

## **Beartooth Board of Trustees**

### **MEMO TO MEMBERS**

August 29, 2013

#### **The latest news about the Southern Montana Electric Bankruptcy proceedings**

The court-appointed trustee for Southern Montana Electric Generation and Transmission Cooperative (Southern) filed a reorganization plan and disclosure statement for the bankrupt co-op on August 14<sup>th</sup>. In brief, here's what it says:

The plan applies payments made by Southern to the noteholders over the past two bankruptcy years to the \$85 million loan that financed the Highwood Generating Station (HGS) and then provides for the remaining \$60 million to be paid over twelve years for the Prudential claim and ten years for Modern Woodmen.

To keep the first year free of rate increases, pay off other loans, and fund a very large collateral deposit for power provider Morgan Stanley Capital Group, Inc. (MSCGI), Southern will pay only interest on the noteholder debt for the first three years, thereby increasing the principal due by \$3.6 million.

The plan increases rates approximately 2.6 percent annually starting with Southern's current wholesale rate. These rate increases will apply to the ratepayers of the four member co-ops (Beartooth, Fergus, Mid Yellowstone, and Tongue River Electric).

The rates include the costs for power, debt payments, overhead to operate Southern and hire a new general manager, and all costs and investments required to keep HGS in "ready-to-operate condition." The trustee will continue to be employed and paid for services to "administer the estate in accordance with the provisions of the Plan."

Concessions from Prudential Finance and Modern Woodmen, the parties that financed HGS, include:

- An agreement not to pursue their claim for approximately \$46 million in penalties based on make-whole provisions in their \$85 million loan to Southern.
- Interest rates are reduced to 6 percent for the Prudential loan and 5.25 percent for the Modern Woodmen note.

The wholesale power contracts with Southern's members, along with HGS, will continue to serve as collateral for the noteholder debt.

- HGS appraisals filed by the trustee assigned a zero market value for tax purposes
- HGS land value is appraised at \$1.8 million
- Estimated scrap value of HGS is \$3.9 million.

The plan allows for sale of HGS, but the noteholders and the construction lienholders will retain their liens on HGS and the plan grants a new lien to MSCGI.

#### **What's next?**

A hearing on the disclosure information is scheduled for September 24 in U.S. Bankruptcy Court in Billings. A confirmation hearing on the plan could be scheduled as early as November.

**See Also**

A news release providing this information and the BEC board perspective, "Beartooth sees risk and rate increases in the reorganization plan," is posted on [www.beartoothelectric.com](http://www.beartoothelectric.com). The court documents are also posted on the Beartooth website or available from the Beartooth office (406-446-2310).

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