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Judge confirms Southern reorganization plan
Beartooth Electric still seeking exit

On Friday, June 20, U.S. Bankruptcy Court Judge Ralph Kirscher signed an order confirming the amended reorganization plan for the bankrupt Southern Montana Electric Generation and Transmission Cooperative (Southern). The plan goes into effect July 1.

Kirscher had tentatively confirmed the plan's approval at the confirmation hearing held on June 13. Approval was still subject to additional documentation, however.

Southern declared bankruptcy in October of 2011 with debt that included construction loans for the Highwood Generating Station near Great Falls, and monthly revenue shortfall of \$1-2 million for purchase of excess power. After months of settlement negotiations earlier this year, an amended reorganization plan was filed by Southern on May 12. Under the reorganization plan, the noteholders who financed the construction will receive \$21 million over a projected four-year period, plus the proceeds from the sale of the Highwood Generating Station.

Since bankruptcy proceedings began, Southern has paid more than \$9 million in legal fees and compensation to professionals employed by the court-appointed bankruptcy trustee, Southern, and the secured noteholders. Approximately \$26.5 million has been paid to the noteholders for "adequate protection" of their interests during this same period.

Confirmation of the plan carries no guarantees, except for the "feasibility" of the plan, according to Arleen Boyd, a Beartooth trustee who also serves on the board of Southern Montana Electric.

"A 'feasible' plan, as required by the court, is one that can work under expected circumstances if reasonable actions are in place to implement it. Feasibility does not guarantee those actions will be identified or taken," Boyd explained. "To make the plan successful, Southern will need to secure power at competitive rates, manage operations efficiently, reduce expenses, and meet its obligations to pay off the debt in four years. There is a lot of work to do," she added.

The plan includes amended power contracts for the four remaining Southern members. The previous power contracts from 2007 locked in supply agreements until 2048. An amended wholesale power contract between Southern and Beartooth Electric Cooperative was filed with the court under the amended plan on June 12.

“Under an addition to our bylaws this year, Beartooth now requires a 60-day comment period before the co-op signs long-term contracts. We are now in the 60-day member notification period before the new wholesale power contract can be signed,” stated Beartooth board chair, Roxie Melton. “Members may contact trustees, the co-op or attend the next board meeting to comment and ask questions,” she added.

Members can also provide comment at member meetings scheduled for June 25 at The Cobblestone School in Absarokee, the Carbon County Extension Office in Joliet on June 26, the Red Lodge Area Community Foundation on June 30 and the Columbus Town Hall on July 1. All meetings are at 6:30 p.m. The Red Lodge-based cooperative has been holding member meetings regarding the bankruptcy throughout its service area since mid-May. A schedule of member meetings and a copy of the wholesale power contract are available at www.beartoothelectric.com.

The reorganization plan provides an option for Beartooth to exit Southern, an option its board is actively pursuing. Beartooth would be required to pre-pay its share of the noteholder debt and other bankruptcy obligations set by the court. Approval from the other Southern member cooperatives is needed. Mediation is currently underway between Beartooth and the other members.

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