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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MONTANA

In Re:	)	**Case No. 11-62031-RBK**
	)	
SOUTHERN MONTANA ELECTRIC GENERATION and TRANSMISSION COOPERATIVE, INC.	)	
	)	
Debtor.	)	
	)	

SECOND AMENDED DISCLOSURE STATEMENT FOR MEMBER COOPERATIVES' AMENDED PLAN OF LIQUIDATION FOR SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.

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Beartooth Electric Cooperative, Inc., Fergus Electric Cooperative, Inc., Mid-Yellowstone Electric Cooperative, Inc. and Tongue River Electric Cooperative, Inc., each a member cooperative in Southern Montana Electric Generation and Transmission Cooperative, Inc. (the **"Debtor"**), hereby submit the following *Second Amended Disclosure Statement for Member Cooperatives' Plan of Liquidation for Southern Montana Electric Generation and Transmission Cooperative, Inc.* (the "**Disclosure Statement**"). This Disclosure Statement amends the *Disclosure Statement for Member Cooperatives' Plan of Liquidation for Southern Montana Electric Generation and Transmission Cooperative, Inc.* dated October 25, 2013, (Doc. 1107) (the "**Initial Disclosure Statement**") and is in support of the *Amended Member Cooperatives' Plan of Liquidation for Southern Montana Electric Generation and Transmission Cooperative, Inc*., dated December ___, 2013 (Doc. ___) (the "**Members' Plan**").

The Initial Disclosure Statement was filed as a supplement to the *Disclosure Statement for the Trustee's Third Amended Plan of Reorganization* dated September 24, 201 (Doc. 1049) (the "**Trustee's Disclosure Statement**"), which was approved by the Bankruptcy Court by Order dated October 1, 2013 (Doc. 1067). However, pursuant to an Order dated November 26, 2013, the Bankruptcy Court terminated the appointment of the Chapter 11 Trustee, Lee A. Freeman (the "**Trustee**"), necessitating the amendments hereto. In addition, this Disclosure Statement addresses certain objections raised by 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 (the "**Noteholders**").

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 Members' Plan. 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. This Disclosure Statement was drafted by Beartooth Electric Cooperative, Inc., Fergus Electric Cooperative, Inc., Mid-Yellowstone Electric Cooperative, Inc., and Tongue River Electric Cooperative, Inc. (collectively the "**Members**") as the members of Debtor, and their counsel.

SUMMARY OF THE MEMBERS' PLAN

The *Member Cooperatives' Plan of Reorganization for Southern Montana Electric Generation and Transmission Cooperative, Inc.*, as it may be amended or modified (the "**Members' Plan**"), submitted by the Members, provides for the prompt and complete liquidation and dissolution of the Debtor; sale, distribution, or surrender of the Debtor's assets; substantial distributions to secured creditors commensurate with the value of the collateral; a distribution to unsecured creditors that is equal to if not greater than what they would receive if the Debtor were to be liquidated in Chapter 7; and for the Members to transition to new power suppliers during a limited transition period following confirmation.

The other key elements of the Members' Plan are that the Debtor will appoint a Liquidating Agent to manage the Debtor's liquidation; Highwood Generating Station and other collateral is surrendered to the primary secured creditors, the Noteholders; the Members' All-Requirements Contracts with Debtor are rejected and terminated; and, the Debtor's power contract with Western Area Power Administration ("**WAPA**") is assigned in agreed allocated shares to the participating Members.

The Members, after inquiry and investigation, believe that a successful reorganization of the Debtor is not feasible in the current regulatory and economic environment, particularly with the current number of Members and Members' patrons/customers, the lack of load diversification, lack of opportunity for load growth, and the dissension among the Members. Therefore, the Members believe that the Members' Plan provides the fairest, most equitable, and balanced resolution of the claims against the Debtor and the interests of the Members and will protect the interests of the Members' patrons/customers. The Members strongly recommend that you vote to accept the Members' Plan.

The Members are seeking to obtain Bankruptcy Court approval of the Members' Plan. Section 1125 of the Bankruptcy Code requires that the Members 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 Members' Plan. This Disclosure Statement has been submitted in accordance with such requirements.

I. Introduction

The Members submit this 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 Members' Plan, a copy of which is attached as **Exhibit 1** hereto. The Members' 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 Members' 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 Members' Plan and alternatives to the Members' Plan; (iii) advising holders of Claims and Member Interests of their rights under the Members' Plan; (iv) assisting the holders of Claims in making an informed judgment as to whether they should vote to accept or reject the Members' Plan; and (v) assisting the Bankruptcy Court in determining whether the Members' 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, its exhibits, other documents referred to in the Disclosure Statement, and the Members' Plan in their entirety and to consult with counsel and business and tax advisors. This Disclosure Statement is not legal advice to you. This Disclosure Statement may not be relied upon for any purpose other than for you to determine how to vote on the Members' Plan. This Disclosure Statement is not intended to

replace careful and detailed review and analysis of the Members' Plan (or any competing Plan before the Bankruptcy Court for confirmation) by each holder of a claim or interest entitled to vote thereon. This Disclosure Statement is intended to aid and supplement your review of the Members' Plan. The description of the Members' Plan herein is only a summary and holders of claims or interests and other parties in interest are cautioned to review the Members' Plan themselves for a more complete understanding of the Members' Plan. If any inconsistency exists between the Members' Plan and this Disclosure Statement, the terms of the Members' Plan are controlling. The Members' Plan summary in this Disclosure Statement is qualified in its entirety by the Members' Plan and the exhibits and schedules attached to the Members' Plan and this Disclosure Statement. The statements and information contained in this Disclosure Statement are made only as of the date hereof. There can be no assurance that the statements and information contained in this Disclosure Statement will be correct or not have changed at a later time or that you will receive any notice of such changes.

This Disclosure Statement includes certain statements, estimates, projections, and assertions provided in good faith by the Members, but reflect assumptions and analysis by the Members, which may or may not prove to be correct. The Members do not undertake any obligation to provide additional information or to correct or update any of the statements and information set forth in this Disclosure Statement or the exhibits hereto.

[Awaiting approval of Bankruptcy Court: 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. No financial information in this document has been reviewed or audited by the Debtor's independent accountants. This Disclosure Statement has not been approved by any federal or state securities agencies. Approval by the Bankruptcy Court does not constitute a recommendation by the Court as to the merits of the Members' Plan, but includes a finding that this Disclosure Statement contains adequate information to enable you to decide whether to vote for or against the Members' Plan.]

A Ballot for the acceptance or rejection of the Members' Plan is enclosed with the Disclosure Statement submitted to the holders of Claims and Membership Interests that the Members believe may be entitled to vote to accept or reject the Members' 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, including but not limited to the Members' objections to the Trustee's Plan. 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 Members' Plan as to holders of claims against, or equity interests in, the Debtor.

No solicitation of votes to accept the Members' 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 Members or the Bankruptcy Court other than as set forth in this Disclosure Statement. Any information, representations, or inducements made to obtain acceptance of the Members' Plan, which are other than or inconsistent with the information contained in this Disclosure Statement and in the Members' Plan, should not be relied upon by any holder of a Claim entitled to vote on the Members' Plan.

For purposes of clarity, this Disclosure Statement follows the format of the Trustee's Disclosure Statement and includes certain of the disclosures from the Trustee's Disclosure Statement, which the Members believe provide usefule information about the Debtor's business, financial condition, assets, liabilities, revenues, expenses, and about the Trustee's assertions and arguments. This Disclosure Statement provides information from the Members pertinent to understanding the Members' Plan and the good faith reasoning of the Members in seeking your vote in favor of the Members' Plan. Although this Disclosure Statement incorporates certain of the statements and discussion from the Trustee's Disclosure Statement for information purposes, such incorporation shall not be deemed an admission as to any of Trustee's arguments or a waiver of any claims or defenses available to Members.

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 Members' Plan unless (i) the Members' 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 Members' 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.

Claim and interests in **Classes 2 (Prudential and Modern Woodmen), 3 (First Interstate Bank Loans), 4 (CFC), 5 (Construction Lien Claims), 6 (General Unsecured Claims), 7 (Convenience Claims), 8 (Member Patronage Capital and similar Claims), and 9 (Member Interests)** are impaired under the Members' Plan and Claims and Interests in such Classes will receive distributions under the Members' Plan to the extent not otherwise waived.

As a result, holders of Allowed Claims and Interests in those Classes are entitled to vote to accept or reject the Members' Plan.

Holders of Claims in **Class 1 (Priority Non-Tax Claims)** are unimpaired by the Members' Plan. As a result, holders of Claims in Class 1 are conclusively presumed to have accepted the Members' 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 Members' Plan rejects the Members' Plan, the Members reserve the right to amend the Members' Plan or request confirmation of the Members' 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 Members have prepared the attached Members' Plan and are commencing this solicitation after extensive negotiations or attempts at negotiations with, the Trustee, the Noteholders, the Committee of Unsecured Creditors (the "**Committee**"), and the WAPA. The Members have also engaged in extensive negotiation among themselves and with the Debtor's previous members: Yellowstone Valley Electric Cooperative, Inc. ("**YVEC**") and Great Falls/Electric City Power, Inc. (collectively, the "**City**"). The Members are commencing this solicitation because they believe that liquidation of the Debtor is in the best interests of the creditors and the Members and their patrons/customers.

Despite the negotiations between the Noteholders, the Members doubt that the Noteholders will support the Members' Plan as they have generally been opposed to liquidation of Debtor, the sale or other disposition of Debtors' assets, and allowing the Members to wind up the business affairs of Debtor. The Committee and the larges unsecured creditor, PPL EnergyPlus, LLC ("**PPL**"), have both expressed support for liquidation.

The Members believe that the Members' Plan is fair and equitable, as that term is defined in bankruptcy jurisprudence, and provides the best recovery to claim holders under the circumstances. The Members believe that acceptance of the Members' Plan is in the best interest of creditors and interest holders entitled to vote on the Members' Plan and strongly recommend that each creditor and interest holder vote to accept the Members' Plan.

Holders of Claims or Member Interests may obtain a copy of the Disclosure Statement and the Members' Plan by contacting any of the Members' counsel at the email addresses or telephone numbers in the caption of this Disclosure Statement.

B. Voting Procedures

If you are entitled to vote to accept or reject the Members' Plan, a Ballot is enclosed for the purposes of voting on the Members' 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, which must be used for each separate Class. 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:
Jeffery A. Hunnes
Guthals, Hunnes & Reuss, P.C.
P.O. Box 1977
Billings, MT 59103-1977

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 MEMBERS' 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 MEMBERS' PLAN SHALL NOT BE COUNTED.

In addition, as contemplated in the Members' Plan, a Claim is a Class 7 Convenience Claim if such Claim is (a) Allowed in an amount equal to or less than $5,000, or (b) Allowed in an amount greater than $5,000 but is reduced to $5,000 by an irrevocable written election by the holder of such Allowed Claim on the timely submitted Ballot. Accordingly, the Ballot provides for such election.

Do not return any other documents with your Ballot.

If you are a holder of a Claim or Interest entitled to vote on the Members' 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 Members' Plan, or the procedures for voting on the Members' Plan, please contact one of the Members' counsel at the email addresses or telephone numbers in the caption of this Disclosure Statement.

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 Members' 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 Members' Plan, must be in writing and must be filed with the Bankruptcy Court and served upon Jeffery A. Hunnes, Guthals, Hunnes & Reuss, P.C., P.O. Box 1977, Billings, MT 59103-1977, so they are received by counsel for the Members 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 Members' Plan:

Class Description	Impairment and Vote	Treatment
Class 1: Priority Non-Tax Claims	Unimpaired No	Paid in full on the Effective Date or as soon thereafter as Allowed.
Class 2: Prudential and Modern Woodmen	Impaired Yes	The Prudential Claim, evidenced by the Series 2010(A) Notes, and the Modern Woodmen Claim, evidenced by the Series 2010(B) Note, shall be Allowed as Secured Claims in an aggregate principal amount equal to the value of the Noteholders' collateral, consisting of HGS (which the Noteholders have valued at $16,500,000), Encumbered Cash, and the assets described on Exhibits A and B to Schedule 1 of the Indenture, but excluding from Noteholders' collateral the All-Requirements Contracts, the WAPA Contracts, Unencumbered Cash, and the property or interests described as Excepted Property or Excludable Property in the Indenture. Any alleged pledge of the All-Requirements Contracts shall be terminated by rejection and termination of the All-Requirements Contracts as provided under Articles 5.10 and 8.2 of the Members' Plan. The Prudential Allowed

Class Description	Impairment and Vote	Treatment
		Secured Claim and the Modern Woodmen Allowed Secured Claim shall not bear interest. The Prudential Allowed Secured Claim and the Modern Woodmen Secured Claim shall be paid and satisfied in full by the Debtor surrendering HGS and the other described collateral to Prudential and Modern Woodmen on the Effective Date, subject however to: (i) prior settlements entered into in the Bankruptcy Case; (ii) resolution of any disputes as to whether cash is Encumbered or Unencumbered Cash; (iii) any Avoidance Actions; and, (iv) any and all prior Liens or mortgages, including without limitation the Property Tax Claims and the Construction Lien Claims. The balance of any Claims of Prudential, Modern Woodmen, Noteholders, or the Indenture Trustee in excess of the amount of the Prudential Allowed Secured Claim or the Modern Woodmen Allowed Secured Claim shall be General Unsecured Claims treated in accordance with Class 6 of the Members' Plan.
Class 3: First Interstate Loans	Impaired Yes	The First Interstate Bank Secured Loan Claim shall be Allowed in the amount of the First Interstate Bank Secured Loan outstanding as of the Petition Date. First Interstate Bank shall be granted relief from stay to exercise all of its state law rights and remedies against the First Interstate Bank Secured Loan Collateral. Debtor shall make no further payment on the First Interstate Bank Secured Loan Claim. The real property owned by Debtor shall be sold and net proceeds of sale applied first to satisfy the First Interstate Bank Secured Loan Claim. In the event there are surplus proceeds after sale, First Interstate shall deliver such excess proceeds to the Debtor, through the Liquidating Agent, to apply as additional payment to Allowed General Unsecured Claims under Class 6 of the

Class Description	Impairment and Vote	Treatment
		Members' Plan. In the event of a deficiency remaining after application of proceeds of sale of Debtor's real property, the real property owned by SME shall be sold and net proceeds of sale applied to satisfy any deficiency owed on the First Interstate Bank Secured Loan Claim. In the event of a deficiency remaining after application of proceeds of sale of SME's real property, the balance of the First Interstate Secured Loan Claim shall be a General Unsecured Claim and treated and paid in accordance with Class 6 of the Members' Plan. In the event there are surplus proceeds after sale of the SME real property, the surplus shall be delivered to SME. The First Interstate Bank Unsecured Loan is treated in accordance with Class 6 of the Members' Plan. First Interstate Bank shall be entitled to exercise any applicable non-bankruptcy remedies in collection of the First Interstate Bank Unsecured Loan or any balance owed following the sale procedures for the First Interstate Bank Secured Loan Collateral.
Class 4 - CFC	Impaired Yes	The CFC Claim, evidenced by the CFC Loan, shall be Allowed in the amount of the CFC Loan outstanding as of the Petition Date. CFC shall be Allowed a Secured Claim in the amount of the value of the CFC Loan Collateral. CFC shall be granted relief from stay with respect to the CFC Loan Collateral, and the amount of the CFC Loan Collateral shall be applied in full to payment of the Allowed Secured Claim of CFC. Debtor shall make no further payment of the Allowed Secured Claim of CFC. The balance of the CFC Allowed Claim shall be an Allowed General Unsecured Claim and treated in accordance with Class 6 of the Members' Plan. CFC shall be entitled to

Class Description	Impairment and Vote	Treatment
		exercise any applicable non-bankruptcy remedies in collection of the balance of the CFC Claim.
Class 5 – Construction Lien Claims	Impaired Yes	Construction Lien Claims shall be Allowed as Secured claims in the full amount owed and outstanding as of the Petition Date, unless otherwise determined by the Bankruptcy Court, including statutory interest and attorneys' fees. The Construction Lien Claim holders shall be granted relief from stay with respect to the Allowed Construction Lien Claims to exercise all of their state law rights and remedies against HGS. The Construction Lien Claim Holders shall retain their Liens that secure their Allowed Construction Lien Claims against HGS and any proceeds of sale of HGS following surrender of HGS to Prudential and Modern Woodmen.
Class 6 – 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 the remaining surplus of the Unencumbered Cash and the Liquidation Operating Fund upon completion of the Liquidation Period. The Unencumbered Cash available to pay Allowed General Unsecured Claims shall include any Cash proceeds received by the Estate, the Trustee, or the Debtor from the Yellowstone Valley Settlement and the NWE deposit. On the Effective Date, Debtor shall assign to the Committee any and all right, title, and interest in and to the Avoidance Actions, including without limitation all proceeds of the Avoidance Actions. The Unencumbered Cash available to pay Allowed General Unsecured Claims in accordance with the Members' Plan shall include any Cash proceeds received by

Class Description	Impairment and Vote	Treatment
		the Committee. On the Effective Date, Debtor will assign the Central Montana patronage allocation to the Unsecured Creditors to the extent assignable; provided that the Members will retain the Central Montana patronage allocation if not assignable. Distribution of the Pro Rata payment to the Allowed General Unsecured Claims shall be made as follows: (i) the Unencumbered Cash and the balance of the Liquidation Operating Fund, remaining upon completion of the Liquidation Period; and (ii) or at any time after the Effective Date regarding any Unencumbered Cash proceeds received by the Unsecured Creditors Committee pursuant to any Avoidance Actions. The Unsecured Creditors Committee shall be responsible for distribution of any net proceeds received from any Avoidance Action. The Members shall waive and release any General Unsecured Claims against the Debtor and shall receive nothing for their General Unsecured Claims from liquidation of the Debtor.
Class 7 – Convenience Claims	Impaired Yes	Except to the extent that the holder of an Allowed Convenience Claim agrees to less favorable treatment or has been paid on account of such Claim prior to the Effective Date, each holder, if any, of an Allowed Convenience Claim shall receive Cash in an amount equal to 50% of such Allowed Convenience Claim on the later of the Effective Date or the date such Claim becomes an Allowed Convenience Claim, or as soon thereafter as is practicable. Each holder of a Claim Allowed in an amount greater than $5,000, which Claim would otherwise be a General Unsecured Claim, may elect to voluntarily reduce such Claim to $5,000 and be treated as the holder of an

Class Description	Impairment and Vote	Treatment
		Allowed Convenience Claim, and by so electing shall be deemed to have waived any right to participate in any distribution to any Class other than Class 7 as to any Claims it may have. Such election must be made on the Ballot and be received by the Debtor, through the Liquidating Agent on or before the Voting Deadline. Any election made after the Voting Deadline shall not be binding or effective.
Class 8 – Member Claims	Impaired Yes	On the Effective Date, the Members shall waive and release any Member Claims against the Debtor and shall receive nothing for their Member Claims from liquidation of the Debtor.
Class 9 – Member Interests	Impaired Yes	Upon liquidation of all of the assets of the Debtor, the Members shall waive, release, surrender and disclaim their Member Interests and Member Certificates in Debtor and shall receive nothing for their Member Interests from liquidation of the Debtor.

B. Summary of Treatment of Unclassified Claims

As provided by section 1123(a)(1) of the Bankruptcy Code, the following Claims are not classified under the Members' Plan, and instead are treated separately as unclassified Claims on the terms set forth below. Such Claims are unimpaired under the Members' 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 Debtor shall be paid in full and performed by the Debtor 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. Administrative Expense Claims based on liabilities incurred by Debtor after the Petition Date for goods, materials and services delivered, obtained or received in the ordinary course of business, and that first become due and payable within sixty (60) days prior to the Confirmation Date will be paid by Debtor pursuant to the terms and conditions of the particular transaction giving rise to such Administrative Expense Claims and, unless the Bankruptcy Court orders otherwise, holders of Administrative Expense Claims based on liabilities incurred by the Debtor for goods, materials and services delivered, obtained or received in the ordinary course of business are not required to file or serve a request for payment of such Claim, and will not be subject to the Administrative Expense Claims Bar Date provided in section 2.1.1 of the Members' Plan.

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 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. Debtor 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.

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 Debtor, (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 fifth (5th) anniversary date after the Petition Date; provided, however, that such election shall be without prejudice to the right of Debtor to prepay such Allowed Priority Tax Claim in full or in part without penalty.

c) Fees Due 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 to the United States Trustee in full, in Cash, within thirty (30) days after the Effective Date of the Members' Plan. Any fees that become due to the United States Trustee following the Effective Date shall be paid when such fees are due and payable. Debtor, through the Liquidating Agent, shall comply with its obligation to file post-confirmation reports with the United States Trustee following the Effective Date of the Members' Plan.

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 Members' Plan. The holder's vote in favor of the Members' Plan or its failure to object to confirmation of the Members' 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 Members' Plan, as set forth on Exhibit A to the Members' Plan, are not classified. Rather, except as may otherwise be agreed to by the parties, within 60 days after the Effective Date, Debtor or the party to whom the contract is assigned, 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. All disputed defaults that are required to be cured shall be cured either within 60 days of the entry of a Final Order determining the amount, if any, of the Estate's, Debtor's or Assignee's liability with respect thereto, or as may otherwise be agreed to by the parties. The Members reserve the right, however, after the date of this Disclosure Statement but on or prior to the Confirmation Date, to amend the Members' Plan to delete any executory contract or unexpired lease from Exhibit A of the Members' Plan, or add any executory contract or unexpired lease to Exhibit A of the Members' Plan, in which event such executory contract or unexpired lease shall be deemed to be, respectively, rejected or assumed. Any Claims that may arise from the rejection of executory contracts or unexpired leases pursuant to the Members' Plan will be treated as General Unsecured Claims or Convenience Claims, as applicable. 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 contact 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 Members' Plan. For avoidance of doubt, the Members will send a Ballot to all parties to executory contracts or unexpired leases, including those that are parties to an executory contract or lease that are currently contemplated to be assumed or assumed and assigned as set forth on Exhibit A to the Members' Plan. The Ballot will only be counted as a vote on the Members' 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 Members' 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.

The Members have commenced an Adversary Proceeding against the Debtor, bearing Adv. No. 13-00036 (Doc.1053) (as further discussed *infra*), in which they asset that their All-Requirements Contracts with Debtor are executory contracts and cannot be assumed, assigned, or modified without the Members' consent. The Members further assert that any assumption or modification of their All-Requirements Contracts without the Members' consent renders such contracts void and unenforceable. Because the Members do not consent to the assumption or modification of their All-Requirements Contracts, the Members' Plan rejects the All-Requirements Contracts. Some parties, particularly the Noteholders, may assert that the All-Requirements Contracts are, and, in fact, must be assumed.

Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Members' Plan must be filed with the Bankruptcy Court and served upon the Debtor by the later of: (a) 30 days after notice of entry of the Confirmation Order; or (b) 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. All such Claims not filed within such time shall be forever barred from assertion against the Debtor or the Estate 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 trustee 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 (x) divides claims and interests into separate classes; (y) specifies the consideration that each class is to receive under the plan; and (z) 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.

According to the National Rural Electric Cooperative Association (the "**NRECA**"),

> Electric cooperatives are private, not-for-profit businesses governed by their consumers (known as consumer-members). Two federal requirements for all co-ops, including electric co-ops, are democratic governance and operation at cost. Specifically, every consumer-member can vote to choose local boards that oversee the co-op, and the co-op must, with few exceptions, return to consumer-members revenue above what is needed for operation. Under this structure, electric co-ops provide economic benefits to their local communities rather than distant stockholders.[1]

All cooperatives adhere to the following seven guiding principals, which focus on autonomous, democratic member control by the members over the cooperative[2]:

Principal	Description
Voluntary and Open Membership	Cooperatives are voluntary organizations open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious

[1] NRECA, "About Electric Co-ops—What Is an Electric Cooperative?" (available online at http://www.nreca.coop/about-electric-cooperatives/) (last accessed Dec. 20, 2013).

[2] NRECA, "Seven Cooperative Principals" (available online at http://www.nreca.coop/about-electric-cooperatives/seven-cooperative-principles/) (last accessed Dec. 20, 2013).

Principal	Description
	discrimination.
Democratic Member Control	Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.
Non-Profit and Return of Capital Credits	Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.
Autonomy and Independence	Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
Education, Training, and Information	Cooperatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of cooperation.
Cooperation Among Cooperatives	Cooperatives serve their members most effectively and strengthen the cooperative

Principal	Description
	movement by working together through local, national, regional and international structures.
Concern for Community	While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

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. To maintain its tax exemption, the Debtor must collect at least 85 percent of its income from members for the sole purpose of meeting losses and expenses and must operate according to the cooperative principals of subordination of capital, democratic member control, and operation at cost.

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**"): YVEC, Tongue River, Fergus, Mid-Yellowstone, and Beartooth. 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 is a party to a wholesale power contract with the Debtor. These are known as "All-Requirements Contracts." The following table sets forth the All-Requirements Contracts between the Debtor and its Members as of the commencement of this case:

Member	Contract Execution Date	Contract Termination Date
YVEC[3]	May 28, 2004	December 31, 2030
Mid-Yellowstone	March 27, 2007	December 31, 2048
Fergus	March 29, 2007	December 31, 2048

[3] YVEC's all requirements contract was expressly excluded from the Prepetition Collateral.

Beartooth	April 13, 2007	December 31, 2048
Tongue River	April 29, 2007	December 31, 2048
City of Great Falls	October 2, 2007	December 31, 2048

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 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 Members and their systems. Under Montana cooperative law, the members of a cooperative, including a G & T, are not personally liable or responsible for the debts or obligations of the cooperative.

As 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 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. In other words, the Debtor cannot make any profit under the All-Requirements Contracts with the Members

Because of the special nature of a G & T cooperatives and their relationship with their members, the Distribution cooperatives, the members have a substantial interest in the G & T's performance of and control of the acts required under the all requirements contract. An all requirements contract is not assignable without the consent of the member party to such contract.

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 is Class A member of the Debtor. Each of the Class A members of the Debtor was 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, and

Alan See, the General Manager for Tongue River, became the Interim General Manager. As his services were no longer needed, Mr. See's tenure as Interim General Manager ceased in April 2012. Mr. FitzGerald was replaced by James DeCock as the representative of Mid-Yellowstone on the Debtor's Board of Trustees. Mr. Dirkson was replaced by David Dover as the representative of Fergus on the Debtor's Board of Trustees.

At the annual members' meeting in March 2012, the Debtor's Board of Trustees did not elect a slate of new officers (or conduct other business) because they were deadlocked.

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 WAPA and open access network transmission rights with NWE.

2. Highwood Generating Station and SME

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**"). HGS was initially planned 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 all requirements contract with the Debtor. The Debtor's Board 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 recognized those members with a continued interest in the development of HGS and 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**") and created subsequent to this April 2008 meeting, is comprised of Beartooth, Fergus, Mid-Yellowstone, and Tongue River. Neither YVEC nor the City are or have ever been members of SME.

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 the construction of 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, it 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 of a proposed disposition of property by SME to the Debtor to all of the Debtor's members. At a special Debtor membership meeting on February 19, 2010, the Debtor's Board passed a resolution authorizing the 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 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 would be the simple cycle portion of the HGS with a commercial operation date scheduled to be in January 2011. This goal was essentially completed by the Petition Date and resulted in the current natural-gas 46 MW combustion turbine electric generating facility becoming operational in February 2012. The second phase, which has yet to be completed, is the combined cycle portion of HGS with a commercial operation date that was scheduled to be in January 2012.

The cost of Phase I of HGS was estimated at $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 meeting) was $176,000,000. This estimate did not include any costs for financing, closing, legal, or interest during construction. The only costs accrued for Phase II have been those associated with preliminary engineering, which total $230,760.

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

3. 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[4]; (xiv) prepaid dues, subscriptions, and regularity

[4] 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

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. 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.

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**"), Bank of New York Mellon Trust Company, N.A. as collateral agent, pursuant to which the Debtor incurred indebtedness 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**").

In addition to the Indenture, on or about February 26, 2010, the Debtor entered into that certain Collateral Agency Agreement, dated as of February 26, 2010, among the Debtor and the Indenture Trustee (the Collateral Agency Agreement, 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 (including HGS and the All-Requirements Contracts of every member except YVEC[5]) 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 between the Debtor and its members, other than YVEC – which was excluded from the collateral pool.

However, the Noteholders did not require that the Members guarantee or otherwise agree to be liable or responsible for the debts and obligations of the Debtor under the Prepetition Loan Documents. The Members did not guarantee or otherwise agree to be liable for the debts and obligations of the Debtor under the Prepetition Loan Documents. According to Montana cooperative law, the Members are not liable or responsible for the debts or obligations of the Debtor under the Prepetition Loan Documents.

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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.

[5] YVEC's all requirements contract was expressly excluded from the Prepetition Collateral.

On July 13, 2012, the Indenture Trustee filed Proof of Claim No. 69 in the amount of $131,949,294.56. This amount appears to be 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 the Trustee's proposed settlement with the Noteholders, the Noteholders are waiving any current entitlement to a Make-Whole Amount based on confirmation of the Trustee's Plan and the treatment of their claims therein.

b) PPL

As discussed below, the Debtor and 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 which about $2.5 million has been 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 post-petition 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. As disclosed elsewhere herein, if PPL's unsecured claim is allowed in the amount filed and approximately $2.1 million is available for distribution to Class 6 creditors, they stand to receive approximately $0.0054 for every $1.00 of Allowed Claim.

c) NWE

Pursuant to Proof of Claim No. 24, NorthWestern Corporation d/b/a NWE ("**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 Members provided to the Debtor $1,003,500.00 in cash as a capital contribution, which the Debtor used as a cash collateral deposit to secure the Debtor's obligations to CFC. 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.

In contrast to the Debtor's debts and obligations to the Noteholders, all of the Members except Beartooth guaranteed the Debtor's $5,000,000 CFC loan.[6]

[6] Beartooth has members in Wyoming and is subject to Wyoming Public Service Commission oversight. The Wyoming Public Service Commission must approve any guarantee of a long-term obligation by a cooperative operating in Wyoming. The Wyoming Public Service Commission denied Beartooth's guarantee of the Debtor's CFC loan.

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. 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.

In contrast to the Debtor's debts and obligations to the Noteholders, the Members guaranteed the Debtor's $1,250,000.00 First Interstate Bank loan.

f) Construction Lien Claims.

Before the Petition Date, certain entities recorded construction liens against the HGS facility and/or other real property of the Debtor, in accordance with Montana statutes and case law. Such entities may claim valid, properly perfected, and enforceable construction liens under and in accordance with applicable Montana law. To the extent that such Claims are valid, properly perfected, and enforceable Allowed Secured Claims, they shall be treated in accordance with Class 5 of the Members' Plan. In the event that such Claims are not valid, properly perfected, and enforceable Secured Claims, they shall, to the extent Allowed, be treated as Class 6 General Unsecured Claims. Based upon the Debtor's Schedules and title work that the Trustee has reviewed, the potential Construction Lien Claims include, without limitation, the following entities asserted amounts:

Entities		Amount
Graybar Electric	$	167,000.00
Yellowstone Electric Co.	$	371,410.06
Corval Constructors, Inc. f/k/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. The Members believe, based on representations by the Trustee and statements made in the Trustee's Disclosure Statement that certain of the foregoing claims are duplicates in that both

the subcontractor and general contractor filed the same claims. The net amount of the claims appears to be approximately $3.5 million.

The Committee of Unsecured Creditors has asserted in prior pleadings in this case that if the Construction Lien claimants prevail in the adversary proceeding, then under the Prompt Payment Act (M.C.A. §§ 28-2-2104 and 2105), they would be entitled to their attorneys' fees and interest at 18%.

g) The Members

The Debtor's prior and current members have all 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	Class	Basis
YVEC	66	$1,302,471.72	6	Reserve fund
	66	$5,973,998.33	8	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	8	Guarantee agreements related to First Interstate Bank
	52	Not stated	8	Contribution/indemnification
	53	$489,900.40	6	Reserve fund
	54	$1,470,499.30	8	Debtor patronage ($1,364,016.94); Basin Electric patronage ($106,482.36)
	55	$1,878,116.68	8	Interest in HGS
	56	$1,413,900	8	Deposit related to CFC ($119,900); guaranty of Debtor's obligation to CFC ($1,294,000)
Fergus	31	$1,114,563.38	6	Reserve fund
	32	$1,649,437.40	8	Debtor patronage ($1,540,938.07); Basin Electric patronage ($108,499.33)
	33	$2,689,831.81	8	Interest in HGS
	34	$2,516,681	8	Deposit related to CFC ($213,700); guaranty of Debtor's obligation to CFC ($2,302,981)

Creditor	Proof of Claim No.	Amount	Class	Basis
	37	Not stated	8	Contribution/indemnification
	40	$1,250,000	8	Guarantee agreements related to First Interstate Bank
Mid-Yellowstone	57	$150,770.22	6	Reserve fund
	58	Not stated	8	Contribution/indemnification
	59	$532,700	8	Deposit related to CFC ($36,700); guaranty of Debtor's obligation to CFC ($496,000)
	60	$1,250,000.00	8	Guarantee agreements related to First Interstate Bank
	61	$460,520.49	8	Debtor patronage ($428,664.26); Basin Electric patronage ($31,770)
	62	$1,147,437.70	8	Interest in HGS
Beartooth	35	$372,081.40	6	Reserve fund
	36	$1,067,614.13	8	Debtor patronage
	38	$1,361,151.83	8	Interest in HGS
	39	$93,000.00	8	Deposit related to CFC
	41	$80,566.32	8	Basic Electric patronage
	42	Not stated	8	Contribution/indemnification
	43	$1,250,000.00	8	Guarantee agreements related to First Interstate Bank
Great Falls (unless otherwise stated)	20	$1,400,560.00	8	Liquidation of certificates of deposit related to First Interstate Bank
	44	866,520.59	6	Reserve fund
	45	Not stated	8	Contribution/indemnification
	46	Not stated	8	Water agreements
	47	$42,226.96	8	Debtor patronage
	48	$1,144,390.31	8	Interest in HGS
	63	Not stated	8	Claims related to all requirements

Creditor	Proof of Claim No.	Amount	Class	Basis
				contract (Great Falls)
	64	$107,750.00	8	Deposit related to CFC
	65	Not stated	8	Claims related to all requirements contract (ECP)
	67	$10,000,000.00	6	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 have been 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 needs, 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 was set to continue through 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.

In addition, as of the Petition Date, the Debtor contracted with various parties for gas supply and gas transmission services, all being essential to operate 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 has been 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' 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 has issued both a pre-construction (AQP#4429-01) and an operating permit (#OP4429-00) for HGS, which establish emissions limits and requirements, and require regular monitoring and reporting. Although HGS has only operated for very limited time periods, it is subject to air quality permit requirements and has ongoing semiannual reporting and compliance certification requirements to 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 applicable and have been addressed/or will be triggered by 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.

The Members contend that major expenditures are necessary to keep HGS operational, including purchase of spare parts, acquisition of a service contract with General Electric, and necessary improvements and upgrades.

8. The Debtor's Prepetition Rates to Its Members

Between January 1, 2009, and June 2011, the Debtor's rates to its members increased significantly, a total 53.1% in just two and a half years. The effective dates and amounts of those rate increases were as follows:

Date	Increase
February 18, 2009	8.00%
June 16, 2009	4.00%
September 16, 2009	5.00%
October 16, 2009	7.50%
January 15, 2010	3.00%

June 15, 2010	3.00%
January 17, 2011	4.50%
May 17, 2011	4.50%
June 17, 2011	4.20%

The 53.1% increase in rates from Debtor to the Members between February 18, 2009,and June 17, 2011,was crippling to the Members and their patrons and customers. Three factors primarily drove the rate increase: (i) costs and expenses for the permitting, design, and initial construction work on HGS before securing financing under the Prepetition Loan Documents; (ii) litigation costs, including litigation related, directly or indirectly, to HGS; and (iii) purchasing power in excess of the Members' requirements at rate significantly higher than market[7]. The resulting rate increases to rural Montana and Wyoming customers caused a revolt at Beartooth, including the replacement of Beartooth's trustee on the Debtor's Board of Trustees and a removal of several of Beartooth's trustees. The increased rates, which the Members were required to pass on to their patrons/customer, have caused patrons/customers to look to other electric power sources and to openly and publicly criticize the Debtor and its management. From June 2011 through and including the present, the Debtor's rates to its members have remained the same.

In addition to raising rates, the Debtor used its CFC loan, an unsecured line of credit with First Interstate Bank, and other loan proceeds to cover the costs and expenses set forth immediately above and/or power purchase obligations.

The Members believe that their current rates from the Debtor are excessive and well above the "market" rate for wholesale power and, if not reduced, will result in financial failure for the Debtor and cascading financial failures for the Members and/or their rural Montana patrons/customers.

9. Prepetition Employee Matters

a) Description of Workforce

Before the Petition Date, the Debtor employed 11 employees: three at the Debtor's operations office in Billings and eight at HGS near Great Falls. 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.

[7] The Debtor made significant payments to PPL EnergyPlus, LLC, in 2011, including payments for power that the Debtor could not use and was required to sell back to PPL EnergyPlus, LLC at a discount.

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 contributed 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 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

In addition to the events described below, the "Temple Report", which is available to creditors, provides insights into the history of the Debtor and events leading to its Chapter 11 filing.

1. Energy Market

In anticipation of rising power prices, the Debtor committed to purchase power from PPL under a block contract, which block of power greatly exceeded the aggregate load requirements of its Members. However, instead of increasing, the power prices collapsed under the weight of the worst global economic downturn since the Great Depression: the Great Recession, the effects of which are still being felt to this day.

Under the initial confirmation with PPL, the Debtor was purchasing power at $50.70/MWh. If the market price for power had increased from 2009 to 2011 as the Debtor predicted, then the PPL contract would have been "in the money" and Southern could have made a margin by selling to the power market any power that it did not need to serve its Members. As noted above, power prices declined, and the Debtor had surplus 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.

At the same time power prices declined, the Debtor began losing load. For example, 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 five MW. The load reductions served to exacerbate the Debtor's problem of having too much power at above-market prices.

2. HGS

During this time that the Debtor's load was decreasing and it was obligated to purchase a surplus of power at above-market prices, it moved forward with the development and construction of HGS, adding additional future surplus supply to the Debtor's energy portfolio. Before acquiring financing under the Notes from the Noteholders, the Debtor incurred significant costs related to the permitting, designing, and initial construction of HGS. The Members believe that the cost of HGS was a contributing factor to the Debtor filing bankruptcy. The Debtor and the Members expended significant amounts of capital in designing and seeking financing for HGS while it was intended to be a coal-fired generation plant. The Debtor and the Members also expended significant amounts of capital in the permitting, financing and construction of HGS and for attorney's fees and costs incurred for legal actions that accompanied its siting, permitting and construction.

3. Litigation

In addition to the foregoing business circumstances, the Debtor was a party to several court cases as described below. The Members believe that the litigations described below were all contributing factors in the Debtor's bankruptcy filing. The Debtor incurred significant legal fees and costs in defending each of these legal actions.

a) 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 its membership be terminated along with its all requirements contract with the Debtor and that the Debtor refund the amounts YVEC paid to develop HGS, and all deposits and equity contributions made by YVEC and assign to YVEC portions of certain power supply contracts that the Debtor holds 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 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.

b) 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 are void or voidable, including the all requirements contract between the Debtor and Great Falls dated October 2, 2007, with a term through 2048.

On April 29, 2011, the Debtor counterclaimed 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.

c) 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 Debtor's board meetings are 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 meetings while the issue is in litigation. Additionally, the resolution authorized a representative from the Gazette be permitted to attend the monthly board 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 Trustee 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 (Doc. 12). On November 8, 2011, YVEC objected to this application (Doc. 39), and Beartooth joined the objection on January 6, 2012 (Doc. 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 post-petition compensation (Doc. 198), which stipulation the Bankruptcy Court approved on January 12, 2012 (Doc. 200).

Second, 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 (Doc. 16); on November 14, 2011, the Bankruptcy Court approved this application (Doc. 50). On December 1, 2011, the Debtor's co-counsel filed its final fee application (Doc. 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 (Doc. 163).

Third, 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 (Doc. 26); the Bankruptcy Court denied this application by order dated December 23, 2011 (Doc. 171).

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**") (Doc. 29). On April 27, 2012, the Trustee filed amendments to the Schedules (Doc. 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 (Doc. 10). On November 10, 2011, the United States Trustee continued the meeting to December 2, 2011 (Doc. 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 (Doc. 96).

On November 28, 2011, the United States Trustee moved to appoint the Trustee (Doc. 112), which the Bankruptcy Court granted by order dated November 29, 2011 (Doc. 113).

F. The Trustee's Applications to Employ Professionals

Since the Trustee's appointment, he has employed several Estate professionals pursuant to section 327 of the Bankruptcy Code as set forth in the following table:

Professional	Type	Application Date and Doc.	Order Date and Doc.
Waller & Womack, P.C.	Local bankruptcy counsel	12/12/11; Doc. 129 (supplemented 9/13/12; Doc. 528)	12/13/11; Doc. 131 (supplement approved 9/13/12; Doc. 529)
Horowitz & Burnett, P.C.	Lead bankruptcy counsel	12/12/11; Doc. 130 (supplemented 1/29/13; Doc. 664)	12/13/11; Doc. 132 (supplement approved 2/19/13;

Professional	Type	Application Date and Doc.	Order Date and Doc.
			Doc. 691)
Katten & Temple, LLP	Investigation counsel	1/3/12; Doc. 184	1/4/12; Doc. 185
Eide Bailly LLP	Audit and tax accountants; ESI preservation; forensic accounting	3/6/12; Doc. 296 (first supplement 9/7/12; Doc. 522); (second supplement 3/22/13; Doc. 751); (third supplement 5/7/13; Doc. 841); (fourth supplement 6/25/13; Doc. 910)	3/7/12; Doc. 297 (first supplement approved 9/10/12; Doc. 526); (second supplement approved 3/22/13; Doc. 752); (third supplement approved 5/8/13; Doc. 842); (fourth supplement approved 6/25/13; Doc. 912)
Hein & Associates LLP	Financial accountants	3/29/12; Doc. 351	3/30/12; Doc. 352
Harper Lutz Zuber Hofer and Associates, LLC (named changed to Harper Hofer and Associates, LLC (Doc. 448))	Valuation Consultant	5/3/12; Doc. 414 (supplemented 11/14/12; Doc. 587)	5/3/12; Doc. 415 (supplement approved 11/14/12; Doc. 588)
Kroll Ontrack Inc.	Electronic discovery vendor	1/4/13; Doc. 631	1/7/13; Doc. 634
MR Valuation Consulting LLC	Power plant appraiser	1/8/13; Doc. 638 (first supplement 5/20/13; Doc. 850); (second supplement 8/9/13; Doc. 980)	5/21/13; Doc. 851 (first supplement approved 5/21/13; Doc. 851); (second supplement approved 8/9/13; Doc. 981)

G. The Appointment 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 (Doc. 192), which the Bankruptcy Court approved by order dated January 9, 2012 (Doc. 194).

H. The Monthly Compensation Procedures

On January 19, 2012, the Bankruptcy Court entered an order (Doc. 210) granting the January 4, 2012,Motion to Establish Interim Compensation Procedure for Professionals Retained Pursuant to 11 U.S.C. § 327 (Doc. 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 has been authorized to utilize the foregoing procedures as well pursuant to a May 15, 2012, motion (Doc. 424) granted by order dated June 4, 2012 (Doc. 446).

I. Payments to Professionals under § 327; Payments to 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 has paid and reimbursed the following fees and costs through July 31, 2013,pursuant to the monthly compensation procedures and fee applications and their related orders:

Professional/Trustee	Aggregate Amount Paid	
Waller & Womack, P.C.	$	9,768.17
Horowitz & Burnett, P.C.	$	1,857,611.83
Katten & Temple, LLP	$	$0.00
Eide Bailly LLP	$	$66,567.34
Hein & Associates LLP	$	$0.00
Harper Hofer and Associates, LLC	$	$159,916.47
Kroll Ontrack Inc.	$	$9,378.92
MR Valuation Consulting LLC	$	$67,675.38
Dye & Moe, PLLP	$	$32,468.38
Lee A. Freeman, Trustee	$	$541,822.95

Professional/Trustee	Aggregate Amount Paid
Total:	**$ 2,745,209.44**

The Prepetition Secured Parties' professionals have also been subject to filing fee applications in the Chapter 11 Case. Through July 31, 2013, the Trustee has paid and reimbursed these professionals $2,110,382.24.

J. 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 (Doc. 47). On November 14, 2011, the Bankruptcy Court granted this motion on an interim basis (Doc. 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 the utility motion. 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 (Doc. 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 Date and Doc.	Stipulation Order Date and Doc.
WAPA	12/19/2011; Doc. 155	12/21/2011; Doc. 166
PPL	12/19/2011; Doc. 156	12/21/2011; Doc. 164
NWE	12/20/2011; Doc. 159	12/21/2011; Doc. 165
PPL	12/23/2011; Doc. 170	12/23/2011; Doc. 173
WAPA	1/19/2012; Doc. 211	1/23/2012; Doc. 217
NWE	1/23/2012; Doc. 218	1/23/2012; Doc. 219
NWE	2/13/2012; Doc. 260	2/13/2012; Doc. 261
NWE	3/12/2012; Doc. 309	3/13/2012; Doc. 311
NWE	4/13/2012; Doc. 376	4/16/2012; Doc. 379[8]

[8] 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

Creditor	Stipulation Date and Doc.	Stipulation Order Date and Doc.

K. Use of Cash Collateral

On November 17, 2011, the Debtor filed an emergency motion to use cash collateral and provide adequate protection (Doc. 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 (Doc. 92), which the Bankruptcy Court approved by order dated November 22, 2011 (Doc. 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 (Doc. 167); (ii) stipulation filed January 23, 2012 (Doc. 220), approved by order dated January 24, 2012 (Doc. 222); (iii) stipulation filed February 10, 2012 (Doc. 256), approved by order dated February 13, 2012 (Doc. 258); and (iv) agreed order filed March 12, 2012 (Doc. 308), approved by order dated March 13, 2012 (Doc. 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 (Doc. 403), which the Bankruptcy Court approved by order dated May 1, 2012 (Doc. 413). This order, among other things, provided for use of cash collateral until October 31, 2012. The October 31 deadline was extended to January 31, 2013 (Dkt. Nos. 564, 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).

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.

L. Limiting Notice

On January 11, 2012, the Trustee moved to limit notice in the Bankruptcy Case (Doc. 197), which the Bankruptcy Court granted by order dated January 31, 2012 (Doc. 235).

"[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."

M. Assumption/Rejection of Executory Contracts

1. The Lease and the Sublease

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. In addition, on December 30, 2011, the Trustee and ECI filed a stipulation with the Bankruptcy Court (Doc. 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 (Doc. 223), which the Bankruptcy Court granted by order dated February 14, 2012 (Doc. 264).

On April 4, 2013, the Trustee moved to enter into a month-to-month sublease with ECI (Doc. 779), which the Bankruptcy Court approved on April 23, 2013 (Doc. 821).

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 (Doc. 343). The Bankruptcy Court approved this stipulation by order dated March 27, 2012 (Doc. 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 (Doc. 342), which the Bankruptcy Court granted by order dated April 13, 2012 (Doc. 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 (Doc. 443), which the Bankruptcy Court approved by order dated June 1, 2012 (Doc. 444).

N. 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 the recoupment is part of the same transaction as the amount YVEC will pay to BPA 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 (Doc. 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 (Doc. 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 (Doc. 422). YVEC appealed this order (Doc. 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 (Doc. 849).

O. 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 (Doc. 335), which the Bankruptcy Court granted by order dated April 25, 2012 (Doc. 406). Generally, this order permits 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.

P. Adversary Proceedings

1. The Beartooth Adversary Proceeding

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

On June 7, 2012, the Trustee moved to dismiss all of the complaint's claims (Adv. Doc. 8). After Beartooth stipulated to dismiss of the second, fourth, and fifth claims without prejudice, the Bankruptcy Court granted in part by order dated December 20, 2012 (Adv. Doc. 16), dismissing those claims. The remaining first claim requests a declaration that Beartooth's 2008 all requirements contract is void (Beartooth did not seek a declaration that the all requirements contract it executed in 2007 was void because all parties believed that the 2008 all requirements contract had supplanted and replaced he 2007 all requirements contract), 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 for failure to comply with Montana law.

On January 3, 2013, the Trustee answered the complaint (Adv. Doc. 18).

On January 6, 2013, the Bankruptcy Court entered an order setting a pretrial scheduling conference for March 6, 2013 (Adv. Doc. 20).

On February 12, 2013, Fergus, Mid-Yellowstone, and Tongue River moved to intervene as party defendants in this action (Adv. Doc. 21). The motion to intervene was granted by the Bankruptcy Court. The Court consolidated the trial with plan confirmation.

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).

On October 3, 2013, the parties stipulated that the 2008 all requirements contract was not effective, rendering moot Beartooth's first claim. The parties then stipulated to dismiss the first claim (Adv. Doc. 43).

On September 19, 2013, the Noteholders filed a Motion to Dismiss (Adv. Doc. 40).

On October 3, 2013, Beartooth filed its response to the Noteholder's Motion to Dismiss (Adv. Doc. 44).

The Court set the hearing on the Noteholders' Motion to Dismiss for January 14, 2014.

The Members believe the Beartooth Adversary Proceeding has merit. The Members do not believe that the Trustee's Plan is confirmable regardless of the outcome of the Beartooth Adversary Proceeding or the Noteholders' appeal of an adverse decision.

2. The City Adversary Proceeding

On July 17, 2012, the City commenced an adversary proceeding against the Debtor, bearing Adv. No. 12-00035 (Doc. 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. Doc. 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. Doc. 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. 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 is due on or before December 31, 2013. The Trustee filed a motion for approval of the settlement on May 8, 2013, which the Bankruptcy Court granted (including by authorizing the pay down of the Noteholders) on May 29, 2013 (Dkt. Nos. 843 and 865).

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. 844). In this adversary proceeding, EPC seeks a judicial determination of the nature, extent, and priority of the liens asserted against HGS. The Trustee and the other parties have filed answers to the adversary complaint and, in some cases, cross-claims against other parties. Discovery is ongoing in this proceeding, and a pretrial conference is scheduled for September 4, 2013. The Member's Plan provides for appropriate treatment of any Allowed Claims of the construction lien holders by providing for payment of reasonable interest and attorney's fees and recognizing their first priority lien in HGS.

4. Members Adversary Proceeding

On September 23, 2013, the Members commenced an adversary proceeding against the Trustee, bearing Adv. No. 13-00036 (Dkt. 1053). In this adversary proceeding, the Members seek a judicial determination that the All-Requirements Contracts cannot be assumed or assigned by the Trustee without the consent of the Members and that the assumption and assignment proposed in the Trustee's Plan impermissibly modifies the All-Requirements Contracts and renders them void and unenforceable. The Trustee did not file an answer in the adversary proceeding. Subsequent to termination of the Trustee's appointment (discussed below), the Debtor has not taken a position in the Members Adversary Proceeding. On December 9, 2013, the Noteholders have filed a motion to intervene (Doc. 13).

Q. Claims Process and Bar Date

On November 4, 2011, the Debtor filed the Schedules and SOFA; 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 May 14, 2012, the Trustee moved to set a deadline for creditors to file proofs of claim (Doc. 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 (Doc. 432-3) and appropriately published notice of the Bar Date (Doc. 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.

R. 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.

1. Reorganization Proposals and Choosing One

On June 15, 2012, the Trustee filed the Motion by Trustee to Establish Procedure for Submission of Reorganization Proposals (the "RFP Motion"; Doc. 458), pursuant to which he requested that the Bankruptcy Court set September 17, 2012, as the deadline for interested parties to submit to him reorganization proposals in writing and in compliance with the conditions set forth in a Request for Proposals form. The Trustee would then share the proposals with certain parties and use his best efforts, through October 15, 2012, to negotiate and/or discuss the qualified proposals, following which the Trustee could select one or more proposals to form as the basis of a plan of reorganization. On July 3, 2012, the Court granted the RFP Motion (Doc. 473).

Thereafter, the Trustee solicited proposals from interested parties and received several by the September 17, 2012, deadline.

On October 2, 2012, the Trustee moved to extend the October 15, 2012, deadline to select a proposal to form as the basis for his plan of reorganization to November 16, 2012 (Doc. 556). The Bankruptcy Court granted this motion by order dated October 22, 2012 (Doc. 573). On October 26, 2012, the Trustee filed a motion to extend the November 16, 2012,deadline to December 14, 2012,as the result of, among other reasons, needing more time to thoroughly vet all of the received proposals with the various constituents in this case, as well as consider other reorganization scenarios (Doc. 577). The Bankruptcy Court granted this motion by order dated November 14, 2012 (Doc. 586).

On December 14, 2012, the Trustee filed a notice of his selection of the proposals received (Doc. 615), advising:

> The Trustee intends to file a plan of reorganization pursuant to which Southern will be reorganized and will emerge from Chapter 11 as an ongoing business entity.
>
> Under the Trustee's plan of reorganization, Southern will retain ownership of Highwood Generating Station and the Wholesale Power Contracts between Southern and its members will be assumed pursuant to 11 U.S.C §§ 365 and 1123, unless other satisfactory arrangements are agreed to by the Trustee and any of the members and approved by the Court.
>
> Also, under the Trustee's plan of reorganization, Southern will enter into a long-term power purchase agreement with one of three entities: Morgan Stanley Capital Group, Inc. ("**MSCGI**"), Shell Energy North America (US), L.P. ("**Shell Energy**"), or PPL. To date, MSCGI, Shell Energy, and PPL have submitted only indicative pricing under proposed long-term power purchase agreements with Southern. The Trustee cannot and will not make a final decision regarding the counterparty to a long-term power purchase agreement with Southern until he receives from MSCGI, Shell Energy, and PPL firm pricing, the terms under which such firm pricing would be either fixed or adjusted between the date of the filing of his plan of reorganization for Southern and the date of the confirmation of such plan, and all of the other material terms and conditions of a proposed long-term power purchase agreement. After the Trustee has received such information and has negotiated the final terms of a proposed power purchase agreement, the Trustee will select either MSCGI, Shell Energy, or PPL as the long-term power provider for Southern.
>
> Finally, under the Trustee's plan of reorganization for Southern, the Contract for Firm Electric Service to Southern Montana Electric Generation and Transmission Cooperative, Inc. between Southern and the Western Area Power Administration ("Western") will be assumed or assumed as modified, subject to Western's consent, unless other satisfactory arrangements are agreed to by the

Trustee and Western and, possibly, one or more of Southern's members, and approved by the Court.

The Trustee selected a modified proposal submitted by MSCGI, which proposal was a key component—together with the Noteholders' Settlement discussed *infra*—of the Trustee's Plan. However, the Members believe that the Trustee's Plan was not confirmable.

2. Fixing Date to File Plans and Disclosure Statements and Establishing Related Requirements

On November 5, 2012, the Trustee filed a motion for entry of an order fixing February 15, 2013,as the date for the Trustee and all other interested parties with standing to file plans of reorganization and disclosure statements in this case and establishing related requirements (Doc. 585). This motion drew objections from the City, YVEC, and Beartooth (respectively, Dkt. Nos. 592, 593, and 594).

On December 19, 2012, the Bankruptcy Court granted the motion in part and ordered the Trustee, and no other interested parties, to file a disclosure statement and chapter 11 plan by February 15, 2013 (Doc. 620).

3. Filing of Trustee's Initial Plan and Disclosure Statement

On February 15, 2013, the Trustee filed his initial plan of reorganization (Doc. 687) and disclosure statement (Doc. 688). The hearing on the adequacy of the disclosure statement was originally scheduled for March 26, 2013, but it was continued pending a ruling on the April 19, 2013,motion by the Trustee to value the Noteholders' security (the "**Valuation Motion**") (Dkt. 816) and the Trustee's limited objection to Proof of Claim No. 69 (the "**Limited Objection**") (Doc. 818), as was the confirmation hearing on the Trustee's plan of reorganization.

S. The PPL Administrative Expense

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) (Doc. 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**") (Doc. 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 (Doc. 503). PPL opposed the motion (Doc. 511).

The Bankruptcy Court ultimately denied the motion to vacate by order dated January 8, 2013 (Doc. 635). On January 18, 2013, the Trustee, the Committee, and the Prepetition Secured Parties moved for reconsideration of this order (Doc. 651). PPL objected to the motion (Doc.

673), and the motion was argued and heard on February 26, 2013. On April 3, 2013, the Bankruptcy Court denied the motion for reconsideration (Doc. 778), and on April 10, 2013, the Trustee appealed (Doc. 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 from the Debtor's unencumbered funds, and the appeal has been dismissed.

T. The YVEC Settlement

On January 18, 2013, the Trustee moved the Bankruptcy Court to approve a comprehensive settlement agreement with YVEC (Doc. 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.

The Members believe that the YVEC settlement and the City settlement adversely affected the viability of a reorganization of the Debtor and the Debtor's ability to continue to operate because YVEC and the City constituted approximately 50% of the Debtor's electric power load as of mid-2011. YVEC and the City contributed to payment of the general and administrative expenses and the overhead of Debtor and purchased power from the Debtor. The future financial benefit of their contribution to overhead is paid over to the Noteholders or the General Unsecured Creditors, rather than to helping defray the Debtor's expenses. If YVEC and the City had remained as positive contributing members of the Debtor, the viability of a future reorganization and the Debtor's ability to operate as a G&T with electric generation would have been vastly enhanced.

The Members acknowledge that the Trustee deemed resolution of the YVEC District Court Action, the City District Court Action and the City Adversary Proceeding as necessary and prudent from the standpoint of eliminating litigation expense and uncertainty, and the deadlock created by the presence of YVEC and the City as members of the Debtor. However, the

Trustee's settlements with YVEC and the City have left the Debtor with only four members, a greatly reduced load, and the questionable ability to pay operating expenses and debt, leaving liquidation as the only realistic option.

U. 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) (investigate) and (4) (statement) 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 also is available to parties in interest from the Trustee of 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 under section 1106(a)(4).

V. 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 theDebtor's interest in payment from 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 believe they are over-secured), which could be measured by the stream of cash flow they bring to the estate to pay the Debtor's obligations.

Based on an appraisal of HGS as of January 1, 2013,by MRV, which the Trustee obtained for property tax purposes, the Trustee asserted 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 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 All-Requirements Contracts had no value and HGS had a value of approximately $14 million, the Members do not believe that the value, if any, of the WAPA contract would render the Noteholders over-secured. The Trustee did not have HHA value the Noteholders' cash collateral because the value of a dollar is a dollar.

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 independent 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-Requirements 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 over-secured. A&M argues, among other things, that the value of the All-Requirements 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. The Noteholders also argue that the value of the All-Requirements Contracts is dramatized by the fact that in the approximately two years in which this Case has been pending, the Noteholders' collateral will have generated in excess of $25 million of collateral proceeds plus amounts attributable to the operation of the Estate. In addition, A&M estimates approximately $2,700,000 of cash will be available as of October 31, 2013,as the cash collateral of the Noteholders. Further, the Noteholders assert a lien on the pipeline that runs to HGS, which may have value and, as of October 2013, may be of interest to at least one potential acquirer.

Certain parties have inquired how HGS could have such a low current value when the book value of HGS is around $100 million. The answers are found in detail in the appraisals performed by MRV, copies of which are available upon request from counsel for the Members. The short answer is "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. In short, the cost of a kilowatt-hour of power produced at HGS is—and, in at least the near future, is predicted to be—significantly higher than the cost of kilowatt-hour of power purchased on the market. Because of economic obsolescence, HGS will not appreciate 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, had filed on behalf of the Noteholders, alleging, among other things, that the facts and circumstances of the Debtor's Chapter 11 filing 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 before 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. The Noteholders cited to case law supporting their argument.

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 submitted an expert report calculating an effective rate of interest that takes into account the Make-Whole Amount, which was usurious. The Noteholders 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 (Doc. 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 and the Noteholders agreed to the terms of a proposed settlement 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 proposed settlement between the Trustee and the Noteholders was never reduced to an executed, written document and was not presented to the Bankruptcy Court for approval in the form of a settlement agreement.

The Members and WAPA assert that the WAPA contracts are not part of the Noteholders' collateral.

With the termination of the Trustee's appointment, discussed *infra*, the proposed settlement between the Trustee and the Noteholders is moot and the valuation issue remains unresolved.

W. The Proposed Settlement between the Trustee and the Noteholders

The Trustee's settlement with the Noteholders occurred because of the failure of negotiations between the Noteholders and the Members, negotiations that began in earnest on January 30, 2013. In the subsequent five months (to the end of June 2013,) the Members sent two offers to the Noteholders—not to the Trustee—to which the Noteholders refused to respond.

In fact, after the Members sent the second offer to the Noteholders, the Trustee, with ACES Power Marketing, rejected the Member's second offer on behalf of the Noteholders. Then, the Trustee, without any notice to or consultation with the Members, agreed to settlement terms with the Noteholders. The Members were not even aware of—let alone allowed to participate in—the negotiations and settlement reached between the Trustee and the Noteholders.

There is no written settlement agreement between the Trustee and the Noteholders. There is only a two-page term sheet, a copy of which is available upon request from counsel for the Members. The terms of the settlement between the Trustee and the Noteholders were essentially as follows:

- The Debtor will be reorganized as a four-member cooperative consisting of Beartooth, Fergus, Mid-Yellowstone, and Tongue River.

- The Noteholders agree to apply all adequate protection payments, payments of professional fees, and the proceeds of the settlement with the City on a pro rata basis to the principal owned on the Series 2010A Notes and the 2010B Note, respectively. As of October 2013, it is estimated that approximately $25 million of funds could be applied to principal, which would reduce the secured debt amount as of that time to approximately $60 million. In addition, the Noteholders would apply upon the Effective Date any amounts not otherwise dedicated to administrative expenses, operating costs, or unsecured recoveries (as further detailed below) to reduce their secured debt. Under the Trustee's Plan, the 2010A Note is amortized over 12 years and the 2010B Note over 10 years. The Noteholders have agreed to the loan amortization and payment schedules represented in the Trustee's Plan. The restructured principal on the 2010A Notes would be amortized over 17 years and on the 2010B Note over 10 years.

- The Noteholders waive their existing make-whole amount claim. A new make- whole amount could become due, however, in accordance with the terms of the restructured documents upon the occurrence in the future of similar types of events that trigger a make-whole claim in the existing loan documents.

- The Noteholders have agreed to new reduced interest rates priced at 6.00% and 5.25%, respectively, a 200 basis point discount from the rates under the original financing.

- The loan documents will be modified in form and substance satisfactory to the Indenture Trustee, the Noteholders, and the Trustee to accomplish the terms of the restructuring.

- The Noteholders will structure the modified loan documents to ensure that the Debtor's rates to its members for the first year after the Effective Date do not exceed the current rates.

- The Noteholders and Indenture Trustee will be released upon the Effective Date and receive the benefit of an exculpation.

- If not done earlier, the Valuation Motion and Limited Objection will be withdrawn with prejudice after the Effective Date. If the Trustee's amended plan is confirmed, it would

settle under Bankruptcy Rule 9019 the dispute between and among the Indenture Trustee and the Noteholders, on one hand, and the Trustee and all other parties in interest, on the other hand.

- The Trustee would select the most attractive 10-year fixed price power supply contract with a third-party supplier, currently the MSCGI Agreement, with any collateral support coming from a cash build-up generated from Member pricing.

- The power sales price charged by the Reorganized Debtor would be the sum of:

  - the price paid to the third party supplier (capacity and usage);

  - the differential from Mid-C to NWE connection plus transmission if the differential from Mid C to the NWE connection is not fully included in the quoted price to the NWE connection;

  - a margin required to support the Reorganized Debtor's organization and HGS; and

  - a dollar margin sufficient to amortize the secured debt with interest over the selected amortization period.

- The Debtor, as the Reorganized Debtor, would continue to own and pay the operation, maintenance, and licensing/permitting cost of HGS.

- The Debtor would assume the wholesale power contracts between the Debtor and the remaining four members.

- The Trustee's amended plan will pay in full at confirmation all Allowed Administrative Expense Claims and all Cure amounts associated with assumed contracts (with the list of assumed contracts to be agreed to in advance of confirmation).

- Priority Non-Tax Claims would be paid in full on the Effective Date.

- The Trustee's amended plan would set aside sufficient working capital for the Debtor to emerge from bankruptcy.

- Contingent upon Committee support and cooperation, the Noteholders would assign on the Effective Date, chapter 5 claims and claims against directors and officers to unsecured creditors and would agree to set aside (or carve out) certain cash in the Estate in an agreed amount to pay a dividend to unsecured creditors (with the Committee waiving any entitlement to any further recoveries).

- The WAPA contract has already been assumed, as modified, by YVEC settlement.

- The Trustee would continue to make adequate protection payments and payments for the Noteholders' professionals' fees to the Noteholders through the Effective Date. However, as with the other payments made to or on behalf of the Noteholders during the Chapter 11 Case, they will be treated as a pay down of principal as of the Effective Date.

- Except as otherwise provided for in the settlement, the treatment of other creditors would be the same or substantially similar as set forth in the Trustee's initial plan.

The Members believe that the proposed settlement between the Trustee and the Noteholders did not represent any concessions by the Noteholders and did not result in a feasible plan. The proposed settlement between the Trustee and the Noteholders, which was reached without participation of the Members, is unacceptable to the Members and cannot form the basis for a confirmable plan of reorganization.

The Members emphasize that the Noteholders refused to respond to the Members' settlement proposals. The Members made serious efforts to come together with acceptable proposals to the Noteholders over a several month period. All proposals made by the Members included provision that Beartooth could leave Southern. The Members also acknowledge that the Trustee chose to adopt wholesale—and without any concessions by the Noteholders—the Noteholders' positions, even despite their recalcitrance in negotiation. The Members believe that the Noteholders have made no serious concessions in negotiations or in the proposed settlement.

The Members' Plan provides for the liquidation of the Debtor and the surrender of HGS and the Encumbered Cash to the Noteholders.

X. 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 (Doc. 913). All but one of the Members joined the Committee's motion to convert. The Trustee objected to the motion, as did the Noteholders, and the Indenture Trustee, and two other parties joined in those objections. (Dkt. Nos. 941-943). On July 31, 2013, the Bankruptcy Court denied the Committee's motion without prejudice, ruling that the Committee and other joinder parties had not offered sufficient evidence to support their claim that conversion was appropriate.

Y. 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 post-petition period.

No post-petition claims have been threatened or asserted against the Trustee, the Debtor, or persons associated with the Debtor.

Z. 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.

AA. Preference/Avoidance Actions

The Trustee has filed the following actions seeking to avoid and recover, with interest thereon, certain pre-petition transfers:

Adv. No.	Defendants	Date	Doc.	Amount
13-43	Corval Group, Inc. Corval Constructors, Inc.	10/18/2013	1094	$287,543.40
13-44	Powell Electric Systems, Inc.	10/18/2013	1095	$87,190.00
13-45	Edwards, Frickle & Culver	10/18/2013	1096	$48,889.71
13-46	Doak & Associates, P.C.	10/18/2013	1097	$53,337.50
13-47	PPL EnergyPlus, LLC	10/18/2013	1098	To be determined

The Members understand that PPL EnergyPlus, LLC, has filed a motion to dismiss the claims against it. All of the Preference/Avoidance Actions are still pending before the Bankruptcy Court, but, given the termination of the Trustee's appointment (discussed below), their status is uncertain. The Debtor, as debtor-in-possession, has not taken a public position on the merits of any of the Preference/Avoidance Actions or what position the Debtor will assert.

BB. Termination of Appointment of the Trustee

On October 21, 2013, Fergus filed a *Motion to Remove Chapter 11 Trustee* (Doc. 1101) (the "**Removal Motion**"), in which it asserted that, under Section 1105 of the Bankrupcy Code, the Court should terminate the appointment of the Trustee because the circumstances necessitating his appointment—to wit, deadlock on the Debtor's board of trustees—no longer existed.

On October 21, 2013, the Trustee objected to the Removal Motion (Doc. 1123). The Trustee argued that the circumstances for appointment of the Trustee were not clear in the record, the circumstances necessitating the Trustee's appointment had not changed, and the interests of the Estate and creditors militate against termination of the Trustee's appointment.

The following parties joined in the Removal Motion: The Unsecured Creditor's Committee on October 31, 2013 (Doc. 1114); Beartooth on November 4, 2013 (Doc. 1126);

Mid-Yellowstone on November 4, 2013 (Doc. 1127); and PPL EnergyPlus, LLC, on November 7, 2013 (Doc. 1140)[9]

On November 4, 2013, the Noteholders objected to the Removal Motion (Doc. 1125), arguing that the circumstances had not changed sufficient to terminate the Trustee's appointment and that the Members have a "disabling conflict of interest". The following parties joined in the Trustee's and the Noteholders' objections to the Removal Motion: Corval Group, Inc. and Corval Constructors, Inc., on November 6, 2013 (Doc. 1131); The Energy Corporation on Novmeber 6, 2013 (Doc. 1132); and EPC Services Company on November 6, 2013 (Doc. 1136).

On November 13, 2013, the Bankruptcy Court held a hearing on the Removal Motion. On November 26, 2013, the Bankruptcy Court entered an Order granting the Removal Motion (Doc. 1160). In conjunction with such Order, the Bankruptcy Court filed a Memorandum of Decision (Doc. 1159) in which it found that the Trustee was appointed because of deadlock on the Debtor's board of trustees prevented the Debtor from proceeding in any meaningful fashion; that the Debtor's board of trustees is no longer deadlocked; that the changed circumstances "obviates the need for the continued appointment of the Trustee"[10]; and that the Debtor's accountant believes that the Debtor will run out of cash and is experiencing negative cash flow each month, which "is undoubtedly in part related to the professional fees being paid to the Trustee, his counsel and counsel for the Noteholders"[11] Possession and control of the Estate was turned over to the Debtor as a debtor-in-possession.

The Noteholders maintain that the Members have a conflict of interest.

CC. Noteholders' Plan.

On December 17, 2013, the Noteholders filed the *Noteholders' Plan of Reorganization for Southern Montana Electric Generation and Transmission Cooperative, Inc.* (Doc. 1185) (the "**Noteholders' Plan**" and *Disclosure Statement for Noteholders' Plan of Reorganization for Southern Montana Electric Generation and Transmission Cooperative, Inc.* (Doc. 1191) (the "**Noteholders' Disclosure Statement**"). The Noteholders' Plan is nearly identical in every material respect to the Trustee's Plan. The main difference between the Trustee's Plan and the Noteholders' Plan is the treatment of certain claims asserted by under-secured creditors. Where the Trustee proposed to pay such claims in full, the Noteholders propose to treat such claims as if they were secured claims up to the value of the collateral and general unsecured claims for the balance.

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[9] PPL EnergyPlus, LLC, has the largest claim against the Estate. PPL EnergyPlus, LLC, argued that the ongoing costs of the Trustee were detrimental to the Estate in light of how the circumstances changed since appointment of the Trustee.

[10] *Memo. of Decision* p 15 (Nov. 26, 2013).

[11] *Id*. at 16 (noting that the Trustee, his counsel, and counsel for the Noteholders "have applied for fees and costs in excess of $6 million, and yet, after two years, the Trustee has not secured confirmation of a plan."

The Noteholders' Plan relies wholly on the Debtor's assuming the Members' All-Requirement Contracts and the Debtor's Bylaws. However, the All-Requirements Contracts and the Bylaws are executory contracts that, under Montana law and the Bankruptcy Code, cannot be assumed or assigned without the Members' consent and the Members do not consent to assumption or assignment thereof under the Noteholder's Plan. In addition, the Member assert that the Noteholders' Plan does not appear to meet the requirements of Section 1129 of the Bankruptcy Code, including, but not limited to, it does not meet the feasibility test.

On December 17, 2012, the Noteholders filed a motion to set hearing and shorten deadlines to object to the Noteholders' Disclosure Statement (Doc. 1192). The Bankruptcy Court granted the motion, setting the deadline for objections for January 7, 2013, and setting the hearing for the Noteholders' Disclosure Statement for January 14, 2014 (Doc. 1195).

V. The Members Chapter 11 Plan

The Members' 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 Members' 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 Members' Plan is not confirmed.

A. Considerations Regarding the Members' Plan

The Members' Plan provides for the liquidation and dissolution of the Debtor; and distribution or surrender of all of the assets of the Debtor. The Trustee has stabilized the Debtor's business operations and improved its cash position by rejecting the PPL contract and buying short term power at prevailing market prices while charging the Members, and until recently YVEC and the City, the above-market wholesale power rates that the Debtor had been charging the Members prior to the bankruptcy filing. However, now that YVEC and the City are no longer purchasing power from the Debtor, there is no unencumbered cash coming into the Estate. Thus, the unencumbered cash is now being depleted to the detriment of the unsecured creditors. The Trustee's rejection of the PPL contract, which was permitted under section 365 of the Bankruptcy Code, resulted in a claim against the Estate by PPL of $374,863,708.19.

The rejection of the PPL contract and the resulting ability to buy cheaper short term power on the open market has indeed worked to the advantage of the Noteholders – paying them approximately $1,041,000 per month since April 2012 (and over $2.5 million to their attorneys and financial advisors) and resulting in Debtor holding a large amount of cash encumbered by the Noteholders. The benefit to the Noteholders in the bankruptcy has been at the expense of PPL, other unsecured creditors, the Members, and the Members' patrons/members.

The benefit to the Noteholders in the bankruptcy has also been at the expense of the patrons and customers of the Members through payment of unreasonably high power rates. The Members believe there is a public interest in providing rural Montana power consumers with electricity at fair and reasonable rates.

The Members have been divided on how to operate the Debtor. At this time the Members are aligned solely by their shared business judgment that the Debtor: (i) no longer

meets the seven guiding principals governing cooperatives; (ii) no longer meets the purposes for a G & T cooperative, including, among other things, to secure inexpensive, cost-based power for its members; and (iii) is not economically viable as a going concern. Therefore, in the business judgment of the Members, the best and only choice is to liquidate and dissolve the Debtor. Beartooth has openly stated that it may face bankruptcy if forced to be a member of a reorganized Debtor. The other Members have each investigated bankruptcy alternatives if they are forced into a plan of reorganization that is untenable. The Members' relationships with each other and with the Debtor are furthered strained by widely differing opinions on management and operations of a reorganized Debtor.

The Members believe that the financial failure or a bankruptcy of any of the Members will have a domino effect and result in the financial failure or bankruptcy filings of the other Members and the Debtor. This belief is supported by the provisions of the MSCGI Agreement, which requires a Guarantee Agreement from each of the Members and rates dependent upon specified load requirements for the Debtor.

The Members are all searching for stability. None of the Members believes that stability can be found in any reorganization of Debtor, as none of the Members believes that a reorganized Debtor could stay together long term. Thus, the Members believe that the best alternative for all parties at this time is to liquidate the Debtor and distribute its remaining assets to the secured creditors as to their legitimate remaining collateral and the balance to the unsecured creditors. Under the Members' Plan, the Members waive any claims against the Debtor and any rights to distributions from the liquidation of the Debtor. Immediate liquidation will also stop the approximately $1.5 million that is being paid each month as adequate protection to the Noteholders and for the Noteholders' professionals.

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 Members' Plan

1. Liquidation and Cessation of Operations

Under the Members' Plan, on the Effective Date the Debtor will commence winding up the affairs of the Debtor; execution of agreements and documents provided for in the Members' Plan; surrender, distribution, assignment, and liquidation of the Debtor's assets; and dissolving the Debtor pursuant to the Members' Plan. Debtor shall only continue its business and operations to the extent necessary to complete the liquidation and to implement the Members' Plan. The Members shall continue to be the members of Debtor subject to and in accordance with the terms and conditions of the Members' Plan for the purpose of completing the liquidation of the Debtor. The only Members of Debtor as of the Effective Date shall be the Members.

2. Management and Liquidating Agent

The Members' Plan provides for their appointment of a Liquidating Agent. The Members have identified but not engaged James Winchell, a certified public accountant in

Billings, Montana as an appropriate professional to act as Liquidating Agent. The Members believe that appointment of the Liquidating Agent will be necessary to manage the liquidation of the Debtor and make distributions under the Member's Plan. They also believe that appointment of the Liquidating Agent will limit the possibility of disagreement between the Members as to management of post-confirmation liquidation matters.

Under the Members' Plan, a Liquidating Agent will manage the liquidation of the Debtor and the Estate, operations during the Transition Period, and shall make the distributions under the Members' Plan on behalf of the Debtor. Debtor, through the Liquidating Agent, will litigate to judgment, settle, or withdraw objections to Claims. The Liquidating Agent may employ such agents and/or professionals as the Liquidating Agent deems necessary to administer the Members' Plan and make the distributions under the Members' Plan. The Liquidating Agent shall serve without bond. The Liquidating Agent shall have authority to manage liquidation and carry out the terms of the Members' Plan, provided, however, that the Liquidating Agent shall report on the status of the administration of the Members' Plan and the liquidation of the Debtor to the Debtor's Board of Trustees and, in the event of a disagreement regarding the course of action to be taken by the Liquidating Agent in managing the liquidation or making distributions, the Board of Trustees by affirmative supermajority vote of 75% of the Trustees may direct the course of action of the Liquidating Agent as to such matter. The Liquidating Agent shall have the status of a party-in-interest and may participate in any proceedings before the relating to the liquidation or administration of the Debtor. The Liquidating Agent may pay the Liquidating Agent Expenses, and the salaries, fees and expenses of professionals employed by the Liquidating Agent, as set aside in the Liquidation Operating Fund.

Any tangible personal property assets of the Debtor that are not subject to Liens shall either be distributed or liquidated by the Debtor, through the Liquidating Agent and the net proceeds of such liquidated assets shall be paid and distributed to Allowed General Unsecured Claims under Class 6 of the Members' Plan.

3. Transition Period for Power Purchases

Under the Members' Plan, on the Effective Date, Debtor will determine a period of time, not to exceed 90 days, to contract for purchase of electrical power ("**Transition Period**"). During the Transition Period the Debtor will supply all of the Members' electric power supply requirements based on the current rate formula and the Members will purchase all of their electric power requirements from Debtor. During the Transition Period, the Members will make and finalize arrangements to purchase their electric power needs from a source or sources other than Debtor as determined by each Member in its sole discretion. Debtor will cease purchasing electric power and selling wholesale power to the Members at the end of the Transition Period.

4. Assignment of WAPA Contracts

Pursuant to the YVEC Settlement, the Debtor's WAPA contract was modified, assumed, and partially assigned in accordance with the Bankruptcy Court's Findings of Fact and Conclusions of Law dated April 5, 2013 (Doc. 783) and the Bankruptcy Court's Order dated April 5, 2013 (Doc. 784). Subject to approval of the WAPA, under the Members' Plan the

WAPA Contract power will be assigned and allocated among the Members according to agreement between the Members.

The WAPA Contracts shall be assigned to the Members, free and clear of any liens and encumbrances, effective on the last day of the Transition Period.

5. Liquidation Operating Fund

If not previously expired or terminated, the DIP Order shall terminate on the Effective Date; provided, however, that any provision therein that the Bankruptcy Court determines survives such termination shall survive and remain in force. Debtor, through the Liquidating Agent, shall establish a Liquidation Operating Fund for payment of the Debtor's and the Liquidating Agent's operational expenses and professional fees and expenses incurred during the Liquidation Period. The Liquidation Operating Fund shall be funded with the Unencumbered Cash, the NWE Energy Deposit, and with Debtor's net income generated from sale of electric power to the Members during the Transition Period. The balance of Liquidation Operating Fund remaining after Liquidation of Debtor shall be paid and distributed to Allowed General Unsecured Claims under Class 6 of the Members' Plan.

6. Corporate Governance and Board of Trustees

The Debtor is organized and operates according to Articles of Incorporation and Bylaws and related corporate governance agreements ("**Corporate Governance Agreements**"). The Corporate Governance Agreements, and specifically the Bylaws, are executory contracts between the Debtor and the Members, which cannot be assumed without the Members' consent. Upon the Effective Date, the Debtor's Bylaws shall be rejected and the Members shall adopt new bylaws for the sole purpose of governing the Debtor during liquidation pursuant to the Members' Plan (the "**Liquidation Bylaws**"). The Members shall provide a copy of the Liquidation Bylaws in a plan supplement on or before the date of the plan confirmation hearing. Except as provided for herein or as may be necessary to accomplish the provisions of the Members' Plan, the Corporate Governance Agreements shall remain unchanged. Debtor shall continue to exist after the Effective Date, with all the powers available to such legal entity, in accordance with applicable law, the Members' Plan, and pursuant to its Corporate Governance Agreements and the Liquidation Bylaws, only for such time as necessary to liquidate the Debtor in accordance with the Members' Plan and to dissolve the Debtor under Montana law as deemed appropriate and advisable by Debtor and its advisors. On the Effective Date, the Debtor's Board of Trustees shall be comprised of the individuals who currently hold such positions on behalf of the Members, specifically, Arleen Boyd, David Dover, DeeDee Isaacs, and Jim DeCock. In addition, each Member has elected or appointed one additional individual to serve on the Board of Trustees of Debtor on behalf of that Member, specifically, Laurie Beers for Beartooth, Lee Howard for Mid-Yellowstone, Jim Collins for Tongue River, and Jason Swanz for Fergus. Debtor will file appropriate amendments to its Corporate Governance Agreements to provide for the additional four trustees.

7. Operational Personnel during Transition Period

Under the Members' Plan, upon the Effective Date and during the Transition Period, Debtor's office administration and power scheduling will be conducted by substantially the same operational personnel that conducted such operations before the Confirmation Date. Debtor will surrender HGS, subject to all valid liens, to Prudential and Modern Woodmen on the Effective Date and the operational personnel for HGS will no longer be employed or contracted with Debtor. Debtor, through the Liquidating Agent, shall have authority to employ any persons deemed necessary to manage liquidation of Debtor.

8. Rejection and Termination of All-Requirements Contracts

The Members' All-Requirements Contracts are rejected on the Effective Date. Debtor and the Members shall execute all necessary documents and agreements deemed necessary to terminate the All-Requirements Contracts as of the Effective Date with provision that neither the Debtor nor the Members shall have any obligations to the other arising from the rejection and termination of the All-Requirements Contracts. The Members have agreed to waive any rejection damage claims against Debtor resulting from such rejection.

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 the Liquidating Agent has been notified in writing of a change of address, including, without limitation, by the filing of a proof of Claim by such holder that contains an address for such holder different than the address of such holder as set forth on the Schedules. Payment shall be made to the holder of the Allowed Claim and unless the holder of such Allowed Claim has directed the Debtor or the Liquidating Agent, in writing, to make payment to a third party (including through the filing of a proof of Claim instructing that payment be made to a third party thereon). Payments received on account of Plan distributions shall not be subject to disgorgement.

Under the Members' Plan, the Debtor, through the Liquidating Agent, will make the distributions required to be made in respect of the Allowed Claims under the Members' Plan, or as may otherwise be required by the Members' Plan.

2. Undeliverable Distributions

a) Holding of Undeliverable Distributions

If any distribution to any holder is returned to the Debtor or the Liquidating Agent as undeliverable, no further distributions shall be made to such holder unless and until the Debtor or the Liquidating Agent is notified, in writing, of such holder's then-current address. Undeliverable distributions shall remain in the possession of the Debtor until 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 Members' Plan shall require the Debtor or the Liquidating Agent 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, the Debtor, through the Liquidating Agent, 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 or voided in accordance with the Members' Plan. Any holder of an Allowed Claim that does not assert its rights pursuant to the Members' Plan to receive a distribution within one year from and after the Effective Date shall have its entitlement to such undeliverable or voided distribution discharged and shall be forever barred from asserting any entitlement pursuant to the Members' Plan against the Debtor, the Liquidating Agent, or the property of the Debtor. In such case, any consideration held for distribution on account of such Claim shall revert to the Debtor and shall be paid over to the General Unsecured Creditors.

c) Time Bar to Cash Payment Rights

Checks issued in respect of Allowed Claims shall be null and void if not negotiated within 90 days after the date of issuance thereof. Requests for reissuance of any check shall be made to the Debtor, through the Liquidating Agent, 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 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 5.14(b) of the Members' Plan re undeliverable distributions.

d) Manner of Payment under the Members' Plan

Any Plan distribution to be made in Cash under the Members' Plan shall be made, at the election of the Debtor, through the Liquidating Agent, 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 the Debtor, through the Liquidating Agent, 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 Members' 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 against the Debtor must be made by the Debtor, through the Liquidating Agent, or by any other party in interest, and served upon each holder of a Claim to which an objection is made and filed with the Bankruptcy Court within ninety (90) days of the Effective Date. Objections to Claims may be prosecuted by the Debtor, through the Liquidating Agent and by any party in interest.

2. Allowance of Disputed Claims

When a Disputed Claim becomes, in whole or in part, an Allowed Claim, Debtor, through the Liquidating Agent, shall distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Members' 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 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, Debtor, through the Liquidating Agent, may litigate to judgment, propose settlements of, or withdraw objections to, all pending or filed Disputed Claims, and Debtor, through the Liquidating Agent, 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 Members' Plan, pursuant to sections 365(a), 365(b), 363(f), and 1123(b)(2) of the Bankruptcy Code, the Debtor shall assume, or assume and assign, to the stated parties all executory contracts and unexpired leases specifically designated on Exhibit A to the Members' Plan, which schedule may be amended in accordance with the Members' Plan.

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; (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 Members' Plan; provided, however, that the Members reserve the right, on or prior to the Confirmation Date, to amend the Members' 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 Members' right to argue that any of the unexpired leases should be re-characterized as a secured financing. The Members shall provide notice of any amendments to the Members' Plan to the parties to the executory contracts and unexpired leases affected thereby.

Under the Members' Plan, the All-Requirements Contracts identified on Exhibit B and any executory contracts or leases not identified on Exhibit A to the Members' Plan are rejected. The Members' Plan provides for the Debtor and the Members to execute agreements terminating the All-Requirements Contracts on the Effective Date.

3. Approval of Assumption and Assignment and Rejection of Executory Contracts and Unexpired Leases

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

4. Objections

Any party wishing to object to the assumption or assumption and assignment of any executory contract or unexpired lease hereunder, including any proposed Cure, if any, set forth in Exhibit A, must file an objection with the Bankruptcy Court by the deadline to object to the Members' 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 Members' 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 Debtor without the need for any objection by Debtor 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 Debtor from paying any cure amount despite the failure of the relevant counterparty to timely file such request or objection for payment of such Cure. Debtor 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 and Dissolution

Under the Members' Plan, the Board of Trustees of Debtor shall serve as the representative of the Estate and the Estate shall continue in existence from and after the

Confirmation Date and until all payments and distributions to the holders of Allowed Claims shall have been made under the Members' Plan and a final decree pursuant to Rule 3022 of the Bankruptcy Rules is entered. From and after the Confirmation Date, the Estate shall remain in existence and the Board of Trustees shall administer the Estate in accordance with the provisions of the Members' Plan, the Bankruptcy Code, and the Bankruptcy Rules.

Following surrender of HGS, subject to all valid liens, and the collateral and completion of payments and distributions as provided for in the Members' Plan, and the completion of winding up of its affairs, and all other matters deemed necessary and appropriate by its consulting professionals, Debtor shall file Articles of Dissolution with the Montana Secretary of State for the purpose of dissolving the Debtor.

H. Effectiveness of the Members' Plan

1. Conditions Precedent to the Confirmation of the Members' Plan

The following are conditions precedent to the Confirmation of the Members' Plan:

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 Members' Plan.

Confirmation Order. The Bankruptcy Court shall have entered a Confirmation Order (i) confirming and giving effect to the terms and provisions of the Members' Plan; (ii) determining that all applicable tests, standards, and burdens in connection with the Members' Plan have been duly satisfied and met; (iii) authorizing the Debtor to execute, implement, and take all actions otherwise necessary or appropriate to give effect to the transactions contemplated by the Members' Plan; and (iv) determining that the compromises and settlements set forth in any settlement agreement and the Members' 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.

2. Conditions Precedent to the Effective Date of the Members' Plan

The following are conditions precedent to the Effective Date of the Members' Plan: (i) no stay of the Confirmation Order shall then be in effect; and (ii) all authorizations, consents, and approvals determined by the Debtor to be necessary to implement to terms of the Members' Plan shall have been obtained.

3. Effect of Non-Occurrence of the Effective Date

If the Effective Date does not occur, the Members' Plan shall be null and void and nothing contained in the Members' Plan shall: (i) constitute a waiver or release of any Claims against or Member Interests in the Debtor; (ii) prejudice in any manner the rights of the Members; or (iii) constitute an admission, acknowledgment, offer or undertaking of any manner by the Members.

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 Members' 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 Members' Plan and whether or not such holder has accepted the Members' Plan.

2. Discharge of Claims

Upon the Effective Date, except as otherwise expressly provided in the Members' Plan, each holder (as well as any trustees and agents on behalf of each holder) of a Claim or Member Interest and any Affiliate of such holder shall be deemed to have forever waived, released, and discharged Debtor, to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all Claims, Causes of Action, interests, rights, and liabilities that arose prior to the Confirmation Date and, upon the Effective Date, all such persons shall be forever precluded and enjoined, pursuant to section 524 of the Bankruptcy Code, from prosecuting any Causes of Action or asserting any such discharged Claim against or Member Interest in the Debtor.

3. Exculpation and Release of the Debtor and Its Members

Subject to the occurrence of the Effective Date, the Confirmation Order shall constitute a release, discharge, and forgiveness of all claims, demands, or Causes of Action which any party in interest, creditor, the Committee or the Trustee holds or is entitled to prosecute on behalf of any other party against (a) the Debtor, its agents, attorneys, or other professionals and all of their respective shareholders, managers, members, officers, employees, agents, advisors, consultants, successors, and assigns; and (b) the Members and their respective shareholders, managers, members, officers, directors, employees, advisors, consultants, successors, and assigns. This release shall cover all claims and Causes of Action, derivative or otherwise, which may be brought in the name of, on behalf of, or in the right of the Debtor, the Estate, the Committee, Debtor, or the Trustee. The (a) Debtor and its Members, (b) the Committee, and (c) Trustee (collectively the "**Exculpated Parties**") and any professionals, including without limitation, attorneys retained by the Exculpated Parties, and all of their respective shareholders, managers, members, officers, employees, agents, advisors, consultants, successors, and assigns shall not have or incur any liability to any person for any Cause of Action or any act taken or omission, after the Petition Date, in connection with or related to the Chapter 11 Case or the operations of the Debtor's business during the Chapter 11 Case, including but not limited to (i) formulating, preparing, disseminating, implementing, confirming, consummating, or administrating the Members' Plan (including soliciting acceptances or rejections thereof); (ii) the Disclosure Statement or any contract, instrument, release, or other agreement or document entered into or any action taken or omitted to be taken in connection with the Members' Plan; or (iii) any distributions made pursuant to the Members' Plan, except for acts constituting willful misconduct or gross negligence, and in all respects such parties shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Members' Plan.

4. Retention of Causes of Action/Reservation of Rights

Except as expressly provided in the Members' Plan, Debtor shall retain, and nothing contained in the Members' 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, the Committee, 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) the Beartooth Litigation; (c) any and all Claims against any person or entity to the extent such person or entity asserts a cross-claim, 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 (d) the turnover of any property of the Debtor's Estate. Unless previously resolved, the Beartooth Litigation will be dismissed with prejudice on the Effective Date. No person or entity may rely on the absence of a specific reference in the Members' Plan or the Disclosure Statement to any Cause of Action against them as any indication that the Debtor will not pursue any and all available Causes of Action against them. The Estate, and Debtor, as applicable, expressly reserve all rights to prosecute any and all Causes of Action and Claim objections against any person or entity.

5. Injunction

All persons or entities who have held, hold, or may hold Claims against or Member Interests in the Debtor or the Estate and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, are permanently enjoined, on and after the Effective Date, with respect to Claims released under the Members' Plan and all Claims and Member Interests against the Debtor or the Estate, from (i) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding of any kind (including, without limitation, any proceeding in a judicial, arbitral, administrative, or other forum) against or affecting the Debtor, the Estate, or their property; (ii) enforcing, levying, attaching (including, without limitation, any prejudgment attachment), collecting, or otherwise recovering by any manner or means, whether directly or indirectly, any judgment, award, decree, or order against the Debtor, the Estate, or their property; (iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any encumbrance of any kind against the Debtor, the Estate, or their property; (iv) asserting any right of setoff or recoupment, directly or indirectly, against any obligation due the Debtor, the Estate, or any of their property, except as contemplated or allowed by the Members' Plan; (v) acting or proceeding in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Members' Plan; (vi) commencing, continuing, or asserting in any manner any action or other proceeding of any kind with respect to any Claims and Causes of Action which are extinguished or released pursuant to the Members' Plan; and (vii) taking any actions to interfere with the implementation or consummation of the Members' 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 Members' Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code.

7. Modification of Plan

The Members reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules to amend or modify the Members' Plan at any time before the entry of the Confirmation Order. After the entry of the Confirmation Order, the Debtor or the Members may, upon order of the Bankruptcy Court, amend or modify the Members' Plan, in accordance with section 1127(b) of the Bankruptcy Code or remedy any defect or omission or reconcile any inconsistency in the Members' Plan in such manner as may be necessary to carry out the purpose and intent of the Members' Plan. A holder of an Allowed Claim or Member Interest that is deemed to have accepted the Members' Plan shall be deemed to have accepted the Members' 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

The Members may withdraw or revoke the Members' Plan at any time before the Confirmation Date. If the Members revoke or withdraw the Members' Plan prior to the Confirmation Date, or if the Confirmation Date does not occur, then the Members' Plan shall be deemed null and void. In such event, nothing contained herein or in the Disclosure Statement shall be deemed to constitute a waiver or release of any Causes of Action, or Claim by or against the Debtor, the Trustee or the Estate or any other person or to prejudice in any manner the rights of the Members or any other person in any further proceedings involving the Debtor.

VI. Certain Factors Affecting the Debtor

A. Risk of Non-confirmation of the Members' Plan

Although the Members believe that the Members' 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 Members' Plan will not be required for confirmation or that such modifications would not necessitate re-solicitation of votes.

B. Failure of Conditions Precedent to Confirmation of the Members' Plan

The Members' Plan provides for certain conditions that must be satisfied (or waived) prior to Confirmation of the Members' 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 Members' Plan will be satisfied (or waived). Accordingly, there can be no assurance that the Members' Plan will be confirmed by the Bankruptcy Court, and if the Members' Plan is confirmed, there can be no assurance that the Members' Plan will be consummated.

VII. Confirmation of the Members' Plan

A. Requirement 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 Members' Plan complies with the applicable provisions of the Bankruptcy Code.
- The Debtor has complied with the applicable provisions of the Bankruptcy Code.
- The Members' 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 Member's Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Case, or in connection with the Trustee's Plan and incident to the Chapter 11 Case, has been disclosed to the Bankruptcy Court, and any such payment made before confirmation of the Members' Plan is reasonable, or if such payment is to be fixed after confirmation of the Members' Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.
- The Members have disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Members' Plan, as a director, officer, or voting trustee of the Debtor, or a successor to the Debtor 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 Debtor 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 Members' Plan or will receive or retain under the Members' 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 Members' Plan provides that any Claims in such Class will receive under the Members' Plan on account of such Claims, property of a value, as of the Effective date of the Members' 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 Members' Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each Class of Claims or Member Interests either has accepted the Members' Plan or is not impaired under the Members' Plan.

- Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Members' 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 Members' Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor or any successor to the Debtor under the Members' Plan, unless such liquidation or reorganization is proposed in the Members' 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 Members' Plan provides for the payment of all such fees on the Effective Date of the Member's 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 Members have determined that confirmation of the Members' 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 Members' Plan provides that any Claims in such Class will receive under the Members' Plan on account of such Claims, property of a value, as of the Effective date of the Members' 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 Members' 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. The Members believe that the Trustee's Plan was not feasible and would have resulted in the financial failure of the Debtor and of some or all of the Members. The Members believe that by assigning all Unencumbered Cash and Avoidance Actions (including claims for disgorgement from the Noteholders and the Trustee) to the unsecured creditors and by providing for payment of the balance of Liquidation Operating Funds to the unsecured creditors, that the unsecured creditors will receive a greater recovery under the proposed Members' Plan than they would receive in a chapter 7 liquidation.

The Members' liquidation analysis is attached as Exhibit 2 hereto.

4. Feasibility

The Members believe that the Members' Plan is feasible and the best alternative available to the creditors, the Members and other parties in interest for resolution of the Bankruptcy Case. The Members believe that the Debtor cannot successfully reorganize and that any reorganization of the Debtor will result in liquidation or further financial reorganization or bankruptcy by the Debtor and some or all of the Members. In addition, any plan of reorganization that is fundamentally similar to the Trustee's Plan is not confirmable for the following reasons:

- The MSCGI Agreement (which the Trustee chose as the best option from all the responses to his RFP) requires the Debtor to deliver undefined Guarantee Agreements executed by the Members but the Members will not guarantee the power purchase obligations of the Debtor to Morgan Stanley.

- If the MSCGI Agreement is not guaranteed by the Members, the Trustee previously advised that MSCGI will increase its power purchase rates to the Debtor, which will result in further increased rates to the Members.

- The current wholesale rates charged by the Debtor to the Members are already above-market and crippling the Members and their patron/customers. Continuing with the Debtor's current rates, let alone under a plan of reorganization that imposes future rate increases, will result in unsustainable electric rates to the Members and their patron/customers.

- The Members' relationship with the Debtor is unworkable because Members are intent on terminating their membership in Southern and their All-Requirements Contracts with Southern. The Members, as the Debtor's only customers and source of revenue, are the sole source of funds for any reorganization of the Debtor.

- The relationship between Southern and its members has deteriorated since 2008 to the point that two members, YVEC and the City of Great Falls/ECP, have departed from Southern and terminated their All-Requirements Contracts with Debtor. This litigation lasted over four years. The Members anticipate similar litigation if a plan similar to the Trustee's Plan is confirmed over their objections.

- The deteriorated relationship between Debtor and the Members extends beyond legal disagreements to extensive public dissension in the press and political pressures with State and Federal elected officials, including efforts to change the Montana Rural Electric and Telephone Cooperative Act. The Members' relationships with Southern range from tenuous to openly antagonistic.

- The Members' relationships between themselves have broken down to the point that there is disagreement concerning retention or disposal of HGS and appropriate protocols for operations. Some Members believe that Beartooth wishes to impose additional regulation on Montana electric cooperatives and to join an investor owned utility company and no longer exist as a Montana electric cooperative. Further, there are fundamental disagreements about many, if not all, aspects of future management among the Members.

- The Members' relationships with their own members, who are the Montana rural electric consumers ultimately affected by the Debtor's rates, have suffered because of the increased rates charged by the Debtor and the Members and the dissension and negative impressions created about the Debtor in the press and by Members and former members.

- Some of the Members have indicated that they may have to file their own bankruptcies and all of the Members have been forced to evaluate their own bankruptcies because of the domino effect of further bankruptcies by the Debtor, bankruptcy filings by one or more Members, or by the Members' customers due to crippling power charges.

- The Members believe that their All-Requirements Agreements are not assumable, assignable, or modifiable, without their consent, under the Bankruptcy Code.

- Many of the Members believe that HGS has little value or constitutes a liability to the Debtor and cannot be retained. The Trustee's and the Noteholders' valuation of HGS discussed at Section IV V of the Trustee's Disclosure Statement supports this conclusion.

- The Debtor has lost over 50% of its load as it existed in mid-2011 due to the releases of YVEC and the City of Great Falls as members of the Debtor. This leaves the size of the Debtor much more vulnerable to financial failure due to unforeseen developments and the factors discussed above.

- The membership contracts by which the Members are members of the Debtor, including but not limited to the Bylaws, are an executory contract between the Debtor and the Members and which may not be assumed the consent of the Members.

The Members' Plan is feasible as it calls for the orderly liquidation of the Debtor through surrender of collateral assets to secured creditors, distributions and assignments to unsecured creditors and sale or distribution of remaining assets of the Debtor.

B. Requirements of § 1129(b) of the Bankruptcy Code.

The Bankruptcy Code permits the Bankruptcy Court to confirm a chapter 11 plan of reorganization or liquidation 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 or liquidation 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 Members' Plan over the rejection or deemed rejection of the Members' Plan by a Class of Claims or Member Interests if the Members' Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such class. The Members believe that the Members' Plan will satisfy both the "no unfair discrimination" requirement and the "fair and equitable" requirement should any impaired Class of Claims reject the Members' Plan (these requirements only apply in the event an impaired Class of Claims votes to reject the Members' 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 receives 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, 3, 4 and 5 are impaired, the holders of Claims in such Classes are receiving treatment under the Members' Plan that meets the requirements of section 1129(b)(1) and (2)(A) of the Bankruptcy Code. Therefore, the Members believe that the Members' Plan is fair and equitable with respect to holders of such secured claims.

If Class 6 rejects the Members' Plan, the Members submit that the Bankruptcy Court may still confirm the Members' Plan because the Members' 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 Members' Plan does not violate the "unfair discrimination" prohibition as the only other classes of arguable equal priority to Class 6 under the Members' Plan is the Convenience Claims Class. Section 1122(b) of the Bankruptcy Code explicitly permits the creation of a convenience class, and convenience classes are common in bankruptcy plans. In addition, any holder of an Allowed General Unsecured Claim can elect to reduce voluntarily such Claim to $5,000 and be treated as the holder of an Allowed Convenience Claim.

In addition, if the Class of General Unsecured Claims against the Debtor rejects the Members' Plan, the Trustee submits that the Bankruptcy Court may still confirm the Members' 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."

For the reasons described above, the Members believe that the proposed Members' 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 Members' 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 Members' liquidation analysis are set forth above.

B. Alternative Plan of Reorganization.

The Members believe that the Members' 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 Members' Plan is not confirmed and/or consummated, the theoretical alternatives include:

- Confirmation of the a plan of reorganization that is similar to the Trustee's Plan (such as the plan recently proposed by the Noteholders);
- Formulation of an alternative plan or plans of reorganization by other parties in interest; or
- Liquidation of the Debtor under chapter 7 or chapter 11 of the Bankruptcy Code.

IX. TAX CONSIDERATIONS

The treatment of Claims and Member Interests under the Members' Plan may have important tax implications for creditors and Member Interest holders. The Members have 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 Trustee makes no representations with respect to the tax implications of the Members' 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 Members as proponents of the transactions proposed in the Members' 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 Members believe that confirmation and consummation of the Members' Plan is in the best interests of all creditors, and urges all holders of a Claim or Member Interests entitled to vote to accept the Members' Plan and to evidence such acceptance by returning their Ballots so that they will be received no later than [_____, 2014].

DATED this 31st day of December 2013.

Guthals, Hunnes & Reuss, P.C.

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Attorneys for Tongue River Electric Cooperative, Inc.

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By: /s/ Martin S. Smith
Attorneys for Beartooth Electric Cooperative, Inc.

CERTIFICATE OF SERVICE

I, the undersigned, certify under penalty of perjury that on December 31, 2013, or as soon as possible thereafter, a copy of the foregoing Second Amended Disclosure Statement for Members Cooperatives' Amended Plan of Liquidation for Southern Montana Electric Generation and Transmission Cooperative, Inc., was served electronically by the Court's ECF notice to all persons/entities requesting special notice or otherwise entitled to the same and that in addition service by mailing a true and correct copy, first class mail, postage prepaid, was made to the following persons/entities: None

Guthals Hunnes & Reuss, P.C.

By: /s/ Jeffery A. Hunnes
Jeffery A. Hunnes