

Bankruptcy Winding Down, Lots of Work Ahead

The Southern Montana Electric Generation and Transmission bankruptcy continues to move toward confirmation of a plan of reorganization.

Southern pledged as collateral the BEC wholesale power contract, which runs through 2048, for loans to finance the Highwood Generating Station outside Great Falls. The BEC board and due diligence committee have worked for three years to identify better power supply options and terminate our membership in, and wholesale power contract with, Southern. Southern, a tiny G&T, has a history of business practices that are not consistent with BEC commitments to due diligence, transparency, and member control.

Based on a Term Sheet that was filed with the court in March 2014, terms of the proposed potential reorganization plan will include:

- 4-year payment to the HGS noteholders, primarily Prudential Insurance and Modern Woodmen, of \$21 million at 4.125% interest
- Creation of a trust to sell HGS with the proceeds going to the noteholders
- Resolution of other claims in accordance with U.S. bankruptcy code
- Provision for all Southern members to exit after four years
- Provision for a potential immediate exit for BEC.

The proposed terms project payment of the notes without raising the wholesale power rates Southern charges its member co-ops. Southern may, however, change rates with approval from the noteholders. Southern currently charges its members significantly more than it pays for power, which provides a margin to cover HGS debt, bankruptcy expenses, and G&T operating costs. BEC can sustain the current wholesale rate without raising retail rates to our members, but only with careful management and continuing cuts in our operating expenses.

Under the Term Sheet, Southern's largest secured creditors (referred to as the noteholders) will not object to BEC's terminating its membership in Southern if BEC pays its load ratio share of their notes and Southern's other members consent. We are working to terminate our membership in, and wholesale power contract with, Southern upon confirmation of the proposed plan. We believe that ending our relationship with Southern will create opportunities for BEC without harming Southern or its other members.

Our goal is to control our rates at BEC and reduce them if possible. We do not intend to remain the co-op with the highest rates in the state. In the short term we can continue to develop efficiencies at the co-op to keep rates steady or even reduce them. However, we want to be free to work on long range plans for BEC.

We will be holding "town hall" meetings in late April and May to inform members of developments with the bankruptcy and BEC options going forward. Please watch for notification in the newspapers and on our website. You can find the court filings and our reports on the website: www.beartoothelectric.com. Call the co-op or a trustee for more information.

Arleen Boyd, District 5 Trustee, Due Diligence Chair (328-6645)

Roxie Melton, District 2, Board President

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