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Beartooth Electric sees risk and rate increases in bankruptcy reorganization

On August 14 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. The plan's disclosure statement summary reports that Prudential Finance and Modern Woodmen, the parties that financed the Highwood Generating Station (HGS) have made concessions, the noteholders will get "significant recoveries," and the debtor's member co-ops will have "reasonable" rates for the next decade. After examining more than 120 pages of plan and disclosure information, members of the Beartooth Electric Cooperative due diligence committee and board have a different perspective.

"The rates are not reasonable, the debt is huge, and the plan requires Beartooth to remain in Southern, a tiny debt-ridden generation and transmission cooperative that poses enormous financial risk and offers no services or value," said Jack Schutte, Beartooth member from Bridger and due diligence committee member.

The reported concessions from the noteholders 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. The noteholders retain the right to employ the make-whole provision in the future should a default, early payment, or other action trigger it. The noteholders agreed to reduce their interest rates to 6 percent for the Prudential loan and 5.25 percent for the Modern Woodmen note.

As reported by the trustee, the noteholders get significant recoveries. The plan applies payments made by Southern to the noteholders over the past two bankruptcy years to the $85 million loan and then provides for paying the remaining $60 million over twelve years for the Prudential claim and ten years for Modern Woodmen.

Under the plan, the reorganized Southern will assume the wholesale power contracts with its members and those contracts, along with HGS, will continue to serve as collateral for the noteholder debt. 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's "reasonable rates" for the debtor's member cooperatives, Beartooth, Fergus, Mid Yellowstone, and Tongue River Electric, greatly exceed currently available wholesale electricity rates and industry rate projections for the next ten years. 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 plan increases rates approximately 2.6 percent annually starting with Southern's current wholesale rate.

"It is incomprehensible that the rates that have allowed the Southern trustee to pay tens of millions of dollars to Prudential over the past two years and cover enormous bankruptcy expenses are now the starting point for even higher rates. Our members have the highest electricity rates in the state while power is selling at the lowest point in years. This plan will not allow us to meet needs here at home without rate increases our members cannot afford," said Beartooth General Manager Richard Peck.

The trustee's summary contends that benefits to Southern include saving "over $100,000,000 as compared to what it (Southern) would have had to pay under the PPL contract" and being able to retain ownership of a gas-fired power generation facility. The trustee rejected the PPL contract in 2012. The Beartooth due diligence committee and board have reported repeatedly that owning the power plant carries financial risk and expense that Southern, a tiny G&T serving fewer than 13,000 ratepayers cannot absorb.

"Beartooth knows of only one party that, in response to the trustee's requests for proposals, expressed interest in acquiring HGS. A very large and trustworthy G&T said $30 million would be their top offer for the plant and they also wanted Southern's members. They said the plant would require significant upgrades to produce power for real-world needs. If needed, those upgrades would cost millions of dollars," said BEC board member Laurie Beers.

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. HGS appraisals filed by the trustee assigned a zero market value for tax purposes to the plant, but valued the land at $1.8 million and estimated a scrap value of $3.9 million. The trustee will continue to be employed and paid for services to "administer the estate in accordance with the provisions of the Plan."

A hearing on the disclosure information is scheduled for September 24 in U.S. Bankruptcy Court in Billings. The court has not officially set a plan confirmation hearing and will not do so until after the disclosure statement is approved. However, the court suggested a hope for the plan confirmation hearing to occur near the end of November.

The plan, disclosure documents, and related filings are posted on the Beartooth website www.beartoothelectric.com. Copies are also available from the Beartooth office (406-446-2310).

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