

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

**Minutes of the Regular Meeting of the Board of Directors
May 10-11, 2016**

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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 the headquarters building, Bismarck, North Dakota, beginning on May 10, 2016 at 12:55 p.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
Leo Brekel	Gary C. Drost
Charles Gilbert	Mike McQuiston
Kermit Pearson	Wayne Peltier
Troy Presser	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were Chief Executive Officer & General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss and Basin Electric staff members Tracie Bettenhausen, Dean Bray, Tom Christensen, Chad Edwards, Pius Fischer, Matt Greek, John Jacobs, Steve Johnson, Kerry Kaseman, Bryan Keller, Becky Kern, Janet Kubisiak, Tom Leingang, Russ Mather, Tracy McBride, Deb Olafson, Diane Paul, Mike Paul, Curt Pearson, Dave Raatz, Susan Sorensen, Tom Stalcup, Myron Steckler, Boyd Tester, Steve Tomac, Kevin Tschosik, Valerie Weigel, Michelle Wiedrich and Brad Wilkinson. Also present were Dakota Gasification Company (DGC) Vice President David J. Sauer and Mor-Gran-Sou Electric Cooperative (**Mor-Gran-Sou**) director Robert Leingang.

3. Approval of the Agenda

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

4. Approval of the Minutes

The minutes of the April 12-13, 2016 Regular Meeting of the Board of Directors were presented and after an opportunity for corrections, it was moved by Director Brekel, seconded by Director Presser and carried that said minutes be approved as presented.

5. General Manager's Report

General Manager Sukut reported that area utility chief executive officers (CEO) met with David Glatt, Chief of the Environmental Health Section of the North Dakota Health Department, at the Lignite Energy Council (LEC) offices to discuss the next steps

concerning the Clean Power Plan (CPP). Mr. Glatt reached out to the Wyoming Department of Environmental Quality (DEQ), which is more than willing to work with us. Within the next few months, we will speak with North Dakota Governor Dalrymple about getting together to ask the state for help with this problem and to request that the Legislature put something in the budget, which could fund a zero-interest loan, a direct grant or some other type of support. Mr. Sukut stressed the need to inform the citizens of North Dakota what the CPP would do to the coal industry in North Dakota and the loss of jobs in the state.

It was noted that Mr. Sukut was recently elected chair of the LEC.

6. Western Fuels Update

Director Baker reported that the Western Fuels Association (WFA) audit report had been reviewed and accepted. In a cost-saving measure, the WFA office moved to a different, less expensive suite in the same building. He noted that WFA is getting back on track. He noted that Meri Sandlin is doing a good job as the new CEO at WFA.

It was noted that WFA is a coal delivery entity; it is not involved in mining. Director Baker noted that every year WFA's members make their nominations--an estimate of how much coal they plan to purchase--and those numbers are used in creating the budget. These nominations are due from the WFA members soon.

7. Office of General Counsel Report

Mark Foss, Senior Vice President & General Counsel, provided an update on the status of the Best Available Retrofit Technology matter at the Laramie River Station (LRS) and the reply briefs that were filed in the CPP litigation before the D.C. Circuit Court of Appeals.

A. Confirmation of Business Practices Committee Members

Mr. Foss reported that at the August 1999 meeting, the Board approved a number of programs relating to Basin Electric business practices. One of those involved the establishment of a Business Practices Committee.

The Business Practices Committee is comprised of two standing members, the General Counsel and the Manager of Human Resources, and three at-large employees below the level of Senior Vice President who are appointed by the General Manager and confirmed by the board of directors.

He recommended that the board confirm the appointment of Jeremy Severson, Senior Engineer in the Transmission Department; and the reappointment of Chad Edwards, Antelope Valley Station (AVS) Plant Manager; and Andy Buntrock, Manager of Financial Planning & Forecasting in the Accounting Department, to the Business Practices Committee.

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

R01.05-10-16

RESOLVED, that Jeremy Severson be appointed and confirmed to a two-year term, and that Chad Edwards and Andy Buntrock each be reappointed and reconfirmed to two-year terms on the Business Practices Committee.

8. Operations Report

John Jacobs, Senior Vice President of Operations, noted that with the recent reorganization, the safety function was transferred to Human Resources (HR) so as to be able to address safety across the entire Cooperative and its subsidiaries.

He further reported there were no medical treatments and three Days Away, Restricted or Transferred (DART) incidents during the month. During April, the Leland Olds Station (LOS) employees reached the milestone of three million man-hours without a DART case.

He provided bus-bar costs for the coal-fired fleet and reviewed the equivalent forced-outage rate trends for the past 24-month period. He reported that April generation for the owned and operated Basin Electric fleet came in at 1,712,434 MW compared to the budget of 1,639,727 MW, which is 4.4% above budget for the month. Generation for 2016 year-to-date is 8% below budget.

Individual availability at AVS, Dry Fork Station (DFS), LOS and LRS and capacity factors for the coal-based generation stations in April were as follows:

Unit	Availability	Running Plant Capacity Factor	Unit Rating	Comments
AVS #1	99.65%	90.1%	450 MW	Forced outage for low vacuum on turbine.
AVS #2	3.28%	75.7%	450 MW	Scheduled triennial outage April 1 to June 12.
DFS	14.72%	88.56%	386 MW	Scheduled triennial maintenance outage April 1-21; flameout/drum level forced outage; forced outage for ICV valves oscillating and GV 1 stuck closed; low PA flow tripped pulverizer/drum level forced outage; forced outage for low main steam temperature.
LRS #1	98.86%	72.83%	570 MW	Forced outage for erratic FD fan blade pitch controls-unit tripped from secondary air duct pressure.
LRS #2	49.99%	83.99%	570 MW	Scheduled six-week triennial maintenance outage started April 15.
LRS #3	82.26%	90.63%	570 MW	Forced outage when 3C pulverizer motor went to ground; forced outage when the 6.9 kV power supply to the cooling towers was lost.
LOS #1	100%	89.23%	221 MW	On reserve shutdown March 7 to 11.

LOS #2	99.14%	85.84%	448 MW	Scheduled outage for DCS upgrades for SNCR tie-ins.
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Mr. Jacobs presented photographs and discussed repairs of the AVS Unit #1 1A Feed Tank agitator, as well as the LRS Unit #2 low-pressure (LP) rotor, LP turbine new last-stage bucket, LP rotor low-speed balancing, air heater internals, removal of the old air heater baskets and the economizer inlet header and the LRS railroad trestle.

Mr. Jacobs reported that on March 31, 2016, the LRS stockpile contained 1,177,731 tons or 52 days burn at cruise rating. The Grayrocks Reservoir is 111% full. As of May 1, 2016, the LOS stockpile contained 712,600 tons or 56.9 days of burn at cruise rating.

A. Distributed Generation Update

Kevin Tschosik, Distributed Generation Manager, reported that natural gas prices for the distributed generating facilities (Groton Generating Station (Groton), Culbertson Combustion Turbine (CT), Wyoming Distributed Generation (WDG), Spirit Mound Station (SMS), Deer Creek Station (DCS), Pioneer Generating Station (PGS) and Lonesome Creek Station (LCS)) increased slightly during the month. April generation at the distributed generation facilities was as follows:

Unit	Monthly Availability	Monthly Generation	Unit Rating	Comments
Groton #1	95.06%	1,305 MW	100 MW	No issues.
Groton #2	98.77%	5,577 MW	100 MW	No issues.
Culbertson CT	85.32%	13,986 MW	100 MW	For load demand. One outage (76 hours) when a Nox water pump failed.
WDG	99.1%	62 MW	54 MW	
SMS #1	0%	0 MW	60 MW	Did not run.
SMS #2	0%	0 MW	60 MW	Did not run.
DCS	73.3%	56,535 MW	300 MW	For load demand. Outage for engine inspection and boroscope; found to be in good condition. Also worked on the HRSG tube penetrations.
PGS #1	86.64%	8,415 MW	45 MW	For load demand and for reliability and synchronous condensing.
PGS #2	97.63%	8,523 MW	45 MW	For load demand.

PGS #3	97.36%	8,141 MW	45 MW	For load demand.
LCS #1	98.91%	18,615 MW	45 MW	For load demand and reliability. Generation was down a bit due to commissioning units #4 and #5.
LCS #2	97.73%	23,548 MW	45 MW	For load demand.
LCS #3	57.7%	11,984 MW	45 MW	For load demand; lower availability due to taking unit out of service for commissioning Units 4&5

Mr. Tschosik presented photographs and discussed the DCS west-side and east-side heat recovery steam generator (HRSG) enclosure project, tube penetrations on old seals, new seal installation and HRSG tube roof penetrations.

During March, PGS ran 302.6 hours in synchronous condensing mode and LCS for 4.42 hours. The WDG had 17 west-side spinning reserve events for the month.

PrairieWinds ND (PWND). Blade inspections are complete and annual maintenance is 10% complete.

PrairieWinds SD (PWSD). Semi-annual maintenance is 33% complete.

The east-side peak occurred on April 1, 2016 at 0800 hours. At that time, wind generation was as follows:

Wind Project	Load Factor during the Peak	Capacity Factor		Project Total
		Month	YTD	
Baldwin	16 MW	54%	44%	99 MW
Campbell County	89 MW	51%	51%	88 MW
Day County	81 MW	62%	50%	99 MW
Edgeley	15 MW	42%	32%	40 MW
Highmore	6 MW	47%	41%	40 MW
Iowa Wind	35 MW	57%	48%	45.1 MW
Other Projects (Chamberlain & Pipestone)	2.6 MW	33%	22%	3.4 MW
PWND	28 MW	51%	44%	123 MW

PWSD	43 MW	58%	48%	162 MW
Wilton	21 MW	53%	41%	99 MW
Total Monthly Wind Generation	334 MW	55%		800 MW maximum
Average Capacity Factor		50%	45%	

B. Dry Fork Station Plant Update

Tom Stalcup, DFS Plant Manager, reported that year-to-date, there was one Office of Safety and Health Administration (OSHA) recordable incident, three DART cases, eight contractor near misses, seven employee near misses and three contractor personal injury/illness cases at DFS.

Since kickoff of Continuous Improvement (CI) Team #1, Inspection Initiative on September 16, 2014, 695 CI work requests have been written. Of the 695 written, 555 or 79% have been completed. Since the kickoff of CI Team #2, Employee Communication, in September 2015, implementation of employees giving daily tool box talks has been successful. Positive feedback has been received from employees indicating that tool box talks are more pertinent to daily work tasks.

Mr. Stalcup reported that the triennial outage was scheduled to end on April 17, 2016, but was extended three days due to pad welding in the platen super heater, primary reheater, primary super heater, and bottom slope tubes. Start-up took five days. Due to oscillating turbine ICV valves, Mitsubishi Power Systems (MPS) control and mechanical specialists were called in and it was discovered that the Turbine Governor Valve #1 was stuck in the closed position. MPS mechanical technicians were mobilized. The unit returned to service on April 26, 2016 and was at full load and carrying spinning reserve on April 29, 2016.

DFS has been in environmental compliance all year. In January, the DEQ Land Division conducted an ash cell inspection and DEQ Storm Water Division conducted a storm water inspection. No issues were indicated and no citations were issued. The quarterly particulate matter test was conducted in February. Annual Relative Accuracy Test Audit, Hazardous Air Pollutants and quarterly particulate matter testing will be performed this month.

He then presented photographs and discussed work activities during the 2016 DFS triennial outage.

With respect to the Integrated Test Center (ITC), Mr. Stalcup presented photographs and reported that the guillotine damper was installed during the outage. The specification for site preparation is being engineered and developed (January through August 2016), bid site preparation is scheduled for September, construction is scheduled to begin in October and the site should be ready for the Wyoming Infrastructure Authority/Xprize by the summer of 2017.

C. Replacement of Coteau's Secondary Coal Crushers at AVS

Chad Edwards, AVS Plant Manager, reported that the mechanical and electrical systems in the current AVS coal crushers are over 30 years old. New crushers will extend the life of the system and improve reliability. These crushers were to be part

of a new train load-out facility that didn't go forward. However, these upgrades are still required. These crushers are located on The Coteau Properties Company (**Coteau**) property and are operated and maintained by Coteau. There are no electrical motor or switch gear parts available and the electrical motors require three months to rebuild. Parts for the existing Pennsylvania crushers must be made and require an 18- to 22-week lead time. The risk for delivery delays due to down time is increasing.

Replacement calls for two new secondary crushers (2,000 tons per hour each), a new feeder on the north side, purchase of electric motors compatible with the existing system, upgrade of the chutes from the crushers to AVS' L1 and L2 conveyor belts and upgrade of the electrical switch gear. This \$3.2 million project was included in the 2017 budget, but Coteau would like to do the electrical work this year. He presented photographs, discussed the existing crushers and recommended the project be approved.

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

R02.05-10-16

RESOLVED, that the replacement of the Secondary Crushers project presented to this meeting of the Board of Directors at a budgeted cost of \$3,388,949 is hereby approved; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, is hereby authorized to execute the necessary documentation.

9. Transmission Report

Tom Christensen, Manager of Transmission Rates, reviewed the Transmission Department's defined daily, weekly, monthly, quarterly and annual safety activities. As of April 29, 2016, Transmission System Maintenance (TSM) division staff had worked 150 days without a DART incident. A DART occurred on May 5 when a person tore some tendons in his bicep during annual hotline training. He reported that safety meetings were held at the TSM facilities in Gillette, North Dakota, South Dakota and Wheatland during the month.

Southwest Power Pool. Mr. Christensen reported on attempts to negotiate revenue requirements through the Southwest Power Pool (SPP) tariff. Basin Electric's revenue requirement for 2016 is approximately \$90 million. Of that \$90 million, approximately \$20 million is regional and spread across the entire SPP zone. After Basin Electric made its filing with the Federal Energy Regulatory Commission (FERC), a number of organizations filed protests including the Missouri Public Service Commission, the Kansas Corporation Commission and Missouri River Energy Services (MRES). To Basin Electric staff, it appears that FERC staff is acting more like a consumer advocate than an impartial arbiter.

The key components of the tariff are equity ratio, return on equity and depreciation. Staff is attempting to first engage the two state commissions, reach agreement with them, reach out to MRES and Western Area Power Administration (**Western**) to get them to sign on and then go back to FERC staff. The Cooperative's ultimate threat is to drop these informal negotiations and proceed to hearing. If the matter goes to a hearing, Basin Electric's outside counsel believes that Basin Electric has a reasonably good chance of getting even higher return.

Mr. Christensen reviewed northwestern North Dakota transmission and substation construction completion dates. He noted that Mike Risan is on the SPP strategic planning committee, where there was discussion on how SPP might deal with new members. SPP will meet with a number of CEOs representing the Mountain West Transmission Group (MWTG) on May 20 at Western's Loveland office.

Nebraska Public Power District (NPPD) needs to build a line from the Stegall Substation to Scottsbluff, Nebraska to beef up its 115 kV system. This would require an interconnection with Missouri Basin Power Project (MBPP) facilities. NPPD has received a Notice to Construct (NTC) from SPP for this project. MRES has stated that, at the present time, it may not support this interconnection at the MBPP Management Committee. A solution would be for Basin Electric to build, own and recover its costs through SPP regional cost sharing, which would require NPPD to assign the NTC to Basin Electric as well as concurrence from the MBPP participants. We want no increased costs to MBPP and no increase in the North American Electric Reliability Corporation (NERC) compliance risk.

The MWTG is comprised of Black Hills Corporation and Public Service Company of Colorado as jurisdictional participants and Tri-State Generation & Transmission Association, Basin Electric, Western, Colorado Springs Utilities and Platte River Power Authority as non-jurisdictional participants. This group was well received when it met with two FERC commissioners and additional FERC staff last week. FERC is in favor of markets and positive comments were received. The results of the study on the economics of a west-side market will be released later this year.

A. Approval of Interconnection with NPPD at Stegall 345 kV Substation

Boyd Trester, Electrical Engineer, reported that NPPD received an NTC for a short line from Bobcat Canyon to the Stegall 345 kV Substation. This Stegall 345 kV Substation project supports NPPD's western Nebraska 115 kV transmission system. The Stegall 345 kV Substation is an MBPP facility. All Basin Electric construction would be within the substation fence.

The project has been approved by SPP for regional cost-sharing. Basin Electric has an approximate six percent load ratio share. There will be no increased capital, operations or maintenance costs to MBPP and there will be no increase in NERC compliance risk. Basin Electric would build, own and recover costs through SPP regional cost sharing. This will require SPP's approval of NPPD's assignment of the NTC to Basin Electric and will also require concurrence from the MBPP Participants.

Mr. Trester presented diagrams of the terminal addition. The project scope includes one 345 kV breaker, one line disconnect switch, one grounding switch, two breaker disconnect switches, three potential transformers, bus additions and relay panel and configuration changes.

He reviewed the aggressive project schedule with the start of engineering in May 2016 through the July 2017 in-service date. The Class #3 project estimate calls for engineering, overheads and miscellaneous of \$555,000, construction of \$584,118, materials of \$783,749 and 30% contingencies of \$576,860 for a total project cost of \$2,499,727. He noted that approval is contingent upon SPP's approval of NPPD's assignment of the NTC to Basin Electric and approval of the MBPP Management Committee. Mr. Trester recommended approval of the project.

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

R03.05-10-16

RESOLVED, that the Stegall 345 kV Substation Line Terminal Addition project presented to this meeting of the board of directors with an estimated cost of \$2.5 million be approved, contingent upon the Southwest Power Pool's approval of Nebraska Public Power District's assignment of the Notice to Construct to Basin Electric and approval of the Missouri Basin Power Project Management Committee; and

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

B. James River Valley Transmission Line Structures Flood Protection

Brad Wilkinson, Civil Engineer, reported that the LOS-to-Groton Line #24 (seven structures) is a 345 kV line in South Dakota that crosses the James River Valley approximately nine miles northwest of Groton, South Dakota. He noted that this is an unbudgeted capital project being presented at this time because waiting until next year could greatly impact the cost of the project.

The area was dry farmland when the line was constructed in 1972, but has experienced flooding from the James River since the 1990's. High water has overtopped the tower concrete footings and ice sheets have caused damage to the steel legs which risk a failure/collapse. He presented diagrams and photographs of the transmission line area, towers and flooding. Water depth varies from one to four feet. Transmission crews have limited access only during the winter.

The proposed plan is to construct a 1.4 -mile access road between structures along the transmission corridor, construct earth embankments/tower pad fill and rip-rap at each structure and to extend the existing tower footings above the new grades.

This area constitutes jurisdictional wetlands and under Section 404(b) of the Clean Water Act, all areas impacted by fill require wetland mitigation. Permitting will be with the United States Army Corps of Engineers.

Pending environmental permitting, the schedule calls for construction to start in early August 2016 and be substantially complete by mid-October 2016. Tower footing extensions will be done in the spring of 2017 and wetland mitigation in 2017.

The Class #3 project estimate calls for road construction of \$1,768,275; environmental mitigation of \$510,000; tower modifications of \$665,000, contingencies of \$588,655 and interest during construction of \$62,515 for a total estimated project cost of \$3,695,445. He recommended the project be approved. The risk if we wait is the James River can flood again and with higher water, the cost for road construction and environmental considerations could very well double. This is the lowest the water has been for several years meaning this work can be done at a lower cost.

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

R04.05-10-16

RESOLVED, that the James River Valley Tower Flood Protection Project presented to this meeting of the

Board of Directors at an unbudgeted cost of \$3,594,445 is hereby approved; and

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

10. Marketing & Asset Management

Valerie Weigel, Manager of Marketing & Financial Analytics, reported on the North Hub, Minnesota Hub and Palo Verde forward pricing for the balance of 2016. Power prices at the SPP North Hub ticked up slightly in April and in the forward months. The Midwest Independent System Operator's (MISO) Minnesota Hub remains elevated versus SPP and Basin Electric's Western Interconnect electricity markets; however, the spread has tightened considerably over the past few months.

She reported that Dynegy, Inc. is looking to shut down 1,800 MW of coal-fired power at two of its downstate Illinois power plants due to low prices received in MISO.

She then reviewed congestion at the load zone, day-ahead and real-time pricing, Basin Electric load zone locational marginal pricing (LMP) and Eastern and Western Interconnect Energy Loads.

In April, Basin Electric was a buyer and a seller in SPP to serve loads from SPP in SPP, Montana and MISO. April estimated marketing outcome versus the budget resulted in a \$7.8 million net favorable variance over budget. The biggest fluctuation is the wind.

Ms. Weigel then reported that on April 21, the AVS offer curve was changed from \$11.13 through \$14.06 to \$7.44 through \$8.18. The updated LOS offer curve was changed from \$15.02 through \$16.20 to \$12.48 through \$13.56.

Regarding marginal congestion cost in a regional transmission organization market, the LMP has three components: energy, loss and congestion. Basin Electric is paid for generation based on the LMP at its generating node and pays to serve its member load based on the LMP at the load zone. Congestion is typically higher at the load zone than at the generator; therefore, without any congestion hedging, Basin Electric has to pay more to serve its load than it is paid for generation.

The congestion benefit (the value from the Transmission Congestion Rights (TCR) and Annual Revenue Rights (ARR)) is meant to cover the congestion in the day-ahead market. The congestion benefit reflects the dollars to cover the disparity in the price the Cooperative is paid for generation and the price the Cooperative pays to serve its load. In the past couple months, Basin Electric has seen congestion drastically decrease (because the day-ahead price spreads have become tighter) and has even seen a benefit at its load zone.

Ms. Weigel then reviewed the 2017 hedge plans and the natural gas hedge plans executed for 2017 through 2021. The hedge plan for 2018 targets 8,212,500 MMBTU/year and the hedge plan for 2019-2021 targets 5,475,000 MMBTU/year. She then reviewed total 2016-2021 natural gas hedges.

With respect to 2017 west-side surplus sales, risk mitigation has been set at \$9.0 million; west surplus sales volumes at 1.1 MWh; west target average total price (ATC) price of \$25/MWh; west stop-loss ATC limit price of \$21/MWh; and secured revenue of \$27.2 million. Staff reviewed the reverse request for proposal results and will approach two counterparties about potential 2017 sales.

11. Risk Management Report

Kerry Kaseman, Manager of Commodity Risk, reported that the average natural gas hedged price for 2016 is \$2.43, for 2017 is \$2.99, for 2018 is \$3.11, for 2019 is \$3.20 and for 2020 and 2021 is \$3.21.

He reviewed the Ventura Forward Curve which, as of May 1, 2016, starts at \$2.37/dekatherm (dkt) for 2016 increasing to \$3.14/dkt for 2020.

There were no settled financial hedges for natural gas in May. He reviewed the Mark-to-Market (MTM) of \$387,000 for natural gas and the current hedge position of natural gas.

Mr. Kaseman reported that Marketing & Asset Management provided the Risk Management Steering Committee (RMSC) an update on the annual ARR and TCR auction timelines and presented the strategies that are available in the annual and monthly TCR auctions.

He reported that May settled financial hedges for 40 MW of power resulted in a gain of \$46,000. He reviewed the Palo Verde On-Peak Forward Curve which, as of May 1, 2016, started at \$27.96/MW for 2016 and increased to \$32.33/MW for 2020. He reviewed the MTM gain of \$268,500 for power. He reviewed the current hedge position for west surplus sales, which reflected a 2016 average on-peak hedge price of \$24.61 and off-peak hedge price of \$17.06. The current hedge position for east purchase power was \$18.72 on-peak and \$22.25 off-peak.

He reviewed the Energy Information Agency's on-highway diesel price projections which, as of May 1, 2016, started at \$2.35/gallon increasing to \$2.61/gallon for December 2018 and basically saw no movement during the month. The May settled financial hedges for diesel resulted in a loss of \$(1,162) on a 77,000-gallon diesel hedge. As of April 30, 2016, the diesel MTM was approximately \$330,000. The aggregate settlement for all commodities for the month was \$44,838 and \$(292,055) year-to-date. He then reviewed the \$212,000 gain on MTM for all commodity hedges. He then reviewed liquidity position and credit exposure broken down by Moody's.

12. Recess and Reconvention

At 4:35 p.m. President Peltier recessed the meeting until May 11, 2016 at 8:00 a.m. at which time the meeting reconvened with President Peltier continuing to preside and Secretary Gary C. Drost continuing to keep the minutes.

13. Roll Call

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

Donald E. Applegate	Paul Baker
Leo Brekel	Gary C. Drost
Charles Gilbert	Mike McQuiston
Kermit Pearson	Wayne Peltier
Troy Presser	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were Chief Executive Officer & General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss and Basin Electric staff members Jamey Backus, Chris Bauer, Tracie Bettenhausen, Andy Buntrock, Eric Carufel, Tom Christensen, Shawn Deisz, Tammy DeWitt, Elizabeth Erhardt, Pius Fischer, Matt Greek, John Jacobs, Steve Johnson, Kerry Kaseman, Becky

Kern, Sharon Lipetzky, Russ Mather, Cris Miller, Darla Miller, Mary Miller, Diane Paul, Mike Paul, Dave Raatz, R.D. Reimers, Susan Sorensen, Tom Stalcup, Myron Steckler, Steve Tomac, Boyd Trester, Valerie Weigel and Michelle Wiedrich. Also present were DGC Vice President David J. Sauer and Mor-Gran-Sou director Robert Leingang.

14. Executive Session

At 8:00 a.m., it was moved by Director Pearson, seconded by Director Applegate and carried that the Board retire into executive session to discuss the competitiveness of the Cooperative's generation portfolio and Human Resources matters.

At 10:30 a.m., it was moved by Director Gilbert, seconded by Director Rohrer and carried that the board arise from executive session.

15. Board Policy #06, General Safety & Health

Diane Paul, Senior Vice President - Human Resources & Training, presented the redrafted Board Policy No. 6, General Safety & Health. After discussion, it was moved by Director Drost, seconded by Director Presser and carried that the following Resolution be adopted:

R10.05-10-16 RESOLVED, that Board Policy #06, General Safety & Health, presented to this meeting of the Board of Directors, is hereby approved.

16. Cooperative Planning Report

Minnkota Discussion. Dave Raatz, Vice President of Cooperative Planning, reviewed the timeline for completion of a term sheet with Minnkota Power Cooperative (**Minnkota**) by late summer 2016, financial forecast in the fall of 2016, a decision on direction by January 1, 2017, agreement execution in the second quarter of 2017 and rate/combined operation in 2017. There is a conference call with MISO on Friday to discuss who will be the market participant for the load. Minnkota is concerned that if Basin Electric is the market participant in MISO, it may jeopardize Minnkota's grandfathered agreement with Otter Tail Power Company (OTPC). Directors Presser and Drost reported that the main thing they hear from their members is that Basin Electric should not be responsible for any Minnkota write-offs or write-downs relating to CPP.

Wind Update. Mr. Raatz reported that three weeks ago, SunEdison filed a bankruptcy petition under Chapter 11 (reorganization). The two SunEdison subsidiaries that are the project companies for the Antelope Hills (172 MW) and Sunflower (104 MW) wind projects have not filed bankruptcy petitions. SunEdison personnel are optimistic that the Sunflower project will be successfully completed in substantial compliance within the time frame and conditions set forth in its Power Purchase Agreement (PPA) with Basin Electric. The Antelope Hills project faces substantial challenges and appears to be in trouble. SunEdison would support Basin Electric's purchase of the Antelope Hills project assets. Basin Electric will take any actions necessary to protect its secured position under the PPAs relating to both projects.

Russ Mather, Assistant General Counsel, reported that he has been in contact with SunEdison's bankruptcy lawyers and it seems that the Sunflower Project will go forward with very little impact. If there is impact to the timeline or major disadvantages to Basin Electric, we have some bankruptcy protection through the posted security.

He noted that Basin Electric has been concerned about the Antelope Hills project since last fall and it is now very unlikely that this project will move forward. SunEdison

suspended most of its construction activities and there is no indication that this project will proceed at all, let alone within the time frame set forth in the PPA. There is also security posted for this project.

Mr. Mather reported that he didn't expect the bankruptcy to impede the Cooperative's ability to draw on the letters of credit. We have the right to draw on those letters of credit until August and we shouldn't delay. He noted that Cooperative Planning is interested in looking at the Antelope Hills assets to determine if anything might be of interest or value to Basin Electric. SunEdison is not technically in default at this time. We've had a lot of discussions that SunEdison is in anticipatory breach, to which they strongly pushed back. Mr. Johnson noted that both letters of credit are from an "A" rated bank.

Mr. Raatz noted that the PPA provided a maximum of 270 days of delay from the date the project was supposed to go commercial. Antelope Hills was supposed to be up and running in June 2016. Antelope Hills does not have turbines and is not ready to begin construction, so there is no way they can build that project within the established time frame. Unless we're interested in buying that site, we'd look to terminate the contract under the failure to comply section before the end of July 2016. At a discussion with Antelope Hills yesterday, we indicated we would be discussing this matter internally and with the board of directors, but that it was very unlikely that Basin Electric would be interested in entering into definitive agreements to purchase the Antelope Hills wind project site.

Mr. Raatz noted that likely failure of the Antelope Hills project to go forward was one of the primary reasons we entered into a new wind contract with NextEra for the Brady II wind farm. If we do terminate the Antelope Hills project, we still have 150 MW under contract in the Brady II project.

A press release will be issued soon regarding the start of construction on the Lindahl project in the Tioga, North Dakota area. This project is expected to be in commercial operation by the end of 2016.

Mr. Raatz reviewed the east- and west-side short-listed wind projects. Analysis of long-term resource planning would take place through September and a recommendation could possibly be presented in October.

He then briefly discussed the shortlisted wind farms.

Nemadji Trio Energy Center Update. Mr. Raatz reported that the April 28 Nemadji Trio Energy Center (NTEC) CEO meeting among Wisconsin Governor Scott Walker, Minnesota Power (MP), Dairyland Power Cooperative (Dairyland) and Basin Electric had been very positive. The Governor was very supportive of the northern Wisconsin project as this part of Wisconsin does not have much economic development. Our concern had been what other Wisconsin utilities would say; however, Governor Walker didn't see that as an issue. The other Wisconsin utilities are building in southern Wisconsin. Another issue was whether this project would fall under the Clean Air Act Section 111(d) or Section 111(b). The Governor replied emphatically that this would be a Section 111(b) project.

MP reported that political representatives have expressed positive support for the project. There was also considerable discussion and analysis on the size of the project. In the past, we indicated the unit would be slightly over 880 MW and the technology would be of the "F-class" design—a combined-cycle unit with turbine technology that's been around a long time. About a year ago, Basin Electric's engineering department was very cautious of the new "H-class" machine. That group is now much more comfortable with

the "H-class" machine. All parties are now supportive of going with the larger H-class unit, so the project could increase to 950 MW.

The additional incremental capacity actually brings the average cost of capacity down a bit. One question still under debate is what is the transmission system capacity and can we get through that process? We anticipate making a decision on May 25. Dairyland is concerned that we may be pushing the transmission system too hard. Dairyland is stretched at the 880 MW machine, so the H-class machine is more resource than they really need. If we increase to a 950 MW unit and if Dairyland wants one-third, they may want a five- or 10-year contract with Basin Electric to purchase some of the output. We said if we do that, we can't pay full cost. We're making an investment in an asset that will last 30 to 50 years.

The MP board also authorized up to 400 MW of the project, so if Dairyland takes a little less, Basin Electric and MP would likely split whatever Dairyland didn't take.

A Steering Committee meeting will be held on May 25 to finalize and determine the capability of the unit. Nominations are due May 27. Dairyland is to let us know their nomination so possibly by May 27 we will know the magnitude of Basin Electric's generation in the project. Another meeting is scheduled for June 10 to prepare for the July 7 CEO meeting, at which time the project agreements would be executed and take effect on August 1, 2016.

The project will be moving from the power supply planning phase to the detailed design phase.

Managers Advisory Committee. Mr. Raatz reported that topics at the May 31, 2016 Managers Advisory Committee (MAC) meeting include DGC consultant review, strategic plan objectives, NERC compliance, a financial discussion regarding the 2015 austerity process/margin estimate, 2017 financial forecast timeline, preferred stock to be used as a mechanism for a capital infusion into Dakota Gasification Company, economic development loans, load management, the Allam Cycle, ITC, Basin Electric's position on Touchstone Energy and solar generation.

Solar. Mr. Raatz reported there is a lot of membership interest in larger (1 MW) solar projects. He noted that of the 10 MW available for the renewable rate, 9.8 MW have been used. The MAC will discuss potential options for solar in 2017.

Load/Power Supply Discussion. Mr. Raatz reported that contracts between Powder River Energy Corporation (PRECorp) and the Spring Creek Mine and the Decker Coal Mine (both located in Montana) will expire in 2017. We believe both mines are located within PRECorp service territory in Montana and both are required to purchase from PRECorp under the laws of Montana. The market price of power in Montana is in the \$30-40/MWh range. Basin Electric's rates are pretty high and there will be tough discussions ahead.

Discussions continue with the membership regarding standby service and load self-generation. This is an issue wherever there is a cheap source of natural gas and a heat source such as ethanol and sugar beet processing plants.

Mr. Raatz reported that a proposal was made to the city of Pocahontas, Iowa last month. Corn Belt Power Cooperative staff says Pocahontas continues to evaluate its options. Basin Electric's proposal is for energy at a market rate plus transmission fixed costs.

A board strategic planning session is scheduled for the June board meeting.

RFP Update. Becky Kern, Director of Utility Planning, reported on the status of the 2016 power supply request for proposals and noted that board authorization will be requested in June.

She reviewed the projected surplus/deficit in MISO Zone 1 (OTPC, Xcel, Dairyland and Great River Energy area) from 2016 through 2027 with both 885 MW and 950 MW from the NTEC. She then reviewed the best-priced bids and staff recommendations that will be presented for board approval next month.

Ms. Kern then reviewed the net Montana obligation, existing purchases and Miles City DC Tie reservations west of the east/west separation. The Montana Planning Areas involved are the UMZ (Highline) (31 MW), NWE (140 MW) and UMZ (5 MW) and the proposals to serve each. She also reviewed the Montana 2020, 2021 and 2022-2025 energy graphs. Negotiations continue.

17. Engineering & Construction Report

A. Project Funding Chart

Matt Greek, Senior Vice President-Engineering and Construction, reported that four Basin Electric contracts totaling \$13.4 million would be presented for approval this month. He presented the listing of all current major projects along with the approved budget amount, total dollars committed and completion dates. He then presented videos of construction activities at the North Killdeer Loop, LCS, PGS and Round-up Substation.

B. AVS-to-Neset Project Update

Myron Steckler, Project Management/Construction Director, reported that there were no OSHA recordable and no DART incidents during the month. Nesting bird surveys have begun and cultural studies continue as needed. The Roundup Substation, Patent Gate Substation, Kummer Ridge Substation and Patent Gate-to-Kummer Ridge line were delayed due to the late delivery of the power transformer and heavy rains affecting road restrictions. The goal is to energize all by August 31, 2016.

Phase 3 of the AVS switchyard and Phase 2 of the Charlie Creek Substation are scheduled to be energized by year-end. Energization of the Judson-to-Neset segment of the transmission line is scheduled for October 31, 2017.

The schedule for the Kummer Ridge-to-Roundup line is still on hold pending SPP approval. The Right-of-Way Division continues obtaining easements.

C. Award of Judson-to-Neset Conductor Contract

Mr. Steckler reported that this contractor will be responsible for providing and delivering the conductor and reels for the Judson-to-Neset segment of transmission line. Deliveries will start in July and finish by year-end. He reviewed the bids and recommended that the contract be awarded to the low bidder, Southwire Company LLC (**Southwire**), for \$3,319,200. The final value of the contract will be based on commodity pricing at contract signing. Pricing has increased slightly from \$78 to \$79 for 100 pounds changing the contract value to \$3.75 million. The project budget is \$4.8 million. He noted that Southwire is the current vendor for the conductor on the Patent Gate-to-Kummer Ridge segment.

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

R05.05-10-16 RESOLVED, that the transmission conductor contract for the Judson-to-Neset transmission line be awarded to Southwire Company, LLC in an amount not to exceed \$3.6 million; and

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

18. Recess and Reconvention

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

19. Roll Call

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

Donald E. Applegate	Paul Baker
Leo Brekel	Gary C. Drost
Charles Gilbert	Mike McQuiston
Kermit Pearson	Wayne Peltier
Troy Presser	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were Chief Executive Officer & General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss and Basin Electric staff members Chris Bauer, Tracie Bettenhausen, Andrea Blowers, Eric Carufel, Tom Christensen, Shawn Deisz, Tammy DeWitt, Pius Fischer, Matt Greek, John Jacobs, Steve Johnson, Kerry Kaseman, Becky Kern, Mark Kinzler, Janet Kubisiak, Sally Meier, Darla Miller, Faye Miller, Mike Paul, Dave Raatz, Susan Sorensen, Myron Steckler, Marie Tomac, Steve Tomac, Boyd Trester, Kevin Tschosik, Valerie Weigel and Michelle Wiedrich. Also present were DGC Vice President David J. Sauer and Mor-Gran-Sou director Robert Leingang.

20. Engineering & Construction Report, continued

A. Update on HRSG Enclosure Phase 2

Chris Bauer, Structural Engineering Supervisor, reported that to eliminate reliability issues related to winter freeze-up at DCS, an enclosure for the pipe rack and HRSG was designed, bid and is currently under construction. Overall project approval was received in October of 2015. The Phase 1 construction contract was awarded to Industrial Builders, Inc in October of 2015 in a not-to-exceed amount of \$8.4 million. This work includes foundations, structural steel and enclosure. Phase 2 design is complete and bids have been received and evaluated. This work includes mechanical, fire protection, electrical and heating and ventilation.

He reviewed the project schedule starting with the feasibility study in October 2014 through start-up/punchlist/closeout in April of 2017.

He reported on Phase 1 construction progress, presented diagrams of the enclosure and photographs of foundation work and steel erection. To date, \$4,341,000 of the \$22,235,000 approved amount has been expended. This includes \$15,700,200 for the proposed Phase 2 contract award. He then reviewed the project budget.

B. Award of DCS HRSG Enclosure Phase 2 Construction Contract

Mr. Bauer reported that Phase 2 design of the DCS HRSG Enclosure is complete and the bids have been received and evaluated. The Phase 2 scope of work includes mechanical, electrical, heating and ventilation, fire protection and a rated enclosure for chemicals. The existing chemical storage on site is too close to the wall and did not meet code.

He reviewed the Phase 2 construction bids and recommended that the contract be awarded to the low bidder, Fagen Inc. for \$6,468,395. This is part of the total \$22,235,000 approved amount.

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

R06.05-10-16

RESOLVED, that the construction contract for the Deer Creek Station HRSG Enclosure - General Construction Phase 2 be awarded to Fagen Inc. in an amount not to exceed \$6,468,395; and

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

D. Approval of LRS Scraper Load-out Electrical Upgrades Project

Nathan Miller, Electrical Engineer, reported that the scraper load-out electrical system provides power to the coal yard silos and the conveyors that supply coal to all three units at LRS. This electrical system is near capacity and requires upgrades to maintain reliability in support of planned coal system projects. He presented photographs of the crusher house and scraper load-out on the LRS plant site.

The scope of the project is to replace the existing two transformers, 480-volt switchgear, motor control centers (MCC) and all associated cable and wiring; add new power distribution center to house the 480-volt switchgear; and add new 6900-volt feeder cables from the crusher house to the step-down transformers.

The upgrades will improve coal system safety and the operating environment. The scraper load-out electrical equipment has reached the end of its useful life and requires replacement to insure safe, reliable and maintainable operations. The new system will provide the required electrical capacity to handle the future projects that are being planned for this area of the plant.

He reviewed the estimated project schedule from the start of engineering in May 2016 through commissioning in May of 2017.

The Class #3 project estimate calls for \$1.1 million in materials, \$2.4 million in construction, \$450,000 in tax, interest during construction and overheads and \$2.15 million for contingencies for a total project cost of \$6.1 million, of which \$2,578,470 is Basin Electric's share.

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

R07.05-10-16 RESOLVED, that the Laramie River Station scraper load-out electrical upgrade project presented to this meeting of the Board of Directors with an estimated cost of \$6,100,000 (\$2,578,470 Basin Electric share) be approved; and

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

E. Approval of LRS Sanitary Sewer Treatment System Improvements

Maria Tomac, Senior Civil Engineer, reported that the sanitary sewer system at LRS was constructed over 30 years ago, does not meet current standards for treatment facilities and is subject to potential action by the Wyoming DEQ. The system is undersized for the population it serves during normal operations, as well as during outages. Effluent is currently routed to Bottom Ash Pond #1. Water from this pond is routinely recirculated resulting in potential contact with personnel. Some equipment is not functioning and parts are scarce. Maintenance requires a difficult confined-space entry. She presented photographs and discussed the existing system.

The scope of work includes a new 30,000-gallon package treatment plant, effluent disinfection, reroute of effluent piping, retrofit of the piping, pumps and valves and electrical, including remote controls and functional alarms.

She noted that DFS has a very similar system. She presented a treatment process flow chart and noted that the schedule calls for engineering from June 2016 through February 2017, procurement from February to the end of May and installation from June through November of 2017. The Class #3 cost estimate includes contracted services of \$1,548,838, labor and overheads of \$131,147, materials of \$160,831, travel expenses of \$27,917 and interest during construction of \$17,758 for a total of \$1,897,749 (with Basin Electric's share being \$812,429). Ms. Tomac recommended the project and budget be approved.

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

R08.05-10-16 RESOLVED, that the LRS Sanitary Sewer Treatment System Project presented to this meeting of the Board of Directors at a budgeted cost of \$1,897,749 (\$812,429 Basin Electric share) is hereby approved; and

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

21. Communications & Administration Report

Government Relations. Steve Tomac, Senior Legislative Representative, reported on the National Rural Electric Cooperative Association (NRECA) Legislative Rally, during which the Department of Energy received a briefing on the Allam Cycle and Basin Electric

staff met with the Environmental Protection Agency to discuss trading between rate- and mass-based states under the CPP.

In Minnesota, proposed legislation, Electric Generation Systems Personal Property Tax Elimination and New Valuation Method Authorization (SF 1636), would institute a new valuation method for transmission lines. Most recent numbers show a significant tax increase for Minnesota Valley Electric Cooperative. The committee chairman was not amenable to amending out distribution cooperatives. This legislation has been rolled into the Omnibus Tax Bill, but hasn't yet been heard in the Minnesota House of Representatives.

Communications & Creative Services. Mary Miller, Director of Communications & Creative Services, reported that staff worked closely with Wyoming Governor Mead's office on the April 27 ITC groundbreaking at LRS. She reported that NRECA has been stepping up and taking a more active role in putting the cooperative message forward on a national front. Basin Electric staff is working with NRECA on an effort to bring a reporter from *U.S. News & World Report* and another trade journal to tell the cooperative story and talk about the CPP. NRECA has also worked with us on a paid placement in *Politico* -- where CEOs from five cooperatives (including Paul Sukut) discussed their innovative activities. Mr. Sukut had a column in *Politico* that was placed leading up to the ITC groundbreaking and the Legislative Rally.

Ms. Miller reported on Land & Minerals Undersecretary Janice Schneider's visit and tour of Coteau's reclaimed lands and the gasification plant. Four reporters participated as well. Basin Electric is trying to build awareness of the Stream Protection Rule.

Andrea Blowers, Supervisor of Communications, and Nicole Perrault, Supervisor of Graphics, distributed the 2015 Annual Report. The publication was edited by Ms. Blowers, designed by Ms. Perrault and photographed by Chelsy Ciavarella and Greg DeSaye. Ms. Blowers noted that staff had worked hard to stay under budget and close to the annual meeting theme, messaging and content structure, key initiatives and the Cooperative Plan. The map was changed to incorporate district information to assist readers in connecting each director to the district he or she represents.

Ms. Miller reported that three themes emerged from the recent member survey: electrical reliability, clean environment and support for the community. Staff is developing a campaign that speaks to those three items. The committee brainstormed and came up with the "Be the Light" campaign which highlights employees and community members who are lights in their communities.

Ms. Miller noted that Basin Electric has brochures, graphics, stickers, hardhat stickers, banners, retractables, annual meeting kits and speakers, balloons, signage, audio visual support, photography, writing/communications and web and social media available to the members. She noted that Communications recently provided annual meeting assistance to Rushmore Electric Power Cooperative. We received a lot of good feedback after recently contacting 70+ members offering assistance with CPP materials, presentations, services and a member website reminder. We are working to consolidate all this information and develop a plan for what we're doing next.

She presented a new community-based Memorial Day video advertisement created totally in-house and noted that it and other ads are offered to the membership at no charge. More than 50 requests for the Memorial Day ad were received from members, who add their cooperative name and place the ad with their local television stations, the cost of which is reimbursable by Touchstone Energy. We've placed this ad with the Touchstone Energy tag line to run in North Dakota. Staff is working on a longer Memorial Day ad

featuring an employee's husband, who was awarded the purple heart, who will share his story. This will also be offered to the members.

Ms. Miller then presented the "Brave the Shave" wrap-up video which tells about the impact of this fundraiser in the last nine years.

IS&T Update. Mark Kinzler, Vice President of Information Services & Technology (IS&T), reported that IS&T is working hard to reduce its 2016 budget yet making sure the needs and gaps are met in a cost-effective manner. IS&T is focusing on hardware, software and contracted services, which fits in well with the hardware and software consolidation initiative. To date, 10 software contracts and one services contract have been eliminated, consolidated or not renewed.

The compliance date for the NERC Critical Infrastructure Protection (CIP) standard is July 1 2016. IS&T continues to make progress on policies, procedures and work processes. A change control board, which meets weekly, was established to review system changes. Workflows are being finalized in the IS&T ticketing system. The internal implementation target date is June 2016.

Identity and Access Management software has been purchased to access governance for all NERC in-scope systems. Training for supervisors and managers begins this week. The "go-live" date was Monday, May 9. This software will also address other audit deficiencies outside of NERC CIP compliance.

Current IS&T CIP activities are focused on processes/procedures development and refinement such as access management, change management, system security management, recovery plans, configuration management, vulnerability management and information protection.

New software/hardware request forms have been implemented to document the business case for the expenditure and senior management approval is required prior to further action being taken. The request is then presented to the IT steering committee for recommendation. In addition, contracted support request forms have been implemented which must be completed by the requestor to document the business need for the contracted support, which must then be approved by management.

Staff is taking a hard look at all existing software to determine if it still has value, if there are overlaps and to determine the return on investment.

IS&T staff verified the inventory of installed software, its purpose and primary users to determine if any can be consolidated or standardized. Nearly two-thirds was eliminated. The next steps will be to identify the Cooperative's needs; identify overlaps in products; work with users on potential consolidating; and work with the IT Steering Committee on a review by the business units.

The business continuity (disaster recovery) effort is a partnership between the business units and IS&T. The second disaster recovery exercise is scheduled for next week. Staff is focusing on critical operational systems: ETRM software system, physical and control systems and financial and asset management systems.

The Deloitte & Touch (Deloitte) audit of IS&T resulted in eight deficiencies and two process improvements. The SAP Remediation engagement with Deloitte is scheduled for May 17-18, at which time Deloitte will address seven deficiencies and one SAP process improvement recommendation. The PCI password deficiency was fully remediated in TEST, DEV and PROD environments during the version 6.0 upgrade.

IS&T's employee transfer process--modeling access from existing users--doesn't align with industry leading practices. IS&T plans to integrate a new Identity and Access Management process into Enterprise Systems that impacts Basin Electric's financials to address this issue. The target date for this implementation is October of 2016.

Staff is investigating the costs, capabilities and potential compliance issues of load management options and comparing meter data versus SCADA data.

Shawn Deisz, Vice President & Controller, noted that when Deloitte comes in for its annual audit, they review those applications that have a significant impact on financial reporting and specifically, five systems: (1) Infor/Lawson financial suite, (2) ABB Asset Suite, including procurement, accounts payable, inventory and asset management; (3) SAP (DGC marketing/planning transactions); (4) Allegro (energy trading transactions); and (5) PCI (power trading transactions).

22. Financial Services Report

Steve Johnson, Senior Vice President & Chief Financial Officer, reported that the CoBank, ACB (**CoBank**) released its financial results for the first quarter of 2016 and is seeing growth across all sectors.

CoBank has a charitable giving program that matches contributions from \$1000 up to \$5000. Jen Holen, Supervisor of Community & Employee Engagement, completed and submitted three applications for: (1) Sakakawea Medical Center in Hazen, North Dakota; (2) DGC's Brave the Shave fundraiser; and (3) the Ronald McDonald Care Mobile, which provides pediatric dental services for underprivileged children. CoBank approved each of the applications and awarded a total of \$15,000. He encouraged the directors to relay this matching contribution opportunity to their cooperatives. Applications must be from CoBank-eligible customers, but the eligible customer doesn't have to have a current loan from CoBank.

He then discussed Fitch Rating Inc.'s reaffirmation of Basin Electric's F-1 short-term credit rating. We have heard nothing from S&P. Mr. Johnson noted that on February 2, S&P Global Ratings put Exxon on CreditWatch negative and on April 26 downgraded its credit rating from AAA (that Exxon had since July 5, 1949) to AA+ with a stable outlook. In 1980, there were 32 AAA-rated companies; in 2005 there were six; and now there are two: Microsoft and Johnson & Johnson.

The first-quarter estimate of the gross domestic product was released April 28. The consensus estimate was growth of 0.7%. Reported growth was 0.5%. This is the slowest quarterly growth metric in two years and the fourth reading below 1% in the past five years. He reviewed the U.S. Treasury yield curve for five, 10 and 30 years.

The Federal Open Market Committee (**FOMC**) met on April 26-27 and made no change to the Federal Reserve rate. The FOMC stated that "Labor market conditions have improved further even as growth in economic activity appears to have slowed."

The next FOMC meeting is June 14-15. The market has the probability of a rate hike in June at 8%, with the probability going to 22% in July. There are still varying opinions as to whether there will be one or two additional hikes in 2016.

He then reviewed jobs data, the unemployment rate from 2006 to present and the participation rate.

He then briefly discussed the preferred stock proposal which would be similar to the Member Investment Program (**MIP**), but with a longer term. A return rate must be determined that is competitive for the member, but does not result in a shift of dollars from

the MIP to this program. We also need to look at a means in which members are willing to invest for a longer period of time, somewhat like the National Rural Utilities Cooperative Finance Corporation's capital term securities. There are still issues to resolve.

A. Approval of Board Policy #05, Director Compensation and Travel

Ms. Deisz reported that the second paragraph of this policy was stricken because it addressed procedural issues that don't belong in a policy. Those items have been moved into the memorandum sent to the directors at the end of each year.

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

R10.05-10-16 RESOLVED, that Board Policy #05, Director Compensation/Travel, presented to this meeting of the Board of Directors, is hereby approved.

B. Accounting Report

Darla Miller, Senior Accounting Analyst, reported that the April 2016 Statement of Operations reflected an estimated net deficit of \$(28.9 million) compared to the budget net deficit of (\$29.6 million) for a favorable variance of \$700,000. The net deficit last month was (\$6.8 million) and (\$15.5 million) for the same period last year.

April sales to members were \$92.6 million compared to the budget of \$97.8 million for an unfavorable variance of (\$5.2 million). March sales to members were \$100.4 million and for the same period last year were \$83.5 million.

Surplus sales were \$8.0 million compared to \$9.6 million last month and \$19.5 million for the same period last year. Surplus sales were budgeted to be \$11.7 million in April. Surplus sales were lower due to lower prices.

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

Basin Electric's April equity-to-asset ratio was 17.8% compared to 18.2% in March.

The April equity-to-capitalization ratio using Moody's Investor Service's methodology (both without the consolidation entry for Coteau) was 21.5% compared to 22.1% in March.

The April equity-to-capitalization ratio based on indenture requirements for patronage distribution was 19.8% compared to 20.6% in March.

23. Directors' Reports

Director Pearson reported that the South Dakota Public Utilities Commission finalized its stray voltage rules which go into effect on July 1. The rules are very similar to Iowa's rules.

Director Peltier reported that the District 9 information meeting will take place at Basin Electric Headquarters on June 13. He thanked Bob Leingang for attending the meeting.

Director Peltier noted that the Upper Missouri Power Cooperative board will come to Bismarck for the July board meeting and he briefly outlined the schedule for that meeting. He asked that the directors contact Tammy DeWitt as soon as possible to let her know if spouses will attend the July events.

Mr. Peltier noted that there will be a celebration in honor of the Leland Olds Station's 50th anniversary in Center, North Dakota, on Wednesday, June 15 starting at 5:30 p.m.

24. Date and Time of Next Board Meeting

The next regularly scheduled meeting of the board of directors will take place June 14, 2016, at the headquarters building in Bismarck, North Dakota.

25. Adjournment

At 2:45 p.m., it was moved by Director Rohrer, seconded by Director Presser and carried that the meeting be adjourned.



Gary C. Drost
Secretary-Treasurer