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UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MONTANA

In re **SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.,** Debtor.	**Case No. 11-62031-11**

DISCLOSURE STATEMENT FOR TRUSTEE'S PLAN OF REORGANIZATION FOR SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.

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SUMMARY OF THE PLAN

The *Trustee's Plan of Reorganization for Southern Montana Electric Generation and Transmission Cooperative, Inc.*, as it may be amended or modified (the "**Plan**"), submitted by Lee A. Freeman (the "**Trustee**"), the duly appointed Chapter 11 trustee for Debtor Southern Montana Electric Generation and Transmission Cooperative, Inc., provides for the continued operation of the Debtor, significant recoveries to secured creditors, a distribution to unsecured creditors that is equal to if not greater than what they would receive if the Debtor were to be liquidated, and reasonable rates to the Debtor's members for at least the next decade. The Trustee is seeking to obtain Bankruptcy Court approval of the Plan. Section 1125 of the Bankruptcy Code requires that the Trustee prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the Plan. This Disclosure Statement has been submitted in accordance with such requirements. **The Trustee urges all holders of Claims and Member Interests entitled to vote on the Plan to vote in favor of the Plan.**

The cornerstone of the Plan is a 10-year, all requirements power supply agreement (the "**Reorganized Southern PSA**") under which all of the Debtor's power and energy needs will be met with under market-based prices that are, in real dollars, at historical lows. The Reorganized Southern PSA replaces a pre-petition, long-term power supply agreement with PPL Montana ("**PPL**") that required the Debtor to purchase quantities of power that greatly exceeded its needs and at prices that turned out to be significantly over market. By any measure, the Reorganized Southern PSA will save the Debtor over $100,000,000 as compared to what it would have had to pay under the PPL contract. The significant savings achieved by the replacement of the PPL contract will allow the Debtor to pay off the debt on Highwood Generating Station on restructured terms and yet charge rates to its members that are significantly lower than what they would have been had the PPL contract been performed. Further, by paying off the HGS debt on restructured terms, the Debtor will be able to retain the optionality presented by continued ownership of a gas-fired power generation facility in an environment in which coal-fired plants across the county are being shut down or scheduled to shut down due to environmental issues as well as the cost-effectiveness of operating gas-fired plants at current natural gas prices. Finally, by continuing to operate rather than liquidating, the value of the Debtor's claims against certain members that are attempting to terminate their wholesale power contracts is preserved for the benefit of secured and unsecured creditors.

The Trustee believes that this Plan provides creditors with the best possible recovery under the circumstances. If the Plan is not confirmed, there is no assurance that the Debtor will be able to reorganize its business.

AT THIS TIME, THE TRUSTEE DOES NOT BELIEVE THAT THERE IS A BETTER ALTERNATIVE FOR COMPLETING THIS CHAPTER 11 CASE OTHER THAN THROUGH CONFIRMATION OF THE PLAN. HE STRONGLY RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN.

I. INTRODUCTION

The Trustee submits this disclosure statement (the "**Disclosure Statement**") pursuant to section 1125 of title 11 of the United States Code (the "**BankruptcyCode**") in connection with the solicitation of acceptances and rejections with respect to the Plan, a copy of which is attached as **Exhibit 1** hereto. The Plan includes, without limitation, all exhibits, supplements, appendices, and schedules thereto, either in their present form or as the same may be altered, amended or modified from time to time, or added. Unless otherwise defined herein, all capitalized terms contained herein have the meanings ascribed to them in the Plan.

The purpose of this Disclosure Statement is to set forth information (i) regarding the history of the Debtor, its business, and the Chapter 11 Case; (ii) concerning the Plan and alternatives to the Plan; (iii) advising holders of Claims and Member Interests of their rights under the Plan; (iv) assisting the holders of Claims and Member Interests in making an informed judgment as to whether they should vote to accept or reject the Plan; and (v) assisting the Bankruptcy Court in its determination of whether the Plan complies with the provisions of Chapter 11 of the Bankruptcy Code and should be confirmed.

All creditors are advised and encouraged to read this Disclosure Statement and the Plan in their entirety and to consult with counsel and business and tax advisors. The Plan summary in this Disclosure Statement is qualified in its entirety by the Plan and the exhibits and schedules attached to the Plan and this Disclosure Statement. The statements contained in this Disclosure Statement are made only as of the date hereof. There can be no assurance that the statements will be correct at any later time.

This Disclosure Statement has been prepared, approved, and distributed in accordance with Section 1125 of the Bankruptcy Code, and Rule 3016(b) of the Federal Rules of Bankruptcy Procedure, and not necessarily in accordance with federal or state securities laws or other non-bankruptcy law. Further, any financial information contained in this Disclosure Statement was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants, the practices recognized to be in accordance with generally accepted accounting principles, or the rules and regulations of the Securities and Exchange Commission ("SEC") regarding projections. Furthermore, no financial information in this document has been reviewed or audited by the Debtor's independent accountants.

A Ballot for the acceptance of rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of Claims that the Debtor believes may be entitled to vote to accept or reject the Plan.

This Disclosure Statement is not and may not be construed as an admission of any fact or liability, stipulation or waiver in contested matters, adversary proceedings or other actions or threatened actions, but rather as a statement made in settlement negotiations. This Disclosure Statement shall not be admissible in any non-bankruptcy proceeding or shall it be construed to be conclusive advice on the tax, securities, or other legal effects of the Plan as to holders of claims against, or equity interests in, the Debtor.

No solicitation of votes to accept the Plan may be made except pursuant to section 1125 of the Bankruptcy Code. No representations concerning the Debtor or the value of the Debtor's property has been authorized by the Trustee or the Bankruptcy Court other than as set forth in this Disclosure Statement. Any information, representations, or inducements made to obtain acceptance of the Plan, which are other than or inconsistent with the information contained in this Disclosure Statement and in the Plan, should not be relied upon by any holder of a Claim or Member Interest entitled to vote on the Plan.

A. HOLDERS OF CLAIMS/MEMBER INTERESTS ENTITLED TO VOTE

Pursuant to section 1126 of the Bankruptcy Code, only holders of allowed claims or interests that are (i) "impaired" by a plan of reorganization; and (ii) entitled to receive a distribution under such plan are entitled to vote to accept or reject a proposed plan. Under section 1126(f) of the Bankruptcy Code, classes of claims or interests in which the holders of claims or interests are unimpaired under a Chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan. Section 1126(g) of the Bankruptcy Code provides that classes of claims or interests in which the holders of claims or interests are impaired under a Chapter 11 plan such that they do not receive or retain property on account of their claims or interests are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan.

Under section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be "impaired" under the Plan unless (i) the Plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof; or (ii) notwithstanding any legal right to an accelerated payment of such claim or interest, the Plan, among other things, cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default. Claims in **Classes 2(A), 2(B), 3, 4, 5, 6, and 7** are impaired under the Plan and Claims in such Classes will receive distributions under the Plan to the extent not otherwise waived. As a result, **holders of Allowed Claims in those Classes are entitled to vote to accept or reject the Plan.**

Holders of Claims in **Classes 1, 8, and 9** are unimpaired by the Plan. As a result, **holders of Claims in those Classes are conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.**

Section 1126(c) of the Bankruptcy Code defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan.

In this case, if a Class of Claims entitled to vote on the Plan rejects the Plan, the Trustee reserves the right to amend the Plan or request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code or both. Section 1129(b) of the Bankruptcy Code (commonly known as "cram down") permits the confirmation of a Chapter 11 plan notwithstanding the rejection of a plan by one or more impaired classes of claims or member interests. Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each rejecting class.

The Trustee is commencing this solicitation after extensive negotiations with, among others, Prudential Insurance Company of America, Modern Woodmen of America, the Committee of Unsecured Creditors, the Western Area Power Administration, and the Debtor's members (Yellowstone Valley Electric Cooperative, Inc.; Tongue River Electric Cooperative, Inc.; Fergus Electric Cooperative, Inc.; Mid-Yellowstone Electric Cooperative, Inc.; Beartooth Electric Cooperative, Inc.; and the City of Great Falls).

THE TRUSTEE BELIEVES THAT THE PLAN IS FAIR AND EQUITABLE AND PROVIDES THE BEST RECOVERY TO CLAIM AND MEMBER INTEREST HOLDERS UNDER THE CIRCUMSTANCES. THE TRUSTEE BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF EACH AND EVERY CLASS OF CREDITORS ENTITLED TO VOTE ON THE PLAN AND STRONGLY RECOMMENDS THAT EACH CREDITOR VOTE TO ACCEPT THE PLAN.

Holders of Claims or Member Interests in such Classes may obtain a copy of the Disclosure Statement by contacting the Trustee's counsel, John Cardinal Parks, at jparks@hblegal.net or (303) 996-8609.

B. VOTING PROCEDURES

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purposes of voting on the Plan. If you hold Claims or Member Interests in more than one Class and you are entitled to vote Claims or Member Interests in more than one Class, you will receive separate Ballots, which must be used for each separate Class. Ballots should be returned to:

Office of the Clerk Court
U.S. Bankruptcy Court District of Montana
Mike Mansfield Federal Building and U.S. Courthouse, Room 303

400 North Main Street
Butte, MT 59701

With copies to:

John Cardinal Parks
HOROWITZ & BURNETT, P.C.
1660 Lincoln Street, Suite 1900
Denver, CO 80264

Neal Jensen
United States Trustee's Office
Liberty Center, Suite 204
301 Central Avenue
Great Falls, MT 59401

TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE **RECEIVED BY NO LATER THAN [_____ ____ , 2013], THE VOTING DEADLINE**. ANY EXECUTED BALLOT RECEIVED THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR A REJECTION OF THE PLAN SHALL NOT BE COUNTED.

In addition, as contemplated in the Plan, each holder of an Allowed Claim in an amount greater than $5,000 in Class 6 may elect to voluntarily reduce such Claim to $5,000 and be treated as the holder of an Allowed Convenience Claim in Class 7 by making such election on the Ballot (as may the holder on an Allowed Claim in Class 6 if such Claim is less than or equal to $5,000). Accordingly, the Ballot provides for such election.

Do not return any other documents with your Ballot.

If you are a holder of a Claim or Interest entitled to vote on the Plan and you did not receive a Ballot, received a damaged Ballot, or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Plan, or the procedures for voting on the Plan, please call the Trustee's counsel, John Cardinal Parks, at jparks@hblegal.net or (303) 996-8609.

C. CONFIRMATION HEARING AND DEADLINE FOR OBJECTIONS

Section 1128 of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan. The Confirmation Hearing will be held on [_____ ___, 2013 at _____] (Mountain Time) before the Honorable Ralph B. Kirscher, United States Bankruptcy Court for the District of Montana, at [_____]. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan, must be in writing and must

be filed with the Bankruptcy Court and served upon the Trustee's counsel, John Cardinal Parks, Horowitz & Burnett, P.C. 1660 Lincoln Street, Suite 1900 Denver CO 80264, so they are **Received** no later than [_____ ___, 2013]. The Confirmation Hearing may be adjourned from time to time without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

II. OVERVIEW OF THE PLAN

A. SUMMARY OF CLASSIFICATION AND TREATMENT OF CLASSIFIED CLAIMS AND INTERESTS

The following table briefly summarizes the classification and treatment of classified claims and interests under the Plan:

CLASS DESCRIPTION	IMPAIRMENT AND VOTE	TREATMENT
Class 1: Priority Non-Tax Claims	Unimpaired No	Paid in full on the Effective Date or as soon thereafter as Allowed.
Class 2(A): Prudential-Series 2010(A) Notes	Impaired Yes	If proper 1111(b) election made, unpaid principal balance as of the Confirmation Date will be paid in 120 equal monthly payments that have a present value equal to the value of the collateral that secures the Claim. If 1111(b) election is not or cannot be made, will be paid in 120 equal monthly payments that have a present value equal to the value of the collateral that secures the Claim. Or, the Claim will be paid an amount agreed to by the Trustee and Prudential. The Claim will bear interest, if any, at a rate determined by the Bankruptcy Court, or such other rate agreed upon. Monthly payment will be calculated based on a 10 year amortization and paid in equal monthly installments or such other amortization term as agreed upon. Any deficiency amount shall be treated as a Class 6 General Unsecured Claim.

Class 2(B): Modern Woodmen-Series 2010(B) Note	Impaired Yes	If proper 1111(b) election made, unpaid principal balance as of the Confirmation Date will be paid in 84 equal monthly payments that have a present value equal to the value of the collateral that secures the Claim. If 1111(b) election is not or cannot be made, will be paid in 84 equal monthly payments that have a present value equal to the value of the collateral that secures the Claim. Or, the Claim will be paid an amount agreed to by the Trustee and Modern Woodmen. The Claim will bear interest, if any, at a rate determined by the Bankruptcy Court, or such other rate as agreed upon. Monthly payment will be calculated based on a 7 year amortization and paid in equal monthly installments or such other amortization term as may be agreed upon. Any deficiency amount shall be treated as a Class 6 General Unsecured Claim.
Class 3: CFC	Impaired Yes	The Claim will be Allowed in the amount of the CFC Loan outstanding as of the Petition Date. The Claim will be paid in full over 5 years in equal monthly payments, without interest.
Class 4: First Interstate Bank	Impaired Yes	The Claim will be Allowed in the amount of the First Interstate Bank Loan outstanding as of the Petition Date. The Claim will be paid in full over 5 years in equal monthly payments, without interest.
Class 5: Construction Lien Claims	Impaired Yes	The Construction Lien Claims, if any, will be Allowed in an amount equal to either: (i) the amount owed as of the Petition Date; (ii) an agreed upon amount; or (iii) an amount as determined by the Bankruptcy Court. The Claims will bear interest, if any, at the rate determined by the Bankruptcy Court as necessary to satisfy the requirements of Section 1129(b) of the Bankruptcy Code, or such other rate agreed upon. Monthly payments will be calculated based on a 5 year amortization and paid in equal monthly installments or such other amortization term as agreed upon. The Claims will be paid over the 5 year term on a fully amortized basis. To the extent that such Claims are not valid, properly perfected and enforceable Construction Lien Claims, any Allowed amount shall be treated as a Class 6 General Unsecured Claim.
Class 6: General Unsecured Claims	Impaired Yes	The Allowed General Unsecured Claims will receive their Pro Rata share of the Unencumbered Cash in the Estate. Distribution of the Pro Rata payment shall be made within 30 days after the Effective Date, or at any time thereafter regarding any Unencumbered Cash proceeds received from the Litigation Recoveries. The Unencumbered Cash available to pay Allowed General Unsecured Claims may include, subject to agreement among Prudential, Modern Woodmen, the Trustee and the Committee, or as may otherwise be ordered by the Bankruptcy Court, without limitation, any Cash proceeds received by the Estate or Reorganized Southern from the Yellowstone Valley Settlement and Avoidance Actions.

Class 7: Convenience Claims	Impaired Yes	Allowed Convenience Claims will receive Cash in an amount equal to the Claims on the later of the Effective Date or the date such Claim becomes an Allowed Convenience Claim, or as soon thereafter as is practicable. Each holder of a Claim Allowed in an amount greater than $5,000, which Claim would otherwise be a General Unsecured Claim, may elect to voluntarily reduce such Claim to $5,000 and be treated as the holder of an Allowed Convenience Claim, and by so electing shall be deemed to have waived any right to participate in any distribution to any Class other than in Class 7 as to any Claims it may have. The election must be made on the Ballot and be received by the Trustee on or prior to the Voting Deadline. Any election made after the Voting Deadline will not be binding or effective.
Class 8: Member Claims	Unimpaired No	Member Claims shall retain their Allowed Claims in accordance with and as provided by the Debtor's Bylaws.
Class 9: Member Interests	Unimpaired No	Member Interests and Member Certificates shall be retained by the Members in accordance with and as provided by the Debtor's Bylaws.

B. SUMMARY OF TREATMENT OF UNCLASSIFED CLAIMS

As provided by section 1123(a)(1) of the Bankruptcy Code, the following Claims are not classified under the Plan, and instead are treated separately as unclassified Claims on the terms set forth below. Such Claims are unimpaired under the Plan.

1. Administrative Expense Claims and Bar Date

Holders of an Allowed Administrative Expense Claims, will receive Cash in the amount of such Allowed Administrative Expense Claim on the later of the Effective Date or the date such Claim becomes Allowed, or as soon thereafter as is practicable; provided, however, that Allowed Administrative Expense Claims representing liabilities incurred in the ordinary course of business, consistent with past practice, by the Estate or Reorganized Southern will be paid in full and performed by the Estate or Reorganized Southern, as applicable, in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions.

Administrative Expense Claims Bar Date. All requests for the allowance and payment of an Administrative Expense Claim must be filed with the Bankruptcy Court and served upon the Trustee and other parties-in-interest, in accordance with the Bankruptcy Code and the Bankruptcy Rules, no later than the first Business Day that is 30 days after the Effective Date or such other date as approved by order of the Bankruptcy Court. **Failure to file and serve such an allowance and payment request timely and properly shall result in the Administrative Expense Claim being forever barred and discharged.**

2. Other Specific Claims

Notwithstanding, the following Claims, even if Administrative Expense Claims, shall be treated as follows:

a. *Professional Fee Claims*

Any entity seeking an award by the Bankruptcy Court of a Professional Fee Claim shall (i) file its final application for allowance of such Claim by no later than the date that is 30 days after the Effective Date or such other date as may be fixed by the Bankruptcy Court; and (ii) to the extent such entity has not already been paid in full on account of such Claim, be paid in full and in Cash in the amounts Allowed upon the date the order granting such award becomes a Final Order.

b. *Priority Tax Claims*

Holders of Allowed Priority Tax Claims will receive at the sole option of Reorganized Southern, (i) Cash in an amount equal to the Allowed Priority Tax Claim on the later of the Effective Date or the date the Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is practicable; or (ii) equal Cash payments to be made initially on the Effective Date or as soon thereafter as is practicable and semi-annually thereafter in an amount equal to such Allowed Priority Tax Claim, together with interest at a fixed annual rate determined under applicable non- bankruptcy law, over a period from the Effective Date through the 5th anniversary date after the Petition Date.

c. *Fees Due the United States Trustee*

To the extent that any fees are due to the United States Trustee pursuant to 28 U.S.C. § 1930 on the Effective Date, such fees shall be paid to the United States Trustee in full, in Cash, within 30 days after the Effective Date of the Plan. Any fees which become due to the United States Trustee following the Effective Date shall be paid when such fees are due and payable.

d. *Real Property Taxes*

Any real property taxes which are Allowed Administrative Expense Claims pursuant to section 503(b)(1)(B)(i) of the Bankruptcy Code shall either be paid when last due without penalty under applicable state law or, if the holder of such Claim consents, the holder shall retain any Lien afforded under applicable state law and the legal, equitable and contractual rights of such holder shall be left unaltered by the Plan. **The holder's vote in favor of this Plan or its failure to object to confirmation of the Plan shall be deemed to be such a consent.**

e. *DIP Financing Claim*

Any DIP Financing Claim that has not been paid, shall receive on account of such Claim, Cash in the amount of such Allowed Claim on the later of the Effective Date or the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable.

f. *Executory Contracts/Unexpired Leases; Claims*

Allowed Claims arising out of executory contracts or unexpired leases that are being assumed or assumed and assigned under the Plan, as set forth on "**Exhibit B**" to the Plan, are not classified. Rather, except as may otherwise be agreed to by the parties, within 60 days after the Effective Date, Reorganized Southern shall Cure any and all undisputed defaults under the executory contracts and unexpired leases by paying the Cure amount as determined by the Bankruptcy Court or as agreed to by the parties. All disputed defaults that are required to be cured shall be cured either within 60 days of the entry of a Final Order determining the amount, if any, of the Estate's or Debtor's liability with respect thereto, or as may otherwise be agreed to by the parties. The Trustee reserves the right, however, after the date of this Disclosure Statement but on or prior to the Confirmation Date, to amend the Plan to delete any executory contract or unexpired lease from Exhibit B of the Plan, or add any executory contract or unexpired lease to Exhibit B of the Plan, in which event such executory contract or unexpired lease shall be deemed to be, respectively, rejected or assumed. Any claims that may arise from the rejection of executory contracts or unexpired leases pursuant to the Plan will be treated as General Unsecured Claims or Convenience Claims, as applicable. As such, to preserve its voting rights in the event that an executory contract or unexpired lease is ultimately rejected, any party to an executory contract or unexpired lease that believes it may have a claim relating to such executory contract or unexpired lease if the contact or lease were to be rejected should submit a Ballot in accordance with the voting procedures set forth herein whether or not such contract or lease is currently on Exhibit B to the Plan. For avoidance of doubt, the Trustee will send a Ballot to all parties to executory contracts or unexpired leases, including those that are currently contemplated to be assumed or assumed and assigned as set forth on Exhibit B to the Plan. The Ballot will only be counted as a vote on the Plan if it is submitted in accordance with the voting procedures and if the executory contract or unexpired lease is not on Exhibit B to the Plan as of the Confirmation Date and is therefore an executory contract or unexpired lease that will be deemed rejected as of the Effective Date.

Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan must be filed with the Bankruptcy Court and served upon Reorganized Southern no later than 30 days after notice of entry of the Confirmation Order. All such Claims not filed within such time shall be forever barred from assertion against the Debtor, the Estate or the Reorganized Southern and their property and shall be deemed disallowed in full, released and discharged.

III. GENERAL INFORMATION

A. OVERVIEW OF CHAPTER 11

Under Chapter 11 of the Bankruptcy Code, a trustee may propose to reorganize or liquidate a debtor's business and assets subject to the provisions of the Bankruptcy Code.

In general, a Chapter 11 plan (i) divides claims and interests into separate classes; (ii) specifies the consideration that each class is to receive under the plan; and (iii) contains other provisions necessary to implement the plan. Under the Bankruptcy Code, "claims" and "interests," rather than "creditors" and "shareholders," are classified because creditors and shareholders may hold claims and interests in more than one class. Under section 1124 of the Bankruptcy Code, a class of claims is "impaired" under a plan unless the plan (a) leaves unaltered the legal, equitable, and contractual rights of each holder of a claim in that class; or (b) to the extent defaults exist, provides for the cure of existing defaults, reinstatement of the maturity of claims in that class, compensates each holder of a claim for any damages incurred as a result of reasonable reliance upon the default, and does not otherwise alter the legal, equitable or contractual rights of each holder of a claim in that class.

The consummation of a plan is a principal objective of a Chapter 11 case. A Chapter 11 plan sets forth the means for satisfying claims against and interests in a debtor and, if appropriate, the future conduct of the debtor's business, the sale of the debtor's assets, and/or the liquidation of the debtor's remaining assets. Confirmation of a plan by the bankruptcy court binds the debtor, any person acquiring property under the plan, and any creditor or member interest holder of a debtor to the terms and provisions of the plan as of the effective date of the plan.

B. THE DEBTOR'S PREPETITION ORGANIZATION AND BUSINESS OPERATIONS

1. The Debtor, Its Members, Governance, and Commencement

a. *Rural Electric Cooperatives*

Rural electric cooperatives were formed in order to extend electric service to rural areas. The United States Congress enacted the Rural Electrification Act in 1936 for the purpose of providing electric power to rural communities of America.

Congress recognized that private companies operating electrical generation facilities had failed to extend electric service to rural areas. As a result of the Rural Electrification Act, rural communities formed non-profit electric distribution cooperatives. The distribution cooperatives later formed upper tier generation and transmission cooperatives (commonly referred to as "G & T" cooperatives) to supply electricity and transmission services to the distribution cooperatives.

In turn, the distribution cooperatives sell power to the individual customer that is also a member of the distribution cooperative.

b. *The Debtor's Organization and Business*

The Debtor is a not-for-profit, Section 501(c)(12) tax exempt G & T cooperative duly formed under the Montana Rural Electric and Telephone Cooperative Act on March 26, 2003. The Debtor provides wholesale electricity and related services to its members for retail supply to farmers, ranchers, businesses, industries, and other citizens of 21 counties in Montana, encompassing approximately one-fourth of the area of the state and a portion of Wyoming. The Debtor, through its member systems, provides electric service to more than 50,000 Montanans.

c. *The Debtor's Members and the All Requirements Contracts*

The Debtor's originating members are five electric distribution cooperatives, formerly of the Central Montana Electric Power Cooperative Inc. ("**Central Montana Electric**"): Yellowstone Valley Electric Cooperative, Inc. ("**YVEC**") located in Huntley, Montana; Tongue River Electric Cooperative, Inc. ("**Tongue River**") located in Ashland, Montana; Fergus Electric Cooperative, Inc. ("**Fergus**") located in Lewistown, Montana; Mid-Yellowstone Electric Cooperative, Inc. ("**Mid-Yellowstone**") located in Hysham, Montana; and Beartooth Electric Cooperative, Inc. ("**Beartooth**") located in Red Lodge, Montana. City of Great Falls/Electric City Power, Inc. (collectively, the "**City**"), a municipal electric utility, was not one of the original members, but the City's request for membership was approved by the Debtor's Board of Trustees on September 3, 2003.

Each member is a party to a wholesale power contract with the Debtor. These are known as "all requirements contracts." In general, the all requirements contracts provide that the Debtor will sell and deliver to its members, and members shall purchase and receive from the Debtor, all electric power and related services necessary to meet their electricity supply requirements. The all requirements contracts also contemplate that the Debtor has a commensurate obligation to serve electric power supply and related services needs of the members and secure long-term sources of power and related services for them. As an attribute of the members' obligation to purchase and the Debtor's obligation to serve, a predictable long-term revenue stream is established upon which the Debtor can and has relied to purchase power and pay for other financial obligations incurred by the Debtor on behalf of the Debtor's member systems.

The all requirements contract is the structural keystone by which electric cooperative G & T systems across the nation provide a stable, interdependent power supply network whereby the distribution cooperatives pool their resources and band together to obtain power at wholesale prices, build central electric generation facilities, obtain favorable loans, and attempt to provide reliable, affordable, and predictably priced electric service to the customers they serve. The all

requirements contract is a multi-party agreement creating an essential interlocking relationship among the Debtor and all of its member systems. This contractually defined long-term relationship has been historically fundamental to the ability of G & T cooperatives to secure long-term financing, demonstrate credit worthiness, and foster stability in long-term power supply for the member systems and the customers they serve. Under this system, lending institutions, creditors, and contractual power suppliers are able to look to the revenue stream predictably defined under the all requirements contracts as an assured source of repayment and security for loans and as an essential factor to the cohesiveness and financial strength of the G & T systems. Effectually, then, the all requirements contracts place the financial strength of the distribution cooperatives behind G & T loans.

As the Debtor operates as a tax exempt Section 501(c)(12) not-for-profit corporation, the all requirement contracts between the Debtor and its members provide that the rates for electric power, energy, and transmission charged to the members may be revised as the Debtor's Board of Trustees deems necessary so that the revenues produced from the all requirements contracts and other sources will be sufficient, but only sufficient, to meet the costs of operating and maintaining the Debtor's system, and sufficient, but only sufficient, to make payments on all of the Debtor's indebtedness.

d. ***Corporate Structure***

The Debtor operates pursuant to a set of Bylaws and Polices. Since its creation, the Debtor's Board of Trustees has been comprised of six trustees, one from each of the member cooperatives and the City. Each of the member cooperatives of the Debtor, and the City, are Class A members of the Debtor. Each of the Class A members of the Debtor are entitled to elect one trustee to serve on the Debtor's Board of Trustees.

As of the Petition Date, the Debtor's General Manager and Chief Executive Officer was Tim Gregori; its President was William FitzGerald; and its secretary and treasurer was Joe Dirkson. On or about November 9, 2011, Mr. Gregori was placed on administrative leave, and Alan See, the General Manager for Tongue River, became the Interim General Manager. As his services were no longer needed, Mr. See's tenure as Interim General Manager ceased in April 2012. Mr. FitzGerald was replaced by James DeCock as the representative of Mid-Yellowstone on the Debtor's Board of Trustees. Mr. Dirkson was replaced by David Dover as the representative of Fergus on the Debtor's Board of Trustees. Because the Trustee has assumed virtually all of the rights and powers of the Debtor's Board of Trustees, at the annual members' meeting in March 2012, the Debtors' Board of Trustees did not elect a slate of new officers.

e. *Commencement of Operations*

The Debtor commenced operations in June 2004 when Central Montana Electric assigned to the Debtor the five departing electric distribution cooperative members' share of their power purchase contracts with the Bonneville Power Administration Power Business Line ("**BPA**") and Western Area Power Administration ("**WAPA**"), and open access network transmission rights with NorthWestern Corporation d/b/a NorthWestern Energy ("**NWE**").

2. **Highwood Generating Station and SME**

As a cooperative organization, the Debtor's mission is to provide cost-based, competitively-priced energy and related services to its members – that is to supply base load power to the Debtor and its members. In furtherance of this mission, the Debtor determined that an important attribute of its ability to predictably meet the supply needs of the member systems it serves would be to construct what has become known as the Highwood Generating Station ("**HSG**"). HGS was initially planned to be a 250 MW coal-fired power plant.

In November 2007, YVEC advised the Debtor's Board of Trustees that it no longer desired to be a part of the HGS project and that it wished to terminate its membership in and all requirements contract with the Debtor. The Debtor's Board passed two resolutions on April 17, 2008 in an attempt to honor YVEC's request that it be shielded from any further liability relating to continued development of HGS. The first resolution fixed all of the Debtor's member's investment and liability in the development of HGS as of May 1, 2008. The second resolution recognized those members with a continued interest in the development of HGS and that a new independent entity would be created to carry out any further development. The entity, named SME Electric Generation and Transmission Cooperative, Inc. ("**SME**") and created subsequent to this April 2008 meeting, is comprised of Beartooth, Fergus, Mid-Yellowstone, and Tongue River. Neither YVEC nor the City are or have ever been members of SME.

In November 2008, SME broke ground and began construction of the 250 MW plant, laying concrete and other foundation material. SME was able to complete these activities with the assistance of local financial institutions that granted SME lines of credit guaranteed by SME's members.

In early 2009, construction activity for HGS ceased until SME could secure long term financing. In addition, a decision was made in early 2009 to curtail plans to construct the 250 MW plant primarily due to opposition by environmentalists and the federal government's lack of support for new coal-fired plants (and the uncertainty associated therewith). The members of SME worked to modify the plans for the construction of a 120 MW natural gas-fired, combined cycle combustion turbine electric generation facility.

The creation of SME did not prove to be a viable option for financing HGS. Lenders were not interested in loaning funds to SME because, other than its investment in HGS, it had no assets. Lenders wanted additional collateral, and the only other available collateral were the all requirements contracts between the Debtor and its members. Thus, incident to the financing of HGS in February 2010 (as described below), SME's assets were transferred to the Debtor in exchange for an assumption by the Debtor of SME's indebtedness. More specifically, during January 2010, SME sent out a notice of a proposed disposition of property by SME to the Debtor to all of the Debtor's members. At a special Debtor membership meeting on February 19, 2010, the Debtor's Board passed a resolution authorizing the acquisition of substantially all of SME's tangible and intangible personal property relating to the development of HGS for the approximate value of $14,385,000.

Once decisions were made to move forward with plans for a gas-fired facility and financing was obtained in February 2010, the Debtor began the process of procuring construction and equipment contracts for HGS. After some preliminary work at the site, construction recommenced in the Fall of 2010.

HGS was intended to be placed in service in two phases to allow for production commensurate with construction milestones; the first phase would be the simple cycle portion of the HGS with a commercial operation date scheduled to be in January 2011. This goal was essentially completed by the Petition Date and resulted in the current natural-gas 46 MW combustion turbine electric generating facility becoming operational in February 2012. The second phase, which has yet to be completed, is the combined cycle portion of HGS with a commercial operation date that was scheduled to be in January 2012.

The cost of Phase I of HGS was estimated at $64,442,000; to date, construction costs for Phase I are approximately $68,531,000. The last estimate for construction and equipment costs for Phase II (provided by the Debtor's engineering consultants at a September 2011 board meeting) was $176,000,000. This estimate did not include any costs for financing, closing, legal, or interest during construction. The only costs accrued for Phase II have been those associated with preliminary engineering, which total $230,760.

HGS is located site east of Great Falls, Montana on about 197 acres, which is real property that the Debtor owns.

3. Other Assets

In addition to HGS and real property related to it, as of the Petition Date and as disclosed in the Schedules, the Debtor owned, among other things: (i) real property related to a substation interconnecting to HGS; (ii) transmission line easements; (iii) gas line easements; (iv) cash; (v) security deposits; (vi) accounts receivable; (vii) claims against the City and YVEC; (viii) transmission rights; (ix) prepaid transmission costs; (x) vehicles; (xi) office equipment; (xii)

telemetry equipment; (xiii) a tie line[1]; (xiv) prepaid dues, subscriptions, and regularity assessments; (xv) prepaid insurance premiums; (xvi) investments in associated organizations; and (xvii) patronage capital in Basin Electric. The Debtor also owns approximately a 19-mile gas pipeline connecting HGS to Great Falls.

4. Prepetition Indebtedness

a. *The Primary Secured Debt - HGS*

To construct HGS and its related facilities, on or about February 26, 2010, the Debtor entered into that certain *Indenture of Mortgage, Security Agreement and Financing Statement* (the "**Indenture**"), among the Debtor as grantor, U.S. Bank National Association as trustee (the "**Indenture Trustee**"), Bank of New York Mellon Trust Company, N.A. as collateral agent, and the guarantors from time to time party thereto, pursuant to which the Debtor incurred indebtedness to certain holders consisting of Prudential Insurance Company of America, Universal Prudential Arizona Reinsurance Company, Forethought Life Insurance Company and Modern Woodmen of America (the "**Noteholders**"; the Noteholders and the Indenture Trustee are, collectively, the "**Prepetition Secured Parties**") for (i) the Senior First Mortgage Notes, Series 2010A, due February 26, 2040 in the aggregate principal amount of $75,000,000 (the "**Series 2010A Notes**"); and (ii) the Senior First Mortgage Notes, Series 2010B, due February 26, 2026 in the aggregate principal amount of $10,000,000 (the "**Series 2010B Notes**"; the Series 2010B Notes and the Series 2010A Notes are, collectively, the "**Notes**").

In addition to the Indenture, on or about February 26, 2010, the Debtor entered into that certain *Collateral Agency Agreement*, dated as of February 26, 2010, among the Debtor, the guarantors from time to time party thereto, and the Indenture Trustee (the *Collateral Agency Agreement*, the Indenture, and any related documents are, collectively, the "**Prepetition Loan Documents**").

To secure the Obligations under the Indenture, the Prepetition Secured Parties allege that the Debtor granted the Indenture Trustee, on behalf of the Noteholders, valid first priority liens (the "**Prepetition Liens**") upon and in substantially all of the Debtor's assets, and all proceeds and products of such assets (the "**Prepetition Collateral**") in accordance with the terms of the Prepetition Loan Documents. The Prepetition Collateral includes the all requirements contracts between the Debtor and its members, other than YVEC – which was excluded from the collateral pool.

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[1] Before the Debtor was formed, YVEC and Central Montana Electric agreed to construct the Huntley Tie Line, located within YVEC's service area, near the town of Huntley. This tie line provided interconnection with BPA and WAPA's power supply (each discussed herein). YVEC constructed the tie line and Central Montana Electric contributed in aid of construction. After some of the members split from Central Montana Electric, forming the Debtor, the original agreement between YVEC and Central Montana Electric was assigned to the Debtor.

The following table sets forth the all requirements contracts between the Debtor and its members that were, as noted in footnotes 2 and 3 below, either expressly included in or excluded from the Prepetition Collateral:[2]

MEMBER	CONTRACT EXECUTION DATE	CONTRACT TERMINATION DATE
YVEC[3]	5/28/2004	12/31/2030
Tongue River	4/19/2007	12/31/2048
Fergus	3/29/2007	12/31/2048
Mid-Yellowstone	3/27/2007	12/31/2048
Beartooth	4/13/2007	12/31/2048
City[4]	10/2/2007	12/31/2048

As of the Petition Date, the Debtor was liable to the Prepetition Secured Parties in respect of obligations under the Indenture for (i) the aggregate principal amount of not less than $85 million on account of the Notes issued under the Indenture (plus accrued and unpaid interest thereon); and (ii) unpaid fees, expenses, disbursements, indemnifications, obligations, and charges or claims of whatever nature, whether or not contingent, whenever arising, due or owing under the Prepetition Loan Documents or applicable law (collectively, the "**Obligations**").

On July 13, 2012, the Indenture Trustee filed Proof of Claim No. 69 in the amount of $131,949,294.56.

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[2] All of the Debtor's all requirements contracts, except the YVEC contract, are included in the Prepetition Collateral. In 2008, Tongue River, Fergus, Mid-Yellowstone, and Beartooth executed amended and restated contracts and are arguably included in the Prepetition Collateral through after-acquired property provisions in the Prepetition Loan Documents.

[3] YVEC's all requirements contract was expressly excluded from the Prepetition Collateral. As explained herein, YVEC's all requirements contract is subject to a pending motion to settle that would cause it to be terminated, effective April 30, 2013.

[4] The City of Great Falls is the non-Debtor party to this contract. Pursuant to an *Assignment and Assumption Agreement*, Great Falls allegedly assigned its rights under the contract to Electric City Power, Inc., which allegedly assumed the Great Falls obligations. The Debtor was not a party to the *Assignment and Assumption Agreement*, and it provides in paragraph 1(B), "[t]he assignment does not relieve the City of the obligations it has to [the Debtor] under this contract except to the extent those obligations are in fact fulfilled by ECP." Solely for ease of reference, the Trustee utilizes the term "City" throughout this Disclosure Statement. Nothing in this Disclosure Statement is intended to be the Trustee taking a legal position on the appropriateness of the assignment or its legal ramifications.

b. *PPL*

As discussed below, the Debtor and PPL were parties to an energy purchase contract. The Trustee and PPL agreed to reject this contract. PPL filed Proof of Claim No. 50 in the amount of $374,863,708.19, of which about $2.5 million has been determined by the Bankruptcy Court to have priority pursuant to section 503(b)(9) of the Bankruptcy Code and $13 million allegedly arises on a postpetition basis. The balance purportedly arises out of the rejection of the contract. Also as discussed below, the section 503(b)(9) portion is subject to pending litigation in the Bankruptcy Court.

c. *NWE*

Pursuant to Proof of Claim No. 24, NWE asserts a $7,284,877 general unsecured claim against the Debtor for natural gas transmission.

d. *National Rural Utilities Cooperative Finance Cooperative*

On or about May 24, 2011, the Debtor and National Rural Utilities Cooperative Finance Cooperative ("**CFC**") entered into a $5 million revolving line of credit. In conjunction with it, the Debtor provided CFC with a cash collateral deposit in the amount of $1,003,500. CFC purportedly advanced the $5 million. CFC filed Proof of Claim No. 27 in the amount of $5,005,523.21, $1,003,500 of which is allegedly secured by the deposit and the balance is unsecured.

e. *First Interstate Bank*

First Interstate Bank filed Proof of Claim No. 11 in the amount of $1,862,139.71, $604,536.98 of which is allegedly secured and the balance is unsecured. This claim arises out of two notes that the Debtor executed. The first note is dated March 17, 2011 in the principal amount of $1,250,000; it is not secured by the Debtor's property, but is fully guaranteed by the Debtor's members (excepting YVEC and the City). The second note is dated August 30, 2011 in the principal amount of $600,000; it is allegedly secured by a September 9, 2011 mortgage recorded in Cascade County, Montana, as Document No. R0239406 MG.

f. *Construction Lien Claims*

Prior to the Petition Date, certain entities recorded alleged construction liens against the HGS facility purportedly in accordance with Montana statutes and case law. Such entities may claim valid, properly perfected and enforceable construction liens under and in accordance with applicable Montana law. The Trustee has not yet concluded his review and legal analysis of

such potential Secured Claims or the priority of any such Claims even if Allowed in relation to other secured creditors against the HGS facility, including, without limitation, the Prepetition Secured Creditors. To the extent that such Claims are valid, properly perfected and enforceable Allowed Secured Claims, they shall be treated in accordance with Class 5 of the Plan. In the event that such Claims are not valid, properly perfected and enforceable Secured Claims, they shall, to the extent Allowed, be treated as Class 6 General Unsecured Claims. Based upon the Debtor's Schedules and title work that the Trustee has reviewed, the potential Construction Lien Claims include, without limitation, the following entities asserted amounts:

ENTITIES	AMOUNT
Graybar Electric	$167,000
Yellowstone Electric Co.	$371,410.06
Corval Constructors, Inc. f/n/a NewMech Companies, Inc.	$870,202.30
Falls Construction	$271,740.22
Grass Man Tractor Services	$20,387.97
Thermal Mechanical Insulation	$58,551.70
EPC Services Company	$1,858,773.31
The Energy Corporation	$532,553.13
Land Supply, Inc.	$180,351.50
TOTAL	**$4,330,970.19**

g. ***The Members***

The Debtor's members have all filed proofs of claim, all of which other than YVEC filed multiple proofs of claim. The following chart summarizes these Claims:

CREDITOR	PROOF OF CLAIM NO.	AMOUNT	TYPE OF CLAIM	BASIS
YVEC	66	$7,276,470.05	General Unsecured	Reserve fund ($1,302,471.72); interest in HGS ($2,056,000); Debtor patronage ($3,713,120.69); Basin Electric patronage ($204,877.64); includes other unliquidated claims
Tongue River	51	$1,250,000	General Unsecured	Guarantee agreements related to First Interstate

				Bank
	52	Not stated	General Unsecured	Contribution/indemnification
	53	$489,900.40	General Unsecured	Reserve fund
	54	$1,470,499.30	General Unsecured	Debtor patronage ($1,364,016.94); Basin Electric patronage ($106,482.36)
	55	$1,878,116.68	General Unsecured	Interest in HGS
	56	$1,413,900	General Unsecured	Deposit related to CFC ($119,900); guaranty of Debtor's obligation to CFC ($1,294,000)
Fergus	31	$1,114,563.38	General Unsecured	Reserve fund
	32	$1,649,437.40	General Unsecured	Debtor patronage ($1,540,938.07); Basin Electric patronage ($108,499.33)
	33	$2,689,831.81	General Unsecured	Interest in HGS
	34	$2,516,681	General Unsecured	Deposit related to CFC ($213,700); guaranty of Debtor's obligation to CFC ($2,302,981)
	37	Not stated	General Unsecured	Contribution/indemnification
	40	$1,250,000	General Unsecured	Guarantee agreements related to First Interstate Bank
Mid-Yellowstone	57	$150,770.22	General Unsecured	Reserve fund
	58	Not stated	General Unsecured	Contribution/indemnification
	59	$532,700	General Unsecured	Deposit related to CFC ($36,700); guaranty of Debtor's obligation to CFC

				($496,000)
	60	$1,250,000	General Unsecured	Guarantee agreements related to First Interstate Bank
	61	$460,520.49	General Unsecured	Debtor patronage ($428,664.26); Basin Electric patronage ($31,770)
	62	$1,147,437.70	General Unsecured	Interest in HGS
Beartooth	35	$372,081.40	General Unsecured	Reserve fund
	36	$1,067,614.13	General Unsecured	Debtor patronage
	38	$1,361,151.83	General Unsecured	Interest in HGS
	39	$93,000	General Unsecured	Deposit related to CFC
	41	$80,566.32	General Unsecured	Basic Electric patronage
	42	Not stated	General Unsecured	Contribution/indemnification
	43	$1,250,000	General Unsecured	Guarantee agreements related to First Interstate Bank
Great Falls (unless otherwise stated)	20	$1,400,560	General Unsecured	Liquidation of certificates of deposit related to First Interstate Bank
	44	866,520.59	General Unsecured	Reserve fund
	45	Not stated	General Unsecured	Contribution/indemnification
	46	Not stated	General Unsecured	Water agreements
	47	$42,226.96	General Unsecured	Debtor patronage
	48	$1,144,390.31	General Unsecured	Interest in HGS
	63	Not stated	General	Claims related to all

			Unsecured	requirements contract (Great Falls)
	64	$107,750	General Unsecured	Deposit related to CFC
	65	Not stated	General Unsecured	Claims related to all requirements contract (ECP)
	67	$10,000,000	General Unsecured	Breach of contract, breach of implied covenant of good faith and fair dealing, tortious interference, and breach of fiduciary duty (Great Falls and ECP)

5. Power Purchase/Electricity Transmission/Gas Transmission Agreements

To supply the Debtor's members with their energy needs, the Debtor entered into power purchase agreements with BPA, WAPA and PPL. BPA's contract terminated on September 30, 2011. WAPA's contract continues through 2020. The PPL contract was set to continue through 2019, but, as explained below, the Trustee rejected the contract, effective March 27, 2012.

In addition, as of the Petition Date, the Debtor was under long-term contracts for transmission of electricity to its member systems and customers with NWE and WAPA.

Also, as of the Petition Date, the Debtor contracted with various parties for gas supply and gas transmission services, all being essential to operate HGS. Co-parties include (i) EnergyWest Resources, LLC ("**EWR**") to schedule and purchase gas the Debtor would need for operation of HGS, and to manage and operate the Debtor's approximately 19 miles of natural gas pipeline to HGS; and (ii) NOVA Gas Transmission, LTD, Tenaska Marketing Ventures, NWE, and Energy West Montana ("**EWM**"), an affiliate of EWR, with respect to various segments of the gas transmission facilities to EWM's facilities near Great Falls (including the 19 miles of pipeline).

6. Regulatory Oversight of the Debtor

The Energy Policy Act of 2005 requires that Federal Energy Regulatory Commission ("**FERC**") approve and enforce standards to protect and improve the reliability of the United States's Bulk Power System. Under this statutory framework, standards are proposed by an Electric Reliability Organization, a function currently held by the North American Electric Reliability Corporation ("**NERC**"). NERC can further delegate compliance monitoring and enforcement authority to various Regional Entities). Mandatory compliance with the first set of

NERC Reliability Standards approved by FERC came into effect on June 18, 2007. The Debtor's assets located in the United States must comply with all requirements of the FERC-approved reliability standards applicable to its current NERC Compliance Registry NCR05399 registered function(s).

In addition, the Montana and Federal Clean Air Acts require that stationary sources of air pollution receive and comply with air quality permits to protect human health and the environment. Under the authority of these statutes, the Montana Department of Environmental Quality has issued both a pre-construction (AQP#4429-01) and an operating permit (#OP4429-00) for HGS, which establish emissions limits and requirements, and require regular monitoring and reporting. Although HGS has only operated for very limited time periods, it is subject to air quality permit requirements and has ongoing semiannual reporting and compliance certification requirements to which it is complying. HGS is also subject to the Federal and State Clean Water Acts, and has been issued a General Storm Water Construction Permit (#MTR100000), which currently requires ongoing inspections and monitoring of the facility. A number of other local and state environmental requirements are applicable and have been addressed/or will be triggered by further operation of HGS.

7. Prepetition Business Operations

After commencing business operations in 2004, the Debtor operated as a "paper G & T" in that it did not own any generation or transmission facilities. Rather, the Debtor provided electric power and energy to its members through the power purchase agreements with BPA, WAPA, and PPL, as described above, and provided transmission services through an agreement with NWE. As also described above, shortly after it commenced business operations, the Debtor began to build a generation facility of its own in the form of HGS. Although Phase I of HGS was substantially completed before the Petition Date, it was never used to supply the members with their power and energy needs.

8. Prepetition Employee Matters

a. *Description of Workforce*

Prior to the bankruptcy filing, the Debtor employed 11 employees: three at the Debtor's operations office in Billings and eight at HSG near Great Falls. For the Debtor's operations, it employed a general manager, a power scheduler/engineer, and an accountant. At HGS, it employed a plant superintendent, three operators, one electronic, instrumentation and controls technician, an administrative assistant, and two night watchmen.

b. *Employee Benefits and Benefit Plans*

The Debtor's benefit package includes employer-paid health insurance premiums (including a prescription plan), basic group term life insurance (with a benefit level of two times employee's base annual earnings), business travel accident insurance, short-term disability insurance, and one half of the premiums of long-term disability insurance. Employees were responsible for the remaining one half of the long-term disability insurance premiums, as well as vision, dental, and any other supplemental insurance policies that are offered. Additionally, the Debtor established a 401(k) plan, administered by National Rural Electric Cooperative Association ("**NRECA**"). Employees were required to contribute 2% of their compensation to receive the employer's base contribution of 4%. The Debtor had also adopted a Retirement Security Plan, also administered by NRECA, where the Debtor made contributions to the plan without any requirement of employee contributions. There is a one-year waiting period of eligibility for both the 401(k) and Retirement Security Plans.

The Debtor allowed full-time regular employees to begin earning vacation from the date of hire at the accrual rate as set forth in the policy manual. There was a six-month probationary period from the date of hire before the employee was eligible to use vacation time. Any unused vacation time would be paid out if an employee was laid off or resigned. The employees also accrued one day of sick leave per month and regular pay for each hour or workday of sick leave. Any unused sick leave would not be paid out in the event of layoff, resignation, or discharge.

The Debtor also maintained a Workers' Compensation and Employers' Liability Policy.

C. SIGNIFICANT ADDITIONAL EVENTS LEADING TO THE CHAPTER 11 CASE

1. The YVEC Litigation

On December 12, 2008, YVEC filed a complaint in District Court in Billings, Montana, Cause No. DV 08-1797, against the Debtor, SME, and other members of the Debtor and SME (the "**YVEC State Court Litigation**"). YVEC amended the complaint in July 2010, and asserts various claims, including oppression, breach of contract, and breach of the implied covenant of good faith and fair dealing. YVEC requests that its membership be terminated along with its all requirements contract with the Debtor and that the Debtor refund the amounts YVEC paid to develop HGS, and all deposits and equity contributions made by YVEC and assign to YVEC portions of certain power supply contracts that the Debtor holds with third parties. The Debtor filed a counterclaim on January 13, 2009 alleging that YVEC had not posted its required reserve amount with the Debtor, and that YVEC had not paid its contractual liability associated with the development of HGS and was not paying its power bills to the Debtor in a timely manner. The Debtor requested relief that the all requirements contract is valid and binding. This action was set for a jury trial on November 9, 2011, but the Debtor's bankruptcy filing stayed the case.

2. The Great Falls/ECP Litigation

In March 2011, Great Falls requested by letter that it be relieved of its obligations to the Debtor under its all requirements contract, threatening to withdraw from the Debtor's membership by March 18, 2011. Following at least two communications from the Debtor in response, on March 15, 2011, the City filed a complaint in District Court in Great Falls, Montana, Cause No. CDV 11-0256, against the Debtor and SME. The City sought numerous declarations such as the City's contracts and other obligations to the Debtor are void or voidable, including the all requirements contract between the Debtor and Great Falls dated October 2, 2007, with a term through 2048.

On April 29, 2011, the Debtor counterclaimed for (i) declaratory judgment (requesting declarations that the City must purchase and receive from the Debtor all electric energy required by the City customers through 2048, and the City has violated and/or repudiated the all requirements contract, thus entitling the Debtor to specific performance and damages); (ii) injunctive relief (requiring the City to honor its obligations under the all requirements contract); (iii) specific performance; (iv) breach of contract; and (v) bad faith breach of contract.

The Debtor's bankruptcy petition stayed this action.

3. The Billings Gazette Litigation

On June 21, 2010, the Billings Gazette (the "**Gazette**") filed a complaint in District Court in Billings, Montana, Cause No. DV 10-1095, against the Debtor seeking a declaration that the Debtor's board meetings are subject to Montana's Open Meeting Law. In addition, it sought to void all action taken at a meeting held on June 18, 2010 and also sought a preliminary injunction precluding the Debtor from closing its meetings while this issue is being litigated. The Debtor's Board of Trustees adopted a resolution at its meeting on July 23, 2010 that authorized the Debtor's counsel to execute a stipulation regarding the Gazette's attendance at the monthly board meetings while the issue is in litigation. Additionally, the resolution authorized a representative from the Gazette be permitted to attend the monthly board meetings.

This matter was also pending when the Debtor filed its bankruptcy petition.

IV. THE CHAPTER 11 CASE

The following is a brief description of some of the significant events that have occurred during the Debtor's Chapter 11 Case. This review is not exhaustive; the Trustee refers interested parties to the Debtor's docket with the Bankruptcy Court and the filings set forth therein for each filing in the Chapter 11 Case.

A. PETITION DATE

On October 21, 2011, the Debtor filed its Chapter 11 voluntary petition for relief in the Bankruptcy Court.

B. THE DEBTOR'S APPLICATIONS TO EMPLOY PROFESSIONALS; COMPENSATION

At the outset of the Chapter 11 Case, the Debtor filed applications to employ three professionals. First, on October 26, 2011, the Debtor applied to retain Jon E. Doak and the law firm Doak & Associates, P.C. as its lead bankruptcy counsel (Dkt. No. 12). On November 8, 2011, YVEC objected to this application (Dkt. No. 39), which Beartooth joined on January 6, 2012 (Dkt. No. 191). On January 11, 2012, the Trustee and Mr. Doak and his firm stipulated to the withdrawal of the retention application and waiver of any postpetition compensation (Dkt. No. 198), which the Bankruptcy Court approved on January 12, 2012 (Dkt. No. 200).

Second, on October 31, 2011, the Debtor sought to retain Malcolm H. Goodrich and the law firm Goodrich Law Firm, P.C. to serve as co-counsel with Mr. Doak's firm (Dkt. No. 16); on November 14, 2011, the Bankruptcy Court approved this application (Dkt. No. 50). On December 1, 2011, the Debtor's co-counsel filed its final fee application (Dkt. No. 118), seeking fees in the amount of $25,841 for services rendered from November 1, 2011 to November 29, 2011; the Bankruptcy Court granted this fee application by Order dated December 21, 2011 (Dkt. No. 163).

Third, on November 4, 2011, the Debtor applied to retain Randal J. Boysun, C.P.A. and Michelle M. Klundt, C.P.A. and the accounting firm Douglas Wilson and Company, PC (Dkt. No. 26); the Bankruptcy Court denied this application by Order dated December 23, 2011 (Dkt. No. 171).

C. THE SCHEDULES AND STATEMENT OF FINANCIAL AFFAIRS

On November 4, 2011, the Debtor filed its initial Schedules (as amended for time to time, the "**Schedules**") and Statement of Financial Affairs (the "**SOFA**") (Dkt. No. 29). On April 27, 2012, the Trustee filed amendments to the Schedules (Dkt. No. 410).

D. THE § 341 MEETING OF CREDITORS

The initial meeting of creditors pursuant to section 341 of the Bankruptcy Code was scheduled to be on November 17, 2011 (Dkt. No. 10). On November 10, 2011, the United States Trustee continued the meeting to December 2, 2011 (Dkt. No. 46), on which date the meeting concluded.

E. STIPULATION FOR APPOINTMENT OF TRUSTEE; APPOINTMENT OF TRUSTEE

On November 14, 2011, the United States Trustee and the Debtor stipulated to the appointment of a Chapter 11 trustee (Dkt. Nos. 55 and 56), which the Bankruptcy Court approved by Order dated November 22, 2011 (Dkt. No. 96).

On November 28, 2011, the United States Trustee moved to appoint the Trustee (Dkt. No. 112), which the Bankruptcy Court granted by Order dated November 29, 2011 (Dkt. No. 113).

F. THE TRUSTEE'S APPLICATIONS TO EMPLOY PROFESSIONALS

Since the Trustee's appointment, he has employed several estate professionals pursuant to section 327 of the Bankruptcy Code as set forth in the following table:

PROFESSIONAL	TYPE	APPLICATION DATE AND DOCKET NUMBER	ORDER DATE AND DOCKET NUMBER
Waller & Womack, P.C.	Local bankruptcy counsel	12/12/11; Dkt. No. 129 (supplemented 9/13/12; Dkt. No. 528)	12/13/11; Dkt. No. 131 (supplement approved 9/13/12; Dkt. No. 529)
Horowitz & Burnett, P.C.	Lead bankruptcy counsel	12/12/11; Dkt. No. 130 (supplemented 1/29/13; Dkt. No. 664)	12/13/11; Dkt. No. 132
Katten & Temple, LLP	Investigation counsel	1/3/12; Dkt. No. 184	1/4/12; Dkt. No. 185
Eide Bailly LLP	Audit and tax accountants	3/6/12; Dkt. No. 296 (supplemented 9/7/12; Dkt. No. 522)	3/7/12; Dkt. No. 297 (supplement approved 9/10/12; Dkt. No. 526)
Hein & Associates LLP	Financial accountants	3/29/12; Dkt. No. 351	3/30/12; Dkt. No. 352
Harper Lutz Zuber Hofer and Associates, LLC (named changed to Harper Hofer and Associates, LLC (Dkt. No. 448))	Valuation Consultant	5/3/12; Dkt. No. 414 (supplemented 11/14/12; Dkt. No. 587)	5/3/12; Dkt. No. 415 (supplement approved 11/14/12; Dkt. No. 588)
Kroll Ontrack Inc.	Electronic discovery	1/4/13; Dkt. No. 631	1/7/13; Dkt. No. 634

	vendor		
MR Valuation Consulting LLC	Power plant appraiser	1/8/13; Dkt. No. 638	1/8/13; Dkt. No. 639

G. THE APPPOINTMENT OF OFFICIAL COMMITTEE OF UNSECURED CREDITORS; APPLICATION TO EMPLOY PROFESSIONAL

On November 29, 2011, the United States Trustee appoint a Committee of Unsecured Creditors (the "**Committee**") (Dkt. Nos. 109 and 111), consisting of PPL, NWE, LS Jensen Construction, Stanley Consultants, and Electrical Consultants, Inc.

On January 6, 2012, the Committee applied to retain Harold Dye and Dye & Moe, PLLP as its counsel (Dkt. No. 192), which the Bankruptcy Court approved by Order dated January 9, 2012 (Dkt. No. 194).

H. THE MONTHLY COMPENSATION PROCEDURES

On January 19, 2012, the Bankruptcy Court entered an Order (Dkt. No. 210) granting the January 4, 2012 *Motion to Establish Interim Compensation Procedure for Professionals Retained Pursuant to 11 U.S.C. § 327* (Dkt. No. 186). Generally, that Order permits, in relation to professionals employed pursuant to section 327 of the Bankruptcy Code, monthly compensation of 85% of fees and reimbursement of 100% of expenses, subject to certain notice and objection procedures, and fee applications and the Bankruptcy Court's Orders related to same. The Trustee has been authorized to utilize the foregoing procedures as well pursuant to a May 15, 2012 motion (Dkt. No. 424) granted by Order dated June 4, 2012 (Dkt. No. 446).

I. PAYMENTS TO PROFESSIONALS EMPLOYED PURSUANT TO SECTION 327; PAYMENTS TO THE PREPETITION SECURED PARTIES' PROFESSIONALS

With regard to the professionals employed by the Trustee and the Committee pursuant to section 327 of the Bankruptcy Code and the Trustee, the Trustee has paid and reimbursed the following fees and costs through January 31, 2013 pursuant to the monthly compensation procedures and fee applications and their related Orders:

PROFESSIONAL/TRUSTEE	AGGREGATE AMOUNT PAID
Waller & Womack, P.C.	$10,768.17
Horowitz & Burnett, P.C.	$1,323,625.67
Katten & Temple, LLP	$0.00
Eide Bailly LLP	$44,260.20
Hein & Associates LLP	$0.00
Harper Hofer and Associates, LLC	$88,263.97
Kroll Ontrack Inc.	$0.00

MR Valuation Consulting LLC	$15,000.00
Dye & Moe, PLLP	$16,373.62
Lee A. Freeman, Trustee	$385,024.92

The Prepetition Secured Parties' professionals have also been subject to filing fee applications in the Chapter 11 Case. Through January 31, 2013, the Trustee has paid and reimbursed these professionals $1,009,040.94.

J. ADEQUATE ASSURANCE TO UTILITIES

On November 10, 2011, the Debtor filed a motion prohibiting utilities from altering, refusing or discontinuing service, approving the Debtor's proposed adequate assurance of payment for future utility services, and approving procedures for resolving requests for additional adequate assurance (Dkt. No. 47). On November 14, 2011, the Bankruptcy Court granted this motion on an interim basis (Dkt. No. 52).

Soon thereafter, PPL, NWE, and WAPA entered into stipulations with the Debtor (Dkt. Nos. 87, 89, and 97, respectively) to address specific concerns they each had under the utility motion and interim order granting same. The Bankruptcy Court approved each of these stipulations by Orders dated November 21, 2011 (Dkt. Nos. 90 (PPL) and 91 (NWE)) and November 22, 2011 (Dkt. No. 98 (WAPA)).

Following the Trustee's appointment, he entered into several related and approved stipulations:

CREDITOR	STIPULATION	STIPULATION ORDER
WAPA	12/19/2011; Dkt. No. 155	12/21/2011; Dkt. No. 166
PPL	12/19/2011; Dkt. No. 156	12/21/2011; Dkt. No. 164
NWE	12/20/2011; Dkt. No. 159	12/21/2011; Dkt. No. 165
PPL	12/23/2011; Dkt. No. 170	12/23/2011; Dkt. No. 173
WAPA	1/19/2012; Dkt. No. 211	1/23/2012; Dkt. No. 217
NWE	1/23/2012; Dkt. No. 218	1/23/2012; Dkt. No. 219
NWE	2/13/2012; Dkt. No. 260	2/13/2012; Dkt. No. 261
NWE	3/12/2012; Dkt. No. 309	3/13/2012; Dkt. No. 311
NWE	4/13/2012; Dkt. No. 376	4/16/2012; Dkt. No. 379[5]

[5] Regarding this last stipulation between the Trustee and NWE, the parties agreed that so long as the Debtor made timely payments, a deposit in the amount of $1,250,000 provides NWE adequate assurance of payments going forward. The parties further agreed in this stipulation that "[u]pon confirmation of a plan in this case and payment of NWE's final invoice for services during the pendency of this case, the deposit of $1,250,000.00 will be returned to Debtor."

K. USE OF CASH COLLATERAL

On November 17, 2011, the Debtor filed an emergency motion to use cash collateral and provide adequate protection (Dkt. No. 76). On November 21, 2011, the Debtor and the Prepetition Secured Parties entered into a stipulation for, among other things, interim use of cash collateral (Dkt. No. 92), which the Bankruptcy Court approved by Order dated November 22, 2011 (Dkt. No. 94).

The Trustee and the Prepetition Secured Parties entered into additional stipulations/agreed orders for interim use of cash collateral: (i) stipulation filed December 19, 2011 (Dkt. Nos. 157 and 158), approved by Order dated December 21, 2011 (Dkt. No. 167); (ii) stipulation filed January 23, 2012 (Dkt. No. 220), approved by Order dated January 24, 2012 (Dkt. No. 222); (iii) stipulation filed February 10, 2012 (Dkt. No. 256), approved by Order dated February 13, 2012 (Dkt. No. 258); and (iv) agreed order filed March 12, 2012 (Dkt. No. 308), approved by Order dated March 13, 2012 (Dkt. No. 314), as amended pursuant to the Trustee's April 13 and 17, 2012 motions to amend (Dkt. Nos. 373 and 380) and the April 13 and 19, 2012 Orders granting the motions (Dkt. Nos. 375 and 393).

After several amendments, on April 23, 2012, the Trustee filed a final proposed cash collateral order (Dkt. No. 403), which the Bankruptcy Court approved by Order dated May 1, 2012 (Dkt. No. 413). This Order, among other things, provided for use of cash collateral until October 31, 2012. The October 31st deadline has been extended to January 31, 2013 (Dkt. Nos. 564, 565, and 582). Another motion is pending to extend the deadline to April 30, 2013 (Dkt. No. 662).

L. LIMITING NOTICE

On January 11, 2012, the Trustee moved to limit notice in the Bankruptcy Case (Dkt. No. 197), which the Bankruptcy Court granted by Order dated January 31, 2012 (Dkt. No. 235).

M. ASSUMPTION/ REJECTION OF EXECUTORY CONTRACTS

1. The Lease and the Sublease

On February 20, 2008, the Debtor and an affiliate of Electric Consultants, Inc. ("**ECI**"), Tech Properties Development, LLC, entered into the *Office Lease Agreement*, leasing non-residential real property located at 3521 Gabel Road, Billings, MT as the Debtor's headquarters for some 10 years.

Postpetition, the Trustee and ECI entered into that certain *Office Sublease Agreement*, dated December 30, 2011. Also on December 30, 2011, the Trustee and ECI filed a stipulation with the Bankruptcy Court (Dkt. No. 182), seeking approval of the sublease. In the stipulation, the Trustee and ECI agree that the sublease is a substitute for the lease, replacing it with the

sublease. Generally, the sublease provides for the Debtor's relocation of its headquarters to 7250 Entryway Drive, Billings, MT for a shorter term (about 15 months, plus some options vs. about seven remaining years under the lease), at a cheaper monthly rent.

On January 25, 2012, the Trustee moved to assume the sublease (Dkt. No. 223), which the Bankruptcy Court granted by Order dated February 14, 2012 (Dkt. No. 264).

2. The PPL Stipulation and Its Claim

The Debtor and PPL were parties to a *Power Purchase and Sales Agreement*, dated September 17, 2004. On March 26, 2012, the Trustee and PPL stipulated, among other things, to the rejection of this contract pursuant to section 365(a) of the Bankruptcy Code (Dkt. No. 343). The Bankruptcy Court approved this stipulation by Order dated March 27, 2012 (Dkt. No. 346). On July 13, 2013, PPL filed Proof of Claim No. 50 in the amount of $374,863,708.19, about $353.8 million of which is for purported rejection damages.

3. The Pitney Bowes Lease

On or about September 29, 2008, the Debtor entered into a lease with Pitney Bowes Global Financial Services LLC pursuant to which the Debtor leased certain postage meter equipment for 63 months with $283 due every quarter until expiration of the lease.

On March 26, 2012, the Trustee moved to reject this lease (Dkt. No. 342), which the Bankruptcy Court granted by Order dated April 13, 2012 (Dkt. No. 371).

4. The NWE Energy Stipulation

The Debtor and NWE were parties to Natural Gas Intrastate Transportation Service Agreement, dated December 29, 2010. The Debtor had provided a prepetition deposit to NWE of $336,800 in connection with this agreement. On May 31, 2012, the Trustee and NWE stipulated to the rejection of the agreement and the offset and recoupment of a portion of its damages by NWE keeping the deposit (Dkt. No. 443), which the Bankruptcy Court approved by Order dated June 1, 2012 (Dkt. No. 444).

N. The YVEC Motions

1. Determination that Automatic Stay Does Not Apply

On January 30, 2012, YVEC moved the Bankruptcy Court for a determination that a proposed recoupment does not violation section 362 of the Bankruptcy Code (Dkt No. 230). More specifically, YVEC argued that was entitled to the recoupment of sums from future bills for power that YVEC owed to the Debtor because the recoupment is part of the same

transaction as the amount YVEC will pay to BPA, as a guarantor of the Debtor's obligations, for power acquired and supplied by the Debtor to YVEC. YVEC proposed that it exercise its recoupment rights by reducing its power bill owed to the Debtor by the amount YVEC is being forced to pay to BPA – $564,102.64.

On February 17, 2012, the Bankruptcy Court granted YVEC's motion and also approved a related February 6, 2012 stipulation (Dkt. No. 241) wherein YVEC agreed to delay exercising its right to recoupment until the due date for payment to the Debtor of YVEC's April 2012 monthly power bill (Dkt. No. 272).

2. Relief from Stay/Abstention

On February 17 and 21, 2012, YVEC moved the Bankruptcy Court to abstain from hearing any issues or proceedings concerning the YVEC State Court Litigation and for relief from stay to continue that litigation (Dkt. Nos. 274 and 278). On May 15, 2012, the Bankruptcy Court denied the motion (Dkt. No. 422). YVEC has appealed this Order (Dkt. No. 433), and the appeal remains pending before the United States District Court for the District of Montana.

O. Ordinary Course Professionals

On March 22, 2012, the Trustee filed the *Amended Motion by Trustee for Authority to Employ and Compensate Professionals for Specific Services Rendered in the Ordinary Course of Business* (Dkt. No. 335), which the Bankruptcy Court granted by Order dated April 25, 2012 (Dkt. No. 406). Generally, this Order permits the Trustee to retain and compensate certain professionals in the ordinary course of business without Bankruptcy Court approval of their employment or their compensation. Ordinary course professionals within the confines of this process include (i) ACES Power Marketing; (ii) Anderson-Montgomery Consulting Engineers; (iii) Atkins; (iv) Bison Engineering, Inc.; (v) Covington & Burling LLP; (vi) Proven Compliance Solutions, Inc.; (vii) Ugrin, Alexander, Zadick & Higgins; (viii) Marra, Sexe, Evenson & Bell, P.C.; (ix) Lotus Group USA, Inc.; and (x) The Energy Corporation.

P. The Adversary Proceedings

1. The Beartooth Adversary Proceeding

On April 13, 2012, Beartooth commenced an adversary proceeding against the Debtor, bearing Adv. No. 12-00017 (Dkt. No. 374), asserting five alleged declaratory judgment claims.

On June 7, 2012, the Trustee moved to dismiss all of the complaint's claims (Adv. Dkt. No. 8), which the Bankruptcy Court granted in part by Order dated December 20, 2012 (Adv. Dkt. No. 16), dismissing the second, fourth, and fifth claims. The remaining first claim requests a declaration that Beartooth's 2008 all requirements contract is void (Beartooth does not seek any relief with respect to the all requirements contract that it executed in 2007), and the

remaining third claim requests a declaration that the pledge of Beartooth's all requirements contract as collateral to the Prepetition Secured Parties is void.

On January 3, 2013, the Trustee answered the complaint (Adv. Dkt. No. 18).

On January 6, 2013, the Bankruptcy Court entered on Order setting a pretrial scheduling conference for March 6, 2013 (Adv. Dkt. No. 20).

On February 12, 2013, Fergus, Mid-Yellowstone, and Tongue River moved to intervene as party defendants in this action (Adv. Dkt. No. 21), which motion remains pending.

2. The City Adversary Proceeding

On July 17, 2012, the City commenced an adversary proceeding against the Debtor, bearing Adv. No. 12-00035 (Dkt. No. 495), asserting 10 alleged declaratory judgment claims. Generally, like its prepetition litigation against the Debtor, the City seeks to relieve itself of its responsibilities under its all requirements contract with the Debtor. The Debtor also seeks to void a water services agreement, pursuant to which the City agreed to provide water for HGS (ultimately developed as a gas-fired generation facility). The Debtor has asserted 21 enumerated defenses to the City's claims.

On September 24, 2012, the Trustee answered the complaint and counterclaimed against the City, requesting seven declarations, specific performance, and injunctive relief, and asserting three breach of contract claims including bad faith (Adv. Dkt. No. 10). The Trustee's breach of contract claims concern the all requirements contract with Great Falls, the water services agreement, and an October 22, 2004 agreement pursuant to which the Debtor agreed to reduce its initial rates and accept a credit from the City against anticipated future raw water purchases by the Debtor (equal to $1,186,061.83). The City has asserted 18 enumerated defenses to the Trustee's claims.

On January 9, 2012, the Bankruptcy Court held a pretrial scheduling conference and set a variety of pretrial deadlines as well as a 10-day trial commencing February 24, 2014 (Adv. Dkt. No. 22).

The Trustee and the City have tried to settle the adversary proceeding, including participating in two mediations before the Honorable Justice James Regnier on August 1, 2012 and November 13, 2012. These efforts have yet to result in any settlement.

Q. CLAIMS PROCESS AND BAR DATE

On November 4, 2011, the Debtor filed the Schedules and SOFA; they reflect all of the Debtor's known assets and liabilities at the time of preparation based on the books and records available at that time.

On May 14, 2012, the Trustee moved to set a deadline for creditors to file proofs of claim (Dkt. No. 420). On May 15, 2012, the Bankruptcy Court granted this motion (Dkt. Nos. 425 and 426), establishing July 16, 2012 as the deadline (the "**Bar Date**") for filing proofs of claim against the Debtor. On May 22, 2012, the Trustee served written notices of the Bar Date to all known creditors (Dkt. No. 432-3) and appropriately published notice of the Bar Date (Dkt. No. 483). The time within which to file claims against the Debtor has expired.

Seventy proofs of claim asserting claims against the Debtor had been filed with the Bankruptcy Court. A schedule of Claims by Class is attached as **Exhibit 2** hereto.[6]

R. THE PLAN PROCESS

Pursuant to section 1121 of the Bankruptcy Code, only a debtor may file a plan of reorganization during the 120-day period following the commencement of a Chapter 11 case. If a debtor files a plan of reorganization during such time, the debtor will have an additional 60 days to solicit acceptances of its plan, during which time no other party in interest may file a plan. Pursuant to section 1121(c)(1) of the Bankruptcy Code, however, the appointment of the Trustee terminated these exclusivity periods.

1. Reorganization Proposals and Choosing One

On June 15, 2012, the Trustee filed the *Motion by Trustee to Establish Procedure for Submission of Reorganization Proposals* (the "**RFP Motion**"; Dkt. No. 458), pursuant to which he requested that the Bankruptcy Court set September 17, 2012 as the deadline for interested parties to submit to him reorganization proposals in writing and in compliance with the conditions set forth in a *Request for Proposals* form. The Trustee would then share the proposals with certain parties and use his best efforts, through October 15, 2012, to negotiate and/or discuss the qualified proposals, following which the Trustee could select one or more proposals to form as the basis of a plan of reorganization. On July 3, 2012, the Court granted the RFP Motion (Dkt. No. 473).

Thereafter, the Trustee solicited proposals from interested parties and received several by the September 17, 2012 deadline.

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[6] This Exhibit is intended to be used for information purposes only and shall not in any way be deemed an admission as to the validity or Allowed amount of any Claim or as a waiver of any objection thereto.

On October 2, 2012, the Trustee moved to extend the October 15, 2012 deadline to select a proposal to form as the basis for his plan of reorganization to November 16, 2012 (Dkt. No. 556). The Bankruptcy Court granted this motion by Order dated October 22, 2012 (Dkt. No. 573). On October 26, 2012, the Trustee filed a motion to extend the November 16, 2012 deadline to December 14, 2012 as the result of, among other reasons, needing more time to thoroughly vet all of the received proposals with the various constituents in this case, as well as consider other reorganization scenarios (Dkt. No. 577). The Bankruptcy Court granted this motion by Order dated November 14, 2012 (Dkt. No. 586).

On December 14, 2012, the Trustee filed a notice of his selection of the proposals received (Dkt. No. 615), advising:

> The Trustee intends to file a plan of reorganization pursuant to which Southern will be reorganized and will emerge from Chapter 11 as an ongoing business entity.
>
> Under the Trustee's plan of reorganization, Southern will retain ownership of Highwood Generating Station and the Wholesale Power Contracts between Southern and its members will be assumed pursuant to 11 U.S.C §§ 365 and 1123, unless other satisfactory arrangements are agreed to by the Trustee and any of the members and approved by the Court.
>
> Also, under the Trustee's plan of reorganization, Southern will enter into a long-term power purchase agreement with one of three entities: Morgan Stanley Capital Group, Inc. ("**MSCGI**"), Shell Energy North America (US), L.P. ("**Shell Energy**"), or PPL EnergyPlus, LLC ("**PPL**"). To date, MSCGI, Shell Energy, and PPL have submitted only indicative pricing under proposed long-term power purchase agreements with Southern. The Trustee cannot and will not make a final decision regarding the counterparty to a long-term power purchase agreement with Southern until he receives from MSCGI, Shell Energy, and PPL firm pricing, the terms under which such firm pricing would be either fixed or adjusted between the date of the filing of his plan of reorganization for Southern and the date of the confirmation of such plan, and all of the other material terms and conditions of a proposed long-term power purchase agreement. After the Trustee has received such information and has negotiated the final terms of a proposed power purchase agreement, the Trustee will select either MSCGI, Shell Energy, or PPL as the long-term power provider for Southern.
>
> Finally, under the Trustee's plan of reorganization for Southern, the *Contract for Firm Electric Service to Southern Montana Electric Generation and Transmission Cooperative, Inc.* between Southern and the Western Area Power Administration

("**Western**") will be assumed or assumed as modified, subject to Western's consent, unless other satisfactory arrangements are agreed to by the Trustee and Western and, possibly, one or more of Southern's members, and approved by the Court.

2. Fixing Date to File Plans and Disclosure Statements and Establishing Related Requirements

On November 5, 2012, the Trustee filed a motion for entry of an Order fixing February 15, 2013 as the date for the Trustee and all other interested parties with standing to file plans of reorganization and disclosure statements in this case and establishing related requirements (Dkt. No. 585). This motion drew objections from the City, YVEC, and Beartooth (respectively, Dkt. Nos. 592, 593, and 594).

On December 19, 2012, the Bankruptcy Court granted the motion in part and ordered the Trustee, and no other interested parties, to file a disclosure statement and Chapter 11 plan by February 15, 2013 (Dkt. No. 620).

S. THE PPL ADMINISTRATIVE EXPENSE CLAIM

On July 13, 2012, PPL filed its *Application of PPL EnergyPlus, LLC for Allowance and Payment of Administrative Claim Pursuant to 11 U.S.C. § 503(b)(9)* (Dkt. No. 490), seeking allowance of a $2,492,412 administrative expense pursuant to section 503(b)(9) of the Bankruptcy Code.

On August 6, 2012, the Bankruptcy Court entered its *Order Granting Application of PPL EnergyPlus, LLC for Allowance and Payment of Administrative Claim Pursuant to 11 U.S.C. § 503(b)(9)* (the "**Administrative Expense Order**") (Dkt. No. 499), allowing PPL an "administrative expense claim pursuant to 11 U.S.C. § 503(b)(9) in the amount of $2,492,412.00."

On August 9, 2012, the Trustee, the Committee, and the Prepetition Secured Parties jointly moved to vacate the Administrative Expense Order (Dkt. No. 503). PPL opposed the motion (Dkt. No. 511).

The Bankruptcy Court ultimately denied the motion to vacate by Order dated January 8, 2013 (Dkt. No. 635). On January 18, 2013, the Trustee, the Committee, and the Prepetition Secured Parties moved for reconsideration of this Order (Dkt. No. 651). PPL objected to the motion (Dkt. No. 673), and the motion is set for hearing on February 26, 2013.

T. THE YVEC SETTLEMENT

On January 18, 2013, the Trustee moved the Bankruptcy Court to approve a comprehensive settlement agreement with YVEC (Dkt. No. 652) intended to resolve the YVEC State Court Litigation, the pending appeal of the Bankruptcy Court's order denying YVEC's motion to the Bankruptcy Court to abstain from hearing any issues or proceedings concerning the YVEC State Court Litigation and for relief from stay, and YVEC's Proof of Claim No. 66 in the Debtor's bankruptcy case in the amount of $7,276,470.05, plus certain alleged undetermined amounts. Generally, this settlement proposes that YVEC will pay the bankruptcy estate $2,500,000; YVEC will release the Debtor; the Debtor will release YVEC; YVEC will withdraw its Proof of Claim with prejudice and YVEC will not file any other claim; YVEC will cease to be a member of the Debtor, a creditor of the Debtor, or a party in interest in this bankruptcy case; the appeal will be dismissed with prejudice; the State Court Litigation will be dismissed with prejudice; the YVEC all requirements contract with the Debtor will be terminated effective April 30, 2013; and the power contract with WAPA will be partially assumed and assigned to YVEC (9 MW of the 20 MW; the partial assumption and assignment is subject to the approval of WAPA's Administrator). The motion has been set for hearing on March 26, 2013.

U. THE TRUSTEE'S REPORT

On January 3, 2012, the Trustee applied to retain Nancy Temple and the law firm Katten & Temple, LLP in the capacity of his investigation counsel in order to fulfill his fiduciary duties pursuant to, *inter alia*, sections 1106(a)(3) (investigate) and (4) (statement) of the Bankruptcy Code. Ms. Temple has submitted drafts of the report regarding the results of her investigation to the Trustee but has not finalized her report. The Trustee has not yet completed and filed his statement under section 1106(a)(4) of the Bankruptcy Code.

V. POSTPETITION OPERATIONS

The Debtor's monthly operating reports are on file with the Bankruptcy Court, are available for inspection, and are incorporated herein by reference.

In terms of employees, the Debtor has eight employees: two at the Debtor's operations office in Billings (power scheduler/engineer and accountant) and six employees at HGS (two operators, an electronics, instrumentation and controls technician, an administrative assistant, and two night watchmen). Currently, the services of the plant superintendent are being contracted out to an outside company. All benefits and employee policies as described above in the prepetition section remain in place.

V. THE CHAPTER 11 PLAN

The Plan is attached as **Exhibit1** hereto and forms a part of this Disclosure Statement. Statements as to the rationale underlying the treatment of Claims and Member Interests under the Plan and the description of the Debtor's business and financial affairs are not intended to, and shall not, waive, compromise or limit any rights, claims or causes of action or bind any persons in the event the Plan is not confirmed.

A. CONSIDERATIONS REGARDING THE PLAN

The primary focus of the Chapter 11 Case to date has been, first, to stabilize the Debtor's business operations and improve its cash position. At the Petition Date, the Debtor had approximately $76,000 in cash and, even with the cooperation of the Prepetition Secured Parties with respect to cash collateral issues, was dangerously close to running out of cash. By rejecting the PPL contract and buying power at prevailing market prices, the Trustee, during 2012, was able to accumulate cash reserves totaling in excess of $5 million, even after making adequate protection payments to the Prepetition Secured Parties in the amount of approximately $1,041,000 per month since April 2012 and remaining current on the payment of administrative expenses. After stabilizing the Debtor's business operations and cash position, the Trustee sought Court-approval of the Request for Proposals process described above. After reviewing the responses to the Request for Proposals and negotiating with the respondents, the Trustee filed the notice of his selection of plan proposal and advised parties in interest of the basic provisions of the plan of reorganization that he intended to file for the Debtor. Although, at present, the Trustee has not yet reached a complete consensus among all parties in interest regarding the terms of the Plan, it is the Trustee's intent to continue to negotiate with and mediate between and among all parties in interest hoping formulate a plan to which all parties in interest consent.

The cornerstones of the Plan are the Reorganized Southern PSA that will replace the Debtor's prepetition contract with PPL, the Debtor's continued ownership of HGS, and the paydown of the HGS debt on restructured terms that will allow the Debtor to charge its members reasonable rates for power, energy, and transmission services.

B. CLASSIFICATION AND TREATMENT OF CLAIMS AND MEMBER INTERESTS

See the detailed summary of the classification and treatment of classified and unclassified Claims at section II (A) of this Disclosure Statement.

C. IMPLEMENTATION OF THE PLAN

1. Continuation of Operations

Following the Effective Date, Reorganized Southern shall continue its present business and shall continue to operate as Reorganized Southern and the Members shall continue to be

Members of Reorganized Southern. The only Members of Reorganized Southern as of the Effective Date shall be the Members. The Debtor will continue to operate as a G & T cooperative, providing electric power, energy, and transmission services to its remaining members through the Reorganized Southern PSA that replaces the PPL contract as well as the WAPA contract as assumed and modified. Transmission services will continue to be provided through the pre-petition arrangement with NWE. The Debtor will continue to own HGS, maintain it in a ready-to-operate condition, and dispatch HGS if and when it makes economic sense to do so.

2. Implementation

Reorganized Southern shall be authorized to take all necessary steps, and perform all necessary acts, to consummate the terms and conditions of the Plan.

3. Corporate Governance

Upon the Effective Date, the Debtor's Articles of Incorporation and Bylaws and any related corporate governance agreements shall be deemed amended and restated and shall contain such provisions as are necessary to satisfy and carry out the terms of the Plan. Reorganized Southern shall continue to exist after the Effective Date, with all the powers available to such legal entity, in accordance with applicable law.

4. Management

Upon the occurrence of the Effective Date, Reorganized Southern will be managed by substantially the same personnel that managed and operated the Debtor prior to the Confirmation Date.

5. Board of Trustees

On the Effective Date, the board of trustees of Reorganized Southern shall be comprised of the individuals who currently hold such positions on behalf of the Members.

6. Power Supply Agreement

Reorganized Southern shall enter into a 10 year power supply agreement. The power supply agreement or a term sheet that will form the basis of such contract is attached to the Plan as "**Exhibit A**." Pending the entry of a protective order and the establishment of other measures to protect confidential and proprietary information from disclosure, all confidential and proprietary information in Exhibit A has been redacted. To review the standard WSPP Agreement, parties are referred to the following link: http://www.wspp.org/current_effective_agreement.php.

7. Modification of All Requirements Contracts

The Members' All Requirements Contracts shall be assumed by Reorganized Southern.

8. Modification of WAPA Contract

Upon the Effective Date, the WAPA Contract shall be assumed by Reorganized Southern on a modified basis and shall contain modified terms and conditions as may be agreed to by WAPA and the Trustee. Except as modified, all other terms and conditions of the WAPA Contract shall remain in force. Upon the Effective Date, Reorganized Southern shall enter into and execute the modified WAPA Contract.

9. Making of Distributions

Reorganized Southern shall make the distributions required to be made in respect of the Allowed Claims under the Plan, or as may otherwise be required by the Plan.

D. PLAN PROVISIONS GOVERNING DISTRIBUTIONS

1. Delivery of Distributions

Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth on the Schedules filed with the Bankruptcy Court or on the books and records of the Debtor or its agents, as applicable, unless the Debtor or, after the Effective Date Reorganized Southern, have been notified in writing of a change of address, including, without limitation, by the filing of a proof of Claim by such holder that contains an address for such holder different than the address of such holder as set forth on the Schedules. Payment shall be made to the holder of the Allowed Claim and unless the holder of such Allowed Claim has directed Reorganized Southern, in writing, to make payment to a third party (including through the filing of a proof of Claim instructing that payment be made to a third party thereon). A holder of an Allowed Claim shall not receive a distribution under this Plan unless it provides Reorganized Sothern a tax identification number.

2. Undeliverable Distributions

a. *Holding of Undeliverable Distributions*

If any distribution to any holder is returned to Reorganized Southern as undeliverable, no further distributions shall be made to such holder unless and until Reorganized Southern is notified, in writing, of such holder's then-current address. Undeliverable distributions shall remain in the possession of Reorganized Southern until such time as a distribution becomes deliverable. All entities ultimately receiving undeliverable Cash shall not be entitled to any interest or other accruals of any kind. Nothing contained in the Plan requires Reorganized Southern to attempt to locate any holder of an Allowed Claim.

b. *Failure to Claim Undeliverable Distributions*

On or about the six month anniversary of the Effective Date, Reorganized Southern shall file a list with the Bankruptcy Court setting forth the names of those entities for which distributions have been made hereunder and have been returned as undeliverable as of the date thereof. Any holder of an Allowed Claim that does not assert its rights pursuant to the Plan to receive a distribution within one year from and after the Effective Date shall have its entitlement to such undeliverable distribution discharged and shall be forever barred from asserting any entitlement pursuant to the Plan against Reorganized Southern or the property of Reorganized Southern. In such case, any consideration held for distribution on account of such Claim shall revert to Reorganized Southern.

c. *Time Bar to Cash Payment Rights*

Checks issued in respect of Allowed Claims shall be null and void if not negotiated within 90 days after the date of issuance thereof. Requests for reissuance of any check shall be made to Reorganized Southern by the holder of the Allowed Claim to whom such check originally was issued. Any claim in respect of such a voided check shall be made on or before 90 days after the expiration of the 90 day period following the date of issuance of such check. Thereafter, the amount represented by such voided check shall irrevocably revert to Reorganized Southern and any Claim in respect of such voided check shall be discharged and forever barred from assertion against Reorganized Southern and its property.

d. *Manner of Payment under the Plan*

Any Plan distribution to be made in Cash under the Plan shall be made, at the election of Reorganized Southern, by check drawn on a domestic bank or by wire transfer from a domestic bank. Cash payments to foreign creditors may be made, at the option of Reorganized Southern, in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

e. *Maximum Distribution*

In no event shall any holder of any Allowed Claim receive distributions under the Plan in excess of the Allowed amount of such Claim.

E. PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

1. Objections to Claims; Prosecution of Disputed Claims

After the Effective Date, objections to Claims may be made and objections made previous thereto may be pursued only by Reorganized Southern unless otherwise ordered by the Bankruptcy Court. Unless otherwise ordered by the Bankruptcy Court, Reorganized Southern shall file and serve all objections to Claims as soon as practicable, but, in each instance, not later than 90 days following the Effective Date or such later date as may be approved by the Bankruptcy Court.

2. Allowance of Disputed Claims

At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, Reorganized Southern shall distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Plan. Such distribution, if any, shall be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Disputed Claim becomes a Final Order but in no event more than 60 days thereafter.

3. Settlement of Objections to Claims After Effective Date

From and after the Effective Date, Reorganized Southern may litigate to judgment, propose settlements of, or withdraw objections to, all pending or filed Disputed Claims, and Reorganized Southern may settle or compromise any Disputed Claim without notice and a hearing and without approval of the Bankruptcy Court.

F. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

1. Assumption and Assignment of Executory Contracts and Unexpired Leases

On the Effective Date, and except as otherwise provided by the Plan, the Trustee shall assume and assign to Reorganized Southern all executory contracts and unexpired leases specifically designated on Exhibit "B" of the Plan.

2. Rejection of Executory Contracts and Unexpired Leases

All executory contracts and unexpired leases that exist between the Debtor or the Estate and any person or entity shall be deemed rejected as of the Effective Date, except for any executory contract or unexpired lease (i) that has been assumed pursuant to an order of the Bankruptcy Court entered prior to the Effective Date and for which the motion was filed prior to the Confirmation Date, (ii) as to which a motion for approval of the assumption or rejection of such executory contract or unexpired lease has been filed prior to the Confirmation Date, or (iii) that is specifically designated on Exhibit B to the Plan; provided, however, that the Trustee

reserves the right, on or prior to the Confirmation Date, to amend the Plan to delete any executory contract or unexpired lease from Exhibit B or add any executory contract or unexpired lease to Exhibit B, in which event such executory contract(s) or unexpired lease(s) shall be deemed to be, respectively, rejected or assumed; provided further, however, that the respective party or parties to such executory contract(s) shall be given notice of such amendment and shall be provided an opportunity to object to such amendment.

3. Insurance Policies

To the extent that any of the Estate's or Debtor's insurance policies and any agreements, documents, or instruments relating thereto constitute executory contracts, such contracts shall be deemed rejected under the Plan unless otherwise indicated on Exhibit B to the Plan.

4. Objections

Any party wishing to object to the assumption or assumption and assignment of any executory contract or unexpired lease under the Plan must file an objection with the Bankruptcy Court and such dispute shall be resolved by the Bankruptcy Court. Any counterparty that does not object to the assumption or assumption and assignment of its executory contract or unexpired lease under this Plan shall be deemed to have consented to such assumption or assumption and assignment and any Claim for Cure, for compensation, adequate assurance, adequate assurance of future performance, or other right, issue or claim under section 365 of the Bankruptcy Code, shall be deemed fully satisfied, released and discharged.

G. Effectiveness of the Plan

1. Conditions Precedent to the Confirmation of this Plan

The following are conditions precedent to the Confirmation of this Plan:

a. *Disclosure Statement Order*

The Bankruptcy Court shall have entered the Disclosure Statement Order, approving the Disclosure Statement as containing adequate information pursuant to section 1125 of the Bankruptcy Code and authorizing the solicitation of votes with respect to this Plan. The Disclosure Statement Order shall be a Final Order.

b. *Confirmation Order*

The Bankruptcy Court shall have entered a Confirmation Order (i) determining that all votes are binding and have been properly tabulated as acceptances or rejections of the Plan; (ii) confirming and giving effect to the terms and provisions of the Plan; (iii) determining that all applicable tests, standards and burdens in connection with the Plan have been duly satisfied and met; (iv) authorizing Reorganized Southern to execute, implement and take all actions otherwise

necessary or appropriate to give effect to the transactions contemplated by the Plan; and (v) determining that the compromises and settlements set forth in any settlement agreement and the Plan are appropriate, reasonable and approved and satisfy applicable standards under sections 365, 1123(b)(3) and 1129 of the Bankruptcy Code and Bankruptcy Rule 9019.

2. Conditions Precedent to the Effective Date of the Plan

The following are conditions precedent to the Effective Date of the Plan: (i) no stay of the Confirmation Order shall then be in effect and the Confirmation Order shall be a Final Order; (ii) all authorizations, consents, and approvals determined by the Trustee to be necessary to implement to terms of the Plan shall have been obtained; and (iii) no request for revocation of the Confirmation Order under section 1141 of the Bankruptcy Code shall have been made and granted or pending.

3. Effect of Non-Occurrence of the Effective Date

If the Effective Date does not occur, the Plan shall be null and void and nothing contained in the Plan shall: (i) constitute a waiver or release of any Claims against or Interests in Debtor; (ii) prejudice in any manner the rights of the Trustee; or (iii) constitute an admission, acknowledgement, offer or undertaking of any manner by the Trustee.

H. Other Plan Provisions

1. Binding Effect

Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code, and to the fullest extent permitted by section 1141 of the Bankruptcy Code, on and after the Confirmation Date, the provisions of the Plan shall bind any holder of a Claim against, or Interest in, the Debtor or the Estate and their respective successors and assigns, whether or not the Claim or Interest of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

2. Discharge of Claims

Upon the Effective Date, except as otherwise expressly provided in the Plan, each holder (as well as any trustees and agents on behalf of each holder) of a Claim or Interest and any Affiliate of such holder shall be deemed to have forever waived, released, and discharged Reorganized Southern, to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all Claims, Causes of Action, Interests, rights, and liabilities that arose prior to the Confirmation Date and, upon the Effective Date, all such persons shall be forever precluded and enjoined, pursuant to section 524 of the Bankruptcy Code, from prosecuting any Causes of Action or asserting any such discharged Claim against or Interest in the Debtor or Reorganized Southern.

3. Exculpation and Release of Trustee

Subject to the occurrence of the Effective Date, the Confirmation Order shall constitute a release, discharge and forgiveness of all claims, demands, or Causes of Action which the Debtor, the Estate, Committee or Reorganized Southern holds or is entitled to prosecute on behalf of any other party against the Trustee, his agents, attorneys or other professionals and all of their respective shareholders, managers, members, officers, employees, agents, advisors, consultants, successors and assigns. This release shall cover all claims and Causes of Action, derivative or otherwise, which may be brought in the name of, on behalf of, or in the right of the Debtor, the Estate, Committee, Reorganized Southern or the Trustee. The Trustee and any professionals, including, without limitation, attorneys, retained by the Trustee and all of their respective shareholders, managers, members, officers, employees, agents, advisors, consultants, successors and assigns shall not have or incur any liability to any person for any Cause of Action or any act taken or omission, after the Petition Date, in connection with or related to the Chapter 11 Case or the operations of the Debtor's business during the Chapter 11 Case, including but not limited to (i) formulating, preparing, disseminating, implementing, confirming, consummating or administrating the Plan (including soliciting acceptances or rejections thereof); (ii) the Disclosure Statement or any contract, instrument, release or other agreement or document entered into or any action taken or omitted to be taken in connection with the Plan; or (iii) any distributions made pursuant to the Plan, except for acts constituting willful misconduct or gross negligence, and in all respects such parties shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

4. Retention of Causes of Action/Reservation of Rights

Except as expressly provided in the Plan, Reorganized Southern shall retain, and nothing contained in the Plan or the Confirmation Order shall be deemed to be a waiver or the relinquishment of, any rights and Causes of Action that the Debtor, Trustee, Committee or the Estate may have under any provision of the Bankruptcy Code or any applicable nonbankruptcy law, including, without limitation, (i) all Causes of Action and Avoidance Actions; (ii) the Great Falls Litigation; (iii) the Beartooth Litigation; (iv) any and all Claims against any person or entity, to the extent such person or entity asserts a crossclaim, counterclaim, and/or Claim for setoff, recoupment or which seeks any affirmative relief, in any form or manner whatsoever, against the Debtor or the Estate, and their respective officers, directors, or representatives and (iv) the turnover of any property of the Debtor's Estate. **No person or entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against them as any indication that the Trustee or Reorganized Southern will not pursue any and all available Causes of Action against them. The Trustee, the Estate and Reorganized Southern, as applicable, expressly reserve all rights to prosecute any and all Causes of Action against any person or entity.**

5. Injunction

All persons or entities who have held, hold, or may hold Claims against or Interests in the Debtor or the Estate and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, are permanently enjoined, on and after the Effective Date, with respect to Claims released under the Plan and all Claims and Interests against the Debtor or the Estate, from (i) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding of any kind (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against or affecting the Debtor, the Estate, Reorganized Southern, or their property; (ii) enforcing, levying attaching (including, without limitation, any prejudgment attachment), collecting, or otherwise recovering by any manner or means, whether directly or indirectly, any judgment, award, decree, or order against the Debtor, the Estate, Reorganized Southern, or their property; (iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any encumbrance of any kind against the Debtor, the Estate, Reorganized Southern, or their property; (iv) asserting any right of setoff or recoupment, directly or indirectly, against any obligation due the Debtor, the Estate, Reorganized Southern or any of their property, except as contemplated or allowed by the Plan; (v) acting or proceeding in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan; (vi) commencing, continuing or asserting in any manner any action or other proceeding of any kind with respect to any Claims and Causes of Action which are extinguished or released pursuant to the Plan; and (vii) taking any actions to interfere with the implementation or consummation of the Plan.

6. Jurisdiction of Bankruptcy Court

The Bankruptcy Court shall retain exclusive jurisdiction of all matters arising under, arising out of, or related to, the Chapter 11 Case and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for the specific purposes set forth in the Plan.

7. Modification of Plan

The Trustee reserves the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules to amend or modify the Plan at any time prior to the entry of the Confirmation Order. After the entry of the Confirmation Order, the Trustee may, upon order of the Bankruptcy Court, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan. A holder of an Allowed Claim or Interest that is deemed to have accepted this Plan shall be deemed to have accepted this Plan as modified if the proposed modification does not materially and adversely change the treatment of the Claim or Interest of such holder.

8. Withdrawal or Revocation

The Trustee may withdraw or revoke the Plan at any time prior to the Confirmation Date. If the Trustee revokes or withdraws the Plan prior to the Confirmation Date, or if the Confirmation Date does not occur, then the Plan shall be deemed null and void. In such event, nothing contained in this Disclosure Statement or the Plan shall be deemed to constitute a waiver or release of any Claim by or against the Debtor or the Estate or any other person or to prejudice in any manner the rights of the Trustee or any other person in any further proceedings involving the Debtor.

VI. CERTAIN FACTORS AFFECTING THE DEBTOR

A. Risk of Non-Confirmation of the Plan

Although the Trustee believes that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion or that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate resolicitation of votes.

B. Failure of Conditions Precedent to Confirmation of the Plan

The Plan provides for certain conditions that must be satisfied (or waived) prior to Confirmation of the Plan and for certain other conditions that must be satisfied (or waived) prior to the Effective Date. As of the date of this Disclosure Statement, there can be no assurance that any or all of the conditions in the Plan will be satisfied (or waived). Accordingly, there can be no assurance that the Plan will be confirmed by the Bankruptcy Court, and if the Plan is confirmed, there can be no assurance that the Plan will be consummated.

VII. CONFIRMATION OF THE PLAN

A. Requirements for Confirmation of the Plan

1. General Requirements of Section 1129

At the Confirmation Hearing, the Bankruptcy Court will determine whether the following confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied:

- The Plan complies with the applicable provisions of the Bankruptcy Code.
- The Trustee has complied with the applicable provisions of the Bankruptcy Code.
- The Plan has been proposed in good faith and not by any means proscribed by law.

- Any payment made or promised by the Trustee or by a person acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Case, or in connection with the Plan and incident to the Chapter 11 Case, has been disclosed to the Bankruptcy Court, and any such payment made before confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.

- The Trustee has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer, or voting trustee of the Debtor, or a successor to the Debtor under the Plan (and such is consistent with the interests of creditors and equity security holders and with public policy).

- Any governmental regulatory commission with jurisdiction, after confirmation of the applicable Plan, over the rates of the Debtor, as applicable, has approved any rate change provided for in the applicable Plan, or such rate change is expressly conditioned on such approval.

- With respect to each Class of Claims or Member Interests, each holder of an impaired Claim or impaired Member Interest either has accepted the Plan or will receive or retain under the Plan on account of such holder's Claim or Member Interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if the Debtor was liquidated on the Effective Date under Chapter 7 of the Bankruptcy Code. See discussion of "Best Interests Test" below.

- Except to the extent the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each Class of Claims or Member Interests has either accepted the Plan or is not impaired under the Plan.

- Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Administrative Expense Claims and Other Priority Claims, will be paid in full on the date such Claims become Allowed Claims, or as soon thereafter as practicable.

- Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor or any successor to the Debtor under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of "Feasibility Analysis" below.

- All fees payable under section 1930 of title 28, as determined by the Bankruptcy Court at the Confirmation Hearing, have been paid or the Plan provides for the payment of all such fees on the Effective Date of the Plan.

- The Debtor has not obligated itself to provide such benefits, if any for the continuation, after the Effective Date, of payment of all "retiree benefits" (as defined in section 1114 of the Bankruptcy Code).

2. Best Interests Tests

The "best interests of creditors" requires that, in order to be confirmed, a plan must be in the best interests of each holder of a claim or interest in an impaired class that has not voted to accept the plan. Accordingly, if an impaired class does not unanimously accept a plan, the best interests test requires that the bankruptcy court find that the plan provides to each non-consenting holder in such impaired class a recovery on account of such holder's claim or interest that has a value at least equal to the value of the distribution that each such holder would receive in a liquidation under Chapter 7 of the Bankruptcy Code.

After consideration of the effects that a Chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in this Chapter 11 Case, the Trustee has determined that confirmation of the Plan will provide each creditor and member interest holder with a recovery that is not less than it would receive pursuant to a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

3. Liquidation Analysis

A liquidation analysis is to enable each creditor to determine the recovery it would receive in the event the Debtor's bankruptcy case was liquidated pursuant to the provisions of Chapter 7 of the Bankruptcy Code. Each creditor may compare the results of a Chapter 7 liquidation with the treatment provided under the proposed Chapter 11 Plan and use that information to determine whether to accept or reject the Plan. To conduct such analysis, the first step is to determine the estimated amount that would be generated from the liquidation of the Debtor's assets in the context of a Chapter 7 liquidation case. The gross amount of cash available to holders of Claims would be the sum of the proceeds from the disposition of the Debtor's assets through the liquidation proceedings and the cash held by the Debtor at the time of the commencement of the Chapter 7 case. This gross amount of cash is then reduced by the amount of any Claims secured by the estate's assets, the costs and expenses of the liquidation, and additional administrative expenses that may result from the termination of the Debtor's businesses and the use of Chapter 7 for the purposes of liquidation. Any remaining net cash would be allocated to creditors in strict priority in accordance with section 726 of the Bankruptcy Code. Underlying the liquidation analysis are a number of estimates and assumptions regarding liquidation proceeds that, although considered reasonable by the Trustee, are inherently subject

to significant business, economic, and competitive uncertainties beyond the control of the Trustee. As explained below in the liquidation analysis, unsecured creditors are likely to receive no recovery in a Chapter 7 liquidation. As such, unsecured creditors are receiving a greater recovery under the proposed Plan than they would receive in a Chapter 7 liquidation.

The Trustee's liquidation analysis is attached as **Exhibit 3** hereto.

4. Feasibility

The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization. For purposes of determining whether the Plan meets this requirement, the Trustee has analyzed the Debtor's ability to meet its obligations under the Plan.

The Trustee believes that the Plan is feasible. The Debtor will be able to perform its obligations under the 10-year, all-requirements contract that replaces the pre-petition contract with PPL; it will pay off the debt to the Prepetition Secured Parties as restructured, and charge reasonable rates to the remaining members such that they would not attempt to extricate themselves from their wholesale power contracts with the Debtor in favor of more attractive power supply alternatives. The Trustee also believes that the bankruptcy estate will have enough cash to pay all Administrative Expense Claims, Professional Fee Claims, Priority Tax Claims, Fees due the United States Trustee, any DIP Financing Claim, Real Property Taxes and Prtiority Non-Tax Claims in full in cash on the Effective Date or as otherwise provided by the Plan and satisfy all other payment obligations under the Plan in accordance with and as required by the Plan.

B. Requirements of Section 1129(b) of the Bankruptcy Code

The Bankruptcy Code permits the Bankruptcy Court to confirm a Chapter 11 plan of reorganization over the dissent of any Class of Claims or Member Interests as long as the standards in section 1129(b) are met. This power to confirm a plan over dissenting classes – often referred to as "cram down" – is an important part of the reorganization process. It ensures that no single group (or multiple groups) of claims or interests can block a restructuring that otherwise meets the requirements of the Bankruptcy Code and is in the interests of the other constituents in the case.

The Bankruptcy Court may confirm the Plan over the rejection or deemed rejection of the Plan by a Class of Claims or Member Interests if the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such class. The Trustee believes that the Plan will satisfy both the "no unfair discrimination" requirement and the "fair and equitable" requirement should any impaired Class of Claims reject the Plan (these requirements only apply in the event an impaired Class of Claims votes to reject the Plan).

A plan is fair and equitable with respect to a class of secured claims that rejects the plan if the plan provides (1)(a) that the holders of claims included in the rejecting class retain the liens securing those claims whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and (b) that each holder of a claim of such class received on account of that claim deferred cash payments totaling at least the allowed amount of that claim, or a value, as of the effective date of the plan, of at least the value of the holder's interest in the estate's interest in such property; (2) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (1) or (2) of this paragraph; or (3) for the realization by such holders of the indubitable equivalent of such claims. Although holders of Claims in Classes 2(A), 2(B), 3 and 5 are impaired, the holders of Claims in such Classes are receiving treatment under the Plan that meets the requirements of section 1129(b)(1) and (2)(A) of the Bankruptcy Code. Therefore, the Debtor believes that the Plan is fair and equitable with respect to holders of such secured claims.

If the Class of General Unsecured Claims against the Debtor rejects the Plan, the Trustee submits that the Bankruptcy Court may still confirm the Plan because the Plan "does not discriminate unfairly." With respect to an objecting impaired class of unsecured creditors, the Bankruptcy Code's "unfair discrimination" requirement prohibits disparate treatment of similarly situated creditors absent a legitimate business or economic justification. In this case, the Plan does not violate the "unfair discrimination" prohibition as the only other classes of arguable equal priority to the Class of General Unsecured Claims under the Plan are the Convenience Claims Class, CFC, First Interstate Bank and Member Claims. Section 1122(b) of the Bankruptcy Code explicitly permits the creation of a convenience class, and convenience classes are common in bankruptcy plans. In addition, any holder of an Allowed General Unsecured Claim can elect to voluntarily reduce such Claim to $5,000 and be treated as the holder of an Allowed Convenience Claim. The Trustee believes that the CFC, First Interstate Bank and Member Claims are appropriately separately classified and provided different treatment under the Plan from the General Unsecured Claims under existing case law, given the legal character of the claims are not substantially similar to the General Unsecured Claims.

Also, if the Class of General Unsecured Claims against the Debtor rejects the Plan, the Trustee submits that the Bankruptcy Court may still confirm the Plan because it satisfies the "fair and equitable" requirement. With respect to an objecting impaired class of unsecured creditors, the "fair and equitable" requirement generally in a for-profit entity case requires that either (i) the allowed value of the claim be paid in full or (ii) no holder of any claim or interest that is junior to the rejecting unsecured class receive or retain under the plan any property on account of such junior claim or interest. This is commonly referred to as the "absolute priority rule." However, in this case, given the Debtor is a not-for-profit entity, the Trustee contends that existing case law supports that there can be no violation of the absolute priority rule even though

the Plan provides that the Member Interests and Member Claims are unimpaired, while the General Unsecured Claims are not receiving full payment under the Plan.

For the reasons described above, the Trustee believes that the proposed Plan is "fair and equitable," does not unfairly discriminate, and complies with section 1129(b) of the Bankruptcy Code.

VIII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

A. LIQUIDATION UNDER CHAPTER 7

If no plan is confirmed, the Chapter 11 Case may be converted to a case under Chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be elected or appointed to liquidate the Debtor's assets for distribution to creditors in accordance with the priorities set forth in the Bankruptcy Code. It is impossible to predict precisely how the proceeds of the liquidation would be distributed to the respective holders of Claims against or Member Interests in the Debtor. A discussion of the effects that a Chapter 7 liquidation would have on the recovery of holders of Claims and Member Interests and the Debtor's liquidation analysis are set forth above.

B. ALTERNATIVE PLAN OF REORGANIZATION

The Trustee believes that the Plan affords holders of Claims the potential for the greatest realization on the Debtor's assets under the circumstances, as described herein. If, however, the Plan is not confirmed and/or consummated, the theoretical alternatives include:

- formulation of an alternative plan or plans of reorganization by the Trustee or any other party in interest; or

- liquidation of the Debtor under Chapter 7 or Chapter 11 of the Bankruptcy Code.

IX. TAX CONSIDERATIONS

The treatment of Claims and Interests under the Plan may have important tax implications for creditors and Interest holders. The Trustee has not performed and will not perform any analysis of such tax implications. The tax effects must be determined separately by each creditor and Interest holder for themselves. Holders of Claims and Interests are urged to obtain advice from their own tax advisors regarding the application of federal and state tax laws. The Trustee makes no representations with respect to the tax implications of the Plan.

IRS Circular 230 Disclosure

To ensure compliance with IRS Circular 230, each holder of a Claim is hereby notified that: (a) any discussion of U.S. federal tax issues in this Disclosure Statement is not intended or written to be used, and cannot be used, by such holder for the purpose of avoiding penalties that may be imposed on such holder under the Internal Revenue Code; (b) any such discussion has been included by the Trustee as proponent of the transactions proposed in the Plan; and (c) each such holder should seek advice based on their particular circumstances from an independent tax advisor.

X. CONCLUSION

For all the reasons set forth in this Disclosure Statement, the Trustee believes that confirmation and consummation of the Plan is in the best interests of all creditors, and urges all holders of a Claim or Interests entitled to vote to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be received no later than [_____ ___, 2013].

Dated: February 15, 2013.

/s/ Joseph V. Womack
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Counsel for the Chapter 11 Trustee

CERTIFICATE OF SERVICE

I, the undersigned, certify under penalty of perjury that, in accordance with the Trustee's Limited Notice List, on February 15, 2013, or as soon as possible thereafter, copies of the foregoing were served electronically by the Court's ECF notice to all persons/entities requesting special notice or otherwise entitled to the same and that in addition service by mailing a true and correct copy, first class mail, postage prepaid, was made to the following persons/entities:

PPL EnergyPlus, LLC
2 North Ninth Street
Allentown, PA 18101

NorthWestern Energy
40 E. Broadway St.
Butte, MT 59701-9394

LS Jensen Construction
4685 Mullan Road
Missoula, MT 59808

Stanley Consultants
8000 S. Chester St.
Centennial, CO 80112

Electrical Consultants, Inc.
3521 Gabel Road, Ste. 2
Billings, MT 59102

Corval Group
1633 Eustis Street
Saint Paul, MN 55108

Falls Construction Company
1001 River Drive North
Great Falls, MT 59401

First Interstate Bank
PO Box 5010
Great Falls, MT 59403-5010

Grassman Tractor Service
512 51st Street South
Great Falls, MT 59405

Modern Woodman of America
Attn: Investment Department
1701 First Avenue
Rock Island, IL 61201

National Rural Utilities Co-op Fin.
20701 Cooperative Way
Dulles, MT 20166

Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, TX 75201

Yellowstone Electric Company
1919 4th Avenue North
Billings, MT 59101

By: /s/ Connie Reynolds
Connie Reynolds
Legal Asst.