

the BEC kWh

know what's happening

Dear Members

The Board and your management team wish you all a very happy and fruitful holiday season. This past year has been challenging with the ever present issue of the Southern Bankruptcy. Presently, in early November, we are ever more hopeful the Bankruptcy Court will agree with the four Southern Cooperatives and start a process of liquidation for Southern and the Highwood Generating Station. Just in case the Court does not agree with liquidating Southern, we are all hanging our Christmas Stockings by the fireplace and are looking forward to Santa fulfilling our Christmas wish list. If Santa fills our stockings with our list of requests we will all look forward to glad tidings and cheer for 2014!

The past year has been a good year for the membership. Even though we wrote off our financial involvement with Southern in the amount of \$3.5 million and took back capital credits. Your Beartooth Board and their committees took steps to keep this from ever happening again! The new Bylaws the membership passed at the 75th Annual Meeting require future Board's and Management teams to notify the membership of the timing of the annual budget process. In addition, if new long term debt over two years is going to be utilized or incurred the membership will be given ample notification (60 days notification) before loan agreements are signed. The current bylaw changes along with last year's changes on power supply issues make this cooperative one of the most transparent in the United States.

In the coming year we will be looking at



Richard Peck
Interim General Manager
446-2310

new power supply partnerships (assuming Southern is disbanded). Your Due Diligence Committee and Board have been asking several power suppliers about their interest in serving Beartooth Electric's loads. In this age of utility deregulation there are many power supply options available for your cooperative. In addition, we have been looking at distribution partnerships with other utilities in the area and region. Your Board's future goals are to provide the best service at a lower price. Whatever steps the board takes, you the member will be involved. It is expected in early spring we will be holding "Town Hall" type forums to bring you up to date on the future of Beartooth Electric Cooperative, Inc.

In another area of interest for the member is an updated Board Policy on "net metering". The present BEC policy is very bureaucratic. The new policy will allow the member to receive monthly benefits in lieu of quarterly and yearly updates for providing their own generation or renewable energy services. Net metering is a concept for offsetting your current kWh charges with your production of electric energy. The BEC charge per kWh is \$.12796; this is the credit per kWh you will receive for net metering on your monthly bill. Our monthly credit when you produce power in excess of your monthly bill is what we call the "avoided cost". This avoided cost (credited monthly) will be the amount charged by the power supplier for energy; presently this avoided cost is \$.04409 per kWh. If you're interested in installing renewable energy devices such as; solar panels, hydro or wind generation projects please let us know.

Merry Christmas and Happy New Year from your Beartooth Team-(Board and Staff)!

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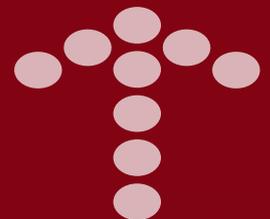
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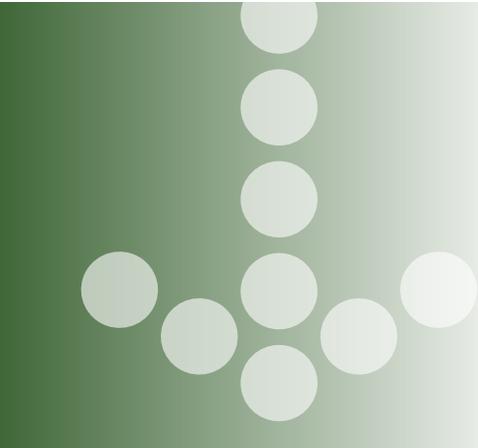
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2014 Budget Planning Calendar

12/30 Board Meeting
12 Noon
Teleconference

CO-OP BUDGET PLANNING

Your newly implemented Amended Bylaws changes requires transparent budget planning and the notification of meeting dates and times to all members. Please join us in the financial planning process for our 2014 operating year.



2014

YOUTH TOUR

“If one thing goes out of this meeting, it will be sending youngsters to the national capital where they can actually see what the flag stands for and represents”
-Then-Sen. Lyndon B. Johnson, 1957

The experience of a lifetime!

Youth Tour is more than a trip to the nation's capital to sight-see. It is a prestigious event in which thousands of high school juniors and seniors from across the nation join in Washington, D.C., to gain an understanding of our nation's history and the freedoms we enjoy, as well as the many costs of those freedoms.

The Youth Tour experience is rewarding, educational and fun! In addition to visiting memorials such as the Lincoln Memorial and the World War II Memorial, students also tour museums and national landmarks they have only read about in history books.

Join 20 other Montana students along with winners from North Dakota and Idaho on a week-long tour of our nation's capital. A \$2,800 value, this is a trip of a lifetime and an opportunity to meet new friends from across the country.

The Specifics:

2014 Youth Tour Dates:

June 13. Orientation in Great Falls.

June 14-20. National Rural Electric Cooperative Youth Tour to Washington, D.C. Visit monuments and museums, tour the Capitol and meet with the Montana representative and senators.

Youth Tour contest rules:

1. The student must be a junior or senior in high school in the fall of 2014.
2. Student cannot be a prior winner of the youth tour.
3. The student's parent or guardian must be a member of the co-op and be receiving electric service at their residence from BEC.
4. The student must write an essay on the following topic: Describe how electric cooperatives operate based on the seven cooperative principles. Tell which of the seven cooperative principles you think is the most important and why?
5. Essays must be typed, double-spaced and not longer than 500 words.

Essays must accompany the application available at beartoothelectric.com or your high school counselor.

Essay deadline is December 20, 2013. E-mail to bec@beartoothelectric.com or mail to:

Youth Tour
Beartooth Electric Cooperative,
P.O. Box 1110
Red Lodge, MT 59068

For more information on Youth Tour: Go to <http://www.nreca.coop/what-we-do/youth-programs/>

Due Diligence REPORT

*It really is all
about rates.*

Reorganization Plan for Southern.

The trustee for our bankrupt power supplier has filed a plan to reorganize Southern Montana Electric Generation and Transmission Cooperative and require its four member co-ops to remain together with a new contract to buy electric energy.

In the energy contract with Morgan Stanley Capital Group, Inc. the trustee provides concessions and agrees to keep the Highwood Generating Station operations-ready for at least 10 years. Under the trustee's plan operating expenses for Southern and HGS add millions of dollars each year in costs to be covered by Southern's wholesale power rate. HGS operations costs far exceed any potential revenue. The trustee has received court permission to seal some financial information so we cannot yet share fully the costs under the plan

Wholesale Power Rate. Under the trustee's plan our wholesale power rate from Southern includes:

- Cost of electricity from Morgan Stanley
- Cost of NorthWestern Energy network transmission
- Cost of keeping HGS operations-ready
- Southern's corporate operations costs
- Debt paid to HGS noteholders
- Ongoing employment of the trustee and legal professionals to represent the interests of the bankruptcy estate as needed.

The rate you pay adds BEC costs for distributing the power to members.

Trustee Examination of BEC. At an examination on October 22 the trustee's attorney questioned BEC's due diligence analysis of power supply options and our assertion that our rates are not sustainable. He produced numerous exhibits, one of which showed national electricity rates that supported our conclusion that, under the proposed plan, BEC rates will continue to be among the highest in the country. We are providing follow-up information requested by the trustee and we have asked for information regarding the trustee's due diligence and development of his plan. The hearing at the Crowne Plaza lasted approximately 7 hours with out-of-state attorneys present. Southern will

pay for the examination with revenue provided by the member co-ops.

Alternative Plan. The four Southern co-ops filed a plan to liquidate Southern under Chapter 11 of U.S. Bankruptcy Law. The plan will be posted on the BEC website upon the Court's approval of the related disclosure statement. Hearing on the disclosure is scheduled for December 10.

Motion to Remove the Trustee. By the time you read this, the court may have ruled on the motion by the four Southern member co-ops to remove the Chapter 11 Trustee. The co-ops, joined by the Unsecured Creditors' Committee, contend that the trustee is not needed because the reasons for his appointment no longer exist.

Adversary proceeding asserting that Southern's wholesale power contracts may not be assumed and are void for failure of consideration. The four Southern cooperatives have jointly filed an adversary proceeding against the Chapter 11 trustee. The Trustee filed counterclaims against the cooperatives. The Court has set a December 10 conference to schedule hearing for claims and counterclaims.

BEC Adversary Proceeding. Prudential filed a motion to dismiss the BEC case to deny use of its wholesale power contract as collateral. The Motion to Dismiss will be heard on December 10.

Bankruptcy actions are developing rapidly and changing often. Access www.beartoothelectric.com for updates and postings. Call with questions.

Arleen Boyd
Due Diligence Committee Chair
328-6645





MESSAGE from the Chairman of the Board

We look forward to seeing and serving you in the next year. Merry Christmas and Happy New Year.



Roxie Melton
President
426-0135

I hope everyone had a wonderful Thanksgiving with family and friends. The Co-op has had a very busy year trying to get the Bankruptcy Attorney and Court to understand that our goal is to liquidate Southern and dispose of the Highwood Generation station. It is comforting to know that the four remaining co-ops are now in agreement and are going down the same path more or less together.

I have received a number of comments regarding your Capital Credits and how they have been affected by the Southern Bankruptcy. Capital Credits are similar in relationship to stocks declaring a dividend. The co-op is a not for profit organization and monies received that are in excess of expenditures can be declared as an operating margin (profit). At the end of each year an amount is determined as a margin and deemed as the amount to be shared with the membership in relation to their usage. You are then sent a card informing you of the amount of Capital Credits allocated to your account. Then at a future time of retiring, the credits will be paid to you by check. At this time, all Capital Credits have been retired thru 1986.

At the same time Southern Montana Generation and Transmission, our wholesale power supplier co-op, also declared a margin and we received notification that in the future we would be the recipient of funds. We therefore recorded the margin (capital credits) on our books and passed the credits on to the membership. Unfortunately, Southern declared bankruptcy in 2011 and therefore the Capital Credits are no longer required

to be paid back to the owners. Since we will no longer be receiving the funds, we had to write the amount off our books and subtract the monies from the members Capital Credits we allocated to you. This only affects your Capital Credits from the years 2004 to 2011. You received notification about 2 months ago in the form of a statement. I hope this clarifies the reduction in past capital credits.

I have also been asked by a member if they could write off this loss on their taxes. The answer is: if you included the capital credit income each year on your taxes then you can write it off. But, I suggest you consult your tax accountant. If you have further questions please call the office. They will be happy to explain the reduction or any other concern you may have. Also, I would encourage you to check out the Beartooth web site at Beartoothelectric.com.

In closing I would like to wish everyone a safe and happy holiday. We look forward to seeing and serving you in the next year. Merry Christmas and Happy New Year.

BEC BOARD MEETING
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December 30, 2013

Teleconference

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