

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

**Minutes of the Regular Meeting of the Board of Directors  
March 12-13, 2014**

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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 Wednesday, March 12, 2014 starting at 7:30 a.m. CDT.

**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 H. 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.

**3. 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 Applegate and carried that the agenda be approved as presented.

**4. Approval of the Minutes**

The minutes of the February 11-13, 2014 Regular Meeting of the Board of Directors were presented and after an opportunity for corrections, it was moved by Director Applegate, seconded by Director Pearson and carried that the minutes be approved as presented.

**5. Executive Session**

At 7:32 a.m., it was moved by Director Applegate and seconded by Director Gilbert that the board retire into executive session. At 8:00 a.m., it was moved by Director Pearson, seconded by Director Rohrer and carried that the Board arise from executive session.

6. **Recess and Reconvention**

At 8:00 a.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.

7. **Roll Call**

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

Don Applegate	Paul Baker
Marshall Collins	Gary Drost
Arden Fuher	Charles H. 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, Shawn Deisz, Tammy DeWitt, Chad Edwards, Mike Eggl, Derrick Hohbein, Deb Honeyman, John Jacobs, Steve Johnson, Mark Kinzler, Marie Klein, Jan Kubisiak, Rod Kuhn, Darla Miller, Kim Miller, Dave Raatz, Ken Rutter, Susan Sorensen, Dain Sullivan, Kevin Tschosik, Justin Weichel, Cheri Wenzel, Michelle Wiedrich and Roxanne Woeste.

Also present were Dakota Gasification Company (DGC) Chief Operating Officer David J. Sauer, Mor-Gran-Sou Electric Power Cooperative (Mor-Gran-Sou) director Vern Frederick, East River Electric Power Cooperative (East River) director Lyle Witte and Deloitte & Touche audit partner Scott Loveless.

8. **Executive Session**

It was then moved by Director Drost, seconded by Director Thiessen to retire into executive session to hear the presentation on employee compensation. At 1:15 p.m., it was then moved by Director Drost, seconded by Director Rohrer and carried to arise from executive session.

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

**R01.03-12-14** RESOLVED, that the salary recommendations presented to this meeting of the board of directors is hereby approved; and

BE IT FURTHER RESOLVED, that the CEO & General Manager, or his designee, be authorized to execute the required documents.

9. **Recess for Board Audit Committee**

At 1:20 p.m., the meeting recessed to hold a meeting of the Board Audit Committee. The meeting reconvened at 3:20 p.m.

10. **General Manager's Report**

Interim General Manager Sukut reported on EPA Administrator Gina McCarthy's visit to the Synfuels Plant and meetings with the Rural Utilities Service (RUS), CoBank and

CFC during the NRECA annual meeting in Nashville.

He reported that the Minnesota members were very appreciative of the update Basin Electric staff provided during the MREA meeting earlier this week and asked if this could be continued.

Western Fuels. Mr. Sukut reported that Paul Baker and he had been seated on the Western Fuels Association (WFA) and Western Fuels-Wyoming boards at the last meeting. Western Fuels-Wyoming had very good deliveries in January, although the Laramie River Station (LRS) is still suffering from decreased rail deliveries. LRS is down to 17.5 days burn for all three units at full load. The only major purchase last month was a haul truck. No violations were issued during the Wyoming Department of Environmental Quality's inspection at the Dry Fork Mine.

**11. Office of General Counsel Report**

Claire Olson, Senior Vice President and General Counsel, discussed recent developments with respect to the Tenth Circuit Court of Appeals remand to the Surface Transportation Board (STB) in the Basin Electric/WFA rate case. Treatment of costs associated with the allocation of crossover traffic went back to the consulting firm to see when the case gets to STB, can we reconstitute the railroad to come up with a more favorable methodology for calculating those costs. Should have updated numbers in about two weeks.

AVS-to-Neset Transmission Line. Mr. Olson reported that the U.S. Forest Service objects to the current route of the 345 kV line across the Forest Service's National Grasslands. Instead, they recommend two separate lines or a double circuiting of the line. However, these options were not looked upon favorably by RUS, the Western Area Power Administration (WAPA) or Basin Electric due to reliability concerns. Staff will meet with representatives of the Forest Service, RUS and WAPA to discuss these issues tomorrow.

Mr. Olson reported that the consequences of not getting this issue worked out and the EIS are huge and will impact what else Basin Electric must do to serve load in the Williston Load Pocket.

**12. Executive Session**

At 3:40 p.m., it was moved by Director Drost, seconded by Director Applegate and carried that the Board retire into executive session to discuss Wyoming Regional Haze and the Halvorson/Minot wind project case.

At 4:30 p.m., it was moved by Director Rohrer, seconded by Director Gilbert and carried that the Board arise from executive session.

**13. Office of General Counsel, continued**

Deborah Levchak, Senior Staff Counsel, reviewed the options being discussed for a settlement. After discussion, it was moved by Director Baker, seconded by Director Thiessen and carried that the following Resolution be adopted:

**R02.03-12-14**                      RESOLVED, that the CEO and General Manager, or his designee, be authorized to enter into negotiations, including mediation, in the Halvorson case based on the discussions at this meeting.

**14. Generation Report**

John Jacobs, Vice President of Operations, reviewed the Cooperative's safety performance for the month, noting that there had been one recordable incident and one Days Away Restricted or Transferred (DART) incident in February. He reported on an accident yesterday at the Antelope Valley Station (AVS) where an ICI employee fell from a man lift. The DGC medical staff was called and transported him to Hazen and he was then helicoptered to Bismarck, where he had surgery. The prognosis for recovery is good.

He then reviewed February forced outages rates and equivalent forced outage rates and bus-bar costs. He reviewed actual generation for the solid fuel plants, oil and gas plants and wind facilities for February and year-to-date. Environmental compliance averaged over 99 percent for the month.

Generation came in 2.7 percent above budget for February. Year-to-date actual generation at the solid fuel plants is 0.6 percent below budget.

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

Unit	Availability	Capacity Factor	Unit Rating	Comments
LRS #1	100%	95%	570 MW	Coal quality concerns
LRS #2	100%	91.2%	570 MW	Circulating water pump
LRS #3	92.2%	91.1%	570 MW	Leaking main steam safety valve off superheater; coal quality
LOS #1	92.0%	71.3%	221 MW	Reheat attemperator pump replacement; circulating water pump failure due to ice jams; wall tube leak
LOS #2	93.4%	84.5%	448 MW	High back pressure due to river ice
AVS #1	88.7%	97.3%	450 MW	Boiler tube leak; weather-related dips
AVS #2	100%	98.9%	450 MW	Low demand
DFS	90.6%	95.5%	386 MW	Plugged scrubber & exfoliation; main flameout/drum level/boiler feed pump trip

**A. Distributed Generation Update**

Kevin Tschosik, Distributed Generation Manager, reviewed natural gas prices and noted that February distributed generation at the facilities was as follows:

Unit	Monthly Availability	Monthly Generation	Unit Rating	Comments
Groton Unit #1	87.7%	6,223 MWh	100 MW	Ran for load; air inlet & engine inspections

Groton Unit #2	93.8%	5665 MWh	100 MW	Air inlet & engine inspections; found tear in one blade of 6th and 8th stages of high pressure compressor; replaced blades
Culbertson CT	100%	13,126 MWh	100 MW	Ran for load
WY Dist. Gen.:	100%	7 MWh	54 MW	Did not run
SMS Unit #1	99.78%	769 MWh	60 MW	
SMS Unit #2	99.82%	802 MWh	60 MW	
Deer Creek	78.69%	14,980 MWh	300 MW	
PGS Unit #1	35.5%	4,414 MWh	45 MW	Ran in synchronous condensing
PGS Unit #2	98.4%	8,673 MWh	45 MW	
PGS Unit #3	9.0%	2,047 MWh	45 MW	
LCS Unit #1	82.5%	5,090 MWh	45 MW	Ran for some load demand, but mainly in synchronous condensing; failure of clutch coolers
PWND 1	60%	17 MWh	123 MW	
PWSD 1	53%	2 MWh	162 MW	

Mr. Tschosik reported there had been 10 west-side reserve events during the month.

**PrairieWinds ND 1.** Mr. Tschosik reported that staff performed up-tower gearbox repair on wind turbine #75. During routine maintenance, technicians found missing tooth on high-speed gear. The high-speed gear has been replaced.

**PrairieWinds SD 1.** Staff is currently repairing the failed turbine #9 gear box; however, replacement is required.

The east-side peak occurred on February 10, 2014 at 8:00 a.m. At that time, wind generation was as follows:

Wind Project	Load Factor during the Peak	Capacity Factor	Project Total
PrairieWinds ND	17 MW	60%	123 MW
PrairieWinds SD	2 MW	53%	162 MW
Wilton	3 MW	52%	99 MW
Baldwin	6 MW	58%	99 MW
Edgeley	0 MW	39%	40 MW
Highmore	1 MW	45%	40 MW
Day County	0 MW	55%	99 MW
Iowa Wind	1 MW	52%	45.1 MW
Other Projects (Chamberlain & Pipestone)	0 MW	28%	3.4 MW
Total February Wind Generation	30 MW	54%	712 MW maximum

Average Monthly Capacity Factor	31 MW	54%	n/a
Average YTD Capacity Factor	n/a	58%	n/a

**B. AVS Plant Update**

Chad Edwards, AVS Interim Plant Manager, reported that as of February 28, 2014, Lake Sakakawea was at 1831.73 feet compared to 1834.02 feet on January 31, 2014. As of February 22, 2014, AVS employees worked 722 days or 767,041 hours without a DART case. The Total Case Incident Rate is 0.00 percent.

February budgeted generation was 496,530 MWh compared to actual generation of 524,092 MWh, which was 105.55 percent of budget. He reviewed the AVS 2014 plant targets for heat rate, net generation, availability, forced-outage rate, station service, number of starts, scrubber compliance, safety, sick leave and overtime.

He then reviewed restrictions and environmental statistics for each unit, as well as coal stockpile numbers, flyash sales and unit outages. Many towers for the AVS-to-Neset line are being stored on the AVS plant site. He presented photographs of the Separated Overfire Air unit, which will reduce NO<sub>x</sub> emissions to 50 percent.

**15. Recess and Reconvention**

At 5:20 p.m., the meeting recessed until 8:00 a.m., at which time the meeting reconvened with President Peltier continuing to preside and Director Drost continuing to keep the minutes.

**16. Roll Call**

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

Don Applegate	Paul Baker
Marshall Collins	Gary Drost
Arden Fuher	Charles H. 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 and staff members Robert J. Bartosh, Tracie Bettenhausen, Kelly Cozby, Shawn Deisz, Tammy DeWitt, Pius Fischer, Matt Greek, Deb Haga, Ellen Holt, John Jacobs, Steve Johnson, Becky Kern, Mark Kinzler, Jan Kubisiak, Rod Kuhn, Joe Leingang, Deborah Levchak, Sharon Lipetzky, Jay Lundstrom, Jeanne Mattern. Gavin McCollam, Darla Miller, Curt Pearson, Dave Raatz, Mike Risan, Josh Rossow, Ken Rutter, Jean Schafer, Jim Sheldon, Kevin Solie, Myron Steckler, Shanda Traiser, Boyd Trester, Kevin Tschosik, Michelle Wiedrich and Zane Zuther. Also present were DGC Vice President David J. Sauer, DGC General Counsel Mark D. Foss, East River director Lyle Witte and Mor-Gran-Sou director Vern Fredericks.



## 17. Cooperative Planning Report

### A. Strategic Planning

Shanda Traiser, Business Strategies Planner, shared feedback received at the February 20 Manager's Advisory Committee (MAC) meeting on the mission, vision and values statements. She presented the mission statement and after discussion, the board revised the statement to read as follows:

"Basin Electric Power Cooperative safely provides reliable wholesale energy and value-added products and services to its member owners in the heartland of North America. We support member competitiveness, stability and growth through financial strength and fiscal responsibility and operate utilizing the cooperative philosophy. We are a values-focused organization committed to professional excellence, social responsibility, a culture of safety and excellent member service."

She noted that the statement would be presented to the 2014 Basin Electric Resolutions Committee and voted upon at the annual meeting.

Ms. Traiser noted that the Vision Statement should be very short and succinct that all employees would know and could relate to. The following was suggested by an employee:

"Basin Electric Power Cooperative . . . member-owned, member-focused, member-served". After comments about whether the statement means that we serve the members or the members serve Basin Electric, the directors agreed to change "member-served" to "members served".

She then presented the values derived from the vote/survey: integrity, commitment to safety, accountability, commitment to cooperative principles, stewardship, teamwork. Ms. Traiser reported she was recently informed that several years ago, Touchstone adopted four core values that many of the member cooperatives use. She suggested that Basin Electric use the same for consistency: innovation, integrity, accountability and commitment to community. She then presented a short video and distributed a brochure from Touchstone Energy. Mr. Raatz suggested that "commitment to safety" be added to the four Touchstone Energy values and the board agreed.

Ms. Traiser noted that the SWOT analysis will be shared as part of the strategic planning process. She then reviewed areas of emphasis from the MAC standpoint. She stressed that a strategic plan is not static but is a dynamic document that will be reviewed and refined.

She noted that the objectives/goals agreed upon are SMART: specific, measurable, actionable, realistic and timeline.

She then reviewed the draft strategy map, noting the five areas senior management believes need more discussion: (1) foster open two-way communication; (2) manage wholesale power rates; (3) promote and support growth; (4) maintain financial strength; and (5) optimize cooperative asset portfolio.

Ms. Traiser then reviewed the agenda for the strategic planning session scheduled for March 18-19 in Bismarck.

## **18. Marketing and Asset Management**

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

He noted that strong market pricing for energy continued in February. Member demand reached a peak higher than forecast. Member energy requirements for the month were higher than forecast by roughly 220,000 MWh. Marketing supplied the differential energy from a combination of natural gas-fired generation and market purchases. Expenses for the replacement energy were higher than forecast, but overall Basin Electric had revenues in excess of additional expenses due to member demand.

In an interesting observation by American Electric Power (AEP), "89% of nearly 7,200 MW of coal-fired generation that AEP expects to retire in the next two years was running during the arctic blast".

In addition to low natural gas inventories, stockpiles of coal for electricity generators will fall to 147 million short tons by the end of March. This is the lowest level since 2008. Thirty-two nuclear reactors are scheduled to go offline for maintenance through the end of May. Roughly 20 GW of coal-fired capacity is expected to retire in 2014.

The current National Oceanographic & Atmospheric Administration forecast for 2014 would make this year the 16th driest year in the region since JFK was elected. The normal ramp-up in hydro in the spring is expected to be dampened by the drought conditions. Expectations are for substantially more natural gas generation, as well as wind generation versus past years.

Mr. Rutter then reported that SPP started its Day-2 market on March 1. WAPA is not a market participant and has been buying energy from third parties at real-time price index plus an adder.

He reviewed February 2014 Member Energy Load SCADA (not demand billing peak) and the summary of February deviations. Purchased power volumes were up as well as natural gas burns and wind energy. The higher purchased-power expenses and fuel expenses will be offset with cost plus ten percent sales to WAPA and non-member sales revenues.

Owned generation produced roughly 85,000 MWh more than budgeted. This additional volume was driven significantly by the natural gas units.

Estimated January short-term non-member sales volumes were higher than anticipated. Prices on the east were strong and the overall gains in non-member sales largely offset the increased purchase power expense.

West short-term sales would have been higher but the west-to-east tie transfers were maximized to support shortfalls of energy on the east.

There was no new forward-hedging activity on the east last month. Several potential hedges are in development for the next 12 months. The start-up of the SPP Day-2 market will provide new opportunities for Basin Electric. There was no new hedging activity on the west.

**19. Cooperative Planning Report, continued**

RTO Update. Dave Raatz, Vice President of Cooperative Planning, reported that in February, third-party review of Basin Electric's requirements was completed and initial discussions were held with the SPP membership. In March, changes to the tariff, bylaws and membership agreement were submitted to SPP and staff participated in a regional tariff working group meeting. He reviewed the activities scheduled during April, as well as the tasks assigned to the internal RTO transition team.

Renewable Energy Credit Policy. current summary of the REC Board Policy is:

"Basin Electric will distribute its available uncommitted Renewable Energy Credits to its Class A Members based on the revenue includable under the patronage formula."

He then reviewed the number of MWh of renewable generation and how they're implemented from 2012 through 2014 under the current policy and what those MWh would be in 2015 and 2016 if no change is made to the policy. He noted that it is a process question as there would be no net dollar difference to the members.

The membership will be notified of the 2013 REC allocations based on 2013 member patronage and request responses from the membership whether they wish to transfer, retire or sell into the Market Pool. Any change in the process for 2015 requires Board action in April.

Renewable Energy Purchase Rate. Mr. Raatz reviewed options for a "Renewable Energy Purchase Rate" which includes wind, solar and biomass.

The draft rate schedule will be distributed to the MAC and be discussed at the April MAC meeting. Board approval will be requested in May, retroactive to January 1, 2014.

Load Forecast/Resource Development. Mr. Raatz reviewed budgeted and actual 2014 member billing demands for the first three months of the year, noting that each month is higher than 2013. Staff is currently working on the 2014 load forecast. He reviewed the load-serving capability of the Williston Basin Pocket and the transmission and generation additions planned for the area.

**A. 2014 Load Forecast**

Jay Lundstrom, Lead Load Forecast Analyst, reported staff prepares a Load Forecast that is the basis for the Cooperative's power supply planning, monitoring western North Dakota load serving, rate analysis, transmission planning and financial planning. This forecast covers the period 2014-2035.

The 2013 Load Forecast Update was completed 11 months ago. Since then, the national economy and employment picture are improving, the GDP has increased, manufacturing and services are increasing and consumer spending is increasing.

The basis of the update is as follows: another year of actual 2012 loads has been added, distribution member sales models were re-specified, 84 distribution member forecasts and eight Class A member forecasts were completed, a detailed energy sector analysis of coal, CBM, ethanol, oil and gas was done and the Keystone XL pipeline was moved another year into the future. Growth in the membership is 2.5 times the national average and 18 percent over last winter.

Basin Electric's forecast is done on a system-wide basis and all members

participated in the forecast, with the exception of Tri-State, which prepares its own forecast. He then reviewed the study process, total member annual peak demand, member energy requirements by sales classification, comparison to national average and the projected loads of each of the members by sector. He also reviewed annual demand by power supplier, summer and winter Basin Electric supplemental demand, summer and winter peaks from 2012 to present and Basin Electric member sales percentage of total. Approval of the load forecast will be sought in April or May.

**B. Surplus/Deficit or Resource Development Update**

Becky Kern, Utility Planning Manager, reviewed the three resource-planning areas: MISO, IS/SPP and west of the AC/DC separation. She reviewed total member annual peak demand from 1990 to present; forecasted load demand through 2035 and the projected annual peak demand change from 2014 through 2025.

She reviewed the west surplus/deficit from 2014 through 2025, as well as the surplus/deficit in MISO for the same period.

She discussed purchase power options which are being discussed with other utilities. It is anticipated that staff will be presenting the results of these discussions with the Board in April and requesting approval of the agreements.

She then reviewed the power supply conclusions and noted that for new power supply arrangements, board actions would be requested over the next six months.

**C. Earl F. Wisdom Station Unit #1 Retrofit**

Jim Sheldon, Power Supply Engineer, reported that the Earl F. Wisdom Station is comprised of two units. Unit #1 went commercial in 1960 and Unit #2 in 2004. The Unit #1 start-up fuel was natural gas and the primary fuel was coal. Due to EPA's Mercury and Air Toxics Standards (MATS), the decision was made to use natural gas as the primary fuel and fuel oil as the back-up fuel. He reviewed the timeline for the fuel conversion, noting that completion is scheduled for late April 2014 and MATS compliance is required on January 1, 2015.

The Wisdom Unit #1 retrofit project is estimated to cost \$4 million. To date, \$2,198,229 has been spent and \$3,342,764 has been committed in contracts. Fuel cost during start-up is the last variable. It is anticipated that the project will come in on budget.

Major work completed includes the natural gas pipeline facilities, outside fuel oil piping and burner installation. He then provided photographs of installed retrofit equipment and equipment being removed during the outage.

Equipment yet to be installed includes fuel-oil piping, natural gas piping and emission monitoring equipment.

The unit is scheduled to be available for dispatch in late April of 2014.

**20. Recess and Reconvention**

At 12:00 noon, 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.

**21. Roll Call**

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

Don Applegate	Paul Baker
Marshall Collins	Gary Drost
Arden Fuher	Charles H. 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, Tanner Broderick, Shawn Deisz, Tammy DeWitt, Pius Fischer, Matt Greek, Steve Johnson, Becky Kern, Mark Kinzler, Jon Klein, Jan Kubisiak, Rod Kuhn, Deborah Levchak, Jeanne Masseth, Sally Meier, Darla Miller, Mary Miller, Cris Miller, Curt Pearson, Dave Raatz, Mike Risan, Josh Rossow, Jean Schafer, Kevin Solie, Susan Sorensen, Myron Steckler, Lucas Teigen, Shanda Traiser, Chris VandeVenter, Michelle Wiedrich, Lyle Witham and Roxanne Woeste. Also present were DGC General Counsel Mark D. Foss, East River director Lyle Witte and Mor-Gran-Sou director Vern Frederick.

**22. Engineering & Construction Report**

**A. Funding Chart**

Myron Steckler, Project Management and Construction Manager, provided a list of project funding requests from April 2013 to February 2014 and reported that requests totaling \$62.6 million would be made this month for Lonesome Creek Station construction, peaking generation, combined cycle generation, mercury control, LRS circulating water and Squaw Gap Substation. He then reviewed the approved budgets, totals committed and scheduled completion dates for current major projects.

**B. Pioneer Generating Station (PGS)/Lonesome Creek Generation Station (LCS) Phase I Construction Contract Update**

Mr. Steckler presented a photograph of the LCS site taken December 20, 2013 and reviewed the construction timeline for PGS and LCS. The PGS commercial operation date was September 4, 2013 (105 days late) and the LCS commercial operation date was November 8, 2013 (130 days late). He reviewed the history of work performed for Basin Electric by Wanzek, items for which payment is being withheld, items of risk mitigation, contract summaries and Wanzek's claims for PGS and LCS.

Mark Foss, DGC General Counsel, reported that Wanzek has placed Mechanic's Liens on both PGS and LCS for the balance due them. He noted that as long as Basin Electric is contesting these liens and has the contract balance due on our books, Basin Electric remains in compliance with the terms of the Indenture. He also noted the time delays in getting a trial date in Williston or Minot.

Mr. Foss and Mr. Steckler reviewed the performance of Wanzek and the claims made. Currently, the Cooperative is holding retention of approximately \$3 million for PGS and \$2.7 for LCS.

**C. PGS & LCS Phase II Construction Update**

Mr. Steckler presented a photograph of the PGS final site taken December 20, 2013. The commercial operation dates were February 1, 2014 for Unit #2 and March 1, 2014 for Unit #3. He reviewed the approved and projected budgets for both phases of PGS and LCS and noted that, as a whole, these projects are approximately 15 percent under budget. These projects came in a little bit late, due in part to extreme winter weather conditions. Certain areas of piping are freezing, so glycol coils and blankets are being put over those areas.

**D. LCS Phase II Award of Construction Contract**

Mr. Steckler reported that Saulsbury Industries, AZCO, L-Con and The Industrial Company submitted bids for construction of LCS Phase II. After review of the proposals and working through the bid clarifications, Mr. Steckler recommended the contract be awarded to the low bidder, Saulsbury Industries, Inc. for the currently estimated amount of \$16.5 million.

After discussion, on motion duly made by Director Pearson, seconded by Director Gilbert and carried, the following Resolution was adopted:

**R03.03-12-14**                      RESOLVED, that the construction contract for Lonesome Creek Phase II be awarded to Saulsbury Industries, Inc. for the currently estimated amount of \$16.5 million with the final contract price adjusted by the CEO and General Manager when negotiations have concluded; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the contract.

**E. Future Peaking Generation Development PS&I**

Mr. Steckler presented a map of potential 120 MW and 200 MW peaking sites in northwestern North Dakota and reviewed the schedule. Peaking Phase I activities include acquiring options on sites, Phase I engineering, air quality modeling and permitting, gas and water supply firm-up and submission of interconnection requests. Phase I costs are estimated at \$2 million. A request for full project approval will be presented in two to three months.

Mr. Steckler then recommended that approval be granted to move forward with development tasks for multiple peaking generation sites in the amount of approximately \$2 million.

After discussion, on motion duly made by Director Applegate, seconded by Director Thiessen and carried, the following Resolution was adopted:

**R04.03-12-14**                      RESOLVED, that the PS&I Work Order for the development of peaking generation in the estimated amount of \$2 million is hereby approved; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, is authorized to execute the required documents.

**F. Combined Cycle Generation Development PS&I**

Mr. Steckler presented a map of potential combined-cycle sites in northwestern North Dakota and reviewed the schedule. Combined-cycle Phase I activities are the same as for peaking. Phase I costs are estimated to be \$3 million. A permit for more than one unit will be sought. The commercial operation date target is May of 2019.

He then recommended approval be granted to move forward with development tasks for a combined-cycle generation project in the amount of approximately \$3 million.

After discussion, on motion duly made by Director Fuher, seconded by Director Gilbert and carried, the following Resolution was adopted:

**R05.03-12-14**                   RESOLVED, that the PS&I Work Order for the development of combined-cycle generation in the estimated amount of \$3 million is hereby approved; and

  BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, is authorized to execute the required documents.

**G. AVS & LRS Mercury Control Project Approval**

Gavin McCollam, Engineering Services Director, reported that the MATS established by EPA require the installation of equipment at AVS and LRS to remove mercury from the stack gas. EPA published the rules in 2013 and the units have to be in compliance by April 16, 2015.

Injecting Powder Activated Carbon (PAC) is the industry standard sorbent material for mercury removal. The recommendation is based on previous PAC injection testing at LRS and AVS. He reviewed the schedule for equipment acquisition and installation.

Tanner Broderick, Mechanical Engineer, reviewed the scope of work, the sorbent injection equipment and noted that the project cost estimate is \$9.9 million at LRS and \$6 million at AVS. These costs include the equipment, design, installation, performance testing and project indirect costs.

Mr. Broderick then recommended the board authorize mercury control projects at AVS and LRS. After discussion, on motion duly made by Director Applegate, seconded by Director Pearson and carried, the following Resolution was adopted:

**R06.03-12-14**                   WHEREAS, the project team has developed an estimated project budget for the purchase and installation of Sorbent Injection technology for each unit at LRS.

  NOW THEREFORE, BE IT RESOLVED, that the proposed budget in the amount of \$9.9 million is hereby approved; and

  BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the necessary contract documents accordingly.

After discussion, it was moved by Director Gilbert, seconded by Director Thiessen and carried, the following Resolution was adopted:

**R07.03-12-14**

WHEREAS, the project team has developed an estimated project budget for the purchase and installation of Sorbent Injection technology for each unit at AVS.

NOW THEREFORE, BE IT RESOLVED, that the proposed budget in the amount of \$6 million is hereby approved; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the necessary contract documents accordingly.

Mr. Broderick then reviewed the five bids for the LRS sorbent injection equipment and recommended that the contract be awarded to Clyde Bergemann for \$3.7 million. Clyde Bergemann understands the project scope and provided the best price. They have provided equipment to Basin Electric in the past and staff was confident in the delivery schedule and equipment performance.

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

**R08.03-12-14**

WHEREAS, the project team has received, reviewed, clarified and evaluated the responses to the Silo Skid and Equipment Request for Proposals to provide for Sorbent Injection to each unit at LRS;

WHEREAS, Clyde Bergemann was selected by the team based on technical acceptability, low evaluated price, sorbent flexibility, ability to meet schedule milestones and acceptable terms and conditions of sale;

NOW THEREFORE BE IT RESOLVED, that the contract with Clyde Bergemann for the silo skid and equipment in the amount of \$3.7 million be approved; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the necessary contract documents accordingly.

Mr. Broderick then reviewed the AVS equipment bid evaluation and recommended that the contract be awarded to Clyde Bergemann for \$2 million. After discussion, on motion duly made by Director Drost, seconded by Director McQuiston and carried, the following Resolution was adopted:

**R09.03-12-14**

WHEREAS, the project team has received, reviewed, clarified and evaluated responses to the Silo Skid and Equipment for Proposals to provide for Sorbent Injection to each unit at AVS;

WHEREAS, Clyde Bergemann was selected by the team based on technical acceptability, low evaluated price, sorbent flexibility, ability to meet schedule milestones and acceptable commercial terms and conditions of sale;



NOW THEREFORE, BE IT RESOLVED, that the contract with Clyde Bergemann for the Silo Skid and Equipment in the amount of \$2 million is hereby approved; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the necessary contract documents accordingly.

**H. LRS Circulating Water Pumphouse Electrical Upgrade**

Boyd Trester, Power Engineering Supervisor, reported that the electrical equipment at the LRS cooling towers has reached the end of its useful life and requires replacement to ensure safe, reliable and maintainable operations. The scope of replacement includes replacing all of the existing motor control centers, 480-volt switchgear, transformers, cables and wiring devices associated with the cooling towers; the addition of variable frequency drives for fan motor control and new 7200-volt feeder cables from the main plant.

He then reviewed the project design details and the schedule for each unit. The total cost of the project is estimated to be \$20.4 million.

Matt Greek, Senior VP of Engineering & Construction, noted this multi-year upgrade was originally included in the long-range plan and was approved to begin as part of the 2014 budget; however, the ultimate cost is higher than when first considered for the budget. Expenditures on the project are expected to be within the approved 2014 budget but will be higher than originally expected in 2015, 2016 and 2017.

Mr. Trester then recommended approval of the LRS Circulating Water Pumphouse Electrical Upgrade project at an approximate cost of \$20.4 million.

After discussion, on motion duly made by Director Gilbert, seconded by Director Applegate and carried, the following Resolution was adopted:

**R10.03-12-14** WHEREAS, that the construction of the LRS Circulating Water Pumphouse Electric Upgrade, as presented, with an estimate of \$20.4 million be approved, pending MBPP Management Committee approval; and

BE IT FURTHER RESOLVED, that the CEO & General Manager, or his designee, be authorized to execute the required documents.

**23. Transmission Report**

**A. Purchase of Squaw Gap Assets**

Mike Risan, Senior Vice President of Transmission, reported that the Squaw Gap Substation was built by McKenzie Electric in the 1980s. With the load growth in the area, McKenzie and Basin Electric have concluded that with certain improvements currently underway, as well as future additions, this substation will perform transmission rather than distribution functions.

McKenzie Electric has agreed to sell the existing substation and the switches on the Charlie Creek-to-Richland 115 kV transmission line to Basin Electric for a nominal amount, and the substation will be rebuilt and become a Basin Electric facility.

Kevin Solie, Senior Waste Water Coordinator, reported that this substation is located on land owned by the Forest Service. It currently has a special use permit and this permit has to be revoked and reissued by the Forest Service in the name of Basin Electric. Mr. Solie described the process involved. Mr. Risan then recommended the purchase of this substation.

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

**R11.03-12-14** RESOLVED, that the purchase of the Squaw Gap Substation and switches on the Charlie Creek to Richland 115 kV transmission line from McKenzie Electric Cooperative be approved in order to rebuild the Squaw Gap Substation; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the required documents accordingly.

**B. Spare 230/115 kV Transformer**

Mr. Risan reviewed the Cooperative's load-serving capability and load forecast in the Williston Basin Load Pocket from 2013 through 2025. He recommended that a spare transformer be purchased for risk mitigation and in the event of a long-term outage of an existing load-serving transformer. The estimated cost of a 20 MVA transformer is \$2 million. The cost of installation will be requested in the future. He noted that recovery of these costs will be requested from the IS, and ultimately SPP. The spare transformer will be stored at the Blaisdell Substation. Timing of the purchase is critical due to the long lead time to procure a transformer.

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

**R12.03-12-14** RESOLVED, that the purchase of a spare 200 MVA 230/115 kV transformer at a cost not to exceed \$2 million is hereby approved; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the required documents accordingly.

**C. Mobile Capacitor Banks**

Mr. Risan reported that several locations in the Williston Load Pocket require the installation of mobile capacitor banks for voltage support. These mobile capacitors need to be installed this year to maximize 2014-2015 winter load-serving ability.

He recommended approval of the purchase of six trailer-mounted mobile capacitor banks of approximately 15 MVAR each at a cost of approximately \$1 million each. The cost of installation will be presented in a future request. Cost recovery will be requested from the IS, ultimately SPP.

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

**R13.03-12-14** RESOLVED, that the purchase of six trailer-mounted mobile approximately 15 kV capacitor banks at a cost of

approximately \$1 million each be approved; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, be authorized to execute the required documents accordingly.

Mr. Risan then noted that over the next few months, the Board will be asked to approve several transmission projects, including a transmission line between the Logan and Minot Southwest substations, mobile capacitors for the area north of Lake Sakakawea and probably a new transformer in Dickinson. This could be a joint project with MDU. Having a spare transformer on hand provides the flexibility to deploy the spare unit until a permanent transformer can be received.

Mr. Risan noted that the Williston Load Pocket did not cross the 600 MW threshold this past winter, probably because gas plants near Tioga were off line.

RTO. Mr. Risan reported that Transmission, Cooperative Planning, Legal and Marketing & Asset Management staff has been heavily involved over the past month in the RTO discussion. The next SPP board meeting is in April.

NERC. Basin Electric certified to WECC on March 3, 2014, that it is noncompliant in one area, facility rating requirement. This is special additional work and documentation where staff must identify ratings on every piece of equipment Basin Electric owns. Many utilities are not yet compliant in this area.

FERC. FERC just issued an order to NERC to develop physical security programs within 90 days, due to sabotage of a substation in California.

Mr. Risan then presented a photograph of replacement of a tower on the LOS-to-Groton line that was damaged due to ice in a slough.

## **24. Financial Services Report**

Steve Johnson, Interim Senior VP & Chief Financial Officer, reported the February month-end Member Investment Program (MIP) balance was \$158,065,465.33 with 43 of 137 total eligible members participating. He reviewed CoBank patronage distributions. Over the last five years, Basin Electric will have received \$12.146 million in patronage from CoBank. DCC will receive \$217,000 tomorrow and over the past five years will have received about \$1.413 million in patronage from CoBank. He then reviewed Goldman Sachs versus Bloomberg interest rate forecasts.

EB-5. At South Dakota Governor Rounds' recommendation, Basin Electric borrowed funds for economic development from EB-5 in 2010. At that time, Basin Electric was building the Deer Creek Station (DCS) and EB-5 funds for five years at 2.5 percent simple interest were used as a means of interim financing. Mr. Johnson reported that EB-5 has been in the news of late. In mid-February the South Dakota state legislature voted to launch hearings into five EB-5 loans: Dakota Provisions of Huron, Northern Beef Packers of Aberdeen, NextEra's Day County 2 wind farm, Deadwood Mtn. Grand casino and hotel and Basin Electric's DCS. Mr. Johnson noted that Basin Electric complied with all the requirements of the law for EB-5 financing.

### **A. RUS Form 219 – LOS Emissions Control Project**

Mr. Johnson, , recommended that staff be authorized to execute and submit Form 219, Inventory of Work Order No. 48, in the amount of \$14,573,342.72 to RUS for the LOS Emissions Control Project. Form 219 certifies costs of construction and is required by RUS prior to loan funds being advanced.

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

**R14.03-12-14** RESOLVED, that RUS Form 219 – Inventory of Work Order No. 48 in the form presented to this meeting is hereby approved and that the Chairman of the Board of Directors and the CEO and General Manager are hereby authorized to execute the same for and on behalf of the Cooperative;

BE IT FURTHER RESOLVED, that the Board of Directors certifies to the Rural Utilities Service that the cost of construction shown in said Form 219 is the actual cost reflected in the general accounting records of the Cooperative and that the funds represented by the advances requested by said Form 219 have been expended in accordance with the (a) purposes of the loan; and (b) provisions of the: (i) loan contract; (ii) Indenture dated as of January 1, 1998; (iii) RUS Bulletins; and (iv) Code of Federal Regulations relating to the advance of funds for work order purposes.

**B. Accounting Report**

Darla Miller, Senior Accounting Analyst, reported that the February 2014 Statement of Operations reflected an estimated net margin of \$15.3 million compared to the budgeted net margin of \$4.7 million for a favorable variance of \$10.6 million. The net margin for the same period last year was \$11.0 million.

She also reviewed member sales, surplus sales, operations expenses, maintenance expenses, year-to-date consolidated net income/loss, changes to the balance sheet and month-end cash.

Basin Electric's equity-to-asset ratio at the end of February was 21.26 percent and at the end of January was 21.31 percent. At the end of February, the equity-to-capitalization ratio using Moody's Rating Service's methodology was 25.50 percent and at the end of January was 25.60 percent, both without The Coteau Properties Company consolidation entry. The equity-to-capitalization ratio based on indenture requirements for patronage distribution was 21.00 percent at the end of February and 20.80 percent at the end of January.

**C. RUS Certificate of Authority**

Shawn Deisz, Vice President & Controller, reported that all year-end financial forms RUS borrowers file with RUS must be filed electronically with electronic signatures. The CEO and General Manager signs Basin Electric's Form 12. As part of that process, all preparers, the certifier and systems administrator must be authorized to add data and submit reports in the Data Collection System.

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

**R15.03-12-14** RESOLVED, that Paul M. Sukut, the Interim CEO and General Manager of the Cooperative, be the Certifier on behalf of the Cooperative, who shall be responsible for submitting and certifying to the Rural Utilities Service, an agency of the United States Department of Agriculture delivering Rural Development Utilities Programs (RDUP), any and all data required by RDUP

Form 674;

RESOLVED, that Thomas S. Tooley, a Senior Business System Analyst of the Cooperative, continues to serve as the Security Administrator on behalf of the Cooperative, who shall give access to the Cooperative's data, as appropriate, to other employees, officers, or contractors of the Cooperative, for the purpose of complying with RDUP Form 674; and

BE IT FURTHER RESOLVED, that both shall comply with the Instructions for RDUP Form 674 in regard to use of the government's data collection system.

**D. RUS Certificate of Authority**

Ms. Deisz reported that the Board of Directors must designate those Basin Electric employees who are authorized to request RUS Loan Fund advances.

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

**R16.03-12-14** RESOLVED, that Steven Johnson, the Interim Sr. Vice President & CFO of the Cooperative, and Kristin Brandt, a Financial Analyst III of the Cooperative, be designated as persons authorized to request RUS Loan Fund advances; and

BE IT FURTHER RESOLVED, that both shall be authorized to sign RUS Form 595, Financial Requirement & Expenditure Statement, in connection with requisitioning and accounting for Loan Funds.

**E. Capital Credit Allocation**

Ms. Deisz then reviewed the Cooperative's financial performance for 2013, noting that the allocable margin for the year is \$57,396,499.73. She recommended that the Board allocate this margin.

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

**R17.03-12-14** WHEREAS, for the fiscal year ended December 31, 2013, Basin Electric Power Cooperative realized a margin before income taxes of \$57,441,087.43 and Basin Cooperative Services realized a net deficit of \$44,587.70 for a combined allocable margin of \$57,396,499.73;

NOW THEREFORE, BE IT RESOLVED, that the 2013 Basin Electric before income tax margin and the 2013 Basin Cooperative Services net deficit in the combined total of \$57,396,499.73 be allocated to the patrons of Basin Electric on a patronage basis in accordance with the provisions of the Bylaws of Basin Electric Power Cooperative.

**F. Capital Credit Distribution**

Ms. Deisz then presented management's recommendation that the Board authorize the distribution of \$5,000,000 of previously allocated, but undistributed margins to the patrons of Basin Electric..

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

**R18.03-12-14** RESOLVED, that the retirement of patronage capital credits in the amount of \$5,000,000 associated with 2000 business be approved in accordance with the provisions of the laws of Basin Electric Power Cooperative.

**25. Communications & Administration Report**

Steve Tomac, Senior Legislative Representative, reported on federal legislative and regulatory activities, as well as actions of the South Dakota, Wyoming, Minnesota and Iowa legislatures.

He then reported on EPA Administrator Gina McCarthy's visit to the synfuels plant, local and state media items and meetings held regarding the AVS-to-Neset transmission line.

Mark Kinzler, Vice President & Chief Information Officer, then reviewed IST key items, including governance, audits, software review, Microsoft SharePoint and energy trading and risk management.

Mary Miller, Manager of Communications, then reviewed activities taking place during the 2014 St. Baldrick's Foundation fundraiser, as well as media inquiries of the past month.

**26. Directors' Reports**

Director Baker reported that PRECorp has been involved in a rate case at the Wyoming Public Utilities Commission and some commercial customers had intervened and objected to the rate structure.

Director Rohrer thanked Messrs. Sukut, Raatz, Tomac and Rutter for attending Central Montana's annual meeting.

Director Fuher reported that Central Power manager Tom Meland participated in discussions with RUS and the Forest Service and it now appears that Central Power will be allowed to construct an overhead rather than underground line which saves \$1 million.

Director Thiessen invited directors and staff to Upper Missouri's annual meeting on March 21.

Director Gilbert reported that the Iowa State Cyclones' basketball coach is the keynote speaker at Corn Belt's annual meeting, unless the Cyclones make it into the final four. He also reported that Iowa had created a distributed generation workshop mostly on solar and was to hold five meetings around the state. Sixty-five percent of the directors attended. There is a lot of interest in solar in Iowa.

Director Collins reported that Mike McInnes has been named Tri-State's interim manager. He also invited the directors and staff to Tri-State's annual meeting on April 3.

Director Applegate invited the directors and staff to NIPCO's annual meeting on April 1.

Director Drost expressed his appreciation to the directors for accommodating the

board meeting date change so he and Director Peltier could attend the MREA annual meeting. He noted it had been a very worthwhile effort.

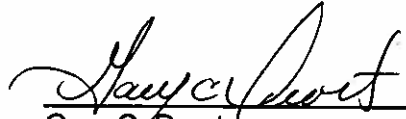
Director Peltier invited the directors and staff to Minnesota Valley Light & Power's annual meeting on March 22.

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

The next regularly scheduled meeting of the Board of Directors will take place April 15-17, 2014, at the Basin Electric headquarters building in Bismarck, North Dakota.

**28. Adjournment**

At 4:40 p.m., there being no further business to come before the meeting, it was moved by Director Pearson, seconded by Director Fuher and carried that the meeting be adjourned.

  
\_\_\_\_\_  
Gary C. Drost  
Secretary-Treasurer