



For Immediate Release
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BEC lawyers report to Board and members

Red Lodge, MT –The Beartooth Electric Cooperative (BEC) Board of Trustees held a first-ever open meeting with its new attorneys to report on the status of the Southern Montana Electric Generation and Transmission Cooperative (Southern) bankruptcy. The Board and BEC members heard startling news about the extent of BEC’s financial exposure.

Attorney Martin Smith noted the co-op’s position as both a member of Southern and a creditor in the federal bankruptcy protection action that was filed on October 21. Calling the list of bankruptcy obligations worst case scenarios which the legal team is working to understand and mitigate, Smith reported at least \$3.3 million in debt guarantees, signed by BEC and other Southern members. The guarantees are joint and several, meaning that a single guarantor like BEC might be liable for the total. An early estimate of approximately \$3 million in equity which is likely to disappear from BEC financial statements includes Southern patronage capital, a cash deposit for monthly power purchase, “member investments,” and a cash deposit to secure payment for excess power Southern contracted to buy from PPL Energy Plus.

The largest financial exposure rests with the BEC contract with Southern and Southern’s contract with Prudential creditors for the Highwood Generating Station. The Prudential agreement requires annual rate revisions for Southern members to cover debt for the plant and all other Southern liabilities. With \$85 million in principal due and a make-whole contract provision that could add another \$50 million, defaulting on the Prudential contract could bankrupt BEC as could meeting its terms for rate revisions.

Southern has filed for Chapter 11 Bankruptcy protection, which Smith described as a reorganization of debts, not necessarily a mission to reorganize the debtor. The U.S. Bankruptcy Trustee has deemed the Southern Board dysfunctional, divided, and unable to make decisions. He is appointing a Chapter 11 Trustee who will control Southern’s business operations. The appointed trustee will have a fiduciary obligation to safeguard assets, provide information to all interested parties, and guide the case to a resolution with best result for everyone involved. With a trustee in place, financial and other information not previously available will be shared publicly.

BEC members asked about the potential financial impact on BEC from SME and IESS, two organizations whose business activities were closely connected to and directed by Southern's management team and lawyer. The BEC attorneys admitted difficulty locating information on the related organizations. They expect to report soon on the obligation incurred when SME mortgaged property in August to secure a \$600,000 line of credit for Southern. All property owned by SME belongs to its four member electric co-ops: BEC, Fergus, Mid Yellowstone, and Tongue River Electric.

Asked about the whereabouts of Southern's General Manager, Tim Gregori, who is reportedly on vacation, Smith replied that the trustee may call any party of interest to testify. The attorneys did not know who will be scheduled to testify for Southern in the hearing with creditors scheduled for December 2 at the Federal Building in Billings.

"We are living with decisions and contracts made in the past," said BEC Board Chair Roxie Melton. "We are just beginning to understand the position we are in due to our agreements with Southern. We have confidence in our new legal team and will keep members informed."

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