

**Basin Electric Power Cooperative  
Bismarck, North Dakota**

**Minutes of the Regular Meeting of the Board of Directors  
January 14-16, 2014**

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**Basin Electric Power Cooperative  
Bismarck, North Dakota**

**Minutes of the Regular Meeting of the Board of Directors  
January 14-16, 2014**

The Regular Meeting of the Board of Directors of Basin Electric Power Cooperative (the **Cooperative** or **Basin Electric**) was held at Basin Electric's headquarters building, 1717 East Interstate Avenue, Bismarck, North Dakota, on Tuesday, January 14, 2014 starting at 1:10 p.m. CST.

**1. Call to Order**

The meeting was called to order by President Wayne Peltier, who presided, and Secretary-Treasurer Gary C. Drost kept the minutes thereof.

**2. Roll Call**

After calling the roll, the Secretary reported the following Directors present:

Donald E. Applegate	Paul Baker
Marshall Collins	Gary C. Drost
Arden Fuher	Charles Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were interim CEO & General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson; Basin Electric staff members Shawn Deisz, Tammy DeWitt, Jon Klein, Dave Raatz, Ken Rutter, Mike Risan and Michelle Wiedrich.

Also present were Dakota Gasification Company (DGC) directors James Geringer, Alan Klein and Tom Owens; DGC staff members Bob Fagerstrom, Mark D. Foss, A.T. Funkhouser, Dale Johnson, Steven Liebelt; and East River Electric Power Cooperative (East River) director Mark Rogen.

**3. Approval of Authorized Signatories**

Mr. Olson reported that, due to the resignation of Andrew Serri, updated authorized signatories resolution are required by the banks. After discussion, it was moved by Director Pearson, seconded by Director Gilbert and carried that the following Resolution be adopted:

**R01.01-14-14**

**RESOLVED**, that Bank of North Dakota, BMO Bank of Montreal, Bank of Tokyo-Mitsubishi UFJ, CoBank, First Security Bank-West, JPMorgan Chase Bank, National Association, National Rural Utilities Cooperative Finance Corporation, PNC Bank N.A., Union State Bank, U.S. Bank National Association, Wells Fargo Bank, N.A. and Bank of the West (collectively, the **Banks**) are hereby

designated as depositories for the funds of the Cooperative and the officers and other persons of the Cooperative to open or continue an account or accounts with said Banks and to execute and deliver to said Banks signature cards or cards supplied by said Banks containing specimen signatures of the officers and other persons hereinafter named, and that the officers and other persons hereinafter named are hereby authorized for and on behalf of the Cooperative to sign (either in original form or by facsimile), make, draw, accept, endorse or cause to be endorsed and to deposit or cause to be deposited in such account or accounts from time to time checks, notes, drafts, bills of exchange, acceptances, orders and other instruments for the payment of money to the Cooperative or withdrawal of funds held by the Cooperative;

**RESOLVED**, that the Banks are authorized to accept deposits to the account or accounts of the Cooperative and to pay, cash or otherwise honor or charge to the Cooperative any such instrument for the payment of money or withdrawal of funds held by the Cooperative when so signed (either in original form or by facsimile), made or drawn regardless of by whom or by what means the actual or purported facsimile signature or signatures thereon may have been affixed thereto if such facsimile signature or signatures resemble the facsimile specimens from time to time filed with the Banks by the Secretary-Treasurer or other officer of the Cooperative;

**BE IT FURTHER RESOLVED**, that checks, notes, drafts, bills of exchange, acceptances, orders and other withdrawal orders and any and all other directions and instructions of any character with respect to funds of the Cooperative now or hereafter with said Banks may be signed by any two persons holding the following offices or positions with the Cooperative: Interim President, Vice President, Secretary-Treasurer, Chief Executive Officer & General Manager and Interim Senior Vice President & Chief Financial Officer, and said Banks are hereby fully authorized to pay, cash or otherwise honor or charge to such account or accounts any checks, notes, drafts, bills of exchange, acceptances, orders and other deposits or withdrawal orders so signed;

**BE IT FURTHER RESOLVED**, that any of the two persons then holding one of the offices or positions herein named and their designees (in writing) be, and they hereby are, authorized to give written or verbal instructions by telephone, telegraph, or otherwise, as they deem proper; and said Banks are authorized to accept instructions from any such persons herein named or their designee (in writing) as to the delivery of checks, notes, drafts, bills of exchange, acceptances, orders and other instruments for the payment of money or temporary investment of money from the account or accounts of the Cooperative; and any such person shall have the fullest authority at all times with reference to any transaction deemed by him to be proper to make or enter into for or on behalf of the Cooperative with the Banks or others. This paragraph shall be

and remain in full force and effect until written notice of the revocation hereof shall be delivered to the Banks; and

**BE IT FURTHER RESOLVED**, that the following persons presently occupy the respective offices and positions designated in this resolution and that the same are duly qualified as such officials:

Wayne Peltier, President  
Kermit Pearson, Vice President  
Gary C. Drost, Secretary-Treasurer  
Paul M. Sukut, Interim Chief Executive Officer & General Manager  
Steven P. Johnson, Interim Senior Vice President  
& Chief Financial Officer

**BE IT FURTHER RESOLVED**, that said Banks shall be entitled to rely upon a certified copy of these resolutions until written notice of modification or rescission has been furnished to and received by said banks.

**4. Recess and Reconvention**

At 1:15 p.m., the meeting recessed until 10:25 a.m. January 15, 2014, at which time the meeting reconvened, President Peltier continuing to preside and Director Drost continuing to keep the minutes.

**5. Roll Call**

After calling the roll, the Secretary reported the following Directors present:

Donald E. Applegate	Paul Baker
Marshall Collins	Gary C. Drost
Arden Fuher	Charles Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were Interim CEO & General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson; Basin Electric staff members Tracie Bettenhausen, Shawn Deisz, Tammy DeWitt, Mike Eggl, Matt Greek, Ellen Holt, Steve Johnson, Becky Kern, Deborah Levchak, Mike Murray, Deb Olafson, Dave Raatz, Mike Risan, Ken Rutter, Tom Stalcup, Steve Tomac, Michelle Wiedrich and Lyle Witham. Also present were DGC directors James Geringer, Alan Klein and Tom Owens and East River director Mark Rogen.

**6. Approval of the Agenda**

The Directors considered the agenda for the conduct of the business of the meeting. After an opportunity for addition and deletion of items, it was moved by Director Gilbert, seconded by Director Pearson and carried that the agenda be approved as presented.

**7. Approval of the Minutes**

The minutes of the December 8, 2013 Reorganizational Meeting and the December 8-10, 2013 Regular Meeting were presented and after an opportunity for corrections, it was moved by Director Applegate, seconded by Director Fuher and carried that the minutes be approved as presented.

**8. Office of General Counsel Report**

Claire Olson, Senior Vice President and General Counsel, reviewed the status of legal matters affecting or of interest to the Cooperative.

On January 10, the Environmental Protection Agency (EPA) issued its decision that Selective Catalytic Reduction (SCR) must be installed on each of the Laramie River Station (LRS) units. Staff is reviewing the 700+ page decision and an appeal of the decision will likely follow.

The compliance date is five years and 30 days after publication in the *Federal Register*, most likely in early 2018.

In June 2013, EPA estimated the cost to install and operate an SCR on all LRS units was approximately \$330 million. In June of 2013, Basin Electric estimated the same to be \$750 million. In the January 2014 decision, EPA's estimate was \$556 million.

In its decision, EPA invited the state of Wyoming to resubmit its State Implementation Plan (SIP). Staff will be in contact with the state of Wyoming after review of the decision.

Basin Electric's options include appealing the Federal Implementation Plan to the 10<sup>th</sup> Circuit Court of Appeals; petitioning for reconsideration; working with the Wyoming Department of Environmental Quality on new SIP options; settlement options, if any, or a combination of the above.

The trial date in the wind tower noise matter, *Halverson v. BEPC & PrairieWinds ND 1, Inc.*, is set for April 28, 2014.

He then reported on the administrative hearings on the Antelope Valley Station (AVS)-to-Neset project.

**A. Property Management Report**

Mike Murray, Supervisor of Property & Right-of-Way, reported the following transmission line easement acquisition percentages: AVS-to-Charlie Creek substation 96%; Charlie Creek Substation-to-Judson Substation 80%; Judson-to-Tande 89%; Tande-to-Neset 100%; and total AVS-to-Neset project 87%.

The North Killdeer Loop will start at the new Roundup Substation, to the new Kummer Substation and will terminate at the new Patent Gate Substation.

With the exception of McKenzie County, this project has received a conditional use permit from every county required. The conditional use permit is only a permit to rezone the land.

Mr. Murray then reported that in 2007, Basin Electric was studying the possibility of building the NextGen plant and secured 2,300 acres near Selby, South Dakota for the plant and water intake site. All but one or two easements for the water pipeline were secured and staff had begun to acquire transmission line easements. He noted that this property will be retained as a potential plant site. He noted that South Dakota does not have a corporate farming law.

Presently, all 2,300 acres are leased for farming at a negotiated rental rate through 2014. A significant rental adjustment will be implemented in 2015.

**B. Human Resources Staffing Update**

Ellen Holt, Manager of Human Resources, provided an overview of retirements and terminations (left for a different job, death or retired prior to age 55) between 2007 and 2013. In 2013, there were 179 retirements and 96 terminations. The termination number has doubled from 2012. She noted that a number of employees in the 50 to 55 age group elected to leave due to the favorable interest rates and will be seeking new positions. She reviewed the breakdown of 2013 retirees by facility.

Ms. Holt reported that 508 employees will be eligible for retirement (age 55 or older) in 2014 and 64 employees will be eligible to retire in 2015.

Basin Electric and its subsidiaries currently have 162 open positions. She reported that Basin Electric may need to be more resourceful in its recruiting efforts going forward.

**9. Recess and Reconvention**

At 12:10 p.m., the meeting recessed until 1:00 p.m., at which time the meeting reconvened with President Peltier continuing to preside and Director Drost continuing to keep the minutes.

**10. Roll Call**

After calling the roll, the Secretary reported the following Directors present:

Don Applegate	Paul Baker
Marshall Collins	Gary Drost
Arden Fuher	Charles Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were Interim CEO and General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson and Basin Electric staff members Robert J. Bartosh, Tracie Bettenhausen, Kelly Cozby, Tammy DeWitt, Mike Eggl, Pius Fischer, Robert Frank, Matt Greek, Ellen Holt, Steve Johnson, Becky Kern, Mark Kinzler, Deborah Levchak, Gavin McCollam, Faye Miller, Folko Mueller, Deb Olafson, Dave Raatz, Mike Risan, Ken Rutter, Tom Stalcup, Matt Stoltz, Blake Stoner, Jeremy Severson, Steve Tomac, Shanda Traiser, Kevin Tschosik, Michelle Wiedrich and Lyle Witham. Also present were DGC staff members A.T. Funkhouser and David J. Sauer; East River director Mark Rogen; and Mor-Gran-Sou Electric Cooperative (Mor-Gran-Sou) director Robert Gaebe.

## 11. Cooperative Planning Report

### A. Strategic Planning

Shanda Traiser, Business Strategies Planner, reviewed the results of the Touchstone Energy strategy execution assessment. The same survey will be repeated in December 2014 for comparison purposes. She also reviewed the strategic planning timeline.

Ms. Traiser reported that she will meet with the Manager's Advisory Committee (MAC) in February to discuss strategic issues and the Board strategic planning retreat is scheduled for March 18-19.

The directors and staff then broke into small groups to review and revise three suggested mission statements and determine what they liked and disliked about each point, from which Ms. Traiser will develop a mission statement.

Staff and the Board then broke into work groups to discuss current strategic objectives for knowledge, people, technology and internal processes as a part of the strategic planning effort.

## 12. Generation Report

Matt Greek, Senior Vice President of Generation, reviewed the Cooperative's safety performance for the month, noting that there had been two recordable incidents and no Days Away Restricted or Transferred (DART) incidents in December.

He then reviewed the status and budget information regarding the Cooperative's major construction projects.

He then reviewed the monthly performance of the Cooperative's generation facilities.

December generation was 8.5 percent above the budget. Year-to-date actual generation was 28,285,435 MWh compared to budgeted generation of 28,432,840 MWh or 0.5 percent under budget. He reviewed actual generation for the solid fuel plants, oil and gas plants and wind facilities for December and year-to-date.

December individual availability and capacity factors for the coal-based generation stations were as follows:

Unit	Avail-Ability (%)	Capacity Factor (%)	Unit Rating	Comments
LRS #1	100	85.9	570 MW	
LRS #2	100	93.0	570 MW	
LRS #3	100	91.7	570 MW	3A PA fan out of service
LOS #1	100	83.7	221 MW	
LOS #2	100	87.1	448 MW	
AVS #1	99.9	88.1	450 MW	Low furnace pressure
AVS #2	99.3	96.0	450 MW	EH turbine leak; low drum level
DFS	100	97.0	386 MW	



He then reported on activities associated with "LRS-A New Direction".

**A. Distributed Generation Update**

Kevin Tschosik, Distributed Generation Manager, reviewed natural gas prices and reported that the Cooperative's gas-fired facilities operated at higher levels than ever before. December distributed generation at the facilities was as follows:

Unit	Monthly Availability (%)	Monthly Generation (Net MWh)	Unit Rating (MW)	Comments
Groton Unit #1	96.6	21,113	200	
Groton Unit #2	79.5	15,886		
Culbertson CT	97.1	28,606	100	
WY Dist. Gen.:				
Arvada		25	45	
Hartzog				
Barber Creek				
SMS Unit #1	99.3	600	120	Did not run?
SMS Unit #2	100	328		Did not run?
Deer Creek Station	100	121,086	300	Frozen steam control valve
Pioneer CT	78.1	13,098	45	
Lonesome Creek CT	92.5	14,745		
PWND 1		43,787		
PWSD 1		56,850		

Mr. Tschosik reported he met with GE during the month to discuss 2013 reliability concerns. GE agreed to supply hardware S1-4 vane rings at no cost to Basin Electric and to split the labor costs for the LPC vane ring replacement for both GGS-1 and GGS-2. The parts will be available in June or July of 2014.

He then reviewed 2013 operation of the Wyoming Distributed Generation, which consists of nine 5 MW combustion turbines that were commissioned in August of 2002. These units are held as 28 MW of non-spinning and 28 MW of spinning reserves. Units 1-6 are required for non-spinning reserves; Units 7-8 are required for redundancy; and Unit 9 is for risk management. These are used for west-side reserves.

The Wyoming turbines were placed into service in 2002 and have a depreciable life ending in 2035.

Mr. Tschosik then presented photographs of the Arvada, Barber Creek and Hartzog units, which all show wear, particularly in the compressor section. Plans are to boroscope each engine each year to determine if things have changed, and whether it is advisable to delay repairs. Plans are to repair Hartzog #3 (which has third-stage blade damage) in 2015.

**PrairieWinds ND 1.** Mr. Tschosik reported that semi-annual maintenance is 67% complete. The wind towers shut down when it reaches 22°below zero. They shut down when the wind speed reaches 54 mph for 10 minutes. Some turbines did shut down during December.

**PrairieWinds SD 1.** Mr. Tschosik reported that base bolt tension has been completed and that annual maintenance is 96% complete.

The east-side peak occurred on December 6, 2013 at 0800 hours. At that time, wind generation was as follows:

Wind Project	Load Factor during the Peak	Capacity Factor	Project Total
PrairieWinds ND	74 MW	48%	123 MW
PrairieWinds SD	79 MW	49%	162 MW
Wilton	42 MW	41%	99 MW
Baldwin	67 MW	47%	99 MW
Edgeley	0 MW	15%	40 MW
Highmore	14 MW	44%	40 MW
Day County	30 MW	44%	99 MW
Iowa Wind	8 MW	38%	45.1 MW
Other Projects (Chamberlain & Pipestone)		11%	3.4 MW
TOTAL DECEMBER WIND GENERATION	314 MW	44%	712 MW maximum
AVERAGE YTD CAPACITY FACTOR	---	41%	---

Mr. Tschosik then presented a comparison of 2012 and 2013 generation by unit.

#### **B. Dry Fork Station Plant Update**

Tom Stalcup, Dry Fork Station (DFS) Plant Manager, reviewed safety and safety goals, station performance, environmental, the 2013 planned outage and the 2014 planned boiler tube exfoliation outages.

There were nine injuries/illnesses in 2012 and twelve in 2013. He reviewed safety goals and plant performance.

2013 year-to-date generation was 110% of budget and availability was just under 91%. There were two planned outages in 2013, one in January for a warranty issue with the air preheat seal and the main one in the fall. He then reviewed the planned maintenance schedule.

#### **13. Recess and Reconvention**

At 5:05 p.m. CST, the meeting recessed until 8:00 a.m. CST on Thursday, January 16, 2014, at which time the meeting reconvened, President Peltier continuing to preside and Director Drost continuing to keep the minutes.

**14. Roll Call**

After calling the roll, the Secretary reported the following Directors present:

Don Applegate	Paul Baker
Marshall Collins	Gary Drost
Arden Fuher	Charles Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were CEO and General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson and Basin Electric staff members Kim Badenhop, Tracie Bettenhausen, Andy Buntrock, Eric Carufel, Chad Heck, Steve Johnson, Becky Kern, Mark Kinzler, Sally Meier, Folko Mueller, Dale Niezwaag, Deb Olafson, Dave Raatz, Mike Risan, Ken Rutter, Steve Tomac, Valerie Weigel, Michelle Wiedrich and Lyle Witham.

Also present were Mor-Gran-Sou director Robert Gaebe and East River Director Mark Rogen.

**15. Marketing and Trading – Purchased Power Report**

Ken Rutter, Vice President of Marketing and Trading, reviewed the December membership loads, purchased power estimates and estimates of non-member sales. He also reported on the production of the Cooperative's gas-fired facilities.

The Leland Olds Station was derated December 24 through January 1<sup>st</sup> due to coal conservation efforts. There were significantly higher natural gas runs than anticipated for December. Natural gas prices spiked at Ventura during January 4-6, with some offers at the \$30/MWh level.

Purchased power volumes were down but natural gas burns were up. The fuel expense should be higher than budgeted but this will be offset with the cost plus 10% sales to the Western Area Power Administration (**WAPA** or **Western**). There was strong performance from the baseload units for the month of December.

Estimated December non-member sales volumes were significantly higher than anticipated. Prices on the East Side were soft while stronger than anticipated on the West Side. He reviewed the Class A, DGC energy and total load based on SCADA estimates during the January 4-6 peaks.

Gas-fired generation totaled 214,392 MWh, compared to the budget which showed almost no gas-fired generation in December.

Forward hedging activity continues on the East Side. Marketing & Trading is working to ensure the budget is achieved, while also working to provide additional value above the budget. Several of the purchases have involved looking at the natural gas assets as an alternative to purchased power.

Hedging also continues on the West Side. The West is forecasted to have surplus, so staff is working to monetize the value at or above budget when market conditions are supportive. Tie transfers are also being adjusted on an opportunistic basis.

Mr. Rutter then reported on the status of the west desk. Staff began the 24/7 rotation on December 30 and is managing the west-side position from Bismarck using WAPA's Montrose systems. Termination of the west-side WAPA merchant services agreement is planned between February 15 and March 1. Prescheduled (day ahead) West-side position management activity began January 6.

## **16. Cooperative Planning Report**

Dave Raatz, Vice President of Cooperative Planning, reported that the estimated January peak demand is 3410 MW. Last winter's peak was 3014. The January 2014 peak is estimated to be 200 MW higher than forecasted. He noted that the load growth was distributed throughout the membership and not just concentrated in northwestern North Dakota oil development.

RTO Membership Activities. The Western formal public comment period on the Western proposal to join the Southwest Power Pool (SPP) ended December 16, 2013. The WAPA Administrator has authorized Western staff to move forward to pursue formal negotiations with SPP to make official membership possible.

Mr. Raatz then reviewed the timeline and activities for joining SPP and for the new Basin Electric/Western Agreement. A May/June 2014 IS decision is expected. He then reviewed the RTO integration process and noted that the Brattle Group will be retained to help with the analysis of what the Cooperative believes are the important items.

Flare Gas Research Tasks. A consultant was retained to gather information regarding the feasibility of using gas that is being flared from the Bakken development for power generation. He contacted 20 oil companies and found there to be very low interest in dedicating flare gas to electric generation industry because it is a short-term supply--there is a drastic decline of flare gas after the first two years of a well's production. As a result, the flare gas investigation has been stopped. Some discussion continues with Continental Resources.

Resource Planning Update Milestones. Mr. Raatz noted that Becky Kern would provide a Resource Plan Update this month. There will be a strategic discussion on new resources in March and a resource commitment would be needed this summer.

There will be much discussion about solar generation at the January 23 MAC meeting and staff will discuss the magnitude of support for solar at a future Board meeting. The MAC will participate in a strategic session toward the end of February.

### **A. Resource Planning Update**

Becky Kern, Manager of Utility Planning, began with a review of the load and resource capabilities of MISO and IS/SPP for the period 2014 through 2024. She also reviewed Basin Electric's capacity situation in MISO and IS/SPP.

She then reviewed the economics of obtaining the capacity and energy needed to serve the load growth purchases from the market or through self-build options. The analysis was performed using various sensitivities for market / natural gas prices and load growth.

She summarized by noting that in not considering costs associated with greenhouse gases, coal resources and peaking were competitive with natural gas combined cycle. However, considering possible costs of compliance with greenhouse gas regulations, natural gas combined cycle and peaking prevail.

She then reviewed several scenarios using power purchases from the market, along with new peaking and combined cycle generation.

After responding to questions, she noted that Resource Planning would be a part of the March 2014 strategic discussion. By the summer of 2014, the Board would be asked to make a decision on resource commitments.

## **17. Communications & Administration Report**

Mike Eggl, Senior Vice President of Communications & Administration, provided a summary of press items, reviewed events of the past month and media inquiries. He distributed a schedule of the Class A annual meetings and noted that there will be someone from the management team at each meeting.

He noted that all states in our service area, except Montana and North Dakota, have legislative sessions in 2014. Steve Tomac, Senior Legislative Representative, then reviewed legislative issues under consideration in Minnesota and South Dakota.

Dale Niezwaag, Senior Legislative Representative, reported on legislative and regulatory matters in Iowa and North Dakota.

Bill Stafford, Director of Wyoming Government Relations, reported on Wyoming legislative issues.

Mr. Eggl then reviewed the "Lights on the Tree" presentation, which is a summary of the issues on which Basin Electric is focusing, which is updated monthly and available for anyone making a presentation about Basin Electric. Mr. Sukut noted that this was very helpful when preparing the rating agency presentation. The "Lights on the Tree" presentation is structured around the Cooperative's core issues: energy security, commitment to community, environmental commitment, innovation. This is so important on how we support the rest of the organization.

He then reported on activities underway to follow the development of EPA's regulation on greenhouse gas regulation for existing sources under Section 111(d).

He then reviewed a request from PRECorp manager Mike Easley. Three years ago, Tri-State donated \$10 million to fund an XPrize to spur technology to capture and use carbon dioxide emitted from coal-fired power plants. The prize winner would have to be able to show they could economically capture carbon emissions at a working power plant. They also would have to be able to put the carbon to a use that could defray the cost of keeping the greenhouse gas out of the atmosphere.

Mr. Easley, who is also on the Wyoming Infrastructure Authority, plans to go to the Wyoming Joint Appropriations Committee to request a \$15 million appropriation from Wyoming to supplement this prize. He requested that Basin Electric consider offering the Dry Fork Station as a proposed demonstration site. After discussion, Mr. Eggl was asked to gather additional information on this project.

Information Systems & Technology. Mr. Eggl introduced Mark Kinzler, Vice President and Chief Information Officer, who reviewed the IS&T work plan.

Mitch Stafford, Basin Telecommunications Inc. (BTI) Marketing Supervisor, reported that in 2013, the Board had directed BTI to serve the member cooperatives and pursue retail customers for outside revenue. In 2013, BTI spent in excess of \$125,000 in marketing, advertising and trade shows, which resulted in no significant new customers. He reported that customers are no longer looking for servers to host their own applications. Large application companies are looking for large hosting providers, such as Amazon, Google, GoDaddy and Rackspace. He reported that BTI's 2013 net profit margin was 5% on \$2 million annual revenue.

Mr. Kinzler then noted that BTI's commercial focus is detracting from member support and instead of focusing on external customers, BTI would focus on server and network management and technical advice for Basin Electric and its members. If the board decides to go this direction, BTI could be dissolved.

**18. Recess and Reconvention**

At 12:15 p.m. CST, the meeting recessed until 12:45 p.m., at which time the meeting reconvened, President Peltier continuing to preside and Director Drost continuing to keep the minutes.

**19. Roll Call**

After calling the roll, the Secretary reported the following Directors present:

Don Applegate	Paul Baker
Marshall Collins	Gary Drost
Arden Fuher	Charles Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were Interim CEO and General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson and Basin Electric staff members Tracie Bettenhausen, Andy Buntrock, Tammy DeWitt, Steve Ellefson, Mike Risan, Jaclyn Schweigert, Steve Johnson, Deb Olafson, Shawna Platz, Justin Weichel, Valerie Weigel, Michelle Wiedrich, Andrea Williams and Roxanne Woeste.

**20. Transmission Report**

Mike Risan, Senior Vice President of Transmission, reported that the Blaisdell-to-Berthold and Snake Creek Projects were placed in service. He reported that we had expected a 650 MW peak in the Williston load pocket during the peak, but some of the load may have

been lower than expected and some was re-sectionalized and served from outside the pocket.

RTO. The SPP board will meet at the end of January and both Bob Harris and Mike Risan will attend.

NERC. Transmission compliance staff plans to have a dialogue with the membership and revisit our registration options, which have evolved since first rolled out. Basin Electric is currently enrolled on behalf of its members, but this is no longer allowed. We have been advised by FERC counsel that the members should register themselves, but Basin Electric will continue to assist them with the process.

The NERC Executive Oversight Committee reviewed the recommendation from the NERC Implementation Team and decided to end the consulting contract with DL2C. Another consultant may be retained in the future.

Mr. Risan reported that Bryan Keller has been promoted to Vice President of Transmission System Maintenance.

## 21. Financial Services Report

### A. 2013 Margin and Request for Deferral

Steve Johnson, Interim Senior Vice President and Chief Financial Officer, reported that the 2013 budgeted margin was \$53.4 million or 4.3% of total revenue. Staff now believes the margin will be in the \$58 to \$62 million range.

He reviewed the 2014 forecasted margin, as well as additional costs that were not in the budget, noting that as currently projected, the 2014 margin is 2.4% of total revenue. Based on the 2013 year-end projected results, he recommended that the Cooperative defer \$10 million of revenue from 2013 to 2014.

Shawn Deisz, Vice President and Controller, noted that the 2013 books are scheduled to be closed on January 24. She reviewed the requirements under FAS 71, Accounting Standards 980 for a revenue deferral and recommended that \$10 million of 2013 revenue be deferred to 2014.

After discussion, it was moved by Director Drost, seconded by Director Applegate and carried that the following Resolution be adopted:

#### R02.01-14-14

WHEREAS, Basin Electric Power Cooperative has earned significantly higher revenue than forecasted during 2013; and

WHEREAS, Basin Electric is constructing new generating facilities to meet the increasing member demand and, bringing the cost of new generating facilities into the rate base will place upward pressure on retail rates for Basin Electric's members; and

WHEREAS, the Rural Utilities Service (RUS) 7 CFR Part 1767 *Accounting Requirements for RUS Electric Borrowers* dated

January 1, 2012, requires RUS approval of all revenue deferral plans.

NOW THEREFORE, BE IT RESOLVED, that effective December 31, 2013, an additional ten million dollars (\$10,000,000.00) of surplus sales revenue earned during 2013 be deferred and brought into revenue in 2014, subject to the approval of the RUS; and

BE IT FURTHER RESOLVED, that such funds shall be restricted until amortized into revenue; and

BE IT FURTHER RESOLVED, that due to the fact that the Cooperative is not now, nor has it ever been tax exempt, the Cooperative believes that said deferral will not impact its tax status; and

BE IT FURTHER RESOLVED, the Board of Directors further finds that bringing said revenue in the Cooperative's business from 2014 will have no greater impact on Basin Electric's status as a cooperative than would bringing the revenue into business in 2013 since (a) such revenue was unanticipated in 2013, and (b) the makeup of the membership of the Cooperative is unlikely to change in a manner which would materially impact the allocation of capital credits.

#### **B. BEPC Margin Policy Review**

Mr. Johnson reviewed key metrics, margin history and the impact of a 4% and a 5% margin policy. The current Board Policy states margins are to be 3.0% of total revenue from electric operations only. The Indenture requires a 1.10 MFI ratio, which in 2014 would be \$15.5 million. He reviewed the history of TIER and DSC on both a consolidated and a Basin only basis and how the ratios fall in the various rating categories used by the agencies. He reported that many G&Ts use fuel or purchased power cost adjustments in setting rates to mitigate swings in their margins. He then reviewed Basin's current and projected equity to capitalization ratio.

He discussed current rate-setting criteria options: initial margin targets of 3%, 4% or 5% knowing Basin assumes all cost and revenue risk. He then discussed the pros and cons of the current 3% margin policy versus a 4% or 5% margin policy. No action was requested or required.

#### **22. Recess for Board Audit Committee Meeting**

At 1:35 p.m., the meeting recessed to hold the quarterly Board Audit Committee meeting. The meeting reconvened at 1:50 p.m.

#### **23. Voting Delegate and Alternate for NRTC Annual and Regional Meetings**

President Peltier reported that the NRTC annual meeting is scheduled for February 3 at the Grand Hyatt in San Antonio, Texas, and that a voting delegate and alternate should be



named. After discussion, it was moved by Director Pearson, seconded by Director Applegate and carried that Director Gilbert serve as delegate and Director Thiessen serve as alternate to the NRECA annual meeting.

**24. Directors' Reports**

Director Pearson reported that East River's new CEO, Tom Boyko, starts on February 1.

Director Baker reported that PRECorp's board chair will attend the February Basin Electric board meeting.

Director Rohrer reported that next week, the Central Montana board will tour a two to four MW car-shredding facility in Yellowstone Valley Electric Cooperative's service area.

Director Fuher reported on the North Dakota Association of Rural Electric Cooperatives (Statewide) annual meeting. NRECA Administrator JoAnn Emerson was the feature speaker and was very well received.

Director Thiessen reported that Upper Missouri will be getting a new 111-car train-loading facility. He also noted that Upper Missouri held its first conference call board meeting due to a blizzard.

Director Gilbert reported that the last of the coal was used at the Wisdom #1 Station, so now it can be converted to natural gas. Clean Lines is planning to run a DC transmission line through Corn Belt's service territory, which has generated a great deal of controversy in Iowa.

Director Drost reported on the Mark Glaess retirement event. He also reported that all state and county offices in Sioux Valley's territory are closed today due to a snow storm.

**25. Date and Time of Next Board Meeting**

The next regularly scheduled meeting of the Board of Directors will take place February 11-13, 2014, at the Basin Electric headquarters building in Bismarck, North Dakota.

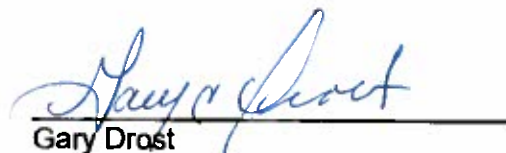
**26. Executive Session**

At 1:50 p.m., it was moved by Director Drost, seconded by Director McQuiston and carried that the board retire into executive session to discuss upcoming issues with the newly appointed Interim CEO and General Manager.

At 2:30 p.m., it was moved by Director McQuiston, seconded by Director Collins and carried that the board arise from executive session.

**27. Adjournment**

There being no further business to come before the meeting, President Peltier adjourned the meeting at 2:30 p.m.

  
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Gary Drost  
Secretary-Treasurer