy proceeding nor shall it be construed to be conclusive advice on the tax, securities, or other legal effects of the Plan as to holders of claims against, or equity interests in, the Debtor.

No solicitation of votes to accept the Plan may be made except pursuant to section 1125 of the Bankruptcy Code. No representations concerning the Debtor or the value of the Debtor's property has been authorized by the Bankruptcy Court other than as set forth in this Disclosure Statement. Any information, representations, or inducements made to obtain acceptance of the Plan, which are other than or inconsistent with the information contained in this Disclosure Statement and in the Plan, should not be relied upon by any holder of a Claim entitled to vote on the Plan.

A. HOLDERS OF CLAIMS/MEMBER INTERESTS ENTITLED TO VOTE

Pursuant to section 1126 of the Bankruptcy Code, only holders of allowed claims or interests that are (i) "impaired" by a plan of reorganization; and (ii) entitled to receive a distribution under such plan are entitled to vote to accept or reject a proposed plan. Under section 1126(f) of the Bankruptcy Code, classes of claims or interests in which the holders of claims or interests are unimpaired under a chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan. Section 1126(g) of the Bankruptcy Code provides that classes of claims or interests in which the holders of claims or interests are impaired under a chapter 11 plan such that they do not receive or retain property on account of their claims or interests are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan.

Under section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be "impaired" under the Plan unless (i) the Plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof; or (ii) notwithstanding any legal right to an accelerated payment of such claim or interest, the Plan, among other things, cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default. Claims in **Classes 2(A) (Noteholders), 2(B) (Other Secured Loans), 3 (Construction Lien Claims), 4 (General Unsecured Claims), 5 (Member Reserve Account Claims) and 8 (PPL Claim)** are impaired under the Plan and Claims in such Classes will receive distributions under the Plan to the extent not otherwise waived. As a result, **holders of Allowed Claims in those Classes are entitled to vote to accept or reject the Plan.**

Holders of Claims in **Classes 1 (Priority Non-Tax Claims), 6 (Member Capital Claims), and 7 (Member Interests)** are unimpaired by the Plan. As a result, **holders of Claims or Member Interests in those Classes are conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.**

Section 1126(c) of the Bankruptcy Code defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan.

In this case, if a Class of Claims entitled to vote on the Plan rejects the Plan, the Debtor reserves the right to amend the Plan or request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code or both. Section 1129(b) of the Bankruptcy Code (commonly known as "cram down") permits the confirmation of a chapter 11 plan notwithstanding the rejection of a plan by one or more impaired classes of claims or member interests. Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each rejecting class.

The Debtor is commencing this solicitation after extensive negotiations with all major constituencies. **Despite its efforts which resulted in settlements with virtually all major claim holders in this Chapter 11 Case, the Debtor has not obtained the support of the Committee as of the filing of the Disclosure Statement, however, the Debtor continues to engage in settlement dialogue with counsel to the Committee and remains optimistic that resolution can be reached with the Committee prior to the date of any Confirmation Hearing.**

THE DEBTOR SUBMITS THAT THE PLAN IS FAIR AND EQUITABLE AND PROVIDES THE BEST RECOVERY TO CLAIM HOLDERS UNDER THE CIRCUMSTANCES. THE DEBTOR SUBMITS THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF EACH AND EVERY CLASS OF CREDITORS ENTITLED TO VOTE ON THE PLAN AND STRONGLY RECOMMENDS THAT EACH CREDITOR VOTE TO ACCEPT THE PLAN.

Holders of Claims or Member Interests may obtain a copy of the Disclosure Statement and the Plan by contacting the Debtor's counsel, Malcolm Goodrich, at mgoodrich@goodrichlaw.com or (406) 256-3663.

B. VOTING PROCEDURES

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purposes of voting on the Plan. If you hold Claims in more than one Class and you are entitled to vote Claims in more than one Class, you will receive separate Ballots, showing the additional Classes in which you are entitled to vote; you should mark your Ballot accordingly. Ballots should be returned to:

Office of the Clerk Court
U.S. Bankruptcy Court District of Montana
Mike Mansfield Federal Building and U.S. Courthouse, Room 303
400 North Main Street
Butte, MT 59701

With copies to:

Malcolm Goodrich
Goodrich Law Firm P.C.
2619 St. Johns Ave., STE. F
Billings, MT 59102

-and-

Neal Jensen
United States Trustee's Office
Liberty Center, Suite 204
301 Central Avenue
Great Falls, MT 59401

TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED BY NO LATER THAN [_____ ____ , 2014], THE VOTING DEADLINE. ANY EXECUTED BALLOT RECEIVED THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR A REJECTION OF THE PLAN SHALL NOT BE COUNTED.

Do not return any other documents with your Ballot.

If you are a holder of a Claim entitled to vote on the Plan and you did not receive a Ballot, received a damaged Ballot, or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Plan, or the procedures for voting on the Plan, please contact the Debtor's counsel, Malcolm Goodrich, at mgoodrich@goodrichlaw.com or (406) 256-3663.

C. CONFIRMATION HEARING AND DEADLINE FOR OBJECTIONS

Section 1128 of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan. The Confirmation Hearing will be held on [_____ ____, 2014, at _____] (Mountain Time) before the Honorable Ralph B. Kirscher, United States Bankruptcy Court for the District of Montana, at [2601 Second Avenue North, Billings, Montana 59101]. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan, must be in writing and must be filed with the Bankruptcy Court and served upon the Debtor's counsel, Malcolm Goodrich, Goodrich Law Firm P.C., 2619 St. Johns Ave., Ste. F., Billings, MT 59102, so they are **received** by the Debtor's counsel no later than [_____ ___, 2014]. The Confirmation Hearing may be adjourned from time to time without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

II. OVERVIEW OF THE PLAN

A. SUMMARY OF CLASSIFICATION AND TREATMENT OF CLASSIFIED CLAIMS AND MEMBER INTERESTS

The following table briefly summarizes the classification and treatment of classified claims and interests under the Plan:

CLASS DESCRIPTION	IMPAIRMENT AND VOTE	TREATMENT
Class 1: Priority Non-Tax Claims	Unimpaired No	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 in Cash in an amount equal to the Allowed amount of such Priority Non-Tax Claim.
Class 2(A): Series 2010 A and Series 2010 B Notes	Impaired Yes	The Noteholders' Secured Claims, evidenced by the Series 2010(A) Note and Series 2010(B) Note, respectively, shall be Allowed in an aggregate principal amount equal to $22.25 million satisfied by way of (i) retention by the Indenture Trustee and the Noteholders of Adequate Protection Payments, Secured Lender Professional Fees and all other amounts paid by the Debtor and Trustee to the Indenture Trustee and Noteholders from the Petition Date through the Effective Date, (ii) 4-year term promissory notes allocated amongst the Noteholders in the aggregate principal amount of $21 million (collectively, the " Restructured Notes"), subject to reduction for application of certain Adequate Protection payments in accordance with the Plan, (iii) the delivery to the Noteholders on a Pro Rata basis of the deposit held by Northwestern Energy in the amount of $1.25 million, and (iv) the $1 million of funding for the HGS Holding Trust. In additional to receipt of the forgoing, the Noteholders shall also be entitled to an HGS Net Proceeds which shall not be applied to any balance due under the Restructured Notes. See the Plan for additional details regarding treatment of the deposit held by Northwestern Energy and the funding of the HGS Holding Trust. The Noteholders' Secured Claims shall not include the current Make-Whole Amount Claim, approximating $45,000,000, which is waived by the Noteholders in connection with the Plan. The Restructured Notes shall accrue interest at a simple interest rate of 4.125% per annum and Cash interest will be paid monthly as due. The minimum monthly amortization shall be equal to 1/2 of a straight line monthly amortization of the indebtedness through maturity. The minimum monthly payment due in each month shall be $237,668 based on a principal balance of $21 million, but shall be reduced to account for pre-payments, if any, in accordance with the Plan. Payments shall be made by way of a monthly Cash sweep of net operating cash over $1 million and applied to principal and interest due on the Notes. The Cash sweep shall not go into effect until the Restructured Notes are issued under the Plan and Adequate Protection Payments cease under the Cash Collateral Order, and shall not include Cash held on the Effective Date in excess of the $1.0 million required to be paid to the HGS Holding Trust on the Effective Date. The Cash sweep will therefore go into effect, if applicable, in the first full month after the Effective Date. Net operating cash shall consist of all Cash on hand remaining after payment of non-Noteholder creditor payments under the Plan, including Construction Lien Claims' payments and administrative payments, power supply, transmission charges, administrative overhead, operating expenses, and capital expenditures, if any, but not any amounts paid by Beartooth in respect of its exit from Reorganized Southern in excess of the pre-payment required to the Noteholders. The Restructured Notes shall contain standard negative covenants. Except as to emergency capital expenditures for which notice and consent by the Noteholders is impractical, any

CLASS DESCRIPTION	IMPAIRMENT AND VOTE	TREATMENT
		capital expenditures may only be incurred in accordance with a budget pre-approved by the Noteholders. Any unpaid amounts under the Restuctured Notes shall be payable upon maturity. Reorganized Southern and/or Members may pre-pay in whole or in part the Restructured Notes, and there shall be no prepayment penalty or make whole payment or any similar provision whatsoever upon payment prior to maturity. The Restructured Notes shall be secured by the assets and proceeds of such assets presently securing the Indenture Trustee and Noteholders' Claims (including collateral proceeds held at any time by the HGS Holding Trust) in the same order of priority as presently exists. The Members shall expressly acknowledge that the All Requirement Contracts serve as valid and perfected collateral for the Restructured Notes and are enforceable by the Indenture Trustee and Noteholders in the event of a subsequent default under the Restructured Notes. The Series 2010(A) and (B) Notes, Indenture, Collateral Agency Agreement, and any other document evidencing or prescribing Class 2(A) treatment under the Plan shall be amended, restated and/or replaced, as appropriate, to be consistent with the Plan, in forms substantially as included in the Plan Supplement. Adequate Protection Payments to the Noteholders and Indenture Trustee shall continue through the Effective Date on the present terms of the existing Cash Collateral Order, unless otherwise agreed by the Debtor and Noteholders, provided, however, that any Adequate Protection Payments paid to the Noteholders for the month of May 2014 and subsequently will be applied to the Restructured Notes as a principal prepayment of the same. Professional fee payments to the Noteholders and Indenture Trustee shall continue through the Effective Date and shall not reduce the balance of the Restructured Notes. No amounts paid to or on behalf of the Noteholders under the DIP Order or otherwise during the pendency of the Chapter 11 Case or pursuant to the Plan shall be avoidable, subject to subordination or otherwise subject to disgorgement.
Class 2(B): Other Secured Loans	Impaired Yes	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. If relief from the automatic stay is not sooner granted to CFC, then CFC shall be granted relief from stay with respect to the CFC Secured Loan Collateral to exercise all state law rights and remedies against Collateral. The CFC Secured Loan, as to Reorganized Southern, shall be deemed paid and satisfied in full as of the Effective Date. CFC shall have a deficiency Claim for any remaining amounts outstanding from the Debtor and Allowed as of the Effective Date, which General Unsecured Claim, to the extent Allowed, shall be paid in accordance with Class 4 of the Plan. Any Class 4 deficiency claim of CFC shall be withdrawn by CFC in the event such claim is paid by the Members. 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 by an exercise of rights by First Interstate Bank against collateral of any guarantor or co-obligor of the Claim held by First Interstate Bank then First Interstate Bank shall withdraw its Class 4 deficiency claim.

CLASS DESCRIPTION	IMPAIRMENT AND VOTE	TREATMENT
Class 3: Construction Lien Claims	Impaired Yes	Construction Lien Claims shall be deemed 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 amount claimed by the Construction Lienholders in excess of this reduced amount shall be deemed disallowed. The Construction Lien Claims shall be satisfied by payment of (i) the amount of $825,000 Cash payment on the Effective Date; and (ii) an aggregate amount of $2.5 million dollars 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. Nothing contained herein shall prevent the Debtor prior to the Effected Date, or Reorganized Southern after the Effective Date, as applicable, 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. Upon the occurrence of the Effective Date of the Plan, the Construction Lienholder Litigation and the Corval Litigation shall be dismissed with prejudice and without costs to any party. Until the Settlement Payment 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 Holding 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 the HGS, any vacant land owned by the Debtor, and the pipeline owned by the Debtor). Notwithstanding the foregoing, 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 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 Noteholders, and/or any third party to challenge the claims of the Construction Lienholders. The Claims of the Construction Lienholders shall be satisfied prior to the satisfaction of the Notes. Any and all statutes of limitations applicable to enforcement of the Liens held by the Construction Lienholders against Reorganized Southern's property, including HGS 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 Payment to the Construction Lienholders, the Construction Lienholders shall promptly provide and/or file releases of any Liens securing the Settlement Payment. The Construction Lienholders shall retain their Liens under the Plan that secure their Allowed Construction Lien Claims until paid in full in accordance with the Plan. An amount payable to release a Construction Lien Claim, if any, applicable to a specific HGS Holding Trust asset being transferred, shall be paid out of the HGS Net Proceeds to release such Lien. In the event that the Plan is not confirmed or does not become effective, all rights of all the Construction Lienholders, the Debtor and the Noteholders are preserved and the settlement of the Construction Lien Claims shall be deemed void and of no effect.
Class 4: General Unsecured Claims	Impaired Yes	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 proceeds of Avoidance Actions up to an amount not to exceed $1.0 million, or such larger amount as to which the Noteholders may consent. On the Effective Date, Avoidance Actions shall be transferred to the Committee Representative. In the event that proceeds of Avoidance Actions exceed $1.0 million, the Committee

CLASS DESCRIPTION	IMPAIRMENT AND VOTE	TREATMENT
		Representative shall request that the Noteholders consent to payment of such amount to holders of Allowed Class 4 Claims to the extent applicable, the Committee Representative shall make payment of Net Proceeds exceeding $1.0 million consistent with the response by the Noteholders to the request by the Committee Representative. 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 or the Debtor's Professional Fees duly paid and approved under the Plan.
Class 5: Member Reserve Account Claims	Impaired Yes	The Member Reserve Accounts shall be maintained in their current amounts, if any, and 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.
Class 6: Member Capital Claims	Unimpaired No	On the Effective Date, the Member Capital Claims shall retain their Allowed Claims in accordance with and as provided by the Debtor's Bylaws, as amended, with payment subordinated to the repayment of the Notes.
Class 7: Member Interests	Unimpaired No	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.
Class 8: PPL Claim	Impaired Yes	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. In the event that the PPL Claim is subordinated pursuant to 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. In the event of 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 or (ii) re-classifying the settled PPL Claim as a Class 4 Claim; or (iii) revising the treatment to PPL within present Class 8.

B. SUMMARY OF TREATMENT OF UNCLASSIFED CLAIMS

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

1. Administrative Expense Claims and Bar Date

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 or Reorganized Southern shall be paid in full and performed by the Estate or Reorganized Southern, as applicable, 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.

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 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.**

Administrative Expense Claims for Goods, Materials and Services Incurred in the Ordinary Course of Business. Other than as provided herein, 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 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 such Claims 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 the Plan. Other than HGS Costs for which the Debtor or HGS Holding Trustee are responsible for paying as and when due in the same manner as the Debtor and/or HGS Holding Trustee have been paid during the pendency of the Chapter 11 Case through the Effective Date, 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 Trustee for the use, access, operation, maintenance, retention and disposition of HGS (and its associated assets consisting on both real and personal property) existing prior to and after the Effective Date (though coming due for payment after the Effective Date) for the month on which the Effective Date occurs, Reorganized Southern and the HGS Holding Trust shall allocate the payment of HGS Costs, with Reorganized Southern paying for the pre-Effective Date period and the HGS Holding Trust covering the post-Effective Date portion of expenses attributable to HGS.

2. Other Specific Claims

Notwithstanding the foregoing, the following Claims, even if Administrative Expense Claims, shall be treated as follows:

a. *Professional Fee Claims*

Any entity seeking an award by the Bankruptcy Court of a Professional Fee Claim shall (i) file its final application for allowance of such Claim by no later than the date that is thirty (30)

days after the Effective Date or such other date as may be fixed by the Bankruptcy Court; and (ii) 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. All professional fees of the Indenture Trustee and Noteholders shall be deemed approved through the Confirmation Date and paid by the Debtor through the Effective Date.

b. ***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, (i) 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 (ii) 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 fourth (4th) 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.

c. ***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 Reorganized Southern to the United States Trustee in full, in Cash, within thirty (30) days after the Effective Date of the Plan. 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.

d. ***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 the Plan. The holder's vote in favor of the Plan or its failure to object to confirmation of the Plan shall be deemed to be such a consent.

e. ***Executory Contracts/Unexpired Leases; Claims***

Allowed Claims arising out of executory contracts or unexpired leases that are being assumed or assumed and assigned under the Plan, as set forth on Exhibit A to the Plan, are not classified. Rather, 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, as the case may be, shall Cure any and all undisputed defaults under the executory contracts and unexpired leases by paying the Cure amount as determined by the Bankruptcy Court or as agreed to by the parties.

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. 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 Debtor's liability with respect thereto, or as may otherwise be agreed to by the parties. The Debtor reserves the right, however, after the date of this Disclosure Statement but on or prior to the Confirmation Date, to amend the Plan to delete any executory contract or unexpired lease from Exhibit A of the Plan, or add any executory contract or unexpired lease to Exhibit A of the Plan, in which event such executory contract or unexpired lease shall be deemed to be, respectively, rejected or assumed. Any modification by the Debtor to Exhibit A of the Plan with respect to a contract or unexpired lease relating to HGS shall only occur following direction from the Noteholders. Any Claims that may arise from the rejection of executory contracts or unexpired leases pursuant to the Plan will be treated as General Unsecured Claims. As such, **to preserve its voting rights in the event that an executory contract or unexpired lease is ultimately rejected, any party to an executory contract or unexpired lease that believes it may have a claim relating to such executory contract or unexpired lease if the contract or lease were to be rejected should submit a Ballot in accordance with the voting procedures set forth herein whether or not such contract or lease is currently on Exhibit A to the Plan.** For avoidance of doubt, the Debtor will send a Ballot to all parties to executory contracts or unexpired leases, including those that are currently contemplated to be assumed or assumed and assigned as set forth on Exhibit A to the Plan. The Ballot will only be counted as a vote on the Plan if it is submitted in accordance with the voting procedures and if the executory contract or unexpired lease is not on Exhibit A to the Plan as of the Confirmation Date and is therefore an executory contract or unexpired lease that will be deemed rejected as of the Effective 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 Reorganized Southern and the Committee Representative by the later of: (a) thirty (30) days after notice of entry of the Confirmation Order; or (b) 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 and Reorganized Southern and their property and shall be deemed disallowed in full, released and discharged.

III. GENERAL INFORMATION

A. OVERVIEW OF CHAPTER 11

Under chapter 11 of the Bankruptcy Code, a party in interest may propose to reorganize or liquidate a debtor's business and assets subject to the provisions of the Bankruptcy Code.

In general, a chapter 11 plan (i) divides claims and interests into separate classes; (ii) specifies the consideration that each class is to receive under the plan; and (iii) contains other provisions necessary to implement the plan. Under the Bankruptcy Code, "claims" and "interests," rather than "creditors" and "shareholders," are classified because creditors and shareholders may hold claims and interests in more than one class. Under section 1124 of the Bankruptcy Code, a class of claims is "impaired" under a plan unless the plan (a) leaves unaltered the legal, equitable, and contractual rights of each holder of a claim in that class; or (b)

to the extent defaults exist, provides for the Cure of existing defaults, reinstatement of the maturity of claims in that class, compensates each holder of a claim for any damages incurred as a result of reasonable reliance upon the default, and does not otherwise alter the legal, equitable or contractual rights of each holder of a claim in that class.

The consummation of a plan is a principal objective of a chapter 11 case. A chapter 11 plan sets forth the means for satisfying claims against and interests in a debtor and, if appropriate, the future conduct of the debtor's business, the sale of the debtor's assets, and/or the liquidation of the debtor's remaining assets. Confirmation of a plan by the bankruptcy court binds the debtor, any person acquiring property under the plan, and any creditor or member interest holder of a debtor to the terms and provisions of the plan as of the effective date of the plan.

B. THE DEBTOR'S PREPETITION ORGANIZATION AND BUSINESS OPERATIONS

1. The Debtor, Its Members, Governance, and Commencement

a. *Rural Electric Cooperatives*

Rural electric cooperatives were formed in order to extend electric service to rural areas. The United States Congress enacted the Rural Electrification Act in 1936 for the purpose of providing electric power to rural communities of America.

Congress recognized that private companies operating electrical generation facilities had failed to extend electric service to rural areas. As a result of the Rural Electrification Act, rural communities formed non-profit electric distribution cooperatives. The distribution cooperatives later formed upper tier generation and transmission cooperatives (commonly referred to as "G & T" cooperatives) to supply electricity and transmission services to the distribution cooperatives. In turn, the distribution cooperatives sell power to the individual customer that is also a member of the distribution cooperative.

b. *The Debtor's Organization and Business*

The Debtor is a not-for-profit, Section 501(c)(12) tax exempt G & T cooperative duly formed under the Montana Rural Electric and Telephone Cooperative Act on March 26, 2003. The Debtor provides wholesale electricity and related services to its members for retail supply to farmers, ranchers, businesses, industries, and other citizens of 21 counties in Montana, encompassing approximately one-fourth of the area of the state and a portion of Wyoming. The Debtor, through its member systems, provides electric service to approximately 11,364 members and 19,619 meters.

c. *The Debtor's Members and the All-Requirements Contracts*

The Debtor's originating members are five electric distribution cooperatives, formerly of the Central Montana Electric Power Cooperative Inc. ("**Central Montana Electric**"), consisting of: Yellowstone Valley Electric Cooperative, Inc. ("**YVEC**"), Tongue River, Fergus, Mid-Yellowstone, and Beartooth. The City of Great Falls, Montana /Electric City Power, Inc. (collectively, the "**City**"), a municipal electric utility, was not one of the original members, but the City's request for membership was approved by the Debtor's Board of Trustees on

September 3, 2003. As described below, YVEC and the City are no longer members of the Debtor.

Each member of the Debtor is a party to a wholesale power contract with the Debtor. These are known as "all-requirements contracts." In general, the all-requirements contracts provide that the Debtor will sell and deliver to its members, and members shall purchase and receive from the Debtor, all electric power and related services necessary to meet their electricity supply requirements. The all-requirements contracts also contemplate that the Debtor has a commensurate obligation to serve electric power supply and related services needs of the members and secure long-term sources of power and related services for them. As an attribute of the members' obligation to purchase and the Debtor's obligation to serve, a predictable long-term revenue stream is established upon which the Debtor can and has relied to purchase power and pay for other financial obligations incurred by the Debtor on behalf of the Debtor's member systems.

The all-requirements contract is the structural keystone by which electric cooperative G & T systems across the nation provide a stable, interdependent power supply network whereby the distribution cooperatives pool their resources and band together to obtain power at wholesale prices, build central electric generation facilities, obtain favorable loans, and attempt to provide reliable, affordable, and predictably priced electric service to the customers they serve. The all-requirements contract is a multi-party agreement creating an essential interlocking relationship among the Debtor and all of its member systems.

Because the Debtor operates as a tax exempt Section 501(c)(12) not-for-profit corporation, the all requirement contracts between the Debtor and its members provide that the rates for electric power, energy, and transmission charged to the members may be revised as the Debtor's Board of Trustees deems necessary so that the revenues produced from the all-requirements contracts and other sources will be sufficient, but only sufficient, to meet the costs of operating and maintaining the Debtor's system, and sufficient, but only sufficient, to make payments on all of the Debtor's indebtedness.

d. ***Corporate Structure***

The Debtor operates pursuant to a set of Bylaws and Polices. Since its creation and until recently, the Debtor's Board of Trustees was comprised of six trustees, one from each of the member cooperatives and the City. Each of the member cooperatives of the Debtor are Class A members of the Debtor. Each of the Class A members of the Debtor are entitled to elect one trustee to serve on the Debtor's Board of Trustees.

As of the Petition Date, the Debtor's General Manager and Chief Executive Officer was Tim Gregori; its President was William FitzGerald; and its secretary and treasurer was Joe Dirkson. On or about November 9, 2011, Mr. Gregori was placed on administrative leave. Upon the emplacement of a Chapter 11 Trustee, Mr. Freeman, the Debtor's business activities under its Chapter 11 reorganization were controlled by Mr. Freeman exclusively without active Debtor board participation. Mr. Freeman was removed as Chapter 11 Trustee for the Debtor in late November 2013. Shortly thereafter, on December 2, 2013, at a scheduled and noticed board meeting, the Debtor resumed control of its affairs and elected new officers, David Dover, President, James De Kock, Vice President, and Arleen Boyd, Secretary/Treasurer. In addition, prior to the board meeting of the Debtor, the Members amended the bylaws to conform to

Montana Cooperative law and the number of Members remaining in the Debtor by providing for the seating of two member delegates from each Member with each Member holding one total vote per Cooperative. As of the date hereof, the Board of Trustees of the Debtor is comprised of the following individuals:

- David Dover, President (Fergus Electric)
- Jim DeCock, Vice President (Mid-Yellowstone Electric)
- Arleen Boyd, Secretary/Treasurer (Beartooth Electric)
- DeeDee Isaacs, Assistant Secretary (Tongue River Electric)
- Jason Swanz, Trustee (Fergus Electric)
- Lee Howard, Trustee (Mid-Yellowstone Electric)
- Laurie Beers, Trustee (Beartooth Electric)
- Jim Collins, Trustee (Tongue River Electric)

e. ***Commencement of Operations***

The Debtor commenced operations in June 2004, when Central Montana Electric assigned to the Debtor the five departing electric distribution cooperative members' share of their power purchase contracts with the Bonneville Power Administration Power Business Line ("**BPA**") and Western Area Power Administration ("**WAPA**"), and open access network transmission rights with NorthWestern Corporation d/b/a NorthWestern Energy ("**NWE**").

2. <u>Highwood Generating Station and SME</u>

As a cooperative organization, the Debtor's mission is to provide cost-based, competitively-priced energy and related services to its members. In furtherance of this mission, the Debtor determined that an important attribute of its ability to predictably meet the supply needs of the member systems it serves would be to construct what has become known as the Highwood Generating Station ("**HGS**"). The Debtor initially planned for HGS to be a 250 MW coal-fired power plant.

In November 2007, YVEC advised the Debtor's Board of Trustees that it no longer desired to be a part of the HGS project and that it wished to terminate its membership in and its all-requirements contract with the Debtor. The Debtor's Board of Trustees passed two resolutions on April 17, 2008 in an attempt to honor YVEC's request that it be shielded from any further liability relating to continued development of HGS. The first resolution fixed all of the Debtor's member's investment and liability in the development of HGS as of May 1, 2008. The second resolution (i) recognized those members with a continued interest in the development of HGS and (ii) provided that a new independent entity would be created to carry out any further development. The entity, named SME Electric Generation and Transmission Cooperative, Inc. ("**SME**") was created subsequent to this April 2008 meeting, and is comprised of Beartooth, Fergus, Mid-Yellowstone, and Tongue River. Neither YVEC nor the City are or have ever been members of SME. SME is not a debtor in this Chapter 11 case.

In November 2008, SME broke ground and began construction of the 250 MW plant, laying concrete and other foundation material. SME was able to complete these activities with

the assistance of local financial institutions that granted SME lines of credit guaranteed by SME's members.

In early 2009, construction activity for HGS ceased until SME could secure long-term financing. In addition, a decision was made in early 2009 to curtail plans to construct the 250 MW plant primarily due to opposition by environmentalists and the federal government's lack of support for new coal-fired plants (and the uncertainty associated therewith). The members of SME worked to modify the plans for HGS to instead construct a 120 MW natural gas-fired, combined cycle combustion turbine electric generation facility.

The creation of SME did not prove to be a viable option for financing HGS. Lenders were not interested in loaning funds to SME because, other than its investment in HGS, SME had no assets. Lenders wanted additional collateral, and the only other available collateral were the all-requirements contracts between the Debtor and its members. Thus, incident to the financing of HGS in February 2010 (as described below), SME's assets were transferred to the Debtor in exchange for an assumption by the Debtor of SME's indebtedness. More specifically, during January 2010, SME sent out a notice to all of the Debtor's members of a proposed disposition of property by SME to the Debtor. At a special Debtor membership meeting on February 19, 2010, the Debtor's Board of Trustees passed a resolution authorizing the Debtor's acquisition of substantially all of SME's tangible and intangible personal property relating to the development of HGS for the approximate value of $14,385,000.

Once decisions were made to move forward with plans for a gas-fired facility and financing was obtained in February 2010, the Debtor began the process of procuring construction and equipment contracts for HGS. After some preliminary work at the site, construction of HGS recommenced in the fall of 2010.

HGS was intended to be placed in service in two phases to allow for production commensurate with construction milestones. The first phase was contemplated to be the simple cycle portion of the HGS with a commercial operation date scheduled to be in January 2011. This goal was never completely met, because, although the facility was tested as a natural-gas 46 MW combustion turbine electric generating facility in February 2012, it had never operated commercially in full compliance with the Debtor's prepetition expectations or goals. The second phase, which was not commenced let alone completed, is the combined cycle portion of HGS with a commercial operation date that was scheduled to be in January 2012.

The cost estimate for Phase I of HGS was approximately $64,442,000; to date, construction costs for Phase I are approximately $68,531,000. The last estimate for construction and equipment costs for Phase II (provided by the Debtor's engineering consultants at a September 2011 Board of Trustees meeting) was approximately $176,000,000. This estimate did not include any costs for financing, closing, legal, or interest during construction. The only costs accrued by the Debtor for Phase II have been those associated with preliminary engineering, which total approximately $230,760.

HGS is located at a site east of Great Falls, Montana on about 197 acres of land, which is real property that the Debtor owns.

3. Assets

a. *Other Assets*

In addition to HGS and real property related to it, as of the Petition Date and as disclosed in the Schedules, the Debtor owned, among other things: (i) real property related to a substation interconnecting to HGS; (ii) transmission line easements; (iii) gas line easements; (iv) Cash; (v) security deposits; (vi) accounts receivable; (vii) claims against the City and YVEC; (viii) transmission rights; (ix) prepaid transmission costs; (x) vehicles; (xi) office equipment; (xii) telemetry equipment; (xiii) a tie line[1]; (xiv) prepaid dues, subscriptions, and regularity assessments; (xv) prepaid insurance premiums; (xvi) investments in associated organizations; and (xvii) patronage capital in Basin Electric. The Debtor also owns approximately a 19-mile gas pipeline connecting HGS to Great Falls.[2]

b. *Potential Refund Claim Against NorthWestern Corporation*

On September 21, 2012, the U.S. Federal Energy Regulatory Commission ("FERC") issued an Initial Decision regarding NorthWestern Corporation's ("NorthWestern") filing of revised tariff sheets for Schedule 3 service under its Open Access Transmission Tariff (the "Tariff"), see 140 FERC ¶ 63,023 (2012). This determination relates to an increased Tariff charged by NorthWestern with respect to the Dave Gates Generating Station. The Initial Decision was adverse to NorthWestern which then filed exceptions. The FERC ruled on the exceptions and affirmed the Initial Decision pursuant to Opinion No. 530 issued on April 17, 2014 at 147 FERC ¶ 61,049. In this opinion, the FERC ordered, among other things, that NorthWestern must make refunds to Schedule 3 customers consistent with the aforementioned order. The Debtor is a Schedule 3 customer of NorthWestern.

Any recovery of a refund from NorthWestern by the Debtor is highly speculative. This is true because based on a press release by NorthWestern dated April 18, 2014, indicating its disagreement with the April 17, 2014, FERC ruling and further indicating that NorthWestern is reviewing whether to exercise appellate rights. NorthWestern has thirty (30) days from the entry of the April 17, 2014, ruling within which to pursue appellate rights through a rehearing before the FERC. If unsuccessful in a rehearing, NorthWestern could appeal any such adverse determination to the US Court of Appeals. The press release by NorthWestern projects that such an appeal could extend into 2016 or beyond.

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[1] Before the Debtor was formed, YVEC and Central Montana Electric agreed to construct the Huntley Tie Line, located within YVEC's service area, near the town of Huntley. This tie line provided interconnection with BPA and WAPA's power supply (each discussed herein). YVEC constructed the tie line and Central Montana Electric contributed in aid of construction. After some of the members split from Central Montana Electric, forming the Debtor, the original agreement between YVEC and Central Montana Electric was assigned to the Debtor.

[2] Under a Purchase Option Agreement dated September 29, 2011, Energy West Montana has an option to purchase the pipeline for the lesser of $4,905,867.46 or the average of three appraisals, which Option is viewed by the Debtor as an executory contract. An explanation of the option shall not be deemed to bea an admission by the Debtor of the validity or enforceability of this agreement.

4. Prepetition Indebtedness

a. *The Primary Secured Debt - HGS*

To construct HGS and its related facilities, on or about February 26, 2010, the Debtor entered into that certain *Indenture of Mortgage, Security Agreement and Financing Statement* (the "**Indenture**"), among the Debtor as grantor, U.S. Bank National Association as trustee (the "**Indenture Trustee**"), pursuant to which the Debtor incurred indebtedness to the Noteholders (the Noteholders and the Indenture Trustee are, collectively, the "**Prepetition Secured Parties**") for (i) the Senior First Mortgage Notes, Series 2010A, due February 26, 2040 in the aggregate principal amount of $75,000,000 (the "**Series 2010A Notes**"); and (ii) the Senior First Mortgage Notes, Series 2010B, due February 26, 2026 in the aggregate principal amount of $10,000,000 (the "**Series 2010B Note**"; the Series 2010B Note and the Series 2010A Notes are, collectively, the "**Notes**"). The Indenture, and any related documents are, collectively, the "**Prepetition Loan Documents**").

To secure the obligations under the Indenture, the Debtor granted the Indenture Trustee, on behalf of the Noteholders, valid first priority liens (the "**Prepetition Liens**") upon and in substantially all of the Debtor's assets, and all proceeds and products of such assets (the "**Prepetition Collateral**") in accordance with the terms of the Prepetition Loan Documents. The Prepetition Collateral includes, among other things, HGS and the all-requirements contracts[3] between the Debtor and its members, other than YVEC - which was excluded from the collateral pool.

As of the Petition Date, the Debtor was liable to the Prepetition Secured Parties in respect of obligations under the Indenture for (i) the aggregate principal amount of not less than $85 million on account of the Notes issued under the Indenture (plus accrued and unpaid interest thereon); and (ii) unpaid fees, expenses, disbursements, indemnifications, obligations, and charges or claims of whatever nature, whether or not contingent, whenever arising, due or owing under the Prepetition Loan Documents or applicable law (collectively, the "**Obligations**").

On July 13, 2012, the Indenture Trustee filed Proof of Claim No. 69 in the amount of $131,949,294.56. This amount is based on the $75,000,000 Series 2010A Notes, $10,000,000 Series 2010B Note, and that certain Make-Whole Amount of approximately $46,000,000 provided for and calculated pursuant to Section 1.6 of the First Supplemental Indenture. Under section 4.2 of the Plan, the Noteholders have agreed to certain concessions with respect to their treatment, including but not limited, to (i) a reduction in the principal to be amortized by Reorganized Southern, (ii) a reduction in the term on which the reduced principal will be paid, (iii) a reduction of the interest rate, and (iv) a release of any claim to a Make-Whole Amount based on confirmation of the Plan.

b. *PPL*

As discussed below, the Debtor and PPL Montana, LLC, assigned to PPL EnergyPlus, LLC ("**PPL**"), were parties to an energy purchase contract. The Trustee rejected this contract, with PPL's consent. PPL filed Proof of Claim No. 50 in the amount of $374,863,708.19, of

[3] All of the Debtor's all-requirements contracts, except YVEC, are included in the Prepetition Collateral. YVEC's all-requirements contract was expressly excluded from the Prepetition Collateral.

which approximately $2.5 million was determined by the Bankruptcy Court to have priority pursuant to section 503(b)(9) of the Bankruptcy Code and $13 million allegedly arises on a postpetition basis. The balance purportedly arises out of the rejection of the contract. Also as discussed below, the section 503(b)(9) claim was allowed by order of the Bankruptcy Court but was settled at a 10% discount while on appeal. PPL's Allowed section 503(b)(9) claim under the settlement in the amount of $2,243,170.80 has been paid in full and the appeal has been dismissed.

c. ***NWE***

Pursuant to Proof of Claim No. 24, NWE asserts a $7,284,877 general unsecured claim against the Debtor for natural gas transmission.

d. ***National Rural Utilities Cooperative Finance Cooperative***

On or about May 24, 2011, the Debtor and National Rural Utilities Cooperative Finance Cooperative ("**CFC**") entered into a $5 million revolving line of credit. In conjunction with it, the Debtor provided CFC with a cash collateral deposit in the amount of $1,003,500. CFC advanced the $5 million. CFC filed Proof of Claim No. 27 in the amount of $5,005,523.21, $1,003,500 of which is allegedly secured by the deposit and the balance is unsecured.

e. ***First Interstate Bank***

First Interstate Bank filed Proof of Claim No. 11 in the amount of $1,862,139.71, $604,536.98 of which is allegedly secured and the balance is unsecured. This claim arises out of two notes that the Debtor executed. The first note is dated March 17, 2011 in the principal amount of $1,250,000; it is not secured by the Debtor's property, but is fully guaranteed by the Members. The second note is dated August 30, 2011 in the principal amount of $600,000; it is allegedly secured by a September 9, 2011 mortgage recorded in Cascade County, Montana, as Document No. R0239406 MG. SME pledged certain undeveloped real property as collateral for this obligation. It is believed that the second note of First Interstate Bank is fully collateralized by the value of the subject property.

f. ***Construction Lien Claims***

Prior to the Petition Date, certain entities recorded alleged construction liens against the HGS facility and/or other real property of the Debtor, purportedly in accordance with Montana statutes and case law. The Plan contemplates a settlement with holders of these Construction Lien Claims through their Class 3 treatment. Based upon the Debtor's Schedules and title work, the potential Construction Lien Claims include, without limitation, the following claimants and corresponding asserted amounts:

ENTITIES	AMOUNT
Graybar Electric	$167,000
Yellowstone Electric Co.	$371,410.06
Corval Constructors, Inc. f/n/a NewMech Companies, Inc.	$870,202.30
Falls Construction	$271,740.22

Grass Man Tractor Services	$20,387.97
Thermal Mechanical Insulation	$58,551.70
EPC Services Company	$1,858,773.31
The Energy Corporation	$532,553.13
Land Supply, Inc.	$180,351.50
TOTAL	**$4,330,970.19**

The Construction Lien Claims are the subject of an adversary proceeding as described below, which is also resolved as a result of the settlement reflected in the Plan.

g. ***The Members***

The Debtor's prior and current members have each respectively filed proofs of claim, all of which other than YVEC filed multiple proofs of claim. The following chart summarizes these Claims:

CREDITOR	PROOF OF CLAIM NO.	AMOUNT	TYPE OF CLAIM	BASIS
YVEC	66	$1,302,471.72	Class 5	Reserve fund
YVEC	66	$5,973,998.33	Classes 6 and 7	interest in HGS ($2,056,000); Debtor patronage ($3,713,120.69); Basin Electric patronage ($204,877.64); includes other unliquidated claims
Tongue River	51	$1,250,000	Class 4	Guarantee agreements related to First Interstate Bank
	52	Not stated	Class 4	Contribution/indemnification
	53	$489,900.40	Class 5	Reserve fund
	54	$1,470,499.30	Class 6	Debtor patronage ($1,364,016.94); Basin Electric patronage ($106,482.36)
	55	$1,878,116.68	Class 7	Interest in HGS
	56	$1,413,900	Class 4	Deposit related to CFC ($119,900); guaranty of Debtor's obligation to CFC ($1,294,000)
Fergus	31	$1,114,563.38	Class 5	Reserve fund
	32	$1,649,437.40	Class 6	Debtor patronage ($1,540,938.07); Basin Electric patronage

CREDITOR	PROOF OF CLAIM NO.	AMOUNT	TYPE OF CLAIM	BASIS
				($108,499.33)
	33	$2,689,831.81	Class 7	Interest in HGS
	34	$2,516,681	Class 4	Deposit related to CFC ($213,700); guaranty of Debtor's obligation to CFC ($2,302,981)
	37	Not stated	Class 4	Contribution/indemnification
	40	$1,250,000	Class 4	Guarantee agreements related to First Interstate Bank
Mid-Yellowstone	57	$150,770.22	Class 5	Reserve fund
	58	Not stated	Class 4	Contribution/indemnification
	59	$532,700	Class 4	Deposit related to CFC ($36,700); guaranty of Debtor's obligation to CFC ($496,000)
	60	$1,250,000	Class 4	Guarantee agreements related to First Interstate Bank
	61	$460,520.49	Class 6	Debtor patronage ($428,664.26); Basin Electric patronage ($31,770)
	62	$1,147,437.70	Class 7	Interest in HGS
Beartooth	35	$372,081.40	Class 5	Reserve fund
	36	$1,067,614.13	Class 6	Debtor patronage
	38	$1,361,151.83	Class 7	Interest in HGS
	39	$93,000	Class 4	Deposit related to CFC
	41	$80,566.32	Class 6	Basic Electric patronage
	42	Not stated	Class 4	Contribution/indemnification
	43	$1,250,000	Class 4	Guarantee agreements related to First Interstate Bank
Great Falls (unless otherwise stated)	20	$1,400,560	Class 4	Liquidation of certificates of deposit related to First Interstate Bank
	44	866,520.59	Class 5	Reserve fund
	45	Not stated	Class 4	Contribution/indemnification
	46	Not stated	Class 7	Water agreements
	47	$42,226.96	Class 6	Debtor patronage

CREDITOR	PROOF OF CLAIM NO.	AMOUNT	TYPE OF CLAIM	BASIS
	48	$1,144,390.31	Class 7	Interest in HGS
	63	Not stated	Class 4	Claims related to all-requirements contract (Great Falls)
	64	$107,750	Class 4	Deposit related to CFC
	65	Not stated	Class 4	Claims related to all-requirements contract (ECP)
	67	$10,000,000	Class 4	Breach of contract, breach of implied covenant of good faith and fair dealing, tortious interference, and breach of fiduciary duty (Great Falls and ECP)

Pursuant to the settlement agreements discussed below, all the claims filed by YVEC and the City were withdrawn (Dkt. Nos. 950 (YVEC) and 888 (City)).

5. Power Purchase/Electricity Transmission/Gas Transmission Agreements

To supply the Debtor's members with their energy requirements, the Debtor entered into power purchase agreements with BPA, WAPA and PPL. BPA's contract terminated on September 30, 2011. WAPA's contract continues through 2020. The PPL contract contains a termination date in 2019, but, as explained below, the Trustee rejected the contract effective March 27, 2012.

In addition, as of the Petition Date, the Debtor was under long-term contracts for transmission of electricity to its member systems and customers with NWE and WAPA.

Also, as of the Petition Date, the Debtor contracted with various parties for gas supply and gas transmission services, for the intended purpose of operating HGS. Co-parties include (i) EnergyWest Resources, LLC ("**EWR**") to schedule and purchase gas the Debtor would need for operation of HGS, and to manage and operate the Debtor's approximately 19 miles of natural gas pipeline to HGS and (ii) NOVA Gas Transmission, LTD ("**NOVA**") and Energy West Montana ("**EWM**"), an affiliate of EWR, with respect to various segments of the gas transmission facilities to EWM's facilities near Great Falls (including the 19 miles of pipeline). The NOVA agreement was rejected by the Trustee with the Bankruptcy Court's approval pursuant to 11 U.S.C. § 365, and NOVA subsequently filed a rejection damages claim in the amount of $2,616,600.

6. Regulatory Oversight of the Debtor

The Energy Policy Act of 2005 requires that the Federal Energy Regulatory Commission ("**FERC**") approve and enforce standards to protect and improve the reliability of the United States's Bulk Power System. Under this statutory framework, standards are proposed by an Electric Reliability Organization, a function currently held by the North American Electric

Reliability Corporation ("**NERC**"). NERC can further delegate compliance monitoring and enforcement authority to various Regional Entities. Mandatory compliance with the first set of NERC Reliability Standards approved by FERC came into effect on June 18, 2007. The Debtor's assets located in the United States must comply with all requirements of the FERC-approved reliability standards applicable to its current NERC Compliance Registry NCR05399 registered function(s).

In addition, the Montana and Federal Clean Air Acts require that stationary sources of air pollution receive and comply with air quality permits to protect human health and the environment. Under the authority of these statutes, the Montana Department of Environmental Quality issued both a pre-construction (AQP#4429-01) and an operating permit (#OP4429-00) for HGS. These permits establish emissions limits and requirements, and require regular monitoring and reporting. Although HGS has only operated for very limited time periods, the Debtor has been informed that HGS is subject to air quality permit requirements and has ongoing semiannual reporting and compliance certification requirements with which it is complying. HGS is also subject to the Federal and State Clean Water Acts, and has been issued a General Storm Water Construction Permit (#MTR100000), which currently requires ongoing inspections and monitoring of the facility. A number of other local and state environmental requirements are understood to be applicable and are likely to be addressed/or will be triggered in the event further operation of HGS.

7. Prepetition Business Operations

After commencing business operations in 2004, the Debtor operated as a "paper G & T" in that it did not own any generation or transmission facilities. Rather, the Debtor provided electric power and energy to its members through the power purchase agreements with BPA, WAPA, and PPL, as described above, and provided transmission services through an agreement with NWE. As also described above, shortly after it commenced business operations, the Debtor began to build a generation facility of its own in the form of HGS. Although Phase I of HGS was substantially completed before the Petition Date, it was never used to supply the Members with their power and energy needs.

Since the Petition Date, HGS was certificated for compliance with environmental laws and regulations through testing performed on February 6-8, 2012, and was recertified through testing on June 17 and 18, 2013. In the summer of 2013, HGS was operated from time to time on a limited test basis to troubleshoot the plant and to prove out its operability. Although problems were encountered with certain controls, pumps, and the like, it is believed that those issue have been resolved or are in the process of being resolved. The cost of resolving these issues has been fairly modest (approximately $75,000).

The Debtor is not aware as of the date of this Disclosure Statement of any major expenditures that will be required to keep HGS capable of generating power.

8. The Debtor's Prepetition Rates to Its Members

Although the Debtor executed confirmations with PPL in June 2009, it was not scheduled to receive any significant quantities of power from PPL until after the BPA contract expired in September 2011. Also, although the financing with the Noteholders closed in February 2010, payments of principal were not due to be paid until after the Petition Date and interest payments

through the Petition Date were funded from an interest reserve that had been established at the closing. Despite not having to make any significant payments to PPL or any principal or interest payments to the Noteholders, between January 1, 2009 and June 2011, the Debtor's rates to its members increased significantly, a total of 53.1%, in just two years and four months.[4] Under the Plan, the Debtor's rates to the Members will remain the same for the four year term of the Restructured Notes. The effective dates and amounts of historic rate increases were as follows:

DATE	RATE INCREASE (%)
February 18, 2009	8
June 16, 2009	4
September 16, 2009	5
October 16, 2009	7.5
January 15, 2010	3
June 15, 2010	3
January 17, 2011	4.5
May 17, 2011	4.5
June 17, 2011	4.2

9. Prepetition Employee Matters

a. *Description of Workforce*

Prior to the Petition Date, the Debtor employed 11 employees: three at the Debtor's operations office in Billings and eight at HGS. For the Debtor's operations, it employed a general manager, a power scheduler/engineer, and an accountant. At HGS, it employed a plant superintendent, three operators, one electronic, instrumentation and controls technician, an administrative assistant, and two night watchmen.

b. *Employee Benefits and Benefit Plans*

The Debtor's benefit package includes employer-paid health insurance premiums (including a prescription plan), basic group term life insurance (with a benefit level of two times employee's base annual earnings), business travel accident insurance, short-term disability insurance, and one half of the premiums of long-term disability insurance. Employees were responsible for the remaining one half of the long-term disability insurance premiums, as well as vision, dental, and any other supplemental insurance policies that are offered. Additionally, the Debtor established a 401(k) plan, administered by National Rural Electric Cooperative Association ("**NRECA**"). Employees were required to contribute 2% of their compensation to receive the employer's base contribution of 4%. The Debtor had also adopted a Retirement Security Plan, also administered by NRECA, where the Debtor made contributions to the plan without any requirement of employee contributions. There is a one-year waiting period of eligibility for both the 401(k) and Retirement Security Plans.

The Debtor allowed full-time regular employees to begin earning vacation from the date of hire at the accrual rate as set forth in the policy manual. There was a six-month probationary period from the date of hire before the employee was eligible to use vacation time. Any unused

[4] From June 2011 through the present, the Debtor's rates to the Members has remained unchanged.

vacation time would be paid out if an employee was laid off or resigned. The employees also accrued one day of sick leave per month and regular pay for each hour or workday of sick leave. Any unused sick leave would not be paid out in the event of layoff, resignation, or discharge.

The Debtor also maintained a workers' compensation and employers' liability policy.

C. SIGNIFICANT ADDITIONAL EVENTS LEADING TO THE CHAPTER 11 CASE

The blocks of power that the Debtor contractually obligated itself to purchase from PPL greatly exceeded the amount of power that it needed to serve its members. The additional capacity provided by HGS when construction was completed in September 2011 only compounded the situation. The Debtor was long on power and HGS only made it longer. The pre-Petition Date Debtor had made a bet on the rising cost of power which did not actually occur.

Prices for power, however, declined, and the Debtor was caught in the bind of having too much power at over-market prices. The Debtor did what it could to mitigate its losses, for example, by selling excess PPL power into the "imbalance market" at a loss, but nothing, short of a dramatic increase in market prices, could change the fact that the Debtor was going to have to pay as much as $1 million per month to PPL for power that it did not need.

Also, in July 2011, a pilot program under which residents of the City were given the option to purchase power from the City rather than another power supplier (such as PPL or NWE) expired. Many of its customers elected not to continue to participate in the program and stopped buying power from the City. The City began losing customers in the summer and fall of 2011 and, in due course, its load was reduced from approximately 20 MW to approximately 5 MW. This only served to exacerbate the Debtor's problem of having too much power capacity at above-market prices.

The decision to file a petition for reorganization was made at a meeting of the Debtor's Board of Trustees on October 21, 2011. There are draft but no final minutes for that board meeting. In the first section 341 Meeting of Creditors in this Case, Tim Gregori, the Debtor's General Manager at the time, gave some testimony about the meeting. Mr. Gregori testified that a dispute arose over whether to seat the new Board member from Beartooth. This dispute and perhaps others caused three of the trustees, those from Beartooth, YVEC, and the City, to walk out of the meeting. The remaining members eventually voted in favor of filing a petition for reorganization.

The dissention and disagreement among the members was not limited to the October 21, 2011, Board meeting. As explained below, YVEC had been trying to exit the Debtor since November 2007 and had even filed suit in an attempt to get out of its all-requirements contract. After it began losing money by selling electricity, the City requested termination of its participate in the Debtor in March 2011. The Debtor refused, as discussed below, and the City sued the Debtor to attempt to get out of its contract and terminate its membership in the Debtor. After the filing of this Chapter 11 Case, Beartooth advised, that it no longer wished to be a Member of the Debtor and wanted released from its all-requirements contract.

In addition to the foregoing business circumstances, the Debtor was a party to several court cases as described below.

1. The YVEC Litigation

On December 12, 2008, YVEC filed a complaint in District Court in Billings, Montana, Cause No. DV 08-1797, against the Debtor, SME, and other members of the Debtor and SME (the "**YVEC State Court Litigation**"). YVEC amended the complaint in July 2010, and asserted various claims, including oppression, breach of contract, and breach of the implied covenant of good faith and fair dealing. YVEC requested that (i) its membership be terminated, (ii) its all-requirements contract with the Debtor be terminated, (iii) that the Debtor refund the amounts YVEC paid to develop HGS, (iv) all deposits and equity contributions made by YVEC be returned, and (v) assign to YVEC portions of certain power supply contracts that the Debtor held with third parties. The Debtor filed a counterclaim on January 13, 2009 alleging that YVEC had not posted its required reserve amount with the Debtor, and that YVEC had not paid its contractual liability associated with the development of HGS and was not paying its power bills to the Debtor in a timely manner. The Debtor requested relief determining that the all-requirements contract is valid and binding. This action was set for a jury trial on November 9, 2011, but the Debtor's bankruptcy filing stayed the case.

2. The Great Falls/ECP Litigation

In March 2011, Great Falls requested by letter that it be relieved of its obligations to the Debtor under its all-requirements contract, threatening to withdraw from the Debtor's membership by March 18, 2011. Following at least two communications from the Debtor in response, on March 15, 2011, the City filed a complaint in District Court in Great Falls, Montana, Cause No. CDV 11-0256, against the Debtor and SME. The City sought numerous declarations such as the City's contracts and other obligations to the Debtor were void or voidable, including the all-requirements contract between the Debtor and Great Falls dated October 2, 2007.

On April 29, 2011, the Debtor counterclaimed against the City for (i) declaratory judgment (requesting declarations that the City must purchase and receive from the Debtor all electric energy required by the City customers through 2048, and that the City violated and/or repudiated the all-requirements contract, thus entitling the Debtor to specific performance and damages); (ii) injunctive relief (requiring the City to honor its obligations under the all-requirements contract); (iii) specific performance; (iv) breach of contract; and (v) bad faith breach of contract.

The Debtor's bankruptcy petition stayed this action.

3. The Billings Gazette Litigation

On June 21, 2010, the Billings Gazette (the "**Gazette**") filed a complaint in District Court in Billings, Montana, Cause No. DV 10-1095, against the Debtor seeking a declaration that the Board of Trustees meetings of the Debtor were subject to Montana's Open Meeting Law. In addition, it sought to void all action taken at a meeting held on June 18, 2010, and also sought a preliminary injunction precluding the Debtor from closing its meetings while this issue is being litigated. The Debtor's Board of Trustees adopted a resolution at its meeting on July 23, 2010, that authorized the Debtor's counsel to execute a stipulation regarding the Gazette's attendance at the monthly Board of Trustees meetings while the issue is in litigation. Additionally, the

resolution authorized a representative from the Gazette be permitted to attend the monthly Board of Trustees meetings.

This matter was also pending when the Debtor filed its bankruptcy petition.

IV. THE CHAPTER 11 CASE

The following is a brief description of some of the significant events that have occurred during the Debtor's Chapter 11 Case. This review is not exhaustive; the Debtor refers interested parties to the Debtor's docket with the Bankruptcy Court and the filings set forth therein for each filing in the Chapter 11 Case.

A. PETITION DATE

On October 21, 2011, the Debtor filed its chapter 11 voluntary petition for relief in the Bankruptcy Court.

B. THE DEBTOR'S APPLICATIONS TO EMPLOY PROFESSIONALS; COMPENSATION

At the outset of the Chapter 11 Case, the Debtor filed applications to employ three professionals. First, on October 26, 2011, the Debtor applied to retain Jon E. Doak and the law firm Doak & Associates, P.C. as its lead bankruptcy counsel (Dkt. No. 12). On November 8, 2011, YVEC objected to this application (Dkt. No. 39), and Beartooth joined the objection on January 6, 2012 (Dkt. No. 191). On January 11, 2012, the Trustee and Mr. Doak and his firm stipulated to the withdrawal of the retention application and waiver of any postpetition compensation (Dkt. No. 198), which stipulation the Bankruptcy Court approved on January 12, 2012 (Dkt. No. 200).

On October 31, 2011, the Debtor sought to retain Malcolm H. Goodrich and the law firm Goodrich Law Firm, P.C. to serve as co-counsel with Mr. Doak's firm (Dkt. No. 16); on November 14, 2011, the Bankruptcy Court approved this application (Dkt. No. 50). On December 1, 2011, the Debtor's co-counsel filed its final fee application (Dkt. No. 118), seeking fees in the amount of $25,841 for services rendered from November 1, 2011, to November 29, 2011; the Bankruptcy Court granted this fee application by order dated December 21, 2011 (Dkt. No. 163). Following removal of the Trustee by the Court, on December 2, 2013, Mr. Goodrich applied again to be approved as Debtor's counsel (Dkt. No. 1166), which application was granted on December 3, 2013 (Dkt. No. 1169).

On November 4, 2011, the Debtor applied to retain Randal J. Boysun, C.P.A. and Michelle M. Klundt, C.P.A. and the accounting firm Douglas Wilson and Company, PC (Dkt. No. 26); the Bankruptcy Court denied this application by order dated December 23, 2011 (Dkt. No. 171).

Finally, on December 27, 2013, the Debtor applied to retain McGuire Woods LLP as co-counsel to The Goodrich Law Firm, P.C. (Dkt. No. 1208), which application was granted by order dated December 17, 2013 (Dkt. No. 1217).

C. THE SCHEDULES AND STATEMENT OF FINANCIAL AFFAIRS

On November 4, 2011, the Debtor filed its initial Schedules (as amended for time to time, the "**Schedules**") and Statement of Financial Affairs (the "**SOFA**") (Dkt. No. 29). On April 27, 2012, the Trustee filed amendments to the Schedules (Dkt. No. 410).

D. THE § 341 MEETING OF CREDITORS

The initial meeting of creditors pursuant to section 341 of the Bankruptcy Code was scheduled to be on November 17, 2011 (Dkt. No. 10). On November 10, 2011, the United States Trustee continued the meeting to December 2, 2011 (Dkt. No. 46), on which date the meeting concluded.

E. STIPULATION FOR APPOINTMENT OF TRUSTEE; APPOINTMENT OF TRUSTEE

On November 14, 2011, the United States Trustee and the Debtor stipulated to the appointment of a chapter 11 trustee (Dkt. Nos. 55 and 56), which the Bankruptcy Court approved by order dated November 22, 2011 (Dkt. No. 96).

On November 28, 2011, the United States Trustee moved to appoint the Trustee (Dkt. No. 112), which the Bankruptcy Court granted by order dated November 29, 2011 (Dkt. No. 113).

F. THE TRUSTEE'S APPLICATIONS TO EMPLOY PROFESSIONALS

The Trustee employed several professionals on behalf of the Estate pursuant to section 327 of the Bankruptcy Code as set forth in the following table:

PROFESSIONAL	TYPE	APPLICATION DATE AND DOCKET NUMBER	ORDER DATE AND DOCKET NUMBER
Waller & Womack, P.C.	Local bankruptcy counsel	12/12/11; Dkt. No. 129 (supplemented 9/13/12; Dkt. No. 528)	12/13/11; Dkt. No. 131 (supplement approved 9/13/12; Dkt. No. 529)
Horowitz & Burnett, P.C.	Lead bankruptcy counsel	12/12/11; Dkt. No. 130 (supplemented 1/29/13; Dkt. No. 664)	12/13/11; Dkt. No. 132 (supplement approved 2/19/13; Dkt. No. 691)
Katten & Temple, LLP	Investigation counsel	1/3/12; Dkt. No. 184	1/4/12; Dkt. No. 185
Eide Bailly LLP	Audit and tax accountants; ESI preservation; forensic accounting	3/6/12; Dkt. No. 296 (first supplement 9/7/12; Dkt. No. 522); (second supplement 3/22/13; Dkt. No. 751); (third supplement 5/7/13;	3/7/12; Dkt. No. 297 (first supplement approved 9/10/12; Dkt. No. 526); (second supplement approved 3/22/13; Dkt. No. 752); (third

PROFESSIONAL	TYPE	APPLICATION DATE AND DOCKET NUMBER	ORDER DATE AND DOCKET NUMBER
		Dkt. No. 841); (fourth supplement 6/25/13; Dkt. No. 910)	supplement approved 5/8/13; Dkt. No. 842); (fourth supplement approved 6/25/13; Dkt. No. 912)
Hein & Associates LLP	Financial accountants	3/29/12; Dkt. No. 351	3/30/12; Dkt. No. 352
Harper Lutz Zuber Hofer and Associates, LLC (named changed to Harper Hofer and Associates, LLC (Dkt. No. 448))	Valuation Consultant	5/3/12; Dkt. No. 414 (supplemented 11/14/12; Dkt. No. 587)	5/3/12; Dkt. No. 415 (supplement approved 11/14/12; Dkt. No. 588)
Kroll Ontrack Inc.	Electronic discovery vendor	1/4/13; Dkt. No. 631	1/7/13; Dkt. No. 634
MR Valuation Consulting LLC	Power plant appraiser	1/8/13; Dkt. No. 638 (first supplement 5/20/13; Dkt. No. 850); (second supplement 8/9/13; Dkt. No. 980)	5/21/13; Dkt. No. 851 (first supplement approved 5/21/13; Dkt. No. 851); (second supplement approved 8/9/13; Dkt. No. 981)

G. THE MOTION TO REMOVE

On October 21, 2013, Fergus moved to terminate the Trustee's appointment (Dkt. No. 1101). The motion was joined by the Committee, Beartooth, and Mid-Yellowstone. The Trustee and the Noteholders objected to the motion, which objection was joined by several holders of Construction Liens. On November 26, 2013, the Bankruptcy Court granted the motion (Dkt. No. 1159). The Debtor, as a debtor-in-possession, is a successor to the trustee pursuant to Bankruptcy Rule 2012(b).

H. THE APPPOINTMENT OF OFFICIAL COMMITTEE OF UNSECURED CREDITORS; APPLICATION TO EMPLOY PROFESSIONAL

On November 29, 2011, the United States Trustee appointed a Committee of Unsecured Creditors (the "**Committee**") (Dkt. Nos. 109 and 111), consisting of PPL, NWE, LS Jensen Construction, Stanley Consultants, and Electrical Consultants, Inc.

On January 6, 2012, the Committee applied to retain Harold Dye and Dye & Moe, PLLP as its counsel (Dkt. No. 192), which the Bankruptcy Court approved by order dated January 9, 2012 (Dkt. No. 194).

I. THE MONTHLY COMPENSATION PROCEDURES

On January 19, 2012, the Bankruptcy Court entered an order (Dkt. No. 210) granting the January 4, 2012, Motion to Establish Interim Compensation Procedure for Professionals Retained Pursuant to 11 U.S.C. § 327 (Dkt. No. 186). Generally, that order permits, in relation to professionals employed pursuant to section 327 of the Bankruptcy Code, monthly compensation of 85% of fees and reimbursement of 100% of expenses, subject to certain notice and objection procedures, and fee applications and the Bankruptcy Court's orders related to same. The Trustee was authorized to utilize the foregoing procedures as well pursuant to a May 15, 2012, motion (Dkt. No. 424) granted by order dated June 4, 2012 (Dkt. No. 446). Following removal of the Trustee by the Court, the Debtor was also authorized to proceed in the same manner by order dated January 9, 2014 (Dkt. No. 1240).

J. PAYMENTS TO PROFESSIONALS EMPLOYED PURSUANT TO SECTION 327; PAYMENTS TO THE PREPETITION SECURED PARTIES' PROFESSIONALS

With regard to the professionals employed by the Trustee and the Committee pursuant to section 327 of the Bankruptcy Code, the Trustee paid and reimbursed the following fees and costs through November 22, 2013, pursuant to the monthly compensation procedures and fee applications and their related orders:

PROFESSIONAL/TRUSTEE	AGGREGATE AMOUNT PAID
Waller & Womack, P.C.	$104,519.34
Horowitz & Burnett, P.C.	$2,150,118.66
Katten & Temple, LLP	$0.00
Eide Bailly LLP	$117,143.66
Hein & Associates LLP	$0.00
Harper Hofer and Associates, LLC	$224,421.56
Kroll Ontrack Inc.	$23,282.36
MR Valuation Consulting LLC	$183,925.38
Dye & Moe, PLLP	$52,366.68
Lee A. Freeman, Trustee	$634,055.41

The Prepetition Secured Parties' professionals have also been subject to filing fee applications in the Chapter 11 Case. Through November 22, 2013, the Trustee paid and reimbursed these professionals $3,111,446.83. Following removal of the Trustee by the Bankruptcy Court, the Debtor has continued to pay professionals of the Prepetition Secured Parties consistent with the protocol established in the Chapter 11 Case.

K. ADEQUATE ASSURANCE TO UTILITIES

On November 10, 2011, the Debtor filed a motion prohibiting utilities from altering, refusing or discontinuing service, approving the Debtor's proposed adequate assurance of payment for future utility services, and approving procedures for resolving requests for additional adequate assurance (Dkt. No. 47). On November 14, 2011, the Bankruptcy Court granted this motion on an interim basis (Dkt. No. 52).

Soon thereafter, PPL, NWE, and WAPA entered into stipulations with the Debtor (Dkt. Nos. 87, 89, and 97, respectively) to address specific concerns they each had under the utility

motion and interim order granting same. The Bankruptcy Court approved each of these stipulations by orders dated November 21, 2011 (Dkt. Nos. 90 (PPL) and 91 (NWE)) and November 22, 2011 (Dkt. No. 98 (WAPA)).

Following the Trustee's appointment, he entered into several related stipulations, which were all approved by the Bankruptcy Court, as follows:

CREDITOR	STIPULATION	STIPULATION ORDER
WAPA	12/19/2011; Dkt. No. 155	12/21/2011; Dkt. No. 166
PPL	12/19/2011; Dkt. No. 156	12/21/2011; Dkt. No. 164
NWE	12/20/2011; Dkt. No. 159	12/21/2011; Dkt. No. 165
PPL	12/23/2011; Dkt. No. 170	12/23/2011; Dkt. No. 173
WAPA	1/19/2012; Dkt. No. 211	1/23/2012; Dkt. No. 217
NWE	1/23/2012; Dkt. No. 218	1/23/2012; Dkt. No. 219
NWE	2/13/2012; Dkt. No. 260	2/13/2012; Dkt. No. 261
NWE	3/12/2012; Dkt. No. 309	3/13/2012; Dkt. No. 311
NWE	4/13/2012; Dkt. No. 376	4/16/2012; Dkt. No. 379[5]

L. USE OF CASH COLLATERAL

On November 17, 2011, the Debtor filed an emergency motion to use cash collateral and provide adequate protection (Dkt. No. 76). On November 21, 2011, the Debtor and the Prepetition Secured Parties entered into a stipulation for, among other things, interim use of cash collateral (Dkt. No. 92), which the Bankruptcy Court approved by order dated November 22, 2011 (Dkt. No. 94).

The Trustee and the Prepetition Secured Parties entered into additional stipulations and agreed orders for interim use of cash collateral: (i) stipulation filed December 19, 2011 (Dkt. Nos. 157 and 158), approved by order dated December 21, 2011 (Dkt. No. 167); (ii) stipulation filed January 23, 2012 (Dkt. No. 220), approved by order dated January 24, 2012 (Dkt. No. 222); (iii) stipulation filed February 10, 2012 (Dkt. No. 256), approved by order dated February 13, 2012 (Dkt. No. 258); and (iv) agreed order filed March 12, 2012 (Dkt. No. 308), approved by order dated March 13, 2012 (Dkt. No. 314), as amended pursuant to the Trustee's April 13 and 17, 2012 motions to amend (Dkt. Nos. 373 and 380) and the April 13 and 19, 2012 orders granting the motions (Dkt. Nos. 375 and 393).

After several amendments, on April 23, 2012, the Trustee filed a final proposed cash collateral order (Dkt. No. 403), which the Bankruptcy Court approved by order dated May 1, 2012 (Dkt. No. 413). This order, among other things, provided for use of cash collateral until October 31, 2012. The October 31st deadline was extended to January 31, 2013 (Dkt. Nos. 564,

[5] Regarding this last stipulation between the Trustee and NWE, the parties agreed that so long as the Debtor made timely payments, a deposit in the amount of $1,250,000 provides NWE adequate assurance of payments going forward. The parties further agreed in this stipulation that "[u]pon confirmation of a plan in this case and payment of NWE's final invoice for services during the pendency of this case, the deposit of $1,250,000.00 will be returned to Debtor." This deposit is addressed in the Plan with respect to the treatment of Noteholders.

565, and 582). The January 31, 2013, deadline was extended to April 30, 2013 (Dkt. Nos. 662 and 690). The April 30, 2013, deadline was extended to August 31, 2013 (Dkt. Nos. 825 and 847). The August 31, 2013, deadline was extended to December 31, 2013 (Dkt. Nos. 987 and 988). The December 31, 2013, deadline was extended to February 28, 2014 (Dkt. Nos. 1215 and 1218). The February 28, 2014, deadline was extended to May 1, 2014 (Dkt. No. 1277). The Debtor is currently in discussion with Noteholders to extend th Cash Collateral Order beyond May 1, 2014.

Under the Cash Collateral Order, as a condition of the Debtor's continued use of the Noteholders' cash collateral, the Debtor is obligated to pay monthly Adequate Protection Payments to the Noteholders and to pay the Noteholders' reasonable fees and expenses. The Cash Collateral Order also served as a final determination as to the validity of the Noteholders' liens on substantially all of the Debtor's assets and included, among other things, a waiver of any right to surcharge the Noteholders under section 506(c) of the Bankruptcy Code.

The Cash Collateral Order also requires, subject to certain limitations relating to revenues from or proceeds of the YVEC all requirements contract, the Trustee and now the Debtor to use property not constituting Cash Collateral of the Noteholders prior to using Cash Collateral of the Noteholders.

M. LIMITING NOTICE

On January 11, 2012, the Trustee moved to limit notice in the Bankruptcy Case (Dkt. No. 197), which the Bankruptcy Court granted by order dated January 31, 2012 (Dkt. No. 235).

N. ASSUMPTION/REJECTION OF EXECUTORY CONTRACTS

1. The Lease and the Subleases

On February 20, 2008, the Debtor and an affiliate of Electric Consultants, Inc. ("**ECI**"), Tech Properties Development, LLC, entered into the *Office Lease Agreement*, leasing non-residential real property located at 3521 Gabel Road, Billings, MT as the Debtor's headquarters for some 10 years.

Postpetition, the Trustee and ECI entered into that certain *Office Sublease Agreement*, dated December 30, 2011. Also on December 30, 2011, the Trustee and ECI filed a stipulation with the Bankruptcy Court (Dkt. No. 182), seeking approval of the sublease. In the stipulation, the Trustee and ECI agree that the sublease is a substitute for the lease, replacing it with the sublease. Generally, the sublease provides for the Debtor's relocation of its headquarters to 7250 Entryway Drive, Billings, MT for a shorter term (about 15 months, plus some options vs. about seven remaining years under the lease), at a cheaper monthly rent.

On January 25, 2012, the Trustee moved to assume the sublease (Dkt. No. 223), which the Bankruptcy Court granted by order dated February 14, 2012 (Dkt. No. 264).

On April 4, 2013, the Trustee moved to enter into a month-to-month sublease with ECI (Dkt. No. 779), which the Bankruptcy Court approved on April 23, 2013 (Dkt. No. 821).

The Trustee terminated the sublease with ECI and entered into a new sublease with Kestrel Engineering Group, Inc. On September 9, 2013, the Trustee moved for approval of this

sublease (Dkt. No. 1014), which the Bankruptcy Court approved on September 27, 2013 (Dkt. No. 1063).

2. The PPL Stipulation and Its Claim

The Debtor and PPL were parties to a *Power Purchase and Sales Agreement*, dated September 17, 2004. On March 26, 2012, the Trustee and PPL stipulated, among other things, to the rejection of this contract pursuant to section 365(a) of the Bankruptcy Code (Dkt. No. 343). The Bankruptcy Court approved this stipulation by order dated March 27, 2012 (Dkt. No. 346). On July 13, 2013, PPL filed Proof of Claim No. 50 in the amount of $374,863,708.19, about $353.8 million of which is for purported rejection damages.

3. The Pitney Bowes Lease

On or about September 29, 2008, the Debtor entered into a lease with Pitney Bowes Global Financial Services LLC pursuant to which the Debtor leased certain postage meter equipment for 63 months with $283 due every quarter until expiration of the lease.

On March 26, 2012, the Trustee moved to reject this lease (Dkt. No. 342), which the Bankruptcy Court granted by order dated April 13, 2012 (Dkt. No. 371).

4. The NWE Energy Stipulation

The Debtor and NWE were parties to Natural Gas Intrastate Transportation Service Agreement, dated December 29, 2010. The Debtor had provided a prepetition deposit to NWE of $336,800 in connection with this agreement. On May 31, 2012, the Trustee and NWE stipulated to the rejection of the agreement and the offset and recoupment of a portion of its damages by NWE keeping the deposit (Dkt. No. 443), which the Bankruptcy Court approved by order dated June 1, 2012 (Dkt. No. 444).

O. THE YVEC MOTIONS

1. Determination that Automatic Stay Does Not Apply

On January 30, 2012, YVEC moved the Bankruptcy Court for a determination that a proposed recoupment does not violate section 362 of the Bankruptcy Code (Dkt. No. 230). More specifically, YVEC argued that it was entitled to the recoupment of sums from future bills for power that YVEC owed to the Debtor because it claimed the recoupment is part of the same transaction as the amount YVEC will pay to BPA, as a guarantor of the Debtor's obligations, for power acquired and supplied by the Debtor to YVEC. YVEC proposed that it exercise its recoupment rights by reducing its power bill owed to the Debtor by the amount YVEC is being forced to pay to BPA - $564,102.64.

On February 17, 2012, the Bankruptcy Court granted YVEC's motion and also approved a related February 6, 2012, stipulation (Dkt. No. 241) wherein YVEC agreed to delay exercising its right to recoupment until the due date for payment to the Debtor of YVEC's April 2012 monthly power bill (Dkt. No. 272).

2. Relief from Stay/Abstention

On February 17 and 21, 2012, YVEC moved the Bankruptcy Court to abstain from hearing any issues or proceedings concerning the YVEC State Court Litigation and for relief from stay to continue that litigation (Dkt. Nos. 274 and 278). On May 15, 2012, the Bankruptcy Court denied the motion (Dkt. No. 422). YVEC appealed this order (Dkt. No. 433) to the United States District Court for the District of Montana. However, as discussed below, the Trustee and YVEC subsequently entered into a comprehensive settlement agreement, which resulted in the appeal being dismissed with prejudice on May 20, 2013 (Dkt. No. 849).

P. ORDINARY COURSE PROFESSIONALS

On March 22, 2012, the Trustee filed the *Amended Motion by Trustee for Authority to Employ and Compensate Professionals for Specific Services Rendered in the Ordinary Course of Business* (Dkt. No. 335), which the Bankruptcy Court granted by order dated April 25, 2012 (Dkt. No. 406). On December 5, 2013, the Debtor filed the *Motion for Order Confirming Prior Order Authorizing Employment and Compensation of Ordinary Course Professionals for Debtor in Possession* (Dkt. No. 1173), which the Bankruptcy Court granted by order dated December 6, 2013 (Dkt. No. 1175). Generally, this order permitted the Trustee to retain and compensate certain professionals in the ordinary course of business without Bankruptcy Court approval of their employment or their compensation. Ordinary course professionals within the confines of this process include (i) ACES Power Marketing; (ii) Anderson-Montgomery Consulting Engineers; (iii) Atkins; (iv) Bison Engineering, Inc.; (v) Covington & Burling LLP; (vi) Proven Compliance Solutions, Inc.; (vii) Ugrin, Alexander, Zadick & Higgins; (viii) Marra, Sexe, Evenson & Bell, P.C.; (ix) Lotus Group USA, Inc.; and (x) The Energy Corporation.

Q. ADVERSARY PROCEEDINGS

1. The Beartooth Adversary Proceeding

On April 13, 2012, Beartooth commenced an adversary proceeding against the Debtor, bearing Adv. No. 12-00017 (Dkt. No. 374), asserting five alleged declaratory judgment claims.

On June 7, 2012, the Trustee moved to dismiss all of the complaint's claims (Adv. Dkt. No. 8), which the Bankruptcy Court granted in part by order dated December 20, 2012 (Adv. Dkt. No. 16), dismissing the second, fourth, and fifth claims. The remaining first claim requests a declaration that Beartooth's 2008 all-requirements contract is void (Beartooth does not seek any relief with respect to the all-requirements contract that it executed in 2007), and the remaining third claim requests a declaration that the pledge of Beartooth's all-requirements contract as collateral to the Prepetition Secured Parties is void.

On January 3, 2013, the Trustee answered the complaint (Adv. Dkt. No. 18).

On January 6, 2013, the Bankruptcy Court entered on order setting a pretrial scheduling conference for March 6, 2013 (Adv. Dkt. No. 20).

On February 12, 2013, Fergus, Mid-Yellowstone, and Tongue River moved to intervene as party defendants in this action (Adv. Dkt. No. 21). The motion to intervene was granted by the Bankruptcy Court (Adv. Dkt. No. 22).

On April 23, 2013, Beartooth filed a motion to add the Noteholders as parties, which the Bankruptcy Court granted (Adv. Dkt. Nos. 29 and 31).

The Noteholders filed a motion to dismiss the remaining count on September 19, 2013 (Adv. Dkt. No. 40), which has not yet been ruled upon by the Bankruptcy Court. Beartooth has objected to the motion to dismiss.

This adversary proceeding is subject to settlement under the Plan.

2. The City Adversary Proceeding

On July 17, 2012, the City commenced an adversary proceeding against the Debtor, bearing Adv. No. 12-00035 (Dkt. No. 495), asserting 10 alleged declaratory judgment claims. Generally, like its prepetition litigation against the Debtor, the City sought to relieve itself of its responsibilities under its all-requirements contract with the Debtor. The Debtor also sought to void a water services agreement, pursuant to which the City agreed to provide water for HGS (ultimately developed as a gas-fired generation facility). The Debtor asserted 21 enumerated defenses to the City's claims.

On September 24, 2012, the Trustee answered the complaint and counterclaimed against the City, requesting seven declarations, specific performance, and injunctive relief, and asserting three breach of contract claims including bad faith (Adv. Dkt. No. 10). The Trustee's breach of contract claims concern the all-requirements contract with Great Falls, the water services agreement, and an October 22, 2004, agreement pursuant to which the Debtor agreed to reduce its initial rates and accept a credit from the City against anticipated future raw water purchases by the Debtor (equal to $1,186,061.83). The City asserted 18 enumerated defenses to the Trustee's claims.

On January 9, 2012, the Bankruptcy Court held a pretrial scheduling conference and set a variety of pretrial deadlines as well as a 10-day trial commencing February 24, 2014 (Adv. Dkt. No. 22).

The Trustee and the City participated in two mediations before the Honorable Justice James Regnier on August 1, 2012, and November 13, 2012. These efforts did not result in any settlement. In due course, however, the City and the Trustee agreed upon the terms of a settlement. The Trustee filed a motion for approval of the settlement on May 8, 2013, which the Bankruptcy Court granted (including by authorizing the paydown of the Noteholders) on May 29, 2013 (Dkt. Nos. 843 and 865). Under the settlement, the City agreed to pay the Estate $3,250,000 in consideration of being released from its all-requirements contract with the Debtor and other consideration. The first installment in the amount of $2,500,000 was paid and delivered to the Noteholders as proceeds of their collateral. The second installment in the amount of $750,000 was paid and delivered to the Noteholders on or before December 30, 2013, as proceeds of their collateral.

3. The Construction Lien Adversary Proceeding

On May 10, 2013, EPC Services Company ("**EPC**") commenced an adversary proceeding against the Noteholders, the Trustee, and certain parties purporting to have perfected construction liens against HGS, bearing Adv. No. 13-00016 (Dkt. No.844). In this adversary

proceeding, EPC seeks a judicial determination of the nature, extent, and priority of the liens asserted against HGS. The Plan provides a settlement of this adversary proceeding in its Class 3 treatment.

4. The Avoidance Adversary Proceedings

On October 18, 2013, the Trustee commenced five Avoidance Actions against (i) Corval Group, Inc. and Corval Constructors, Inc. (bearing Adv. No. 13-00043); (ii) Powell Electrical Systems, Inc. (bearing Adv. No. 13-00044); (iii) Edwards, Frickle & Culver (bearing Adv. No. 13-00045); (iv) Doak & Associates, P.C. (bearing Adv. No. 13-00046); and (v) PPL EnergyPlus, LLC (bearing Adv. No. 13-00047). The adversary proceedings remain pending, although the Corval litigation is subject to settlement pursuant to the treatment in Class 3.

5. The Members' Adversary Proceeding

On September 23, 2013, the Members commenced an action for declaratory judgment against the Debtor asserting that the All-Requirements Contracts are unenforceable, unassignable and unassumable (bearing Adv. No. 13-00036). The Trustee filed his answer to the complaint denying the Members' assertions and asserting certain counterclaims. The Members subsequently filed motions for partial summary judgment and dismissal. The Noteholders filed a motion to intervene in this proceeding, and the Members consented to the Noteholders' intervention. This proceeding remains pending, and, should this case proceed, the Noteholders would vigorously defend the enforcement and assumability of the All-Requirements Contracts. This adversary proceeding is subject to settlement under the Plan.

R. CLAIMS PROCESS AND BAR DATE

On November 4, 2011, the Debtor filed the Schedules and SOFA (Dkt. No. 29); they reflect all of the Debtor's known assets and liabilities at the time of preparation based on the books and records available at that time. On April 27, 2012, the Trustee filed the *Trustee's Notice of Amendments to Schedules* (Dkt. No. 410).

On May 14, 2012, the Trustee moved to set a deadline for creditors to file proofs of claim (Dkt. No. 420). On May 15, 2012, the Bankruptcy Court granted this motion (Dkt. Nos. 425 and 426), establishing July 16, 2012, as the deadline (the "**Bar Date**") for filing proofs of claim against the Debtor. On May 22, 2012, the Trustee served written notices of the Bar Date to all known creditors (Dkt. No. 432-3) and appropriately published notice of the Bar Date (Dkt. No. 483). The time within which to file claims against the Debtor has expired.

Seventy-one proofs of claim asserting claims against the Debtor had been filed with the Bankruptcy Court. The Debtor is reviewing the proofs of claim, and anticipates that in due course, the Debtor will be filing objections to the allowance of certain claims.

S. THE PLAN PROCESS

Pursuant to section 1121 of the Bankruptcy Code, only a debtor may file a plan of reorganization during the 120-day period following the commencement of a chapter 11 case. If a debtor files a plan of reorganization during such time, the debtor will have an additional 60 days to solicit acceptances of its plan, during which time no other party in interest may file a plan.

Pursuant to section 1121(c)(1) of the Bankruptcy Code, however, the appointment of the Trustee terminated these exclusivity periods.

T. THE PPL ADMINISTRATIVE EXPENSE CLAIM

On July 13, 2012, PPL filed its *Application of PPL EnergyPlus, LLC for Allowance and Payment of Administrative Claim Pursuant to 11 U.S.C. § 503(b)(9)* (Dkt. No. 490), seeking allowance of a $2,492,412 administrative expense pursuant to section 503(b)(9) of the Bankruptcy Code.

On August 6, 2012, the Bankruptcy Court entered its *Order Granting Application of PPL EnergyPlus, LLC for Allowance and Payment of Administrative Claim Pursuant to 11 U.S.C. § 503(b)(9)* (the "**Administrative Expense Order**") (Dkt. No. 499), allowing PPL an "administrative expense claim pursuant to 11 U.S.C. § 503(b)(9) in the amount of $2,492,412.00."

On August 9, 2012, the Trustee, the Committee, and the Prepetition Secured Parties jointly moved to vacate the Administrative Expense Order (Dkt. No. 503). PPL opposed the motion (Dkt. No. 511).

The Bankruptcy Court ultimately denied the motion to vacate by order dated January 8, 2013 (Dkt. No. 635). On January 18, 2013, the Trustee, the Committee, and the Prepetition Secured Parties moved for reconsideration of this order (Dkt. No. 651). PPL objected to the motion (Dkt. No. 673), and the motion was argued and heard on February 26, 2013. On April 3, 2013, the Bankruptcy Court denied the motion for reconsideration (Dkt. 778), and on April 10, 2013, the Trustee appealed (Dkt. 810). During the pendency of the appeal, the Trustee and PPL settled the dispute, and on May 21, 2013, the Trustee filed a motion seeking Bankruptcy Court approval of the settlement, which the Bankruptcy Court approved on June 11, 2013 (Dkt. Nos. 855 and 874).

Under the settlement, PPL agreed to reduce its allowed administrative expense claim by 10% in exchange for immediate payment of the claim in the reduced amount of $2,243,170.80. That amount has been paid to PPL and the appeal has been dismissed.

U. THE YVEC SETTLEMENT

On January 18, 2013, the Trustee moved the Bankruptcy Court to approve a comprehensive settlement agreement with YVEC (Dkt. No. 652) intended to resolve the YVEC State Court Litigation, the pending appeal of the Bankruptcy Court's order denying YVEC's motion to the Bankruptcy Court to abstain from hearing any issues or proceedings concerning the YVEC State Court Litigation and for relief from stay, and YVEC's Proof of Claim No. 66 in the Debtor's bankruptcy case in the amount of $7,276,470.05, plus certain alleged undetermined amounts. Generally, this settlement, as amended, proposed that YVEC would pay the Estate $2,500,000; YVEC and the Debtor will release each other; YVEC would withdraw its Proof of Claim with prejudice and YVEC would not file any other claim; YVEC would cease to be a member of the Debtor, a creditor of the Debtor, or a party in interest in this Chapter 11 Case; the appeal would be dismissed with prejudice; the YVEC State Court Litigation would be dismissed with prejudice; the YVEC all-requirements contract with the Debtor would be terminated; and the power contract with

WAPA would be assumed and partially assigned to YVEC (approximately 9 MW of the 21.5 MW annual average, subject to the approval of WAPA's Administrator).

The Bankruptcy Court considered the motion at a hearing on March 26, 2013, and on April 5, 2013, granted it (Dkt. Nos. 783 and 784). The settlement has been fully consummated.

V. THE TRUSTEE'S REPORT

On January 3, 2012, the Trustee applied to retain Nancy Temple and the law firm Katten & Temple, LLP in the capacity of Trustee's investigation counsel in order to fulfill his fiduciary duties pursuant to, *inter alia*, sections 1106(a)(3) and (4) of the Bankruptcy Code. On May 7, 2013, the Trustee filed an application to expand the scope of his retention of Eide Bailly, LLP to include conducting a forensic accounting of the Debtor so that he may fully discharge his duties under section 1106(a)(3) and (4), which the Bankruptcy Court approved a day later (Dkt. Nos. 841 and 842).

Nancy Temple completed her investigation and submitted a finalized report to the Trustee (the "Temple Report"). The Temple Report is available to parties in interest on request from any of the Members' counsel. Eide Bailly finalized a Forensic Accounting Report dated October 8, 2013, which is also available to parties in interest from the Trustee or any of the Members' counsel. The Eide Bailly Report concludes, from examination, of the Debtor's financial activity from January 2008 through October 2011, that no irregularities or pattern indicia of fraud were detected. The Trustee never filed or provided to the Members a statement as required by section 1106(a)(4) of the Bankruptcy Code.

The Debtor is unaware of the status of the analysis in light of the removal of the Trustee.

W. THE VALUATION MOTION AND THE LIMITED OBJECTION

As noted above, the hearings on the adequacy of the Trustee's initial disclosure statement and initial plan of reorganization were postponed pending the Bankruptcy Court's determination of the Valuation Motion and the Limited Objection. In the Valuation Motion, the Trustee sought a judicial valuation of the Noteholders' collateral, which consists primarily of HGS, the Debtor's interest in the All-Requirements Contracts (other than the YVEC contract), the Debtor's interest in other contract rights, including the WAPA contract, and all of the Debtor's Cash except the proceeds of the YVEC contract. The keystone of the Trustee's argument was that the All-Requirements Contracts against which the Noteholders have liens should be valued at zero dollars because no third party buyer would take assignment of the All-Requirements Contracts and, accordingly, they have no market value. The Noteholders, on the other hand, argued that the All-Requirements Contracts had substantial value (to the point where the Noteholders suggested they are oversecured), which could be measured by the amount of value they bring to the Estate by funding the Debtor's satisfaction of its indebtedness.

Based on an appraisal of HGS as of January 1, 2013, by MRV, which the Trustee had obtained for property tax purposes, the Trustee initially asserted in connection with the Valuation Motion that HGS had a value of $5.6 million. The Trustee further asserted that the All-Requirements Contracts had no fair market value. In further support of his valuation of HGS, the Trustee later submitted a fair market value appraisal prepared by MRV as of January 1, 2014 which placed a value of $1,818,000 on HGS; and an orderly liquidation value appraisal prepared

by MRV as of January 1, 2014, which estimated the orderly liquidation value to be $14,398,000. In support of his valuation of the All-Requirements Contracts, the Trustee submitted an expert report by Harper Hofer & Associates ("**HHA**") in which HHA expressed its opinion that the All-Requirements Contracts had no fair market value. HHA was not asked to value the WAPA contract because the Trustee believed that, since it could not be assigned without WAPA's consent, it had no fair market value. Further, the Trustee contended that he had already received an informal estimate of the value of the WAPA contract to the Debtor in the amount of approximately $10 million in connection with his evaluation of the YVEC settlement. Since the Trustee's experts believed that the All-Requirements Contracts had no value and HGS had a value of approximately $14 million, the Trustee did not believe that the value, if any, of the WAPA contract would render the Noteholders oversecured.

In connection with their objection to the Valuation Motion, the Noteholders served upon the parties an Expert Report (the "**Report**") prepared by Alvarez & Marsal Valuation Services, LLC ("**A&M**"). Based upon the materials reviewed and the analyses performed by A&M as of the date of the Report, as well as the assumptions set forth more fully in the body of the Report, A&M gave the opinion that, as of May 31, 2013, the fair market value of HGS and associated real estate was $16,500,000, the intrinsic value of the All Requirement Contracts was $125,700,000, and the intrinsic value of the WAPA contract was $7,200,000. This valuation resulted in an argument that the Noteholders are oversecured. A&M argued, among other things, that the value of the All Requirement Contracts stems from the cost-savings they provide to the Debtor and the debt service that they allow. Without such contracts, the Debtor would take on all of the costs to operate and maintain HGS, buy electric energy and related services for resale, transmit power, and service its debt (which it could have never obtained without posting the All-Requirement Contracts as security). The Noteholders also argued that the value of the All-Requirement Contracts is dramatized by the fact that in the time in which this Chapter 11 Case has been pending, the Noteholders' collateral generated millions of dollars of collateral proceeds plus amounts attributable to the operation of the Estate. Further, the Noteholders hold a lien on the pipeline that runs to HGS which is believed to have significant value and to be of interest to at least one potential acquirer at the present time.

In response to the inquiries of certain parties as to how HGS could have such a low current value when the book value of HGS is around $100 million, the Trustee had asserted that the answers are found in great detail in the appraisals performed by MRV, copies of which were made available upon request from counsel for the Trustee. The short answer he gave was "economic obsolescence," which is the loss of earnings and value due to factors external to the property. Changes in market demand, federal or state law, the economy, and/or any operational constraints external to the asset that are detrimental to the earnings of an asset can be measured by capitalizing the expected losses in the earnings over the period that the condition is expected to exist. As a result of economic obsolescence, the Trustee believed that HGS will not appreciate in value until market prices for power increase.

In the Limited Objection, the Trustee objected to the allowance of a "Make-Whole Amount" in the amount of approximately $46 million that U.S. Bank, N.A, as Indenture Trustee, filed on behalf of the Noteholders, alleging, among other things, that the facts and circumstances of the Debtor's Chapter 11 Case had not triggered the Make-Whole Amount under the Indenture. The Noteholders strenuously disagreed, pointing to various provisions of the Indenture and related agreements that they assert entitles them to the Make-Whole Amount.

In response to the Limited Objection, the Noteholders argued that a Make-Whole provision of a loan agreement is a form of alternative performance or liquidated damages designed to compensate the lender for its losses resulting from acceleration or repayment prior to the scheduled maturity of the loan. The Noteholders further described that Make-Whole provisions are market-standard for fixed-rate loans and can generally be avoided if the borrower takes on interest rate risk itself by borrowing at variable rates. The Noteholders asserted that they are entitled to the Make-Whole Amount provided for under the Indenture upon maturity, which is defined to include early maturity by acceleration. Based on current continuing events of default under the Indenture, the Noteholders' notes were accelerated. As a result, the Noteholders argued that they are entitled to the Make-Whole amount.

Certain of the Members filed a joinder to the Limited Objection, arguing that the Make-Whole Amount in the Indenture caused the Noteholders to claim a usurious rate of interest in violation of Montana law. Tongue River also submitted an expert report presuming to calculate an effective rate of interest that takes into account the Make-Whole Amount. The Noteholders had argued that the Make-Whole Amount was not usurious and that they are exempt from Montana's usury statute.

The Bankruptcy Court entered a scheduling order on the Valuation Motion and Limited Objection (Dkt. No. 808) setting the hearing on both for the week of July 29, 2013, as well as deadlines for filing responses and disclosing expert witnesses. After the Valuation Motion and Limited Objection had been briefed and expert witnesses had been disclosed, the Trustee entered into a settlement with the Noteholders that was to be included in an amended plan of reorganization. Thus, on June 28, 2013, the Trustee filed an unopposed motion to adjourn the hearing on the Valuation Motion and the Limited Objection pending the confirmation hearing on the Trustee's amended plan, which the Bankruptcy Court granted on July 1, 2013 (Dkt. Nos. 918 and 922). The Debtor has withdrawn the Trustee's Motion for Valuation of Security on the basis that it is not necessary in light of the agreement in principle referred to below.

Issues regarding valuation of the Noteholder collateral, allowance of the Make-Whole Amount and other disputes among the parties are globally settled under the Plan.

X. THE SETTLEMENT BETWEEN THE TRUSTEE AND THE NOTEHOLDERS

The Trustee reached settlement with the Noteholders, which settlement was reflected in the Trustee's First Amended Plan of Reorganization dated August 14, 2013 (Dkt. No. 989). The Members and the Noteholders attempted to negotiate a resolution of the various and complex issues that existed between them. These negotiations lasted approximately five months without resolution. The Members did not participate in the negotiations and settlement reached between the Trustee and the Noteholders.

There was no written settlement agreement between the Trustee and the Noteholders. There is only a two-page term sheet, the terms of which were reflected in the Trustee's Disclosure Statement (Dkt. No. 990) accompanying Trustee's First Amended Plan of Reorganization dated August 14, 2013.

The settlement among the Debtor, its Members and the Noteholders, as memorialized in the Plan substantially improves upon the Noteholder's settlement with the Trustee. The Debtor

submits that the Noteholders have made significant concessions in the proposed Plan beyond those made by the Noteholders to the Trustee.

Y. THE MOTION TO CONVERT

On June 27, 2013, the Committee moved to convert the Chapter 11 Case to a case under chapter 7 of the Bankruptcy Code (Dkt. No. 913). The Committee's motion was joined by several of the Members. The Trustee objected to the motion, as did the Noteholders, and the Indenture Trustee, and two other parties joined in those objections. On August 7, 2013, the Bankruptcy Court denied the Committee's motion without prejudice, ruling that the Committee and other joinder parties had not offered any evidence supporting their claim that conversion was appropriate (Dkt. No. 979).

Z. THE MEMBERS' PLAN

On October 25, 2013, the Members filed a plan of liquidation (Dkt. No. 1107-1) (the "**Members' Plan**"). The Noteholders have identified to the Members' and the Debtor their opposition to the Members' Plan. The Members' Plan remains pending with no approved disclosure statement. It is contemplated that in connection with the filing of the Plan that the Members' Plan will be withdrawn.

AA. THE NOTEHOLDER PLAN

On December 17, 2013, the Noteholders filed a plan of reorganization (Dkt. No. 1191-1) (the "**Noteholders' Plan**"). The Members and Debtor have identified to the Noteholders their opposition to the Noteholders' Plan. The Noteholders' Plan remains pending with no approved disclosure statement. It is contemplated that in connection with the filing of the Plan that the Noteholders' Plan will be withdrawn.

BB. SECOND MOTION TO CONVERT

On December 27, 2013, Fergus and Beartooth filed a second motion to convert the Chapter 11 Case to a liquidation proceeding under Chapter 7 (Dkt. No. 1211) , which the Noteholders oppose. The motion remains pending, however, it is contemplated that on the Effective Date, this motion will be withdrawn.

CC. THE MEDIATION AND THE SETTLEMENT

On January 9, 10, 23 and 24, 2014, the Debtor, the Noteholders and the Members participated voluntarily in a mediation conducted by the Honorable Leif M. Clark. Judge Clark served for 25 years as the U.S. Bankruptcy Judge for the Western District of Texas, and has practiced alternative dispute resolution for 20 years. Judge Clark has served as mediator in numerous commercial cases spanning multiple disciplines.

The result of the mediation is the settlement embodied in a Term Sheet executed by the parties thereto on or about March 21, 2014, and filed with the Bankruptcy Court. (Dkt. No. 1308-1). The Term Sheet is more fully memorialized within the Plan. As more particularly described herein and in the Plan, the Noteholders have agreed to accept as satisfaction of their claims (i) all payments made to them in this Chapter 11 Case, (ii) the payment of all fees and costs, (iii) the creation and funding of the HGS Trust to dispose of the Noteholders' collateral

and (iv) $22.25 million in consideration in the form of a combination of (x) the Restructured Notes and (y) the tender of amounts on deposit with Northwestern Energy. In turn, the Debtor and the Members receive, among other consideration, the benefit of a reduced secured debt, with a much shorter term. Importantly, rates to the Members are not anticipated to change as a result of the settlement embodied in the Plan for the foreseeable future.

The settlement among the Debtor, the Noteholders and the Members removes the costs and risks associated with contested litigation which could have easily extended for years.

DD. REQUEST FOR ALLOWANCE AND PAYMENT OF ADMINISTRATIVE EXPENSE CLAIMS BY EWR AND EWM

On December 31, 2013, Energy West Resources, Inc. ("EWR") and Energy West Montana ("EWM") filed a Request for Allowance and Payment of Administrative Expense Claims (the "Request") at Docket No. 1219. EWR suggested in the Request that it holds a valid administrative expense claim in the amount of $1,014,573.72 related to certain gas contemplated to be supplied by EWR in respect of HGS and certain management fees related to the contemplated management an operation of a natural gas pipeline associated with HGS. EWM asserts in the Request that it holds a valid administrative claim in the amount of $1,278,733.16 under what amounts to a minimum requirements contract for the transmission of gas associated with HGS. On March 14, 2014, at Docket No. 1302, the Debtor filed an objection to the Request suggesting that under applicable case law in the Ninth Circuit, neither EWR nor EWM can satisfy the "actual and necessary" test necessary for the allowance and payment of an alleged administrative priority claim. The Request is currently scheduled for hearing before the Bankruptcy Court on May 22, 2014.

EE. POSTPETITION OPERATIONS

The Debtor's monthly operating reports are on file with the Bankruptcy Court, are available for inspection, and are incorporated herein by reference.

The Debtor has eight employees: two at the Debtor's operations office in Billings (power scheduler/engineer and accountant) and six employees at HGS (two operators, an electronics, instrumentation and controls technician, an administrative assistant, and two night watchmen). Currently, the services of the plant superintendent are being contracted out to an outside company. All prepetition benefits and employee policies described above have remained in place for the postpetition period.

Upon information and belief, no postpetition claims have been threatened or asserted against the Debtor, or persons associated with the Debtor.

FF. THE DEBTOR'S RATES TO ITS MEMBERS SINCE THE PETITION DATE

When the Debtor commenced the Chapter 11 Case on October 21, 2011, the most recent rate increase was in June 2011 (the Debtor's Board of Trustees had voted in favor of a 20% rate increase in September 2011, but it was subsequently revoked). Since the Petition Date, the Debtor's rates to its members have remained the same. In contrast, the Debtor's rates to its members increased by 53.1% during the two and one-half year period between January 2009 and June 2011.

V. THE CHAPTER 11 PLAN

The Plan is attached as Exhibit 1 hereto and forms a part of this Disclosure Statement. Statements as to the rationale underlying the treatment of Claims and Member Interests under the Plan and the description of the Debtor's business and financial affairs are not intended to, and shall not, waive, compromise or limit any rights, claims or causes of action or bind any persons in the event the Plan is not confirmed.

A. CONSIDERATIONS REGARDING THE PLAN

The primary focus of the Chapter 11 Case at first was to stabilize the Debtor's business operations and improve its Cash position. The Trustee, and then the Debtor after removal of the Trustee, have made substantial Adequate Protection Payments to the Noteholders during the Chapter 11 Case. The Debtor also remains current on the payment of administrative expenses, including full payment of the PPL administrative claim as reduced under the Court-approved settlement. With the rejection of several unfavorable contracts and the restructured terms of the Debtor's indebtedness, the Plan will allow Reorganized Southern to charge its Members reasonable rates for power, energy, and transmission services over the next four years, and pay off its restructured secured debt to the Noteholders within that abbreviated timeframe.

B. CLASSIFICATION AND TREATMENT OF CLAIMS AND MEMBER INTERESTS

See the detailed summary of the classification and treatment of classified and unclassified Claims at section II (A) of this Disclosure Statement.

C. IMPLEMENTATION OF THE PLAN

1. Continuation of Operations

Following the Effective Date, Reorganized Southern shall continue its 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 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. The only Members of Reorganized Southern as of the Effective Date shall be the Members unless Beartooth were to withdraw in accordance with the Plan. The Plan, however, provides for the ability of Reorganized Southern to terminate and dissolve on an abbreviated timeframe after the satisfaction of the Restructured Notes.

2. HGS Holding Trust

For a complete description of matters relating to the HGS Holding Trust, see section 5.3 of the Plan and the HGS Holding Trust Agreement to be filed as part of the Plan Supplement. On the Effective Date, the HGS Holding Trust shall be created and managed for the purposes of disposing of HGS which shall be held, however, by Reorganized Southern. The Trust shall be funded on the Effective Date by way of application of: (i) the Adequate Protection Payments of $780,000 per month for each of February, March and April of 2014 and (ii) $1 million of Cash on hand with Reorganized Southern on the Effective Date. The funding of the HGS Holding Trust shall cover the direct employee and administrative costs of holding the HGS and associated

assets, but not the administrative costs and expenses of Reorganized Southern. Once funded on the Effective Date, the Noteholders as beneficiaries of the HGS Holding Trust shall have the risks or benefits, as applicable, of all costs, liabilities and proceeds resulting from the HGS Holding Trust. On the Effective Date, Reorganized Southern assigns, transfers and conveys to the HGS Holding Trust any and all HGS Net Proceeds.

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 matter related to the HGS Holding Trust. On the Effective Date, the HGS Holding Trustee shall assume control over the dispostion 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, all at the discretion of the HGS Holding Trustee and at the sole cost and expense of the HGS Holding Trust. Notwithstanding anything herein to the contrary, the HGS Holding Trustee shall have no right to itself direct or effect any transmission or wholesale sale of electricity, nor to set any price for such transmission or wholesale sale, and all such rights and costs shall remain with the Debtor or, following the Effective Date, with Reorganized Southern; provided, however, that the HGS Holding Trustee may prevent the Debtor or, following the Effective Date, with Reorganized Southern, by order of the Bankruptcy 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. The Debtor, or following the Effective Date, 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.

As set forth in section 5.3 of the Plan, the HGS Holding Trust, beginning on the Effective Date, shall be responsible for and indemnify Reorganized Southern against all HGS Costs, including without limitation, any liability cost, expense or exposure accruing after the Effective Date resulting from holding title to HGS and the associated assets. In addition to the indemnity obligations of the HGS Holding Trust, and subject to the indemnity limitations more fully described in the Plan and the HGS Holding Trust Agreement, 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 titled in Reorganized Southern. This 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. During the period of time in which HGS and its associated assets are titled in 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 which Reorganized Southern is an additional named insured, insuring against liability arising from the ownership or operation of the assets of the HGS Holding Trust. The general liability coverage shall be written on an occurrence basis to allow for coverage for an occurrence during the policy period (even if the claim is made after the policy period is terminated).

On the Effective Date, Reorganized Southern will terminate the employment of any current employee of the Debtor associated with HGS, and cooperate with the Noteholders and the HGS Holding Trust to facilitate the HGS Holding Trust's employment, at the sole discretion of the Trustee, of those employees, so that as of the Effective Date, Reorganized Southern no

longer has any employee costs related to HGS and the associated assets. The HGS Holding Trust shall not assume any successor liability of the Debtor or any liability or exposure to damages, actions, or liabilities accruing prior to the Effective Date.

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 documents 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 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. Reorganized Southern and the Noteholders shall cooperate so as to achieve such transfers no later than the fourth anniversary of the Effective Date.

Reorganized Southern need not continue in existence beyond the date of the satisfaction of the Restructured Notes except as otherwise may be required by law, but not as may otherwise be required under any contract, license or agreement pertaining to the HGS Holding Trust assets. Upon the fourth anniversary of the Effective Date, Reorganized Southern shall no longer be required to retain title to the HGS Holding Trust assets, but shall transfer them, and to the extent legally permissible and practicable, the related licenses and permits, to the Noteholders, or upon instructions from the Noteholders, to the Noteholders' designee pursuant to transfer documentation prepared by the HGS Holding Trust.

3. Post-Effective Date Rates

The rates of Reorganized Southern to its members are established in the Term Sheet at approximately $70/mwh and shall not vary up or down without approval by the Board of Trustees of Reorganized Southern. The rates are not anticipated to change for the foreseeable future.

The Board of Trustees of Reorganized Southern shall continue to have the power and authority to set the rates of Reorganized Southern to its members so long as they are sufficient to satisfy Reorganized Southern's obligations under the Restructured Notes. Even before the Debtor filed this Chapter 11 Case, under the All-Requirements Contracts, the Board was required to set rates that were sufficient, but only sufficient, to cover all of the Debtor's costs and expenses, including debt service payments. The Plan does not change this.

Through letters dates February 29, 2008 to each of the Members, the Rural Utilities Service ("**RUS**") waived its rights under the All-Requirements Contracts to approve changes in the Debtor's rates to the Members. Thus, any rate increase does not need to be approved by the RUS or any other governmental regulatory commission with jurisdiction.

4. Implementation

Reorganized Southern, 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. Corporate Governance

Upon the Effective Date, the Debtor's Articles of Incorporation and Bylaws and any related corporate governance agreements (collectively defined in the Plan as the "**Corporate Governance Agreements**") shall be amended and restated in substantially the form included in the Plan Supplement. Reorganized Southern shall continue to exist after the Effective Date with all the powers available to the Debtor as the same legal entity, in accordance with applicable law and pursuant to its Corporate Governance Agreements. The Board of Trustees of Reorganized Southern shall have the power and authority to amend the Corporate Governance Agreements in any way it wishes so long as those amendments are consistent with Reorganized Southern's financial and economic obligations under the Plan. The Board of Trustees of Reorganized Southern shall not amend without Noteholders' consent any provision of the Corporate Governance Agreements relating to the payment of the Restructured Notes or the process for setting rates. The Corporate Governance Agreements, as amended, is assumed under the Plan with no Cure amount being due.

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.

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.

8. Power Supply Reorganized Southern may manage and purchase its power supply after the Effective Date 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. If any proposed rate change would render

Reorganized Southern unable to pay amounts due under the Restructured Notes, then Reorganized Southern may not approve such rate change without prior consent of the Noteholders.

9. Assumption of All-Requirements Contracts The Members' All-Requirements Contracts, as modified in the form included in the Plan Supplement, are assumed under the Plan with no Cure amount being due.

10. Assumption of WAPA Contract

Pursuant to the YVEC Settlement, the WAPA contract has been modified and assumed. Upon satisfaction of the Allowed Noteholders' Claims, under the Plan, in the event that the Members and Reorganized Southern determine to dissolve and/or otherwise terminate the ongoing operation of Reorganized Southern, the remaining power available under the WAPA contract shall be allocated among the Members as they may agree.

The existing contract with WAPA was modified and assumed 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 Members 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

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 by all 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.

11. Making of Distributions

Reorganized Southern, the HGS Holding Trustee, and/or the Committee Representative, 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. 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.

12. Termination of Reorganized Southern; Releases

Upon payment in full of the Restructured Notes, the All Requirement Contracts shall cease to be collateral for the Restructured Notes and Reorganized Southern shall have no continuing liability to the Noteholders in respect of the Restructured Notes. The Members agree that upon such event, they may direct Reorganized Southern to take all necessary steps to (i) terminate the All Requirement Contracts without further duty, responsibility or performance of any party; (ii) dissolve Reorganized Southern under applicable Montana law (but not by way of bankruptcy); and (iii) allocate the remaining WAPA power supply rights among the Members as the Members may agree.

The Plan provides that Reorganized Southern and the Members on the one hand and the Noteholders and the Indenture Trustee on the other hand shall exchange mutual and full releases regarding all aspects, conduct and claims in respect of the original Noteholders' financing, this Chapter 11 Case, and the post-Effective Date period up to and including the date of dissolution. Mutual releases shall also be available from the Noteholders on the one hand and the individual officers and directors of each Member and Reorganized Southern on the other hand for such purposes and periods provided the release shall contain a mutual non-disparagement clause covering verbal or written statement of any kind concerning any released or releasing party in the press or social media, or to any other energy cooperative.

Notwithstanding the foregoing, the release of the All Requirement Contract of Beartooth as collateral for the Restructured Notes, and Beartooth's withdrawal from Reorganized Southern, shall be approved by the Noteholders upon payment by Beartooth, or Reorganized Southern on behalf of Beartooth, to the Noteholders of an amount equal to the outstanding balance of the Restructured Notes multiplied 17.5211%, and upon such other terms and conditions not inconsistent herein approved by the Reorganized Southern and the Members. Upon such event, Beartooth shall receive and grant mutual releases from the Noteholders, Reorganized Southern and other Members upon the same terms and conditions associated with releases provided upon dissolution.

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, as the case may be, 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 set 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 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 section 5.2 of the Plan to the contrary, to the extent required under the Bankruptcy Code or the Bankruptcy Rules, any agreement between the Members or arbitration decision that sets the terms under which Beartooth may withdraw its membership, shall be subject to approval by the Bankruptcy Court.

f. Provided that any agreement between the Members or arbitration decision that sets the terms under which Beartooth may withdraw its membership complies with the requirements of section 5.2 of the Plan, 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, upon Beartooth's withdrawal as provided herein, the Members other than Beartooth shall remain liable to the Noteholders in accordance with the terms of the Restructured Notes and the Plan. Notwithstanding anything in the Plan to the contrary, except for the reduction in principal balance fo the Restructured Notes to reflect payment by or on behalf of Beartooth in accordance with section 5.2 of the Plan, 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 to 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.

D. PLAN PROVISIONS GOVERNING DISTRIBUTIONS

1. 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 have 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.

2. Undeliverable Distributions

a. *Holding of Undeliverable Distributions*

If any distribution to any holder is returned to Reorganized Southern or the Committee Representative as undeliverable, no further distributions shall be made to such holder unless and until Reorganized Southern or the Committee Representative 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 to attempt to locate any holder of an Allowed Claim.

b. *Failure to Claim Undeliverable Distributions*

On or about the six month anniversary of the Effective Date, Reorganized Southern, the HGS Holding Trustee or the Committee Representative, as the case may be, shall 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 such undeliverable distribution discharged and shall be forever barred from asserting any entitlement pursuant to the Plan against Reorganized Southern, the HGS Holding Trustee or the Committee Representative, as the case may be, or the property of Reorganized Southern. In such case, any consideration held for distribution on account of such Claim shall revert to Reorganized Southern.

c. *Time Bar to Cash Payment Rights*

Checks issued in respect of Allowed Claims shall be null and void if not negotiated within ninety (90) days after the date of issuance thereof. Requests for reissuance of any check shall be made to Reorganized Southern or the Committee Representative by the holder of the Allowed Claim to whom such check originally was issued. Any claim in respect of such a voided check shall be made on or before 90 days after the expiration of the ninety (90) day period following the date of issuance of such check. Thereafter, the amount represented by such voided check shall be treated in accordance with the provisions of section 5.15(b) of the Plan re undeliverable distributions.

d. *Manner of Payment under the Plan*

Any Plan distribution to be made in Cash under the Plan shall be made, at the election of Reorganized Southern, the HGS Holding Trustee or the Committee Representative, as the case may be , 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, in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

e. *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.

E. PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

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 the deadline for cause shown.

2. Allowance of Disputed Claims

At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, Reorganized Southern or 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.

3. Settlement of Objections to Claims After Effective Date

From and after the Effective Date, Reorganized Southern or the Committee Representative, with respect to Class 4 Claims only, 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 may settle or compromise any Disputed Claim without notice and a hearing and without approval of the Bankruptcy Court.

F. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

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, the Debtor shall assume all executory contracts and unexpired leases specifically designated on Exhibit A of the Plan, 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 Trust, as the case may be, 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 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 Debtor'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 the Reorganized Southern's discretion (subject to the consent of the Noteholders in each instance where the executory contract or unexpired lease related in any way to HGS), 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.

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 shall be deemed 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, which motion has not been denied by Final Order; (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 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) shall be deemed to be, 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. The Debtor shall provide notice of any amendments to the Plan to the parties to the executory contracts and unexpired leases affected thereby.

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 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 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.

4. Objections

Any party wishing to object to the assumption of any executory contract or unexpired lease hereunder, including any proposed Cure, if any, set forth in Exhibit A of the Plan, must file an objection with the Bankruptcy Court by the deadline to object to the Plan and such dispute shall be resolved by the Bankruptcy Court. **Any counterparty that does not object to the assumption or assumption and assignment, or the proposed Cure, if any, set forth in Exhibit A, of its executory contract or unexpired lease under the Plan shall be deemed to have consented to such assumption or assumption and assignment, 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, shall be deemed 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, shall be deemed 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.**

G. CONTINUED EXISTENCE OF THE ESTATE

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 Effective Date, the Estate shall remain in existence and Reorganized Southern shall administer the Estate in accordance with the provisions of the Plan, the Bankruptcy Code and the Bankruptcy Rules.

From and after the Confirmation Date until the Effective Date, the Debtor's professionals shall receive such compensation as may be approved. 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) 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.

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 its obligations under the Plan without Bankruptcy Court approval.

H. EFFECTIVENESS OF THE PLAN

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 approving the Disclosure Statement as containing adequate information pursuant to section 1125 of the Bankruptcy Code and authorizing the solicitation of votes with respect to the Plan.

b. *Confirmation Order*

The Bankruptcy Court shall have entered a Confirmation Order (i) determining that all votes are binding and have been properly tabulated as acceptances or rejections of the Plan; (ii) confirming and giving effect to the terms and provisions of the Plan; (iii) determining that all applicable tests, standards, and burdens in connection with the Plan have been duly satisfied and met; (iv) authorizing Reorganized Southern to execute, implement, and take all actions otherwise necessary or appropriate to give effect to the transactions contemplated by the Plan; and (v) determining that the compromises and settlements set forth in any settlement agreement and the Plan are appropriate, reasonable, and approved and satisfy applicable standards under sections 365, 1123(b)(3), and 1129 of the Bankruptcy Code and Bankruptcy Rule 9019.

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 deemed to be 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 or 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 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 each shall be in form and substance reasonably satisfactory to the Debtor, the Noteholders, and the Members.

2. Conditions Precedent to the Effective Date of the Plan

The following are conditions precedent to the Effective Date of the Plan: (i) the Confirmation Order shall have entered and no stay of the Confirmation Order shall then be in effect; (ii) all authorizations, consents, and approvals determined by the Debtor and the Noteholders to be necessary to implement the terms of the Plan shall have been obtained; (iii) the Debtor shall have at least $1.0 million of working capital; and (iv) the Debtor shall have sufficient funds on hand to pay all Allowed Administrative Claims and Administrative Claims projected by the Debtor to be Allowable; and (v) insurance shall be in place for the benefit of Reorganized Southern with respect to its holding of title of HGS consistent with section 5.3(f) of the Plan.

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 Causes of Action or Claims against or Member Interests in the Debtor; (b) prejudice in any manner the rights of the Debtor or the Noteholders; or (c) constitute an admission, acknowledgement, offer, or undertaking of any manner by the Debtor or the Noteholders.

I. OTHER PLAN PROVISIONS

1. 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, the Debtor 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.

2. Discharge of Claims

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 holder of Claims and Interests, and is fair, equitable, and reasonable.

3. Exculpation and Releases

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, the Debtor and its Estate shall release, and each Released Party shall be deemed released and discharged by the Debtor 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 the Debtors, 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 Noteholder 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 the Debtor 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 the Debtor or its Estate asserting any Claim or Cause of Action released pursuant to the Debtor Release.

As of the Effective Date, except as otherwise provided in the Plan, Releasing Parties shall release, and each of the Debtor, its Estate, and the Released Parties shall be deemed 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 purchase, sale, or rescission of the purchase or sale of any security of the Debtors, the Noteholder financial 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.

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 the

Debtor 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.

4. 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 shall be deemed to be a waiver or the relinquishment of, 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; (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 the Debtor or the Estate, and their respective officers, directors, or representatives; and (c) the turnover of any property of the Debtor's 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 that are inconsistent with the Plan.

5. 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, the Debtor, the 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.

6. 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 the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code.

7. Modification of Plan

The Debtor (with the reasonable consent of the Noteholders and the Members) 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 (with the reasonable consent of the Noteholders and the Members) may, 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 shall be deemed to have accepted the Plan as modified if the proposed modification does not materially and adversely change the treatment of the Claim or Member Interest of such holder.

8. Withdrawal or Revocation

Subject to prior consent of the Noteholders and 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 shall be deemed null and void. In such event, nothing contained herein or in the Plan shall be deemed to constitute 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.

VI. CERTAIN FACTORS AFFECTING THE DEBTOR

A. RISK OF NON-CONFIRMATION OF THE PLAN

Although the Debtor submits that the Plan will satisfy all-requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion or that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate resolicitation of votes.

B. FAILURE OF CONDITIONS PRECEDENT TO CONFIRMATION OF THE PLAN

The Plan provides for certain conditions that must be satisfied (or waived) prior to Confirmation of the Plan and for certain other conditions that must be satisfied (or waived) prior to the Effective Date. As of the date of this Disclosure Statement, there can be no assurance that

any or all of the conditions in the Plan will be satisfied (or waived). Accordingly, there can be no assurance that the Plan will be confirmed by the Bankruptcy Court, and if the Plan is confirmed, there can be no assurance that the Plan will be consummated.

VII. CONFIRMATION OF THE PLAN

A. REQUIREMENTS FOR CONFIRMATION OF THE PLAN

1. General Requirements of Section 1129

At the Confirmation Hearing, the Bankruptcy Court will determine whether the following confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied:

- The Plan complies with the applicable provisions of the Bankruptcy Code.
- The Debtor has complied with the applicable provisions of the Bankruptcy Code.
- The Plan has been proposed in good faith and not by any means proscribed by law.
- Any payment made or promised by the Debtor or by a person acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Case, or in connection with the Plan and incident to the Chapter 11 Case, has been disclosed to the Bankruptcy Court, and any such payment made before confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.
- The Debtor has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer, or voting trustee of Reorganized Southern under the Plan (and such is consistent with the interests of creditors and equity security holders and with public policy), and the identity of any insider that will be employed or retained by Reorganized Southern and the nature of any compensation for such insider has been disclosed.
- Any governmental regulatory commission with jurisdiction, after confirmation of the applicable Plan, over the rates of the Debtor, as applicable, has approved any rate change provided for in the applicable Plan, or such rate change is expressly conditioned on such approval.
- With respect to each Class of Claims or Member Interests, each holder of an impaired Claim or impaired Member Interest either has accepted the Plan or will receive or retain under the Plan on account of such holder's Claim or Member Interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if the Debtor was liquidated on the Effective Date under chapter 7 of the Bankruptcy Code. In addition, should any Class make a valid section 1111(b) election under the Bankruptcy Code, the Plan provides that any Claims in such Class will receive under the Plan on account of such Claims, property of a value, as of the Effective Date of the Plan, that is not less than the value of such holder's interest in the Estate's interest in the property that secures such Claims, in accordance with section 1129(a)(7)(B). See discussion of "Best Interests Test" below.

- Except to the extent the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each Class of Claims or Member Interests has either accepted the Plan or is not impaired under the Plan.
- Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Claims, if any, of the kind specified in sections 507(a)(1), (2), (3), (4), (5), (6), (7), or (8), are treated in accordance with section 1129(a)(9) of the Bankruptcy Code.
- Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of Reorganized Southern under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of "Feasibility Analysis" below.
- All fees payable under section 1930 of title 28, as determined by the Bankruptcy Court at the Confirmation Hearing, have been paid or the Plan provides for the payment of all such fees on the Effective Date of the Plan.
- The Debtor has not obligated itself to provide such benefits, if any for the continuation, after the Effective Date, of payment of all "retiree benefits" (as defined in section 1114 of the Bankruptcy Code).

2. Best Interests Tests

The "best interests of creditors" requires that, in order to be confirmed, a plan must be in the best interests of each holder of a claim or interest in an impaired class that has not voted to accept the plan. Accordingly, if an impaired class does not unanimously accept a plan, the best interests test requires that the bankruptcy court find that the plan provides to each non-consenting holder in such impaired class a recovery on account of such holder's claim or interest that has a value at least equal to the value of the distribution that each such holder would receive in a liquidation under chapter 7 of the Bankruptcy Code.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in this Chapter 11 Case, the Debtor has determined that confirmation of the Plan will provide each creditor and member interest holder with a recovery that is not less than it would receive pursuant to a liquidation of the Debtor under chapter 7 of the Bankruptcy Code. In addition, should any Class make a valid section 1111(b) election under the Bankruptcy Code, the Plan provides that any Claims in such Class will receive under the Plan on account of such Claims, property of a value, as of the Effective Date of the Plan, that is not less than the value of such holder's interest in the Estate's interest in the property that secures such Claims, in accordance with section 1129(a)(7)(B).

3. Liquidation Analysis

A liquidation analysis is to enable each creditor to determine the recovery it would receive in the event the Debtor's bankruptcy case was liquidated pursuant to the provisions of chapter 7 of the Bankruptcy Code. Each creditor may compare the results of a chapter 7 liquidation with the treatment provided under the proposed chapter 11 Plan and use that information to determine whether to accept or reject the Plan. To conduct such analysis, the first step is to determine the estimated amount that would be generated from the liquidation of the Debtor's assets in the context of a chapter 7 liquidation case. The gross amount of Cash available to holders of Claims would be the sum of the proceeds from the disposition of the

Debtor's assets through the liquidation proceedings and the Cash held by the Debtor at the time of the commencement of the chapter 7 case. This gross amount of Cash is then reduced by the amount of any Claims secured by the Estate's assets, the costs and expenses of the liquidation, and additional administrative expenses that may result from the termination of the Debtor's businesses and the use of chapter 7 for the purposes of liquidation. Any remaining net Cash would be allocated to creditors in strict priority in accordance with section 726 of the Bankruptcy Code. Underlying the liquidation analysis are a number of estimates and assumptions regarding liquidation proceeds that, although considered reasonable by the Debtor, are inherently subject to significant business, economic, and competitive uncertainties beyond the control of the Debtor. As explained below in the liquidation analysis, unsecured creditors are likely to receive no recovery in a chapter 7 liquidation. As such, unsecured creditors are receiving a greater recovery under the proposed Plan than they would receive in a chapter 7 liquidation.

The Debtor's liquidation analysis will be developed and provided within three (3) Business Days prior to the deadline for objections to the Disclosure Statement as **Exhibit 3** hereto.

4. Feasibility

The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization. This standard requires the Court to find that Reorganized Southern has a reasonable probability of performing its obligations under the Plan, including its obligations under any debt instruments issued under, and contracts entered into in connection with, the Plan.

The Debtor submits that the Plan is feasible. Reorganized Southern will be able to perform its obligations, pay off the debt to the Prepetition Secured Parties as restructured, and charge reasonable rates to its remaining members such that they would not attempt to extricate themselves from their wholesale power contracts with the Debtor in favor of what might appear to be more attractive power supply alternatives.

The Debtor also submits that the Estate will have enough Cash to pay all Administrative Expense Claims, Professional Fee Claims, Priority Tax Claims, fees due the United States Trustee, any DIP Financing Claim, Real Property Taxes and Priority Non-Tax Claims in full in Cash on the Effective Date or as otherwise provided by the Plan and satisfy all other payment obligations under the Plan in accordance with and as required by the Plan.

The Debtor submits that the loss of YVEC and the City as members will not affect the feasibility of the Plan due to improved terms and conditions renegotiated with the Noteholders. While the loss of YVEC and the City adversely affects revenues and net margins, the Debtor believes it has negotiated terms which will adequately offset the loss of YVEC and the City and that it will be able to meet the terms of the Plan.

The feasibility of the Plan is further demonstrated by the Pro Forma Financial Projections for Reorganized Southern that are attached as Exhibit 2 hereto. The Debtor has not attached historical financial information regarding the Debtor because this data could prove to be confusing or even misleading.

There is a risk that the Committee might file its own chapter 11 petition in response to confirmation of the Plan. Again, such a filing may not pass muster under the good faith filing standard and the case could be dismissed. Further, a chapter 11 trustee would likely be appointed, and the Noteholders believe that the Member's trustee would assume the All-Requirements Contract with the Debtor because another G & T cooperative would not want the bankrupt member as a member without the contract, and it would be difficult if not impossible for the member to persuade a potential supplier to sell power to it.

B. REQUIREMENTS OF SECTION 1129(B) OF THE BANKRUPTCY CODE

The Bankruptcy Code permits the Bankruptcy Court to confirm a chapter 11 plan of reorganization over the dissent of any Class of Claims or Member Interests as long as the standards in section 1129(b) are met. This power to confirm a plan over dissenting classes - often referred to as "cram down" - is an important part of the reorganization process. It ensures that no single group (or multiple groups) of claims or interests can block a restructuring that otherwise meets the requirements of the Bankruptcy Code and is in the interests of the other constituents in the case.

The Bankruptcy Court may confirm the Plan over the rejection or deemed rejection of the Plan by a Class of Claims or Member Interests if the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such class. The Debtor believes that the Plan will satisfy both the "no unfair discrimination" requirement and the "fair and equitable" requirement should any impaired Class of Claims reject the Plan (these requirements only apply in the event an impaired Class of Claims votes to reject the Plan).

A plan is fair and equitable with respect to a class of secured claims that rejects the plan if the plan provides (1)(a) that the holders of claims included in the rejecting class retain the liens securing those claims whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and (b) that each holder of a claim of such class received on account of that claim deferred cash payments totaling at least the allowed amount of that claim, or a value, as of the effective date of the plan, of at least the value of the holder's interest in the estate's interest in such property; (2) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (1) or (2) of this paragraph; or (3) for the realization by such holders of the indubitable equivalent of such claims. Although holders of Claims in Classes 2(A), 2(B), 2(C), and 3 are impaired, the holders of Claims in such Classes are receiving treatment under the Plan that meets the requirements of section 1129(b)(1) and (2)(A) of the Bankruptcy Code. Therefore, the Debtor believes that the Plan is fair and equitable with respect to holders of such secured claims.

If the Class 4 rejects the Plan, the Debtor submits that the Bankruptcy Court may still confirm the Plan because the Plan "does not discriminate unfairly." With respect to an objecting impaired class of unsecured creditors, the Bankruptcy Code's "unfair discrimination" requirement prohibits disparate treatment of similarly situated creditors absent a legitimate business or economic justification. In this case, the Plan does not violate the "unfair discrimination" prohibition as the only other classes of arguable equal priority to the Class 4 under the Plan are the Convenience Claims and Member Reserve Account Claims. Section 1122(b) of the Bankruptcy Code explicitly permits the creation of a convenience class, and

convenience classes are common in bankruptcy plans. The Debtor submits that the Member Reserve Account Claims are appropriately separately classified and provided different treatment under the Plan from the General Unsecured Claims under existing case law, given the legal character of the claims are not substantially similar to the General Unsecured Claims.

Also, if the Class of General Unsecured Claims against the Debtor rejects the Plan, the Debtor submits that the Bankruptcy Court may still confirm the Plan because it satisfies the "fair and equitable" requirement. With respect to an objecting impaired class of unsecured creditors, the "fair and equitable" requirement generally in a for-profit entity case requires that either (i) the allowed value of the claim be paid in full; or (ii) no holder of any claim or interest that is junior to the rejecting unsecured class receive or retain under the plan any property on account of such junior claim or interest. This is commonly referred to as the "absolute priority rule." However, in this case, given the Debtor is a not-for-profit entity, there can be no violation of the absolute priority rule even though the Plan provides that the Member Reserve Account Claims and Member Capital Claims are unimpaired, while the General Unsecured Claims are not receiving full payment under the Plan. See, *e.g.*, *In re Indian Nat'l Finals Rodeo, Inc.*, 453 B.R. 387 (Bankr. D. Mont. 2011).

For the reasons described above, the Debtor submits that the proposed Plan is "fair and equitable," does not unfairly discriminate, and complies with section 1129(b) of the Bankruptcy Code.

VIII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

A. LIQUIDATION UNDER CHAPTER 7

If no plan is confirmed, the Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed to liquidate the Debtor's assets for distribution to creditors in accordance with the priorities set forth in the Bankruptcy Code. It is impossible to predict precisely how the proceeds of the liquidation would be distributed to the respective holders of Claims against or Member Interests in the Debtor. A discussion of the effects that a chapter 7 liquidation would have on the recovery of holders of Claims and Member Interests and the Debtor's liquidation analysis are set forth above. In addition, in a liquidation scenario, the Noteholders would likely pursue any and all available remedies against the Members to recover any unpaid portion of their Claim.

B. ALTERNATIVE PLAN OF REORGANIZATION

The Debtor submits that the Plan affords holders of Claims the potential for the greatest realization on the Debtor's assets under the circumstances, as described herein. If, however, the Plan is not confirmed and/or consummated, the theoretical alternatives include:

- formulation of an alternative plan or plans of reorganization by the Debtor or any other party in interest; or
- liquidation of the Debtor under chapter 7 or chapter 11 of the Bankruptcy Code.

The Debtor submits that the cost, delay and uncertainty of any alternative to the Plan makes the Plan the best solution for holders of Claims and Interests.

IX. TAX CONSIDERATIONS

The treatment of Claims and Member Interests under the Plan may have important tax implications for creditors and Member Interest holders. The Debtor has not performed and will not perform any analysis of such tax implications. The tax effects must be determined separately by each creditor and Member Interest holder for themselves. Holders of Claims and Member Interests are urged to obtain advice from their own tax advisors regarding the application of federal and state tax laws. The Debtor makes no representations with respect to the tax implications of the Plan.

IRS Circular 230 Disclosure

To ensure compliance with IRS Circular 230, each holder of a Claim is hereby notified that: (i) any discussion of U.S. federal tax issues in this Disclosure Statement is not intended or written to be used, and cannot be used, by such holder for the purpose of avoiding penalties that may be imposed on such holder under the Internal Revenue Code; (ii) any such discussion has been included by the Noteholders as proponents of the transactions proposed in the Plan; and (iii) each such holder should seek advice based on their particular circumstances from an independent tax advisor.

X. CONCLUSION

For all the reasons set forth in this Disclosure Statement, the Debtor submits that confirmation and consummation of the Plan is in the best interests of all creditors, and urge all holders of a Claim or Member Interests entitled to vote to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be received no later than [_____,] 2014.

Dated: April 21 , 2014

/s/Malcolm Goodrich
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