

the BEC kWh

know what's happening

August 2013

DEAR MEMBERS—

The late spring rain coupled with warm June temperatures has provided a lot of fuels on the forest floor of our service area. Therefore, to assist your cooperative in forest fire safety we place our power line protective devices or oil circuit reclosers (electric breakers) on what we call "one shot". This operational practice helps your cooperative in the prevention of forest fires but will increase outages to those members that our near our forested areas. If your power goes out please give the office a call and we will quickly dispatch a crew to your location.

BEC's 75th meeting of the membership will be held on September 28. The location of this meeting will be at the Yellowstone Dog Sports arena, located at mile post 77.5 on Highway 212, just north of Fox, Montana. There will be signs located along the 212 Highway directing you to the arena. The meeting will commence with a 7:30AM breakfast and the business portion of the meeting will be starting at 9:00AM. At this year's meeting there will an election of two trustees and voting on changes in the Bylaws. Mail balloting will be available to all the membership and will be sent out in early September. I will have a complete agenda of the meeting noted in the September, *Rural Montana*.

The cooperative has still not received the information from our auditor on how to notify the membership about the reduction of your 2013 capital credits assignment. The notification will require that we will reduce your capital credits assigned after 2004 and our related to the Southern Montana G&T asset write-offs in 2012. It now appears it will be in August before we can prepare statements about your capital credits.

I would like to offer any member a onetime \$20.00 discount per account who has not yet signed up for e-billing. This offer will be good through August 2013. This e-billing offer requires you to sign up for a paperless bill and provide automatic payment (ACH) of your monthly bill. The \$20.00 discount will be applied to your e-billing. You can sign up on the BEC web-site (beartoothelectric.com) or contact the staff at the BEC office.

Have a safe and happy Summer-



Richard "Dick" Peck
Interim General Manager
406-446-2310

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75th Annual Meeting
Save the Date

BEC Trustee Candidates
Nominations Open Now!

BEC BOARD OF TRUSTEES

Roxie Melton, President
District 2—Boyd, Joliet
robertsystop@aol.com
406-426-0135

Dan Dutton, VP
District 1—Bridger, Clark, WY
circled@nemont.net
406-664-3000

Pat Hoffman, S/T
District 3—Roberts
pathoffman@vcn.com
406-446-1605

Arleen Boyd, Southern/SME
Board Rep.
District 5—Fishtail
arleenboyd@montana.net
406-328-6645

Richard Nolan
District 4—Red Lodge
DNolanMt@gmail.com
406-425-2269

Laurie Beers
District 6—Nye
laurie.j.beers@gmail.com
406-328-4283

Dave Peterson
District 7—Columbus, Rapelje
dppranch@gmail.com
406-326-2184



2013 BEC 75th Anniversary Photo Contest Entry Form

(Please provide a completed entry form with EACH photo submitted)

BEC Member Name: _____

BEC Account #: _____

Member Phone No. _____

About This Photo:

Name of the photo: _____

Location of photo: _____

Other information about the photo (who, what, when, etc.):

I, the BEC member, and the photographer (if different) agree that the attached photo, submitted for the 2013 BEC 75th Anniversary Photo Contest, may be used without compensation for commercial purposes for this specific project as well as for the promotion of the Annual Meeting and future BEC photo contests, including the BEC website. Any person or persons featured in the submitted photograph consented to allow BEC to use their likeness, as stated above, without any compensation. I understand that submitted photographs will not be used for any other purpose and will remain the property of the owner. I understand that both my name, as a BEC member, and the photographer's name (if different) will appear in its use. I further affirm that all of the information provided on this form is true and accurate.

Signature of BEC Member _____ Date _____

Signature of Photographer or Guardian if under 18 yrs _____ Date _____

CONTEST DEADLINE IS AUGUST 29, 2013

NOW ACCEPTING MEMBER ENTRIES!

We're celebrating our 75th Anniversary and we'd like to share your photos portraying the electrification of our service area (the older the better)! A picture's worth a thousand words. So, get your entries in now!

CONTEST RULES

- Only BEC members and immediate family are eligible.
- No entry limits.
- One entry form required for each photo.
- Your original, non-commercial photo must be taken in BEC's service area.
- Photos and entry forms must be submitted via e-mail to bec@beartoothelectric.com or directly to the BEC Office, PO Box 1110, 1306 N Broadway Ave, Red Lodge. Original prints will be scanned. Please pick-up your originals after the annual meeting at the BEC Office.
- By submitting a photo, you certify that you have obtained all permissions necessary for anyone depicted.

PRIZES

- Best of Show, 1st, 2nd, and 3rd place prizes will be awarded.
- Winners receive electric bill credit: Best of Show-\$100, 1st place-\$100, 2nd place-\$75, and 3rd place-\$50.
- Winning entries will be announced at BEC's Annual Membership Meeting, September 28, 2013.

Submit your entries now!

August Due Diligence and Bankruptcy Update

Submitted July 6, 2013

Beartooth Electric Cooperative supports bankruptcy liquidation for Southern Montana Electric Generation and Transmission Cooperative, our wholesale power supplier. For months

we have shared the results of our due diligence analysis of power supply options and our assessment of the projected financial impact on BEC of the proposed reorganization of Southern under Chapter 11 of U.S. Bankruptcy Law. 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. At the same time, reorganization would keep us from taking advantage of identified power supply and business alternatives that could allow BEC to control costs, plan for a better future, and even lower rates.

On July 5, 2013, BEC filed to join a motion by the Unsecured Creditors' Committee to convert Southern's bankruptcy action from reorganization to a Chapter 7 liquidation. The Unsecured Creditors' Committee represents claims in the bankruptcy far exceeding \$300 million. The hearing on this motion may be held before you receive this *Rural Montana*.

Southern Trustee Lee Freeman filed a motion on June 28 to adjourn the valuation hearing scheduled for July 29 to determine the value of Southern's member system contracts and the Highwood Generating Station. The contracts and the plant are the designated collateral for claims by Prudential Finance and its associated note holders for payment of HGS debt. The trustee reported that he and the note holders had reached "a settlement agreement in principle" to declare the HGS loan secured for \$60 million plus interest. Prudential has been paid more than \$15 million in interest on the loan since the bankruptcy started.

The trustee wants to file a new reorganization plan by August 2. In addition to the \$60 million, plus interest, the plan will calculate payments for other secured debt, bankruptcy costs,

power supply, and all projected expenses. With Yellowstone Valley Electric and Great Falls now released, Southern's obligations will be covered through rates paid by the four remaining co-ops with total membership under 13,000.

The trustee says the plan will have rates lower than those previously approved by Southern. This is not a solid standard: on the day Southern declared bankruptcy, three members of its board, with our representative denied a seat, approved a 20% rate increase. Beartooth refused to pay and it soon was rescinded.

The trustee's motion does not indicate how HGS will be handled. The day before asking to stop the valuation hearing he filed an appraisal of HGS. 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." The farmland value is reported at \$1.18 million.

The appraisal by the trustee's expert noted "negative cash flow for the entire holding period." Our experts confirm that the plant cannot run economically and we advocate disposing of it as soon as possible.

We will continue our suit to prevent member contracts from being used as collateral for the loan and we will object to a plan requiring BEC to remain a member of a reorganized Southern.

We will report as developments occur. Watch the website, www.beartoothelectric.com, which will have all new releases and articles posted. Call a board representative or the BEC manager with questions anytime.

Arleen Boyd,

Due Diligence Committee Chair,
BEC and Southern Trustee
406-328-6645



A MESSAGE FROM THE CHAIRMAN OF THE BOARD

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Roxie Melton
BEC Board President
406-425-2516

The Southern bankruptcy is starting to heat up and is the focus of my message this month. More than ever we need the entire membership involved and aware of the decisions ahead. There are several paths the co-op will have in the not too distant future. I would like to think that by the annual meeting we will have some of the answers but the court has a way to extend deadlines and due dates.

At last year's annual meeting we discussed several paths the co-op could have available. Those included staying the same, partnership with another co-op buy sharing management functions and operational expenses, merge or sell to another co-op or entity.

Staying the same can vary from remaining with Southern, paying debts for Southern and keeping the Highwood Generation Station to leaving Southern and remaining an independent co-op. We could also buy our way out and purchase electricity from a power supplier that would allow us to contract with them for less than a 40 year contract, as joining another Generation and Transmission Company would require. The finances are in very good shape and I do not see difficulty in being able to work out and fund a reasonable buyout. The key word is reasonable.

A partnership would mean a joining of management functions. Our small

co-op has a "diseconomy of scale". Meaning we have a large portion of our membership that is here only 40% of the year. By joining forces so to speak, the cost of doing business would be less. Then the final option could be to merge with another co-op or be acquired.

At this point the membership needs to be aware of the decisions we have ahead. We want you to attend the board meetings, town hall meetings, call and talk to your representative and regularly check the web site. The membership will have input into the decisions we make and the path we take. One path would even require a two-thirds vote from the membership and the only way we can accomplish this task is to keep the membership informed.

You are a valued asset to the co-op and we appreciate your input and suggestions. Thank you for the interest you have shown in your co-op and the opportunity you gave me to serve on your behalf.

NEXT BOARD MEETING: AUGUST 30 - RED LODGE AREA COMMUNITY FOUNDATION BUILDING - 12:00 PM

Interested in serving on your Cooperative's Board of Trustees?

- Open elections are for:
District 2 (Boyd Area)
District 5 (Fishtail Area)
- Nomination Petitions are available NOW at the BEC Office or on our website:
www.beartoothelectric.com
- Petition submission deadline is—Friday, August 9, 2013, 5:00 P.M.
- Elections are conducted at the BEC Annual Meeting.

Deadline: August 9, 2013

75th ANNUAL MEMBER MEETING 2013



BEC's 75th Annual Member Meeting location—
Yellowstone Dog Sports
7753 Hwy. 212
8 miles north of Red Lodge
37 miles south of Laurel

Save the date—

**The
BEC 75th ANNUAL
MEMBER MEETING**

**Saturday,
September 28, 2013
Yellowstone Dog Sports
Red Lodge, MT**

This year's highlights include:

- Member Breakfast
- Trustee Elections
- Proposed Cooperative Bylaws Amendments
- Southern Bankruptcy
- Vote-by-mail