AVS Unit 2 Leveraged Lease
Steve Johnson

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Based upon very strong member load growth, in the 1970’s Basin Electric committed to build both the Laramie River Station and the Antelope Valley Station.

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Much of the load growth was based upon growth in the energy industry, both conventional and non-conventional oil production, in response to the oil crisis of the 1970s.

As oil represented a much greater percentage of the total U.S. economy then, the run up in oil prices resulted in high inflation.

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The bubble burst. Oil prices peaked in 1981 at an average of approximately $40 per barrel falling to an average of approximately $10 per barrel by 1986.

As a result, as Basin Electric was putting the three LRS units into commercial operation, we were finalizing construction of AVS despite the fact that we had no load for it to serve.

We were about to become a G&T with 2,000 MW of capacity and 1,000 MW of load.

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Meanwhile, the federal reserve was waging a war against double digit inflation rates. For example, in 1981 the average rate on a 30-year fixed rate mortgage was 17%.

As a result, Basin Electric began exploring alternative means of long-term financing for AVS, specifically leveraged leasing.

In a leverage lease, the Lessors, through an owner trust, purchase a facility or a piece of equipment using both equity and debt and lease it back to the original owner at a lease rate that reflects the tax benefits the Lessor enjoys including the accelerated depreciation, investment tax credits, energy tax credits and interest deductions as a result of its ownership of the asset and the loan it took out to finance a portion of its acquisition.

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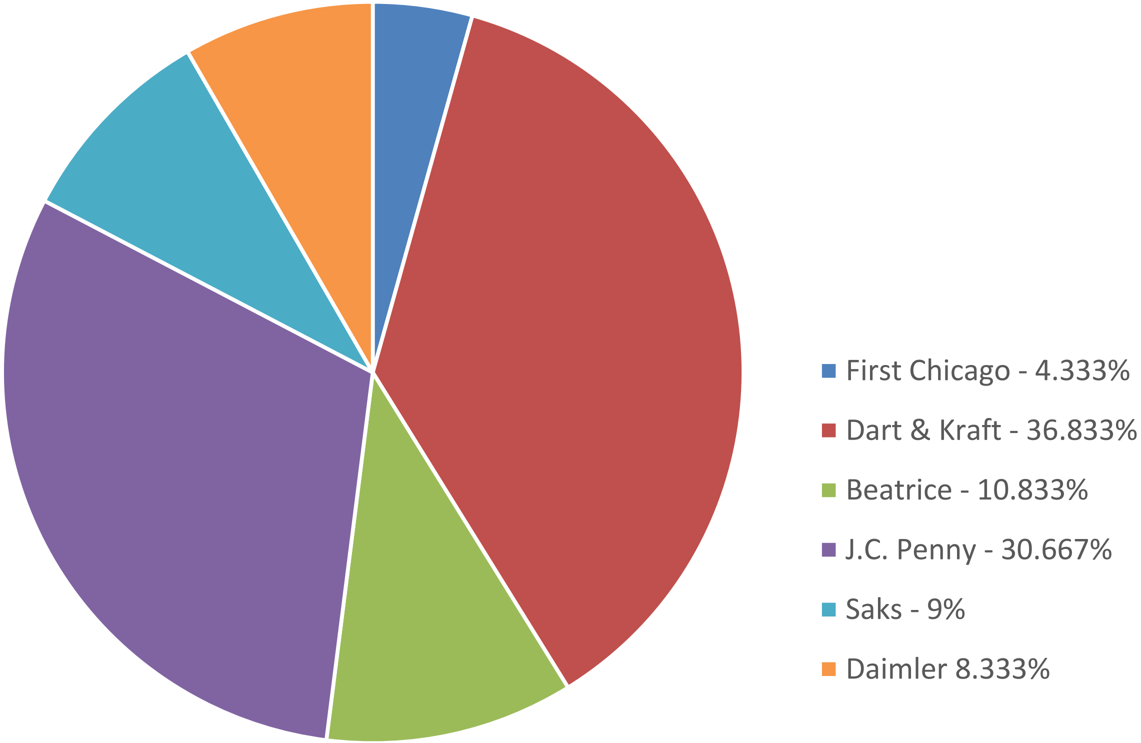
On December 3, 1985, Basin entered into a sale/leaseback transaction of AVS Unit No. 2.

The original lessors were:



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As required by tax regulations, AVS Unit 2 was sold at fair market value, generating a gain of just under $70 million which Basin Electric amortized over the initial 30-year life of the lease.

The Lessors realized investment and energy tax credits of approximately $72.4 million in 1985 despite the fact that they only owned the facility for less than 30 days.

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The debt side of the transaction included:

- $186 million St. Paul Bank for Cooperative at 9.399% (variable)
- $133 million @ 10.5% (fixed) - tax exempt pollution control bonds
- $54 million at 7.9% variable - commercial paper

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Assuming a 20% residual value at the end of the lease, the implicit (e.g. equivalent) rate of interest was 6.6%.

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Background

- In 1992, in order to refinance tax exempt lease debt, Basin agreed to exercise the first five-year Fixed Rate Renewal Term (December 30, 2015 to December 30, 2020).
- In 2015, Basin Electric purchased 24% interest (107 MW) held by J.P. Morgan for approximately $60 million ($25 million of which was attributable to the remaining lease payments).

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Background (continued)

- In fall of 2017, Macquarie put its 31% undivided interest (138 MW) on market.
- Basin Electric submitted a bid of $37.6 million ($20.2 million of which was attributable to the remaining lease payments).
- Fundamental Advisors purchases the Macquarie interest for a purchase price in the $60 million range.

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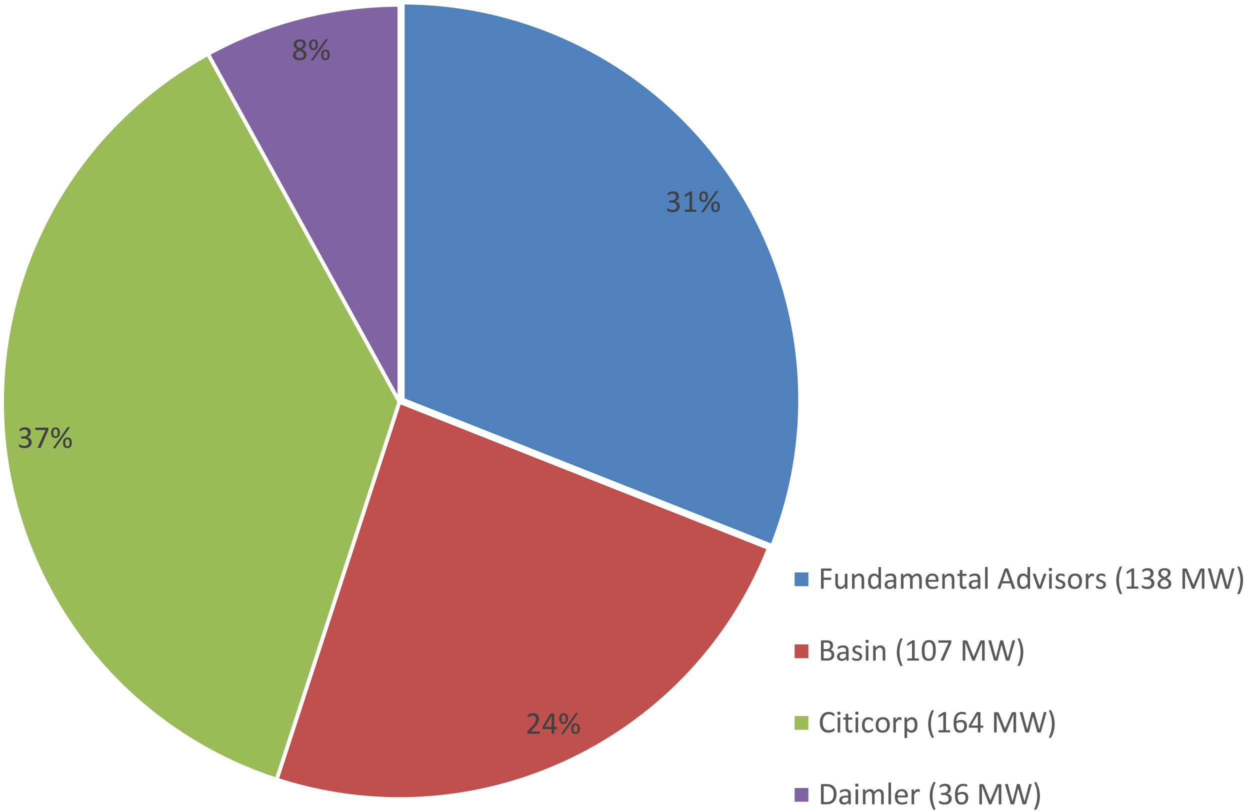
Current Ownership Share of AVS Unit 2



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Background (continued)

- Basin Electric asked Daimler if they had any interest in selling their undivided 8% interest (36 MW) to us.
- Daimler responded that they have been approached by several interested parties and based upon a table top appraisal, quoted a price about twice what we believe the value to be.

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Notice Requirement

Current Fixed Rate Renewal Term expires on December 30, 2020.

Basin Electric must give irrevocable notice to Lessors by December 30, 2018 to: extend the Lease, to exercise the purchase option or to return the undivided interest to the Lessors .

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Four Basin Electric Options at end of Fixed Rate Renewal Period

- Extend lease for the Maximum Option Period at current lease rate (which is 50% of average rent paid during the base term). We would know the lease rate, but not the term at the time we commit.

- Extend the lease at a fair market rental value for an additional five years. We would know the term, but not the lease rate at the time we commit.

- Purchase the undivided interest at its fair market value. We would **not** know the purchase price at the time we commit to purchase.

- Return the undivided interest to the Lessor.

There is nothing that would prevent Basin Electric, should Basin Electric provide notice (or not provide notice) to the Lessors, from subsequently negotiating with the Lessors (assuming they are so inclined).

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Maximum Option Period

The end of which period:

1. The undivided interest has a minimum residual value of 20% of original purchase price (without respect to inflation or deflation); and
2. Does not exceed 80% of the unit's useful life.
3. If Lessor and Basin Electric cannot agree on the Maximum Option Period, it is determined by the Appraisal Process.

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Appraisal Process

- Unless a Lessor and Basin Electric agree on a price, rental rate or Maximum Option Period, each party appoints an appraiser. If two appraisers don't agree, a third appraiser is selected by the two appraisers.
- If one appraisal is more disparate from the average of all three appraisals, it is excluded and the appraisal is the average of the remaining two. If not, the appraisal is the average of all three.
- Basin Electric pays fees and expenses of all appraisers.

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Issue

The recent sale by Macquarie to Fundamental Advisors would be considered in establishing AVS Unit 2’s fair market value.

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Flexibility

- There is no requirement that Basin treat the three remaining Lessors consistently (theoretically, Basin could extend one undivided interest, purchase one undivided interest and return one undivided interest).

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Operating Agreement

- Effective upon the expiration of a lease under circumstances where Basin has not exercised its purchase option or otherwise acquired the undivided interest, effective January 1, 2021. Basin is appointed the Lessor/Owner’s operating agent.
- As operator, Basin is obligated to provide lignite coal, water and transmission services and operate the unit on behalf of all Facility Users.
- Basin is entitled to both recover its actual costs, as well as receive a reasonable return.
- Capital and operating budgets require approval of 2/3 majority of Facility Users.
- If the 2/3 majority threshold cannot be met, Basin, as operator, or a majority of the Facility Users (other than Basin) can submit the matter to arbitration.
- Basin can be removed as operator with a 2/3 majority of the Facility Users.

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Final Shutdown

- Decision on final shutdown determined by 2/3 majority of the Facility Users.
- If Basin purchased or leased the Daimler 8% interest, we would only have a 32.5% vote.
- If decision is made to shut down, Basin, as operator, is required to solicit bids.
- Basin, as operator, and the undivided interest owners are allowed to bid.
- If no bid, Basin is obligated to dismantle Unit 2 and deliver to the nearest railhead.

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