
PRESENTATION TO THE BOARD OF BEARTOOTH ELECTRIC COOPERATIVE

MAY 31, 2013

I am Bill Hand, from Nye, a BEC customer and co-author of the SAVE-OUR-BEC petition. That petition to-date has been signed by 279 BEC members concerned about the lack of information forthcoming from the Court Appointed Trustee, Mr. Freeman.

In the short time it is existed, I think the SAVE-OUR-BEC petition may have helped increase the flow of information especially from the creditors and possibly the Trustee to the point that it is becoming more self evident that **restructuring** is *not* the way to go for Southern Co-op bankruptcy and that **liquidation** is the best and only viable alternative for the Southern.

Before I go further, let me say, that I believe this Board probably agrees with much of what I am going say. Much of the materials for this presentation were drawn from easily available materials.

Getting back to the point of this presentation. WHY, do I say that liquidation is better than restructuring? Because there are several risks that could easily lead to the failure of Southern and anyone of its four remaining members.

RISK NO. 1. Customer Commonality Among Southern members. Except for Fergus Electric, the four remaining members of Southern provide power to the same type of customer base. With the exit of Yellowstone Valley Electric Cooperative and Great Falls from Southern, the load served by Southern has become less diverse. The largest number of remaining customers of the Cooperatives—and of Southern—are rural residential customers and irrigation customers. This lack of load diversification is risky. For example, in a drought period both the rural residential and irrigation customers may not purchase power at their usual levels. The loss of income will affect all of the Cooperatives.

RISK NO. 2. No room to increase costs to the customer. There currently is no room for the member Cooperatives to increase their rates without losing customers. There **are** already substitutes for electricity supplied by Southern to the Cooperatives. For example, some of the Cooperatives' irrigation customers are switching from electrical driven pumps to LP/propane-driven pumps. As rates increase, the number of customers that seek alternative power sources will increase, resulting in decreased usage.

Personally, two years ago, because of high electrical rates, I switched my heating to propane instead of all electricity. I am not alone.

My neighbor **will not** buy electricity from BEC during the May – Sept period of this year because he recently installed a 6-panel solar system generating all the electricity he needs during this period. He has all the hot water he needs from a three panel system. Others are beginning to find substitutes for high-priced electrical power. Obviously as

usage decreases, the Cooperatives' and Southern's revenues will decrease, reducing their ability to service their debts and increasing the risk of default.

Risk NO. 3. Southern is probably the smallest G&T Co-op in the US. Lack of scale relates to usage diversification; it also represents a separate risk. Without Yellowstone Valley and Great Falls, Southern does not have sufficient scale to function as a cooperative, let alone to own generation assets. **SOUTHERN HAS NO CLOUT WHEN IT COMES TO BUYING ELECTRICITY!** In addition, with the loss of Great Falls and Yellowstone Valley, each of the four remaining Cooperative customer bears a proportionally larger share of Southern's obligations and costs. One failure among the four members and Southern membership becomes a "house of cards."

RISK NO.4. I call it the Risk of the "One Horse Town". Without Yellowstone Valley and Great Falls, I am told, the Fergus Co-op represents approximately fifty percent of Southern's load. Should Fergus experience reduction in usage from Signal Peak Mine or two other industrial customers, the impact on the entire Southern usage or load would be huge. **Southern would have to dramatically increase rates** probably leading to failures among its remaining members as Southern's rates sky-rocket.

RISK NO. 5. Potentially No New Customers. Evidence suggests that the Cooperatives' usages will remain static for the near future and may actually decline as we noted earlier as substitutions increase. Any recent electrical usage growth around Beartooth's service is happening within Northwest Energy's service areas. When they can, new customers are opting to secure lower rates and stability which they do not expect from Beartooth because of Southern.

RISK NO. 6. Litigation Risks. There is a financial risk of ongoing litigation. As with BEC, there may **finally** be a growing recognition among the other co-op members, that they operate on democratic principles and their boards of trustees must represent the best interests of their members. If board members do not, their members will elect trustees that will. Ultimately, as these boards change, there is increased probability of litigation as the co-ops attempt to escape Southern under **the proposed reorganization plan and avoid their own bankruptcy.**

RISK NO.7. Holding onto HGS Exposes Southern and Members to Risks. There could be huge costs should the Southern co-op keep Highwood Generating System and try to activate or sell it in the future. Southern's costs go up ... rates could go up and the risk of defaults would increase.

A COUPLE OF OTHER POINTS:

At this time Beartooth is unlike the other three Southern members — Our BEC Board is totally different than that of just three years ago. I understand, we are much different than the other three Southern member Boards at this time. Southern's four member co-ops have demonstrated that they cannot work together. With Beartooth's complete change in board membership AND the difference in values and business direction and processes...there is and remains **TENSION** between Beartooth and the other Southern member co-ops. It is highly doubtful that the existing board membership can effectively govern the Southern Co-op. In addition, Beartooth should not be required

to remain in a co-op whose business orientation is one that violates Beartooth principles.

Another point. Now is the best time to secure in-expensive electricity from alternate suppliers. Rates are currently at historic lows. If Southern continues to exist, we cannot seek alternative suppliers. If the rates increase, then it is unlikely that the Cooperatives' members can afford to continue as members of Southern and Southern will fail.

FINALLY, let me say in closing...with the overwhelming odds stacked against SOUTHERN surviving the next 10 years as proposed by the Trustee to pay off the creditors...particularly with regard to just one of the risks I have mentioned **occurring** ...the creditors must know as this Beartooth Co-op Board already knows...it is not in the interest of the creditors nor the co-op members to see Southern continue. With the potential of just one of the Southern member co-ops failing, the others undoubtedly will go down like a house of cards and the creditors will be left with **nothing**. Mr. Freeman, the court appointed trustee, has to realize the high probability of failure for Southern and that the **BEST ALTERNATIVE FOR MEMBERS AND CREDITORS ALIKE IS TO LIQUIDATE SOUTHERN AND THE SOONER THIS OCCURS, THE BETTER FOR ALL CONCERNED.**

MR. FREEMAN NEEDS TO FOCUS ON LIQUIDATION RATHER THAN RESTRUCTURING.

Let me again say that I believe that this Board agrees with almost everything that I have said here today. My presentation here today is to re-affirm that the BEC Board's message is getting out there and members are agreeing **liquidation** is better than **restructuring**.

ADDENDUM:

I should note that restructuring is inherently unfair because it focuses on satisfying the creditors. However, we are in a court of law where justice is supposed to reign. Justice means fairness for all and not just the creditors.

I appreciated this opportunity to visit with the BEC Board. Thank you!

Bill Hand

Nye, Montana