

Senator Olson and Committee Members – I am Scott Sweeney.

I am the General Manager of Fergus Electric Cooperative headquartered in Lewistown, MT.

Fergus Electric has the largest geographic size of the Montana Cooperatives. Fergus Electric provides electric service to 3,736 members with 6,128 meters and 4,198 miles of power lines in 12 counties of Central Montana. Fergus Electric has 26 top-notch employees; 22 work out of the main office in Lewistown and 4 work out of the outpost in Roundup.

Fergus Electric Co-op is governed by seven Board of Trustees elected by the co-op members and each trustee represents one of seven districts in the co-op's service area.

Fergus Electric's wholesale power supplier is Southern Montana Electric G&T Cooperative. There are 5 rural electric co-ops in Southern –

- Beartooth Electric located in Red Lodge, represented today by Arleen Boyd
- Mid-Yellowstone in Hysham
- Tongue River in Ashland, represented today by Keith Bales
- Yellowstone Valley in Huntley, represented today by Dave Kelsey
- And Fergus Electric.
- Another member of Southern is the City of Great Falls, represented today by Bob Jones.

Southern Montana Electric started in 2003 and 2004 when Central Montana Electric G&T Cooperative was divided into 2 different co-ops. One became Southern Montana and the other remained Central Montana Electric G&T Cooperative, represented today by its General Manager, Doug Hardy.

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Southern Montana originally had a Bonneville Power contract and a Western Area Power contract that supplied all of Southern's power requirements. Then Southern was notified that the Bonneville contract starts to expire in 2008 and on September 30, 2011, it was completely gone.

Southern had started buying small blocks of power from PPL for the city of Great Falls all the way back in about 2004 or 2005. As the City's load increased, these blocks increased. In early 2009, Southern sent out an RFP (request for proposal) to 15 electricity suppliers and PPL offered the best option. The Southern Board approved the contract with PPL and I think the contract was signed in about June 2009. This power was being purchased to replace the Bonneville Power contract, which was going away.

To the best of my knowledge, Southern Manager Tim Gregori requested and received information from the managers of the six systems in Southern - including Great Falls - about the expected addition or loss of electric loads and then Gregori adjusted Southern's load forecast and the purchases of power accordingly. The PPL contract expires in 2019 and the WAPA contract runs through 2020, as I recall. Southern purchased its power supply based on the commitment from Great Falls and the other member cooperatives.

The Highwood Generating Station was designed as a 2 Phase operation. Phase 1 was built as a 40 MW natural gas peaking plant. Phase 2 of the Highwood Station was planned to be built as a 120 MW combined-cycle plant.

Due to many situations, Southern ended up in Chapter 11 bankruptcy on the date of October 21, 2011. The economic downturn reduced the demand for power that Southern had contracted to purchase. This terribly depressed market also prevented Southern from selling its excess power. In its early years, Southern sold power and was able to make money or at least break even. Then, when the national economy faltered, electric prices fell drastically and in 2010 and 2011, Southern lost serious dollars on its sales of electricity into the market.

This problem was exacerbated by two things: In the spring and summer of 2011, rivers ran at record high levels and the market prices for electricity in the Pacific Northwest (our electricity region) caused electric prices to drop really low – at times the market prices actually went negative – meaning Southern had to pay dollars to get rid of excess power.

Also at this same time, the City of Great Falls permitted its large industrial customers to cancel their long-term contracts– imposing stranded costs on Southern that it had incurred to purchase power for the anticipated load of Great Falls - based in its projection and contract. This meant that Southern had even more excess power, which it was forced to purchase from PPL. PPL then sold that power to former customers of Great Falls.

This also was the year that more wind generators had built in the Pacific Northwest – including Montana, Idaho, Washington, and Oregon. Adding wind generation sales to record hydro generation - market prices stayed low for most of the spring and summer. Irrigation loads in the Pacific Northwest were low because of so much rain this past summer. I think by the end of August 2011, Southern was over \$11 million in the hole and after September and October it did not seem to get much better – Southern did not have many other choices but to file for Chapter 11 bankruptcy to resolve its problems.

The Highwood Station was not the primary cause of the bankruptcy of Southern. The loss of load, the extremely low prices for market price electricity, and the internal disputes in Southern were the most destructive.

I have visited with numerous members of Fergus Electric in recent months. The majority are supportive of Fergus Electric and its process. Members of cooperatives have a voice and a vote. Our co-op's member-owners are proud to belong to a rural electric cooperative. Our members understand that they play an important role in their co-op. They appreciate knowing that they can pick up the phone and speak to their Trustees, the co-op's staff or me about any concern they have and we will listen to them and do our best to assist.

We focus on serving our members, rather than earning profits for outside investors. We strive to provide system reliability and reasonable electric rates. Throughout the years, our members have elected many fine people to serve as Trustees. These Trustees take their responsibility seriously. Each Trustee receives extensive training through the National Rural Electric Cooperative Association and the Montana Electric Cooperative Association. They develop a thorough understanding of the cooperative's principles, rate structures, accounting and of carrying out the co-op's fiduciary responsibilities.

Co-op members have advantages that public utility customers will never have. Our members place a tremendous value on the control they have as member-owners of their rural electric cooperative. Co-op members through their input and voting ability in fact are the regulators of their co-op. Thoughtful and informed members of Fergus Electric object to a Public Service Commission oversight of the co-ops due to the excessive cost to the cooperative of such supervision and because it would diminish their own control. The co-op model works.

As our members have placed their confidence in Fergus Electric Cooperative - I am asking the Energy and Telecommunications Interim Committee to allow Lee Freeman, the Southern Trustee, to work through the bankruptcy. Lee Freeman is very competent. I have confidence in him to be able to put the best plan together for Southern and all the systems in Southern - such as my cooperative - Fergus Electric.

Thank you for your time.  
Scott Sweeney