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### **Beartooth joins motion to liquidate Southern Montana Electric**

*Red Lodge*—After nearly two years mired in the bankruptcy of its power supplier, Beartooth Electric Cooperative has joined the bankruptcy’s unsecured creditors in a motion to liquidate the Southern Montana Electric Generation and Transmission Cooperative. The motion seeks to convert the reorganization of Southern currently proposed under Chapter 11 of U.S. Bankruptcy Law to Chapter 7 liquidation.

Beartooth filed court notice last week to join the Unsecured Creditors’ Committee motion entered June 27<sup>th</sup> in U.S. Bankruptcy Court. The motion by Missoula attorney Harold Dye states that confirmation of a plan to keep Southern together would “be rapidly followed by the bankruptcy of the member coops.”

On June 28<sup>th</sup>, the day after the motion to liquidate was filed, attorneys for Southern’s trustee Lee Freeman reported that he and the HGS noteholders have reached a “settlement agreement in principle” that would treat \$60 million, plus interest, as secured HGS debt in a reorganization plan to be submitted by August 2. The settlement announcement was included in a motion to adjourn a July 29<sup>th</sup> hearing to determine the value of the Highwood Generating Station (HGS) and Southern’s member contracts.

The day before the motion to adjourn the valuation hearing the trustee filed an appraisal that reported fair market value for the Highwood Generating Station at \$1,181,000. Southern operating reports show approximately \$103 million was spent to build the 40-megawatt gas-fired electric power generation plant located near Great Falls. The appraisal concluded: “The highest and best use of Highwood Generating Station, as of the Appraisal Date, is as unimproved vacant land or farmland. Continued use as a natural gas fired electric generation plant is not economically feasible.”

With the value of the plant widely acknowledged as minimal, the primary security for the loan in the trustee’s new plan will be Southern’s contracts with its member systems. The contracts oblige the member systems to buy power from Southern and pay wholesale power rates that cover all expenses and debt. Former Southern members Yellowstone Valley Electric and the city of Great Falls have been released from their contracts with the Generation and Transmission cooperative, reducing Southern’s revenue by at least 35 percent.

In a recent article Beartooth reported that “reorganizing Southern would lock BEC into a tiny, debt-ridden Generation and Transmission Cooperative that provides no rate advantage, adds no value, presents unnecessary expense, and carries serious financial risk.”

“Our members cannot afford reorganization and it will not work,” said BEC Board President Roxie Melton. “Our due diligence work has identified alternatives that would allow us to control costs, serve our members better, and even reduce rates.”

The initial Southern reorganization plan filed by the trustee in February 2013 calls for payment of HGS debt over ten years. The disclosure statement for the plan shows the noteholders’ claim of \$139,949,294 but does not specify a total payment. Like the initial plan, the trustee’s new plan will require payment of bankruptcy costs, HGS secured debt, operating expenses for Southern and HGS, and wide-ranging additional debt.

The latest legal developments and the history of Beartooth’s connection with Southern are available at [www.beartoothelectric.com](http://www.beartoothelectric.com) or by contacting Beartooth Electric Cooperative in Red Lodge at **406-446-2310**.

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