



## **Background: the story behind our power supply**

From 1967 through most of 2003, Beartooth Electric Cooperative (BEC) was a member of Central Montana Electric Generation and Transmission Cooperative and most of its power came from federal power administrations. In 2003 Beartooth and four other distribution cooperatives formed a new generation and transmission cooperative named Southern Montana Electric. Electric City Power, a newly formed utility arm of the city of Great Falls, Montana, joined in 2004.

Southern's member co-ops signed 40-year, all-requirements wholesale power contracts with Southern and launched plans to build a 250-megawatt, coal-fired power plant near Great Falls. Southern sought funding from the Department of Agriculture's Rural Utility Service, which was denied in February 2008. By then Southern had spent approximately \$37 million on the unfunded Highwood Generating Station (HGS). It immediately issued cash calls to its member co-ops and announced plans to seek private financing to build a smaller natural gas-fired plant on the Highwood site. Southern's largest member, Yellowstone Valley Electric (YVEC), opposed continued efforts to build generation and filed suit to leave Southern.

When YVEC refused to support a gas-fired plant Southern's four remaining co-ops formed a second entity, SME Electric Generation and Transmission Cooperative (SME), to finance and build HGS. Potential investors, however, chose instead to do business with Southern, the G&T holding the member contracts. Representing the four small co-ops with approximately 12,000 total members, Southern first borrowed \$85 million for a 40-megawatt plant and then received approval from the co-ops to seek an additional \$215 million for a build-out to 120 megawatts.

In 2009 Southern signed a 10-year contract to buy amounts of electricity far exceeding the needs of its members. The contract required increased power purchases over time. Southern repeatedly raised rates between 2006 and 2011. Early rate increases to cover investments in HGS were followed by increases to pay for much more power than Southern could sell. BEC raised rates 13 times to cover the Southern rate increases. BEC members saw their rates for electricity rise 115%, to the highest in the region.

Southern's plans to generate its own power came to a crashing halt in October 2011 when it filed for bankruptcy. Southern reported \$21 million in debt; monthly excess power costs exceeding \$1 million; and yet-to-start payments for the \$85 million loan totaling \$187 million with interest. Just before the bankruptcy the SME board handed over its last major asset, a \$1.2 million property adjacent to HGS, to secure a line of credit for Southern.

In November 2011, the U.S. Bankruptcy Court appointed a trustee to operate Southern. The trustee presented a plan to reorganize Southern in February 2013. The proposed plan allows YVEC to leave Southern, keeping the four other co-ops together to pay the HGS debt while buying power from Morgan Stanley Capital Group for ten years. The remaining members of Southern would be: Beartooth Electric, Fergus Electric, Mid Yellowstone Electric, and Tongue River Electric. Great Falls is not responsible for any HGS debt and is expected to leave Southern under undetermined terms.

After more than a year of due diligence, the BEC board has identified power supply options that would allow the co-op to provide reliable, affordable power without the organizational and financial risks associated with Southern. Those options are available only if BEC can succeed in its current efforts to exit Southern. The board opposes continued ownership of HGS, which financial analysis shows will decrease in value over time and provide no scenario for operating with a positive return.