

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

**Minutes of the Regular Meeting of the Board of Directors
July 15-17, 2014**

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**Basin Electric Power Cooperative
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**Minutes of the Regular Meeting of the Board of Directors
July 15-17, 2014**

The Regular Meeting of the Board of Directors of Basin Electric Power Cooperative (the **Cooperative** or **Basin Electric**) was held at The Lodge at Deadwood, South Dakota, starting on Tuesday, July 15, 2014 starting at 10:30 a.m. MDT.

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
Gary C. Drost	Arden Fuher
Charles H. Gilbert	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative except Director McQuiston, who was absent due to a death in the family. Also present were CEO & General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson and Basin Electric staff members Robert J. Bartosh, Tracie Bettenhausen, , Tammy DeWitt, Mike Eggl, Matt Greek, Ellen Holt, John Jacobs, Steve Johnson, Mark Kinzler, Dave Raatz, Mike Risan, Ken Rutter. Also present were Dakota Gasification Company (DGC) board members Jim Geringer, Alan Klein and Tom Owens and DGC Vice President David J. Sauer. Also present from time to time were members of the Rushmore Electric Cooperative (**Rushmore**) board of directors and Rushmore staff and managers from Rushmore member cooperatives. Rushmore hosted Basin Electric at a joint meeting of their boards of directors. Also present via iLink were staff members Eric Carufel and Shawn Deisz.

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 Baker, seconded by Director Drost and carried that the agenda be approved as presented.

4. Approval of the Minutes

The minutes of the June 10-11, 2014 Regular Meeting of the Board of Directors and the audit committee were presented and after an opportunity for corrections, it was moved by Director Peltier, seconded by Director Gilbert and carried that the minutes be approved as presented.

5. Election of District 5 Director Nominee

General Counsel Claire Olson reported that Basin Electric's Amended and Restated Bylaws (Bylaws) provide that if a vacancy occurs at any time more than 90 days prior to the expiration of the term of the director, that district shall nominate an individual to fill the remaining term of that director.

District 5 caucused at Tri-State Generation and Transmission Association's (Tri-State) headquarters on July 1, 2014. At that meeting, the authorized representatives of the members of District No. 5 nominated Leo Brekel of Fleming, Colorado, to fill the vacancy for the unexpired term. Mr. Brekel's distribution cooperative is Highline Electric Association in Holyoke, Colorado.

He therefore recommended that in accordance with the Bylaws, the remaining members of the Board of Directors adopt a resolution appointing Mr. Brekel to the unexpired term for District No. 5. After discussion, it was moved by Director Pearson, seconded by Director Fuher and carried that the following Resolution be adopted:

R01.07-15-14 RESOLVED, that Leo Brekel be appointed to fill the unexpired term of director for District No. 5 and serve until his successor shall be elected and qualified.

6. General Manager's Report

General Manager Sukut reported he had given an update on Basin Electric at a recent PRECorp meeting. He reported on the last Missouri Basin Power Project Management Committee meeting and the recent round of employee meetings, the annual meetings of NIPCO on June 26 and at Corn Belt on June 27. He reported that a new partner at Deloitte & Touch will be participating in the Basin Electric 2014 audit. On July 10, the Southwest Power Pool (SPP) conducted a seminar at Basin Electric reviewing the activities that need to be completed to integrate the operation of facilities with SPP.

Western Fuels Association Report.

Mr. Sukut reported that the annual meetings of Western Fuels Association (WFA) and its subsidiaries will take place in August.

7. Office of General Counsel Report

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

8. Communications & Administration Report

Mike Eggl, Senior Vice President-Communications & Administration, discussed political polarization, EPA Section 111(d) outreach, energy and water appropriations, efforts underway to standardize the naming of documents and reorganizing the policies and procedures of the Cooperative. He then reported on the Touchstone Energy Independence Day float, the Wounded Warrior softball game at the McQuade Charity Softball Tournament and the Basin Electric garden, the produce of which is being donated to the Hunger Free ND Garden Project.

9. Recess and Reconvention

At 4:25 p.m. MDT, the meeting recessed. The meeting reconvened at 8:00 a.m. MDT on Wednesday, July 16.

10. **Roll Call**

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

Don Applegate	Paul Baker
Leo Brekel	Gary Drost
Arden Fuher	Charles H. Gilbert
Kermit Pearson	Wayne Peltier
Roberta Rohrer	Allen Thiessen

Said persons being all of the directors of the Cooperative except Director McQuiston, who was absent due to a death in the family. Also present were CEO and General Manager Paul M. Sukut and Assistant Secretary Claire M. Olson; staff members Robert J. Bartosh, Tracie Bettenhausen, Andrew Buntrock, Tammy DeWitt, Mike Eggl, Matt Greek, Ellen Holt, John Jacobs, Steve Johnson, Mark Kinzler, Dave Raatz, Mike Risan, Ken Rutter and Steve Tomac. Also present were DGC board members Jim Geringer, Alan Klein and Tom Owens and DGC Vice President David J. Sauer. Also present from time to time were members of the Rushmore Board of Directors, Rushmore staff and managers from Rushmore member cooperatives.

Also present via iLink were staff members Kimberly Badenhop, Eric Carufel, Shawn Deisz, Sharon Lipetzky, Mary Miller, Russ Mather, Chris VandeVenter and Michelle Wiedrich and DGC staff member Mark D. Foss.

11. **Communications & Administration Report, continued**

Mark Kinzler, Chief Information Officer, reviewed IT governance, efforts underway by the IT group to integrate systems with SPP as the Cooperative moves forward with joining a Regional Transmission Organization (RTO). He also discussed activities underway with NERC compliance.

12. **Office of General Counsel Report, continued**

Mr. Olson then discussed the status of the cases underway to appeal the decision of the EPA on Wyoming regional haze. The EPA decision would require the installation of SCRs on all three Laramie River Station (LRS) units. Mr. Olson noted that the compliance with the EPA's directives on regional haze have been complicated by the recent regulations published by EPA that would regulate CO2 emissions from existing generating sources.

He introduced Chris VandeVenter, Legislative Representative, who reviewed the EPA regulations under 111(d) of the Clean Air Act.

Mr. Olson then introduced Jim J. Sheldon, Power Supply Engineer, who reviewed the efforts underway to analyze these regulations, provide written comments to EPA on these regulations and then develop a plan for compliance.

A. **Approval of AVS SNG Sales Agreement**

Claire M. Olson, General Counsel, reviewed the agreement negotiated with DGC which calls for the purchase of up to 20,000 dekatherms per day of synthetic natural gas (SNG) for use at the Antelope Valley Station (AVS) for start-up. The price will be based upon that day's Ventura Daily Price as published in *Platts Gas Daily* so as to compensate DGC for its lost opportunity cost.

Mr. Olson recommended that the CEO and General Manager be authorized to execute the Sales Agreement.

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

R02.07-15-14 RESOLVED, that the Board of Directors authorizes the execution by the CEO and General Manager of the AVS SNG Sales Agreement.

13. Cooperative Planning Report

Dave Raatz, Vice President of Cooperative Planning, discussed Basin Electric's regional position and provided an update on large solar development, and new member load possibilities.

CO₂ Impact Mitigation. Mr. Raatz noted that with the proposed EPA regulations for limiting CO₂ emissions from existing facilities, staff is currently reviewing all of the options for reducing or offsetting CO₂ emissions. One of the options is to reduce the emissions by utilizing zero emitting renewable resources like wind. Mr. Raatz reviewed a number of hypothetical cases regarding the magnitude of wind generation required to offset the amount of CO₂ emissions emitted by the generating fleet to be in compliance.

He then reviewed the economics of wind projects that have been offered to the Cooperative in North Dakota and South Dakota. He noted the economics of these projects are such that they are viable without considering the added benefits of CO₂ reduction. However, the Cooperative would have to make a commitment to them within the next couple of months so that the developer can begin the construction process and be able to capture the associated tax benefits.

He also reviewed the economics of a proposed wind project in Wyoming in close proximity to the LRS. The proposed pricing is attractive but there are potential transmission issues associated with the delivery of this power which might require backing down generation at LRS. This would reduce the value of this wind generation. However, this generation would help in the overall reduction of CO₂ and might be somewhat beneficial in helping resolve the BART issue at LRS.

He noted that staff would present additional information about the possible development of these projects over the next two months.

Solar Update. Mr. Raatz reported that over the past several months, staff has worked with the membership to determine the interest in developing 1 MW solar projects in each of the Districts to satisfy the needs of their members for solar generation. Under the proposal, the costs of each of these projects would be passed directly to each district and would not be socialized across the membership. After considerable discussion, there was no interest to proceed to develop this type of solar projects. He noted there is still membership interest in the development of smaller solar projects up to 150 KW and we are starting to receive applications under the new solar purchase rate schedules.

New Member Load Possibilities. Mr. Raatz reported that the eight members in Minnesota who have existing fixed purchase agreements with Great River Energy

(GRE) have been notified by GRE that the amount of power under the fixed purchase agreement will be reduced by approximately 35 MW. These members have asked Basin Electric for a proposal to supply this 35 MW. He reviewed the historical pricing models that Basin Electric has used for pricing new loads such as these and presented pricing options for the board to consider. He noted that this proposal would be discussed with the board at the August meeting. He noted these members have also expressed interest in Basin Electric supplying any future GRE reductions in the amounts of power they receive from GRE as a result of GRE resource retirements.

A. Regional Transmission Organization (RTO)

Mr. Raatz reported that Basin Electric began considering the merits of joining an RTO back in 2002. Initially, Basin Electric and the Western Area Power Administration (**WAPA** or **Western**) had access to markets for selling and purchasing power and ancillary services. However, as more utilities in the region joined RTO's these opportunities diminished.

In 2012 the Cooperative began an intensive study to determine the economics of joining an RTO and considered the options of joining MISO or SPP. In April of 2013, the Board authorized the CEO and General Manager to enter into negotiations with SPP to lay the groundwork for membership and also expressed support for WAPA to do the same.

He noted that in April of 2013 staff presented an analysis to the Board of the estimated economics of joining SPP. That study looked at the economics of the Transmission Benefits, Trade Benefits, Capacity Benefits and Administrative Costs and concluded that there was a \$44.2 million annual cost benefit associated with joining SPP.

Mr. Raatz noted that staff would present an update of the economics of joining SPP. He noted that there were a lot of assumptions associated with this complex study but represented the best view of the economics at this time. He introduced Mike Risan to review the Transmission Benefits.

Mr. Risan noted that there was some degradation in the Transmission Benefits. The initial study showed a \$12.6 million dollar benefit. However, he noted that new transmission projects were authorized in other areas of SPP which increased transmission charges and Basin Electric reduced the amount of transmission it was constructing thus reducing the amount of cost sharing revenue received. This change involved eliminating the initially proposed east 345 kV loop around Lake Sakakawea and substituting the shorter and less costly 345 kV North Killdeer Loop project. This coupled with an increase in the load-ratio share results in -\$11.8 million value assigned to this component.

Ken Rutter, Vice President of Marketing and Asset Management, then presented an update of the Trade Benefits associated with joining an RTO. In the 2013 study done by the Brattle Group the estimated Trade Benefits were \$16.2 million annually. He noted this study focused primarily on a nodal analysis that evaluated primarily economic dispatch. He reviewed the updated study noting that it considered, in addition to the items in the Brattle study, the benefits to the joint marketing program, new markets for ancillary services, more sources of replacement energy, reduced drive-out and real-time market uplift charges and losses. The Trade Benefits are now estimated to be \$75.7 million annually.

Mr. Raatz noted that the 2013 study reflected an annual Capacity Benefit of \$27.1 million. The Capacity Benefit reflects the benefit of not having to build the additional capacity you would need if you weren't in an RTO. This benefit, based on the updated analysis provides an annual benefit of \$29.1 million.

He then noted that the 2013 study concluded there was a -\$11.7 million cost associated with joining as a result of Administrative Costs. He reviewed the updated estimated Administrative costs and noted that this had increased to a -\$19.3 million.

The updated economics thus indicate that there is an estimated \$80.7 million dollar annual benefit associated with joining SPP in 2020.

Mr. Raatz then introduced Kimberly Badenhop, Cooperative Planning Project Coordinator. He noted that Ms. Badenhop is coordinating all of the activities that are under way to integrate into SPP.

Ms. Badenhop noted that on July 10, Basin Electric hosted a large contingent of staff from SPP in Bismarck for a kick-off meeting. The meeting was to allow staff and the various work teams at Basin Electric involved in the integration process to ask questions about and learn the steps in the process. These teams will be meeting on a regular basis until the integration is complete. By August 1 SPP staff will have a detailed schedule for the work needed for the integration. The Structure Group will begin work on a detailed internal schedule for Basin Electric staff.

14. Recess and Reconvention

At 12:15 p.m., the meeting recessed until 1:00 p.m. MDT, at which time the meeting reconvened, President Peltier continuing to preside and Secretary Gary C. Drost continuing to keep the minutes.

15. Roll Call

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

Don Applegate	Paul Baker
Leo Brekel	Gary Drost
Arden Fuher	Charles H. Gilbert
Kermit Pearson	Wayne Peltier
Roberta Rohrer	Allen Thiessen

Said persons being all of the Directors of the Cooperative, except Director McQuestion who was absent due to a death in the family. Also present were CEO and General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson and Basin Electric staff members Robert J. Bartosh, Tracie GBettenhausen, Tammy DeWitt, Mike Eggl, Matt Greek, Ellen Holt, John Jacobs, Steve Johnson, Mark Kinzler, Dave Raatz, Mike Risan and Ken Rutter.

Also present were DGC board members Jim Geringer, Alan Klein and Tom Owens and DGC Vice President David J. Sauer. Also present from time to time were members of the Rushmore Board of Directors, Rushmore staff and managers from

Rushmore member cooperatives.

Present via iLink for various portions of the meeting were Eric Carufel, Shawn Deisz, Sharon Lipetzky, Russ Mather and Michelle Wiedrich.

16. Cooperative Planning Report, continued

A. Regional Transmission Organization, continued

Mr. Raatz reported that the Heartland board approved Heartland joining SPP on July 8th and the Western administrator approved Western's membership on July 9th. After a thorough discussion, Mr. Raatz recommended that the CEO and General Manager be authorized to execute the documents required for Basin Electric to join SPP.

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

R03.07-15-14 BE IT HEREBY RESOLVED, that the CEO and General Manager, or his designee, is hereby authorized and empowered to execute and deliver on behalf of the Cooperative all documents and instruments necessary To enable the Cooperative to join the Southwest Power Pool on terms and conditions he deems to be in the best interests of the Cooperative; and

BE IT FURTHER RESOLVED, that the CEO and General Manager, or his designee, is authorized and empowered to incur and pay all costs and expenses associated with integration of the Cooperative into the Southwest Power Pool as a full transmission-owning member.

Mr. Raatz then requested authorization to implement the Transmission Service Policy. After discussion, it was moved by Director Fuher, seconded by Director Thiessen and carried that the following Resolution be adopted:

R04.07-15-14 RESOLVED, that the Board of Directors authorizes the Cooperative to work with the "all supplemental requirements" Wholesale Power Agreement members to change the existing delivery points relating to each member, to mutually agreed delivery points served by facilities included within the footprint of contiguous, FERC pro-forma, open-access transmission tariffs; and

BE IT FURTHER RESOLVED, the Board of Directors directs the Cooperative to work with the all supplemental requirements Wholesale Power Agreement members to accomplish the following objectives:

1. To identify mutually agreeable points of delivery;
2. To amend the Wholesale Power Contracts to reflect such new delivery points; and
3. To reserve and contract for all tariff transmission service

and to pay all tariff transmission service charges and assessments associated with Basin Electric's power supply obligation, necessary to fully implement and maintain the transmission service described above; and

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

B. Infinity Wind (Antelope Hills Wind)

Mr. Raatz reported that Basin Electric entered into a Power Purchase Agreement with Infinity Wind to purchase the output of the Antelope Hills Project. The delivery point is the Antelope Valley Station. He reviewed a map showing AVS and the wind collector substation.

Infinity was unable to obtain a separate route through the Coteau Mine as originally planned which resulted in having to triple circuit their 345 kV line with a double circuited Roughrider Electric 69 kV line. This results in a \$6 million cost overrun for the project. Basin Electric was able to negotiate a sharing in these overrun costs.

Mr. Raatz recommended increasing the power price to \$23.65 mills/kWh to accommodate this change.

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

R05.07-15-14 BE IT HEREBY RESOLVED, that the General Manager is authorized and directed to take all action necessary to amend the Power Purchase Agreement dated November 5, 2013 by and between the Cooperative and Antelope Hills Wind Project, LLC to increase the purchase price rate to \$23.65 mills/kWh.

C. Minnesota Power Partnership (NTEC) Update

Becky Kern, Manager of Utility Planning, reported that Northern Tier Energy Center (NTEC) is planning an 800 to 1100 MW combined-cycle facility in the MISO footprint and is seeking participation from other utilities. Preliminary studies have identified two sites in Wisconsin. WPPI Energy, Dairyland Power Cooperative, Minnesota Power, Minnkota Power Cooperative and Basin Electric have expressed interest at this time.

Basin Electric is reviewing its plan for service to its members in the MISO footprint in the 2022 time frame and is reviewing this project as a possible alternative. She noted the staff is attending several upcoming steering committee meetings with major Phase II deliverables due later this year, that include site selection, technology selection, resource cost and project development schedule. If Basin Electric wants to move forward with this project, there will likely be commitments of \$1.2 – 1.5 Million for 2015.

D. Strategic Planning

Shanda Traiser, Director of Strategic Planning, reviewed with the Board two strategic objectives: (1) advance Cooperative interests within the public arena; and (2) member and community engagement. She noted that a strategic

planning overview would be presented to the Manager's Advisory Committee meeting later this month.

17. Engineering & Construction Report

A. Funding Chart

Matt Greek, Senior Vice President-Engineering and Construction, reported that contracts totaling \$404.3 million would be presented this month.

B. Major Project Updates

Myron Steckler, Project Management & Construction Director, provided updates on the major projects currently underway: AVS-to-Neset 345 kV transmission line, North Killdeer Loop, ND/SD Microwave Upgrade, LCS II, DGC-to-AVS SNG Pipeline, AVS Low NO_x Upgrade, LRS Low NO_x Upgrade, Leland Olds Station (LOS) SNCR, LRS Circulating Water Pumphouse Electric, LRS Mercury Control and AVS Mercury Control.

C. New Generation

Ms. Kern reviewed the Cooperative's load projections for 2014 – 2025 and the surplus/deficits for that time frame in the MISO, IS/SPP and West resource planning areas. She also reviewed the loads in the Williston pockets of the IS/SPP Planning area. After reviewing the data from the studies so noted that in 2016 the Cooperative needs 100 MW of peaking capacity north of Lake Sakakawea and 100 MW of peaking south of Lake Sakakawea. There is a need for 200 MW of additional peaking in the 2017-2018 timeframe, a combined cycle unit by 2019 and some additional power purchases in the 2017 – 2021 time frame. With the 200 MW of peaking required to be online in 2016, staff is requesting approval for two peaking projects. She introduced Josh Rossow, Project Manager, to present the proposals for the two projects.

Mr. Rossow noted that the power supply study suggested having a 100 MW peaking plant north of Lake Sakakawea and the other on the south side. However, there was no pipeline north of the lake with the capacity to provide gas in sufficient quantities for a 100 MW peaking plant. After reviewing the potential sites available south of the lake, staff recommends proceeding with the installation of one project at the existing Lonesome Creek Station and the other at the Pioneer Station.

D. Lonesome Creek Station Phase III

Mr. Rossow reviewed the layout of the existing Lonesome Creek Station. He noted that it is the recommendation of staff to install two 90 MW GE LM6000 units for Phase III. These are the same type of units currently on site and they will make use of the existing site infrastructure and present less of a schedule risk than other technology. He also reviewed the transmission upgrades required for the installation of these units, as well as the required permits. He reviewed the schedule for construction as well as the budget for the project. The budget for the project is \$107,900,000 which includes a 5.6% contingent fee. Included in the budget is the cost of the two LM6000PF turbine generator packages, which he recommended be awarded to General Electric.

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

R06.07-15-14 RESOLVED, that the Lonesome Creek Station Phase III project presented to this meeting of the Board of Directors at a budgeted cost of \$107,900,000 is hereby approved; and

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

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

R07.07-15-14 RESOLVED, that the purchase of the LM6000PF Gas Turbine Generator package for the Lonesome Creek Station Units 4 and 5 be awarded to General Electric in an amount not to exceed \$45,807,200; and

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

E. Pioneer Generation Station Phase III

Mr. Rossow noted that staff is recommending that the Phase III addition to the Pioneer Generation Station consist of twelve 9.34 MW Reciprocating Engines (112 MW), along with the ancillary related equipment. Also included in the project is a switchyard and interconnection to the Mountrail-Williams 115 kV system.

Reciprocating engines were selected for this phase because the LM6000PF turbine would have difficulty running on the high-BTU gas at this location. It would require moving to a water-injected turbine to accommodate this gas, which would have a higher variable operating cost as well as problems with freeze-up. Reciprocating engines would also provide more flexibility and add diversity to the Cooperative's fleet.

He reviewed the layout of Phase III, as well as data on the operation of the reciprocating engines. He also reviewed the permits required for the construction of the facility and the schedule for construction. Mr. Greek reviewed the details of the reciprocating engines and noted that Wartsila and Caterpillar were the two companies who make equipment of this size. There are a lot of Wartsila engines in service, while Caterpillar has only a few currently operating. He recommended that the Cooperative purchase the Wartsila package.

Mr. Rossow reviewed the budget noting that the project budget is \$161,200,000 which includes a 5.6% contingency. The engines are expected to cost \$56.7 million.

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

R08.07-15-14 RESOLVED, that the Pioneer Generation Station Phase III Project presented to this meeting of the Board of Directors at a budgeted cost of \$161,200,000 is hereby approved; and

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

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

R09.07-15-14 RESOLVED, that the purchase of the Reciprocating Engine package for the Pioneer Generation Station Phase III be awarded to Wartsila in an amount not to exceed \$56,740,000; and

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

F. LOS Low NO_x

Mr. Steckler noted that the North Dakota Regional Haze State Implementation Plan (SIP) limited the NO_x emissions from LOS Units 1 and 2. The compliance date for both units is April of 2017.

The LOS NO_x reduction project was approved in 2007. The project scope at that time included combustion modeling/turning (both units), over-fire air (both units) and selective non-catalytic reduction (SNCR) (for Unit #2 only). The original project budget was \$14 million. The over-fire air installation has been completed in both units.

The SNCR installation at Unit #2 is scheduled for August 2014 through March of 2017. With this installation, LOS #2 is expected to exceed SIP reductions.

The cost of the SNCR for Unit #2 has exceeded the original \$14,071,000 for the project by \$11,720,135. He recommended that W01051 (LOS Unit #2 NO_x Removal) be increased from \$14,017,000 to \$25,958,889.

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

R10.07-15-14 RESOLVED, that the budget for Project WO01051 (LOS Unit #2 NO_x removal) be amended from \$14,017,000 to \$25,958,889; and

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

Mr. Steckler presented the budget for the LOS #1 Low NO_x Project for \$9,341,000 and recommended it be approved. After discussion, it was moved by Director Gilbert, seconded by Director Applegate and carried that the following Resolution be adopted:

R11.07-15-14 RESOLVED, that the LOS Unit #1 Low NO_x Project with a budget of \$9,341,000 be approved; and

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

G. ICI Contract for AVS Low NOX Burner Installation

Gavin McCollam, Engineering Services Director, reported that ICI was awarded the contract for the installation of Low NOX Burners on AVS Unit #1 for \$3.4 million. Because of issues associated with burner fitting, increased insulation and lagging costs and additional labor costs, he recommended increasing the payment due ICI by \$2.3 million. The overall project is still expected to finish under budget.

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

R12.07-15-14 RESOLVED, that the AVS Unit #1 Low NO_x Burner Installation contract with ICI be increased by \$2.3 million to a new contract total of \$5,734,000; and

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

H. LRS Engineered Chutes -- Coal Transport System

Mr. McCollam noted that staff has identified an opportunity to improve the safety and reliability of the coal-handling system at LRS. He presented a diagram showing eight transfer points in the system where a new chute system will be installed that will minimize dust creation and reduce equipment wear and maintenance.

He reviewed the bids for engineering, fabrication and installation of the chutes and recommended the contract be awarded to Plant Techniques for \$1,950,394.

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

R13.07-15-14 RESOLVED, that the capital project to install new Engineered Coal Chute Systems at LRS for a total MBPP cost of \$2,647,699, with Basin Electric's cost share to be \$1,123,687 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.

18. Financial Services Report

A. End-of-Year Margin

Andy Buntrock, Manager of Financial Planning and Forecasting, noted that the Basin Electric pre-tax, end-of-year margin as of today is estimated to be \$48.2 million as compared to the budget of \$38.8 million.

B. Draft 2015-2024 Financial Forecast

Mr. Buntrock began with a review of the common assumptions used to prepare the 2015-2024 financial forecast for Basin Electric and its subsidiaries, as well as the capital requirements for the forecast period.

Ms. Kern then reviewed the 2014 load forecast and reported on the member peak demand and energy sales to the membership for the forecast period and provided the same projections for non-member sales. She also included in the forecast and identified the net benefits contained in the forecast for joining SPP. She also identified the new transmission and generation additions required for the forecast period.

Mr. Buntrock then presented the policy assumptions on margins, financing and capital credit retirement used in the forecast. He then reviewed the capital requirements which consisted of \$2.8 billion for Basin Electric, \$520 million for Dakota Coal Company and \$661 million for DGC. He noted that this forecast case showed a stable rate for 2015 of 54 mills/kWh, rising to 57.6 mills/kWh in 2018. He then reviewed the cost of service components of the rates.

Steve Johnson, Sr. VP and Chief Financial Officer, presented the impacts of these rates on the financial metrics of the Cooperative using the methodology used by Moody's in developing their bond ratings. He noted that three key components, TIER, DSC Ratio and Equity-to-Debt Ratio, would fall taking the Cooperative's bond rating below the "A" level. He then discussed strategies for maintaining the bond rating. Alternatives include increasing the margin percentage from three percent to four percent and/or also using a revenue deferral strategy. He reviewed the effects each of these strategies would have on the Cooperative's financial metrics, as well as on the member rates.

Mr. Buntrock then presented three forecast scenarios to test the sensitivities to possible market change. He discussed the effects if the Keystone XL pipeline is not built, a \$10/ton CO₂ cost in 2021 and finally a natural gas price of \$.50 greater than used in the financial forecast.

After a discussion of the forecast as well as a discussion of other scenarios to investigate, Mr. Buntrock noted that the forecast will be presented to the Board for approval in August.

C. 2015 Class A Rates

Sharon Lipetzky, Rates & Revenue Supervisor, presented the proposed 2015 Class A Rate components that are based on the forecast Class A Revenue Requirement. After discussion, Mr. Raatz noted that in 2015, he anticipated working with the members to initiate discussions on the current demand/energy split, as well as a review of other rates and rate components.

19. Recess and Reconvention

At 6:00 p.m., the meeting recessed until 9:00 a.m. on July 17, 2014, at which time the meeting reconvened with President Peltier continuing to preside and Director Drost continuing to keep the minutes.

20. Roll Call

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

Don Applegate
Leo Brekel
Arden Fuher
Kermit Pearson
Roberta Rohrer

Paul Baker
Gary Drost
Charles H. Gilbert
Wayne Peltier
Allen Thiessen

Said persons being all of the Directors of the Cooperative except Director McQuiston, who was absent due to a death in the family. Also present were CEO and General Manager Paul M. Sukut, Assistant Secretary Claire M. Olson and Basin Electric staff members Andy Buntrock, Tammy DeWitt, Steve Johnson, Becky Kern, Gavin McCollam, Josh Rossow, Jim J. Sheldon, Myron Steckler, Steve Tomac, Shanda Traiser and Chris VandeVenter; and DGC Chief Operations Officer David J. Sauer. Also present from time to time were members of the Rushmore Electric Cooperative board of directors and Rushmore staff and managers from Rushmore member cooperatives.

Present via iLink were Eric Carufel, Kelly Cozby, Shawn Deisz, Darla Miller, Susan Sorensen, Kevin Tschosik, Valerie Weigel and Michelle Wiedrich.

21. Financial Services Report

A. Accounting Report

Darla Miller, Senior Accounting Analyst, reported that the June 2014 Statement of Operations reflected an estimated net loss of \$0.8 million compared to the budgeted net margin of \$9.6 million for an unfavorable variance of \$10.4 million. The net margin for the same period last year was \$7.7 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 June was 21.1% and at the end of May was 21.0%. At the end of June, the equity-to-capitalization ratio using Moody's Rating Service's methodology was 25.3%, the same as May, both without The Coteau Properties Company consolidation entry. The equity-to-capitalization ratio based on indenture requirements for patronage distribution was 20.9% at the end of June and was 20.6% at the end of May.

B. Implications of Proposed RUS Environmental Policy Changes Under NEPA

Mr. Johnson reported that Rae Cronmiller, Environmental Counsel at NRECA, had discussed the implications of the changes the RUS was proposing under their environmental regulations. Mr. Johnson noted that the most problematic of those changes involves the one that would classify as major federal actions all consents and approvals under loan contracts and indentures. This would require RUS to do an environmental review of major projects up to the level of an environmental impact statement even if there was no RUS loan involved.

Mr. Johnson also provided a recap of the presentation by James Elliott, Acting Assistant Administrator of RUS, during the G&T Accounting and Finance Association meeting on June 24, 2014. Mr. Elliott had reviewed the existing loan programs and discussed new environmental policies and procedures under development at RUS.

Mr. Johnson noted that unless these regulations are modified before they are approved, they might make it impossible to stay as an RUS borrower. He noted that a number of G&Ts are investigating the costs of buying out of RUS and considering this option. He noted that staff is doing some investigation on the costs of that option.

22. Operations Report

John Jacobs, Vice President of Operations, reviewed the Cooperative's safety performance for the month, noting that there had been one DART incident during the month. He reviewed the 24-month moving average Equivalent Forced-Outage Rate Trends for the facilities, 2014 solid fuels generation budget versus actual and bus-bar costs.

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

Unit	Availability (%)	Capacity Factor (%)	Unit Rating	Comments
AVS #1	100	94.60	450 MW	Valve test
AVS #2	100	90.30	450 MW	
DFS	100	95.21	386 MW	
LRS #1	99.80	83.60	570 MW	1B ID Fan dampers closed, tripping the A ID fan
LRS #2	88.87	80.90	570 MW	Scheduled repair of penthouse tube leak; WACM-Loveland ordered the unit off line due to transmission line
LRS #3	0.00	0.00	570 MW	Triennial maintenance outage
LOS #1	100	82.74	221 MW	Driven by market
LOS #2	70.87	61.42	448 MW	General maintenance

Mr. Jacobs then discussed and presented photographs of the AVS Natural Gas Pipeline, AVS Unit #1 Burner/SOFA Project, AVS Warm-Up Gun Igniters, LRS Turbine Rotors, LOS Unit #2 Circulating Water Pump and the LOS Unit #1 Water Wall Tube Failure. Grayrocks Reservoir is 103.4% full.

A. Distributed Generation Update

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

Unit	Monthly Generation (MWh)	Unit Rating (MW)	Comments
Groton Unit #1	819	100 MW	All for load
Groton Unit #2	1,398	100 MW	
Culbertson CT	1,734	100 MW	For load demand only; scheduled outage where

			completed pkg inspections for reliability and winterization
WY Dist. Gen.:	62	54 MW	
SMS Unit #1	0	60 MW	Did not run
SMS Unit #2	0	60 MW	Did not run
Deer Creek	4,856	300 MW	1 day schedule outage to boroscope turbine; ran for load demand
PGS Unit #1	0	45 MW	
PGS Unit #2	0	45 MW	
PGS Unit #3	478	45 MW	Completed air inland inspections all three units
LCS Unit #1	1,491	45 MW	For load demand and reliability; pkg inspections performed by GE
PWND 1		123 MW	
PWSD 1		162 MW	

He then reported that LCS ran 286.5 hours in synchronous condensing mode in June and PGS #1 ran 0 hours in that configuration. There were 18 west-side reserve events during the month.

PrairieWinds ND 1. Mr. Tschosik reported that annual maintenance is 52% complete and that the gear box replacement on Wind Turbine Generator (WTG) 60 began on July 16.

PrairieWinds SD 1. Mr. Tschosik reported that General Electric had agreed to provide a gearbox free of charge for WTG-72 even though it occurred three weeks after the warranty expired. He noted a planned outage is scheduled to make substation switchgear repairs which are expected to take 50.4 hours and result in a production loss of 596 MW.

The east-side peak occurred on June 26 2014 at 1600. At that time, wind generation was as follows:

Wind Project	Load Factor during the Peak (MW)	Capacity Factor (%)	Project Total
Baldwin	11	36%	99 MW
Day County	44	42%	99 MW
Edgeley	0	23%	40 MW
Highmore	17	29%	40 MW
Iowa Wind	15	30%	45.1 MW
Other Projects (Chamberlain & Pipestone)	0	9%	3.4 MW
PrairieWinds ND	9	35%	123 MW
PrairieWinds SD	79	33%	162 MW
Wilton	10	32%	99 MW
Total June Wind Generation	185	34%	712 MW maximum

Avg Monthly Capacity Factor	n/a	34%	n/a
Avg YTD Capacity Factor	n/a	48%	n/a

He noted it had been a low wind month, which is typical for June and July.

B. Mid-Year Safety & Health Update

Kelly Cozby, Safety and Occupational Health Administrator, presented a mid-year review of the safety and health programs at the Cooperative.

The Combustible Dust Team toured LRS, AVS, DGC, Coteau, DFS and the Dry Fork Mine and reviewed how each of the facilities is addressing combustible dust.

She then reviewed DART Incidents, OSHA Recordable Incidents, Basin Electric injuries and Basin Electric's historical DART incident rate.

She also reviewed the progress of the CAT Safety program and discussed upcoming events in the safety program.

23. Purchased Power & Non-Member Sales Report

Mr. Rutter reported that: (1) June member energy usage was below forecasted levels due to weather and irrigation; (2) WAPA has adjusted the Joint Marketing Program (JMP) purchase price calculation; (3) natural gas burns continue to exceed budgeted levels; (4) Basin Electric hedges are in-the-money; (5) RMSC approved Marketing's 2015 Basin Electric hedge plan; and (6) RTO project work continues, working with WAPA on a defined co-supply process.

He reviewed the summary of June energy deviations.

During the month, markets in the West were trading in excess of \$50/MWh, while Deer Creek had an operating cost below \$40/MWh. Additionally, MISO and SPP had soft prices which allowed BEPC to reverse flows on the DC ties from what was anticipated.

Mr. Rutter then discussed moving from an implicit to explicit risk tolerance. The overall objective of the hedging program is to move from implicitly wearing \$62 million plus commodity risk exposure to explicitly wearing \$50 million commodity risk exposure at Basin Electric going into 2015. He reviewed various stress scenarios, forecasted short-term sales, forecasted short-term purchases, forecasted natural gas fuel, resulting risk profile.

24. Transmission Report

Mike Risan, Senior Vice President of Transmission, noted that as we proceed with our integration with SPP, we will have to comply with SPP's procedures for planning and building additions to the high-voltage network. One of those provides that once a new line which is eligible for SPP regional cost sharing has gone through their planning process, any qualified entity can bid to construct the facility. He noted that during our transition period, we need to be sure that our new facilities are in compliance with all of the SPP processes to ensure we get cost recovery for these facilities.

Mr. Risan noted that current MAPP members Basin Electric, WAPA and Heartland are joining SPP. MAPP may not have a viable future. MAPCOR board members are discussing a possible dissolution.

He noted that SPP is filing the tariff and related documents that require FERC approval. There is a pre-filing session with FERC scheduled for July 21-22. Staff from Basin Electric, WAPA, Heartland and SPP will attend.

Mr. Risan then reviewed the projects underway to enhance the transmission system in the Williston Load Pocket.

25. NRECA 2014 Region 6 Voting Delegate & Alternate

Mr. Peltier reported that the 2014 NRECA Region 6 meeting will take place September 10-11, 2014 at Minneapolis, Minnesota, and that a voting delegate and alternate should be named. After discussion, it was moved by director Drost, seconded by director Rohrer and carried that Directors Gilbert and Applegate serve as voting delegate and alternate, respectively, to the NRECA 2014 Region 6 meeting. Motion approved.

26. Western Fuels Association 2014 Annual Meeting Delegates & Alternates

Mr. Olson reported that the Western Fuels Association annual meeting will be held August 22, 2014 in the Park Hyatt Beaver Creek Resort, Beaver Creek, Colorado, and that two delegates and two alternates are needed for the Western Fuels Association 2014 annual meeting. After discussion, it was moved by Director Gilbert, seconded by Director Rohrer and carried that Paul Baker and Paul Sukut serve as delegates and Director Pearson and Director Peltier serve as alternates to the 2014 Western Fuels annual meeting. The motion carried.

27. Director to Western Fuels Association Board of Directors

Mr. Olson reported that Paul Baker completed Reuben Ritthaler's term on the WFA board, and that position expires next year. After discussion, it was moved by Director Pearson and seconded by Director Thiessen that Paul Baker be nominated for appointment to the WFA board of directors. The motion carried.

28. Western Fuels-Wyoming Annual Meeting Delegates & Alternates

Mr. Olson reported that the Western Fuels-Wyoming annual meeting will be held August 22, 2014 in the Park Hyatt Beaver Creek Resort, Beaver Creek, Colorado, and that delegates and alternates should be named. After discussion, it was moved by Director Thiessen and seconded by Director Fuher that Paul Baker and Paul Sukut serve as delegates and that Directors Pearson and Peltier serve as alternates to the 2014 Western Fuels-Wyoming annual meeting. The motion carried.

29. Director to Western Fuels-Wyoming Board of Directors

Mr. Olson reported that Basin Electric should name two directors to serve on the Western Fuels-Wyoming board of directors for the coming year. After discussion, it was moved by Director Thiessen and seconded by Director Gilbert that Paul Baker and Paul Sukut serve on the Western Fuels-Wyoming board of directors for the coming year. The motion carried.

30. Western Fuels Service Corporation 2014 Annual Meeting Delegate & Alternate

Mr. Olson reported that the Western Fuels Service Corporation annual meeting will be held August 22, 2014 in the Park Hyatt Beaver Creek Resort, Beaver Creek, Colorado, and that a delegate and alternate should be named. After discussion, it was moved by Director Gilbert and seconded by Director Thiessen that Paul Baker

serve as delegate and Wayne Peltier serve as alternate to the 2014 Western Fuels Service Corporation annual meeting. The motion carried.

31. Director to Western Fuels Service Corporation Board of Directors

Mr. Olson reported that Basin Electric should name a director to serve on the Western Fuels Service Corporation board of directors for the coming year. After discussion, it was moved by Director Rohrer and seconded by Director Gilbert that Paul Baker serve on the Western Fuels Service Corporation board of directors for the coming year. The motion carried.

32. Directors' Reports

Director Peltier thanked the Rushmore board and staff for hosting the joint meeting. He also thanked Tammy DeWitt for her work in coordinating the meeting.

Director Gilbert expressed his appreciation to Rushmore for its hospitality during this board meeting and to Paul Sukut, Dave Raatz, Mike Risan and Steve Tomac for attending Corn Belt's annual meeting.

Director Drost expressed his appreciation to Rushmore for hosting the summer meeting.

Director Brekel thanked Rushmore for their hospitality and Basin Electric for making his wife and him so comfortable at their first Basin Electric board meeting.

Director Thiessen thanked Rushmore for its gracious hospitality. He reported that the Upper Missouri board met in Medora recently and he thanked Matt Stoltz and Dale Niezwaag for their presentation. He also attended the Manager's Advisory Committee meeting. He thanked Mr. Risan and the Transmission group for their work in western North Dakota.

Director Fuher reported on the North Dakota Statewide meeting and that Harlan Fugelsten, Statewide's lobbyist, has announced his retirement.

Director Applegate thanked Vic Simmons and Rushmore for their hospitality during the meeting.

Director Pearson relayed Mrs. Pearson's appreciation for those involved in the spouses program. It was well thought out and very much appreciated.

Director Peltier reported on his attendance at the District 3 MREA meeting.

33. Date and Time of Next Board Meeting

The next regularly scheduled meeting of the Board of Directors will take place August 12-14, 2014, at the headquarters building in Bismarck, North Dakota.

34. Executive Session

At 11:04 a.m., the board retired into executive session to discuss strategic planning issues and the upcoming rating agency trip. At 11:17 a.m., it was moved by Director Applegate and seconded by Director Rohrer that the board arise from executive session.

35. Adjournment

There being no further business to come before the meeting, President Peltier adjourned the meeting at 11:20 a.m.



Gary C. Drost
Secretary-Treasurer