

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

**Minutes of the Regular Meeting of the Board of Directors
October 14-15, 2013**

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The Regular Meeting of the Board of Directors of Basin Electric Power Cooperative (the **Cooperative** or **Basin Electric**) was held at Basin Electric headquarters in Bismarck, North Dakota on October 14, 2013 starting at 3:30 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 Fuher
Charles Gilbert	Roy Ireland
Kermit Pearson	Wayne Peltier
Reuben Ritthaler	Roberta Rohrer
Allen Thiessen	

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 Gary Christensen, Shawn Deisz, Tammy DeWitt, Mike Eggl, Pius Fischer, Matt Greek, Daryl Hill, Casey Jacobson, Becky Kern, Deborah Levchak, Duey Marthaller, Gavin McCollam, Mike Murray, Art Nelson, Mike Paul, Dave Raatz, Ken Rutter, Susan Sorensen, Myron Steckler, Matt Stoltz, John Jacobs, Paul Sukut, Kevin Tschosik, Cheri Wenzel, Michelle Wiedrich and Lyle Witham.

Also present were Rushmore Electric Power Cooperative (**Rushmore**) director John Van Beek, Mor-Gran-Sou Electric Cooperative (**Mor-Gran-Sou**) director Robert Leingang, Rushmore Electric Power Cooperative (**Rushmore**) director Mike McQuiston, Tri-State G&T Association (**Tri-State**) director Marshall Collins, Powder River Energy Corporation (**PRECorp**) director Paul Baker and Dakota Gasification Company (**DGC**) director James Geringer.

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 Peltier, seconded by Director Gilbert and carried that the agenda be approved as presented.

4. Approval of the Minutes

The minutes of the September 9-10, 2013 Regular Board meeting were presented and after an opportunity for corrections, it was moved by Director Child, seconded by Director

Applegate and carried that the minutes be approved as presented.

5. General Manager's Report

Mr. Serri noted that this month he had attended the NRECA Region 5 & 6 meeting and reported on the various meetings and discussions held.

He reported on a meeting with Upper Missouri G&T and McKenzie to resolve the question of the ownership of a transformer in the Watford City Substation.

On October 17, Mr. Serri and Paul Sukut hosted a tour of the Williston Basin for Fitch and U.S. Bank to view the oil and gas developments. They also visited the Lonesome Creek and Pioneer Generating Stations.

He noted that the CAT safety program was rolled out on October 16th and a more detailed presentation of this program will be given later in the meeting

He also reported on attending the G & T Manager's Association meeting in Brandon, Mo. hosted by Associated Electric.

During the month he also had the opportunity to meet with Dan Elliot, the Chairman of the Surface Transportation Board and some of his staff.

Mr. Serri also reported on the meeting with the rating agencies in New York. The meetings went very well and the rating agencies were very complimentary of Basin Electric's presentations.

He concluded with a report on the activities at the upcoming Annual Meeting of the Cooperative in November.

A. Western Fuels Association Update

Director Ritthaler reported the results of the board reorganization at Western Fuels Association (**Western Fuels**). Next month there will be a budget meeting in Gillette and then rest of the meeting in Denver. He noted that due to his retirement next month, the Basin Electric Board will need to name another director to serve on the Western Fuels board of directors.

6. 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.

A. Approval of Notice of 2013 Annual Meeting

Mr. Olson presented and reviewed the Notice of 2013 Basin Electric Annual Meeting and recommended that it be approved. After discussion, it was moved by Director Child, seconded by Director Gilbert and carried that the following Resolution be adopted:

R01.10-14-13

RESOLVED, that the 2013 Notice of Basin Electric annual meeting presented to this meeting of the Board of Directors is hereby approved.

B. Selection of Delegates to BEPC Subsidiary Annual Meetings

Mr. Olson reported that the annual shareholder meetings of Dakota Gasification Company, Dakota Coal Company, PrairieWinds ND 1, Inc. and PrairieWinds SD 1, Inc. will be held in December; the annual meeting of Basin Cooperative Services will be held in January and the annual shareholder meeting of Basin Telecommunications, Inc. will be held in April. The Basin Electric directors represent the Cooperative at these shareholder meetings.

He recommended that the entire Board of Directors be authorized to act as the authorized representatives of the Cooperative, in its capacity as member or shareholder of each of these subsidiaries. After a full discussion, on motion duly made by Director Applegate, seconded by Director Drost and carried, the following Resolution was adopted:

R02.10-14-13

RESOLVED, that the Basin Electric Board of Directors is hereby designated to participate in the 2013 annual shareholder meeting of Dakota Gasification Company and to exercise, on behalf of the Cooperative, its vote at said annual meeting, each such designated person to vote 1/11th of the interest of the Cooperative.

RESOLVED, that the Basin Electric Board of Directors is hereby designated to participate in the 2013 annual shareholder meeting of Dakota Coal Company and to exercise, on behalf of the Cooperative, its vote at said annual meeting, each such designated person to vote 1/11th of the interest of the Cooperative.

RESOLVED, that the Basin Electric Board of Directors is hereby designated to participate in the 2013 annual shareholder meeting of PrairieWinds ND 1, Inc. and to exercise, on behalf of the Cooperative, its vote at said annual meeting, each such designated person to vote 1/11th of the interest of the Cooperative.

RESOLVED, that the Basin Electric Board of Directors is hereby designated to participate in the 2013 annual shareholder meeting of PrairieWinds SD 1, Inc. and to exercise, on behalf of the Cooperative, its vote at said annual meeting, each such designated person to vote 1/11th of the interest of the Cooperative.

RESOLVED, that the Basin Electric Board of Directors is hereby designated to participate in the 2014 annual shareholder meeting of Basin Cooperative Services and to exercise, on behalf of the Cooperative, its vote at said annual meeting, each such designated person to vote 1/11th of the interest of the Cooperative.

RESOLVED, that the Basin Electric Board of Directors is hereby designated to participate in the 2014 annual shareholder meeting of Basin Telecommunications, Inc. and to exercise, on behalf of the Cooperative, its vote at said annual meeting, each such designated person to vote 1/11th of the interest of the Cooperative.

C. AVS-to-Neset 345 kV Transmission Line Project Update

Duey Marthaller, Antelope Valley Station (AVS)-to-Neset Transmission line project manager, provided an update on the AVS-to-Neset 345 kV transmission line project schedule, timeline and costs.

The first two segments, AVS-to-Charlie Creek and Charlie Creek-to-Judson, are scheduled for completion on October 31, 2015, which is in line with Basin Electric's projected growth and loads for the winter 2015/2016 season. The Judson-to-Neset segment will be constructed in the 2017 construction season. Basin Electric is proceeding with line design and easement acquisition should it become necessary to build sooner.

To date, \$20 million of the \$347.2 million budget has been expended. In addition to this \$20 million, Basin Electric has committed to a steel structures contract in the amount of \$53 million.

Attorney Casey Jacobson reported on the activities associated with the project study area of the Killdeer Mountain Battlefield.

She presented a map of the transmission route through the Battlefield area and noted that Basin Electric has purchased all but one of the easements (one-half mile) through the Battlefield area. She noted that there are more than 30 oil wells already in the area.

The State Preservation Office required a visual analysis of the area, so a map with the transmission towers and line was developed, which she reviewed.

Recently, some landowners have become more organized and spoke out against the NDSU study area. As of two weeks ago, the main landowner in the area sent a letter to NDSU stating that the landowners would not grant survey permission to study the area.

The hearing on the draft Environmental Impact Statement (EIS) will be held in Watford City hopefully in December. As a part of the EIS process, Tribal historical Preservation personnel are also performing a survey to locate potential Tribal artifacts. She estimated a PSC decision in March/April.

Mike Murray, Supervisor of Right-of-Way, reported that easements have been signed with 253 of the 311 landowners for the project. He reviewed a map of easements left to be acquired, as well as compensation issues. All but one landowner has signed and the one holdout objects to the Battlefield study.

Thirty final offer letters that reopened discussions were sent in September. Appraisals are currently underway for 13 landowners.

7. Generation Report

A. CAT Safety Study

Kelly Cozby, Safety and Occupational Health Administrator, reviewed the results of

the CAT Safety Survey. She noted that 1874 employees (1577 hourly employees, 220 supervisors and 77 managers at nine locations) participated in the study, which was statistically validated.

B. Fossil Fuel Generation Update

Matt Greek, Senior Vice President, Generation, reviewed the Cooperative's safety performance for the month, noting that there had been two recordable incidents and no Days Away Restricted or Transferred (DART) incidents in September.

Mr. Greek reported on his reorganization of the Engineering and Construction Division into two groups, Engineering Services directed by Gavin McCollam, and Project Management and Construction, directed by Myron Steckler. He then reviewed the team charters for both groups.

He then reviewed the 24-month moving-average forced-outage rate trends and bus bar costs. The Laramie River Station (LRS) coal inventory is 1.12 million tons or a 50-day supply for all three units at full load.

September coal generation was 1,706,567 MWh or 39.9% above budget. Actual year-to-date generation was 2.1% under budget at 18,691,838 MWh. Overall solid fuel (100% of Dry Fork Station (DFS) and LRS) generation is 3.4% under budget; the oil/gas plants are 316% above budget, wind (wind, oil and gas include only Basin Electric owned/operated facilities) is 10.6% above budget and the fleet is 1.7% below budget.

Mr. Greek reported he met with LRS staff leadership and developed a safety charter for the facility. The Station developed charters and is organizing teams in the areas of leadership, operator care focus, reliability work management, reliability focus, reliability materials management and safety focus. CAT Safety Survey results have been reviewed with several crews, with rollout to be completed by November 22, 2013.

He reported on his tours of the Wheatland Irrigation District, the Lietz Well and other areas of water system.

He then reviewed work done and findings from the DFS 2013 outage. The overall outage cost was \$6,105,500 compared to budget of \$7,252,203.

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

Unit	Avail-Ability (%)	Capacity Factor (%)	Unit Rating	Comments
LRS #1	92.3	81.6	570 MW	Main steam safety SV8 repair
LRS #2	100	96.7	570 MW	No issues
LRS #3	89.0	88.0	570 MW	Turbine overspeed tests; WEPCO heat input limit
LOS #1	100	83.1	221 MW	No issues
LOS #2	29.6	81.6	448 MW	Generator seal oil system and boiler chemical clean

AVS #1	87.8	88.0	450 MW	High furnace pressure, two boiler tube leaks
AVS #2	100	86.5	450 MW	No issues
DFS	42.8	95.1	386 MW	Generator ISO phase heating due to scaffolding & planned maintenance outage

C. Antelope Valley Station Update

John Jacobs, Plant Manager, reported that AVS September generation was 493,968 MWh compared to budgeted generation of 534,242 MWh. Year-to-date actual generation was 4,502,452 MWh compared to budgeted generation of 4,533,270 MWh. He reviewed operating statistics for each unit and plant targets for heat rate, net generation, availability, forced outage rate, station service, number of starts, scrubber compliance, safety, sick leave, overtime and production cost.

As of September 2013, AVS staff has worked 568 days or 612,681.6 hours without a DART case. The Year-to-date AVS Total Case Incident Rate is 3.41.

Mark Nelson, Maintenance Superintendent, presented photographs and discussed the repair of a seal oil line leak in the main lube oil reservoir as well as the additional repair that was made to correct a historically low lube oil pressure to the main turbine. He also discussed what was found and repaired on the underground Unit #1 circulating water line which had been leaking.

D. Distributed Generation Update

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

Unit	Monthly Availability	Monthly Generation (Net MWh)	Unit Rating	Comments
Groton Unit #1	51%	4310 MWh	100 MW	Engine borescope, HPC stage-1 blade replacement, FOD sock upgrade, 5.1 controls upgrade
Groton Unit #2	73.2%	1994 MWh	100 MW	
Culbertson CT	81.4%	16,027 MWh	100 MW	Engine borescope, re-torqued intercooler manway door
WY Distributed Generation	77.6%	15 MWh	100 MW	Hartzog #2 & #3 off-line
SMS Unit #1	98.9%	0 MWh	54 MW	Did not run
SMS Unit #2	98.8%	0 MW	120 MW	Did not run
DCS	66.67%	43,365 MWh	300 MW	3-week planned outage
Pioneer	78.74%	5.14 MWh	45 MW	Went operational 9/3/2013

Mr. Tschosik reported that a planned gas pipeline emergency exercise drill will be conducted at the Deer Creek Station (DCS or Deer Creek) on October 15 at 4:00 p.m.

PrairieWinds SD 1.

During the outage, staff replaced the OPGW, inspected the 34.5 kV bus and repaired the "F" feeder breaker bushing.

PrairieWinds ND 1.

PWND annual maintenance has been completed. The east-side peak occurred on September 6, 2013 at hour ending 1600. At that time, wind generation was as follows:

	Load Factor during the Peak	Capacity Factor	Project Total
PrairieWinds ND	0 MW	41%	123 MW
PrairieWinds SD	0 MW	32%	162 MW
Wilton	0 MW	38%	99 MW
Baldwin	0 MW	40%	99 MW
Edgeley	0 MW	26%	40 MW
Highmore	1 MW	38%	40 MW
Day County	0 MW	49%	99 MW
Iowa Wind	27 MW	37%	45.1 MW
Iowa Lakes	0 MW	39%	21 MW
Other Projects (Chamberlain & Pipestone)	0 MW	11%	3.4 MW
TOTAL SEPTEMBER WIND GENERATION	---	38%	712 MW maximum
AVERAGE YTD CAPACITY FACTOR	---	39%	---

8. Recess and Reconvension

At 5:35 p.m. CDT, the meeting recessed until 7:30 a.m. CDT on Tuesday, October 15, 2013, at which time the meeting reconvened, President Ireland continuing to preside and Director Pearson continuing to keep the minutes.

9. 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 |
| Kermit Pearson | Wayne Peltier |
| Reuben Ritthaler | Roberta Rohrer |
| Allen Thiessen | |

Said persons being all of the Directors of the Cooperative. Also present were CEO and General Manager Andrew M. Serri, Assistant Secretary Claire M. Olson and Basin Electric staff members Andy Buntrock, Shawn Deisz, Tammy DeWitt, Mike Eggl, Steve Ellefson, Pius Fischer, Matt Greek, Daryl Hill, Jerry Horner, Steve Johnson, Becky Kern, Rod Kuhn, Deborah Levchak, Duey Marthaller, Gavin McCollam, Deb Olafson, Mike Paul, Dave Raatz, Ken Rutter, Susan Sorensen, Myron Steckler, Matt Stoltz, Paul Sukut, Lucas Teigen, Steve Tomac, Shanda Traiser, Kevin Tschosik, Michelle Wiedrich and Lyle Witham. Also present were Rushmore directors John Van Beek and Mike McQuistion, Mor-Gran-Sou director Robert Leingang, PRECorp director Paul Baker, Tri-State director Marshall Collins and DGC director James Geringer.

10. **Marketing and Trading – Purchased Power Report**

Ken Rutter, Vice President of Marketing and Trading, reported that power prices in August were better than anticipated but resulted in higher purchased power volumes due to loads, generation outages and the Deer Creek power sale. He noted that the August estimate did not include \$4.6 million of MISO surplus sales.

He noted that the August Deer Creek non-member sales strategy provided additional value to Basin Electric, even with the July and August plant outages.

September prices were better than anticipated but purchased power volumes were higher due to many short, unplanned generation outages. East sales volumes were higher than expected due to lower member loads. West sales volumes were lower than anticipated due to generation outages.

Staff has been working with the members to resolve: (1) meter incentive rate qualification; and (2) Minnesota 8 Great River Energy supplemental energy issues. Marketing has implemented processes and will review the results of the power changes until staff is confident that the situation has been resolved.

He reviewed the anticipated timeline for Basin Electric to take over east-side power scheduling from the Western Area Power Administration (**Western or WAPA**). The transition from WAPA-Montrose to Basin Marketing will take place at midnight on January 13, 2015. This delay from January 1, 2015 was due to schedules with WAPA staff and the holiday schedule. A number of WAPA-Montrose staff will work with Basin Marketing for a week prior to turn-over of scheduling duties.

11. **Cooperative Planning Report**

Dave Raatz, Vice President of Cooperative Planning, reported that the government shutdown has delayed printing in the *Federal Register* of WAPA's notice to pursue negotiations with Southwest Power Pool (**SPP**). The *Federal Register* will suggest a 45-day comment period. If desired, Basin Electric will work with its members to provide comments on the Notice. WAPA's final decision will probably be announced by the end of January, 2014. We have not seen the notice. If the *Federal Register* notice is released for printing by October 31, 2013, WAPA would suggest public meetings in Lincoln, Nebraska; Sioux Falls, South Dakota; and Fargo, North Dakota. If the October 31, 2013 *Federal Register* notice date is missed, the public information meetings will slip approximately one month.

He reported on upcoming meetings with Heartland and WAPA on Integrated System (IS)-party-desired modifications to SPP on Friday, October 18. Missouri River Energy Services requested a meeting with IS parties on November 25 to discuss issues related to the IS joining SPP.

The current target date for full SPP integration is October 1, 2015.

Solar Power. Mr. Raatz reported that several members have expressed an interest in participating in the development of solar projects in their service territories and have asked Basin Electric to assist in developing a business model that would work for the membership and Basin Electric. He noted that the primary concern is developing a business model that protects the integrity of the all-requirements power contract and is fair and equitable to all of the members.

He noted that the members are of the opinion that if the electric cooperatives don't participate in the development of solar-generated electricity in their service territories, commercial suppliers will take over that activity resulting in the loss of load to the membership.

Mr. Raatz noted that this topic would be discussed at the October 22nd meeting of the Manager's Advisory Committee (MAC). He reviewed two proposals for the MAC to consider and discuss at this meeting. Once more of the details have been developed it will be brought back to the board for further discussion. He also noted that staff is currently working with NIPCO and Wright-Hennepin on two 40 kW solar process to test some of the concepts for a business model for solar generation.

Wind Purchase Negotiation Update. Mr. Raatz noted that last month the Board authorized the CEO and General Manager to execute three wind purchase agreement subject to final negotiations of terms and conditions. Mr. Raatz noted that final negotiations are ongoing and soon to be completed with two wind projects in North Dakota and one in South Dakota.

He reviewed the status of negotiations and the terms and conditions in each proposed contract, including the cost of the power, delay and take or pay provisions as well as the financial security for performance as well as risks associated with the projects.

A. Renewable Energy Credit/Certificates Board Policy

Mr. Raatz reported that in 2011, the board established a policy that effective January 1, 2012, the Cooperative would distribute its available uncommitted Renewable Energy Credits (RECs) to its Class A members based on the revenue included under the patronage formula. He reviewed the reasons for establishing the policy and how the RECs were distributed in 2012 for each member.

Mr. Raatz noted that with the Cooperative proceeding with the development of additional wind generation and with the regulations being promulgated by EPA for CO₂ emissions from new and existing generating resources, it may be time to reconsider this policy and have Basin Electric retain all of the RECs that will be generated in future years. By retaining these, the REC value will be incorporated into the general rate base.

He noted that this would also be presented to the MAC and discussed at a future meeting with the Board.

B. Basin Electric Contractual Obligations to Southern Minnesota Energy Cooperative

Mr. Raatz reported that a number of cooperatives in Minnesota participated in the organization of the Southern Minnesota Energy Cooperative which is in the process of acquiring a portion of the service territory from Alliant Energy. Ultimately, about 46 MW of this load will become part of the service responsibility of Sioux Valley, Minnesota Valley, Redwood, South Central and Federated who are members of Basin Electric. He noted that under this acquisition, Alliant will continue to supply power for the first 10 years.

East River had indicated that it would proceed to assume the responsibility for power supply to Redwood and South Central for these loads after the initial 10-year term. He noted that the contract with East River has specific contract language that is different from the Sioux Valley, Federated and Minnesota Valley contracts with respect to providing service. The East River Contract provides that these loads are in their historical service territory while the others do not.

Mr. Raatz then reviewed options for pricing power for these new loads. He noted that these pricing options required further discussions.

C. Strategic Planning Review of Basin Electric's Mission and Vision Statements

Shanda Traiser, Business Strategies Planner noted that the staff is engaged in a number of planning activities that will culminate with the formal strategic planning session with the Board of Directors in April. A Steering Team was established to research topic areas leading to the development of a Point of View document. The Point of View consists of key issues external to the Cooperative that will impact the electric industry. This document will aid in strategic planning and monitoring of the external environment. Work is also underway on the development of a strategy map and overall balanced scorecard.

She also reviewed the current vision statement of Basin Electric and discussed vision/mission statements purposes and the differences between the two. She noted that at the November and December Board Meetings the Directors would discuss a mission statement for Basin Electric that would be formalized at the January meeting. This statement would then provide direction for the strategic planning session in April.

12. Engineering and Construction

A. Funding Chart

Gavin McCollam, Engineering Services Director, noted that after almost 35 years at the Cooperative, Mike Paul is retiring. On behalf of the Engineering and Construction Division, Mr. McCollam extended his thanks and best wishes for the future.

Mr. McCollam reviewed the project funding requests from November 2012 through October 2013. He reported that funding requests of \$4.6 million would be presented

Director Thiessen and carried that the following Resolutions be adopted:

R04.10-14-13 RESOLVED, that the Unit #2 Low NO_x Project be increased by \$260,000, with the Basin Electric portion to be \$109,720; and

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

R05.10-14-13 RESOLVED, that the LRS Unit #3 Low NO_x Project be increased by \$1.2 million, with the Basin Electric portion to be \$506,400; and

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

D. LRS Units #2 & #3 Distributed Control System – Budget Revisions

Jerry Horner, I & C Engineering Supervisor, reported that the Distributed Control System (DCS) has been operating quite well this year. The Unit #2 DCS was installed in the spring of 2013 and has been operational for four months with very few problems.

To date, \$11.4 million of the \$11.5 million Unit #2 budget has been spent; however, invoices have not yet been received for three major contracts. He reviewed the expected additional costs and recommended the budget be increased by \$700,000.

Unit #3 is in the middle of factory acceptance. The first of three factory acceptance tests was completed on October 11. The second test will be conducted in December and the third in January.

Mr. Horner noted that the LRS Unit #3 budget is \$13.3 million. He reviewed the budget and recommended that it be increased by \$2.1 million. After discussion, it was moved by Director Gilbert, seconded by Director Peltier and carried that the following Resolution be adopted:

R06.10-14-13 RESOLVED, that the budget for the LRS Unit #2 Distributed Control System be increased \$700,000 to a new contract total of \$12.22 million; and

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

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

R07.10-14-13 RESOLVED, that the budget for the LRS Unit #3 Distributed Control System be increased \$2.1 million to a new total of \$13.36 million; and

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

13. Transmission Report/North Killdeer Loop

Matthew Stoltz, Manager of Transmission Planning reviewed the transmission map illustrating the transmission system that serves the Williston Basin and current planned additions. He also reported that there has been a substantial increase in the projected load growth of McKenzie Electric, which now is expected to double by the 2016/2017 time frame.

Mr. Stoltz noted that transmission studies have been performed to determine what appropriate additions are needed to support the load growth in the area. He reviewed the options looked at and noted that it is staff's recommendation to proceed with the construction of the North Killdeer Loop. This 345 kV line would start at the Red Substation to be constructed on the new AVS-to-Charlie Creek line then proceed north approximately 35 miles to a new White Substation and then west 35 miles to the new Blue substation for a total of 75 miles. This line would provide deliveries closer to the load center and backs up the 345 kV line from Charlie Creek to Williston. He estimated that an additional 500 MW of load could be served with this addition.

There has been a dramatic increase in load growth in McKenzie Electric's territory, which is in the heart of the Bakken. The critical time is between now and 2016/2017 as studies show McKenzie Electric's load doubling within that time frame.

A. Authorization to Proceed with North Killdeer Loop Project

Mr. Marthaller presented a map showing the location of the North Killdeer Loop proposed transmission line and the locations of the Red, White and Blue Substations. He noted that this line would be of the same design as the AVS-to-Neset Project—single-pole structures.

He noted that this project has been incorporated into the EIS for the AVS-to-Neset Project. It is anticipated that the EIS record of decision will be in the spring of 2014. The Project also has to be approved by the North Dakota Public Service Commission. Construction is scheduled for the 2016 construction season.

Mr. Marthaller reviewed the budget for the Project noting that the Substations are estimated to cost \$88,000,000 and the transmission line \$92,000,000. After further discussion he recommended that the project with a budget of \$180.6 million be approved.

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

R08.10-14-13

RESOLVED, that the North Killdeer Loop 345 kV Transmission Line Project as presented, with a budget of \$180.6 million is hereby approved; and

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

Mr. Stoltz then reported on other transmission additions being proposed to support the load growth in the Minot area. Some of the facilities would be constructed by XCEL, others by Central Power, Verendrye and Basin Electric. He also reported on activities underway in the RTO study, updates to the Interconnection and Common Use Agreement as well as NERC compliance.

14. Recess and Reconvention

At 11:55 a.m., the Board recessed until 12:30 p.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
Kermit Pearson	Wayne Peltier
Reuben Ritthaler	Roberta Rohrer
Allen Thiessen	

Said persons being all of the Directors of the Cooperative. Also present were CEO and General Manager Andrew M. Serri, Assistant Secretary Claire M. Olson and Basin Electric staff members Andy Buntrock, Shawn Deisz, Tammy DeWitt, Mike Eggl, Matt Greek, Daryl Hill, Steve Johnson, Rod Kuhn, Darla Miller, Mary Miller, Deb Olafson, Dave Raatz, Susan Sorensen, Steve Tomac, Michelle Wiedrich and Lyle Witham.

Also present were Rushmore directors John Van Beek and Mike McQuiston, Mor-Gran-Sou director Robert Leingang, PRECorp director Paul Baker, Tri-State director Marshall Collins and DGC director James Geringer.

16. Financial Services Report

Paul Sukut, Senior Vice President and Chief Financial Officer, reported on current economic statistics, the Member Investment Program, cushion of credit balances, liquidity, commercial paper program outstanding balances and capital expenditures.

A. Liquidity

Mr. Sukut reviewed current liquidity, the cushion of credit account and the Member Investment Program.

B. Year-end Margin

Mr. Sukut noted that the end-of-year pretax margin estimate at the end of September was approximately \$54.0 million versus the budget of \$53 million. The end-of-year pretax margin estimate at the end of August was \$34.8 million.

C. Rating Agency Meetings

Mr. Sukut reported on meetings with Goldman Sachs and the rating agencies (Fitch, Moody's and Standard & Poors) in New York last week. Steve Johnson, VP & Treasurer, reported on meetings with the banks in New York last week. Overall, the comments were very positive.

D. Proposed Accounting Change

Shawn Deisz, Vice President and Controller, reported that staff is recommending an accounting change that would provide for regulatory treatment of unrealized gains or losses on hedging activities. Currently, Basin Electric's financial hedges include only interest rate swaps. Basin Electric's Marketing and Trading Department plans to enter into financial transactions to hedge power sales/purchases and transmission rights, with a likely increase in the number of transactions if Basin Electric joins an RTO.

She proposed the Directors consider adopting a policy to defer (regulatory treatment) all unrealized fair value gains and losses associated with hedging activities, including interest rate swaps. This change in accounting will (1) prevent volatility in equity due to fluctuating market values of financial hedging transactions; (2) not impact the income statement and net margin due to hedge ineffectiveness; and (3) provide stability in equity components included in calculation of Indenture Section 13.15, Equity-to-Capitalization Ratio.

She showed areas of the balance sheet that will be affected by this change and noted that it was likely that this proposed change would allow Basin Electric to retire patronage one year earlier than with the current accounting procedure.

After discussion, it was moved by Director Ritthaler, seconded by Director Applegate and carried that the following Resolution be adopted, with Director Drost voting "nay".

R09.10-14-13

RESOLVED, that the Board of Directors, acting in their role as Basin Electric's regulator, adopts a policy to defer all unrealized fair value gains and losses associated with Basin Electric's hedging activities, including all currently existing interest rate swaps, to be recovered through future rates in accordance with the provisions of Accounting Standards Codification (ASC) No. 980, Regulated Operations.

E. Accounting Report

Ms. Deisz reported that the September 2013 Statement of Operations reflected an estimated net margin of \$9.3 million compared to the budgeted net margin of \$800,000 for a favorable variance of \$8.5 million. The net margin for the same period last year was a deficit of \$1.5 million.

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

Basin Electric's equity-to-asset ratio at the end of September was 20.0% and at the end of August was 20.0%. At the end of September, the equity-to-capitalization ratio using Moody's Rating Service's methodology was 24.1% and at the end of August was 24%, both without The Coteau Properties Company consolidation entry. The equity-to-capitalization ratio based on indenture requirements for patronage distribution was 18.8% at the end of September and 18.5% at the end of August.

17. Communications and Administration Report

Mike Eggl, Senior Vice President, Communications and Administration, reported that the Supreme Court has agreed to review one of EPA's rulemaking processes. Basin Electric is engaged in this process and has been talking to other area organizations. The next step is to work with the regional utility group.

He reported on meetings with EPA Region 8 Administrator Shaun McGrath and with Peter Tsirigotis from the EPA Office of Air Quality Planning and Standards and on EPA's proposed CO₂ emission regulations. He noted that the Cooperative did a media statement on this, as well as internal and member outreach and lots of media contacts.

He also reported on outreach activities associated with the press reports on the Killdeer Mountain Battlefield study proposal.

Mr. Eggl reported that Daryl Hill, who will be retiring after the annual meeting, has given 1,505 tours during his career at Basin Electric.

Five years ago, Basin Electric made a financial pledge to the North Dakota Heritage Center, which the state of North Dakota matched several years ago. This project is moving forward with completion scheduled for the spring of 2014.

He noted that attendance was down slightly at Hostfest, but it was a very good event.

Curtis Nolan will be keynote speaker at the annual meeting. To date, 415 guests have registered.

Construction of the hangar is progressing well, with completion scheduled for some time in December.

18. Executive Session

At 1:30 p.m., the board retired into executive session to discuss personnel issues.

19. Date and Time of Next Board Meeting

The next regularly scheduled meeting of the Board of Directors will take place November 4-5, 2013, at Basin Electric's headquarters building in Bismarck, North Dakota.

The Basin Electric 2013 Annual Meeting of the Membership begins on November 6, 2013 at 1:00 p.m. CST at the Exhibition Hall of the Bismarck Civic Center, 315 South 5th Street, Bismarck, North Dakota.

20. Adjournment

There being no further business to come before the meeting, President Ireland adjourned the meeting at 2:00 p.m.

A handwritten signature in blue ink, appearing to read "Kermit Pearson", written over a horizontal line.

Kermit Pearson
Secretary-Treasurer