

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

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS
July 9-10, 2019**

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

**Minutes of the Regular Meeting of the Board of Directors
July 9-10, 2019**

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, beginning at 7:57 a.m. CDT on Tuesday, July 9, 2019.

1. Call to Order.

The meeting was called to order by Chairman Wayne Peltier, who presided, and Secretary-Treasurer Charles H. Gilbert, 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 CEO & General Manager Paul M. Sukut, Basin Electric staff members Tracie Bettenhausen, Eric Carufel, Tom Christensen, Tammy DeWitt, John Jacobs, Casey Jacobson, Steve Johnson, Dave Raatz, and Sheila Wald, Dakota Gasification Company (**DGC**) director Alan Klein, and DGC Vice President David Sauer

3. Approval of the Agenda.

The Directors considered the agenda for the conduct of the business of the meeting. Chairman Peltier noted that the meeting would break for the Board Committee meetings, reconvene for the Board Committee meeting reports, and then break for the subsidiary board meetings. He said the Board of Directors would go into executive session at the end of the meeting to discuss salary and benefit matters.

4. Approval of the Minutes.

The minutes of the June 11-12, 2019, Regular Meeting of the Board of Directors were presented. After an opportunity for corrections, a motion was made, seconded, and carried to approve the minutes as presented.

5. Recess and Reconvention.

At 7:59 a.m. CDT, Chairman Peltier recessed the meeting for the Board Committee meetings. The meeting reconvened at 10:15 a.m. CDT on Wednesday, July 9, 2019, with Chairman Peltier continuing to preside and Secretary/Treasurer Gilbert continuing to keep the minutes with the following Directors present:

Paul Baker
Charles H. Gilbert
Mike McQuiston
Kermit Pearson
Troy Presser
Thomas Wagner

Leo Brekel
Daniel Gliko, Jr.
David Meschke
Wayne Peltier
Allen Thiessen

Said persons being all of the Directors of the Cooperative. Also present were CEO & General Manager Paul M. Sukut, Basin Electric staff members Chris Baumgartner, Tracie Bettenhausen, Dean Bray, Chris Breiner, Andy Buntrock, Eric Carufel, Tom Christensen, Shawn Deisz, Tammy DeWitt, Joan Dietz, Brian Dillman, Erin Dukart, Daniel Gallagher, Tyler Hamman John Jacobs, Casey Jacobson, Dale Johnson, Derik Johnson, Steve Johnson, Kerry Kaseman, Jon Klein, Joe Leingang, Gavin McCollum, Sally Meier, Anine Merkens, Kim Miller, Mike Murray, Dale Niezwaag, Diane Paul, Mike Paul, Dave Raatz, Jean Schafer, Kevin Tschosik, Sheila Wald, and Val Weigel, DGC directors Alan Klein and Jim Geringer (by phone), DGC Vice President Dave Sauer, and DGC staff member Dale Johnson.

6. **Board Committee Reports.**

Director Gilbert reported on the Finance Committee Meeting. The Committee talked about cybersecurity with respect to iPads and iPhones. John Frank told the Committee that part of the Cooperative's overall liability coverage is \$10 million of cybersecurity liability coverage. Darla Miller then provided the Committee with an overview of the Basin Electric draft 2020-2029 Financial Forecast. The Committee was also given an update on proposed changes to the Fiscal Policy.

Director Gliko gave the Operations Committee Report. Mike Murray presented on a proposed land swap involving two properties adjacent to the Laramie River Station (**LRS**). The Committee voted to recommend approval to the full Board of Directors. Mr. Murray and Derik Johnson reviewed the Cooperative's efforts to secure access easements for the Osage-Yellow Creek transmission line which was acquired from Black Hills Energy (**Black Hills**). Given the rugged terrain, access easements are needed to be able to enter onto the transmission line right-of-way. Basin Electric has successfully negotiated access easements with all but two landowners representing approximately two miles of line. The Board has previously authorized condemnation for these remaining access easements, but staff is requesting a \$350,000 increase to the project budget to a revised total of \$1.53 million. The committee voted to recommend approval by the full Board.

Director Wagner provided a report on the Marketing and Planning Committee meeting. Dan Gallagher reported on the approach being taken to market DGC's diesel exhaust fluid (**DEF**) and urea. Dave Raatz presented the revised exhibit that would modify the load shape curve for the Corn Belt Power Cooperative (**Corn Belt**) 50 MW contract rate of delivery (**CROD**) obligation. The revised load shape would more closely match Corn Belt's load patterns. The Committee voted to recommend approval by the full Board of Directors.

7. **Recess and Reconvention.**

At 10:51 a.m. CDT, Chairman Peltier recessed the meeting for the subsidiary board meetings and at 3:10 p.m. CDT, he called the meeting back to order. He continued to preside and Secretary/Treasurer Gilbert continued to keep the minutes.

8. **General Manager's Report.**

A. **Western Fuels Association**

Superintendent Fuel & Transport Joe Leingang reported that for the first five months of the year, Western Fuels Association (**WFA**) has enjoyed revenues 8.8% over budget despite the fact that tons sold were (6.2%) under budget. Expenses were (12.9%) under budget resulting in net margins being \$250,000 greater than budget. Tri-State Generation & Transmission Association, Inc. (**Tri-State**) nominated Barry Ingold, (its senior vice president of generation) to the WFA board along with Rick Gordon, Tri-State's Board Chair.

Mr. Leingang then reported on the Western Fuels Wyoming (**WFW**) Board Meeting. The Dry Fork Mine (**DFM**) has worked approximately 3.3 years without a lost time accident (**LTA**). WFW has shipped 2,031,081 tons versus the budget of 2,271,120, a (10.6%) shortfall. Net pricing to LRS and the Dry Fork Station through May 2019 was \$12.173/ton versus the budget of \$11.686 or \$0.487 above budget.

9. **Office of General Counsel.**

A. **Legal Report.**

Senior Staff Counsel Casey Jacobson gave the legal report. She noted that Tri-State plans to become Federal Energy Regulatory Commission (**FERC**) jurisdictional, which in turn will technically cause Basin Electric to become subject to FERC jurisdiction sixty days later. Staff hopes to meet with the FERC staff to determine if the Cooperative can be granted a waiver/delay in order to properly prepare and file the necessary paperwork.

Attorney I Anine Merkens provided an update on environmental matters. With respect to the LRS Best Available Retrofit Technology (**BART**) settlement, parties to the 10th Circuit Court of Appeals litigation are drafting a motion to dismiss Basin Electric from that case.

Environmental groups have until July 19, 2018, to petition the Environmental Protection Agency (**EPA**) for review of its approval of the BART settlement. The selective catalytic reduction (**SCR**) unit on LRS#1 has its first compliance period ending July 30 at which point the SCR must meet a NO_x limit of .06lb/on a thirty day rolling basis.

Ms. Merkens mentioned that the Affordable Clean Energy (**ACE**) Rule was published on June 19, 2019, five years following the introduction of the Clean Power Plan. She pointed out that the ACE rule defines Best System of Emission Reductions (**BSER**) and limits these emission reduction measures to inside the fence hardware. The limits under this new rule are based upon the heat rate of the unit. The ACE rule does not include New Source Review (**NSR**) reform as EPA believes that the states have the legal authority to exclude BSER technologies from requiring NSR in setting standards of performance. State plans are due within three years. Petitions for review of the ACE rule are due to be filed with the DC Court of Appeals within 60 days of the ACE rule's publication. It seems doubtful the court would stay the ACE rule.

B. **Property and Right-of-Way Report.**

Manager of Property & Right-of-Way Mike Murray discussed a proposed land exchange at LRS. The Cooperative received a mining permit and mined gravel from a parcel of real property during construction of the Missouri Basin Power Project (**MBPP**).

The gravel pit was last used in 2011 and 24.27 acres were reclaimed. Unfortunately, a portion of this operation trespassed on an adjoining property and as a result, the adjoining landowner must sign a consent in order to have the reclamation bond released by the State of Wyoming. The landowner has not been willing to sign such consent and has instead, proposed that the Cooperative trade a 19.47 acre tract of nearby property owned by MBPP for a 6.01 acre parcel (which includes the portion of the reclaimed gravel pit) owned by the landowner. Mr. Murray pointed out that the Cooperative has never had legal access to the 19.47 acre tract. He mentioned that if the Board of Directors approves the exchange, approval for the exchange would then be sought from the MBPP Management Committee. He requested approval.

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

R01.07-09-19 **WHEREAS**, the Cooperative is currently seeking bond release from Wyoming Department of Environmental Quality for a reclaimed gravel pit on real property adjacent to the Laramie River Station; and

WHEREAS, in order to achieve bond release, the Cooperative needs to enter into an exchange pursuant to which the Cooperative would deed approximately 19.47 acres of real property located within: Part of W/2W/2 of Section 21, T25N, R67W (the **Basin Parcel**) to Ryker and Carrie Hyches, husband and wife, (the **Hyches**) in exchange for which the Hyches would deed to the Cooperative approximately 6.01 acres of real property located within: Part of SE/4SE/4 of Section 20, T25N, R67W (the **Hyches Parcel**), all in Platte County, WY.

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors hereby authorizes the exchange of the Basin Parcel for the Hyches Parcel; and

BE IT FURTHER RESOLVED, that the Board of Directors hereby authorizes the Officers of the Cooperative and the CEO & General Manager of the Cooperative or his designee to execute all necessary documents required for the exchange including a request, should it be required, for a release of lien on the Basin Parcel from U.S. Bank National Association as trustee under the Amended and Restated Indenture dated as of May 15, 2015.

C. Government Relations.

Vice President of Government Relations Dale Niezwaag gave the Government Relations Report. He mentioned that staff had prepared an ACE Rule Summary and a Clean Energy Position Paper and is working with the National Rural Electric Cooperative Association (**NRECA**) on a number of white papers on a host of issues relating to operating in a carbon constrained environment.

On the federal front, the Cooperative submitted comments to the Internal Revenue Service on implementation guidelines for Internal Revenue Code Section 45Q. He also informed the Board that the Senate passed Senator Barrasso's USEIT Act as part of the National Defense Authorization Act.

Mr. Niezwaag told the Board that the initial meeting of the 2019 Resolutions Committee has tentatively been set for September 9-10, 2019. With Board approval, letters will be sent to the Class A managers requesting that both a representative and an alternate be named. Staff will conduct an in-house review of the current resolutions and suggest changes prior to the September committee meeting. The Resolution Committee will then meet and review, revise, and develop resolutions for their November meeting and ultimately, the 2019 Annual Meeting. He reviewed the Basin Electric Board members who served on the Resolutions Committee over the past five years and requested both the authorization for the Resolution Committee meeting and the appointment of a Director to serve on the Resolution Committee.

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

R02.07-09-19 **RESOLVED**, that the initial meeting of the 2019 Resolutions Committee be set for September 9-10, 2019, at the Cooperative's headquarters building; and

BE IT FURTHER RESOLVED, that Tom Wagner be appointed to represent the Board of Directors on the Resolutions Committee.

10. **Member Services & Administration.**

A. **Communications.**

Senior Vice President Member Services & Administration Chris Baumgartner discussed different theme options for the Annual Meeting and sought ideas and suggestions for a speaker. There was a consensus that someone with an energy or economic background should speak this year.

He then discussed the agenda for the Members Managers Conference to be held on July 16-17, 2019, in Deadwood, South Dakota. He said currently there were 129 people registered representing 108 members. Staff supported two public events over the past month, an electric vehicle tailgate party at the North Dakota State Capitol Grounds and a children's education day at a Bismarck Larks baseball game.

B. **Administration.**

Mr. Baumgartner handed out Board Policy 02 (Fiscal Policy) and Board Policy 04 (Managers' Advisory Committee Policy) with revisions recommended by staff. He asked that the directors review the proposed changes and said that he will be back at next month's Board of Directors meeting asking for formal action on these two policies.

11. Operations Report.

A. Operations.

Senior Vice President Operations John Jacobs reported that Operations had one recordable medical treatment case during the month and no Days Away, Restricted or Transferred (**DART**) incidents in June. Year-to-date, there have been six DART incidents and three medical treatment recordables.

For the month of June, generation at the solid fuel plants was (24.7%) below budget, at the oil and natural gas plants was 121% over budget, and for wind was (26.8%) below budget. For the month, fleet generation was (19.1%) below budget. In terms of expenses, May expenses were (20.57%) below budget and year-to-date expenses are (4.98%) below budget.

B. Distributed Generation.

Manager Distributed Generation Kevin Tschosik reviewed June distributed generation. He pointed out that wind generation was below budget as a result of reduced wind speeds. For the month, the average capacity factor for wind was 33% and year-to-date, is 35%. Distributed Generation has worked 405,369 hours without a DART. The last Distributed Generation DART incident occurred on June 26, 2016. He reviewed year-to-date generation and run hours and showed pictures of the replacement of the foreign object debris screen at the Culbertson Generation Station.

Mr. Tschosik then discussed the various issues experienced with the Lonesome Creek Station Unit No. 3 turbine blades and specifically the second failure event. The root cause analysis indicated blade damage was caused by severe impact from A286 stainless steel material with traces of silver, although the exact source of this material could not be verified. The Cooperative filed a claim with our insurer, FM Global and attempted, without success, to reach a settlement with General Electric to cover certain costs of the repair work.

12. Recess and Reconvention

At 4:51 p.m. CDT, Chairman Peltier recessed the meeting. The meeting was reconvened at 8:02 a.m. CDT on Wednesday July 10, 2019, with Chairman Peltier continuing to preside and Secretary/Treasurer Gilbert continuing to keep the minutes with 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 CEO & General Manager Paul M. Sukut, Basin Electric staff members Sam Arneson, Grace Baker, Chris Baumgartner, Tracie Bettenhausen, Nichole Braunberger, Tom Christensen, Shawn Deisz, Tammy DeWitt, Jason Doerr, Elizabeth Erhardt, Dan Gallagher, Tyler Hamman, Melissa Hatzenbuhler, John Jacobs, Casey Jacobson, Derik Johnson, Steve Johnson, Kerry Kaseman, Becky Kern, Jim Lund, Gavin McCollum, Sally Meier, Faye Miller, Darla Miller, Kim Miller, Mike Murray, Dale Niezwaag, Angela Magstadt, Diane Paul, Mike Paul, Dave Raatz, Joel Ross, Jean Schafer, Trent

Schwahn, Jeremy Severson, Sue Sorensen, Stephen Sweeney, Kevin Tschosik, Tara Vesey, Katrina Wald, Sheila Wald, Val Weigel, Melinda Weninger, and Mike Zimmerman, and DGC Vice President Dave Sauer. Also present were Director of the North Dakota Pipeline Authority (NDPA) Justin Kringstad and Mor-Gran-Sou Electric Cooperative, Inc. director Jay Larson.

13. **Operations Report Continued.**

C. **Osage - Yellow Creek Access Easement Acquisition Project.**

Derik Johnson reported that the Cooperative acquired the Osage - Yellow Creek Transmission Line from Black Hills and has since started acquiring easements in order to access the transmission right-of-way. The Cooperative has secured access easements from 82 of the 84 landowners. However, the Cooperative has not been able to come to terms with two hold out landowners. The Board of Directors previously approved the exercise of eminent domain and the Cooperative reached out to a local state senator as well as to Powder River Energy Corporation for assistance. The next steps are to issue final offer letters and, assuming we still fail to reach an agreement, file condemnation lawsuits. The original project budget was set in 2014 at \$966,000. The Cooperative has currently spent \$1.18 million. He requested a revised project budget of \$1.53 million.

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

R03.07-09-19 **WHEREAS**, in May 2018 the Board of Directors, approved condemnation for the remaining access easements for the Osage to Yellow Creek Line Access Easement Project; and

WHEREAS, to date, \$1.18MM has been spent on the Project.

NOW THEREFORE BE IT RESOLVED, that the Board of Directors, approves spending up to \$1.53MM for the Project; and

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

14. **Risk Management Report.**

Manager of Community Risk Kerry Kaseman explained that Capital Power Energy Marketing requested transmission service from the Cooperative on the west side and proposed to secure its obligation to pay for that service with a \$40,000 letter of credit from the Bank of Nova Scotia - NY Agency (**Bank of Nova Scotia**). The Cooperative is currently the beneficiary of a \$30 million letter of credit issued by Bank of Nova Scotia as security for the Lindahl Wind Project. Board Policy No. 2 provides that Board of Director approval is required for any credit limit exceeding \$30 million. Bank of Nova Scotia has an A2 rating from Moody's Investor Service (**Moody's**) and A+ from S&P Global Ratings (**S&P**). He recommended a \$40,000 increase to the credit limit.

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

R04.07-09-19 **RESOLVED**, that a \$30,040,000 credit limit is hereby approved for the Bank of Nova Scotia - NY Agency.

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

A. **General Report.**

Senior Vice President Asset Management, Resource Planning & Rates Dave Raatz began a discussion on 2020 rates stating staff's current proposal is to hold the 2019 rate, including the 49/51% fixed/variable ratio for the 2075 Contract members. Paul Sukut noted that these were the rates used for the financial forecast which projects additional large margins that could be accounted for as deferred revenues. Even dropping the rate in 2021-2022, would still generate revenues that could be put in the deferred revenue account. Director Gilbert stated that Corn Belt would prefer to lower rates in 2020 and made the point that a rate decrease and the demand/energy split are two separate issues. Director Thiessen stated that Upper Missouri Electric Cooperative (**Upper Missouri**) proposes that the current demand charge remain at \$19.64, but the energy charge be reduced from \$32.42 to \$31.95 making the demand/energy split 50/50. If we wanted to give some relief on the demand charge, the demand charge could be reduced to \$19.50 and keep the 50/50 split, the energy charge could be reduced to \$31.17 MWH. Mr. Raatz said staff is proposing to maintain the electric heat rate at 34 mill/kwh and to make no changes to the load incentive rate program. Staff is also proposing a trial battery rate with each Class A member getting an allowance of battery energy available at that trial rate. He said that he would bring the rate package back for Board of Directors consideration next month. The Board of Directors suggested canvassing the member managers on this issue at the Member Managers Conference.

Mr. Raatz reported that the Cooperative signed a purchase agreement with the Burke Wind Project in 2016 calling for an in-service date of December 31, 2019, but giving NextEra the right to extend that date by one year if NextEra is unable to get its interconnection facilities constructed by October 1, 2019. The North Dakota Public Service Commission recently turned down NextEra's request for a siting permit for the Burke Wind Project and NextEra has submitted a letter to the Cooperative stating it was delaying in-service date to December 31, 2020 due to the inability to complete the interconnection facility. NextEra is investigating alternative routes and locations for the project as well as alternative projects.

Mr. Raatz reviewed the Cooperative's projected summer load and capacity within the Southwest Power Pool (**SPP**). He pointed out that without the balance of Antelope Valley Station Unit 2's capacity available to the Cooperative, we will need to get other resource alternatives in place soon. In the ongoing discussion with the two lessors, the parties are very far apart on the market value of both the capacity and the energy in the SPP market. Thus, it currently appears doubtful we will be able to reach agreement on a mutually acceptable rent payment for a lease extension. Our fallback will be to work with the lessors to expand the terms of the existing operating agreement and look into alternative capacity purchases.

Mr. Raatz then reviewed the three responses to the Cooperative's Firm Requirement Request for Proposals and how these various proposals compare to the Cooperative itself providing this incremental power and energy. Mr. Raatz also updated the Board on discussions with certain natural gas producers in the Bakken that are considering using their natural gas supplies to generate electricity and selling it to the Cooperative behind the meter in the Bakken.

B. Corn Belt Load Shape Schedule.

Director Long-Term Utility Planning Becky Kern reviewed previous discussions with Corn Belt concerning the load shape for the 50 MW CROD purchase obligation Corn Belt has as part of Corn Belt's Wholesale Power Contract with the Cooperative. Corn Belt has requested a modification to the load shape (which is set forth in an Exhibit to the contract) to more closely track the shape of its hourly load pattern. The Cooperative and Corn Belt exchanged shape proposals and the Corn Belt board of directors approved the shape proposed by the Cooperative at their June 28, 2019 meeting. Following a discussion, there was a motion that was seconded and carried to adopt the following resolution:

R05.07-09-19 **RESOLVED**, that the proposed change to Exhibit IV to the Cooperative's Wholesale Power Contract with Corn Belt Power Cooperative to modify the load shape of the contract rate of delivery effective October 1, 2018, is approved;

RESOLVED, that any future modification to the shape of the 50 MW contract rate of delivery will only be done on a prospective basis and future modifications will not be done more than once in any one year period; and

BE IT FURTHER RESOLVED, that the General Manager, or his designee is authorized to sign the modified exhibit for an on behalf of the Cooperative.

C. Justin Kringstad, North Dakota Pipeline Authority.

Justin Kringstad, Director of the NDPA spoke about drilling for oil in the Bakken and Three Forks Formations, drilling economics, the number of wells expected to be drilled, and the oil expected to be recovered. He then discussed the production, gathering, processing, and transmission of the natural gas associated with this oil production as well as the increased gas production forecasted. He went on to describe the challenge to transport all of this natural gas and natural gas liquids to market and various proposed projects that could move these products to market.

D. Marketing Update.

Director Short-Term Trading & Financial Analysis Val Weigel provided the short-term market update. In SPP, the monthly average day ahead load zone price in June was \$17.32 compared to \$23.47 in June 2018. Day ahead prices in the load zone averaged \$17.32 for the month compared to an average real time price of \$16.84. Given the ample amount of hydro power generated at the main stem dams on the Missouri River, there were constraints as a result of both this generation coupled with key line outages. The market cost to serve load in SPP for the month was (\$13.32) which was offset by a negative generation margin of (\$2.40) resulting in a net cost to serve load of (\$15.72). In

terms of the Cooperative's economic position in SPP for June, the Cooperative had (11.8%) open position on peak and a (16.9%) open position in the off peak. In the Midwest Independent System Operator (**MISO**) in June the day ahead load zone price was \$19.48 compared to \$24.12 in June 2018. The Cooperative maintained a consistent long economic position in MISO for the month.

Ms. Weigel then gave an update on the Northwest Power Pool (**NWPP**). NWPP is the most viable alternative to the Rocky Mountain Reserve Group (**RMRG**). The NWPP members are adjacent to many of the RMRG members and NWPP has a large membership and a sizable footprint. Reserves within NWPP are based upon both load and generation. The current time table calls for Basin Electric to join NWPP on September 3, 2019. Basin Electric would be required to maintain 38 MW's of reserves in NWPP. She walked the Board through the steps to be taken in order to meet this schedule.

She pointed out that the 2019/2020 Ventura Winter (November - March) Strip was trading at \$3.01 MMBtu and the 2020 forward price was trading at \$2.54 MMBtu.

16. Transmission Engineering & Construction Report.

A. SPP.

Senior Vice President Transmission Engineering & Construction Tom Christensen updated the Board on matters concerning SPP. SPP's request for a stay of the FERC decision on SPP exit fees was denied. The SPP Strategic Planning Committee will meet July 15-16, the SPP Regional State Committee will meet July 29, and the SPP Board of Directors and SPP Members Committee will meet July 30.

In terms of establishing an SPP market in the West, SPP has proposed a "go-live" date for its proposed energy imbalance market of December 1, 2020, one year after its reliability coordinator "go-live" date. This would require commitments from a critical mass of Western market participants by September 1, 2019. Additional market participants would be allowed to join at intervals of approximately every 6 months.

In terms of the economics of Basin Electric participating in an energy imbalance market in the West, given our small footprint in the West, the net cost/benefit is not substantial. However, we see this as the necessary first step to establishing a full blown day ahead market in the West. Given our surplus generation in the West, we believe that Cooperatives would benefit from an SPP West.

B. Engineering & Construction.

Vice President of Engineering & Construction Gavin McCollum reviewed with the Board the remaining large capital projects: 1) the Leland Olds Station Bottom Ash Dewatering/Pond Closure/Coal Pond Expansion Project with an approved budget of \$81.6 million, a forecasted cost at completion of \$72.8 million and a scheduled November 2019 completion, 2) the LRS SCR Project with an approved budget of \$337.1 million, a forecasted cost at completion of \$201 million, and a scheduled December 2019 completion, 3) the Crocker Wind Switchyard Project with an approved budget of \$18.7 million, a forecasted cost at completion of \$15 million, and a scheduled December 2019 completion, and 4) the Chapelle Creek Switchyard Project with an approved budget of \$22.5 million, a forecasted cost at completion of \$20 million, and a scheduled October 2020 completion.

C. LRS Unit 3 Main Plant/Essential Services 480V Electrical Upgrade.

Mr. McCollum explained that this is the third and final phase of a project to replace the 480V electrical equipment at LRS as the original equipment has reached the end of its useful life. The scope of this phase of the project includes replacing all of the main plant existing motor control centers, 480V switchgear, transformers, and tie bus as well as to add essential service load center in Unit 3 to tie into the emergency generator bus. He recommended approval of this final phase of the project.

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

R06.07-09-19 **RESOLVED**, that the Laramie River Station Unit 3 Main Plant/Essential Services 480V Electrical Upgrade Project presented to this meeting of the Board of Directors with an estimated cost of \$13,500,000 (\$5,706,450 Basin Electric Share) be approved; and

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

D. Amendment to LRS SCR/SNCR General Works Contract.

Mr. McCollum gave an overview of the project noting over 1.1 million man hours were worked with only three recordable injuries. The selective non-catalytic reduction (**SNCR**) units are both in service and operating within the NO_x permit limits. The SCR started up this month and compliance with the thirty day rolling permit limit is expected. The SNCR units came in at 70% of budget and the SCR unit is expected to have a final cost equal to 60% of the budget. He reviewed the remaining project activities. The SCR project was delayed as a result of problems with the construction due to commissioning of the induced draft (**ID**) fan. The Industrial Company Wyoming, Inc. (**TIC**) was replaced by Moorhead Construction, Inc. (**Moorhead**) on May 13 to complete the remaining ID fan installation work due to work quality issues and schedule concerns. Moorhead ended up having to perform significant rework. The ID fan was turned over to commissioning on June 17. With respect to the commissioning, fan hydraulic and lube oil system flushing and filtration took longer than expected and the technician qualified to tune the blade control system was not available until June 22. The commissioning was finalized and the fan system was turned over to LRS Operations on June 27.

The contract with TIC was awarded for \$44.1 million in April 2018 and as of March 2019 had been amended to a total of \$48.2 million. Since March, change orders totaling \$3.5 million have tentatively been agreed to. TIC subsequently submitted additional claims totaling \$3.7 million. The Cooperative and TIC have negotiated a settlement that would instead call for a \$1.85 million increase which would result in a final contract value of \$53.6 million. Mr. McCollum pointed out that this final contract value is \$15.9 million below the next lowest bid for the project. He recommended approval of the \$5.35 million amendment to the contract.

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

R07.07-09-19 **RESOLVED**, the amendment to increase the authorized amount of the SCR/SNCR General Works Contract with The Industrial Company Wyoming, Inc. by \$5.35MM (\$2.26MM Basin Electric Share) from \$48.2 MM to \$53.6MM is approved.

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

17. Human Resources.

Senior Vice President Human Resources Diane Paul reviewed the employee count and informed the Board that 106 employees have left the Cooperative since the Early Voluntary Separation Program. The Cooperative is down 531 employees since January 1, 2017, which includes only 14 retirements to date this year. She mentioned that NRECA and Vanguard are offering seminars to employees for investment and retirement planning. She reviewed a benefits outlook for 2020, including current large medical claims. She also noted that annual employee performance appraisals are in process.

18. Financial Services.

A. Economic Update.

Senior Vice President & CFO Steve Johnson gave an economic update pointing out the continued economic expansion and the expectation that GDP growth in the 1.75-2.00% range could continue for the foreseeable future. The U.S. economy created 224,000 jobs in June while the jobless rate rose to 3.7%. He pointed out the inverted yield curve on Treasuries reminding the Board of Directors that is typically the first sign of an economic slowdown. The Federal Reserve Board (**Reserve Board**) met on June 18 and 19 and left its key interest rates unchanged. Given uncertainties, the Reserve Board stated it would act as appropriate to sustain the expansion. The Reserve Board meets again on July 30 and 31, 2019.

B. ESG.

Earlier this year, Fitch Ratings, Inc. (**Fitch**) launched a new, integrated scoring system that transparently illustrates how environmental, social, and governance (**ESG**) factors impact individual credit ratings. ESG Relevance Scores display both the relevance and materiality of individually identified ESG risk elements to the rating decision. ESG Relevance Scores are intended to augment market transparency as well as satisfy investor demand for more thorough and robust reporting on how ESG affects risk.

C. Moody's Credit Review.

Mr. Johnson discussed the recent credit review of the Cooperative by Moody's and its affirmation of the Cooperative's rating of A3 with a stable outlook. Moody's continues to point out the Cooperative's riskier profile compared to its peers given DGC's commodity price exposure and Basin Electric's unsecured guarantee of DGC's financing for the

urea/DEF plant. Moody's specifically stated that the Basin Electric rating is not likely to be upgraded in the next few years. Moody's remains the outlier as the Cooperative has Senior Secured "A" ratings from both Fitch and S&P's and F-1+ and A-1 commercial paper ratings, respectively, from Fitch and S&P's compared to Moody's Senior Secured A-3 rating and P-2 commercial paper rating.

D. 2019 Year End Projection.

Mr. Johnson reviewed the consolidated end of year (EOY) estimated net income after tax. As of July 1, the Cooperative is projecting an EOY consolidated net income of \$93.1 million compared to the \$75.3 million budgeted number. He pointed out that with the write off of the DGC coal assets and continued austerity measures, DGC losses year-to-date are substantially lower. He also mentioned that year-to-date Basin Electric expenses are \$23 million below the budget.

E. June Accounting Report.

Manager Financial Reporting/Account Receivable Katrina Wald gave the accounting report. For the month, the Cooperative had a net margin of \$10.7 million compared to a budgeted net margin of \$8.3 million. June sales to members were \$134.2 million compared to budgeted member sales of \$130.7 million. Surplus sales revenues were \$7.8 million compared to the budget of \$13 million. On the expense side, June operating expenses were \$82.7 million, versus the \$86 million budget. She reviewed the year-to-date average fuel costs (per month) at both the coal-fired and natural gas fired plants. Maintenance expenses were \$11 million compared to the \$16.9 million budgeted. Consolidated net income after tax for the month was \$10.2 million, \$2.4 million above the \$8.3 million budget.

F. 2020 - 2029 Draft Financial Forecast.

Manager Financial Planning/Forecast Darla Miller walked the Board through the draft 2020-2029 financial forecast specifying that approval of the plan would be requested next month. She reviewed the underlying assumptions as well as the forecast of Basin Electric's cost of service, sales, and revenues. She reviewed projected deferral balances, cash balances, long-term debt repayments, and the projected resulting Margins For Interest Ratios, Timed Interest Earned Ratios, Debt Service Coverage Ratios, Funds From Operations/Debt Ratios, Funds From Operation/Interest Ratios and Equity to Capitalization Ratios. She closed by listing the uncertainties on the horizon that could affect the forecast including: weather, restrictions on fracking, reduced load growth, any change to the useful life of the distributed generation assets, the 2020 Presidential election, environmental mandates, and commodity prices.

Paul Sukut observed that there are several options available for projected margins other than revenue deferrals should these margins be realized in the first five years of forecast including a rate reduction, setting aside cash reserves, bill credits, or writing off the debt prepayment penalties more quickly.

19. NRECA Region 5 & 6 Meeting - Selection of Delegate and Alternate.

There was a motion that was seconded and carried to name Director Gilbert and Director Wagner as the delegate and alternate, respectively, to the NRECA Region 5 & 6 meeting.

20. Western Fuels Association - Selection of Director Nominees.

There was a motion that was seconded and carried to nominate Paul Baker and Paul Sukut to the WFA Board of Directors.

21. Western Fuels Association Annual Meeting - Selection of Delegates and Alternates.

There was a motion that was seconded and carried to name Director Pressor and Director McQuiston as delegates and Paul Baker and Paul Sukut as alternates, respectively, to the WFA Annual Meeting.

22. Western Fuels - Wyoming - Selection of Director Nominee.

There was a motion that was seconded and carried to name Paul Baker as the Cooperative's nominee for the WFW board of directors.

23. Western Fuels - Wyoming Annual Meeting - Selection of Delegates and Alternates.

There was a motion that was seconded and carried to name Paul Baker and Paul Sukut as delegates and Joe Leingang and Dean Bray, as alternates, respectively, to the WFW annual meeting.

24. Directors' Reports.

Paul Baker reported that coal bed methane producer Carbon Creek Energy is considering filing for bankruptcy protection. Troy Pressor reported that Tom Sheldon, a McLean Electric Cooperative director, passed away. Tom Wagner reported that plans for an ethanol plant in his area are on hold. Leo Brekel reported that Delta-Montrose Electric Association had filed a request with the Adams County District Court for a temporary restraining order against Tri-State. There was a press release issued last night regarding the actions taken by Tri-State board of directors at their last meeting. Charlie Gilbert reported that last month at his distribution cooperative meeting there was some discussion regarding the half of its load served by the Central Iowa Power Cooperative all requirement contract and a proposal to bring in a consultant to see what doors can be opened. He voted against the motion but it did pass. There have been a number of stories published about unrest in the distribution coops. A lot of distribution managers and coops are unhappy with G&Ts and want something else and presented a lot of ways that this could happen. Allen Thiessen reported that Upper Missouri is seeing an increase in load growth in the Bakken above and beyond what had been anticipated.

25. Executive Session.

At 3:05 p.m. CDT, there was a motion that was seconded and carried to go into executive session in order to discuss general salary and benefit matters. At 3:20 p.m. CDT, the Board of Directors arose from their executive session.

26. Date and Place of Next Meeting.

Chairman Peltier noted that the next meeting of the Board of Directors would be held on August 14-15, 2019, at the Basin Electric headquarters building.

27. **Adjournment.**

At 3:21 p.m. CDT, there was a motion that was seconded and carried to adjourn the meeting.



Charles H. Gilbert
Secretary-Treasurer