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### **Rapelje meeting addresses Beartooth co-op future**

*Red Lodge*—In the fifth in a series of public meetings, Beartooth Electric Cooperative members gathered in Rapelje April 25 to discuss issues facing the co-op as the bankruptcy of Southern Montana Electric Generation and Transmission Cooperative (Southern), the co-op’s wholesale power supplier, approaches resolution.

David Peterson, BEC Trustee for District 7 that includes the Rapelje area introduced his fellow board members.

Arleen Boyd, board due diligence committee chair and representative on Southern’s board, presented the current status of Southern’s bankruptcy. She explained that the BEC goal is to leave Southern and dispose of the Highwood Generating Station (HGS), a 40-megawatt gas-fired power plant that has never produced power for sale, as soon as possible.

Boyd reported that the trustee appointed under Chapter 11 Federal Bankruptcy Law has filed a plan with the court that proposes reorganizing Southern. The plan calls for Southern to continue to buy power to supply its member systems and pay bankruptcy claims, including debt for construction of HGS. The plan would force BEC to remain in Southern under a 40-year all-requirements contract currently in place. The final amount of HGS debt for which Southern will be responsible is not yet determined. Prudential Finance, the primary lien holder for HGS, claims that \$85 million plus a make-whole provision that could add more than \$40 million is due.

“Southern is a tiny, debt-ridden generation and transmission cooperative that adds no value, provides none of the traditional G&T services, and yet incurs significant operating expenses which we must pay,” Boyd said. “We know that we have better alternatives to meet our power supply needs if we can leave Southern.”

Boyd outlined current actions of the board, including: sharing information with members and encouraging comment; opposing the trustee’s protective order to designate a wide range of information confidential; objecting to the lack of information in the disclosure statement that is the basis for the reorganization plan; negotiating an exit from Southern; and preparing to challenge the plan.

Trial of the BEC request to declare its contract with Southern void has shifted. The trustee has agreed that the 2008 contracts with its member systems are not valid, so BEC's claim to void the 2008 contract is no longer necessary. The rejection of the 2008 contracts does not allow member systems to leave Southern, but instead replaces them with the 2007 member contracts that have fewer provisions obligating the co-ops for Southern debt and favoring creditors.

The remaining BEC argument that will proceed to trial is that Southern's contracts with members may not be used as security under Montana law because they were not valued before being offered as collateral for the HGS loan. That trial, in bankruptcy court, will be scheduled to coincide with confirmation hearings on the plan.

Co-op members also received information on current finances at the Rapelje meeting. Richard Peck, BEC Interim Manager, reported efforts to cut expenses while making plant investments that have been neglected due to the diversion of financial resources to support HGS. Peck explained that the co-op recently wrote off more than \$3 million in capital credits from Southern and its spin-off co-op SME. The credits have no value and are no longer reported as assets in BEC financial statements.

Roxie Melton, board chair, asked members to keep up to date with the bankruptcy and other information. Members are welcome to contact board members and Richard Peck. "This board believes in transparency. Everything that is not legally required to be kept confidential is open and available to you," she said.

The latest news and the history of Beartooth's connection with Southern is available at [www.beartoothelectric.com](http://www.beartoothelectric.com) or by contacting Beartooth at **406-446-2310**.

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