

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

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS
November 5, 2018**

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

**Minutes of the Regular Meeting of the Board of Directors
November 5, 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 November 5, 2018.

1. Call to Order.

The meeting was called to order at 10:15 a.m. CST on November 5, 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 Chief Executive Officer and General Manager Paul M. Sukut, Assistant Secretary Mark D. Foss, and Basin Electric staff members Chris Baumgartner, Tracie Bettenhausen, Dean Bray, Tom Christensen, Tammy DeWitt, Melissa Hatzenbuhler, John Jacobs, Steve Johnson, Kerry Kaseman, Becky Kern, Joe Leingang, Gavin McCollam, Sally Meier, Dale Niezwaag, Diane Paul, Dave Raatz, Joel Ross, Ken Rutter, Tara Vesey, Sheila Wald, Val Weigel, and Mike Zimmerman. Also present were Dakota Gasification Company (**DGC**) Vice President Dave Sauer and Powder River Energy Corporation (**PRECorp**) board member Jim Purdy.

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 October 9 and 10, 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 presented.

5. **General Manager's Report**

A. **Western Fuels Update**

Superintendent of Fuel & Transportation Joe Leingang reported on the Western Fuels Association (WFA) board meeting. He reported the meeting was routine. Revenues are 3.3 percent over budget, tons shipped are 5.3 percent over budget, and net margins are \$83,000 over budget. Western Fuels Service Corp has been officially dissolved. Employee handbooks for both WFA and the Dry Fork Mine (DFM) have been approved and adopted. The 2019 annual budget and the 2019-2028 financial forecast were reviewed and approved. The financial forecast projects tonnages to be stable as opposed to the ratched reductions of the past few years.

He then discussed the Western Fuels Wyoming (WFW) board meeting. Through September, the DFM has gone 951 days without a lost time accident and 281 days without a reportable injury. Staffing stands at 81 full time equivalents versus the budget of 82. Coal shipments through September are 258,389 tons below the budget of 4.7 million tons, or (5.5) percent. The WFW board of directors did not approve the 2019 budget and the board will meet by conference call on the evening of November 6, 2018, to consider a revised budget.

B. **Sale of Fort Union Reserve Property to Campbell County, WY**

Mr. Leingang noted that the Fort Union Reserve property is owned by Basin Electric and Tri-State Generation & Transmission Association, Inc. (Tri-State) as tenants - in - common. Campbell County has decided to relocate the Garner Lake Road which would move the road off of recoverable coal. The sale calls for the transferring title to 26.82 acres of this property to the county. WFW disagrees with the county's appraisal, but all parties desire that the project proceed in an expeditious manner as the project will benefit Basin Electric, the county, and the Dry Fork Station (DFS) employees. Mr. Leingang requested that the Board of Directors authorize the CEO & General Manager to execute both a Voluntary Right of Possession as well as all of the documents for the ultimate sale for the property to Campbell County.

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

R01.11-05-18

WHEREAS, the Cooperative and Tri-State Generation & Transmission Association, Inc. (Tri-State) own, as tenants - in - common, the Fort Union Reserve (the Reserve) property located adjacent to and included in the Western Fuels Wyoming Logical Mine Unit; and

WHEREAS, Basin Electric and Tri-State desire to sell a small portion of the Reserve (26.82 acres in three seperate parcels) for \$27,255 to Campbell County, WY to facilitate an optimized public highway design and construction project known as Garner Lake Road Phase II.

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors authorizes the granting of a Voluntary Right of Possession to Campbell County, Wyoming as well as the ultimate sale of the subject property to the county for an amount equal to or greater than the appraised fair market price of \$27,255; and

BE IT FURTHER RESOLVED, that the Board of Directors hereby authorizes the CEO & General Manager or his designee to execute all necessary documents required to grant the Voluntary Right of Possession as well as the ultimate sale of the property.

6. Office of General Counsel Report.

Senior Vice President and General Counsel Mark D. Foss reported that the Cooperative submitted comments on the Environmental Protection Agency (EPA) proposed Affordable Clean Energy (ACE) rule on October 31, 2018. The Cooperative supported both EPA's proposed interpretation of Section 111(d) (existing facilities) that best system of emission reductions (BSER) authority is limited to "inside the fence" measures as well as EPA's proposal to determine that BSER is heat rate improvement. Basin Electric urged EPA to give states the maximum amount of flexibility, including the ability to have mass based standards of performance. The Cooperative suggested that EPA undertake a separate rulemaking to undertake the reform of EPA's New Source Review regulations.

Mr. Foss also noted that EPA's Section 111(b) (new facilities) proposed regulations are expected to be released in December. He informed the Board that EPA granted an additional 30-days on the comment period for the Cooperative's Laramie River Station (LRS) Best Available Retrofit Technology proposed settlement with EPA which tells us that there will be comments on the proposed settlement.

7. Risk Management Report

Manager of Commodity Risk Kerry Kaseman stated that he would not be making a power point presentation, but directed the Board to review his written report in BoardPaq. He specifically noted the increase in power prices in the west has caused more than a \$10 million decline in cash margin posted to secure the mark to market loss on the long-term physical contracts the Cooperative has with Macquarie Energy. As of September 28, 2018, cash posted with Macquarie totaled \$32.9MM and \$21.2MM on November 2, 2018.

8. Asset Management, Resource Planning & Rates Report

Senior Vice President of Asset Management, Resource Planning and Rates Dave Raatz reported on the timing of the various steps in the preparation of the 2019 Load Forecast which will be presented to the Board of Directors for approval in January. He reviewed graphs illustrating increased projected summer peak loads for both McKenzie Electric Cooperative and Mountrail Williams Electric Cooperative. He anticipates these projected increases will be partially offset by some decreased load projections by other members.

He discussed the Cooperative's forecasted short position in the Southwest Power Pool (SPP) and questioned whether the Cooperative should let its open position grow to 30 percent. He suggested this would be a good topic for discussion at strategic planning in January. He stated that another alternative would be to target a 10 percent on peak

open position and a 20 percent off peak open position that the Cooperative could taper to approximately 5 percent by the year 2028.

Staff was concerned when we did not hear back from Exxon/Mobil. We have since learned that the key player at Exxon we were dealing with has left the company. In anticipation of the discussions with Exxon/Mobil, the Cooperative has completed a draft master power purchase agreement. Mr. Raatz intends to continue these discussions with other producers in the Bakken. So long as the generation units are small enough, they could be placed "behind the load" so as to avoid having to have a SPP interconnection study performed.

With respect to member discussions, we expect a final decision by TransCanada on the Keystone XL pipeline by the first quarter of 2019.

He has discussed the standby rate with the members, and his response to discussions concerning possible member owned generation and a regional transmission organization wide load interruption option.

Mr. Raatz reviewed the rate focused discussion topics for the Class A Member District Meeting to be held on November 13, 2018.

A. Short-term Market Summary

Director of Short Term Trading & Financial Analysis Val Weigel reported that the SPP monthly day ahead average load zone price was significantly higher in October. October 2018 locational marginal prices averaged \$28.51 versus \$16.10 for October of 2017. The weather was colder. There was less wind energy (despite the increase in SPP wind capacity), natural gas prices were higher, and there was more generation down for planned maintenance outages. With a large number of maintenance outages, the generation stack becomes more compressed, which can lead to more volatility in the market. She noted that the Cooperative maintained a 12.7 percent on -peak open position and 18.8 percent off peak position in SPP during the month. Not once during the month did the Cooperative have all of the 1,000 MW of our gas generation in SPP running.

For the month, the cost to serve load averaged \$28.36 MWH, the margin over generation achieved in the market was \$7.93 MWH leaving a net cost to serve load of \$20.44 MWH. The Cooperative had a net transmission congestion rights/annual revenue right net benefit of \$1.1 million. For the year, the Cooperative has a net benefit of \$14.4 million.

In the Midwest System Operator (**MISO**), the average day ahead load zone pricing for October was \$29.16 compared to \$18.73 in October 2017. The Cooperative had a 23.8 percent on peak open position in MISO and a 14.17 percent off peak open position.

Ms. Weigel said she had been working with the plant staff on calculating controllable profit and loss (**P&L**) metrics. Work is approximately 95 percent complete on the short term market controllable P&L which is market revenue minus market cost. On the long-term controllable P&L, one must take into consideration market revenue, replacement capacity, less total variable costs. On the comparative rate (member rate - total costs) work is approximately 20 percent complete.

She showed the short-term market margin for the coal units, gas units and wind for the month. For the year, the gas units have made \$3.9 million in ancillary services

and \$5.8 million across the board. She promised more information on the long-term controllable P&L next month.

B. Sidney DC Tie Reservation

Director of Utility Planning Becky Kern showed a graph illustrating the need for additional capacity starting in 2021 to meet the projected load growth of Upper Missouri Electric Cooperative that Dave Raatz discussed earlier. Options to serve this load growth include power purchase agreements, oil industry generation, or by moving some of the Cooperative's excess generation on the west in a capacity transfer to the east across the Sidney, Nebraska DC tie. The Cooperative has the opportunity to purchase a 50 MW point to point transmission path for five years with rollover rights across the Western Area Power Administration (**Western**) Loveland Area Projects (**LAP**) system to the east Sidney, D.C. Tie Bus. This would be a \$13.8 million commitment over the five year period. At Sidney, this would be a designated network resource on our SPP Network Integrated Transmission Service Agreement. In terms of a break even analysis, this option would cost approximately one third of the cost to build a new resource and would cost less than our recent capacity purchase from Missouri River Energy System (**MRES**). She recommended authorization for execution of the purchase.

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

R02.11-05-18 **RESOLVED**, that the CEO & General Manager or his designee, be authorized to execute such agreements as he deems necessary in order to purchase a 50 MW point-to-point transmission service for five-years (with roll-over rights) across the Western Area Power Administration Loveland Area Projects system to move the Cooperative's surplus west side capacity to the Southwest Power Pool.

9. Recess and Reconvention

At noon, President Peltier recessed the meeting for lunch and at 1:00 p.m. he called the meeting back to order.

10. 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 members Chris Baumgartner, Tracie Bettenhausen, Eric Carufel, Tom Christensen, Tammy DeWitt, John Jacobs, Steve Johnson, Kerry Kaseman, Becky Kern, Gavin McCollam, Sally Meier, Darla Miller, Diane Paul, Dave Raatz, Susan Sorenson, Tom Stalcup, Sheila Wald, and Val Weigel. Also present were DGC Vice President Dave Sauer and PRECorp board member Jim Purdy.

11. Operations Report

Senior Vice President of Operations John Jacobs reported there were no medical treatment or Days Away, Restricted or Transferred incidents during the month. For the month, generation for the solid fuel plants was (12.6 percent) under budget and 136.6 percent over budget for the oil/gas plants. Generation for the fleet for the month was (13.3 percent) below budget. Year-to-date, generation at the solid fuel plants is (5.9 percent) below budget. At the oil/gas plants, year-to-date generation is 187.5 percent above budget and wind generation is (2.8 percent) below budget.

At the Antelope Valley Station, availability for Unit 1 for the month was 53.64 percent and for Unit 2 was 81.54 percent. Dry Fork Station (DFS) availability for the month was 94.63 percent. At LRS, availability at Unit 1 was 100 percent, at Unit 2 was 93.38 percent, and at Unit 3 was 100 percent. Availability at the Leland Olds Station for October was 82.19 percent for Unit 1 and 83.87 percent for Unit 2. PrairieWinds North Dakota and South Dakota both had capacity factors of 42 percent.

A. Air Preheater Cold End Basket Replacement

DFS Plant Manager Tom Stalcup stated that in order to maintain primary and secondary air temperature, the cold end air heater baskets at DFS will need to be replaced. He noted DFS's triennial outage had been moved from the fall of 2019 to the spring. He recommended that these baskets be replaced with enamel coated baskets as the coated baskets should last 15 years versus eight years with non-coated baskets. This work would require a six week outage and could be done at the same time as the selective catalytic reduction catalyst replacement.

This project was included in the 2019 budget, is expected to cost \$2,104,728, has an internal rate of return of 6.36 percent, and was approved by the Project Review Committee. DFS would levelize costs by replacing the cold end baskets in 2019 and the hot end baskets during a future triennial outage as opposed to replacing both in 2019.

He showed pictures of the typical current corrosion in the cold end baskets. If approved, the cold end baskets would be ordered yet this month and the project would be completed in May of 2019. He recommended approval of the project.

A motion was made, seconded, and carried to approve the following resolution:

R03.11-05-18 **RESOLVED**, that the Board of Directors authorize the General Manager & CEO, or his designee, to approve and execute all contracts for the 2019 Dry Fork Station Air Heater Cold End Basket Replacement Project at an overall project cost not to exceed \$2,104,728.

12. Transmission, Engineering & Construction Report

Vice President of Engineering and Construction, Gavin McCollam reviewed the Cooperative's Large Capital Projects including the approved budget, total committed to date, forecasted cost at completion, and completion date, including the Crocker Wind Project. He noted he would be reviewing the new capital project approval process with the Board of Directors in the near future. He reminded the Board that with the Early Voluntary Retirement Program and reorganization at the Great Plains Synfuels Plant, Basin Electric Engineering is now also supplying engineering support for DGC.

Senior Vice President of Transmission, Engineering & Construction Tom Christensen noted that SPP has a peak capacity of approximately 50,000 MW and has 80,000 MW of generator interconnect requests in the queue, 60,000 MW of wind and 20,000 MW of solar. Obviously, SPP will need to weed out the projects that aren't real from those that are. SPP also has almost 3,000 MW of battery interconnection requests. He showed a map illustrating the location of these requests within the SPP foot print. SPP experienced a peak wind penetration of 64 percent on April 30, 2018. He said that SPP is in the process of reviewing how it charges for transmission service and in addition to SPP's "pay to exit" charge, it is looking at the future feasibility of adding a "pay to input" charge.

He reminded the Board of Directors that the Cooperative made its Section 205 filing with the Federal Energy Regulatory Commission (FERC) on September 18, 2018, and that MRES had protested our treatment of certain leases. He said he had just received an email from MRES that morning that MRES may recall its protest. We expect a FERC ruling before the years end.

He reviewed the status of Mountain West. He informed the Board that FERC had approved WestConnect and that El Paso Electric had appealed the approval.

13. **Human Resources**

Senior Vice President of Human Resources Diane Paul stated that the United States Department of Labor had finalized regulations requiring more stringent procedures for disability benefit claims and made other updates affecting Basin Electric's 401(K) plans, Deferred Compensation Plan, and wrap plans. To comply with the Employee Retirement Income Security Act, the Cooperative needs to make certain modifications to its plans. She recommended that the Board approve these changes to the plans.

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

- R04.11-05-18** **WHEREAS**, the Board of Directors ("Board") maintains deferred compensation plans, as well as the Basin Electric Power Cooperative 401K Plan, Basin Electric Power Cooperative ND/SD Union 401K Plan, and Basin Electric Power Cooperative WY/NE Union 401K plan (collectively, the "Plans");
- WHEREAS**, since October 2016 Basin Electric also maintains the Basin Electric Health and Welfare WRAP Plan (the "Wrap Plan");
- WHEREAS**, in early 2018, the United States Department of Labor published a final regulation which imposes more stringent procedures on benefit plans subject to the Employee Retirement Income Security Act of 1974 for claims for "disability benefits"; and
- WHEREAS**, Basin Electric needs to make changes to the Plans and the Wrap Plan to account for the new disability claims procedures as well as other updates to the Wrap Plan.
- THEREFORE, BE IT FURTHER RESOLVED**, that the Board of Directors authorizes the CEO & General Manager or his designee to execute all documents and to take all action necessary to carry out the purposes of the foregoing resolution including execution of necessary amendments to the Plans or Wrap Plan or other Plan or Wrap Plan changes.

Ms. Paul then asked the Board of Directors to give the CEO & General Manager authority to execute Amendment No. 4 to the deferred compensation plans.

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

R05.11-05-18

WHEREAS, the Cooperative maintains deferred compensation plans, (collectively, the "Plans");

WHEREAS, Section 4.3 of the Plans permits participants to submit a new distribution election form relating to each upcoming year's Plans deferrals if permitted by an action of the Board of Directors of the Cooperative; and

WHEREAS, the Board wishes to approve a new amendment to Section 4.3 of the Plans providing the Cooperative with the ability to accept and approve new distribution elections relating to an upcoming year's Plans deferrals and, if determined appropriate by the Cooperative, limit the frequency that new distributions deferral elections can be made.

THEREFORE, BE IT RESOLVED, that the Board of Directors authorizes the CEO & General Manager or his designee to take all action necessary in furtherance of this resolution including executing Amendment No. 4 to the Plans.

14. Financial Services

A. Patronage Retirement

Senior Vice President & CFO Steve Johnson discussed the Cooperative's very positive meeting with the National Rural Utilities Cooperative Finance Corporation (CFC). He reviewed the U.S. Treasury Yield curve and discussed recent financings by Oglethorpe Power Corporation and CFC. He provided a preview of the estimated end-of-year DGC Retained Earnings (Deficit) as well as the estimated Basin Electric margin allocation. Given the projected margin, he recommended the retirement in December of \$25 million of capital credits noting that the Cooperative had typically distributed approximately 1/30th of its capital credits.

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

R06.11-05-18

RESOLVED, that the retirement, to be paid in December 2018, of \$30 million of the Cooperative's capital credits associated with year 2001 business be authorized and approved in accordance with the Cooperative's Bylaws.

B. BEPC 2019-2028 Financial Forecast

Manager of Financial Planning & Forecasting Darla Miller presented the 2019-2028 Basin Electric Financial Forecast. She reviewed the forecast assumptions. She presented the cost of service and compared it to the 2019-2028 preliminary financial forecast. She broke cost of service projections down by category. She showed projected purchased power, generation, fuel expense by type, labor related costs, maintenance expense along with revenues including member and non-member electric sales, the average member rate (held steady at 63.7 mills), deferrals, and the projected cash balances. The projections show the Cooperative will meet its Margins for Interest

requirement in each year of the projections. She presented the consolidated net income and consolidated net income after tax. She then recommended approval of the financial forecast.

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

R07.11-05-18 **RESOLVED**, the Board of Directors approves and adopts the Basin Electric 2019-2028 financial forecast as presented.

15. Iowa Association of Electric Cooperatives Annual Meeting - Delegate

There was a motion that was seconded and carried to name Tom Wagner as the delegate and Charlie Gilbert as the alternate to represent Basin Electric at the Annual Meeting of the Iowa Association of Electric Cooperatives.

16. North Dakota Association of Rural Electric Cooperatives

A motion was made, seconded, and carried to appoint Troy Presser as a director and Allen Thiessen as his alternate on the Board of Directors of the North Dakota Association of Rural Electric Cooperatives.

17. Directors' Reports

Director Gilbert reported on the sudden death of Terry Finley, a director of Corn Belt Power Cooperative shortly after a Board meeting.

Director Meshke reported an ethanol plant in the L&O Power Cooperative service territory would be shut down for four months.

Director Pearson announced that four new dairy operations and a large hog confinement operation had been announced in the East River Electric Power Cooperative service area.

18. Executive Session


At 2:00 p.m. CST, the Board retired into executive session to discuss upcoming board schedules and attendance at outside organization meetings. At 3:30 p.m. CST, the Board arose from executive session.

19. Date and Time of Next Board Meeting

President Peltier noted that the next meeting of the Board of Directors would be held at the DoubleTree by Hilton Hotel at the Denver Tech Center in Denver, Colorado on Monday, December 10, 2018.

20. Adjournment

President Peltier adjourned the meeting on November 5, 2018, at 3:30 p.m. CST.



Charles H. Gilbert
Secretary-Treasurer