

Attachments:

1. Due Diligence/SME/Legal Report, Arleen Boyd, January 2015
2. LVE/BEC Transition Plan

1. Beartooth Board Report January 2015

Due Diligence, Southern, Legal

Southern Montana Electric -- Southern's financial reports continue to project payment of the notes significantly earlier than the four years estimated in the bankruptcy reorganization plan. At the January 21 meeting the Southern board voted to ask counsel to prepare a list of requirements for a plan to dissolve Southern once full payment to the note-holders has been made. The Southern board also reviewed the proposed division of power under the current Twin Eagle contract and the WAPA allocation administered by Southern. The division would occur at the time that Beartooth leaves Southern. The numbers presented to the board make sense and include the assumption that Beartooth would leave with its proportional share of both Twin Eagle and WAPA power. We will review the worksheet for the power division at the due diligence meeting next week.

The Southern board discussed a First Interstate Bank note guaranteed by the four co-ops that FIB wishes to divide and assign to the guarantors. Prior to the Southern meeting Beartooth management had notified FIB of BEC's intent to pay its share (\$245,172) by Q3, 2015, with interest paid in the interim, and received confirmation that the arrangement was acceptable. An agreement among all four co-ops and FIB needs to be formalized before FIB will divide the Southern note amount appropriately among the co-ops. BEC was unaware of that requirement. FIB counsel and BEC counsel are preparing a written agreement to meet the FIB requirements. This should be ready for review at the January 27 BEC board meeting.

Southern and SME will meet next month on the same day and will review plans for selling properties near the HGS and addressing the FIB notes – one secured (\$604,536 total Southern note) by the properties and the one guaranteed by the co-op members of Southern (approximately \$1,257,602 total).

Exit Mediation with Southern Co-op Members – The BEC offer is being considered by the other co-ops. We have asked for a meeting in February. We will have final stay-in and prepay-for-exit models and an independent analysis of the prepayment vs. stay-in impacts for the upcoming due diligence meeting.

Temple Report – The body of the report is posted on our website. We are not sharing the attachments pending discussion between counsels for Beartooth and Southern.

Future Power Supply – Current power supply rate from Twin Eagle is excellent and will provide power for BEC through October 2017 either through Southern or following a BEC exit from Southern. We have spent three years talking with potential power suppliers and comparing power strategies pending an exit from Southern. The committee and BEC's manager continue to track suppliers and inquiries about BE plans for future power and power management. This month included discussions with Twin Eagle and a supplier who intends to submit suggestions for power management. We expect information to report to the committee and board next month on the financial analysis of any potential NorthWestern Energy alliance. Having a professional in power supply, Bill Pascoe, on the committee has helped us analyze alternatives and long-term power assessments as well as the Southern power supply issues as we push for an exit.

Legal – The Wyoming Public Service Commission notified our counsel of release on January 15 of its Notice of Application for **LVE to provide electric utility management service to Beartooth for 3 years**. They have set February 17 as the deadline for anyone to file comments or ask for a hearing.

Martin Smith is communicating with Southern's counsel on the Temple report. We have asked Martin to limit his review of the report attachments and then advise on their distribution.

FIB loan agreement being drafted -- requires little legal time.