

**BASIN ELECTRIC POWER COOPERATIVE
BISMARCK, NORTH DAKOTA**

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS
OCTOBER 9 & 10, 2018**

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

**Minutes of the Regular Meeting of the Board of Directors
October 9 & 10, 2018**

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 October 9 & 10, 2018.

1. Call to Order.

The meeting was called to order at 8:00 a.m. CDT on October 9, 2018, by President Wayne Peltier, who presided, and Secretary-Treasurer Charles H. Gilbert, who kept the minutes thereof.

2. Roll Call.

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

Paul Baker	Leo Brekel
Charles H. Gilbert	Daniel Gliko, Jr.
Mike McQuiston	David Meschke
Kermit Pearson	Wayne Peltier
Troy Presser	Allen Thiessen
Thomas Wagner	

Said persons being all of the Directors of the Cooperative. Also present were Dakota Gasification Company (**DGC**) Directors Jim Geringer and Alan Klein, Chief Executive Officer and General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss, and Basin Electric staff members Tracie Bettenhausen, Eric Carufel, Tom Christensen, Tammy DeWitt, Steve Johnson, Tammy Langerud, Dave Raatz, Ken Rutter, and Sheila Wald. Also present were DGC Vice President Dave Sauer, East River Electric Power Cooperative (**East River**) director Galen Grant, Corn Belt Power Cooperative (**Corn Belt**) vice president Jacob Olberding, and Upper Missouri Power Cooperative (**Upper Missouri**) president Travis Thompson.

3. Approval of the Agenda.

The Directors considered the agenda for the conduct of the business of the meeting. After an opportunity for the addition and deletion of items, a motion was made, seconded, and carried that the agenda be approved as modified.

4. Approval of the Minutes.

The minutes of the September 11 & 12, 2018, Regular Meeting of the Board of Directors were presented. After an opportunity for corrections, a motion was made, seconded, and carried that the minutes be approved as corrected.

5. **Recess/Reconvention.**

At 8:02 a.m. CDT, the meeting was recessed for Board Committee Meetings until 10:15 a.m. CDT, at which time the meeting reconvened with President Peltier continuing to preside and Secretary-Treasurer Charles H. Gilbert continuing to keep the minutes.

6. **Roll Call.**

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

Paul Baker	Leo Brekel
Charles H. Gilbert	Daniel Gliko, Jr.
Mike McQuiston	David Meschke
Kermit Pearson	Wayne Peltier
Troy Presser	Allen Thiessen
Thomas Wagner	

Said persons being all of the directors of the Cooperative. Also present were DGC Directors Jim Geringer and Allen Klein, Chief Executive Officer and General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss, DGC staff members Dale Johnson and Heidi Kaylor, Basin Electric staff members Chris Baumgartner, Tracie Bettenhausen, Tom Christensen, Tammy DeWitt, John Jacobs, Kerry Kaseman, Tammy Langerud, Steve Johnson, Diane Paul, Mike Paul, Dave Raatz, Ken Rutter, Dave Sauer, Sue Sorensen, Sheila Wald, and Val Weigel. Also present were DGC vice president Dave Sauer, East River director Galen Grant, Corn Belt vice president Jacob Olberding, and Upper Missouri president Travis Thompson.

7. **Board Committee Reports.**

Operations Committee. Mike McQuiston reported that the committee approved its charter and heard an update on the urea plant. Work is being done to improve the screening process, specifically working on the sizing of the product. One of the consultants has recommended changing the pitch of the screens. Dale Johnson also reported on the collapse of the roof on the diesel exhaust fluid tank and efforts to repair the roof. Kevin Tschosik reported on the need to replace the steam turbine control system at Deer Creek Station (**DCS**) and the committee voted to recommend that the full Board of Directors approve this project. The committee also voted to recommend ordering replacement transformers to serve the Great Plains Synfuels Plant. Chad Kuntz gave a presentation on Basin Electric's aging substation infrastructure and a proposed initiative for a program to rebuild these facilities.

Marketing Committee. As Tom Wagner will become the chair of this committee in December, Troy Presser requested that Mr. Wagner give the committee report. Mr. Wagner noted the committee had approved its charter, including renaming the committee the Planning, Resources and Marketing Committee. Mr. Wagner reported that the committee received an update on urea marketing, noting the improved production and the improvement in the short position. Ken Rutter discussed the tar oil odor issue with the terminal in Houston. We would realize a lower net back if we are forced to use a different terminal. Becky Kern, Ken Rutter and Val Weigel gave a presentation on a Basin Electric open energy position, noting this window of opportunity will last a few years and we can expect, with the retirement of older generation facilities, a rebalancing of generation and load in the market.

Finance Committee. Chair Leo Brekel reported that Mark Thompson gave the committee a good overview of the protection provided by our firewall. Shawn Diesz presented on the rules as to when you capitalize an expenditure versus expense it and noted that capital projects must be reviewed by the Project Review Committee and if over \$10 million, the Optimization Committee. The Committee's charter was approved after it was modified to include the requirement to maintain committee meeting minutes. He suggested that the other committee charters also include this requirement and there was a consensus to do so.

8. Recess/Reconvention.

At 10:27 a.m. CDT, President Peltier recessed the meeting. At 3:07 p.m. CDT, the meeting reconvened with President Peltier continuing to preside and Secretary Charles H. Gilbert continuing to keep the minutes.

9. Roll Call.

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

Paul Baker	Leo Brekel
Charles H. Gilbert	Daniel Gliko, Jr.
Mike McQuiston	David Meschke
Kermit Pearson	Wayne Peltier
Troy Presser	Allen Thiessen
Thomas Wagner	

Said persons being all of the Directors of the Cooperative. Also present were Chief Executive Officer and General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss, and Basin Electric staff member Chris Baumgartner, Tracie Bettenhausen, Tom Christensen, Shawn Diesz, Joan Dietz, Tammy DeWitt, Tyler Hamman, John Jacobs, Steve Johnson, Kerry Kaseman, Tammy Langerud, Gavin McCollum, Sally Meier, Anine Merkens, Diane Paul, Dave Raatz, Jean Schafer, and Tom Stalcup. Also present were DGC vice president Dave Sauer, East River director Galen Grant, Corn Belt vice president Jacob Olberding, and Upper Missouri manager Claire Vigasaa and president Travis Thompson.

10. CEO and General Manager's Report.

Mr. Sukut reported that there was a closing on the sale of the old plane (for parts) for \$1.08 million.

11. Office of General Counsel Report.

Attorney Anine Merkens noted that we are expecting the Environmental Protection Agency (EPA) to publish notice of the Laramie River Station (LRS) Best Available Retrofit Technology (BART) settlement in the next few days. It is possible that environmental groups may criticize the use of the CAM_x photochemical modeling which was the basis of the settlement package providing for one Selective Catalytic Reduction (SCR) unit and two Selective Non-catalytic Reduction (SNCR) units providing better visibility than BART.

She went on describing EPA's proposed Affordable Clean Energy (ACE) rule which proposes heat rate improvements (HRI) as the Best System of Emission Reductions. She listed likely HRI candidate technologies and noted that staff estimates a 1-4 percent heat rate improvement depending on the technologies selected. She expressed concern as

HRI's are difficult to measure and vary widely. She listed the factors EPA should explicitly provide to states when setting the standard for a unit.

She then went on to describe the comments Basin Electric will be providing to EPA on the proposed ACE rule which are due on October 30, 2018.

General Counsel Mark D. Foss noted the potential for complications caused by North Dakota's Human Rights Act if Measure No. 3 (which would legalize the use of recreational marijuana) passes.

- A. Notice of Annual Meeting.** Mr. Foss provided the Board of Directors with the proposed Notice of Annual Meeting noting specifically that attached to the notice are both the draft minutes from the 2017 Basin Electric Annual Meeting and copies of the three proposed amendments to the Cooperative's bylaws that the Bylaw Review Committee was recommending that the Membership approve at the Annual Meeting.

There was a motion which was seconded and carried to approve the following resolution.

R01.10-09-18 RESOLVED, that the Notice of the 2018 Annual Meeting in the form presented to the Board of Directors is hereby approved.

- B. Selection of Delegates to Subsidiary Annual Meeting.** Mr. Foss noted that the annual meetings of DGC, Dakota Coal Company, and Basin Cooperative Services will be held in December. He stated that historically, the Basin Electric directors have represented the Cooperative at these various annual meetings.

He recommended that the entire Board of Directors be authorized to act as the authorized representative of the Cooperative, in its capacity as the sole share holder or sole member of each of these subsidiaries.

A motion was made, seconded, and carried to adopt the following resolutions:

R02.10-09-18 RESOLVED, that the directors of Basin Electric Power Cooperative be, and they hereby are designated to participate in the 2018 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 directors of Basin Electric Power Cooperative be, and they hereby are designated to participate in the 2018 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 directors of Basin Electric Power Cooperative be, and they hereby are designated to participate in the 2018 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.

- C. **Government Relations Report.** Vice President of Government Relations Dale Niezwaag reported that the Minnesota Rural Electric Association had held fundraisers for both Minnesota gubernatorial candidates. Basin Electric, Minnkota Power Cooperative (**Minnkota**) and Great River Energy (**GRE**) participated in the G&T round table discussions with each candidate and the Basin Electric Political Action Committee contributed to both candidates.

On September 18, Government Relations staff attended a meeting of the Wyoming Corporations Committee. The Wyoming Industrial Electric Consumers (**WIEC**), who have been advocating for consumer choice, told the committee they did not think the time is right for retail choice in Wyoming. Despite their statement, WIEC nonetheless promoted the points in their written hand out. The Wyoming Statewide, Rocky Mountain Power and the consultant hired by Basin Electric and Tri-State all testified pointing out the problems with the WIEC proposal. WIEC will be allowed to bring their proposal to the committee in November.

Mr. Niezwaag went on to talk about two initiated measures on the November ballot in North Dakota. The first, Measure No. 1, would amend the North Dakota State Constitution to establish an ethics commission as a separate fourth branch of government. The measure would command the state legislature to adopt measures to accommodate the measure. Unfortunately, if passed the measure would go into effect before the legislature next meets. A broad coalition of statewide groups and businesses (including Basin Electric, Minnkota, and GRE) have joined together to oppose the measure.

Measure 3 would legalize the recreational use of marijuana. Likewise, the measure supporters are looking to the legislature to "fill in the details" (taxation, driving while under the influence, etc.) and like measure No. 1, this measure would go into effect prior to the legislative session.

On the federal level, Basin Electric staff worked with the Carbon Utilization Research Council to develop comments to the Internal Revenue Service on implementation of Internal Reserve Code Section 45Q. Staff also briefed the Wyoming Public Service Commission and Wyoming Department of Environmental Quality (**WY DEQ**) on EPA's proposed ACE rule and testified at EPA's listening session on the proposed rule in Chicago.

He noted that President Trump had nominated Bernard McNamee to fill the empty seat on the Federal Energy Regulatory Commission (**FERC**). He talked about the Basin G&T Fall Fly-In and noted that staff had prepared a Basin Electric position paper on coal, a copy of which was attached to his written report. He invited feedback from the Board of Directors. Finally, he presented a draft Board Policy on the duties and responsibilities of the Resolutions Committee: to develop positions on legislation, policy, and cooperative and industry-related issues. He noted that the 2018 Resolutions Committee had asked for this guidance and the policy would clarify the resolutions process as well. The plan is to have the resolutions committee review the policy at the Annual Meeting and bring it back to the Board for approval in December.

12. **Operations Report.** Senior Vice President of Operations John Jacobs reported there were no reportable injuries for the month of September and we have had six year-to-date. There were no days away, restricted or transferred (**DART**) incidents during September. For the year, there have been nine DART incidents.

He reviewed the running plant capacity factor, availability, and forced outage rates for the facilities compared to the budget: Generation was 4.2 percent below budget for the solid fuel plants, 28.7 percent above budget for the oil/gas plants, and (6.5 percent) below budget for the wind facilities. September fleet generation was (3.2 percent) below budget year-to-date, generation at the solid fuel plants is (5.2 percent) below budget, 84.6 percent above budget for the oil/gas plants, and (14.7 percent) below budget for wind generation. Year-to-date fleet generation is (1.7 percent) below budget.

He then compared actual generation expense against the budget. For September, the fleet was (\$5.5 million) under budget or (9.07 percent). For the year, generation expense was (\$21.2 million) below budget or (3.5 percent). Approximately one half of this amount is fuel that was not consumed and the other half is manpower and projects that were either eliminated or delayed.

Mr. Jacobs described the efforts to pig the natural gas pipeline that feeds the Deer Creek Station and noted that the magnetic flux leakage tool would need to be run again as 2.5 miles of data was lost.

Mr. Jacobs closed his presentation talking about the contract arbitration on November 4, 5, and 6 with the International Brotherhood of Electric Workers # 612 at the Laramie River Station. Their contract expired on March 1, 2018, negotiations were not successful, and the Cooperative's last and best offer was rejected. We would expect the arbitrator's decision three to four months following the hearing. The three issues to be arbitrated concern the Cooperative's drug policy, wages, and mandatory overtime.

A. **DFS Facility Update**

Dry Fork Station (DFS) Plant Manager Tom Stalcup updated the Board of Directors on DFS operations. He started with safety noting the plant had seen three injuries, two first aids, one recordable, and no DART incidents year-to-date. He compared 2018 total case incident rate numbers to 2017. He reviewed generation, availability, gross running capacity, and forced outage numbers. He noted that in September, generation was reduced 10-30 net MW due to high ambient temperatures and pluggage in the SCR which caused an increase in NO_x emissions. Even with the NO_x limitations, availability for the month was at 95.5 percent. He showed pictures from a recent failure of the electrical leads to A boiler feed pump motor.

DFS has maintained 100 percent environmental compliance through the first three quarters. WY DEQ continues work on a draft Title V Operating Permit for DFS. Meanwhile, the plant continues to operate subject to the conditions of its Construction Permit. He reviewed the DFS outages to date in 2018. He noted that DFS will have its first triennial outage in 2019 and he reviewed the work that will be performed during this major outage. He described the work that had been completed at the Integrated Test Center and the work to be completed. Of the \$16 million budget, \$12.8 has been spent to date.

13. **Recess and Reconvention**

At 5:00 p.m. CDT, President Peltier recessed the meeting. At 8:00 p.m. CDT, Wednesday, October 10, 2018, the meeting reconvened with President Peltier continuing to preside and Secretary Charles H. Gilbert continuing to keep the minutes.

14. **Roll Call**

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

Paul Baker	Leo Brekel
Charles H. Gilbert	Daniel Gliko, Jr.
Mike McQuiston	David Meschke
Kermit Pearson	Wayne Peltier
Troy Presser	Allen Thiessen
Thomas Wagner	

Said persons being all of the Directors of the Cooperative. Also present were Chief Executive Officer and General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss, and Basin Electric staff member Chris Baumgartner, Tracie Bettenhausen, Eric Carufel, Tom Christensen, Shawn Deisz, Tammy DeWitt, Pius Fischer, John Jacobs, Derik Johnson, Steve Johnson, Becky Kern, Chad Kuntz, Tammy Langerud, Gavin McCollum, Sally Meier, Darla Miller, Dale Niezwaag, Diane Paul, Mike Paul, Dave Raatz, Ken Rutter, Kevin Tschosik, Tara Vesey, Katrina Wald, Sheila Wald, and Melinda Weninger. Also present were DGC vice president Dave Sauer, East River director Galen Grant, Corn Belt vice president Jacob Olberding, and Upper Missouri president Travis Thompson.

15. **Commodity Risk Management Report.** Manager of Commodity Risk Kerry Kaseman noted that the Cooperative has a cumulative margin limit of \$250 million and presently has \$100 million of collateral posted. Of this posted amount, \$55.5 million is posted with Goldman Sachs to support interest rate hedges and \$33.8 million is posted with Macquarie to support the Cooperative's obligations pursuant to the Montana power purchase agreements with Macquarie. He reviewed the historic amounts posted for these transactions.

16. **Asset Management, Resource Planning & Rates Report**

A. **General Report**

Senior Vice President, Asset Management, Resource Planning & Rates Dave Raatz provided the Board of Directors with an update on the transaction with Heartland Consumers Power District (**Heartland**). He noted that all of the agreements were signed on September 20, the implementation of the east/west scheduling entitlement changed on September 21, and Basin Electric's out-of-market power purchase agreements were terminated effective July 1.

Mr. Raatz went on to update matters concerning providing electrical service for TransCanada's Keystone XL pipeline. Southwest Power Pool (**SPP**) released its draft transmission study report on October 1 and hopes to issue its final report by December 1.

The preliminary estimate is for a \$60 million 230 kV transmission line from the Western Area Power Administration (**Western**) Fort Randall Substation to the Witten Substation. An SPP Network Integration Transmission System Agreement (**NITSA**) would need to be executed by Basin Electric as the transmission customer in order to add the network delivery points. Once the NITSA is executed, SPP will issue the Notice to Construct. Basin Electric, Western, and SPP will likely need to explore whether or not there are lower cost transmission options. More importantly, TransCanada will need to commit to the project. While there is pipe in the field and TransCanada is out acquiring right-of-way, TransCanada has not made a commitment to build the project. In addition, the

Department of State and Western environmental review must be completed and Basin Electric and TransCanada must reach agreement on cost sharing, funding, and stranded cost protection.

Mr. Raatz went on to update the Board of Directors about his discussions with major players in the Bakken about using flared natural gas in the Bakken for electrical generation so as to allow for continued drilling for oil. The initial pilot project would involve up to 10MW of internal combustion engines on the Mountrail Williams Electric Cooperative system. These would be skid mounted facilities at the well site using raw natural gas as fuel. The oil companies believe they can achieve a 95 percent capacity factor. Basin Electric would contract to purchase all of the output on a take-or-pay basis and the purchase would be for both capacity and energy. If this proves feasible, a possible next step would be 50MW projects adjacent to a processing plant.

Mr. Raatz walked the Board of Directors through the remaining options the Cooperative has to purchase additional wind energy. Generally, pricing starts near \$10/MWH with a 1.5 percent escalator. These discussions will obviously be impacted by the discussion about the open energy position target levels. Staff plans to have further discussions with the Board of Directors in following Board meetings.

Dave Raatz reviewed the option agreement the Cooperative signed to potentially purchase land in Emmons County, North Dakota to build a combined cycle unit. To date, the Cooperative has paid \$300,000 to maintain the option with another \$100,000 due on December 31, 2018. The ultimate purchase price is approximately \$3 million. The option payments do not offset the purchase price. While this is an attractive site with both SPP and Midwest Independent System Operator (**MISO**) interconnection options, given the uncertainty of the timing of any new Basin Electric resource, Mr. Raatz told the Board, unless there were any objections, staff planned to let the option lapse. There were no objections.

B. Short-Term Market Summary

Director of Short-Term Trading and Financial Analyst Val Weigel gave the short-term market summary.

September West Market Financial Highlights West operations were \$1.7 million favorable to budget with surplus sales totaling \$7.0 million versus the budget of \$6.2 million. The average sales price was \$24.32/MWh versus the budget of \$26.59/MWh.

Above budget sales volumes led to higher than budget surplus sales.

September SPP Market Financial Highlights SPP operations were (\$3.9 million) unfavorable to the budget with the average sales price of \$18.00/MWh versus the budget of \$27.84/MWh. The average purchase price was \$19.34/MWh versus the budget of \$24.47/MWh. Above budget member energy loads led to higher than budget SPP Market expense.

Highlights of MISO September Market Results

MISO operations were (\$1.1 million) unfavorable to budget. The average MISO sales price was \$25.75/MWh versus the budget of \$28.70/MWh. The average purchase price was \$24.35/MWh versus the budget of \$33.47/MWh. Above budget generation led to higher than budget contracted purchases.

Ms. Weigel also presented to the Board of Directors the format for a profit/loss dashboard for each of the Cooperative's generating facilities. This effort is part of the Process Review Team's work. It would allow each of the generation facilities to determine how competitive each unit is in the market, how the unit supports Basin Electric's overall competitive position in the market and how the unit affects the rates Basin Electric charges its members.

C. 2018 Integrated Resource Plan and the Associated 5 Year Action Plan

Becky Kern, Director of Long Term Utility Planning, stated that an Integrated Resource Plan (IRP) is a planning process to evaluate the full range of alternatives available to provide reliable service to our consumer/members. Basin Electric and our members are required, pursuant to our contract with Western, to prepare an IRP and there are stiff penalties, under the Western contracts, for failure to prepare an IRP. We last submitted an IRP to Western in 2013 and they are required every five years. She reviewed the content of the draft IRP and requested Board of Director approval.

There was a motion that was seconded and carried to approve the following resolution:

R03.10-09-18 RESOLVED, that the 2018 Integrated Resource Plan and the associated five-year action plan for Basin Electric Power Cooperative and its members are approved.

17. Engineering & Construction Report

A. Aging Substation Infrastructure Initiative

Gavin McCollum Vice President of Engineering and Construction provided an update on the Cooperative's large capital projects. Mr. McCollum and Derik Johnson Manager of Transmission System Maintenance discussed a proposed initiative to replace the Cooperative's aging substation infrastructure. This would include replacing major equipment such as breakers, switches, transformers, and arresters as well as refurbishing AC/DC systems, HVAC, protection and control systems, and upgrading substation security. They showed the bath tub curve typical to any piece of equipment noting the substantial increase in the failure rate as you get closer to the 30-40 year life span of this equipment. They foresee this project being completed over a seven year period with in-house engineering and a majority of in-house construction. The recent LRS 230kv substation project came in approximately 50 percent under budget as a result of doing the work completely in-house. Mr. Johnson noted that the Board would be requested to approve this program in December and that each individual project would be brought back to the Board for approval.

B. DGC Transformer Replacement

Electrical Engineering Supervisor Chad Kuntz provided the background on the need to replace the transformers that serve the Great Plains Synfuels Plant (GPSP) pointing out that one transformer is compromised and two others are at the end of their expected lives. He noted that GPSP does not have a spare, which poses a risk to production. The proposed replacement project would replace the compromised transformer as well as the other two, install a non-segregated bus duct and disconnect switch, and make associated relaying upgrades. He reviewed the bids for the transformers noting that Smit submitted the lowest evaluated bid and that Smit provides a 10 year warranty. He recommended that the Board of Directors award the

bid for the transformers to Smit. Director McQuiston noted that the Operations Committee recommended Board of Director approval of the contract.

There was motion that was seconded and carried to adopt the following resolution:

R04.10-09-18 RESOLVED, that the DGC Transformer contract presented to this meeting of the Board of Directors be awarded to SMIT Transformers in the amount of \$4,353,538; and

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

C. Deer Creek Station Steam Turbine Control System Upgrade and Excitation System Replacement

Manager of Distributed Generation Kevin Tschosik stated that Alstom was original equipment manufacturer for the steam turbine control and excitation systems at DCS. Unfortunately, Alstom was bought out by General Electric and replacement parts are no longer available, very little service is available, and these assets represent a cybersecurity risk. Mr. McCollum noted that the scope of the project would include complete hardware replacement of the systems, replacement of the human/machine interfaces, and interfacing the new turbine controls with the existing balance of plant controls. Completion would be schedule for November 2019. Director McQuiston noted that the Operations Committee recommended Board of Director approval of this project.

There was a motion that was seconded and carried to adopt the following resolution.

R05.10-09-18 RESOLVED, that the Deer Creek Station Steam Turbine Control System and Excitation System Replacement Project presented to this meeting of the Board of Directors with an estimated cost of \$2.4MM is hereby approved; and

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

D. Mountain West

Senior Vice President of Transmission, Engineering, and Construction Tom Christensen provided an update on the Mountain West Transmission Group. He noted Public Service Company of Colorado dropped out of the group last April and Black Hills Energy withdrew on September 4. He said the plan is to continue to evaluate and support the effort. He noted that the Braddle Group study indicated substantial production cost savings. It appears as though SPP will provide the Reliability Coordinator services on the western interconnection on or before January 1, 2020. Mr. Christensen thought the first step of getting the Mountain West effort restarted would be to have Basin Electric, Tri-State, and Western reach an understanding about moving forward.

E. Section 205 Filing

Mr. Christensen noted that the Cooperative made a Section 205 filing with the FERC on September 18. The filing proposes to change the formula rate template. The interested parties have agreed to the corrections in the template, however, Missouri River Energy System reserved the right to challenge the treatment of certain leased facilities. A ruling from FERC is expected in the November/December time frame.

18. Member Services & Administration Report

Senior Vice President of Member Services & Administration Chris Baumgartner noted that currently there are 466 people registered for the Annual Meeting and 238 for the members only meeting on Thursday, November 8, 2018. He noted that 125 people attended the member managers' conference in Minneapolis and that the next managers' conferences are scheduled for next January in the Sioux Falls area and next July in Deadwood. District meetings are planned for March, May, September, and December. He reviewed the agenda for the Thursday members only meeting. He suggested Thomas Erickson from the Energy & Environmental Research Center as a good next speaker for a future Board of Directors meeting.

He handed out Board Policy 07 (Guiding Principles for Diversification) and 08 (Guiding Principles, Protocols, & Practices) for review and said he would ask the Board of Directors for approval or reaffirmation in December. He will also present the policy concerning the Resolution Committee at that time as well.

19. Human Resources Report

Senior Vice President of Human Resources Diane Paul provided an update on a North Dakota Department of Labor decision.

She also reported the employee count is down almost 500 since January of 2017. We are currently down 200 employees age 55 and older and have only 44 employees age 60-61 throughout the cooperative. Updated staffing counts by location and department were reported. Year-to-date, we have had 301 employees retire. Pension cost savings from 2006 forward are almost \$130 million, with the majority of employees now in the pension plan with a 1.0 factor. She also discussed medical claims and the medical services now being provided.

20. Financial Services Report

Senior Vice President and CFO Steve Johnson announced the Member Investment Program set a record at \$291.5 million on September 27, 2018. The previous record was \$279 million. He provided a breakdown of the amounts members have invested.

Mr. Johnson stated that the current projected year-end consolidated after tax margin is \$78.7 million compared to the budgeted \$72.9 million. The target margin to maintain an "A" rating is \$70.7 million.

He reviewed historical interest rates and discussed the analysis performed by the Federal Open Market Committee when setting interest rates. The United States has experienced 96 months of job growth and unemployment is at its lowest level since 1969. We have reached the point where there are now more job openings than unemployed persons. He talked about inflation expectations and the changes in the Treasury Yield Curve over the past three months.

A. Accounting Report

Accounting Analyst III Melinda Weninger reported that the September 2018 Statement of Operations reflects a net income of \$19.6 million compared to the budgeted net income of \$11.9 million for a favorable variance of approximately \$7.7 million.

Estimated member revenue for September is \$129.9 million. Member sales were approximately \$7.3 million higher than budget. The \$7.3 million above budget includes August positive actualization of \$1.0 million. September sales were \$6.3 million more than originally forecasted. A positive volume variance of \$10.1 million (149k MWh) and a negative price variance of \$3.8 million is estimated.

Estimated surplus sales revenue for September is \$11.9 million compared to the budget of \$17.6 million. Surplus sales were approximately \$5.7 million lower than budget. September sales are estimated to be \$5.7 million less than originally forecasted. A negative price variance of \$5.4 million and negative volume variance of \$0.3 million is estimated. MISO and SPP prices were considerably lower than forecasted.

Operating costs were approximately \$6.5 million less than budget. Production expenses excluding fuel were \$3.4 million less than anticipated due to contracted services timing and filter bags at AVS (also due to timing). Administrative expenses were \$1.3 million less than anticipated due to lower employee related expenses, corporate dues, and advertising. Transmission operations were \$1.2 million less than anticipated. Fuel expenses were \$0.1 million more than anticipated. Maintenance expenses were \$0.5 million more than anticipated due to production maintenance expense primarily related to \$1.6 million more in DCS contracted services which is a timing issue and offset by \$1.3 million lower in maintenance of boiler and electrical plant at AVS and LRS.

21. Directors' Reports

Wayne Peltier noted the resolutions that we received from Meeker Cooperative Light & Power Association (**Meeker**) and Upper Missouri Power Cooperative (**Upper Missouri**). Kermit Pearson pointed out that the Meeker resolutions were tabled by the East River board of directors. Allen Thiessen said the Upper Missouri resolutions were forwarded to Basin Electric assuming they would go to the Resolutions Committee. Director Thiessen thanked the Basin electric staff that came out for the meeting in Montana. Director Brekel announced that Tri-State would be starting a search for a new CEO as Mike McGuinness has reached the five years he agreed to serve. Director Gilbert said that with the early closing of the Duane Arnold Plant, Corn Belt was learning a great deal about the difference between closing costs and ordinary expenses.

A. Wyoming Rural Electric Association

As the board term was expiring, there was a motion that was seconded and carried to have Paul Baker continue as the Cooperative's board member on the Wyoming Rural Electric Association's board of directors and to have Bill Stafford continue as his alternate.

22. Executive Session

At 11:10 am there was a motion that was seconded and carried to go into executive session to discuss member relations. At 11:35 am the Board arose from executive session.

23. Date and Time of Next Board Meeting

President Peltier reported that the next regularly scheduled meeting of the Board of Directors will begin on Monday, November 5, 2018, starting at approximately 8:00 a.m. CDT.

24. Adjournment

President Peltier adjourned the meeting on October 10, 2018, at 11:35 a.m. CDT.



Charles H. Gilbert
Secretary-Treasurer