

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

**Minutes of the Regular Meeting of the Board of Directors  
July 15-16, 2015**

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July 15-16, 2015**

The Regular Meeting of the Board of Directors of Basin Electric Power Cooperative (the **Cooperative** or **Basin Electric**) was held at The Westminster Westin Hotel, 10600 Westminster Drive, Westminster, Colorado, beginning on July 15, 2015 at 2:30 p.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
Leo Brekel	Gary C. Drost
Arden Fuher	Charles H. Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were CEO & General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss and Basin Electric staff members Tracie Bettenhausen, Curt Capouch, Eric Carufel, Tammy DeWitt, Mike Eggl, Rhonda Fritts, Matt Greek, John Jacobs, Steve Johnson, Dave Raatz, Mike Risan, Ken Rutter and Michelle Wiedrich.

Also present were Dakota Gasification Company (DGC) director Alan Klein; and Tri-State Generation & Transmission Association (Tri-State) directors Rick Gordon, Joseph Herrera, Julie Kilty, William Mollenkopf, Stuart Morgan and Tony Casados.

**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 Drost and seconded by Director Baker that the agenda be approved as presented. The motion carried.

**4. Approval of the Minutes**

The minutes of the June 9-10, 2015 Regular Meeting were presented and after an opportunity for corrections, it was moved by Director Brekel, seconded by Director Rohrer and carried that the minutes be approved as presented. The minutes of the Special Meeting of the Board of Directors held July 8, 2015 were presented and after an opportunity for corrections, it was moved by Director Applegate, seconded by Director McQuiston and carried that the minutes be approved as presented.

**5. General Manager's Report**

General Manager Sukut reported that Western Fuels Association (WFA) CEO Duane Richards has retired. Three candidates for this position will be interviewed on July 29. The process of determining which functions can be performed more economically by Basin Electric due to economies of scale continues.

**6. Office of General Counsel Report**

Mr. Foss reviewed current litigation and matters of interest to the Cooperative.

**7. Operations Report**

**A. Monthly Operations Report**

John Jacobs, Vice President of Operations, reported there was one Days Away, Restricted or Transferred (DART) incident and two medical treatments in June.

He provided bus-bar costs for the coal-fired fleet and reviewed the equivalent forced-outage rate trends for the past 24-month period on the solid fuel units. He reviewed June generation totals. The Leland Olds Station (LOS) stockpile contains approximately 870,000 tons. The target is 650,000 tons. The Laramie River Station (LRS) stockpile contains a little over the target of 900,000 tons.

He reported that generation for the owned and operated Basin Electric fleet came in 7.4% below budget in June and 4.6% below budget for year-to-date.

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

Unit	Availability	Capacity Factor	Unit Rating	Comments
AVS #1	85.72%	94.3%	450 MW	Unscheduled Outage for boiler tube leak June 10-15
AVS #2	100%	94.4%	450 MW	
DFS	99.22%	101.25%	386 MW	Unscheduled outage due to line outages near Sheridan tripping the generator breaker. There were 21 load cuts during the month.
LRS #1	0.00%	0.00%	570 MW	Scheduled major maintenance outage.
LRS #2	100%	89.72%	570 MW	
LRS #3	99.7%	88.41%	570 MW	Unscheduled outage-incorrect fan for blade adjustment. Fan change-out.

LOS #1	95%	88.86%	221 MW	Unscheduled outage for tube leak.
LOS #2	58%	87.29%	448 MW	End of scheduled major maintenance outage.

## 8. Marketing & Asset Management Report

### A. Purchased Power & Non-Member Sales Report

Ken Rutter, Vice President of Marketing & Asset Management, reported that short-term power prices increased month-over-month. Forward power prices remain flat at depressed levels. Natural gas prices fell to previous lows. June member energy loads were lower than forecasted. Non-member sales volumes were up. Marketing took advantage of elevated Mid-C pricing. Basin Electric hedges continue to be positive versus the budget, but out-of-the-money versus the market. Hedging to the approved plans continues.

Regarding congestion, Mr. Rutter noted that Basin Electric is paid for generation based on the Locational Marginal Pricing (LMP) at its generating node and Basin Electric pays to serve its member load based on the LMP at the load zone. He then discussed congestion costs and the steps the Cooperative plans to take to minimize these costs, including annual auction rights and transmission congestion rights.

### B. RTO Update

Mr. Rutter reported two weeks remain in market trials and that overall, he is pleased with the results to date. The Cooperative is still experiencing some internal system interface issues. The deployment tests are complete and were successful. Staffing challenges continue. Additional coordination is required with the plants. There are still some Western Area Power Administration (**Western**) reliability coordination challenges.

## 9. Cooperative Planning Update

Dave Raatz, Vice President of Cooperative Planning, reviewed the timeline for implementation of the Transmission Service Policy and reported on the status of member wholesale power contracts.

With Corn Belt Power Cooperative (**Corn Belt**) becoming an all-requirements member of Basin Electric, the arrangement is that Basin Electric purchases the output of Corn Belt's facilities, supplies Corn Belt's all supplemental requirements, leases a portion of Corn Belt's high-voltage transmission facilities and Basin Electric and Western act as the scheduling agents for North Iowa Municipal Electric Cooperative Association (**NIMECA**). NIMECA has its own resources and load and is responsible for its own load growth. When NIMECA came into the Integrated System (**IS**) in 2009, Basin Electric and Western became its scheduling agent. As Basin Electric moves from the IS into the Southwest Power Pool (**SPP**) on October 1, 2015, the scheduling agreement with NIMECA must be updated.

The new contract will become effective on October 1, 2015 with a term of five years and automatic five-year term extensions unless a party gives the other party a three-year termination notice. Compensation is a one-time \$300,000 payment to offset Basin Electric's incurred costs and \$0.40/MWh per year with 3% escalation.

The contracts by which Basin Electric will become Wyoming Municipal Power Agency's (WMPA) scheduling agent for a one-year period starting October 1, 2015 are nearly complete. WMPA is also interested in becoming an all-requirements member of Basin Electric and has hired Burns & McDonnell to review Basin Electric's economic analysis. The review should be completed by October.

The issue of diversity credits for Fergus Electric Cooperative depending on which Class A member it chooses to join will be discussed at the July member managers' conference.

Mr. Raatz reviewed the Miles City DC Tie reservations, noting that in order for Basin Electric to serve its loads located in Montana and the TransCanada Pipeline, a new resource above the capacity of the Miles City DC Tie is required. Basin Electric's 180 MW point-to-point rights will go down on October 1, 2015 when it transitions into SPP. Basin Electric will maintain a block of firm point-to-point transmission through this process and will request network service for the balance.

The question asked at last month's board meeting was whether we should buy an additional 50 MW of DC Tie Capacity? The UMZ transmission rate is forecasted to be \$4.57/kW month--a significant cost increase. At this \$4.57 rate, it would cost \$2.7 million to purchase that 50 MW transmission path. Also, in SPP if we want to maintain this right, we'd also have to pay an SPP regional transmission assessment of \$0.93/kW-month or \$558,000 per year. That brings the total transmission cost from \$2.90/kW-month today to close to \$5.60/kW-month, or \$7.6/MWh for a path that only has an estimated value of \$2.14/MWh. The conclusion is to let the reservation for this additional 50 MW terminate. Forward market differentials currently do not economically support maintaining this 50 MW east-to-west Miles City DC Tie transmission service above our member load obligations.

#### **A. Minnkota Power Cooperative**

Mr. Raatz reported that on June 25, 2015, Minnkota Power Cooperative's (Minnkota) board of directors authorized the Minnkota staff to proceed with the due diligence required to become an all-requirements Class A member of Basin Electric. Minnkota reported that it is discussing an additional 100 MW of wind power with a potential wind developer and that it has entered into a memorandum of understanding with NRG concerning a potential carbon capture project at the Milton R. Young Station. He noted that the addition of a 100 MW combined-cycle unit would power the carbon capture unit and could be increased to a 400 MW unit. More discussion and due diligence is required.

It was decided that each company form an internal group to review the other's major generation facilities, as well as the Great Plains Synfuels Plant (Synfuels Plant), which could take several months. Mr. Raatz suggested that Minnkota's board of directors could be invited to a meeting at the Synfuels Plant.

Staff has begun working on the definitive agreements: a wholesale member contract, a generation contract regarding generators owned by Minnkota, which would address decision-making processes and another to cover a number of power purchases. Both organizations need to start this process very soon. To help facilitate those discussions,

Load management operations must also be addressed. If the potential load management of electric heat is excluded, there is 170 MW of load management on the Basin Electric member system. Minnkota has 330 MW of load management, which includes electric and dual heat-type installations.

Mr. Raatz estimated that the earliest time for all documents to be negotiated with Minnkota would probably be during the first quarter of 2016 with implementation at the end of 2016 or in early 2017.

Currently, Basin Electric has approximately 300 MW of load and resources in Mid-Continent Independent System Operator (**MISO**)--a small amount in a regional transmission organization (**RTO**) environment. If Minnkota stays in MISO, that would increase Basin Electric's footprint in MISO to between 1400 MW and 1500 MW, which is a more efficient size.

Nothing would be done until contracts with Minnkota are first negotiated then executed, after which a special membership meeting would be called to vote on Minnkota's membership, as was done with Corn Belt.

It is difficult to assign a value to the ability to move power between MISO and SPP. With Ottertail Power Company (**Ottertail**) and Minnkota's grandfathered agreements in MISO, there would be a definite ability to transfer power between those two RTOs without any incremental transmission cost, avoiding pancaked transmission costs and minimizing the regional cost assessment. In addition, Minnkota's surplus generation will help Basin Electric serve its growing member needs.

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

**R01.07-15-15**

BE IT RESOLVED, that the Board of Directors of Basin Electric Power Cooperative hereby approves and authorizes the CEO & General Manager to negotiate, in good faith, toward the creation of definitive agreements to:

Allow Minnkota Power Cooperative Class A Membership in Basin Electric through 2075; and

Integrate the Minnkota Power Cooperative Utility Assets with the assets of Basin Electric; and

BE IT FURTHER RESOLVED, that the CEO & General Manager, or his designee, shall return to the Board of Directors and outline the provisions and economics of the negotiated agreements prior to Board consideration and authorization to execute.

**10. Recess and Reconvention**

At 5:15 p.m., President Peltier recessed the meeting until 8:00 a.m. July 16, 2015, at which time the meeting reconvened with President Peltier continuing to preside and Secretary Gary C. Drost continuing to keep the minutes.

**11. Roll Call**

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

Don Applegate  
 Leo Brekel  
 Arden Fuher  
 Mike McQuiston  
 Wayne Peltier  
 Allen Thiessen

Paul Baker  
 Gary C. Drost  
 Charlie Gilbert  
 Kermit Pearson  
 Roberta Rohrer

Said persons being all of the directors of the Cooperative. Also present were CEO and General Manager Paul M. Sukut and Assistant Secretary Mark D. Foss; staff members Tracie Bettenhausen, Dean Bray, Andy Buntrock, Curt Capouch, Eric Carufel, Kelly Cozby, Tammy DeWitt, Rhonda Fritts, Matt Greek, John Jacobs, Steve Johnson, Becky Kern, Sharon Lipetzky, Dave Raatz, Ken Rutter, Kevin Tschosik and Michelle Wiedrich. Also present were DGC directors Tom Owens and Alan Klein, DGC Vice President David J. Sauer; Tri-State directors Tony Casados, Rick Gordon, Joseph Herrera, Julie Kilty, William Mollenkopf, Stuart Morgan, Joe Wheeling and Tony Casados; and Tri-State manager Mike McInnes.

**12. Welcome from Tri-State Manager Mike McInnes**

Tri-State manager Mike McInnes welcomed Basin Electric to Colorado and provided a snapshot of the Tri-State organization.

**13. Operations Report, continued**

**A. Distributed Generation**

Kevin Tschosik, Manager of Distributed Generation, reported on natural gas prices at the Groton Generating Station, Culbertson Generating Station, Pioneer Generating Station (PGS), Deer Creek Station (DCS), Wyoming Distributed Generation (WDG) and the Wisdom Station and noted that there were no Occupational Safety & Health Administration (OSHA) recordable safety incidents in June.

He noted that it had been a low wind month across the whole region. The June generation at the distributed facilities was as follows:

Unit	Monthly Availability (%)	Monthly Generation (MW)	Unit Rating (MW)	Comments
Groton Unit #1	93.47%	5,266 MW	100 MW	Ran for load demand.
Groton Unit #2	49.93%	1,864 MW	100 MW	
Culbertson CT	81.52%	17,854 MW	100 MW	All for load demand. Outage to replace intermediate high-pressure turbine and combustor.
WY Dist. Gen.	99.3%	51 MW	54 MW	Ran 51 MW with 31 west-side reserve calls.
SMS Unit #1	90.84%	0 MW	60 MW	



SMS Unit #2	80.31%	0 MW	60 MW	Ran for 11 MW for testing new control system for SPP Market.
DCS	99.03%	71,707 MW	300 MW	Ran for load demand.
PGS Unit #1	99.47%		45 MW	Ran for load and voltage support. #2 engine failed and was shipped to Houston for root cause analysis. No fuel nozzle leaks found. No operational anomalies found. Combustor dome in Poland on July 10. RCA expected completion July 31. Engine is under warranty; however, until RCA is complete, they won't commit to a warranty claim until they understand why it failed. All repairable parts were sent to vendor for repairs. All replacement parts have been ordered. Expect engine to leave Houston for ND on September 3.
PGS Unit #2	0%		45 MW	
PGS Unit #3	99.78%		45 MW	
LCS Unit #1	91.49%	5,286	45 MW	Ran for load demand and voltage support.
LCS Unit #2	99.37%	9,864	45 MW	
LCS Unit #3	100%	21,135	45 MW	
PWND	26%	98.46%	123 MW	
PWSD	35%	97.90%	162 MW	

During June, PGS ran in synchronous condensing mode 49.94 hours and the Lonesome Creek Station (LCS) for 14.65 hours. There were 31 west-side spinning reserve events at WDG during the month.

**PrairieWinds ND 1.** Semi-annual maintenance is 43% complete. The Continuous Monitoring System detected a broken tooth on a pinion gear, resulting in cost savings due to using one small crane for repair rather than two large cranes.

**PrairieWinds SD 1.** Semi-annual maintenance is 88% complete. Tractel tower rescue training is complete. He presented photographs and reported that the Operations & Maintenance building was damaged by winds up to 61 mph.

The east-side peak occurred on June 29, 2015 at 1600 hours. At that time, wind generation was as follows:

Wind Project	Load Factor during the Peak	Capacity Factor		Project Total
		Month	YTD	
Baldwin	9 MW	28%	45%	99 MW
Day County	40 MW	35%	51%	99 MW
Edgeley	7 MW	22%	37%	40 MW
Highmore	12 MW	26%	36%	40 MW
Iowa Wind	13 MW	24%	43%	45.1 MW
Other Projects (Chamberlain & Pipestone)	0 MW	20%	43%	3.4 MW
PrairieWinds ND	1 MW	26%	46%	123 MW
PrairieWinds SD	52 MW	35%	50%	162 MW
Wilton	7 MW	27%	41%	99 MW
Total Monthly Wind Generation	140 MW	29%	---	712 MW
Average Capacity Factor	---	29%	46%	n/a

Mr. Tschosik provided an update on the LMS-100 engines and noted that many components have been replaced at General Electric's expense.

#### **B. Plant Update - Safety**

Kelly Cozby, Safety and Occupational Health Administrator, presented a mid-year review of the safety and health programs at the Cooperative. She reviewed DART incidents, OSHA recordable incidents, Basin Electric injuries and Basin Electric's historical DART incident rate.

Ms. Cozby reported on Dakota Soft, the new incident-tracking software which allows the creation of safety forms with specific Basin Electric information. The Safety Coordinators at each site are testing the forms and profiles of each facility are being completed.

The Combustible Dust Team continues to meet and discuss best practices. Fire Retardant clothing training and fitting is complete at LRS and Dry Fork Station (DFS).

She reviewed the Global Harmonized System timeline for "Right to Understand" with respect to changing from Material Safety Data Sheets (MSDS) to Safety Data Sheets (SDS) for chemical manufacturers. This will involve labeling/updating existing MSDS to SDS and retraining.

Ms. Cozby provided an update on the “Our Power My Safety” (OPMS) program and reported that the following Steering Team Charter was developed: “The OPMS Steering Team cultivates a sustainable culture of proactive safety excellence through employment engagement, utilizing a process of continuous improvement to achieve zero incidents.” She then reviewed the OPMS Communications Plan.

Continuous Improvement Team #1, Inspections, is documenting lessons learned, reinforcing the process and assisting senior leadership in targeting the correct follow-up inspection and opportunities for engaging in conversations. She then discussed recent inspection results.

Continuous Improvement Team #2, Communications, developed the following Purpose Statement: “Create a defined process that elevates the quality of group safety communications while providing opportunities for recognition and continuous improvement.” This has been piloted at the Great Plains Synfuels Plant and DCS and will next be implemented at LRS and WDG facilities.

Continuous Improvement Team #3, Understanding the Basics of OPMS”, developed the following Purpose Statement: “The purpose is to develop a plan to create and promote an understanding of Our Power My Safety.” This committee’s goal is to provide consistent information for all existing employees and train new employees.

#### **14. Cooperative Planning Report, continued**

##### **A. Dairyland Power Cooperative Capacity Purchase**

Becky Kern, Director of Utility Planning, reported that a Request for Proposals for capacity was issued in early March 2015 and board authorization was granted in May. The Cooperative is proposing to purchase 100 MW of power from Dairyland Power Cooperative (Dairyland) for the June 2021 to May 2023 time frame. Staff is projecting that the Cooperative will be short of capacity in the MISO system in this time frame. She reviewed Dairyland’s proposal for this two-year period and recommended approval of this power purchase.

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

**R02.07-15-15**

BE IT HEREBY RESOLVED, that the CEO & General Manager, or his designee, is hereby authorized to execute and deliver agreements to purchase capacity in the aggregate amount of 100 MW as presented, on such terms and conditions as he deems in the best interests of the Cooperative.

#### **15. Marketing & Asset Management, continued**

##### **A. Financial Forecast Assumptions**

Mr. Rutter noted that forecasting will be somewhat different in the RTO environment. There will be new revenue and expense categories in 2016 such as SPP Purchased Energy, SPP Energy Sales and Congestion Charges. He reviewed the Cooperative’s 2015 projected energy purchases and sales, as well as the dispatch sensitivity to market prices.

Joining SPP will result in many new settlement charges that result from non-performance or deviation from market dispatch instructions as well as variations in real-time loads from day-ahead bid loads.

## **16. Financial Services Report**

### **A. Preliminary Draft 10-Year Financial Forecast**

Ms. Kern reported that the 2015 load forecast approved earlier this year created a baseline and an alternative forecast based on declining oil prices. Assumptions in the forecast were that oil prices would start to recover in 2017, there would be no TransCanada Keystone XL Pipeline and that there would be ongoing changes and losses associated with Basin Electric's implementation of the transmission service policy and some members choosing to join SPP.

She reviewed the 2015 load forecast and reported on 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 as a result of joining SPP and identified the new transmission and generation additions required for the forecast period.

Andy Buntrock, Manager of Financial Planning and Forecasting, reported that assumptions included a general inflation rate of 2.5%, a 3% margin requirement, holding a revenue deferral on the balance sheet, the Rural Utilities Service (RUS) buyout, extended depreciable lives, no capital credit retirement and no dividends from subsidiaries. He then reviewed commodity price assumptions.

Steve Johnson, Senior Vice President & Chief Financial Officer, presented the impacts of these rates on the financial metrics of the Cooperative using the methodology used by Moody's Investor Services (Moody's) in developing its bond ratings. He identified uncertainties that could cause rate erosion and noted that approval of the financial forecast will be requested at the August board meeting.

## **17. Recess and Reconvention**

At 11:55 a.m., President Peltier recessed the meeting until 12:50 p.m. July 16, 2015, at which time the meeting reconvened with President Peltier continuing to preside and Secretary Gary C. Drost continuing to keep the minutes.

## **18. Roll Call**

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

Don Applegate	Paul Baker
Leo Brekel	Gary C. Drost
Arden Fuher	Charlie Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the directors of the Cooperative. Also present were CEO and General Manager M. Sukut and Assistant Secretary Mark D. Foss; staff members Tracie Bettenhausen, Dean Bray, Andy Buntrock, Curt Capouch, Eric Carufel, Kelly Cozby, Tammy DeWitt, Matt Greek, John Jacobs, Steve Johnson, Becky Kern, Sharon Lipetzky, Dave Raatz, Ken Rutter, Kevin Tschosik and Michelle Wiedrich. Also present were DGC directors

Tom Owens and Alan Klein, DGC Vice President David J. Sauer; Tri-State directors Tony Casados, Rick Gordon, Joseph Herrera, Julie Kilty, William Mollenkopf, Stuart Morgan, Joe Wheeling and Tony Casados; and Tri-State manager Mike McInnes.

**19. Financial Services Report, continued**

**A. 2016 Rate Schedule A Modification**

Sharon Lipetzky, Manager of Rates and Revenue, presented the 2016 Class A Rate components that are based on the forecasted Class A Revenue Requirement. She noted that this presentation would be made at the Member Managers Conference in Deadwood next week and that approval would be requested at the August Board meeting.

**B. Financial Services**

Steve Johnson, Senior Vice President and Chief Financial Officer, reviewed current economic statistics and reported projected cash savings of \$231 million from reduced interest expense due to the RUS Buy-Out.

**C. AVS #2 Leveraged Lease**

Mr. Johnson reviewed the history and explained Basin Electric's interest in purchasing JPMorgan's portion of the Antelope Valley Station (AVS) Unit #2 leveraged lease. Mr. Foss noted that it has long been staff's view that it would be strategically important to own at least a piece of this leased unit. After discussion, it was moved by Director Drost, seconded by Director Gilbert and carried that the following Resolution be adopted:

**R03.07-15-15**

RESOLVED, that the CEO and General Manager, or his designee, be authorized to offer up to \$58.5 million to acquire the approximately 25% interest in the AVS Unit #2 leveraged lease held by JPMorgan. **[RESOLUTION LATER DELETED AND RESTATED IN ITS ENTIRETY. See R06.07-15-15 in item # 34 of these minutes.]**

**D. Accounting Report**

Mr. Johnson reported that the June 2015 Statement of Operations reflected an estimated net margin of \$7.5 million compared to the budgeted net margin of \$3.4 million for a favorable variance of \$4.1 million. The net deficit for the same period last year was \$0.8 million.

He 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 20.3%, the same as at the end of May.

At the end of June, the equity-to-capitalization ratio using Moody's methodology (both without the consolidation entry for The Coteau Properties Company) was 25.0%; at the end of May it was 25.1%.

At the end of June, the equity-to-capitalization ratio based on indenture requirements for patronage distribution was 19.8%; at the end of May it was 19.6%.

## **20. Engineering & Construction Report**

### **A. Project Funding Chart**

Matt Greek, Senior Vice President-Engineering and Construction, reported that contracts totaling \$5.1 million would be presented for approval this month. He then presented the listing of major projects including the approved budget amounts, total amounts committed and completion dates.

### **B. Leland Olds Station SNCR Project Update**

Mr. Greek reported that the LOS Selective Non-Catalytic Reduction equipment installation contract approved by the Board in June 2015 pending resolution of final terms and conditions had been awarded to Industrial Contractors, Inc. in the amount of \$12,471,841.

### **C. AVS Coal System Upgrade for Combustible Dust**

Mr. Greek noted that OSHA reissued a National Enforcement Program in 2008 that targeted increased enforcement for several common combustible dusts, including coal dust. AVS needs to maintain OSHA-compliant levels of combustible dust in several areas of the coal handling system. AVS is currently utilizing a fogging system in conveyors with limited success. AVS and DGC have tested a foam dust suppression system with very successful results. LRS currently utilizes a foam dust suppression system in the crusher house and is seeing a significant reduction in combustible dust. All facilities utilize multiple dust suppression/collection systems and regular washdowns to maintain compliant combustible dust levels. This project was originally budgeted for \$2.7 million in 2010.

With foam suppression, chemicals combined with water and air form a foam which is applied to the coal as a binder. Chemicals require heated buildings or heat tracing to maintain 60 degrees Fahrenheit. Foam uses less water than other systems. Foam is only applied to the belt when coal is present. He then reported on testing conducted at AVS.

The scope of this project includes tanks, equipment and piping for chemical supply; tank, piping and pump for ash water supply; compressed air equipment for air supply; construction of a 36-foot by 48-foot "lean-to" addition to the transfer building for new equipment and tanks; site work for piping and drainage issues on the north side of the transfer building; demolition of the existing fogging system; and electrical and I & C work for new systems. He then presented diagrams of the new equipment in conjunction with the existing building. The schedule calls for engineering and procurement in mid-July through mid-September; building construction in September 2015 through January 2016, and equipment installation and commissioning from December 2015 through March 2016.

The project budget for equipment, contracted services, plant labor, headquarters labor, overheads and travel, interest during construction and contingencies totals \$3,750,000. He then recommended that the project be approved.

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

**R04.07-15-15**

RESOLVED, that the AVS Coal System Upgrade for Combustible Dust Project presented to this meeting of the Board of Directors at a cost of \$3,750,000 is hereby approved; and

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

**21. Transmission Report**

Mike Risan, Senior Vice President-Transmission, reported that markets in the Western Interconnection are developing faster than anticipated. He reported on the survey and conference call required for the upcoming Western Energy Coordinating Council (WECC) off-site audit. All documentation is to be submitted to WECC by August 10.

As result of joining SPP, the Mid-Continent Area Power Pool (MAPP) is proceeding with activities to dissolve. He reported on employment opportunities offered to the MAPP employees and noted that a MAPP staff appreciation event has been scheduled for September 16th during the National Rural Electric Cooperative Association (NRECA) Region #6 meeting in Minneapolis.

Mr. Risan noted that the June/July daily load pattern in the Williston Load Pocket has been in the 730 MW peak range. This is approximately 200 MW higher than last season. He foresees no reduction in load growth in this area.

He then provided an update on Missouri River Energy Services' (MRES) protest of Basin Electric's filing to join SPP. Lincoln Electric System's (LES) transmission path across the Nebraska Public Power District (NPPD) system was grandfathered by SPP. MRES wants to be treated in the same manner; however, MRES is joining SPP voluntarily, so SPP has taken the position that MRES is not eligible for those terms and conditions. Due to the impasse between MRES and SPP, an administrative law judge will rule on the facts at a hearing.

He noted that the rest of the Missouri Basin Power Project (MBPP) Participants could also be affected by this ruling. Once Basin Electric joins SPP, it will likely cancel its contract with NPPD and rely on our rights within SPP to use the NPPD system.

Mr. Risan reported that we have basically reached a settlement with Montana-Dakota Utilities Co. Negotiations with Ottertail are going nowhere. Central Power Electric Cooperative has provided notice of termination of its subtransmission agreement with Ottertail. A last settlement conference has been scheduled for August 19, after which a hearing will be scheduled. This will not affect the October 1, 2015 SPP integration date.

When the Joint Transmission System was converted to the IS, Basin Electric executed a make-whole agreement with Western to preserve Western's revenues. This was capped at \$10,250,000 per year. Joining SPP will create unintended consequences for Western, so Western is interested in replacing the make-whole agreement to protect itself from the cost exposure due to Basin Electric's members putting their facilities into SPP. The concept of the agreement is to make a payment to Western equal to Basin Electric's member-owned facilities times Western's annual load share of the UMZ rate zone. This would apply only to facilities existing at the time of inclusion and would phase-out over a 10-year period on a

member-by-member basis. The effective date will be October 1, 2015 or when Western becomes an SPP transmission-owning member. The contract term is 20 years.

He then presented the SPP organization chart and noted that the next SPP board meeting is set for July 27-28, 2015 in Kansas City, Missouri.

#### **A. Sawmill Creek Interconnection Agreement**

Mr. Risan reported that the proposed Sawmill Creek Interconnection Agreement has been approved by the MBPP Technical Task Force, the MBPP E&O Committee and the MBPP Management Committee. The agreement terms will be similar to the recent Keota Project. The proposed Sawmill Creek Interconnection will be done entirely at Tri-State's expense, with no financial impact to the MBPP Participants.

Mr. Risan recommended approval of the Interconnection Agreement Amendment No. 11 with Tri-State for the interconnection of the Sawmill Creek Substation on the MBPP LRS to Dave Johnston 230 kV line.

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

**R05.07-15-15**                      RESOLVED, that the CEO and General Manager, or his designee, is hereby authorized to execute the Sawmill Creek Interconnection Agreement on behalf of the Missouri Basin Power Project.

#### **22. Communications & Administration Report**

Mike Ettl, Senior Vice President-Communications & Administration, reported that Dan Elliott was confirmed by the Senate and named chairman of the Surface Transportation Board. The Thune-Nelson rail reform bill was approved by the Senate. This is the first major rail bill approved in 20 years. It is unclear whether the House of Representatives will act on rail as the House is focused on a new highway bill. He then reported on the 2015 Energy bill and appropriations. The Waters of the United States rule that was published on June 29 will take effect on August 28, 2015. North Dakota Attorney General Wayne Stenehjem is leading a 12-state lawsuit against the rule. The lawsuit asks the court to throw out the rule and grant a permanent injunction to prevent it from taking effect. Congress is working on appropriation riders and legislation to block the rule. Senators Hoeven and Manchin are planning a coal ash bill. He then reported on the Supreme Court's decision regarding the mercury rule.

Mr. Ettl then reviewed Basin Electric's governance with respect to board policies, administrative bulletins, employee guidelines and administrative standards. In many cases, the same policy is set forth in as many as four locations. The Internal Auditing Division has recommended the following:

1. Employee Guidelines: apply exceptions consistently and create a Fraud Investigation Policy.
2. Administrative Bulletins: review for removal or integration into other guiding documents.
3. Administrative Standards and Procedures Committee: ensure all areas are assigned administrative support and ensure administrative assistants are gathering feedback and concerns prior to new policy implementation.



The next steps are (1) complete review of committee/structural overlap; (2) complete revised employee guidelines; (3) review board resolutions and policies and Basin Bylaws; and (4) create a structured process for ongoing oversight and consistency.

In order to accomplish this, Mr. Eggl recommended that prior to the next board meeting, the Board members review the red-lined copy of Board Policies in preparation for taking action in August. Following that, he recommended approval of a three-month review cycle for the remaining policies with four being reviewed every quarter. He also recommended that staff begin the integration into employee guidelines and administrative standards and procedures.

The theme of the 2015 annual meeting is "People. Power. Purpose", which is scheduled for November 3-5, 2015 at the Bismarck Events Center, with a social at the North Dakota Heritage Center.

**23. NRECA 2015 Region 6 Meeting Delegate and Alternate**

Mr. Peltier reported that the 2015 NRECA Region 6 meeting will take place September 16-17 in Minneapolis, Minnesota and that a voting delegate and alternate should be named. After discussion, it was moved by Director Drost and seconded by Director McQuiston that Directors Pearson and Gilbert serve as voting delegate and alternate, respectively, to the NRECA 2015 Region 6 meeting. The motion carried.

**24. Iowa Association of Rural Electric Cooperatives - Delegate & Alternate**

Mr. Peltier reported that it is time to select a delegate and alternate to attend all meetings of the Iowa Association of Rural Electric Cooperatives (IAREC). After discussion, it was moved by Director Rohrer and seconded by Director Thiessen that Directors Gilbert and Applegate serve as delegate and alternate, respectively, to all meetings of the IAREC. The motion carried.

**25. Western Fuels Association - Selection of Director Nominee**

Mr. Peltier reported that Paul Sukut's position on the WFA Board of Directors will expire soon. After discussion, it was moved by Director Brekel and seconded by Director Rohrer that Paul Sukut be nominated for appointment to the WFA Board of Directors. The motion carried.

**26. Western Fuels Association - Two Delegates and Two Alternates**

Mr. Peltier noted that the WFA annual meeting will be held July 30, 2015 at Tri-State's headquarters building in Westminster, Colorado, and that two delegates and two alternates are required. After discussion, it was moved by Director Brekel and seconded by Director Thiessen that Bob Bartosh and Joe Leingang serve as delegates and Directors Paul Sukut and Paul Baker serve as alternates to the 2015 WFA annual meeting. The motion carried.

**27. Western Fuels-Wyoming - Selection of Two Delegates and Two Alternates**

Mr. Peltier noted that the Western Fuels-Wyoming (WFW) annual meeting will be held July 30, 2015 at Tri-State's headquarters building in Westminster, Colorado, and that two delegates and two alternates are required. After discussion, it was moved by Director Drost and seconded by Director Rohrer that Bob Bartosh and Joe Leingang serve as delegates and Paul Sukut and Paul Baker serve as alternates to the 2015 WFW annual meeting. The motion carried.

**28. Western Fuels Service Corporation - Selection of Director Nominee**

Mr. Peltier reported that Basin Electric should name a director to serve on the Western Fuels Service Corporation (WFSC) Board of Directors for the coming year. After discussion, it was moved by Director Rohrer and seconded by Director Baker that Paul Sukut serve on the WFSC Board of Directors for the coming year. The motion carried.

**29. Western Fuels Service Corporation Annual Meeting - Delegate and Alternate**

Mr. Peltier reported that the WFSC annual meeting will be held July 30, 2015 at Tri-State's headquarters building in Westminster, Colorado, and that a delegate and alternate should be named. After discussion, it was moved by Director Baker and seconded by Director Gilbert that Bob Bartosh and Joe Leingang serve as delegate and alternate, respectively, to the 2015 WFSC annual meeting. The motion carried.

**30. Date and Place of Next Board Meeting**

The next regularly scheduled meeting of the Board of Directors will take place August 11-13, 2015, at Basin Electric's headquarters building in Bismarck, North Dakota.

**31. Directors' Reports**

Director Fuher reported on the North Dakota Statewide board meeting.

Director McQuiston reported on a wind storm in his local area.

Director Brekel reported that a lineman from Morgan County REA came in contact with an electrical line and passed away last week.

Director Peltier reported on the Minnesota Statewide District #3 meeting and expressed his gratitude to Tri-State for their hospitality.

**32. Recess and Reconvention**

At 3:45 p.m., President Peltier recessed the meeting until 7:30 a.m. July 17, 2015, at which time the meeting reconvened with President Peltier continuing to preside and Secretary Gary C. Drost continuing to keep the minutes.

**33. Roll Call**

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

Don Applegate	Paul Baker
Leo Brekel	Gary C. Drost
Arden Fuher	Charlie Gilbert
Mike McQuiston	Kermit Pearson
Wayne Peltier	Roberta Rohrer
Allen Thiessen	

Said persons being all of the directors of the Cooperative. Also present were CEO and General Manager Paul M. Sukut and Assistant Secretary Mark D. Foss; staff members Tracie Bettenhausen, Dean Bray, Curt Capouch, Tammy DeWitt, Matt Greek, John Jacobs, Steve Johnson, Dave Raatz, Ken Rutter and Michelle Wiedrich. Also present were DGC directors James Geringer, Tom Owens and Alan Klein, DGC Vice President David J. Sauer.

**34. AVS Unit #2 Leveraged Lease, continued**

Mr. Johnson requested that the resolution adopted yesterday be amended and restated to increase the purchase price of a portion of the AVS Unit #2 leveraged lease from \$58.5 million to \$59.4 million.

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

**R06.07-15-15**

RESOLVED, that R03.07-15-15 is hereby deleted in its entirety and the following resolution adopted in its place:

RESOLVED, that the CEO and General Manager, or his designee, be authorized to offer up to \$59.4 million to acquire the approximately 25% interest in the AVS Unit #2 leveraged lease held by JPMorgan; and to execute the documents necessary to consummate such purchase.

**35. Executive Session**

At 7:50 a.m., it was moved by Director Rohrer, seconded by Director Thiessen and carried that the Board retire into executive session to discuss the rate impacts of members joining SPP.

At 8:30 a.m., it was moved by Director Drost, seconded by Director Baker and carried that the Board arise from executive session.

**36. Adjournment**

At 8:30 a.m., it was moved by Director McQuiston, seconded by Director Fuher and carried that the meeting be adjourned.

  
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Gary C. Drost  
Secretary-Treasurer