

Informational Meeting February 3, 2009

Question/Responses

1. What are the power supply agreements that Southern has in place presently and do they expire?

BPA – 18% (2011), WAPA – 11% (2020), PPL – 71% (2011), allocation percentages change each year!

2. When was Southern Montana Electric G & T Cooperative formed? SME G&T Cooperative formed?

Southern – March 2003, SME – June 2008

3. When was the first Request for Proposal (RFP) for long-term power supply sent out and what has transpired since?

There have been a number of RFP's issued dating back to 2001 with the most recent RFP being completed in March 2007. As of March 2007, clearly the HGS was still the low-cost option for our members. Southern Montana issued another RFP on January 13, 2009 to compare power purchase contract opportunities and evaluate them against construction of own power plant – gas, coal, wind-firmed with gas, etc.

4. What are the dates associated with the land purchase, approval of the air quality permit and all the challenges associated with it, the zoning issue, and any other permitting or zoning issues?

Land Purchase – August 2008, air permit – 1st Iteration in May 2007, the Current version of the Air Permit was issued November 2008 zoning issue settled – December 2008

5. Have we secured a water supply for the plant – if so what are the details?

The Raw Water Service Agreement was signed March 15, 2004, The Waste Water Service Agreement was signed May 20, 2007 and the Potable Service Agreement was signed May 18, 2007.

6. What is the investment ratio of each participating cooperative in the HGS project?

BEC – 21.24%, Fergus – 41.36%, Mid-Yellowstone – 8.72%, Tongue River – 28.68%

7. When will the evaluation of the RFP responses be completed and a decision made about what direction to pursue?

March 19, 2009 SME Board Meeting. Will schedule another meeting following review of RFP process.

8. Has the transmission facility required to move the power generated by the plant been engineered, right-of ways secured, and associated costs included in the HGS project cost?

Southern Montana has an executed Large Generator Interconnection Agreement (LGIA) in place that allows for the interconnection of HGS to the transmission grid and a Network Transmission Services Agreement (TSA) in place to flow the power once the interconnection facilities are in place. The preliminary engineering for the transmission system is complete and preparations are underway to facilitate the acquisition of the necessary rights of way. The final design on the transmission system will be completed once the final site for the interconnection to the existing transmission line has been determined.

9. What is the anticipated revenue received from the estimated sales of excess capacity from the plant and what is the rate reduction impact on the SME participating cooperatives wholesale rate?

The anticipated revenue for off peak sales and the sale of load growth capacity has been included in the financial forecast for the facility. The revenue from these sales was based on an estimated market price in 2013 of approximately \$55/MWh. That market price is consistent with the price used in the RUS loan application and was approximately equal to the lowest offering in the November 2006 RFP. Please note the entire capacity for HGS will be required to meet the member system needs less than five years (by 2018) after HGS commences operations.

10. Should HGS become a “Carbon capture & Sequestration” facility, where will the CO2 be stored?

Southern Montana has worked closely with the Big Sky Carbon Sequestration Partnership – one of seven US Department of Energy funded programs created to analyze suitable location for carbon capture and sequestration. The Big Sky Carbon Sequestration Partnership identified a number of potential storage location North of Great Falls, Montana with the preferred site being near Shelby, Montana. Southern Montana worked with the Big Sky Carbon Sequestration Partnership to develop a business plan to analyze the issues associated with carbon capture and sequestration at HGS.

11. Explain why the decision was made to go with coal as the fuel of choice, rather than gas?

At the time the Alternative Study for HGS was completed under the guidance of the RUS, coal-fired generation was significantly cheaper than natural gas-fired generation. Furthermore, coal demonstrated far less price volatility than natural gas. The SME Board is currently re-evaluating this analysis to determine what option to pursue that is in the best interest of the members. 1/30/09: The SME Board authorized advancing work associated with a gas-fired plant to be able to properly evaluate this alternative.

12. Given the political and environmental climate today, does gas make more sense than coal as the fuel of choice?

It may and Southern Montana has hired a natural gas consultant to assist it in making that determination. If a determination is made that natural gas is now a better choice as a fuel for a base load generation facility that change can be made at this time with much of the work completed at the HGS site to date being useful in a newly configured generation platform.

13. What was the “back-up” plan if the pursuit of long-term financing and plant construction failed?

The member systems of Southern Montana have been served via long term power supply contracts for the past 65 years and that option remains. However, power purchase contracts do not offer the same level long term price stability as owning your own source of generation. HGS was conceived to allow the member systems to “own” their power supply as opposed to “renting” power supply. In the event financing is not forthcoming Southern Montana can pursue an alternate generation development option such as a natural gas fired unit complemented with wind turbines, or simply sell the facility and return to reliance on power purchase agreements. To aid in evaluating its options Southern Montana issued a request for power supply proposals to sixteen (16) power suppliers on January 15, 2009 for the express purpose of evaluating the traditional power purchase contract approach to meeting the supply needs of the member systems it serves.

14. On what date did the board pass the enormous increase in base rate, KWH rate and surcharge? Which directors voted for the increases and which voted against? Why was the membership not notified immediately of the change in overall rates announced at the September 2008 annual meeting – instead of having to wait for a letter to be written and included with the end of December 2008 bills?

Following the completion of a Rate & Cost of Service Study (COS) in 2008, it was announced at the September 27, 2008 Annual Meeting there would be a 16.5% increase in the energy rate and an increase in the monthly base charges – for residential it would go from \$28.22 to \$30.00 – effective January 2009. In late November, BEC was notified that their wholesale power costs were going up 8% in January 2008. This was not included in the COS. Because wholesale power is approximately 45-50% of BEC's cost of operation, an additional 4% was added to the previously announced 16.5%, making the increase in the energy rate 20.5%. After completion of a very thorough financial analysis in early December 2008, it became evident that we would need to move the base charge to \$33.00 (residential), closer to what the COS study suggests that it should be (\$33.72). It was also evident, due to the delays in securing long-term financing for the Highwood Generating Station (HGS), that we would not be able to meet our financial obligations to this project. Consequently, management recommendation to the board was to initiate the 20.5% increase in rates, raising the base charge, and initiating a temporary Wholesale Power Surcharge, effective in bills sent out in January 2009. This was approved at the December 12, 2008 meeting. BEC used the monthly Rural Montana Magazine and a bill stuffer as the mechanism to explain why making this change became necessary.

Also, the BEC Board had anticipated that BEC would no longer be regulated by the Wyoming Public Service Commission since the BEC members voted to "Opt-out", by resolution, of PSC regulation at the September 2007 Annual Meeting, in response to legislation that was passed in Wyoming in early 2007. The Resolution submitted to the membership for the exemption from the Wyoming PSC was drafted by Wyoming Attorney Scott Kolpitcke of the firm of Copenhaver, Kath, Kitchen & Kolpitcke, Attorneys at Law in Powell, Wyoming. Scott then submitted the Resolution to the Wyoming PSC and was advised several months later that the Wyoming PSC was not going to grant the exemption to Cooperatives that were not incorporated in the State of Wyoming. BEC is a Montana corporation qualified to do business in Wyoming. Therefore, BEC was denied the exemption by the Wyoming PSC subsequent to the 2007 Annual Meeting. The minutes for the September 22, 2007, Annual Meeting reflects that one hundred forty members voted in favor of the Wyoming exemption and nineteen members voted against the Resolution. The Resolution was properly adopted at the 2007 Annual Membership Meeting. This has had a significant impact on the revenues and cash flow of BEC.

15. In the September 27, 2008 version of the by-laws, Section 4 requires written notice be given to the Agriculture Department 30 days prior to effecting the rate change if RUS has requested in writing that it be notified. An earlier version of the by laws (Sept. 20, 2003) reads differently. When was this current (September 28, 2008) version of by-law amendment to Article X, Section 4 passed? And how. Amendments to the bylaws must be effected according to the procedures noted in Article XII, by a vote of all the members at a regular or special meeting of the membership called according to procedures at a regular or special meeting detailed in Article III.

The Bylaw Amendments that were adopted at the 2008 Annual Membership Meeting were provided in proposal form to the members in the yellow multiple-page document captioned "Notice of Annual Membership Meeting". This notice was mailed to each member prior to the September 27, 2008, Annual Meeting. The Bylaw amendments were adopted by the membership. Specifically addressing the amendment to Article X, Section 4 of the Bylaws, the revision was approved by membership vote of 124 in favor and 21 opposed. The best explanation for why the Bylaw amendment was submitted to the membership would be to quote the **explanation** contained in the Notice of Annual Membership Meeting that addresses the change in Section 4. The explanation is as follows:

Explanation: The proposed amendment to the Beartooth Electric Cooperative (BEC) Bylaws reflects the fact that the Rural Electrification Administration of the United States of America no longer exists as a government agency. The successor agency is the United States Department of Agriculture, Rural Utility Service (RUS). RUS, through its representatives, has provided BEC's Board of Trustees with written clarification that RUS does not require distribution borrowers (BEC) to notify RUS of general rate changes unless specifically requested in writing, to be notified in advance of proposed changes in the general rate structure. The proposed Bylaw amendment will conform the BEC Bylaw to the current RUS procedures.

16. Did RUS request written notification 30 days or more prior to the rate increase announced in an undated, unsigned letter from BEC received by us on January 9, 1990 saying that the planned January 2009 rate increase announced at the September 2008 meeting and reiterated in the December issue of the Rural Montana Magazine, the Board had to “re-evaluate” both the amount and timing of the increase and include the increase in the bills effective December 31, 2008. Was any written notification ever requested by or given to RUS of the new, present rates?

BEC is in good standing with RUS, thus we are not required to notify RUS of any rate changes, (see response to previous question). In the event that RUS makes a written request for us to do so, BEC will honor that request.

17. Directors’ compensation/reimbursement: Are all directors in strict compliance with the provisions of bylaws Article IV, Sections 3 and 6. Are any board members receiving compensation from whatever entity is now representing the Highwood effort? If so, who is receiving compensation of what kind, and how much and for what?

Directors are in strict compliance with Article IV, Sections 3 & 6. BEC has a director that sits on the Southern Montana Electric Generation & Transmission Cooperative & SME Generation & Transmission Cooperative board whereby they receive from said, a fixed sum of \$250 per meeting and reimbursement of expenses incurred while serving in this capacity.

18. Have any board members been promised positions or financial gain from the Highwood operation?

No.

19. Board meetings – allow member attendance: Members should be allowed to attend all board meetings without notification or permission of a board member. Attending members may be excused for any discussion of truly sensitive personnel/performance issues, but an “open question/comment” period should be allowed at the end of the meeting for ordinary members to ask questions or comment on issues. Obviously, this may require having board meetings in a larger space with more seating.

BEC Board Policy “V-A-1” addresses member attendance at board meetings. Basically, members wanting to attend are encouraged first to work with BEC management to address concerns they may have. In the event resolution can not be achieved, members must make their request to meet with the board in writing at least 10 days prior to the meeting, stating the reasons that they deem attending the meeting is necessary. A copy of the policy is available upon request.

20. By-laws: A committee of members and directors should be formed to go over the current bylaws and be sure they are up to date and relevant. Compare Beartooth’s bylaws with other Montana or Wyoming coops’ bylaws. (Example: Article I, Section 5 states that members must purchase all their electrical power “used on the premises” from the co-op. With the proliferation of small or supplementary solar powers and wind generators for non-network purposes (gate openers, pumps, etc), shouldn’t this provision be changed?

The BEC Bylaws are consistent with those used by other rural electric cooperatives in the nation. They were developed using the template model constructed by our national organization, the National Rural Electric Cooperative (NRECA), which are in compliance with the RUS and IRS regulations.

Each year, leading up to the annual meeting, existing Bylaws are reviewed by the board and management, and proposed changes deemed necessary are communicated to the membership prior to the annual meeting. The proposed changes are then voted on at the annual meeting. Members who have concerns about any of the Bylaw provisions are encouraged to contact their district director and/or General Manager to express their concerns.

With regard to the interconnection of member-owned distributed generation facilities to BEC distribution lines, BEC has a recently adopted net-metering policy that was crafted by the Montana Electric Cooperative Association,

that I believe all electric cooperatives in the state have adopted, so as to have consistent interconnection standards among the electric cooperatives throughout the state. Any member that is interested in interconnecting alternative energy projects with BEC can do so. Please see BEC management for details on how to get this accomplished.

21. What is Dick Heard's or Doug Howard's official position as regards the Beartooth co-op? Are they salaried employees of the Co-op? Are they on individual retainer fees hired for specific meetings? For what purpose? Whom do they represent: the board? The members?

Mr. Heard/Howard are partners in the law firm that represents/advises BEC board and management in legal matters, as they relate to BEC. They are paid on a fee basis.

22. Participation by Beartooth in SME and SME T&G -- Article XI-Miscellaneous: Were procedures allowing Beartooth Coop to join SME and SME T&G followed as per this by-law requirement. Please explain the change in name, and the financial and legal obligations that may have changed. Who authorized such a change? Did the membership vote on joining the Highwood project organization and its successor at a duly held meeting? When? Is it recorded in the minutes?

SME Electric Generation and Transmission Cooperative was formed in response to a request by Yellowstone Valley Electric Cooperative to be insulated from further activities associated with the development of HGS. The BEC Board voted on April 29, 2008, to participate in the formation of SME. This action is duly recorded in the BEC approved minutes of May 13, 2008. SME was formed in accordance with Montana law and it would not be prudent to comment further in this regard as this topic is a subject of litigation in Montana District Court.

23. Has the Wyoming PSC been asked for the same rate increase as was levied against Montana members, including the same surcharge? What was the WY reply? Is another rate request to the WY PSC pending? When will they decide the issue?

BEC presently has a rate case application before the Wyoming Public Service Commission (PSC). The application was submitted in October 2008. The submitted rate case includes an increase of the Wyoming rates to be equivalent to the Montana rates that would have resulted from the 16.5% increase announced in September 2008. BEC management is working through the application process with the PSC now with the expectation it will be completed by the end of April 2009. BEC management is commencing work on the "Wholesale Power Cost Pass-thru" application requirements and will submit this request as soon as possible to the PSC. This request will be to adjust the energy rate an additional 4% to reflect the announced increased wholesale power cost increase of 8%.

24. If the Beartooth Coop goes into bankruptcy (for whatever reason), what happens to ensure continued electrical power supply?

BEC is solvent and not on the brink of bankruptcy. BEC is well within the financial requirements specified by our lenders RUS, CFC & CoBank.

25. Financial liability of the membership: According to Article II, Section 2 of the by laws, the private property of the members is exempt from liability for the debts of the Cooperative. If a member cannot pay his/her increased bills resulting from the debts of the Cooperative, is that member cut off from electrical power supply, or can bills and payments be negotiated?

BEC certainly understands there are members experiencing hardships and that the increase in rates, time of year, etc. make it extremely difficult to make payment in a timely fashion at this time. BEC management will work with members to find a payment arrangement that will work for both the member and the cooperative.

26. How much money has been spent “advertising” the Highwood plant? Regular ads are often heard on Yellowstone Public radio: why, when we are “captive members” are ads extolling Highwood necessary? What other advertising or promotional costs have been incurred promoting Highwood, and who is paying the costs?

Total advertising costs for 2008 related to HGS was \$39,067.50. A total of \$7,250.50 was specific to Yellowstone Public Radio. A total of \$5,228.70 was spent on advertising in 2008 that was attributable to Southern operations. These advertising costs were included as Southern & SME operating expenses.

27. What action(s) will the Board take to better educate the members about Beartooth's operations?

BEC board and management recognize the need to communicate clearly and often to their members. Avenues that will be used to do so will be the monthly Rural Montana Magazine, bill stuffers, separate mailings, radio ads, and informational meetings. All of this comes at a cost to the member – this cost must be considered when making decisions about what avenue to use, when, and how often. BEC will be investigating the cost to develop and maintain a website. This would be a great way to communicate to our members.

28. Is there a business plan for project? If so, how do we get a copy?

Yes, but the “business plan” for a base load electric generating facility is much different in nature than what would typically be offered for this purpose. The “business plan” for HGS consists of an Alternative Evaluation Study, Load Forecast, Site Screening Study, Environmental Impact Study, Transmission Study and a number of other supporting documents that are developed to determine member system needs, supply alternatives, environmental impacts and power supply paths. These documents are available on Southern Montana’s web site.

29. Exactly how much has been spent so far on the project (including equipment and operations?) And how much has been committed for future payments? (i.e. \$52K/mo for six month for boiler purchase)

Through December 31, 2008, approximately \$34,237,549 has been spent on the project. Specific commitments by BEC will be discussed at meeting.

30. What banks have been approached and what has been their response?

During the initial phases of the project Southern Montana secured a \$10 million line of credit from CoBank. CoBank is a supplemental lending institution engaged in providing funding to cooperatives. The CoBank line of credit was used to cover the cost of preliminary project development, the Air Permit Application, Environmental Impact Study and other activities associated with site selection and general project matters. The CoBank line of credit was repaid with a “capital call” from the member systems in December 2007. The first choice for long term financing was the United States Department of Agriculture Rural Utilities Services (RUS). RUS has traditionally funded the facility development needs of both Distribution and Generation and Transmission Cooperatives. In late 2007 RUS notified Southern Montana that Congress would not be appropriating funds for any coal fired base load facilities. This decision was not a reflection on project viability but an indication of Congressional sentiments on the yet to be resolved issue of carbon dioxide emissions from coal fired power plants. Since being notified by the RUS of the demise of the RUS funding program for traditional base load generation facilities Southern Montana has been in discussions with a number of commercial finance institutions – but the names of those institutions must be withheld as a condition to the letters of engagement that strictly require confidentiality.

31. What company is the primary contractor for this project? Were competitive bids solicited and received? Who (what company) poured the concrete to get the project in under the wire for the permit? If there is no primary contractor, to

whom did that contractor report? Who did the design, engineering, lay-out, infrastructure planning, staffing assumptions, cost estimates, obtained all the permits, etc.?

The principle contractor for the current phase of the project is Wickens Construction. Wickens Construction was selected via a competitive bidding process conducted by Stanley Consultants under the direction of the Southern Montana Board of Trustees. The concrete for the cooling tower basin and foundation was placed by Sletten Construction – a sub contractor to Wickens construction.

Stanley Consultants is the engineering firm that is responsible for the engineering, design and material procurement of the HGS. Stanley Consultants will coordinate the release and selection of all major “specialty component” contractors – such as the Boiler contractor, contractor for the steam turbine generator, substation and transmission facilities, and the “balance of plant” contractor. This modified “EPC” contracting approach has been used successfully by Stanley Consultants and its clients at a number of similar projects and proves to be the most productive way to manage cost and assign specific attributes of project responsibility.

Stanley Consultants worked with Bison Engineers and a number of other consulting engineering firms to complete the application for the air permit, solid waste disposal license, completion of the Environmental Impact Statement, zoning application, location conformance permit and the other permits necessary to commence construction at HGS.

32. One assumes that \$900M is the total cost of construction. What will be the total cost, including interest, when the loan is eventually paid off?

The traditional debt amortization schedule for electric generation facilities is 35 years. And, as with any long term financing endeavor – such as your home – it is safe to say that over the period of amortization the “total” project cost will be more than two times the initial debt financed.

33. What are the differences in the structure of SME and SME T & G? Is it a co-op? Who are the members? Does either have the ability to take Beartooth’s assets?

SME Electric Generation and Transmission Cooperative is an electric cooperative consisting of four electric distribution cooperatives – Beartooth Electric, Fergus Electric, Mid Yellowstone Electric and Tongue River Electric Cooperatives. No generation and transmission cooperative that we are aware of has the ability to “take” a member systems assets – those assets are already mortgaged to the federal government through the RUS. Beartooth Electric was a founding member of both entities and is a member of both Boards of Trustees. The degree to which expenses are incurred by Southern Montana and SME, Beartooth has a load ratio share of those expenses.

34. What is the 50,000 number based on in the final paragraph of the Gazette article? It sounds as if Mr. Gregori’s calculation of cost per customer over 35 years is based on spreading that cost across the four SMEG&T co-ops and Great Falls and/or YVEC

The 50,000 Montanans number is based on a conservative conversion from meters to “people”. As far as the cost calculation that number represents the escalation in cost that would have been paid by each member consuming 1150 kWh to cover the escalation in the capital cost of the project, change in interest rates and interest rate “spreads”, cost associated with a reduced rating by the rating agencies, and other cost considerations – all resulting from the delays fostered by repeated appeals. This cost represents an increase in the cost of energy for a consumer using approximately 1150 kWh - if the coal fired facility would have been completed. Obviously, that quote has been misrepresented by the press.