# Electric Co-Op Going through Bankruptcy Reorganization

RICHARD ECKE, Associated Press

GREAT FALLS, Mont. (AP) — A Billings-based umbrella electric cooperative may rise from the ashes like a mythical phoenix, even if its critics hope the co-op will meet Humpty Dumpty's fate.

Court-appointed trustee Lee Freeman of the Livingston area is guiding the Southern Montana Electric Generation & Transmission Cooperative through Chapter 11 bankruptcy reorganization.

And while there have been a few calls from disgruntled co-op members such as Yellowstone Valley Electric and the city of Great Falls to dissolve the organization, Freeman and others are working to rebuild the ill-fated generation and transmission cooperative, said an attorney for Freeman, John C. Parks of Denver.

Parks said Tuesday he and Freeman see "no reason whatsoever" why Southern Montana cannot be reorganized into a viable concern with reasonable power rates.

"His job is to reorganize it if he believes it can be reorganized," Parks said in an interview Tuesday. "There are a lot of possibilities here."

"The whole process seems to be leading toward reorganization," said Travis Kavulla, chairman of the Montana Public Service Commission, who at times has sharply criticized Southern Montana.

Jim DeCock, the Mid-Yellowstone co-op's representative and a Hysham-area rancher, said it's possible a reorganized Southern Montana could partner with a different generation and transmission cooperative from the region.

Parks said it is "very possible" Southern Montana's future could include another generation and transmission co-op in the mix. Southern Montana's members could become members of a larger co-op, for example, Parks said.

Negotiating an arrangement with another generation and transmission co-op would be simpler than trying to hook up with an investor-owned utility, Parks said. Five of six Southern Montana members are rural electric co-ops.

Southern Montana's biggest asset is a power plant, the Highwood Generating Station east of Great Falls. The 40-megawatt natural gas-fired power plant was built using $85 million in loans — $75 million from Prudential Capital Group of Dallas and $10 million from Modern Woodman of America in Rock Island, Ill. These major secured creditors stand in the strongest position in the bankruptcy case, which was filed in October.

Parks said one option in the case would be Southern Montana's trustee could sell the Highwood Generating Station to an interested party, whether it was a generation and transmission cooperative, an investor-owned utility or a private investment group.

"The Highwood Generating Station could be sold to anybody," Parks said. The power plant and the co-op members could go their separate ways or they could stay together, he said.

Whether this is a good time to sell a power plant is unclear, given the current glut of electricity in the region. DeCock said the trustee has been paying as little as $15 a megawatt-hour for power recently, compared with his co-op's current price of $68 per megawatt-hour.

Parks said people in the energy business might consider this a good time to buy a plant, since prices of plants will rise as the economy improves and dirtier coal-fired power plants are shuttered by owners not wanting to make costly improvements to reduce air pollution.

"As those plants go down, you have to replace them with something," Parks said.

NorthWestern Energy official John Fitzpatrick this week said he doubts the power plant will receive serious offers amid the power glut.

"We've received expressions of interest," Parks reported. "We've had inquiries and conversations" with various generating and transmission cooperatives.

Parks said Highwood can be used in its current 40-megawatt phase for peaking power. He said Phase 2 of the plant also could be built to make the plant a 120-mw baseload facility. An earlier estimate to build Phase 2 was $200 million.

Parks said Southern Montana could run the Highwood plant this summer if the area sustained a heat wave and peaking power suddenly cost $250 a megawatt-hour.

Fitzpatrick once estimated the cost of power from Highwood at $140 per megawatt-hour.

"Eventually, it's going to make sense to run Highwood," Parks replied. For now, it's rarely used.

In the long run, someone will need to provide electricity to Southern Montana members, since Freeman has rejected Southern Montana's long-standing contract with PPL EnergyPlus. The PPL contract terminates Sunday.

Plenty of interest exists in the region to either buy the power plant or supply power to Southern Montana members, or both, officials said this week.

"Everybody is putting pen to paper on these issues," Parks reported.

The power plant debt is $85 million, a ratio of more than $2 million per one megawatt generated. Other plants in the region have been built in the last few years for about half as much, $1 million to $1.33 million, according to news reports and releases. That might place the value of the Highwood Generating Station closer to $40 million and $50 million.

DeCock said he does not want to see the plant sold at "fire sale" prices.

Later this year, Freeman may present a reorganization plan to the bankruptcy court on what a new Southern Montana would look like.

Trying to figure out what will happen in the Southern Montana case hasn't been easy, even for the people intimately involved in the case. Southern Montana filed for bankruptcy reorganization five months ago under the crush of an increasingly unfavorable contract with PPL EnergyPlus.

"Bankruptcy is a strange new world," said Arleen Boyd, who represents the Red Lodge-based Beartooth Electric co-op on the Southern Montana board. "We do not know what our options might be."

One trick, Boyd said, will be "working with the creditors so that it (the plan) doesn't bankrupt everybody else."

Stated another way, "at what point can you give secured creditors a haircut?" Kavulla asked.

There was no ready answer this month as to whether Prudential Capital Group or Modern Woodman will be asked to make concessions as the case wears on.

"Prudential's really good to work with," DeCock said. He wasn't sure if the lenders would be asked to take a financial hit. DeCock also praised Freeman, saying he was "doing quite a job."

At the same time, DeCock said he and other officials have received complaints about high power rates, and he is not sure Mid-Yellowstone's equity in the power plant is secure.

"I think we're probably going to lose some," DeCock said. He was skeptical about why the plant was built, but he added he is unwilling to join members who want Southern Montana to end.

"We're just tied up in this plant," DeCock said.

City of Great Falls officials, already facing $7 million in red ink from their Electric City Power arm and at least another $2 million in potential losses, have been the Southern Montana member most openly critical of the trustee.

City Attorney James Santoro said he would like to see some "transparency" from

Freeman's office, and city Commissioner Bob Jones and Santoro earlier criticized fees allowed Parks and Freeman.

Representatives of the co-ops wanting to keep Southern Montana afloat appear to be getting more face time and phone time with Freeman, although Dee Dee Isaacs, Southern Montana board member from the Tongue River co-op, said that is limited.

"He's very busy," Isaacs said.

Meanwhile, Chicago attorney Nancy Temple is investigating whether anything improper happened inside Southern Montana before the bankruptcy filing. It's not clear when Temple's probe will wrap up.

Yellowstone Valley Electric has asked the bankruptcy judge, Ralph B. Kirchser, to allow the co-op to resume a longstanding lawsuit against Southern Montana in state court that was stayed with the bankruptcy filing. Freeman opposes the effort.

Even if that move fails, the co-op's board representative, Dave Kelsey, commented, "We think we're in a pretty good position."

"Our goal is to be somewhere else," Kelsey added.

Great Falls officials, who also say they want to leave, have taken plenty of heat in recent years over Electric City Power's losses. Critics also bemoan how much time the bankruptcy case is taking.

Boyd, however, is not bothered by the pace of the case.

"I'm not concerned about that," Boyd said. "I want it done right." Boyd said a big problem with the old Southern Montana was lack of information and inadequate research.

Boyd wants facts and figures to bring back to Beartooth co-op members.

"We haven't seen those numbers yet," Boyd said.

Pinning down figures and negotiating agreements will take time. DeCock expects the case to run into 2013 at least. Others involved in the case say it might stretch into 2014.

*Information from: Great Falls Tribune,* www.greatfallstribune.com *[1]*

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