Approved October 9, 2012

# Basin Electric Power Cooperative
# Bismarck, North Dakota

## Minutes of the Regular Meeting of the Board of Directors
## September 10-11, 2012

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The Regular Meeting of the Board of Directors of Basin Electric Power Cooperative (the **Cooperative** or **Basin Electric**) was held at the headquarters building, 1717 East Interstate Avenue, Bismarck, North Dakota, on September 10-11, 2012 starting at 12:30 p.m. CDT with the pledge of allegiance.

### 1. Call to Order

The meeting was called to order by President Roy Ireland, who presided, and Secretary-Treasurer Kermit Pearson kept the minutes thereof.

### 2. Roll Call

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

| | |
|---|---|
| Donald E. Applegate | Wayne L. Child |
| Gary Drost | Arden Fuhrer |
| Charles Gilbert | Dean McCabe |
| Roy Ireland | Wayne Peltier |
| Kermit Pearson | Reuben Ritthaler |
| Roberta Rohrer | |

said persons being all of the Directors of the Cooperative. Also present were CEO & General Manager Andrew M. Serri, Assistant Secretary Claire M. Olson and Basin Electric staff members Jan Blair, Mike Fluharty, Daryl Hill, Rod Kuhn, Deborah Levchak, Russ Mather, Mike Murray, Diane Paul, Mike Paul, Dave Raatz, Mike Risan, Ken Rutter, Myron Steckler, Paul Sukut, Linda Thomas, Michelle Wiedrich and Lyle Witham.

Also present were Northwest Iowa Power Cooperative (**NIPCO**) directors Alan Lucken and Dave Meschke; Corn Belt Power Cooperative (**Corn Belt**) manager Don Feldman; East River Electric Power Cooperative (**East River**) director Alden Flakoll; Black Hills Electric Cooperative (**Black Hills**) directors Jim Preston and Gary Kluthe; Upper Missouri G&T Electric Cooperative (**Upper Missouri**) manager Claire Vigesaa; and Upper Missouri directors Allen Thiessen, Dave Sigloh and Roger Sorenson.

### 3. Approval of the Agenda

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

### 4. Approval of the Minutes

The minutes of the August 14-15, 2012 Board meeting were presented. After an opportunity for corrections, it was moved by Director Drost, seconded by Director Child and carried that the minutes be approved as presented.

## 5. CEO & General Manager's Report

Mr. Serri noted that while Basin Electric has a good safety program and safety record, there are always opportunities for improvement. He noted that Caterpillar has one of the most stellar safety programs in the industry. A Caterpillar safety representative will meet with Basin Electric staff and safety personnel and review the Caterpillar safety program.

He noted that the Long-Range Engineering Plan (**LREP**) for 2013-2022 and Construction Work Plan (**CWP**) for 2013-2015 will be presented this month. Seventy-seven percent of the Engineering Plan ($594 million) is for replacements and upgrades. Approximately 16% is dedicated to environmental retrofits and modifications.

On August 21, Mr. Serri met with Senator Conrad in conjunction with the ceremony at the North Dakota Heritage Center, where the senator donated his work papers to the Heritage Center.

Staff continues to work on a response to the Southern Montana Bankruptcy Trustee's request for proposal on a reorganization plan.

As a result of Basin Electric being awarded the National Guard & Reserve's Freedom Award, Mr. Serri was invited to spend August 23 with the North Dakota National Guard at their training center at Camp Grafton.

He also reported on attending a Corn Belt meeting and the CoBank Energy and Water Executive Conference.

He reported on a visit to the Leland Olds Station (**LOS**) on September 5, noting that the station staff had done an excellent job of preparing for the upcoming scrubber tie-in outage.

Mr. Serri concluded with a report on the involvement of Basin Electric, the senior staff and himself in the 2012 Missouri Slope Area United Way campaign.

## 6. Western Fuels Association (WFA) Update

Director Ritthaler reported on the WFA board meeting, including the status of rail contracts, new Class C member Western Farmers and dust mitigation.

There has been no action on the Berkshire-Hathaway premium issue. The Burlington Northern Santa Fe appealed the rate case; a decision is expected in the fall of 2013.

The Surface Transportation Board (**STB**) has initiated a rulemaking process to modify the methodology the STB uses in determining cross-over traffic. While this will not affect the Missouri Basin Power Project, it will affect other utilities.

## 7. Executive Session

At 1:00 p.m., it was moved by Director Child, seconded by Director Applegate and carried to move into executive session to discuss the Southern Montana bankruptcy, large commercial and large industrial rates and salaries.

At 2:35 p.m., it was moved by Director Peltier and seconded by Director Drost that the Board arise from executive session. Motion carried.

It was then moved by Director Applegate, seconded by Director Child and carried that the following Resolution be adopted:

**R01.09-10-12** RESOLVED, that the salary recommendations presented to this meeting of the board of directors is hereby approved; and

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

It was then moved by Director Drost seconded by Director McCabe and carried that the following Resolution be adopted:

**R02.09-10-12** RESOLVED, that the Cooperative submit a proposal plan with appropriate contingencies for reorganization to the Bankruptcy Trustee for Southern Montana as presented. and

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

## 8. Strategic Planning

Mike Granowski of the Bridge Strategy Group noted that a significant amount of work is underway on the three strategic initiatives. The DGC Initiative, which was presented to the DGC board this morning, is very far along. The two Basin Electric initiatives, RTO Participation and Bakken Development, are also proceeding smoothly.

He introduced Dale Niezwaag, who provided an update on the Bakken Initiative. He noted that he and Jay Lundstrom are the co-managers for this initiative. He reviewed the information gathering about the load growth in the area of the Bakken development, and efforts to present that information to Basin Electric staff, member systems and local and state officials. He reported that KLJ Engineering is conducting a Third-Party Electric Load Forecast for the North Dakota Transmission Authority. This study should be completed in October.

Mr. Granowski then introduced Mike Risan and Dave Raatz for an update on the RTO Initiative. They reviewed the study work that is underway as a part of the initiative. They also reported on the monthly meetings that are taking place with the group of Class A member managers who are providing the membership input for the study. The next meeting is scheduled for October 12.

## 9. 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. He then reported on a new lawsuit against Basin Electric and others in state court in Illinois. In this matter, the plaintiff allegedly died of mesothelioma caused by asbestos fibers from her husband's clothes. The husband apparently worked for an insulating contractor between 1953 and 1984 and may have worked on the construction of the Laramie River Station (**LRS**). A motion to dismiss is being prepared.

A. **Environmental Report**
Mr. Olson reported that the PrairieWinds North Dakota 1, Inc. (**PWND**) Interconnection Agreement with the Western Area Power Administration (**WAPA or Western**) limits production to the 50 MW/hour annual average. While PWND has not exceeded that level of generation, it may in the future if wind conditions are right. The current plan is to complete a full Environmental Impact Statement for the Project so the higher output levels may be adopted.

B. **Property Management**
Mike Murray, Supervisor of Property & Right-of-Way, reported that the division is working on reviewing the title and obtaining easements for the Antelope Valley Station (**AVS**)/Neset 345 kV line. Currently, 18% of the easements for the AVS to Charlie Creek segment have been acquired. To date, 26 of the 29 easements have been acquired on the Berthold to Blaisdell 115 kV project.

## 10. Communications and Administration Report

Mike Eggl, Senior Vice President—Communications and Administration, began with a review of the presidential candidates' position on climate change, energy policy and natural resources.

He reported on the hearings in the House Natural Resources Oversight Committee on the proposed PMA restructuring and noted the actions that the Congress must take before the end of the year to avoid the fiscal cliff.

The Cooperative is seeking increased participation in its annual United Way drive. The goal is to collect $200,000 with a Basin Electric match of 150%. Senior staff is also participating in a community outreach program to encourage companies in the Bismarck-Mandan area to increase contributions to United Way.

He also noted that a number of staff members participated in the South Dakota Line Patrol charity ride sponsored by SDREA.

**Cornerstone Award**
After discussion, it was moved by Director Peltier and seconded by Director McCabe to award Basin Electric's 2012 Cornerstone award to Senator Kent Conrad. Motion carried.

## 11. Transmission Report

Mike Risan, Senior Vice President-Transmission, reported that Western and the Department Of Energy completed their workshops for stakeholder input on Secretary Chu's initiative. A webinar was held to share the results of the workshops. Western has also distributed a separate WAPA Operations Study Report seeking stakeholder input on internal efficiency proposals. Comments are due on September 28. He reported that WAPA's new acting administrator is Anita Decker, formerly chief operating officer of the Bonneville Power Administration.

MISO's protest at FERC over the SPP/IS seams agreement continues. Xcel has also filed a protest in this proceeding.

He noted that WAPA's conversion of the Charlie Creek to Williston line from 115 kV to 230 kV is complete and went into commercial operation on August 24, 2012. This was a welcome addition needed to serve the growing load in the area. He also reviewed the plans for transmission and substations in the Bakken area and showed voltage performance maps of the area with various outage conditions.

### A. Wheelock Substation Agreement

Mr. Risan reported that the Board had approved the Wheelock project in July of 2011. At that time, it was anticipated that Basin Electric would design, procure and construct the $15.1 million project and Mountrail-Williams would be responsible for all costs to build the facility and perform the operations and maintenance.

Since that time, the concept has changed somewhat and he presented the terms of the Wheelock Substation Agreement that was negotiated with Mountrail-Williams. Under that agreement, Basin Electric owns the 230 kV equipment, common facilities and possible future 115 kV capacitor banks if required by the 230 kV system.

Mountrail-Williams owns the 230/115 kV transformer, 115 kV bus and related equipment, 115/25 kV transformer and 25 kV bus and related equipment.

Basin Electric is responsible for the 230 kV maintenance, repair and replacements.

He recommended that the Substation Agreement with Mountrail-Williams be approved. After discussion, it was moved by Director McCabe, seconded by Director Ritthaler and carried that the following Resolution be adopted:

**R03.09-10-12** RESOLVED, that the CEO and General Manager, or his designee, be authorized to enter into the Wheelock Substation Agreement with Mountrail-Williams Electric Cooperative.

## 12. Planning Report

Dave Raatz, Vice President of Cooperative Planning, reported that the summer peak load was 2994 MW, which was 229 MW higher than budgeted and we experienced 312 MW of new load growth plus 75 MW of new contract sales to Tri-State since the 2011 summer peak. He noted that there was considerable load growth throughout the membership. The load forecast uses a weather normalized forecast but this year the weather patterns were more extreme. The widespread drought and accompanying high temperatures pushed up usage across the membership.

He noted that for the upcoming winter season, Dry Fork Station (**DFS**) surpluses would be moved to the eastern system and the Cooperative will pull back to the IS the 31 MW from the Neal IV unit that currently is in MISO.

KLJ Engineering is close to completing the independent study of load growth in the Williston Basin that is being presented to the Board in November after it is presented to the North Dakota Industrial Commission.

## A. Upper Missouri Large Commercial Load

Mr. Raatz began with a review of the Large Commercial Rate and a discussion of the historical development of the adders. He noted that the rate adder for 2012 was 15 mills and that beginning in 2013, the rate adder will change to six mills. The adder reflects the incremental premium cost of providing the service for the next 10 years, as determined when that rate was developed. These adders also apply to the Large Compression Rate.

He noted that the Cooperative currently has one load on the Large Compression Rate with the 15-mill adder (Dry Willow Anadarko Compression Load). When the TransCanada pipeline is completed, that load will be on the Large Commercial Rate with a 15-mill adder, per the contracts. Mountrail-Williams has one gas processing plant (Hess) that will come online in October of 2013 under the rate and two ONEOK facilities, one coming online in the fall of 2012 and one in the spring of 2013 that may be subject to the rate.

There is some question whether the ONEOK facilities will exceed the 15 MW threshold.

Mountrail-Williams has had extensive discussions with ONEOK and they are very concerned about how this rate will be implemented.

Mountrail-Williams suggests that the Large Commercial Rate with the six-mill adder be applied to the two ONEOK facilities so that all gas processing plants coming online in their area will be assessed the same Basin Electric rate, irrespective of the 15 MW criteria.

The Board then discussed whether a six-mill adder was the appropriate rate or whether one of the ONEOK facilities should be subject to the 15-mill adder. Director Ritthaler noted that the Dry Willow gas compressor load (under the Gas Compression Rate) was only three MW and was paying the 15-mill adder and questioned whether this was appropriate if a different adder for ONEOK is approved.

After further discussion, Mr. Raatz recommended that the three gas plants coming online in 2012-2013 be assessed the six-mill adder irrespective of the 15 MW criteria and to eliminate the Large Compression Rate as of January 1, 2013.

After discussion, it was moved by Director McCabe and seconded by Director Fuher that Mr. Raatz's recommendation be approved.

After further consideration, Director Child moved and Director Pearson seconded a motion to table the motion, which carried.

## 13. Executive Session

At 5:05 p.m., it was moved by Director Drost, seconded by Director Pearson and carried to retire into executive session to discuss the large compression and large commercial rates.

At 5:35 p.m., it was moved by Director Peltier, seconded by Director Rohrer and carried to arise from executive session

## 14. Recess and Reconvention

At 5:35 p.m., the meeting recessed until 7:55 a.m., at which time the meeting reconvened, President Ireland continuing to preside and Secretary Pearson continuing to keep the minutes thereof.

## 15. Roll Call

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

| | |
|---|---|
| Donald E. Applegate | Wayne L. Child |
| Gary Drost | Arden Fuher |
| Charles Gilbert | Roy Ireland |
| Dean McCabe | Kermit Pearson |
| Wayne Peltier | Reuben Ritthaler |
| Roberta Rohrer | |

said persons being all of the Directors of the Cooperative, except Reuben Ritthaler, who was absent. Also present were CEO & General Manager Andrew M. Serri, Assistant Secretary Claire M. Olson and Basin Electric staff members Jan Blair, Mike Fluharty, Daryl Hill, John Jacobs, Steve Johnson, Becky Kern, Rod Kuhn, Sharon Lipetzky, Jay Lundstrom, Gavin McCollam, Dawn Moore, Deborah Olafson, Mike Paul, Dave Raatz, Mike Risan, Kathi Risch, Ken Rutter, Paul Sukut, Linda Thomas, Kevin Tschosik, Kim Wetzel, Michelle Wiedrich and Lyle Witham.

Also present were Dakota Gasification Company (**DGC**) staff member Mark D. Foss; Black Hills directors Gary Kluthe and Jim Preston, IEA co-managers Don Franklund and Chris Baumgartner, Mor-Gran-Sou Electric Cooperative (**Mor-Gran-Sou**) director Vern Frederick; Upper Missouri directors David Sigloh, Roger Sorenson and Allen Thiessen, Upper Missouri manager Claire Vigesaa, NIPCO directors Alan Lucken and Dave Meschke; and East River director Aldon Flakoll.

## 16. Planning Report, continued

### A. Upper Missouri Large Commercial Load, continued

Mr. Serri noted that with the discussion yesterday on the Large Commercial Rate, staff should go back and review the current loads and potential loads that may be subject to the rate. Staff will then develop a rate for each load that by formula would determine the rate by load and load factor.

It was then moved by Director Pearson and seconded by Director McCabe that the CEO and General Manager develop a proposal for consideration at the October Board meeting. Motion carried.

### B. Request for Proposals Analysis Update

Becky Kern, Power Supply Engineer, noted that from the responses reviewed from the Cooperative's Power Supply Requests for Proposal, staff has developed a short list of suppliers for baseload, intermediate and peaking generation, as well as wind. These proposals total 1276 MW. She reviewed the proposals and noted the changes reviewed since June. Negotiations and evaluations are continuing. Decisions on some of the short-term proposals will be made in September, and on the long-term proposals in December.

## 17. Plant Operations Reports

### A. Fossil Fuel Generation Update

Mike Fluharty, Vice President of Plant Operations, reported there were no Days Away Restricted or Transferred (**DART**) incidents and no Office of Safety and Health

Administration recordable incident in August. A case first reported in May now requires back surgery and has been changed to a DART.

August generation was 0.9% under budget. Year-to-date (**YTD**) generation was 8.3% under budget, with YTD actual generation of 16.0 million MWh and YTD budgeted generation of 17.5 million MWh. The LRS coal inventory dropped to 1.58 million tons or 66 days supply for all three units at full load.

August individual availability and capacity factors for the generation stations were as follows:

| Unit | Availability | Capacity Factor | Unit Rating |
|---|---|---|---|
| LRS #1 | 85.8% | 85.7% | 570 MW |
| LRS #2 | 100% | 96.4% | 570 MW |
| LRS #3 | 99.9% | 96.4% | 570 MW |
| LOS #1 | 99.8% | 67.6% | 221 MW |
| LOS #2 | 99.7% | 72.9% | 448 MW |
| AVS #1 | 100% | 89.7% | 450 MW |
| AVS #2 | 100% | 90.0% | 450 MW |
| DFS | 98.7% | 94.1% | 386 MW |

He then reviewed the 24-month moving-average forced-outage rate trends.

## B. Distributed Generation Update

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

| Unit | Monthly Generation (MWh) |
|---|---|
| Groton Unit No. 1 | 2,349 MWh (for both load and reliability) |
| Groton Unit No. 2 | 1,766 MWh (for both load and reliability |
| Culbertson Combustion Turbine | 6,232 MWh (for both load and reliability) |
| Wyoming Distributed Generation | 67 MWh (10 spinning reserve events) |
| Spirit Mound Unit No. 1 | 132 MWh (for load) |
| Spirit Mound Unit No. 2 | 99 MWh (for load) |
| Deer Creek Station | 14,846 MWh |
| Wisdom Unit No. 2 | Did not run |

The Spirit Mound current fuel inventory is 865,000 gallons.

**PrairieWinds SD 1**. Annual maintenance is 43% complete. Tower rescue refresher training was completed during the month.

**PrairieWinds ND 1**. Annual maintenance is 68% complete. The gearbox oil changes were started in August.

The east-side peak occurred on August 5, 2012, at hour ending 1800. At that time, wind generation was as follows:

| Project | August Capacity Factor | Load Factor During the Peak | Project Total |
|---|---|---|---|
| PrairieWinds ND 1 | 35% | 0 MW | 123 MW |
| PrairieWinds SD 1 | 37% | 39 MW | 162 MW |
| Wilton Project | 30% | 0 MW | 99 MW |
| Baldwin Project | 33% | 0 MW | 99 MW |
| Edgeley Project | 17% | 1 MW | 40 MW |
| Highmore Project | 31% | 6 MW | 40 MW |
| Day County Project | 39% | 8 MW | 99 MW |
| Iowa Wind Projects | 26% | 3 MW | 45.1 MW |
| Other Wind Projects (Chamberlain & Pipestone) | 19% | 1 MW | 3.4 MW |
| TOTAL AUGUST WIND GENERATION | 33% | | 712 MW Maximum |
| AVERAGE 2012 YEAR-TO-DATE CAPACITY FACTOR | 44% | | --- |

### C. AVS Plant Update

John Jacobs, AVS plant manager, reported that August generation was 560,059 MWh compared to the budget of 552,929 MWh for a variance of 7,130 MWh. YTD actual generation was 4,235,015 MWh compared to the budget of 4,341,333 for a variance of 106,318 MWh.

Unit #1 net generation was 278,170 MWh or 100.55% of the budget. YTD availability was 93.69%. Unit #2 net generation was 281,889 MWh or 102.03% of the budget. YTD availability was 95.56%. As of August 25, 2012, AVS employees worked 176 days or 192,594 hours without a DART case.

Mr. Jacobs reported that in February, the Southwest Water Pipeline reported a problem. Investigation showed that, 60 feet under the ice, the intake structure cap had collapsed, nearly closing the intake structure. Johnson Screen is making a new cap to install in mid- to late-October. Roughrider Electric also has work to do at its pumphouse, so Southwest Water will take its pumps out of service and, for the first time ever, the intake structure will be completely inspected from front to back and will be out of service for a full day. The new cap will then be inserted.

Mr. Jacobs reported that the "C" raw water pump, which has been running continuously for 29 years, is the last pump to be overhauled. "C" pump should be back in service in early October. At that time, all raw water pumps will have been totally reconditioned.

## 18. Engineering Report

### A. Long-Range Engineering Plan

Dawn Moore, Mechanical Engineer, presented and reviewed the 2013-2022 LREP. Components of the LREP include major capital items and major maintenance items over and above routine outage-type maintenance, such as projects over $100,000, all highway vehicles and tools and equipment over $5,000. Significant new generation and transmission facilities for load growth are not included in this document. The purpose of the LREP is to ensure safety, reliability, availability and environmental compliance to provide the best rate possible to the membership. The document is a planning tool for the financial forecast and is required by RUS.

The LREP for 2013-2022 reflects projects costing $594 million and is broken down by facility as follows: $110 million at AVS; $26 million at LOS; $29 million at LRS; $61 million at headquarters; $7 million at the peaking plants; $23 million at DFS; and $337 million for transmission. After further review, she recommended that the Plan be approved.

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

**R04.09-10-12** WHEREAS, in order to ensure continued reliable and efficient operation of Basin Electric's system and dependable and continuous delivery of power to the membership, Basin Electric Power Cooperative (**Basin Electric**) will need to make additional investments in the Cooperative's generating plants, transmission facilities, and headquarters facilities; and

WHEREAS, management has caused to be prepared a Long Range Engineering Plan (**LREP**) which outlines required spending for the 2013-2022 period, which has been presented to and reviewed at this meeting of the Board of Directors; and

WHEREAS, the LREP specifies and supports the major system additions, improvements, replacements and retirements needed for an orderly transition from the existing Basin Electric system to the system required in the future; and

WHEREAS, the planned future system is based on the most technically and economically sound means of serving the long-range loads of Basin Electric and its membership in a reliable and environmentally acceptable manner and ensures that planned facilities will not become prematurely obsolete.

NOW THEREFORE, BE IT RESOLVED that the Board of Directors approves and adopts the LREP presented to this meeting of the Board of Directors, subject to the approval of the Administrator of the Rural Utilities Service; and

BE IT FURTHER RESOLVED, that the CEO & General Manager, or his designee, is hereby authorized and directed to take such steps as shall be necessary and in the best interests of the Cooperative to implement the same.

**B. Construction Work Plan**

Ms. Moore presented and reviewed the 2013-2015 CWP and noted that the CWP is a more detailed plan for capital and major maintenance for a three-year period.

Approving the CWP is not authorization to proceed with the projects, but is a planning tool that RUS requires for a loan application. In order to be constructed, the projects have to be authorized separately by the Board. The CWP is a road map for the next three years.

The CWP reflects total expenditures of $579.9 million and of that total, $383.9 million is for transmission, $3.3 million is for peaking plants, $15.6 million is for headquarters, $37.4 million is for LRS, $20.8 million is for LOS, $110.8 million is for AVS and $7.9 million is for DFS. She reviewed major items scheduled for each of the three years and noted that not included in the CWP are significant new generation and transmission for possible load growth. She then recommended approval of the 2013-2015 Construction Work Plan.

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

**R05.09-10-12**

WHEREAS, in order to ensure continued reliable and efficient operation of Basin Electric's system and dependable and continuous delivery of power to the membership, Basin Electric Power Cooperative (**Basin Electric**) will need to make additional investments in the Cooperative's generating plants, transmission facilities, and headquarters facilities; and

WHEREAS, management has caused to be prepared a Construction Work Plan (**CWP**) which outlines required spending for the 2013-2015 period, which has been presented to and reviewed at this meeting of the Board of Directors; and

WHEREAS, the CWP specifies and supports the major system additions, improvements, replacements and retirements needed for an orderly transition from the existing Basin Electric system to the system required in the future; and

WHEREAS, the planned future system is based on the most technically and economically sound means of serving the loads of Basin Electric and its membership in a reliable and environmentally acceptable manner and ensures that planned facilities will not become prematurely obsolete.

NOW THEREFORE, BE IT RESOLVED that the Board of Directors approves and adopts the CWP presented to this meeting of the Board of Directors, subject to the approval of the Administrator of the Rural Utilities Service; and

BE IT FURTHER RESOLVED, that the CEO & General Manager, or his designee, is hereby authorized and directed to take such steps as shall be necessary and in the best interests of the Cooperative to implement the same.

## 19. Financial Services Report

Paul Sukut, Senior Vice President and CFO, reviewed current economic statistics and the U.S. Treasury yield curve.

### A. Member Investment Program

Mr. Sukut reported that the Member Investment Program reached an all-time high of $138 million this month. Currently, 47 of the 133 total eligible members participate.

### B. 2012 Margin Estimate

Mr. Sukut reported that the year-end margin estimate is $51 million which is $10 million above the budget. The true-up of member revenue from July and higher-than-anticipated August sales contributed to the increase.

### C. AIG Financing and CoBank Financing

Steve Johnson, Treasury Services Manager, reviewed the Cooperative's available liquidity resources, which include the ability to issue up to $500 million in commercial paper, the $200 million U.S. Bank credit facility which expires next October and a $415 million credit facility provided by the Farm Credit System. To date, we have converted $200 million of the $415 million CoBank, ACB (**CoBank**) facility to long-term, leaving an available balance of $215 million. Staff is now proposing to convert another $100 million to long-term and to terminate the balance of that facility which will allow CoBank to be a significant player in the new credit facility.

Staff is proposing to issue $100 million of long-term debt in order to take advantage of the current low long-term interest rates. We will likely issue more long-term debt next year as interest rates are projected to remain low.

Staff has been working with AIG for several months. AIG financed Dakota Coal Company's (**DCC**) Dragline D and indicated a strong interest in doing a financing with the Cooperative at that time. AIG was poised to participate in our private placement last fall; however, their public group bought some of our bonds on the secondary market for credit spread of 200 basis points and as a result, AIG's credit committee declined participating in that deal.

The specifics of the transaction are the private placement of $100 million of notes bearing an interest rate of 4.067% (which was 170 basis points over the interpolated 20-year Treasury on August 20, 2012). The loan would have an average life of 19.6 years and a final maturity of 32 years (November 1, 2044). He reviewed the terms of a comparable transaction recently completed in the market and noted that we were doing this transaction without a placement agent and as a result, saved hundreds of thousands of dollars. With this transaction, AIG's aggregate exposure to the Cooperative and DCC would be $202.4 million, meaning we may not be able to go back to AIG for any further long-term financing. As we have now essentially exhausted the private placement market, going forward we will likely need to begin to once again access the public market.

Mark D. Foss, General Counsel for DGC, then reviewed the proposed resolutions and recommended they be adopted:

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

R06.09-10-12

**WHEREAS** the Board of Directors (the **Board**) of Basin Electric Power Cooperative (the **Cooperative**) desires to take the necessary action to cause the Cooperative to borrow up to one hundred million dollars ($100,000,000.00) from certain affiliates of AIG Commercial Asset Finance (collectively, **AIG**) to be used to finance capital expenditures and for other general corporate purposes;

**RESOLVED**, that the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and any other officer of the Cooperative is authorized, on behalf of the Cooperative, to execute and deliver under its corporate seal, which an Assistant Secretary of the Cooperative is directed to affix and attest:

(a) As many counterparts as shall be deemed advisable of one or more note purchase agreements with AIG substantially in the form presented to this meeting (collectively, the **Loan Agreement**); and

(b) The Basin Electric Power Cooperative First Mortgage Obligations, 2012 Series A Notes substantially in the form presented to this meeting in an aggregate principal amount not to exceed one hundred million dollars ($100,000,000.00) with a term not to exceed thirty-three (33) years (collectively, the **Notes**).

**RESOLVED**, that the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and any other officer of the Cooperative be, and each of them is authorized in the name and on behalf of the Cooperative, to execute and deliver and cause the Cooperative to perform its obligations under, the Notes and the Loan Agreement and all related instruments and documents, agree to the interest rate that the Notes shall bear, make all such payments and do all such other acts as in the opinion of the officer or officers acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions.

**RESOLVED**, that the Board authorizes the Cooperative to take any and all steps which may be necessary or desirable to issue to AIG, and execute and deliver the Notes under and in accordance with the Indenture dated as of January 1, 1998 between the Cooperative and U.S. Bank National Association, as trustee (the **Trustee**) as previously supplemented and as supplemented by the Supplemental Indenture (as defined below) (the **Indenture**) including making a request to the Trustee to authenticate the Notes and making the necessary filings and certificates which must be filed with, or otherwise delivered to, the Trustee to support a request to the Trustee to authenticate the Notes as "Additional Obligations" under the Indenture. The Board hereby empowers, authorizes and directs each of the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and the other proper officers of the Cooperative, or their respective designees, to execute and deliver, on behalf of the Cooperative, all documents, instruments, certificates, agreements, indentures and other documents which may be necessary or desirable to complete the execution, authentication and delivery of the Notes and the issuance thereof to AIG. The authority conferred upon each of the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and such other officers of the Cooperative hereby specifically includes, but is not limited to the authority to execute, attest and deliver, or approve and accept, as the case may be, on behalf of the Cooperative, the Thirty-Second Supplemental Indenture to be dated as of September 15, 2012 substantially in the form presented to this meeting supplementing the Indenture with the Trustee (the **Supplemental Indenture**), with such changes, insertions and omissions as the person or persons executing or accepting the Supplemental Indenture may approve, the execution, approval or accepting the Supplemental Indenture being conclusive evidence of such approval by such person or persons.

**RESOLVED**, that this Resolution constitutes a resolution as required by Section 4.1(A) of the Indenture authorizing and requesting the Trustee (i) to authenticate and deliver the Notes (as "Additional Obligations" under the Indenture) under Sections 4.2, 4.3 and 4.5 and the other applicable provisions of the Indenture and (ii) to take such other steps as are required by the Indenture and/or the Loan Agreement to issue the Notes.

**BE IT FURTHER RESOLVED**, that the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and the other officers of the Cooperative are each hereby authorized and empowered to take such other action as might be required to complete the execution, authentication and delivery of the Notes and the Cooperative's performance of its obligations thereunder and under the Loan Agreement. All actions heretofore taken by the President, by the CEO and General Manager, by the Secretary, by any Assistant Secretary, by the Senior Vice President and CFO or by any other officer of the Cooperative with respect to the Notes, the Supplemental Indenture and the Loan Agreement and the others matters contemplated by these resolutions, are in all respects ratified and confirmed.

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

**R07.09-10-12** **WHEREAS**, Basin Electric Power Cooperative (the **Cooperative**) and CoBank, ACB (**CoBank**) entered into a Loan Agreement dated as of November 1, 2007 (the **Loan Agreement**) pursuant to which CoBank agreed to lend to the Cooperative up to four hundred fifteen million dollars ($415,000,000.00);

**WHEREAS**, on January 18, 2008, pursuant to (a) Section 4.8 of the Indenture dated as of January 1,1998, between the Cooperative and U.S. Bank National Association, as trustee (the **Trustee**), as previously amended and supplemented (the **Indenture**), and (b) the 16th Supplemental Indenture between the Cooperative and the Trustee dated as of November 1, 2007 (the **16th Supplemental Indenture**), the Cooperative executed and the Trustee authenticated and delivered to CoBank the Basin Electric Power Cooperative First Mortgage Obligations, 2007 CoBank Notes in the aggregate principal amount of four hundred fifteen million dollars ($415,000,000.00) (the **2007 CoBank Notes**);

**WHEREAS**, on July 17, 2009, with the consent of the Trustee, the Cooperative drew one hundred million dollars ($100,000,000.00) under the 2007 CoBank Notes;

**WHEREAS**, on February 5, 2010, with the consent of the Trustee, the Cooperative drew one hundred million dollars ($100,000,000.00) under the 2007 CoBank Notes;

**WHEREAS**, the Board of Directors of the Cooperative desires to take the necessary action pursuant to Sections 4.2 and 4.8 of the Indenture to cause the Cooperative to draw sixty-six million two hundred seventy thousand dollars ($66,270,000.00) under the 2007 CoBank Note No. 2 and thirty-three million seven hundred thirty thousand dollars ($33,730,000.00) under the 2007 CoBank Note No. 4; and

**WHEREAS**, the Board of Directors of the Cooperative desires to take the necessary action to amend the Loan Agreement (as previously amended) and the 16th Supplemental Indenture (as previously amended) so as to reduce CoBank's lending commitment and the aggregate principal amount of the 2007 CoBank Notes, respectively, from four hundred fifteen million dollars ($415,000,000.00) to three hundred million dollars ($300,000,000.00) and to amend and restate in its entirety the 2007 CoBank Note No. 2 so as to reduce the principal amount of that note from one hundred forty-two million four hundred sixty thousand dollars ($142,460,000.00) to sixty-six million two hundred seventy thousand dollars ($66,270,000.00) and to amend and restate in its entirety the 2007 CoBank Note No. 4 so as to reduce the principal amount of that note from seventy-two million five hundred forty thousand dollars ($72,540,000.00) to thirty-three million seven hundred thirty thousand dollars ($33,730,000.00).

**RESOLVED**, that the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and any other officer of the Cooperative are each authorized, for and on behalf of the Cooperative, to execute and deliver a Company Request to the Trustee, pursuant to Sections 4.2 and 4.8 of the Indenture to draw sixty-six million two hundred seventy thousand dollars ($66,270,000.00) under the 2007 CoBank Note No. 2 and thirty-three million seven hundred thirty thousand dollars ($33,730,000.00) under the 2007 CoBank Note No. 4, to execute a second amendment to the Loan Agreement and a second amendment to the 16th Supplemental Indenture so as to reduce CoBank's lending commitment and the aggregate principal amount of the 2007 CoBank Notes, respectively, from four hundred fifteen million dollars ($415,000,000.00) to three hundred million dollars ($300,000,000.00), to amend and restate in its entirety the 2007 CoBank Note No. 2 so as to reduce the principal amount of that note from one hundred forty-two million four hundred sixty thousand dollars ($142,460,000.00) to sixty-six million two hundred seventy thousand dollars ($66,270,000.00) and to amend and restate in its entirety the 2007 CoBank Note No. 4 so as to reduce the principal amount of that note from seventy-two million five hundred forty thousand dollars ($72,540,000.00) to thirty-three million seven hundred thirty thousand dollars ($33,730,000.00), and to execute such instruments and documents and to do all such acts as in the opinion of the officer or officers acting, may be necessary or appropriate in order to draw sixty-six million two hundred seventy thousand dollars ($66,270,000.00) under the 2007 CoBank Note No. 2 and thirty-three million seven hundred thirty thousand dollars ($33,730,000.00) under the 2007 CoBank Note No. 4, to amend the Loan Agreement (as previously amended) and the 16th Supplemental Indenture (as previously amended) so as to reduce CoBank's lending commitment and the aggregate principal amount of the 2007 CoBank Notes, respectively, from four hundred fifteen million dollars

($415,000,000.00) to three hundred million dollars ($300,000,000.00), to amend and restate in its entirety the 2007 CoBank Note No. 2 so as to reduce the principal amount of that note from one hundred forty-two million four hundred sixty thousand dollars ($142,460,000.00) to sixty-six million two hundred seventy thousand dollars ($66,270,000.00) and to amend and restate in its entirety the 2007 CoBank Note No. 4 so as to reduce the principal amount of that note from seventy-two million five hundred forty thousand dollars ($72,540,000.00) to thirty-three million seven hundred thirty thousand dollars ($33,730,000.00) and to carry out the purposes and intent of these resolutions; and

**BE IT FURTHER RESOLVED**, that the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and the other officers of the Cooperative are each authorized and empowered to take such other action as might be required pursuant to Sections 4.2 and 4.8 of the Indenture in order to draw sixty-six million two hundred seventy thousand dollars ($66,270,000.00) under the 2007 CoBank Note No. 2 and thirty-three million seven hundred thirty thousand dollars ($33,730,000.00) under the 2007 CoBank Note No. 4, to amend the Loan Agreement (as previously amended) and the 16th Supplemental Indenture (as previously amended) so as to reduce CoBank's lending commitment and the aggregate principal amount of the 2007 CoBank Notes, respectively, from four hundred fifteen million dollars ($415,000,000.00) to three hundred million dollars ($300,000,000.00), to amend and restate in its entirety the 2007 CoBank Note No. 2 so as to reduce the principal amount of that Note from one hundred forty-two million four hundred sixty thousand dollars ($142,460,000.00) to sixty-six million two hundred seventy thousand dollars ($66,270,000.00) and to amend and restate in its entirety the 2007 CoBank Note No. 4 so as to reduce the principal amount of that note from seventy-two million five hundred forty thousand dollars ($72,540,000.00) to thirty-three million seven hundred thirty thousand dollars ($33,730,000.00). All actions taken by the President, the CEO and General Manager, the Secretary, any Assistant Secretary, the Senior Vice President and CFO and any other officer of the Cooperative with respect to the draw of sixty-six million two hundred seventy thousand dollars ($66,270,000.00) under the 2007 CoBank Note No. 2 and thirty-three million seven hundred thirty thousand dollars ($33,730,000.00) under the 2007 CoBank Note No. 4 pursuant to Sections 4.2 and 4.8 of the Indenture, to amend the Loan Agreement (as previously amended) and the 16th Supplemental Indenture (as previously amended) so as to reduce CoBank's lending commitment and the aggregate principal amount of the 2007 CoBank Notes, respectively, from four hundred fifteen million dollars ($415,000,000.00) to three hundred million dollars ($300,000,000.00), to amend and restate in its entirety the 2007 CoBank Note No. 2 so as to reduce the principal amount of that note from one hundred forty-two million four hundred sixty thousand dollars ($142,460,000.00) to sixty-six million two hundred seventy thousand dollars ($66,270,000.00) and to amend and restate in its entirety the 2007 CoBank Note No. 4 so as to reduce the principal amount of that note from seventy-two million five hundred forty thousand dollars ($72,540,000.00) to thirty-three million seven hundred thirty thousand dollars ($33,730,000.00) and other matters contemplated by these resolutions, are in all respects ratified and confirmed.

**D. Revolving Credit Facility**

Mr. Johnson reported that joint lead arrangers and active joint bookrunners are U.S. Bank, National Association (**U.S. Bank**) and CoBank. We will go out and solicit $350 million in unsecured revolving credit with the thought that if we receive a good response, we will bump it up to $400 million. Following closing, we will maintain the ability to increase the line of credit by $100 million to a total of $500 million. The banks would be making a five-year commitment. As far as financial covenants, the Cooperative would covenant to maintain a Margins for Interest ratio of at least 1.10 times. We would also agree to maintain a minimum equity balance no less than the greater of (a) 85% of the equity balance at the end of the next preceding fiscal year, and (b) $800 million. We would agree to pay facility fees on the unused portion of the commitment of 17.5 basis points, a LIBOR spread on borrowings of 107.5 basis points; arrangement fees of $200,000 for the active lead arrangers and $75,000 for the passive lead arrangers. Key dates are as follows: October 4th meeting with banks to launch the transaction; October 19th commitments due from potential lenders and October 24th as the projected closing date.

Mr. Foss then reviewed the proposed resolution and recommended it be adopted.

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

**R08.09-10-12** **RESOLVED**, that the CEO & General Manager is authorized to execute, on behalf of the Cooperative, a credit agreement (the **Agreement**) among the Cooperative, U.S. Bank National Association, as the Administrative Agent, CoBank, ACB, National Rural Utilities Cooperative Finance Corporation, and the other lenders (collectively, the **Lenders**) listed in the schedule attached to the Agreement (as such schedule may be amended from time to time pursuant to the terms of the Agreement) obligating the Lenders to make loans to the Cooperative in an aggregate amount not to exceed five hundred million dollars ($500,000,000.00);

**RESOLVED FURTHER**, that the Board of Directors authorizes the CEO & General Manager to take such acts and to execute and deliver, on behalf of the Cooperative, all such documents, instruments and certificates as he deems necessary or advisable in order to carry out the purpose and intent of the foregoing resolutions and the performing of such acts and the execution and delivery of such documents, instruments and certificates shall conclusively evidence the authority for such act.

**RESOLVED FURTHER**, that the CEO and General Manager is authorized to take such other actions on behalf of the Cooperative as he may determine necessary in connection with the Agreement, including changes to the Lenders listed in the schedule attached to the Agreement and the amount of the Commitments under the Agreement, subject, however, to the five hundred million dollar ($500,000,000.00) not to exceed amount referred to above;

**BE IT FURTHER RESOLVED**, that all previous actions taken by the CEO & General Manager with respect to the Agreement and all other matters contemplated by these resolutions are hereby ratified and confirmed.

### E. Accounting Report

Kim Wetzel, Supervisor of Financial Reporting & Accounts Receivable, reported that the August 2012 Statement of Operations reflected an estimated net margin of $18 million compared to the budgeted net margin of $13.9 million for a favorable variance of $4.1 million. The net margin for the same period last year was $1.5 million.

The year-to-date (**YTD**) net margin was $66 million compared to the budget of $51 million for a favorable variance of $15 million.

He also reviewed member sales, surplus sales, operations expenses, maintenance expenses, YTD consolidated net income/loss, changes to the balance sheet and month-end cash. Basin Electric's equity-to-asset ratio at the end of August was 19.7% and at the end of July was 19.3%. The equity-to-capitalization ratio at the end of August using Moody's Rating Service's methodology was 23.7% and at the end of July was 23.1%, both without The Coteau Properties Company consolidation entry. The equity-to-capitalization ratio based on indenture requirements for patronage distribution was 18.5% at the end of August and 18% at the end of July.

## 20. Recess for Board Audit Committee Meeting

At 10:40 a.m., it was moved by Director Drost, seconded by Director McCabe and carried to convene the Board Audit Committee. At 11:05 a.m., the board meeting continued.

## 21. Directors' Reports

Director Pearson reported on East River's annual meeting.

Director Applegate reported he had been re-elected at his distribution cooperative annual meeting.

Director Rohrer reported that Central Montana continues to work with members of Southern Montana who wish to join Central Montana.

Director Fuhrer reported on membership growth and matters at Central Power.

Director Gilbert reported on Corn Belt's summer meeting and thanked Andy and Paul for their presentation and East River for the slides and information on load management.

Director Peltier reported thanked Steve Tomac for participating in the congressional briefing with Minnesota Congressman Collin Peterson at Kandyohi Rural Electric during the month.

Director McCabe reported that Upper Missouri had caucused and nominated Allen Thiessen to the Basin Electric board. Upper Missouri is adding a staff member in the office to keep up with load growth. He thanked Basin Electric for the work staff is doing to assist with the load growth in western North Dakota.

Allen Thiessen thanked the directors and staff for the welcome.

Director Ireland reported on the CoBank forum.

Black Hills Cooperative Directors Kluthe and Preston expressed their appreciation for being allowed to attend the board meeting, which had been informational.

Mor-Gran-Sou director Vern Frederick expressed his appreciation for being allowed to attend the meeting.

## 22. Date of December Board Meetings/Midwest Annual Meeting

Mr. Serri asked if the directors wished to reschedule the December board meeting to accommodate the Midwest Electric Consumers Association annual meeting on December 11-13 in Denver. After discussion, it was decided that the board arrive on Sunday afternoon and meet at a local restaurant at 6:00 p.m. to hold the Basin Electric reorganizational and subsidiary annual and reorganizational meetings. The Dakota Gasification Company meeting would then begin Monday morning.

## 23. Date and Place of Next Board Meeting

The next meeting of the Board of Directors will take place October 9-11, 2012, at the Basin Electric headquarters building in Bismarck, North Dakota.

## 24. Adjournment

President Ireland adjourned the meeting at 11:25 pm.

Kermit Pearson
Secretary-Treasurer